

Vermont Student Assistance Corporation
(A Component Unit of the State of Vermont)

Comprehensive Annual Financial Report

Years Ended June 30, 2020 and 2019

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, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vermont Student Assistance Corporation

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund information of Vermont Student Assistance Corporation (VSAC), a component unit of the State of Vermont, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise VSAC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary fund information of VSAC as of June 30, 2020 and 2019, and the changes in the net position and cash flows of the business-type activities thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 17 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise VSAC's basic financial statements. The accompanying combining schedule of changes in assets and liabilities – all agency funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
September 21, 2020

Registration No: 92-0000278

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Years Ended June 30, 2020 and 2019

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

VSAC administers the State grant program, funded by State appropriations, at no cost to the State. VSAC administers and awards approximately 115 scholarship programs, including VSAC assisted scholarships and scholarship funds held and managed by VSAC.

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

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

Management's Discussion and Analysis Report includes Fiscal 2020 and Fiscal 2019 information due to the fact that the Financial Statements include Fiscal 2020 and Fiscal 2019 information.

The Financial Statements

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

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

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

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

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

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

Years Ended June 30, 2020 and 2019

FISCAL 2020

Fiscal 2020 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2020 and 2019 was \$7.5 million and \$6.5 million, respectively. VSAC's total net position increased to \$199.9 million.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, decreased \$4.6 million from 2019 to 2020. See Interest Costs on page 9 and 10 of Management's Discussion and Analysis for details of the components of Interest Expense.
- During the year ended June 30, 2020, VSAC provided \$25.5 million in grants and scholarships to Vermont students.
- VSAC originated \$50.1 million in new loans to students and parents. VSAC holds and services \$658.6 million in education loans receivable and related interest at June 30, 2020.
- VSAC returned \$0.7 million in interest rebates to students in its loan programs during fiscal 2020.
- VSAC holds student loans and variable rate notes payable whose return is linked to the London Inter Bank Offered Rate ('LIBOR'). The Financial Conduct Authority of the United Kingdom plans to phase out the calculation and publication of LIBOR by the end of 2021. VSAC is in consultation with bond counsel and reviewing its loan documentation in order to determine what provisions exist for substituting alternative rate indices for LIBOR. See Note 11 for further details.
- On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a global pandemic. Local, U.S., and world governments encouraged self-isolation to curtail the spread of COVID-19 by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and the size and duration of group gatherings. Most sectors are experiencing disruption to business operations and may feel further impacts. The Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020 provides several relief measures to organizations from the impacts of COVID-19. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management expects this matter to impact operating results, the related financial impact and duration cannot be reasonably estimated.

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

Years Ended June 30, 2020 and 2019

Condensed Financial Information

Statements of Net Position

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 127,881	\$ 117,785
Education loans receivable (plus interest)	658,589	717,461
Other assets	<u>17,905</u>	<u>19,119</u>
Total assets	<u>\$ 804,375</u>	<u>\$ 854,365</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$ 565,607	\$ 625,484
U.S. Treasury rebates payable	4,254	3,626
Other liabilities	<u>16,609</u>	<u>10,405</u>
Total liabilities	586,470	639,515
Deferred inflows of resources:		
Deferred inflows from leasing activity	2,655	3,307
Deferred gains on early refunding of bonds payable	<u>15,322</u>	<u>19,105</u>
Total liabilities and deferred inflows of resources	<u>604,447</u>	<u>661,927</u>
Net position:		
Net investment in capital assets	12,604	13,123
Restricted	116,774	106,960
Unrestricted	<u>70,550</u>	<u>72,355</u>
Total net position	<u>199,928</u>	<u>192,438</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 804,375</u>	<u>\$ 854,365</u>

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

Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	\$ 38,222	\$ 44,323
Other loan and guarantee program revenues	3,286	3,371
Investment interest	1,630	2,192
Vermont state appropriations	20,930	20,093
Federal grants	5,166	5,296
Scholarship and gift income	4,851	4,230
Facility lease revenue	652	416
Other income	<u>1,256</u>	<u>1,088</u>
Total operating revenues	75,993	81,009
Operating expenses:		
Grants and scholarships	25,511	25,606
Interest rebated to borrowers	715	1,707
Interest on debt, net of amortization	13,243	17,852
Other loan financing costs	7,245	6,310
Corporate operating expenses and depreciation	<u>22,802</u>	<u>23,195</u>
Total operating expenses	<u>69,516</u>	<u>74,670</u>
Change in net position from operations	6,477	6,339
Contributions to permanent scholarship endowment	<u>1,013</u>	<u>156</u>
Change in net position	7,490	6,495
Net position, beginning of year	<u>192,438</u>	<u>185,943</u>
Net position, end of year	\$ <u>199,928</u>	\$ <u>192,438</u>

Net Position

Cash and investment balances increased \$10.1 million from June 30, 2019 to June 30, 2020 from \$117.8 to \$127.9 million. The cash balance associated with restricted bonds decreased \$0.1 million during this time. Unrestricted cash increased \$8.7 million during the year due primarily to corporate loan collections and temporary cash investment returns.

Student loans and interest receivable totaled \$658.6 million at June 30, 2020, down from \$717.5 million in 2019. This decrease is due to overall loan principal collections exceeding new loan originations in the VSAC private loan program.

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

Years Ended June 30, 2020 and 2019

Bonds and notes payable decreased \$59.9 million from \$625.5 million at June 30, 2019 to \$565.6 million at June 30, 2020. VSAC's financing activity in 2020 was comprised primarily of the following (in millions):

Principal payments, 2012-13-14 variable rate notes	\$ (77.7)
Principal payments, VSAC fixed rate bonds	(25.7)
Issuance of 2020A student loan financing bond	43.4
Principal payments, State of Vermont note payable	(0.8)
Other changes	<u>0.9</u>
	<u>\$ (59.9)</u>

The 2012, 2013 and 2014 variable rate notes, which were issued in those years to refund auction rate bonds, letter of credit bonds, and the ABCP Conduit note, include a feature which requires periodic calculations of available cash used to pay bond principal. For more information regarding bonds and notes payable, see Note 9 to the audited financial statements.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2020 to \$4.3 million from \$3.6 million as of June 30, 2019.

Unrestricted net position decreased from \$72.4 million at June 30, 2019 to \$70.6 million at June 30, 2020. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is \$2.3 million. VSAC's unrestricted net position at June 30, 2020 and 2019 consists of the following (in millions):

	<u>2020</u>	<u>2019</u>
Cash/investments held for new bond issuance and operating reserves	\$ 23.7	\$ 21.6
Investment in student loans and related interest	24.4	28.6
Physical plant	12.6	13.1
Subordinated VSAC bonds	22.5	22.5
Other	<u>0.0</u>	<u>(0.3)</u>
Total unrestricted including Investment in Capital Assets	<u>\$ 83.2</u>	<u>\$ 85.5</u>

Restricted net position increased from \$107.0 million at June 30, 2019 to \$116.8 million at June 30, 2020. This increase was primarily in the bond funds due to the operating surplus in those funds. Of the \$116.8 million, \$107.6 million is restricted by bond resolutions. The remaining \$9.2 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2020 financial results increased net position by \$7.5 million. All revenues, except donations to the permanent scholarship endowment, are considered operating revenues. VSAC realized \$76.0 million in operating revenues versus \$69.5 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and lease revenues.

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

Years Ended June 30, 2020 and 2019

Overall loan revenue of VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2020, loan revenue decreased from \$44.3 to \$38.2 million. The components of loan revenue are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
U.S. Department of Education Interest Benefits	\$ 557	764
U.S. Department of Education Special Allowance	1,381	2,961
Borrower interest and fees on student loans	41,098	44,532
Borrower interest paid to Department of Education	<u>(4,814)</u>	<u>(3,934)</u>
	<u>\$ 38,222</u>	<u>44,323</u>

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

- Interest for certain loans is paid by ED as a subsidized interest benefit on qualifying borrowers. This item decreased because the population of loans which qualify for this benefit is declining.
- ED also pays special allowance payments under certain interest rate conditions. This item decreased due to decreasing eligible loan balances and because of decreasing interest rate indices (LIBOR).
- Although VSAC originates new non-guaranteed loans, the population of ED-guaranteed loans is paying down more rapidly, resulting in decreased borrower interest and fees.
- Certain borrower interest revenues which exceed the special allowance formulae must be paid to ED each quarter. The amount paid increased despite the decrease in overall FFEL Program loans because the LIBOR index used in the special allowance formula decreased.

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Our private loan financing bonds are issued with fixed interest rates. The student loans pledged to these bonds (2010 and later VSAC Private loans) also have fixed interest rates. All other outstanding student loan bonds and notes have variable interest rates reset on periodic intervals based on short-term LIBOR rates. The earnings on loans pledged to these bonds have variable interest rates based on short-term LIBOR rates with similar reset frequencies.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues decreased from \$3.4 million in fiscal 2019 to \$3.3 million in fiscal 2020. This decrease is primarily due to decreased volumes of FFEL program loans outstanding which generate these revenues.

Interest rates on cash positions were lower during the last portion of the year ended June 30, 2020, resulting in lower interest earnings over the prior year. Investments include unrestricted, student loan and scholarship funds temporarily invested in short-term investments, and scholarship endowment funds invested for long-term growth and income. Other gains (losses) related to investing, both realized gains (losses) on sales and unrealized gains (losses) on appreciated (depreciated) assets held at year-end, are reflected in the Other Income line and were \$421.5 thousand in 2020 and \$324.2 thousand in 2019.

