Vermont Student Assistance Corporation

(A Component Unit of the State of Vermont)

Comprehensive Annual Financial Report

Years Ended June 30, 2016 and 2015

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, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vermont Student Assistance Corporation

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund information of Vermont Student Assistance Corporation (VSAC), a component unit of the State of Vermont, as of and for the years ended June 30, 2016 and 2015, 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 opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary fund information of VSAC as of June 30, 2016 and 2015, and the changes in its net position of the business-type activities and, where applicable, cash flows thereof 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 17 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise VSAC's basic financial statements. The combining schedule of changes in assets and liabilities – all agency funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. auditing standards generally accepted. In our opinion, the combining schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 17, 2016

Registration No: 92-0000278

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 111 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. 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 and Talent Search, as well as through State grants, and general corporate support.

Management's Discussion and Analysis Report includes Fiscal 2016 and Fiscal 2015 information due to the fact that the Financial Statements include Fiscal 2016 and Fiscal 2015 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 2016

Fiscal 2016 Highlights and Overall Financial Position

- VSAC's total net surplus (deficit) for the years ended June 30, 2016 and 2015 was $3.5 million and $(2.1) million, respectively.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, increased $1.2 million from 2015 to 2016. Bond interest costs were up $0.3 million due primarily to rate increases on variable rate bonds. The deferred gain amortization for 2016 was $7.4 million versus $8.3 million in 2015.
- VSAC's total net position increased $3.5 million to $169.8 million.
- During the year ended June 30, 2016, VSAC provided $26.0 million in grants and scholarships to Vermont students.
- VSAC originated $34.8 million in new loans to students and parents. VSAC holds and services $1.0 billion in education loans receivable and related interest at June 30, 2016.
- VSAC returned over $2.6 million in interest rebates to students in its loan programs during fiscal 2016.

Subsequent Event

In June of 2016, VSAC announced the discontinuation of its participation in the Federal Direct Loan servicing program. The activities required to end that contractual relationship are expected to be completed during the year ending June 30, 2017. All remaining revenues and expenses associated with that program and its discontinuation, including employee severance costs, will be recognized during the year ending June 30, 2017.

Condensed Financial Information

Statements of Net Position

	2016	2015
	(In Thousands)	
Assets:		
Cash and investments	$ 107,301	$ 83,520
Education loans receivable (plus interest)	968,227	1,104,907
Other assets	19,455	17,908
Total assets	$1,094,983	$1,206,335
Liabilities:		
Bonds and notes payable (plus interest)	$ 876,453	$ 987,114
U.S. Treasury rebates payable	2,457	1,875
Other liabilities	11,332	8,664
Total liabilities	890,242	997,653
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	34,896	42,307
Total liabilities and deferred inflows of resources	925,138	1,039,960
Net position:		
Restricted	78,204	57,631
Unrestricted	76,440	92,927
Net investment in capital assets	15,201	15,817
Total net position	169,845	166,375
Total liabilities, deferred inflows of resources and net position	$1,094,983	$1,206,335

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	$ 41,640	$ 44,069
Other loan and guarantee program revenues	5,528	5,044
Investment interest	393	239
Vermont state appropriations	20,275	20,274
Federal grants	5,340	5,256
Scholarship and gift income	4,523	4,256
Federal loan servicing income	3,821	2,516
Other income	785	1,030
Total operating revenues	82,305	82,684
Operating expenses:		
Grants and scholarships	25,999	24,880
Interest rebated to borrowers	2,617	3,224
Interest on debt, net of amortization	6,816	5,619
Other loan financing costs	13,842	15,884
Corporate operating expenses and depreciation	29,561	35,194
Total operating expenses	78,835	84,801
Change in net position	3,470	(2,117)
Net position, beginning of year	166,375	168,492
Net position, end of year	$ 169,845	$ 166,375

Net Position

Cash and investment balances increased $23.8 million from June 30, 2015 to June 30, 2016 from $83.5 to $107.3 million. The cash balance associated with restricted bonds increased $31.1 million during this time, primarily due to the June 2016 issuance of the 2016A series bonds.

Student loans and interest receivable totaled $968.2 million at June 30, 2016, down from $1.1 billion in 2015. 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 $110.7 million from $987.1 million at June 30, 2015 to $876.5 million at June 30, 2016. VSAC's financing activity in 2016 was comprised primarily of the following (in millions):

Principal payments, 2012-13-14 variable rate notes	$ (159.8)
Principal payments, VSAC fixed rate bonds	(6.2)
Issuance of 2015A-1 student loan financing bond	22.1
Issuance of 2016A-1 student loan financing bond	29.5
Issuance of note payable, State of Vermont	4.0
Other changes	(0.3)
	$ (110.7)

The 2012, 2013 and 2014 variable rate notes, which were issued in those years to refund letter of credit bonds, the ABCP Conduit note, and auction rate bonds, include a feature which requires periodic calculations of available cash used to pay bond principal. For more information regarding bonds and notes payable, see note 8 to the audited financial statements.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2016 to $2.5 million from $1.9 million as of June 30, 2015.

Unrestricted net position decreased from $92.9 million at June 30, 2015 to $76.4 million at June 30, 2016. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is $17.1 million. VSAC's unrestricted net position at June 30, 2016 and 2015 consists of the following (in millions):

	2016	2015
Cash/investments held for new bond issuance and operating reserves	$ 17.1	$ 23.7
Investment in student loans and related interest	40.7	46.5
Physical plant	15.2	15.8
Subordinated VSAC bonds	22.5	22.5
Other	(3.9)	0.2
Total unrestricted including Investment in Capital Assets	$ 91.6	$ 108.7

Restricted net position increased from $57.6 million at June 30, 2015 to $78.2 million at June 30, 2016. This increase was primarily in the bond funds due to the operating surplus in those funds and due to contributions of unrestricted assets to new bond issuances during the year. Of the $78.2 million, $72.8 million is restricted by bond resolutions. The remaining $5.4 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2016 financial results increased net position by $4.1 million. All revenues except gains on early extinguishment of debt are considered operating revenues. VSAC realized $82.3 million in operating revenues versus $78.2 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 2016, loan revenue decreased from $44.1 to $41.6 million. The components of loan revenue changes are as follows (in thousands):

	2016	2015
U.S. Department of Education Interest Benefits	$ 2,173	$ 2,871
U.S. Department of Education Special Allowance	304	161
Borrower interest and fees on student loans	55,133	61,621
Borrower interest paid to Department of Education	(15,970)	(20,584)
	$ 41,640	$ 44,069

No new FFEL Program loans have been created since June 30, 2010. This affects the components of loan revenue differently:

- Interest for certain loans is paid by ED as a subsidized interest benefit on qualifying borrowers. This item decreased because the population of loans which qualify for this benefit is declining.
- ED also pays special allowance payments under certain interest rate conditions. This item increased slightly despite declining eligible loan balances because of increasing interest rate indices (LIBOR).
- Although VSAC originates new non-guaranteed loans, the population of ED-guaranteed loans is paying down more rapidly, resulting in decreased borrower interest and fees.
- 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 and as the LIBOR index increased.

