



Rhode Island Student Loan Authority

ANNUAL REPORT

Fiscal Year Ended
June 30, 2010
And Dated
December 31, 2010



RISLA
RHODE ISLAND STUDENT
LOAN AUTHORITY

BOARD OF DIRECTORS

Dr. Anthony J. Santoro, *Chairman*

Hon. Robert J. McKenna, *Vice Chairman*

Dr. William Croasdale, *Treasurer*

John Howell, *Secretary*

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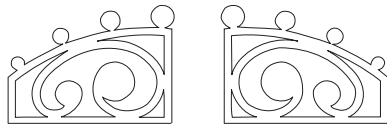
Charles P. Kelley, *Executive Director*



TABLE OF CONTENTS

	<u>Page</u>
Welcome Letter	3
Highlights 2010	4 - 7
RISLA Accomplishments	8- 9
Programs Administered	10 - 12
Meeting Minutes and Rules and Regulations	13
Operating Statement Summarizing Board of Directors Meetings	14 - 16
Staff Supported by RISLA Funds and Debt and Arbitrage Rebate	17
Training Courses Held and RISLA Financial Report	18
Statement of Net Assets, Statement of Revenues and Expenses, Statement of Cash Flows, and Notes to Financial Statements	Appendix 1

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RISLA 2010 ANNUAL REPORT

WELCOME

It is our great pleasure to present the 2010 Annual Report for the Rhode Island Student Loan Authority (RISLA). For nearly 30 years, RISLA has served as a leading non-profit resource in Rhode Island, making higher education more accessible and affordable. Students and families have grown to count on RISLA to help navigate the complexities of going to college, and we are proud to have helped tens of thousands of students reach their higher education dreams this year.

2010 marked another challenging year for RISLA, as the educational financing industry continued to evolve. Despite this challenging landscape, RISLA was able to secure \$25 million to make student loans available to Rhode Island students in 2010. The popular Rhode Island Family Education Loan (RIFEL) program was once again available for students and families, providing the safety of a fixed rate loan with a low interest rate. Through sound management and responsible lending, RISLA was able to offer one of the lowest fixed interest rates on alternative education loans in the country.

Along with the success of the RIFEL loan, RISLA increased its outreach efforts to students and families with successful financial literacy and college planning programs. RISLA persists with its goal to educate high school and college students on the issue of financial literacy. Classes were offered at schools throughout the state, helping students to better understand basic financial concepts like debt, budgeting and how to pay for college. RISLA also continued its outreach to underserved populations, highlighted by its Latino College Access Coalition. The Coalition hosted events and outreach on college admission to hundreds of Latino students, who constitute the fastest growing segment of our state's population.

Through the College Planning Center of RI (CPCRI), RISLA made nearly 7,000 contacts with students and families providing free, one-on-one counseling and informational seminars on all aspects of financial aid, college selection and financial literacy. The CPCRI celebrated the grand re-opening of its Warwick Mall location, which was destroyed by massive flooding in March. RISLA also maintained its tradition of awarding \$50,000 in scholarships through its Paul V. Sherlock Memorial Scholarship Fund. To date, over \$350,000 has been awarded to Sherlock Scholars throughout Rhode Island.

All of the programs and services offered by RISLA are made possible by the dedication and oversight of our volunteer Board of Directors. We acknowledge the Board for its continued guidance and wisdom, including Chairman Anthony Santoro, William Croasdale, Patricia Doyle, John Howell, Robert J. McKenna, and General Treasurer Frank Caprio. We also acknowledge the dedicated efforts of all our employees, whose hard work enables Rhode Island students to achieve their educational dreams.

Sincerely,

Charles P. Kelley
Executive Director

HIGHLIGHTS 2010

In 2010, the Rhode Island Student Loan Authority continued to fulfill its mission of making higher education more accessible and affordable for Rhode Islanders. RISLA embarked on a number of initiatives throughout the year, leading to a host of accomplishments. The highlights include:

RISLA's Bond Rating Exceptional

In November, RISLA reported that Standard & Poor's affirmed a AAA rating on its 2008 series A bonds. RISLA was the first and only student loan entity to issue bonds of this type in the heat of the economic crisis. Standard & Poor's also affirmed an A+ rating on RISLA's 2009 series A bonds. (AAA is the highest rating available from S&P). These high ratings are important because they allow RISLA to borrow at lower costs, allowing students and families to benefit from very low interest rates. The Standard & Poor's ratings take into consideration the strong professional management of RISLA and the quality of schools it serves.

College Goal Sunday

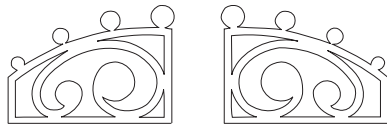
On January 31st, RISLA and the College Planning Center of Rhode Island were lead participants in College Goal Sunday, a free, statewide event that assists students and families with college financial aid forms. This year marked the third annual College Goal Sunday, which provided financial aid specialists in Central Falls, Lincoln, Woonsocket, West Warwick, Newport and Providence. Sponsored by the Rhode Island Association of Student Financial Aid Administrators, College Goal Sunday is open to all Rhode Islanders, with particular attention given to reaching low income and first-generation college students. Counselors from RISLA and the CPCRI played an integral role in the event's success. RISLA's Chief Financial Officer, Noel Simpson, was a lead organizer of the event and appeared on Fox Providence's "Rhode Show" to promote the event.

College Planning Center Hosts Major Statewide College Fair

On September 22nd, the College Planning Center of Rhode Island partnered with the PawSox to host a major college fair for students throughout the state at McCoy Stadium in Pawtucket. An estimated 3,500-4,000 high school students and families participated in the event, which brought together representatives from



Students gather around college representatives at the College Planning Center's college fair held at McCoy Stadium with the PawSox.



RISLA 2010 ANNUAL REPORT

75 colleges throughout the northeast. The free event allowed attendees to see parts of McCoy Stadium that are normally closed to the public, including the batting cages and locker rooms. The CPCRI gained significant publicity through the PawSox organization for the event, as well as coverage in various local media outlets.

College Planning Center Re-Opens Warwick Mall Flagship

One of the victims of the record flooding that took place in Rhode Island in March was RISLA's College Planning Center office at the Warwick Mall. Over four feet of water entered the mall building, destroying the CPCRI's flagship location. Through the dedicated efforts of the entire CPCRI staff, a new location in the Warwick Mall was selected, designed, and constructed, all within months of the devastating floods. On November 22nd, local dignitaries and elected officials, including U.S. Senators Jack Reed and Sheldon Whitehouse, along with Warwick Mayor Scott Avedisian and Secretary of State A. Ralph Mollis were on hand for the grand re-opening of the CPCRI's Warwick location. The new site offers more space than the previous location, along with its own entrance next to the Sports Authority store.

Sherlock Scholarship Awards

For the seventh consecutive year, RISLA was proud to award 25 scholarships to needy Rhode Islanders in the name of the late state representative and former RISLA board member, Paul V. Sherlock. The \$50,000 in scholarships was awarded randomly to qualified students from across Rhode Island at a June ceremony in the State House. The event was hosted by Dave DeBlois, Executive Director of the College Planning Center of RI along with RISLA CFO Noel Simpson.



2010 Sherlock Scholarship recipients gather at the State House for an award ceremony.

RISLA Expands Outreach to Latino Community

On February 27th, the Latino College Access Coalition, a RISLA-designed initiative to help Latino students realize the dream of a college education, held a college fair at the Elmwood Community Center in Providence. Professional college guides were available to assist students and their families with completing financial aid forms. Local colleges and universities also took part in the event, offering guidance and counseling on programs, services and the admissions process. Along with RISLA, the event was sponsored by the Rhode Island Foundation and the College Planning Center of Rhode Island. Partners in the event included: Quisqueya in Action, Gloria Dei Stepup Center, Rhode Island College School of Social Work, Dorcas Place, United Way 211, National College Advising Corp at Brown University's Howard R. Swearer Center for Public Service, Sodexo Education, Family Resource Community Action, Connecting for Children & Families, nriAHEC, Poder 1110AM, and Providence en Español.



HIGHLIGHTS 2010

(continued)

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

U.S. Senator Jack Reed held his 20th annual College Aid Workshop at Cranston High School West in November. RISLA has enjoyed a long-standing tradition of working with Senator Reed on his college aid workshops. A panel of experts from RISLA and the CPCRI joined Senator Reed to discuss financial aid and student loan options.

College Planning Center Expands its Hours

In 2010, the College Planning Center of RI expanded its hours for the busy financial aid season to better serve the thousands of students and families who utilize its services annually. As always, the CPCRI's services are free of charge. During the year, the CPCRI staffed a West Bay office at the Warwick Mall, an East Bay office on Metacom Avenue in Bristol, a Northern Rhode Island office at the Boys & Girls Club of Cumberland-Lincoln and a Providence office at the Elmwood Community Center. Expanded hours during 2010 included nights and weekend sessions, complemented by the CPCRI's interactive website: www.collegeplanningcenter.org.

