

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, 2012 and 2011

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, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Vermont Student Assistance Corporation

We have audited the accompanying basic financial statements of the Vermont Student Assistance Corporation, a component unit of the State of Vermont, as of and for the years ended June 30, 2012 and 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation, as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2, Vermont Student Assistance Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 65 in 2012.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 – 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 auditing standards generally accepted in the United States of America, 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.

Portland, Maine
October 10, 2012


Limited Liability Company
Registration No. 0920000638

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended June 30, 2012 and 2011

The Vermont Student Assistance Corporation (VSAC or the Corporation) is a public nonprofit corporation created by the State of Vermont to provide opportunities for Vermont residents to pursue postsecondary education. VSAC's mission is to ensure that all Vermonters have the necessary financial and informational resources to pursue their educational 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 134 scholarship funds, including VSAC assisted scholarships and scholarship funds held and managed by VSAC.

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

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

Management's Discussion and Analysis Report includes Fiscal 2012 and Fiscal 2011 information due to the fact that the Financial Statements include Fiscal 2012 and Fiscal 2011 information.

FISCAL 2012

Fiscal 2012 Highlights and Overall Financial Position

- During the year ended June 30, 2012, VSAC had a net surplus, occurring primarily in the restricted bond trusts, of \$8.6 million compared to a surplus of \$22.2 million during the year ended June 30, 2011.
- Bonds issued to finance student loans saw interest expense decrease \$4.0 million from 2011 to 2012. This was mainly due to a decrease in bond and notes payable balances caused by the bond buyback program and the principal pay down on the ABCP Conduit.
- VSAC recorded gains of \$4.9 million by selectively retiring certain bonds before their maturity for less than par value. This gain was \$17.1 million in 2011 and the decrease in this activity is the primary cause for the reduced surplus in restricted bond trusts.
- VSAC's total net position increased \$8.6 million to \$154.9 million.
- During the year ended June 30, 2012, VSAC provided \$26.1 million in grants and scholarships to Vermont students.
- VSAC originated \$20.9 million in new loans to students and parents. VSAC holds and services \$1.7 billion in education loans receivable and related interest at June 30, 2012.
- VSAC returned over \$5.6 million in interest rebates to students in its loan programs during fiscal 2012.
- The SAFRA (*Student Aid and Fiscal Responsibility Act*) legislation passed in fiscal 2010 allows qualified governmental and nonprofit entities to become servicers of federally owned loans. VSAC is a qualified governmental entity and is working towards becoming a federal loan servicer under this program. We anticipate beginning our servicing activity late in calendar 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

- As a result of the early adopting of GASB Standard Number 65, *Items Previously Reported as Assets and Liabilities*, issued in March of 2012, VSAC was required to write off certain previously deferred assets and liabilities. Furthermore, VSAC was required to restate all prior year amounts reflected in its Financial Statements and Management Discussion and Analysis. The details and financial impact of these restatements are discussed in the accompanying Notes to Financial Statements in Note 2, Summary of Significant Accounting Policies. Financial presentations as of June 30, 2011 and for the year then ended have been restated to reflect the effect of this new accounting standard being implemented for that year.

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 presents 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. The statement also presents the balance of assets in excess of liabilities 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Condensed Financial Information

Statement of Net Position

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 333,862	\$ 234,881
Education loans receivable (plus interest)	1,655,388	1,891,875
Other assets	<u>20,500</u>	<u>20,803</u>
Total assets	<u>\$2,009,750</u>	<u>\$2,147,559</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$1,820,946	\$1,965,975
U.S. Treasury rebates payable	22,663	21,558
Other liabilities	<u>11,194</u>	<u>13,668</u>
Total liabilities	1,854,803	2,001,201
Net position:		
Restricted	113,884	106,055
Unrestricted	40,386	39,289
Net investment in capital assets	<u>677</u>	<u>1,014</u>
Total net position	<u>154,947</u>	<u>146,358</u>
Total liabilities and net position	<u>\$2,009,750</u>	<u>\$2,147,559</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Statement of Revenues and Expenses

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Revenues:		
Interest earned from education loan financing	\$ 67,300	\$ 73,577
Other loan and guarantee program revenues	6,941	5,363
Investment interest	458	453
Vermont state appropriations	19,623	21,341
Federal grants	6,378	6,011
Scholarship and gift revenue	3,770	3,682
Other income	<u>454</u>	<u>4,750</u>
Total operating revenues	104,924	115,177
Expenses:		
Student aid	26,053	25,053
Interest rebated to borrowers	5,642	6,283
Interest on debt	11,963	15,939
Other loan financing costs	29,730	29,408
Corporate operating expenses and depreciation	<u>27,828</u>	<u>33,405</u>
Total expenses	<u>101,216</u>	<u>110,088</u>
Excess of operating revenues over operating expenses	3,708	5,089
Gains on early bond retirement	<u>4,881</u>	<u>17,101</u>
Excess of revenues over expenses	8,589	22,190
Total net position at the beginning of the year	<u>146,358</u>	<u>124,168</u>
Total net position at the end of the year	<u>\$154,947</u>	<u>\$146,358</u>

Net Position

Cash and investment balances increased from June 30, 2011 to 2012 from \$234.9 to \$333.9 million. The increase in cash is in the restricted bond funds and is due to discontinuation, as required by bond covenants, of originating new loans from the principal collections on existing loans. The cash will be used to pay down bonds as dictated by bond covenants.

Student loans and interest receivable totaled \$1.7 billion at June 30, 2012, down from \$1.9 billion in 2011. This decrease is due to loan principal collections being in excess of new loan originations in the VSAC private loan program and interest capitalization on loans ending a payment deferral status.

VERMONT STUDENT ASSISTANCE CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Bonds and notes payable decreased \$145.0 from \$2.0 billion in 2011 to \$1.8 billion in 2012. This consisted of \$15.0 million in new bonds issued (the 2011A-1 series) offset by these retirements and principal payments (in millions):

Discounted early retirements – various trusts	\$87.3
Early retirements – 2008 trusts	38.2
Principal payment, 2003 GO building bond	0.4
Principal payments, ABCP Conduit	34.2

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2012, to \$22.7 million, or approximately 1.1% of total assets.

Unrestricted net position increased from \$39.3 million in 2011 to \$40.4 million in 2012. The unrestricted position is used to provide credit enhancement for new credit facilities, finance student loans, and for corporate working capital. The \$1.1 million increase in unrestricted net position is primarily due to the decrease in operating expenses partially offset by a decreasing service draw resulting from student loans paying down. Unrestricted net assets invested in student loans totaled \$13.3 million at June 30, 2012.

Restricted net position increased from \$106.1 million to \$113.9 million at June 30, 2012. This increase was primarily in the bond funds and was partly due to the gains on early debt retirement. Of the \$113.9 million, \$109.1 million is restricted by bond resolutions. The remaining \$4.8 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2012 financial results increased net position by \$8.6 million. All revenues except gains on early retirement of debt are considered operating revenues. VSAC realized \$109.8 million in revenues versus \$101.2 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, and fees earned in the federal guarantee program.

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2012, loan revenue decreased from \$73.6 to \$67.3 million. The components of loan revenue change are (in thousands):

	<u>2012</u>	<u>2011</u>
U.S. Department of Education Interest Benefits	\$ 8,063	\$ 11,684
U.S. Department of Education Special Allowance	7,393	8,210
Borrower interest and fees on student loans	87,788	96,015
Borrower interest paid to Department of Education	<u>(35,944)</u>	<u>(42,332)</u>
	<u>\$ 67,300</u>	<u>\$ 73,577</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

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

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Excluding our new 2010A-1 and 2011A-1 private loan financing bonds, our outstanding bond rates are reset on 7, 28 and 35 day intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates. Interest rates on our 2010A-1 and 2011A-1 series bonds are fixed and are secured by fixed rate VSAC private student loans.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$6.9 million in 2012 and \$5.4 million in 2011. The 2012 rehabilitation revenue would have been higher but VSAC was forced to find another buyer for these loans and those sales occurred at a discount to par. In prior years, rehabilitation loans were able to sell at par. These gains offset guarantee program revenue decreases resulting from the pay down of FFELP loans.

Interest rates remained low throughout the year resulting in decreased interest revenue on investments. Investments include student loan funds temporarily invested in short term investments, and scholarship funds invested for long-term growth and income. Returns on all investments remained essentially unchanged at \$0.5 million, as interest rates remained at historically low levels.

VSAC's regular appropriation decreased from \$21.3 million to \$19.6 million. This decrease is due primarily to the expiration of funding restoration arising from the Federal economic stimulus. As in prior years, the State's appropriation for the grant program was allocated entirely to provide grant funds directly to students.

Federal grants increased from \$6.0 million to \$6.4 million in fiscal 2012. The increase is mainly due to increases in revenues in the Gear UP program. VSAC's grant under this program was re-awarded in August 2011 for another five years at an increased annual amount.

Scholarship revenues, principally restricted gifts and grants, increased slightly from \$3.7 million in 2011 to \$3.8 million in 2012.

