

FINANCIAL STATEMENTS

Brazos Higher Education Authority, Inc.
Years Ended June 30, 2020 and 2019
With Independent Auditor's Report

Brazos Higher Education Authority, Inc.

Financial Statements

Years Ended June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Brazos Higher Education Authority, Inc.

We have audited the accompanying financial statements of Brazos Higher Education Authority, Inc. (a not-for-profit organization), which comprise the balance sheets as of June 30, 2020 and 2019, 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.

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 Higher Education Authority, Inc., as of June 30, 2020 and 2019, 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.

BKD, LLP

Dallas, Texas
October 27, 2020

Brazos Higher Education Authority, Inc.
Balance Sheets
(In Thousands)

	June 30, 2020	June 30, 2019
Assets		
Cash and short-term investments	\$ 85,613	\$ 48,926
Interest receivable:		
Student loan notes receivable	33,856	31,915
Investments	6	83
Student loan notes receivable, net	1,152,407	1,244,419
Other assets	62	63
Total assets	\$ 1,271,944	\$ 1,325,406
 Liabilities and fund balance		
Liabilities:		
Bonds and notes payable, net	\$ 1,233,349	\$ 1,292,782
Accrued interest payable	17,125	16,311
DOE rebate fees payable	714	801
Administrative and loan servicing fees payable	165	184
Total liabilities	1,251,353	1,310,078
Fund balance (deficit):		
With restrictions	31,163	21,031
Without restrictions	(10,572)	(5,703)
Total fund balance	20,591	15,328
Total liabilities and fund balance	\$ 1,271,944	\$ 1,325,406

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

Brazos Higher Education Authority, Inc.
 Statements of Changes in Fund Balance
(In Thousands)

	For the Years Ended	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Interest revenue:		
Student loan notes receivable	\$ 43,055	\$ 53,515
Investments	701	1,182
	<u>43,756</u>	<u>54,697</u>
Interest expense:		
Bonds and notes payable	<u>33,503</u>	<u>46,271</u>
Net interest revenue before provision for loan losses	10,253	8,426
Provision for loan losses	<u>(777)</u>	<u>(294)</u>
Net interest revenue after provision for loan losses	9,476	8,132
Noninterest revenue:		
Other	393	408
Noninterest expense:		
Administrative and loan servicing fees	4,347	4,964
Other	<u>259</u>	<u>280</u>
Total noninterest expense	4,606	5,244
Revenue over expenses	5,263	3,296
Fund balance, beginning of year	<u>15,328</u>	<u>12,032</u>
Fund balance, end of year	<u><u>\$ 20,591</u></u>	<u><u>\$ 15,328</u></u>

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

Brazos Higher Education Authority, Inc.
Statements of Cash Flows
(In Thousands)

	For the Years Ended	
	June 30, 2020	June 30, 2019
Operating activities		
Revenue over expenses	\$ 5,263	\$ 3,296
Adjustment to reconcile revenue over expenses to net cash used in operating activities:		
Student loan interest capitalized	(12,760)	(15,358)
Amortization of loan purchase premiums/discounts	(676)	1,037
Amortization of note discounts	(5,061)	(4,445)
Amortization of debt issue costs	903	784
Provision for loan losses	777	294
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Interest receivable	(1,864)	(2,281)
Accounts receivable	-	6
Other assets	1	(2)
Increase (decrease) liabilities:		
Administrative and loan servicing fees payable	(19)	(37)
Accrued interest payable	814	2,783
DOE rebate fees payable	(87)	(102)
Net cash used in operating activities	<u>(12,709)</u>	<u>(14,025)</u>
Investing activities		
Principal collected on student loan note receivable	180,197	207,331
Proceeds from sale of student loan notes receivable	31	56
Purchase of student loan notes receivable	(75,557)	(5,951)
Net cash provided by investing activities	<u>104,671</u>	<u>201,436</u>
Financing activities		
Proceeds from the issuance of bonds payable	114,347	-
Payment of bonds and notes payable	(168,057)	(193,471)
Payment of debt issue costs	(1,565)	-
Net cash used in financing activities	<u>(55,275)</u>	<u>(193,471)</u>
Net change in cash and short-term investments	36,687	(6,060)
Cash and short-term investments, beginning of year	48,926	54,986
Cash and short-term investments, end of year	<u>\$ 85,613</u>	<u>\$ 48,926</u>
Supplemental disclosure of cash and noncash items		
Cash paid during the year for interest	<u>\$ 36,846</u>	<u>\$ 47,149</u>