RISLA a Leading Resource on Financial Literacy

RISLA continued the momentum of its aggressive outreach in the area of financial literacy for local high school and college students. RISLA conducted nearly 50 seminars during FY 2010 to local students at schools like Rhode Island College, Community College of Rhode Island, Roger Williams University, Woonsocket High School and Middletown High School. The core presentation offered to students includes a focus on debt management, budgeting, understanding credit, financing a higher education and understanding general financial terms. Most recently, RISLA has partnered with North Providence High School to offer its financial literacy class to the entire Junior class, as well as the Seniors enrolled in the Consumer Math class. North Providence High School's Director of Guidance Jack Kelly commended RISLA, especially staff member William Bianchi, for offering this free presentation to the students.

RISLA Working to Improve Primary Care in RI

2010 saw the enactment of the Rhode Island Primary Care Educational Loan Repayment Program, a collaborative effort between RISLA, Blue Cross & Blue Shield of RI, the Rhode Island Area Health Education Center, the Rhode Island Foundation and the Rhode Island Medical Society. RISLA administers a grant from Blue Cross for the program, which makes loan repayment awards of up



to \$20,000 per year for up to four years in exchange for service commitments by physicians that are newly recruited to the state. The goal of the program is to encourage more new primary care physicians to work in Rhode Island. RISLA is proud to be a part of the important effort to improve the health care system of the state.

Looking Ahead

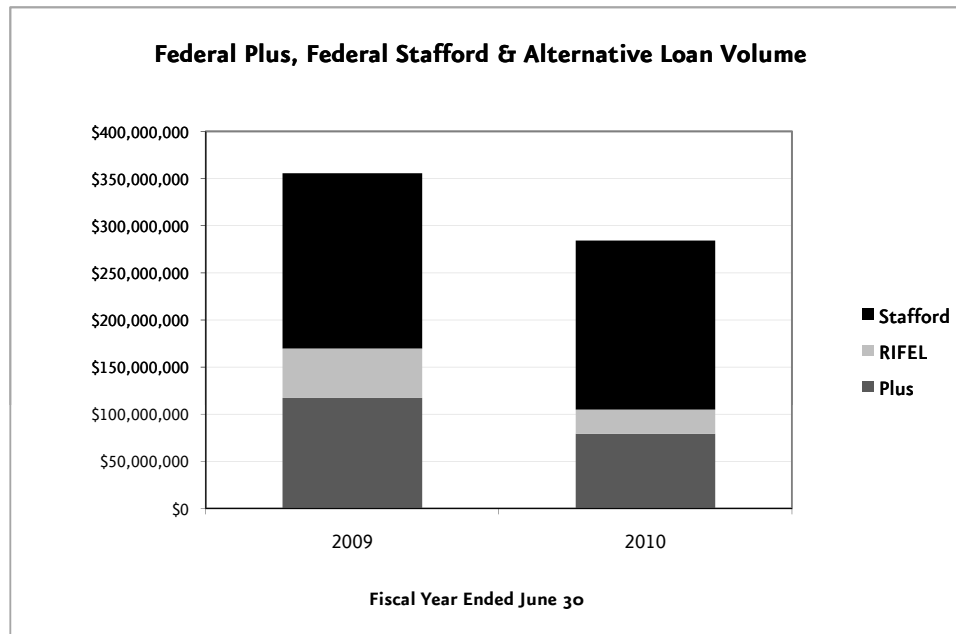
2010 marked another challenging year for the Rhode Island Student Loan Authority, as the landscape for education financing continued to evolve. RISLA was successful in securing \$25 million for its Rhode Island Family Education Loan program during the year, providing an affordable, fixed rate loan option for students and their families. In the coming year, RISLA will look to continue its long tradition of offering this loan program to Rhode Islanders.

Along with its work in making higher education more affordable, RISLA continues to focus on the issue of helping students access a college education. The growth of the College Planning Center of RI will continue to rise, as families navigate an uncertain economic environment. RISLA is also committed to continuing its efforts in the area of financial literacy, specifically the outreach to local high school and college students on issues like debt, budgets and how to pay for college. The organization will also embark on initiatives to help existing college students stay in school and complete their education. Referred to as “persistence,” RISLA will work with its partner schools to develop programs to keep students in college and on a path towards graduation. RISLA recognizes that its commitment to helping students does not end once an acceptance letter is received. 2011 will bring an added focus on the issue of persistence, making sure that students have the necessary tools to complete their degree.

RISLA ACCOMPLISHMENTS FISCAL 2010

RISLA Operations

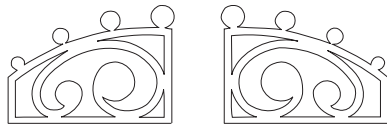
- FFELP (Stafford and PLUS) loan originations both decreased for the year ended June 30, 2010. Stafford loan volume decreased from \$186,106,252 for the year ended June 30, 2009 to **\$179,280,074** for the year ended June 30, 2010, for a decrease of 3.67%. PLUS loan volume decreased from \$117,288,679 for the year ended June 30, 2009 to **\$79,199,964** for the year ended June 30, 2010, for a decrease of 32.47%.
- Rhode Island Family Education Loan program loan volume decreased from \$52,432,499 for the year ended June 30, 2009 to **\$25,879,498** for the year ended June 30, 2010, a decrease of 50.64%.



- For the Fiscal Year 2010, RISLA serviced approximately 80,000 borrowers, a vast majority of whom are Rhode Island residents or attend Rhode Island institutions.

RISLA Programs

- In FY 2010, RISLA continued to offer fixed rate state-based student loans through its Rhode Island Family Education Loan program (RIFEL). Qualified students attending college in Rhode Island and state residents attending an eligible out-of-state school could choose a fifteen year immediate repayment option at a fixed rate of 7.74% for the life of the loan. Students could



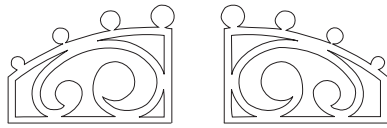
RISLA 2010 ANNUAL REPORT

also choose a deferred repayment options, also at a fixed rate for the life of the loan. RISLA originated approximately \$25,000,000 in RIFEL loans in FY 2010.

- RISLA offered a reduced rate on PLUS loans from FY 1994 through FY 2009 which saved borrowers approximately \$10 million in reduced interest costs. RISLA discontinued the reduced rate PLUS program in FY 2009 due to federal restrictions on purchasing loans with borrower benefits. RISLA continues to honor prior commitments to parent borrowers.
- Teacher, Nurse, Nurse Educator and Pharmacy reward programs offer interest free borrowing and, under certain programs, loan forgiveness for eligible students in the above fields of study. Borrowers with Stafford loans disbursed from July 1, 2002 to July 1, 2008 are eligible for the Teacher, Nurse, Nurse Educator and Pharmacy Reward Programs.
- The College Planning Center made 6,940 contacts with students and parents during FY 2010, providing admissions and financial aid counseling and guidance.
- RISLA conducted 44 financial literacy workshops/presentations throughout Rhode Island, serving approximately 2,200 individuals during FY 2010. Sessions were conducted over a wide range of audiences including students, school administrators and counselors. Sessions covered a variety of topics such as financial fundamentals, understanding credit, budgeting and student loan repayment.

Future Activities

- Effective July 1, 2010, FFELP loans are no longer originated and the new federal student loans are only originated under the Federal Direct Loan Program. The Authority has operated a robust state-based loan program since 1992 and intends to continue to do so in the future. Moreover, as part of the Budget Reconciliation Act of 2010, Congress mandated that the United States Department of Education contract with eligible not-for-profit servicers to service Direct Student Loans, provided the servicers meet the standards for servicing federal assets and have the capacity to service the loan volume allocated to them. Under that Act, the Department must allocate to each eligible not-for-profit servicer the servicing rights for the loan accounts of 100,000 borrowers and establish a separate pricing tier for each of the first 100,000 borrower loan accounts at a competitive market rate. The Authority is presently evaluating the feasibility of servicing Direct Student Loans.



SUMMARY OF RISLA PROGRAMS ADMINISTERED

Fiscal Year ending June 30, 2010

Rhode Island Family Education Loan Program (RIFEL)

- Started in 1992, the RIFEL program is credit based and requires both the student and a cosigner. The interest rate is fixed depending on when the student entered into the loan agreement and the repayment option the student chose. The loan program has a fee equal to 4% of the loan amount.
- On July 7, 2009 RISLA issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds in the amount of \$25,570,000. The purpose of this bond issue was to fund RIFEL loans originated in FY 2010. RISLA issued an additional \$16,970,000 of Tax Exempt Fixed Rate Student Loan Program Revenue Bonds on March 3, 2010. The purpose of this bond issue was to fund RIFEL loans originated in FY 2011.

