

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, 2015 and 2014

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, 2015 and 2014

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 17
Basic Financial Statements:	
Statements of Net Position	18 - 19
Statements of Revenues, Expenses and Changes in Net Position	20
Statements of Cash Flows	21 - 22
Statements of Fiduciary Net Position – Agency Funds	23
Notes to Financial Statements	24 - 51



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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise VSAC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary fund information of VSAC as of June 30, 2015 and 2014, and the changes in its net position of the business-type activities and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 5, 2015

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, 2015 and 2014

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

VSAC administers the State grant program, funded by State appropriations, at no cost to the State. VSAC administers and awards over 118 scholarship funds, including VSAC assisted scholarships and scholarship funds held and managed by VSAC.

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

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

Management's Discussion and Analysis Report includes Fiscal 2015 and Fiscal 2014 information due to the fact that the Financial Statements include Fiscal 2015 and Fiscal 2014 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
(A Component Unit of the State of Vermont)

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

Years Ended June 30, 2015 and 2014

FISCAL 2015

Fiscal 2015 Highlights and Overall Financial Position

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

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

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

Years Ended June 30, 2015 and 2014

Condensed Financial Information

Statements of Net Position

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

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

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

Years Ended June 30, 2015 and 2014

Statements of Revenues, Expenses and Changes in Net Position

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

Net Position

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

Student loans and interest receivable totaled \$1.1 billion at June 30, 2015, down from \$1.3 billion in 2014. This decrease is due to loan principal collections being in excess of new loan originations in the VSAC private loan program.

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

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

Years Ended June 30, 2015 and 2014

Bonds and notes payable decreased \$162 million from \$1.1 billion at June 30, 2014 to \$987 million at June 30, 2015. VSAC's financing activity in 2015 was comprised primarily of the following (in millions):

Early extinguishments - 1995-2012 series bonds	\$ (69.6)
Principal payments, 2012-13-14 variable rate notes	(181.9)
Scheduled principal payments, VSAC fixed rate bonds	(0.5)
Issuance of 2014A-1 Student loan financing bond	29.9
Issuance of 2014B refinancing bond	59.7
Change in bond premium/discount	<u>0.7</u>
	<u>\$ (161.7)</u>

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

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

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

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

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

Revenues

VSAC's fiscal 2015 financial results decreased net position by \$2.1 million. All revenues except gains on early extinguishment of debt are considered operating revenues. VSAC realized \$82.7 million in operating revenues versus \$84.8 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and servicing fees earned for servicing student loans owned by the United States government.

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

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

Years Ended June 30, 2015 and 2014

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2015, loan revenue decreased from \$48.6 to \$44.1 million. The components of loan revenue changes are (in thousands):

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

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

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Our 2010A-1, 2011A-1, 2012A-1, 2013A-1 and 2014A-1 private loan financing bonds are issued with fixed interest rates. The student loans pledged to these bonds also have fixed interest rates. All other outstanding student loan bonds and notes have variable interest rates reset on periodic intervals based on short-term LIBOR rates. The loans pledged to these bonds also have variable interest rates based on short-term LIBOR rates with similar reset frequencies.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$5.0 million in 2015 and \$6.7 million in 2014. This decrease is primarily due to a change in the Higher Education Act which decreased the permitted revenues retained from rehabilitated defaulted loans.

Interest rates remained very low throughout the year; however, the balances invested were also lower resulting in decreased interest revenue on investments. Investments include unrestricted, student loan and scholarship funds temporarily invested in short term investments, and scholarship endowment funds invested for long-term growth and income. Other gains related to investing, both realized gains on sales and unrealized gains on appreciated assets held at year end, are reflected in the Other Income line and were \$67.4 thousand in 2015 and \$570.3 thousand in 2014.

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

Federal grants decreased slightly from \$5.6 million in fiscal 2014 to \$5.3 million in fiscal 2015. Under VSAC's Federal grants, revenues are applied for only after VSAC has incurred the expenses for administration, program activities and scholarships.

Scholarship revenues, principally restricted gifts and grants, increased from \$3.7 million in 2014 to \$4.3 million in 2015.

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

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

Years Ended June 30, 2015 and 2014

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

Expenses

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

Student Aid – VSAC provided Vermont students with \$24.9 million in student aid during fiscal 2015. \$19.2 million in grant aid was provided from State appropriations. An additional \$5.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 29.3% of VSAC's operating expenses in fiscal 2015 compared to 29.0% in 2014.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$3.2 million in rebates of interest to borrowers in 2015 which represents 3.8% of VSAC's operating expenses in fiscal 2015 compared to 4.6% in 2014. The dollar amount of this expense will continue to decline as the loans outstanding eligible for the rebates decrease.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the \$29.1 million of loans VSAC made available to students and parents in fiscal 2015.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues bonds. The interest costs of the bonds represent a major expense category for VSAC. To help reduce VSAC's exposure to auction bond interest rate risk, the Corporation in 2013 and 2015 issued refinancing notes and used existing cash to refund and extinguish \$1.3 billion and \$66.5 million respectively of bonds and notes before their scheduled maturities leaving \$66.5 million and \$0.0 million in auction rate bonds outstanding as of June 30, 2014 and 2015 respectively. The notes which were issued to refinance the 1995-2007 series, 2008 series, and ABCP Conduit facilities bear interest at a fixed margin added to one or three month LIBOR. This margin was set at the time the bonds were sold and does not change over the life of the bonds. The loan assets pledged to these bonds have their interest rates set the same way. The loans have a margin, fixed at the time the loans were issued, added to LIBOR. The bonds issued from 2010 to 2015 to finance newly issued fixed rate loans contain fixed interest rates paid to investors. These fixed rate bonds and refinancing notes result in interest revenue to bond interest expense that is closely matched.

Because of the decrease in bond and note balances (as outlined above), VSAC interest costs before the amortization of deferred gains on early refunding of bonds payable (\$8.3 million in 2015 and \$8.0 million in 2014) decreased from \$14.9 to \$14.0 million. Net of deferred gains on early refunding, this expense represents 6.6% of VSAC operating expenses in fiscal 2015 down from 8.1% in 2014.

