Vermont Student Assistance Corporation

(A Component Unit of the State of Vermont)

Comprehensive Annual Financial Report

Years Ended June 30, 2018 and 2017

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, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in the net position and cash flows of the business-type activities 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 19 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 accompanying 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 was derived from and relates 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 19, 2018

Registration No: 92-0000278

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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 120 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 2018 and Fiscal 2017 information due to the fact that the Financial Statements include Fiscal 2018 and Fiscal 2017 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 2018

Fiscal 2018 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2018 and 2017 was $6.8 million and $9.2 million, respectively. VSAC's total net position increased to $185.9 million.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, increased $5.2 million from 2017 to 2018. Bond interest payments were up $4.1 million due primarily to rate increases on variable rate bonds. The deferred gain amortization for 2018 was $5.2 million versus $6.2 million in 2017.
- During the year ended June 30, 2018, VSAC provided $24.6 million in grants and scholarships to Vermont students.
- VSAC originated $45.0 million in new loans to students and parents. VSAC holds and services $784.9 million in education loans receivable and related interest at June 30, 2018.
- VSAC returned $2.1 million in interest rebates to students in its loan programs during fiscal 2018.

Condensed Financial Information

Statements of Net Position

	2018	2017
	(In Thousands)	
Assets:		
Cash and investments	$ 114,054	$ 120,671
Education loans receivable (plus interest)	784,894	865,711
Other assets	18,950	16,315
Total assets	$ 917,898	$ 1,002,697
Liabilities:		
Bonds and notes payable (plus interest)	$ 694,154	$ 782,804
U.S. Treasury rebates payable	3,093	3,255
Other liabilities	8,861	8,874
Total liabilities	706, 108	794,933
Deferred inflows of resources:		
Deferred inflows from leasing activity	2,347	-
Deferred gains on early refunding of bonds payable	23,500	28,670
Total liabilities and deferred inflows of resources	731,955	823,603
Net position:		
Net investment in capital assets	13,907	14,564
Restricted	99,328	90,163
Unrestricted	72,708	74,367
Total net position	185,943	179,094
Total liabilities, deferred inflows of resources and net position	$ 917,898	$ 1,002,697

Statements of Revenues, Expenses and Changes in Net Position

	2018	2017
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	$ 42,566	$ 40,983
Other loan and guarantee program revenues	4,830	4,807
Investment interest	1,217	532
Vermont state appropriations	20,326	21,069
Federal grants	4,896	4,902
Scholarship and gift income	3,968	4,218
Federal loan servicing income	-	379
Other income	1,119	1,008
Total operating revenues	78,922	77,898
Operating expenses:		
Grants and scholarships	24,646	25,885
Interest rebated to borrowers	2,081	2,124
Interest on debt, net of amortization	14,940	9,770
Other loan financing costs	7,606	6,454
Corporate operating expenses and depreciation	22,800	24,416
Total operating expenses	72,073	68,649
Change in net position	6,849	9,249
Net position, beginning of year	179,094	169,845
Net position, end of year	$ 185,943	$ 179,094

Net Position

Cash and investment balances decreased $6.6 million from June 30, 2017 to June 30, 2018 from $120.7 to $114.1 million. The cash balance associated with restricted bonds decreased $8.1 million during this time, primarily due to the June 2018 issuance of the 2018A/B series bonds being less than the issuance of the 2017A/B the prior year.

Student loans and interest receivable totaled $784.9 million at June 30, 2018, down from $865.7 million in 2017. This decrease is due to overall loan principal collections exceeding new loan originations in the VSAC private loan program.

Bonds and notes payable decreased $88.6 million from $782.8 million at June 30, 2017 to $694.2 million at June 30, 2018. VSAC's financing activity in 2018 was comprised primarily of the following (in millions):

Principal payments, 2012-13-14 variable rate notes	$ (109.6)
Principal payments, VSAC fixed rate bonds	(15.7)
Issuance of 2018A/B student loan financing bond	37.1
Principal payments, State of Vermont note payable	(0.8)
Other changes	0.4
	$ (88.6)

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 periodic calculations of available cash used to pay bond principal. For more information regarding bonds and notes payable, see Note 9 to the audited financial statements.

U.S. Treasury rebates payable is described in the expense discussion. This liability decreased as of June 30, 2018 to $3.1 million from $3.3 million as of June 30, 2017.

Unrestricted net position decreased from $74.4 million at June 30, 2017 to $72.7 million at June 30, 2018. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is $2.3 million. VSAC's unrestricted net position at June 30, 2018 and 2017 consists of the following (in millions):

	2018	2017
Cash/investments held for new bond issuance and operating reserves	$ 16.7	$ 16.2
Investment in student loans and related interest	33.9	38.5
Physical plant	13.9	14.6
Subordinated VSAC bonds	22.5	22.5
Other	(0.4)	(2.9)
Total unrestricted including Investment in Capital Assets	$ 86.6	$ 88.9

Restricted net position increased from $90.2 million at June 30, 2017 to $99.3 million at June 30, 2018. This increase was primarily in the bond funds due to the operating surplus in those funds. Of the $99.3 million, $92.6 million is restricted by bond resolutions. The remaining $6.7 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2018 financial results increased net position by $6.8 million. All revenues are considered operating revenues. VSAC realized $78.9 million in operating revenues versus $72.1 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 of VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2018, loan revenue increased from $41.0 to $42.6 million. The components of loan revenue are as follows (in thousands):

	2018	2017
U.S. Department of Education Interest Benefits	$ 1,116	$ 1,542
U.S. Department of Education Special Allowance	1,695	646
Borrower interest and fees on student loans	46,703	50,096
Borrower interest paid to Department of Education	(6,948)	(11,301)
	$ 42,566	$ 40,983

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 despite declining eligible loan balances because of increasing interest rate indices (London Interbank Offered Rate (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 revenues which exceed 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 used in the special allowance formula 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, 2016A-1, 2017A-1, 2017B-1, 2018A-1 and 2018B-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 earnings on loans pledged to these bonds 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 $4.8 million in 2018 and 2017. Although decreasing FFEL program loan balances affect these revenues, in 2018 this decrease was offset by increased revenues from rehabilitation loan collections.

Interest rates on cash positions were higher throughout the year ending June 30, 2018, 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 $289.6 thousand in 2018 and $444.3 thousand in 2017.

VSAC's State funding support decreased to $20.3 million in 2018 from $21.1 million in 2017. State base appropriation support remained unchanged at $20.2 million. In 2017 VSAC transferred $0.6 million in unspent state scholarship funds from scholarship deferred revenue to grant revenue; no amount was transferred for this in 2018, resulting in the decrease in recognized revenue.

Federal grants were $4.9 million in fiscal 2018 and 2017. Beginning with the year ended June 30, 2016, following a policy clarification received from ED, VSAC began applying for funding for one Federal scholarship program in advance of scholarship awards and disbursements. Such funds are maintained in a restricted bank account in the scholarship fund. Excepting these scholarship funds, Federal grants revenues are applied for only after VSAC has incurred expenses for administration and program activities associated with those grants.