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. Our 2010A-1, 2011A-1, 2012A-1, 2013A-1, 2014A-1, 2015A-1 and 2016A-1 private loan financing bonds are issued with fixed interest rates. The student loans pledged to these bonds also have fixed interest rates. All other outstanding student loan bonds and notes have variable interest rates reset on periodic intervals based on short-term LIBOR rates. The loans pledged to these bonds also have variable interest rates based on short-term LIBOR rates with similar reset frequencies.

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 $5.5 million in 2016 and $5.0 million in 2015. This increase is primarily due to improved recovery performance.

Interest rates on cash positions were slightly higher throughout the year ending June 30, 2016, resulting in higher interest earnings over the prior year. Investments include unrestricted, student loan and scholarship funds temporarily invested in short-term investments, and scholarship endowment 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 (depreciated) assets held at year-end, are reflected in the Other Income line and were $(126.4) thousand in 2016 and $67.4 thousand in 2015.

VSAC's State funding support was unchanged at $20.3 million in 2016 compared to $20.3 million in 2015.

Federal grants were even at $5.3 million in fiscal 2015 and fiscal 2016. Under VSAC's Federal grants for the year ended June 30, 2015, revenues were applied for only after VSAC had incurred expenses for administration, program activities and scholarships. For the year ended June 30, 2016, following a policy clarification received from ED, VSAC applied for funding for one Federal scholarship program in advance of scholarship awards and disbursements. Such funds will be maintained in a restricted bank account in the scholarship fund.

Scholarship revenues, principally restricted gifts and grants, increased from $4.3 million in 2015 to $4.5 million in 2016.

Revenues earned for servicing Federal-owned student loans increased from $2.5 million in 2015 to $3.8 million in 2016. The increase in Federal loan servicing revenue is due to newly-disbursed Federal loans allocated to VSAC during the year and compensation for Federal loan servicing systems changes.

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 $26.0 million in student aid during fiscal 2016. $20.0 million in grant aid was provided from State appropriations. An additional $6.0 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 33.0% of VSAC's operating expenses in fiscal 2016 compared to 29.3% in 2015.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided $2.6 million in rebates of interest to borrowers in 2016, which represents 3.3% of VSAC's operating expenses in fiscal 2016 compared to 3.8% in 2015. 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 $34.8 million of loans VSAC made available to students and parents in fiscal 2016.

Interest Costs – In order to provide Vermont students and parents with low-cost loans, VSAC issues two types of bonds that remain outstanding as of June 30, 2016 and 2015. The interest costs of the bonds represent a major expense category for VSAC. The variable-rate notes were issued to refinance VSAC's auction-rated securities and are supported by variable-rate student loans. The student loans and bonds bear interest at a fixed margin added to one or three-month LIBOR. This margin does not change after being set when the bonds were sold and loans originated. Fixed-rate bonds were issued beginning in 2010 in order to finance newly-originated fixed-rate loans. These rate structures result in interest revenue to bond interest expense that is closely matched.

The variable-notes' principal is paying down faster than VSAC issues new fixed-rate bonds, resulting in a decrease in debt outstanding during the year. Although VSAC's bond and note balances decreased (as outlined above), VSAC's interest costs before the amortization of deferred gains on early refunding of bonds payable ($7.4 million in 2016 and $8.3 million in 2015) increased from $14.0 in 2015 to $14.2 million in 2016 due to increasing LIBOR interest rate indices affecting the variable-rate notes and due to the issuance

of new fixed-rate bonds, which bear interest at a higher rate. Net of deferred gains on early refunding, this expense represents 8.6% of VSAC operating expenses in fiscal 2016 up from 6.6% in 2015.
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 $875.9 million in outstanding bonds and notes. These costs totaled $13.8 million in fiscal 2016 and $15.9 million in 2015, representing approximately 17.6% and 18.8%, respectively, of total operating expenses in these years. The decrease of $2.0 million in this expense was primarily the result of decreased provisions for loan losses (down $1.0 million) and decreased FFELP Consolidation fees (down $0.8 million), both down due to decreasing loan balances. Another component of Other Loan Financing Costs, 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. By using interest rebates to VSAC borrowers, it 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 $30.0 million in fiscal 2016 compared to $35.2 million in fiscal 2015. The primary components of VSAC's operating costs (in thousands) were as follows for the years ended June 30:

	2016	2015
Salaries and wages	$ 13,642	$ 13,894
Employee healthcare costs	4,365	4,359
Other employee benefit costs	2,585	2,725
Administrative expenses	8,969	14,216
Total Costs of Operations	$ 29,561	$ 35,194

Employee health care expenses were essentially flat, despite broad-based health care increases seen nationally. The $5.2 million decrease in administrative expenses is primarily due to non-recurring litigation and settlement costs which occurred in 2015. Overall costs of operations represent 37.5% of total operating expenses in fiscal 2016 compared to 41.5% in 2015.

Expenses for 2016 totaled $78.8 million. Revenues totaled $82.3 million. The change in total net position for the year was an increase of $3.5 million. The ending balance of net position at June 30, 2016 was $169.8 million, as compared to $166.4 million at June 30, 2015.

FISCAL 2015

Fiscal 2015 Highlights and Overall Financial Position

- VSAC's total net (deficit) surplus for the years ended June 30, 2015 and 2014 was $(2.1) million and $4.6 million, respectively.
- During the year ended June 30, 2015, VSAC had a net operating deficit of $2.1 million compared to a surplus of $3.7 million during the year ended June 30, 2014.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, decreased $1.3 million from 2014 to 2015. Bond interest costs were down $1.0 million due primarily to reductions in bonds outstanding. The deferred gain amortization for 2015 was $8.3 million versus $8.0 million in 2014.
- VSAC recorded no gains in 2015 as a result of retiring bonds before their maturity for less than par value. This activity resulted in a gain of $887 thousand in 2014.
- VSAC's total net position decreased $2.1 million to $166.4 million.
- During the year ended June 30, 2015, VSAC provided $24.9 million in grants and scholarships to Vermont students.
- VSAC originated $29.1 million in new loans to students and parents. VSAC holds and services $1.1 billion in education loans receivable and related interest at June 30, 2015.
- VSAC returned over $3.2 million in interest rebates to students in its loan programs during fiscal 2015.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

Years Ended June 30, 2016 and 2015

Condensed Financial Information

Statements of Net Position

	2015	2014
	(In Thousands)	
Assets:		
Cash and investments	$ 83,520	$ 93,628
Education loans receivable (plus interest)	1,104,907	1,266,921
Other assets	17,908	18,232
Total assets	$1,206,335	$1,378,781
Liabilities:		
Bonds and notes payable (plus interest)	$ 987,114	$1,148,713
U.S. Treasury rebates payable	1,875	1,467
Other liabilities	8,664	9,456
Total liabilities	997,653	1,159,636
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	42,307	50,653
Total liabilities and deferred inflows of resources	1,039,960	1,210,289
Net position:		
Restricted	57,631	39,776
Unrestricted	92,927	112,631
Net investment in capital assets	15,817	16,085
Total net position	166,375	168,492
Total liabilities, deferred inflows of resources and net position	$1,206,335	$1,378,781

