Vermont Student Assistance Corporation

(A Component Unit of the State of Vermont)

Basic Financial Statements and
Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vermont Student Assistance Corporation

We have audited the accompanying financial statements of Vermont Student Assistance Corporation (VSAC), a component unit of the State of Vermont, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise VSAC's basic 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 VSAC as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S generally accepted accounting principles require that management's discussion and analysis on pages 3 through 18 be presented to supplement the basic financial statements. Such information, although not 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 U.S. generally accepted auditing standards, 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.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 7, 2014

Registration No: 92-0000278

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Years Ended June 30, 2014 and 2013

The Vermont Student Assistance Corporation (VSAC or the Corporation), a public nonprofit corporation, was created as an instrumentality and agency of the State of Vermont (the State) by the State's Legislature in 1965 and exists under Chapter 87 of Title 16, Vermont Statutes Annotated for the purpose of ensuring that Vermont students and parents have the necessary information and financial resources to pursue their education goals beyond high school. VSAC awards grants and scholarships, and finances, guarantees, originates, and services education loans to students and parents. VSAC also administers outreach services to students seeking postsecondary education opportunities. Finally, VSAC manages the Vermont Higher Education Investment Plan.

VSAC administers the State grant program, funded by State appropriations, at no cost to the State. VSAC administers and awards over 105 scholarship funds, including VSAC assisted scholarships and scholarship funds held and managed by VSAC.

VSAC's education loan programs are financed through issuance of limited obligation bonds and short-term credit facilities. Certain education loans are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education (ED) through the Federal Family Education Loan (FFEL) Program. VSAC education loans are available to Vermont students attending both in-state and out-of-state institutions, and to students of Vermont institutions.

VSAC's outreach services are funded through a variety of federal grants including GEAR UP, College Access Challenge Grant, and Talent Search, as well as through State grants, and general corporate support.

Management's Discussion and Analysis Report includes Fiscal 2014 and Fiscal 2013 information due to the fact that the Financial Statements include Fiscal 2014 and Fiscal 2013 information.

The Financial Statements

VSAC's financial statements are a series of reports that detail financial information using accounting methods similar to those used by private businesses, especially financial institutions.

The statement of revenues, expenses and changes in net position present the results of VSAC's operations. The statement reports all revenues and expenses, and reconciles the beginning and end of year net position balances.

The statement of net position includes all the Corporation's assets, liabilities and deferred inflows/outflows. The statement also presents the balance of assets in excess of liabilities and deferred inflows or net position.

The statement of cash flows supplements these statements providing relevant information about cash receipts and payments for the Corporation.

The notes to financial statements are an integral part of the financial statements and contain information necessary to get a complete view of VSAC's financial position.

FISCAL 2014

Fiscal 2014 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2014 and 2013 was \$4.6 million and \$9.0 million, respectively.
- During the year ended June 30, 2014, VSAC had a net operating surplus of \$3.7 million compared to an operating deficit of \$10.1 million during the year ended June 30, 2013.
- Any deferred gains or losses related to refinanced bonds are included in deferred inflows of resources or deferred outflows of resources, respectively, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The deferred gains or losses are amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred gains related to refinanced bonds was \$63.1 million before amortization of \$8.0 million and \$4.5 million for the year ended June 30, 2014 and 2013, respectively.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, decreased \$3.0 million from 2013 to 2014. Bond interest costs were down \$0.4 million due primarily to reductions in bonds outstanding. The deferred gain amortization for 2014 was \$8.0 million versus \$4.5 million in 2013.
- VSAC recorded gains of \$887 thousand in 2014 as a result of retiring certain bonds before their maturity for less than par value. This activity resulted in a gain of \$19.0 million in 2013.
- VSAC's total net position increased \$4.6 million to \$168.5 million.
- During the year ended June 30, 2014, VSAC provided \$24.9 million in grants and scholarships to Vermont students.
- VSAC originated \$27.2 million in new loans to students and parents. VSAC holds and services \$1.3 billion in education loans receivable and related interest at June 30, 2014.
- VSAC returned over \$3.9 million in interest rebates to students in its loan programs during fiscal 2014.

Condensed Financial Information

Statements of Net Position

	2014	2013
	(In Thousands)	
Assets:		
Cash and investments	$ 93,628	$ 100,314
Education loans receivable (plus interest)	1,266,921	1,437,985
Other assets	18,232	19,072
Total assets	$1,378,781	$1,557,371
Liabilities:		
Bonds and notes payable (plus interest)	$1,148,713	$1,322,867
U.S. Treasury rebates payable	1,467	1,200
Other liabilities	9,456	10,794
Total liabilities	1,159,636	1,334,861
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	50,653	58,604
Total liabilities and deferred inflows of resources	1,210,289	1,393,465
Net position:		
Restricted	39,776	33,850
Unrestricted	112,631	113,225
Net investment in capital assets	16,085	16,831
Total net position	168,492	163,906
Total liabilities, deferred inflows of resources and net position	$1,378,781	$1,557,371

Statements of Revenues, Expenses and Changes in Net Position

	2014	2013
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	$ 48,607	$ 56,273
Other loan and guarantee program revenues	6,729	6,209
Investment interest	264	376
Vermont state appropriations	20,468	19,444
Federal grants	5,572	5,955
Scholarship and gift income	3,701	3,621
Federal loan servicing income	2,688	3,050
Other income	1,365	923
Total operating revenues	89,394	95,851
Operating expenses:		
Grants and scholarships	24,896	24,535
Interest rebated to borrowers	3,937	4,727
Interest on debt, net of amortization	6,920	9,953
Other loan financing costs	20,273	37,187
Corporate operating expenses and depreciation	29,669	29,525
Total operating expenses	85,695	105,927
Change in net position from operations	3,699	(10,076)
Gains on early bond extinguishments	887	19,035
Change in net position	4,586	8,959
Net position, beginning of year	163,906	154,947
Net position, end of year	$168,492	$163,906

Net Position

Cash and investment balances decreased $6.7 million from June 30, 2013 to June 30, 2014 from $100.3 to $93.6 million. The cash was used to make required principal payments on restricted bonds, to extinguish existing debt for less than par value and to pay costs of issuing new bonds.

Student loans and interest receivable totaled $1.3 billion at June 30, 2014, down from $1.4 billion in 2013. This decrease is due to loan principal collections being in excess of new loan originations in the VSAC private loan program.

Bonds and notes payable decreased $174.2 million from $1.3 billion at June 30, 2013 to $1.1 billion at June 30, 2014. VSAC's financing activity in 2014 was comprised primarily of the following (in millions):

Early extinguishments - 1995-2012 series bonds	$ (18.6)
Principal payments, 2012-13 variable rate notes	(170.4)
Scheduled principal payments, VSAC fixed rate bonds	(0.5)
Issuance of 2013A-1 Student loan financing bond	15.6
Other scheduled payments on various bonds	(0.3)
	$ (174.2)

The 2012-13 variable rate notes, which were issued that year to refund letter of credit bonds, the ABCP Conduit note, and failed auction rate bonds, include a feature which requires that periodic calculations of available cash are used to pre-pay bond principal.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2014 to $1.5 million from $1.2 million as of June 30, 2013.

Unrestricted net position decreased from $113.2 million at June 30, 2013 to $112.6 million at June 30, 2014. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is $1.3 million. VSAC's unrestricted net position at June 30, 2014 and 2013 consists of (in millions):

	2014	2013
Cash held for new bond issuance and operating reserves	$ 31.8	$ 21.7
Investment in student loans and related interest	57.4	63.3
Physical plant	16.1	16.8
Subordinated VSAC bonds	22.5	22.5
Other	0.9	5.8
Total unrestricted including Investment in Capital Assets	$ 128.7	$ 130.1

Restricted net position increased from $33.9 million at June 30, 2013 to $39.8 million at June 30, 2014. This increase was primarily in the bond funds due to the operating surplus in those funds. Of the $39.8 million, $34.6 million is restricted by bond resolutions. The remaining $5.2 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2014 financial results increased net position by $4.6 million. All revenues except gains on early extinguishment of debt are considered operating revenues. VSAC realized $89.4 million in operating revenues versus $85.7 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and servicing fees earned for servicing student loans owned by the United States government.

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2014, loan revenue decreased from $56.3 to $48.6 million. The components of loan revenue changes are (in thousands):

	2014	2013
U.S. Department of Education Interest Benefits	$ 3,775	$ 5,276
U.S. Department of Education Special Allowance	152	2,830
Borrower interest and fees on student loans	69,649	77,259
Borrower interest paid to Department of Education	(24,969)	(29,092)
	$ 48,607	$ 56,273

Interest for certain loans is paid by ED as a subsidized interest benefit to qualifying borrowers. ED also pays special allowance payments under certain interest rate conditions. Because no new FFEL Program loans have been created since June 30, 2010, all of the revenue lines associated with this program have decreased this year. Additionally, certain borrower interest, in excess of the special allowance formulae, must be paid to ED each quarter. The amount paid decreased as overall FFEL Program loans outstanding decreased.

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Excluding our 2010A-1, 2011A-1, 2012A-1 and 2013A-1 private loan financing bonds, our outstanding note and bond rates are reset on periodic intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates. Interest rates on our 2010A-1, 2011A-1, 2012A-1 and 2013A-1 series bonds are fixed and are secured by fixed rate VSAC private student loans.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled $6.7 million in 2014 and $6.2 million in 2013. This increase is due to increased revenues from successfully rehabilitating defaulted loans.

Interest rates remained very low throughout the year; however, the balances invested were also lower resulting in decreased interest revenue on investments. Investments include student loan funds temporarily invested in short term investments, and scholarship funds invested for long-term growth and income. Other gains related to investing, both realized gains on sales and unrealized gains on appreciated assets held at year end, are reflected in the Other Income line and were $570 in 2014 and $363 in 2013.

VSAC's State funding support increased from $19.4 million to $20.5 million. The primary driver for this was an increase of $1.1 million in the need-based grants appropriation. As in prior years, the State's appropriation for the grant program was allocated entirely to provide grant funds directly to students.

Federal grants decreased slightly from $6.0 million in fiscal 2013 to $5.6 million in fiscal 2014. The decrease is due to the end of Federal funding under the College Access Challenge Grant. Under VSAC's Federal grants, revenues are applied for only after VSAC has incurred the expenses for administration, program activities and scholarships.

