

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

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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

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## **INDEPENDENT AUDITORS' REPORT**

To the Board Members  
**Rhode Island Student Loan Authority**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Rhode Island Student Loan Authority, (a related organization of the State of Rhode Island), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Student Loan Authority as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on Pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of the Rhode Island Student Loan Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rhode Island Student Loan Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Student Loan Authority's internal control over financial reporting and compliance.

*Marcum LLP*

Providence, RI  
September 30, 2020

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2020**

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 (FY) ending June 30, 2020. RISLA's management encourages readers to review the entire financial report and contact the Authority with any questions or comments.

In FY 2020, RISLA continued to offer the RISLA Student Loan program, which is a fixed rate loan product that offers attractive terms, conditions, and benefits as compared to other student loan programs in the market. This loan program gives student borrowers two options. Students could choose a ten-year immediate repayment option at a 3.64% fixed rate with automatic payment or choose a deferred repayment option at a fixed rate of 5.64% for a fifteen-year term with automatic payment. No payments are required on the 15-year loan until six months after the student graduates or leaves school. A parent loan was also offered, which is a ten-year loan with a fixed interest rate of 4.64% with automatic payment. RISLA was able to offer these low fixed rates with no upfront or origination fees for all borrowers and loan types. During FY 2020 RISLA originated approximately \$81 million in RISLA Student and Parent Loans which was a 19% increase as compared to the prior year.

Beginning in Fiscal Year 2015, RISLA was the first state-based organization to offer a refinancing program for borrowers with private or Federal student loans. The refinancing program provides borrowers the opportunity to ease their financial burden with the security of low, fixed rates and favorable repayment terms. For FY 2020, RISLA refinanced approximately \$57 million of student loans for 1,171 borrowers, which was an increase of 10% as compared to the prior year. The refinancing program helped borrowers save on average over \$8,600 in interest costs over the term of the loan. RISLA has secured \$101.1 million to fund its in-school and refinancing programs in FY 2021.

RISLA has offered college access initiatives through its College Planning Center of Rhode Island (CPC) since 1998. There are currently two locations, Warwick and Lincoln, and they provide free expert and personal assistance to students and parents in the areas of college admission and financial aid. In FY 2020, the staff at the CPC provided assistance to over 16,700 individuals and hosted 99 financial aid seminars. In addition, the CPC initiated a Free Application for Financial Aid (FAFSA) spring campaign consisting of TV and Radio Ads, Print Ads in local newspapers and social media posts promoting assistance via phone appointments due to the pandemic to help increase the number of high school students in the state that completed the FAFSA application. The CPC also provides a searchable data base of 484 hard to find, local scholarships. RISLA and the CPC work closely with the Spanish and Latino speaking population in Rhode Island with a goal of increasing college attendance and success among the Latino residents of the state.

RISLA administers a student loan forgiveness program that is funded by the Rhode Island Foundation. Under this program, RISLA manages all aspects of student loan forgiveness according to policy guidelines established by the Foundation. The program offers student loan forgiveness to qualified applicants for four professions, Primary Care Physicians, Nurse Practitioners, Physicians Assistants, and Oral Health Professionals. Funding for the primary care and oral health loan forgiveness programs have been exhausted so the Authority is not accepting

new applications. The programs require the applicant to be employed in the State of Rhode Island to be eligible. Qualified applicants receive annual awards that are sent directly to the holder of their student loan. The Authority is administrator for these programs on behalf of the Rhode Island Foundation who has provided approximately \$2.5 million in funds for the programs which has assisted 64 medical professionals.

RISLA offers a zero-interest rate loan for the first four years of repayment through the Nursing Program. Eligible applicants must have a RISLA Student Loan or RISLA Parent Loan issued between July 1, 2011 through June 30, 2020, and work in a licensed Rhode Island facility providing direct patient care. Fifty-seven nurses are currently enrolled in the Rewards programs. An eligible nursing student with \$15,000 loan balance can potentially save over \$2,000 in interest payments with RISLA's rewards programs.

Along with loan reward programs for nurses, RISLA offers a loan forgiveness program for students who participate in internships. The program is designed to reduce student indebtedness while helping them improve their marketability to employers after college. Under the program, students can earn loan forgiveness up to \$2,000 by completing an eligible internship. The program is open to all Rhode Island students or those attending an institution of higher education in the state.

RISLA issued \$141,395,000 in new bonds in FY 2020, \$40,820,000 was used for the refinancing program in FY 2020 and \$100,575,000 will be used to fund RISLA's education loan and refinancing programs in FY 2021.

RISLA holds and administers a portfolio of federally guaranteed Stafford, PLUS and Consolidation loans issued under the Federal Family Education Loan program (FFELP) which had a principal balance of \$129,545,632 at June 30, 2020.

### **Financial Highlights**

RISLA continues to offer the RISLA Student Loan which is an industry leading fixed rate student loan that has been available for 28 years. RISLA originated approximately \$81 million in RISLA student loans in FY 2020 and was able to secure financing to originate another \$59.5 million for the FY 2021. In addition, RISLA originated approximately \$56.8 million in refinanced loans and was able to secure an additional \$41.6 million to continue offering refinance loans in FY 2021. The increase in RISLA student and refinanced loans originated helped to increase the loan receivable balance for RISLA in-school and refinanced loans by approximately 8.1% and the total loan receivable balance by approximately 1.4%

Bonds payable increased from \$501,523,000 on June 30, 2019 to \$554,453,000 on June 30, 2020. This represents an increase of \$52,930,000 or 10.5%. In FY 2020, RISLA had two bond issues, one in July 2019 and another in May 2020 which resulted in a total of \$141,395,000 issued in new fixed rate bonds. RISLA redeemed \$88,465,000 in bonds through permitted bond calls and other scheduled bond payments.

Student loan revenues decreased from \$36,435,438 on June 30, 2019 to \$35,934,092 on June 30, 2020. This represents a decrease in income of \$501,346 or 1.4%. This decrease was the result of the reduction in interest income generated from a declining Federal loan portfolio and the reduction in deferred loan origination fees.

During the latter part of the third quarter of FY 2020, in accordance with Executive Orders issued by the Governor of Rhode Island, the Authority directed all employees to work remotely due to the COVID-19 pandemic. This transition was made with no disruption in service to RISLA's borrowers including the timely delivery of all student loan disbursements. In addition, the COVID-19 pandemic has not caused any material financial impact to the June 30, 2020 Financial Statements. A more detailed description of COVID-19 and how it impacts RISLA's operations can be found in the Notes to the Financial Statements.

### **Overview of the Financial Statement**

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

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

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

The Statements of Net Position reports 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**

**Total Assets** - Student loan receivables are the largest component of assets and increased from \$547,091,886 on June 30, 2018 to \$550,229,979 on June 30, 2019, which represents an increase of .6%. Student loan receivables amounted to \$557,850,506 on June 30, 2020, an increase of 1.4% as compared to June 30, 2019. 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, 2018 equaled \$117,859,724. Restricted cash and investments equaled \$139,040,617 and \$202,673,966 on June 30, 2019 and 2020 respectively. A large portion of the increase in restricted cash and investments in FY 2020 is due to the bond issuance completed in May of 2020 to fund RISLA student and refinanced loans for the academic year 2020/21. Restricted cash and investment balances are primarily used to acquire student loans, retire bonds and other bank debt, and pay semiannual interest payments.

**Total Liabilities** - Total liabilities at June 30, 2020 increased by \$68,677,823 as compared to June 30, 2019, which represents an increase of 13.0%. Overall, bond debt comprises approximately 95% of the total liabilities. On June 30, 2018 bond debt outstanding, net of

unamortized bond premium and discount, amounted to \$484,565,487. June 30, 2019 bond debt outstanding amounted to \$511,547,928. On June 30, 2020 bond debt outstanding amounted to \$566,694,363.