Expenses

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

Student Aid – VSAC provided Vermont students with \$26.1 million in student aid during fiscal 2012. \$20.4 million in grant aid was provided from State appropriations. An additional \$5.6 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 25.7% of VSAC's operating expenses in fiscal 2012 compared to 22.8% in 2011.

VERMONT STUDENT ASSISTANCE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$5.6 million in rebates of interest to borrowers in 2012 which represents 5.6% of VSAC's operating expenses in fiscal 2012 compared to 5.7% in 2011. The dollar amount of this expense will continue to decline as the loan portfolio eligible for the rebates decreases.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the \$20.9 million of loans VSAC made available to students and parents in fiscal 2012.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues bonds and uses short-term credit facilities. The interest costs of the bonds represent a major expense category for VSAC. The interest rates for the variable-rate bonds are set using auction or remarketing processes that result in rates closely tracking various SIFMA indices or one month LIBOR. The ongoing liquidity freeze for VSAC's auction rate bonds adversely affected the rate paid on those bonds. When auctions were not successful in resetting rates, rates were derived using formulas. The formulas use an index (JJ Kenny or short term commercial paper) multiplied by a margin or an average of treasury bills with a margin added to that index. To help reduce VSAC's exposure to auction bonds, the corporation selectively retired \$87 million of bonds before their scheduled maturity date at prices below par.

With the decrease in bond and note balances (as outlined above) and ongoing low interest rates from fiscal 2011 to 2012, VSAC interest costs decreased from \$15.9 to \$12.0 million. This expense represents 11.8% of VSAC operating expenses in fiscal 2012 down from 14.5% in 2011.

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$1.8 billion in outstanding bonds and notes. These costs totaled \$29.7 million in fiscal 2012, representing approximately 29.4% of total operating expenses (increased from 26.7% in 2011). Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness and by changes in arbitrage liability. Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

In fiscal 2012, VSAC's provision for losses on student loans was \$11.4 million compared to \$10.8 million in fiscal 2011. Although VSAC's portfolio of student loans is decreasing following the end of the FFEL Program, the VSAC private loan program portion of our portfolio is increasing. These uninsured loans comprised 17.3% of total VSAC student loans at the end of 2012; at the end of 2011 this value was 15.5%. This together with the increase of loans entering repayment ('seasoning') is driving these higher loan loss expenses.

VERMONT STUDENT ASSISTANCE CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled \$27.8 million in fiscal 2012, a decrease of approximately 16.7% from fiscal 2011. During 2011, VSAC implemented a Voluntary Separation Program to reduce ongoing labor costs in response to the end of the FFEL Program. This resulted in a one-time expense of \$1.9 million in 2011. Salaries and benefits were \$19.8 million in fiscal 2012, approximately 71.2% of costs of operations. Overall costs of operations represent 27.5% of total operating expenses in fiscal 2012 compared to 30.3% in 2011.

Expenses for 2012 totaled \$101.2 million. Revenues totaled \$109.8 million. The surplus of revenues over expenses was \$8.6 million. The change in total net position for the year was an increase of \$8.6 million. The ending balance of net position at June 30, 2012 was \$154.9 million, as compared to \$146.4 million at June 30, 2011.

FISCAL 2011

Fiscal 2011 Highlights and Overall Financial Position

- During the year ended June 30, 2011, VSAC had a net surplus, occurring primarily in the restricted bond trusts, of \$22.2 million compared to a surplus of \$25.3 million during the year ended June 30, 2010.
- Bonds issued to finance student loans saw interest expense decrease \$5.0 million from 2010 to 2011. This was mainly due to a decrease in bond and notes payable balances caused by the bond buyback program and the closeout of the ECASLA Participation note.
- VSAC recorded gains of \$17.1 million by selectively retiring certain bonds before their maturity for less than par value. This gain was \$27.1 million in 2010.
- VSAC's total net position increased \$22.2 million to \$146.4 million.
- During the year ended June 30, 2011 VSAC provided \$25.1 million in grants and scholarships to Vermont students.
- VSAC originated \$23.1 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds and services \$1.9 billion in education loans receivable and related interest at June 30, 2011.
- VSAC returned over \$6.3 million in interest rebates to students in its loan programs during fiscal 2011.
- During fiscal 2011 VSAC 'Put' or sold virtually all 2009-2010 origination FFEL Program loans to the Department of Education due to an inability to secure permanent financing for them. The transaction was positive for VSAC from a short term profit and cash flow perspective, but resulted in a reduction of FFELP loan balances reducing long term loan servicing revenues.
- During VSAC's fiscal 2010, the Federal government passed the *Student Aid and Fiscal Responsibility Act* (SAFRA) legislation which ended new originations under the FFEL Program as of July 1, 2010. The discontinuation of the FFEL Program is reducing VSAC's loan related revenue over time and is the prime factor driving year over year decreases in education loan and guarantee program revenues (\$6.2 million and \$1.9 million respectively).
- The SAFRA legislation also allows qualified governmental and nonprofit entities to become servicers of federally owned loans. VSAC is a qualified governmental entity and is working towards becoming a federal loan servicer under this program. We anticipate beginning our servicing activity late in calendar 2012.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

- As a result of the early adoption of GASB Standard Number 65, *Items Previously Reported as Assets and Liabilities*, issued in March of 2012, VSAC was required to write off certain previously deferred assets and liabilities. Furthermore, VSAC was required to restate all prior year amounts reflected in its Financial Statements and Management Discussion and Analysis. The details and financial impact of these restatements are discussed in the accompanying Notes to Financial Statements in Note 2, Summary of Significant Accounting Policies. Financial presentations as of June 30, 2011 and 2010 and for the years then ended have been restated to reflect the effect of this new accounting standard being implemented for those years.

The Financial Statements

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

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VERMONT STUDENT ASSISTANCE CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Condensed Financial Information

Statement of Net Position

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 234,881	\$ 141,700
Education loans receivable (plus interest)	1,891,875	2,406,962
Other assets	<u>20,803</u>	<u>25,730</u>
Total assets	<u>\$2,147,559</u>	<u>\$2,574,392</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$1,965,975	\$2,414,754
U.S. Treasury rebates payable	21,558	20,272
Other liabilities	<u>13,668</u>	<u>15,198</u>
Total liabilities	2,001,201	2,450,224
Net position:		
Restricted	106,055	90,192
Unrestricted	39,289	32,598
Net investment in capital assets	<u>1,014</u>	<u>1,378</u>
Total net position	<u>146,358</u>	<u>124,168</u>
Total liabilities and net position	<u>\$2,147,559</u>	<u>\$2,574,392</u>

VERMONT STUDENT ASSISTANCE CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Statement of Revenues and Expenses

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Revenues:		
Interest earned from education loan financing	\$ 73,577	\$ 79,784
Other loan and guarantee program revenues	5,363	7,248
Investment interest	453	709
Vermont state appropriations	21,341	21,990
Federal grants	6,011	5,006
Scholarship and gift revenue	3,682	4,056
Other income	<u>4,750</u>	<u>441</u>
Total operating revenues	115,177	119,234
Expenses:		
Student aid	25,053	25,823
Interest rebated to borrowers	6,283	6,671
Interest on debt	15,939	20,898
Other loan financing costs	29,408	34,595
Corporate operating expenses and depreciation	<u>33,405</u>	<u>33,092</u>
Total expenses	<u>110,088</u>	<u>121,079</u>
Excess (deficiency) of operating revenues over operating expenses	5,089	(1,845)
Gains on early bond retirement	<u>17,101</u>	<u>27,134</u>
Excess of revenues over expenses	22,190	25,289
Total net position at the beginning of the year	<u>124,168</u>	<u>98,879</u>
Total net position at the end of the year	<u>\$146,358</u>	<u>\$124,168</u>

Net Position

Cash and investment balances increased from June 30, 2010 to 2011 from \$141.7 to \$234.9 million.

Student loans and interest receivable totaled \$1.9 billion at June 30, 2011, down from \$2.4 billion in 2010. \$312.9 million of this decrease represents the prior academic year FFELP originations sold to the Department of Education as part of the Put transaction which closed out VSAC's Participation program balance. The remainder of the decrease is amortization of the loans.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2011, to \$21.6 million, or approximately 1.0 % of total assets.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Unrestricted net position increased from \$32.6 million in 2010 to \$39.3 million in 2011. The unrestricted net position is used to provide credit enhancement for new credit facilities, finance student loans, and for corporate working capital. The \$6.7 million increase in unrestricted net assets is primarily due to the closure of the ECASLA Participation and return of credit enhancement provided in previous years to various credit facilities. Unrestricted net position invested in student loans totaled \$10.5 million at June 30, 2011.

Restricted net position increased from \$90.2 million to \$106.1 million at June 30, 2011. This increase was primarily in the bond funds and was driven by the gains on early debt retirement. Of the \$106.1 million, \$99.7 million is restricted by bond resolutions. The remaining \$6.3 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2011 financial results increased net position by \$22.2 million. All revenues except gains on early retirement of debt are considered operating revenues. VSAC realized \$132.3 million in revenues versus \$110.1 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, and fees earned in the federal guarantee program.

