



Rhode Island Student Loan Authority

ANNUAL REPORT

Fiscal Year Ended
June 30, 2012
And Dated
December 31, 2012



RISLA
RHODE ISLAND STUDENT
LOAN AUTHORITY

Making higher education more accessible and affordable.

BOARD OF DIRECTORS

Dr. Anthony J. Santoro, *Chairman*
Dr. William Croasdale, *Treasurer*
John Howell, *Secretary*
Gina M. Raimondo, *General Treasurer, State of RI*
Patricia Doyle

Charles P. Kelley, *Executive Director*

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WELCOME

It is our great pleasure to present the 2012 Annual Report for the Rhode Island Student Loan Authority (RISLA). For over 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.

2012 marked the end of an era at RISLA with the passing of our longtime board member Dr. Robert McKenna. Dr. McKenna was a fixture on the board for many years, but more importantly he was a driving force in higher education throughout his entire adult life. He was a Professor Emeritus of Politics at Salve Regina University, where he also served for many years as an Assistant to the President. For 17 years, Dr. McKenna was the President of the Rhode Island Independent Higher Education Association. He also served as a longtime member of the Rhode Island General Assembly.

Dr. McKenna believed deeply in the importance of higher education. As a youth, he benefited from a financial aid grant that allowed him to receive his B.A. from Brown University. That award gave him an appreciation for financial aid -- an appreciation he never forgot as an advocate and board member at RISLA. We remember Dr. McKenna for his service to our board, but above all, we remember him for his commitment to helping our state's students.

Dr. McKenna would have been incredibly proud of the work done by RISLA in 2012. Our efforts to make college affordable were matched by a tremendous amount of outreach to make higher education more accessible. This report will demonstrate a host of initiatives, including expanded financial literacy training, programs for minority and underrepresented students, and an exciting new effort we have developed to promote internships at employers through the state.

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, and General Treasurer Gina Raimondo. 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



Noel F. Simpson
Deputy Director & Chief Financial & Compliance Officer

HIGHLIGHTS 2012

In 2012 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:

Governor Chafee, State's Colleges & Universities Team with RISLA on "Bridge" Program

While maintaining its commitment to making college more accessible and affordable, RISLA extended its work on behalf of students in 2012 to the realm of internships. In conjunction with the Association of Independent Colleges and Universities of RI, the RI Board of Governors for Higher Education, the office of Governor Lincoln Chafee, and the Greater Providence Chamber of Commerce, RISLA launched the "Bridge Jobs" initiative. With a goal of connecting students at local colleges with internship opportunities with Rhode Island employers, "Bridge" has gained the overwhelming support of government leaders, the business community, and Presidents of all the state's colleges. Through the creation of RISLA's coordinated and easy-to-use web portal (www.bridge.jobs) students and employers can post profiles and connect on paid internships. As Rhode Island continues to feel the effects of the great recession, "Bridge" has been lauded as an excellent way for talented young people to remain in the state, while encouraging businesses to reach out to the local talent pool. The Rhode Island Foundation listed RISLA's "Bridge" initiative as an important driver in the reinvention of the state's economy.

Bridge Jobs Program Holds Kickoff Announcement at Hasbro

Capitalizing on the positive momentum of its "Bridge" initiative, RISLA held a major press announcement on October 9th to introduce the program to the general public. Governor Lincoln Chafee gave kudos to RISLA for spearheading the effort, noting the importance of internships in the state's economy. Joining the Governor in praising RISLA's efforts were Sister Jane Gerety, President of Salve Regina University, and Hasbro's Chief Human Resources Officer Dolph Johnson. Hasbro enjoys a thriving internship program at its Rhode Island locations, and serves as a model for other employers throughout the state that are signing on to the "Bridge" initiative.

RISLA Offers \$24,000,000 in Safe, Fixed-Rate Loans in 2012

During the 2011/2012 academic year, RISLA offered \$24,000,000 in loans to students and families. The program was made available to Rhode Island residents and students attending college in Rhode Island. Effective July 1, 2012 RISLA introduced a ZERO origination fee fixed rate loan for students who complete and pass an on line financial literacy course. Students can also receive a zero origination fee fixed rate loan if they elect to enter repayment immediately after the loan is disbursed. The rate students receive depends on the repayment option, not on a credit score. RISLA's immediate repayment option features a ten year term and represents the lowest cost option with a fixed rate of 6.39%. The deferred repayment option features a 15-year term and allows students to defer their loan payments until 6 months after they leave school and offers a fixed rate of 7.49%. These rates made Rhode Island's education loan offerings some of the best in the country.

RISLA Continues to Lead on Financial Literacy

RISLA continues its efforts to offer free financial literacy seminars to students from all over Rhode Island. The seminars offered to students take place during regular class time, and cover topics like debt management, how to pay for a college, understanding of general financial terms, basic budgeting, credit, and much more. RISLA Manager William Bianchi continues to work with high schools throughout Rhode Island. Of particular note, RISLA partnered with the Central Falls School District to train teachers in its Guide to Success Program on financial literacy. Guide to Success is an alternative pathways program for at-risk students at Central Falls High School.