**Net Position** - For fiscal year ended June 30, 2020, the Authority's total assets exceeded the total liabilities by \$190,088,184 for an increase of 2.5% as compared to June 30, 2019. At June 30, 2019 the total assets exceeded the total liabilities by \$185,384,951 which was an increase of 4.2% as compared to June 30, 2018. A condensed summary of the Authority's net assets at June 30 is shown below.

### **Summary of Net Position**

	2020	2019	Percentage Change	2018	Percentage Change
<b>Current and non-current assets</b>	\$ 786,582,214	\$ 713,995,277	10.17%	\$ 693,017,115	3.03%
Capital assets	108,914	160,842	-32.29%	227,386	-29.26%
<b>Total Assets</b>	<u>786,691,128</u>	<u>714,156,119</u>	10.16%	<u>693,244,501</u>	3.02%
<b>Current liabilities</b>	32,066,080	30,623,951	4.71%	24,352,497	25.75%
Noncurrent liabilities	563,607,445	496,371,751	13.55%	488,013,372	1.71%
<b>Total liabilities</b>	<u>595,673,525</u>	<u>526,995,702</u>	13.03%	<u>512,365,869</u>	2.86%
<b>Deferred Inflows of Resources</b>	<u>929,419</u>	<u>1,775,466</u>	-47.65%	<u>2,875,059</u>	-38.25%
<b>Net Position</b>					
Investment in capital assets	108,914	160,842	-32.29%	227,386	-29.26%
Restricted for debt service	136,837,813	126,501,764	8.17%	112,580,954	12.37%
Unrestricted	<u>53,141,457</u>	<u>58,722,345</u>	-9.50%	<u>65,195,233</u>	-9.93%
<b>Total Net Position</b>	<u>\$ 190,088,184</u>	<u>\$ 185,384,951</u>	2.54%	<u>\$ 178,003,573</u>	4.15%

### **Financial Analysis**

**Total Operating Revenues** - The Authority's operating revenues for the year ended June 30, 2020 was \$34,820,017 which was a decrease of 5.0% as compared to fiscal year ended June 30, 2019. The operating revenues at June 30, 2019 was \$36,666,935 which was an increase of 7.5% as compared to the fiscal year ended June 30, 2018. Operating revenues are predominantly derived from student loan interest income from FFELP (net of DOE Special Allowance payments), RISLA in-school, and refinanced loans. These revenues decreased by 2.9% for the year ended June 30, 2020.

**Total Operating Expenses** - The Authority's operating expenses for the year ended June 30, 2020 was \$28,616,784 which was a decrease of 2.3% as compared to fiscal year ended June 30, 2019. The operating expenses at June 30, 2019 was \$29,285,557 which was an increase of 7.0% as compared to the fiscal year ended June 30, 2018. Interest expense comprises over 55% of the total operating expenses and for the fiscal year ended June 30, 2020 decreased by \$1,211,389 or 7.1% as compared to June 30, 2019. The majority of this decrease is the result of the decrease in LIBOR rates which are used as the index for the FFELP Floating Rate Note interest payments.

**Changes in Net Position** - The Authority's changes in net position for the fiscal years ended June 30, 2020 and 2019 was \$4,703,233 and \$7,381,378 respectively, which was a decrease of 36.3%. This decrease was largely the result of a nonoperating expense of \$1,500,000 paid to the State of Rhode Island in June 2020. The Operating Income was \$6,203,233 for the fiscal year ended June 30, 2020 as compared to \$7,381,378 in the prior year and \$6,739,515 in FY 2018.

### **Summary of Revenues, Expenses, and Changes in Net Position**

	2020	2019	Percentage Change	2018	Percentage Change
<b>Loan Interest Income</b>	\$ 35,934,092	\$ 36,435,438	-1.38%	\$ 37,034,746	-1.62%
DOE special allowance payments	(3,763,015)	(3,321,257)	13.30%	(5,647,059)	-41.19%
Other income	<u>2,648,940</u>	<u>3,552,754</u>	-25.44%	<u>2,714,819</u>	30.87%
<b>Total Income</b>	<u>34,820,017</u>	<u>36,666,935</u>	-5.04%	<u>34,102,506</u>	7.52%
Interest expense	15,816,686	17,028,075	-7.11%	15,515,690	9.75%
Arbitrage rebate	198,395	(2,456,673)	108.08%	503,150	-588.26%
Student loan forgiveness	--	2,283,367	100.00%	--	0.00%
External loan servicing	2,113,108	2,210,432	-4.40%	1,962,890	12.61%
DOE loan fees	518,517	511,577	1.36%	635,697	-19.53%
Provision for loan losses	2,513,272	2,928,708	-14.18%	2,405,246	21.76%
Other operating expenses	<u>7,456,806</u>	<u>6,780,071</u>	9.98%	<u>6,340,318</u>	6.94%
<b>Total Expenses</b>	<u>28,616,784</u>	<u>29,285,557</u>	-2.28%	<u>27,362,991</u>	7.03%
<b>Operating Income</b>	6,203,233	7,381,378		6,739,515	
<b>Nonoperating Expense</b>	<u>1,500,000</u>	<u>-</u>		<u>-</u>	
<b>Change in Net Position</b>	4,703,233	7,381,378		6,739,515	
<b>Net Position - Beginning of Year</b>	<u>185,384,951</u>	<u>178,003,573</u>		<u>171,264,058</u>	
<b>Total Net Position - End of Year</b>	<u>\$ 190,088,184</u>	<u>\$ 185,384,951</u>	2.54%	<u>\$ 178,003,573</u>	4.15%

### **Debt Administration**

RISLA funds student loan notes receivable by issuing tax-exempt and taxable term financing. Tax-exempt bonds must receive an allocation of the State of Rhode Island private activity bond volume ceiling or "cap". The bonds issued by RISLA must comply with state and federal statutes and with rules and regulations of the U.S. Treasury Department and the U.S. Securities and Exchange Commission. Detailed information on RISLA's debt is presented in note 6 of the financial statements.

### **Request for Information**

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, 935 Jefferson Blvd., Warwick, Rhode Island, 02886.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## STATEMENTS OF NET POSITION

JUNE 30, 2020 AND 2019

	2020	2019
<b>Current Assets</b>		
Cash, cash equivalents and investments:		
Unrestricted:		
Cash	\$ 265,612	\$ 69,471
Cash equivalents	253,015	489,008
Restricted:		
Cash	3,781,300	1,911,676
Cash equivalents	197,826,490	130,707,450
Investments	1,066,176	6,421,491
Student loans receivable - current portion, net of allowance	53,328,079	55,144,274
Accrued interest receivable:		
Student loans	25,180,945	23,487,697
Investments	30,113	246,156
Other receivables	26,253	77,929
Prepaid expenses	301,804	354,420
<b>Total Current Assets</b>	<u>282,059,787</u>	<u>218,909,572</u>
<b>Noncurrent Assets</b>		
Student loans receivable - net of current portion and allowance	<u>504,522,427</u>	<u>495,085,705</u>
<b>Capital Assets</b>		
Capital assets, less accumulated depreciation of \$1,012,787 and \$920,898, respectively	<u>108,914</u>	<u>160,842</u>
<b>Total Assets</b>	<u>786,691,128</u>	<u>714,156,119</u>