College Planning Center Of Rhode Island (CPCRI)

- Started by RISLA in 1998, the CPCRI provides free expert college admissions and financial aid counseling to parents and students. The CPCRI has experienced former financial aid and college planning counselors on their staff.
- CPCRI staff provides one-on-one counseling to parents and students in completing the often-complex financial aid forms such as the FAFSA and Profile, used by colleges.
- Working with high school guidance counselors, CPCRI staff provides workshops on financial aid, essay writing and college selection.
- The College Planning Center made over 6,900 contacts with parents and students through in-person counseling and seminars to assist with their college planning needs in FY 2010.
- The College Planning Center also has many of its financial aid and admissions resources on the web at www.collegeplanningcenter.org.
- In addition to the College Planning Center locations in Warwick and Bristol, two new CPCRI locations were opened during FY 2010, one in Providence and the other in Cumberland.
- RISLA also started the Latino College Access Coalition in FY 2010. The Coalition is a partnership of 18 community based and business organizations with a goal of increasing college attendance and success among the Latino residents of the state.



RISLA 2010 ANNUAL REPORT

Paul Sherlock Scholarship Fund

- \$50,000 need based annual scholarship fund named after former college professor, leader in special education, RISLA Board member and legislator. Funds resulted from agreement between RISLA and National Education Loan Network, Inc (Nelnet). Nelnet has agreed to fund \$50,000 per year until FY 2013 for the Sherlock need-based scholarship fund.
- RISLA funded 25 need based scholarships in the amount of \$2,000 per person in FY 2004 through FY 2010.

Teaching, Nursing And Pharmacy Rewards Programs

- RISLA offers a zero interest Stafford loan for the first four years of repayment for students that enter high need occupations in teaching, nursing and pharmacy.
- In FY 2007, RISLA enhanced the Nursing Rewards Program by adding an additional \$1,000 principal forgiveness in each of the first four years of repayment.
- One hundred twenty students have entered repayment under the Rewards programs and approximately another 150 students are potentially eligible when they enter repayment. An eligible teaching, nursing and pharmacy student with a \$16,000 loan balance can potentially save over \$1,800 in interest payments with RISLA's rewards programs.
- Borrowers with Stafford loans disbursed from July 1, 2002 to July 1, 2008 are eligible for the Teaching, Nursing and Pharmacy Reward programs.
- RISLA discontinued all reward programs for loans originated after July 1, 2008 due to federal restrictions on purchasing loans with borrower benefits. RISLA continues to honor prior commitments to student borrowers.

Nurse Educators Reward Program

- RISLA offers a Nurse Educators Reward program which offers a \$5,000 principal forgiveness in each of the first four years of repayment for students who borrow a RISLA Stafford loan, RISLA Graduate PLUS or RISLA alternative loan, for a total amount of \$20,000 savings.
- RISLA also offers eligible borrowers a zero interest RISLA Stafford loan, RISLA Graduate PLUS or RISLA alternative loan for the first four years of repayment.
- Borrowers with Stafford loans disbursed from July 1, 2006 to July 1, 2008 are eligible for the Nurse Educator Rewards program.



SUMMARY OF RISLA PROGRAMS ADMINISTERED

(continued)

Customer Service

- RISLA has been known and continues to be known for its superior customer service. A local presence is important for schools and students and that factor distinguishes RISLA from its out-of-state competition.
- Examples of the superior customer service are: locally operated call center for students and schools; locally operated loan disbursement center; default prevention programs for students and schools; financial literacy counseling; and online entrance and exit sessions. By establishing our local presence, our loan origination staff is available to meet with students and their families to explain the various loan programs, assist in completion of loan applications and help to clear credit issues.
- Technology plays an important role in providing superior customer service. RISLA has invested in communication equipment, hardware and software to insure that RISLA stays ahead of the pack in customer service.
- Information on the Authority's programs is available by calling 1-800-758-7562 or locally at 401-468-1760 or on the web at www.risla.com.



MEETING MINUTES AND RULES AND REGULATIONS

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

The Rhode Island Student Loan Authority's Board of Directors Meeting Minutes for the fiscal year ended June 30, 2010 can be found on the Office of the Secretary of State's website at the following address: <http://www.state.ri.us/govtracker//index.php?page=DetailDeptAgency&eid=529>

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

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



OPERATING STATEMENT

RHODE ISLAND STUDENT LOAN AUTHORITY

Summary of Board of Directors Meetings

Year Ending June 30, 2010

Board Meeting Date: July 16, 2009

Items discussed and voted:

1. Discussed the potential termination of the Federal Family Education Loan Program.
2. Discussed and voted to hire an in-house lawyer to handle both in-house collections and human resources.

Board Meeting Date: August 20, 2009

Items discussed and voted:

1. Discussed the opening of a new College Planning Center site at the Cumberland Boys and Girls Club.
2. Discussed mortality forgiveness of loans.

Board Meeting Date: September 11, 2009

Items discussed and voted:

1. Discussed the Federal Conduit Financing Facility.

Board Meeting Date: September 25, 2009

Items discussed and voted:

1. Discussed and voted to approve FY 2009 audited financial statements.
2. Discussed and voted to proceed with Second Market to assist in the repurchase of the auction rate bonds.
3. Discussed and voted to solicit bids for a tender process.



Board Meeting Date: October 30, 2009

Items discussed and voted:

1. Discussed receiving a \$75,000 grant from the RI Foundation to fund the Latino College Access Coalition.
2. Discussed the offset of personal income tax refunds to individuals who have defaulted on any of RISLA's state-based education loans.
3. Discussed financial literacy and viewed presentation by a staff member from Rhode Island College.

Board Meeting Date: December 18, 2009

Items discussed and voted:

1. Discussed receiving a \$20,000 grant from AmeriCorps for the Latino College Access Coalition.
2. Discussed financial position of the authority and reviewed quarterly financials.
3. Discussed and voted to move forward with a RIFEL bond issue.
4. Discussed in-house servicing platforms.
5. Discussed and voted to add \$10,000 to the annual budget for the College Planning Center's advertising campaign to include a web presence.

Board Meeting Date: February 19, 2010

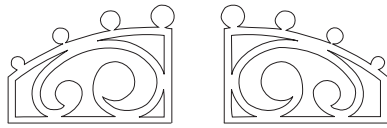
Items discussed and voted:

1. Discussed repurchasing \$32 million in auction rate bonds.
2. Discussed contract with Johnson & Wales University to provide default prevention.
3. Discussed the opening of an office in the Elmwood Community Center for the Latino College Access Coalition.
4. Discussed the fixed rate bond issue RISLA would like to issue.
5. Discussed and voted on the budget for the fixed rate bond issue.
6. Discussed and voted to approve the bond issue.

Board Meeting Date: March 5, 2010

Items discussed and voted:

1. Discussed and voted to accept the adoption of resolution to authorize the Authority to solicit tenders from holders of RISLA's auction rate bonds.



OPERATING STATEMENT

RHODE ISLAND STUDENT LOAN AUTHORITY (continued)

Board Meeting Date: April 23, 2010

Items discussed and voted:

1. Discussed the end of the Federal Family Education Loan Program as of July 1, 2010.
2. Discussed and reviewed the financial statements of the Authority.
3. Discussed and voted to apply for Federal grant opportunities.
4. Discussed and voted to authorize the Executive Director to execute an agreement with University Accounting Services to provide state-based loan servicing.
5. Discussed and voted to issue an RFP for consultant servicers regarding the feasibility for Direct Loan servicing.
6. Discussed and voted to authorize the transfer of FFELP loans into the Federal Conduit Financing Facility, contingent upon analysis of costs.
7. Discussed and voted to transfer PLUS loans from the Federal Participation Program into the State Street Trust.
8. Discussed and voted to close the Dexia trust, contingent upon an analysis of costs.

Board Meeting Date: June 25, 2010

Items discussed and voted:

1. Discussed refinancing of Federal PLUS Loans in the Federal Conduit Financing Facility.
2. Discussed the SAT prep class offered to students in the Providence schools.
3. Discussed and voted to recommend to the Governor the reappointment of Mr. Howell to the RISLA Board of Directors.
4. Discussed the Rhode Island Family Education Loan Program.
5. Discussed the College Planning Center moving back into the Warwick Mall after having relocated due to the floods.
6. Discussed and reviewed the monthly financials and financings.
7. Discussed and voted to adopt the new Federal Conduit Financing Facility Resolutions.
8. Discussed and voted to hire one additional full time attorney and a part time human resources manager.



STAFF SUPPORTED BY RISLA FUNDS AND DEBT AND ARBITRAGE REBATE

Staff Supported by RISLA Funds

RISLA receives no state appropriation and is entirely funded through revenues generated from its student loan programs and bond issues. RISLA's authorizing statute (RIGL Chapter 16-62) grants the Board of Directors the authority to appoint an Executive Director to run the day-to-day operations of RISLA. As of November 2010, RISLA had 37 full time employees who were responsible for managing RISLA's programs, financial reporting and the control and accounting of the flow of funds in RISLA's bond trust estates.

