

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

**FINANCIAL STATEMENTS**  
**YEARS ENDED**  
**JUNE 30, 2009 AND 2008**  
**INDEPENDENT AUDITOR'S REPORT**

**RHODE ISLAND STUDENT LOAN AUTHORITY**

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JUNE 30, 2009 AND 2008**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board Members  
Rhode Island Student Loan Authority

We have audited the accompanying financial statements of the Rhode Island Student Loan Authority, a component unit of the State of Rhode Island and Providence Plantations (State), as of and for the years ended June 30, 2009 and 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Rhode Island Student Loan Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Student Loan Authority as of June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2009 on our consideration of the Rhode Island Student Loan Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on Pages 3-7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

*Braver PC*

Providence, Rhode Island  
September 29, 2009

**RHODE ISLAND STUDENT LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009**

As management of the Rhode Island Student Loan Authority (RISLA or the Authority), we offer readers of RISLA's financial statements this overview and analysis of our financial activities for the fiscal year ending June 30, 2009. RISLA's management encourages readers to review the entire financial report and contact us with any questions or comments.

During a difficult and turbulent economic environment, RISLA continues to find ways to help students and parents reduce their cost of attending college. In FY 2009, RISLA continued to offer zero origination fee and zero default fee Stafford Loans. RISLA paid the 1% loan origination fee for student borrowers in FY 2009, saving student borrowers \$1,915,986. Over the past fifteen years RISLA has paid a total of \$24,208,352 in loan origination and guarantor default fees for student borrowers. Since 1994, RISLA has also offered a reduced rate on PLUS loans which have saved borrowers approximately \$10 million in reduced interest costs.

RISLA continues to offer college access initiatives through its College Planning Center of Rhode Island (CPC). Since 1998, The College Planning Center of Rhode Island has provided free, expert and personal assistance to students and parents in the areas of college admission and financial aid. In fiscal year 2009, the staff at the CPC provided assistance to approximately 6,144 individuals. For ten years, RISLA has operated the College Planning Center from a Warwick, RI location and in FY 2008, expanded the CPC to a second location in Bristol, RI. RISLA expects to open additional locations for the College Planning Center in fiscal year 2010 in northern Rhode Island.

RISLA exchanged \$95 million in existing bonds and issued over \$105 million in new bonds in FY 2009. RISLA also utilized the Department of Education's ECASLA participation line of credit program for \$124,819,900. These funds were used to fund RISLA's education loan programs in FY 2009.

President Bush signed into law the College Cost Reduction and Access Act of 2007 (CCRAA of 2007) in FY 2008. Effective for loans disbursed after October 1, 2007, not for profit lender return on federally guaranteed Stafford and Consolidation loans was reduced by forty (40) basis points. Not for profit lender return on PLUS loans was reduced by seventy (70) basis points. Through the elimination of the Exceptional Performer loan servicing program the law reduced reimbursement from guaranty agencies for claims on defaulted FFELP loans from 99% to 97% of principal and interest balance. Finally, the law increased from .5% to 1.0% the lender fee RISLA pays to the US Department of Education for Stafford , PLUS and Consolidation Loans.

## **FINANCIAL HIGHLIGHTS**

- FFELP (Stafford and Plus) loan originations both increased for the year ended June 30, 2009. Stafford loan volume increased from \$130,143,433 for the year ended June 30, 2008 to \$186,106,252 for the year ended June 30, 2009 for an increase of 43%. Plus loan volume increased from \$84,581,288 for the year ended June 30, 2008 to \$117,288,679 for the year ended June 30, 2009 for an increase of 38.67%. Alternative loan volume decreased from \$89,551,578 to \$55,760,659 over the same period for a decrease of 37.73%.
- The allowance for loan losses increased from \$32,904,892 on June 30, 2008 to \$37,840,139 on June 30, 2009, an increase of \$4,935,247 as compared to the prior year. The increase in fiscal year 2009 was actually 17% less than the increase in the prior year which translates into a decreased bad debt expense. The lower increase in the current year as compared to the prior year is attributable to the extremely successful efforts the Authority has taken of assisting borrowers to avoid going into default on the alternative loans. These pre-default activities have reduced the monthly default loan volume. The allowance is for FFELP volume totaling \$654,051,679 and alternative loans totaling \$431,037,194, all held by RISLA.
- Bonds payable increased from \$946,950,000 on June 30, 2008 to \$1,046,330,000 on June 30, 2009. This represents an increase of \$99,380,000 or 10.49%. In August and November 2008, RISLA was able to exchange \$95 million in old variable rate debt and issue \$105 million in new variable rate debt.
- Bond interest expense decreased from \$39,609,925 for the year ending June 30, 2008 to \$31,458,490 for the year ending June 30, 2009. This represents a decrease of \$8,151,435.
- Student loan servicing expenses increased from \$3,987,784 for the year ending June 30, 2008 to \$4,555,440 for the year ending June 30, 2009. This represents an increase of \$567,656 or 14.23%. The principal balance of FFELP and Alternative Loans held by RISLA increased by 22.57% during the same time period.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplementary information.

The financial statements provide both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain key points in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

The Authority's financial statements are prepared in conformity with accounting principles accepted in the United States of America (GAAP) as applied to the government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Authority are included in the Statement of Net Assets.

## OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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

### FINANCIAL ANALYSIS

#### Net Assets

For fiscal year ended June 30, 2009, the Authority's total assets exceeded the total liabilities by \$75,840,668 for a decrease of 1.92% as compared to June 30, 2008. At June 30, 2008 the total assets exceeded the total liabilities by \$77,321,481, which was an increase of 1.73% as compared to June 30, 2007. A condensed summary of the Authority's net assets at June 30 is shown below.

Student loan receivables are the largest component of assets and increased from \$696,020,800 on June 30, 2007 to \$887,395,902 on June 30, 2008, which represents an increase of 27.50%. Student loan receivables amounted to \$1,091,278,595 on June 30, 2009, an increase of 22.98%. The other significant component of assets is cash and investments restricted by the terms of various trust indentures. The amount of restricted cash and investments on June 30, 2007 equaled \$276,675,863. On June 30, 2008, restricted cash and investments equaled \$136,833,391. On June 30, 2009, restricted cash and investments equaled \$42,936,297. Restricted cash and investment balances are primarily used to acquire student loans.

