



VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Financial Statements

June 30, 1999

(With Comparative Information for 1998)

(With Independent Auditors' Report Thereon)

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

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One Church Street
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Burlington, VT 05402

Independent Auditors' Report

The Board of Directors
Vermont Student Assistance Corporation:

We have audited the accompanying balance sheet of the Vermont Student Assistance Corporation (a component unit of the State of Vermont) as of June 30, 1999, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation at June 30, 1999, and its revenues, expenses and changes in fund balances and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 1999 on our consideration of Vermont Student Assistance Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The year 2000 supplementary information in footnote 18 is not a required part of the financial statements, but is supplementary information required by the *Governmental Accounting Standards Board*, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that Vermont Student Assistance Corporation is or will become year 2000 compliant, that Vermont Student Assistance Corporation's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Vermont Student Assistance Corporation does business are or will become year 2000 compliant.

KPMG LLP

September 2, 1999

Vt. Reg. No. 92-0000241



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VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Balance Sheet

June 30, 1999

(With Comparative Totals for June 30, 1998)

Assets	1999			1998	
	General Fund	Federal Loan Reserve Fund	Loan Finance Fund	Memorandum Only	
				Total	Total
Cash and cash equivalents (note 3)	\$ 1,131,545	5,143,688	140,632,656	146,907,889	247,415,197
Investments (note 3)	—	993,258	36,563,445	37,556,703	39,660,387
Receivables:					
Investment interest	3,656	39,116	580,305	623,077	121,681
Student loans (notes 4 and 5)	—	—	675,506,082	675,506,082	571,044,871
Student loan interest and special allowance (note 7)	—	—	19,203,252	19,203,252	17,640,286
Federal administrative and program fees	850,394	—	—	850,394	384,496
Grants and other	252,950	28,566	140,088	421,604	499,886
Due from other funds	5,902,396	708	3,461,607	9,364,711	4,561,432
Federal reinsurance receivable (note 5)	—	1,641,135	—	1,641,135	2,301,107
Property and equipment (note 9)	1,894,690	—	1,553,382	3,448,072	3,065,905
Deferred bond issuance costs, less accumulated amortization of \$3,202,157	—	—	4,645,553	4,645,553	4,951,329
Other assets	<u>118,601</u>	<u>—</u>	<u>827,071</u>	<u>945,672</u>	<u>978,682</u>
 Total assets	 <u>\$ 10,154,232</u>	 <u>7,846,471</u>	 <u>883,113,441</u>	 <u>901,114,144</u>	 <u>892,625,259</u>

See accompanying notes to financial statements.

Liabilities and Fund Balances	1999			1998	
	General Fund	Federal Loan Reserve Fund	Loan Finance Fund	(Memorandum Only)	
				Total	Total
Bonds and notes payable (note 12)	\$ —	—	811,598,072	811,598,072	811,718,822
Accounts payable and other liabilities	1,697,780	724,451	354,613	2,776,844	1,273,330
Grants and scholarships payable	677,872	—	—	677,872	230,126
Accrued interest on bonds payable	—	—	1,794,291	1,794,291	1,952,679
Borrower rebates payable (note 13)	—	—	—	—	4,492,504
U.S. Treasury rebates payable (note 13)	—	—	17,189,687	17,189,687	12,351,849
Deferred loan administrative fees	—	—	—	—	1,673,839
Federal advances (note 8)	—	538,194	—	538,194	538,194
Due to other funds	3,462,335	—	5,902,376	9,364,711	4,561,432
Due to U.S. Department of Education	265,127	—	—	265,127	496,464
Federal Fund liability (note 14)	—	4,437,521	—	4,437,521	—
Return of reserve due to U.S.D.E. (note 6)	—	2,146,305	—	2,146,305	2,146,305
Total liabilities	6,103,114	7,846,471	836,839,039	850,788,624	841,435,544
Fund balances:					
Restricted:					
Bond resolution	—	—	36,473,534	36,473,534	36,789,160
Loan guarantees	—	—	—	—	2,442,009
Grants and scholarships	59,106	—	—	59,106	137,660
Unrestricted	2,097,322	—	—	2,097,322	901,549
Unrestricted - designated for future bond issuances (note 11)	—	—	8,247,486	8,247,486	7,832,148
Net investment in property and equipment	1,894,690	—	1,553,382	3,448,072	3,087,189
Total fund balances	4,051,118	—	46,274,402	50,325,520	51,189,715
Commitments and contingencies (notes 16 and 17)					
Total liabilities and fund balances	\$ 10,154,232	7,846,471	883,113,441	901,114,144	892,625,259