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2020 AND 2019

	2020	2019
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bonds payable, current portion	23,045,000	25,125,000
Note payable, current	5,173,077	2,134,615
Due to U.S. Department of Education	1,185,196	720,220
Accrued interest payable	1,601,405	1,824,085
Accounts payable and accrued expenses	970,536	684,027
Grants payable	90,866	136,004
<b>Total Current Liabilities</b>	<u>32,066,080</u>	<u>30,623,951</u>
<b>Noncurrent Liabilities</b>		
Bonds payable, net of current portion and bond premium (discount) of \$12,241,363 and \$10,024,928, respectively	543,649,363	486,422,928
Note payable, noncurrent	19,412,933	9,469,797
Accrued arbitrage rebate	545,149	479,026
<b>Total Noncurrent Liabilities</b>	<u>563,607,445</u>	<u>496,371,751</u>
<b>Total Liabilities</b>	<u>595,673,525</u>	<u>526,995,702</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - loan origination fees	929,419	1,775,466
<b>Total Deferred Inflows of Resources</b>	<u>929,419</u>	<u>1,775,466</u>
<b>Net Position</b>		
Investment in capital assets	108,914	160,842
Restricted for debt service	136,837,813	126,501,764
Unrestricted	53,141,457	58,722,345
<b>Total Net Position</b>	<u>\$ 190,088,184</u>	<u>\$ 185,384,951</u>

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>Operating Revenues</b>		
Interest income:		
Student loans	\$ 35,934,092	\$ 36,435,438
U.S. Department of Education Special Allowance Payments	(3,763,015)	(3,321,257)
Investments, net	1,439,882	1,986,321
Fee income	1,209,058	1,566,433
<b>Total Operating Revenues</b>	<b>34,820,017</b>	<b>36,666,935</b>
<b>Operating Expenses</b>		
Interest	15,816,686	17,028,075
Provision for loan losses	2,513,272	2,928,708
Student loan forgiveness program	--	2,283,367
Provision (credit) for arbitrage rebate	198,395	(2,456,673)
U.S. Department of Education loan fees - consolidation rebate	518,517	511,577
Loan servicing and acquisition costs	2,113,108	2,210,432
Salaries	2,801,519	2,583,669
Administration	976,548	795,103
Employee benefits	793,606	749,540
College Planning Center expenses	783,636	780,693
Legal and accounting	153,301	202,100
Bond expenses - surveillance and trustee fees	201,865	188,080
Bond issuance costs	1,402,525	1,130,462
Payroll taxes	195,417	197,904
Depreciation	91,889	98,020
Scholarships	50,000	48,000
Contributions	6,500	6,500
<b>Total Operating Expenses</b>	<b>28,616,784</b>	<b>29,285,557</b>
<b>Operating Income</b>	<b>6,203,233</b>	<b>7,381,378</b>
<b>Nonoperating Expenses</b>		
Payment to primary state government	(1,500,000)	--
<b>Changes in Net Position</b>	<b>4,703,233</b>	<b>7,381,378</b>
<b>Net Position - Beginning of the Year</b>	<b>185,384,951</b>	<b>178,003,573</b>
<b>Net Position - End of the Year</b>	<b>\$ 190,088,184</b>	<b>\$ 185,384,951</b>

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Cash received for:		
Student loan interest	\$ 30,148,434	\$ 29,660,260
Student loan principal	136,318,395	112,354,358
Fee income	1,209,058	1,566,433
Interest on investments	1,611,549	1,761,578
Cash paid for:		
Grants	(45,138)	(74,876)
Origination and purchase of student loans	(143,938,922)	(115,492,451)
Interest paid on bonds	(18,177,009)	(18,177,030)
Contractual services	(518,517)	(511,577)
Goods and services	(7,995,135)	(10,803,804)
Employee salaries	(2,978,030)	(2,779,886)
Employee benefits	(793,606)	(749,540)
<b>Net Cash Used in Operating Activities</b>	<b>(5,158,921)</b>	<b>(3,246,535)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from note payable	17,500,000	2,500,000
Payment of note payable	(4,518,402)	(12,152,801)
Payment of bond maturities	(88,465,000)	(75,124,000)
Proceeds from sale of revenue bonds	145,749,078	103,589,017
State appropriation	(1,500,000)	--
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>68,765,676</b>	<b>18,812,216</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	(39,961)	(31,476)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(39,961)</b>	<b>(31,476)</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investment securities	5,382,018	3,276,000
<b>Net Cash Provided By Investing Activities</b>	<b>5,382,018</b>	<b>3,276,000</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>68,948,812</b>	<b>18,810,205</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>133,177,605</b>	<b>114,367,400</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 202,126,417</b>	<b>\$ 133,177,605</b>

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## STATEMENTS OF CASH FLOWS (CONTINUED)

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 6,203,233	\$ 7,381,378
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation of capital assets	91,889	98,020
Amortization - bond premiums and discounts	(2,137,643)	(1,482,580)
Increase in allowance for loan losses	833,490	2,230,079
Unrealized (gain) on investments	(17,644)	(106,709)
Realized (gain) on investments	(9,059)	(12,582)
Changes in assets and liabilities:		
(Increase) in loans receivable	(8,454,017)	(5,368,172)
Decrease (increase) in other receivables	51,676	(27,166)
(Increase) in accrued interest receivable - loans	(1,228,272)	(2,327,162)
Decrease (increase) in accrued interest receivable - investments	216,043	(106,858)
Decrease (increase) in prepaid expenses	52,616	(107,691)
(Decrease) increase in bond accrued interest	(222,680)	333,625
(Decrease) in grants payable	(45,138)	(74,876)
(Decrease) in deferred inflows of resources	(846,047)	(1,099,593)
Increase (decrease) in accounts payable and accrued expenses	352,632	(2,576,248)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (5,158,921)</b>	<b>\$ (3,246,535)</b>
 <b>Cash and Cash Equivalents as reported in the financial statements consist of:</b>		
Unrestricted:		
Cash	\$ 265,612	\$ 69,471
Cash Equivalents	253,015	489,008
Restricted:		
Cash	3,781,300	1,911,676
Cash Equivalents	197,826,490	130,707,450
<b>Total Cash and Cash Equivalents</b>	<b>\$ 202,126,417</b>	<b>\$ 133,177,605</b>

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

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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#### **NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***ORGANIZATION***

The Rhode Island Student Loan Authority (the Authority) is a public instrumentality established in May 1981 by an Act of the Rhode Island General Assembly and therefore the Authority is a related organization of the State of Rhode Island for financial reporting purposes. The Authority was created for the purpose of providing a system of financial assistance for qualified students to enable them to obtain a post-secondary education by attending public or private institutions. In achieving its objectives, the Authority acts as a lender and issues student loans to borrowers, which are funded by the issuance of tax-exempt bonds and other debt. It has the power to issue negotiable notes and bonds to achieve its corporate purpose. The bonds and other debt, which are issued under various resolutions, are special obligations of the Authority and are payable solely from the revenues and investments pledged under each resolution.

##### ***BASIS OF ACCOUNTING***

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

##### ***BASIS OF PRESENTATION***

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

##### ***INCOME TAXES***

The Authority is exempt from Federal and State income taxes.

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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

##### ***DEBT ISSUANCE COSTS***

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

##### ***OPERATING REVENUES AND EXPENSES***

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing student loan operations. The Authority's operating revenue is derived primarily from income on student loans consisting of loan interest, and earnings (losses) on investing activities and fee income. The Authority's operating expenses are related to student loan origination and servicing activities and general administration. All items of revenue and expense are reported as operating revenues and expenses in the statement of revenues, expenses and changes in net position.

##### ***RESTRICTED VERSUS UNRESTRICTED RESOURCES***

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

##### ***PROPERTY AND EQUIPMENT***

Property and equipment is stated at cost. The Authority provides for depreciation using the straight-line method over the estimated useful life of the asset. The Authority estimates the useful life for leasehold improvements to be the same as the term of the lease, three years for computer equipment and five years for furniture and fixtures. Depreciation expense for fiscal years 2020 and 2019 totaled \$91,889 and \$98,020, 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.

The Authority reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. At June 30, 2020, there were no impairment losses recognized for long-lived assets.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

##### *STUDENT LOANS*

The Authority originates and holds non-federal education student loans that are not guaranteed under the Federal Higher Education Act. These loans are funded utilizing credit criteria reviewed by the rating agencies and primarily financed by bonds issued by the Authority and authorized under a resolution approved by the Board. The Authority has an additional loan program for current student loan borrowers to refinance their student loan into a new debt instrument. The Authority is also a holder of federally guaranteed student loans under the Federal Family Education Loan Program (FFELP).