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

Years Ended June 30, 2020 and 2019

VSAC's State revenue recognized increased to \$20.9 million in 2020 from \$20.1 million in 2019. State appropriation support including amounts reported as grants and scholarship income increased from \$20.5 million to \$22.0 million. The difference between total State appropriation support and VSAC State revenue recognized is related to amounts which are not intended for the State need-based grant program and which VSAC records as scholarship support. The state appropriation increased mainly due to a \$1.0 million increase in the National Guard tuition program and a \$0.5 million one-time appropriation.

Federal grants were \$5.2 million in fiscal 2020 and \$5.3 million in fiscal 2019. Except Federal scholarship funds, Federal grants revenues are applied for only after VSAC has incurred expenses for administration and program activities associated with those grants. Federal scholarship funds are received in the year of their Federal budget authorization and revenues recognized by VSAC as awards are disbursed.

Scholarship revenues, representing the use of restricted gifts and grants, increased from \$4.2 million in 2019 to \$4.9 million in 2020. Additionally, donations of new permanent scholarship endowment funds, a non-operating item, were \$1.0 million and \$0.2 million in 2020 and 2019, respectively.

In fiscal 2018, VSAC began leasing excess office space in its facility to non-State tenants. Revenues recognized under these leases was \$652 thousand and \$416 thousand in fiscal 2020 and fiscal 2019, respectively.

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 \$25.5 million in student aid during fiscal 2020. Of this amount, \$19.5 million in grant aid was provided from State appropriations. An additional \$6.0 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 36.7% of VSAC's operating expenses in fiscal 2020 compared to 34.3% in 2019.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$0.7 million in rebates of interest to borrowers in 2020, which represents 1.0% of VSAC's operating expenses in fiscal year 2020 compared to 2.3% in 2019.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the \$50.1 million in new loans VSAC made available to students and parents in fiscal 2020.

Interest Costs – In order to provide Vermont students and parents with low-cost loans, VSAC issued two types of bonds that remain outstanding as of June 30, 2020 and 2019, fixed rate and variable rate. The interest costs of the bonds represent a major expense category for VSAC. The variable-rate notes were issued to refinance VSAC's auction-rated securities and are supported by variable-rate student loans. The student loans and bonds bear interest at a fixed margin added to one or three-month LIBOR. This margin does not change after being set, when the bonds were sold, and loans originated. Fixed-rate bonds were issued beginning in 2010 in order to finance newly originated fixed-rate loans. These rate structures result in student loan interest revenue that is closely matched to bond interest expense.

Bonds and notes issued in prior years are paying down faster than VSAC's new fixed-rate bond issuances, resulting in a decrease in debt outstanding during the year. This decrease in VSAC's bond and note balances is one driver of the decrease in interest expense year over year. Additionally, VSAC's interest costs before the amortization of deferred gains on early refunding of bonds payable decreased due to lower LIBOR interest rate

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

Years Ended June 30, 2020 and 2019

indices affecting the variable-rate notes later in fiscal 2020. Net of deferred gains on early refunding, this expense represents 19.1% of VSAC's operating expenses in fiscal 2020, down from 23.9% in 2019.

The components of VSAC's interest expense for 2020 and 2019 were as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Interest expense incurred on outstanding debt	\$ 17,026	\$ 22,247
Amortization of deferred gain on refunded debt	<u>(3,783)</u>	<u>(4,395)</u>
 Bond interest expense recognized, net	 \$ <u>13,243</u>	 \$ <u>17,852</u>

Other Loan Financing Costs – Other loan financing expenses include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$565.1 million in outstanding bonds and notes. These costs totaled \$7.2 million in fiscal 2020 and \$6.3 million in fiscal 2019, representing approximately 10.4% and 8.5%, respectively, of total operating expenses in these years. The increase of \$0.9 million in this expense category was primarily caused by increased loan loss provision (\$1.1 million) offset by decreased FFEL Consolidation fees (\$0.5 million). (See financial statement Note 4 in the discussion regarding the Loan Loss Reserve.) Interest subject to U.S. Treasury rebate is another component of Other Loan Financing Costs. This represents earnings on tax-exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30 and all bondholders were repaid. By using interest rebates to VSAC borrowers, it is managed to mitigate the probability of a liability balance at the end of a bond life cycle.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs, totaled \$22.8 million in fiscal 2020 compared to \$23.2 million in fiscal 2019. The primary components of VSAC's operating costs (in thousands) were as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Salaries and wages	\$ 10,879	\$ 10,855
Employee healthcare costs	2,772	2,812
Other employee benefit costs	2,058	2,082
Administrative expenses	<u>7,093</u>	<u>7,446</u>
 Total Costs of Operations	 \$ <u>22,802</u>	 \$ <u>23,195</u>

Overall costs of operations represent 32.8% of total operating expenses in fiscal 2020 compared to 31.1% in 2019.

Expenses for 2020 totaled \$69.5 million. Revenues including scholarship endowment donations totaled \$77.0 million. The change in total net position for the year was an increase of \$7.5 million. The ending balance of net position at June 30, 2020 was \$199.9 million, as compared to \$192.4 million at June 30, 2019.

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

Years Ended June 30, 2019 and 2018

FISCAL 2019

Fiscal 2019 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2019 and 2018 was \$6.5 million and \$6.8 million, respectively. VSAC's total net position increased to \$192.4 million.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, increased \$2.9 million from 2018 to 2019. See Interest Costs on page 16 and 17 of Management's Discussion and Analysis for details of the components of Interest Expense.
- During the year ended June 30, 2019, VSAC provided \$25.6 million in grants and scholarships to Vermont students.
- VSAC originated \$45.1 million in new loans to students and parents. VSAC holds and services \$717.5 million in education loans receivable and related interest at June 30, 2019.
- VSAC returned \$1.7 million in interest rebates to students in its loan programs during fiscal 2019.
- VSAC holds student loans and variable rate notes payable whose return is linked to LIBOR. The Financial Conduct Authority of the United Kingdom plans to phase out the calculation and publication of LIBOR by the end of 2021. VSAC is in consultation with bond counsel and reviewing its loan documentation in order to determine what provisions exist for substituting alternative rate indices for LIBOR. See Note 11 for further details.

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

Years Ended June 30, 2019 and 2018

Condensed Financial Information

Statements of Net Position

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 117,785	\$ 114,054
Education loans receivable (plus interest)	717,461	784,894
Other assets	<u>19,119</u>	<u>18,950</u>
Total assets	\$ <u>854,365</u>	\$ <u>917,898</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$ 625,484	\$ 694,154
U.S. Treasury rebates payable	3,626	3,093
Other liabilities	<u>10,405</u>	<u>8,861</u>
Total liabilities	639,515	706,108
Deferred inflows of resources:		
Deferred inflows from leasing activity	3,307	2,347
Deferred gains on early refunding of bonds payable	<u>19,105</u>	<u>23,500</u>
Total liabilities and deferred inflows of resources	<u>661,927</u>	<u>731,955</u>
Net position:		
Net investment in capital assets	13,123	13,907
Restricted	106,960	99,328
Unrestricted	<u>72,355</u>	<u>72,708</u>
Total net position	<u>192,438</u>	<u>185,943</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>854,365</u>	\$ <u>917,898</u>

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

Years Ended June 30, 2019 and 2018

Statements of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	\$ 44,323	\$ 42,566
Other loan and guarantee program revenues	3,371	4,830
Investment interest	2,192	1,217
Vermont state appropriations	20,093	20,326
Federal grants	5,296	4,896
Scholarship and gift income	4,230	3,589
Facility lease revenue	416	48
Other income	<u>1,088</u>	<u>1,071</u>
Total operating revenues	81,009	78,543
Operating expenses:		
Grants and scholarships	25,606	24,646
Interest rebated to borrowers	1,707	2,081
Interest on debt, net of amortization	17,852	14,940
Other loan financing costs	6,310	7,606
Corporate operating expenses and depreciation	<u>23,195</u>	<u>22,800</u>
Total operating expenses	<u>74,670</u>	<u>72,073</u>
Change in net position from operations	6,339	6,470
Contributions to permanent scholarship endowment	<u>156</u>	<u>379</u>
Change in net position	6,495	6,849
Net position, beginning of year	<u>185,943</u>	<u>179,094</u>
Net position, end of year	<u>\$ 192,438</u>	<u>\$ 185,943</u>

Net Position

Cash and investment balances increased \$3.7 million from June 30, 2018 to June 30, 2019 from \$114.1 to \$117.8 million. The cash balance associated with restricted bonds decreased \$2.5 million during this time. Unrestricted cash increased \$5.6 million during the year due primarily to corporate loan collections and temporary cash investment returns.

Student loans and interest receivable totaled \$717.5 million at June 30, 2019, down from \$784.9 million in 2018. This decrease is due to overall loan principal collections exceeding new loan originations in the VSAC private loan program.

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

Years Ended June 30, 2019 and 2018

Bonds and notes payable decreased \$68.7 million from \$694.2 million at June 30, 2018 to \$625.5 million at June 30, 2019. VSAC's financing activity in 2019 was comprised primarily of the following (in millions):

Principal payments, 2012-13-14 variable rate notes	\$ (92.1)
Principal payments, VSAC fixed rate bonds	(19.7)
Issuance of 2019A/B student loan financing bond	42.4
Principal payments, State of Vermont note payable	(0.8)
Other changes	<u>1.5</u>
	<u>\$ (68.7)</u>

The 2012, 2013 and 2014 variable rate notes, which were issued in those years to refund auction rate bonds, letter of credit bonds, and the ABCP Conduit note, include a feature which requires periodic calculations of available cash used to pay bond principal. For more information regarding bonds and notes payable, see Note 9 to the audited financial statements.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2019 to \$3.6 million from \$3.1 million as of June 30, 2018.