College Goal Rhode Island

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

College Planning Center Hosts Major Statewide College Fair

On September 19th, the College Planning Center of Rhode Island hosted a major college fair for students throughout the state at McCoy Stadium in Pawtucket. High school students and families participated in the event, which brought together over 100 college representatives from throughout the northeast. The free event allowed attendees to see parts of McCoy Stadium that are normally closed to the public, including the batting cages and locker rooms. The CPC gained significant publicity through the PawSox organization for the event, as well as coverage in various local media outlets. Three lucky students who attended the event received \$750 scholarships from the CPC.

Sherlock Scholarship Awards

For the ninth 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. For the second year in a row, Governor Lincoln Chafee attended the awards ceremony and offered words of encouragement for all the students. Joining the Governor in hosting the event were RISLA Executive Director Charles Kelley and RISLA CFO Noel Simpson.

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

U.S. Senator Jack Reed held his 22nd annual College Aid Workshop at Cranston High School West on November 1st. RISLA Executive Director Charles Kelley joined Sen. Reed in the presentation to students and families. College Planning Center of RI Director Stacy Crooks also participated in the program. RISLA has enjoyed a long-standing tradition of working with Senator Reed on his college aid workshops.

College Planning Center Expands its Hours & Outreach

In 2012, the College Planning Center of RI expanded its hours to better serve the over 7,000 students and families who utilize its services annually. As always, the CPC's services are free of charge. During the year, the CPC staffed a West Bay office at the Warwick Mall, an East Bay office on Metacom Avenue in Bristol, and a Northern Rhode Island office at the Boys & Girls Club of Cumberland. Expanded hours during 2012 included nights and weekend sessions, complemented by the CPC's interactive website: www.collegeplanningcenter.org.

For Spanish-speaking members of the community, the CPC continues to offer outreach and services through its Latino College Access Coalition. Through the Coalition, CPC staffers are able to provide a full complement of outreach services, including financial aid assistance and completion of forms in Spanish.

Latino College Access Coalition Holds "Mapping Success" Conference

RISLA's Latino College Access Coalition continued its outreach efforts with a November conference titled "Mapping Success" a daylong event meant to ease the college planning concerns of first generation students and those from underrepresented populations. Cid Wilson, a renowned Dominican Afro-Latino activist served as the keynote speaker at the event, held at the Providence Career & Technical Academy.

College Planning Center Launches Improved RIScholarships Website

In January, the College Planning Center of RI re-launched the RIScholarship.com website. The site, now maintained by the CPCRI, is a free local scholarship search site where students can easily find scholarships available in the area. The site matches students with local scholarships that are a good fit based on their interests, goals, and other personal attributes. Local scholarships are an important way to secure free money for college books, tuition, and living expenses. They can also greatly reduce the amount students need to borrow for college.

Ultimate Guide to Paying for College Produced by RISLA

In 2012, RISLA published “Free Money First” its Ultimate Guide to Paying for College, a comprehensive publication to help students and families through the college financing process. The guide includes a worksheet on meeting college costs, information on how to conduct a successful scholarship search, and frequently asked questions every family should cover before taking out a student loan. The free guide is a tremendous resource for students and families, and was featured in a February television advertising campaign about RISLA’s services.

RISLA and Congressman Jim Langevin Discuss College Loan Rates

As concern grew in April that the federal government would allow Stafford Loan rates to double, Congressman Jim Langevin invited RISLA leaders to participate in a press conference on the subject. The Congressman and RISLA Executive Director Charles Kelley warned of the significant impact Congressional inaction could have on students and families with Stafford Loans. Congressman Langevin praised RISLA for its ongoing efforts to assist students with its affordable loan program and free services like the College Planning Center. The event gained wide media coverage.

Outreach Efforts for Returning Soldiers

For the third consecutive year, RISLA assisted members of the RI National Guard as they returned from various deployments. RISLA volunteers its services as part of the Yellow Ribbon Reintegration Program, offering financial literacy workshops to National Guard members and families. RISLA also offers free information from the College Planning Center of RI, with materials on college choice, financial aid, and how to apply to schools.

Financial Literacy Program Directed at Urban Young Adults

As part of its ongoing commitment to promoting financial literacy awareness, RISLA offered a free workshop in March for two dozen alumni of Year Up Providence. Year Up works to provide urban young adults with the skills, experience, and support to empower them to reach their potential through professional careers and higher education. The workshop covered topics like Budgeting, Credit, Basic Banking, and Educational Grants & Scholarships.

Looking Ahead

2012 was an exciting year for the Rhode Island Student Loan Authority. The core of RISLA's work remains its very successful Rhode Island Family Education Loan, a financing option that allows Rhode Island students an affordable way to pay for college. With flexible repayment options and rates that are among the best in the entire country, RISLA will continue to assist many Rhode Islanders who dream of a higher education.