The Authority has separate agreements with Nelnet, Granite State Management Resources and Pennsylvania Higher Education Assistance Authority to provide in school and loan repayment servicing to RISLA's student loan portfolio.

Summary of RISLA Debt and Arbitrage Rebate

As of June 30, 2010 RISLA had \$919,010,000 in Bonds outstanding. None of this debt is an obligation of the state of Rhode Island and is entirely supported by revenues generated from student loans issued and owned by RISLA. Student loan receivables amounted to \$1,284,533,522 on June 30, 2010.

As of June 30, 2010 RISLA had \$879,010,000 in tax-exempt bonds outstanding. The United States Department of Treasury and the Internal Revenue Service (IRS) have issued regulations that limit the amount of income that can be generated from both non-purpose and purpose investments. This is known as arbitrage rebate. Excess income from purpose investments, which includes student loan income, is limited to 2% above the cost of the tax-exempt debt instruments. Costs that can be included in the tax-exempt debt instruments include underwriting and other issuance costs, bond interest, remarketing, credit support and trustee costs.

Excess income from purpose investments must either be paid back every ten years to the IRS or funded back to student loan borrowers in the form of loan forgiveness or borrower benefits. Income earned on non-purpose investments above the cost of the tax debt instrument must be rebated back to the IRS every five years. As of June 30, 2010, RISLA has accrued an arbitrage rebate liability of \$1,739,006 for non purpose investments and has accrued \$8,823,124 for purpose investments. It is RISLA's intent to lower the purpose liability over time through the borrower benefit programs offered by RISLA.



TRAINING COURSES HELD AND RISLA FINANCIAL REPORT

Summary of Training Courses Held Pursuant to this Chapter

RISLA's Executive Director and staff attended in August 2008 the annual training session conducted by the Attorney General and Ethics commission on Open Meetings, Retention of Public Records and Ethics Commission gift and conflict requirements.

RISLA Financial Report for Fiscal Year 2010

On the next several pages is RISLA's statement of net assets; statement of revenue, expenses, and changes in net assets; statement of cash flows; and notes to financial statements for the year ending June 30, 2010. RISLA's complete audited financial statements, including the auditor's opinion letter and management discussion and analysis, is available on the web at www.risla.com or by calling the Authority at 401-468-1760.

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RHODE ISLAND STUDENT LOAN AUTHORITY

**STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

ASSETS:

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 97,189	\$ 275,724
Cash equivalents	339,326	2,207,872
Restricted:		
Cash	577,008	28,173
Cash equivalents	276,569,783	29,080,425
Investments	15,297,576	13,827,699
Student loans receivable	84,847,430	72,006,069
Accrued interest receivable:		
Student loans	29,381,191	25,746,935
Investments	44,140	33,305
Other receivables	109,810	12,349
Prepaid expenses	985,562	1,076,548
Deferred financing costs	365,823	361,395
Total current assets	<u>408,614,838</u>	<u>144,656,494</u>
Noncurrent assets:		
Student loans receivable - net	1,199,686,092	1,019,272,526
Deferred financing costs, net of amortization of \$2,914,467 and \$2,711,046, respectively	4,527,445	5,239,354
Total noncurrent assets	<u>1,204,213,537</u>	<u>1,024,511,880</u>
Capital assets:		
Capital assets, less accumulated depreciation and amortization of \$2,480,147 and \$1,599,616, respectively	1,912,130	2,764,339
TOTAL ASSETS	<u>1,614,740,505</u>	<u>1,171,932,713</u>

LIABILITIES:

Current liabilities:		
Bonds payable	5,310,000	7,045,000
Deferred revenue	9,176,331	7,660,452
Due to Federal Government	437,935	909,720
Accrued interest payable	1,599,931	2,515,083
Accounts payable and accrued expenses	618,716	941,068
Due to Federal Government Loan Participation Program	171,245,271	21,444,069
Rhode Island Higher Education Assistance Authority Rehab Loans - current portion	258,164	0
Accrued service fees	234,065	500,237
Grants payable	577,000	0
Due to Federal Government Loan Conduit Program - current portion	41,236,642	0
Note payable - current portion	683,333	683,333
Accrued arbitrage rebate - current portion	867,556	520,500
Total current liabilities	<u>232,244,944</u>	<u>42,219,462</u>
Noncurrent liabilities:		
Bonds payable, net of bond discount of \$90,534 and \$173,301, respectively	913,609,466	1,039,111,699
Note payable - net of current portion	1,364,666	2,047,999
Rhode Island Higher Education Assistance Authority Rehab Loans	2,034,527	0
Due to Federal Government Loan Conduit Program	371,129,782	0
Accrued arbitrage rebate - net of current portion	9,694,574	12,712,885
Total noncurrent liabilities	<u>1,297,833,015</u>	<u>1,053,872,583</u>
TOTAL LIABILITIES	<u>1,530,077,959</u>	<u>1,096,092,045</u>

NET ASSETS:

Invested in capital assets net of related debt	(135,869)	33,007
Restricted for debt service	83,613,169	74,334,018
Unrestricted	1,185,246	1,473,643
TOTAL NET ASSETS	<u>\$ 84,662,546</u>	<u>\$ 75,840,668</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Interest income:		
Student loans	\$ 38,868,192	\$ 43,333,123
Investments	525,582	1,452,001
Other income	1,379,405	1,048,296
Total operating revenues	<u>40,773,179</u>	<u>45,833,420</u>
Operating expenses:		
Interest	18,651,433	31,458,490
Provision for risk sharing	4,174,467	5,009,338
Provision for arbitrage rebate and loan discounts	(2,141,304)	(7,764,290)
Loan origination expenses	4,198,901	5,809,946
Loan servicing and acquisition costs	4,811,873	4,555,440
Credit enhancement and remarketing expenses	3,205,679	3,068,552
Salaries	2,503,117	2,395,621
Administration	1,570,671	1,812,228
Benefits	855,911	728,121
Amortization of bond costs	390,970	354,301
College Planning Center expenses	259,926	299,074
Legal and accounting	306,912	348,584
Startup and compliance - Federal Loan Conduit	728,541	0
Miscellaneous bond expenses	85,359	59,190
Payroll taxes	203,826	175,617
Depreciation	60,531	67,871
Cost recovery on U.S. Department of Education put loans	0	(1,883,850)
Total operating expenses	<u>39,866,813</u>	<u>46,494,233</u>
Operating income (loss)	906,366	(660,813)
Nonoperating revenues and expenses:		
Gain on early retirement of bonds	9,699,000	0
Write-off of deferred financing costs due to the early retirement of bonds	(286,684)	0
Write-off of deferred financing costs due to the early retirement of the 2008C Series Trust	(676,804)	0
Amortization of repurchase of operating rights agreement	(820,000)	(820,000)
Total nonoperating revenues and expenses	<u>7,915,512</u>	<u>(820,000)</u>
Changes in net assets	<u>8,821,878</u>	<u>(1,480,813)</u>
Net assets, beginning of the year	<u>75,840,668</u>	<u>77,321,481</u>
Net assets, end of the year	<u>\$ 84,662,546</u>	<u>\$ 75,840,668</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<i>Cash flows from operating activities:</i>		
Cash received for:		
Student loan interest	\$ 38,063,864	\$ 45,009,961
Student loan principal	123,417,380	88,693,242
Interest on investments	514,747	1,770,251
Grants	577,000	0
Cash paid for:		
Origination and purchase of student loans	(314,411,723)	(292,575,935)
Contractual services	(4,198,901)	(5,809,946)
Goods and services	(16,650,269)	(12,843,951)
Employee salaries	(2,699,374)	(2,561,232)
Employee benefits	(855,911)	(728,121)
<i>Net cash provided (used) by operating activities</i>	<u>(176,243,187)</u>	<u>(179,045,731)</u>
<i>Cash flows from noncapital financing activities:</i>		
Payment of bond maturities	(160,161,000)	(100,620,000)
Payment of note payable	(683,333)	(683,333)
Proceeds from sale of revenue bonds	42,540,000	200,000,000
Proceeds from sale of participating interest in loans	298,374,760	124,819,899
Proceeds from conduit sale of loans	417,389,175	0
Payment on the sale of participating loans	(148,573,558)	(103,375,830)
Payment on the sale of conduit loans	(5,022,751)	0
Interest paid on bonds	(19,566,585)	(32,980,105)
<i>Net cash provided by noncapital financing activities</i>	<u>424,296,708</u>	<u>87,160,631</u>
<i>Cash flows from capital and related financing activities:</i>		
Deferred financing costs	(564,210)	(1,165,270)
Purchase of equipment	(28,322)	(41,081)
<i>Net cash used for capital and related financing activities</i>	<u>(592,532)</u>	<u>(1,206,351)</u>
<i>Cash flows from investing activities:</i>		
Purchases of investment securities	(6,120,896)	0
Sales of investment securities	4,651,019	61,684,301
<i>Net cash provided (used) for investing activities</i>	<u>(1,469,877)</u>	<u>61,684,301</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	245,991,112	(31,407,150)
<i>Cash and cash equivalents, beginning of year</i>	<u>31,592,194</u>	<u>62,999,344</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 277,583,306</u>	<u>\$ 31,592,194</u>
<i>Cash and cash equivalents consists of:</i>		
<i>Unrestricted:</i>		
Cash	\$ 97,189	\$ 275,724
Cash equivalents	339,326	2,207,872
<i>Restricted:</i>		
Cash	577,008	28,173
Cash equivalents	276,569,783	29,080,425
<i>Cash and cash equivalents, end of year</i>	<u>\$ 277,583,306</u>	<u>\$ 31,592,194</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<i>Reconciliation of operating income to net cash used</i>		
<i>for operating activities:</i>		
Operating income (loss)	\$ 906,366	\$ (660,813)
Interest expense	18,651,433	31,458,490
Adjustments to reconcile operating income to net cash used		
for operating activities:		
Depreciation of capital assets	60,531	67,871
Amortization - bond discounts and deferred issuance costs	390,970	354,301
Increase in allowance for uncollectible accounts	2,951,324	4,330,619
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	(193,945,665)	(208,213,312)
(Increase) decrease in other receivables	(97,461)	(12,349)
(Increase) decrease in accrued interest receivable - loans	(3,602,151)	(756,164)
(Increase) decrease in accrued interest receivable - investments	(10,835)	318,250
(Increase) decrease in prepaid expenses	90,986	(29,999)
Increase (decrease) in due to Federal Government	(471,785)	39,957
Increase (decrease) in grants payable	577,000	0
Increase (decrease) in deferred revenues	1,515,879	1,397,055
Increase (decrease) in accounts payable and accrued expenses	(3,259,779)	(7,339,277)
	<hr/>	<hr/>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ (176,243,187)</u></u>	<u><u>\$ (179,045,371)</u></u>

