FINANCIAL STATEMENTS

Brazos Education Loan Authority
Years Ended June 30, 2019 and 2018
With Independent Auditor's Report

Brazos Education Loan Authority

Financial Statements

Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Brazos Education Loan Authority

We have audited the accompanying financial statements of Brazos Education Loan Authority (a not-for-profit organization), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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.

To the Board of Directors
of Brazos Education Loan Authority

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 Brazos Education Loan Authority, as of June 30, 2019 and 2018, and the changes in its fund balance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2019, Brazos Education Loan Authority adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Dallas, Texas
October 7, 2019

Brazos Education Loan Authority

Balance Sheets
(In Thousands)

	June 30, 2019	June 30, 2018
Assets		
Cash and short-term investments	$ 32,446	$ 38,133
Interest receivable:		
Student loan notes receivable	48,170	40,837
Investments	147	132
Accounts receivable	-	3
Student loan notes receivable, net	1,962,223	2,145,577
Total assets	$ 2,042,986	$ 2,224,682
Liabilities and fund balance		
Liabilities:		
Notes payable, net	$ 1,743,628	$ 1,928,879
Accrued interest payable	1,717	1,359
DOE rebate fees payable	1,730	1,873
Administrative and loan servicing fees payable	179	199
Total liabilities	1,747,254	1,932,310
Fund balance:		
With restrictions	295,732	292,372
Total liabilities and fund balance	$ 2,042,986	$ 2,224,682

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

Brazos Education Loan Authority

Statements of Changes in Fund Balance
(In Thousands)

	For the Years Ended June 30, 2019	For the Years Ended June 30, 2018
Interest revenue:		
Student loan notes receivable	$ 68,043	$ 60,687
Investments	1,541	995
	69,584	61,682
Interest expense:		
Notes payable	61,513	48,636
Net interest revenue before provision for loan losses	8,071	13,046
Provision for loan losses	(436)	(220)
Net interest revenue after provision for loan losses	7,635	12,826
Noninterest revenue:		
Other	502	728
Noninterest expense:		
Administrative and loan servicing fees	4,495	4,950
Auction agent and broker dealer fees	54	54
Other	240	271
Total noninterest expense	4,789	5,275
Revenue over expenses	3,348	8,279
Estate contribution	12	-
Fund balance, beginning of year	292,372	284,093
Fund balance, end of year	$ 295,732	$ 292,372

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

Brazos Education Loan Authority

Statements of Cash Flows

(In Thousands)

	For the Years Ended June 30, 2019	For the Years Ended June 30, 2018
Operating activities		
Revenue over expenses	$ 3,348	$ 8,279
Adjustment to reconcile revenue over expenses to net cash used in operating activities:		
Student loan interest capitalized	(18,618)	(21,190)
Amortization of loan purchase premiums	10,415	11,040
Amortization of note discount	993	1,011
Amortization of debt issue costs	556	560
Provision for loan losses	436	220
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Interest receivable	(7,348)	(7,563)
Accounts receivable	3	(3)
Increase (decrease) liabilities:		
Administrative and loan servicing fees payable	(20)	(36)
Accrued interest payable	358	386
DOE rebate fees payable	(143)	(210)
Net cash used in operating activities	(10,020)	(7,506)
Investing activities		
Principal collected on student loan note receivable, net	258,552	276,525
Proceeds from sale of student loan notes receivable, net	66	52
Purchase of student loan notes receivable, net	(67,497)	(9,922)
Net cash provided by investing activities	191,121	266,655
Financing activities		
Proceeds from the issuance of notes payable	63,009	-
Payment of notes payable	(249,262)	(263,040)
Estrate contribution	12	-
Payment of deferred debt issue costs	(547)	-
Net cash used in financing activities	(186,788)	(263,040)
Net change in cash and short-term investments	(5,687)	(3,891)
Cash and short-term investments, beginning of year	38,133	42,024
Cash and short-term investments, end of year	$ 32,446	$ 38,133
Supplemental disclosure:		
Cash paid during the year for interest	$ 59,607	$ 46,680