Helping students and families pay for school is just one way that RISLA carries out its mission of making college more accessible and affordable. This year saw the continuation of the fine work being done by the College Planning Center of Rhode Island. The free services offered by RISLA's CPCRI are vital to thousands of students and families throughout the state, which will again be replicated in 2013. The CPCRI's statewide college fair at McCoy Stadium, extended hours during financial aid season, and outreach to underrepresented populations through programs like the Latino College Access Coalition are all examples of the vital role the center plays in the lives of students in Rhode Island.

The area of financial literacy is another example of RISLA carrying out its mission, which will continue to expand in 2013. This past year saw the continuation of financial literacy course work at high schools throughout the state, along with special programming for at-risk students in Central Falls. The financial literacy efforts extended to community programs like Year Up in Providence also reflect RISLA's commitment to students from all backgrounds.

Perhaps most exciting for the coming year will be RISLA's ongoing stewardship of the "Bridge Jobs" initiative. By bringing together all of the state's colleges and universities, the business community, and leaders from state government, RISLA has highlighted the need to keep talented young people in Rhode Island after they complete their studies. By coordinating a statewide web portal for internships, business and students will all benefit. More importantly, RISLA is doing its part to help reinvigorate the state's economy.

As always, RISLA will continue its long tradition of working collaboratively and effectively with elected leaders throughout the state. RISLA's volunteer board and dedicated staff work each day to carry out a mission of helping students and families with higher education. In a spirit of ongoing cooperation, RISLA looks forward to continuing to be a vital and important resource for all Rhode Islanders.

RISLA ACCOMPLISHMENTS FISCAL 2012

RISLA Operations

- Fiscal year 2012 was the first full year of RISLA servicing its private loan portfolio (principal balance of approximately \$405 million at June 30, 2012) in house. The transfer of loans from a contracted servicer (Granite State Management & Resources) to RISLA was completed on June 15, 2011. The transfer has been extremely successful and has resulted in a reduction in servicing costs and has helped RISLA to decrease the number of defaulted borrowers.
- Effective July 1, 2010, all federally guaranteed student loans have been originated under the Federal Direct Student Loan Program. RISLA continues to hold and administer its \$535,431,814 portfolio of federally guaranteed Stafford, PLUS and Consolidation loans. In two separate transactions in August 2012 and November 2012, RISLA was able to secure permanent financing for the federally guaranteed student loan portfolio at attractive rates and conditions.

RISLA Programs

- In FY 2012, 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 ten year immediate repayment option at a fixed rate for the life of the loan. Students could also choose a fifteen year deferred repayment option, also at a fixed rate for the life of the loan. RISLA originated approximately \$24,000,000 in RIFEL loans in FY 2012. RISLA was able to secure financing to originate another \$17,940,000 million for the fiscal year ended June 30, 2013.
- 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 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 13,168 contacts with students and parents during FY 2012, providing admissions and financial aid counseling and guidance.
- RISLA conducted 96 financial literacy workshops/presentations throughout Rhode Island, serving approximately 2,408 individuals during FY 2012. 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

- The Authority has continually operated a state-based loan program since 1992 and intends to continue to operate a program in FY 2014 and beyond. RISLA continues to search for ways to make college loans more affordable.
- An educated population is a key element to Rhode Island's economic recovery. Programs like the College Planning Center, Latino College Access Coalition, Bridge.Jobs internship matching program and Financial Literacy training for high school and college students provide Rhode Islanders with the tools they need to make good choices for their college education. College costs are not expected to decrease in the future and RISLA's programs help make college more affordable for Rhode Islanders.

SUMMARY OF RISLA PROGRAMS ADMINISTERED

Fiscal Year ending June 30, 2012

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 December 16, 2010 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 2012. RISLA issued an additional \$17,940,000 of Tax Exempt Fixed Rate Student Loan Program Revenue Bonds on March 21, 2012. The purpose of this bond issue was to fund RIFEL loans originated in FY 2013.

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 13,168 contacts with parents and students through in-person counseling and seminars to assist with their college planning needs in FY 2012.
- 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, a new CPCRI location was opened during FY 2010 in Cumberland.
- RISLA also started the Latino College Access Coalition in FY 2010. The Coalition is a partnership of 11 community based and business organizations with a goal of increasing college attendance and success among the Latino residents of the state.

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 continues to support need-based financial aid and financial literacy programs in Rhode Island.
- RISLA has funded 225 need based scholarships totaling \$450,000 through FY 2012.

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, or 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.

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 401-468-1700 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, 2012 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 pages of this annual report.

OPERATING STATEMENT

RHODE ISLAND STUDENT LOAN AUTHORITY

Summary of Board of Directors Meetings

Year Ending June 30, 2012

Board Meeting Date: July 22, 2011

Items discussed and voted:

1. Discussed and voted to approve the 2012 budget
2. Reviewed Underwriting RFP results and voted to select Morgan Stanley as underwriter for a VRDN bond transaction

Board Meeting Date: September 1, 2011

Items discussed and voted:

1. Discussed and voted to approve the bond authorizing resolution for a VRDN bond transaction.
2. Discussed and voted to authorize the expenditure of up to \$248,240 for bond issuance costs.
3. Discussed and voted to authorize the establishment of new income sensitive repayment options on RIFEL loans.

