



Rhode Island Student Loan Authority

ANNUAL REPORT

Fiscal Year Ended
June 30, 2015
And Dated
December 31, 2015



RISLA
RHODE ISLAND STUDENT
LOAN AUTHORITY

YOUR GATEWAY TO SUCCESS

BOARD OF DIRECTORS

Mr. Robert J. Delaney, *Chairman*
Ms. Christine Barnes Jenkins, *Vice-Chairman*
Mr. Robert R. Theroux, *Secretary & Treasurer*
Mr. Seth Magaziner, *General Treasurer, State of RI*
Mr. Daniel Egan
Ms. Sandra Mack

Charles P. Kelley, *Executive Director*

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INTRODUCTION

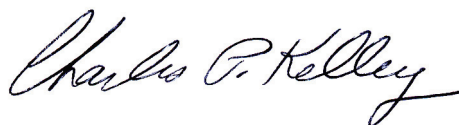
It is our pleasure to present the 2015 Annual Report for the Rhode Island Student Loan Authority (RISLA). RISLA continues to serve as the leading statewide resource dedicated to student success. Founded in 1981, RISLA provides low-cost state-based education loans, free admissions and financial aid assistance through the College Planning Center of Rhode Island (CPCRI), a free internship finder through Bridge.Jobs, financial literacy guidance at high schools and colleges throughout the state, and a refinancing program for those looking to save on existing student loans. As always, all of these efforts are accomplished independent of any funding or appropriation from the state of Rhode Island.

Since we began assisting students and families nearly 35 years ago, our focus has always remained on providing affordable solutions for financing a college education. Our education loans remain a focal point of our commitment to serving Rhode Islanders. This year we reduced the interest rates on our loans and eliminated fees, resulting in one of the lowest fixed rate education loans in the country. To put our loan program in context, for the 2015/2016 academic year, the federal PLUS loan for parents has a fixed rate of 6.84% and upfront fees of 4.92%. RISLA's fixed rate loan with the same ten year term has interest rates as low as 3.99% with no upfront fees. The advantage of the lower interest rates and no fees results in significant savings for our borrowers over the repayment period – helping our organization fulfill its commitment of making higher education more accessible and affordable.

RISLA is also excited to offer a refinancing program for student loans with low, fixed interest rates. We listened to our borrowers in creating the refinancing program which so far has assisted 349 individuals and families. Our efforts have gained national press attention as more states and local governments are approving or piloting student loan refinancing programs as a way to help borrowers save money.

Our commitment to Rhode Islanders is not limited to just our loan programs. The CPCRI remains an incredible free resource, assisting over 16,000 students and families at locations throughout the state. Our efforts to encourage internship opportunities through Bridge.Jobs continues to garner positive attention and increasing employer support. We are steadfast in our efforts to encourage responsible and informed borrowing through extensive financial literacy programs for students and families. We were also proud to hold our twelfth annual Paul V. Sherlock Scholarship program, which has awarded \$600,000 in scholarships to deserving local students since its inception.

This report highlights a host of initiatives and services that RISLA was proud to offer in 2015. These efforts are a direct result of the hard work and commitment of the employees at RISLA and the CPCRI. These efforts are also made possible through the leadership and direction of our volunteer board of directors, including Chairman Robert Delaney, Vice Chair Christine Jenkins, Secretary Robert Theroux, Sandra Mack, Daniel Egan, and General Treasurer Seth Magaziner.



Charles P. Kelley
Executive Director



Noel F. Simpson
Deputy Director & Chief Financial Officer

HIGHLIGHTS 2015

In 2015 the Rhode Island Student Loan Authority continued to fulfill its mission of making higher education more accessible and affordable for Rhode Islanders. RISLA embarked on a number of initiatives throughout the year, leading to a host of accomplishments. The highlights include:

RISLA Offers \$45 Million in Safe, Fixed-Rate Loans in 2015

During the 2014/2015 academic year, RISLA provided \$45 million in aid to 2,475 students and families in student, parent and refinancing loans. The programs were made available to Rhode Island residents and students attending college in Rhode Island, with ZERO origination fees on 2014/2015 loans. The rate students received depended on the repayment option, not on a credit score. RISLA's immediate repayment option features a ten-year term and represents the lowest cost option with a fixed rate of 3.99% after an auto payment discount of .25%. The deferred repayment option features a 15-year term and allows students to defer their loan payments until 6 months after they leave school and offers a fixed rate of 6.29% after an auto payment discount of .25%. These rates made Rhode Island's education loan offerings some of the best in the country.

RISLA offered a Parent Loan program for 2015/2016, featuring a 10-year loan at a fixed rate of 5.50% after an auto payment discount of .25%. The agency also offers a student loan refinancing option with a fixed interest rate as low as 4.24% after an auto payment discount of .25%. The refinancing program helps make repaying education loans easier, and is available to students regardless of their residency or if they attended schools outside of Rhode Island. Until very recently RISLA was the only non-profit organization in the country refinancing education loans.

All of these loans have no prepayment penalties or origination fees.

RISLA's Refinancing Program Gains National Attention

Over one year ago RISLA initiated a new refinancing program for student loans, with low, fixed interest rate repayment options over five, 10, or 15 year periods. State and municipalities throughout the country are now looking at establishing similar refinancing programs as a way to help residents burdened by high student loan debt with high interest rates. RISLA's program gained significant national exposure in December. The Washington Post featured a story that highlighted the organization's work to help over 349 people refinance \$13.6 million in student loans, including a significant number of people with parent loans. The Post story focused on a county in Maryland looking to establish a student loan financing program for residents as a way to ease debt burdens and encourage people to live in the county. The House Majority Leader in Maryland, Anne Kaiser, has proposed legislation to allow for the creation of a local student loan authority after studying and reviewing the work on refinancing taking place at RISLA. A similar story highlighting RISLA's refinancing work appeared in Stateline, a news service of the Pew Charitable Trust.

Both the Post and Stateline stories included extensive comments from RISLA Executive Director Charles Kelley. Both stories were re-printed and distributed widely by national outlets including the Huffington Post.

RISLA Hosts State House Internship Celebration

In May, RISLA hosted a State House event drawing attention to the value of internships for students. The event featured a panel discussion led by RISLA Executive Director Charles Kelley, along with businesses that have benefited from working with talented student interns. Governor Gina Raimondo and General Treasurer Seth Magaziner spoke at the event, focusing on the value of internships and creating an environment where opportunities exist for young people to remain working in the state after graduation.

The internship event highlighted RISLA efforts to match college students with paid internships through its “Bridge.Jobs” initiative. Area businesses including Atrion, CVS Health, Interplex Engineered Products, and Kahn Litwin, Renza & Company were all recognized for their commitment to creating internship opportunities for young people in RI. The celebration was attended by civic, education, and business leaders throughout the state and received coverage by local media outlets.

RISLA Receives AAA Rating on Bonds

In October, RISLA received word from the ratings agency Fitch that its Series 2012-1 bonds were affirmed with a AAA rating. In reviewing RISLA’s 2012 bonds, Fitch performed an extensive review to assess the quality of the credit. In its review, Fitch Ratings asserted, “the credit of the trust collateral is high.” The high ratings achieved by RISLA are a reflection of the work done in counseling borrowers and offering programs to help prevent loan defaults. In December, Standard & Poors Rating Services raised RISLA’s 2006 Series 1 & 2 Bonds from AA to AAA rating which is the highest rating category. RISLA’s efforts to encourage responsible borrowing are one of the reasons for the high ratings, which allows the agency to continue to offer low cost education loans to students and parents throughout Rhode Island.

Bridge Jobs Continues to Match Students with Local Internships

2015 saw continued growth in RISLA’s efforts to assist local students in finding paid internships at area businesses. Called “Bridge.Jobs,” the program is run by RISLA staff through outreach programs to area schools and employers, complemented by an easy-to-use website where internship opportunities are posted and searchable by interested students. The objective of the program is to increase the work readiness, knowledge, and skills of the current and emerging workforce in the state, while giving students and adults greater opportunities to remain in RI and contribute to the state’s economic growth. Bridge.Jobs is a partnership of the Governor’s Workforce Board, the Association of Independent Colleges and Universities of RI, the Greater Providence Chamber of Commerce, and the RI Partnership Project. The program was awarded a \$100,000 grant from the RI Foundation to promote its efforts to match unemployed adults and students with internship opportunities at local employers. Hundreds of internship opportunities have already been developed through the Bridge.Jobs website, attracting the interest of thousands of area students and adult learners.