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

1. Organization

Brazos Education Loan Authority (the Authority), a Texas not-for-profit public benefit corporation incorporated as Neches Higher Education Authority, Inc. in November 2005, amended its Articles of Incorporation in August 2012 to become Brazos Education Loan Authority. The Authority commenced operations on August 8, 2012, for the purpose of providing funds for the acquisition and servicing of student loans that are: (1) insured by the U.S. Department of Education (DOE) and guaranteed by various national guarantors under the Federal Family Education Loan Program (FFELP) as provided for in the Higher Education Act of 1965, as amended or (2) guaranteed by the Secretary of Health and Human Services pursuant to the Health Education Assistance (HEAL) Program. To maintain such insurance and guarantee of student loans, the Authority must comply with the servicing, collecting, accounting, and reporting requirements of the FFELP and HEAL programs. The Authority has contracted with Brazos Higher Education Service Corporation, Inc. (BHESC) to serve as master servicer. BHESC has contracted with various sub-servicers for loan servicing duties. Funding for the Authority has been provided by the issuance of asset-backed notes and, periodically, by advances from affiliates.

The Authority's primary source of revenue is interest on student loans. All borrowings on the notes payable are expected to be repaid solely from funds derived from student loan principal repayments, interest, special allowance payments, interest subsidy payments, guarantee payments on defaulted notes, proceeds from sales of student loan notes, and investment revenue.

Interest Rate Environment

The Authority's student bond payable portfolio is composed of $982,000 of Auction Rate Securities (ARS) and $957,000 of LIBOR-based Floating Rate Notes (FRN) as of June 30, 2019. In February 2008, an imbalance of supply and demand in the ARS market as a whole led to failures of the auctions pursuant to which certain of the Authority's ARS interest rates are set. The failed auctions have continued through 2019. As a result, at June 30, 2019, $982,000 of the Authority's ARS bore interest at the maximum rate allowable under the indenture estate provisions that govern the determination of the interest rate in the event of a failed auction.

The Authority's $982,000 of taxable ARS has provisions, which, during a period of auction failure, limit the interest rate on the ARS to the lesser of the Maximum Rate or the Net Loan Rate. The Authority's Maximum Rate applied to taxable ARS is defined as the lesser of the 30-day LIBOR plus 150 basis points for Senior debt and 30-day LIBOR plus 150 basis points to

250 basis points for Subordinate debt. Each of the individual indenture estates within the Authority has provisions for calculation of a Net Loan Rate for taxable ARS.

The Net Loan Rate, discussed above, is intended to protect each indenture estate from incurring cash outflows that the cash inflows cannot sustain. The Net Loan Rates of the Authority's respective indenture estates range from 3.88% to 3.94% as of June 30, 2019. During 2019, the Net Loan Rate was invoked for most ARS taxable bond issues.

The market disruption experienced in the ARS market, discussed above, did not have a significant impact upon the Authority's FRNs, primarily because the Authority's FRNs reset quarterly. The FRNs are fixed for three months; therefore, spreads on student loans financed with FRNs are generally not affected to the extent of those financed with ARS notes.

2. Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States and, accordingly, reflect all significant receivables, payables and other liabilities. The accounts of the Authority are maintained in accordance with the principles of fund accounting in compliance with the debt instruments. This is a system under which resources are classified for accounting purposes into funds established for specific purposes. The Authority aggregates its funds into general groups by the source of funding. The fund balance related to specific financings is with restrictions by each indenture, and as such, is shown as with restrictions on the balance sheets. The non-debt related fund balance, if any, is shown as without restrictions on the balance sheets.

Affiliated Entities

The Authority is affiliated with the following entities, which are required to be audited due to federal program requirements, or which are audited due to the significance of their activities and operations:

- Brazos Higher Education Authority, Inc. (BHEA)
- Brazos Student Finance Corporation (BSFC)
- Bosque Higher Education Authority, Inc. (Bosque)

- Acapita Education Finance Corporation (AEFC)
- Brazos Higher Education Service Corporation, Inc. (BHESC)
- Federated Student Finance Corporation (FSFC)

All of the entities operate in the student loan higher education industry and are controlled by common officers and directors with the ability to influence the business performed by each entity. BHESC, by contract and for compensation, serves as Master Servicer and provides headquarter facilities, management, administrative support, marketing and accounting services. BHESC also oversees the subcontracting of servicing and collection activities.