Statements of Revenues, Expenses and Changes in Net Position

	2015	2014
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	$ 44,069	$ 48,607
Other loan and guarantee program revenues	5,044	6,729
Investment interest	239	264
Vermont state appropriations	20,274	20,468
Federal grants	5,256	5,572
Scholarship and gift income	4,256	3,701
Federal loan servicing income	2,516	2,688
Other income	1,030	1,365
Total operating revenues	82,684	89,394
Operating expenses:		
Grants and scholarships	24,880	24,896
Interest rebated to borrowers	3,224	3,937
Interest on debt, net of amortization	5,619	6,920
Other loan financing costs	15,884	20,273
Corporate operating expenses and depreciation	35,194	29,669
Total operating expenses	84,801	85,695
Change in net position from operations	(2,117)	3,699
Gains on early bond extinguishments	-	887
Change in net position	(2,117)	4,586
Net position, beginning of year	168,492	163,906
Net position, end of year	$ 166,375	$ 168,492

Net Position

Cash and investment balances decreased $10.1 million from $93.6 million at June 30, 2014 to $83.5 million at June 30, 2015 . The cash was used to make required principal payments on restricted bonds, to extinguish bonds, to pay costs of issuing new bonds, and to support delivery of our programs and services.

Student loans and interest receivable totaled $1.1 billion at June 30, 2015, down from $1.3 billion in 2014. 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 $162 million from $1.1 billion at June 30, 2014 to $987 million at June 30, 2015. VSAC's financing activity in 2015 was comprised primarily of the following (in millions):

Early extinguishments - 1995-2012 series bonds	$ (69.6)
Principal payments, 2012-13-14 variable rate notes	(181.9)
Scheduled principal payments, VSAC fixed rate bonds	(0.5)
Issuance of 2014A-1 Student loan financing bond	29.9
Issuance of 2014B refinancing bond	59.7
Change in bond premium/discount	0.8
	$ (161.6)

The 2012, 2013 and 2014 variable rate notes, which were issued in those years to refund letter of credit bonds, the ABCP Conduit note, and auction rate bonds, include a feature which requires that periodic calculations of available cash are used to pay bond principal.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2015 to $1.9 million from $1.5 million as of June 30, 2014.

Unrestricted net position decreased from $112.6 million at June 30, 2014 to $92.9 million at June 30, 2015. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is $20.0 million. VSAC's unrestricted net position at June 30, 2015 and 2014 consists of the following (in millions):

	2015	2014
Cash/investments held for new bond issuance and operating reserves	$ 23.7	$ 31.8
Investment in student loans and related interest	46.5	57.4
Physical plant	15.8	16.1
Subordinated VSAC bonds	22.5	22.5
Other	0.2	0.9
Total unrestricted including Investment in Capital Assets	$ 108.7	$ 128.7

Restricted net position increased from $39.8 million at June 30, 2014 to $57.6 million at June 30, 2015. This increase was primarily in the bond funds due to the operating surplus in those funds and due to contributions of unrestricted assets to new bond issuances during the year. Of the $57.6 million, $51.8 million is restricted by bond resolutions. The remaining $5.8 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2015 financial results decreased net position by $2.1 million. All revenues except gains on early extinguishment of debt are considered operating revenues. VSAC realized $82.7 million in operating revenues versus $84.8 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 2015, loan revenue decreased from $48.6 to $44.1 million. The components of loan revenue changes are as follows (in thousands):

	2015	2014
U.S. Department of Education Interest Benefits	$ 2,871	$ 3,775
U.S. Department of Education Special Allowance	161	152
Borrower interest and fees on student loans	61,621	69,649
Borrower interest paid to Department of Education	(20,584)	(24,969)
	$ 44,069	$ 48,607

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. Our 2010A-1, 2011A-1, 2012A-1, 2013A-1 and 2014A-1 private loan financing bonds are issued with fixed interest rates. The student loans pledged to these bonds also have fixed interest rates. All other outstanding student loan bonds and notes have variable interest rates reset on periodic intervals based on short-term LIBOR rates. The loans pledged to these bonds also have variable interest rates based on short-term LIBOR rates with similar reset frequencies.

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 $5.0 million in 2015 and $6.7 million in 2014. This decrease is primarily due to a change in the Higher Education Act which decreased the permitted revenues retained from rehabilitated defaulted loans.

Interest rates remained very low throughout the year; in addition, the balances invested were also lower resulting in decreased interest revenue on investments. Investments include unrestricted, student loan and scholarship funds temporarily invested in short term investments, and scholarship endowment 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 $67.4 thousand in 2015 and $570.3 thousand in 2014.

VSAC's State funding support was essentially unchanged at $20.3 million in 2015 compared to $20.5 million in 2014.

Federal grants decreased slightly from $5.6 million in fiscal 2014 to $5.3 million in fiscal 2015. 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 from $3.7 million in 2014 to $4.3 million in 2015.

Revenues earned for servicing Federal-owned student loans decreased from $2.7 million in 2014 to $2.5 million in 2015. The decrease in Federal loan servicing revenue is due to Federal loans no longer being serviced by VSAC as a result of paying off or defaulting, partially offset by newly disbursed Federal loans.

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 2015. $19.2 million in grant aid was provided from State appropriations. An additional $5.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 29.3% of VSAC's operating expenses in fiscal 2015 compared to 29.0% in 2014.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided $3.2 million in rebates of interest to borrowers in 2015 which represents 3.8% of VSAC's operating expenses in fiscal 2015 compared to 4.6% in 2014. 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 $29.1 million of loans VSAC made available to students and parents in fiscal 2015.

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. To help reduce VSAC's exposure to auction bond interest rate risk, the Corporation in 2013 and 2015 issued refinancing notes and used existing cash to refund and extinguish $1.3 billion and $66.5 million, respectively, of bonds and notes before their scheduled maturities, leaving $66.5 million and $0.0 million in auction rate bonds outstanding as of June 30, 2014 and 2015, 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. The bonds issued from 2010 to 2015 to finance newly issued fixed rate loans contain fixed interest rates paid to investors. These fixed rate bonds and refinancing notes result in interest revenue to bond interest expense that is closely matched.

Because of 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 ($8.3 million in 2015 and $8.0 million in 2014) decreased from $14.9 to $14.0 million. Net of deferred gains on early refunding, this expense represents 6.6% of VSAC operating expenses in fiscal 2015, down from 8.1% in 2014.

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 $986.7 million in outstanding bonds and notes. These costs totaled $15.9 million in fiscal 2015 and $20.3 million in 2014, representing approximately 18.8% and 23.7%, respectively, of total operating expenses in these years. The decrease of $4.4 million in this expense was primarily the result of decreased provisions for loan losses (down $3.8 million due to decreased loan balances and improved collections performance). Another component of Other Loan Financing Costs, 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. By using interest rebates to VSAC borrowers, it 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 $35.2 million in fiscal 2015 compared to $29.7 million in fiscal 2014. The primary components of VSAC's operating costs (in thousands) were as follows for the years ended June 30:

	2015	2014
Salaries and wages	$ 13,894	$ 14,026
Employee health care costs	4,359	3,863
Other employee benefit costs	2,725	2,847
Administrative expenses	14,216	8,933
Total Costs of Operations	$ 35,194	$ 29,669

Employee health care expenses increased by over 12 percent reflecting broad based health care increases seen nationally. The $5.3 million increase in administrative expenses is primarily due to non-recurring litigation and settlement costs. Overall costs of operations represent 41.5% of total operating expenses in fiscal 2015 compared to 34.6% in 2014.