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rhode Island Student Loan Authority (the Authority) is a public instrumentality established in May 1981 by an Act of the Rhode Island General Assembly. It is a component unit of the State of Rhode Island for financial reporting purposes and as such, the financial statements of the Authority will be included in the State of Rhode Island's comprehensive annual financial report. The Authority was created for the purpose of providing a system of financial assistance for qualified students to enable them to obtain a post secondary education by attending public or private institutions. It has the power to issue negotiable notes and bonds to achieve its corporate purpose.

Basis of Accounting

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

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

Income Taxes

The Authority is exempt from Federal and state income taxes.

Recently Issued Accounting Standards

The Authority has implemented GASB No. 51, Accounting for Financial Reporting for Intangible Assets, for the year ended June 30, 2010. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

The Authority has implemented GASB No. 53, Accounting for Financial Reporting for Derivative Instruments, for the year ended June 30, 2010. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

The Authority has implemented GASB No. 58, Accounting for Financial Reporting for Bankruptcies, for the year ended June 30, 2010. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

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

- ✓ GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, effective for the Authority's fiscal year ending June 30, 2011.
- ✓ GASB Statement No. 59 – Financial Instruments Omnibus, effective for the Authority's fiscal year ending June 30, 2011.

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

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

Deferred Financing Costs

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

Revenues and Expenses

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

Property and Equipment

Property and equipment is stated at cost. The Authority provides for depreciation using the straight-line method over the estimated useful life of the asset. The Authority estimates the useful life for leasehold improvements to be the same as the term of the lease, three years for computer equipment and five years for furniture and fixtures. Depreciation and amortization expense for fiscal years 2010 and 2009 totaled \$880,531 and \$887,870, respectively. Capital assets are defined by the Authority, as assets with an individual cost of \$2,500 or more and an estimated useful life in excess of one year.

Student Loans

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

Student loans are carried at their uncollected principal balances and are reduced by an allowance for loan losses of \$40,791,463 and \$37,840,139 at June 30, 2010 and 2009, 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.

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

Interest on Loans Receivable

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

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

Bond Discount

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

Basis of Presentation

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

Cash and Cash Equivalents

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

Under the Rhode Island Public Funds Collateralization Law, 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.

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 FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

**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 may be allowed to carryover from one year to the next the amount of vacation time accrued in that one particular year. At time of termination the employee is entitled to all accrued vacation time. The June 30 accrual is calculated at the current pay scale.

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

Accrued Arbitrage Rebate Liability

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

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

Interest income from student loans is limited to 2% over bond yield of the related tax-exempt bond issue. Student loans, including principal and accrued interest, and cash have been reserved for rebate in the amount of the interest income which exceeded the limit. The Authority can utilize losses on non-performing, non-guaranteed student loans to offset the liability for excess earnings.

Use of Estimates

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

Net Assets

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

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

Net Assets (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 issue's Bond Insurance Agreement.

Reclassifications

Certain reclassifications have been made to the Authority's 2009 financial statements to conform to the 2010 presentation.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Cash Deposits:		
Carrying amount of cash deposits:		
Unrestricted.....	\$ 97,189	\$ 275,724
Restricted.....	<u>577,008</u>	<u>28,173</u>
TOTAL	<u>\$ 674,197</u>	<u>\$ 303,897</u>
Bank Balances:		
Collateralized and covered by Federal depository insurance.....	\$365,191	\$ 4,853,978
Collateralized	<u>250,008</u>	<u>28,173</u>
TOTAL	<u>\$615,199</u>	<u>\$4,882,149</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 the deposit.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	<u>2010</u>	<u>2009</u>
	<u>Fair</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>
Cash equivalents and investments unrestricted:		
Cash equivalents (unrestricted):		
Government Agency Bonds and Security Funds and Commercial Paper	\$ 339,326	\$ 2,207,872
Total cash equivalents	<u>339,326</u>	<u>2,207,872</u>
Cash equivalents and investments (restricted):		
Cash equivalents:		
Government Agency Bonds and Securities Funds and Commercial Paper	276,569,783	29,080,425
Other investments:		
Investment agreements	15,297,576	13,827,699
Total - other investments	<u>15,297,576</u>	<u>13,827,699</u>
Total - restricted	<u>291,867,359</u>	<u>42,908,124</u>
Total cash equivalents and investments	<u>\$292,206,685</u>	<u>\$45,115,996</u>

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

At June 30, 2010, the Authority had the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
U S Treasury Note	November 15, 2015	\$ 1,388,507
U S Treasury Note	November 30, 2014	498,825
U S Treasury Note	November 15, 2015	567,565
U S Treasury Note	November 30, 2010	499,790
U S Treasury Note	May 31, 2011	498,302
U S Treasury Note	November 12, 2019	764,941
U S Treasury Note	November 15, 2015	796,167
U S Treasury Note	May 15, 2019	508,029
U S Treasury Note	May 15, 2012	598,770
Transamerica Life Insurance Co. (GIC)	December 1, 2028	2,560,000
Transamerica Life Insurance Co. (GIC)	June 30, 2013	5,216,680
Ixis Funding Corp. (GIC)	December 1, 2030	<u>1,400,000</u>
Total		<u>\$15,297,576</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. According to the Authority's investment policy, the investment portfolio is structured so that the securities mature to meet cash requirements for ongoing operations and investment are primarily in money market funds backed with U.S. Treasury obligations. The Authority has investments in guaranteed investment contracts as required by the bond indentures which have interest rates that are fixed for long periods and are subject to more variability in their fair value as a result of future changes in interest rates. The security providers guarantee to pay the authority the bond interest rate plus 123 basis points for the Ixis Funding Corp GIC.

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>
Ixis Funding Corp. GIC	1.773%	December 1, 2030	\$1,400,000
Transamerica Life Insurance GIC	4.100%	December 1, 2028	\$2,560,000
Transamerica Life Insurance GIC	3.170%	June 30, 2013	\$5,216,680

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 with companies that have a rating of at least A+ from Standard & Poor's, A3 from Moody's Investor Service or A+ from Fitch Ratings. As of June 30, 2010, the Authority's investment in Ixis Funding Corp. Guaranteed Investment Contract was rated A+ by Standard and Poor's and Aa3 by Moody's Investor Service. The Transamerica Life Insurance Co. Guaranteed Investment Contract was rated AA- by Standard and Poor's and A1 by Moody's Investor Services. If the credit rating of the investment providers decline, the Authority can require the provider to post additional collateral and or other remedies to ensure performance. All the remaining investments are either obligations of the U.S. Government or explicitly guaranteed by the U.S. Government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investments in a single issuer. According to the Authority's investment policy, investments will be diversified to minimize the impact of potential losses from concentration in a specific maturity, a specific issuer or specific class of security. The Transamerica Life Insurance (GIC) of \$2,560,000, and \$5,216,680 represents 51% of the Authority's investments.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 14), 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 privately guaranteed education loans for qualified students and their families.