Scholarship revenues, principally restricted gifts and grants, decreased from $4.2 million in 2017 to $4.0 million in 2018.

Revenues earned for servicing Federal-owned student loans decreased from $379 thousand in 2017 to zero in 2018. This decrease follows VSAC's decision to exit this Federal program in 2017.

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 $24.6 million in student aid during fiscal 2018. Of this amount, $19.7 million in grant aid was provided from State appropriations. An additional $4.9 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 34.2% of VSAC's operating expenses in fiscal 2018 compared to 37.7% in 2017.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided $2.1 million in rebates of interest to borrowers in 2018, which represents 2.9% of VSAC's operating expenses in fiscal year 2018 compared to 3.1% in 2017. During 2018 VSAC received approval to grant an interest rebate to secured loans in the 2010A-1 and 2011A-1 bonds, increasing this aid to students by $417.3 thousand. This item is expected to decline as the population of eligible loans pays down. However, VSAC could decide to make the rebate available to newer loans based on financial conditions.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the $45.0 million in new loans VSAC made available to students and parents in fiscal 2018.

Interest Costs – In order to provide Vermont students and parents with low-cost loans, VSAC issued two types of bonds that remain outstanding as of June 30, 2018 and 2017. 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 student loan interest revenue that is closely matched to bond interest expense.

Bonds and notes issued in prior years are paying down faster than VSAC's new fixed-rate bond issuances, 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 increased 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 higher rates. Net of deferred gains on early refunding, this expense represents 20.7% of VSAC operating expenses in fiscal 2018, up from 14.2% in 2017. The components of VSAC's interest expense for 2018 and 2017 were as follows (in thousands):

	2018	2017
Interest expense incurred on outstanding debt	$20,110	$15,996
Amortization of deferred gain on refunded debt	(5,170)	(6,226)
Bond interest expense recognized, net	$14,940	$ 9,770

Other Loan Financing Costs – Other loan financing expenses 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 $693.4 million in outstanding bonds and notes. These costs totaled $7.6 million in fiscal year 2018 and $6.5 million in fiscal year 2017, representing approximately 10.6% and 9.4%, respectively, of total operating expenses in these years. The increase of $1.2 million in this expense was primarily the result a one-time adjustment to its loan loss reserve calculation in fiscal 2017 that resulted in negative expense in that year and a larger than normal year over year increase in 2018. Actual defaulted loans written off net of recoveries were comparable year over year. (See financial statement Note 4 under 'Allowance for Loan Losses'.) Decreased FFELP Consolidation fees (down $0.6 million due to decreasing loan balances) partially offset the other increases in this expense category. Interest subject to U.S. Treasury rebate is another component of Other Loan Financing Costs. This 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 $22.8 million in fiscal year 2018 compared to $24.4 million in fiscal year 2017. The primary components of VSAC's operating costs (in thousands) were as follows for the years ended June 30:

	2018	2017
Salaries and wages	$ 10,621	$ 10,671
Employee healthcare costs	3,072	2,339
Other employee benefit costs	2,087	2,166
Administrative expenses	7,020	7,023
Separation-related expenses	-	2,217
Total Costs of Operations	$ 22,800	$ 24,416

The 2017 separation-related expenses are associated with VSAC's termination of its Federal loan servicing activities. These expenses are expected to be non-recurring and are described in more detail in financial statement Note 17 'Termination Benefits'.

Overall costs of operations represent 31.6% of total operating expenses in fiscal 2018 compared to 35.6% in 2017.

Expenses for 2018 totaled $72.1 million. Revenues totaled $78.9 million. The change in total net position for the year was an increase of $6.8 million. The ending balance of net position at June 30, 2018 was $185.9 million, as compared to $179.1 million at June 30, 2017.

There are currently no known facts, decisions, or conditions that are expected to have a significant effect on the net position or the results of operations.

FISCAL 2017

Fiscal 2017 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2017 and 2016 was $9.2 million and $3.5 million, respectively. VSAC's total net position increased to $179.1 million.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, increased $3.0 million from 2016 to 2017. Bond interest payments were up $1.8 million due primarily to rate increases on variable rate bonds. The deferred gain amortization for 2017 was $6.2 million versus $7.4 million in 2016.
- During the year ended June 30, 2017, VSAC provided $25.9 million in grants and scholarships to Vermont students.
- VSAC originated $43.8 million in new loans to students and parents. VSAC holds and services $865.7 million in education loans receivable and related interest at June 30, 2017.
- VSAC returned over $2.1 million in interest rebates to students in its loan programs during fiscal 2017.
- VSAC terminated its participation in the Federal Loan servicing contract during fiscal 2017. VSAC incurred separation-related expenses of $2.2 million, in association with this non-recurring event, with a reduction in staff count of 54 employees.
- VSAC changed its methodology for estimating future default losses on its education loans during fiscal 2017. The new methodology more explicitly incorporates pool seasoning across default curves and varying loss performance of individual loan pools. Management expects the change to better estimate loan loss experience by loan type going forward, resulting in more accurate valuations of its student loan portfolio for financial reporting purposes. This change in accounting estimate resulted in a one-time adjustment to VSAC's loan loss reserve allowance in 2017. The overall impact of this change in accounting estimate on VSAC's results of operations was:

Change in net position as reported	$9,249
Effect of change in accounting estimate	(4,958)
Change in net position before impact of accounting estimate change	$4,291

Condensed Financial Information

Statements of Net Position

	2017	2016
	(In Thousands)	
Assets:		
Cash and investments	$ 120,671	$ 107,301
Education loans receivable (plus interest)	865,711	968,227
Other assets	16,315	19,455
Total assets	$1,002,697	$1,094,983
Liabilities:		
Bonds and notes payable (plus interest)	$ 782,804	$ 876,453
U.S. Treasury rebates payable	3,255	2,457
Other liabilities	8,874	11,332
Total liabilities	794,933	890,242
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	28,670	34,896
Total liabilities and deferred inflows of resources	823,603	925,138
Net position:		
Net investment in capital assets	14,564	15,201
Restricted	90,163	78,204
Unrestricted	74,367	76,440
Total net position	179,094	169,845
Total liabilities, deferred inflows of resources and net position	$1,002,697	$1,094,983

Statements of Revenues, Expenses and Changes in Net Position

	2017	2016
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	$ 40,983	$ 41,640
Other loan and guarantee program revenues	4,807	5,528
Investment interest	532	393
Vermont state appropriations	21,069	20,275
Federal grants	4,902	5,340
Scholarship and gift income	4,218	4,523
Federal loan servicing income	379	3,821
Other income	1,008	785
Total operating revenues	77,898	82,305
Operating expenses:		
Grants and scholarships	25,885	25,999
Interest rebated to borrowers	2,124	2,617
Interest on debt, net of amortization	9,770	6,816
Other loan financing costs	6,454	13,842
Corporate operating expenses and depreciation	24,416	29,561
Total operating expenses	68,649	78,835
Change in net position	9,249	3,470
Net position, beginning of year	169,845	166,375
Net position, end of year	$ 179,094	$ 169,845

Net Position

Cash and investment balances increased $13.4 million from June 30, 2016 to June 30, 2017 from $107.3 to $120.7 million. The cash balance associated with restricted bonds increased $12.6 million during this time, primarily due to the June 2017 issuance of the 2017A series bonds.