Debt Issue Costs and Note Discount

The Authority capitalizes debt issue costs incurred when issuing debt. Debt issue costs include costs related directly to the issuance of notes payable, and consist primarily of filing fees, trustee fees and expenses, document reproduction costs, legal fees, costs of credit ratings, underwriter's fees, and other costs. The Authority also issues notes at a discount and records the discount as an adjustment to notes payable, net, on the balance sheet. Debt issue costs and note discounts are amortized over the terms of the notes using a method that approximates the effective interest method. The amortization of the debt issuance costs and note discount is included within interest expense on notes payable in the statements of changes in fund balance.

Interest Receivable

Interest receivable on student loan notes receivable includes special allowance payments receivable from or payable to the DOE, government subsidy interest, and borrower interest on all student loans outstanding.

Cash and Short-Term Investments

Cash and short-term investments consist of money market funds with original maturities of 90 days or less. Cash and short-term investments are held in indenture with U.S. Bank, N.A. (the Trustee) under various indentures, subject to certain limitations (see Note 2 – Trustee), and are pledged to secure related notes payable. Any realized or unrealized changes in fair value are recorded through the statements of changes in fund balance. Interest revenue from these investments is recorded on an accrual basis.

(Dollars in Thousands)

Cash and short-term investments are comprised of the following:

	June 30, 2019	June 30, 2018
Money market funds	$ 32,446	$ 38,133

As of June 30, 2019 and 2018 the Authority had $13,686 and $14,516, respectively, in cash and short-term investment reserves in compliance with the note indenture requirements.

Student Loan Notes Receivable

Student loans are stated at the principal amount outstanding, plus unamortized purchase premiums, net of the allowance for loan losses. All student loan notes receivable are pledged to secure related notes payable.

There was no impairment of student loan notes receivable during the years ended June 30, 2019 or 2018. A loan is considered past due or delinquent when it becomes 31 days past due. Delinquent FFELP loans cannot be submitted to the guarantor for payment until the loan is 270 days past due, but before 330 days past due. The guarantor pays interest accrued through the date of the claim payment. Accordingly there are no loans in nonaccrual status as of June 30, 2019 or 2018.

Premiums and Discounts on Loans Purchased

The Authority defers premiums and discounts incurred on those student loan notes purchased and used to secure long-term financings, and amortizes such amounts over the estimated life of the student loan notes as an adjustment to the yield of the related loans utilizing a method which approximates the effective interest rate method. Amortization of the premium and discount is included within the statements of changes in fund balance as interest revenue on student loan notes receivable and is recognized on a monthly basis. The net unamortized loan purchase premium is included on the balance sheets within the student loan notes receivable.

Income Taxes

The Authority is a not-for-profit public benefit corporation which is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Authority is also exempt from state income tax. Income which is not related to its exempt purposes, less applicable deductions, is subject to federal income taxes. The Authority had no net unrelated business income for the years ended June 30, 2019 and 2018. As such, no provision for federal or state income taxes has been provided in the accompanying financial statements.

The Authority files federal information returns in the United States. The Authority may be subject to examination for the tax year ended June 30, 2016 and later by the Internal Revenue Service. The Authority is not currently under examination for any open tax year.

The Authority follows the accounting standard related to the accounting for uncertainty in income taxes recognized in the Authority's financial statements. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Authority currently does not have any uncertain tax positions.

Trustee

The Authority contracts certain services to the Trustee. The Trustee holds the pledged student loan notes receivable and other invested assets in the Authority's name, and invests and disburses funds as directed by the Authority pursuant to the requirements of the indenture and note agreements. The trustee also monitors the invested assets of the Authority and the related cash flows of the loans and other assets pledged under the indenture to secure the related debt.

Concentration Risk

The Authority's credit risk is inherent principally in its student loan notes receivable. It is impossible to predict the status of the economy or unemployment, which could significantly affect the Authority's credit risk exposure. However, the credit risk of the Authority is substantially decreased by the guaranteed nature of its investments in student loan notes receivable.