Scholarship revenues, principally restricted gifts and grants, increased slightly from $3.6 million in 2013 to $3.7 million in 2014.

Revenues earned for servicing Federal-owned student loans decreased from $3.1 million in 2013 to $2.7 million in 2014. The revenues in 2013 included $1.3 million in one-time amounts paid to VSAC by ED for initial system set up and loan transfers, completed in January 2013, under the program. Other differences in Federal loan servicing revenue are due to VSAC servicing loans for six months in 2013 and twelve months in 2014.

Expenses

VSAC has four main types of expenses: 1. Student aid, 2. Interest and other costs of debt, 3. Noninterest costs of financing loans, and 4. Costs of operations.

Student Aid – VSAC provided Vermont students with $24.9 million in student aid during fiscal 2014. $19.8 million in grant aid was provided from State appropriations. An additional $5.1 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 29.0% of VSAC's operating expenses in fiscal 2014 compared to 23.2% in 2013.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided $3.9 million in rebates of interest to borrowers in 2014 which represents 4.6% of VSAC's operating expenses in fiscal 2014 compared to 4.5% in 2013. The dollar amount of this expense will continue to decline as the loans outstanding eligible for the rebates decrease.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the $27.2 million of loans VSAC made available to students and parents in fiscal 2014.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues bonds. The interest costs of the bonds represent a major expense category for VSAC. The interest rates for the 1995-2007 series variable-rate bonds are set using auction processes that result in rates closely tracking various SIFMA indices or one month LIBOR. The ongoing liquidity freeze for VSAC's auction rate bonds adversely affected the rate paid on those bonds. When auctions were not successful in resetting rates, rates were derived using formulas. The formulas use various published short term indices multiplied by a margin or an average of Treasury bills with a margin added to that index. To help reduce VSAC's exposure to auction bond interest rate risk, the Corporation in 2013 issued refinancing notes and used existing cash to refund and extinguish $1.3 billion of bonds and notes before their scheduled maturities leaving $78.8 million and $66.5 million in auction rate bonds outstanding as of June 30, 2013 and 2014 respectively. The notes which were issued to refinance the 1995-2007 series, 2008 series, and ABCP Conduit facilities bear interest at a fixed margin added to one or three month LIBOR. This margin was set at the time the bonds were sold and does not change over the life of the bonds. The loan assets pledged to these bonds have their interest rates set the same way. The loans have a margin, fixed at the time the loans were issued, added to LIBOR. These refinancing bonds result in a better match of interest revenue to bond expense.

Because of the failed auction rates and the general increase in effective interest rates from fiscal 2013 to 2014, and despite the decrease in bond and note balances (as outlined above), VSAC interest costs before the amortization of deferred gains on early refunding of bonds payable ($8.0 million in 2014 and $4.5 million in 2013) increased slightly from $14.5 to $14.9 million. Net of deferred gains on early refunding, this expense represents 8.1% of VSAC operating expenses in fiscal 2014 down from 9.4% in 2013.

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing $1.1 billion in outstanding bonds and notes. These costs totaled $20.3 million in fiscal 2014 and $37.2 million in 2013, representing approximately 23.7% and 35.1% respectively of total operating expenses in these years. The decrease of $16.9 million in this expense was the result of decreased bond issuance costs and other loan related expenses (down $12.9 million because of large one-time refinancing costs in 2013), credit enhancement expenses (down $4.0 million due to decreased outstanding balances of auction rate bonds), and provision for loan losses (down $1.5 million due to decreased loan balances and improved collections performance). Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs, totaled $29.7 million in fiscal 2014, essentially flat from fiscal 2013. The primary components of VSAC's operating costs (in thousands) were for the years ending June 30:

	2014	2013
Salaries and wages	$ 14,026	$ 13,743
Employee health care costs	3,863	3,824
Other employee benefit costs	2,847	2,811
Administrative expenses	8,933	9,147
Total Costs of Operations	$ 29,669	$ 29,525

Overall costs of operations represent 34.6% of total operating expenses in fiscal 2014 compared to 27.9% in 2013.

Expenses for 2014 totaled $85.7 million. Revenues including gains on discounted bond extinguishments totaled $90.3 million. The change in total net position for the year was an increase of $4.6 million. The ending balance of net position at June 30, 2014 was $168.5 million, as compared to $163.9 million at June 30, 2013.

FISCAL 2013

Fiscal 2013 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2013 and 2012 was $9.0 million and $8.6 million respectively.
- During the year ended June 30, 2013, VSAC had a net operating deficit of $10.1 million compared to an operating surplus of $3.7 million during the year ended June 30, 2012.
- Any deferred gains or losses related to refinanced bonds are included in deferred inflows of resources or deferred outflows of resources, respectively, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The deferred gains or losses are amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred gains related to refinanced bonds was $63.1 million before amortization of $4.5 million for the year ended June 30, 2013.
- Interest expense on bonds issued to finance student loans decreased $2.0 million from 2012 to 2013. While VSAC's outstanding balance of bonds and note payable debt decreased, our overall out of pocket interest costs increased $2.5 million due to a rising interest rate environment and due to the refinancing of failed auction bonds. However, during the year ended June 30, 2013, interest expense has been reduced by $4.5 million for the amortization of the deferred gains on early refunding of bonds payable that occurred during the year ended June 30, 2013.
- VSAC recorded gains of $82.2 million in 2013 as a result of retiring certain bonds before their maturity for less than par value. This gain was $4.9 million in 2012. The increase in this item was due to VSAC's successful negotiation of discounted redemptions with several investors holding large balances of failed VSAC auction securities.
- VSAC's total net position increased $9.0 million to $163.9 million.
- During the year ended June 30, 2013, VSAC provided $24.5 million in grants and scholarships to Vermont students.
- VSAC originated $20.9 million in new loans to students and parents. VSAC holds and services $1.4 billion in education loans receivable and related interest at June 30, 2013.
- VSAC returned over $4.7 million in interest rebates to students in its loan programs during fiscal 2013.
- In November, 2012 VSAC became a Not for Profit servicer of Federally-owned student loans. During the year, VSAC received its initial allocation of just in excess of 100,000 borrowers and hopes to increase the allotment beginning in fiscal 2015.

Condensed Financial Information

Statements of Net Position

	2013	2012
	(In Thousands)	
Assets:		
Cash and investments	$ 100,314	$ 333,862
Education loans receivable (plus interest)	1,437,985	1,655,388
Other assets	19,072	20,500
Total assets	$1,557,371	$2,009,750
Liabilities:		
Bonds and notes payable (plus interest)	$1,322,867	$1,820,946
U.S. Treasury rebates payable	1,200	22,663
Other liabilities	10,794	11,194
Total liabilities	1,334,861	1,854,803
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	58,604	-
Total liabilities and deferred inflows of resources	1,393,465	1,854,803
Net position:		
Restricted	33,850	113,884
Unrestricted	113,225	40,386
Net investment in capital assets	16,831	677
Total net position	163,906	154,947
Total liabilities, deferred inflows of resources and net position	$1,557,371	$2,009,750

Statements of Revenues, Expenses and Changes in Net Position

	2013	2012
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	$ 56,273	$ 67,300
Other loan and guarantee program revenues	6,209	6,941
Investment interest	376	458
Vermont state appropriations	19,444	19,623
Federal grants	5,955	6,378
Scholarship and gift income	3,621	3,770
Federal loan servicing income	3,050	-
Other income	923	454
Total operating revenues	95,851	104,924
Operating expenses:		
Grants and scholarships	24,535	26,053
Interest rebated to borrowers	4,727	5,642
Interest on debt, net of amortization	9,953	11,963
Other loan financing costs	37,187	29,730
Corporate operating expenses and depreciation	29,525	27,828
Total operating expenses	105,927	101,216
Change in net position from operations	(10,076)	3,708
Gains on early bond extinguishments	19,035	4,881
Change in net position	8,959	8,589
Net position, beginning of year	154,947	146,358
Net position, end of year	$163,906	$154,947

Net Position

Cash and investment balances decreased from June 30, 2012 to June 30, 2013 from $333.9 to $100.3 million. The decrease in cash is mostly in the restricted bond funds and is due to VSAC's loan refunding activity during the year. The cash was used to refund and extinguish existing debt for less than par value and to provide the initial investment, or 'over-collateralization', needed to issue the refunding bonds.

Student loans and interest receivable totaled $1.4 billion at June 30, 2013, down from $1.7 billion in 2012. This decrease is due to loan principal collections being in excess of new loan originations in the VSAC private loan program.

Bonds and notes payable decreased $498.1 million from $1.8 billion at June 30, 2012 to $1.3 billion at June 30, 2013. VSAC's financing activity in 2013 was extensive and complex and was undertaken to accomplish several objectives including:

- The refinancing of failed auction rate securities which represented a significant business risk in the event of increases in market interest rates.
- The refinancing of VSAC's long term debt during a period where interest rates were still close to historic lows.
- The utilization of large restricted cash balances accumulating in certain bond trusts due to the end of loan originations ('recycling') to extinguish bonds for less than par or face value and to provide the up-front over-collateralization needed to issue refinancing bonds.
- The liquidity features of certain bonds, such as the 2008B and 2008C series as well as the federally backed ABCP note, were scheduled to expire in the intermediate future.
- The VSAC ongoing objective of reducing its operating expenses, in this case by retiring its 2003 general obligation building bond early and avoiding future interest expenses.

A summary of this activity during 2013 (in millions) is:

Early extinguishments and refunding - 1995-2007 series	$(1,290)
Principal payments, early extinguishments and refunding - 2008 trusts	(251)
Principal payments, early extinguishments and refunding - 2003 GO building bond	(17)
Principal payments, early extinguishments and refunding - ABCP Conduit	(149)
Issuance of 2012A-1 Student loan financing bond	21
Issuance of refinancing bonds series 2012-1, 2012-B and 2013-1	1,261
Other scheduled principal payments on various bonds	(73)
	$ (498)

U.S. Treasury rebates payable is described in the expense discussion. This liability decreased as of June 30, 2013 to $1.2 million from $22.7 million as of June 30, 2012.