Student loans are carried at their uncollected principal balances and are reduced by an allowance for loan losses of \$55,014,069 and \$54,180,579 at June 30, 2020 and 2019, respectively. The allowance for loan losses is determined by management's evaluation of the student loan portfolios. This evaluation considers such factors as historical loss experience, quality of student loan servicing and collection, and economic conditions. When this evaluation determines that an exposure to loss is probable and reasonably estimated, a provision against current operations net of student loan recoveries is recorded. Actual losses are charged against the allowance for loan losses as they occur.

FFELP student loans and the accrued interest thereon purchased or originated by the Authority are fully guaranteed for loans disbursed prior to September 30, 1993 and are guaranteed at 98% for loans disbursed between October 1, 1993 and June 30, 2006, and are guaranteed at 97% for loans disbursed between July 1, 2006 and June 30, 2010. The Authority's FFELP loans are substantially insured by the United States Department of Education.

##### *INTEREST ON LOANS RECEIVABLE*

Interest on loans receivable is calculated using the simple interest method. Interest is accrued on loans receivable from the date of the last repayment installment to the date of the financial statements. While the Authority continues to accrue interest due on all loans, the provision for loan losses factors in the potential uncollectability of both loan principal and accrued interest.

##### *BOND PREMIUM AND DISCOUNT*

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

#### *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.

#### *INVESTMENTS*

Investments are carried at fair value in accordance with GASB Statement 72, *Fair Value Measurement and Application*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

#### *VACATION AND SICK LEAVE*

The Authority provides all full-time employees with at least two weeks of vacation time per year. Employees can carry over up to a maximum of two times their annual accrual. At time of termination, the employee is entitled to all accrued vacation time. The June 30th accrual is calculated at the current pay scale.

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

#### *GRANTS PAYABLE*

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

#### *ACCRUED ARBITRAGE REBATE LIABILITY*

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

Investment interest income 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. In FY 2019, the Authority reduced the rebate liability through interest rate reduction and loan forgiveness programs, and could potentially exercise this option in the future. There was no loan forgiveness in FY 2020.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

##### *DEFERRED OUTFLOWS/INFLOWS OF RESOURCES*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date. At June 30, 2020, there were no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2020 and 2019, unavailable loan origination fees represent a 4% loan origination fee which was assessed on certain loans at the time the loan enters a repayment status and is collected over the term of the loan. The unavailable loan origination fees included in the statement of net position were \$929,419 at June 30, 2020 and \$1,775,466 at June 30, 2019.

##### *NET POSITION*

Net position is classified in the following three components: investment in capital assets; restricted; and unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Any debt related to unspent bond proceeds or other cash and investments is excluded from the determination. At June 30, 2020 and 2019, the Authority had no debt related to its capital assets. Restricted for debt service consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted consists of all other net position not included in the above categories.

##### *BOND TRUSTS*

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 Trust 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 Trust 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

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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

amount sufficient to pay for its program expenses including: salaries, utilities, office rent, legal, accounting, and other related expenses. Such transfers to the Authority's operating account are limited in amount pursuant to the respective Bond issue trust indenture.

#### *USE OF ESTIMATES*

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

#### *RECLASSIFICATIONS*

Certain 2019 financial statement amounts have been reclassified to conform to the 2020 presentation. There is no change in the reported change in net position.

#### NOTE 2 – CASH, CASH EQUIVALENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table compares the Authority's carrying cash balances to the bank balances. In addition, it discloses the total amount of funds which are insured by the Federal Deposit Insurance Corporation (FDIC).

	June 30,	
	2020	2019
Cash Deposits		
Carrying amount of cash deposits:		
Unrestricted	\$ 265,612	\$ 69,471
Restricted	<u>3,781,300</u>	<u>1,911,676</u>
Total	<u>\$ 4,046,912</u>	<u>\$ 1,981,147</u>
Bank Balances		
Covered by Federal depository insurance	\$ 500,000	\$ 500,000
Collateralized by financial institution	<u>5,093,842</u>	<u>2,661,553</u>
Total	<u>\$ 5,593,842</u>	<u>\$ 3,161,553</u>

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE 2 – CASH, CASH EQUIVALENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### *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.

	June 30,	
	2020	2019
	Fair Value	Fair Value
Cash equivalents and investments unrestricted:		
Money Market Funds and Commercial Paper	\$ 253,015	\$ 489,008
Total Cash Equivalents	<u>253,015</u>	<u>489,008</u>
Total Unrestricted	<u>253,015</u>	<u>489,008</u>
Cash Equivalents and Investments (Restricted):		
Cash Equivalents:		
Money Market Funds and U.S Treasury Bills	<u>197,826,490</u>	<u>130,707,450</u>
Investments:		
U.S. Treasury Notes	<u>1,066,176</u>	<u>6,421,491</u>
Total Investments	<u>1,066,176</u>	<u>6,421,491</u>
Total Restricted	<u>198,892,666</u>	<u>137,128,941</u>
Total Cash Equivalents and Investments	<u>\$ 199,145,681</u>	<u>\$ 137,617,949</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 6).

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 2 – CASH, CASH EQUIVALENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

##### *FAIR VALUE OF FINANCIAL INSTRUMENTS*

In determining fair value, the Authority uses various valuation approaches, as appropriate in the circumstances. GASB 72 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available (Level 1), of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 – Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

There has been no change in the valuation methodology used in 2020.

There were no transfers between any levels during the year ended June 30, 2020.

*U.S. Government Securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

**RHODE ISLAND STUDENT LOAN AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

**NOTE 2 – CASH, CASH EQUIVALENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS  
(CONTINUED)**

*FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)*

Financial assets and liabilities carried at fair value as of June 30, 2020 are classified in the following tables in one of the three categories described above:

Description	Maturity	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Note	February 28, 2021	\$ 963,873	\$ 963,873	\$ --	\$ --
U.S. Treasury Note	September 30, 2020	<u>102,303</u>	<u>102,303</u>	<u>--</u>	<u>--</u>
Total		<u>\$ 1,066,176</u>	<u>\$ 1,066,176</u>	<u>\$ --</u>	<u>\$ --</u>

Financial assets and liabilities carried at fair value as of June 30, 2019 are classified in the following tables in one of the three categories described above:

Description	Maturity	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Note	February 28, 2021	\$ 1,473,178	\$ 1,473,178	\$ --	\$ --
U.S. Treasury Note	November 15, 2019	436,936	436,936	--	--
U.S. Treasury Note	February 15, 2021	293,193	293,193	--	--
U.S. Treasury Note	September 30, 2020	308,013	308,013	--	--
U.S. Treasury Note	April 30, 2020	243,203	243,203	--	--
U.S. Treasury Note	April 30, 2020	382,174	382,174	--	--
U.S. Treasury Note	April 30, 2020	39,706	39,706	--	--
U.S. Treasury Note	July 15, 2019	2,498,575	2,498,575	--	--
U.S. Treasury Note	November 30, 2019	<u>746,513</u>	<u>746,513</u>	<u>--</u>	<u>--</u>
Total		<u>\$ 6,421,491</u>	<u>\$ 6,421,491</u>	<u>\$ --</u>	<u>\$ --</u>

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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#### **NOTE 2 – CASH, CASH EQUIVALENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

##### ***CUSTODIAL CREDIT RISK - INVESTMENTS***

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.