Student loans and interest receivable totaled $865.7 million at June 30, 2017, down from $968.2 million in 2016. 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 $93.7 million from $876.5 million at June 30, 2016 to $782.8 million at June 30, 2017. VSAC's financing activity in 2017 was comprised primarily of the following (in millions):

Principal payments, 2012-13-14 variable rate notes	$ (133.3)
Principal payments, VSAC fixed rate bonds	(11.2)
Issuance of 2017A/B student loan financing bond	50.4
Principal payments, State of Vermont note payable	(0.8)
Other changes	1.2
	$ (93.7)

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 9 to the audited financial statements.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2017 to $3.3 million from $2.5 million as of June 30, 2016.

Unrestricted net position decreased from $76.4 million at June 30, 2016 to $74.4 million at June 30, 2017. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is $2.7 million. VSAC's unrestricted net position at June 30, 2017 and 2016 consists of the following (in millions):

	2017	2016
Cash/investments held for new bond issuance and operating reserves	$ 16.2	$ 17.1
Investment in student loans and related interest	38.5	40.7
Physical plant	14.6	15.2
Subordinated VSAC bonds	22.5	22.5
Other	(2.9)	(3.9)
Total unrestricted including Investment in Capital Assets	$ 88.9	$ 91.6

Restricted net position increased from $78.2 million at June 30, 2016 to $90.2 million at June 30, 2017. This increase was primarily in the bond funds due to the operating surplus in those funds. Of the $90.2 million, $84.0 million is restricted by bond resolutions. The remaining $6.2 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2017 financial results increased net position by $9.2 million. All revenues are considered operating revenues. VSAC realized $77.9 million in operating revenues versus $68.7 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and servicing fees earned for servicing student loans owned by the United States government.

Overall loan revenue of VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2017, loan revenue decreased from $41.6 to $41.0 million. The components of loan revenue are as follows (in thousands):

	2017	2016
U.S. Department of Education Interest Benefits	$ 1,542	$ 2,173
U.S. Department of Education Special Allowance	646	304
Borrower interest and fees on student loans	50,096	55,133
Borrower interest paid to Department of Education	(11,301)	(15,970)
	$ 40,983	$ 41,640

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 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 revenues 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 used in the special allowance formula 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, 2016A-1, 2017A-1 and 2017B-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 earnings on 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 $4.8 million in 2017 and $5.5 million in 2016. This decrease is primarily due to the declining portfolio of loans associated with these revenue streams.

Interest rates on cash positions were higher throughout the year ending June 30, 2017, 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 $444.3 thousand in 2017 and $(126.4) thousand in 2016.

VSAC's State funding support increased slightly to $21.1 million in 2017 from $20.3 million in 2016. State appropriation support remained unchanged at $20.2 million while overall revenue increased as deferred scholarship revenue received in prior years was spent or made available for grant awards.

Federal grants were down from $5.3 million in fiscal 2016 to $4.9 million in fiscal 2017. Beginning with the year ended June 30, 2016, following a policy clarification received from ED, VSAC began applying for funding for one Federal scholarship program in advance of scholarship awards and disbursements. Such funds are maintained in a restricted bank account in the scholarship fund. Excepting scholarships, Federal grants revenues are applied for only after VSAC had incurred expenses for administration and program activities associated with those grants.

Scholarship revenues, principally restricted gifts and grants, decreased from $4.5 million in 2016 to $4.2 million in 2017.

Revenues earned for servicing Federal-owned student loans decreased from $3.8 million in 2016 to $379 thousand in 2017. This decrease follows VSAC's decision to exit this Federal program. No further revenues on this business function should be expected going forward.

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 $25.9 million in student aid during fiscal 2017. Of this amount, $20.2 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 37.7% of VSAC's operating expenses in fiscal 2017 compared to 33.0% in 2016.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided $2.1 million in rebates of interest to borrowers in 2017, which represents 3.1% of VSAC's operating expenses in fiscal 2017 compared to 3.3% in 2016. 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 $43.8 million of loans VSAC made available to students and parents in fiscal 2017.

Interest Costs – In order to provide Vermont students and parents with low-cost loans, VSAC issued two types of bonds that remain outstanding as of June 30, 2017 and 2016. 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.

Bonds and notes issued in prior years are paying down faster than VSAC's new fixed-rate bond issuances, 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 increased 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 higher rates. Net of deferred gains on early refunding, this expense represents 14.2% of VSAC operating expenses in fiscal 2017, up from 8.6% in 2016. The components of VSAC's interest expense for 2017 and 2016 were as follows (in thousands):

	2017	2016
Interest expense incurred on outstanding debt	$ 15,996	$ 14,227
Amortization of deferred gain on refunded debt	(6,226)	(7,411)
Bond interest expense recognized, net	$ 9,770	$ 6,816

Other Loan Financing Costs – Other loan financing expenses 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 $782.2 million in outstanding bonds and notes. These costs totaled $6.5 million in fiscal 2017 and $13.8 million in 2016, representing approximately 9.4% and 17.6%, respectively, of total operating expenses in these years. The decrease of $7.4 million in this expense was primarily the result of decreased provision for loan losses which was down $6.5 million; $5.0 million of this is due to the one-time loan loss reserve adjustment discussed above under 'Highlights' and in financial statement Note 2 under the heading 'Allowance for Loan Losses'. Aside from the one-time adjustment, VSAC's loan loss experience is improving due to seasoning of its older variable rate loans and better underwriting standards for the newer fixed rate program loans. Decreased FFELP Consolidation fees (down $0.7 million due to decreasing loan balances) also contributed to the decrease in this expense category. Interest subject to U.S. Treasury rebate is another component of Other Loan Financing Costs. This 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 $24.4 million in fiscal 2017 compared to $30.0 million in fiscal 2016. The primary components of VSAC's operating costs (in thousands) were as follows for the years ended June 30:

	2017	2016
Salaries and wages	$ 10,671	$ 13,463
Employee healthcare costs	2,339	4,362
Other employee benefit costs	2,166	2,573
Administrative expenses	7,023	8,968
Separation-related expenses	2,217	195
Total Costs of Operations	$ 24,416	$ 29,561

The 2017 separation-related expenses are associated with VSAC's termination of its Federal loan servicing activities. These expenses are expected to be non-recurring and are described in more detail in financial statement Note 17 'Termination Benefits'.

The decreases in salaries and wages, health care, and benefits are due to the workforce reduction which occurred following the Federal loan servicing shutdown. The $1.9 million decrease in administrative expenses is primarily due to the shutdown of VSAC's Federal loan servicing program. Overall costs of operations represent 35.6% of total operating expenses in fiscal 2017 compared to 37.5% in 2016.

Expenses for 2017 totaled $68.7 million. Revenues totaled $77.9 million. The change in total net position for the year was an increase of $9.2 million. The ending balance of net position at June 30, 2017 was $179.1 million, as compared to $169.8 million at June 30, 2016.