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

Brazos Higher Education Authority, Inc.
Notes to Financial Statements
(In Thousands)
June 30, 2020 and 2019

1. Organization

Brazos Higher Education Authority, Inc. (the Authority) is a Texas not-for-profit public benefit corporation, which was incorporated in May 1975 for the purpose of providing funds for the acquisition and servicing of student loans that are 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. To maintain such insurance and guarantee of student loans, the Authority must comply with the servicing, collecting, accounting, and reporting requirements of the FFELP. 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 through the issuance of asset-backed notes and, periodically, by advances from affiliates.

The Authority's primary source of revenue is interest on student loans and investment revenue. 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.

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 from each indenture, and as such, is shown as with restrictions on the balance sheets. The non-debt-related fund balance is shown as without restrictions on the balance sheets.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

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 Student Finance Corporation (BSFC)
- Bosque Higher Education Authority, Inc. (Bosque)
- Federated Student Finance Corporation (FSFC)
- Acapita Education Finance Corporation (AEFC)
- Brazos Higher Education Service Corporation, Inc. (BHESC)
- Brazos Education Loan Authority, Inc. (BELA)

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 Discounts

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 issue costs and note discounts is included within interest expense on notes payable in the statements of changes in fund balance.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

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 demand deposits in banks, money market funds, and guaranteed investment contracts with original maturities of 90 days or less. Cash and short-term investments are held by U.S. Bank, N.A. (the Trustee) under various indentures, subject to certain limitations, and are pledged to secure related notes payable. See *Note 2*. The short-term investments are stated at fair value and represent unsecured investments. 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.

Cash and short-term investments comprised the following:

	June 30,	
	2020	2019
Guaranteed investment contracts	\$ 507	\$ 507
Money market funds	85,106	48,419
Total cash and short-term investments	<u>\$ 85,613</u>	<u>\$ 48,926</u>

As of June 30, 2020 and 2019, the Authority had \$8,427 and \$6,371, 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, 2020 and 2019. A loan is considered past due or delinquent when it becomes 31 days past

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

due. At June 30, 2020 and 2019, there are no loans placed in nonaccrual status. 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.

Premiums/Discounts on Loans Purchased

The Authority defers premiums and discounts paid on those student loan notes purchased and used to secure long-term financings, and amortizes such premiums and discounts 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 premiums and discounts is included within the statements of changes in fund balance in interest on student loan notes receivable. The unamortized loan purchase premium and discount are included on the balance sheet 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 that 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, 2020 and 2019. 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 examinations for the tax years ended June 30, 2017 and later by the Internal Revenue Service (IRS). 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 positions reserved.

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

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

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 levels, 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 investment in guaranteed and insured student loan notes receivable.

The Authority's loan portfolio is also concentrated in FFELP loans. Approximately 95% and 100% of the portfolio is comprised of FFELP loans and the remaining 5% and 0% of the loan portfolio is comprised of alternative private loans for the years ended June 30, 2020 and 2019, respectively. Any changes in legislation related to existing FFELP or consolidation loans could have a significant impact on the Authority.

Fund Balance

Fund balance, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Fund balance without donor restrictions are available for use in general operations and not subject to donor restrictions.

Fund balance with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor or credit arrangement. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

Interest Expense

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

Department of Education Fees

Approximately, 69% and 72% of the student loan notes receivable portfolio is consolidation loans, on which the Authority pays fees to the DOE, for the years ended June 30, 2020 and 2019, 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 provision for loan losses and the effective interest rate method to amortize premiums on loans purchased, and amortization of debt issue costs and note discounts.

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.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

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, 2020 and 2019, student loans held by the Authority had stated interest rates determined annually by the DOE ranging from 4.06% to 8.50% and 3.63% to 8.50%, respectively, are generally payable by the borrower following a specified grace period. Effective July 1, 2020, the DOE reset these rates to range from 1.83% 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.