Expenses for 2015 totaled $84.8 million. Revenues totaled $82.7 million. The change in total net position for the year was a decrease of $2.1 million. The ending balance of net position at June 30, 2015 was $166.4 million, as compared to $168.5 million at June 30, 2014.

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

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

ASSETS

	2016	2015
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$ 23,141	$ 25,906
Investments	-	4,527
Receivables		
Student loans, net	136,443	147,955
Student loan interest and special allowance	9,331	8,673
Investment interest	22	17
Federal administrative and program fees	180	190
Other	3,459	1,459
Other assets	593	425
Total current assets	173,169	189,152
Noncurrent assets:		
Restricted cash	79,764	48,643
Scholarship endowment investments	4,396	4,444
Student loans receivable, net	822,453	948,279
Capital assets, net	15,201	15,817
Total noncurrent assets	921,814	1,017,183
Total assets	$1,094,983	$1,206,335

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2016	2015
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	$ 6,855	$ 1,600
Accounts payable and other liabilities	4,412	3,028
Accrued interest on bonds payable	563	434
Unearned revenue	6,920	5,636
Total current liabilities	18,750	10,698
Noncurrent liabilities:		
Bonds and note payable	869,035	985,080
U.S. Treasury rebates payable	2,457	1,875
Total noncurrent liabilities	871,492	986,955
Total liabilities	890,242	997,653
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	34,896	42,307
Total liabilities and deferred inflows of resources	925,138	1,039,960
Net position:		
Net investment in capital assets	15,201	15,817
Restricted	78,204	57,631
Unrestricted	76,440	92,927
Total net position	169,845	166,375
Total liabilities, deferred inflows of resources and net position	$1,094,983	$1,206,335

The accompanying notes are an integral part of these 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, 2016 and 2015

	2016	2015
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	$ 2,173	$ 2,871
U.S. Department of Education special allowance	304	161
Borrower interest and fees on student loans	55,133	61,621
Borrower interest returned to U.S. Department of Education	(15,970)	(20,584)
Vermont state grants	20,275	20,274
Interest on cash and investments	393	239
Guarantee agency administrative revenues	5,528	5,044
Federal grants	5,340	5,256
Scholarship and gift income	4,523	4,256
Federal loan servicing income	3,821	2,516
Other income	785	1,030
Total operating revenues	82,305	82,684
Operating expenses:		
Interest, net of amortization of bond premium and deferred gains on early refunding of bonds payable	6,816	5,619
Salaries and benefits	20,592	20,978
Grants and scholarships	25,999	24,880
Interest rebated to borrowers	2,617	3,224
Other general and administrative	8,095	13,252
Interest subject to U.S. Treasury rebate	581	408
Credit enhancement and remarketing fees	105	170
Consolidation and lender paid fees	5,346	6,122
Other loan related expenses	1,648	1,640
Provision for losses on student loans	5,244	6,240
Depreciation	874	964
Bond issuance costs	918	1,304
Total operating expenses	78,835	84,801
Change in net position from operations and change in net position	3,470	(2,117)
Net position, beginning of year	166,375	168,492
Net position, end of year	$ 169,845	$ 166,375

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

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	2016	2015
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	$ 18,925	$ 18,442
Principal payments received on student loans	178,313	197,968
Cash paid to suppliers for goods and services	(14,339)	(22,384)
Grants and scholarship disbursements	(25,998)	(24,880)
Loans made and purchased	(34,846)	(29,143)
Cash paid to employees for salaries and benefits	(20,449)	(20,984)
Interest and fees received on student loans	26,783	26,574
Vermont state appropriations received	20,275	20,274
Net cash provided by operating activities	148,664	165,867
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds payable	55,659	90,620
Payments on bonds payable	(165,998)	(251,996)
(Increase) decrease in restricted cash	(31,121)	2,184
Interest paid to bond holders	(14,549)	(14,189)
Net cash used by noncapital financing activities	(156,009)	(173,381)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(257)	(701)
Net cash used by capital and related financing activities	(257)	(701)
Cash flows from investing activities:		
Interest received on cash and investments	388	224
Purchase of investments	(1,301)	(9,669)
Proceeds from sale of investments	5,750	5,058
Net cash provided (used) by investing activities	4,837	(4,387)
Net decrease in cash and cash equivalents	(2,765)	(12,602)
Cash and cash equivalents, beginning of year	25,906	38,508
Cash and cash equivalents, end of year	$ 23,141	$ 25,906
Supplemental disclosure of non-cash operating activities:		
Student loan interest capitalized	$ 13,143	$ 16,111

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

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

STATEMENTS OF CASH FLOWS (CONCLUDED)

Years Ended June 30, 2016 and 2015

	2016	2015
	(In Thousands)	
Reconciliation of change in net position from operations to net cash provided by operating activities:		
Change in net position from operations	$ 3,470	$ (2,117)
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	874	964
Provision for losses on student loans	5,244	6,240
Loss on fixed asset disposition	-	5
Net amortization of bond premium	(451)	(321)
Amortization of deferred gains on early refunding of bonds payable	(7,411)	(8,346)
Realized and unrealized loss (gain) on investments	126	(67)
Investment interest received	(388)	(224)
Interest paid to bond holders	14,549	14,189
Changes in operating assets and liabilities:		
Investment interest receivable	(5)	(17)
Student loans receivable	132,093	154,930
Student loan interest receivable	(658)	844
Federal administrative and program fees receivable	10	(6)
Other receivables	(2,000)	27
Other assets	(168)	52
Accounts payable and other liabilities	1,385	(353)
Unearned revenue	1,284	(439)
Accrued interest on bonds payable	129	98
U.S. Treasury rebates payable	581	408
Total adjustments	145,194	167,984
Net cash provided by operating activities	$ 148,664	$ 165,867

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

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

STATEMENTS OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2016 and 2015

	Federal Loan Reserve Fund	VHEIP	2016 Total	2015 Total
	(In Thousands)			
Assets held for others				
Cash and cash equivalents	$12,123	$ 242	$ 12,365	$ 10,428
Investments	-	288,412	288,412	272,377
Investment interest receivable	-	-	-	146
Due from U.S. Department of Education	1,897	-	1,897	1,522
Other assets	-	-	-	111
Total assets	$14,020	$288,654	$302,674	$284,584
Liabilities				
Accounts payable and other liabilities	$ 1,653	$ 71	$ 1,724	$ 2,645
Amounts held on behalf of investors	-	288,583	288,583	269,971
Federal loan reserve funds held for U.S. Department of Education	12,367	-	12,367	11,968
Total liabilities	$14,020	$ 288,654	$302,674	$284,584

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

1. Authorizing Legislation

The Vermont Student Assistance Corporation (VSAC or the Corporation) 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.