Unrestricted net position increased from $40.4 million at June 30, 2012 to $113.2 million at June 30, 2013. Including the Net Investment in Capital Assets section of Net Position the year over year increase is $89.0 million. The unrestricted position is used to provide credit enhancement for new credit facilities, to invest in student loans, and for corporate working capital. The increase in unrestricted net position is due to resources released from the various restricted bond funds as a result of VSAC's bond refunding activity during the year. During 2013 VSAC's Board of Directors and Executive Committee designated unrestricted net position for the following purposes (in millions):

Early retirement of 2003 GO building bond	$17
Investment in VSAC originated and serviced student loans	54
Maintenance of cash operating reserves	7
Cash reserve for credit enhancement of new credit facilities	12

As of June 30, 2013 the Board designated reserves for cash operating reserves and new credit facilities are still in effect; the early retirement of the 2003 building bond and investment in student loans were completed during the year then ended.

Unrestricted net assets invested in student loans (and associated accrued interest receivable) totaled $63.3 million at June 30, 2013 compared to $13.3 million at June 30, 2012.

Restricted net position decreased from $113.9 million to $33.9 million at June 30, 2013. This decrease was primarily in the bond funds and was primarily due to the refinancing releases to VSAC's unrestricted funds which are described above, partially offset by gains on early debt retirement. Of the $33.9 million, $29.4 million is restricted by bond resolutions. The remaining $4.5 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2013 financial results increased net position by $9.0 million. All revenues except gains on early extinguishment of debt are considered operating revenues. VSAC realized $114.9 million in revenues versus $105.9 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and servicing fees earned for servicing student loans owned by the United States government.

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2013, loan revenue decreased from $67.3 to $56.3 million. The components of loan revenue changes are (in thousands):

	2013	2012
U.S. Department of Education Interest Benefits	$ 5,276	$ 8,063
U.S. Department of Education Special Allowance	2,830	7,393
Borrower interest and fees on student loans	77,259	87,788
Borrower interest paid to Department of Education	(29,092)	(35,944)
	$ 56,273	$ 67,300

Interest for certain loans is paid by ED as a subsidized interest benefit to qualifying borrowers. ED also pays special allowance payments under certain interest rate conditions. Because no new FFEL Program loans have been created since June 30, 2010, all of the revenue lines associated with this program have decreased in 2013. Additionally, certain borrower interest, in excess of the special allowance formulae, must be paid to ED each quarter. The amount paid decreased as overall FFEL Program loans outstanding decreased.

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Excluding our 2010A-1, 2011A-1 and 2012A-1 private loan financing bonds, our outstanding bond rates are reset on periodic intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates. Interest rates on our 2010A-1, 2011A-1 and 2012A-1 series bonds are fixed and are secured by fixed rate VSAC private student loans.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$6.2 million in 2013 and \$6.9 million in 2012. This decrease is due to the declining balances and activity of FFEL Program loans upon which the revenues are based.

Interest rates increased slightly but remained near record lows throughout the year; however, the balances invested were lower resulting in decreased interest revenue on investments. Investments include student loan funds temporarily invested in short term investments, and scholarship funds invested for long-term growth and income. Other gains (losses) related to investing, both realized gains (losses) on sales and unrealized gains (losses) on appreciated assets held at year end, are reflected in the Other Income line and were \$363 in 2013 and \$(49) in 2012.

VSAC's State grant program appropriation was essentially unchanged at \$19.4 million. As in prior years, the State's appropriation for the grant program was allocated entirely to provide grant funds directly to students.

Federal grants decreased slightly from \$6.4 million in fiscal 2012 to \$6.0 million in fiscal 2013. The decrease is mainly due to a decrease in scholarships disbursed under the GEAR UP program. Under VSAC's Federal grants, revenues are applied for only after VSAC has incurred the expenses for administration, program activities and scholarships.

Scholarship revenues, principally restricted gifts and grants, decreased slightly from \$3.8 million in 2012 to \$3.6 million in 2013.

In November of 2012, VSAC began servicing loans owned by the U.S. Department of Education and for the year ended June 30, 2013, earned revenues of \$3.1 million. Of this amount, \$1.3 million were one-time revenue items awarded by ED to partially offset the cost of becoming a Federal loan servicer.

Expenses

VSAC has four main types of expenses: 1. Student aid, 2. Interest and other costs of debt, 3. Noninterest costs of financing loans, and 4. Costs of operations.

Student Aid – VSAC provided Vermont students with \$24.5 million in student aid during fiscal 2013. In fiscal 2013, \$19.5 million in grant aid was provided from State appropriations. An additional \$5.0 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 23.2% of VSAC's operating expenses in fiscal 2013 compared to 25.7% in 2012.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$4.7 million in rebates of interest to borrowers in 2013 which represents 4.5% of VSAC's operating expenses in fiscal 2013 compared to 5.6% in 2012. The dollar amount of this expense will continue to decline as the loans outstanding eligible for the rebates decreases.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the \$20.9 million of loans VSAC made available to students and parents in fiscal 2013.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues bonds and uses short-term credit facilities. The interest costs of the bonds represent a major expense category for

VSAC. The interest rates for the 1995-2007 series variable-rate bonds are set using auction processes that result in rates closely tracking various SIFMA indices or one month LIBOR. The ongoing liquidity freeze for VSAC's auction rate bonds adversely affected the rate paid on those bonds. When auctions were not successful in resetting rates, rates were derived using formulas. The formulas use various published short term indices multiplied by a margin or an average of Treasury bills with a margin added to that index. To help reduce VSAC's exposure to auction bond interest rate risk, the Corporation issued refinancing bonds and used existing cash to refund and extinguish $1.3 billion of bonds before their scheduled maturity date at prices below par. The bonds which were issued to refinance the 1995-2007 series, 2008 series, and ABCP Conduit facilities bear interest at a fixed margin added to one or three month LIBOR. This margin was set at the time the bonds were sold and does not change over the life of the bonds. The loan assets pledged to these bonds have their interest rates set the same way. The loans have a margin, fixed at the time the loans were issued, added to LIBOR. These refinancing bonds result in a better match of interest revenue to bond expense.

Because of the failed auction rates and the general increase in interest rates from fiscal 2012 to 2013, and despite the decrease in bond and note balances (as outlined above), VSAC interest costs before the amortization of deferred gains on early refunding of bonds payable of $4.5 million increased from $12.0 to $14.5 million. Net of deferred gains on early refunding, this expense represents 9.4% of VSAC operating expenses in fiscal 2013 down from 11.8% in 2012.

<u>Other Loan Financing Costs</u> – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing $1.3 billion in outstanding bonds and notes. These costs totaled $37.2 million in fiscal 2013, representing approximately 35.1% of total operating expenses (increased from 29.4% in 2012). With one important exception, bond issuance costs, changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness and changes in arbitrage liability. Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

The main driver behind the increase in Other Loan Financing Costs from 2012 to 2013 was the costs associated with issuance of the refinancing bonds discussed above. Costs associated with issuing new bonds during the year ended June 2013 were $9.5 million compared to $0.6 million in 2012. These costs historically consist of underwriters' discounts, bond counsel, advisory, and rating agency fees. Since these elements of Other Loan Financing Costs in 2013 were associated with the bond refinancing activity described above they are not expected to recur.

In fiscal 2013, VSAC's provision for losses on student loans (net of recoveries) was $11.6 million compared to $11.4 million in fiscal 2012. Although VSAC's portfolio of student loans is decreasing following the end of the FFEL Program, the VSAC private loan program portion of our portfolio is increasing. These uninsured loans comprised 19.1% of total VSAC student loans at the end of 2013; at the end of 2012 this value was 17.3%. This, together with the increase of loans entering repayment, is driving these higher loan loss expenses.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs, totaled $29.5 million in fiscal 2013, an increase of approximately 6.1% from fiscal 2012. The amount of the year over year increase was $1.7 million, approximately equal to operating expenses associated with the new VSAC Federal loan servicing activities ($1.8 million, of which $0.3 million is non-recurring). Salaries and benefits were $20.4 million in fiscal 2013, approximately 69.0% of costs of operations. Overall costs of operations represent 27.9% of total operating expenses in fiscal 2013 compared to 27.5% in 2012.

Expenses for 2013 totaled $105.9 million. Revenues including gains on discounted bond extinguishments totaled $114.9 million. The change in total net position for the year was an increase of $9.0 million. The ending balance of net position at June 30, 2013 was $163.9 million, as compared to $154.9 million at June 30, 2012.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF NET POSITION

June 30, 2014 and 2013

ASSETS

	2014	2013
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$ 38,508	$ 28,651
Investments	4,293	3,751
Receivables		
Student loans, net	156,389	163,525
Student loan interest and special allowance	9,517	11,710
Investment interest	-	1
Federal administrative and program fees	184	228
Other	1,486	1,147
Other assets	477	865
Total current assets	210,854	209,878
Noncurrent assets:		
Restricted cash	50,827	67,912
Receivables		
Student loans, net	1,101,015	1,262,750
Capital assets, net	16,085	16,831
Total noncurrent assets	1,167,927	1,347,493
Total assets	$1,378,781	$1,557,371

See accompanying notes to the financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2014	2013
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	$ 500	$ 500
Accounts payable and other liabilities	3,381	4,319
Accrued interest on bonds payable	336	429
Unearned revenue	6,075	6,475
Total current liabilities	10,292	11,723
Noncurrent liabilities:		
Bonds and note payable	1,147,877	1,321,938
U.S. Treasury rebates payable	1,467	1,200
Total noncurrent liabilities	1,149,344	1,323,138
Total liabilities	1,159,636	1,334,861
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	50,653	58,604
Total liabilities and deferred inflows of resources	1,210,289	1,393,465
Commitments and contingencies (Notes 14 and 15)		
Net position:		
Net investment in capital assets	16,085	16,831
Restricted	39,776	33,850
Unrestricted	112,631	113,225
Total net position	168,492	163,906
Total liabilities, deferred inflows of resources and net position	$1,378,781	$1,557,371