Television Ad Campaigns Highlight for RISLA & CPCRI Efforts

In 2015 RISLA aired two television ads that gained wide exposure on local media outlets. The first ad was a testimonial from a local family that had a positive experience obtaining a RISLA loan. Joseph Amaral of Lincoln gave a powerful account of how his daughter was able to go to college with the help of the RISLA team, even as his family faced unforeseen financial challenges. The second television commercial produced by RISLA was developed for the CPCRI. The spot featured Patty Stamp, owner of Stamp Farms in Johnston. Mrs. Stamp offered her praise for the help she received from the CPCRI team during her daughter's college planning process. Both commercials featured the theme of RISLA and the CPCRI as being a "Gateway to Success."

RISLA's Commitment to Financial Literacy

RISLA continues its efforts to offer free financial literacy seminars to students from across Rhode Island. The seminars and online resources offered to students take place during regular class time, and cover topics like debt management, how to pay for a college, understanding general financial terms, basic budgeting, credit, and much more. RISLA Manager William Bianchi continues to work with high schools throughout Rhode Island. Schools that were recognized by RISLA for their partnership on financial literacy training included: Barrington Christian Academy, Chariho High School, Beacon Charter School for The Arts, Classical High School, St. Raphael Academy, Narragansett High School, South Kingstown High School, Scituate High School, the Prout School, North Smithfield High School, the New England Laborers' Construction and Career Academy, Exeter West Greenwich High School, and Westerly High School.

College Goal Rhode Island

In January and February, RISLA and the College Planning Center of Rhode Island were lead participants in College Goal Rhode Island, a series of free statewide events that assists students and families with college financial aid forms. This was the eighth year that RISLA and the CPCRI participated in the event, which provided financial aid specialists in communities throughout the state. Sponsored by the Rhode Island Association of Student Financial Aid Administrators, the CPCRI, and RISLA, College Goal Rhode Island is open to all Rhode Islanders, with particular attention given to reaching low income and first-generation college students. Counselors from RISLA and the CPCRI played an integral role in the event's success. RISLA's Deputy Director Noel Simpson and School Relations Director Gail Walker were lead organizers of the event.

Governor Raimondo, Senator Reed, Treasurer Magaziner Kick Off College Goal RI

In January, Governor Gina Raimondo, Senator Jack Reed, and General Treasurer Seth Magaziner participated in the launch event for College Goal Rhode Island at RISLA's Warwick headquarters. All three officeholders participated in the media event with RISLA Executive Director Charles Kelley. Gov. Raimondo, Sen. Reed, and Treasurer Magaziner all lauded the mission and geographic reach of the College Goal RI initiative. They also highlighted the need to promote outreach efforts to counter the millions of dollars that is annually forfeited by RI students who neglect to apply for federal financial aid.

College Planning Center Hosts Fifth Annual PawSox College Fair

On September 16th, the College Planning Center of Rhode Island hosted a major college fair for students throughout the state at McCoy Stadium in Pawtucket. Over 4,500 High school students and families participated in the event, which brought together over 100 college representatives from throughout the northeast. The free event allowed attendees to find good matches both academically and financially when searching for a college. The CPC gained significant publicity through the PawSox organization and its media partners, Bior and Coast 93.3 for the event. Students who pre-registered for the event were also eligible for a scholarship drawing from the CPCRI.

Sherlock Scholarship Awards

For the twelfth consecutive year, RISLA was proud to award 25 scholarships to needy Rhode Islanders in the name of the late state representative and former RISLA board member, Paul V. Sherlock. The \$50,000 in scholarships was awarded randomly to need based students from across Rhode Island at a May ceremony in the State House. The keynote speaker at the event was Colleen Callahan, a member of the RI Board of Education and a former student of Mr. Sherlock. RISLA Executive Director Charles Kelley and RISLA Deputy Director Noel Simpson also participated as speakers at the event.

RISLA Joins U.S. Senator Jack Reed for College Aid Workshop

U.S. Senator Jack Reed held his 25th annual College Aid Workshop at the Knight Campus of CCRI on November 23rd. RISLA Deputy Director Noel Simpson joined Sen. Reed in the presentation to students and families. College Planning Center of RI Director Stacy Crooks also participated in the program. RISLA has enjoyed a longstanding tradition of working with Senator Reed on his college aid workshops.

Expanded Hours and Outreach for Families at the College Planning Center

In 2015, the College Planning Center of RI expanded its hours to better serve the over 16,000 students and families who utilize its services annually. Services offered by the CPC staff included assistance with completing the FAFSA application as well as completion of the College Scholarship Service Profile. As always, the CPC's services are free of charge. During the year, the CPC staffed a West Bay office at the Warwick Mall, an East Bay office on Metacom Avenue in Bristol, and a Northern Rhode Island office at the Boys & Girls Club of Cumberland. Expanded hours during 2015 included nights and weekend sessions, complemented by the CPC's interactive website: www.collegeplanningcenter.org.

LOOKING AHEAD

In 2016, RISLA looks forward to expanding its leadership role as the foremost resource for student success.

Our work in helping students and families make higher education more accessible and affordable begins with our leadership team. We are fortunate to have a dedicated group of volunteer board members who ensure that all our efforts are centered on being a gateway to success. 2016 will mark the first full year of board service for Sandra Mack, a noted Providence attorney with an exceptional background in public finance and corporate law. Ms. Mack's expertise in these areas along with her commitment to expanding education opportunities for young people, are the perfect addition to the RISLA leadership group.

In the new year we look forward to continuing efforts to provide education loans that are among the lowest fixed interest rates in the entire country. Our organization prides itself on having extremely low default rates on loans, an outgrowth of our extensive outreach and work to educate potential borrowers. These efforts enable RISLA to offer a fixed interest rate to students that is among the lowest in the country. We are proud that our interest rates are significantly lower than the rates offered by the Federal PLUS loan for parents and private loans offered by for profit lenders. RISLA will work hard to offer competitive loan programs again in 2016, which are proven to help students and families save thousands of dollars.

In the coming year RISLA will also further its efforts to support student success through the work of its free College Planning Center of Rhode Island. Our team will continue to counsel thousands of students and families on college selection and financing decisions at our office locations covering all corners of the state. Our work in 2016 is especially important given the Federal government's recent changes to the FAFSA process – including earlier submission timelines and new income reporting requirements.

RISLA will also expand its role as an important resource in economic development in Rhode Island. Our highly successful Bridge.Jobs program is connecting young people with paid internship opportunities at businesses throughout the area. 2016 will see the recruitment of even more local companies to the program, with expanded opportunities to keep talented young people living and working in the state.

2016 will also mark RISLA's 35th anniversary of helping students and families reach their higher education goals. The young people we helped in our early years are now having their own children benefit from our education loans and college planning services. It is incredibly fulfilling to know that our work is helping so many people throughout our state. We look forward to continuing our service as a trusted resource for many more in the coming year.

SUMMARY OF RISLA PROGRAMS ADMINISTERED

Fiscal Year ended June 30, 2015

Rhode Island Fixed Rate Student Loan Program

- RISLA started its Fixed Rate Student Loan Program in 1992 and has continuously offered the program since that time. The program is credit based and features flexible repayment terms, low interest rates and zero fees. The interest rate is fixed for the life of the loan depending on when the student enters into the loan agreement and the repayment option the student chose.

This interest rate is lower than most competitive student loan products including the federal parent and graduate student PLUS Loan.

- On April 21, 2015, RISLA issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds in the amount of \$41,365,000. The purpose of this bond issue was to fund fixed rate student loans originated in FY 2016.
- RISLA also offers loan programs for the parents of college students and a refinancing loan program that's designed to help student loan repayment borrowers reduce their debt service, loan interest rate and possibly their monthly payment.

RISLA Education Loans

- For the 2015/16 academic year, RISLA offers a 10-year RISLA Student Loan with a fixed rate as low as 3.99% after an auto payment discount of .25% for borrowers who choose an immediate repayment loan. If more time is needed, deferred repayment options are also available, which delays repayment until after the student is out of school. A co-signer release option is available for qualifying borrowers after two years of repayment and meeting specified credit criteria.
- For the 2015/16 academic year, RISLA offers a 10-year college loan for parents with a fixed rate of 5.50% after an auto payment of .25%. There are no origination fees or prepayment penalties.
- RISLA offers a low fixed rate student loan refinancing program to help make repaying private, PLUS, and Stafford loans easier for all borrowers. Refinancing student loan borrowers can potentially reduce their interest rate, monthly payment or total debt service. RISLA provides refinancing student loan borrowers with a comprehensive disclosure regarding potential federal student loan income driven repayment and loan forgiveness programs that the student will give up when refinancing their student loan.