There are currently no known facts, decisions, or conditions that are expected to have a significant effect on the net position or the results of operations.

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

STATEMENTS OF NET POSITION

June 30, 2018 and 2017

ASSETS

	2018	2017
	(In Thousands)	
Current assets:		
Cash and cash equivalents	$ 23,941	$ 23,142
Receivables		
Student loans, net	107,087	120,559
Student loan interest and special allowance	13,277	10,230
Investment interest	124	43
Federal administrative and program fees	143	138
Other	1,369	1,060
Other assets	737	510
Total current assets	146,678	155,682
Noncurrent assets:		
Restricted cash	84,257	92,314
Scholarship endowment investments	5,856	5,215
Lease receivable	2,670	-
Student loans receivable, net	664,530	734,922
Capital assets, net	13,907	14,564
Total noncurrent assets	771,220	847,015
Total assets	$ 917,898	$ 1,002,697

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2018	2017
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	$ 7,720	$ 7,515
Accounts payable and other liabilities	2,344	2,699
Accrued interest on bonds payable	771	652
Unearned revenue	6,517	6,175
Total current liabilities	17,352	17,041
Noncurrent liabilities:		
Bonds and note payable	685,663	774,637
U.S. Treasury rebates payable	3,093	3,255
Total noncurrent liabilities	688,756	777,892
Total liabilities	706,108	794,933
Deferred inflows of resources:		
Deferred lease revenue	2,347	-
Deferred gains on early refunding of bonds payable	23,500	28,670
Total liabilities and deferred inflows of resources	731,955	823,603
Net position:		
Net investment in capital assets	13,907	14,564
Restricted	99,328	90,163
Unrestricted	72,708	74,367
Total net position	185,943	179,094
Total liabilities, deferred inflows of resources and net position	$ 917,898	$ 1,002,697

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, 2018 and 2017

	2018	2017
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	$ 1,116	$ 1,542
U.S. Department of Education special allowance	1,695	646
Borrower interest and fees on student loans	46,703	50,096
Borrower interest returned to U.S. Department of Education	(6,948)	(11,301)
Vermont state grants	20,326	21,069
Interest on cash and investments	1,217	532
Guarantee agency administrative revenues	4,830	4,807
Federal grants	4,896	4,902
Scholarship and gift income	3,968	4,218
Federal loan servicing income	-	379
Other income	1,119	1,008
Total operating revenues	78,922	77,898
Operating expenses:		
Interest, net of amortization of bond premium and deferred gains on early refunding of bonds payable	14,940	9,770
Salaries and benefits	15,780	17,321
Grants and scholarships	24,646	25,885
Interest rebated to borrowers	2,081	2,124
Other general and administrative	6,089	6,163
Interest subject to U.S. Treasury rebate	(162)	798
Credit enhancement and remarketing fees	107	108
Consolidation and lender paid fees	4,064	4,655
Other loan related expenses	1,563	1,372
Changes in the provision for losses on student loans	1,402	(1,213)
Depreciation	931	932
Bond issuance costs	632	734
Total operating expenses	72,073	68,649
Change in net position from operations and change in net position	6,849	9,249
Net position, beginning of year	179,094	169,845
Net position, end of year	$ 185,943	$ 179,094

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, 2018 and 2017

	2018	2017
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	$ 14,020	$ 16,047
Principal payments received on student loans	134,986	159,040
Cash paid to suppliers for goods and services	(12,065)	(13,422)
Grants and scholarship disbursements	(24,646)	(25,885)
Loans made and purchased	(44,993)	(43,849)
Cash paid to employees for salaries and benefits	(15,943)	(18,064)
Interest and fees received on student loans	29,307	27,422
Vermont state appropriations received	20,326	21,069
Net cash provided by operating activities	100,992	122,358
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds payable	38,174	52,253
Payments on bonds payable	(126,061)	(145,331)
Decrease (increase) in restricted cash	8,057	(12,552)
Interest paid to bond holders	(20,873)	(16,566)
Net cash used by noncapital financing activities	(100,703)	(122,196)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(274)	(296)
Net cash used by capital and related financing activities	(274)	(296)
Cash flows from investing activities:		
Interest received on cash and investments	1,136	510
Purchase of investments	(487)	(5,116)
Proceeds from sale of investments	135	4,741
Net cash provided by investing activities	784	135
Net increase in cash and cash equivalents	799	1
Cash and cash equivalents, beginning of year	23,142	23,141
Cash and cash equivalents, end of year	$ 23,941	$ 23,142
Supplemental disclosure of non-cash operating activities:		
Student loan interest capitalized	$ 9,015	$ 11,954

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

STATEMENTS OF CASH FLOWS (CONCLUDED)

Years Ended June 30, 2018 and 2017

	2018	2017
	(In Thousands)	
Reconciliation of change in net position from operations to net cash provided by operating activities:		
Change in net position from operations	$ 6,849	$ 9,249
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	931	932
Changes in the provision for losses on student loans	1,402	(1,213)
Net amortization of bond premium	(882)	(660)
Amortization of deferred lease revenue	(48)	-
Amortization of deferred gains on early refunding of bonds payable	(5,170)	(6,226)
Net realized and unrealized gains on investments	(290)	(444)
Investment interest received	(1,136)	(510)
Interest paid to bond holders	20,873	16,566
Lease receivable payments	(274)	-
Changes in operating assets and liabilities:		
Investment interest receivable	(81)	(21)
Student loans receivable	82,462	104,628
Student loan interest receivable	(3,048)	(899)
Federal administrative and program fees receivable	(5)	42
Other receivables	(309)	2,399
Other assets	(227)	84
Accounts payable and other liabilities	(354)	(1,714)
Unearned revenue	342	(744)
Accrued interest on bonds payable	119	90
U.S. Treasury rebates payable	(162)	799
Total adjustments	94,143	113,109
Net cash provided by operating activities	$ 100,992	$ 122,358

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, 2018 and 2017

As of June 30, 2018

	Federal Loan Reserve Fund	VHEIP	Total
		(In Thousands)	
Assets held for others			
Cash and cash equivalents	$ 15,775	$ 550	$ 16,325
Investments	-	372,702	372,702
Due from U.S. Department of Education	285	-	285
Total assets	$ 16,060	$ 373,252	$ 389,312
Liabilities			
Accounts payable and other liabilities	$ 2,426	$ 91	$ 2,517
Amounts held on behalf of investors	-	373,161	373,161
Federal loan reserve funds held for U.S. Department of Education	13,634	-	13,634
Total liabilities	$ 16,060	$ 373,252	$ 389,312

As of June 30, 2017

	Federal Loan Reserve Fund	VHEIP	Total
		(In Thousands)	
Assets held for others			
Cash and cash equivalents	$ 13,298	$ 353	$ 13,651
Investments	-	334,197	334,197
Due from U.S. Department of Education	1,536	-	1,536
Total assets	$ 14,834	$ 334,550	$ 349,384
Liabilities			
Accounts payable and other liabilities	$ 1,717	$ 83	$ 1,800
Amounts held on behalf of investors	-	334,467	334,467
Federal loan reserve funds held for U.S. Department of Education	13,117	-	13,117
Total liabilities	$ 14,834	$ 334,550	$ 349,384

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

1. Authorizing Legislation

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

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

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

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 June 2017 GASB issued Statement No. 87, *Leases*. This statement is effective for financial statements for periods beginning after December 15, 2019, and earlier application is encouraged. VSAC adopted this statement during the year ended June 30, 2018. Prior to November 2017, VSAC had no material lessee or lessor relationships to which this Statement applied.