See accompanying notes to financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Revenues, Expenses and Changes in Fund Balances
Year ended June 30, 1999
(With Comparative Totals for June 30, 1998)

	1999			1998	
	General Fund	Federal Loan Reserve Fund	Loan Finance Fund	(Memorandum Only)	
				Total	Total
Revenues:					
U.S. Department of Education:					
Interest (note 7)	\$ —	—	11,066,923	11,066,923	10,664,421
Special allowance (note 7)	—	—	4,404,137	4,404,137	5,076,346
Interest on investments	878,109	62,556	10,237,389	11,178,054	8,570,409
Interest and other charges on student loans, net	—	—	37,344,924	37,344,924	32,017,467
State appropriations	12,926,951	—	—	12,926,951	12,367,738
Loan administrative fees	—	362,085	—	362,085	1,050,021
Federal reinsurance	—	2,012,042	—	2,012,042	8,764,142
Default aversion fee	723,961	—	—	723,961	—
Federal administrative and program fees	1,067,526	520,019	—	1,587,545	931,050
Collections on defaulted loans, net	1,275,062	427,756	—	1,702,818	1,694,633
Loan rehabilitation and repurchase revenue	665,923	361,378	—	1,027,301	748,602
Federal grants	1,327,050	—	—	1,327,050	1,502,718
Scholarship income	2,097,166	—	—	2,097,166	2,255,772
Other income	497,959	41,237	—	539,196	437,203
Total revenues	21,459,707	3,787,073	63,053,373	88,300,153	86,080,522
Expenses:					
Salaries and benefits	2,373,464	—	8,951,440	11,324,904	9,907,943
Other general and administrative	401,164	—	2,983,834	3,384,998	2,908,183
State grants and scholarships	15,269,901	—	—	15,269,901	14,805,068
Purchases of defaulted loans	—	2,032,691	—	2,032,691	8,846,043
Reimbursement of collections to U.S.D.E.	1,099,232	361,386	—	1,460,618	1,362,697
Loan rehabilitation and repurchases to U.S.D.E.	524,781	293,202	—	817,983	585,510
Return of reserve to U.S.D.E. (note 6)	—	—	—	—	2,146,305
Interest rebated to borrowers (note 13)	—	—	8,333,476	8,333,476	6,992,695
Interest subject to U.S. Treasury rebate (note 13)	—	—	5,911,841	5,911,841	1,579,466
Interest, net of amortization of discount/premium	—	—	32,394,689	32,394,689	28,186,327
Credit enhancement and remarketing fees	—	—	3,077,988	3,077,988	2,529,572
Other loan financing expense	—	—	86,105	86,105	218,080
Depreciation and amortization	1,199,565	—	600,000	1,799,565	1,359,817
Amortization of bond issuance costs	—	—	473,236	473,236	447,844
Total expenses	20,868,107	2,687,279	62,812,609	86,367,995	81,875,550
Excess of revenues over expenses	591,600	1,099,794	240,764	1,932,158	4,204,972
Transfers (to) from other funds	745,450	(745,450)	—	—	—
Net increase in fund balance before extraordinary item	1,337,050	354,344	240,764	1,932,158	4,204,972
Extraordinary item:					
Reauthorization adjustment (note 14)	—	(2,796,353)	—	(2,796,353)	—
Net increase (decrease) in fund balance	1,337,050	(2,442,009)	240,764	(864,195)	4,204,972
Fund balances at beginning of year	2,714,068	2,442,009	46,033,638	51,189,715	46,984,743
Fund balances at end of year	\$ 4,051,118	—	46,274,402	50,325,520	51,189,715

See accompanying notes to financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Statement of Cash Flows

Year ended June 30, 1999

(With Comparative Totals for June 30, 1998)