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2014 and 2013

	2014	2013
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	$ 3,775	$ 5,276
U.S. Department of Education special allowance	152	2,830
Borrower interest and fees on student loans	69,649	77,259
Borrower interest returned to U.S. Department of Education	(24,969)	(29,092)
Vermont state grants	20,468	19,444
Interest on cash and investments	264	376
Guarantee agency administrative revenues	6,729	6,209
Federal grants	5,572	5,955
Scholarship and gift income	3,701	3,621
Federal loan servicing income	2,688	3,050
Other income	1,365	923
Total operating revenues	89,394	95,851
Operating expenses:		
Interest, net of amortization of bond premium and deferred gains on early refunding of bonds payable	6,920	9,953
Salaries and benefits	20,736	20,378
Grants and scholarships	24,896	24,535
Interest rebated to borrowers	3,937	4,727
Other general and administrative	7,830	7,934
Interest subject to U.S. Treasury rebate	267	1,200
Change in estimated U.S. Treasury settlement costs	-	(3,476)
Credit enhancement and remarketing fees	509	4,489
Consolidation and lender paid fees	6,937	7,745
Other loan related expenses	1,896	6,157
Provision for losses on student loans	10,072	11,579
Depreciation	1,103	1,213
Bond issuance costs	592	9,493
Total operating expenses	85,695	105,927
Change in net position from operations	3,699	(10,076)
Nonoperating revenues:		
Gains on early bond extinguishments	887	19,035
Change in net position	4,586	8,959
Net position, beginning of year	163,906	154,947
Net position, end of year	$168,492	$163,906

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	2014	2013
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	$ 22,518	$ 27,821
Principal payments received on student loans	201,534	239,529
Cash paid to suppliers for goods and services	(18,341)	(36,140)
Grants and scholarship disbursements	(24,896)	(24,535)
Loans made and purchased	(27,230)	(20,908)
Cash paid to employees for salaries and benefits	(20,646)	(20,275)
Cash paid to U.S. Treasury for excess earnings at bond refunding	-	(19,186)
Interest and fees received on student loans	27,571	30,687
Vermont state appropriations received	20,468	19,444
Net cash provided by operating activities	180,978	196,437
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds payable	15,595	20,010
Other financing source – discounted bond refunding	-	1,262,500
Payments on bonds payable	(188,643)	(1,680,740)
Decrease in restricted cash	17,084	229,353
Interest paid to bond holders	(15,090)	(14,128)
Net cash used by noncapital financing activities	(171,054)	(183,005)
Cash flows from capital and related financing activities:		
Payments on bonds payable	-	(17,120)
Interest paid to bond holders	-	(915)
Acquisition and construction of fixed assets	(360)	(356)
Net cash used by capital and related financing activities	(360)	(18,391)
Cash flows from investing activities:		
Interest received on cash and investments	265	401
Purchase of investments	(163)	(935)
Proceeds from sale of investments	191	673
Net cash provided by investing activities	293	139
Net increase (decrease) in cash and cash equivalents	9,857	(4,820)
Cash and cash equivalents, beginning of year	28,651	33,471
Cash and cash equivalents, end of year	$ 38,508	$ 28,651
Supplemental disclosure of non-cash operating activities:		
Student loan interest capitalized	$ 18,182	$ 7,855

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF CASH FLOWS (CONCLUDED)

Years Ended June 30, 2014 and 2013

	2014	2013
	(In Thousands)	
Reconciliation of operating surplus (deficit) to net cash provided by operating activities:		
Surplus (deficit) of operating revenues over operating expenses	$ 3,699	$ (10,076)
Adjustments to reconcile the surplus (deficit) of operating revenues over operating expenses to net cash provided by operating activities:		
Depreciation	1,103	1,213
Provision for losses on student loans	10,072	11,579
Loss on fixed asset disposition	3	-
Accretion of bond discount	(126)	(57)
Amortization of deferred gains on early refunding of bonds payable	(7,952)	(4,517)
Realized and unrealized gain on investments	(570)	(363)
Investment interest received	(265)	(401)
Interest paid to bond holders	15,090	15,043
Changes in operating assets and liabilities:		
Investment interest receivable	1	25
Student loans receivable	158,800	198,028
Student loan interest receivable	2,192	7,795
Federal administrative and program fees receivable	44	34
Other receivables	(337)	30
Other assets	388	483
Accounts payable and other liabilities	(939)	(535)
Deferred revenue	(400)	134
Accrued interest on bonds payable	(92)	(515)
U.S. Treasury rebates payable	267	(21,463)
Total adjustments	177,279	206,513
Net cash provided by operating activities	$ 180,978	$ 196,437

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)

STATEMENTS OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2014 and 2013

	Federal Loan Reserve Fund	VHEIP	2014 Total	2013 Total
	(In Thousands)			
Assets held for others				
Cash and cash equivalents	$ 10,496	$ –	$ 10,496	$ 11,386
Investments	–	246,993	246,993	201,934
Investment interest receivable	–	118	118	–
Due from U.S. Department of Education	3,610	–	3,610	2,756
Other assets	–	194	194	88
Total assets	$ 14,106	$ 247,305	$ 261,411	$ 216,164
Liabilities				
Accounts payable and other liabilities	$ 1,623	$ 433	$ 2,056	$ 891
Federal advances	–	–	–	538
Amounts held on behalf of investors	–	246,872	246,872	201,876
Federal loan reserve funds held for U.S. Department of Education	12,483	–	12,483	12,859
Total liabilities	$ 14,106	$ 247,305	$ 261,411	$ 216,164

See accompanying notes to the financial statements.

1. Authorizing Legislation

The Vermont Student Assistance Corporation (VSAC) was created as a public nonprofit corporation by an act of the General Assembly of the State of Vermont (the State) as an instrumentality of the State in accordance with the provisions of the *Higher Education Act of 1965*, as amended (the Act). The purpose of VSAC is to provide opportunities for Vermont residents to pursue postsecondary education by awarding grants and guaranteeing, making, financing, and servicing loans to students. VSAC also administers scholarships, and outreach services to students seeking postsecondary education. In addition, VSAC manages the Vermont Higher Education Investment Plan (VHEIP).

Pursuant to Vermont statutes, VSAC is responsible for the administration of the Loan Finance Program. Under this program, VSAC originates, purchases, services and consolidates education loans. The majority of education loans are financed through the issuance of limited obligation bonds or credit facilities and are guaranteed by VSAC as a guarantor and reinsured by the U.S. Department of Education (ED) through the Federal Family Education Loan (FFEL) Program. In March 2010, Congress passed the *Student Aid and Fiscal Responsibility Act* which had the effect of ending new FFEL Program loan originations after June 30, 2010. The bonds, notes and credit facilities outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of the bonds and notes. The bonds and notes are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

For financial reporting purposes, VSAC is considered a component unit of the State of Vermont and is included as part of the State's financial reporting entity. VSAC's relationship with the State of Vermont consists primarily of an annual appropriation designated for grant aid to Vermont students. Additionally, VSAC is permitted to issue bonds using Vermont tax-exempt private activity bond cap and State of Vermont moral obligation in connection with the issuance of VSAC bonds.

The Vermont Student Development Fund, Inc. (the Fund), a separate nonprofit 501(c)(3) corporation, was established in November of 2000. The primary purpose of the Fund is to receive, hold and manage securities, cash or other property whether real, personal or mixed, acquired by bequest, devise, gift, purchase or loan. These assets are used primarily for scholarships and other financial assistance to benefit qualified individuals seeking a postsecondary education. The Fund provides a financial benefit to VSAC, and its Board of Directors is the same as the VSAC Board of Directors, therefore, it is considered a blended component unit of VSAC and is included in the totals on the financial statements. The IRS Form 990 of the Fund is a publicly-available document and includes the basic financial statements of this component unit. It can be obtained at the website www.guidestar.org.

The activity for the fiduciary funds described in Notes 5 and 6 is not included in the entity-wide financial statements for VSAC.

2. Summary of Significant Accounting Policies

Basis of Accounting

VSAC follows the accrual basis of accounting, using the economic resources measurement focus, whereby revenues are recorded when earned and expenses are recorded when obligation for payment is incurred.

The financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and 34*, and No. 38, *Certain Financial Statement Note Disclosures*. VSAC reports as a business-type activity, as defined, in GASB No. 34. Additionally, VSAC has adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which is intended to codify all sources of U.S. Generally Accepted Accounting Principles for state and local governments so that they can be found in one source.

In April 2013 GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* This statement is effective for financial statements for periods beginning after June 15, 2013, and earlier application is encouraged. VSAC implemented this pronouncement during the year ended June 30, 2014 resulting in no material change to financial reporting.

In March 2014 GASB issued Governmental Accounting Standards Board Concepts Statement No. 6, *Measurements of Elements of Financial Statements.* VSAC has reviewed this Concepts Statement and believes that the measurement methodologies of its Assets and Liabilities are in conformity with the provisions of this Concepts Statement.

Restrictions on Net Position

The restricted net position of VSAC is restricted by the credit resolutions, state statutes, donor restrictions, or various Federal regulations and program agreements and are restricted for the origination of student loans, payment of debt service on bonds and notes payable, and grant and scholarship activities. Financial activities and resulting account balances which are not so restricted are presented in the Statements of Net Position as unrestricted net position. VSAC's unrestricted net position is generally reserved for educational assistance purposes.

Net Investment in Capital Assets

Net investment in capital assets includes capital assets, net of the accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets. It also includes the unamortized bond discounts related to the outstanding debt.

2. Summary of Significant Accounting Policies (Continued)

Management Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires VSAC 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 could differ from those estimates. The most significant estimates utilized in the preparation of the financial statements of VSAC relate to the allowance for losses on student loans and the U.S. Treasury rebates payable.

Student Loans

Student loans consist of guaranteed and nonguaranteed loans made to undergraduate, graduate, or professional students, and parents of students attending eligible postsecondary educational institutions. Student loans also include consolidation loans which are loans to eligible students that refinance existing student loans.

Student loans are stated at their unpaid principal balance net of allowance for loan losses. Federal program origination or default fee expense paid on behalf of borrowers and private loan origination fee revenue received from borrowers are recognized as revenues or expenses as incurred in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Allowance for Loan Losses

VSAC issues loans that are either guaranteed by VSAC, as guarantor under the FFEL Program, or that carry no guarantee against default. Loans not guaranteed represent the greatest loss exposure for VSAC and make up the majority of management's loan loss allowance. The amount of the allowance, which is established through a provision for losses on student loans charged to expense, is based on management's estimation of the probable losses within the portfolio. Primary considerations in establishing the allowance are the amounts of loans in the portfolio, loss rate, delinquencies, current economic conditions and historical loss experience. The loss exposure for nonguaranteed loans is 100% of estimated defaults. For guaranteed loans, the loss exposures are either 2% or 3% of estimated defaults based on the origination date of the loan.