College Planning Center of Rhode Island (CPCRI)

- Started by RISLA in 1998, the CPCRI provides free expert college admissions and financial aid counseling to parents and students. The CPCRI is staffed by former financial aid and college planning counselors.
- CPCRI staff provides one-on-one counseling to parents and students in completing the often complex financial aid forms such as the Free Application for Federal Student Aid (FAFSA) and the College Board's CSS Profile financial aid application.
- Working with high school guidance counselors, CPCRI staff provide workshops on financial aid, essay writing and college selection.
- The College Planning Center of Rhode Island made 16,250 contacts with parents and students through in-person counseling and seminars to assist with their college planning needs in FY 2015.
- The CPCRI website located at www.RISLA.com contains many financial aid and admissions resources including a scholarship search service containing many locally based scholarships.
- RISLA is the administrator and lead agency for the College Goal Rhode Island Program (CGRI). The program conducted nine FAFSA preparation events in high schools across RI and is designed to help first generation students and parents complete the necessary financial aid forms in a timely manner. CGRI is a collaborative effort between the Rhode Island Association of Student Financial Aid Administrators, the College Crusade of Rhode Island, the College Advising Corp, Brown University, RISLA and is part of the National College Goal Sunday Program.

Paul Sherlock Scholarship Fund

- \$50,000 need based annual scholarship fund named after former college professor, leader in special education, RISLA board member, and legislator. Funding for this program has been provided by the Nelnet Foundation.
- RISLA has funded 300 need based scholarships totaling \$600,000 from FY 2004 through FY 2015.

Nursing Rewards Programs

- RISLA continues to honor zero interest Stafford loans for the first four years of repayment for students that enter the nursing profession and provide direct patient care at medical facilities located in Rhode Island. Eligible student borrowers with federal student loans disbursed from July 1, 2002 to July 1, 2008 continue to be eligible for the rewards program.
- RISLA enhanced the Nursing Rewards Program in fiscal year 2012 by adding an additional \$1,000 principal forgiveness in each of the first four years of repayment.
- One hundred twenty-two students have entered repayment under the Rewards programs and approximately another 150 students are potentially eligible when they enter repayment. An eligible teaching, nursing, or pharmacy student with \$16,000 loan balance can potentially save over \$1,800 in interest payments with RISLA's rewards programs.

Nurse Educators Reward Program

- RISLA also enhanced a Nurse Educators Reward program with a \$5,000 student loan forgiveness in each of the first four years of repayment for a total amount of \$20,000 savings. The program is designed to encourage students to become college level instructors of nursing at Rhode Island's colleges and universities.

Customer Service

- RISLA has been known and continues to be known for its superior customer service. A local presence is important for schools and students and that factor distinguishes RISLA from its out-of-state competition.
- RISLA provides a locally operated call center for students and schools; locally operated loan disbursement center; default prevention programs for students and schools; financial literacy counseling; and online entrance and exit sessions. By establishing our local presence, our loan origination staff is available to meet with students and their families to explain the various loan programs, assist in completion of loan applications and help to clear credit issues.
- Technology plays an important role in providing superior customer service. RISLA has invested in communication equipment, hardware and software to insure that RISLA stays ahead of the pack in customer service.
- Information on the Authority's programs is available by calling 1-800-758-7862 or locally at 401-468-1700 or on the web at www.risla.com.

MEETING MINUTES AND RULES AND REGULATIONS

In accordance with the RI Open Meeting Laws, R.I. Gen. Laws. § 42-46-7(d), all public bodies are required to file a copy of the minutes of all open meetings with the secretary of state for inspection by the public within thirty-five (35) days of the meeting.

The Rhode Island Student Loan Authority's Board of Directors Meeting Minutes for fiscal year ended June 30, 2015 can be found on the Office of Secretary of State's website at the following address: http://sos.ri.gov/openmeetings/?page=view_entity&id=529.

RISLA's promulgated rules and regulations can be found on the same website as noted above.

A summary of the RISLA Board of Directors meeting minutes can be found on the following pages of this annual report.

OPERATING STATEMENT

RHODE ISLAND STUDENT LOAN AUTHORITY

Summary of Board of Directors Meetings

Year Ending June 30, 2015

Board Meeting Date: July 25, 2014

Items discussed and voted:

1. Discussed quasi public accounting and transparency legislation
2. Voted to create a personnel committee

Board meeting Date: August 22, 2014

Items discussed and voted:

1. Discussed and voted to approve RISLA's organizational materials, i.e. RISLA Financial and Management Control Procedures and Organizational Chart.
2. Discussed IRS private letter ruling approving RISLA's refinancing program plans
3. Reviewed brief presentation of new RISLA and CPC website

Board meeting Date: September 25, 2014

Items discussed and voted:

1. Discussed initial review of RISLA's strategic plan
2. Voted to approve the 2014 Audited Financial Report

Board Meeting Date: October 17, 2014

Items discussed and voted:

1. Discussed and voted to approve RISLA staff job descriptions as required by Quasi Public Accountability and Transparency Act
2. Discussed and voted to adopt RISLA's strategic plan to be posted on its website as required by Quasi Public Accountability and Transparency Act

Board Meeting Date: November 21, 2014

Items discussed and voted:

1. Voted to adopt revised investment policy
2. Voted to approve the Indemnification of Directors and Officers policy
3. Discussed and voted to appoint Bank of America Merrill Lynch as Lead Underwriter based on a request for proposals for underwriting services
4. Discussed line of credit options for a refinancing program

5. Discussed and voted to authorize RISLA to self-report pursuant to the Municipal Continuing Disclosure Cooperation Initiative

Board Meeting Date: December 19, 2014

Items discussed and voted:

1. Discussed and voted to authorizing resolution for a \$10 million line of credit and term financing facility with Santander
2. Voted to approve marketing, lobbyist and associated expenditures
3. Discussed and voted to adopt RISLA Code of Ethics in Accordance with RI Law Chapter 14, Title 36

Board Meeting Date: January 23, 2015

Items discussed:

1. Discussed bond financing
2. Discussed bRIdge.jobs and possible initiatives

Board Meeting Date: February 27, 2015

Items discussed and voted:

1. Discussed and voted to award the contract for a CFPB readiness assessment and compliance audit to Ballard Spahr
2. Discussed and voted to award the contract for a SOCr servicing, origination and IT audit to Berry Dunn
3. Voted to approve the bond issuance cost budget
4. Discussed and voted to approve the bond issue authorizing resolution for the 2015-2016 school year funding

Board Meeting Date: March 20, 2015

Items discussed and voted:

1. Discussed an internship recognition event

Board Meeting Date: May 15, 2015

Items discussed and voted:

1. Discussed and voted to approve Marcum, LLP as RISLA's financial auditors based on a request for proposals
2. Discussed and voted to revise the refinancing policy to include Federal Stafford and Consolidation Loans as well as Non Federal and Parent PLUS loans
3. Discussed and voted to approve the assignment of Direct Loan Servicing Contract to MOHELA

Board Meeting Date: June 19, 2015

Items discussed and voted:

1. Voted to approve RISLA's FYE 2015 budget
2. Discussed and voted to consent to changes to Direct Loan Servicing Contract with MOHELA

STAFF SUPPORTED BY RISLA FUNDS AND DEBT AND ARBITRAGE REBATE

Staff Supported by RISLA Funds

RISLA receives no state appropriation and is entirely funded through revenues generated from its student loan programs and bond issues which are not in any way guaranteed by the state. RISLA's authorizing statute (RIGL Chapter 16-62) grants the Board of Directors the authority to appoint an Executive Director to run the day-to-day operations of RISLA. As of November 2015, RISLA had 40 full time employees who were responsible for managing RISLA's programs, financial reporting and the control and accounting of the flow of funds in RISLA's bond trust estates.

The Authority has separate agreements with Nelnet, University Accounting Services and Pennsylvania Higher Education Assistance Authority to provide in school and loan repayment servicing for RISLA's student loan portfolio.

TRAINING COURSES HELD

Summary of Training Courses Held Pursuant to This Chapter

RISLA's staff has attended the training sessions conducted by the Attorney General, the State Ethics Commission, and the University of Rhode Island School of Continuing Education on Open Meetings, Retention of Public Records and Ethics Commission gift and conflict requirements. Board members were briefed by RISLA's General Counsel on the state's Conflict of Interest Laws.

RISLA FINANCIAL REPORTS

RISLA Financial Report for Fiscal Year 2015

On the next several pages is RISLA's statement of net position; statement of revenue, expenses, and changes in net position; statement of cash flows; and notes to financial statements for the year ending June 30, 2015. RISLA's complete audited financial statements, including the auditor's opinion letter and management discussion and analysis, is available on the web at www.risla.com or by calling the Authority at 401-468-1700.