	1999			1998	
	General Fund	Federal Loan Reserve Fund	Loan Finance Fund	(Memorandum Only)	
				Total	Total
Cash flows from operating activities:					
Excess of revenues over expenses	\$ 591,600	1,099,794	240,764	1,932,158	4,204,972
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:					
Extraordinary item - reauthorization adjustment	—	(2,796,353)	—	(2,796,353)	—
Transfers (to) from other funds	745,450	(745,450)	—	—	—
Depreciation and amortization	1,199,565	—	600,000	1,799,565	1,359,817
Amortization of bond issuance costs	—	—	473,236	473,236	447,844
Amortization of bond discount/premium	—	—	(120,750)	(120,750)	(53,850)
Provision for losses on student loans	—	—	—	—	92,174
Changes in assets and liabilities:					
Decrease (increase) in investment interest receivable	(3,656)	11,391	(509,131)	(501,396)	46,002
Increase in student loans receivable	—	—	(104,461,211)	(104,461,211)	(74,619,281)
Increase in student loan interest and special allowance receivables	—	—	(1,562,966)	(1,562,966)	(2,899,439)
Decrease (increase) in federal administrative and program fees receivable	(850,394)	384,496	—	(465,898)	(265,677)
Decrease (increase) in grants and other receivables	(31,813)	12,652	97,443	78,282	(91,657)
Decrease (increase) in due from other funds	(2,915,052)	324,292	(2,212,519)	(4,803,279)	(3,992,448)
Decrease (increase) in Federal reinsurance receivable	—	659,972	—	659,972	(568,642)
Decrease (increase) in other assets	34,801	—	(1,791)	33,010	(162,364)
Increase in accounts payable and other liabilities	730,851	721,258	51,405	1,503,514	216,815
Increase (decrease) in grants and scholarships payable	447,746	—	—	447,746	(192,807)
Increase (decrease) in accrued interest on bonds payable	—	—	(158,388)	(158,388)	100,352
Increase (decrease) in borrower rebates payable	—	—	(4,492,504)	(4,492,504)	4,492,504
Increase in U.S. Treasury rebates payable	—	—	4,837,839	4,837,839	1,559,166
Decrease in deferred loan administrative fees	—	(1,673,839)	—	(1,673,839)	(60,660)
Increase in due to other funds	1,888,227	—	2,915,052	4,803,279	3,992,448
Increase (decrease) in due to U.S. Department of Education	265,127	(496,464)	—	(231,337)	277,017
Increase in Federal Fund liability	—	4,437,521	—	4,437,521	—
Return of reserve due to U.S.D.E.	—	—	—	—	2,146,305
Total adjustments	1,510,852	839,476	(104,544,285)	(102,193,957)	(68,176,381)
Net cash provided by (used in) operating activities	2,102,452	1,939,270	(104,303,521)	(100,261,799)	(63,971,409)

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Statement of Cash Flows, Continued

	1999			1998	
	General Fund	Federal Loan Reserve Fund	Loan Finance Fund	(Memorandum Only)	
				Total	Total
Cash flows from noncapital financing activities:					
Principal repayments of bonds and notes payable	\$ —	—	(17,560,000)	(17,560,000)	(15,170,000)
Proceeds from issuance of bonds and notes payable	—	—	17,560,000	17,560,000	180,170,000
Increase in deferred bond issuance costs	—	—	(167,460)	(167,460)	(723,964)
Net cash used in noncapital financing activities	—	—	(167,460)	(167,460)	164,276,036
Cash flows from investing activities:					
Decrease in investments	—	2,103,684	—	2,103,684	28,849,937
Net cash provided by investing activities	—	2,103,684	—	2,103,684	28,849,937
Cash flows from capital and related financing activities:					
Purchase of property and equipment	(1,440,680)	—	(741,053)	(2,181,733)	(1,477,918)
Net cash used in capital and related financing activities	(1,440,680)	—	(741,053)	(2,181,733)	(1,477,918)
Net increase (decrease) in cash and cash equivalents	661,772	4,042,954	(105,212,034)	(100,507,308)	127,676,646
Cash and cash equivalents at beginning of year	469,773	1,100,734	245,844,690	247,415,197	119,738,551
Cash and cash equivalents at end of year	\$ <u>1,131,545</u>	<u>5,143,688</u>	<u>140,632,656</u>	<u>146,907,889</u>	<u>247,415,197</u>
Supplemental cash flow information:					
Cash paid during the year for:					
Interest	\$ —	—	32,299,649	32,299,649	28,139,125