##### ***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.

#### **NOTE 3 – LOANS RECEIVABLE**

Loans receivable represent the unpaid portion of Federal Family Education Loans Program (FFELP) originated or purchased by the Authority. These loans are guaranteed by the United States Department of Education under a guarantee agreement (Note 11), and other guarantors which have guarantee agreements covering all or a substantial portion of each loan with the U.S. Department of Education (DOE). The Authority also originates and holds non-federal education loans and refinanced student loans for qualified students and their families.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 3 – LOANS RECEIVABLE (CONTINUED)

The FFELP loans have both fixed and variable interest rates which are established by the DOE, and repayment terms which are dependent on the loan type. The return on FFELP loans that lenders actually realize is based on formulas administered by the DOE and is dependent on loan type and date of origination. Any payment by borrowers in excess of the formulas must be returned to the DOE for loans originated after April 1, 2006. The DOE subsidizes the interest for certain FFELP loans during the borrowers' in-school, in-grace, and authorized deferment periods. The subsidized interest rate is determined by a formula and based on indexes published by the U.S. Department of Education. The interest subsidy is included with interest income on loans receivable in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The non-federal education loans and refinanced loans have fixed and variable interest rates with repayment terms between 5 years from the date of disbursement to 15 years from the date the student is no longer enrolled in an eligible institution.

Net loans receivable at June 30, 2020 and 2019 are as follows:

	2020	2019
FFELP loans receivable	\$ 129,545,632	\$ 157,167,726
Non-federal education loans receivable	483,318,943	447,242,832
Allowance for loan losses	<u>(55,014,069)</u>	<u>(54,180,579)</u>
Net loans receivable	<u>\$ 557,850,506</u>	<u>\$ 550,229,979</u>

Student loans receivable are presented as assets on the statement of net position as follows at June 30, 2020 and 2019:

	2020	2019
Current	\$ 53,328,079	\$ 55,144,274
Noncurrent	<u>504,522,427</u>	<u>495,085,705</u>
Total	<u>\$ 557,850,506</u>	<u>\$ 550,229,979</u>

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE 4 – CAPITAL ASSETS

Capital assets activity during the years ended June 30, 2020 was as follows:

	Balance at July 1, 2019	Additions	Disposals	Balance at June 30, 2020
Capital assets, being depreciated:				
Furniture and fixtures	\$ 112,451	\$ --	\$ --	\$ 112,451
Equipment	909,395	39,961	--	949,356
Leasehold improvements	59,894	--	--	59,894
	<u>1,081,740</u>	<u>39,961</u>	<u>--</u>	<u>1,121,701</u>
Accumulated Depreciation:				
Furniture and fixtures	99,028	6,232	--	105,260
Equipment	762,976	84,657	--	847,633
Leasehold improvements	58,894	1,000	--	59,894
Total Accumulated Depreciation	<u>920,898</u>	<u>91,889</u>	<u>--</u>	<u>1,012,787</u>
Net Capital Assets	<u>\$ 160,842</u>	<u>\$ (51,928)</u>	<u>\$ --</u>	<u>\$ 108,914</u>

Capital assets activity during the years ended June 30, 2019 was as follows:

	Balance at July 1, 2018	Additions	Disposals	Balance at June 30, 2019
Capital assets, being depreciated:				
Furniture and fixtures	\$ 112,451	\$ --	\$ --	\$ 112,451
Equipment	877,919	31,476	--	909,395
Leasehold improvements	59,894	--	--	59,894
	<u>1,050,264</u>	<u>31,476</u>	<u>--</u>	<u>1,081,740</u>
Accumulated Depreciation:				
Furniture and fixtures	90,574	8,454	--	99,028
Equipment	679,805	83,171	--	762,976
Leasehold improvements	52,499	6,395	--	58,894
Total Accumulated Depreciation	<u>822,878</u>	<u>98,020</u>	<u>--</u>	<u>920,898</u>
Net Capital Assets	<u>\$ 227,386</u>	<u>\$ (66,544)</u>	<u>\$ --</u>	<u>\$ 160,842</u>

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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#### **NOTE 5 – OPERATING LEASES**

The Authority has a lease with 935 Jefferson, LLC (an unrelated third party), that commenced in June 2016 and expires in May 2021. The monthly payments for the first twelve months are \$17,967; \$18,375 per month for year 2; \$18,783 per month for year 3; \$19,192 per month for year 4 and \$19,600 per month for year 5. Lease expense for the year ended June 30, 2020 and 2019 was \$242,473 and \$228,843, respectively. Lease payments for the year ending June 30, 2021 is \$215,600.

#### **NOTE 6 – BONDS PAYABLE**

On July 9, 2009, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of \$25,570,000 (Senior Series A). The Senior Series A bonds pays interest ranging from 4.20% to 6.35% and mature between 2013 and 2030. Proceeds of this issuance were used to originate and purchase eligible student loans. The 2009 Senior Series bond was redeemed in FY 2020.

On March 31, 2010, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of \$16,970,000 (Senior Series A). The Senior Series A bonds pays interest ranging from 2.25% to 5.25% and mature between 2013 and 2027. Proceeds of this issuance were used to originate and purchase eligible student loans.

On December 16, 2010, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of \$25,570,000 (Senior Series B). The Senior Series B bonds pays interest ranging from 2.00% to 5.00% and mature between 2012 and 2025. Proceeds of this issuance were used to originate and purchase eligible student loans. The 2010 Senior Series B bond was redeemed in FY 2020.

On March 21, 2012, the Authority issued Tax Exempt Fixed Rate Student Loan Program Revenue Bonds with a nominal value of \$17,940,000 (Senior Series A). The Senior Series A bonds pays interest ranging from 2.00% to 4.00% and mature between 2013 and 2026. Proceeds of this issuance were used to originate and purchase eligible student loans.

On August 30, 2012, the Authority issued \$111,000,000 in 2012 Series-1 Taxable LIBOR Floating Rate Notes. The 2012 Series-1 Notes bear interest at a rate of one month LIBOR plus .90%. The interest rate resets on the second business day of each month. The notes have a final maturity date on July 1, 2031. On June 30, 2020 and 2019, interest on the 2012 Series-1 Notes was 1.07% and 3.34%, respectively. Proceeds of the notes were used to finance eligible student loans and refund certain obligations of the Authority.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 6 – BONDS PAYABLE (CONTINUED)

On November 19, 2012, the Authority issued \$260,000,000 in 2012-2 Taxable LIBOR Floating Rate Notes. The 2012-2 Notes bear interest at a rate of one month LIBOR plus .65%. The interest rate resets on the second business day of each month. The notes have a final maturity date of September 1, 2036. On June 30, 2020 and 2019, interest on the 2012-2 Notes was 0.822% and 3.09%, respectively. Proceeds of the notes were used to finance eligible student loans and refund certain obligations of the Authority.

On March 8, 2013, the Authority issued \$67,525,000 in 2013 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 2.00% and 5.00% and maturities ranging from December 1, 2013 through December 1, 2027. Proceeds of the bonds were used to originate and purchase eligible student loans. Proceeds were also utilized to retire certain obligations of the Authority.

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

On June 24, 2014, the Authority issued \$93,100,000 in 2014-1 Taxable LIBOR Floating Rate Notes. The 2014-1 Notes bear interest at a rate of one month LIBOR plus .70%. The interest rate resets on the second business day of each month. The notes have a final maturity date of October 2, 2028. On June 30, 2020 and 2019, interest on the 2014-1 Notes were 0.872% and 3.14%, respectively. Proceeds of the notes were used to refund certain obligations of the Authority.

On April 21, 2015, the Authority issued \$41,365,000 in 2015 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 3.50% and 5.00% and maturities ranging from December 1, 2016 through December 1, 2031. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans.

On May 18, 2016, the Authority issued \$55,000,000 in 2016 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 3.00% and 5.00% and maturities ranging from December 1, 2017 through December 1, 2034. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 6 – BONDS PAYABLE (CONTINUED)

On April 6, 2017, the Authority issued \$50,255,000 in 2017 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 3.00% and 5.00% and maturities ranging from December 1, 2019 through December 1, 2035. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans.