Board Meeting Date: September 22, 2011

Items discussed and voted:

1. Voted to approve the 2011 Audited Financial Report.
2. Discussed and voted to approve the waiver of the 4% loan origination fee for RISLA's RIFEL loan for the 2012-2013 academic year based on criteria RISLA will establish.

Board Meeting Date: November 10, 2011

Items discussed and voted:

1. Discussed and voted to retain Robert Flanders as outside counsel and to authorize the chairman to sign an engagement letter with such terms as the Chairman and RISLA's general counsel approve with regards to the future of RISLA and RIHEAA.
2. Discussed and voted to engage ACS for Direct Loan Servicing.
3. Reviewed Commercial Bank RFP results and voted to accept Webster Bank as the commercial bank for RISLA.

Board Meeting Date: December 22, 2011

Items discussed and voted:

1. Discussed and voted to approve the bond authorizing resolution for a Fixed Rate RIFEL bond deal.
2. Discussed and voted to authorize the expenditure of up to \$463,500 for bond issuance costs.
3. Discussed the Licht report in which recommendations were made for the futures of RISLA and RIHEAA.

Board Meeting Date: January 20, 2012

Items discussed and voted:

1. Discussed and voted to approve an updated bond authorizing resolution for a Fixed Rate RIFEL bond deal.

Board Meeting Date: February 17, 2012

Items discussed and voted:

1. Discussed the closing of the \$17,940,000 Fixed Rate RIFEL bond deal.
2. Discussed and voted to approve the execution of the ACS contract and to apply for a direct loan servicing allocation

Board Meeting Date: March 16, 2012

Items discussed and voted:

1. Discussed and voted to reinstitute loan forgiveness for Nurse Educators.
2. Discussed and voted to approve a Disabled Combat Veterans Program that would follow the VA guidelines for disabled veterans.

Board Meeting Date: May 1, 2012

Items discussed and voted:

1. Voted to have the staff prepare a standard business practice default rate analysis.
2. Discussed and voted to approve the selection of Bank of America Merrill Lynch as Underwriter for an FRN/VRDN deal.
3. Discussed and voted to engage McNair Law Firm for guidance on regulations involving RISLA's tax exempt bonds for a price not to exceed \$20,000.

Board Meeting Date: May 25, 2012

Items discussed and voted:

1. Discussed and voted to approve the selection of Market Decision to run a focus group project for RISLA with a not to exceed cost of \$23,000.
2. Discussed Senator Durbin Bankruptcy Bill

Board Meeting Date: June 19, 2012

Items discussed and voted:

1. Discussed the implementation of an internship program in conjunction with the College Planning Center.
2. Voted to approve Braver PC as the auditor for RISLA.
3. Discussed and voted to approve the bond authorizing resolution for FFELP Loan Backed Bonds and VRDB bonds.
4. Discussed and voted to approve Market Decisions to conduct market research for RISLA.

Board Meeting Date: June 26, 2012

Items discussed and voted:

1. Discussed Direct Loan Servicing.

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 2012, RISLA had 36 full time employees who were responsible for managing RISLA's programs, financial reporting and the control and accounting of the flow of funds in RISLA's bond trust estates.

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

Summary of RISLA Debt and Arbitrage Rebate

As of June 30, 2012 RISLA had \$566,266,204 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 \$913,255,364 on June 30, 2012.

As of June 30, 2012 RISLA had \$509,155,000 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, 2012, RISLA has accrued an arbitrage rebate liability of \$408,795 for non purpose investments and has accrued \$11,019,418 for purpose investments. It has been RISLA's intent to lower the purpose liability over time through the borrower benefit programs offered by RISLA.

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

The settlement provisions proposed in the request would include a payment to be made by the Authority upon entry into the VCA. The Authority does not currently expect the resolution of the matters addressed in the request to reduce the amount of Available Funds and other Trust Estate assets that are available to fund mandatory payments with respect to the Notes and the Trust Estate under the Indenture or to materially affect its ability to administer its student loan programs. However, any such payments would reduce funds that would otherwise be available to the Authority to honor student loan forgiveness, student loan debt reduction, repurchase, administration, servicing or other obligations under various agreements relative to its financed student loans generally.

TRAINING COURSES HELD AND RISLA FINANCIAL REPORT

Summary of Training Courses Held Pursuant to This Chapter

RISLA's staff has attended the training sessions conducted by the Attorney General Ethics Commission, and the University of Rhode Island School of Continuing Education on Open Meetings, Retention of Public Records and Ethics Commission gift and conflict requirements.

RISLA Financial Report for Fiscal Year 2012

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, 2012. RISLA's complete audited financial statements, including the auditor's opinion letter and management discussion and analysis, is available on the web at www.risla.com or by calling the Authority at 401-468-1700.