Operating and Nonoperating Revenue and Expenses

Operating revenues include interest earned on student loans and investments, fees received from providing services, state appropriations, and grant and scholarship revenue. Operating expenses include interest on bonds, the costs of providing services and operating all programs, and grant and scholarship awards. Nonoperating revenues include gains on early bond extinguishments.

Cash Equivalents

VSAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents include funds held in an institutional money market fund account.

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

VSAC invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the financial statements.

Capital Assets

Capital assets are stated at historical cost. Depreciation of capital assets that are placed in service is calculated using the straight-line method over the estimated useful lives of the assets. Capital asset acquisitions that equal or exceed $2.5 are capitalized.

Bond Issuance Costs

Costs of bond issuances, which are comprised of underwriters' fees, legal fees and other related financing costs, are recognized as expenses as incurred in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Bond Discount/Premium and Deferred Gain/Loss on Refunding

Bond discounts and premiums are amortized using a method which approximates the level yield method over the life of the bonds. Any deferred gains or losses related to refinanced bonds are included in deferred inflows of resources or deferred outflows of resources, respectively, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The deferred gains or losses are amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. During the years ended June 30, 2014 and 2013, interest expense has been reduced by $7,952 and $4,517, respectively, for the amortization of the deferred gains on early refunding of bonds payable that occurred during the years ended June 30, 2014 and 2013.

Grants

Unrestricted grants are recorded as revenue when received. Restricted grants are recorded as revenue upon compliance with the restrictions. Amounts received for grant programs that are restricted are recorded in unearned revenue until they become unrestricted. When both restricted and unrestricted resources are available to satisfy an expense when it is incurred, VSAC uses restricted resources first.

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Concluded)

FFEL Program Support

VSAC receives a percentage of the amounts collected on defaulted loans, an origination fee, a portfolio maintenance fee and a default aversion fee from ED as its primary support for the administration of the FFEL Program. These fees are recorded as guarantee agency administrative revenues when earned, as the services are provided.

Compensated Absences

Employees may accumulate, subject to certain limitations, unused vacation earned and upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation recognized as expense is the amount earned and this obligation is accrued.

Income Tax Status

VSAC is exempt from Federal and State income taxes under Section 115 of the Internal Revenue Code (IRC) and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

3. Cash, Cash Equivalents and Investments

VSAC's deposit and investment policy complies with the underlying bond resolution requirements. In accordance with those bond resolutions, all deposits and investments meet the requirements and approval of the letter of credit and bond insurance providers. Additionally, such requirements mandate specific classes of investment vehicles including: bank time deposits, certificates of deposit, direct obligations of the United States of America unconditionally guaranteed by the United States of America, indebtedness issued by certain Federal agencies, collateralized repurchase agreements secured by obligations of the United States of America with collateral held by or at the direction of the trustee, guaranteed investment contracts with banks or bank holding companies, commercial paper and open ended investment funds. Funds not related to the various bond resolutions may also be invested in domestic equities or corporate bonds.

Cash and Cash Equivalents

The carrying amounts which represent both cost and fair value of cash and cash equivalents as of June 30, 2014 and 2013 are presented below:

	2014	2013
Cash	$ 24,170	$ 17,089
Money market accounts	65,165	79,474
	$ 89,335	$ 96,563

3. Cash, Cash Equivalents and Investments (Continued)

At June 30, 2014 and 2013, cash is comprised of various commercial bank accounts. The bank balances at June 30, 2014 were $24,272 and the bank balances at June 30, 2013 were $17,079. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $345 of the bank balances at June 30, 2014 and 2013, were covered by Federal depository insurance. The balance above the FDIC limit is uncollateralized.

At June 30, 2014 and 2013, the money market accounts are primarily invested in the Fidelity Institutional Money Market Prime Money Market Portfolio (Class 1). The Fund invests in U.S. dollar-denominated money market securities of domestic and foreign issuers rated in the highest category by at least two nationally recognized rating services, U.S. Government securities, and repurchase agreements.

The bond and note indentures require certain cash and cash equivalent reserves. At June 30, 2014 and 2013, $50,827 and $67,912, respectively, of restricted cash is limited to its use for the repayment of bond and note obligations.

Investments

Interest Rate Risk: Through its investment policy, VSAC manages its interest rate risk by establishing a target range of 10% to 55% of its investments in fixed rate securities.

Credit Risk: VSAC mitigates its credit risk by requiring marketable bonds, debentures, notes, or instruments to be rated BBB or better by Standard and Poor's and Baa or better by Moody's Investors Service.

Concentration of Credit Risk: VSAC places no limit on the amount of investments in any one issuer. However, VSAC's investment manager is currently instructed to invest approximately 70% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap. As of June 30, 2014 and 2013, 11% and 12%, respectively, of VSAC's investments were invested in U.S. Treasuries. No other single issuer represented more than 2% of VSAC's investments at either June 30, 2014 or 2013.

Custodial Credit Risk

All of the investments are held by VSAC's agent in VSAC's name.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

VSAC held the following investments at June 30, 2014 and 2013:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Domestic equities	$ 2,112	$ 3,222	$ 2,085	$ 2,642
Corporate bonds	336	338	366	369
Government bonds and notes	746	733	744	740
	$ 3,194	$ 4,293	$ 3,195	$ 3,751

At June 30, 2014, the ratings for investments in debt securities are summarized as follows:

Investment		Maturities	Fair Value	Standard & Poor's Rating
Corporate bonds:				
AT & T Inc	4.450%	5/15/2021	$ 17	A3
Anheuser-Busch	1.375%	7/15/2017	20	A2
Berkshire Hathaway	5.400%	5/15/2018	34	AA2
Catepillar Finl SE	2.050%	8/1/2016	26	A2
Cisco Systems Inc	4.950%	2/15/2019	17	A1
Coca Cola Co	1.500%	11/15/2015	31	AA3
Comcast Corp	2.850%	1/15/2023	10	A3
General Electric Cap Corp	1.625%	7/2/2015	10	A1
General Electric Cap Corp	5.625%	9/15/2017	34	A1
JP Morgan Chase & Co	6.000%	1/15/2018	34	A3
Pfizer Inc Notes	5.350%	3/15/2015	16	A1
SBC Communications	5.100%	9/15/2014	15	A3
Toyota Motor Credit	2.000%	9/15/2016	15	AA3
Wachovia Corp	5.750%	2/1/2018	34	A2
Wal-Mart Stores	1.500%	10/25/2015	25	AA2
			$ 338	

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Concluded)

Investment		Maturities	Fair Value	Standard & Poor's Rating
Government bonds and notes:				
Fed Home Ln Mtg	4.750%	11/17/2015	$ 32	AAA
Fed Natl Mtg Assn	0.375%	3/16/2015	25	AAA
FHLMC	3.750%	3/27/2019	33	AAA
FHLMC	2.375%	1/13/2022	30	AAA
FNMA	5.375%	6/12/2017	62	AAA
U.S. Treasury Bonds	4.250%	11/15/2014	138	AAA
U.S. Treasury Note	4.875%	8/15/2016	115	AAA
U.S. Treasury Note	1.875%	9/30/2017	21	AAA
U.S. Treasury Note	3.125%	5/15/2019	96	AAA
U.S. Treasury Bonds	2.625%	8/15/2020	73	AAA
U.S. Treasury Bonds	1.750%	5/15/2022	34	AAA
Ontario Prov Cda	1.650%	9/27/2019	34	AA2
Ontario Prov Cda	2.950%	2/5/2015	30	AA2
Province of Quebec	2.750%	8/25/2021	10	AA2
			$ 733	

(Dollars in Thousands)

4. Student Loans Receivable

At June 30, 2014, VSAC held student loans with interest rates ranging from 1.55% to 10.0%, the majority insured by ED and the U.S. Department of Health and Human Services; at June 30, 2013 the interest rates ranged from 1.59% to 10%. At June 30, 2014 and 2013, approximately 21.3% and 19.1%, respectively, of these student loans were not guaranteed. Most of VSAC's borrowers are located in the New England states.

Student loans are classified as being in "interim" status during the period from the date the loan is made until a student is out of school either for six or nine months. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" status is a period during the life of the loan when repayment is suspended for authorized purposes.

Student loans receivable as of June 30, 2014 and 2013 are summarized as follows:

	2014	2013
Status:		
Interim status	$ 29,388	$ 38,631
Deferral status	151,818	185,386
Repayment status	1,108,007	1,234,546
Less: Allowance for loan losses	(31,809)	(32,288)
Total student loans receivable	1,257,404	1,426,275
Less: Noncurrent student loans receivable	1,101,015	1,262,750
Current student loans receivable	$ 156,389	$ 163,525
Guarantee type:		
U.S. Department of Education	$ 989,476	$ 1,148,793
U.S. Department of Health and Human Services	3,393	4,354
Other – Guaranteed	21,876	26,893
Nonguaranteed	274,468	278,523
Less: Allowance for loan losses	(31,809)	(32,288)
Total student loans receivable	1,257,404	1,426,275
Less: Noncurrent student loans receivable	1,101,015	1,262,750
Current student loans receivable	$ 156,389	$ 163,525

(Dollars in Thousands)

4. Student Loans Receivable (Concluded)

As of June 30, 2014 and 2013, $1,231,158 and $1,395,381 of student loans were pledged to the repayment of bonds and notes, respectively.

Transactions in the allowance for loan losses for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Balance July 1	$ 32,288	$ 33,446
Net loans charged off	(10,551)	(12,737)
Provision for losses on student loans	10,072	11,579
Balance June 30	$ 31,809	$ 32,288

The allowance for loan losses represents management's estimate of probable losses on student loans. Management uses the amounts of loans in the portfolio, loss rate, delinquencies, current economic conditions, and historical loss experience. Should any of these factors change significantly from those currently used by management, the estimate may change. At June 30, 2014 and 2013, $54,223 and $81,618, respectively, of student loans receivable were over 90 days past due, of which all but $9,531 and $13,932, respectively, were guaranteed by one of the guarantee types shown above.