Unrestricted net position decreased from \$72.7 million at June 30, 2018 to \$72.4 million at June 30, 2019. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is \$1.1 million. VSAC's unrestricted net position at June 30, 2019 and 2018 consists of the following (in millions):

	<u>2019</u>	<u>2018</u>
Cash/investments held for new bond issuance and operating reserves	\$ 21.6	\$ 16.7
Investment in student loans and related interest	28.6	33.9
Physical plant	13.1	13.9
Subordinated VSAC bonds	22.5	22.5
Other	<u>(0.3)</u>	<u>(0.4)</u>
Total unrestricted including Investment in Capital Assets	<u>\$ 85.5</u>	<u>\$ 86.6</u>

Restricted net position increased from \$99.3 million at June 30, 2018 to \$107.0 million at June 30, 2019. This increase was primarily in the bond funds due to the operating surplus in those funds. Of the \$107.0 million, \$100.3 million is restricted by bond resolutions. The remaining \$6.7 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2019 financial results increased net position by \$6.5 million. All revenues, except donations to the permanent scholarship endowment, are considered operating revenues. VSAC realized \$81.0 million in operating revenues versus \$74.7 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and lease revenues.

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

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

Years Ended June 30, 2019 and 2018

Overall loan revenue of VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2019, loan revenue increased from \$42.6 to \$44.3 million. The components of loan revenue are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
U.S. Department of Education Interest Benefits	\$ 764	\$ 1,116
U.S. Department of Education Special Allowance	2,961	1,695
Borrower interest and fees on student loans	44,532	46,703
Borrower interest paid to Department of Education	<u>(3,934)</u>	<u>(6,948)</u>
	<u>\$ 44,323</u>	<u>\$ 42,566</u>

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

- Interest for certain loans is paid by ED as a subsidized interest benefit on qualifying borrowers. This item decreased because the population of loans which qualify for this benefit is declining.
- ED also pays special allowance payments under certain interest rate conditions. This item increased despite declining eligible loan balances because of increasing interest rate indices (LIBOR).
- Although VSAC originates new non-guaranteed loans, the population of ED-guaranteed loans is paying down more rapidly, resulting in decreased borrower interest and fees.
- Certain borrower interest revenues which exceed the special allowance formulae must be paid to ED each quarter. The amount paid decreased as overall FFEL Program loans outstanding decreased and as the LIBOR index used in the special allowance formula increased.

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Our private loan financing bonds are issued with fixed interest rates. The student loans pledged to these bonds (2010 and later VSAC Private loans) also have fixed interest rates. All other outstanding student loan bonds and notes have variable interest rates reset on periodic intervals based on short-term LIBOR rates. The earnings on loans pledged to these bonds have variable interest rates based on short-term LIBOR rates with similar reset frequencies.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues decreased \$1.4 million from \$4.8 million in fiscal 2018 to \$3.4 million in fiscal 2019. This decrease is primarily due to decreased volumes of FFEL program loans outstanding which generate these revenues.

Interest rates on cash positions were higher throughout the year ended June 30, 2019, resulting in higher interest earnings over the prior year. Investments include unrestricted, student loan and scholarship funds temporarily invested in short-term investments, and scholarship endowment funds invested for long-term growth and income. Other gains (losses) related to investing, both realized gains (losses) on sales and unrealized gains (losses) on appreciated (depreciated) assets held at year-end, are reflected in the Other Income line and were \$324.2 thousand in 2019 and \$289.6 thousand in 2018.

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

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

Years Ended June 30, 2019 and 2018

VSAC's State funding support decreased to \$20.1 million in 2019 from \$20.3 million in 2018. State base appropriation support including amounts reported as grants and scholarship income increased slightly from \$20.2 million to \$20.5 million. The difference between total State appropriation support and VSAC State revenue is related to amounts which are not intended for the State need-based grant program and which VSAC records as scholarship support.

Federal grants were \$5.3 million in fiscal 2019 and \$4.9 million in fiscal 2018. Except Federal scholarship funds, Federal grants revenues are applied for only after VSAC has incurred expenses for administration and program activities associated with those grants. Federal scholarship funds are received in the year of their Federal budget authorization and revenues recognized by VSAC as awards are disbursed.

Scholarship revenues, representing the use of restricted gifts and grants, increased from \$3.6 million in 2018 to \$4.2 million in 2019. Additionally, donations of new permanent scholarship endowment funds, a non-operating item, were \$0.2 million and \$0.4 million in 2019 and 2018, respectively.

In fiscal 2018, VSAC began leasing excess office space in its facility to non-State tenants. Revenues recognized under these leases was \$416 thousand and \$48 thousand in fiscal 2019 and fiscal 2018, respectively.

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 \$25.6 million in student aid during fiscal 2019. Of this amount, \$20.2 million in grant aid was provided from State appropriations. An additional \$5.4 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 34.3% of VSAC's operating expenses in fiscal 2019 compared to 34.2% in 2018.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$1.7 million in rebates of interest to borrowers in 2019, which represents 2.3% of VSAC's operating expenses in fiscal 2019 compared to 2.9% in 2018.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the \$45.1 million in new loans VSAC made available to students and parents in fiscal 2019.

Interest Costs – In order to provide Vermont students and parents with low-cost loans, VSAC issued two types of bonds that remain outstanding as of June 30, 2019 and 2018. The interest costs of the bonds represent a major expense category for VSAC. The variable-rate notes were issued to refinance VSAC's auction-rated securities and are supported by variable-rate student loans. The student loans and bonds bear interest at a fixed margin added to one or three-month LIBOR. This margin does not change after being set, when the bonds were sold, and loans originated. Fixed-rate bonds were issued beginning in 2010 in order to finance newly originated fixed-rate loans. These rate structures result in student loan interest revenue that is closely matched to bond interest expense.

Bonds and notes issued in prior years are paying down faster than VSAC's new fixed-rate bond issuances, resulting in a decrease in debt outstanding during the year. Although VSAC's bond and note balances decreased (as outlined above), VSAC's interest costs before the amortization of deferred gains on early refunding of bonds payable increased due to increasing LIBOR interest rate indices affecting the variable-rate notes. Net of deferred gains on early refunding, this expense represents 23.9% of VSAC operating expenses in fiscal 2019, up from 20.7% in 2018.

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

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

Years Ended June 30, 2019 and 2018

The components of VSAC's interest expense for 2019 and 2018 were as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Interest expense incurred on outstanding debt	\$ 22,247	\$ 20,110
Amortization of deferred gain on refunded debt	<u>(4,395)</u>	<u>(5,170)</u>
 Bond interest expense recognized, net	 \$ <u>17,852</u>	 \$ <u>14,940</u>

Other Loan Financing Costs – Other loan financing expenses include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$624.9 million in outstanding bonds and notes. These costs totaled \$6.3 million in fiscal 2019 and \$7.6 million in fiscal 2018, representing approximately 8.5% and 10.6%, respectively, of total operating expenses in these years. The decrease of \$1.3 million in this expense category was primarily caused by decreased bad debt expenses and FFEL Consolidation fees. Bad debt expense decreased \$0.8 million from year to year due to a decrease in defaulted loans written off. (See financial statement Note 4 in the discussion regarding the Allowance for Loan Losses). Decreased FFEL Consolidation fees (down \$0.5 million due to decreasing loan balances) also contributed to the decrease in this expense category. Interest subject to U.S. Treasury rebate is another component of Other Loan Financing Costs. This represents earnings on tax-exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30 and all bondholders were repaid. By using interest rebates to VSAC borrowers, it is managed to mitigate the probability of a liability balance at the end of a bond life cycle.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs, totaled \$23.2 million in fiscal 2019 compared to \$22.8 million in fiscal 2018. The primary components of VSAC's operating costs (in thousands) were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Salaries and wages	\$ 10,855	\$ 10,621
Employee healthcare costs	2,812	3,072
Other employee benefit costs	2,082	2,087
Administrative expenses	<u>7,446</u>	<u>7,020</u>
 Total Costs of Operations	 \$ <u>23,195</u>	 \$ <u>22,800</u>

Overall costs of operations represent 31.1% of total operating expenses in fiscal 2019 compared to 31.6% in 2018.

Expenses for 2019 totaled \$74.7 million. Revenues including scholarship endowment donations totaled \$81.2 million. The change in total net position for the year was an increase of \$6.5 million. The ending balance of net position at June 30, 2019 was \$192.4 million, as compared to \$185.9 million at June 30, 2018.