RHODE ISLAND STUDENT LOAN AUTHORITY
(A RELATED ORGANIZATION OF THE
STATE OF RHODE ISLAND)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

RHODE ISLAND STUDENT LOAN AUTHORITY
(A RELATED ORGANIZATION OF THE STATE OF RHODE ISLAND)

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INDEPENDENT AUDITORS' REPORT

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), as of and for the years ended June 30, 2015 and 2014, 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, 2015, and the respective changes in financial position and cash flows for the year 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 4-8 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 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.

Marcum LLP

Providence, RI
September 30, 2015

**Rhode Island Student Loan Authority
Management's Discussion and Analysis June 30, 2015**

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, 2015. 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 2015, RISLA continued to offer its Rhode Island Fixed Rate Student Loan program. This 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 4.99% fixed rate. Students could also choose a deferred repayment option at a fixed rate of 6.74% for a fifteen year term from the time the student leaves school and enters repayment. RISLA was able to offer these low fixed rates as well as waive the 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 Fixed Rate Student Loan offers attractive terms and conditions as compared to other student loan programs in the market. In FY 2016, RISLA will decrease the fixed interest rate on a ten year immediate repayment loan to 4.24% and decrease the fixed interest rate on a 15 year term loan to 6.54%. RISLA originated approximately \$38 million in Rhode Island Fixed rate loans to borrowers in FY 2015.

Beginning in fiscal year 2015, RISLA introduced a new refinancing program for borrowers with private or Federal student loans. The refinancing program will provide existing borrowers the opportunity to ease their financial burden with the security of low, fixed rates and favorable repayment terms. In fiscal year 2015, RISLA refinanced \$5.8 million of student loans for 143 borrowers. Utilizing the financial strength of its Statements of Net Position, RISLA was able to secure a line of credit from a commercial bank to help fund the refinancing of student loans. The refinancing program helped borrowers save an average of approximately \$7,300 in interest costs over the term of the loan.

RISLA continues to promote the value and benefits of college internships in collaboration with the Association of Independent Colleges and Universities of Rhode Island, The Rhode Island Board of 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 website www.bridge.jobs. The partnership and website has, as of June 30, 2015, registered 5,004 students, 891 employers, and currently lists 887 internships. 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 2015, the staff at the CPC provided assistance to approximately 16,245 contacts which represents a 9.59% increase over the prior year. The College Planning Center currently operates three locations which are in Warwick, Bristol, and Cumberland. The CPC also provides a searchable data base of hard to find local scholarships. RISLA and the CPC work closely with the Spanish and Latino speaking population in Rhode Island 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. 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 has received approximately \$2.4 million in funds for the programs.

RISLA issued \$41,365,000 in new bonds in FY 2015, which will be used to fund RISLA's education loan programs in FY 2016.

RISLA continues to hold and administer their portfolio of federally guaranteed Stafford, PLUS and Consolidation loans issued under the Federal Family Education Loan program which had a principal balance of \$331,737,465 at June 30, 2015.

FINANCIAL HIGHLIGHTS

- RISLA was able to continue offering the Rhode Island Fixed Rate Student Loan 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 23 years. RISLA originated approximately \$38 million in Rhode Island Fixed Rate student loans in the fiscal year ended June 30, 2015 and was able to secure financing to originate another \$41,365,000 for the fiscal year ended June 30, 2016.
- Bonds payable decreased from \$698,572,000 on June 30, 2014 to \$608,160,000 on June 30, 2015. This represents a decrease of \$90,412,000 or 12.94%. In FY 2015, RISLA issued \$41,365,000 in new fixed rate bonds. RISLA redeemed \$131,777,000 in bonds through redemptions of auction rate securities and other scheduled bond payments at par value.
- RISLA services its private loan portfolio (principal balance of approximately \$380 million at June 30, 2015) utilizing RISLA employees. Servicing its portfolio of private loans has resulted in better portfolio management, a reduction of defaulted borrowers, and lower servicing costs.

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 Statements of Net Position.

Net position – the difference between the Authority's assets, liabilities and deferred inflows of resources– is one way to measure the Authority's financial health or position.

FINANCIAL ANALYSIS

Net Position

For fiscal year ended June 30, 2015, the Authority's total assets exceeded the total liabilities and deferred inflows of resources by \$154,994,379 for an increase of 6.50% as compared to June 30, 2014. At June 30, 2014 the total assets exceeded the total liabilities and deferred inflows of resources by \$145,539,595 which was an increase of 7.08% as compared to June 30, 2013. A condensed summary of the Authority's net assets at June 30 is shown below.

Student loan receivables are the largest component of assets and decreased from \$810,800,508 on June 30, 2013 to \$737,682,052 on June 30, 2014, which represents a decrease of 9.02%. Student loan receivables amounted to \$663,730,346 on June 30, 2015, a decrease of 10.02%. 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, 2013 equaled \$93,067,832. On June 30, 2014, restricted cash and investments equaled \$104,621,126. On June 30, 2015, restricted cash and investments equaled \$98,927,763. Restricted cash and investment balances are primarily used to acquire student loans, retire bond and other bank debt, and pay semiannual interest payments.

Liabilities consist primarily of bond debt. On June 30, 2013 bond debt outstanding, net of unamortized bond premium and discount, amounted to \$764,325,479. On June 30, 2014 bond debt outstanding amounted to \$700,860,499. On June 30, 2015 bond debt outstanding amounted to \$611,526,676.

	2015	2014	Percentage Change	2013	Percentage Change
Other assets	\$786,225,411	\$864,832,949	-9.09%	\$929,302,868	-6.94%
Capital assets	135,010	136,669	-1.21%	92,444	47.84%
Total Assets	<u>786,360,421</u>	<u>864,969,618</u>	-9.09%	<u>929,395,312</u>	-6.93%
Current liabilities	18,401,403	18,731,521	-1.76%	26,756,281	-29.99%
Noncurrent liabilities	605,270,003	691,435,573	-12.46%	755,521,511	-8.48%
Total liabilities	<u>623,671,406</u>	<u>710,167,094</u>	-12.18%	<u>782,277,792</u>	-9.22%
Deferred Inflows of Resources	<u>7,694,636</u>	<u>9,262,929</u>	-16.93%	<u>11,201,705</u>	-17.31%
Net Position					
Investment in capital assets, net of related debt	135,010	136,669	-1.21%	92,444	47.84%
Restricted for debt service	149,301,438	141,247,917	5.70%	129,720,384	8.89%
Unrestricted	5,557,931	4,155,009	33.76%	6,102,987	-31.92%
Total Net Position	<u>\$154,994,379</u>	<u>\$145,539,595</u>	6.50%	<u>\$135,915,815</u>	7.08%

CHANGES IN NET POSITION

The Authority's Operating Income for the year ended June 30, 2015 was \$9,434,784, which was an increase of 3.93% as compared to fiscal year ended June 30, 2014. The Operating Income at June 30, 2014 was \$9,078,280 which was an increase of 21.46% as compared to fiscal year ended June 30, 2013.

The Authority's increase in net position for the fiscal years ended June 30, 2015 and 2014 was \$9,454,784 and \$9,623,780 respectively.

Net loan interest income (Loan interest income less DOE Special Allowance Payments) for the fiscal year ended June 30, 2015 decreased by \$2,001,525 or 6.23% as compared to the year ended June 30, 2014. 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 \$371,834 or 10.66% as compared to June 30, 2014. Interest expense for the fiscal year ended June 30, 2015 increased by \$193,468 or 1.57% as compared to June 30, 2014. The provision for loan losses (Bad Debt Expense) for the fiscal year ended June 30, 2015 decreased by \$564,079 or 24.39% as compared to June 30, 2014.