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2011, loan revenue decreased from \$79.8 to \$73.6 million. The components of loan revenue change are:

	<u>2011</u>	<u>2010</u>
U.S. Department of Education Interest Benefits	\$ 11,684	\$ 19,107
U.S. Department of Education Special Allowance	8,210	9,213
Borrower interest and fees on student loans	96,015	107,794
Borrower interest returned to Department of Education	<u>(42,332)</u>	<u>(56,330)</u>
	<u>\$ 73,577</u>	<u>\$ 79,784</u>

Interest for certain loans is paid by the U.S. Department of Education (DOE) as a subsidized interest benefit to qualifying borrowers. The DOE also pays special allowance payments under certain interest rate conditions. Because no new FFEL Program loans have been created since June 30, 2010, and because all of the eligible 2009-2010 year new FFELP loans were sold to the Department of Education, all of the revenue lines associated with this program have decreased this year. Additionally, certain borrower interest in excess of the special allowance formulae must be returned to the U.S. Department of Education each quarter. The amount returned decreased as overall FFELP revenues decreased.

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Excluding our new 2010A-1 private loan financing bond, our outstanding bond rates are reset on 7, 28 and 35 day intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates. Interest on our 2010A-1 series bonds are fixed rates and are secured by VSAC private student loans which are also fixed rates.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Other revenues associated with the loan and loan guarantee programs include consolidation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$5.4 million in 2011 and \$7.2 million in 2010, the decrease being due to decreasing balances in the FFEL program loans.

Interest rates remained low throughout the year resulting in decreased interest revenue on investments. Investments include student loan funds temporarily invested in short term investments, and scholarship funds invested for long-term growth and income. Returns on all investments decreased from \$0.7 million to \$0.5 million, as interest rates remained at historically low levels.

VSAC's regular appropriation decreased from \$22.0 million to \$21.3 million. This decrease is due primarily to a reduced funding restoration arising from the Federal economic stimulus. As in prior years, the State's appropriation for the grant program was allocated entirely to provide grant funds directly to students.

Federal grants increased from \$5.0 million to \$6.0 million in fiscal 2011. The increase is due to a \$1.0 million increase in the Federal College Access Challenge grant, which was provided for in the legislation which ended the FFEL Program.

Scholarship revenues, principally restricted gifts and grants, decreased from \$4.1 million in 2010 to \$3.7 million in 2011.

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 \$25.1 million in student aid during fiscal 2011. \$19.2 million in grant aid was provided from State appropriations. An additional \$5.8 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 22.8% of VSAC's operating expenses in fiscal 2011 compared to 21.3% in 2010.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$6.3 million in rebates of interest to borrowers in 2011 which represents 5.7% of VSAC's operating expenses in fiscal 2011 compared to 5.5% in 2010.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the \$23.1 million of loans VSAC made available to students and parents in fiscal 2011.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2012 and 2011

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues both tax-exempt and taxable variable interest bonds and uses short-term credit facilities. The interest costs of the bonds represent a major expense category for VSAC. The interest rates for the variable-rate bonds are set using auction or remarketing processes that result in rates closely tracking various SIFMA indices or one month LIBOR. Capital markets continued to experience significant stress in 2011 and an ongoing liquidity freeze adversely affected the auction bond market, negatively impacting VSAC's auction bonds. When auctions were not successful in resetting rates, rates were derived using formulas. The formulas use an index (JJ Kenny or short term commercial paper) multiplied by a margin or an average of treasury bills with a margin added to that index. Actions taken by the Federal Reserve and U.S. government helped keep interest rates down significantly reducing interest costs for 2011. However, the movements did not reverse the pressure on VSAC's net interest spread between our student loan assets and our bond costs. To help reduce VSAC's exposure to auction bonds, the corporation selectively retired \$133.7 million of bonds before their scheduled maturity date at prices below par.

With the decrease in bond balances (due to the bond buyback program and Put transaction) and ongoing low interest rates from fiscal 2010 to 2011, VSAC interest costs decreased from \$20.9 to \$15.9 million. This expense represents 14.5% of VSAC operating expenses in fiscal 2011 down from 17.3% in 2010.

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$2.0 billion in outstanding bonds and notes. These costs totaled \$29.4 million in fiscal 2011, representing approximately 26.7% of total operating expenses (down from 28.6% in 2010). Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness and by changes in arbitrage liability. Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

In fiscal 2011, VSAC's provision for losses on student loans was \$10.8 million compared to \$12.1 million in fiscal 2010. This reduction is primarily due to a \$10 million decrease in the portfolio of loans that do not carry a default guaranty.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled \$33.4 million in fiscal 2011, an increase of approximately 1% from fiscal 2010. During 2011, VSAC implemented a Voluntary Separation Program to reduce ongoing labor costs in response to the end of the FFEL Program. This resulted in a one-time expense of \$2.0 million in 2011. Salaries and benefits were \$25.1 million in fiscal 2011 (including the Separation Program costs), approximately 75.0% of costs of operations. Overall costs of operations represent 30.3% of total operating expenses in fiscal 2011 compared to 27.3% in 2010.

Expenses for 2011 totaled \$110.1 million. Revenues totaled \$132.3 million. The surplus of revenues over expenses was \$22.2 million. The change in total net position for the year was an increase of \$22.2 million. The ending balance of net position at June 30, 2011 was \$146.4 million, as compared to \$124.2 million at June 30, 2010.

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

STATEMENTS OF NET POSITION

June 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents	\$ 33,471	\$ 38,514
Investments	3,126	3,179
Receivables		
Student loans, net	170,290	166,803
Student loan interest and special allowance	19,505	28,409
Investment interest	26	15
Federal administrative and program fees	262	313
Other	1,178	708
Other assets	<u>1,347</u>	<u>1,311</u>
Total current assets	229,205	239,252
Noncurrent assets:		
Restricted cash	297,265	193,188
Receivables		
Student loans, net	1,465,593	1,696,663
Capital assets, net	<u>17,687</u>	<u>18,456</u>
Total noncurrent assets	<u>1,780,545</u>	<u>1,908,307</u>
Total assets	<u>\$2,009,750</u>	<u>\$2,147,559</u>

LIABILITIES AND NET POSITION

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	\$ 25,450	\$ 329,420
Accounts payable and other liabilities	4,853	7,084
Accrued interest on bonds payable	944	928
Unearned revenue	6,341	6,584
U.S. Treasury rebates payable	<u>—</u>	<u>427</u>
Total current liabilities	37,588	344,443
Noncurrent liabilities:		
Bonds payable	1,794,552	1,635,627
U.S. Treasury rebates payable	<u>22,663</u>	<u>21,131</u>
Total noncurrent liabilities	<u>1,817,215</u>	<u>1,656,758</u>
Total liabilities	1,854,803	2,001,201
Net position:		
Net investment in capital assets	677	1,014
Restricted	113,884	106,055
Unrestricted	<u>40,386</u>	<u>39,289</u>
Total net position	<u>154,947</u>	<u>146,358</u>
Total liabilities and net position	<u>\$2,009,750</u>	<u>\$2,147,559</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	\$ 8,063	\$ 11,684
U.S. Department of Education special allowance	7,393	8,210
Borrower interest and fees on student loans	87,788	96,015
Borrower interest returned to Department of Education	(35,944)	(42,332)
Vermont state appropriations	19,623	21,341
Interest on cash and investments	458	453
Guarantee agency administrative revenues	6,941	5,363
Federal grants	6,378	6,011
Scholarship and gift income	3,770	3,682
Other income	<u>454</u>	<u>4,750</u>
Total operating revenues	104,924	115,177
Operating expenses:		
Interest, net of amortization	11,963	15,940
Salaries and benefits	19,821	25,064
Grants and scholarships	26,053	25,053
Interest rebated to borrowers	5,642	6,283
Other general and administrative	6,711	6,992
Interest subject to U.S. Treasury rebate	1,234	1,285
Credit enhancement and remarketing fees	5,062	6,253
Consolidation and lender paid fees	8,768	9,693
Other loan related expenses	2,698	1,065
Provision for losses on student loans	11,359	10,825
Depreciation	1,296	1,349
Bond issuance costs	<u>609</u>	<u>286</u>
Total operating expenses	<u>101,216</u>	<u>110,088</u>
Surplus of operating revenues over operating expenses	3,708	5,089
Non-operating revenues:		
Gain on early bond retirement	<u>4,881</u>	<u>17,101</u>
Excess of revenues over expenses	8,589	22,190
Net position, beginning of year	146,358	124,168
Net position, end of year	<u>\$154,947</u>	<u>\$146,358</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	\$ 32,406	\$ 37,735
Principal payments received on student loans	263,753	247,054
Cash paid to suppliers for goods and services	(29,682)	(32,996)
Grants and scholarship disbursements	(26,053)	(25,053)
Loans made and purchased	(32,901)	(34,094)
Cash paid to employees for salaries and benefits	(21,386)	(23,543)
Interest and fees received on student loans	45,462	46,469
Vermont state appropriations received	<u>19,623</u>	<u>21,341</u>
Net cash provided by operating activities	251,222	236,913
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds and note payable	15,246	19,544
Payments on bonds	(154,863)	(146,943)
Interest paid to bond holders	<u>(11,194)</u>	<u>(15,281)</u>
Net cash used by noncapital financing activities	(150,811)	(142,680)
Cash flows from capital and related financing activities:		
Payments on bonds payable	(435)	(820)
Interest paid to bond holders	(866)	(894)
Acquisition and construction of fixed assets	<u>(528)</u>	<u>(190)</u>
Net cash used by capital and related financing activities	(1,829)	(1,904)
Cash flows from investing activities:		
Interest received on cash and investments	448	455
Increase in restricted cash	(104,077)	(83,331)
Purchase of investments	(1,226)	(1,384)
Proceeds from sale of investments	<u>1,230</u>	<u>1,360</u>
Net cash used by investing activities	<u>(103,625)</u>	<u>(82,900)</u>
Net (decrease) increase in cash and cash equivalents	(5,043)	9,429
Cash and cash equivalents, beginning of year	<u>38,514</u>	<u>29,085</u>
Cash and cash equivalents, end of year	\$ <u>33,471</u>	\$ <u>38,514</u>
Supplemental disclosure of non-cash operating activities:		
Student loan interest capitalized	\$ <u>14,629</u>	\$ <u>23,571</u>