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

STATEMENTS OF NET POSITION

June 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents	\$ 38,328	\$ 29,589
Receivables		
Student loans, net	93,745	97,645
Student loan interest and special allowance	14,586	15,614
Investment interest	11	162
Federal administrative and program fees	94	109
Facility lease receivable	717	515
Other	1,038	1,060
Other assets	<u>753</u>	<u>949</u>
Total current assets	149,272	145,643
Noncurrent assets:		
Restricted cash	81,643	81,728
Scholarship endowment investments	7,910	6,468
Facility lease receivable	2,688	3,201
Student loans receivable, net	550,258	604,202
Capital assets, net	<u>12,604</u>	<u>13,123</u>
Total noncurrent assets	<u>655,103</u>	<u>708,722</u>
Total assets	<u>\$ 804,375</u>	<u>\$ 854,365</u>

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

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	\$ 11,975	\$ 10,220
Accounts payable and other liabilities	2,578	2,099
Accrued interest on bonds payable	460	633
Unearned revenue	<u>14,031</u>	<u>8,306</u>
Total current liabilities	29,044	21,258
Noncurrent liabilities:		
Bonds and notes payable	553,172	614,631
U.S. Treasury rebates payable	<u>4,254</u>	<u>3,626</u>
Total noncurrent liabilities	<u>557,426</u>	<u>618,257</u>
Total liabilities	586,470	639,515
Deferred inflows of resources:		
Deferred facility lease revenue	2,655	3,307
Deferred gains on early refunding of bonds payable	<u>15,322</u>	<u>19,105</u>
Total liabilities and deferred inflows of resources	604,447	661,927
Net position:		
Net investment in capital assets	12,604	13,123
Restricted	116,774	106,960
Unrestricted	<u>70,550</u>	<u>72,355</u>
Total net position	<u>199,928</u>	<u>192,438</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 804,375</u>	<u>\$ 854,365</u>

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

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	\$ 557	\$ 764
U.S. Department of Education special allowance	1,381	2,961
Borrower interest and fees on student loans	41,098	44,532
Borrower interest returned to U.S. Department of Education	(4,814)	(3,934)
Vermont state grants	20,930	20,093
Interest on cash and investments	1,630	2,192
Guarantee agency administrative revenues	3,286	3,371
Federal grants	5,166	5,296
Scholarship and gift income	4,851	4,230
Facility lease revenue	652	416
Other income	<u>1,256</u>	<u>1,088</u>
Total operating revenues	75,993	81,009
Operating expenses:		
Interest, net of amortization of bond premium and deferred gains on early refunding of bonds payable	13,243	17,852
Salaries and benefits	15,709	15,749
Grants and scholarships	25,511	25,606
Interest rebated to borrowers	715	1,707
Other general and administrative	6,145	6,520
Interest subject to U.S. Treasury rebate	628	533
Credit enhancement and remarketing fees	117	111
Consolidation and lender paid fees	3,112	3,562
Other loan related expenses	1,007	839
Provision for losses on student loans	1,688	569
Depreciation	948	926
Bond issuance costs	<u>693</u>	<u>696</u>
Total operating expenses	<u>69,516</u>	<u>74,670</u>
Change in net position from operations	6,477	6,339
Contributions to permanent scholarship endowment	<u>1,013</u>	<u>156</u>
Change in net position	7,490	6,495
Net position, beginning of year	<u>192,438</u>	<u>185,943</u>
Net position, end of year	<u>\$ 199,928</u>	<u>\$ 192,438</u>

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

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	\$ 14,738	\$ 18,012
Principal payments received on student loans	113,229	120,828
Cash paid to suppliers for goods and services	(5,214)	(11,952)
Grants and scholarship disbursements	(25,511)	(25,606)
Loans made	(50,116)	(45,102)
Cash paid to employees for salaries and benefits	(15,634)	(15,581)
Interest and fees received on student loans	31,788	31,464
Vermont state appropriations received	<u>20,930</u>	<u>20,093</u>
Net cash provided by operating activities	84,210	92,156
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds payable	45,758	45,078
Payments on bonds payable	(104,197)	(112,616)
Decrease in restricted cash	85	2,529
Interest paid to bond holders	<u>(18,463)</u>	<u>(23,380)</u>
Net cash used by noncapital financing activities	(76,817)	(88,389)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(430)</u>	<u>(141)</u>
Net cash used by capital and related financing activities	(430)	(141)
Cash flows from investing activities:		
Interest received on cash and investments	1,782	2,154
Contributions to permanent scholarship endowment	1,013	156
Purchase of investments	(1,621)	(574)
Proceeds from sale of investments	<u>602</u>	<u>286</u>
Net cash provided by investing activities	<u>1,776</u>	<u>2,022</u>
Net increase in cash and cash equivalents	8,739	5,648
Cash and cash equivalents, beginning of year	<u>29,589</u>	<u>23,941</u>
Cash and cash equivalents, end of year	<u>\$ 38,328</u>	<u>\$ 29,589</u>
Supplemental disclosure of non-cash operating activities:		
Student loan interest capitalized	<u>\$ 7,240</u>	<u>\$ 7,717</u>

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

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

STATEMENTS OF CASH FLOWS (CONCLUDED)

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	(In Thousands)	
Reconciliation of change in net position from operations to net cash provided by operating activities:		
Change in net position from operations	\$ 6,477	\$ 6,339
Adjustments to reconcile change in net position from operations to net cash provided by operating activities:		
Depreciation	948	926
Provision for losses on student loans	1,688	569
Net amortization of bond premium	(1,265)	(994)
Amortization of deferred facility lease revenue	(652)	(416)
Amortization of deferred gains on early refunding of bonds payable	(3,783)	(4,395)
Net realized and unrealized gains on investments	(422)	(324)
Investment interest received	(1,782)	(2,154)
Interest paid to bond holders	18,463	23,380
Lease receivable payments, net of fit up costs paid	311	328
Changes in operating assets and liabilities:		
Investment interest receivable	151	(38)
Student loans receivable	56,156	69,201
Student loan interest receivable	1,028	(2,336)
Federal administrative and program fees receivable	15	34
Other receivables	20	310
Other assets	197	(213)
Accounts payable and other liabilities	479	(244)
Unearned revenue	5,726	1,789
Accrued interest on bonds payable	(173)	(139)
U.S. Treasury rebates payable	<u>628</u>	<u>533</u>
Total adjustments	<u>77,733</u>	<u>85,817</u>
Net cash provided by operating activities	<u>\$ 84,210</u>	<u>\$ 92,156</u>

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

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

STATEMENTS OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2020 and 2019

As of June 30, 2020	Federal Loan Reserve Fund	VHEIP	Total
	(In Thousands)		
<u>Assets held for others</u>			
Cash and cash equivalents	\$ 14,833	\$ 220	\$ 15,053
Investments	-	447,374	447,374
Due from U.S. Department of Education	<u>694</u>	<u>-</u>	<u>694</u>
Total assets	<u>\$15,527</u>	<u>\$447,594</u>	<u>\$463,121</u>
<u>Liabilities</u>			
Accounts payable and other liabilities	\$ 1,227	\$ 128	\$ 1,355
Amounts held on behalf of investors	-	447,466	447,466
Federal loan reserve funds held for U.S. Department of Education	<u>14,300</u>	<u>-</u>	<u>14,300</u>
Total liabilities	<u>\$15,527</u>	<u>\$447,594</u>	<u>\$463,121</u>
 As of June 30, 2019			
	Federal Loan Reserve Fund	VHEIP	Total
	(In Thousands)		
<u>Assets held for others</u>			
Cash and cash equivalents	\$ 14,196	\$ 445	\$ 14,641
Investments	-	414,063	414,063
Due from U.S. Department of Education	<u>870</u>	<u>-</u>	<u>870</u>
Total assets	<u>\$15,066</u>	<u>\$414,508</u>	<u>\$ 429,574</u>
<u>Liabilities</u>			
Accounts payable and other liabilities	\$ 1,069	\$ 95	\$ 1,164
Amounts held on behalf of investors	-	414,413	414,413
Federal loan reserve funds held for U.S. Department of Education	<u>13,997</u>	<u>-</u>	<u>13,997</u>
Total liabilities	<u>\$15,066</u>	<u>\$414,508</u>	<u>\$ 429,574</u>

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

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

For financial reporting purposes, VSAC is considered a component unit of the State and is included as part of the State's financial reporting entity. VSAC's relationship with the State 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 moral obligation.

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

(Dollars in Thousands)

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

Restrictions on Net Position

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

Net Investment in Capital Assets

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Management Estimates

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

Student Loans

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

Student loans are stated at their unpaid principal balance, net of allowance for estimated loan losses. Private loan origination fee revenue received from borrowers is recognized as revenues as received in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Allowance for Loan Losses

VSAC issues loans that are not guaranteed against default and continues to hold and service these loans as well as loans guaranteed under the FFEL Program. Loans not guaranteed represent the greatest loss exposure for VSAC and make up the majority of management's loan loss allowance. The amount of the allowance, which is established through a provision for losses on student loans charged to expense, is based on management's estimation of the probable losses within the portfolio. Primary considerations in establishing the allowance are the loan portfolio balances and composition, amortization or age of the portfolio, delinquencies, current economic conditions, and historical loss experience. The loss exposure for nonguaranteed loans is 100% of estimated defaults unadjusted for future recoveries. For guaranteed loans, the loss exposures are either 2% or 3% of estimated defaults based on the origination date of the loan.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Operating and Non-Operating Revenues 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. Contributions of funds for permanent scholarship endowments are considered non-operating revenues.

Cash Equivalents

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

Investments

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

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

Capital Assets

Capital assets are stated at historical cost. Depreciation of capital assets that are placed in service is calculated using the straight-line method over the estimated useful lives of the assets. The minimum for capitalization of long-lived asset acquisitions is \$10.

Bond Issuance Costs

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

VERMONT STUDENT ASSISTANCE CORPORATION
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2. Summary of Significant Accounting Policies (Concluded)

Bond Discount/Premium and Deferred Gain/Loss on Refunding

Bond discounts and premiums are amortized using a method which approximates the level yield method over the life of the bonds. Any deferred gains or losses related to refinanced bonds are included in deferred inflows of resources or deferred outflows of resources, respectively, in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The deferred gains or losses are amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. During the years ended June 30, 2020 and 2019, interest expense has been reduced by \$3,783 and \$4,395, respectively, for the amortization of the deferred gains on early refunding of bonds payable.