The Vermont Student Development Fund, Inc. (the Fund), a separate nonprofit Internal Revenue Code (IRC) Section 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 Internal Revenue Service (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 Statement 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 February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement is effective for financial periods beginning after June 15, 2015. VSAC has reviewed this Statement and believes that its investments are valued in conformity with it.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for financial periods beginning after June 15, 2015. VSAC has reviewed this Statement and believes that its financial reporting conforms to it.

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 is 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.

2. Summary of Significant Accounting Policies (Continued)

Net Investment in Capital Assets

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

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 estimated loan losses. Private loan origination fee revenue received from borrowers is recognized as revenues as received in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Allowance for Loan Losses

VSAC issues loans that are not guaranteed against default and continues to hold and service loans guaranteed under the FFEL Program. 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 unadjusted for future recoveries. For guaranteed loans, the loss exposures are either 2% or 3% of estimated defaults based on the origination date of the loan.

2. Summary of Significant Accounting Policies (Continued)

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.

Investments

Investments are carried at fair value in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and No. 72, *Fair Value Measurement and Application*.

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. Effective July 1, 2014, the minimum for capitalization of long-lived asset acquisitions was increased to $10.

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.*

2. Summary of Significant Accounting Policies (Concluded)

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, 2016 and 2015, interest expense has been reduced by $7,411 and $8,346, respectively, for the amortization of the deferred gains on early refunding of bonds payable.

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.

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 as the amount is earned and this obligation is accrued.

Income Tax Status

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

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments

VSAC's deposit and investment policies comply with the underlying bond resolution requirements. In accordance with those bond resolutions, all deposits and investments are held in 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, 2016 and 2015 are presented below:

	2016	2015
Cash	$ 8,829	$ 15,659
Money market accounts	94,076	58,890
	$102,905	$ 74,549

At June 30, 2016 and 2015, cash is comprised of various commercial bank accounts. The bank balances at June 30, 2016 were $8,680 and the bank balances at June 30, 2015 were $15,401. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $595 of the bank balances at June 30, 2016 and 2015 were covered by Federal Deposit Insurance Corporation (FDIC) insurance. The balance above the FDIC limit is uncollateralized.

At June 30, 2016 and 2015, the money market accounts are primarily invested in the Fidelity Institutional Money Market Prime Money Market Portfolio (Class 1). This 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, 2016 and 2015, $79,764 and $48,643, respectively, of restricted cash is limited to its use for the repayment of bond and note obligations.

Investments

Interest Rate Risk: Under the VSAC policy, all operating and bond restricted funds are invested in highly liquid short term accounts. Approximately 33% of VSAC's scholarship endowment investments are targeted for fixed rate securities.

3. Cash, Cash Equivalents and Investments (Continued)

Credit Risk: Under the Vermont Student Development Fund (the Scholarship Fund) policy, VSAC mitigates its credit risk by requiring marketable bonds, debentures, notes, or instruments to be rated BBB or better by Standard and Poor's (S&P) and Baa or better by Moody's Investors Service (Moody's). Operating and bond-restricted funds are invested in highly-rated liquid investments with a primary objective of principal preservation.

Concentration of Credit Risk: While diversification is a strategic investment objective, VSAC places no defined limit on the amount of investments in any one issuer. Under VSAC policy, all non-scholarship funds are held in liquid investments whose primary objective is preservation of capital. Under the Scholarship Fund policy, approximately 67% of the total portfolio is targeted for investment in equity issues, balanced between growth and value styles. As of June 30, 2016 and 2015, 15% and 7%, respectively, of VSAC's investments were invested in U.S. Treasuries. No other single issuer represented more than 4% or 19% of VSAC's investments at June 30, 2016 and 2015, respectively.

Custodial Credit Risk: All of the investments are held by VSAC's agent in VSAC's name.

Fair Value Measurement

GASB Statement No. 72 establishes a fair value hierarchy for investments that prioritizes the inputs to valuation techniquest used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are securities listed in active markets. VSAC has valued its investments, listed on national exchanges, at the last sales price as of the day of the valuation.
- Level 2 – Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets which are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the asset of liability.
- Level 3 – Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include discounted cash flow models and similar techniques.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with those investments.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

VSAC held the following investments at June 30, 2016 and 2015:

	2016			2015		
	Cost	Fair Value	Fair Value Level	Cost	Fair Value	Fair Value Level
Domestic equities	$ 2,712	$ 2,958	1	$ 2,641	$ 3,027	1
Corporate bonds	448	450	2	5,011	4,993	2
Government bonds and notes	976	988	2	957	951	2
	$ 4,136	$ 4,396		$ 8,609	$ 8,971	

At June 30, 2016, the ratings and fair values for investments in debt securities are summarized as follows:

Investment		Maturities	Fair Value	S&P/ Moody's Rating
Corporate bonds:				
Anheuser-Busch	1.375%	7/15/2017	$ 30	A3
Apple Inc.	3.45%	5/6/2024	22	AA1
Bank of Montreal	1.4%	9/11/2017	20	AA3
Bank of Nova Scotia	2.8%	7/21/2021	26	AA3
Berkshire Hathaway	5.4%	5/15/2018	43	AA2
Cisco Systems Inc.	4.95%	2/15/2019	22	A1
Comcast Corp	2.85%	1/15/2023	21	A3
Conocophillips Co.	3.35%	11/15/2024	21	BAA2
General Electric Cap Corp.	3.373%	11/15/2025	18	A1
Goldman Sachs	2.9%	7/19/2018	21	A3
IBM Corp.	3.625%	2/12/2024	16	AA3
JP Morgan Chase & Co.	6%	1/15/2018	43	A3
JP Morgan Chase & Co.	3.9%	7/15/2025	16	A3
PNC Bank NA.	1.6%	6/1/2018	20	A2
Pepsico Inc.	3.1%	7/17/2022	16	A1
Royal Bank of Canada	2.15%	3/15/2019	20	AA3
US Bancorp	1.95%	11/15/2018	15	A1
Wachovia Corp.	5.75%	2/1/2018	43	A2
Wells Fargo & Co.	3.3%	9/9/2024	17	A2
			$ 450	

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Concluded)

Investment		Maturities	Fair Value	S&P/ Moody's Rating
Government bonds and notes:				
Federal Home Loan Mortgage Corporation (FHLMC)	3.75%	3/27/2019	$ 124	AAA
FHLMC	2.375%	1/13/2022	42	AAA
Federal National Mortgage Assoc.	5.375%	6/12/2017	79	AAA
U.S. Treasury Note	1.875%	9/30/2017	97	AAA
U.S. Treasury Note	3.125%	5/15/2019	122	AAA
U.S. Treasury Bonds	2.75%	2/28/2018	26	AAA
U.S. Treasury Bonds	2.625%	8/15/2020	146	AAA
U.S. Treasury Bonds	2.125%	1/31/2021	32	AAA
U.S. Treasury Bonds	1.75%	5/15/2022	93	AAA
U.S. Treasury Bonds	2.5%	8/15/2023	103	AAA
U.S. Treasury Bonds	2%	2/15/2025	31	AAA
U.S. Treasury Bonds	1.625%	5/15/2026	15	AAA
Ontario Prov, Canada	1.65%	9/27/2019	46	AA2
Province of Quebec	2.75%	8/25/2021	32	AA2
			$ 988	

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

4. Student Loans Receivable

At June 30, 2016, VSAC held student loans with interest rates ranging from 1.52% to 10%, the majority insured by ED and the U.S. Department of Health and Human Services; at June 30, 2015, the interest rates ranged from 1.52% to 10%. At June 30, 2016 and 2015, approximately 27.8% and 24.2%, 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.