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

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

Years Ended June 30, 2015 and 2014

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$986.7 million in outstanding bonds and notes. These costs totaled \$15.9 million in fiscal 2015 and \$20.3 million in 2014, representing approximately 18.8% and 23.7% respectively of total operating expenses in these years. The decrease of \$4.4 million in this expense was primarily the result of decreased provisions for loan losses (down \$3.8 million due to decreased loan balances and improved collections performance). Another component of Other Loan Financing Costs, arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. By using interest rebates to VSAC borrowers it is managed to minimize the probability of a liability balance at the end of a bond life cycle.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs, totaled \$35.2 million in fiscal 2015 compared to \$29.7 million in fiscal 2014. The primary components of VSAC's operating costs (in thousands) were for the years ending June 30:

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

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

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

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

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

Years Ended June 30, 2015 and 2014

FISCAL 2014

Fiscal 2014 Highlights and Overall Financial Position

- VSAC's total net surplus for the years ended June 30, 2014 and 2013 was \$4.6 million and \$9.0 million, respectively.
- During the year ended June 30, 2014, VSAC had a net operating surplus of \$3.7 million compared to an operating deficit of \$10.1 million during the year ended June 30, 2013.
- 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. The deferred gains related to refinanced bonds was \$63.1 million before amortization of \$8.0 million and \$4.5 million for the years ended June 30, 2014 and 2013, respectively.
- Interest expense, which is a combination of bond interest costs offset by amortization of deferred gains on early bond retirement, decreased \$3.0 million from 2013 to 2014. Bond interest costs were down \$0.4 million due primarily to reductions in bonds outstanding. The deferred gain amortization for 2014 was \$8.0 million versus \$4.5 million in 2013.
- VSAC recorded gains of \$887 thousand in 2014 as a result of retiring certain bonds before their maturity for less than par value. This activity resulted in a gain of \$19.0 million in 2013.
- VSAC's total net position increased \$4.6 million to \$168.5 million.
- During the year ended June 30, 2014, VSAC provided \$24.9 million in grants and scholarships to Vermont students.
- VSAC originated \$27.2 million in new loans to students and parents. VSAC holds and services \$1.3 billion in education loans receivable and related interest at June 30, 2014.
- VSAC returned over \$3.9 million in interest rebates to students in its loan programs during fiscal 2014.

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

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

Years Ended June 30, 2015 and 2014

Condensed Financial Information

Statements of Net Position

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 93,628	\$ 100,314
Education loans receivable (plus interest)	1,266,921	1,437,985
Other assets	<u>18,232</u>	<u>19,072</u>
Total assets	<u>\$1,378,781</u>	<u>\$1,557,371</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$1,148,713	\$1,322,867
U.S. Treasury rebates payable	1,467	1,200
Other liabilities	<u>9,456</u>	<u>10,794</u>
Total liabilities	1,159,636	1,334,861
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	<u>50,653</u>	<u>58,604</u>
Total liabilities and deferred inflows of resources	<u>1,210,289</u>	<u>1,393,465</u>
Net position:		
Restricted	39,776	33,850
Unrestricted	112,631	113,225
Net investment in capital assets	<u>16,085</u>	<u>16,831</u>
Total net position	<u>168,492</u>	<u>163,906</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,378,781</u>	<u>\$1,557,371</u>

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

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

Years Ended June 30, 2015 and 2014

Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Operating revenues:		
Interest earned from education loan financing	\$ 48,607	\$ 56,273
Other loan and guarantee program revenues	6,729	6,209
Investment interest	264	376
Vermont state appropriations	20,468	19,444
Federal grants	5,572	5,955
Scholarship and gift income	3,701	3,621
Federal loan servicing income	2,688	3,050
Other income	<u>1,365</u>	<u>923</u>
Total operating revenues	89,394	95,851
Operating expenses:		
Grants and scholarships	24,896	24,535
Interest rebated to borrowers	3,937	4,727
Interest on debt, net of amortization	6,920	9,953
Other loan financing costs	20,273	37,187
Corporate operating expenses and depreciation	<u>29,669</u>	<u>29,525</u>
Total operating expenses	<u>85,695</u>	<u>105,927</u>
Change in net position from operations	3,699	(10,076)
Gains on early bond extinguishments	<u>887</u>	<u>19,035</u>
Change in net position	4,586	8,959
Net position, beginning of year	<u>163,906</u>	<u>154,947</u>
Net position, end of year	<u>\$168,492</u>	<u>\$163,906</u>

Net Position

Cash and investment balances decreased \$6.7 million from June 30, 2013 to June 30, 2014 from \$100.3 to \$93.6 million. The cash was used to make required principal payments on restricted bonds, to extinguish existing debt for less than par value and to pay costs of issuing new bonds.

Student loans and interest receivable totaled \$1.3 billion at June 30, 2014, down from \$1.4 billion in 2013. This decrease is due to loan principal collections being in excess of new loan originations in the VSAC private loan program.

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

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

Years Ended June 30, 2015 and 2014

Bonds and notes payable decreased \$174.2 million from \$1.3 billion at June 30, 2013 to \$1.1 billion at June 30, 2014. VSAC's financing activity in 2014 was comprised primarily of the following (in millions):

Early extinguishments - 1995-2012 series bonds	\$ (18.6)
Principal payments, 2012-13 variable rate notes	(170.4)
Scheduled principal payments, VSAC fixed rate bonds	(0.5)
Issuance of 2013A-1 Student loan financing bond	15.6
Other scheduled payments on various bonds	<u>(0.3)</u>
	<u>\$ (174.2)</u>

The 2012-13 variable rate notes, which were issued that year to refund letter of credit bonds, the ABCP Conduit note, and failed auction rate bonds include a feature which requires that periodic calculations of available cash are used to pre-pay bond principal.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2014 to \$1.5 million from \$1.2 million as of June 30, 2013.

Unrestricted net position decreased from \$113.2 million at June 30, 2013 to \$112.6 million at June 30, 2014. Including the Net Investment in Capital Assets section of Net Position, the year over year decrease is \$1.3 million. VSAC's unrestricted net position at June 30, 2014 and 2013 consists of (in millions):

	<u>2014</u>	<u>2013</u>
Cash held for new bond issuance and operating reserves	\$ 31.8	\$ 21.7
Investment in student loans and related interest	57.4	63.3
Physical plant	16.1	16.8
Subordinated VSAC bonds	22.5	22.5
Other	<u>0.9</u>	<u>5.8</u>
Total unrestricted including Investment in Capital Assets	<u>\$ 128.7</u>	<u>\$ 130.1</u>

Restricted net position increased from \$33.9 million at June 30, 2013 to \$39.8 million at June 30, 2014. This increase was primarily in the bond funds due to the operating surplus in those funds. Of the \$39.8 million, \$34.6 million is restricted by bond resolutions. The remaining \$5.2 million is restricted for scholarships and grants and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2014 financial results increased net position by \$4.6 million. All revenues except gains on early extinguishment of debt are considered operating revenues. VSAC realized \$89.4 million in operating revenues versus \$85.7 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program, and servicing fees earned for servicing student loans owned by the United States government.

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

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

Years Ended June 30, 2015 and 2014

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2014, loan revenue decreased from \$56.3 to \$48.6 million. The components of loan revenue changes are (in thousands):

	<u>2014</u>	<u>2013</u>
U.S. Department of Education Interest Benefits	\$ 3,775	\$ 5,276
U.S. Department of Education Special Allowance	152	2,830
Borrower interest and fees on student loans	69,649	77,259
Borrower interest paid to Department of Education	<u>(24,969)</u>	<u>(29,092)</u>
	<u>\$ 48,607</u>	<u>\$ 56,273</u>

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

Interest rate risk on student loan assets is managed by closely matching the coupon rate reset frequency of our debt instruments with rates that drive our loan returns. Excluding our 2010A-1, 2011A-1, 2012A-1 and 2013A-1 private loan financing bonds, our outstanding note and bond rates are reset on periodic intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates. Interest rates on our 2010A-1, 2011A-1, 2012A-1 and 2013A-1 series bonds are fixed and are secured by fixed rate VSAC private student loans.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, rehabilitation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$6.7 million in 2014 and \$6.2 million in 2013. This increase is due to increased revenues from successfully rehabilitating defaulted loans.