The Authority's loan portfolio is also concentrated in FFELP loans. Approximately, 99.9% and 99.9% of the portfolio is FFELP loans as of June 30, 2019 and 2018, respectively. Any changes in legislation related to existing FFELP or consolidation loans could have a significant impact on the Authority.

Student Loan Revenue

The Authority recognizes interest revenue on student loans, special allowance revenues (rebates), and government interest subsidies as earned, net of DOE rebate fees paid on a monthly basis. Additionally, revenue is recognized based upon the principal amount outstanding in accordance with the terms of the applicable loan agreement on a monthly basis until the outstanding balance is paid or charged off.

Based upon the core guidance of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, revenue derived from financial instruments, such as student loan notes receivable and investments, is exempt from this guidance as recognition of revenue is covered in other applicable accounting standards.

Interest Expense

Interest expense is based upon contractual interest rates (variable) adjusted for the amortization of note discount and debt issue costs.

Department of Education Fees

Approximately 99.6% and 99.6% of the portfolio is consolidation loans, on which the Authority pays fees to the DOE, for the years ended June 30, 2019 and 2018, respectively. DOE fees consist of rebate fees due to the DOE. Rebate fees are monthly fees assessed by the DOE on the outstanding consolidation loan balance at the end of the month. Rebate fees are accounted for as an adjustment to the yield on student loan notes receivable included within the statements of changes in fund balance in interest revenue from student loan notes receivable.

Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Key accounting policies that include significant judgments and estimates include the use of the effective interest rate method to amortize premiums and discounts on loans purchased, amortization of debt issue costs and note discounts, and determining the provision for loan losses.

Change in Accounting Principles

On July 1, 2018, the Authority adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a full retrospective method of adoption to all contracts with customers at July 1, 2018.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services in amounts that reflect the consideration to which the Authority expects to be entitled in exchange for those goods or services.

The amount to which the Authority expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

The adoption of ASU 2014-09 did not significantly impact the Company since revenues recognized from financial instruments are exempt from Topic 606. The related disclosures in the notes to the financial statement were expanded to comply with the requirements of this standard.

During fiscal year 2019, the Authority, adopted ASU 2016-14, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Balance Sheets

- The balance sheets distinguish between two new classes of fund balance—those with restrictions and those without restrictions. This is a change from the previously required three classes of fund balance—unrestricted, temporarily restricted and permanently restricted.

Statement of Changes in Fund Balance

- Expenses are reported by nature. All expenses related to the single function of the Authority.
- Investment revenue is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment revenue is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.

This change had no impact on previously reported total change in fund balance.

3. Student Loan Interest Receivable and Revenue

FFELP loans obligate the borrower to either pay interest at a stated fixed rate or an annually reset variable rate that has a cap depending on when the loan was originated. The interest earned by the Authority is dependent upon the borrower's interest rate, the date the loan was originated and the Special Allowance Payment formula.

The Special Allowance Payment formula, or SAP rate, is determined by the DOE, based upon an average of all of the applicable floating rates (91-day Treasury bill, commercial paper, and 52-week Treasury bill) in a calendar quarter, plus a spread between 1.74% and 3.50%, depending on the underlying loan status and origination date. These rates are then applied to the quarterly average daily balance for loans eligible to receive SAP.

For loans first disbursed prior to April 1, 2006, the Authority earns interest at the higher of the borrower's rate or the SAP rate. If the SAP rate exceeds the borrower's rate, the DOE makes a payment directly to the Authority. For loans first disbursed after April 1, 2006, the Authority earns interest at the SAP rate. If the SAP rate is less than the borrower's rate, the Authority "rebates" the difference between the borrower's rate and the lower SAP rate to the DOE. If the SAP rate is greater than the borrower's rate, the DOE makes SAP payments to the Authority for the difference between the two rates.

At June 30, 2019 and 2018, student loans held by the Authority had stated interest rates determined annually by the DOE ranging from 3.63% to 8.50% and 2.68% to 8.50%, respectively, and are generally payable by the borrower following a specified grace period. Effective July 1, 2019, the DOE reset these rates to range from 4.06% to 8.50%.