	2009	2008	Percentage Change	2007	Percentage Change
Other assets	\$1,169,168,374	\$1,057,517,148	10.56%	\$1,004,096,043	5.32%
Capital assets	2,764,339	3,611,128	N/A	7,625	N/A
Total Assets	<u>1,171,932,713</u>	<u>1,061,128,276</u>	10.44%	<u>1,004,103,668</u>	5.68%
Current liabilities	42,219,462	18,989,361	122.33%	18,524,508	2.51%
Noncurrent liabilities	1,053,872,583	964,817,434	9.23%	909,569,383	6.07%
Total liabilities	<u>1,096,092,045</u>	<u>983,806,795</u>	11.41%	<u>928,093,891</u>	6.00%
<b>Net Assets</b>					
Investment in capital assets, net of related debt	33,007	196,463	N/A	7,625	N/A
Restricted for debt service	74,334,018	75,583,182	-1.65%	75,839,108	-0.34%
Unrestricted	1,473,643	1,541,836	-4.42%	163,044	845.66%
Total Net Assets	<u>\$75,840,668</u>	<u>\$77,321,481</u>	-1.92%	<u>\$76,009,777</u>	1.73%

Liabilities consist primarily of bond debt. On June 30, 2007 bond debt outstanding, net of unamortized bond premium, amounted to \$889,557,709. On June 30, 2008 bond debt outstanding amounted to \$946,753,003. On June 30, 2009 bond debt outstanding amounted to \$1,046,156,699.

## **CHANGES IN NET ASSETS**

The Authority's decrease in total net assets for the fiscal year ended June 30, 2009 was \$1,480,813, which was a decrease of 1.92% as compared to fiscal year ended June 30, 2008. The increase in net assets at June 30, 2008 was \$1,311,704, which was an increase of 1.73% as compared to fiscal year ended June 30, 2007. A condensed summary of the Authority's changes in net assets at June 30 is shown below.

Loan interest income for the fiscal year ended June 30, 2009 decreased by \$10,318,143 or 19.23% as compared to the year ended June 30, 2008. Investment interest income for the year ended June 30, 2009 decreased by \$6,500,436 or 81.74%. Interest expense for the fiscal year ended June 30, 2009 decreased by \$8,151,435 or 20.58% as compared to the fiscal year ended June 30, 2008. Other income is the income that is derived by amortizing the four percent supplemental fee that is added to the loan principal balance when a borrower enters repayment. This fee is for alternative loans only. Other income for the fiscal year ended June 30, 2009 increased by \$384,949 or 58.03% as compared to the year ended June 30, 2008.

	2009	2008	Percentage Change	2007	Percentage Change
Loan interest income	\$43,333,123	\$53,651,266	-19.23%	\$54,496,036	-1.55%
Investment interest income	\$1,452,001	\$7,952,437	-81.74%	\$13,908,246	-42.82%
Other income	1,048,296	663,347	58.03%	436,441	51.99%
Total income	<u>45,833,420</u>	<u>62,267,050</u>	-26.39%	<u>68,840,723</u>	-9.55%
Interest expense	31,458,490	39,609,925	-20.58%	34,410,396	15.11%
Arbitrage rebate	(7,764,290)	(5,515,856)	40.76%	2,121,955	-359.94%
External loan servicing	4,555,440	3,987,784	14.23%	3,195,547	24.79%
Loan origination expense	5,809,946	5,221,897	11.26%	4,556,440	14.60%
Provision for loan losses	5,009,338	6,231,891	-19.62%	10,310,177	-39.56%
Other operating expenses	8,245,309	11,419,705	-27.80%	8,954,609	27.53%
Total expenses	<u>47,314,233</u>	<u>60,955,346</u>	-22.38%	<u>63,549,124</u>	-4.08%
Nonoperating Revenues (Expenses)	-	-		(1,222,222)	-100.00%
Change in net assets	(1,480,813)	1,311,704	-212.89%	4,069,377	-67.77%
Net assets, beginning of year	<u>77,321,481</u>	<u>76,009,777</u>	1.73%	<u>71,940,400</u>	5.66%
Total net assets, end of year	<u><u>\$75,840,668</u></u>	<u><u>\$77,321,481</u></u>	-1.92%	<u><u>\$76,009,777</u></u>	1.73%

## **DEBT ADMINISTRATION**

RISLA funds student loan notes receivable by issuing tax-exempt and taxable bonds. Tax-exempt bonds must receive an allocation of the State of Rhode Island private activity volume ceiling or "cap". The bonds issued by RISLA must comply with state and federal statutes and with rules and regulations of the U.S. Treasury Department and the U.S. Securities and Exchange Commission. Detailed information on RISLA's debt is presented in note 7 of the financial statements.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Authority's financial activity for all those interested in the Authority's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Rhode Island Student Loan Authority, 560 Jefferson Blvd. Warwick, Rhode Island, 02886.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF NET ASSETS  
JUNE 30, 2009 AND 2008**

**ASSETS:**

	<u>2009</u>	<u>2008</u>
<b>Current assets:</b>		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 275,724	\$ 381
Cash equivalents	2,207,872	2,132,516
Restricted:		
Cash	28,173	31,773
Cash equivalents	29,080,425	61,289,618
Investments	13,827,699	75,512,000
Student loans receivable	72,006,069	58,292,943
Accrued interest receivable:		
Student loans	25,746,935	24,990,771
Investments	33,305	351,555
Other receivables	12,349	0
Prepaid expenses	1,076,548	1,046,549
Deferred financing costs	361,395	419,118
<b>Total current assets</b>	<u>144,656,494</u>	<u>224,067,224</u>
<b>Noncurrent assets:</b>		
Student loans receivable - net	1,019,272,526	829,102,959
Deferred financing costs, net of amortization of \$2,711,046 and \$2,380,442, respectively	5,239,354	4,346,965
<b>Total noncurrent assets</b>	<u>1,024,511,880</u>	<u>833,449,924</u>
<b>Capital assets:</b>		
Capital assets, less accumulated depreciation and amortization of \$1,599,616 and \$711,746, respectively	2,764,339	3,611,128
<b>TOTAL ASSETS</b>	<u>1,171,932,713</u>	<u>1,061,128,276</u>