Interest rates remained very low throughout the year; however, the balances invested were also lower resulting in decreased interest revenue on investments. Investments include student loan funds temporarily invested in short term investments, and scholarship funds invested for long-term growth and income. Other gains related to investing, both realized gains on sales and unrealized gains on appreciated assets held at year end, are reflected in the Other Income line and were \$570 thousand in 2014 and \$363 thousand in 2013.

VSAC's State funding support increased from \$19.4 million to \$20.5 million. The primary driver for this was an increase of \$1.1 million in the need-based grants appropriation. As in prior years, the State's appropriation for the grant program was allocated entirely to provide grant funds directly to students.

Federal grants decreased slightly from \$6.0 million in fiscal 2013 to \$5.6 million in fiscal 2014. The decrease is due to the end of Federal funding under the College Access Challenge Grant. Under VSAC's Federal grants, revenues are applied for only after VSAC has incurred the expenses for administration, program activities and scholarships.

Scholarship revenues, principally restricted gifts and grants, increased slightly from \$3.6 million in 2013 to \$3.7 million in 2014.

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

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

Years Ended June 30, 2015 and 2014

Revenues earned for servicing Federal-owned student loans decreased from \$3.1 million in 2013 to \$2.7 million in 2014. The revenues in 2013 included \$1.3 million in one-time amounts paid to VSAC by ED for initial system set up and loan transfers, completed in January 2013, under the program. Other differences in Federal loan servicing revenue are due to VSAC servicing loans for six months in 2013 and twelve months in 2014.

Expenses

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

Student Aid – VSAC provided Vermont students with \$24.9 million in student aid during fiscal 2014. \$19.8 million in grant aid was provided from State appropriations. An additional \$5.1 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 29.0% of VSAC's operating expenses in fiscal 2014 compared to 23.2% in 2013.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$3.9 million in rebates of interest to borrowers in 2014 which represents 4.6% of VSAC's operating expenses in fiscal 2014 compared to 4.5% in 2013. The dollar amount of this expense will continue to decline as the loans outstanding eligible for the rebates decrease.

It is also important to note that, while not an expense to the Corporation, a significant portion of aid to students is the \$27.2 million of loans VSAC made available to students and parents in fiscal 2014.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues bonds. The interest costs of the bonds represent a major expense category for VSAC. The interest rates for the 1995-2007 series variable-rate bonds are set using auction processes that result in rates closely tracking various SIFMA indices or one month LIBOR. The ongoing liquidity freeze for VSAC's auction rate bonds adversely affected the rate paid on those bonds. When auctions were not successful in resetting rates, rates were derived using formulas. The formulas use various published short term indices multiplied by a margin or an average of Treasury bills with a margin added to that index. To help reduce VSAC's exposure to auction bond interest rate risk, the Corporation in 2013 issued refinancing notes and used existing cash to refund and extinguish \$1.3 billion of bonds and notes before their scheduled maturities leaving \$78.8 million and \$66.5 million in auction rate bonds outstanding as of June 30, 2013 and 2014 respectively. The notes which were issued to refinance the 1995-2007 series, 2008 series, and ABCP Conduit facilities bear interest at a fixed margin added to one or three month LIBOR. This margin was set at the time the bonds were sold and does not change over the life of the bonds. The loan assets pledged to these bonds have their interest rates set the same way. The loans have a margin, fixed at the time the loans were issued, added to LIBOR. These refinancing bonds result in a better match of interest revenue to bond expense.

Because of the failed auction rates and the general increase in effective interest rates from fiscal 2013 to 2014, and despite the decrease in bond and note balances (as outlined above), VSAC interest costs before the amortization of deferred gains on early refunding of bonds payable (\$8.0 million in 2014 and \$4.5 million in 2013) increased slightly from \$14.5 to \$14.9 million. Net of deferred gains on early refunding, this expense represents 8.1% of VSAC operating expenses in fiscal 2014 down from 9.4% in 2013.

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

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

Years Ended June 30, 2015 and 2014

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$1.1 billion in outstanding bonds and notes. These costs totaled \$20.3 million in fiscal 2014 and \$37.2 million in 2013, representing approximately 23.7% and 35.1% respectively of total operating expenses in these years. The decrease of \$16.9 million in this expense was the result of decreased bond issuance costs and other loan related expenses (down \$12.9 million because of large one-time refinancing costs in 2013), credit enhancement expenses (down \$4.0 million due to decreased outstanding balances of auction rate bonds), and provision for loan losses (down \$1.5 million due to decreased loan balances and improved collections performance). Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs, totaled \$29.7 million in fiscal 2014, essentially flat from fiscal 2013. The primary components of VSAC's operating costs (in thousands) were for the years ending June 30:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 14,026	\$ 13,743
Employee health care costs	3,863	3,824
Other employee benefit costs	2,847	2,811
Administrative expenses	<u>8,933</u>	<u>9,147</u>
 Total Costs of Operations	 \$ <u>29,669</u>	 \$ <u>29,525</u>

Overall costs of operations represent 34.6% of total operating expenses in fiscal 2014 compared to 27.9% in 2013.

Expenses for 2014 totaled \$85.7 million. Revenues including gains on discounted bond extinguishments totaled \$90.3 million. The change in total net position for the year was an increase of \$4.6 million. The ending balance of net position at June 30, 2014 was \$168.5 million, as compared to \$163.9 million at June 30, 2013.

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

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents	\$ 25,906	\$ 38,508
Investments	4,527	-
Receivables		
Student loans, net	147,955	156,389
Student loan interest and special allowance	8,673	9,517
Investment interest	17	-
Federal administrative and program fees	190	184
Other	1,459	1,486
Other assets	<u>425</u>	<u>477</u>
Total current assets	189,152	206,561
Noncurrent assets:		
Restricted cash	48,643	50,827
Scholarship endowment investments	4,444	4,293
Receivables		
Student loans, net	948,279	1,101,015
Capital assets, net	<u>15,817</u>	<u>16,085</u>
Total noncurrent assets	<u>1,017,183</u>	<u>1,172,220</u>
Total assets	<u>\$1,206,335</u>	<u>\$1,378,781</u>