Leases

In accordance with GASB Statement No. 87, *Leases*, the discounted value of future lease payments and receipts is included in deferred outflows or deferred inflows of resources respectively. VSAC has leases with third-party tenants who lease portions of its physical premises. The present value of these leases is valued at inception and periodically revalued in accordance with GASB Statement No. 87 and presented as a deferred inflow of resources. These deferred inflows are amortized as lease revenue in a systematic and rational manner over the life of the lease. During the years ended June 30, 2020 and 2019, \$652 and \$416, respectively, was recognized as facility lease revenue.

Grants

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

FFEL Program Support

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

Compensated Absences

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

Income Tax Status

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

VERMONT STUDENT ASSISTANCE CORPORATION
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June 30, 2020 and 2019

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments

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

Cash and Cash Equivalents

The carrying amounts which represent both cost and fair value of cash and cash equivalents as of June 30, 2020 and 2019 are presented below:

	<u>2020</u>	<u>2019</u>
Cash	\$ 29,342	\$ 3,157
Money market accounts	<u>90,629</u>	<u>108,160</u>
	<u>\$ 119,971</u>	<u>\$ 111,317</u>

During the second half of the year ended June 30, 2020, VSAC began the process of transitioning its primary banking relationship from Keybank to Peoples United Bank. This transition was pursuant to an RFP bid process. The relative balance changes between Cash and Money Market accounts result from this transition and are not related to any change in VSAC's investment policy.

At June 30, 2020 and 2019, cash is comprised of various commercial bank accounts. The bank balances at June 30, 2020 were \$29,678 and the bank balances at June 30, 2019 were \$3,448. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. As of June 30, 2020, \$845 of the bank balances were covered by Federal Deposit Insurance Corporation (FDIC) insurance, \$18,250 of the bank balances were secured using a collateralization agreement with Peoples United Bank, and the remaining bank balances are uncollateralized. As of June 30, 2019, \$845 of the bank balances were covered by FDIC insurance, and the remaining balances were uncollateralized.

At June 30, 2020 and 2019, the money market accounts are primarily invested in the Fidelity Institutional Money Market Prime Money Market Portfolio Class 1. This fund invests in U.S. dollar-denominated money market securities of domestic and foreign issuers rated in the highest category by at least two nationally recognized rating services, U.S. Government securities, and repurchase agreements.

The bond and note indentures require certain cash and cash equivalent reserves. At June 30, 2020 and 2019, \$81,643 and \$81,728, respectively, of restricted cash is limited to its use for the repayment of bond and note obligations.

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June 30, 2020 and 2019

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

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

Concentration of Credit Risk: While diversification is a strategic investment objective, VSAC places no defined limit on the amount of investments in any one issuer. Under VSAC policy, all non-scholarship funds are held in liquid investments whose primary objective is preservation of capital. Under the Scholarship Fund policy, approximately 60% of the total portfolio is targeted for investment in equity index funds, balanced 80/20 between domestic and international index funds.

For all periods presented, the Scholarship Fund held all long-term investments in three index funds, one each for domestic and developed market international equities and intermediate-term U.S. Treasury fixed income securities. Since the equity funds are 'total market' equity index funds, VSAC believes it is not exposed to credit concentration risk from this source as of June 30, 2020 and 2019. Investments in intermediate term U.S. Government bonds represent 38% and 40% of VSAC's scholarship investments at June 30, 2020 and 2019, respectively.

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

Fair Value Measurement

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

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

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3. Cash, Cash Equivalents and Investments (Concluded)

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

As referenced above, VSAC's permanent endowment investments are invested in index funds rather than in individual securities. Since these investments comprise the permanent endowment assets of the Scholarship Fund, it is not anticipated that these funds would be liquidated, although relative positions are rebalanced periodically in accordance with the endowment's investment policy. The amounts permitted to be spent each year are calculated and withdrawn for the coming academic year in accordance with the directives of the donors.

VSAC held the following investments at June 30, 2020 and 2019:

	2020			2019		
	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value Level</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value Level</u>
Domestic equities	\$3,008	\$ 3,945	1	\$ 2,379	\$3,118	1
International equities	934	990	1	703	784	1
Government bonds and notes	<u>2,806</u>	<u>2,975</u>	1	<u>2,573</u>	<u>2,566</u>	1
	<u>\$6,748</u>	<u>\$ 7,910</u>		<u>\$ 5,655</u>	<u>\$ 6,468</u>	

Fair value is best determined based upon quoted market prices. However, in some instances, there are no quoted market prices for the VSAC's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

4. Student Loans Receivable

At June 30, 2020, VSAC held student loans with interest rates ranging from 2.73% to 9.0%, the majority insured by ED and the U.S. Department of Health and Human Services; at June 30, 2019, the interest rates ranged from 2.875% to 9.97%. At June 30, 2020 and 2019, approximately 45.2% and 41.1%, respectively, of these student loans were not guaranteed. Most of VSAC's borrowers are located in the New England states.

Student loans are classified as being in "interim" status during the period from the date the loan is made until a student is out of school for either six or nine months. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" status is a period during the life of the loan when repayment is suspended for authorized purposes. During the year ended June 30, 2020 VSAC experienced an increase of the portion of its student loans which were in Deferral status. This was due to the Covid pandemic, and the resulting economic impacts.

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NOTES TO FINANCIAL STATEMENTS

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4. Student Loans Receivable (Continued)

Student loans receivable as of June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Status:		
Interim status	\$ 31,885	\$ 31,056
Deferral status	82,252	29,804
Repayment status	554,111	665,838
Less: Allowance for loan losses	<u>(24,245)</u>	<u>(24,851)</u>
 Total student loans receivable	 644,003	 701,847
Less: Noncurrent student loans receivable	<u>550,258</u>	<u>604,202</u>
 Current student loans receivable	 <u>\$ 93,745</u>	 <u>\$ 97,645</u>
 Guarantee type:		
U.S. Department of Education	\$ 362,472	\$ 422,282
U.S. Department of Health and Human Services	147	340
Other – Guaranteed	3,762	5,710
Nonguaranteed	301,867	298,366
Less: Allowance for loan losses	<u>(24,245)</u>	<u>(24,851)</u>
 Total student loans receivable	 644,003	 701,847
Less: Noncurrent student loans receivable	<u>550,258</u>	<u>604,202</u>
 Current student loans receivable	 <u>\$ 93,745</u>	 <u>\$ 97,645</u>

As of June 30, 2020 and 2019, \$643,753 and \$698,131 of student loans were pledged to the repayment of bonds and notes, respectively.

Activity in the allowance for loan losses for the years ended June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Balance, July 1	\$ 24,851	\$ 26,416
Net loans charged off	(2,294)	(2,134)
Provision for losses on student loans	<u>1,688</u>	<u>569</u>
 Balance, June 30	 <u>\$ 24,245</u>	 <u>\$ 24,851</u>

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June 30, 2020 and 2019

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4. Student Loans Receivable (Concluded)

At June 30, 2020 and 2019, \$1,727 and \$14,893, respectively, of student loans receivable were over 90 days past due, of which all but \$1,602 and \$3,660, respectively, were guaranteed by one of the guarantee types shown above. The portion of the loss reserve at June 30, 2020 and 2019 which relates to non-guaranteed loans was \$23,722 and \$24,178, respectively.

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

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

Changes in Federal Loan Reserve Funds held for ED for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
<i>Additions:</i>		
Reimbursement from ED on default loan purchases	\$ 8,544	\$ 11,668
Default loan collections	1,401	1,970
Investment income	63	46
Default aversion fee received, net	<u>4</u>	<u>31</u>
Total additions	<u>10,012</u>	<u>13,715</u>
<i>Deductions:</i>		
Purchases of defaulted loans from lenders	8,492	11,615
Other, net	<u>1,217</u>	<u>1,737</u>
Total deductions	<u>9,709</u>	<u>13,352</u>
Net increase in federal loan reserve funds held	303	363
Federal Loan Reserve Funds held, at beginning of year	<u>13,997</u>	<u>13,634</u>
Federal Loan Reserve Funds held, at end of year	\$ <u>14,300</u>	\$ <u>13,997</u>

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

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement providers. The *Higher Education Act Amendments of 1998* require VSAC to maintain reserves equal to 0.25% of student loans guaranteed. During 2020 and 2019, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were \$362,473 and \$422,282 at June 30, 2020 and 2019, respectively. Defaults on FFEL Program loan guarantees are paid by ED through the Federal Loan Reserve Fund.

6. Net Assets Held for VHEIP

VHEIP was established by the Vermont Legislature in April 1998. VHEIP encourages Vermont residents to save for college or other post-secondary education through a tax-favored qualified 529 savings plan. The program has been designed to comply with the requirements for treatment as a “Qualified Tuition Program” under Section 529 of the IRC. The plan manager of VHEIP is Intuition College Savings Solutions (Intuition), a Florida-based organization specializing in the administration and management of state-sponsored higher education savings plans.