**LIABILITIES:**

<b>Current liabilities:</b>		
Bonds payable	7,045,000	5,620,000
Deferred revenue	7,660,452	6,263,397
Due to Federal Government	909,720	870,123
Accrued interest payable	2,515,083	4,036,697
Cash overdraft	0	454,944
Accounts payable and accrued expenses	941,068	592,435
Due to Federal Government Loan Participation Program	21,444,069	0
Accrued service fees	500,237	378,432
Note payable - current portion	683,333	683,333
Accrued arbitrage rebate - current portion	520,500	90,000
<b>Total current liabilities</b>	<u>42,219,462</u>	<u>18,989,361</u>
<b>Noncurrent liabilities:</b>		
Bonds payable, net of bond discount of \$173,301 and \$196,997, respectively	1,039,111,699	941,133,003
Note payable - net of current portion	2,047,999	2,731,332
Accrued arbitrage rebate - net of current portion	12,712,885	20,953,099
<b>Total noncurrent liabilities</b>	<u>1,053,872,583</u>	<u>964,817,434</u>
<b>TOTAL LIABILITIES</b>	<u>1,096,092,045</u>	<u>983,806,795</u>

**NET ASSETS:**

Invested in capital assets	33,007	196,463
Restricted for debt service	74,334,018	75,583,182
Unrestricted	1,473,643	1,541,836
<b>TOTAL NET ASSETS</b>	<u>\$ 75,840,668</u>	<u>\$ 77,321,481</u>

SEE NOTES TO FINANCIAL STATEMENTS.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Operating revenues:</b>		
Interest income:		
Student loans	\$ 43,333,123	\$ 53,651,266
Investments	1,452,001	7,952,437
Other income	1,048,296	663,347
<b>Total operating revenues</b>	<u>45,833,420</u>	<u>62,267,050</u>
<b>Operating expenses:</b>		
Interest	31,458,490	39,609,925
Provision for risk sharing	5,009,338	6,231,891
Provision for arbitrage rebate and loan discounts	(7,764,290)	(5,515,856)
Loan origination expenses	5,809,946	5,221,897
Loan servicing and acquisition costs	4,555,440	3,987,784
Credit enhancement and remarketing expenses	3,068,552	2,446,974
Guarantor default fees	0	2,093,837
Salaries	2,395,621	1,912,412
Administration	1,812,228	1,774,695
Loan origination operating costs	0	850,785
Amortization of repurchase of operating rights agreement	820,000	615,000
Benefits	728,121	521,302
Amortization of bond costs	354,301	280,164
College Planning Center expenses	299,074	321,146
Legal and accounting	348,584	262,363
Miscellaneous bond expenses	59,190	137,257
Payroll taxes	175,617	130,100
Depreciation	67,871	73,670
Cost recovery on U.S. Department of Education put loans	(1,883,850)	0
<b>Total operating expenses</b>	<u>47,314,233</u>	<u>60,955,346</u>
<b>Changes in net assets</b>	<u>(1,480,813)</u>	<u>1,311,704</u>
<b>Net assets, beginning of the year</b>	<u>77,321,481</u>	<u>76,009,777</u>
<b>Net assets, end of the year</b>	<u>\$ 75,840,668</u>	<u>\$ 77,321,481</u>

SEE NOTES TO FINANCIAL STATEMENTS.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities:</b>		
Cash received for:		
Student loan interest	\$ 45,009,961	\$ 54,108,421
Student loan principal	88,693,242	112,085,938
Sale of federal loans	0	72,687,406
Interest on investments	1,770,251	8,130,865
Cash paid for:		
Origination and purchase of student loans	(292,575,935)	(376,148,446)
Contractual services	(5,809,946)	(5,221,897)
Goods and services	(12,843,951)	(17,842,494)
Employee salaries	(2,561,232)	(2,046,113)
Employee benefits	(728,121)	(521,302)
<b>Net cash provided (used) by operating activities</b>	<u>(179,045,731)</u>	<u>(154,767,622)</u>
<b>Cash flows from noncapital financing activities:</b>		
Payment of bond maturities	(100,620,000)	(6,640,000)
Payment of note payable	(683,333)	(685,335)
Proceeds from sale of revenue bonds	200,000,000	64,000,000
Proceeds from sale of participating interest in loans	124,819,899	0
Payment on the sale of participating loans	(103,375,830)	0
Cash overdraft implicitly financed	0	454,944
Interest paid on bonds	(32,980,105)	(39,100,803)
<b>Net cash provided by noncapital financing activities</b>	<u>87,160,631</u>	<u>18,028,806</u>
<b>Cash flows from capital and related financing activities:</b>		
Deferred financing costs	(1,165,270)	(811,470)
Purchase of equipment	(41,081)	(192,173)
<b>Net cash used for capital and related financing activities</b>	<u>(1,206,351)</u>	<u>(1,003,643)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investment securities	0	(73,310,000)
Sales of investment securities	61,684,301	25,866,538
<b>Net cash provided (used) for investing activities</b>	<u>61,684,301</u>	<u>(47,443,462)</u>
<b>Net decrease in cash and cash equivalents</b>	(31,407,150)	(185,185,921)
<b>Cash and cash equivalents, beginning of year</b>	<u>62,999,344</u>	<u>248,185,265</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 31,592,194</u>	<u>\$ 62,999,344</u>
<b>Cash and cash equivalents consists of:</b>		
<b>Unrestricted:</b>		
Cash	\$ 275,724	\$ 381
Cash equivalents	2,207,872	2,132,516
<b>Restricted:</b>		
Cash	28,173	31,773
Cash equivalents	29,080,425	61,289,618
Cash overdraft	0	(454,944)
<b>Cash and cash equivalents, end of year</b>	<u>\$ 31,592,194</u>	<u>\$ 62,999,344</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CONTINUED

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2009 AND 2008**

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	<u>2009</u>	<u>2008</u>
<b>Reconciliation of operating income to net cash used for operating activities:</b>		
Operating income (loss)	\$ (1,480,813)	\$ 1,311,704
Interest expense	31,458,490	39,609,925
Adjustments to reconcile operating income to net cash used for operating activities:		
Depreciation and amortization of capital assets	887,871	688,670
Amortization - bond discounts and deferred issuance costs	354,301	280,164
Increase in allowance for uncollectible accounts	4,330,619	5,914,120
Changes in assets and liabilities:		
(Increase) decrease in loans receivable	(208,213,312)	(197,289,220)
(Increase) decrease in other receivables	(12,349)	251,487
(Increase) decrease in accrued interest receivable - loans	(756,164)	(1,572,784)
(Increase) decrease in accrued interest receivable - investments	318,250	178,428
(Increase) decrease in prepaid expenses	(29,999)	(31,745)
Increase (decrease) in due to Federal Government	39,597	477,673
Increase (decrease) in deferred revenues	1,397,055	1,366,592
Increase (decrease) in accounts payable and accrued expenses	(7,339,277)	(5,952,636)
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ (179,045,731)</u></b>	<b><u>\$ (154,767,622)</u></b>

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SEE NOTES TO FINANCIAL STATEMENTS.