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	(In Thousands)	
Supplemental disclosure of non-cash noncapital financing activities:		
Assignment of student loans, net of cash paid, to U.S. Department of Education in exchange for payment of the note payable under the ECASLA program	\$ <u> —</u>	\$ <u>303,226</u>
Reconciliation of operating surplus to net cash provided by operating activities:		
Surplus of operating revenues over operating expenses	\$ 3,708	\$ 5,089
Adjustments to reconcile the deficiency of operating revenues over operating expenses to net cash provided by operating activities:		
Depreciation and amortization	1,296	1,349
Provision for losses on student loans	11,359	10,855
Loan origination fees, net	—	(420)
Accretion of bond discount	(113)	(60)
Realized and unrealized gain on investments	49	(396)
Loss on disposal of fixed assets	—	19
Investment interest received	(448)	(455)
Interest paid to bond holders	12,060	16,175
Changes in operating assets and liabilities:		
Investment interest receivable	(11)	2
Student loans receivable	216,225	189,780
Student loan interest receivable	8,904	11,647
Federal administrative and program fees receivable	51	190
Other receivables	(470)	3,179
Other assets	(36)	377
Accounts payable and other liabilities	(2,229)	(1,098)
Deferred revenue	(244)	(430)
Accrued interest on bonds payable	16	(175)
U.S. Treasury rebates payable	<u>1,105</u>	<u>1,285</u>
Total adjustments	<u>247,514</u>	<u>231,824</u>
Net cash provided by operating activities	\$ <u>251,222</u>	\$ <u>236,913</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2012 and 2011

	Federal Loan Reserve <u>Fund</u>	<u>VHEIP</u>	<u>2012 Total</u>	<u>2011 Total</u>
	(In Thousands)			
<u>Assets held for others</u>				
Cash and cash equivalents	\$ 10,554	\$ 4	\$ 10,558	\$ 12,955
Investments	—	171,061	171,061	151,335
Investment interest receivable	—	393	393	95
Due from U.S. Department of Education	4,473	—	4,473	3,335
Other assets	<u>1</u>	<u>103</u>	<u>104</u>	<u>77</u>
Total assets	<u>\$15,028</u>	<u>\$171,561</u>	<u>\$186,589</u>	<u>\$167,797</u>
 <u>Liabilities</u>				
Accounts payable and other liabilities	\$ 595	\$ 546	\$ 1,141	\$ 819
Federal advances	538	—	538	538
Amounts held on behalf of investors	—	171,015	171,015	151,299
Federal loan reserve funds held for U.S. Department of Education	<u>13,895</u>	<u>—</u>	<u>13,895</u>	<u>15,141</u>
Total liabilities	<u>\$15,028</u>	<u>\$171,561</u>	<u>\$186,589</u>	<u>\$167,797</u>

See accompanying notes to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollars in Thousands)

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 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 (DE) through the Federal Family Education Loan (FFEL) Program. In March 2010, Congress passed the *Student Aid and Fiscal Responsibility Act* which had the effect of ending new FFEL Program loan originations after June 30, 2010. The bonds, notes and credit facilities outstanding are payable primarily from interest and principal repayments on the financed loans as specified in the underlying resolutions authorizing the sale of the bonds and notes. The bonds and notes are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

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

The Vermont Student Development Fund, Inc. (the Fund), a separate nonprofit 501(c)(3) corporation, was established in November of 2000. The primary purpose of the Fund is to receive, hold and manage securities, cash or other property whether real, personal or mixed, acquired by bequest, devise, gift, purchase or loan. These assets are used primarily for scholarships and other financial assistance to benefit qualified individuals seeking a postsecondary education. The Fund provides a financial benefit to VSAC, and its Board of Directors is the same as the VSAC Board of Directors, therefore, it is considered a component unit of VSAC and is included in the totals on the financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting

VSAC follows the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when obligation for payment is incurred.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and 34*, and No. 38, *Certain Financial Statement Note Disclosures*. VSAC reports as a business-type activity, as defined, in GASB No. 34.

In December 2010 GASB issued Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This pronouncement is intended to codify all sources of Generally Accepted Accounting Principles for state and local governments so that they can be found in one source. The primary objective of this Statement is to directly incorporate the applicable guidance from those FASB and AICPA pronouncements into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance. This statement supersedes Statement No. 20. It is effective for financial statements for periods beginning after December 15, 2011 and earlier application is encouraged. VSAC implemented this pronouncement during the year ending June 30, 2012. The impact on the financial statements resulting from its adoption was a reclassification of cash and cash equivalents held in reserve for bond and note indentures to non-current assets in the amount of \$297,265 and \$193,188 in 2012 and 2011, respectively.

In June 2011 GASB issued Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement requires the presentation of certain elements of the Statement of Net Position as deferred inflows and outflows of resources in accordance with Concepts Statement No. 4, *Elements of Financial Statements* for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. This statement is effective for financial statements for periods beginning after December 15, 2011, and earlier application is encouraged. VSAC implemented this pronouncement during the year ending June 30, 2012 resulting in a retitling of the Statement of Net Assets as the Statement of Net Position. VSAC had no deferred inflows or outflows at June 30, 2012 or 2011.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

In March 2012 GASB issued Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. This statement is effective for financial statements for periods beginning after December 15, 2012, and earlier application is encouraged. The application of this accounting change requires a retroactive restatement of all prior periods presented and disclosure of the effects of the change. VSAC implemented this pronouncement during the year ending June 30, 2012 resulting in a restatement of the Statement of Net Position as of June 30, 2011 and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended. The effects of this change on the statements were:

	<u>Net Position as of June 30, 2010</u>	<u>Excess of Revenues Over Expenses Year Ended June 30, 2011</u>	<u>Net Position as of June 30, 2011</u>
As originally reported	\$137,743	\$ 16,382	\$154,125
Restatements resulting from:			
Alternative loan fee revenue	4,123	(555)	3,568
Lender paid Federal origination/ default fees	(8,277)	5,378	(2,899)
Bond issuance costs	<u>(9,421)</u>	<u>985</u>	<u>(8,436)</u>
Restated amount	<u>\$124,168</u>	<u>\$22,190</u>	<u>\$146,358</u>

Restrictions on Net Position

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

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires VSAC management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates utilized in the preparation of the financial statements of VSAC relate to the allowance for losses on student loans and the U.S. Treasury rebates payable.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Student Loans

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

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

Allowance for Loan Losses

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

Operating 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 Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

Bond Issuance Costs

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

Bond Discount/Premium and Deferred Gain/Loss on Refunding

Bond discounts and premiums are amortized using a method which approximates the level yield method over the life of the bonds. Any deferred gains or losses related to refunded bonds are recognized as revenues or expenses as incurred in accordance with GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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. Generally, 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 DE as its primary support for the administration of the FFEL Program. These fees are recorded as guarantee agency administrative revenues when earned, as the services are provided.

Compensated Absences

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

Income Tax Status

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments

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

Cash and Cash Equivalents

The carrying amounts which represent both cost and fair value of cash and cash equivalents as of June 30, 2012 and 2011 are presented below:

	<u>2012</u>	<u>2011</u>
Cash	\$ 15,861	\$ 15,104
Money market accounts	<u>314,875</u>	<u>216,598</u>
	<u>\$330,736</u>	<u>\$231,702</u>

At June 30, 2012 and 2011, cash is comprised of various commercial bank accounts. The bank balances at June 30, 2012 were \$15,756 and the bank balances at June 30, 2011 were \$15,897. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, \$15,756 and \$15,897 of the bank balances at June 30, 2012 and 2011, respectively, were covered by Federal depository insurance. No bank balances at June 30, 2012 and 2011 were uninsured or uncollateralized.