	2015	2014	Percentage Change	2013	Percentage Change
Loan interest income	\$44,812,987	\$49,159,541	-8.84%	\$54,182,368	-9.27%
DOE special allowance payments	(14,705,793)	(17,050,822)	-13.75%	(19,644,126)	-13.20%
Other income	3,116,804	3,488,638	-10.66%	2,810,309	24.14%
Total income	<u>33,223,998</u>	<u>35,597,357</u>	-6.67%	<u>37,348,551</u>	-4.69%
Interest expense	12,545,411	12,351,943	1.57%	14,383,516	-14.12%
Arbitrage rebate	491,975	938,760	47.59%	(1,341,583)	-169.97%
External loan servicing	2,026,324	2,209,548	-8.29%	2,516,195	-12.19%
DOE loan fees	948,563	1,060,108	-10.52%	1,183,600	-10.43%
Provision for loan losses	1,748,597	2,312,676	-24.39%	3,052,500	-24.24%
Other operating expenses	6,028,344	7,646,042	-21.16%	10,079,733	-24.14%
Total expenses	<u>23,789,214</u>	<u>26,519,077</u>	-10.29%	<u>29,873,961</u>	-11.23%
Operating Income (Loss)	9,434,784	9,078,280		7,474,590	
Nonoperating Revenues (Expenses)	<u>20,000</u>	<u>545,500</u>		<u>10,045,000</u>	
Change in net position	9,454,784	9,623,780		17,519,590	
Net position, beginning of year	<u>145,539,595</u>	<u>135,915,815</u>		<u>118,396,225</u>	
Total net position, end of year	<u>\$154,994,379</u>	<u>\$145,539,595</u>	6.50%	<u>\$135,915,815</u>	7.08%

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 6 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, 2015 AND 2014

	2015	2014
Current Assets		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 1,010,035	\$ 863,786
Cash equivalents	4,508,811	3,446,486
Restricted:		
Cash	1,658,513	1,806,498
Cash equivalents	83,824,933	94,002,295
Investments	13,444,317	8,812,333
Student loans receivable	63,482,645	69,339,220
Accrued interest receivable:		
Student loans	17,638,105	17,720,716
Investments	53,861	48,746
Other receivables	60,104	47,718
Prepaid expenses	296,386	402,319
Total Current Assets	<u>185,977,710</u>	<u>196,490,117</u>
Noncurrent Assets		
Student loans receivable - net	<u>600,247,701</u>	<u>668,342,832</u>
Capital Assets		
Capital assets, less accumulated depreciation of \$522,060 and \$450,387, respectively	<u>135,010</u>	<u>136,669</u>
Total Assets	<u>786,360,421</u>	<u>864,969,618</u>

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND STUDENT LOAN AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2015 AND 2014

	2015	2014
Liabilities		
Current liabilities		
Bonds payable	11,530,000	11,180,000
Due to U.S. Department of Education	3,423,780	4,085,372
Accrued interest payable	1,139,822	1,090,718
Accounts payable and accrued expenses	906,391	1,006,191
Grants payable	867,232	1,306,272
Note payable, current	534,178	--
Accrued arbitrage rebate	--	62,968
Total Current Liabilities	18,401,403	18,731,521
Noncurrent Liabilities		
Bonds payable, net of bond premium (discount) of \$3,366,676 and \$2,288,499, respectively	599,996,676	689,680,499
Note payable, noncurrent	3,027,007	--
Accrued arbitrage rebate	2,246,320	1,755,074
Total Noncurrent Liabilities	605,270,003	691,435,573
Total Liabilities	623,671,406	710,167,094
Deferred Inflows of Resources		
Unavailable revenue - loan origination fees	7,381,828	8,771,369
Unavailable revenue - direct loan servicing	312,808	491,560
Total Deferred Inflows of Resources	7,694,636	9,262,929
Net Position		
Net investment in capital assets	135,010	136,669
Restricted for debt service	149,301,438	141,247,917
Unrestricted	5,557,931	4,155,009
Total Net Position	\$ 154,994,379	\$ 145,539,595

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND STUDENT LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Operating Revenues		
Interest income:		
Student loans	\$ 44,812,987	\$ 49,159,541
U.S. Department of Education Special Allowance Payments	(14,705,793)	(17,050,822)
Investments	396,891	366,701
Unrealized losses on changes in fair value of investments	(35,127)	(29,171)
Realized losses on sale of investments	(18,679)	--
Fee income	2,773,719	3,151,108
Total Operating Revenues	33,223,998	35,597,357
Operating Expenses		
Interest	12,545,411	12,351,943
Provision for loan losses	1,748,597	2,312,676
Provision for arbitrage rebate	491,975	938,760
U.S. Department of Education loan fees - consolidation rebate	948,563	1,060,108
Loan servicing and acquisition costs	2,026,324	2,209,548
Credit enhancement and remarketing expenses	222,648	1,137,830
Salaries	2,192,881	2,115,234
Administration	874,799	974,842
Employee benefits	632,066	641,456
College Planning Center expenses	801,100	846,154
Legal and accounting	317,675	410,824
Miscellaneous bond expenses	256,120	245,628
Bond issuance costs	505,724	1,061,956
Payroll taxes	153,658	152,398
Depreciation	71,673	59,720
Total Operating Expenses	23,789,214	26,519,077
Operating Income	9,434,784	9,078,280
Nonoperating Revenues and Expenses		
Gain on early retirement of bonds	20,000	545,500
Changes in Net Position	9,454,784	9,623,780
Net Position - Beginning of the Year	145,539,595	135,915,815
Net Position - End of the Year	\$ 154,994,379	\$ 145,539,595

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND STUDENT LOAN AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Cash received for:		
Student loan interest	\$ 27,947,534	\$ 31,512,248
Student loan principal	125,918,839	118,087,236
Fee income	2,773,719	3,151,108
Interest on investments	391,776	367,694
Grants	(439,040)	(53,364)
Cash paid for:		
Origination and purchase of student loans	(51,967,133)	(44,968,780)
Interest paid on bonds	(13,231,014)	(12,865,854)
Contractual services	(948,563)	(1,051,830)
Goods and services	(6,855,478)	(17,995,688)
Employee salaries	(2,301,609)	(2,259,741)
Employee benefits	(632,066)	(641,456)
Net Cash Provided by Operating Activities	80,656,965	73,281,573
Cash Flows from Noncapital Financing Activities		
Proceeds from note payable	3,739,244	--
Payment of note payable	(178,059)	--
Payment of bond maturities	(131,757,000)	(191,531,500)
Proceeds from sale of revenue bonds	43,177,881	129,035,869
Net Cash Used in Noncapital Financing Activities	(85,017,934)	(62,495,631)
Cash Flows from Capital and Related Financing Activities		
Purchase of equipment	(70,014)	(103,945)
Net Cash Used in Capital and Related Financing Activities	(70,014)	(103,945)
Cash Flows from Investing Activities		
Purchases of investment securities	(6,508,241)	--
Sales of investment securities	1,822,451	226,992
Net Cash (Used in) Provided by Investing Activities	(4,685,790)	226,992
Net (Decrease) Increase in Cash and Cash Equivalents	(9,116,773)	10,908,989
Cash and Cash Equivalents, Beginning of Year	100,119,065	89,210,076
Cash and Cash Equivalents, End of Year	\$ 91,002,292	\$ 100,119,065

RHODE ISLAND STUDENT LOAN AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash and Cash Equivalents Consists of:		
Cash	\$ 1,010,035	\$ 1,952,644
Cash equivalents	4,508,811	2,358,126
Restricted:		
Cash	1,658,513	1,806,000
Cash equivalents	83,824,933	94,002,295
Cash and Cash Equivalents, End of Year	\$ 91,002,292	\$ 100,119,065
 Reconciliation of Operating Income to Net Cash Used for Operating Activities		
Operating income	\$ 9,434,784	\$ 9,078,280
Adjustments to reconcile operating income to net cash provided for operating activities:		
Depreciation of capital assets	71,673	59,720
Amortization - bond premiums and discounts	(734,704)	(423,848)
Increase in allowance for uncollectible accounts	805,366	1,366,167
Unrealized losses on investments	35,127	29,171
Realized losses on investments	18,679	--
Changes in assets and liabilities:		
Decrease in loans receivable	73,146,340	71,752,289
(Increase) decrease in other receivables	(12,386)	771,884
(Increase) decrease in accrued interest receivable - loans	(578,981)	570,420
(Increase) decrease in accrued interest receivable - investments	(5,115)	993
(Increase) decrease in prepaid expenses	105,933	29,715
Decrease in due to Federal Government	-	(93,294)
Increase (decrease) in bond accrued interest	49,104	(27,063)
Decrease in grants payable	(439,040)	(53,364)
Decrease in deferred inflows of resources	(1,568,293)	(1,938,776)
Increase (decrease) in accounts payable and accrued expenses	328,478	(7,840,721)
Net Cash Provided by Operating Activities	\$ 80,656,965	\$ 73,281,573

The accompanying notes are an integral part of these financial statements.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 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 and therefore 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. In achieving its objectives, the Authority acts as a lender and issues student loans to borrowers, which are funded by the issuance of tax-exempt bonds. It has the power to issue negotiable notes and bonds to achieve its corporate purpose. The bonds, which are issued under various resolutions, are special obligations of the Authority and are payable solely from the revenues and investments pledged under each resolution.