See accompanying notes to the financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	\$ 1,600	\$ 500
Accounts payable and other liabilities	3,028	3,381
Accrued interest on bonds payable	434	336
Unearned revenue	<u>5,636</u>	<u>6,075</u>
Total current liabilities	10,698	10,292
Noncurrent liabilities:		
Bonds and note payable	985,080	1,147,877
U.S. Treasury rebates payable	<u>1,875</u>	<u>1,467</u>
Total noncurrent liabilities	<u>986,955</u>	<u>1,149,344</u>
Total liabilities	997,653	1,159,636
Deferred inflows of resources:		
Deferred gains on early refunding of bonds payable	<u>42,307</u>	<u>50,653</u>
Total liabilities and deferred inflows of resources	<u>1,039,960</u>	<u>1,210,289</u>
Net position:		
Net investment in capital assets	15,817	16,085
Restricted	57,631	39,776
Unrestricted	<u>92,927</u>	<u>112,631</u>
Total net position	<u>166,375</u>	<u>168,492</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,206,335</u>	<u>\$1,378,781</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	\$ 2,871	\$ 3,775
U.S. Department of Education special allowance	161	152
Borrower interest and fees on student loans	61,621	69,649
Borrower interest returned to U.S. Department of Education	(20,584)	(24,969)
Vermont state grants	20,274	20,468
Interest on cash and investments	239	264
Guarantee agency administrative revenues	5,044	6,729
Federal grants	5,256	5,572
Scholarship and gift income	4,256	3,701
Federal loan servicing income	2,516	2,688
Other income	<u>1,030</u>	<u>1,365</u>
Total operating revenues	82,684	89,394
Operating expenses:		
Interest, net of amortization of bond premium and deferred gains on early refunding of bonds payable	5,619	6,920
Salaries and benefits	20,978	20,736
Grants and scholarships	24,880	24,896
Interest rebated to borrowers	3,224	3,937
Other general and administrative	13,252	7,830
Interest subject to U.S. Treasury rebate	408	267
Credit enhancement and remarketing fees	170	509
Consolidation and lender paid fees	6,122	6,937
Other loan related expenses	1,640	1,896
Provision for losses on student loans	6,240	10,072
Depreciation	964	1,103
Bond issuance costs	<u>1,304</u>	<u>592</u>
Total operating expenses	<u>84,801</u>	<u>85,695</u>
Change in net position from operations	(2,117)	3,699
Nonoperating revenues:		
Gains on early bond extinguishments	<u>-</u>	<u>887</u>
Change in net position	(2,117)	4,586
Net position, beginning of year	<u>168,492</u>	<u>163,906</u>
Net position, end of year	<u>\$166,375</u>	<u>\$168,492</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	\$ 18,442	\$ 22,518
Principal payments received on student loans	197,968	201,534
Cash paid to suppliers for goods and services	(22,384)	(18,341)
Grants and scholarship disbursements	(24,880)	(24,896)
Loans made and purchased	(29,143)	(27,230)
Cash paid to employees for salaries and benefits	(20,984)	(20,646)
Interest and fees received on student loans	26,574	27,571
Vermont state appropriations received	<u>20,274</u>	<u>20,468</u>
Net cash provided by operating activities	165,867	180,978
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds payable	90,620	15,595
Payments on bonds payable	(251,996)	(188,643)
Decrease in restricted cash	2,184	17,084
Interest paid to bond holders	<u>(14,189)</u>	<u>(15,090)</u>
Net cash used by noncapital financing activities	(173,381)	(171,054)
Cash flows from capital and related financing activities:		
Acquisition and construction of fixed assets	<u>(701)</u>	<u>(360)</u>
Net cash used by capital and related financing activities	(701)	(360)
Cash flows from investing activities:		
Interest received on cash and investments	224	265
Purchase of investments	(9,669)	(163)
Proceeds from sale of investments	<u>5,058</u>	<u>191</u>
Net cash (used) provided by investing activities	<u>(4,387)</u>	<u>293</u>
Net (decrease) increase in cash and cash equivalents	(12,602)	9,857
Cash and cash equivalents, beginning of year	<u>38,508</u>	<u>28,651</u>
Cash and cash equivalents, end of year	<u>\$ 25,906</u>	<u>\$ 38,508</u>
Supplemental disclosure of non-cash operating activities:		
Student loan interest capitalized	<u>\$ 16,111</u>	<u>\$ 18,182</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS (CONCLUDED)

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
Reconciliation of operating (deficit) surplus to net cash provided by operating activities:		
(Deficit) surplus of operating revenues over operating expenses	\$ (2,117)	\$ 3,699
Adjustments to reconcile the (deficit) surplus of operating revenues over operating expenses to net cash provided by operating activities:		
Depreciation	964	1,103
Provision for losses on student loans	6,240	10,072
Loss on fixed asset disposition	5	3
Accretion of bond discount	(321)	(126)
Amortization of deferred gains on early refunding of bonds payable	(8,346)	(7,952)
Realized and unrealized gain on investments	(67)	(570)
Investment interest received	(224)	(265)
Interest paid to bond holders	14,189	15,090
Changes in operating assets and liabilities:		
Investment interest receivable	(17)	1
Student loans receivable	154,930	158,800
Student loan interest receivable	844	2,192
Federal administrative and program fees receivable	(6)	44
Other receivables	27	(337)
Other assets	52	388
Accounts payable and other liabilities	(353)	(939)
Unearned revenue	(439)	(400)
Accrued interest on bonds payable	98	(92)
U.S. Treasury rebates payable	<u>408</u>	<u>267</u>
Total adjustments	<u>167,984</u>	<u>177,279</u>
Net cash provided by operating activities	<u>\$ 165,867</u>	<u>\$ 180,978</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF FIDUCIARY NET POSITION

AGENCY FUNDS

June 30, 2015 and 2014

	Federal Loan Reserve <u>Fund</u>	<u>VHEIP</u>	2015 <u>Total</u>	2014 <u>Total</u>
	(In Thousands)			
<u>Assets held for others</u>				
Cash and cash equivalents	\$ 10,422	\$ 6	\$ 10,428	\$ 10,496
Investments	2,263	270,114	272,377	246,993
Investment interest receivable	7	139	146	118
Due from U.S. Department of Education	1,522	-	1,522	3,610
Other assets	<u>—</u>	<u>111</u>	<u>111</u>	<u>194</u>
Total assets	<u>\$14,214</u>	<u>\$270,370</u>	<u>\$284,584</u>	<u>\$261,411</u>
<u>Liabilities</u>				
Accounts payable and other liabilities	\$ 2,246	\$ 399	\$ 2,645	\$ 2,056
Amounts held on behalf of investors	-	269,971	269,971	246,872
Federal loan reserve funds held for U.S. Department of Education	<u>11,968</u>	<u>—</u>	<u>11,968</u>	<u>12,483</u>
Total liabilities	<u>\$14,214</u>	<u>\$270,370</u>	<u>\$284,584</u>	<u>\$261,411</u>

See accompanying notes to the financial statements.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

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

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

The Vermont Student Development Fund, Inc. (the Fund), a separate nonprofit 501(c)(3) corporation, was established in November of 2000. The primary purpose of the Fund is to receive, hold and manage securities, cash or other property whether real, personal or mixed, acquired by bequest, devise, gift, purchase or loan. These assets are used primarily for scholarships and other financial assistance to benefit qualified individuals seeking a postsecondary education. The Fund provides a financial benefit to VSAC, and its Board of Directors is the same as the VSAC Board of Directors; therefore, it is considered a 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, 2015 and 2014

(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 No. 34. Additionally, VSAC has adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to codify all sources of U.S. Generally Accepted Accounting Principles for state and local governments so that they can be found in one source.