At June 30, 2012 and 2011, the money market accounts are primarily invested in the Fidelity Institutional Money Market Prime Money Market Portfolio (Class 1). The Fund invests in U.S. dollar-denominated money market securities of domestic and foreign issuers rated in the highest category by at least two nationally recognized rating services, U.S. Government securities, and repurchase agreements.

The bond and note indentures require certain cash and cash equivalent reserves. At June 30, 2012 and 2011, \$297,265 and \$193,188, respectively, of restricted cash is limited to their use for the repayment of bond and note obligations.

VERMONT STUDENT ASSISTANCE CORPORATION
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June 30, 2012 and 2011

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Investments

VSAC held the following investments at June 30, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Domestic equities	\$ 2,021	\$ 2,242	\$ 2,034	\$ 2,309
Corporate bonds	301	305	343	344
Government bonds and notes	558	579	513	526
	<u>\$ 2,880</u>	<u>\$ 3,126</u>	<u>\$ 2,890</u>	<u>\$ 3,179</u>

At June 30, 2012, the ratings for investments in debt securities are summarized as follows:

<u>Investment</u>		<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Corporate bonds:				
AT&T Inc.	4.450%	5/15/2021	\$ 11	A2
Bank of Nova Scotia	2.375%	12/17/2013	26	AA1
Berkshire Hathaway	5.400%	5/15/2018	30	AA2
Caterpillar Financial SE	2.050%	8/1/2016	15	A2
Cisco Systems Inc.	4.950%	2/15/2019	12	A1
Coca Cola Company	1.500%	11/15/2015	26	AA3
Conocophillips	4.750%	2/1/2014	21	A1
GE Company	5.000%	2/1/2013	10	AA3
General Electric Cap Corporation	5.625%	9/15/2017	29	A1
Hewlett Packard Company	4.750%	6/2/2014	26	A3
JP Morgan Chase & Company	6.000%	1/15/2018	23	A2
SBC Communications	5.100%	9/15/2014	11	A2
Wachovia Corporation	5.750%	2/1/2012	24	A2
Wal-Mart Stores	4.550%	5/1/2013	41	AA2
			<u>\$ 305</u>	

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3. Cash, Cash Equivalents and Investments (Continued)

<u>Investment</u>		<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Government bonds and notes:				
Fed Home Ln Mtg	5.000%	1/30/2014	\$ 48	AA+
Fed Home Ln Mtg	4.750%	11/17/2015	51	AA+
Fed Natl Mtg Assn	0.375%	3/16/2015	15	AA+
FHLMC	3.750%	3/27/2019	29	AA+
FNMA	5.375%	6/12/2017	55	AA+
U.S. Treasury Note	3.125%	8/31/2013	36	AA+
U.S. Treasury Bonds	4.250%	11/15/2014	77	AA+
U.S. Treasury Note	4.875%	8/15/2016	88	AA+
U.S. Treasury Note	3.125%	5/15/2019	74	AA+
U.S. Treasury Bonds	2.625%	8/15/2020	44	AA+
U.S. Treasury Bonds	1.750%	5/15/2022	15	AA+
Province of Quebec	2.750%	8/25/2021	10	AA2
Ontario Prov Cda	2.950%	2/5/2015	<u>37</u>	AA2
			<u>\$ 579</u>	

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

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

Concentration of Credit Risk: VSAC places no limit on the amount of investments in any one issuer. However, VSAC's investment manager is currently instructed to invest approximately 70% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap. As of June 30, 2012 and 2011, 11% of VSAC's investments were invested in U.S. Treasuries. No other single issuer represented more than 5% of VSAC's investments at either June 30, 2012 or 2011.

Custodial Credit Risk

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

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4. Student Loans Receivable

At June 30, 2012, VSAC held student loans with interest rates ranging from 1.57% to 10.0%; the majority insured by DE and the U.S. Department of Health and Human Services. Approximately 17.3% of student loans are not guaranteed. Most of VSAC's borrowers are located in the New England states.

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

Student loans receivable as of June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Status:		
Interim status	\$ 79,244	\$ 160,943
Deferral status	249,189	308,982
Repayment status	1,340,896	1,427,676
Less: Allowance for loan losses	<u>(33,446)</u>	<u>(34,135)</u>
 Total student loans receivable	 1,635,883	 1,863,466
Less: noncurrent student loans receivable	<u>1,465,593</u>	<u>1,696,663</u>
 Current student loans receivable	 <u>\$ 170,290</u>	 <u>\$ 166,803</u>
 Guarantee type:		
U.S. Department of Education	\$1,344,237	\$1,561,807
U.S. Department of Health and Human Services	5,401	6,537
Other – Guaranteed	31,602	35,818
Nonguaranteed	288,089	293,439
Less: Allowance for loan losses	<u>(33,446)</u>	<u>(34,135)</u>
 Total student loans receivable	 1,635,883	 1,863,466
Less: noncurrent student loans receivable	<u>1,465,593</u>	<u>1,696,663</u>
 Current student loans receivable	 <u>\$ 170,290</u>	 <u>\$ 166,803</u>

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June 30, 2012 and 2011

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4. Student Loans Receivable (Continued)

\$1,655,950 and \$1,886,864 of student loans were pledged to the repayment of bonds and notes as of June 30, 2012 and 2011, respectively.

Transactions in the allowance for loan losses for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Balance July 1	\$ 34,135	\$ 34,338
Net loans charged off	(12,048)	(11,028)
Provision for losses on student loans	<u>11,359</u>	<u>10,825</u>
Balance June 30	<u>\$ 33,446</u>	<u>\$ 34,135</u>

The allowance for loan losses represents management's estimate of probable losses on student loans. Management uses the amounts of loans in the portfolio, loss rate, delinquencies, current economic conditions, and historical loss experience. Should any of these factors change significantly from those currently used by management, the estimate will change. At June 30, 2012 and 2011, \$84,895 and \$79,921, respectively, of student loans receivable were over 90 days past due, of which all but \$14,457 and \$13,124, respectively, were guaranteed by one of the guarantee types shown above.

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

Under the *Higher Education Act Amendments of 1998*, all assets related to the FFEL Program guaranty functions were transferred to the Federal Loan Reserve Fund on October 1, 1998. The Federal Loan Reserve Fund is administered by VSAC on behalf of DE 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 DE for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
<i>Additions:</i>		
Reimbursement from DE on default loan purchases	\$38,671	\$31,446
Default loan collections	179	191
Investment income	21	29
Other, net	<u>315</u>	<u>183</u>
Total additions	39,186	31,849

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

	<u>2012</u>	<u>2011</u>
<i>Deductions:</i>		
Purchases of defaulted loans from lenders	\$40,062	\$32,514
Default aversion fee paid	<u>370</u>	<u>626</u>
Total deductions	<u>40,432</u>	<u>33,140</u>
Net decrease in federal loan reserve funds held	(1,246)	(1,291)
Federal loan reserve funds held, at beginning of year	<u>15,141</u>	<u>16,432</u>
Federal loan reserve funds held, at end of year	<u>\$13,895</u>	<u>\$15,141</u>

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 2012 and 2011, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were \$1,344,237 and \$1,561,807 at June 30, 2012 and 2011, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

6. Net Assets Held for the Vermont Higher Education Investment Plan (VHEIP)

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

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6. Net Assets Held for the Vermont Higher Education Investment Plan (VHEIP) (Continued)

The changes in assets held on behalf of investors for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
<i>Additions:</i>		
Investment income	\$ 2,460	\$ 2,416
Net realized and unrealized gains	1,792	17,665
Net participant subscriptions/redemptions	<u>15,464</u>	<u>14,639</u>
Total additions	19,716	34,720
Assets held on behalf of investors, at beginning of year	<u>151,299</u>	<u>116,579</u>
Assets held on behalf of investors, at end of year	<u>\$171,015</u>	<u>\$151,299</u>

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2012 and 2011, was as follows:

	<u>Estimated Lives</u>	Balance July 1, 2010	Net Acqui- sitions (Disposals)	Balance June 30, 2011	Net Acqui- sitions (Disposals)	Balance June 30, 2012
Land	–	\$ 3,150	\$ –	\$ 3,150	\$ –	\$ 3,150
Furniture and equipment	3 – 15 Years	8,181	(144)	8,037	(611)	7,426
Software	3 – 5 Years	1,577	14	1,591	53	1,644
Building	5 – 30 Years	<u>16,765</u>	<u>7</u>	<u>16,772</u>	<u>209</u>	<u>16,981</u>
		29,673	(123)	29,550	(349)	29,201
Less accumulated depreciation		<u>10,039</u>	<u>1,055</u>	<u>11,094</u>	<u>420</u>	<u>11,514</u>
Capital assets, net		19,634	<u>\$ (1,178)</u>	18,456	<u>\$ (769)</u>	17,687
Less bonds payable, net of bond discount		<u>(18,256)</u>		<u>(17,442)</u>		<u>(17,010)</u>
Net investment in property and equipment		<u>\$ 1,378</u>		<u>\$ 1,014</u>		<u>\$ 677</u>