See accompanying notes to financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION
(A Component Unit of the State of Vermont)
Notes to Financial Statements
June 30, 1999

(1) Authorizing Legislation and Nature of Funds

(a) Authorizing Legislation

The Vermont Student Assistance Corporation ("VSAC") was created as a public non-profit corporation by an act of the General Assembly of the State of Vermont in accordance with the provisions of the Higher Education Act of 1965, as amended ("the Act"). The purpose of VSAC is to provide opportunities for Vermont residents to pursue post-secondary education by awarding grants and guaranteeing, making, financing, and servicing loans to students. VSAC also administers scholarships, student employment programs, and outreach services to students seeking post-secondary education.

Pursuant to Vermont statutes, VSAC is responsible for the administration of the Loan Finance Program. Under this program, VSAC originates, purchases, services and consolidates education loans. The loans are financed through the issuance of limited obligation bonds and are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education through the Federal Family Education Loan (FFEL) Program. The bonds 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. The bonds are not a general obligation of VSAC or an obligation of the State of Vermont or any of its political subdivisions.

As required by generally accepted accounting principles, VSAC is considered a component unit of the State of Vermont and is included as part of the State's financial reporting entity. VSAC's relationship with the State primarily consists of an annual appropriation designated for grant aid to Vermont students.

(b) Basis of Presentation and Nature of Funds

The Higher Education Amendments of 1998 (1998 Amendments) were enacted on October 6, 1998, with an effective date of October 1, 1998 and changed the manner in which the FFEL program is administered. In accordance with the 1998 Amendments VSAC established a Federal Loan Reserve Fund (Federal Fund) and an Operating Fund as required to account for FFEL program activities. The Federal Fund assets and earnings on those assets are the property of the Federal government. The Operating Fund is considered the property of VSAC and may be used generally for all guaranty agency and other student financial aid related activities. The accounting for fees and expenditures under the FFEL program changed as described in notes 2(e), 5, 6, and 14. The accompanying financial statements reflect VSAC activities for the three months of the year under the FFEL program regulations prior to the effective date of the 1998 Amendments and the later nine months under the new program requirements. The adjustment to transition to the new requirements is reflected as an extraordinary item in the statement of revenue, expenses, and changes in fund balances. The balances as of June 30, 1999 reflect FFEL program results under the new requirements. Federal Fund assets are restricted in use and a VSAC liability is established to the U.S. Department of Education for the Federal Fund balance at year end.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 1999

The accompanying financial statements are presented in three distinct funds, each of which is considered a separate accounting entity.

General Fund - This fund is used to account for all financial transactions for Federal and State grant programs, the Guaranty Agency Operating Fund (a fund required by The Higher Education Amendments of 1998) and related administration and support services of VSAC.

Federal Loan Reserve Fund - This fund is required by The Higher Education Amendments of 1998. The Federal Loan Reserve Fund assets and earnings on those assets are the property of the Federal Government.

Loan Finance Fund - This fund is used to account for the operations of the Loan Finance Program. Revenues are derived from interest on student loans, U.S. Department of Education interest subsidies and special allowances, and investment earnings related to the issuance of VSAC's revenue bonds.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

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

In accordance with generally accepted accounting principles, VSAC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 to the extent these pronouncements do not conflict with GASB pronouncements.

(b) *Cash, Cash Equivalents and Investments*

VSAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Investments are comprised of short-term investments other than cash equivalents with original maturities of one year or less, and long-term investments with original maturities in excess of one year. Cash equivalents and investments are carried at fair value which approximates cost.

(c) *Property and Equipment*

Property and equipment are stated at historical cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 1999

(d) *Costs of Bond Issuances*

Costs of bond issuances, which are comprised of underwriters' discount, legal fees, and other related financing costs, are deferred and amortized over the lives of the respective bond issues using the straight-line method.