5. Net Assets Held for the U.S. Department of Education

Under the *Higher Education Act Amendments of 1998*, all assets related to the FFEL Program guaranty functions were transferred to the Federal Loan Reserve Fund on October 1, 1998. The Federal Loan Reserve Fund is administered by VSAC on behalf of ED and is the property of the Federal government. VSAC also established the Guarantee Agency Operating Fund on October 1, 1998, in accordance with the *Higher Education Act Amendments of 1998*. The Guarantee Agency Operating Fund, which is included within the Statements of Net Position, is the property of VSAC and is used to account for the activities under the FFEL Program that fall outside of the Federal Loan Reserve Fund.

Changes in Federal loan reserve funds held for ED for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Additions:		
Reimbursement from ED on default loan purchases	$37,161	$37,293
Default loan collections	718	190
Investment income	2	6
Other, net	336	283
Total additions	38,217	37,772

(Dollars in Thousands)

5. Net Assets Held for the U.S. Department of Education (Concluded)

	2014	2013
Deductions:		
Purchases of defaulted loans from lenders	$ 38,572	$ 38,643
Default aversion fee paid	21	165
Total deductions	38,593	38,808
Net decrease in federal loan reserve funds held	(376)	(1,036)
Federal loan reserve funds held, at beginning of year	12,859	13,895
Federal loan reserve funds held, at end of year	$ 12,483	$ 12,859

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement providers. The *Higher Education Act Amendments of 1998* require VSAC to maintain reserves equal to 0.25% of student loans guaranteed. During 2014 and 2013, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $989,476 and $1,148,793 at June 30, 2014 and 2013, respectively. Defaults on FFEL Program loan guarantees are paid by ED through the Federal Loan Reserve Fund.

6. Net Assets Held for VHEIP

VHEIP was established by the Vermont Legislature in April 1998. VHEIP encourages Vermont residents to save for college or other post-secondary education through tax favorable investments. The program has been designed to comply with the requirements for treatment as a "Qualified Tuition Program" under Section 529 of the IRC. There are six plans available: the Managed Allocation Option, the Diversified Equity Option, the Equity Index Option, the Balanced Option, the Fixed Income Option and the Principal Plus Interest Option. All Options are managed by TFI. TFI is part of Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), a New York-based financial services organization. Funds in the Managed Allocation Option are directed into special investment portfolios based on the age of the beneficiary. Funds in the Diversified Equity and Index Options are not age based and remain 100% in equity investments. Funds in the Balanced Option are invested in both equity and income investments. Funds in the Fixed Income Option are invested in bond funds. Funds in the Principal Plus Interest Option are invested under a Funding Agreement between TIAA-CREF and VSAC, and the principal and return are guaranteed by TIAA-CREF. Investments in the other investment options are not guaranteed.

(Dollars in Thousands)

6. Net Assets Held for VHEIP (Concluded)

The changes in assets held on behalf of investors for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Additions:		
Investment income	$ 3,238	$ 2,577
Net realized and unrealized gains	23,532	10,549
Net participant subscriptions/redemptions	18,226	17,735
Total additions	44,996	30,861
Net amount held on behalf of investors, at beginning of year	201,876	171,015
Net amount held on behalf of investors, at end of year	$ 246,872	$201,876

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2014 and 2013 was as follows:

	Estimated Lives	Balance July 1, 2012	Net Acquisitions (Disposals)	Balance June 30, 2013	Net Acquisitions (Disposals)	Balance June 30, 2014
Land	–	$ 3,150	$ –	$ 3,150	$ -	$ 3,150
Furniture and equipment	3 – 15 Years	7,426	228	7,654	(22)	7,632
Software	3 – 5 Years	1,644	49	1,693	63	1,756
Building	5 – 30 Years	16,981	46	17,027	118	17,145
		29,201	323	29,524	159	29,683
Less accumulated depreciation		11,514	1,179	12,693	905	13,598
Capital assets, net		17,687	$ (856)	16,831	$ (746)	16,085
Less bonds payable, net of bond discount		(17,010)		-		-
Net investment in property and equipment		$ 677		$ 16,831		$ 16,085

(Dollars in Thousands)

7. Capital Assets (Concluded)

Depreciation charged to operations for the years ended June 30, 2014 and 2013 was $1,103 and $1,213, respectively.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2014 and 2013.

	2014	2013
Bonds and Notes Payable which were issued to finance the origination of student loans:		
1998 Series K-O, dated June 24, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.24% to 0.34% during fiscal year 2014 (0.30% at June 30, 2014).	$ 2,100	$ 2,100
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction rate bonds maturing December 2034; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.035% to 0.064% during fiscal year 2014.	-	1,150
2001 Series V, W and Z dated June 27, 2001; comprised of auction rate bonds maturing December 2035; interest is reset every 35 days for Series V and W, and every 7 days for Series Z; interest is payable semi-annually at rates which ranged from 0.023% to 0.63% during fiscal year 2014.	-	800
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA; interest rates ranged from 0.00% to 17.86% during fiscal year 2014 (0.455% at June 30, 2014).	18,850	24,800

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2014	2013
2002 Series BB, CC and DD dated October 8, 2002; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.318% to 0.451% during fiscal year 2014 (0.398% at June 30, 2014).	$ 11,000	$ 11,000
2003 Series II, JJ and KK dated May 30, 2003; comprised of auction rate bonds maturing December 2037; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.318% to 0.451% during fiscal year 2014 (0.345% at June 30, 2014).	7,600	9,650
2004 Series NN and PP dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.023% to 0.076% during fiscal year 2014 (0.035% at June 30, 2014).	50	50
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset and payable every 28 days at rates which ranged from 0.00% to 16.614% during fiscal year 2014 (0.00% at June 30, 2014).	3,000	4,550
2005 Series RR-SS dated June 21, 2005; comprised of auction rate bonds maturing December 2039; interest is reset and payable every 28 days at rates which ranged from 0.00% to 16.824% during fiscal year 2014 (0.00% at June 30, 2014).	12,000	12,075
2006 Series TT-VV dated July 12, 2006; comprised of auction rate bonds maturing December 2040; interest is reset every 35 days for the Series TT and UU and every 7 days for the Series VV; interest is payable semi-annually at rates which ranged from 0.103% to 0.371% during fiscal year 2014.	-	700
2007 Series WW-XX dated June 19, 2007; comprised of auction rate bonds maturing December 2041; interest is reset every 7 days and payable semi-annually at rates which ranged from 0.08% to 0.371% during fiscal year 2014 (0.212% at June 30, 2014).	11,300	11,300
2007 Series YY dated December 7, 2007; comprised of auction rate bonds maturing December 2041; interest is reset and payable every 7 days at rates which ranged from 0.00% to 16.89% during fiscal year 2014 (0.00% at June 30, 2014).	625	625

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2014	2013
2010 Series A-1 dated August 3, 2010; comprised of fixed rate bonds maturing between December 15, 2015 and 2030; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	13,585	16,700
2011 Series A-1 dated July 26, 2011; comprised of fixed rate bonds maturing between December 15, 2013 and 2025; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	10,890	11,500
2012 Series A-1 dated July 17, 2012; comprised of fixed rate bonds maturing between June 15, 2017 and 2031; interest is fixed and payable semi-annually at rates ranging from 2.875% to 5.10%.	17,525	20,635
2012 Series 1 dated November 28, 2012; comprised of variable rate notes maturing on July 28, 2034; interest is variable and payable monthly at the one-month LIBOR plus 0.70% (0.8524% at June 30, 2014).	601,576	695,270
2012 Series B dated November 28, 2012; comprised of variable rate notes maturing between June 1, 2022 and December 3, 2035; interest is variable and payable semi-annually at the 3 month LIBOR plus 1.5% for Class A notes, and 3% for Class B notes (1.731% and 3.231% at June 30,2014).	110,926	127,317
2013 Series 1 dated June 25, 2013; comprised of variable rate notes maturing on April 30, 2035; interest is variable and payable monthly at the one-month LIBOR plus 0.75% (0.9024% at June 30, 2014).	311,056	371,400
2013 Series A-1 dated July 2, 2013; comprised of fixed rate bonds maturing between June 15, 2017 and 2030; interest is fixed and payable semi-annually at rates ranging from 2.10% to 4.65%.	15,595	-
Total bonds and notes payable	1,147,678	1,321,622
Bond premium/discount, net	699	816
Total bonds and notes payable	1,148,377	1,322,438
Less: current portion bonds and notes payable	500	500
Noncurrent portion of bonds and notes payable	$1,147,877	$1,321,938

All bonds payable are limited obligations of VSAC and are secured, as provided in the underlying bond resolutions, by an assignment and pledge to the Trustee of all VSAC's rights, title and interest in student loans, and revenues derived thereon and the guarantee thereof, including the insurance of certain student loans by ED. In addition, a significant portion of cash and cash equivalents (including debt service reserve accounts which may be used to replenish any deficiency in funds required to pay principal and interest due on the bonds) are held in trust to secure the bonds.

8. Bonds and Notes Payable (Continued)

In 2014 and 2013, due to ongoing disruptions in the capital markets, the interest rates paid on auction bonds fluctuated significantly due to failed auction formulae. These rates varied from as low as 0% to as high as 17.86% over 2014 and 2013. This variability is tied to the variable indices in the failed auction formula and the maximum rates defined in the bond indentures.

The 1998 Series K-N, 2000 Series R-U, 2001 Series V-AA, 2002 Series BB-DD, 2004 Series NN-PP, 2005 Series RR-SS, 2006 TT-VV, and the 2007 WW-YY bonds are insured for credit-worthiness by Ambac Assurance Corporation. The 2011 series A-1 trust includes the Moral Obligation of the State of Vermont providing for the restoration by the State of certain required cash reserve balances of the 2011 Trust in the event they were to be utilized by the trust to maintain liquidity. Any draw of the Moral Obligation by the 2011 trust would be subject to repayment from the assets of the 2011 Trust. To date the 2011 Trust has not requested or received any State funding under this provision. The remaining bonds and notes have no additional credit or liquidity support.

All bonds and notes, except the 2010A-1, 2011A-1, 2012A-1 and 2013A-1 series, are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2014, all bonds authorized under the underlying bond resolutions have been issued, except for the 2014A-1 bonds discussed in Note 17.

Proceeds from issuance of the bonds payable and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses.