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

The changes in assets held on behalf of investors for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
<i>Additions:</i>		
Investment income	\$ 9,437	\$ 8,107
Net realized and unrealized gains	2,985	14,511
Net participant subscriptions/redemptions	<u>20,631</u>	<u>18,634</u>
Total additions	33,053	41,252
Net amount held on behalf of investors, at beginning of year	<u>414,413</u>	<u>373,161</u>
Net amount held on behalf of investors, at end of year	<u>\$ 447,466</u>	<u>\$ 414,413</u>

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7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2020 and 2019 was as follows:

	<u>Estimated Lives</u>	Balance June 30, 2018	Net Acquisitions	Balance June 30, 2019	Net Acqui- sitions	Balance June 30, 2020
Land	–	\$ 3,150	\$ -	\$ 3,150	\$ -	\$ 3,150
Furniture and equipment	3 – 15 Years	3,154	2	3,156	196	3,352
Software	3 – 5 Years	1,554	79	1,633	41	1,674
Building	5 – 30 Years	<u>17,197</u>	<u>18</u>	<u>17,215</u>	<u>192</u>	<u>17,407</u>
		25,055	99	25,154	429	25,583
Less accumulated depreciation		<u>11,148</u>	<u>883</u>	<u>12,031</u>	<u>948</u>	<u>12,979</u>
Capital assets, net		\$ <u>13,907</u>	\$ <u>(784)</u>	\$ <u>13,123</u>	\$ <u>(519)</u>	\$ <u>12,604</u>

Depreciation charged to operations for the years ended June 30, 2020 and 2019 was \$948 and \$926, respectively.

8. Leases

VSAC has signed leases with three tenants who occupy portions of VSAC's building.

A summary of facility lease receivable activity for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 3,716	\$ 2,670
Addition to deferred inflow of resources	287	1,375
Resource inflows	<u>(598)</u>	<u>(329)</u>
Balance end of year	3,405	3,716
Less: non-current portion	<u>(2,688)</u>	<u>(3,201)</u>
Current portion	\$ <u>717</u>	\$ <u>515</u>

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8. Leases (Concluded)

During the years ended June 30, 2020 and 2019, VSAC recognized \$652 and \$416, respectively, in facility lease revenue amortized from the deferred inflow of resources. During these same periods, VSAC realized \$227 and \$133 in revenues from interest associated with the leases.

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

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

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

On February 15, 2019, VSAC signed a lease for a third tenant for a portion of its building. The tenant began its fit-up activity on June 1, 2019 on a portion of its space and completed its move-in prior to their deadline of August 1, 2020. The initial term ends on June 30, 2024 and may be extended at the tenant's option for up to two five-year periods.

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

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9. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<i><u>Bonds and Notes Payable which were issued to finance the origination of student loans:</u></i>		
2010 Series A-1 dated August 3, 2010; comprised of fixed-rate bonds maturing between December 15, 2015 and 2030; interest is fixed and payable semi-annually at rates ranging from 3% to 5%.	\$ 3,095	\$ 5,095
2011 Series A-1 dated July 26, 2011; comprised of fixed-rate bonds maturing between December 15, 2013 and 2025; interest is fixed and payable semi-annually at rates ranging from 3% to 5%.	3,600	5,100
2012 Series A-1 dated July 17, 2012; comprised of fixed-rate bonds maturing between June 15, 2017 and 2031; interest is fixed and payable semi-annually at rates ranging from 2.875% to 5.1%.	5,370	8,385
2012 Series 1 dated November 28, 2012; comprised of variable-rate notes maturing on July 28, 2034; interest is variable and payable monthly at the one-month LIBOR plus 0.70% (0.88363% at June 30, 2020).	205,370	243,112
2012 Series B dated November 28, 2012; comprised of variable-rate notes maturing between June 1, 2022 and December 3, 2035; interest is variable and payable semi-annually at the 3-month LIBOR plus 1.50% for Class A notes, and 3.00% for Class B notes (1.83713% and 3.33713% at June 30, 2020).	10,145	26,228
2013 Series 1 dated June 25, 2013; comprised of variable-rate notes maturing on April 30, 2035; interest is variable and payable monthly at the one-month LIBOR plus 0.75% (0.93363% at June 30, 2020).	91,759	111,395
2013 Series A-1 dated July 2, 2013; comprised of fixed-rate bonds maturing between June 15, 2017 and 2030; interest is fixed and payable semi-annually at rates ranging from 2.1% to 4.65%.	3,220	5,305
2014 Series A-1 dated July 9, 2014; comprised of fixed-rate bonds maturing between June 15, 2019 and 2033; interest is fixed and payable semi-annually at rates ranging from 3.625% to 5%.	16,030	19,810
2014 Series B dated November 21, 2014; comprised of variable-rate notes maturing on June 2, 2042; interest is variable and payable semi-annually at the one-month LIBOR plus 1.0% (1.17813% at June 30, 2020).	21,657	25,868
2015 Series A-1 dated July 16, 2015; comprised of fixed-rate bonds maturing between June 15, 2018 and 2034; interest is fixed and payable semi-annually at rates ranging from 4% to 5%.	13,630	16,555
2016 Series A-1 dated June 9, 2016; comprised of fixed-rate bonds maturing between June 15, 2021 and 2034; interest is fixed and payable semi-annually at rates ranging from 3.25% to 5%.	20,085	22,555

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9. Bonds and Notes Payable (Continued)

2017 Series A-1 dated June 15, 2017; comprised of fixed-rate bonds maturing between June 15, 2022 and 2033; interest is fixed and payable semi-annually at rates ranging from 3.75% to 5%.	34,835	39,695
2017 Series B-1 dated June 15, 2017; comprised of fixed-rate subordinate bonds maturing on June 15, 2045; interest is fixed and payable semi-annually at a rate of 4.5%.	8,100	8,100
2018 Series A-1 dated June 6, 2018; comprised of fixed-rate bonds maturing between June 15, 2023 and 2034; interest is fixed and payable semi-annually at rates ranging from 3.625% to 5%.	29,465	32,555
2018 Series B-1 dated June 6, 2018; comprised of fixed-rate subordinate bonds maturing on June 15, 2046; interest is fixed and payable semi-annually at a rate of 4.375%.	4,500	4,500
2019 Series A-1 dated June 13, 2019; comprised of fixed-rate bonds maturing between June 15, 2024 and 2035; interest is fixed and payable semi-annually at rates ranging from 3% to 5%.	37,250	37,250
2019 Series B-1 dated June 13, 2019; comprised of fixed-rate subordinate bonds maturing on June 15, 2047; interest is fixed and payable semi-annually at a rate of 4%.	5,150	5,150
2020 Series A-1 dated June 24, 2020; comprised of fixed-rate bonds maturing on June 15, 2036; interest is fixed and payable semi-annually at rates ranging from 3.375% to 5%.	43,380	-

Other Note Payable

2016 General Obligation note with the State of Vermont dated June 8, 2016 with a final maturity date of June 15, 2021; interest rate is fixed at 2%.	<u>800</u>	<u>1,600</u>
Total bonds and notes payable	557,441	618,258
Bond premium/discount, net	<u>7,706</u>	<u>6,593</u>
Total bonds and notes payable	565,147	624,851
Less: current portion of bonds and notes payable	<u>11,975</u>	<u>10,220</u>
Noncurrent portion of bonds and notes payable	<u>\$ 553,172</u>	<u>\$ 614,631</u>

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

Except for the 2016 General Obligation note, all notes and bonds payable are limited obligations of VSAC and are secured, as provided in the underlying bond resolutions, by an assignment and pledge to the Trustee of all VSAC's rights, title and interest in student loans, and revenues derived thereon and the guarantee thereof, including the insurance of certain student loans by ED. In addition, a significant portion of cash and cash equivalents (including debt service reserve accounts which may be used to replenish any deficiency in funds required to pay principal and interest due on the bonds) are held in trust to secure the

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9. Bonds and Notes Payable (Continued)

bonds. The 2016 General Obligation note is unsecured, and principal and interest thereon are payable from VSAC operational sources.

The 2011 series A-1 trust includes the Moral Obligation of the State of Vermont providing for the restoration by the State of certain required cash reserve balances of the 2011 Trust in the event they were to be utilized by the trust to maintain liquidity. Any draw of the Moral Obligation by the 2011 Trust would be subject to repayment from the assets of the 2011 Trust. To date, the 2011 Trust has not requested or received any State funding under this provision. The remaining bonds and notes have no additional credit or liquidity support.

The 2012-1, 2012-B, 2013-1 and 2014-B notes (the variable rate notes) are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. Certain series of VSAC's other bonds (the fixed rate bonds) are subject to redemption from excess revenues prior to maturity at the principal amounts outstanding plus unamortized premium and accrued interest at the date of redemption. At June 30, 2020, all bonds authorized under the underlying bond resolutions have been issued.

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

Proceeds from issuance of the bonds payable and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses. At June 30, 2020 and 2019, respectively, \$81,646 and \$81,850 in cash and investment interest receivable were pledged as security on the notes and bonds payable. At June 30, 2020 and 2019, respectively, \$634,187 and \$688,848 in student loan principal and interest were pledged as security on the notes and bonds payable.

During the years ended June 30, 2020 and 2019, amortized deferred gains from prior year financed bond refundings of \$3,783 and \$4,395, respectively, are included as a reduction to interest expense.