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7. Capital Assets (Continued)

Depreciation charged to operations for the years ended June 30, 2012 and 2011 was \$1,296 and \$1,349, respectively.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes at June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
<i><u>Bonds Payable:</u></i>		
<i><u>Bonds Payable which were issued to finance the origination of student loans:</u></i>		
1995 Series A, B, C and D, dated June 29, 1995; comprised of auction rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.44% to 0.76% during fiscal year 2012 (0.62% to 0.70% at June 30, 2012).	\$ 67,200	\$ 72,000
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from .44% to .80% during fiscal year 2012 (0.68% to 0.70% at June 30, 2012).	72,350	72,550
1998 Series K-O, dated June 24, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from .385% to .665% during fiscal year 2012 (0.543% to 0.613% at June 30, 2012).	111,200	111,800
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction rate bonds maturing December 2034. Interest is reset every 35 days and payable semi-annually at rates which ranged from .385% to .70% during fiscal year 2012 (0.595% to 0.63% at June 30, 2012).	112,150	112,150
2001 Series V, W and Z dated June 27, 2001; comprised of auction rate bonds maturing December 2035. Interest is reset every 35 days for Series V and W, and every 7 days for Series Z. Interest is payable semi-annually at rates which ranged from 0.385% to 0.825% during fiscal year 2012 (0.56% to 0.613% at June 30, 2012).	84,600	84,600
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA. Interest rates ranged from 0.00% to 17.902% during fiscal year 2012 (0.613% to 17.902% at June 30, 2012).	26,200	28,300

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8. Bonds and Notes Payable (Continued)

	<u>2012</u>	<u>2011</u>
2002 Series BB, CC and DD dated October 8, 2002; comprised of auction rate bonds maturing December 2036. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.46% to .74% during fiscal year 2012 (0.68% to 0.74% at June 30, 2012).	\$ 103,300	\$ 105,500
2003 Series FF, GG, HH and LL dated May 30, 2003; comprised of auction rate bonds with maturity dates ranging from June 2009 through December 2015; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.44% to 0.80% during fiscal year 2012 (0.62% to 0.68% at June 30, 2012).	122,900	164,900
2003 Series II, JJ and KK dated May 30, 2003; comprised of auction rate bonds maturing December 2037; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.44% to 0.76% during fiscal year 2012 (0.62% to 0.70% at June 30, 2012).	124,700	126,700
2004 Series MM dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.16% to 0.44% during fiscal year 2012 (0.40% at June 30, 2012).	74,150	74,700
2004 Series NN and PP dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.143% to 0.52% during fiscal year 2012 (0.36% at June 30, 2012).	98,950	120,700
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset and payable every 28 days at rates which ranged from 0.00% to 16.67% during fiscal year 2012 (16.67% at June 30, 2012).	34,250	37,700
2005 Series RR/SS dated June 21, 2005; comprised of auction rate bonds maturing December 2039; interest is reset and payable every 28 days at rates which ranged from 0.00% to 8.404% during fiscal year 2012 (8.404% at June 30, 2012).	34,750	36,850
2006 Series TT-VV dated July 12, 2006; comprised of auction rate bonds maturing December 2040; interest is reset every 35 days for the Series TT and UU and every 7 days for the Series VV. Interest is payable semi-annually at rates which ranged from 0.14% to 0.50% during fiscal year 2012 (0.38% to 0.40% at June 30, 2012).	103,925	103,925
2007 Series WW/XX dated June 19, 2007; comprised of auction rate bonds maturing December 2041; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.14% to 0.50% during fiscal year 2012 (0.38% at June 30, 2012).	116,025	121,275
2007 Series YY dated December 7, 2007; comprised of auction rate bonds maturing December 2041; interest is reset and payable every 7 days at rates which ranged from 0.00% to 16.94% during fiscal year 2012 (0.106% at June 30, 2012).	81,775	82,075

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8. Bonds and Notes Payable (Continued)

	<u>2012</u>	<u>2011</u>
2008 Series B-1 dated June 26, 2008; comprised of variable rate demand bonds maturing December 2039; interest is reset every 7 days and payable semi-annually at rates which ranged from 0.05% to 0.25% during fiscal year 2012 (0.18% at June 30, 2012).	\$ 89,585	\$ 102,985
2008 Series C-1 and C-2 dated September 1, 2008; comprised of variable rate demand bonds maturing December 2040; interest is reset every 7 days and payable semi-annually at rates which ranged from 0.06% to .24% during fiscal year 2012 (0.16% to 0.17% at June 30, 2012).	161,200	186,000
2010 Series A-1 dated August 3, 2010; comprised of fixed rate bonds maturing between December 15, 2015 and 2030; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	19,000	19,000
2011 Series A-1 dated July 26, 2011; comprised of fixed rate bonds maturing between December 15, 2013 and 2025; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	15,000	—
 <i>Other Bonds Payable</i>		
2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates are fixed ranging from 2.00% to 5.00% payable semi-annually.	17,120	17,555
 <i>Notes Payable</i>		
Note Payable under the ECASLA Asset Backed Commercial Paper Conduit (ABCP) program dated June 30, 2009. A variable rate is calculated monthly by the Conduit Manager and Administrator which ranged from 0.535% to 0.543%; (0.535% at June 30, 2012) maturing September 30, 2014	<u>149,173</u>	<u>183,417</u>
Total bonds and notes payable	1,819,503	1,964,682
Bond premium/discount, net	<u>499</u>	<u>365</u>
Total bonds and notes	1,820,002	1,965,047
Less: current portion bonds and notes	<u>25,450</u>	<u>329,420</u>
Noncurrent portion of bonds and notes	<u>\$1,794,552</u>	<u>\$1,635,627</u>

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8. Bonds and Notes Payable (Continued)

All bonds and notes, except the 2003 General Obligation bonds, 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 DE. 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, except the 2003 General Obligation bonds.

In 2012 and 2011, due to ongoing disruptions in the capital markets, the interest rates paid on auction bonds fluctuated significantly due to failed auction formulae. These rates varied from as low as 0% to as high as 18% over 2012 and 2011. This variability is tied to the variable indices in the failed auction formula and the maximum rates defined in the bond indentures.

The 1995 Series A-D, 1996 Series F-I, 1998 Series K-N, 2000 Series R-U, 2001 Series V-AA, 2002 Series BB-DD, 2003 Series FF-LL, 2004 Series MM-PP, 2005 Series RR-SS, 2006 TT-VV, and the 2007 WW-YY bonds are secured for credit-worthiness by AMBAC Assurance Corporation. The 2003 General Obligation bonds and the 1998 Series O bonds payable have no credit support. The 2008 Series B-1 bonds have liquidity support by a Letter of Credit Reimbursement Agreement issued by the Bank of New York that expires on January 6, 2014. The 2008 Series C-1 and C-2 bonds have liquidity support from a Letter of Credit Reimbursement Agreement issued by State Street Bank and Trust Company that expires on March 15, 2014. The ECASLA Participation note is a short term obligation to the Department of Education and has no other credit or liquidity support. The ECASLA ABCP Conduit note has liquidity support from a Put Agreement between the Department of Education, the Conduit (Straight-A Funding LLC) and the Conduit Administrator (Bank of New York-Mellon). The 2010A-1 and 2011A-1 series bonds have no additional credit support.

All bonds and notes, except the 2003 General Obligation, 2010A-1 series and 2011A-1 series, are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2012, all bonds authorized under the underlying bond resolutions have been issued, except for the 2012A-1 bonds discussed in note 18.

Proceeds from issuance of the bonds and notes payable, except the 2003 General Obligation bonds, 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.

The 2003 General Obligation bonds are payable from available revenues of VSAC. The bonds were issued for the purpose of financing the acquisition of land, construction, renovation, and equipment outfitting of a new corporate headquarters for VSAC.

During 2012, VSAC retired \$125,500 of various bonds and notes for \$120,619, realizing a gain of \$4,881. During 2011, VSAC retired \$133,700 of various bonds for \$116,599, realizing a gain of \$17,101. Additionally, during 2011 VSAC repaid the entire balance due under the ECASLA Participation program through assignment of FFEL Program loans financed by this program to the Department of Education.