BASIS OF ACCOUNTING

The accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting as set forth by the Governmental Accounting Standards Board (GASB) utilizing the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, regardless of when received in cash, and expenses are recognized when the related liability for goods and services is incurred, regardless of when payment is made.

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.

INCOME TAXES

The Authority is exempt from Federal and State income taxes.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENTLY ADOPTED ACCOUNTING STANDARDS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

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.

RECENTLY ISSUED ACCOUNTING STANDARDS BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment to GASB Statement No. 68, effective for the Authority’s fiscal year ending June 30, 2015.

The Adoption of these standards did not have an impact on the financial statements of the Authority.

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

GASB Statement No. 72 - Fair Value Measurement and Application

GASB Statement No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

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

DEBT ISSUANCE COSTS

Debt issuance costs incurred in connection with bonds payable are reported as an expense in the year incurred.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING AND NON-OPERATING 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 student loan operations. The Authority's operating revenue is derived primarily from income on student loans consisting of loan interest, and earnings (losses) on investing activities since it is considered a lender, and fee income. The Authority's operating expenses are related to student loan origination and servicing activities and general administration. Non-operating revenue and expense are items not related to the ongoing operation of the student loan operations, such as gain on early redemption of bonds. Predominantly all items of revenue and expense are reported as operating revenues and expenses in the statement of revenues, expenses and changes in net position.

RESTRICTED VERSUS UNRESTRICTED RESOURCES

When both restricted and unrestricted amounts are available for use, it is the Authority's practice to use restricted resources first.

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 expense for fiscal years 2015 and 2014 totaled \$71,673 and \$59,720, 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 originates and holds state based private education student loans utilizing credit criteria approved by the rating agencies, and as applicable, the Authority's bond insurance company. These loans are not guaranteed under the Higher Education Act. In 2015, the Authority developed a new program for current student loan borrowers to refinance their student loan into a new debt instrument. The Authority is also a holder of federally guaranteed student loans under the Federal Family Education Loan Program (FFELP).

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 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 \$49,903,781 and \$49,098,415 at June 30, 2015 and 2014, 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), a related party (Note 11). 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. While the Authority continues to accrue interest due on all loans, the provision for loan losses factors in the potential uncollectability of both loan principal and accrued interest.

BOND PREMIUM AND DISCOUNT

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

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.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS (CONTINUED)

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.

INVESTMENTS

Investments are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

GRANTS PAYABLE

Grants payable represents funds held by RISLA to administer a student loan forgiveness program that is funded by the Rhode Island Foundation. RISLA manages all aspects of the program, including the disbursement of funds, according to policy guidelines established by the Foundation.

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.

Investment 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 potentially reduce the rebate liability through interest rate and loan forgiveness programs.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2015, there were no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2015, the Authority had two items that qualified as a deferred inflow of resources in the statement of net position. The unavailable loan origination fees represent a 4% loan origination fee which was assessed on certain loans at the time the loan enters a repayment status and is collected over the term of the loan. The unavailable loan origination fees included in the statement of net position was \$7,381,828 at June 30, 2015 and \$8,771,369 at June 30, 2014. The unavailable direct loan servicing represents a one-time up-front fee of \$715,000 (see note 9). The unavailable loan servicing included in the statement of net position was \$312,808 at June 30, 2015 and \$491,560 at June 30, 2014.

NET POSITION

Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets 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.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION (CONTINUED)

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.

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.

RECLASSIFICATIONS

Certain reclassifications have been made to the Authority’s 2014 financial statements to conform to the 2015 presentation.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 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).

	June 30,	
	2015	2014
Cash Deposits		
Carrying amount of cash deposits:		
Unrestricted	\$ 1,010,035	\$ 863,786
Restricted	<u>1,658,513</u>	<u>1,806,498</u>
Total	<u>\$ 2,668,548</u>	<u>\$ 2,670,284</u>
Bank Balances		
Covered by Federal depository insurance	\$ 500,000	\$ 293,877
Collateralized by financial institution	<u>1,889,452</u>	<u>912,248</u>
Total	<u>\$ 2,389,452</u>	<u>\$ 1,206,125</u>

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.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

CUSTODIAL CREDIT RISK – DEPOSITS (CONTINUED)

	June 30,	
	2015	2014
	Fair Value	Fair Value
Cash equivalents and investments unrestricted:		
Cash equivalents (Unrestricted):		
Local Government Investment Pool	\$ --	\$ 500,632
Government Agency Bonds and Security Funds and Commercial Paper	4,508,811	2,945,854
Total Cash Equivalents	4,508,811	3,446,486
Total Unrestricted	4,508,811	3,446,486
Cash Equivalents and Investments (Restricted):		
Cash Equivalents:		
Money Market Funds and Commercial Paper	83,824,933	94,002,295
Investments:		
U.S. Treasury Notes	11,898,517	7,100,733
Investment agreements	1,545,800	1,711,600
Total Investments	13,444,317	8,812,333
Total Restricted	97,269,250	102,814,628
Total Cash Equivalents and Investments	\$ 101,778,061	\$ 106,261,114

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 6).

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

CUSTODIAL CREDIT RISK – DEPOSITS (CONTINUED)

The Authority has designated \$1,750,000 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.

The Authority has also designated \$2,250,000 of unrestricted cash and cash equivalents to be used as pledged collateral in order to access funds from the line of credit (See Note 7). Amounts advanced from the line of credit are used to fund refinanced student loans.

At June 30, 2015, the Authority had the following investments:

Description	Maturity	Fair Value
U.S. Treasury Note	November 15, 2015	\$ 515,239
U.S. Treasury Note	November 15, 2016	249,642
U.S. Treasury Note	November 30, 2016	1,250,788
U.S. Treasury Note	December 15, 2016	899,823
U.S. Treasury Note	April 15, 2017	452,389
U.S. Treasury Note	September 15, 2017	502,890
U.S. Treasury Note	November 30, 2017	1,244,625
U.S. Treasury Note	December 31, 2017	248,475
U.S. Treasury Note	May 31, 2018	750,233
U.S. Treasury Note	July 31, 2018	985,760
U.S. Treasury Note	September 30, 2018	1,050,628
U.S. Treasury Note	May 15, 2019	533,555
U.S. Treasury Note	May 31, 2019	1,227,947
U.S. Treasury Note	November 15, 2019	539,805
U.S. Treasury Note	November 30, 2019	733,597
U.S. Treasury Note	February 15, 2021	713,121
Transamerica Life Insurance Co. (GIC)	December 1, 2028	<u>1,545,800</u>
Total		<u>\$ 13,444,317</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

CUSTODIAL CREDIT RISK – DEPOSITS (CONTINUED)

At June 30, 2014, the Authority had the following investments:

Description	Maturity	Fair Value
U.S. Treasury Note	November 15, 2015	\$ 536,746
U.S. Treasury Note	November 15, 2019	839,911
U.S. Treasury Note	May 15, 2019	548,006
U.S. Treasury Note	November 15, 2015	532,511
U.S. Treasury Note	August 15, 2020	529,681
U.S. Treasury Note	February 15, 2021	826,573
U.S. Treasury Note	February 15, 2023	506,831
U.S. Treasury Note	February 15, 2023	261,183
U.S. Treasury Note	February 15, 2023	592,273
U.S. Treasury Note	November 15, 2022	1,927,018
Transamerica Life Insurance Co. (GIC)	December 1, 2028	<u>1,711,600</u>
Total		<u>\$ 8,812,333</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, at June 30, 2015 and 2014, had 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, as follows:

RHODE ISLAND STUDENT LOAN AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

INTEREST RATE RISK (CONTINUED)

Description	Interest Rate	Maturity	June 30, 2015 Fair Value	June 30, 2014 Fair Value
Transamerica Life Insurance (GIC)	4.10%	December 1, 2028	<u>\$ 1,545,800</u>	<u>\$ 1,711,600</u>

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, 2015 and 2014, 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) represented 11% and 19% of the Authority's investments at June 30, 2015 and 2014, respectively.

NOTE 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 11), 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 and refinanced student loans for qualified students and their families.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 – LOANS RECEIVABLE (CONTINUED)

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 and refinanced 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.