(CONCLUDED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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**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. 52, Land and Other Real Estate Held as Investments by Endowments, for the year ended June 30, 2009. 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. 51 – Accounting and Financial Reporting for Intangible Assets, effective for the Authority's fiscal year ending June 30, 2010.
- ✓ GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments, effective for the Authority's fiscal year ending June 30, 2010.

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

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(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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

***Deferred Financing Costs***

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

***Revenues and Expenses***

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

***Property and Equipment***

Property and equipment is stated at cost. The Authority provides for depreciation using the straight-line method over the estimated useful life of the asset. The Authority estimates the useful life for leasehold improvements to be the same as the term of the lease, three years for computer equipment and five years for furniture and fixtures. Depreciation and amortization expense for fiscal years 2009 and 2008 totaled \$887,870 and \$688,670, respectively. Capital assets are defined by the Authority, as assets with an individual cost of \$2,500 or more and an estimated useful life in excess of one year.

***Student Loans***

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

Student loans are carried at their uncollected principal balances and are reduced by an allowance for loan losses of \$37,840,139 and \$33,509,520 at June 30, 2009 and 2008, respectively. The allowance for loan losses is determined by management's evaluation of the student loan portfolios. This evaluation considers such factors as historical loss experience, quality of student loan servicing and collection, and economic conditions. When this evaluation determines that an exposure to loss is probable and reasonably estimated, a provision against current operations net of student loan recoveries is recorded. Actual losses are charged against the allowance for loan losses as they occur.

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

***Interest on Loans Receivable***

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

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(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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

***Bond Discount***

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

***Basis of Presentation***

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

***Cash and Cash Equivalents***

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

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

***Investments***

Investments are carried at fair value.

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

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

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**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2087**

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

***Vacation and Sick Leave***

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

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

***Accrued Arbitrage Rebate Liability***

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

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

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

***Use of Estimates***

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

***Net Assets***

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

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(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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

**Net Assets (Continued)**

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

**2. CASH, CASH EQUIVALENTS AND INVESTMENTS**

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

	<u>2009</u>	<u>2008</u>
Cash Deposits:		
Carrying amount of cash deposits:		
Unrestricted .....	\$275,724	\$ 381
Restricted .....	<u>28,173</u>	<u>31,773</u>
<b>TOTAL</b> .....	<b><u>\$ 303,897</u></b>	<b><u>\$ 32,154</u></b>
Bank Balances:		
Covered by Federal depository insurance .....	\$4,853,976	\$ 200,000
Collateralized .....	28,173	7,828,172
Uninsured and uncollateralized .....	<u>0</u>	<u>265,168</u>
<b>TOTAL</b> .....	<b><u>\$4,882,149</u></b>	<b><u>\$8,293,340</u></b>

**Custodial Credit Risk - Deposits**

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

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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

	<u>2009</u>	<u>2008</u>
	<u>Fair</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>
<b>Cash equivalents and investments unrestricted:</b>		
<b>Cash equivalents (unrestricted):</b>		
Government Agency Bonds and Security Funds and Commercial Paper .....	\$ 2,207,872	\$ 1,875,466
Money Market Funds .....	0	257,050
<b>Total cash equivalents</b> .....	<u>2,207,872</u>	<u>2,132,516</u>
<b>Cash equivalents and investments (restricted):</b>		
<b>Cash equivalents:</b>		
Government Agency Bonds and Securities Funds and Commercial Paper .....	<u>29,080,425</u>	<u>61,289,618</u>
<b>Other investments:</b>		
Investment agreements .....	<u>13,827,699</u>	<u>75,512,000</u>
<b>Total - other investments</b> .....	<u>13,827,699</u>	<u>75,512,000</u>
<b>Total - restricted</b> .....	<u>42,908,124</u>	<u>136,801,618</u>
<b>Total cash equivalents and investments</b> .....	<u>\$45,115,996</u>	<u>\$138,934,134</u>

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

At June 30, 2009, the Authority had the following investments:

<u>Description</u>	<u>Maturity</u>	<u>Fair Value</u>
Chase Manhattan (GIC)	December 1, 2030	\$ 802,000
Ixis Funding Corp. (GIC)	December 1, 2030	1,400,000
Transamerica Life Insurance Co. (GIC)	December 1, 2028	2,560,000
Transamerica Life Insurance Co. (GIC)	June 30, 2013	7,065,699
Transamerica Life Insurance Co. (GIC)	June 30, 2009	<u>2,000,000</u>
Total		<u>\$13,827,699</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.

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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

***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 and 160 basis points for the Ixis Funding Corp GIC and Chase Manhattan GIC, respectively.

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Fair Value</u>
Chase Manhattan GIC	1.590%	December 1, 2030	\$ 802,000
Ixis Funding Corp. GIC	1.825%	December 1, 2030	\$1,400,000
Transamerica Life Insurance GIC	4.100%	December 1, 2028	\$2,560,000
Transamerica Life Insurance GIC	3.170%	June 30, 2013	\$7,065,699

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the Authority's investment policy, funds will be invested with companies that have a rating of at least A+ from Standard & Poor's, A3 from Moody's Investor Service or A+ from Fitch Ratings. As of June 30, 2009, the Authority's investment in Ixis Funding Corp. Guaranteed Investment Contract was rated A+ by Standard and Poor's and Aa3 by Moody's Investor Service. The Chase Manhattan Guaranteed Investment Contract was rated AA- by Standard and Poor's and Aa1 by Moody's Investor Service. The Transamerica Life Insurance Co. Guaranteed Investment Contract was rated AA- by Standard and Poor's and A1 by Moody's Investor Services. If the credit rating of the investment providers decline, the Authority can require the provider to post additional collateral and or other remedies to ensure performance. All the remaining investments are either obligations of the U.S. Government or explicitly guaranteed by the U.S. Government.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investments in a single issuer. According to the Authority's investment policy, investments will be diversified to minimize the impact of potential losses from concentration in a specific maturity, a specific issuer or specific class of security. The Transamerica Life Insurance (GIC) of \$2,560,000, \$7,065,699, and \$2,000,000 represents 84% 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 privately guaranteed education loans for qualified students and their families.

