

**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](http://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<br>Change | 2013                 | Percentage<br>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,<br>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<br>Change | 2013                 | Percentage<br>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               |
|---|--------------------|--------------------|
| <b>Current Assets</b>   |                    |                    |
| 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            |
| <b>Total Current Assets</b>   | <u>185,977,710</u> | <u>196,490,117</u> |
| <b>Noncurrent Assets</b>  |                    |                    |
| Student loans receivable - net  | <u>600,247,701</u> | <u>668,342,832</u> |
| <b>Capital Assets</b>   |                    |                    |
| Capital assets, less accumulated depreciation<br>of \$522,060 and \$450,387, respectively | <u>135,010</u>     | <u>136,669</u>     |
| <b>Total Assets</b>   | <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                  |
|---|-----------------------|-----------------------|
| <b>Liabilities</b>  |                       |                       |
| <b>Current liabilities</b>  |                       |                       |
| 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                |
| <b>Total Current Liabilities</b>  | <b>18,401,403</b>     | <b>18,731,521</b>     |
| <b>Noncurrent Liabilities</b>   |                       |                       |
| Bonds payable, net of bond premium (discount) of \$3,366,676<br>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             |
| <b>Total Noncurrent Liabilities</b>   | <b>605,270,003</b>    | <b>691,435,573</b>    |
| <b>Total Liabilities</b>  | <b>623,671,406</b>    | <b>710,167,094</b>    |
| <b>Deferred Inflows of Resources</b>  |                       |                       |
| Unavailable revenue - loan origination fees   | 7,381,828             | 8,771,369             |
| Unavailable revenue - direct loan servicing   | 312,808               | 491,560               |
| <b>Total Deferred Inflows of Resources</b>  | <b>7,694,636</b>      | <b>9,262,929</b>      |
| <b>Net Position</b>   |                       |                       |
| 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             |
| <b>Total Net Position</b>   | <b>\$ 154,994,379</b> | <b>\$ 145,539,595</b> |

*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           |
|---|----------------|----------------|
| <b>Operating Revenues</b>                                     |                |                |
| 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      |
| <b>Total Operating Revenues</b>                               | 33,223,998     | 35,597,357     |
| <b>Operating Expenses</b>                                     |                |                |
| 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         |
| <b>Total Operating Expenses</b>                               | 23,789,214     | 26,519,077     |
| <b>Operating Income</b>                                       | 9,434,784      | 9,078,280      |
| <b>Nonoperating Revenues and Expenses</b>                     |                |                |
| Gain on early retirement of bonds                             | 20,000         | 545,500        |
| <b>Changes in Net Position</b>                                | 9,454,784      | 9,623,780      |
| <b>Net Position - Beginning of the Year</b>                   | 145,539,595    | 135,915,815    |
| <b>Net Position - End of the Year</b>                         | \$ 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                  |
|--|----------------------|-----------------------|
| <b>Cash Flows from Operating Activities</b>                      |                      |                       |
| 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)             |
| <b>Net Cash Provided by Operating Activities</b>                 | <u>80,656,965</u>    | <u>73,281,573</u>     |
| <b>Cash Flows from Noncapital Financing Activities</b>           |                      |                       |
| 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           |
| <b>Net Cash Used in Noncapital Financing Activities</b>          | <u>(85,017,934)</u>  | <u>(62,495,631)</u>   |
| <b>Cash Flows from Capital and Related Financing Activities</b>  |                      |                       |
| Purchase of equipment  | (70,014)             | (103,945)             |
| <b>Net Cash Used in Capital and Related Financing Activities</b> | <u>(70,014)</u>      | <u>(103,945)</u>      |
| <b>Cash Flows from Investing Activities</b>                      |                      |                       |
| Purchases of investment securities                               | (6,508,241)          | --                    |
| Sales of investment securities                                   | 1,822,451            | 226,992               |
| <b>Net Cash (Used in) Provided by Investing Activities</b>       | <u>(4,685,790)</u>   | <u>226,992</u>        |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>      | (9,116,773)          | 10,908,989            |
| <b>Cash and Cash Equivalents, Beginning of Year</b>              | <u>100,119,065</u>   | <u>89,210,076</u>     |
| <b>Cash and Cash Equivalents, End of Year</b>                    | <u>\$ 91,002,292</u> | <u>\$ 100,119,065</u> |

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

|   | 2015                 | 2014                  |
|---|----------------------|-----------------------|
| <b>Cash and Cash Equivalents Consists of:</b>   |                      |                       |
| Cash  | \$ 1,010,035         | \$ 1,952,644          |
| Cash equivalents  | 4,508,811            | 2,358,126             |
| <b>Restricted:</b>  |                      |                       |
| Cash  | 1,658,513            | 1,806,000             |
| Cash equivalents  | 83,824,933           | 94,002,295            |
| <b>Cash and Cash Equivalents, End of Year</b>   | <b>\$ 91,002,292</b> | <b>\$ 100,119,065</b> |
| <b>Reconciliation of Operating Income to Net Cash Used<br/>for Operating Activities</b>     |                      |                       |
| Operating income  | \$ 9,434,784         | \$ 9,078,280          |
| Adjustments to reconcile operating income to net cash provided<br>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)           |
| <b>Net Cash Provided by Operating Activities</b>  | <b>\$ 80,656,965</b> | <b>\$ 73,281,573</b>  |

*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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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<br>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**

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**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>            |
| <b>Total</b>                          |                    | <b><u>\$ 13,444,317</u></b> |

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**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**

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

***INTEREST RATE RISK (CONTINUED)***

| Description                       | Interest Rate | Maturity         | June 30, 2015<br>Fair Value | June 30, 2014<br>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**

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**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<br>July 1, 2014 | Additions  | Disposals | Balance at<br>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                     |
| Total Accumulated Depreciation     |                            |            |           |                             |
|                                    | \$ 136,669                 | \$ (1,659) | \$ --     | \$ 135,010                  |
| Net Capital Assets                 |                            |            |           |                             |
|                                    | \$ 136,669                 | \$ (1,659) | \$ --     | \$ 135,010                  |
|                                    |                            |            |           |                             |
|                                    | Balance at<br>July 1, 2013 | Additions  | Disposals | Balance at<br>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                     |
| Total Accumulated Depreciation     |                            |            |           |                             |
|                                    | \$ 92,444                  | \$ 44,225  | \$ --     | \$ 136,669                  |
| 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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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**

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**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            |
| <b>Total</b> | <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**

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**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 13<sup>th</sup> 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**

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**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**

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**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**

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**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**

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**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