Net loans receivable at June 30, 2015 and 2014 are as follows:

	2015	2014
FFELP loans receivable	\$ 331,740,091	\$ 392,989,999
Private loans receivable	381,894,036	393,790,468
Allowance for doubtful accounts	(49,903,781)	(49,098,415)
Net loans receivable	\$ 663,730,346	\$ 737,682,052

Student loans receivable are presented as assets on the statement of net position as follows at June 30:

	2015	2014
Current	\$ 63,482,645	\$ 69,339,220
Noncurrent	600,247,701	668,342,832
Total	\$ 663,730,346	\$ 737,682,052

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 – CAPITAL ASSETS

Capital assets activity during the years ended June 30, 2015 and 2014 was as follows:

	Balance at July 1, 2014	Additions	Disposals	Balance at June 30, 2015
Capital assets, being depreciated:				
Furniture and fixtures	\$ 81,297	\$ --	\$ --	\$ 81,297
Equipment	465,054	70,014	--	535,068
Net loans receivable	40,706	--	--	40,706
	587,057	70,014	--	657,071
Accumulated Depreciation:				
Furniture and fixtures	60,632	6,011	--	66,643
Equipment	356,172	63,482	--	419,654
Leasehold improvements	33,584	2,180	--	35,764
	450,388	71,673	--	522,061
Net Capital Assets	\$ 136,669	\$ (1,659)	\$ --	\$ 135,010
	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Capital assets, being depreciated:				
Furniture and fixtures	\$ 61,287	\$ 20,010	\$ --	\$ 81,297
Equipment	381,119	83,935	--	465,054
Leasehold improvements	40,706	--	--	40,706
	483,112	103,945	--	587,057
Accumulated Depreciation:				
Furniture and fixtures	55,839	4,793	--	60,632
Equipment	303,427	52,745	--	356,172
Leasehold improvements	31,402	2,182	--	33,584
	390,668	59,720	--	450,388
Net Capital Assets	\$ 92,444	\$ 44,225	\$ --	\$ 136,669

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 – OPERATING LEASES

The Authority leases its facility from the Rhode Island Higher Education Assistance Authority (RIHEAA) which is a related party (Note 11) under an operating lease. The lease requires monthly rental payments of \$9,689. The lease agreement expired on October 31, 2014. The Authority is currently on a month-to-month lease. Lease expense for the year ended June 30, 2015 and 2014 was \$116,263 and \$117,973, respectively.

NOTE 6 – BONDS PAYABLE

On March 13, 1997, the Authority issued Tax Exempt Auction Rate and Fixed Rate Student Loan Program Revenue Bonds with nominal values 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, 2015 and 2014 was .175% and .105% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.5% to 5.75% and matured in FY 2012. The proceeds of the issuances were used to originate and purchase eligible student loans. The 1997 Series 3 bonds were redeemed 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 nominal values 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 and bore interest at a rate reset every thirty five days. The auction rate at June 30, 2014 was .088% for Series 1 bonds. The Series 2 bonds paid interest ranging from 4.35% to 5.35% and matured in 2012. The proceeds of the issuance were used to originate and purchase eligible student loans. The 1998 Series 3 bonds were redeemed in FY 2004. The 1998 Series 2 Bonds were redeemed in FY 2012. The Series 1 bonds were redeemed in FY 2015.

On March 15, 2000, the Authority issued Tax Exempt Auction Rate and Fixed Rate Student Loan Program Revenue Bonds with nominal values 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 were auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2014 was .228% for Series 1 bond. The Series 3 bonds pay interest ranging from 5.0% to 5.9% and matured in FY 2012. The proceeds of the issuance were used to originate and purchase eligible student loans. The 2000 Series 2 bonds were redeemed in FY 2011. The 2000 Series 3 bonds were redeemed in FY 2013. The 2000 Series 3 bonds were redeemed in FY 2013. The 2000 Series 1 bonds were redeemed in FY 2015.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

On February 19, 2003 the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with nominal values of \$36,150,000 (Series 1) and \$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, 2015 and 2014 was .333% and .158% for Series 2, respectively, and .532% for Series 3 bonds at June 30, 2015. Proceeds of these issuances 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 in FY 2013. The Series 3 auction rate bonds were redeemed in FY 2015.

On April 29, 2003 the Authority issued Taxable Auction Rate Student Loan Program Revenue Bonds with nominal values of \$15,000,000 (Series 4) and \$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, 2014 was .668% for Series 4. Proceeds of these issuances were used to originate and purchase eligible student loans. The 2003 Series 5 bonds were redeemed in FY 2010. The 2003 Series 4 bonds were redeemed in FY 2015.

On January 21, 2004, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with nominal values of \$38,000,000 (Series A1) and \$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 at June 30, 2014 for Series A2 was .300%. The Series A3 bond paid interest ranging from 1.50% to 4.5% and originally matured between 2005 and 2018. Proceeds of these issuances were used to originate and purchase eligible student loans. The 2004 Series A1 bonds were redeemed in FY 2011. The 2004 Series A2 and 2004 Series A3 bonds were redeemed in FY 2015.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

On July 27, 2006, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with nominal values of \$30,000,000 (Series 1) and \$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, 2015 and 2014 was .340% for Series 1 and for Series 2. The Series 3 bond paid interest ranging from 4.6% to 4.9% and originally matured between 2007 and 2026. Proceeds of these issuances were used to originate and purchase eligible student loans. The 2006 Series 3 bonds were redeemed in FY 2013.

On May 1, 2008, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with nominal values of \$60,000,000 (Senior Series A) and \$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. Proceeds of these issuances were used to originate and purchase eligible student loans.

On August 5, 2008, the Authority issued Tax Exempt Weekly Interest Rate Student Loan Program Revenue Bonds with nominal values of \$20,000,000 (Series B-1); \$20,000,000 (Series B-2); \$25,000,000 (Series B-3) and \$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-5 at June 30, 2013 was .150% 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. 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 Series B bonds. On June 24, 2014, the 2008 Series B5, the 2011 Series A bonds and the 2012 Series B bonds were refinanced with the proceeds of the 2014-1 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 6.35% and mature between 2013 and 2030. 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. Proceeds of this issuance were used to originate and purchase eligible student loans.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

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 2025. Proceeds of this issuance were 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. Proceeds from this issuance were used to acquire eligible student loans financed by other bond issues of the Authority. On June 24, 2014, the 2011 Senior Series A bonds were refinanced and redeemed with the proceeds of the 2014-1 bonds.

On March 21, 2012, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal 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. Proceeds of this issuance were 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. On June 30, 2015 and 2014 interest on the 2012 Series-1 Notes was 1.084% and 1.051%, respectively. Proceeds of the notes were used to finance eligible student loans and refund certain obligations of the Authority.

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. 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 June 24, 2014, the 2012 Series B bonds were refinanced with the proceeds of the 2014-1 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. On June 30, 2015 and 2014, interest on the 2012-2 Notes was .834% and .801%, respectively. Proceeds of the notes were used to finance eligible student loans and refund certain obligations of the Authority.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

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 5.00% and maturities ranging from December 1, 2013 through December 1, 2027. Proceeds of the bonds were used to originate and purchase eligible student loans. Proceeds were also utilized to retire certain obligations of the Authority.

On April 9, 2014, the Authority issued \$34,750,000 in 2014 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 4.00% and 5.00% and maturities ranging from December 1, 2015 through December 1, 2029. Costs to issue the bonds amounted to \$484,918. Proceeds of the bonds were used to originate and purchase eligible student loans and to fund the Debt Service Reserve Fund.

On June 24, 2014, the Authority issued \$93,100,000 in 2014-1 Taxable LIBOR Floating Rate Notes. The 2014-1 Notes bear interest at a rate of one month LIBOR plus .70%. The interest rate resets on the second business day of each month. The notes have a final maturity date of October 2, 2028. On June 30, 2015 and 2014, interest on the 2014-1 Notes were .88400% and .86463%, respectively. Proceeds of the notes were used to refund certain obligations of the Authority.

On April 9, 2015, the Authority issued \$41,365,000 in 2015 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 3.50% and 5.00% and maturities ranging from December 1, 2016 through December 1, 2031. Costs to issue the bonds amounted to \$516,974. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans.

In 2015 and 2014, 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 90% to 100% and 93% to 100% in 2015 and 2014, respectively. \$57,245,000 and \$40,105,000 of the outstanding Bonds were redeemed which resulted in a gain in the amount of \$20,000 and \$545,000 in 2015 and 2014, 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.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

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, 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, March 2013 and April 2014 Bond issues is 3% of principal bonds outstanding. The required reserve for the August 2012 bond issue is the greater of .25% of the principal bonds outstanding or \$250,000. The required reserve for the November 2012 bond issue is the greater of .25% of principal bonds outstanding or \$390,000. The required reserve for the June 2015 bond issue is 3% of the principal amount of the 2015 Senior Series A Bonds Outstanding with a minimum requirement of \$2,063,550 for all outstanding senior obligations. The Authority has purchased a surety bond issued by Ambac to fulfill the debt reserve fund obligation for the March 2000, February 2002, April 2003 and July 2006 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 2015 and 2014.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

The Authority maintained 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 Bond. The letter of credit expired in June 2014 as part of the issuance of the 2014-1 Series Bonds and was not renewed.