(Dollars in Thousands)

4. Student Loans Receivable (Continued)

Student loans receivable as of June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Status:		
Interim status	$ 28,139	$ 27,337
Deferral status	81,344	104,439
Repayment status	881,265	996,019
Less: Allowance for loan losses	(31,852)	(31,561)
Total student loans receivable	958,896	1,096,234
Less: Noncurrent student loans receivable	822,453	948,279
Current student loans receivable	$ 136,443	$ 147,955
Guarantee type:		
U.S. Department of Education	$ 699,808	$ 835,129
U.S. Department of Health and Human Services	1,651	2,408
Other – Guaranteed	14,023	17,790
Nonguaranteed	275,266	272,468
Less: Allowance for loan losses	(31,852)	(31,561)
Total student loans receivable	958,896	1,096,234
Less: Noncurrent student loans receivable	822,453	948,279
Current student loans receivable	$ 136,443	$ 147,955

As of June 30, 2016 and 2015, $949,560 and $1,050,168 of student loans were pledged to the repayment of bonds and notes, respectively.

Activity in the allowance for loan losses for the years ended June 30, 2016 and 2015 was as follows:

	2016	2015
Balance, July 1	$ 31,561	$ 31,809
Net loans charged off	(4,953)	(6,488)
Provision for losses on student loans	5,244	6,240
Balance, June 30	$ 31,852	$ 31,561

(Dollars in Thousands)

4. Student Loans Receivable (Concluded)

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, 2016 and 2015, $31,713 and $49,367, respectively, of student loans receivable were over 90 days past due, of which all but $6,085 and $8,149, respectively, were guaranteed by one of the guarantee types shown above. The portion of the loss reserve at June 30, 2016 and 2015 which relates to non-guaranteed loans was $30,535 and $29,989, respectively.

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, 2016 and 2015 were as follows:

	2016	2015
Additions:		
Reimbursement from ED on default loan purchases	$ 31,028	$ 35,946
Default loan collections	152	175
Investment income	14	3
Other, net	671	559
Total additions	31,865	36,683
Deductions:		
Purchases of defaulted loans from lenders	31,580	37,324
Default aversion fee received	(114)	(126)
Total deductions	31,466	37,198
Net increase (decrease) in federal loan reserve funds held	399	(515)
Federal Loan Reserve Funds held, at beginning of year	11,968	12,483
Federal Loan Reserve Funds held, at end of year	$ 12,367	$ 11,968

(Dollars in Thousands)

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

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 2016 and 2015, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $699,808 and $835,129 at June 30, 2016 and 2015, 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 a tax-favored qualified 529 savings plan. The program has been designed to comply with the requirements for treatment as a “Qualified Tuition Program” under Section 529 of the IRC.

Effective September 12, 2015, VSAC changed the plan manager of VHEIP from TFI to Intuition College Savings Solutions (Intuition). TFI is part of Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), a New York-based financial services organization. Intuition is a Florida-based organization specializing in the administration and management of state-sponsored higher education savings plans.

Under the management of both TFI and Intuition, there are six plans available which participants can select, based on their investment goals and risk tolerance. These include the Managed Allocation Option, the Diversified Equity Option, the Equity Index Option, the Balanced Option, the Fixed Income Option, and the Treasury Obligations/Principal Plus Interest Option. Aside from the Treasury Obligations/Principal Plus Interest Options being guaranteed by the U.S government, investments in these investment options are not guaranteed.

The changes in assets held on behalf of investors for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Additions:		
Investment income	$ 5,675	$ 3,805
Net realized and unrealized (losses) gains	(1,540)	1,997
Net participant subscriptions/redemptions	14,477	17,297
Total additions	18,612	23,099
Net amount held on behalf of investors, at beginning of year	269,971	246,872
Net amount held on behalf of investors, at end of year	$ 288,583	$ 269,971

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2016 and 2015 was as follows:

	Estimated Lives	Balance July 1, 2014	Net Acqui-sitions	Balance June 30, 2015	Net Acqui-sitions	Balance June 30, 2016
Land	–	$ 3,150	$ –	$ 3,150	$ -	$ 3,150
Furniture and equipment	3 – 15 Years	7,632	487	8,119	105	8,224
Software	3 – 5 Years	1,756	112	1,868	115	1,983
Building	5 – 30 Years	17,145	23	17,168	-	17,168
		29,683	622	30,305	220	30,525
Less accumulated depreciation		13,598	890	14,488	836	15,324
Capital assets, net		$ 16,085	$ (268)	$ 15,817	$ (616)	$ 15,201

Depreciation charged to operations for the years ended June 30, 2016 and 2015 was $874 and $964, respectively.

(Dollars in Thousands)

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2016 and 2015:

	2016	2015
Bonds and Notes Payable which were issued to finance the origination of student loans:		
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% to 5%.	$ 10,920	$ 11,815
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% to 5%.	9,000	10,120
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 5.1%.	14,700	16,465
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% (1.1493% at June 30, 2016).	415,642	501,542
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 1.50% for Class A notes, and 3.00% for Class B notes (2.18130% and 3.68130% at June 30, 2016).	76,151	94,158
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% (1.1993% at June 30, 2016).	207,451	255,421
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 2.1% to 4.65%.	14,960	15,595
2014 Series A-1 dated July 9, 2014; comprised of fixed-rate bonds maturing between June 15, 2019 and 2033; interest is fixed and payable semi-annually at rates ranging from 3.625% to 5%.	28,100	29,920
2014 Series B dated November 21, 2014; comprised of variable-rate notes maturing on June 2, 2042; interest is variable and payable semi-annually at the one-month LIBOR plus 1.0% (1.45665% at June 30, 2016).	42,382	50,266
2015 Series A-1 dated July 16, 2015; comprised of fixed-rate bonds maturing between June 15, 2018 and 2034; interest is fixed and payable semi-annually at rates ranging from 4% to 5%.	21,200	-
2016 Series A-1 dated June 9, 2016; comprised of fixed-rate bonds maturing between June 15, 2021 and 2034; interest is fixed and payable semi-annually at rates ranging from 3.25% to 5%.	27,900	-

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

Other Notes Payable

2016 General Obligation with the State of Vermont note dated June 8, 2016 with a final maturity date of June 15, 2021; interest rate is fixed at 2%.	4,000	-
Total bonds and notes payable	872,406	985,302
Bond premium/discount, net	3,484	1,378
Total bonds and notes payable	875,890	986,680
Less: current portion of bonds and notes payable	6,855	1,600
Noncurrent portion of bonds and notes payable	$ 869,035	$ 985,080

Except for the 2016 General Obligation note, all notes and 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. The 2016 General Obligation note is unsecured and principal and interest thereon is payable from VSAC operational sources.