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

	June 30,	
	<u>2020</u>	<u>2019</u>
Student loan interest revenue	\$ 50,521	\$ 55,019
Interest subsidiary revenue	2,201	2,869
Special allowance revenue (rebate)	(1,322)	6,812
Loan premium amortization	(44)	(1,757)
Loan discount amortization	720	720
Borrower benefits	-	18
DOE rebate fees	<u>(9,021)</u>	<u>(10,166)</u>
Net interest revenue on student loan notes receivable	<u><u>\$ 43,055</u></u>	<u><u>\$ 53,515</u></u>

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.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

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

	June 30,	
	2020	2019
Student loan interest receivable	\$ 34,826	\$ 29,605
Interest subsidy receivable	474	657
Special allowance receivable (payable)	(1,444)	1,653
Interest receivable on student loan notes receivable	\$ 33,856	\$ 31,915

4. Student Loan Notes Receivable

Student loan notes are purchased by the Authority primarily from affiliates. The Authority's student loan portfolio consists solely of loans originated under the FFELP federally sponsored student loan program.

Total student loan notes receivable consist of the following:

	June 30,	
	2020	2019
FFELP student loan notes receivable	\$ 1,092,545	\$ 1,246,812
Private student loan notes receivable	61,331	-
Deferred loan premiums and transfer fees, net of accumulated amortization	622	-
Deferred loan discounts net of accumulated amortization	(807)	(1,528)
	1,153,691	1,245,284
Allowance for student loan losses	(1,284)	(865)
Student loan notes receivable, net	\$ 1,152,407	\$ 1,244,419

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

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
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(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 five and ten 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 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. 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.

The Authority's alternative loans are education-related student loans. The Authority bears all risk of loss on uninsured alternative loans.

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 loan program 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 known as Sallie Mae Servicing Corporation) on behalf of the Authority. Under the terms of these subservicing agreements, the sub-servicer 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, 2020 and 2019, 100% of the loan portfolio is serviced by third-party sub-servicers.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

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. The Authority determines the allowance for loan losses based on loss factors applied to the portion of 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.

The Authority's alternative loans that do not have a loan guarantee are primarily education-related student loans to students attending postsecondary educational institutions or career training institutions. A quarterly review is performed on the alternative outstanding loan balances compared to historical delinquencies incurred. Based on this analysis, the Authority records an allowance for these loans based on the loan type and delinquency of the loans.

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

	June 30,	
	2020	2019
Balance, beginning of year	\$ 865	\$ 1,027
Provision for loan losses	777	294
Charge-offs	(358)	(456)
Balance, end of year	\$ 1,284	\$ 865

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

5. Notes and Bonds Payable

During October 2019, the Authority issued \$35,185 of Series 2019-1 bonds consisting of \$17,450 of taxable fixed rate bonds and \$17,735 in tax-exempt fixed rate bonds.

During March 2020, the Authority issued \$67,590 of Series 2020-1 bonds consisting of \$37,025 of taxable fixed rate bonds and \$30,565 in tax-exempt fixed rate bonds.

Notes and Bonds payable consist of the following:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Final Maturity Date</u>
Student Loan Revenue Note Series 2010 A-1 through A-2 and B-1 through B-3	\$ 310,926	\$ 354,585	February 2029 - February 2041
Student Loan Revenue Note Series 2011 A-1 through A-3 and B-1 through B-5	411,664	469,000	February 2047
Student Loan Revenue Note Series 2011 II-A-1 through II-A-3 and II-B-1 and II-C-1	410,728	475,275	July 2045
Student Loan Revenue Bond Series 2019-1 A-1 and B-1	35,185	-0-	April 1, 2021 – April 1, 2040
Student Loan Revenue Bond Series 2020-1 A-1 and B-1	67,590	-0-	April 1, 2021 – April 1, 2040
Notes payable to BHESC (see Note 9)	10,371	5,285	February 2031
	<u>1,246,464</u>	<u>1,304,145</u>	
Unamortized debt issue costs	(2,070)	(1,408)	
Unamortized note/bond premiums/discounts	(11,045)	(9,955)	
	<u>\$1,233,349</u>	<u>\$1,292,782</u>	

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
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The Series “A” notes/bonds are senior notes/bonds and the Series “B” and Series “C” notes/bonds are subordinate notes/bonds. Per the indentures, the senior notes/bonds have a superior interest to the indenture assets over the subordinate notes/bonds. Due to this higher risk, subordinate notes/bonds yield a higher interest rate. Interest rates for the various notes/bonds series are based on fixed and variable rates. The interest rates at June 30, 2020 and 2019, for each class of notes/bonds are:

		<u>June 30, 2020</u>	<u>June 30, 2019</u>
Floating rate Securities	3-month LIBOR plus spread varying from 0.80% – 1.25%	1.16% – 2.19%	2.47% – 3.77%
Tax-Exempt Bonds	Fixed Rate	3.00% - 5.00%	-
Taxable Bonds	Fixed Rate	1.74% – 3.26%	-

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 and note/bond agreements, the Authority is subject to certain financial and nonfinancial covenants. Under the note/bond 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/bonds will default.

The maturities of notes and bonds payable as of June 30, 2020, by fiscal year, are as follows:

2021	\$ 3,465
2022	7,025
2023	7,475
2024	7,380
2025	7,570
Thereafter	<u>1,213,519</u>
	<u>\$ 1,246,434</u>

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

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

6. Fund Balance (Deficit)

Fund Balance with Restrictions

As noted in *Note 2* of Significant accounting policies of the Authority, the fund balance with restrictions by each indenture as noted on the balance sheets. For the Authority, fund balance with restrictions for the fiscal years ended June 30, 2020 and 2019 is noted below:

	June 30,	
	2020	2019
Subject to expenditure for specified purpose:		
Fund balance with restrictions	\$ 31,163	\$ 21,031

Fund Balance (Deficit) without Restrictions

As noted in *Note 2* of significant accounting policies of the Authority, fund balance (deficit) without restrictions is limited to any non-debt related funds as of fiscal years ended June 30, 2020 and 2019 designated as fund balance (deficit) without restrictions on the balance sheets.

	June 30,	
	2020	2019
Fund balance (deficit) without restrictions	\$ (10,572)	\$ (5,703)

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, fund balance with restrictions saw revenues over expenses in the amount of \$10,132 and \$3,599 and the non-debt related fund balance (deficit) without restrictions saw revenue under expenses of \$4,869 and \$303 for the years ended June 30, 2020 and 2019, respectively.

Brazos Higher Education Authority, Inc.
Notes to Financial Statements (continued)
(In Thousands)
June 30, 2020 and 2019

7. Revenue of the Authority

Revenue recognition of the direct, significant revenue of the Authority is disclosed in *Note 2* to the financial statements.

Disaggregation of Revenue

The disaggregation of total revenue per percentage including both interest revenue and noninterest revenue is as follows for the years ended June 30, 2020 and 2019:

	June 30,	
	2020	2019
Interest revenue:		
Student loans note receivable	97.52%	97.11%
Investments	1.59%	2.15%
Noninterest revenues:		
Other	0.89%	0.74%

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 is for specific purposes of the fund. Funds of the Authority are only available for general expenditure through the fund balance without restrictions.

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, 2020 and 2019, the Authority recorded \$2,240 and \$2,517, respectively, in administrative and servicing fees paid to BHESC, Master Servicer, for providing administrative support, such as accounting and information technology infrastructure, respectively.

During the years ended June 30, 2020 and 2019, the Authority purchased \$69,643 and \$-0-, respectively, in principal amounts of student loans from affiliated entities at market prices.

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During the years ended June 30, 2020 and 2019, affiliated entities purchased \$41 and \$-0-, respectively, in principal amounts of student loans from the Authority at market prices.

The Authority has a note payable to BHESC. At June 30, 2020 and 2019, the total amounts outstanding were \$5,285 and \$5,285, respectively. The note carries an interest rate of 5.75% and matures February 14, 2031. The Authority incurred interest expense of \$304 and \$304 in the years ended June 30, 2020 and 2019, respectively, and had accrued interest of \$723 and \$419 at June 30, 2020 and 2019, respectively.

During 2020 fiscal year, BHESC issued the Authority a revolving note in the amount of \$20,000. The note carries an interest rate of 4.00% and matures April 3, 2045. At June 30, 2020, the total outstanding amount drawn against the note was \$5,086. The Authority incurred interest expense of \$101 and had accrued interest of \$101.

10. Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively affect the financial position, results of operations and cash flows of the Authority. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Subsequent events have been evaluated through October 27, 2020, which is the date the financial statements were available to be issued. No events requiring disclosure were noted.