In February 2015 GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement is effective for financial periods beginning after June 15, 2015. VSAC has reviewed this Statement and believes that its investments are valued in conformity with it.

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

Restrictions on Net Position

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Net Investment in Capital Assets

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

Management Estimates

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

Student Loans

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

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

Allowance for Loan Losses

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Operating and Nonoperating Revenue and Expenses

Operating revenues include interest earned on student loans and investments, fees received from providing services, state appropriations, and grant and scholarship revenue. Operating expenses include interest on bonds, the costs of providing services and operating all programs, and grant and scholarship awards. Nonoperating revenues include gains on early bond extinguishments.

Cash Equivalents

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

Investments

Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

VSAC invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that 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. For 2014, Capital asset acquisitions that equal or exceed \$2.5 were capitalized; effective July 1, 2014 this minimum was increased to \$10.

Bond Issuance Costs

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

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, 2015 and 2014, interest expense has been reduced by \$8,346 and \$7,952, respectively, for the amortization of the deferred gains on early refunding of bonds payable that occurred during the years ended June 30, 2015 and 2014.

Grants

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

FFEL Program Support

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

Compensated Absences

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

Income Tax Status

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(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, 2015 and 2014 are presented below:

	<u>2015</u>	<u>2014</u>
Cash	\$ 15,659	\$ 24,170
Money market accounts	<u>58,890</u>	<u>65,165</u>
	<u>\$ 74,549</u>	<u>\$ 89,335</u>

At June 30, 2015 and 2014, cash is comprised of various commercial bank accounts. The bank balances at June 30, 2015 were \$15,401 and the bank balances at June 30, 2014 were \$24,272. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, \$595 and \$345 of the bank balances at June 30, 2015 and 2014, respectively, were covered by Federal Deposit Insurance Corporation (FDIC). The balance above the FDIC limit is uncollateralized.

At June 30, 2015 and 2014, the money market accounts are primarily invested in the Fidelity Institutional Money Market Prime Money Market Portfolio (Class 1). The Fund invests in U.S. dollar-denominated money market securities of domestic and foreign issuers rated in the highest category by at least two nationally recognized rating services, U.S. Government securities, and repurchase agreements.

The bond and note indentures require certain cash and cash equivalent reserves. At June 30, 2015 and 2014, \$48,643 and \$50,827, respectively, of restricted cash is limited to its use for the repayment of bond and note obligations.

Investments

Interest Rate Risk: Under the VSAC policy, all operating and bond restricted funds are invested in highly liquid short term accounts. Approximately 30% of VSAC's scholarship endowment investments are targeted for fixed rate securities.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Credit Risk: Under the Vermont Student Development Fund (or ‘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 70% of the total portfolio is invested in equity issues, balanced between growth and value styles. As of June 30, 2015 and 2014, 7% and 11%, respectively, of VSAC’s investments were invested in U.S. Treasuries. No other single issuer represented more than 19% or 2% of VSAC’s investments at either June 30, 2015 or 2014, respectively.

Custodial Credit Risk

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

VSAC held the following investments at June 30, 2015 and 2014:

	2015		2014	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Domestic equities	\$ 2,641	\$ 3,027	\$ 2,112	\$ 3,222
Corporate bonds	5,011	4,993	336	338
Government bonds and notes	957	951	746	733
	<u>\$ 8,609</u>	<u>\$ 8,971</u>	<u>\$ 3,194</u>	<u>\$ 4,293</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

At June 30, 2015, the ratings for investments in debt securities are summarized as follows:

		<u>Maturities</u>	<u>Fair Value</u>	<u>S&P/Investment Moody's Rating</u>
Corporate bonds:				
Abbey Natl North Amer LLC Disc	n/a	11/20/2015	\$ 1,498	A1
Anheuser-Busch	1.375%	7/15/2017	30	A2
Apple Inc.	3.450%	5/6/2024	26	AA1
Bank of Montreal	1.400%	9/11/2017	20	AA3
Bank of Nova Scotia	1.100%	12/13/2016	25	AA2
Berkshire Hathaway	5.400%	5/15/2018	44	AA2
Catepillar Finl SE	2.050%	8/1/2016	30	A2
Cisco Systems Inc.	4.950%	2/15/2019	22	A1
Comcast Corp	2.850%	1/15/2023	19	A3
Federal Home Loan	3.125%	3/11/2016	\$1,529	AA+
General Electric Cap Corp	n/a	8/24/2015	1,500	A1+
General Electric Cap Corp	5.625%	9/15/2017	44	A1
General Electric Cap Corp	3.450%	5/15/2024	10	A1
Goldman Sachs	2.900%	7/19/2018	21	A3
JP Morgan Chase & Co	6.000%	1/15/2018	44	A3
Royal Bank of Canada	2.150%	3/15/2019	20	AA3
Toyota Motor Credit	2.000%	9/15/2016	20	AA3
US Bancorp	1.950%	11/15/2015	15	A1
Wachovia Corp	5.750%	2/1/2018	44	A2
Wal-Mart Stores	3.250%	10/25/2020	<u>32</u>	AA2
			<u>\$ 4,993</u>	

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Concluded)

<u>Investment</u>		<u>Maturities</u>	<u>Fair Value</u>	<u>S&P/ Moody's Rating</u>
Government bonds and notes:				
FHLMC	3.750%	3/27/2019	125	AAA
FHLMC	2.375%	1/13/2022	40	AAA
FNMA	5.375%	6/12/2017	83	AAA
U.S. Treasury Note	4.875%	8/15/2016	125	AA+
U.S. Treasury Note	1.875%	9/30/2017	97	AA+
U.S. Treasury Note	3.125%	5/15/2019	122	AA+
U.S. Treasury Bonds	2.625%	8/15/2020	127	AA+
U.S. Treasury Bonds	1.750%	5/15/2022	59	AA+
U.S. Treasury Bonds	2.500%	8/15/2023	82	AA+
U.S. Treasury Bonds	2.250%	11/15/2024	15	AA+
Ontario Prov Cda	1.650%	9/27/2019	45	AA2
Province of Quebec	2.750%	8/25/2021	<u>31</u>	AA2
			<u>\$951</u>	

4. Student Loans Receivable

At June 30, 2015, VSAC held student loans with interest rates ranging from 1.52% to 10%, the majority insured by ED and the U.S. Department of Health and Human Services; at June 30, 2014 the interest rates ranged from 1.55% to 10%. At June 30, 2015 and 2014, approximately 24.2% and 21.3%, respectively, of these student loans were not guaranteed. Most of VSAC's borrowers are located in the New England states.