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, 2013A-1, 2014A-1, 2015A-1 and 2016A-1 series, are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. Certain series of the 2010A-1, 2011A-1, 2012A-1, 2013A-1, 2014A-1, 2015A-1 and 2016A-1 bonds are subject to redemption from excess revenues prior to maturity at the principal amounts outstanding plus unamortized premium and accrued interest at date of redemption. At June 30, 2016, all bonds authorized under the underlying bond resolutions have been issued.

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 the years ended June 30, 2016 and 2015, amortized deferred gains from prior year financed refundings of $7,411 and $8,346, respectively, are included as a reduction to interest expense.

(Dollars in Thousands)

8. Bonds and Notes Payable (Concluded)

The debt service requirements, which are based on the interest rates at June 30, 2016, through the fiscal year ending (FY) 2021 and in five-year increments thereafter to maturity for VSAC are as follows:

Year ending June 30,	Principal	Interest	Total
FY17	$ 6,855	$ 14,619	$ 21,474
FY18	7,770	14,341	22,111
FY19	7,830	14,069	21,899
FY20	10,895	13,742	24,637
FY21	12,605	13,301	25,906
FY22 – 26	82,731	54,720	137,451
FY27 – 31	27,415	47,253	74,668
FY32 – 36	673,923	31,777	705,700
FY37 – 41	-	2,757	2,757
FY42 – 46	42,382	507	42,889
Total	$ 872,406	$ 207,086	$ 1,079,492

The actual maturities and interest may differ due to changes in interest rates or other factors. Payment maturity dates of bonds payable principal coincide with required interest payable schedules.

The following summarizes the debt activity for VSAC for the years ended June 30, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 986,680	$ 1,148,377
Issuance	53,100	89,620
Premium on issuance	2,559	1,000
Redemptions, extinguishments and refunding	(165,998)	(251,996)
Accretion/amortization of discount/premium	(451)	(321)
Balance, end of year	$ 875,890	$ 986,680

9. U.S. Treasury Rebates Payable

The tax-exempt bonds issued by VSAC are subject to 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, 2016 and 2015 of $2,457 and $1,875, respectively. VSAC has estimated that there is no estimated current portion at June 30, 2016 or June 30, 2015. VSAC did not refund any excess earnings to the U.S. Treasury in 2016 and 2015.

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 Loans 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. All FFEL loans held by VSAC receive special allowance based on one-month LIBOR.

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 $15,970 and $20,584 in 2016 and 2015, respectively, and is reflected as a reduction of interest and fees on 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.

In 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.

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, 2016 and 2015, the total net position related to endowment funds was $4,691 and $4,719, respectively. Expendable restricted net position totaled $455 and $395, respectively. The remaining $4,236 and $4,324, respectively, of net position related to endowment funds were nonexpendable.

(Dollars in Thousands)

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, 2016 and 2015 is as follows:

	2016	2015
Expendable - restricted by bond resolutions	$ 72,785	$ 51,850
Expendable - restricted by federal or state statute or donors	687	1,028
Nonexpendable – income is donor restricted for scholarships	4,732	4,753
Total restricted net position	$ 78,204	$ 57,631

The portion of net position which is restricted by bond resolutions includes the effect of deferring the recognition of gain on the early retirement of bonds. These bonds were retired in financed transactions during the year ended June 30, 2013 and the gain was deferred and is recognized as an offset to financing costs as the financing bonds are repaid. The remaining balances of the deferred inflow of resources of $34,896 and $42,307 at June 30, 2016 and 2015, respectively, will be recognized as a reduction of financing costs and increase of restricted net position over the estimated remaining period the financing bonds are estimated to be outstanding. This estimated period was 19 and 20 years as of June 30, 2016 and 2015, respectively.

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. All employees are fully vested for VSAC plan contributions. The payroll for employees covered under the plan for the fiscal year ended June 30, 2016 and 2015 amounted to $13,284 and $13,738, respectively; VSAC's total payroll was $13,642 and $13,894, respectively. Total contributions by VSAC amounted to $1,352 and $1,396 in 2016 and 2015, respectively, which represented an average of 10.2% of the covered payroll in those years.

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 Consolidated Omnibus Budget Reconciliation Act (COBRA) rates. Generally Accepted Accounting Principles require recognition of current period costs related to expected future expenditures for Other Post-Employment Benefits. Since historical participation in this benefit has been very low and because participants are required to purchase coverage at a COBRA rate which recovers VSAC's average estimated per person cost, VSAC believes that this obligation is not material and has not recorded a liability for this post-employment benefit at June 30, 2016 and 2015.

(Dollars in Thousands)

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 as of June 30, 2016 and 2015 is as follows:

	2016	2015
Balance, beginning of year	$ 384	$ 330
Claims paid	(4,223)	(4,218)
Accrual for estimated claims	4,233	4,272
Balance, end of year	$ 394	$ 384

The litigation matter discussed at length in VSAC's Notes to Financial Statements for the year ended June 30, 2014 was settled during the year ended June 30, 2015 and is no longer a contingency as of the end of that fiscal year. As of June 30, 2016, management believes VSAC has no pending legal actions an unfavorable outcome of which would have a material effect on the Corporation.

15. Loan Commitments

At June 30, 2016 and 2015, VSAC had commitments to extend credit for non-guaranteed student loans of approximately $3,545 and $2,849, 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, student outreach activities (partially funded by Federal and State grants) and Federal loan servicing activities. 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.

VSAC's segment financial reporting at June 30, 2016 and for the year then ended is as follows:

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Net Position

	Operations	Bond	Scholarships	Grants	Total
Assets:					
Current assets	$ 25,693	$ 139,690	$ 6,950	$ 836	$ 173,169
Capital assets, net	15,201	-	-	-	15,201
Other noncurrent assets	34,638	867,579	4,396	-	906,613
Total assets	$ 75,532	$ 1,007,269	$ 11,346	$ 836	$ 1,094,983
Liabilities:					
Current liabilities	$ 4,696	$ 7,389	$ 6,613	$ 52	$ 18,750
Noncurrent liabilities	3,201	868,291	-	-	871,492
Interfund (receivable) payable	(24,006)	23,908	1	97	-
Total liabilities	(16,109)	899,588	6,614	149	890,242
Deferred inflows of resources					
Deferred gains on early refunding of bonds payable	-	34,896	-	-	34,896
Total liabilities and deferred inflows of resources	(16,109)	934,484	6,614	149	925,138
Net position:					
Net investment in capital assets	15,201	-	-	-	15,201
Restricted	-	72,785	4,732	687	78,204
Unrestricted	76,440	-	-	-	76,440
Total net position	91,641	72,785	4,732	687	169,845
Total liabilities, deferred inflows of resources and net position	$ 75,532	$ 1,007,269	$ 11,346	$ 836	$ 1,094,983