On May 15, 2018, the Authority issued \$72,325,000 in 2018 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 3.50% and 5.00% and maturities ranging from December 1, 2020 through December 1, 2034. Proceeds of the bonds were used to redeem \$17,595,000 of the 2008 Senior Series A and 2008 subordinate Series 1 and to finance the origination of new non-federal loans or to refinance existing loans.

On July 17, 2018, the Authority issued \$35,000,000 in 2018 Federally Taxable Senior Series 1 Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 3.16% and 4.28% and maturities ranging from December 1, 2019 through December 1, 2034. The proceeds were used to refinance existing loans.

On April 30, 2019, the Authority issued \$63,215,000 in 2019 Tax Exempt Senior Series A Student Loan Program Revenue Bonds. The bonds are fixed rate with interest rates between 2.88% and 5.00% and maturities ranging from December 1, 2023 through December 1, 2035. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans.

On August 27, 2019, the Authority issued \$40,820,000 in 2019 Federally Taxable Senior Series 1 Student Loan Program Education Bonds. The bonds are fixed rate with interest rates between 2.27% and 3.14% and maturities ranging from December 1, 2020 to December 1, 2037. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans in addition to funding Debt Service Reserve fund.

On May 27, 2020, the Authority issued \$57,300,000 in 2020 Tax Exempt Senior Series A Student Loan Program Education Bonds. The bonds are fixed rate with interest rates between 3.63% and 5.00% and maturities ranging from December 1, 2024 to December 1, 2037. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans in addition to funding Debt Service Reserve fund.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 6 – BONDS PAYABLE (CONTINUED)

On May 27, 2020, the Authority issued \$43,275,000 in 2020 Federally Taxable Senior Series B Student Loan Program Education Bonds. The bonds are fixed rate with interest rates between 2.00% and 4.00% and maturities ranging from December 1, 2021 to December 1, 2038. Proceeds of the bonds were used to finance the origination of new non-federal loans or to refinance existing loans in addition to funding Debt Service Reserve fund.

In 2020 and 2019, prior to the stated maturity date, the Authority redeemed bonds from various Student Loan Program Revenue Bonds. The Bonds were retired at par of the Bond's stated par value of 100% in 2020 and 2019, respectively. Outstanding bonds payable of \$35,010,000 and \$25,990,000 were redeemed which resulted in no gain in 2020 and 2019, respectively.

Interest on all tax-exempt and taxable fixed rate bonds issued by the Authority is payable semi-annually. 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 United States Department of Education, and proceeds of any sale or assignment by the Authority of any loans.

On July 27, 2017, Chief Executive Officer of the United Kingdom's Financial Conduct Authority announced that it would phase out by the end of 2021 the London Interbank Offered Rate (LIBOR). LIBOR is a set of benchmark or reference rates for unsecured money-center bank borrowings in the London inter-bank market. Rates for all terms and currencies are published daily and are broadly used as an index for financial transactions across the world. RISLA has issued bonds that are indexed off the LIBOR including RISLA's 2012-1, RISLA's 2012-2 and RISLA's 2014-1 bond issues. In addition, RISLA's FFELP loan special allowance payments (SAP) to the

US Department of Education are indexed against LIBOR. Government regulators and market participants are evaluating the potential impact of the elimination of LIBOR and discussing potential replacements for LIBOR. RISLA management will continue to monitor developments with LIBOR and believes that the phase-out will have no impact on RISLA's financial statements.

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.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 6 – BONDS PAYABLE (CONTINUED)

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 2010, March 2012, March 2013, April 2014, April 2015, May 2016, April 2017, May 2018, April 2019 and May 2020 bond issues is 3% of bond principal outstanding with a minimum requirement of \$3,828,100 for all outstanding senior obligations outstanding. The required reserve for the August 2012 bond issue is the greater of .25% of the principal bonds outstanding or \$250,000. The required reserve for the November 2012 bond issue is the greater of .25% of principal bonds outstanding or \$390,000. The required reserve for the June 2014 bond issue is \$250,000.

The required reserve for the July 2018 and August 2019 bond issue is the greater of \$630,000 or 2% of the principal bonds outstanding.

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 2020 and 2019.

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

Bond Issue	2020	2019
July 2009 Senior Series A	\$ --	\$ 9,220,000
March 2010 Senior Series A	2,405,000	5,770,000
December 2010 Senior Series B	--	5,025,000
March 2012 Senior Series A	2,400,000	6,000,000
August 2012 Series 2012-1	23,778,000	30,710,000
November 2012 Series 2012-2	62,305,000	76,119,000

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE 6 – BONDS PAYABLE (CONTINUED)

Bond Issue	2020	2019
March 2013 Senior Series A	17,250,000	23,475,000
April 2014 Senior Series A	19,735,000	22,985,000
June 2014 Series 2014-1	29,300,000	36,884,000
April 2015 Senior Series A	26,765,000	31,715,000
May 2016 Senior Series A	28,825,000	38,175,000
April 2017 Senior Series A	45,005,000	49,255,000
May 2018 Senior Series A	66,125,000	70,125,000
July 2018 Senior Series 1	25,950,000	32,850,000
April 2019 Senior Series A	63,215,000	63,215,000
August 2019 Series 2019-1	40,820,000	--
May 2020 Senior Series A	57,300,000	--
May 2020 Senior Series B	<u>43,275,000</u>	<u>--</u>
Subtotal	554,453,000	501,523,000
Add: Premium	13,253,560	10,983,906
Less: Discount	1,012,197	958,978
Less: Current portion	<u>23,045,000</u>	<u>25,125,000</u>
Total	<u>\$ 543,649,363</u>	<u>\$ 486,422,928</u>

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE 6 – BONDS PAYABLE (CONTINUED)

The following schedule reflects the changes in bonds payable:

Balance at June 30, 2018	\$ 478,432,000
Additions	98,215,000
Redemptions	<u>(75,124,000)</u>
Balance at June 30, 2019	501,523,000
Additions	141,395,000
Redemptions	<u>(88,465,000)</u>
Balance at June 30, 2020	<u>\$ 554,453,000</u>

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

Year	Principal	Interest	Total
2021	\$ 23,045,000	\$ 17,379,749	\$ 40,424,749
2022	32,030,000	16,257,241	48,287,241
2023	34,350,000	14,998,690	49,348,690
2024	35,325,000	13,601,359	48,926,359
2025	41,830,000	12,028,386	53,858,386
2026	43,720,000	10,322,299	54,042,299
2027	33,730,000	8,820,175	42,550,175
2028	26,445,000	7,628,640	34,073,640
2029	44,200,000	6,804,171	51,004,171
2030	7,095,000	6,072,013	13,167,013
2031	--	6,055,470	6,055,470
2032	34,653,000	5,580,612	40,233,612
2033	--	5,387,170	5,387,170
2034	3,650,000	5,296,680	8,946,680
2035	45,590,000	4,263,490	49,853,490
2036	29,215,000	3,081,704	32,296,704
2037	62,305,000	2,307,659	64,612,659
2038	42,270,000	1,244,794	43,514,794
2039	<u>15,000,000</u>	<u>250,000</u>	<u>15,250,000</u>
<b>Total</b>	<u>\$ 554,453,000</u>	<u>\$ 147,380,302</u>	<u>\$ 701,833,302</u>

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 7 – NOTES PAYABLE AND LINE OF CREDIT

On December 30, 2014, the Authority entered into a line of credit agreement with a bank to borrow up to \$10,000,000. The Line expired on June 30, 2016, and bore interest at a rate of one month LIBOR plus 1.25%. Per the terms of the Line Agreement, the Authority has the option to convert the Line into a term note, which occurred beginning on February 13, 2015, as noted below. The Line was collateralized by certain loans including all of those originated by the Authority from advances under the Line as well as certain additional pledged assets.