In March 2018 GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for financial statements for periods beginning after June 15, 2018, and earlier application is encouraged. VSAC adopted this statement during the year ended June 30, 2018, resulting in no impact to Net Position or results of operations.

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.

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.

2. Summary of Significant Accounting Policies (Continued)

Management Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires VSAC management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimate utilized in the preparation of the financial statements of VSAC relates to the allowance for losses on student loans.

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 these loans as well as 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 loan portfolio balances and composition, amortization or age of the portfolio, 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.

During the year ended June 30, 2017, VSAC changed its methodology to estimate the loan loss allowance for education loans receivable to more explicitly incorporate net realizable value based on market conditions. While a number of factors in the estimate calculation were changed, the element which had the most material effect was related to estimated future loan losses on non-guaranteed loans issued by VSAC since the 2010-11 academic year. Because of enhanced underwriting requirements, these loans have proven to be significantly less likely to default than previously issued uninsured loans. VSAC had continued to estimate losses on these loans at the higher rate associated with older loans, but expects to use the lower rates going forward.

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.

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. The minimum for capitalization of long-lived asset acquisitions is $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, 2018 and 2017, interest expense has been reduced by $5,170 and $6,226, respectively, for the amortization of the deferred gains on early refunding of bonds payable.

Leases

In accordance with GASB Statement No. 87, *Leases*, the discounted value of future lease payments and receipts is included in deferred outflows or deferred inflows of resources respectively. VSAC has leases with third party tenants who lease portions of its physical premises. The present value of these leases is valued at inception and periodically revalued in accordance with Statement No. 87 and presented as a deferred inflow of resources. These deferred inflows are amortized as lease revenue in a systematic and rational manner over the life of the lease. During the year ended June 30, 2018, $48 was recognized as lease revenue. No lease revenue was recognized in 2017.

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 is 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, 2018 and 2017 are presented below:

	2018	2017
Cash	$ 5,170	$ 5,377
Money market accounts	103,028	110,079
	$108,198	$115,456

At June 30, 2018 and 2017, cash is comprised of various commercial bank accounts. The bank balances at June 30, 2018 were $5,535 and the bank balances at June 30, 2017 were $5,780. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $845 of the bank balances at June 30, 2018 and $595 of the bank balances at June 30, 2017 were covered by Federal Deposit Insurance Corporation (FDIC) insurance. The balance above the FDIC limit is uncollateralized.

At June 30, 2018 and 2017, 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, 2018 and 2017, $84,257 and $93,314, 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 40% 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 and Baa or better by Moody's Investors Service. 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 60% of the total portfolio is targeted for investment in equity index funds, balanced 80/20 between domestic and international index funds.

In July of 2016 pursuant to an amendment to the Scholarship Fund investment policy, VSAC liquidated its investments in individual security holdings and moved them into three index funds, one each for domestic and developed market international equities and intermediate-term U.S. Treasury fixed income securities. Since the equity funds are 'total market' equity index funds VSAC believes it is not exposed to credit concentration risk from this source as of June 30, 2018 and 2017. Investments in intermediate term U.S. Government bonds represent 41% and 40% of VSAC's scholarship investments at June 30, 2018 and 2017, 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, *Fair Value Measurement and Application* establishes a fair value hierarchy for investments that prioritizes the inputs to valuation techniques 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.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Concluded)

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

As referenced above, during the year ended June 30, 2017, VSAC moved to a different practice for its permanent endowment investments, whereby they are invested in index funds rather than in individual securities. Since these investments comprise the permanent endowment assets of the Vermont Student Development Fund it is not anticipated that these funds would be liquidated, although relative positions are rebalanced periodically in accordance with the endowment's investment policy. The amounts permitted to be spent each year are calculated and withdrawn for the coming academic year in accordance with the directives of the donors.

VSAC held the following investments at June 30, 2018 and 2017:

	2018			2017		
	Cost	Fair Value	Fair Value Level	Cost	Fair Value	Fair Value Level
Domestic equities	$2,229	$ 2,781	1	$ 2,227	$2,500	1
International equities	599	691	1	555	627	1
Government bonds and notes	2,522	2,384	1	2,152	2,088	1
	$5,350	$ 5,856		$ 4,934	$5,215	

Fair value is best determined based upon quoted market prices. However, in some 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, 2018, VSAC held student loans with interest rates ranging from 2.875% to 10%, the majority insured by ED and the U.S. Department of Health and Human Services; at June 30, 2017, the interest rates ranged from 1.77% to 10%. At June 30, 2018 and 2017, approximately 36.7% and 32.3%, 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 for either 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, 2018 and 2017 are summarized as follows:

	2018	2017
Status:		
Interim status	$ 31,196	$ 29,660
Deferral status	40,293	55,497
Repayment status	726,544	798,427
Less: Allowance for loan losses	(26,416)	(28,103)
Total student loans receivable	771,617	855,481
Less: Noncurrent student loans receivable	664,530	734,922
Current student loans receivable	$ 107,087	$ 120,559
Guarantee type:		
U.S. Department of Education	$ 496,410	$ 585,860
U.S. Department of Health and Human Services	677	1,136
Other – Guaranteed	8,106	10,837
Nonguaranteed	292,840	285,751
Less: Allowance for loan losses	(26,416)	(28,103)
Total student loans receivable	771,617	855,481
Less: Noncurrent student loans receivable	664,530	734,922
Current student loans receivable	$ 107,087	$ 120,559

As of June 30, 2018 and 2017, $764,002 and $844,843 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, 2018 and 2017 was as follows:

	2018	2017
Balance, July 1	$ 28,103	$ 31,852
Net loans charged off	(3,089)	(2,536)
Changes in the provision for losses on student loans	1,402	(1,213)
Balance, June 30	$ 26,416	$ 28,103

(Dollars in Thousands)

4. Student Loans Receivable (Concluded)

At June 30, 2018 and 2017, $20,088 and $22,411, respectively, of student loans receivable were over 90 days past due, of which all but $4,604 and $4,040, respectively, were guaranteed by one of the guarantee types shown above. The portion of the loss reserve at June 30, 2018 and 2017 which relates to non-guaranteed loans was $25,577 and $27,027, 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, 2018 and 2017 were as follows:

	2018	2017
Additions:		
Reimbursement from ED on default loan purchases	$ 14,136	$ 18,091
Default loan collections	2,462	3,392
Investment income	27	22
Default aversion fee received, net	49	46
Total additions	16,674	21,551
Deductions:		
Purchases of defaulted loans from lenders	14,085	18,022
Other, net	2,072	2,779
Total deductions	16,157	20,801
Net increase in federal loan reserve funds held	517	750
Federal Loan Reserve Funds held, at beginning of year	13,117	12,367
Federal Loan Reserve Funds held, at end of year	$ 13,634	$ 13,117

(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 2018 and 2017, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $496,410 and $585,860 at June 30, 2018 and 2017, 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. The plan manager of VHEIP is Intuition College Savings Solutions (Intuition), a Florida-based organization specializing in the administration and management of state-sponsored higher education savings plans.