The FFELP loans have both fixed and variable interest rates which are established by the DOE, and repayment terms which are dependent on the loan type. The return on FFELP loans that lenders actually realize is based on formulas administered by the DOE and is dependent on loan type and date of origination. Any payment by borrowers in excess of the formulas must be returned to the DOE for loans originated after April 1, 2006. The DOE subsidizes the interest for certain FFELP loans during the borrowers' in-school, in-grace, and authorized deferment periods. The subsidized interest rate is determined by a formula and based on indexes published by the U.S. Department of Education. The interest subsidy is included with interest income on loans receivable in the accompanying Statements of Revenues, Expenses and Changes in Net Assets. The privately guaranteed loans have fixed and variable interest rates with repayment terms not to exceed 15 years.

4. CAPITAL ASSETS

Capital activity during the years ended June 30, 2010 and 2009 was as follows:

	Balance at June 30 <u>2009</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30 <u>2010</u>
Cost:				
Furniture and fixtures	\$41,242	11,572		\$ 52,814
Equipment	192,906	16,750		209,656
Repurchase of operating rights	4,100,000			4,100,000
Leasehold improvements	29,807			29,807
Total cost	4,363,955	28,322		4,392,277
Accumulated depreciation and amortization:				
Furniture and fixtures	25,867	9,705		35,572
Equipment	109,163	50,705		159,868
Repurchase of operating rights	1,435,000	820,000		2,255,000
Leasehold improvements	29,586	121		29,707
Total accumulated depreciation	1,599,616	880,531		2,480,147
Net capital assets	\$2,764,339	\$(852,209)		\$1,912,130

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

4. CAPITAL ASSETS (Continued)

	Balance at June 30 <u>2008</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30 <u>2009</u>
Cost:				
Furniture and fixtures	\$ 41,242			\$41,242
Equipment	151,825	\$41,081		192,906
Repurchase of operating rights	4,100,000			4,100,000
Lease hold improvement	29,807			29,807
Total cost	4,322,874	41,081		4,363,955
Accumulated depreciation and amortization:				
Furniture and fixtures	17,729	8,138		25,867
Equipment	51,366	57,797		109,163
Repurchase of operating rights	615,000	820,000		1,435,000
Leasehold improvements	27,651	1,935		29,586
Total accumulated depreciation	711,746	887,870		1,599,616
Net capital assets	\$3,611,128	\$(846,789)		\$2,764,339

5. DEFERRED FINANCING COSTS

Deferred financing costs incurred in connection with bond issuances have been capitalized and will be amortized over the life of the respective bonds. The balances at June 30, 2010 and 2009 relate to costs incurred in connection with all of the Authority's bond issues.

6. OPERATING LEASES

The Authority leased its operating facility from a landlord which is a related party (Note 14) under an operating lease. The related party lease requires monthly rental payments, in addition to a share of common area maintenance and utility costs. The lease agreement expired on December 31, 2007 and has been continued on a month by month basis. Lease expense for the year ended June 30, 2010 and 2009 was \$137,700 and \$146,700, respectively.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE

On June 23, 1994, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$9,250,000 (Senior Series A), \$9,250,000 (Senior Series B), \$4,000,000 (Senior Series C), and \$2,500,000 (Subordinate Series 2). The Senior Series A bonds are auction rate securities bearing interest at a rate reset every thirty five days. They mature in 2014. The Senior Series B bonds are also auction rate securities bearing interest at a rate reset every thirty five days and they mature in 2014. The existing auction rates at June 30, 2010 and 2009 were .560% and .683% for the Senior Series A bonds respectively and .508% and .630% for the Senior Series B bonds respectively. The Senior Series C bonds have matured and there were no amounts outstanding as June 30, 2010 and 2009. The Subordinate Series 2 bonds pay 6.8% and mature in 2014. Proceeds of the issuance were net of a cost of issuance of \$208,013 relating to all four series. The cost of issuance is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans.

On September 14, 1995, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$31,000,000 (Senior Series A), \$4,440,000 (Senior Series B), and \$6,160,000 (Subordinate Series 3). The Senior Series A bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2010 and 2009 was .543% and .595% respectively. They mature in 2015. The Senior Series B bonds were retired in 2006. The Subordinate Series 3 bonds pay interest at 6.45% and mature in 2015. A cost of issuance of \$289,816 relating to the three bond series was taken from the bond proceeds and is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans.

On March 13, 1997, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$45,000,000 (Series 1) and \$5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$25,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2010 and 2009 was .455% and .630% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.5% to 5.75% and mature between 2000 and 2012. Proceeds of the issuance were net of a cost of issuance of \$419,450 relating to all three series. The cost of issuance is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. The \$25,000,000 Series 3 bonds were retired in 2004.

On April 15, 1998, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$55,000,000 (Series 1) and \$5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$20,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing action rate at June 30, 2010 and 2009 was .508% and .630% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.35% to 5.35% and mature between 2001 and 2013. Proceeds of the issuance were net of a cost of issuance of \$379,850 relating to all three series. The cost of issuance is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. The \$20,000,000 Series 3 bonds were retired in 2004.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

On March 1, 1999, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$64,000,000 (Series 1) and \$6,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2010 and 2009 was .543% and .595% for Series 1 bonds respectively. The Series 2 bonds pay interest ranging from 3.75% to 4.95% and mature between 2002 and 2014. Proceeds of the issuance were net of a cost of issuance of \$462,440 relating to all three series. The cost of issuance is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. The \$30,000,000 Series 3 bonds were retired in 2004.

On March 15, 2000, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$32,000,000 (Series 1), \$32,000,000 (Series 2) and \$6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 4). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2010 and 2009 was .700% and .823% for Series 1 bond and .753% and .858% for the Series 2 bond, respectively. The Series 3 bonds pay interest ranging from 5.0% to 5.9% and mature between 2003 and 2015. Proceeds of the issuance were net of a cost of issuance of \$427,820 related to all four series. The cost of issuance is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans.

On January 15, 2001, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$37,000,000 (Series 1), \$37,000,000 (Series 2) and \$6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 4). The Series 1 and Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2010 and 2009 was .700% and .840% for Series 1, .753% and .823% for Series 2 bonds respectively. The Series 3 bonds pay interest ranging from 4.0% to 5.2% and mature between 2004 and 2016. Proceeds of the issuance were net of a cost of issuance of \$493,669 relating to all four securities. The cost of issuance is included in deferred financing costs (Note 5). The proceeds of this issuance are used to originate and purchase eligible student loans. The \$30,000,000 Series 4 bonds were retired in 2004.

On February 15, 2002, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$30,900,000 (Series 1), \$45,100,000 (Series 2), \$4,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 4). The Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. In May 2007, the Series 1 bonds were converted from auction rate to fixed rate bonds paying interest at 4.85%. The existing auction rate at June 30, 2010 and 2009 was .753% and .875% for the Series 2 bonds. The Series 3 bond pays interest ranging from 3.3% to 4.55% and mature between 2005 and 2011. Proceeds of the issuance were net of a cost of issuance of \$741,636 relating to all four securities. This cost of issuance is included in deferred financing costs (Note 5). Proceeds of this issuance were used to refund \$30,900,000 of the February 22, 1992 bonds outstanding and to originate and purchase eligible student loans. The \$30,000,000 Series 4 bonds were retired in 2004.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

On February 19, 2003 the Authority issued tax exempt auction rate Student Loan Program Revenue Bonds with a face value of \$36,150,000 (Series 1), \$73,850,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face 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, 2010 and 2009 was .700% and .840% for Series 1 and Series 2 and .629% and .690% for Series 3 bonds respectively. Proceeds of the issuance were net of a cost of issuance of \$605,610 relating to all three securities. This cost of issuance is included in deferred financing costs (Note 5). Proceeds of this issuance were used to refund \$8,900,000 of the August 21, 1992 Senior Series A bonds outstanding, \$1,100,000 of the August 21, 1992 Subordinate Series 1 bonds outstanding, \$10,000,000 of the September 28, 1993 Senior Series bonds outstanding, \$2,400,000 of the September 28, 1993 Subordinate Series 1 bonds outstanding and to originate and purchase eligible student loans. \$20,000,000 of the \$30,000,000 Series 3 bonds were retired in 2004.

On April 29, 2003 the Authority issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$15,000,000 (Series 4), \$15,000,000 (Series 5). The Series 4 and Series 5 bonds are auction rate securities bearing interest at a rate reset every twenty eight days. The existing auction rate at June 30, 2010 and 2009 was .699% and .795% for Series 4. Proceeds of the issuance were net of a cost of issuance of \$117,000 relating to both securities. This cost of issuance is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans. The \$15,000,000 Series 5 bonds were retired in 2010.