RHODE ISLAND STUDENT LOAN AUTHORITY

**STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011**

ASSETS:	<u>2012</u>	<u>2011</u>
Current assets:		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 1,051,151	\$ 1,030,042
Cash equivalents	1,632,549	791,616
Investments	1,082,930	0
Restricted:		
Cash	1,535,834	645,470
Cash equivalents	70,461,078	106,938,281
Investments	8,079,546	13,170,776
Student loans receivable	86,471,812	76,557,855
Accrued interest receivable:		
Student loans	22,469,814	29,421,510
Investments	38,530	55,082
Other receivables	42,715	32,876
Prepaid expenses	615,839	651,388
Deferred financing costs	735,971	354,172
Total current assets	<u>194,217,769</u>	<u>229,649,068</u>
Noncurrent assets:		
Student loans receivable - net	826,783,552	933,938,161
Deferred financing costs, net of amortization of \$4,369,356 and \$4,326,100, respectively	3,089,132	3,578,086
Total noncurrent assets	<u>829,872,684</u>	<u>937,516,247</u>
Capital assets:		
Capital assets, less accumulated depreciation and amortization of \$343,743 and \$4,385,085, respectively	98,297	143,945
TOTAL ASSETS	<u>1,024,188,750</u>	<u>1,167,309,260</u>
LIABILITIES:		
Current liabilities:		
Bonds payable	6,335,000	6,450,000
Deferred revenue - current portion	1,852,484	1,608,600
Due to U.S. Department of Education	5,659,768	6,540,135
Accrued interest payable	1,013,122	1,147,132
Accounts payable and accrued expenses	772,705	692,178
Rhode Island Higher Education Assistance Authority		
Rehab Loans - current portion	147,985	182,819
Rhode Island Higher Education Assistance Authority Conduit Loans	5,782,532	0
Grants payable	1,020,762	595,637
Due to Federal Government - Loan Conduit Program	29,718,194	35,837,764
Accrued arbitrage rebate	11,019,418	45,295
Total current liabilities	<u>63,321,970</u>	<u>53,099,560</u>
Noncurrent liabilities:		
Bonds payable, net of bond premium (discount) of \$205,602 and (\$66,406), respectively	559,725,602	661,753,594
Deferred revenue - net of current portion	9,805,342	9,340,938
Rhode Island Higher Education Assistance Authority Rehab Loans	1,241,964	1,442,828
Due to Federal Government - Loan Conduit Program	267,463,749	322,539,872
Accrued arbitrage rebate	408,795	8,769,719
Total noncurrent liabilities	<u>838,645,452</u>	<u>1,003,846,951</u>
TOTAL LIABILITIES	<u>901,967,422</u>	<u>1,056,946,511</u>
NET ASSETS:		
Invested in capital assets net of related debt	98,297	143,945
Restricted for debt service	118,159,475	107,696,440
Unrestricted	3,963,556	2,522,364
TOTAL NET ASSETS	<u>\$ 122,221,328</u>	<u>\$ 110,362,749</u>

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

CONTINUED

SEE NOTES TO FINANCIAL STATEMENTS.

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

SEE NOTES TO FINANCIAL STATEMENTS.

(CONCLUDED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Accounting

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

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

Income Taxes

The Authority is exempt from Federal and state income taxes.

Recently Issued Accounting Standards

The Authority has implemented GASB No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, for the year ended June 30, 2012. The adoption of this Statement did not have an impact on the Authority's financial position or results of operations.

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

Recently Issued Accounting Standards (Continued)

- ✓ GASB Statement No. 66 – Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62, effective for the Authority's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, effective for the Authority's fiscal year ending June 30, 2014.
- ✓ GASB Statement No. 68 – Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for the Authority's fiscal year ending June 30, 2015.

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

Deferred Financing Costs

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

Revenues and Expenses

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

Property and Equipment

Property and equipment is stated at cost. The Authority provides for depreciation using the straight-line method over the estimated useful life of the asset. The Authority estimates the useful life for leasehold improvements to be the same as the term of the lease, three years for computer equipment and five years for furniture and fixtures. Depreciation and amortization expense for fiscal years 2012 and 2011 totaled \$58,658 and \$1,904,937, respectively. Capital assets are defined by the Authority, as assets with an individual cost of \$2,500 or more and an estimated useful life in excess of one year.

Student Loans

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

Student Loans (Continued)

Student loans are carried at their uncollected principal balances and are reduced by an allowance for loan losses of \$45,693,597 and \$42,438,530 at June 30, 2012 and 2011, respectively. The allowance for loan losses is determined by management's evaluation of the student loan portfolios. This evaluation considers such factors as historical loss experience, quality of student loan servicing and collection, and economic conditions. When this evaluation determines that an exposure to loss is probable and reasonably estimated, a provision against current operations net of student loan recoveries is recorded. Actual losses are charged against the allowance for loan losses as they occur.

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

Interest on Loans Receivable

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

Bond Discount

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

Basis of Presentation

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

Cash and Cash Equivalents

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

Investments

Investments are carried at fair value.

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

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

Vacation and Sick Leave

The Authority provides all full-time employees with at least two weeks vacation time per year. Employees may be allowed to carryover from one year to the next the amount of vacation time accrued in that one particular year. At time of termination the employee is entitled to all accrued vacation time. The June 30 accrual is calculated at the current pay scale.