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**3. LOANS RECEIVABLE (Continued)**

The FFELP loans have both fixed and variable interest rates which are established by the DOE, and repayment terms which are dependent on the loan type. The privately guaranteed loans have fixed and variable interest rates with repayment terms not to exceed 15 years. 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.

**4. CAPITAL ASSETS**

Capital activity during the years ended June 30, 2009 and 2008 was as follows:

	Balance at June 30 <u>2008</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30 <u>2009</u>
<b>Cost:</b>				
Furniture and fixtures .....	\$41,242			\$ 41,242
Equipment .....	151,825	41,081		192,906
Repurchase of operating rights .....	4,100,000			4,100,000
Leasehold improvements .....	29,807			29,807
<b>Total cost</b> .....	<u>4,322,874</u>	<u>41,081</u>		<u>4,363,955</u>
<b>Accumulated depreciation and amortization:</b>				
Furniture and fixtures .....	17,729	26,788		44,517
Equipment .....	51,366	38,832		90,198
Repurchase of operating rights .....	615,000	820,000		1,435,000
Leasehold improvements .....	27,651	2,250		29,901
<b>Total accumulated depreciation</b> .....	<u>711,746</u>	<u>887,870</u>		<u>1,599,616</u>
<b>Net capital assets</b> .....	<u>\$3,611,128</u>	<u>\$(846,789)</u>		<u>\$2,764,339</u>

	Balance at June 30 <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30 <u>2008</u>
<b>Cost:</b>				
Furniture and fixtures .....	\$12,401	\$28,841		\$41,242
Equipment .....	0	151,825		151,825
Repurchase of operating rights .....	0	4,100,000		4,100,000
Lease hold improvement .....	18,300	11,507		29,807
<b>Total cost</b> .....	<u>30,701</u>	<u>4,292,173</u>		<u>4,322,874</u>
<b>Accumulated depreciation and amortization:</b>				
Furniture and fixtures .....	12,401	5,326		17,729
Equipment .....	0	51,366		51,366
Repurchase of operating rights .....	0	615,000		615,000
Leasehold improvements .....	10,675	16,976		27,651
<b>Total accumulated depreciation</b> .....	<u>23,076</u>	<u>688,670</u>		<u>711,746</u>
<b>Net capital assets</b> .....	<u>\$7,625</u>	<u>\$3,603,503</u>		<u>\$3,611,128</u>

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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**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, 2009 and 2008 relate to costs incurred in connection with all of the Authority's bond issues.

**6. OPERATING LEASES**

The Authority leased its operating facility from a landlord which is a related party (Note 13) under an operating lease. The related party lease requires monthly rental payments, in addition to a share of common area maintenance and utility costs. The lease agreement expired on December 31, 2007 and has been continued on a month by month basis. Lease expense for the year ended June 30, 2009 and 2008 was \$146,687 and \$112,249, respectively.

**7. BONDS PAYABLE**

On June 23, 1994, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$9,250,000 (Senior Series A), \$9,250,000 (Senior Series B), \$4,000,000 (Senior Series C), and \$2,500,000 (Subordinate Series 2). The Senior Series A bonds are auction rate securities bearing interest at a rate reset every thirty five days. They mature in 2014. The Senior Series B bonds are also auction rate securities bearing interest at a rate reset every thirty five days and they mature in 2014. The existing auction rates at June 30, 2009 and 2008 were .683% and 2.87%% for the Senior Series A bonds respectively and .630% and 2.713% for the Senior Series B bonds respectively. The Senior Series C bonds have matured and there were no amounts outstanding as June 30, 2009 and 2008. The Subordinate Series 2 bonds pay 6.8% and mature in 2014. Proceeds of the issuance were net of an underwriter's discount of \$208,013 relating to all four series. The underwriter's discount is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans.

On January 11, 1995, the Authority issued tax exempt variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000. The bonds were issued as variable rate bonds with interest established initially on a weekly mode. The existing interest rate at June 30, 2008 and 2007 was 4.30813% and 3.80% respectively. An underwriter's discount of \$141,000 was paid out of operating cash and is included in deferred financing costs (Note 5). The proceeds of the bond issue were used to originate and purchase eligible student loans. These bonds were exchanged with the 2008 Series C-1 Bonds on November 25, 2008.

On September 14, 1995, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$31,000,000 (Senior Series A), \$4,440,000 (Senior Series B), and \$6,160,000 (Subordinate Series 3). The Senior Series A bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .595% and 2.905% respectively. They mature in 2015. The Senior Series B bonds were retired in 2006. The Subordinate Series 3 bonds pay interest at 6.45% and mature in 2015. An underwriter's discount of \$289,816 relating to the three bond series was taken from the bond proceeds and is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans.

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(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**7. BONDS PAYABLE (Continued)**

On April 8, 1996, the Authority issued tax exempt variable rate Student Loan Program Revenue Bonds with a face value of \$20,000,000 (Series 1), \$20,000,000 (Series II), and \$25,000,000 (Series III). Interest on the Series I bonds was established annually until June 1, 2004 when it was changed to weekly. Interest on the Series II and III bonds is established weekly. The existing interest rates at June 30, 2008 and 2007 were 4.30813% and 3.80% for the Series I bonds, the Series II and Series III bonds. Proceeds of the issuance were net of an underwriter's discount of \$283,200 relating to all three series. The underwriter's discount is included in deferred finance costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. These bonds were exchanged with the 2008 Series B-1, Series B-2 and Series B-3 bonds on August 14, 2008.

On March 13, 1997, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$45,000,000 (Series 1) and \$5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$25,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .630% and 2.835% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.5% to 5.75% and mature between 2000 and 2012. Proceeds of the issuance were net of an underwriter's discount of \$419,450 relating to all three series. The underwriter's discount is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. The \$25,000,000 Series 3 bonds were retired in 2004.

On April 15, 1998, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$55,000,000 (Series 1) and \$5,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$20,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .630% and 2.975% for Series 1 bonds. The Series 2 bonds pay interest ranging from 4.35% to 5.35% and mature between 2001 and 2013. Proceeds of the issuance were net of an underwriter's discount of \$379,850 relating to all three series. The underwriter's discount is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. The \$20,000,000 Series 3 bonds were retired in 2004.

On March 1, 1999, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$64,000,000 (Series 1) and \$6,000,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 3). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .595% and 2.905% for Series 1 bonds respectively. The Series 2 bonds pay interest ranging from 3.75% to 4.95% and mature between 2002 and 2014. Proceeds of the issuance were net of an underwriter's discount of \$462,440 relating to all three series. The underwriter's discount is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans. The \$30,000,000 Series 3 bonds were retired in 2004.