During 2014, VSAC refunded and extinguished $18,602 of various bonds and notes for $17,715, resulting in gains of $887. The gains from extinguishments of $887 are included in nonoperating revenues for the year ended June 30, 2014. The deferred gains from the current refunding amounted to $0 at the date of the refunding. During 2013, VSAC refunded and extinguished $1,780,017 of various bonds and notes for $1,697,860, resulting in gains of $82,157. The gains from extinguishments of $19,035 are included in nonoperating revenues for the year ended June 30, 2013. The deferred gains from the current refunding amounted to $63,122 at the date of the refunding. During the years ended June 30, 2014 and 2013, the amortized deferred gains from the refunding of $7,952 and $4,517, respectively, are included as a reduction to interest expense. Included in the 2013 amounts are the extinguishments at par value of the 2003 General Obligation bonds, 2008 Series B-1 bonds, 2008 Series C-1 and C-2 bonds, and the ECASLA ABCP Conduit note which were completed in 2013.

(Dollars in Thousands)

8. Bonds and Notes Payable (Concluded)

The debt service requirements, which are based on the interest rates at June 30, 2014, through 2019 and in five-year increments thereafter to maturity for VSAC are as follows:

Year ending June 30,	Principal	Interest	Total
FY15	$ 500	$ 13,472	$ 13,972
FY16	1,600	13,437	15,037
FY17	6,170	13,352	19,522
FY18	6,700	13,153	19,853
FY19	5,235	12,913	18,148
FY20 – 24	96,896	58,380	155,276
FY25 – 29	5,465	51,151	56,616
FY30 – 34	5,855	50,229	56,084
FY35 – 39	995,332	6,713	1,002,045
FY40 – 44	23,925	159	24,084
Total	$1,147,678	$232,959	$1,380,637

The actual maturities and interest may differ due to changes in interest rates or other factors.

The following summarizes the debt activity for VSAC for the years ended June 30, 2014 and 2013:

	2014	2013
Balance at beginning of year	$ 1,322,438	$ 1,820,002
Issuance	15,595	1,282,135
Premium on issuance	-	375
Redemptions, extinguishments and refunding	(189,530)	(1,780,017)
Accretion/amortization of discount/premium	(126)	(57)
Balance at end of year	$ 1,148,377	$ 1,322,438

9. U.S. Treasury Rebates Payable

The tax exempt bonds issued by VSAC are subject to Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the U.S. Treasury. VSAC has estimated that there are U.S. Treasury rebates payable at June 30, 2014 and 2013 of $1,467 and $1,200, respectively. VSAC has estimated that there is no estimated current portion at June 30, 2014 or June 30, 2013. VSAC refunded to the U.S. Treasury $0 in excess earnings in 2014 and 2013. See Note 14 for additional information related to the settlement of the related IRS audit during the year ended June 30, 2013.

10. Student Loan Interest and Special Allowance Revenues

ED makes quarterly interest subsidy payments on behalf of certain qualified students until the student is required under the provisions of the Act to begin repayment. Repayment on FFEL Program Stafford student loans normally begins within six months after students complete their course of study, leave school or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of FFEL Program Parent Loan for Undergraduate Students (PLUS), Supplemental Loans for Students (SLS) and Consolidation loans normally begins within 60 days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period. Health Education Assistance Loan (HEAL) loans enter repayment status nine months after the expiration date of an interim period.

ED provides a special allowance to lenders participating in the FFEL Program Stafford, PLUS, SLS, and Consolidation student loan programs. Special allowance is paid based on a rate that is established quarterly. This rate is based on averages calculated from the rates of certain U.S. Treasury Bills, Financial Commercial Paper or one month LIBOR depending on the disbursement date of the loans and the issuance date of the financing obligations. Certain loans are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Student loans not subject to the 9.5% minimum return are eligible for full special allowance. VSAC held no loans eligible for the 9.5% minimum return during the year ended June 30, 2014.

ED restricts student loan interest revenue for loans first disbursed after April 1, 2006. VSAC is required to return borrower loan interest in excess of the special allowance formulae rates for certain FFEL Program Stafford, PLUS, and Consolidation loans. The return of interest totaled $24,969 and $29,092 in 2014 and 2013, respectively, and is reflected as a reduction of interest and fees and student loans in the Statements of Revenues, Expenses and Changes in Net Position.

11. Endowment Funds

Donors have established a number of endowment funds through the Vermont Student Development Fund, Inc. All endowment funds are restricted to provide scholarship funds to Vermont students. All endowment funds are guided by specific agreements and instructions from donors regarding the uses of earnings and appreciation on invested funds.

On May 5, 2009, the Vermont General Assembly enacted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). In contrast to prior law, UPMIFA addresses in a more explicit and clear manner a fiduciary's ability to spend net appreciation of donor-restricted endowments.

(Dollars in Thousands)

11. Endowment Funds (Concluded)

UPMIFA permits a fiduciary to use a more flexible spending standard than under prior law. As with prior law, the intentions of the donor as specifically expressed in a gift instrument will always govern the spending from an endowment fund. UPMIFA also continues to provide, however, that the mere use of the terms "income" or "principal" will not be interpreted to mean that the donor intended to limit the spending from the fund in any particular manner. Unless specifically directed to the contrary, under UPMIFA a fiduciary may expend so much of an endowment fund as an ordinarily prudent person in a like position would spend for the uses, benefits, purposes, and duration for which the endowment fund was established. Under this rule of prudence, a distinction no longer exists between income and principal, nor is there a need to track historic dollar value. This allows an institution to spend any amount from an endowment fund (whether it was historically categorized as income or principal or whether the fund is above historic dollar value), provided that the spending decision is prudent under the circumstances.

The VSAC Board of Directors has established a total-return spending rate policy, and almost all of the endowment agreements specify this approach. In this approach, the amount of funds that may be expended from an endowment is based on a percentage of the fund's average historical total value (using the prior 12 calendar quarters), and may come from the total return on the fund, including interest and dividend earnings, and appreciation over historical gift value. Total investment return in excess of the established spending rate is considered to be nonexpendable in future periods. The spending rate may be adjusted by the Board of Directors at their discretion. In FY 2012 certain endowment agreements were amended to permit spending of "principal" (i.e., spending that would take a fund below its historic contributed value) with the consent of the original donors of those funds.

At June 30, 2014 and 2013, the total net position related to endowment funds was $4,607 and $3,935, respectively. Expendable restricted net position totaled $339 and $276, respectively. The remaining $4,268 and $3,659, respectively, of net position related to endowment funds were nonexpendable.

12. Restricted Net Position

Restrictions on net position are the result of bond resolutions, state statutes, various federal regulations and program agreements, and donor restrictions. Bond resolutions restrict net position to the origination of student loans and payment of debt service on bonds and notes payable. State statutes and federal regulations and program agreements restrict various net position to use for specific grant, scholarship and educational activities. Donors have restricted a number of endowment funds for scholarship awards. Restricted net position as of June 30, 2014 and 2013 are as follows:

	2014	2013
Expendable - restricted by bond resolutions	$ 34,624	$ 29,412
Expendable - restricted by Federal or State Statute	513	471
Nonexpendable – income is donor restricted for scholarships	4,639	3,967
Total restricted net position	$ 39,776	$ 33,850

(Dollars in Thousands)

13. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by TIAA-CREF. The payroll for employees covered under the plan for the fiscal year ended June 30, 2014 and 2013 amounted to $13,830 and $13,721, respectively; VSAC's total payroll was $14,026 and $13,743, respectively. Total contributions by VSAC amounted to $1,383 and $1,372 in 2014 and 2013, respectively, which represented 10% of the covered payroll.

In June of 2004 the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement requires recognition of current period costs related to expected, future expenditures for Other Post-Employment Benefits (OPEB). VSAC employees who complete 15 years of continuing service and who are not otherwise eligible for Medicare coverage may elect to continue to buy VSAC's health care coverage at COBRA rates. VSAC has determined that this obligation is not material and has not recorded a liability for OPEB at June 30, 2014 and 2013.

14. Contingencies

VSAC participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time.

VSAC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSAC manages these risks through a combination of commercial insurance packages purchased in the name of VSAC, and through self-insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced or settled claims resulting from these risks which have exceeded its commercial insurance coverage. In addition, VSAC has purchased stop-loss insurance for its self-insurance programs and has transferred the risk of loss to the commercial insurance carrier.

A summary of the reserve for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statements of net position for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Balance, beginning of year	$ 384	$ 398
Claims paid	(3,815)	(3,747)
Accrual for estimated claims	3,761	3,733
Balance, end of year	$ 330	$ 384

14. Contingencies (Continued)

The IRS has conducted an audit of VSAC's Education Loan Revenue Bonds, Series 1998K-O (the Bonds) issued on June 24, 1998 with an aggregate principal amount of $165,000. As part of the audit of the Bonds, the IRS delivered to VSAC on March 3, 2009, a Notice of Proposed Issue which raised issues regarding (1) VSAC's methodology for tracking student loans acquired with the proceeds of the Bonds and (2) the treatment of the consolidation loan rebate fee paid by VSAC to the Department of Education as a qualified administrative expense. As a result, the IRS asserted that the Bonds are not qualified student loan bonds under Section 144(b)(1)(A) of the IRC and that, therefore, interest on the Bonds would not be excludable from gross income of bondholders under Section 103(a) of the IRC. On November 28, 2012, simultaneously with the payment by VSAC to the IRS of $19,186, VSAC and the IRS entered into a Closing Agreement resolving all claims and issues pending in the audit. The settlement payment to resolve all claims and issues of $19,186 resulted in an increase in net position of $3,476, which is included as a reduction to operating expenses in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2013.

On September 28, 2009, VSAC was served with a First Amended Complaint (the "Complaint") in a qui tam lawsuit filed against it and nine other student loan lenders. A qui tam lawsuit is a civil case brought by one or more individuals (a "Plaintiff") on behalf of the federal government for an alleged submission to the government of a false claim for payment. The Complaint alleged that the defendants knowingly presented and caused to be presented to ED false and fraudulent claims, records and statements in order to obtain illegal special allowance payments on FFEL Program loans in violation of the Federal False Claims Act. The Complaint alleged that from 2002 through 2006, defendants submitted claims to ED for special allowance payments on certain FFEL Program loans at a rate of 9.5% ("9.5% Loans"), which the Plaintiff alleged is higher than that allowed under applicable law. The original Complaint was filed in the United States District Court for the Eastern District of Virginia on September 21, 2007 under seal. Following the government's decision not to intervene, the Complaint was unsealed on August 24, 2009. The Plaintiff thereafter pursued the case at its own expense on behalf of the government. The Complaint alleged that VSAC unlawfully increased its balance of 9.5% Loans and submitted 9.5% special allowance payment claims on an unlawfully inflated balance in the amount of approximately $22.6 million. The Complaint alleges that while certain repayments were made, the repayments appeared to be inadequate. The Complaint seeks civil penalties and treble the amount of damages sustained by the federal government in connection with the alleged overbilling. VSAC believes that it had fully complied with the Act, the regulations promulgated thereunder and the guidance provided by ED in its billing for special allowance payments and is vigorously defending against the lawsuit and the appeal; however, it cannot predict the ultimate outcome of this qui tam case or any liability that may result.