The following summarizes the debt activity for VSAC for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 624,851	\$ 693,383
Issuance	43,380	42,400
Premium on issuance	2,378	2,678
Redemptions, extinguishments and refunding	(104,197)	(112,616)
Accretion/amortization of discount/premium	<u>(1,265)</u>	<u>(994)</u>
Balance, end of year	\$ <u>565,147</u>	\$ <u>624,851</u>

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9. Bonds and Notes Payable (Concluded)

The debt service requirements, which are based on the interest rates at June 30, 2020, through the fiscal year ending (FY) 2025 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>
FY21	\$ 11,975	\$ 17,033	\$ 29,008
FY22	12,645	16,508	29,153
FY23	12,350	15,942	28,292
FY24	13,720	15,356	29,076
FY25	14,180	14,676	28,856
FY26 – 30	73,970	62,358	136,328
FY31 – 35	340,789	46,497	387,286
FY36 – 40	38,405	7,758	46,163
FY41 – 45	29,757	4,897	34,654
FY46 – 50	<u>9,650</u>	<u>788</u>	<u>10,438</u>
Total	<u>\$ 557,441</u>	<u>\$ 201,813</u>	<u>\$ 759,254</u>

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

10. U.S. Treasury Rebates Payable

The tax-exempt bonds issued by VSAC are subject to IRS regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with tax-exempt bond proceeds. Any excess earnings are to be refunded to the U.S. Treasury. VSAC has calculated that there are U.S. Treasury rebates payable at June 30, 2020 and 2019 of \$4,254 and \$3,626, respectively. VSAC has calculated that there is no estimated current portion at June 30, 2020 or June 30, 2019. VSAC did not refund any excess earnings to the U.S. Treasury in 2020 and 2019.

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11. Student Loan Interest and Special Allowance Revenues

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

ED provides a special allowance to lenders participating in the FFEL Program Stafford, PLUS, SLS, and Consolidation student loan programs. Special allowance is paid based on a rate that is established quarterly. This rate is based on averages calculated from the rates of certain U.S. Treasury Bills, Financial Commercial Paper or one-month LIBOR depending on the disbursement date of the loans and the issuance date of the financing obligations. All FFEL loans held by VSAC receive special allowance based on one-month LIBOR.

ED restricts student loan interest revenue for loans first disbursed after April 1, 2006. VSAC is required to return borrower loan interest in excess of the special allowance formulae rates for certain FFEL Program Stafford, PLUS, and Consolidation loans. The return of interest totaled \$4,814 and \$3,934 in 2020 and 2019, respectively, and is reflected as a reduction of interest and fees on student loans in the Statements of Revenues, Expenses and Changes in Net Position.

As indicated above and in Note 9, VSAC holds student loans and variable rate notes payable whose interest (or overall return including special allowance) is linked to LIBOR. The Financial Conduct Authority of the United Kingdom has indicated it plans to phase out the calculation and publication of LIBOR by the end of 2021. VSAC on June 30, 2020, held \$352,686 in FFEL Program student loans and \$78,599 in private loans with a rate or total return based on LIBOR. As of that same date, the balance of VSAC notes payable held by third parties with a variable rate based on LIBOR was \$328,931. VSAC is in consultation with bond counsel and reviewing its loan documentation in order to determine what provisions exist for substituting alternative rate indices for LIBOR.

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12. Endowment Funds

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

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

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

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

At June 30, 2020 and 2019, the total net position related to endowment funds was \$7,942 and \$6,532, respectively. Expendable restricted net position totaled \$725 and \$663, respectively. The remaining \$7,217 and \$5,869, respectively, of net position related to endowment funds were nonexpendable.

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13. Restricted Net Position

Restrictions on net position are the result of bond resolutions, state statutes, various federal regulations and program agreements, and donor restrictions. Bond resolutions restrict net position to the origination of student loans and payment of debt service on bonds and notes payable. State statutes and federal regulations and program agreements restrict various net position to use for specific grant, scholarship and educational activities. Donors have restricted a number of endowment funds for scholarship awards. Restricted net position as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Expendable - restricted by bond resolutions	\$ 107,608	\$ 100,283
Expendable - restricted by federal or state statute or donors	1,224	145
Expendable – income is donor restricted for scholarships	725	663
Nonexpendable – income is donor restricted for scholarships	<u>7,217</u>	<u>5,869</u>
Total restricted net position	<u>\$ 116,774</u>	<u>\$ 106,960</u>

The portion of net position which is restricted by bond resolutions includes the effect of deferring the recognition of gain on the early retirement of bonds. These bonds were retired in financed transactions during the year ended June 30, 2013 and the gain was deferred and is recognized as an offset to financing costs as the financing bonds are repaid. The remaining balances of the deferred inflow of resources of \$15,322 and \$19,105 at June 30, 2020 and 2019, respectively, will be recognized as a reduction of financing costs and increase of restricted net position over the remaining period the financing bonds are estimated to be outstanding. This estimated period was 14 years and 15 years as of June 30, 2020 and 2019, respectively.

14. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by the Teachers Insurance and Annuity Association of America-College retirement Equities Fund. All employees are fully vested for VSAC plan contributions. The payroll for employees covered under the plan for the fiscal years ended June 30, 2020 and 2019 amounted to \$10,580 and \$10,587, respectively; VSAC's total payroll was \$10,879 and \$10,855, respectively. Total contributions by VSAC amounted to \$1,079 and \$1,080 in 2020 and 2019, respectively, which represented an average of 10.2% of the covered payroll in those years.

VSAC employees who complete 15 years of continuing service and who are not otherwise eligible for Medicare coverage may elect to continue to buy VSAC's health care coverage at Consolidated Omnibus Budget Reconciliation Act (COBRA) rates. U.S. generally accepted accounting principles require recognition of current period costs related to expected future expenditures for Other Post-Employment Benefits. Since historical participation in this benefit has been very low and because participants are required to purchase coverage at a COBRA rate which recovers VSAC's average estimated per person cost, VSAC believes that this obligation is not material and has not recorded a liability for this post-employment benefit at June 30, 2020 and 2019.

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15. Contingencies

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

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

A summary of the reserve for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statements of net position as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 322	\$ 267
Claims paid	(2,755)	(2,715)
Accrual for estimated claims	<u>2,709</u>	<u>2,770</u>
Balance, end of year	\$ <u>276</u>	\$ <u>322</u>

As of June 30, 2020 and 2019, management believes VSAC has no pending legal actions an unfavorable outcome of which would have a material effect.

16. Loan Commitments

At June 30, 2020 and 2019, VSAC had commitments to extend credit for non-guaranteed student loans of approximately \$1,408 and \$4,067, 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.

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17. Uncertainty

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a global pandemic. Local, U.S., and world governments encouraged self-isolation to curtail the spread of COVID-19 by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and the size and duration of group gatherings. Most sectors are experiencing disruption to business operations and may feel further impacts. The Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020 provides several relief measures to organizations from the impacts of COVID-19. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management expects this matter to impact operating results, the related financial impact and duration cannot be reasonably estimated.

The U.S. government has responded with relief legislation as a response to the COVID-19 outbreak. Recent legislation was enacted into law on March 27, 2020, called the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a statute to address the economic impact of the COVID-19 outbreak. In June 2020, VSAC received a \$5,100 grant from the State's Coronavirus Relief Fund (CRF) established under the CARES act, which is included in unearned revenue in the Statement of Net Position as of June 30, 2020. The CRF grant is to be used by VSAC to cover eligible costs outlined in the CRF grant agreement that are incurred through December 31, 2020.

18. Segment Reporting

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

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

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

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

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

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18. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2020 and for the year then ended is as follows:

Condensed Statement of Net Position

	<u>Operations</u>	<u>Bond Funds</u>	<u>Scholarships</u>	<u>Grants</u>	<u>Elimination</u>	<u>Consolidated</u>
Assets						
Current assets	\$ 30,147	\$ 104,478	\$ 8,226	\$ 6,425	\$ (4)	\$ 149,272
Capital assets	12,604	-	-	-	-	12,604
Other assets	45,736	611,354	7,909	-	(22,500)	642,499
Interfund receivable	1,704	-	-	-	(1,704)	-
Total assets	<u>\$ 90,191</u>	<u>\$ 715,832</u>	<u>\$ 16,135</u>	<u>\$ 6,425</u>	<u>\$ (24,208)</u>	<u>\$ 804,375</u>
Liabilities						
Current liabilities	\$ 4,382	\$ 11,280	\$ 8,185	\$ 5,201	\$ (4)	\$ 29,044
Non-current liabilities	-	579,926	-	-	(22,500)	557,426
Interfund payable	-	1,696	8	-	(1,704)	-
Total liabilities	<u>4,382</u>	<u>592,902</u>	<u>8,193</u>	<u>5,201</u>	<u>(24,208)</u>	<u>586,470</u>
Deferred inflows of resources	2,655	15,322	-	-	-	17,977
Net position						
Net investment in property and equipment	12,604	-	-	-	-	12,604
Restricted	-	107,608	7,942	1,224	-	116,774
Unassigned	70,550	-	-	-	-	70,550
Total net position	<u>83,154</u>	<u>107,608</u>	<u>7,942</u>	<u>1,224</u>	<u>-</u>	<u>199,928</u>
Total liabilities, deferred inflows and net position	<u>\$ 90,191</u>	<u>\$ 715,832</u>	<u>\$ 16,135</u>	<u>\$ 6,425</u>	<u>\$ (24,208)</u>	<u>\$ 804,375</u>