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8. Bonds and Notes Payable (Continued)

The debt service requirements, which are based on the interest rates at June 30, 2012, through 2017 and in five-year increments thereafter to maturity for VSAC, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FY13	\$ 25,450	\$ 12,396	\$ 37,846
FY14	251,750	12,168	263,918
FY15	198,063	10,867	208,930
FY16	52,115	10,271	62,386
FY17	3,040	10,050	13,090
FY18 – 22	19,030	47,807	66,837
FY23 – 27	76,905	43,987	120,892
FY28 – 32	12,405	40,553	52,958
FY33 – 37	512,220	33,035	545,255
FY38 – 42	<u>668,525</u>	<u>12,144</u>	<u>680,669</u>
Total	<u>\$1,819,503</u>	<u>\$233,278</u>	<u>\$2,052,781</u>

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

The following summarizes the debt activity for VSAC for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$1,965,047	\$2,413,652
Issuance	15,000	19,000
Premium on issuance	246	544
Redemptions and refundings	(160,179)	(468,089)
Accretion/amortization of discount/premium	<u>(112)</u>	<u>(60)</u>
Balance at end of year	<u>\$1,820,002</u>	<u>\$1,965,047</u>

9. U.S. Treasury Rebates Payable

The bonds issued by VSAC are subject to Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the U.S. Treasury. VSAC has estimated that there are U.S. Treasury rebates payable at June 30, 2012 and 2011 of \$22,663 and \$21,558, respectively. VSAC has estimated the current portion to be \$427 at June 30, 2011. There is no estimated current portion at June 30, 2012. VSAC refunded to the U.S. Treasury \$129 and \$144 in excess earnings in 2012 and 2011, respectively.

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10. Student Loan Interest and Special Allowance Revenues

DE 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 PLUS, SLS and Consolidation loans normally begins within sixty 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. HEAL loans enter repayment status nine months after the expiration date of an interim period.

DE 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. For loans first disbursed before January 1, 2000, the rate is based on the average rate established in the auction of the thirteen-week U.S. Treasury bills, plus a pre-determined factor, less the interest rate on the loan. For loans first disbursed on or after January 1, 2000, financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of three-month Financial Commercial Paper, plus a pre-determined factor, less the interest rate on the loan. Under certain conditions, one month LIBOR may be permanently substituted for three month financial commercial paper. Certain loans made or purchased prior to February 8, 2006 with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993, are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans made or purchased with these obligations on or after February 8, 2006 are eligible for full special allowance and are not subject to a minimum return. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993, are eligible for full special allowance and are not subject to a minimum return.

DE 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 \$35,944 and \$42,332 in 2012 and 2011, respectively, and is reflected as a reduction of interest and fees and student loans in the Statements of Revenues, Expenses and Changes in Net Position.

11. Endowment Funds

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

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

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11. Endowment Funds (Continued)

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 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 new 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, and may come from the total return on the fund, including interest and dividend earnings, appreciation or historical gift value. Total investment return in excess of the established spending rate is considered to be nonexpendable in future periods. The spending rate may be adjusted by the Board of Directors at their discretion. The Board applied this policy in several instances in FY 2012 where donors requested spending of “principal” (i.e., spending that would take a fund below its historic contributed value) and, with one exception, the Board determined that the proposed spending would not be prudent. The one exception was for an endowment where the gift instrument expressly authorized the spending of principal.

At June 30, 2012 and 2011, the total net position related to endowment funds were \$3,473 and \$3,343, respectively. Expendable restricted net position totaled \$218 and \$157, respectively. The remaining \$3,255 and \$3,186, respectively, of net position related to endowment funds were nonexpendable.

12. Restricted Net Position

Restrictions on net position are the result of bond resolutions, state statutes, various federal regulations and program agreements, and donor restrictions. Bond resolutions restrict net position to the origination of student loans and payment of debt service on bonds and notes payable. State statutes and federal regulations and program agreements restrict various net position to use for specific grant, scholarship and educational activities. Donors have restricted a number of endowment funds for scholarship awards. Restricted net position as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Restricted by bond resolutions	\$109,109	\$ 99,722
Restricted by Federal or State Statute	1,272	2,961
Donor restricted for scholarships	<u>3,503</u>	<u>3,372</u>
Total restricted net position	<u>\$113,884</u>	<u>\$106,055</u>

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13. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 2012 and 2011 amounted to \$13,193 and \$15,993, respectively; VSAC's total payroll was \$13,369 and \$17,475, respectively. (The 2011 amount includes \$1,606 paid or accrued under an employee voluntary separation plan; see note 17.) Total contributions by VSAC amounted to \$1,319 and \$1,599 in 2012 and 2011, respectively, which represented 10% of the covered payroll.

In June of 2004 the Governmental Accounting Standards Board issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement requires recognition of current period costs related to expected future expenditures for Other Post-Employment Benefits (OPEB). VSAC employees who complete 15 years of continuing service and who are not otherwise eligible for Medicare coverage may elect to continue to buy VSAC's health care coverage at COBRA rates. VSAC has determined that this obligation is not material and has not recorded a liability for OPEB at June 30, 2012 and 2011.

14. Contingencies

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

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

A summary of the reserve for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statement of net position for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 374	\$ 336
Claims paid	(3,869)	(3,961)
Accrual for estimated claims	<u>3,893</u>	<u>3,999</u>
Balance, end of year	<u>\$ 398</u>	<u>\$ 374</u>

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14. Contingencies (Continued)

The IRS has conducted an audit of VSAC's Education Loan Revenue Bonds, Series 1998K-O (the Bonds) issued on June 24, 1998 with an aggregate principal amount of \$165,000. As part of the audit of the Bonds, the IRS delivered to VSAC on March 3, 2009 a Notice of Proposed Issue which raised issues regarding (1) VSAC's methodology for tracking student loans acquired with the proceeds of the Bonds and (2) the treatment of the consolidation loan rebate fee paid by VSAC to the Department of Education as a qualified administrative expense. As a result, the IRS asserts that the Bonds are not qualified student loan bonds under Section 144(b)(1)(A) of the Internal Revenue Code (IRC) and that, therefore, interest on the Bonds would not be excludable from gross income of bondholders under Section 103(a) of the IRC. On June 28, 2011, the IRS included all tax exempt bonds issued under the 1995 Education Loan master trust in its review. The IRS has not requested any additional information related to these bonds and has not communicated any findings related to these bonds. VSAC believes the IRS position is inconsistent with applicable law and practice and that VSAC's methodology and computations with respect to the Bonds are in accordance with the IRC. Accordingly, VSAC is vigorously contesting the IRS assertions. VSAC continues to discuss resolution of the audit with the IRS. At this time, VSAC is unable to predict the likelihood it will prevail in this matter.

A suit was brought by a former employee of DE in September 2009 in the United States District Court for the Eastern District of Virginia (the Court) under the Federal False Claims Act, against nine lenders participating in the federal Higher Education Act loan programs, including VSAC. The suit alleges wrongful acts in connection with so-called 9.5% "floor" loans, referring to Special Allowance Payment (SAP) billings submitted by VSAC to DE. On December 1, 2009, the Court granted VSAC's motion to dismiss it from the action concluding that VSAC as an agency of the State of Vermont was not amenable to suit under the False Claims Act. The plaintiff appealed the dismissal in December 2010. On June 18, 2012, the federal Court of Appeals for the 4th Circuit ruled that the District Court applied an incorrect legal standard when deciding the motion to dismiss, and remanded the case back to the Court for further proceedings, which have not yet commenced. VSAC strongly believes these claims to be unsupported by the facts and the law and will continue to contest the suit vigorously.

15. Loan Commitments

At June 30, 2012 and 2011, VSAC had commitments to extend credit for non-guaranteed student loans of approximately \$533 and \$563, respectively. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. VSAC uses the same credit policies in making commitments as it does for student loans receivable.

16. Segment Reporting

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

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

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16. Segment Reporting (Continued)

Bond – This segment includes the activities of all VSAC education loan financing instruments, including the note payable established under the ABCP Conduit program, and the related secured assets. Accumulated balances in this fund are restricted by financing agreements.