On December 1, 2009, the District Court granted motions to dismiss filed by VSAC and three other state agencies on the basis that, as state agencies, they are not "persons" subject to suit under the False Claims Act. The Plaintiff appealed this dismissal to the Federal Court of Appeals for the Fourth Circuit. On June 18, 2012, the Court of Appeals vacated the District Court's dismissal and remanded the case to the District Court for the District Court to apply a different legal analysis to the question whether VSAC is amenable to suit under the False Claims Act.

14. Contingencies (Concluded)

On September 20, 2012, VSAC filed a renewed motion to dismiss; and on October 24, 2012, the District Court granted VSAC's renewed motion to dismiss. The motion to dismiss was appealed by the Plaintiff and the Fourth Circuit Court of Appeals, on March 13, 2014, remanded the action to the District Court for limited discovery on the state agency question. Discovery on that issue is in progress. The District Court expects to hear Motions for Summary Judgment in late 2014. VSAC denies any liability under the Complaint and continues to vigorously defend against the case; however, it cannot predict the ultimate outcome of the case or any liability that may result.

15. Loan Commitments

At June 30, 2014 and 2013, VSAC had commitments to extend credit for non-guaranteed student loans of approximately $1,836 and $893, respectively. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. VSAC uses the same credit policies in making commitments as it does for student loans receivable.

16. Segment Reporting

VSAC has elected to disclose the activities of VSAC's segments. The segments presented include:

Operations – This segment includes administration, FFEL Program guarantor functions, privately-held student loans, and student outreach activities (partially funded by Federal and State grants). VSAC's net investment in capital assets is reflected in this segment. The fund balance in this segment is considered unrestricted and available for any corporate purpose.

Bond – This segment includes the activities of all VSAC education loan financing instruments and the related secured assets. Accumulated balances in this fund are restricted by financing agreements.

Scholarships – This segment includes all funds designated as scholarships and the related donations, earnings, and disbursements for the various scholarship programs administered by VSAC, including endowments. The balance of this segment primarily represents unspent invested amounts in the Vermont Student Development Fund, Inc. (d/b/a the Vermont Scholarship Fund), which is a permanent endowment.

Grants – This segment reflects the activities of all funds received that are part of certain annual State of Vermont appropriations. These include the incentive grants and Next Generation non-degree grants. Any carryover balance in this segment is the result of 'attrition' which is created by eligible students who are unable to utilize their award. These funds remain in the segment and are awarded in the following fiscal year.

(Dollars in Thousands)

16. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2014 and for the year then ended is as follows:

Condensed Statement of Net Position

	Operations	Bond	Scholarships	Grants	Total
Assets:					
Current assets	$ 41,578	$ 158,225	$ 10,507	$ 544	$ 210,854
Capital assets, net	16,085	-	-	-	16,085
Other noncurrent assets	49,634	1,102,208	-	-	1,151,842
Total assets	$ 107,297	$ 1,260,433	$ 10,507	$ 544	$ 1,378,781
Liabilities:					
Current liabilities	$ 3,424	$ 968	$ 5,869	$ 31	$ 10,292
Noncurrent liabilities	-	1,149,344	-	-	1,149,344
Interfund (receivable) payable	(24,843)	24,844	(1)	-	-
Total liabilities	(21,419)	1,175,156	5,868	31	1,159,636
Deferred inflows of resources					
Deferred gains on early refunding of bonds payable	-	50,653	-	-	50,653
Total liabilities and deferred inflows of resources	(21,419)	1,225,809	5,868	31	1,210,289
Net position:					
Net investment in capital assets	16,085	-	-	-	16,085
Restricted	-	34,624	4,639	513	39,776
Unrestricted	112,631	-	-	-	112,631
Total net position	128,716	34,624	4,639	513	168,492
Total liabilities, deferred inflows of resources and net position	$ 107,297	$ 1,260,433	$ 10,507	$ 544	$ 1,378,781

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Operations	Bond	Scholarships	Grants	Total
Operating revenues:					
Interest and fees on student loans	$ 2,375	$ 46,232	$ -	$ -	$ 48,607
Guarantee agency administrative revenues	6,729	-	-	-	6,729
Vermont state appropriations	-	-	656	19,812	20,468
Federal grants	4,794	-	778	-	5,572
Scholarship and gift income	-	-	3,701	-	3,701
Federal loan servicing income	2,688	-	-	-	2,688
Interest on cash and investments, and other income	954	12	663	-	1,629
Total operating revenues	17,540	46,244	5,798	19,812	89,394
Operating expenses:					
Operating expenses excluding depreciation	24,109	34,510	5,371	20,602	84,592
Depreciation	1,103	-	-	-	1,103
Total operating expenses	25,212	34,510	5,371	20,602	85,695
Change in net position from operations	(7,672)	11,734	427	(790)	3,699
Gains on early bond extinguishments	-	887	-	-	887
Interfund transfer	6,332	(7,409)	245	832	-
Change in net position	(1,340)	5,212	672	42	4,586
Net position, beginning of year	130,056	29,412	3,967	471	163,906
Net position, end of year	$ 128,716	$ 34,624	$ 4,639	$ 513	$ 168,492

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Cash Flows

	Operations	Bond	Scholarships	Grants	Total
Cash provided (used) by operating activities	$ 10,294	$ 171,042	$ (344)	$ (14)	$ 180,978
Cash used by noncapital financing activities	-	(171,054)	-	-	(171,054)
Cash used by capital and related financing activities	(360)	-	-	-	(360)
Cash provided by investing activities	160	12	121	-	293
Net increase (decrease) in cash and cash equivalents	10,094	-	(223)	(14)	9,857
Cash and cash equivalents, beginning of year	21,702	-	6,419	530	28,651
Cash and cash equivalents, end of year	$ 31,796	$ -	$ 6,196	$ 516	$ 38,508

(Dollars in Thousands)

16. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2013 and for the year then ended is as follows:

Condensed Statement of Net Position

	Operations	Bond	Scholarships	Grants	Total
Assets:					
Current assets	$ 32,126	$ 167,010	$ 10,191	$ 551	$ 209,878
Capital assets, net	16,831	-	-	-	16,831
Other noncurrent assets	55,002	1,275,660	-	-	1,330,662
Total assets	$ 103,959	$ 1,442,670	$ 10,191	$ 551	$ 1,557,371
Liabilities:					
Current liabilities	$ 4,253	$ 1,166	$ 6,224	$ 80	$ 11,723
Noncurrent liabilities	-	1,323,138	-	-	1,323,138
Interfund (receivable) payable	(30,350)	30,350	-	-	-
Total liabilities	(26,097)	1,354,654	6,224	80	1,334,861
Deferred inflows of resources					
Deferred gains on early refunding of bonds payable	-	58,604	-	-	58,604
Total liabilities and deferred inflows of resources	(26,097)	1,413,258	6,224	80	1,393,465
Net position:					
Net investment in capital assets	16,831	-	-	-	16,831
Restricted	-	29,412	3,967	471	33,850
Unrestricted	113,225	-	-	-	113,225
Total net position	130,056	29,412	3,967	471	163,906
Total liabilities, deferred inflows of resources and net position	$ 103,959	$ 1,442,670	$ 10,191	$ 551	$ 1,557,371

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Oper-ations	Bond	Scholar-ships	Grants	Total
Operating revenues:					
Interest and fees on student loans	$ 977	$ 55,296	$ -	$ -	$ 56,273
Guarantee agency administrative revenues	6,209	-	-	-	6,209
Vermont state appropriations	-	-	695	18,749	19,444
Federal grants	5,253	-	702	-	5,955
Scholarship and gift income	-	-	3,621	-	3,621
Federal loan servicing income	3,050	-	-	-	3,050
Interest on cash and investments, and other income	691	176	432	-	1,299
Total operating revenues	16,180	55,472	5,450	18,749	95,851
Operating expenses:					
Operating expenses excluding depreciation	29,604	49,464	5,216	20,430	104,714
Depreciation	1,213	-	-	-	1,213
Total operating expenses	30,817	49,464	5,216	20,430	105,927
Change in net position from operations	(14,637)	6,008	234	(1,681)	(10,076)
Gains on early bond extinguishments	-	19,035	-	-	19,035
Interfund transfer	103,630	(104,740)	230	880	-
Change in net position	88,993	(79,697)	464	(801)	8,959
Net position, beginning of year	41,063	109,109	3,503	1,272	154,947
Net position, end of year	$ 130,056	$ 29,412	$ 3,967	$ 471	$ 163,906

(Dollars in Thousands)

16. Segment Reporting (Concluded)

Condensed Statement of Cash Flows

	Operations	Bond	Scholarships	Grants	Total
Cash provided (used) by operating activities	$ 14,392	$ 182,805	$ 139	$ (899)	$ 196,437
Cash used by noncapital financing activities	-	(183,005)	-	-	(183,005)
Cash used by capital and related financing activities	(18,391)	-	-	-	(18,391)
Cash provided (used) by investing activities	131	200	(192)	-	139
Net decrease in cash and cash equivalents	(3,868)	-	(53)	(899)	(4,820)
Cash and cash equivalents, beginning of year	25,570	-	6,472	1,429	33,471
Cash and cash equivalents, end of year	$ 21,702	$ -	$ 6,419	$ 530	$ 28,651

17. Subsequent Event

In July 2014, VSAC issued its 2014A-1 student loan bonds in a total amount of $29,920. These bonds are fixed-rate tax-exempt bonds maturing between 2019 and 2033, bearing interest at coupon rates ranging from 4.0% to 5.0%.