For FFELP loans, the U.S. Government pays the Authority the interest on subsidized student loans from the date of acquisition until the end of the grace period, as defined in the regulations.

(Dollars in Thousands)

Interest revenue from student loan notes receivable consists of the following:

	June 30, 2019	June 30, 2018
Student loan interest revenue	$ 76,318	$ 83,733
Interest subsidiary revenue	3,150	3,812
Special allowance revenue	20,558	7,822
Loan premium amortization, net	(10,415)	(11,040)
DOE rebate fees	(21,568)	(23,640)
Net interest revenue on student loan notes receivable	$ 68,043	$ 60,687

Under certain conditions, the Authority may capitalize accrued interest receivable and add it to the borrower's outstanding principal. For unsubsidized FFELP student loans, the borrower has the option of either paying the interest or having accrued interest capitalized from the date of the loan origination until the end of the grace period and during periods of deferment. Borrowers of both subsidized and unsubsidized FFELP student loans have the option of having accrued interest capitalized during periods of forbearance. Subsequent interest accrues on the new total principal balance which includes any capitalized interest.

Interest receivable on student loan notes receivable consisted of the following:

	June 30, 2019	June 30, 2018
Student loan interest receivable	$ 42,052	$ 36,270
Interest subsidiary receivable	718	917
Special allowance receivable	5,400	3,650
Interest receivable on student loan notes receivable	$ 48,170	$ 40,837

4. Student Loan Notes Receivable

Student loan notes are either originated by the Authority or purchased primarily from third-party originating lenders. The Authority's student loan portfolio consists principally of loans originated under the FFELP and HEAL federally sponsored student loan programs.

(Dollars in Thousands)

Total student loan notes receivable consisted of the following:

	June 30, 2019	June 30, 2018
FFELP student loan notes receivable	$ 1,945,749	$ 2,115,001
HEAL student loan notes receivable	158	361
Deferred loan premium, net of accumulated amortization	17,528	31,549
	1,963,435	2,146,911
Allowance for student loan losses	(1,212)	(1,334)
Student loan notes receivable, net	$ 1,962,223	$ 2,145,577

Loan Programs

The FFELP includes the Federal Stafford Loan (Stafford) Program, the Federal Supplemental Loans for Students (SLS) Program, the Federal Parent Loan for Undergraduate Students (PLUS) Program, the Federal Parent Loan for Graduate Students (GradPLUS) Program, and the Federal Consolidation Loan Program. These loan programs are available to students or parents of students who, when the loans were originated, were enrolled in postsecondary institutions.

Stafford, SLS, GradPLUS, and PLUS loans have repayment periods ranging from between 5 and 10 years. Federal consolidation loans have repayment periods of 12 to 30 years. Repayment on these loans commences subsequent to a grace period following the student's graduation. Alternative loans have repayment periods ranging from between 15 and 20 years. There is no deferral of the repayment period for these loans.

All FFELP and HEAL loans held by the Authority have been either insured or guaranteed by the U.S. Government, Texas Guaranteed Student Loan Corporation (TGSLC), or other national guarantors, provided applicable program requirements have been met by the original lender, prior servicer, and the current servicing agent with respect to such loans. For purchased loans, the original lenders have warranted to the Authority that the student loans have met these requirements and are valid obligations of the borrowers. Student loan notes that do not conform to the terms of the purchase agreement between the individual entities and the original lender may be returned to the original lending institution for reimbursement of principal, interest, and costs incurred while held by the individual entities.

In the event of default on a student loan due to borrower default, death, disability, or bankruptcy, the Authority files a claim with the insurer or guarantor of the loan. The Authority will receive the unpaid principal balance and accrued interest on the loan less any risk sharing, if applicable, provided the loan has been properly originated and serviced.

Student Loan Servicing

BHESC serves as Master Servicer for the Authority with the necessary student loan servicing to maintain compliance with the requirements of the FFELP and HEAL loan programs by holding subservicing agreements for loan servicing duties with various student loan servicing agents. BHESC currently holds subservicing agreements for loan servicing duties with American Education Services, Nelnet Diversified Solutions LLC, and Navient (formerly Sallie Mae Servicing Corporation) on behalf of the Authority. Under the terms of these sub-servicing agreements, the subservicer indemnifies the Authority for any loss of principal and interest resulting from deficiencies in the loan servicing performed by the sub-servicer. At June 30, 2019 and 2018, 100% of the portfolio is serviced by a third-party subservicer.