(e) *Deferred Loan Administrative Fees*

Prior to the 1998 Amendments, the administrative fees were deferred and amortized over the life of the loan guarantees. Subsequent to the 1998 Amendments, administrative fees are not deferred, they are recognized as an increase to the Federal Fund liability in the year of loan disbursement.

(f) *Amortization of Bond Premiums and Discounts*

Bond premiums and discounts are amortized using the interest method over the life of the bonds.

(g) *Fund Balances*

Restricted fund balances represent resources that can only be used for specific purposes as set forth under the terms of the underlying bond resolutions or by Federal or State statute.

(h) *Compensated Absences*

VSAC employees are granted vacation and sick pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitation, unused vacation earned and, upon retirement, termination or death, may be compensated for certain amounts at their then current rates of pay. The amount of vacation recognized as expense is the amount earned.

(i) *Income Tax Status*

VSAC is exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code.

(j) *Memorandum Only*

The "memorandum only" columns contain totals of similar accounts of the three funds. Since assets of certain funds are restricted by the related resolutions, totaling of these accounts is for illustrative purposes only and does not indicate the assets available in any manner other than provided for in the resolutions for the separate funds.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 1999

(3) Cash, Cash Equivalents and Investments

VSAC's deposit and investment policy complies with the underlying bond resolution requirements. In accordance with those bond resolutions, all deposits and investments meet the requirements and approval of the letter of credit and bond insurance providers. Additionally, such requirements mandate specific classes of investment vehicles including: bank time deposits; certificates of deposit; direct obligations of the United States of America, unconditionally guaranteed by the United States of America; indebtedness issued by certain Federal agencies; collateralized repurchase agreements secured by obligations of the United States of America with collateral held by or at the direction of the trustee; guaranteed investment contracts with banks or bank holding companies; commercial paper and open ended investment funds.

The book balance of cash and cash equivalents totaled \$146,907,889 at June 30, 1999. The bank balance of cash and cash equivalents totaled \$147,719,812 at June 30, 1999, of which \$201,887 was covered by Federal depository insurance (FDIC) and other insurance. The remaining cash and cash equivalents are held in either money market accounts or repurchase agreements that are backed by U.S. Government securities. Investments totaling \$37,556,703 at June 30, 1999 were comprised primarily of U.S. treasury notes and guaranteed investment contracts. Investments were uninsured and unregistered, with securities held by an agent of the trustee, but not in VSAC's name. During the year, VSAC had balances in bank accounts, money market accounts, guaranteed investment contracts and U.S. treasury notes that were not fully insured or collateralized.

(4) Student Loans Receivable - Loan Finance Fund

The Loan Finance Fund has outstanding student loans with annual interest rates ranging from 6.0% to 12.0% that are insured by the U.S. Department of Education and U.S. Department of Health and Human Services. There is an allowance for loan losses of \$840,148 as of June 30, 1999.

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

Student loans receivable, before allowance for loan losses, are summarized as follows as of June 30, 1999:

Status:

Interim status	\$ 164,949,853
Deferral status	90,319,506
Repayment status	<u>421,076,871</u>
	<u>\$ 676,346,230</u>

Guarantee Type:

Department of Education	\$ 642,348,484
Department of Health and Human Services	19,352,137
Other	<u>14,645,609</u>
	<u>\$ 676,346,230</u>

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

Notes to Financial Statements

June 30, 1999

(5) Federal Reinsurance

Under its contract with the U.S. Department of Education, the Loan Guarantee program is reimbursed for payments to participating lending institutions on defaulted loans based upon a reimbursement formula ranging from 75% to 100% of the unpaid balance of the principal plus accrued interest on the insured loss. For loans originated between October 1, 1993 and September 30, 1998 the reimbursement formula ranges from 78% to 98% and for loans originated on or after October 1, 1998 the reimbursement formula ranges from 75% to 95%. The level of reinsurance is determined by calculating current year default claims paid as a percentage of loans in repayment at the end of the preceding federal fiscal year. VSAC received the highest reinsurance rate allowed by this formula during 1999.

(6) Student Loan Guarantee Reserves

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 institutions. The Higher Education Amendments of 1998 require VSAC to maintain reserves equal to .25% of loan guaranteed. During 1999, VSAC maintained sufficient reserves to fully comply with these requirements.