Student loans are classified as being in "interim" status during the period from the date the loan is made until a student is out of school 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

4. Student Loans Receivable (Continued)

Student loans receivable as of June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Status:		
Interim status	\$ 27,337	\$ 29,388
Deferral status	104,439	151,818
Repayment status	996,019	1,108,007
Less: Allowance for loan losses	<u>(31,561)</u>	<u>(31,809)</u>
 Total student loans receivable	 1,096,234	 1,257,404
Less: Noncurrent student loans receivable	<u>948,279</u>	<u>1,101,015</u>
 Current student loans receivable	 <u>\$ 147,955</u>	 <u>\$ 156,389</u>
 Guarantee type:		
U.S. Department of Education	\$ 835,129	\$ 989,476
U.S. Department of Health and Human Services	2,408	3,393
Other – Guaranteed	17,790	21,876
Nonguaranteed	272,468	274,468
Less: Allowance for loan losses	<u>(31,561)</u>	<u>(31,809)</u>
 Total student loans receivable	 1,096,234	 1,257,404
Less: Noncurrent student loans receivable	<u>948,279</u>	<u>1,101,015</u>
 Current student loans receivable	 <u>\$ 147,955</u>	 <u>\$ 156,389</u>

As of June 30, 2015 and 2014, \$1,050,168 and \$1,231,158 of student loans were pledged to the repayment of bonds and notes, respectively.

Transactions in the allowance for loan losses for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Balance, July 1	\$ 31,809	\$ 32,288
Net loans charged off	(6,488)	(10,551)
Provision for losses on student loans	<u>6,240</u>	<u>10,072</u>
 Balance, June 30	 <u>\$ 31,561</u>	 <u>\$ 31,809</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

4. Student Loans Receivable (Concluded)

The allowance for loan losses represents management's estimate of probable losses on student loans. Management uses the amounts of loans in the portfolio, loss rate, delinquencies, current economic conditions, and historical loss experience. Should any of these factors change significantly from those currently used by management, the estimate may change. At June 30, 2015 and 2014, \$49,367 and \$54,223, respectively, of student loans receivable were over 90 days past due, of which all but \$8,149 and \$9,531, respectively, were guaranteed by one of the guarantee types shown above. The portion of the loss reserve at June 30, 2015 and 2014 which relates to non-guaranteed loans was \$29,989 and \$29,947, 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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
<i>Additions:</i>		
Reimbursement from ED on default loan purchases	\$ 35,946	\$ 37,161
Default loan collections	175	718
Investment income	3	2
Other, net	<u>559</u>	<u>336</u>
Total additions	36,683	38,217
<i>Deductions:</i>		
Purchases of defaulted loans from lenders	37,324	38,572
Default aversion fee (received) paid	<u>(126)</u>	<u>21</u>
Total deductions	<u>37,198</u>	<u>38,593</u>
Net decrease in federal loan reserve funds held	(515)	(376)
Federal loan reserve funds held, at beginning of year	<u>12,483</u>	<u>12,859</u>
Federal loan reserve funds held, at end of year	<u>\$ 11,968</u>	<u>\$ 12,483</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

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

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement providers. The *Higher Education Act Amendments of 1998* require VSAC to maintain reserves equal to 0.25% of student loans guaranteed. During 2015 and 2014, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were \$835,129 and \$989,476 at June 30, 2015 and 2014, 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 tax favorable investments. The program has been designed to comply with the requirements for treatment as a “Qualified Tuition Program” under Section 529 of the IRC. There are six plans available: the Managed Allocation Option, the Diversified Equity Option, the Equity Index Option, the Balanced Option, the Fixed Income Option and the Principal Plus Interest Option. All Options are managed by TFI. TFI is part of Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF), a New York-based financial services organization. Funds in the Managed Allocation Option are directed into special investment portfolios based on the age of the beneficiary. Funds in the Diversified Equity and Index Options are not age based and remain 100% in equity investments. Funds in the Balanced Option are invested in both equity and income investments. Funds in the Fixed Income Option are invested in bond funds. Funds in the Principal Plus Interest Option are invested under a Funding Agreement between TIAA-CREF and VSAC, and the principal and return are guaranteed by TIAA-CREF. Investments in the other investment options are not guaranteed.

The changes in assets held on behalf of investors for the years ended June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
<i>Additions:</i>		
Investment income	\$ 3,805	\$ 3,238
Net realized and unrealized gains	1,997	23,532
Net participant subscriptions/redemptions	<u>17,297</u>	<u>18,226</u>
Total additions	23,099	44,996
Net amount held on behalf of investors, at beginning of year	<u>246,872</u>	<u>201,876</u>
Net amount held on behalf of investors, at end of year	<u>\$ 269,971</u>	<u>\$246,872</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2015 and 2014 was as follows:

	Estimated <u>Lives</u>	Balance July 1, <u>2013</u>	Net Acqui- sitions (Disposals)	Balance June 30, <u>2014</u>	Net Acqui- sitions (Disposals)	Balance June 30, <u>2015</u>
Land	–	\$ 3,150	\$ –	\$ 3,150	\$ –	\$ 3,150
Furniture and equipment	3 – 15 Years	7,654	(22)	7,632	487	8,119
Software	3 – 5 Years	1,693	63	1,756	112	1,868
Building	5 – 30 Years	<u>17,027</u>	<u>118</u>	<u>17,145</u>	<u>23</u>	<u>17,168</u>
		29,524	159	29,683	622	30,305
Less accumulated depreciation		<u>12,693</u>	<u>905</u>	<u>13,598</u>	<u>890</u>	<u>14,488</u>
Capital assets, net		<u>\$ 16,831</u>	<u>\$ (746)</u>	<u>\$ 16,085</u>	<u>\$ (268)</u>	<u>\$ 15,817</u>

Depreciation charged to operations for the years ended June 30, 2015 and 2014 was \$964 and \$1,103, respectively.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
<i><u>Bonds and Notes Payable which were issued to finance the origination of student loans:</u></i>		
1998 Series K-O, dated June 24, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.200% to 0.240% during fiscal year 2015.	\$ -	\$ 2,100
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA; interest rates ranged from 0.000% to 17.846% during fiscal year 2015.	-	18,850
2002 Series BB, CC and DD dated October 8, 2002; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.265% to 0.318% during fiscal year 2015.	-	11,000
2003 Series II, JJ and KK dated May 30, 2003; comprised of auction rate bonds maturing December 2037; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.265% to 0.318% during fiscal year 2015.	-	7,600
2004 Series NN and PP dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.047% to 0.076% during fiscal year 2015.	-	50
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset and payable every 28 days at rates which ranged from 0.000% to 16.600% during fiscal year 2015.	-	3,000
2005 Series RR-SS dated June 21, 2005; comprised of auction rate bonds maturing December 2039; interest is reset and payable every 28 days at rates which ranged from 0.000 % to 16.810 % during fiscal year 2015.	-	12,000
2007 Series WW-XX dated June 19, 2007; comprised of auction rate bonds maturing December 2041; interest is reset every 7 days and payable semi-annually at rates which ranged from 0.106 % to 0.186% during fiscal year 2015.	-	11,300
2007 Series YY dated December 7, 2007; comprised of auction rate bonds maturing December 2041; interest is reset and payable every 7 days at rates which ranged from 0.000 % to 1.793% during fiscal year 2015.	-	625
2010 Series A-1 dated August 3, 2010; comprised of fixed rate bonds maturing between December 15, 2015 and 2030; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	11,815	13,585