On January 21, 2004, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a face value of \$38,000,000 (Series A1); \$38,000,000 (Series A2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a face 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, 2010 and 2009 was 1.193% and .770% for Series A1 and 1.193% and .770% for Series A2, respectively. The Series A3 bond pays interest ranging from 1.50% to 4.25% and mature between 2005 and 2018. Proceeds of the issuance were net of a cost of issuance of \$408,344 relating to all securities. This cost of issuance is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

On July 27, 2006, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 1); \$30,000,000 (Series 2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a face 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, 2010 and 2009 was 1.140% and .858% for Series 1 and for Series 2. The Series 3 bond pays interest ranging from 4.6% to 4.9% and mature between 2007 and 2026. Proceeds of the issuance were net of a cost of issuance of \$566,250 relating to all securities. The cost of issuance is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

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

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

On August 5, 2008, the Authority issued Tax Exempt Weekly Interest Rate Student Loan Program Revenue Bonds with a face value of \$20,000,000 (Series B-1); \$20,000,000 (Series B-2); \$25,000,000 (Series B-3); \$20,000,000 (Series B-4). The Authority also issued Taxable Weekly Interest Rate Student Loan Program Revenue Bonds with a face value of \$15,000,000 (Series B-5). The existing interest rate for the Series B-1, Series B-2, Series B-3 and Series B-4 at June 30, 2010 and 2009 was .290% and .340% and mature between 2026 and 2048 and .550% for the Series B-5 and matures in 2048. Proceeds from the Series B-1, Series B-2 and Series B-3 were exchanged for the like principal amount of the 1996 Series I, Series II and Series III bonds (collectively the 1996 bonds). The 1996 bonds were canceled and are no longer outstanding under the indenture in which they were issued. Proceeds of the issuance were net of a cost of issuance of \$391,047 relating to the Series B-4 and Series B-5 bonds. The cost of issuance is included in deferred financing costs (Note 5). Proceeds from the issuance of the Series B-4 and Series B-5 are used to originate and purchase eligible student loans.

On November 17, 2008, the Authority issued Tax Exempt Weekly Interest Rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series C-1); \$55,000,000 (Series C-2). The Authority also issued Taxable Weekly Interest Rate Student Loan Program Revenue Bonds with a face value of \$15,000,000 (Series C-3). The existing interest rate for the Series C-1, and Series C-2 at June 30, 2009 was 1.0% and .70% for the Series C-3. The Series C-1 matures 2019 and the Series C-2 and Series C-3 mature in 2048. Proceeds from the Series C-1 were exchanged for the like principal amount of the 1995 Series 1 bonds. The 1995 Series 1 bonds were canceled and are no longer outstanding under the indenture in which they were issued. Proceeds of the issuance were net a cost of issuance of \$587,750 relating to the Series C-2 and Series C-3 bonds. The cost of issuance is included in deferred financing costs (Note 5). Proceeds from the issuance of the Series C-2 and Series C-3 are used to originate and purchase eligible student loans. The \$30,000,000 Series C-1, \$55,000,000 Series C-2 and \$15,000,000 Series C-3 bonds were retired in 2010.

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

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

In 2010, the Authority early retired bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at a discount ranging from 70% to 91.5% of the Bond's stated par value. \$62,700,000 of the outstanding Bonds were retired which resulted in a gain in the amount of \$9,699,000.

Payment of principal and interest on the 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004 and 2006 bonds are insured by a municipal bond insurance policy. The insurance remains in effect for the term of the Bonds. Upon payment of insurance benefits to a bondholder, the municipal bond insurer becomes owner of the Bonds.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

Interest on all tax-exempt bonds issued by the Authority is payable semi-annually. Interest on all taxable bonds is paid every 28 days on the day after an interest rate reset. 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, claims 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 June 1994, September 1995, March 1997, April 1998, March 1999, Series 1, 2 and 3 of the March 2000, January 2001, February 2002, February 2003, April 2003 and February 2004 Bond issues is 2% of principal bonds outstanding. The required reserve for the January 2004 and July 2006 Bond issues is 1% of principal bonds outstanding. The required reserve for the May 2008 bond issue is 4% of the principal bonds outstanding. The Authority has purchased a surety bond to fulfill the debt reserve fund obligation for the March 2000, January 2001, February 2002, and the February and April 2003 Bond issues.

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

The Authority has been in compliance with the respective debt covenants as outlined in the Trust Indentures for fiscal years 2010 and 2009.

The Authority maintains Letters of Credit in the original stated amount of \$104,888,356 on its November 2008 Series B Weekly Adjustable Interest Rate Bonds. The Letters of Credit obligate the Letter of Credit Provider to pay to the Trustee an amount equal to principal and interest on the Bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the Bonds tendered or deemed tendered for purchase but not remarketed as contemplated by the Indenture.

The Letter of Credit will expire on the earliest to occur: (a) June 30, 2012, (b) date the Letter of Credit is surrendered to the Letter of Credit Provider, (c) when an alternative facility is substituted for the Letter of Credit, (d) when the bonds commence bearing interest at a fixed rate, (e) when an Event of Default has occurred, (f) when no amount becomes available to the Trustee under the Letter of Credit.

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

<u>Bond Issue</u>	<u>2010</u>	<u>2009</u>
June 1994		
Series A.....	\$9,250,000	\$9,250,000
Series B.....	9,250,000	9,250,000
Subordinated Series II.....	2,500,000	2,500,000

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

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

<u>Bond Issue</u>	<u>2010</u>	<u>2009</u>
September 1995		
Series A.....	24,400,000	24,400,000
Subordinate Series III.....	4,245,000	4,245,000
March 1997		
Series I.....	42,800,000	45,000,000
Series II.....	150,000	265,000
April 1998		
Series I.....	52,000,000	55,000,000
Series II.....	1,870,000	2,285,000
March 1999		
Series I.....	64,000,000	64,000,000
Series II.....	2,725,000	3,205,000
March 2000		
Series I.....	29,400,000	32,000,000
Series II.....	12,000,000	32,000,000
Series III.....	3,265,000	3,720,000
January 2001		
Series I.....	37,000,000	37,000,000
Series II.....	37,000,000	37,000,000
Series III.....	3,665,000	4,100,000
February 2002		
Series 1.....	30,900,000	30,900,000
Series 2.....	45,100,000	45,100,000
Series 3.....	1,000,000	2,000,000
February 2003		
Series 1.....	35,350,000	36,150,000
Series 2.....	73,850,000	73,850,000
Series 3.....	10,000,000	10,000,000
April 2003		
Series 4.....	15,000,000	15,000,000
Series 5.....	0	15,000,000
January 2004		
Series A-1.....	18,300,000	38,000,000
Series A-2.....	38,000,000	38,000,000
Series A-3.....	13,480,000	15,600,000
July 2006		
Series 1.....	30,000,000	30,000,000
Series 2.....	29,800,000	30,000,000
Series 3.....	36,170,000	37,510,000
May 2008		
Senior Series A.....	60,000,000	60,000,000
Subordinated Series I.....	4,000,000	4,000,000

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

<u>Bond Issue</u>	<u>2010</u>	<u>2009</u>
August 2008		
Series B-1	20,000,000	20,000,000
Series B-2	20,000,000	20,000,000
Series B-3	25,000,000	25,000,000
Series B-4	20,000,000	20,000,000
Series B-5	15,000,000	15,000,000
November 2008		
Series C-1	0	30,000,000
Series C-2	0	55,000,000
Series C-3	0	15,000,000
July 2009		
Senior Series A	25,570,000	0
March 2010		
Senior Series A	16,970,000	0
Subtotal	919,010,000	1,046,330,000
Less: discount	90,534	173,301
Less: current portion	5,310,000	7,045,000
Total	<u>\$913,609,466</u>	<u>\$1,039,111,699</u>

The following schedule reflects the changes in bonds payable:

Balance at June 30, 2009	\$ 946,950,000
Additions	200,000,000
Retirements	<u>(100,620,000)</u>
Balance at June 30, 2009	1,046,330,000
Additions	42,540,000
Retirements	<u>(169,860,000)</u>
Balance at June 30, 2010	<u>\$919,010,000</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011.....	\$5,310,000	\$15,399,971	\$20,709,971
2012.....	6,450,000	15,156,290	21,606,290
2013.....	24,925,000	14,788,645	39,713,645
2014.....	8,810,000	14,406,622	23,216,622
2015.....	28,730,000	13,917,948	42,647,948
2016.....	35,900,000	13,455,593	49,355,593
2017.....	6,615,000	12,827,404	19,442,404
2018.....	5,255,000	12,640,390	17,895,390
2019.....	22,745,000	11,918,371	34,663,371
2020.....	6,080,000	11,345,596	17,425,596