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18. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>Operations</u>	<u>Bond Funds</u>	<u>Scholarships</u>	<u>Grants</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues						
Revenue from education loan financing	\$ 1,305	\$ 36,917	\$ -	\$ -	\$ -	\$ 38,222
Guarantee program revenues	3,286	-	-	-	-	3,286
Vermont State appropriations	193	-	146	20,591	-	20,930
Federal grants	4,323	-	843	-	-	5,166
Scholarship and gift revenue	-	-	4,851	-	-	4,851
Facility lease revenue	652	-	-	-	-	652
Investment interest and other revenue	2,386	952	557	-	(1,009)	2,886
Total operating revenues	<u>12,145</u>	<u>37,869</u>	<u>6,397</u>	<u>20,591</u>	<u>(1,009)</u>	<u>75,993</u>
Expenses						
Operating and program expenses	17,984	25,271	6,304	20,018	(1,009)	68,568
Depreciation	948	-	-	-	-	948
Total operating expenses	<u>18,932</u>	<u>25,271</u>	<u>6,304</u>	<u>20,018</u>	<u>(1,009)</u>	<u>69,516</u>
(Deficit) excess of operating revenues over expenses	(6,787)	12,598	93	573	-	6,477
Non-operating revenues and expenses						
Contribution to permanent scholarship endowment	-	-	1,013	-	-	1,013
Interfund transfers	4,463	(5,273)	304	506	-	-
Change in net position	(2,324)	7,325	1,410	1,079	-	7,490
Total net position at the beginning of the year	<u>85,478</u>	<u>100,283</u>	<u>6,532</u>	<u>145</u>	<u>-</u>	<u>192,438</u>
Total net position at the end of the year	<u>\$ 83,154</u>	<u>\$ 107,608</u>	<u>\$ 7,942</u>	<u>\$ 1,224</u>	<u>\$ -</u>	<u>\$ 199,928</u>

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18. Segment Reporting (Continued)

Condensed Statement of Cash Flows

	<u>Operations</u>	<u>Bond Funds</u>	<u>Scholarships</u>	<u>Grants</u>	<u>Elimination</u>	<u>Consolidated</u>
Cash provided by operations	\$ 1,745	\$ 74,921	\$ 265	\$ 6,264	\$ 1,015	\$ 84,210
Cash used by noncapital financing	(825)	(75,992)	-	-	-	(76,817)
Cash used by capital and related financing	(430)	-	-	-	-	(430)
Cash provided by investing	1,591	1,071	129	-	(1,015)	1,776
Net increase in cash and cash equivalents	2,081	-	394	6,264	-	8,739
Cash and cash equivalents, beginning of year	21,605	-	7,832	152	-	29,589
Cash and cash equivalents, end of year	<u>\$ 23,686</u>	<u>\$ -</u>	<u>\$ 8,226</u>	<u>\$ 6,416</u>	<u>\$ -</u>	<u>\$ 38,328</u>

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18. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2019 and for the year then ended is as follows:

Condensed Statement of Net Position

	<u>Operations</u>	<u>Bond Funds</u>	<u>Scholarships</u>	<u>Grants</u>	<u>Elimination</u>	<u>Consolidated</u>
Assets						
Current assets	\$ 28,671	\$ 108,976	\$ 7,832	\$ 174	\$ (10)	\$ 145,643
Capital assets	13,123	-	-	-	-	13,123
Other assets	49,909	661,722	6,468	-	(22,500)	695,599
Interfund receivable	1,365	-	-	-	(1,365)	-
Total assets	<u>\$ 93,068</u>	<u>\$ 770,698</u>	<u>\$ 14,300</u>	<u>\$ 174</u>	<u>\$ (23,875)</u>	<u>\$ 854,365</u>
Liabilities						
Current liabilities	\$ 3,484	\$ 9,988	\$ 7,767	\$ 29	\$ (10)	\$ 21,258
Non-current liabilities	799	639,958	-	-	(22,500)	618,257
Interfund payable	-	1,364	1	-	(1,365)	-
Total liabilities	<u>4,283</u>	<u>651,310</u>	<u>7,768</u>	<u>29</u>	<u>(23,875)</u>	<u>639,515</u>
Deferred inflows of resources	3,307	19,105	-	-	-	22,412
Net position						
Net investment in property and equipment	13,123	-	-	-	-	13,123
Restricted	-	100,283	6,532	145	-	106,960
Unassigned	72,355	-	-	-	-	72,355
Total net position	<u>85,478</u>	<u>100,283</u>	<u>6,532</u>	<u>145</u>	<u>-</u>	<u>192,438</u>
Total liabilities, deferred inflows and net position	<u>\$ 93,068</u>	<u>\$ 770,698</u>	<u>\$ 14,300</u>	<u>\$ 174</u>	<u>\$ (23,875)</u>	<u>\$ 854,365</u>

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18. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>Operations</u>	<u>Bond Funds</u>	<u>Scholarships</u>	<u>Grants</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenues						
Revenue from education loan financing	\$ 1,668	\$ 42,655	\$ -	\$ -	\$ -	\$ 44,323
Guarantee program revenues	3,371	-	-	-	-	3,371
Vermont State appropriations	182	-	302	19,609	-	20,093
Federal grants	4,517	-	779	-	-	5,296
Scholarship and gift revenue	-	-	4,230	-	-	4,230
Facility lease revenue	416	-	-	-	-	416
Investment interest and other revenue	2,515	1,491	456	-	(1,182)	3,280
Total operating revenues	12,669	44,146	5,767	19,609	(1,182)	81,009
Expenses						
Operating and program expenses	18,451	30,149	5,663	20,663	(1,182)	73,744
Depreciation	926	-	-	-	-	926
Total operating expenses	19,377	30,149	5,663	20,663	(1,182)	74,670
(Deficit) excess of operating revenues over expenses	(6,708)	13,997	104	(1,054)	-	6,339
Non-operating revenues and expenses						
Contribution to permanent scholarship endowment	-	-	156	-	-	156
Interfund transfers	5,571	(6,291)	220	500	-	-
Change in net position	(1,137)	7,706	480	(554)	-	6,495
Total net position at the beginning of the year	86,615	92,577	6,052	699	-	185,943
Total net position at the end of the year	\$ 85,478	\$ 100,283	\$ 6,532	\$ 145	\$ -	\$ 192,438

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18. Segment Reporting (Concluded)

Condensed Statement of Cash Flows

	<u>Operations</u>	<u>Bond Funds</u>	<u>Scholarships</u>	<u>Grants</u>	<u>Elimination</u>	<u>Consolidated</u>
Cash provided by (used by) operations	\$ 4,126	\$ 86,066	\$ 1,456	\$ (681)	\$ 1,189	\$ 92,156
Cash used by noncapital financing	(842)	(87,547)	-	-	-	(88,389)
Cash used by capital and related financing	(141)	-	-	-	-	(141)
Cash provided by investing	1,730	1,481	-	-	(1,189)	2,022
Net increase (decrease) in cash and cash equivalents	4,873	-	1,456	(681)	-	5,648
Cash and cash equivalents, beginning of year	16,732	-	6,376	833	-	23,941
Cash and cash equivalents, end of year	<u>\$ 21,605</u>	<u>\$ -</u>	<u>\$ 7,832</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 29,589</u>

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

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

Year Ended June 30, 2020

(Dollars in Thousands)

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2020</u>
<u>FEDERAL LOAN RESERVE FUND</u>				
<u>Assets held for others</u>				
Cash and cash equivalents	\$ 14,196	\$ 27,829	\$ 27,192	\$ 14,833
Due from U.S. Department of Education	<u>870</u>	<u>22,583</u>	<u>22,759</u>	<u>694</u>
Total assets	<u>\$ 15,066</u>	<u>\$ 50,412</u>	<u>\$ 49,951</u>	<u>\$ 15,527</u>
<u>Liabilities</u>				
Accounts payable and other liabilities	\$ 1,069	\$ 21,850	\$ 21,692	\$ 1,227
Federal loan reserve funds held				
U.S. Department of Education	<u>13,997</u>	<u>18,528</u>	<u>18,225</u>	<u>14,300</u>
Total liabilities	<u>\$ 15,066</u>	<u>\$ 40,378</u>	<u>\$ 39,917</u>	<u>\$ 15,527</u>
<u>VHEIP</u>				
<u>Assets held for others</u>				
Cash and cash equivalents	\$ 445	\$ 8,739	\$ 8,964	\$ 220
Investments	<u>414,063</u>	<u>88,937</u>	<u>55,626</u>	<u>447,374</u>
Total assets	<u>\$ 414,508</u>	<u>\$ 97,676</u>	<u>\$ 64,590</u>	<u>\$ 447,594</u>
<u>Liabilities</u>				
Accounts payable and other liabilities	\$ 95	\$ 1,296	\$ 1,263	\$ 128
Amounts held on behalf of investors	<u>414,413</u>	<u>106,793</u>	<u>73,740</u>	<u>447,466</u>
Total liabilities	<u>\$ 414,508</u>	<u>\$ 108,089</u>	<u>\$ 75,003</u>	<u>\$ 447,594</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets held for others</u>				
Cash and cash equivalents	\$ 14,641	\$ 36,568	\$ 36,156	\$ 15,053
Investments	414,063	88,937	55,626	447,374
Due from U.S. Department of Education	<u>870</u>	<u>22,583</u>	<u>22,759</u>	<u>694</u>
Total assets	<u>\$ 429,574</u>	<u>\$ 148,088</u>	<u>\$ 114,541</u>	<u>\$ 463,121</u>
<u>Liabilities</u>				
Accounts payable and other liabilities	\$ 1,164	\$ 23,146	\$ 22,955	\$ 1,355
Amounts held on behalf of investors	414,413	106,793	73,740	447,466
Federal loan reserve funds held				
U.S. Department of Education	<u>13,997</u>	<u>18,528</u>	<u>18,225</u>	<u>14,300</u>
Total liabilities	<u>\$ 429,574</u>	<u>\$ 148,467</u>	<u>\$ 114,920</u>	<u>\$ 463,121</u>