On March 15, 2000, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$32,000,000 (Series 1), \$32,000,000 (Series 2) and \$6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 4). The Series 1 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .823% and 3.063% for Series 1 bond and .858% and 2.88% for the Series 2 bond, respectively. The Series 3 bonds pay interest ranging from 5.0% to 5.9% and mature between 2003 and 2015. Proceeds of the issuance were net of an underwriter's discount of \$427,820 related to all four series. The underwriter's discount is included in deferred financing costs (Note 5). The proceeds of the issuance are used to originate and purchase eligible student loans.

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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**7. BONDS PAYABLE (Continued)**

On January 15, 2001, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$37,000,000 (Series 1), \$37,000,000 (Series 2) and \$6,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 4). The Series 1 and Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .840% and 3.115% for Series 1, .8230% and 2.958% for Series 2 bonds respectively. The Series 3 bonds pay interest ranging from 4.0% to 5.2% and mature between 2004 and 2016. Proceeds of the issuance were net of an underwriter's discount of \$493,669 relating to all four securities. The underwriter's discount is included in deferred financing costs (Note 5). The proceeds of this issuance are used to originate and purchase eligible student loans. The \$30,000,000 Series 4 bonds were retired in 2004.

On February 15, 2002, the Authority issued tax exempt auction rate and fixed rate Student Loan Program Revenue Bonds with a face value of \$30,900,000 (Series 1), \$45,100,000 (Series 2), \$4,000,000 (Series 3). The Authority also issued taxable variable rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 4). The Series 2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. In May 2007, the Series 1 bonds were converted from auction rate to fixed rate bonds paying interest at 4.85%. The existing auction rate at June 30, 2009 and 2008 was .875% and 2.818% for the Series 2 bonds. The Series 3 bond pays interest ranging from 3.3% to 4.55% and mature between 2005 and 2011. Proceeds of the issuance were net of an underwriter's discount of \$741,636 relating to all four securities. This underwriter's discount 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.

On February 19, 2003 the Authority issued tax exempt auction rate Student Loan Program Revenue Bonds with a face value of \$36,150,000 (Series 1), \$73,850,000 (Series 2). The Authority also issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 3). The Series 2 and Series 3 bonds are auction rate securities bearing interest at a rate reset every thirty five days for the Series 2 and every twenty eight days for the Series 3. In May 2007, \$16,150,000 of the Series 1 bonds were converted from auction rate to fixed rate bonds paying interest at 4.85%. The existing auction rate at June 30, 2009 and 2008 was .840% and 3.115% for Series 1 and Series 2 and .690% and 2.382% for Series 3 bonds respectively. Proceeds of the issuance were net of an underwriter's discount of \$605,610 relating to all three securities. This underwriter's discount is included in deferred financing costs (Note 5). Proceeds of this issuance were used to refund \$8,900,000 of the August 21, 1992 Senior Series A bonds outstanding, \$1,100,000 of the August 21, 1992 Subordinate Series 1 bonds outstanding, \$10,000,000 of the September 28, 1993 Senior Series bonds outstanding, \$2,400,000 of the September 28, 1993 Subordinate Series 1 bonds outstanding and to originate and purchase eligible student loans. \$20,000,000 of the \$30,000,000 Series 3 bonds were retired in 2004.

On April 29, 2003 the Authority issued taxable auction rate Student Loan Program Revenue Bonds with a face value of \$15,000,000 (Series 4), \$15,000,000 (Series 5). The Series 4 and Series 5 bonds are auction rate securities bearing interest at a rate reset every twenty eight days. The existing auction rate at June 30, 2009 and 2008 was .795% and 2.722% for Series 4 and .795% and 5.25% for Series 5 bonds respectively. Proceeds of the issuance were net of an underwriter's discount of \$117,000 relating to both securities. This underwriter's discount is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

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(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**7. BONDS PAYABLE (Continued)**

On January 21, 2004, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a face value of \$38,000,000 (Series A1); \$38,000,000 (Series A2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a face value of \$24,000,000 (Series A3). The Series A1 and Series A2 bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .770% and 3.115% for Series A1 and .770% and 3.115% for Series A2, respectively. The Series A3 bond pays interest ranging from 1.50% to 4.25% and mature between 2005 and 2018. Proceeds of the issuance were net of an underwriter's discount of \$408,344 relating to all securities. This underwriter's discount is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

On July 27, 2006, the Authority issued Tax Exempt Auction Rate Student Loan Program Revenue Bonds with a face value of \$30,000,000 (Series 1); \$30,000,000 (Series 2). The Authority also issued Fixed Rate Student Loan Program Revenue Bonds with a face value of \$40,000,000 (Series 3). The Series 1 and Series 2 Bonds are auction rate securities bearing interest at a rate reset every thirty five days. The existing auction rate at June 30, 2009 and 2008 was .858% and 2.80% for Series 1 and for Series 2. The Series 3 bond pays interest ranging from 4.6% to 4.9% and mature between 2007 and 2026. Proceeds of the issuance were net of an underwriter's discount of \$566,250 relating to all securities. The underwriter's discount is included in deferred financing costs (Note 5). Proceeds of this issuance are used to originate and purchase eligible student loans.

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

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

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

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**7. BONDS PAYABLE (Continued)**

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

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

Pursuant to the terms of the various Trust Indentures, the Authority placed the proceeds of the bonds into various restricted funds. The loan fund was established to account for all recoveries of principal and any amounts which are required to be deposited therein pursuant to the Trust Indentures and to fund the origination and purchase of eligible student loans as described in the Trust Indenture. The revenue fund was established for the recoveries of interest investment earnings from all accounts and for interest payments. The reserve fund was established for the payment of interest in the event that the Authority does not have sufficient funds from other sources. The required reserve for the June 1994, September 1995, March 1997, April 1998, March 1999, Series 1, 2 and 3 of the March 2000, January 2001, February 2002, February 2003, April 2003 and February 2004 Bond issues is 2% of principal bonds outstanding. The required reserve for the January 2004 and July 2006 Bond issues is 1% of principal bonds outstanding. The required reserve for the May 2008 bond issue is 4% of the principal bonds outstanding. The Authority has purchased a surety bond to fulfill the debt reserve fund obligation for the March 2000, January 2001, February 2002, and the February and April 2003 Bond issues.

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

The bonds are subject to redemption, at the option of the Authority, in whole at any time or in part on any interest payment date.