Allowance for Student Loan Losses

The Budget Reconciliation Act of 1993 (the Act) lowered the federal guarantee for FFELP student loans made on or after October 1, 1993, to 98%. The Deficit Reduction Act of 2006 lowered the federal guarantee for FFELP student loans made on or after July 1, 2006 to 97%. The Authority provides an allowance for estimated loss of guaranteed student loan principal and interest related to the 2% unguaranteed and unrecoverable amounts on student loan notes receivable. The Act's lowering of the federal guarantee has not historically had a material impact on the Authority. Additionally, HEAL loans are 98% guaranteed by the loan program sponsor. The Authority determines the allowance for loan losses based on loss factors applied to the portion of the student loan balances without guarantees by individual loan type and status. Because the Authority's portfolio consists of guarantees ranging from 97% to 99%, and because there is a relatively small percentage of loans at the 97% guarantee, management has considered that 98% of principal and interest is guaranteed and there is only 2% of principal with credit risk.

(Dollars in Thousands)

Activity in the allowance for loan losses is summarized as follows:

	June 30, 2019	June 30, 2018
Balance, beginning of year	$ 1,334	$ 1,498
Provision for loan losses	436	220
Charge-offs	(558)	(384)
Balance, end of year	$ 1,212	$ 1,334

5. Notes Payable

New Debt Financings

During the 2019 fiscal year, the Authority financed notes payable through new borrowings to purchase student loan notes receivable. Student Loan Asset-Back Notes Series 2018 were issued in the following amount: Series 2018 A-1, $63,800.

Notes payable consist of the following:

	June 30, 2019	June 30, 2018	Final Maturity Date
Student Loan Revenue Bonds Series 2004:			
Series I-B-1	$ 70,000	$ 70,000	December 2039
Student Loan Revenue Bonds Series 2005:			
Series I-A-4	84,500	138,200	March 2029
Series I-B-1	33,000	33,000	June 2041
Series I-A-12	155,170	267,678	March 2023
Series I-B-2	69,100	69,100	June 2042
Series I-A-16	60,986	86,865	March 2026

(Dollars in Thousands)

	June 30, 2019	June 30, 2018	Final Maturity Date
Student Loan Revenue Bonds Series 2005:			
Series I-B-3	$ 50,000	$ 50,000	June 2042
Student Loan Revenue Bonds Series 2006:			
Series I-B-1	50,000	50,000	June 2042
Student Loan Revenue Bonds Series 2006:			
Series I-A-9 through I-A-10	369,474	415,444	December 2024 - June 2026
Series I-A-11 through I-A-15 and I-B-2	209,700	209,700	June 2042
Student Loan Revenue Bonds Series 2007:			
Series I-A-1 through I-A-5 and I-B-1	500,000	500,000	June 2043
Student Loan Asset-Backed Bonds Series 2012 A-1	37,829	45,549	September 2041
Student Loan Asset-Backed Bonds Series 2012 B-1	3,000	3,000	September 2041
Student Loan Asset-Backed Bonds Series 2018 A-1	60,316	-0-	January 2068
	1,753,075	1,938,536	
Less unamortized debt issue costs	(3,834)	(3,843)	
Less unamortized note discount	(5,613)	(5,814)	
	$1,743,628	$1,928,879	

The Series "A" notes are senior notes and the Series "B" notes are subordinate notes. Per the indentures, the senior notes have a superior interest to the indenture assets over the subordinate notes. Due to this higher risk, the subordinate notes yield a higher interest rate. Interest rates for the notes are based on variable rates. The interest rates at June 30, 2019 and 2018, for each class of notes are as follows:

(Dollars in Thousands)

		June 30, 2019	June 30, 2018
Taxable floating rate notes (FRN)	30-Day LIBOR plus 0.70% - 3.00%	2.97%–5.27%	2.66%–4.96%
Taxable floating rate notes (FRN)	90-Day LIBOR plus 0.01% - 0.20%	3.20%–3.77%	2.43%–2.48%
Taxable auction rate securities (ARS)	Set at auction	3.88%–3.94%	2.91%–2.95%

The auction rates, when auctions are functioning, are determined every 7 or 28 days depending on the auction procedures described in the indenture agreement. The interest rates may be converted to variable or fixed rates by the Authority within the guidelines established by the indenture agreements.