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. BONDS PAYABLE (Continued)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021.....	5,435,000	11,117,755	16,552,755
2022.....	5,360,000	10,925,552	16,285,552
2023.....	4,790,000	10,733,691	15,523,691
2024.....	24,335,000	9,864,360	34,199,360
2025.....	4,420,000	9,159,130	13,579,130
2026.....	68,600,000	8,980,376	77,580,376
2027.....	3,705,000	8,683,154	12,388,154
2028.....	27,700,000	7,701,971	35,401,971
2029.....	4,000,000	6,345,031	10,345,031
2030.....	500,000	6,056,656	6,556,656
2031.....	161,845,000	5,467,036	167,312,036
2032.....	0	5,061,541	5,061,541
2033.....	0	5,048,033	5,048,033
2034.....	0	5,048,033	5,048,033
2035.....	41,400,000	4,876,828	46,276,828
2036.....	89,000,000	4,385,828	93,385,828
2037.....	76,000,000	3,051,788	79,051,788
2038.....	100,000,000	1,483,162	101,483,162
2039.....	56,300,000	845,221	57,145,221
2040.....	0	781,588	781,588
2041.....	59,800,000	385,630	60,185,630
2042.....	0	98,000	98,000
2043.....	0	98,000	98,000
2044.....	0	98,000	98,000
2045.....	0	98,000	98,000
2046.....	0	98,000	98,000
2047.....	0	98,000	98,000
2048.....	35,000,000	98,000	35,098,000
Total.....	<u>\$919,010,000</u>	<u>\$262,545,194</u>	<u>\$1,181,555,194</u>

8. NOTE PAYABLE

Note Payable at June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Note payable to National Education Loan Network (Nelnet), yearly payments of \$683,333 plus interest of 8.25% with an option to pay off the balance at any time, note maturing September 27, 2013,	\$2,047,999	\$2,731,332
Less: amounts due within one year.....	<u>(683,333)</u>	<u>(683,333)</u>
Long-term debt net of current portion.....	<u>\$1,364,666</u>	<u>\$2,047,999</u>

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

8. NOTE PAYABLE (Continued)

Maturities of long-term debt for the years succeeding June 30, 2010 are as follows:

2011	\$683,333
2012	683,333
2013	<u>681,333</u>
Total	<u>\$2,047,999</u>

Interest incurred on note payable for the years ended June 30, 2010 and 2009 was \$178,362 and \$237,046, respectively.

9. ACCRUED ARBITRAGE REBATE

Accrued arbitrage rebate at June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Current portion	\$ 867,556	\$ 520,500
Noncurrent portion	<u>9,694,574</u>	<u>12,712,885</u>
Total accrued arbitrage rebate	<u>\$10,562,130</u>	<u>\$13,233,385</u>

The following schedule reflects the changes in accrued arbitrage rebate:

Balance at June 30, 2008	\$21,043,099
Increase	312,903
Decrease	<u>(8,122,617)</u>
Balance at June 30, 2009	13,233,385
Increase	1,855,814
Decrease	<u>(4,527,069)</u>
Balance at June 30, 2010	<u>\$10,562,130</u>

10. LOAN PARTICIPATION PROGRAM

Beginning in fiscal year 2009, the Authority elected to participate in the U.S. Department of Education's (DOE) Loan Participation and Loan Purchase Commitment Programs. Under the Loan Participation Program, the DOE purchased a participating interest in the Authority's FFELP Stafford and PLUS loans. The Authority may redeem or sell the participating interest on or before September 30 2010. Once loans are placed into the Loan Participation Program, the Authority must pay a monthly interest charge. The interest is computed by multiplying the average daily principal balance of the loans in the program by the quarterly commercial paper (CP) rate as published by the DOE plus fifty basis points. At June 30, 2010, the interest rate charged to the Authority was .71% which consisted of a CP rate of .21% plus 50 basis points. If the Authority sells the participating interest under the Loan Purchase Commitment Program, the price is equal to the sum of the outstanding principal balance of the loans plus the total accrued interest owed on the loans, plus a reimbursement of 1% lender fee and \$75 per loan. As of June 30, 2010, the Authority owed the DOE \$171,245,271 for those loans in the Loan Participation Program. Interest expense incurred for the year ended June 30, 2010 was \$1,016,140.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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

In fiscal year 2010, the Authority elected to participate in the U.S. Department of Education's Asset-Backed Commercial Paper Straight-A Conduit Program (Conduit) which was created under the authority of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under this program, eligible FFELP loans are financed by asset backed commercial paper issued by the Conduit and the Conduit holds a security interest in the loans. The program, set to expire on January 19, 2014, is managed by the Bank of Montreal and is administered by the Bank of New York Mellon. The Authority initially financed loans with this program on September 29, 2009, and two subsequent financings took place in 2010. The interest rate, exclusive of fees and expenses, is calculated based on the weighted average rate of asset backed commercial paper issued by the Straight-A Conduit. As of June 30, 2010, the Authority's outstanding balance of FFELP loans financed by the Conduit was \$412,366,424. Interest expense incurred for the year ended June 30, 2010 was \$658,447.

12. LOAN SERVICING AGREEMENTS

In July 2004, the Authority entered into a servicing agreement with Nelnet Loan Services (Nelnet), under which Nelnet collects and accounts for the principal and interest on loans originated and purchased by the Authority and placed with Nelnet for servicing for a monthly fee, which is based on the number of loans in promissory and repayment status. Nelnet is also responsible for servicing the loans in a diligent manner according to regulations established by the DOE. This agreement expires in July 2011.

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

In 1997, the Authority entered into a servicing agreement with University Accounting Services (UAS) under which UAS collects and accounts for the principal and interest on the University Partnership loans placed with UAS for servicing for a monthly fee which is based on the number of loans in promissory and repayment status. UAS is also responsible for servicing the loans in a commercially diligent manner. This agreement is in effect until terminated or modified.

In February 2002, the Authority entered into a servicing agreement with Granite State Management and Resources (GSMR) under which GSMR collects and accounts for the principal and interest on loans originated and purchased by the Authority and placed with GSMR for servicing for a monthly fee, which is detailed in the agreement. GSMR is also responsible for servicing the loans in a diligent manner according to regulations established by the DOE. This agreement was renewed in January 2004 and will continue on a month to month basis unless terminated by either party.

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

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

13. DEFINED CONTRIBUTION RETIREMENT PLAN

In July 1989, the Authority established a defined single-employer contribution plan named Rhode Island Student Loan Authority pursuant to Section 403 (b) of the Internal Revenue Code, which provides pension benefits for all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The assets of the plan are held with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Employees are eligible to participate on the first of the month following employment. The Authority contributes 10% of the employee's salary each month and all contributions and investment earnings are fully vested immediately. Employer contributions for 2010 and 2009 amounted to \$248,776 and \$233,737, respectively. Employee contributions for 2010 and 2009 amounted to \$150,279 and \$150,904, respectively. All plan provisions and amendments require Board approval.

14. RELATED PARTY TRANSACTIONS

The Rhode Island Student Loan Authority is a related party to the Rhode Island Higher Education Assistance Authority (RIHEAA). RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law.

In January 2009, the Authority entered into an agreement with RIHEAA to administer and service FFELP Rehabilitation loans. Under this agreement, the Authority uses its capacity as an eligible lender to purchase Rehabilitation loans. RIHEAA fully funds these loans and receives all borrower payments that are made on the loans. RIHEAA reimburses the Authority for all actual servicing costs and Department of Education loan fees and pay a monthly administrative fee of thirty five basis points of the outstanding loan balance. At June 30, 2010, the loan and interest balance was \$2,292,691 and RIHEAA owed the Authority a net amount of \$5,403.

Federal default fees paid to RIHEAA for fiscal years ended June 30, 2010 and 2009 was \$2,038,923 and \$2,581,485, respectively.

Lease expense (including common area maintenance and utility costs) paid to RIHEAA for fiscal years ended June 30, 2010 and 2009 was approximately \$137,700 and \$146,700, respectively.

15. 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, 2010 and 2009.

16. SUBSEQUENT EVENT

In July and August 2010, the Authority early retired Bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at a discount ranging from 85% to 95% of the Bonds stated par value. \$158,600,000 of the outstanding Bonds were retired which resulted in a gain in the amount of \$8,246,000.

On September 2, 2010, the Authority sold to DOE participating interest in loans under the DOE's Loan Purchase Commitment Program. The Authority sold to the DOE loans with a principal balance of \$141,534,497 and accrued interest of \$3,046,013.

RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

17. SUBSEQUENT REISSUE OF AUDIT REPORT

	<u>As Previously Reported</u>	<u>Restated</u>
Assets		
Accrued interest receivable student loans	\$ 29,349,086	\$ 29,381,191
Liabilities		
Rhode Island Higher Education Assistance Authority Rehab Loans - current portion	2,260,586	258,164
Rhode Island Higher Education Assistance Authority Rehab Loans - net of current portion	-	2,034,527

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RISLA

**RHODE ISLAND STUDENT
LOAN AUTHORITY**

560 Jefferson Blvd., Suite 200
Warwick, RI 02886-1371

Phone: 401-468-1700
Toll-free: 800-758-7562
TDD: 401-468-1750

www.risla.com