Under the management of 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 Option which is 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, 2018 and 2017 were as follows:

	2018	2017
Additions:		
Investment income	$ 7,138	$ 5,866
Net realized and unrealized gains	11,706	21,017
Net participant subscriptions/redemptions	19,850	19,001
Total additions	38,694	45,884
Net amount held on behalf of investors, at beginning of year	334,467	288,583
Net amount held on behalf of investors, at end of year	$ 373,161	$ 334,467

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2018 and 2017 was as follows:

	Estimated Lives	Balance July 1, 2016	Net (Disposals) Acquisitions	Balance June 30, 2017	Net (Disposals) Acquisitions	Balance June 30, 2018
Land	–	$ 3,150	$ -	$ 3,150	$ -	$ 3,150
Furniture and equipment	3 – 15 Years	8,224	(43)	8,181	(5,027)	3,154
Software	3 – 5 Years	1,983	173	2,156	(602)	1,554
Building	5 – 30 Years	17,168	45	17,213	(16)	17,197
		30,525	175	30,700	(5,645)	25,055
Less accumulated depreciation		15,324	812	16,136	(4,988)	11,148
Capital assets, net		$ 15,201	$ (637)	$ 14,564	$ (657)	$ 13,907

Depreciation charged to operations for the years ended June 30, 2018 and 2017 was $931 and $932, respectively.

8. Leases

During the year ended June 30, 2018, VSAC signed leases with two tenants who occupy portions of VSAC's building. During the same year, VSAC adopted GASB Statement No. 87, *Leases*. This statement requires the recording of a lease receivable asset and a deferred inflow of resources by lessors even in the case of a lease which does not transfer ownership of the leased asset.

A summary of lease receivable activity for the year ended June 30, 2018 was as follows:

	Deferred Inflow	Resource (Inflows)	Resource Outflows	Balance 6/30/2018
Tenant 1	$ 730	$ (52)	$ 70	$ 748
Tenant 2	812	-	257	1,922
Total	$ 2,395	$ (52)	$ 327	$ 2,670

The resource inflows represent principal payments received. The resource outflows represent lease incentives paid by VSAC at the inception of the leases for tenant fit up costs. During the year ended June 30, 2018, VSAC received $21 in interest revenue and $7 in parking revenue from the tenants.

8. Leases (Concluded)

During the year ended June 30, 2018, VSAC recognized $48 in rental revenue amortized from the deferred inflow of resources.

VSAC presently has two tenant leases for space in its office building:

On November 13, 2017, VSAC signed a lease with one tenant for a portion of its building. Following a fit-up period the tenant commenced occupation on March 1, 2018. The initial term ends on February 28, 2023 and may be extended at the tenant's option for up to two three-year periods. The initial lease terms are for a floorspace footprint that will be expanded over time; if the tenant elects to accelerate this expansion the lease receivable and deferred inflow of resources will need to be revalued in accordance with GASB Statement No. 87.

On February 7, 2018, VSAC signed a lease with another tenant for a portion of its building. Following a fit-up period the tenant commenced occupation on July 1, 2018. The initial term ends on June 30, 2025 and may be extended at the tenant's option for one seven-year period.

The leases were valued at the discounted value of future expected scheduled lease payments as of the date of move-in, net of lease incentives paid by VSAC to the tenants for fit-up. The expected future payments excluded the extension option periods as their exercise is uncertain.

(Dollars in Thousands)

9. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2018 and 2017:

	2018	2017
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%.	$ 7,285	$ 9,155
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%.	6,600	8,000
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%.	11,210	12,615
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% (2.80188% at June 30, 2018).	288,553	344,751
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 (3.81781% and 5.31781% at June 30, 2018).	42,966	59,646
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% (2.85188% at June 30, 2018).	136,555	167,710
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%.	7,240	11,350
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%.	23,270	26,295
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% (2.98246% at June 30, 2018).	30,640	36,203
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%.	18,675	20,250
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%.	25,620	27,900

(Dollars in Thousands)

9. Bonds and Notes Payable (Continued)

2017 Series A-1 dated June 15, 2017; comprised of fixed-rate bonds maturing between June 15, 2022 and 2033; interest is fixed and payable semi-annually at rates ranging from 3.75% to 5%.	42,305	42,305
2017 Series B-1 dated June 15, 2017; comprised of fixed-rate subordinate bonds maturing on June 15, 2045; interest is fixed and payable semi-annually at a rate of 4.5%.	8,100	8,100
2018 Series A-1 dated June 6, 2018; comprised of fixed-rate bonds maturing between June 15, 2023 and 2034; interest is fixed and payable semi-annually at rates ranging from 3.625% to 5%.	32,555	-
2018 Series B-1 dated June 6, 2018; comprised of fixed-rate subordinate bonds maturing on June 15, 2046; interest is fixed and payable semi-annually at a rate of 4.375%.	4,500	-
Other Notes Payable		
2016 General Obligation note with the State of Vermont dated June 8, 2016 with a final maturity date of June 15, 2021; interest rate is fixed at 2%.	2,400	3,200
Total bonds and notes payable	688,474	777,480
Bond premium/discount, net	4,909	4,672
Total bonds and notes payable	693,383	782,152
Less: current portion of bonds and notes payable	7,720	7,515
Noncurrent portion of bonds and notes payable	$ 685,663	$ 774,637

VSAC has no open lines of credit or debts resulting from direct placements.

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.

(Dollars in Thousands)

9. Bonds and Notes Payable (Continued)

All bonds and notes, except the 2010A-1, 2011A-1, 2012A-1, 2013A-1, 2014A-1, 2015A-1, 2016A-1, 2017A-1, 2017B-1, 2018A-1 and 2018B-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, 2016A-1, 2017A-1, 2017B-1, 2018A-1 and 2018B-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, 2018, all bonds authorized under the underlying bond resolutions have been issued.

VSAC's bond documents define Event of Default as a failure to make scheduled principal and interest payments when due, a VSAC Event of Bankruptcy, or a failure to perform the various other duties and covenants of the indenture, or to correct such failure within 90 days if it is correctable. In the event of an Event of Default the trustee has the authority to claim the pledged assets of the trust, to liquidate said pledged assets, and to accelerate payment of remaining debts of the trust estate.

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. At June 30, 2018 and 2017, respectively, $84,369 and $91,658 in cash and investment interest receivable were pledged as security on the notes and bonds payable. At June 30, 2018 and 2017 respectively $751,031 and $827,235 in student loan principal and interest were pledged as security on the notes and bonds payable.

During the years ended June 30, 2018 and 2017, amortized deferred gains from prior year financed bond refundings of $5,170 and $6,226, respectively, are included as a reduction to interest expense.