The Authority has been in compliance with the respective debt covenants as outlined in the Trust Indentures for fiscal years 2009 and 2008.

The Authority maintains Letters of Credit in the original stated amount of \$104,888,356 on its November 2008 Series B Weekly Adjustable Interest Rate Bonds and the original stated amount of \$104,888,356 on its August 2008 Series C-1, C-2 and C-3 variable 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 Letters of Credit will expire on the earliest to occur: (a) June 30, 2012, for the August 2008 and November 2008 issue, (b) The 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.

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**7. BONDS PAYABLE (Continued)**

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

<u>Bond Issue</u>	<u>2009</u>	<u>2008</u>
June 1994		
Series A.....	\$9,250,000	\$9,250,000
Series B.....	9,250,000	9,250,000
Subordinated Series II.....	2,500,000	2,500,000
January 1995		
Series I.....	0	30,000,000
September 1995		
Series A.....	24,400,000	24,400,000
Subordinate Series III.....	4,245,000	4,245,000
April 1996		
Series I.....	0	20,000,000
Series II.....	0	20,000,000
Series III.....	0	25,000,000
March 1997		
Series I.....	45,000,000	45,000,000
Series II.....	265,000	725,000
April 1998		
Series I.....	55,000,000	55,000,000
Series II.....	2,285,000	2,685,000
March 1999		
Series I.....	64,000,000	64,000,000
Series II.....	3,205,000	3,660,000
March 2000		
Series I.....	32,000,000	32,000,000
Series II.....	32,000,000	32,000,000
Series III.....	3,720,000	4,155,000
January 2001		
Series I.....	37,000,000	37,000,000
Series II.....	37,000,000	37,000,000
Series III.....	4,100,000	4,520,000
February 2002		
Series 1.....	30,900,000	30,900,000
Series 2.....	45,100,000	45,100,000
Series 3.....	2,000,000	2,000,000
February 2003		
Series 1.....	36,150,000	36,150,000
Series 2.....	73,850,000	73,850,000
Series 3.....	10,000,000	10,000,000

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**7. BONDS PAYABLE (Continued)**

<u>Bond Issue</u>	<u>2009</u>	<u>2008</u>
April 2003		
Series 4 .....	15,000,000	15,000,000
Series 5 .....	15,000,000	15,000,000
January 2004		
Series A-1 .....	38,000,000	38,000,000
Series A-2 .....	38,000,000	38,000,000
Series A-3 .....	15,600,000	17,775,000
July 2006		
Series 1 .....	30,000,000	30,000,000
Series 2 .....	30,000,000	30,000,000
Series 3 .....	37,510,000	38,785,000
May 2008		
Senior Series A .....	60,000,000	60,000,000
Subordinated Series I .....	4,000,000	4,000,000
August 2008		
Series B-1 .....	20,000,000	0
Series B-2 .....	20,000,000	0
Series B-3 .....	25,000,000	0
Series B-4 .....	20,000,000	0
Series B-5 .....	15,000,000	0
November 2008		
Series C-1 .....	30,000,000	0
Series C-2 .....	55,000,000	0
Series C-3 .....	15,000,000	0
Subtotal .....	1,046,330,000	946,950,000
Less: discount .....	173,301	196,997
Less: current portion .....	7,045,000	5,620,000
Total .....	<u>\$1,039,111,699</u>	<u>\$941,113,003</u>

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**7. BONDS PAYABLE (Continued)**

The following schedule reflects the changes in bonds payable:

Balance at June 30, 2007 .....	\$ 889,590,000
Additions .....	64,000,000
Retirements .....	<u>(6,640,000)</u>
Balance at June 30, 2008 .....	946,950,000
Additions .....	200,000,000
Retirements .....	<u>(100,620,000)</u>
Balance at June 30, 2009 .....	<u>\$1,046,330,000</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010.....	\$7,045,000	\$17,348,978	\$24,393,978
2011.....	5,310,000	17,104,683	22,414,683
2012.....	6,450,000	16,864,640	23,314,640
2013.....	25,040,000	16,435,721	41,475,721
2014.....	6,945,000	16,033,478	22,978,478
2015.....	26,530,000	15,561,458	42,091,458
2016.....	33,085,000	15,089,739	48,174,739
2017.....	3,720,000	14,452,315	18,172,315
2018.....	2,215,000	13,798,718	16,013,718
2019.....	19,130,000	13,216,083	32,346,083
2020.....	32,165,000	12,684,619	44,849,619
2021.....	2,275,000	12,453,133	14,728,133
2022.....	2,390,000	12,260,930	14,650,930
2023.....	2,590,000	11,372,084	13,962,084
2024.....	22,575,000	10,704,186	33,279,186
2025.....	2,780,000	10,494,508	13,274,508
2026.....	67,920,000	10,310,879	78,230,879
2027.....	3,070,000	9,203,557	12,273,557
2028.....	22,095,000	8,440,645	30,535,645
2029.....	4,000,000	8,024,584	12,024,584
2030.....	0	8,006,209	8,006,209
2031.....	164,000,000	7,234,603	171,234,603
2032.....	0	6,698,825	6,698,825
2033.....	0	6,682,776	6,682,776
2034.....	0	6,682,776	6,682,776
2035.....	64,000,000	6,371,814	70,371,814
2036.....	104,000,000	5,657,080	109,657,080
2037.....	76,000,000	4,201,765	80,201,765
2038.....	100,000,000	2,546,479	102,546,479
2039.....	76,000,000	1,586,863	77,586,863
2040.....	0	1,321,710	1,321,710
2041.....	60,000,000	1,022,703	61,022,703
2042.....	0	805,500	805,500
2043.....	0	805,500	805,500
2044.....	0	805,500	805,500
2045.....	0	805,500	805,500
2046.....	0	805,500	805,500
2047.....	0	805,500	805,500
2048.....	35,000,000	805,500	805,500
2049.....	70,000,000	1,795	70,001,795
<b>Total.....</b>	<b><u>\$1,046,330,000</u></b>	<b><u>\$325,508,835</u></b>	<b><u>\$1,371,838,835</u></b>

(CONTINUED)

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**8. NOTE PAYABLE**

Note Payable at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Note payable to National Education Loan Network (Nelnet), yearly payments of \$683,333 plus interest of 8.25% with an option to pay off the balance at any time, note maturing September 27, 2011, .....	\$2,731,332	\$3,414,665
Less: amounts due within one year.....	<u>(683,333)</u>	<u>(683,333)</u>
<b>Long-term debt net of current portion.....</b>	<b><u>\$2,047,999</u></b>	<b><u>\$2,731,332</u></b>

Maturities of long-term debt for the years succeeding June 30, 2009 are as follows:

2010 .....	\$683,333
2011 .....	683,333
2012 .....	638,333
2013 .....	<u>681,333</u>
Total .....	<u>\$2,731,332</u>

Interest incurred on note payable for the years ended June 30, 2009 and 2008 was \$237,046 and \$211,282, respectively.