The Tax Reform Act of 1997 called for the recall of reserves from all Federal Family Education Loan Program Guarantors. The recall requires setting aside reserve funds in four equal annual installments beginning in December 1998. The transfer to the U.S. Treasury will occur September 30, 2002. Effective October 1, 1998, the reserve funds are included in the Federal Loan Reserve Fund.

(7) Student Loan Interest and Special Allowance Revenues

Interest on student loans is accrued when earned. The U.S. Department of Education 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 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 PLUS, SLS and Consolidation loans normally begins within sixty days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period. HEAL loans enter repayment status nine months after the expiration date of an interim period.

The U.S. Department of Education provides a special allowance to lenders participating in the Stafford, PLUS, SLS and Consolidation student loan programs. Special allowance is paid based on a rate that is established quarterly. The rate is based on the average rate established in the auction of the thirteen-week U.S. Treasury bill, plus a pre determined factor, less the interest rate on the loan. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993 are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%.

VERMONT STUDENT ASSISTANCE CORPORATION
 (A Component Unit of the State of Vermont)
 Notes to Financial Statements
 June 30, 1999

(8) Federal Advances

The liability for Federal advances of \$538,194 includes advances received under Section 422(A), \$101,968, and Section 422(C), \$436,226. This liability represents a segregation of Federal "seed money" which was advanced for the HEA Program. The advances are subject to recall by the Federal government.

(9) Property and Equipment

A summary of property and equipment at June 30, 1999 is as follows:

	Estimated Lives	General Fund	Loan Finance Fund
Furniture and equipment	5-10 Years	\$ 2,142,883	374,426
Leasehold improvements	5 Years	381,960	2,378,956
Software	3- 5 Years	286,952	—
		2,811,795	2,753,382
Less accumulated depreciation and amortization		(917,105)	(1,200,000)
Net property and equipment		\$ 1,894,690	1,553,382

(10) Bank Line of Credit

VSAC has a line of credit agreement with a commercial bank, which provides for maximum borrowings of up to \$3,000,000. The line of credit is unsecured, bears interest at the prime interest rate and is renewed annually. There were no borrowings outstanding under this line of credit agreement at June 30, 1999.

(11) Designated Fund Balances

Designated fund balances of \$8,247,486 represents amounts designated to provide funding of cost of issuance fees, remarketing and line of credit fees as well as equity contributions pertaining to future bond issuances.

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(12) Bonds and Notes Payable - Loan Finance Fund

VSAC has issued the following bonds and notes outstanding at June 30, 1999, which were issued to finance student loans:

1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds that mature in increments through January 2004; interest is payable monthly at variable rates which ranged from 3.0% to 3.8% in 1999.	\$ 52,900,000
1991 Series A, dated May 15, 1991; comprised of serial bonds maturing in increments between December 15, 1998 and December 15, 2000; interest is payable semi-annually at fixed rates ranging from 6.125% to 6.50%. The face amount of the bonds payable is \$9,050,000 and \$1,431 of unamortized discount has been netted against the liability.	9,048,569
1992 Series A-2, A-3, dated June 15, 1992; comprised of serial and auction variable rate bonds maturing in increments between June 15, 1999 and December 15, 2005; interest on Series A-2 is paid every 35 days at rates which ranged from 3.175% to 3.75% during 1999; interest on Series A-3 bonds is paid semi-annually at fixed rates ranging from 5.8% to 6.5%. The face amount of the bonds payable is \$73,625,000 and \$108,072 of unamortized discount has been netted against the liability.	73,516,928
1992 Series B and C, dated July 15, 1992; comprised of term, serial, and auction variable rate bonds maturing in increments between June 15, 2003 and December 15, 2012; interest on Series B is paid semi-annually at fixed rates ranging from 6.0% to 6.7%; interest on Series C bonds is paid every 35 days at rates which ranged from 3.25% to 3.748% during 1999. The face amount of the bonds payable is \$50,000,000 and \$438,364 of unamortized premium has been added to the liability.	50,438,364
1993 Series D and E, dated June 22, 1993; comprised of term, serial, and auction variable rate bonds maturing in increments between December 15, 2003 and June 15, 2012; interest on Series D is paid semi-annually at fixed rates ranging from 5.3% to 9.5%; interest on Series E bonds is paid every 35 days at rates which ranged from 3.25% to 3.8% during 1999. The face amount of the bonds payable is \$80,000,000 and \$654,211 of unamortized premium has been added to the liability.	80,654,211