On December 29, 2015, the Authority entered into a line of credit agreement with a bank to borrow up to \$10,000,000. The Line expired on December 29, 2016, and bore interest at a rate of one month LIBOR plus 1.25%. Per the terms of the Line Agreement, the Authority has the option to convert the Line into a term note, which occurred beginning on July 25, 2016, as noted below. The Line was collateralized by certain loans including all of those originated by the Authority from advances under the Line as well as certain additional pledged assets.

On June 2, 2017, the Authority entered into a line of credit agreement with a bank to borrow up to \$20,000,000. The Line originally expired on June 2, 2018 and was extended to June 2, 2019, the interest rate is Federal Home Loan Bank Classic Advance Rate for the term of the financing plus 1.25%. Per the terms of the Line Agreement, the Authority has the option to convert the Line into three separate term note classes. The Line was collateralized by certain loans including all of those originated by the Authority from advances under the Line as well as certain additional pledged assets.

On June 19, 2019, the Authority entered into a line of credit agreement with a bank to borrow up to \$20,000,000. The Line expires on June 19, 2020, the interest rate is Federal Home Loan Bank Classic Advance Rate for the term of the financing plus 1.00%. Per the terms of the Line Agreement, the Authority has the option to convert the Line into three separate term note classes. The Line was collateralized by certain loans including all of those originated by the Authority from advances under the Line as well as certain additional pledged assets.

#### *SUMMARY OF DRAWS AND TERM NOTES*

On February 13, 2015, the Authority converted the amount outstanding under The Line of \$3,739,244 into a term note (the February 2015 Note). The February 2015 Note matures on February 12, 2022 and has an interest rate of 3.14%. Principal payments of \$44,515 plus interest are due on the 13th of every month, beginning on March 13, 2015. This note was paid off during fiscal year 2019.

During FY 2016, the Company drew an additional \$5,000,000 on the Line, which was subsequently converted to two separate term notes, as described below.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 7 – NOTES PAYABLE AND LINE OF CREDIT (CONTINUED)

##### *SUMMARY OF DRAWS AND TERM NOTES (CONTINUED)*

On September 23, 2015, \$3,000,000 was converted into a term note (the September 2015 Note). The September 2015 Note matures on August 23, 2019 and has an interest rate of 2.51%. Principal payments of \$63,830 plus interest are due on the 23rd of every month, beginning on October 23, 2015. This note was paid off during fiscal year 2019.

On December 22, 2015, \$2,000,000 was converted into a term note (the December 2015 Note). The December Note matures on January 22, 2023 and has an interest rate of 3.29%. Principal payments of \$23,529 plus interest are due on the 22nd of every month, beginning on January 22, 2016. This note was paid off during fiscal year 2019.

During fiscal year 2017, the Authority drew an additional \$8,200,000 on the line which was converted to three separate term notes, as described below.

On July 26, 2016, the Authority converted the amount outstanding under The Line of \$3,450,000 into a term note (the July 2016 Note). The July 2016 Note matures on August 25, 2023 and has an interest rate of 2.65%. Principal payments of \$40,588 plus interest are due on the 25th of every month, beginning on August 25, 2016. This note was paid off during fiscal year 2019.

On December 21, 2016, the Authority converted the amount outstanding under The Line of \$2,450,000 into a term note (the December 2016 Note). The December 2016 Note matures on January 21, 2024 and has an interest rate of 3.83%. Principal payments of \$28,824 plus interest are due on the 21st of every month, beginning on January 21, 2017. This note was paid off during fiscal year 2019.

On December 21, 2016, the Authority converted the amount outstanding under The Line of \$2,300,000 into a term note (the December 2016 Note). The December 2016 Note matures on November 21, 2020 and has an interest rate of 3.30%. Principal payments of \$48,936 plus interest are due on the 21st of every month, beginning on January 21, 2017. This note was paid off during fiscal year 2019.

During fiscal year 2018, the Authority drew an additional \$14,000,000 on the line which was converted to three separate term notes, as described below.

On July 19, 2017, the Authority converted the amount outstanding under The Line of \$5,000,000 into a term note (the July 2017 Note). The July 2017 Note matures on July 19, 2027 and has an interest rate of 4.14%. Principal payments of \$41,667 plus interest are due on the 2nd of every month, beginning on August 2, 2017.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 7 – NOTES PAYABLE AND LINE OF CREDIT (CONTINUED)

##### *SUMMARY OF DRAWS AND TERM NOTES (CONTINUED)*

On October 6, 2017, the Authority converted the amount outstanding under The Line of \$4,000,000 into a term note (the October 2017 Note). The October 2017 Note matures on April 6, 2024 and has an interest rate of 3.67%. Principal payments of \$51,282 plus interest are due on the 6th of every month, beginning on November 6, 2017.

On February 21, 2018, the Authority converted the amount outstanding under The Line of \$5,000,000 into a term note (the February 2018 Note). The February 2018 Note matures on August 21, 2024 and has an interest rate of 4.39%. Principal payments of \$64,103 plus interest are due on the 21st of every month until maturity.

During fiscal year 2019, the Authority drew an additional \$2,500,000 on the line which was converted to one term notes, as described below.

On June 21, 2019, the Authority converted the amount outstanding under The Line of \$2,500,000 into a term note (the June 2019 Note). The June 2019 Note matures on June 21, 2029 and has an interest rate of 3.67%. Principal payments of \$20,833 plus interest are due on the 21st of every month until maturity.

During fiscal year 2020, the Authority drew an additional \$17,500,000 on the line which was converted to four separate term notes, as described below.

On February 19, 2020, the Authority converted the amount outstanding under The Line of \$5,000,000 into a term note (the February 2020 Note). The February 2020 Note matures on February 19, 2024 and has an interest rate of 2.81%. Principal payments of \$104,167 are due on the 19<sup>th</sup> of every month until maturity.

On March 18, 2020, the Authority converted the amount outstanding under The Line of \$2,500,000 into a term note (the March 2020-1 Note). The March 2020-1 Note matures on September 18, 2026 and has an interest rate of 2.65%. Principal payments of \$32,051 are due on the 18<sup>th</sup> of every month until maturity.

On March 18, 2020, the Authority converted the amount outstanding under The Line of \$2,500,000 into a term note (the March 2020-2 Note). The March 2020-2 Note matures on March 18, 2030 and has an interest rate of 3.12%. Principal payments of \$20,833 are due on the 17<sup>th</sup> of every month until maturity.

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

#### NOTE 7 – NOTES PAYABLE AND LINE OF CREDIT (CONTINUED)

##### *SUMMARY OF DRAWS AND TERM NOTES (CONTINUED)*

On March 31, 2020, the Authority converted the amount outstanding under The Line of \$7,500,000 into a term note (the March 2020-3 Note). The March 2020-3 Note matures on September 30, 2026 and has an interest rate of 2.29%. Principal payment of \$96,154 are due on the 30<sup>th</sup> of every month until maturity.

As of June 30, 2020, the total principal balance outstanding under the July 2017 Note, the October 2017 Note, the February 2018 Note, the June 2019 Note, the February 2020 Note, the March 2020-1 Note, the March 2020-2 Note and the March 2020-3 Note was collectively \$24,586,010.

The following schedule reflects the changes in notes payable:

Balance at June 30, 2018	\$	21,257,213
Additions		2,500,000
Redemptions		(12,152,801)
Balance at June 30, 2019		11,604,412
Additions		17,500,000
Redemptions		(4,518,402)
Balance at June 30, 2020	\$	24,586,010

As part of the above financings, the Authority was required to meet certain financial covenants. As of June 30, 2020, the Authority was in compliance with these covenants.