The following summarizes the debt activity for VSAC for the years ended June 30, 2018, and 2017:

	2018	2017
Balance, beginning of year	$ 782,152	$ 875,890
Issuance	37,055	50,405
Premium on issuance	1,119	1,848
Redemptions, extinguishments and refunding	(126,061)	(145,331)
Accretion/amortization of discount/premium	(882)	(660)
Balance, end of year	$ 693,383	$ 782,152

(Dollars in Thousands)

9. Bonds and Notes Payable (Concluded)

The debt service requirements, which are based on the interest rates at June 30, 2018, through the fiscal year ending (FY) 2023 and in five-year increments thereafter to maturity for VSAC are as follows:

Year ending June 30,	Principal	Interest	Total
FY19	$ 7,720	$ 20,579	$ 28,299
FY20	10,540	20,256	30,796
FY21	12,355	19,826	32,181
FY22	14,501	19,283	33,784
FY23	13,420	18,647	32,067
FY24 – 28	64,405	84,037	148,442
FY29 – 33	48,060	71,473	119,533
FY34 – 38	474,233	23,530	497,763
FY39 – 43	30,640	4,825	35,465
FY44 – 48	12,600	713	13,313
Total	$ 688,474	$ 283,169	$ 971,643

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.

10. 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 calculated that there are U.S. Treasury rebates payable at June 30, 2018 and 2017 of $3,093 and $3,255, respectively. VSAC has calculated that there is no estimated current portion at June 30, 2018 or June 30, 2017. VSAC did not refund any excess earnings to the U.S. Treasury in 2018 and 2017.

11. 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 Loans 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 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 $6,948 and $11,301 in 2018 and 2017, 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.

12. Endowment Funds

Donors have established a number of endowment funds through the Vermont Student Development Fund, Inc. All endowment funds are donor-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 included in nonexpendable net position. It will be expendable when it is appropriated 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, 2018 and 2017, the total net position related to endowment funds was $6,052 and $5,392, respectively. Expendable restricted net position totaled $594 and $531, respectively. The remaining $5,458 and $4,861, respectively, of net position related to endowment funds were nonexpendable.

(Dollars in Thousands)

13. 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, 2018 and 2017 is as follows:

	2018	2017
Expendable - restricted by bond resolutions	$ 92,577	$ 83,993
Expendable - restricted by federal or state statute or donors	699	778
Expendable – income is donor restricted for scholarships	594	531
Nonexpendable – income is donor restricted for scholarships	5,458	4,861
Total restricted net position	$ 99,328	$ 90,163

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 $23,500 and $28,670 at June 30, 2018 and 2017, respectively, will be recognized as a reduction of financing costs and increase of restricted net position over the remaining period the financing bonds are estimated to be outstanding. This estimated period was 18 years as of June 30, 2018 and 2017, respectively.

14. 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 years ended June 30, 2018 and 2017 amounted to $10,518 and $11,165, respectively; VSAC's total payroll was $10,621 and $12,581, respectively. Total contributions by VSAC amounted to $1,072 and $1,134 in 2018 and 2017, 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. U.S. 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, 2018 and 2017.

(Dollars in Thousands)

15. 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, 2018 and 2017 is as follows:

	2018	2017
Balance, beginning of year	$ 220	$ 394
Claims paid	(2,970)	(2,514)
Accrual for estimated claims	3,017	2,340
Balance, end of year	$ 267	$ 220

As of June 30, 2018 and 2017, management believes VSAC has no pending legal actions an unfavorable outcome of which would have a material effect.

16. Loan Commitments

At June 30, 2018 and 2017, VSAC had commitments to extend credit for non-guaranteed student loans of approximately $2,519 and $3,757, 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.

(Dollars in Thousands)

17. Termination Benefits

During 2017 VSAC implemented a workforce reduction following its decision to end its work under the Department of Education Federal Loan servicing contract. The employees who were separated from VSAC received a package of benefits. This package included continuing payment of their base compensation for a seniority-based period following their departure; the minimum period was 12 weeks and the maximum was 52 weeks. The program also included an option to pay 65% of the terminating employees' COBRA medical/dental insurance coverage for a period up to nine months following their departure from VSAC. Additionally, the program included commitments to assist with job placement services through July 31, 2017.

Fifty-four VSAC employees were separated and executed the required documents between August and November 2016. The remaining estimated future costs under this program were accrued as of June 30, 2017 and the final payments under the program were made in December of 2017. The accrual related to compensation was calculated based on each departing employee's rate of pay as of their termination date, together with their years of service, which determined the number of weeks of separation payments they were entitled to under the plan. No accrual was made for COBRA or outplacement assistance since the amount and timing of these future expenses were not considered to be forecastable or material.

During 2017 the following expenses were recognized under this program:

	Compensation	Payroll Taxes	Outplacement/ COBRA	Total
Paid during 2017	$ 1,726	$ 132	$ 161	$ 2,019
Accrued for future periods	184	14	-	198
Total termination benefits expense	$ 1,910	$ 146	$ 161	$ 2,217

The amounts accrued at June 30, 2017 were paid out during the year ended June 30, 2018 and no further expenses were incurred for this event.

18. 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

(Dollars in Thousands)

18. Segment Reporting (Continued)

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, 2018 and for the year then ended is as follows:

Condensed Statement of Net Position

	Operations	Bond Funds	Scholarships	Grants	Elimination	Consolidated
Assets						
Current assets	$ 24,066	$ 115,412	$ 6,376	$ 841	$ (17)	$ 146,678
Capital assets	13,907	-	-	-	-	13,907
Other assets	53,969	719,988	5,856	-	(22,500)	757,313
Interfund receivable	2,060	-	-	-	(2,060)	-
Total Assets	$ 94,002	$ 835,400	$ 12,232	$ 841	$ (24,577)	$ 917,898
Liabilities						
Current liabilities	$ 3,440	$ 7,691	$ 6,179	$ 59	$ (17)	$ 17,352
Non-current liabilities	1,600	709,656	-	-	(22,500)	688,756
Interfund payable	-	1,976	1	83	(2,060)	-
Total liabilities	5,040	719,323	6,180	142	(24,577)	706,108
Deferred inflows of resources	2,347	23,500	-	-	-	25,847
Net position						
Net investment in property and equipment	13,907	-	-	-	-	13,907
Restricted	-	92,577	6,052	699	-	99,328
Unassigned	72,708	-	-	-	-	72,708
Total net position	86,615	92,577	6,052	699	-	185,943
Total liabilities, deferred inflows and net position	$ 94,002	$ 835,400	$ 12,232	$ 841	$ (24,577)	$ 917,898

(Dollars in Thousands)

18. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Operations	Bond Funds	Scholarships	Grants	Elimination	Consolidated
Revenues						
Revenue from education loan financing	$ 1,298	$ 41,268	$ -	$ -	$ -	$ 42,566
Guarantee program revenues	4,830	-	-	-	-	4,830
Vermont State appropriations	170	-	557	19,599	-	20,326
Federal grants	4,194	-	702	-	-	4,896
Scholarship and gift revenue	-	-	3,968	-	-	3,968
Investment interest and other revenue	2,026	902	401	-	(993)	2,336
Total operating revenues	12,518	42,170	5,628	19,599	(993)	78,922
Expenses						
Operating and program expenses	18,127	28,603	5,138	20,267	(993)	71,142
Depreciation	931	-	-	-	-	931
Total operating expenses	19,058	28,603	5,138	20,267	(993)	72,073
(Deficit) excess of operating revenues over expenses	(6,540)	13,567	490	(668)	-	6,849
Non-operating revenues and expenses						
Interfund transfers	4,224	(4,983)	170	589	-	-
Total net position at the beginning of the year	88,931	83,993	5,392	778	-	179,094
Total net position at the end of the year	$ 86,615	$ 92,577	$ 6,052	$ 699	$ -	$ 185,943

(Dollars in Thousands)

18. Segment Reporting (Continued)

Condensed Statement of Cash Flows

	Operations	Bond Funds	Scholarships	Grants	Elimination	Consolidated
Cash provided by (used by) operations	$ 488	$ 99,013	$ (39)	$ 539	$ 991	$ 100,992
Cash provided by (used by) noncapital financing	(858)	(99,845)	-	-	-	(100,703)
Cash used by capital and related financing	(274)	-	-	-	-	(274)
Cash provided by (used by) investing	1,184	832	(241)	-	(991)	784
Net increase (decrease) in cash and cash equivalents	540	-	(280)	539	-	799
Cash and cash equivalents, beginning of year	16,192	-	6,656	294	-	23,142
Cash and cash equivalents, end of year	$ 16,732	$ -	$ 6,376	$ 833	$ -	$ 23,941

(Dollars in Thousands)

18. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2017 and for the year then ended is as follows:

Condensed Statement of Net Position

	Operations	Bond Funds	Scholarships	Grants	Elimination	Consolidated
Assets						
Current assets	$ 23,659	$ 125,077	$ 6,656	$ 305	$ (15)	$ 155,682
Capital assets	14,564	-	-	-	-	14,564
Other assets	55,223	794,513	5,215	-	(22,500)	832,451
Interfund receivable	1,514	-	-	519	(2,033)	-
Total assets	$ 94,960	$ 919,590	$ 11,871	$ 824	$ (24,548)	$ 1,002,697
Liabilities						
Current liabilities	$ 3,629	$ 7,467	$ 5,914	$ 46	$ (15)	$ 17,041
Non-current liabilities	2,400	797,992	-	-	(22,500)	777,892
Interfund payable	-	1,468	565		(2,033)	-
Total liabilities	6,029	806,927	6,479	46	(24,548)	794,933
Deferred inflows of resources	-	28,670	-	-	-	28,670
Net position						
Net investment in property and equipment	14,564	-	-	-	-	14,564
Restricted	-	83,993	5,392	778	-	90,163
Unassigned	74,367	-	-	-	-	74,367
Total net position	88,931	83,993	5,392	778	-	179,094
Total liabilities, deferred inflows and net position	$ 94,690	$ 919,590	$ 11,871	$ 824	$ -	$ 1,002,697

(Dollars in Thousands)

18. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Operations	Bond Funds	Scholarships	Grants	Elimination	Consolidated
Revenues						
Revenue from education loan financing	$ 1,762	$ 39,221	$ -	$ -	$ -	$ 40,983
Guarantee program revenues	4,807	-	-	-	-	4,807
Vermont State appropriations	89	-	691	20,289	-	21,069
Federal grants	3,979	-	923	-	-	4,902
Scholarship and gift revenue	-	-	4,218	-	-	4,218
Federal loan servicing revenue	379	-	-	-	-	379
Investment Interest and Other revenue	1,516	320	515	-	(811)	1,540
Total operating revenues	12,532	39,541	6,347	20,289	(811)	77,898
Expenses						
Operating and program expenses	19,575	22,313	5,858	20,782	(811)	67,717
Depreciation and amortization	932	-	-	-	-	932
Total operating expenses	20,507	22,313	5,858	20,782	(811)	68,649
(Deficit) excess of operating revenues over expenses	(7,975)	17,228	489	(493)	-	9,249
Non-operating revenues and expenses						
Interfund transfers	5,265	(6,020)	171	584	-	-
Total net position at the beginning of the year	91,641	72,785	4,732	687	-	169,845
Total net position at the end of the year	$ 88,931	$ 83,993	$ 5,392	$ 778	$ -	$ 179,094

(Dollars in Thousands)

18. Segment Reporting (Concluded)

Condensed Statement of Cash Flows

	Operations	Bond Funds	Scholarships	Grants	Elimination	Consolidated
Cash (used by) provided by operations	$ (687)	$ 121,024	$ 1,754	$ (535)	$ 802	$ 122,358
Cash used by noncapital financing	(873)	(121,323)	-	-	-	(122,196)
Cash used by capital and related financing	(296)	-	-	-	-	(296)
Cash provided by (used by) investing	941	299	(303)	-	(802)	135
Net (decrease) increase in cash	(915)	-	1,451	(535)	-	1
Cash and cash equivalents, beginning of year	17,107	-	5,205	829	-	23,141
Cash and cash equivalents, end of year	$ 16,192	$ -	$ 6,656	$ 294	$ -	$ 23,142

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

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

Year Ended June 30, 2018

(Dollars in Thousands)

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
FEDERAL LOAN RESERVE FUND				
Assets held for others				
Cash and cash equivalents	$ 13,298	$ 23,282	$ 20,805	$ 15,775
Due from U.S. Department of Education	1,536	28,399	29,650	285
Total assets	$ 14,834	$ 51,681	$ 50,455	$ 16,060
Liabilities				
Accounts payable and other liabilities	$ 1,717	$ 23,933	$ 23,224	$ 2,426
Federal loan reserve funds held U.S. Department of Education	13,117	30,694	30,177	13,634
Total liabilities	$ 14,834	$ 54,627	$ 53,401	$ 16,060
VHEIP				
Assets held for others				
Cash and cash equivalents	$ 353	$ 7,707	$ 7,510	$ 550
Investments	334,197	51,111	12,606	372,702
Total assets	$ 334,550	$ 58,818	$ 20,116	$ 373,252
Liabilities				
Accounts payable and other liabilities	$ 83	$ 1,120	$ 1,112	$ 91
Amounts held on behalf of investors	334,467	72,247	33,553	373,161
Total liabilities	$ 334,550	$ 73,367	$ 34,665	$ 373,252
TOTALS – ALL AGENCY FUNDS				
Assets held for others				
Cash and cash equivalents	$ 13,651	$ 30,989	$ 28,315	$ 16,325
Investments	334,197	51,111	12,606	372,702
Due from U.S. Department of Education	1,536	28,399	29,650	285
Total assets	$ 349,384	$ 110,499	$ 70,571	$ 389,312
Liabilities				
Accounts payable and other liabilities	$ 1,800	$ 25,053	$ 24,336	$ 2,517
Amounts held on behalf of investors	334,467	72,247	33,553	373,161
Federal loan reserve funds held U.S. Department of Education	13,117	30,694	30,177	13,634
Total liabilities	$ 349,384	$ 127,994	$ 88,066	$ 389,312