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1993 Series F, G, H, I and J, dated September 27, 1993; comprised of auction variable rate bonds maturing in increments between December 21, 2005 and December 15, 2015. Interest is reset every 35 days and payable semi-annually at rates which ranged from 3.15% to 3.89% during 1999.	\$ 122,500,000
1995 Series A, B, C and D, dated June 27, 1995; comprised of auction variable rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.25% to 4.0% during 1999.	96,000,000
1995 Series E, dated October 17, 1995; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.0% to 3.8% during 1999.	19,300,000
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction variable rate bonds maturing February 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.2% to 3.85% during 1999.	100,000,000
1996 Series J, dated October 23, 1996; comprised of auction variable rate bonds maturing December 2002; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.25% to 3.8% during 1999.	12,850,000
1998 Series K-O, dated June 16, 1998; comprised of auction variable rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually; initial rates ranged from 3.25% to 4.1%.	165,000,000
VSAC has the following notes outstanding at June 30, 1999:	
1997 Series A-V, dated December 15, 1997; principal and interest at 4.55%, due December 15, 2000.	11,830,000
1998 Series A-VII, dated December 15, 1998, principal and interest at 4.1%, due December 15, 2000.	10,855,000
1999 Series A-VIII, dated June 15, 1999, principal and interest at 3.75%, due December 15, 1999.	<u>6,705,000</u>
Bonds and notes payable	\$ <u>811,598,072</u>

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All bonds are limited obligations of VSAC and are secured, as provided in 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 therefrom and the guarantee thereof, including the reinsurance of the student loans by the U.S. Department of Education. The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by National Westminster Bank, PLC. The 1991 Series A, 1995 Series A, B, C, D and E, 1996 Series F, G, H, I and J, and 1998 Series K-O bonds are secured for credit-worthiness by AMBAC Indemnity Corporation. The 1992 Series A-2, and A-3, 1992 Series B and C, 1993 Series D and E, and 1993 Series F, G, H, I and J bonds are secured for credit-worthiness by Financial Security Assurance Corporation. All bonds are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 1999 all bonds authorized under the underlying bond resolutions have been issued. Effective September 1, 1999, the 1985 Series A bonds are secured by an irrevocable letter of credit issued by State Street Bank.

Proceeds from issuance of the bonds and all revenues related to them are restricted as follows: repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses in carrying out the Loan Finance Program.

The future maturities of debt are as follows:

Year ending June 30:

2000	\$ 24,650,000
2001	38,525,000
2002	12,620,000
2003	60,080,000
2004	40,680,000
Thereafter	<u>634,060,000</u>
	<u>\$ 810,615,000</u>

During the year ended June 30, 1999, VSAC issued 1998 Series A-VII notes totaling \$10,855,000 and 1999 Series A-VIII notes totaling \$6,705,000 to refund the scheduled principal maturities of the 1985 Series A, the 1991 Series A bonds and the 1992 Series A bonds of \$3,700,000, \$6,645,000 and \$3,875,000, respectively, and the 1998 Series A-VI notes of \$3,340,000. Based on the terms of the old and new debt, these refundings are estimated to result in additional interest payments over the next three years of approximately \$2,000,000.

(13) Rebates Payable

The Vermont Value Program began in 1995. This program allows for an annual student rebate of interest equal to 1% of the outstanding principal on student loans. During 1997, VSAC extended the Vermont Value Program to include an interest rebate on all unsubsidized Stafford and PLUS loans. In fiscal year 1999, the Vermont Value Program rebates were applied to the borrower's accounts in June 1999; therefore, there is no payable at June 30, 1999. In fiscal year 1998, the borrowers' rebates of \$4,492,504 for the period from July 1, 1997 through June 30, 1998 were applied to borrowers' accounts in July 1998.