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

Accrued Arbitrage Rebate Liability

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

Accrued Arbitrage Rebate Liability (Continued)

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

Use of Estimates

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

Net Assets

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

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

Reclassifications

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

Custodial Credit Risk - Deposits

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

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

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

Custodial Credit Risk

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

Interest Rate Risk

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the Authority's investment policy, funds will be invested in Investment Agreements permitted by the Authority's bond indentures. As of June 30, 2012, the Authority's investment in Ixis Funding Corp. Guaranteed Investment Contract was rated A by Standard and Poor's and A2 by Moody's Investor Service. The Transamerica Life Insurance Co. Guaranteed Investment Contract was rated AA- by Standard and Poor's and A1 by Moody's Investor Services. If the credit rating of the investment providers decline, the Authority can require the provider to post additional collateral and or other remedies to ensure performance. All the remaining investments are either obligations of the U.S. Government or explicitly guaranteed by the U.S. Government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investments in a single issuer. According to the Authority's investment policy, investments will be diversified to minimize the impact of potential losses from concentration in a specific maturity, a specific issuer or specific class of security. The Transamerica Life Insurance (GIC) of \$2,248,000 and \$687,743 represents 32% of the Authority's investments and the Ixis Funding Corp. (GIC) of \$816,400 represents 9% of the Authority's investments.

3. LOANS RECEIVABLE

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

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

The loan receivable balances at June 30, 2012 and 2011 are as follows:

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

4. CAPITAL ASSETS

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

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

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

5. DEFERRED FINANCING COSTS

Deferred financing costs incurred in connection with bond issuances have been capitalized and will be amortized over the life of the respective bonds. The balances at June 30, 2012 and 2011 relate to costs incurred in connection with all of the Authority's bond issues.

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

6. OPERATING LEASES

The Authority leases its operating facility from a landlord which is a related party (Note 13) under an operating lease. The related party lease requires monthly rental payments of \$10,116. The lease agreement expires on October 31, 2013. Lease expense for the year ended June 30, 2012 and 2011 was \$121,392 and \$114,836, respectively.

The future minimum lease payments are summarized below:

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

7. BONDS PAYABLE

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

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

On March 13, 1997, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of \$45,000,000 (Series 1) and \$5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$25,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 and 2011 was .280% and .193% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.5% to 5.75% and matured in 2012. Cost of issuance amounted to \$419,450 relating to all three securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The \$25,000,000 Series 3 bonds were redeemed and retired in 2004.

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

7. BONDS PAYABLE (Continued)

On April 15, 1998, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of \$55,000,000 (Series 1) and \$5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of \$20,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 and 2011 was .315% and .210% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.35% to 5.35% and matured in 2012. Cost of issuance amounted to \$379,850 relating to all three securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The \$20,000,000 Series 3 bonds were redeemed and retired in 2004.

On March 1, 1999, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of \$64,000,000 (Series 1) and \$6,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of \$30,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 and 2011 was .350% and .228% for Series 1 bonds, respectively. The Series 2 bonds pay interest ranging from 3.75% to 4.95% and matured in 2012. Cost of issuance amounted to \$462,440 relating to all three securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The \$30,000,000 Series 3 bonds were redeemed and retired in 2004.

On March 15, 2000, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of \$32,000,000 (Series 1), \$32,000,000 (Series 2) and \$6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a nominal value of \$30,000,000 (Series 4). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 and 2011 was .595% and .490% for Series 1 bond, respectively. The Series 3 bonds pay interest ranging from 5.0% to 5.9% and matured in 2012. Cost of issuance amounted to \$427,820 related to all four securities and is included in deferred financing costs (Note 5). The proceeds of the issuance were used to originate and purchase eligible student loans. The \$32,000,000 Series 2 bonds were redeemed and retired in 2011.

On January 15, 2001, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a nominal value of \$37,000,000 (Series 1), \$37,000,000 (Series 2) and \$6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a nominal value of \$30,000,000 (Series 4). The Series 1 and Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 and 2011 was .543% and .473% for Series 1, respectively. The Series 3 bonds pay interest ranging from 4.0% to 5.2% and matured in 2012. Cost of issuance amounted to \$493,669 relating to all four securities and is included in deferred financing costs (Note 5). The proceeds of this issuance were used to originate and purchase eligible student loans. The \$30,000,000 Series 4 bonds were redeemed and retired in 2004. The \$37,000,000 Series 2 bonds were redeemed and retired in 2011.

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

7. BONDS PAYABLE (Continued)

On February 19, 2003 the Authority issued tax exempt auction rate Student Loan Program Revenue Bonds with a nominal value of \$36,150,000 (Series 1), \$73,850,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of \$30,000,000 (Series 3). The Series 2 and Series 3 bonds are auction rate securities bearing interest at a rate reset every thirty five days for the Series 2 and every twenty eight days for the Series 3. In May 2007, \$16,150,000 of the Series 1 bonds were converted from auction rate to fixed rate bonds paying interest at 4.85%. The existing auction rate at June 30, 2012 and 2011 was .543% and .473% for Series 1 and Series 2 and .573% and .543% for Series 3 bonds, respectively. Cost of issuance amounted to \$605,610 relating to all three securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to refund \$8,900,000 of the August 21, 1992 Senior Series A bonds outstanding, \$1,100,000 of the August 21, 1992 Subordinate Series 1 bonds outstanding, \$10,000,000 of the September 28, 1993 Senior Series bonds outstanding, \$2,400,000 of the September 28, 1993 Subordinate Series 1 bonds outstanding and to originate and purchase eligible student loans. \$20,000,000 of the \$30,000,000 Series 3 bonds were redeemed and retired in 2004.