Pursuant to the individual indenture agreement for each debt instrument, the respective note issues are secured solely by those student loans and other invested assets held by each individual note issue's indenture estate.

Pursuant to the indenture agreement, the Authority is subject to certain financial and nonfinancial covenants. Under the note agreements, the Authority has certain minimum collateral coverage requirements. Under the indenture covenants, the Authority must make timely principal and interest payments or the notes will default.

The maturities of notes payable as of June 30, 2019, by fiscal year, are as follows:

2020	$ -
2021	-
2022	-
2023	155,177
2024	-
Thereafter	1,597,898
	$ 1,753,075

The actual maturities of notes payable may differ from the maturities noted above, as the Authority has the ability to prepay the debt outstanding.

(Dollars in Thousands)

6. Fund Balance

Fund Balance with Restrictions

As noted in Note 2 of significant accounting policies of the Authority, the fund balance is with restrictions by the credit agreement is noted on the balance sheets. For the Authority, all funds are considered with restrictions for the fiscal years ended June 30, 2019 and 2018 as noted below:

	June 30,	
	2019	**2018**
Subject to expenditure for specified purpose:		
Fund balance	$ 295,732	$ 292,372

Fund Balance Without Restrictions

As noted in Note 2 of significant accounting policies of the Authority, fund balance without restrictions is limited to any non-debt related funds as of fiscal years ended June 30, 2019 and 2018 designated as fund balance without restrictions on the balance sheets.

Fund Balance Released from Restrictions

As noted in Note 2 of significant accounting policies of the Authority, resources of the Authority are established for specific purposes or financings. As shown in the Statements of Changes in Fund Balance, all funds are fund balance with restrictions and thus revenues received exceeded expenses in the amount of $3,348 and $8,279 for the years ended June 30, 2019 and 2018.

7. Revenue of the Authority

As noted in Note 2 of significant accounting policies of the Authority, full retrospective approach of Topic 606 was adopted effective July 1, 2018. Additionally, revenue recognition of the direct, significant revenue of the Authority is disclosed in Note 2 to the financial statements. However as the nature and concentration of the Authority's significant source of revenue is concentrated and derived from financial instruments, this revenue stream is exempt from Topic 606 and thus no significant impact to the financial statements is noted.

(Dollars in Thousands)

Disaggregation of Revenue

As included in Note 2 of significant accounting policies of the Authority, the disaggregation of total revenue per percentage including both interest revenue and noninterest revenue is as follows for the years ended June 30, 2019 and 2018:

	June 30,	
	2019	**2018**
Interest revenue:		
Student loans note receivable	97.08%	97.24%
Investments	2.20%	1.59%
Noninterest revenues:		
Other	0.72%	1.17%

8. Liquidity and Availability

As disclosed in Note 2 of significant account policies, all financial assets of the Authority are limited and with restrictions for a specific purpose in accordance with the principles of fund accounting in compliance with debt instruments. Revenue from those assets with restrictions for specific purposes of the fund. Funds of the Authority are not available for general expenditure.

9. Related-Party Transactions

Included in administrative and loan servicing fees are administrative fees paid to BHESC and servicing fees paid to BHESC third-party sub-servicers. During the years ended June 30, 2019 and 2018, the Authority recorded $2,141 and $2,368, respectively, in administrative fees paid to BHESC, Master Servicer, for providing administrative support, such as accounting and information technology infrastructure.

During the years ended June 30, 2019 and 2018, the Authority purchased $62,333 and $-0- of student loans from affiliated entities, respectively.

10. Subsequent Events

Subsequent events have been evaluated through October 7, 2019, which is the date the financial statements were available to be issued. No additional events requiring disclosure were noted.