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

<u>Bond Issue</u>	<u>2015</u>	<u>2014</u>
March 1997		
Series I.....	\$10,700,000	\$20,600,000
April 1998		
Series I.....	-	4,500,000
March 2000		
Series I.....	-	2,000,000
February 2002		
Series 1.....	2,300,000	7,500,000
February 2003		
Series 1.....	-	4,000,000
Series 2.....	1,700,000	2,500,000
Series 3.....	-	2,200,000
April 2003		
Series 4.....	-	750,000
January 2004		
Series A-2.....	-	10,000,000
Series A-3.....	-	5,740,000
July 2006		
Series 1.....	11,550,000	14,850,000
Series 2.....	20,550,000	23,850,000

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

May 2008		
Senior Series A	31,210,000	36,045,000
Subordinated Series I	4,000,000	4,000,000
July 2009		
Senior Series A	16,030,000	16,995,000
March 2010		
Senior Series A	14,440,000	15,675,000
December 2010		
Senior Series B	20,055,000	22,355,000
March 2012		
Senior Series A	16,090,000	16,490,000
August 2012		
Series 2012-1	70,493,000	83,366,000
November 2012		
Series 2012-2	175,070,000	211,781,000
March 2013		
Senior Series A	58,525,000	65,525,000
April 2014		
Senior Series A	34,750,000	34,750,000
June 2014		
Series 2014-1	79,332,000	93,100,000
April 2015		
Series 2015-A	<u>41,365,000</u>	<u>-</u>
Subtotal	608,160,000	698,572,000
Add: premium	4,448,743	2,755,970
Less: discount	1,082,067	467,471
Less: current portion	<u>11,530,000</u>	<u>11,180,000</u>
Total	<u>\$599,996,676</u>	<u>\$689,680,499</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

The following schedule reflects the changes in bonds payable:

Balance at June 30, 2013	\$ 762,799,000
Additions	127,850,000
Retirements	<u>(192,077,000)</u>
Balance at June 30, 2014	698,572,000
Additions	41,365,000
Retirements	<u>(131,777,000)</u>
Balance at June 30, 2015	<u>\$ 608,160,000</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – BONDS PAYABLE (CONTINUED)

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

Year	Principal	Interest	Total
2016	\$ 11,530,000	\$ 11,745,345	\$ 23,275,345
2017	14,025,000	13,033,095	27,058,095
2018	15,615,000	12,369,397	27,984,397
2019	15,530,000	11,608,899	27,138,899
2020	17,330,000	10,959,601	28,289,601
2021	18,120,000	10,292,048	28,412,048
2022	18,270,000	9,425,695	27,695,695
2023	18,035,000	8,672,365	26,707,365
2024	19,470,000	7,965,915	27,435,915
2025	21,040,000	7,115,555	28,155,555
2026	19,270,000	6,198,293	25,468,293
2027	16,105,000	5,357,033	21,462,033
2028	10,615,000	4,614,440	15,229,440
2029	88,032,000	4,132,711	92,164,711
2030	4,665,000	2,968,908	7,633,908
2031	15,745,000	2,643,034	18,388,034
2032	73,593,000	1,799,164	75,392,164
2033	--	1,612,847	1,612,847
2034	--	1,612,847	1,612,847
2035	--	1,612,847	1,612,847
2036	--	1,613,118	1,613,118
2037	177,370,000	388,399	177,758,399
2038	1,700,000	97,433	1,797,433
2039	--	96,300	96,300
2040	--	96,564	96,564
2041	32,100,000	40,631	32,140,631
Total	<u>\$ 608,160,000</u>	<u>\$ 138,072,483</u>	<u>\$ 746,232,483</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 7 – NOTE PAYABLE AND LINE OF CREDIT

On December 30, 2014, the Authority entered into a line of credit agreement with a bank (The Line) to borrow up to \$10,000,000. The Line expires on June 30, 2016, and bears interest at a rate of one month LIBOR plus 1.25%. Per the terms of the Line Agreement, the Authority has the option to convert the Line into a term note. The Line is collateralized by certain loans including all of those originated by the Authority from advances under the Line as well certain additional pledged assets.

On February 13, 2015, the Authority converted the amount outstanding under The Line of \$3,739,244 into a term note (the Term Note). The Term Note matures on February 12, 2022 and has an interest rate of 3.14%. Principal payments of \$44,515 plus interest are due on the 13th of every month, beginning on March 13, 2015. As of June 30, 2015, the principal balance outstanding under the Term Note was \$3,561,185. In addition, the Authority can also borrow up to an additional \$6,438,815 against The Line as of June 30, 2015.

As part of the above financings, the Authority was required to meet certain financial covenants. As of June 30, 2015, the Authority was in compliance with these covenants.

NOTE 8 – ACCRUED ARBITRAGE REBATE

Accrued arbitrage rebate at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Current portion	\$ --	\$ 62,968
Noncurrent portion	<u>2,246,320</u>	<u>1,755,074</u>
Total Accrued Arbitrage Rebate	<u>\$ 2,246,320</u>	<u>\$ 1,818,042</u>

The following schedule reflects the changes in accrued arbitrage rebate:

Balance at June 30, 2013	\$ 9,894,886
Increase	929,013
Decrease	<u>(9,005,857)</u>
Balance at June 30, 2014	1,818,042
Increase	645,651
Decrease	<u>(217,373)</u>
Balance at June 30, 2015	<u>\$ 2,246,320</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – ACCRUED ARBITRAGE REBATE (CONTINUED)

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.

NOTE 9 – 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 servicing contract. 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.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – 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 which is deferred and amortized over the term of the agreement of 4 years. 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. The Authority recognized revenue of \$178,752 in FY 2015 and 2014, which is recorded as “fee income” in the accompanying statements of revenues, expenses and changes in net position. The amount outstanding at June 30, 2015 and 2014 is \$312,808 and \$491,560, respectively, and is recorded as “unavailable revenue- direct loan servicing” on the accompanying statements of net position.

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 \$340,942 and \$397,048 in revenue from Aspire to service the Federal Student Loans for the years ended June 30, 2015 and 2014, respectively.

In July 2015, the U.S. Department of Education approved the transfer of responsibilities for servicing federal student loans within the William D. Ford Federal Direct Loan Program that were serviced by Aspire to the Missouri Higher Education Loan Authority (MOHELA). The transfer of loans from Aspire to MOHELA will be completed by the end of September 2015. At this time the contract with Aspire will terminate and a servicing agreement with MOHELA will take effect.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 10 – 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 and less expenses. 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 2015 and 2014 amounted to \$243,536 and \$242,283, respectively. Employee contributions for 2015 and 2014 amounted to \$154,639 and \$141,956 respectively. All plan provisions and amendments require the approval of the Authority's Board of Directors. There are no post-retirement benefits for Authority employees.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Rhode Island Student Loan Authority is a related party to 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. RIHEAA is a component unit of the State of Rhode Island for financial reporting purposes. The outstanding FFELP loans guaranteed by RIHEAA were \$311,793,221 and \$369,144,698 at June 30, 2015 and 2014, respectively.

Facility lease expense paid to RIHEAA for fiscal years ended June 30, 2015 and 2014 was approximately \$116,263 and \$117,973, respectively.

The Governor of the State of Rhode Island proposed, under Article 7 of the State of Rhode Island FY 2016 budget to create a Division of Higher Education Assistance (DHEA) in the Office of the Postsecondary Commissioner (OPC). The budget was passed by the General Assembly and went into effect on July 1, 2015. This action transferred all rights, assets, powers and obligations of RIHEAA, including their role as a guarantor participating in the Federal Family Education Loan Program to the OPC and confirmed the Commissioner of Postsecondary Education as the new executive director of DHEA.

RHODE ISLAND STUDENT LOAN AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 12 – 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, 2015 and 2014.

NOTE 13 – SUBSEQUENT EVENT

The Authority has evaluated subsequent events through September 30, 2015, the date these financial statements were authorized for issuance. There were no subsequent events that required recognition or additional disclosure in these financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Board Members
Rhode Island Student Loan Authority

We have audited, 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, the financial statements of the Rhode Island Student Loan Authority (a related organization to the State of Rhode Island), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rhode Island Student Loan Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhode Island Student Loan Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Student Loan Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Student Loan Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, RI
September 30, 2015



RISLA

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