On April 29, 2003 the Authority issued taxable auction rate Student Loan Program Revenue Bonds with a nominal value of \$15,000,000 (Series 4), \$15,000,000 (Series 5). The Series 4 and Series 5 bonds are auction rate securities bearing interest at a rate reset every twenty eight days. The existing auction rate at June 30, 2012 and 2011 was .719% and .684% for Series 4. Cost of issuance amounted to \$117,000 relating to both securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans. The \$15,000,000 Series 5 bonds were redeemed and retired in 2010.

On January 21, 2004, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a nominal value of \$38,000,000 (Series A1); \$38,000,000 (Series A2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a nominal value of \$24,000,000 (Series A3). The Series A1 and Series A2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate for the Series A1 at June 30, 2010 was 1.193%. The existing auction rate at June 30, 2011 and 2010 for Series A2 was .770% and .769%, respectively. The Series A3 bond pays interest ranging from 1.50% to 4.25% and mature between 2005 and 2018. Cost of issuance amounted to \$408,344 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans. The \$38,000,000 Series A1 bonds were redeemed and retired in 2011.

On July 27, 2006, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a face nominal of \$30,000,000 (Series 1); \$30,000,000 (Series 2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a nominal value of \$40,000,000 (Series 3). The Series 1 and Series 2 Bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2012 and 2011 was .901% and .663% for Series 1 and for Series 2. The Series 3 bond pays interest ranging from 4.6% to 4.9% and mature between 2007 and 2026. Cost of issuance amounted to \$566,250 relating to all securities and is included in deferred financing costs (Note 5). Proceeds of this issuance were used to originate and purchase eligible student loans.

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

7. BONDS PAYABLE (Continued)

On August 5, 2008, the Authority issued Tax Exempt Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of \$20,000,000 (Series B-1); \$20,000,000 (Series B-2); \$25,000,000 (Series B-3); \$20,000,000 (Series B-4). The Authority also issued Taxable Weekly Interest Rate Student Loan Program Revenue Bonds with a nominal value of \$15,000,000 (Series B-5). The existing interest rate for the Series B-1, Series B-2, Series B-3 and Series B-4 at June 30, 2012 and 2011 was .180% and .800% and mature between 2026 and 2048 and .160% and .150% for the Series B-5 and matures in 2048. Proceeds from the Series B-1, Series B-2 and Series B-3 were exchanged for the like principal amount of the 1996 Series I, Series II and Series III bonds (collectively the 1996 bonds). The 1996 bonds were canceled and are no longer outstanding under the indenture in which they were issued. Cost of issuance amounted to \$391,047 relating to the Series B-4 and Series B-5 bonds which is included in deferred financing costs (Note 5). Proceeds from the issuance of the Series B-4 and Series B-5 are used to originate and purchase eligible student loans.

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

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

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

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

7. BONDS PAYABLE (Continued)

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

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

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

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

Pursuant to the terms of the various Trust Indentures, the Authority placed the proceeds of the bonds into various restricted funds. The loan fund was established to account for all recoveries of principal and any amounts which are required to be deposited therein pursuant to the Trust Indentures and to fund the origination and purchase of eligible student loans as described in the Trust Indenture. The revenue fund was established for the recoveries of interest investment earnings from all accounts and for interest payments. The reserve fund was established for the payment of interest in the event that the Authority does not have sufficient funds from other sources. The required reserve for the March 1997, April 1998, March 1999, Series 1, 2 and 3 of the March 2000, January 2001, February 2002, February 2003, April 2003 and February 2004 Bond issues is 2% of principal bonds outstanding. The required reserve for the January 2004 and July 2006 Bond issues is 1% of principal bonds outstanding. The required reserve for the May 2008 bond issue is 4% of the principal bonds outstanding. The required reserve for the July 2009, March 2010, December 2010 and March 2012 Bond issues is 3% of principal bonds outstanding. The Authority has purchased a surety bond issued by Ambac to fulfill the debt reserve fund obligation for the March 2000, January 2001, February 2002, and the February and April 2003 Bond issues. As mentioned, Ambac has filed for bankruptcy. Management believes that this action will adversely impact Ambac's ability to fund the debt service reserve account if necessary.

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

The Authority has been in compliance with the respective debt covenants as outlined in the Trust Indentures for fiscal years 2012 and 2011.