Debt service requirements for bonds and notes payable at June 30, 2020 were as follows:

Bonds				Term Note				Total Long Term Debt			
Year	Principal	Interest	Total	Year	Principal	Interest	Total	Year	Principal	Interest	Total
2021	\$ 23,045,000	\$ 17,379,749	\$ 40,424,749	2021	\$ 5,173,077	\$ 663,384	\$ 5,836,461	2021	\$ 28,218,077	\$ 18,043,133	\$ 46,261,210
2022	32,030,000	16,257,241	48,287,241	2022	5,044,744	508,305	5,553,049	2022	37,074,744	16,765,546	53,840,290
2023	34,350,000	14,998,690	49,348,690	2023	4,403,846	357,956	4,761,802	2023	38,753,846	15,356,646	54,110,492
2024	35,325,000	13,601,359	48,926,359	2024	3,318,616	248,138	3,566,754	2024	38,643,616	13,849,497	52,493,113
2025	41,830,000	12,028,386	53,858,386	2025	2,538,462	157,603	2,696,065	2025	44,368,462	12,185,989	56,554,451
2026-2030	155,190,000	39,647,298	194,837,298	2026-2030	4,107,265	206,769	4,314,034	2026-2030	159,297,265	39,854,067	199,151,332
2031-2035	83,893,000	26,583,422	110,476,422	2031-2035	--	--	--	2031-2035	83,893,000	26,583,422	110,476,422
2036-2040	148,790,000	6,884,157	155,674,157	2036-2040	--	--	--	2036-2040	148,790,000	6,884,157	155,674,157
	<u>\$ 554,453,000</u>	<u>\$ 147,380,302</u>	<u>\$ 701,833,302</u>		<u>\$ 24,586,010</u>	<u>\$ 2,142,155</u>	<u>\$ 26,728,165</u>		<u>\$ 579,039,010</u>	<u>\$ 149,522,457</u>	<u>\$ 728,561,467</u>

# RHODE ISLAND STUDENT LOAN AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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#### NOTE 8 – ACCRUED ARBITRAGE REBATE

Accrued arbitrage rebate at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Noncurrent portion	\$ 545,149	\$ 479,026
Total Accrued Arbitrage Rebate	<u>\$ 545,149</u>	<u>\$ 479,026</u>

The following schedule reflects the changes in accrued arbitrage rebate:

Balance at June 30, 2018	\$ 2,977,950
Increase in earnings above permitted yield	24,989
Decrease in earnings below permitted yield	<u>(2,523,913)</u>
Balance at June 30, 2019	<u>479,026</u>
Increase in earnings above permitted yield	153,066
Decrease in earnings below permitted yield	<u>(86,943)</u>
Balance at June 30, 2020	<u>\$ 545,149</u>

Utilizing the yield restriction provisions within RISLA's tax exempt bond indentures, RISLA forgave \$2,283,367 in student loan principal and interest for 2,811 borrowers in 2019. The United States Tax Code and the IRS limit the loan yield to 2% above the bond yield calculated over the life of the bond issue. Through prudent financial management and lower than expected loan defaults, RISLA was able to offer this benefit to student loan borrowers whose loans were funded by RISLA's 2010 A, 2012 A and 2013 A bond issues. There was no loan forgiveness in FY 2020.

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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#### **NOTE 9 – LOAN SERVICING AGREEMENTS**

In April 2011, the Authority entered into a servicing agreement with Nelnet Servicing LLC (Nelnet), under which Nelnet collects and accounts for the principal and interest on FFELP loans originated and purchased by the Authority and placed with Nelnet for servicing for a monthly fee, which is based on the borrower status of the loans being serviced. Nelnet is also responsible for servicing the loans in a diligent manner according to regulations established by the DOE. This agreement is in effect until terminated or modified.

In July 1992, the Authority entered into a servicing agreement with Pennsylvania Higher Education Assistance Authority (PHEAA) under which PHEAA collects and accounts for the principal and interest on the Rhode Island Supplemental Education Loans placed with PHEAA for servicing for a monthly fee which is based on the number of loans in repayment status. PHEAA is also responsible for servicing the loans in a diligent manner according to the terms of the servicing contract. The agreement continues until all loans are paid in full or terminated by either party.

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 December 2012, the Authority entered into a servicing agreement with Aspire Resources Inc. to perform all servicing activities related to Federal Student Loans that were allocated to the Authority as an eligible Not for Profit Servicer under the Health Care and Education Reconciliation Act of 2010 (HCERA). The contract with the DOE allowed Aspire to add the Authority as a Key Subcontractor. Aspire was responsible for servicing all of the federal accounts according to the DOE Contract and paid the Authority a monthly fee based upon the borrower status of the loans being serviced.

The contract originally expired on March 31, 2017. However, in July 2015, the U.S. Department of Education approved the transfer of responsibilities for servicing federal student loans within the William D. Ford Federal Direct Loan Program that were serviced by Aspire to the Missouri Higher Education Loan Authority (MOHELA). The transfer of loans from Aspire to MOHELA was completed in September 2015. At that time the contract with Aspire terminated and a servicing agreement with MOHELA took effect. The servicing agreement with MOHELA was terminated on March 31, 2020.

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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#### **NOTE 9 – LOAN SERVICING AGREEMENTS (CONTINUED)**

The Authority received \$102,088 and \$129,593 in monthly revenue from MOHELA to service the Federal Student Loans for the years ended June 30, 2020 and 2019, respectively, and this revenue is recorded as “fee income” in the accompanying statements of revenues, expenses, and changes in net position.

#### **NOTE 10 – DEFINED CONTRIBUTION RETIREMENT PLAN**

In July 1989, the Authority established a defined single-employer contribution plan named Rhode Island Student Loan Authority pursuant to Section 403 (b) of the Internal Revenue Code, which provides pension benefits for all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings and less expenses. The assets of the plan are held with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). 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 2020 and 2019 amounted to \$298,181 and \$285,041, respectively. Employee contributions for 2020 and 2019 amounted to \$160,208 and \$145,349, respectively. All plan provisions and amendments require the approval of the Authority's Board of Directors. There are no post-retirement benefits for Authority employees.

#### **NOTE 11 – RELATED PARTY TRANSACTIONS**

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

On December 6, 2017, the governing Board for the OPC, The Council on Post-Secondary Education voted to transfer their Federal Family Education Loan Portfolio to the United States Department of Education. The action by the council effectively terminated the role of the OPC as a guarantor under the FFELP program. On July 1, 2018, all FFELP loans were transferred to Educational Credit Management Corporation (ECMC) as guarantor for the FFELP portfolio. The Authority holds the receivable rights to the FFELP loan portfolio.

# **RHODE ISLAND STUDENT LOAN AUTHORITY**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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#### **NOTE 12 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; errors and omissions; and workers' compensation claims for which the Authority carries commercial insurance. Settled claims resulting from these risks have not exceeded the Authority's coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage. Accordingly, management has estimated the reserve for such claims to be \$-0- at June 30, 2020 and 2019.

#### **NOTE 13 – RISKS AND UNCERTAINTIES**

The Authority cannot predict the extent to which consequences arising from the COVID-19 outbreak and the measures to combat it will have a material adverse effect on its financial condition, operations and finances, including its liquidity and reserves. While the scope of any material direct effect on the Authority is currently unknown, the Authority will continue to address certain anticipated effects of the COVID-19 outbreak on the Authority's finances and operations as circumstances evolve.

#### **NOTE 14 – SUBSEQUENT EVENT**

The Authority has evaluated subsequent events through September 30, 2020, the date these financial statements were authorized for issuance. Except as described below, there were no events identified which require recognition or disclosure in the financial statements.

On August 4, 2020, the Authority made voluntary redemption payments in the amount of \$31,550,305 of accrued interest and principal on various outstanding senior series bonds.

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

**INDEPENDENT AUDITORS' REPORT**

To the Board Members  
**Rhode Island Student Loan Authority**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Rhode Island Student Loan Authority (a related organization to the State of Rhode Island), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2020.

***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

*Marcum LLP*

Providence, RI  
September 30, 2020