**9. ACCRUED ARBITRAGE REBATE**

Accrued arbitrage rebate at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Current portion .....	\$ 520,500	\$ 90,000
Noncurrent portion .....	12,712,885	20,953,099
<b>Total accrued arbitrage rebate .....</b>	<b><u>\$13,233,385</u></b>	<b><u>\$21,043,099</u></b>

The following schedule reflects the changes in accrued arbitrage rebate:

Balance at June 30, 2007 .....	\$26,651,674
Increase .....	925,412
Decrease .....	<u>(6,533,987)</u>
Balance at June 30, 2008 .....	21,043,099
Increase .....	312,903
Decrease .....	<u>(8,122,617)</u>
Balance at June 30, 2009 .....	<u>\$13,233,385</u>

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**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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**10. LOAN PARTICIPATION PROGRAM**

In fiscal year 2009, the Authority elected to participate in the U.S. Department of Education's (DOE) Loan Participation and Loan Purchase Commitment Programs. Under the Loan Participation Program, the DOE purchased a participating interest in the Authority's Stafford loans. The Authority may redeem or sell the participating interest on or before September 30, 2009. Once loans are placed into the Loan Participation Program, the Authority must pay a monthly interest charge. The interest is computed by multiplying the average daily principal balance of the loans in the program by the quarterly commercial paper (CP) rate as published by the DOE plus fifty basis points. At June 30, 2009, the interest rate charged to the Authority was 1.24% which consisted of a CP rate of .74% plus 50 basis points. If the Authority sells the participating interest under the Loan Purchase Commitment Program, the price is equal to the sum of the outstanding principal balance of the loans plus the total accrued interest owed on the loans, plus a reimbursement of 1% lender fee and \$75 per loan. As of June 30, 2009, the Authority sold to the DOE loans with a principal balance of \$92,420,039 and accrued interest balance of \$1,414,120. As of June 30, 2009, the Authority owed the DOE \$21,444,069 for those loans in the Loan Participation Program. Interest expense incurred for the year ended June 30, 2009 was \$1,161,668.

**11. LOAN SERVICING AGREEMENTS**

In July 2004, the Authority entered into a servicing agreement with Nelnet Loan Services (Nelnet), under which Nelnet collects and accounts for the principal and interest on loans originated and purchased by the Authority and placed with Nelnet for servicing for a monthly fee, which is based on the number of loans in promissory and repayment status. Nelnet is also responsible for servicing the loans in a diligent manner according to regulations established by the DOE. This agreement expires in July 2010.

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

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

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

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

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**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

**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 2009 and 2008 amounted to \$233,737 and \$175,973, respectively. Employee contributions for 2009 and 2008 amounted to \$150,904 and \$118,699, respectively. All plan provisions and amendments require Board approval.

**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.

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, 2009, the loan balance was \$2,188,008 and the Authority owed RIHEAA a net amount of \$2,513.

Federal default fees paid to RIHEAA for fiscal years ended June 30, 2009 and 2008 was \$0 and \$2,038,923, respectively.

Lease expense (including common area maintenance and utility costs) paid to RIHEAA for fiscal years ended June 30, 2009 and 2008 was approximately \$146,687 and \$112,249, respectively.

**14. NELNET TRANSACTION**

The Rhode Island Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) agreed on September 27, 2007 to terminate the 2004 agreement between the parties which sold and assigned certain assets and rights from RISLA to Nelnet. In the original agreement RISLA (i) assigned to Nelnet all rights associated with the Authority's student loan origination business, including the use of the Authority's name and federal identification number, issued by the U.S. Department of Education, to market and originate federal and alternative student loans for a term of 10 years and (ii) sold to Nelnet all fixed assets and the assumption of operating liabilities. Effective September 27, 2007 RISLA hired all the personnel that had previously been employed by Nelnet in the Warwick Rhode Island location. RISLA's June 30, 2008 operating expenses include all salaries and wages, payroll taxes and benefits for the thirty seven new employees for the period September 27, 2007 through June 30, 2008. RISLA also assumed responsibility for all costs associated with the marketing and origination of student loans and all general and administrative costs that prior to the termination date had been paid by Nelnet and reimbursed by RISLA according to the service agreement in place between the two entities.

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**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008**

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**14. NELNET TRANSACTION (Continued)**

The September 2007 termination agreement required RISLA to return to Nelnet \$4.1 Million of \$8 Million that was paid to RISLA in 2004 for the assigned rights and fixed assets. RISLA received a valuation report from a national investment banking firm which confirmed that the amount paid to Nelnet was within the range of values for the remaining term of the original agreement. RISLA also received a confirmation from a second investment banking firm that the methodology used to calculate the repurchase price of the agreement was appropriate and reasonable.

RISLA will amortize the capital asset of \$4.1 Million over a 5 year period ending September 2012. The amortization expense for June 30, 2009 and 2008 was \$820,000 and \$615,000, respectively.

**15. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; errors and omissions; and workers' compensation claims for which the Authority carries commercial insurance. Settled claims resulting from these risks have not exceeded the Authority's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has estimated the reserve for such claims to be \$-0- at June 30, 2009 and 2008.

**16. SUBSEQUENT EVENT**

On July 7, 2009, the Authority issued \$25,570,000 in Tax-Exempt Fixed Rate 2009 Senior Series A Student Loan Program Revenue Bonds. The proceeds from the 2009 Senior Series A will be used to finance student loans.

In September 2009, the Authority plans to refinance approximately \$72 million in Stafford and PLUS loans that are currently funded by the Loan Participation Program created under the Ensuring Continued Access to Student Loans Act (ECASLA). The Authority plans to finance loans with the Straight A Funding asset backed commercial paper conduit authorized under ECASLA. The Straight A Funding Conduit issues commercial paper and the proceeds are used to purchase eligible student loans at a pre-arranged price. Under this program, the Department of Education provides liquidity to the facility by entering into forward purchase commitments with eligible lenders. This program is set to expire in January 2014.

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