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

7. BONDS PAYABLE (Continued)

The Authority maintains two Letters of Credit in the original stated amount of \$89,610,959 on its November 2008 Series B-1, B-2, B-3 and B-4 Weekly Adjustable Interest Rate Bonds and \$33,610,274 on its November 2008 Series B-4 and October 2011 Series A Weekly Adjustable Interest Rate Bonds. The Letters of Credit obligate the Letter of Credit Provider to pay to the Trustee an amount equal to principal and interest on the Bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the Bonds tendered or deemed tendered for purchase but not remarketed as contemplated by the Indenture.

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

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

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

The following schedule reflects the changes in bonds payable:

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

7. BONDS PAYABLE (Continued)

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

7. BONDS PAYABLE (Continued)

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

8. LINE-OF-CREDIT

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

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

9. ACCRUED ARBITRAGE REBATE

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

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

The following schedule reflects the changes in accrued arbitrage rebate:

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

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

(CONTINUED)

RHODE ISLAND STUDENT LOAN AUTHORITY

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

9. ACCRUED ARBITRAGE REBATE (Continued)

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

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

In fiscal year 2010, the Authority elected to participate in the U.S. Department of Education's Asset-Backed Commercial Paper Straight-A Conduit Program (Conduit) which was created under the authority of the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under this program, eligible FFELP loans are financed by asset backed commercial paper issued by the Conduit and the Conduit holds a security interest in the loans. The program, set to expire on January 19, 2014, is managed by the Bank of Montreal and is administered by the Bank of New York Mellon. The Authority initially financed loans with this program on September 29, 2009, and two subsequent financings took place in 2010. The interest rate, exclusive of fees and expenses, is calculated based on the weighted average rate of asset backed commercial paper issued by the Straight-A Conduit. As of June 30, 2012 and 2011, the Authority's outstanding balance of FFELP loans financed by the Conduit was \$297,181,943 and \$358,377,636, respectively. Interest expense incurred for the year ended June 30, 2012 and 2011 was \$2,577,479 and \$2,769,202, respectively.

11. LOAN SERVICING AGREEMENTS

In 2011, the Authority conducted an RFP for the servicing of its federal loans. Based on the results of this RFP, in April the Authority renewed a servicing agreement with Nelnet Servicing LLC (Nelnet), under which Nelnet collects and accounts for the principal and interest on loans originated and purchased by the Authority and placed with Nelnet for servicing for a monthly fee, which is based on the number of loans in promissory and repayment status. Nelnet is also responsible for servicing the loans in a diligent manner according to regulations established by the DOE. This agreement is in effect until terminated or modified.

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

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

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

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RHODE ISLAND STUDENT LOAN AUTHORITY

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

11. LOAN SERVICING AGREEMENTS (Continued)

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

12. DEFINED CONTRIBUTION RETIREMENT PLAN

In July 1989, the Authority established a defined single-employer contribution plan named Rhode Island Student Loan Authority pursuant to Section 403 (b) of the Internal Revenue Code, which provides pension benefits for all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The assets of the plan are held with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Employees are eligible to participate on the first of the month following employment. The Authority contributes 10% of the employee's salary each month and all contributions and investment earnings are fully vested immediately. Employer contributions for 2012 and 2011 amounted to \$241,104 and \$235,841, respectively. Employee contributions for 2012 and 2011 amounted to \$133,598 and \$148,957, respectively. All plan provisions and amendments require Board approval. There are no post-retirement benefits for Authority employees.

13. RELATED PARTY TRANSACTIONS

The Rhode Island Student Loan Authority is a related party to the Rhode Island Higher Education Assistance Authority (RIHEAA). RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law. The outstanding FFELP loans guaranteed by RIHEAA was \$502,286,268 and \$579,819,010 at June 30, 2012 and 2011, respectively.

In Fiscal Year 2012, the Authority entered into a line-of-credit agreement with RIHEAA to purchase FFELP loans that are over 240 days delinquent from the Asset-Backed Commercial Paper Conduit program that was established by the DOE with funds advanced from RIHEAA (Note 8). All claim and borrower payments of principal and interest received by the Authority are remitted to RIHEAA to reduce the outstanding balance of the line-of-credit. The maximum amount of the line-of-credit is \$6.5 million. The outstanding balance at June 30, 2012 was \$5,782,532.

In January 2009, the Authority entered into an agreement with RIHEAA to administer and service FFELP Rehabilitation loans. Under this agreement, the Authority uses its capacity as an eligible lender to purchase Rehabilitation loans. RIHEAA fully funds these loans and receives all borrower payments that are made on the loans. RIHEAA reimburses the Authority for all actual servicing costs and Department of Education loan fees and pay a monthly administrative fee of thirty five basis points of the outstanding loan balance. At June 30, 2012 and 2011, the loan and interest balance was \$1,389,859 and \$1,625,647, respectively. At June 30, 2012 and 2011, the Authority owed RIHEAA a net amount of \$16,795 and \$14,928, respectively.

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

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RHODE ISLAND STUDENT LOAN AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
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14. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; errors and omissions; and workers' compensation claims for which the Authority carries commercial insurance. Settled claims resulting from these risks have not exceeded the Authority's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has estimated the reserve for such claims to be \$-0- at June 30, 2012 and 2011.

15. SUBSEQUENT EVENT

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

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

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RISLA

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