Scholarships – This segment includes all funds designated as scholarships and the related donations, earnings, and disbursements for the various scholarship programs administered by VSAC, including endowments. The balance of this segment represents unspent invested amounts in the Vermont Student Development Fund, Inc. (d/b/a the Vermont Scholarship Fund), 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, Next Generation non-degree grants, and the Vermont Honors Scholarship program. 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, 2012:

Condensed Statement of Net Position

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Assets:					
Current assets	\$28,906	\$ 189,190	\$ 9,627	\$ 1,482	\$ 229,205
Capital assets, net	17,687	–	–	–	17,687
Other noncurrent assets	<u>11,522</u>	<u>1,751,336</u>	<u>–</u>	<u>–</u>	<u>1,762,858</u>
Total assets	<u>\$58,115</u>	<u>\$1,940,526</u>	<u>\$ 9,627</u>	<u>\$ 1,482</u>	<u>\$2,009,750</u>
Liabilities:					
Current liabilities	\$ 4,710	\$ 26,584	\$ 6,124	\$ 170	\$ 37,588
Noncurrent liabilities	16,562	1,800,653	–	–	1,817,215
Interfund (receivable) payable	<u>(4,220)</u>	<u>4,180</u>	<u>–</u>	<u>40</u>	<u>–</u>
Total liabilities	17,052	1,831,417	6,124	210	1,854,803
Net position:					
Net investment in capital assets	677	–	–	–	677
Restricted	–	109,109	3,503	1,272	113,884
Unrestricted	<u>40,386</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>40,386</u>
Total net position	<u>41,063</u>	<u>109,109</u>	<u>3,503</u>	<u>1,272</u>	<u>154,947</u>
Total liabilities and net position	<u>\$58,115</u>	<u>\$1,940,526</u>	<u>\$ 9,627</u>	<u>\$ 1,482</u>	<u>\$2,009,750</u>

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16. Segment Reporting (Continued)

Condensed Statement of Revenues and Expenses

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Revenues:					
Interest and fees on student loans	\$ 357	\$ 66,943	\$ –	\$ –	\$ 67,300
Guarantee agency administrative program revenues	6,941	–	–	–	6,941
Vermont state appropriations	–	–	875	18,748	19,623
Federal grants	5,306	–	1,072	–	6,378
Scholarship and gift income	–	–	3,770	–	3,770
Interest on cash and investments, and other income	<u>642</u>	<u>241</u>	<u>29</u>	<u>–</u>	<u>912</u>
Total operating revenues	13,246	67,184	5,746	18,748	104,924
Expenses:					
Operating expenses	22,902	49,809	5,840	21,369	99,920
Depreciation and amortization	<u>1,296</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,296</u>
Total expenses	<u>24,198</u>	<u>49,809</u>	<u>5,840</u>	<u>21,369</u>	<u>101,216</u>
Excess (deficiency) of operating revenues over expenses	(10,952)	17,375	(94)	(2,621)	3,708
Gain on early bond retirement	–	4,881	–	–	4,881
Interfund transfer	<u>11,707</u>	<u>(12,864)</u>	<u>225</u>	<u>932</u>	<u>–</u>
Excess (deficiency) of revenues over expenses	755	9,392	131	(1,689)	8,589
Total net position, beginning of year	<u>40,308</u>	<u>99,717</u>	<u>3,372</u>	<u>2,961</u>	<u>146,358</u>
Total net position, end of year	<u>\$41,063</u>	<u>\$109,109</u>	<u>\$3,503</u>	<u>\$1,272</u>	<u>\$154,947</u>

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16. Segment Reporting (Continued)

Condensed Cash Flow Statement

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Cash provided (used) by operating activities	\$ (1,809)	\$ 254,658	\$ 59	\$ (1,686)	\$ 251,222
Cash used by noncapital financing activities	-	(150,811)	-	-	(150,811)
Cash used by capital and related financing activities	(1,829)	-	-	-	(1,829)
Cash provided by investing activities	<u>140</u>	<u>(103,847)</u>	<u>82</u>	<u>-</u>	<u>(103,625)</u>
Net increase (decrease) in cash and cash equivalents	(3,498)	-	141	(1,686)	(5,043)
Cash and cash equivalents, beginning of year	<u>29,068</u>	<u>-</u>	<u>6,331</u>	<u>3,115</u>	<u>38,514</u>
Cash and cash equivalents, end of year	<u>\$25,570</u>	<u>\$ -</u>	<u>\$6,472</u>	<u>\$ 1,429</u>	<u>\$ 33,471</u>

VSAC's segment financial reporting at June 30, 2011:

Condensed Statement of Net Position

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Assets:					
Current assets	\$31,687	\$ 194,885	\$ 9,539	\$ 3,141	\$ 239,252
Capital assets, net	18,456	-	-	-	18,456
Other noncurrent assets	<u>9,238</u>	<u>1,880,613</u>	<u>-</u>	<u>-</u>	<u>1,889,851</u>
Total assets	<u>\$59,381</u>	<u>\$2,075,498</u>	<u>\$9,539</u>	<u>\$3,141</u>	<u>\$2,147,559</u>
Liabilities:					
Current liabilities	\$ 6,115	\$ 331,981	\$ 6,167	\$ 180	\$ 344,443
Noncurrent liabilities	17,006	1,639,752	-	-	1,656,758
Interfund (receivable) payable	<u>(4,048)</u>	<u>4,048</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	19,073	1,975,781	6,167	180	2,001,201
Net position:					
Net investment in capital assets	1,014	-	-	-	1,014
Restricted	-	99,722	3,372	2,961	106,055
Unrestricted	<u>39,294</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>39,289</u>
Total net position	<u>40,308</u>	<u>99,717</u>	<u>3,372</u>	<u>2,961</u>	<u>146,358</u>
Total liabilities and net position	<u>\$59,381</u>	<u>\$2,075,498</u>	<u>\$9,539</u>	<u>\$3,141</u>	<u>\$2,147,559</u>

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16. Segment Reporting (Continued)

Condensed Statement of Revenues and Expenses

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Revenues:					
Interest and fees on student loans	\$ 305	\$ 73,272	\$ –	\$ –	\$ 73,577
Guarantee agency administrative program revenues	5,363	–	–	–	5,363
Vermont state appropriations	–	–	1,063	20,278	21,341
Federal grants	4,810	–	1,004	197	6,011
Scholarship and gift income	–	–	3,682	–	3,682
Interest on cash and investments, and other income	<u>220</u>	<u>4,504</u>	<u>479</u>	<u>–</u>	<u>5,203</u>
Total operating revenues	10,698	77,776	6,228	20,475	115,177
Expenses:					
Operating expenses	24,974	57,371	6,122	20,272	108,739
Depreciation	<u>1,349</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,349</u>
Total expenses	<u>26,323</u>	<u>57,371</u>	<u>6,122</u>	<u>20,272</u>	<u>110,088</u>
Excess (deficiency) of operating revenues over expenses	(15,625)	20,405	106	203	5,089
Gain on early bond retirement	–	17,101	–	–	17,101
Interfund transfer	<u>21,952</u>	<u>(23,292)</u>	<u>298</u>	<u>1,042</u>	<u>–</u>
Excess of revenues over expenses	6,327	14,214	404	1,245	22,190
Total net position, beginning of year	<u>33,981</u>	<u>85,503</u>	<u>2,968</u>	<u>1,716</u>	<u>124,168</u>
Total net position, end of year	<u>\$40,308</u>	<u>\$ 99,717</u>	<u>\$ 3,372</u>	<u>\$ 2,961</u>	<u>\$146,358</u>

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16. Segment Reporting (Continued)

Condensed Cash Flow Statement

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Cash provided (used) by operating activities	\$ 10,384	\$ 225,778	\$ (681)	\$ 1,432	\$ 236,913
Cash used by noncapital financing activities	-	(142,680)	-	-	(142,680)
Cash used by capital and related financing activities	(1,904)	-	-	-	(1,904)
Cash provided by investing activities	<u>139</u>	<u>(83,098)</u>	<u>59</u>	<u>-</u>	<u>(82,900)</u>
Net increase (decrease) in cash and cash equivalents	8,619	-	(622)	1,432	9,429
Cash and cash equivalents, beginning of year	<u>20,449</u>	<u>-</u>	<u>6,953</u>	<u>1,683</u>	<u>29,085</u>
Cash and cash equivalents, end of year	<u>\$29,068</u>	<u>\$ -</u>	<u>\$ 6,331</u>	<u>\$ 3,115</u>	<u>\$ 38,514</u>

17. Termination Benefits

During 2011 VSAC implemented a Voluntary Separation Program, according to the terms of which certain employees could elect to terminate their employment in return for 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 14 weeks and the maximum was 54 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 for six months following termination.

Fifty-eight VSAC employees accepted the offer and executed the required documents during 2011, with the last terminating employees leaving on June 10, 2011. The discounted estimated future costs under this program were accrued as of June 30, 2011, and the final payments under the program were made in July of 2012. The accrual related to compensation was calculated based on each participating 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. The accrual for COBRA assistance was based on the employees who elected to continue their medical/dental coverage under COBRA within 60 days of their terminations and assumed these employees would continue using this benefit for the full nine months permitted under the VSP. No accrual was made for job placement assistance payments, since the amount and timing of these expenses was not estimated to be significant.

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17. Termination Benefits (Continued)

During 2011 the following expenses were recognized under this program:

	<u>Compensation</u>	<u>Payroll Taxes</u>	<u>COBRA</u>	<u>Total</u>
Paid during 2011	\$ 171	\$ 13	\$ 20	\$ 204
Accrued for future periods	<u>1,435</u>	<u>110</u>	<u>146</u>	<u>1,691</u>
Total termination benefits expense	<u>\$ 1,606</u>	<u>\$ 123</u>	<u>\$ 166</u>	<u>\$ 1,895</u>

Of the accrued expenses, \$1,688 was paid in 2012 and the balance will be paid in 2013.

18. Subsequent Events

In July 2012 the Company issued its 2012A-1 student loan bonds in a total amount of \$20,635. These bonds are fixed-rate tax-exempt bonds maturing between 2017 and 2031, bearing interest at effective rates ranging from 2.875% to 5.05%, and coupons ranging from 2.875% to 5.05%.