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	<u>2015</u>	<u>2014</u>
2011 Series A-1 dated July 26, 2011; comprised of fixed rate bonds maturing between December 15, 2013 and 2025; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	10,120	10,890
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 5.10%.	16,465	17,525
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% (0.886% at June 30, 2015).	501,542	601,576
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 (1.783% and 3.283% at June 30, 2015).	94,158	110,926
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% (0.936% at June 30, 2015).	255,421	311,056
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 2.10% to 4.65%.	15,595	15,595
2014 Series A-1 dated July 9, 2014; comprised of fixed rate bonds maturing between June 15, 2019 and 2033; interest is fixed and payable semi-annually at rates ranging from 3.625% to 5.0%.	29,920	-
2014 Series B dated November 21, 2014; comprised of variable rate notes maturing on June 2, 2042; interest is variable and payable semi-annual at the one-month LIBOR plus 1.0% (1.186% at June 30, 2015).	<u>50,266</u>	<u>-</u>
Total bonds and notes payable	985,302	1,147,678
Bond premium/discount, net	<u>1,378</u>	<u>699</u>
Total bonds and notes payable	986,680	1,148,377
Less: current portion bonds and notes payable	<u>1,600</u>	<u>500</u>
Noncurrent portion of bonds and notes payable	<u>\$ 985,080</u>	<u>\$ 1,147,877</u>

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

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

In 2015 and 2014, due to ongoing disruptions in the capital markets, the interest rates paid on auction bonds fluctuated significantly due to failed auction formulae. These rates varied from as low as 0% to as high as 17.846% over 2015 and 2014. This variability is tied to the variable indices in the failed auction formula and the maximum rates defined in the bond indentures. As of June 30, 2015 all remaining outstanding auction bonds have been refunded and retired.

The 1998 Series K-N, 2001 Series V-AA, 2002 Series BB-DD, 2004 Series NN-PP, 2005 Series RR-SS, and the 2007 WW-YY bonds were insured for credit-worthiness by Ambac Assurance Corporation. The 2011 series A-1 trust includes the Moral Obligation of the State of Vermont providing for the restoration by the State of certain required cash reserve balances of the 2011 Trust in the event they were to be utilized by the trust to maintain liquidity. Any draw of the Moral Obligation by the 2011 trust would be subject to repayment from the assets of the 2011 Trust. To date the 2011 Trust has not requested or received any State funding under this provision. The remaining bonds and notes have no additional credit or liquidity support.

All bonds and notes, except the 2010A-1, 2011A-1, 2012A-1, 2013A-1 and 2014A-1 series, are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. Certain series of the 2010A-1, 2011A-1, 2012A-1, 2013A-1 and 2014A-1 bonds are subject to redemption from excess revenues prior to maturity at the principal amounts outstanding plus unamortized premium and accrued interest at date of redemption. At June 30, 2015, all bonds authorized under the underlying bond resolutions have been issued, except for the 2015A-1 bonds discussed in Note 17.

Proceeds from issuance of the bonds payable and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses.

During 2015 VSAC refunded and extinguished \$69,625 of various bonds and notes at par. During 2014, VSAC refunded and extinguished \$18,602 of various bonds and notes for \$17,715, resulting in gains of \$887. The gains from extinguishments of \$887 are included in nonoperating revenues for the year ended June 30, 2014. The deferred gains from the 2015 refunding amounted to \$0 at the date of the refunding. During the years ended June 30, 2015 and 2014, the amortized deferred gains from the prior year financed refundings of \$8,346 and \$7,952, respectively, are included as a reduction to interest expense.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

8. Bonds and Notes Payable (Concluded)

The debt service requirements, which are based on the interest rates at June 30, 2015, through 2020 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>
FY16	\$ 1,600	\$ 12,987	\$ 14,587
FY17	6,170	12,901	19,071
FY18	6,700	12,703	19,403
FY19	5,645	12,462	18,107
FY20	7,970	12,209	20,179
FY21 – 25	86,188	53,355	139,543
FY26 – 30	16,365	46,117	62,482
FY31 – 35	762,198	39,240	801,438
FY36 – 40	42,200	3,516	45,716
FY41 – 45	<u>50,266</u>	<u>1,128</u>	<u>51,394</u>
Total	<u>\$ 985,302</u>	<u>\$206,618</u>	<u>\$1,191,920</u>

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

The following summarizes the debt activity for VSAC for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 1,148,377	\$ 1,322,438
Issuance	89,620	15,595
Premium on issuance	1,000	-
Redemptions, extinguishments and refunding	(251,996)	(189,530)
Accretion/amortization of discount/premium	<u>(321)</u>	<u>(126)</u>
Balance, end of year	<u>\$ 986,680</u>	<u>\$ 1,148,377</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

9. U.S. Treasury Rebates Payable

The tax exempt bonds issued by VSAC are subject to IRS regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the U.S. Treasury. VSAC has estimated that there are U.S. Treasury rebates payable at June 30, 2015 and 2014 of \$1,875 and \$1,467, respectively. VSAC has estimated that there is no estimated current portion at June 30, 2015 or June 30, 2014. VSAC refunded to the U.S. Treasury \$0 in excess earnings in 2015 and 2014.

10. Student Loan Interest and Special Allowance Revenues

ED makes quarterly interest subsidy payments on behalf of certain qualified students until the student is required under the provisions of the Act to begin repayment. Repayment on FFEL Program Stafford student loans normally begins within six months after students complete their course of study, leave school or cease to carry at least one-half the normal full-time academic load as determined by the educational institution. Repayment of FFEL Program Parent Loan for Undergraduate Students (PLUS), Supplemental Loans for Students (SLS) and Consolidation loans normally begins within 60 days from the date of loan disbursement unless a deferment of payments has been granted. In these cases, full repayment of principal and interest would resume at the expiration of the deferment. Interest accrues during this deferment period. Health Education Assistance Loan (HEAL) 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 \$20,584 and \$24,969 in 2015 and 2014, respectively, and is reflected as a reduction of interest and fees and student loans in the Statements of Revenues, Expenses and Changes in Net Position.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

11. Endowment Funds

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

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

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

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

At June 30, 2015 and 2014, the total net position related to endowment funds was \$4,719 and \$4,607, respectively. Expendable restricted net position totaled \$395 and \$339, respectively. The remaining \$4,324 and \$4,268, respectively, of net position related to endowment funds were nonexpendable.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

12. Restricted Net Position

Restrictions on net position are the result of bond resolutions, state statutes, various federal regulations and program agreements, and donor restrictions. Bond resolutions restrict net position to the origination of student loans and payment of debt service on bonds and notes payable. State statutes and federal regulations and program agreements restrict various net position to use for specific grant, scholarship and educational activities. Donors have restricted a number of endowment funds for scholarship awards. Restricted net position as of June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Expendable - restricted by bond resolutions	\$ 51,850	\$ 34,624
Expendable - restricted by Federal or State Statute or donors	1,028	513
Nonexpendable – income is donor restricted for scholarships	<u>4,753</u>	<u>4,639</u>
Total restricted net position	\$ <u>57,631</u>	\$ <u>39,776</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 \$42,307 and \$50,653 at June 30, 2015 and 2014, respectively, will be recognized as a reduction of financing costs and increase of restricted net position over the estimated remaining period the financing bonds are estimated to be outstanding. This estimated period was 20 and 21 years as of June 30, 2015 and 2014, respectively.

13. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by TIAA-CREF. All employees are fully vested for VSAC plan contributions. The payroll for employees covered under the plan for the fiscal year ended June 30, 2015 and 2014 amounted to \$13,738 and \$13,621, respectively; VSAC's total payroll was \$13,894 and \$14,026, respectively. Total contributions by VSAC amounted to \$1,396 and \$1,383 in 2015 and 2014, respectively, which represented an average of 10.2% of the covered payroll in those years.

VSAC employees who complete 15 years of continuing service and who are not otherwise eligible for Medicare coverage may elect to continue to buy VSAC's health care coverage at Consolidated Omnibus Budget Reconciliation Act (COBRA) rates. Generally Accepted Accounting Principles require recognition of current period costs related to expected future expenditures for Other Post-Employment Benefits. Since historical participation in this benefit has been very low and because participants are required to purchase coverage at a COBRA rate which recovers VSAC's average estimated per person cost, VSAC believes that this obligation is not material and has not recorded a liability for this post-employment benefit at June 30, 2015 and 2014.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

14. Contingencies

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

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

A summary of the reserve for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statements of net position as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 330	\$ 384
Claims paid	(4,218)	(3,815)
Accrual for estimated claims	<u>4,272</u>	<u>3,761</u>
Balance, end of year	\$ <u>384</u>	\$ <u>330</u>

The litigation matter discussed at length in VSAC's Notes to Financial Statements for the year ended June 30, 2014 was settled during the year ending June 30, 2015 and is no longer a contingency as of the end of that fiscal year. VSAC has no material pending legal matters outstanding as of June 30, 2015.

15. Loan Commitments

At June 30, 2015 and 2014, VSAC had commitments to extend credit for non-guaranteed student loans of approximately \$2,849 and \$1,836, 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Net Position

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Cash Flows

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting (Continued)

VSAC's segment financial reporting at June 30, 2014 and for the year then ended is as follows:

Condensed Statement of Net Position

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Assets:					
Current assets	\$ 41,578	\$ 158,225	\$ 6,214	\$ 544	\$ 206,561
Capital assets, net	16,085	-	-	-	16,085
Other noncurrent assets	<u>49,634</u>	<u>1,102,208</u>	<u>4,293</u>	<u>-</u>	<u>1,156,135</u>
Total assets	<u>\$ 107,297</u>	<u>\$ 1,260,433</u>	<u>\$ 10,507</u>	<u>\$ 544</u>	<u>\$ 1,378,781</u>
Liabilities:					
Current liabilities	\$ 3,424	\$ 968	\$ 5,869	\$ 31	\$ 10,292
Noncurrent liabilities	-	1,149,344	-	-	1,149,344
Interfund (receivable) payable	<u>(24,843)</u>	<u>24,844</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Total liabilities	(21,419)	1,175,156	5,868	31	1,159,636
Deferred inflows of resources					
Deferred gains on early refunding of bonds payable	<u>-</u>	<u>50,653</u>	<u>-</u>	<u>-</u>	<u>50,653</u>
Total liabilities and deferred inflows of resources	<u>(21,419)</u>	<u>1,225,809</u>	<u>5,868</u>	<u>31</u>	<u>1,210,289</u>
Net position:					
Net investment in capital assets	16,085	-	-	-	16,085
Restricted	-	34,624	4,639	513	39,776
Unrestricted	<u>112,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,631</u>
Total net position	<u>128,716</u>	<u>34,624</u>	<u>4,639</u>	<u>513</u>	<u>168,492</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 107,297</u>	<u>\$ 1,260,433</u>	<u>\$ 10,507</u>	<u>\$ 544</u>	<u>\$ 1,378,781</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Operating revenues:					
Interest and fees on student loans	\$ 2,375	\$ 46,232	\$ -	\$ -	\$ 48,607
Guarantee agency administrative revenues	6,729	-	-	-	6,729
Vermont state appropriations	-	-	656	19,812	20,468
Federal grants	4,794	-	778	-	5,572
Scholarship and gift income	-	-	3,701	-	3,701
Federal loan servicing income	2,688	-	-	-	2,688
Interest on cash and investments, and other income	<u>954</u>	<u>12</u>	<u>663</u>	<u>-</u>	<u>1,629</u>
Total operating revenues	17,540	46,244	5,798	19,812	89,394
Operating expenses:					
Operating expenses excluding depreciation	24,109	34,510	5,371	20,602	84,592
Depreciation	<u>1,103</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,103</u>
Total operating expenses	<u>25,212</u>	<u>34,510</u>	<u>5,371</u>	<u>20,602</u>	<u>85,695</u>
Change in net position from operations	(7,672)	11,734	427	(790)	3,699
Gains on early bond extinguishments	-	887	-	-	887
Interfund transfer	<u>6,332</u>	<u>(7,409)</u>	<u>245</u>	<u>832</u>	<u>-</u>
Change in net position	(1,340)	5,212	672	42	4,586
Net position, beginning of year	<u>130,056</u>	<u>29,412</u>	<u>3,967</u>	<u>471</u>	<u>163,906</u>
Net position, end of year	<u>\$ 128,716</u>	<u>\$ 34,624</u>	<u>\$ 4,639</u>	<u>\$ 513</u>	<u>\$ 168,492</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(Dollars in Thousands)

16. Segment Reporting (Concluded)

Condensed Statement of Cash Flows

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Cash provided (used) by operating activities	\$ 10,294	\$ 171,042	\$ (344)	\$ (14)	\$ 180,978
Cash used by noncapital financing activities	-	(171,054)	-	-	(171,054)
Cash used by capital and related financing activities	(360)	-	-	-	(360)
Cash provided by investing activities	<u>160</u>	<u>12</u>	<u>121</u>	<u>-</u>	<u>293</u>
Net increase (decrease) in cash and cash equivalents	10,094	-	(223)	(14)	9,857
Cash and cash equivalents, beginning of year	<u>21,702</u>	<u>-</u>	<u>6,419</u>	<u>530</u>	<u>28,651</u>
Cash and cash equivalents, end of year	<u>\$ 31,796</u>	<u>\$ -</u>	<u>\$ 6,196</u>	<u>\$ 516</u>	<u>\$ 38,508</u>

17. Subsequent Event

In July 2015, VSAC issued its 2015A-1 student loan bonds in a total amount of \$21,200. These bonds are tax-exempt, maturing between 2018 and 2034, bearing interest at fixed coupon rates ranging from 4.0% to 5.0%.