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In connection with VSAC's tax exempt bond issues, VSAC is subject to rebatable arbitrage when bond proceeds are invested in investments and student loans. The amount accrued for U.S. Treasury rebates payable at June 30, 1999 represents the estimated amount of arbitrage rebates due to the Federal government for excess earnings on the bond proceeds.

(14) Federal Loan Reserve Fund Liability

Under the Higher Education Amendments of 1998 all liquid and non-liquid assets related to the FFEL program guaranty functions were transferred to the Federal Loan Reserve Fund (Federal Fund) on October 1, 1998. The Federal Fund is administered by VSAC on behalf of the ED and is the property of the Federal government. At October 1, 1998 VSAC recognized an extraordinary item of \$2,796,353 to move the FFEL program assets from its fund balance to the Federal Fund balance. At the same time VSAC established the Agency Operating Fund.

The net assets in the Federal Fund are shown in the financial statements as a liability to the ED. The following shows the activity in the Federal Fund from October 1, 1998 the date of the transfer through June 30, 1999. The amount payable to ED for the federal recall and the federal advance were transferred separately and are not included in the following information.

Transfer of assets to Federal Fund at October 1, 1998	\$ 2,796,353
Reimbursement from ED on default loan purchases	7,452,178
Default loan collections	7,565
Loan administrative fees	2,359,516
Investment income	213,079
Other revenues	20,814
Purchases of default loans from lenders	(7,532,015)
Default Aversion Fee	(723,961)
ACA reimbursement to operating fund	<u>(156,008)</u>
Federal Fund Liability at June 30, 1999	\$ <u>4,437,521</u>

(15) Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA/CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 1999 amounted to \$6,194,780; VSAC's total payroll was \$8,896,712. Total contributions by VSAC amounted to \$619,478 in 1999, which represented 10% of the covered payroll.

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(16) Commitments Under Operating Lease

VSAC has entered into a noncancellable operating lease for its office facility that expires in 2001, and provides for renewal options. Rental expense for the year ended June 30, 1999 amounted to \$336,161. The following is a summary of future minimum rental commitments under this noncancellable operating lease:

Year ending June 30:

2000	\$ 374,452
2001	374,452
2002	<u>124,817</u>
	\$ <u>873,721</u>

(17) 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 beginning July 1, 1996 through self insurance programs for medical and dental claims. With respect to its commercial insurance packages, VSAC has not experienced settled claims resulting from these risks which have exceeded its commercial insurance coverage. VSAC has purchased stop-loss insurance for its self insurance programs and has transferred the risk of loss to the commercial insurance carrier.

Reserves for self insured medical and dental liabilities are included in accounts payable and other liabilities in the amount of \$108,562 at June 30, 1999.

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(18) Required Supplementary Information – Year 2000 (Unaudited)

The Vermont Student Assistance Corporation has been identifying, evaluating, correcting, and testing all automated operational processes where there is vulnerability to Calendar Year 2000 errors. VSAC has taken all reasonable steps to ensure that all processes will operate accurately during and after the transition from 1999 to 2000, including leap year calculations.

Specifically, this project is divided into four areas: 1) VSAC's own software, 2) VSAC's hardware, 3) purchased software, and 4) support systems.

- 1) VSAC's own software has been reprogrammed and tested and is Year 2000 compliant.
- 2) VSAC's upgraded computer hardware and operating system software were brought on-line in October 1998 and are Year 2000 compliant. New network software, file servers, and related distribution equipment have been installed and are Year 2000 compliant. All desktop hardware and operating software have been replaced and are Year 2000 compliant.
- 3) Suppliers of our most critical purchased software systems have provided assurances of Year 2000 compliance. VSAC will also test these systems on an ongoing basis and share findings with other users.
- 4) Our support systems, such as telephones and postage machines, have been inventoried and manufacturers contacted for compliance with Year 2000 requirements. All non-compliant equipment has been replaced.

Finally, VSAC is heavily dependent upon the banking system, specifically the use of the New England Automated Clearinghouse for electronic transfers of newly originated loans and other transactions. The Federal Reserve System provides critical oversight of this system's Year 2000 compliance. We are working closely with our banks to ensure compliance.