(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	$ 1,649	$ 39,991	$ -	$ -	$ 41,640
Guarantee agency administrative revenues	5,528	-	-	-	5,528
Vermont state grants	96	-	499	19,680	20,275
Federal grants	4,406	-	934	-	5,340
Scholarship and gift income	-	-	4,523	-	4,523
Federal loan servicing income	3,821	-	-	-	3,821
Interest on cash and investments, and other income	1,017	160	1	-	1,178
Total operating revenues	16,517	40,151	5,957	19,680	82,305
Operating expenses:					
Operating expenses excluding depreciation	21,842	29,087	6,240	20,792	77,961
Depreciation	874	-	-	-	874
Total operating expenses	22,716	29,087	6,240	20,792	78,835
Change in net position from operations	(6,199)	11,064	(283)	(1,112)	3,470
Interfund transfer	(10,904)	9,871	262	771	-
Change in net position	(17,103)	20,935	(21)	(341)	3,470
Net position, beginning of year	108,744	51,850	4,753	1,028	166,375
Net position, end of year	$ 91,641	$ 72,785	$ 4,732	$ 687	$ 169,845

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Cash Flows

	Operations	Bond	Scholarships	Grants	Total
Cash (used) provided by operating activities	$ (6,434)	$ 155,868	$ (567)	$ (203)	$ 148,664
Cash used by noncapital financing activities	-	(156,009)	-	-	(156,009)
Cash used by capital and related financing activities	(257)	-	-	-	(257)
Cash provided by investing activities	3,890	141	806	-	4,837
Net (decrease) increase in cash and cash equivalents	(2,801)	-	239	(203)	(2,765)
Cash and cash equivalents, beginning of year	19,908	-	4,966	1,032	25,906
Cash and cash equivalents, end of year	$ 17,107	$ -	$ 5,205	$ 829	$ 23,141

(Dollars in Thousands)

16. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2015 and for the year then ended is as follows:

Condensed Statement of Net Position

	Operations	Bond	Scholarships	Grants	Total
Assets:					
Current assets	$ 32,410	$ 149,949	$ 5,739	$ 1,054	$ 189,152
Capital assets, net	15,817	-	-	-	15,817
Other noncurrent assets	39,849	957,073	4,444	-	1,001,366
Total assets	$ 88,076	$ 1,107,022	$ 10,183	$ 1,054	$ 1,206,335
Liabilities:					
Current liabilities	$ 3,547	$ 1,695	$ 5,430	$ 26	$ 10,698
Noncurrent liabilities	-	986,955	-	-	986,955
Interfund (receivable) payable	(24,215)	24,215	-	-	-
Total liabilities	(20,668)	1,012,865	5,430	26	997,653
Deferred inflows of resources					
Deferred gains on early refunding of bonds payable	-	42,307	-	-	42,307
Total liabilities and deferred inflows of resources	(20,668)	1,055,172	5,430	26	1,039,960
Net position:					
Net investment in capital assets	15,817	-	-	-	15,817
Restricted	-	51,850	4,753	1,028	57,631
Unrestricted	92,927	-	-	-	92,927
Total net position	108,744	51,850	4,753	1,028	166,375
Total liabilities, deferred inflows of resources and net position	$ 88,076	$ 1,107,022	$ 10,183	$ 1,054	$ 1,206,335

(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	$ 1,629	$ 42,440	$ -	$ -	$ 44,069
Guarantee agency administrative revenues	5,044	-	-	-	5,044
Vermont state grants	59	-	500	19,715	20,274
Federal grants	4,404	-	852	-	5,256
Scholarship and gift income	-	-	4,256	-	4,256
Federal loan servicing income	2,516	-	-	-	2,516
Interest on cash and investments, and other income	1,063	20	186	-	1,269
Total operating revenues	14,715	42,460	5,794	19,715	82,684
Operating expenses:					
Operating expenses excluding depreciation	26,177	31,688	5,939	20,033	83,837
Depreciation	964	-	-	-	964
Total operating expenses	27,141	31,688	5,939	20,033	84,801
Change in net position from operations	(12,426)	10,772	(145)	(318)	(2,117)
Interfund transfer	(7,546)	6,454	259	833	-
Change in net position	(19,972)	17,226	114	515	(2,117)
Net position, beginning of year	128,716	34,624	4,639	513	168,492
Net position, end of year	$ 108,744	$ 51,850	$ 4,753	$ 1,028	$ 166,375

(Dollars in Thousands)

16. Segment Reporting (Concluded)

Condensed Statement of Cash Flows

	Operations	Bond	Scholarships	Grants	Total
Cash (used) provided by operating activities	$ (7,502)	$ 173,362	$ (509)	$ 516	$ 165,867
Cash used by noncapital financing activities	-	(173,381)	-	-	(173,381)
Cash used by capital and related financing activities	(701)	-	-	-	(701)
Cash (used) provided by investing activities	(3,685)	19	(721)	-	(4,387)
Net (decrease) increase in cash and cash equivalents	(11,888)	-	(1,230)	516	(12,602)
Cash and cash equivalents, beginning of year	31,796	-	6,196	516	38,508
Cash and cash equivalents, end of year	$ 19,908	$ -	$ 4,966	$ 1,032	$ 25,906

17. Subsequent Event

In June of 2016, VSAC announced the discontinuation of its participation in the Federal Direct Loan servicing program. The activities required to end that contractual relationship are expected to be completed during the year ending June 30, 2017. All remaining revenues and expenses associated with that program and its discontinuation, including employee severance costs, will be recognized during the year ending June 30, 2017.

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

COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS

For the Year Ended June 30, 2016

(Dollars in Thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
FEDERAL LOAN RESERVE FUND				
Assets held for others				
Cash and cash equivalents	$ 10,422	$ 43,154	$ 41,453	$ 12,123
Investments	2,263	-	2,263	-
Investment interest receivable	7	-	7	-
Due from U.S. Department of Education	1,522	61,407	61,032	1,897
Total assets	$ 14,214	$ 104,561	$ 104,775	$ 14,020
Liabilities				
Accounts payable and other liabilities	$ 2,246	$ 31,029	$ 31,622	$ 1,653
Federal loan reserve funds held U.S. Department of Education	11,968	50,887	50,488	12,367
Total liabilities	$ 14,214	$ 81,916	$ 82,110	$ 14,020
VHEIP				
Assets held for others				
Cash and cash equivalents	$ 6	$ 5,539	$ 5,303	$ 242
Investments	270,114	39,283	20,985	288,412
Investment interest receivable	139	-	139	-
Other assets	111	-	111	-
Total assets	$ 270,370	$ 44,822	$ 26,538	$ 288,654
Liabilities				
Accounts payable and other liabilities	$ 399	$ 647	$ 975	$ 71
Amounts held on behalf of investors	269,971	56,212	37,600	288,583
Total liabilities	$ 270,370	$ 56,859	$ 38,575	$ 288,654
TOTALS – ALL AGENCY FUNDS				
Assets held for others				
Cash and cash equivalents	$ 10,428	$ 48,693	$ 46,756	$ 12,365
Investments	272,377	39,283	23,248	288,412
Investment interest receivable	146	-	146	-
Due from U.S. Department of Education	1,522	61,407	61,032	1,897
Other assets	111	-	111	-
Total assets	$ 284,584	$ 149,383	$ 131,293	$ 302,674
Liabilities				
Accounts payable and other liabilities	$ 2,645	$ 31,676	$ 32,597	$ 1,724
Amounts held on behalf of investors	269,971	56,212	37,600	288,583
Federal loan reserve funds held U.S. Department of Education	11,968	50,887	50,488	12,367
Total liabilities	$ 284,584	$ 138,775	$ 120,685	$ 302,674