

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, 2011 and 2010

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, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Vermont Student Assistance Corporation

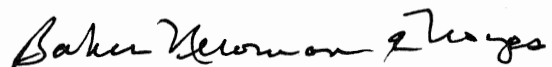
We have audited the accompanying basic financial statements of the Vermont Student Assistance Corporation, a component unit of the State of Vermont, as of and for the years ended June 30, 2011 and 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the Vermont Student Assistance Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Student Assistance Corporation, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2 – 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Portland, Maine
October 12, 2011



Limited Liability Company
Registration No. 0920000638

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended June 30, 2011 and 2010

The Vermont Student Assistance Corporation (VSAC or the Corporation) is a public nonprofit corporation created by the State of Vermont to provide opportunities for Vermont residents to pursue postsecondary education. VSAC's mission is to ensure that all Vermonters have the necessary financial and informational resources to pursue their educational goals beyond high school. VSAC awards grants and scholarships, and finances, guarantees, originates, and services education loans to students and parents. VSAC also administers outreach services to students seeking postsecondary education opportunities. Finally, VSAC manages the Vermont Higher Education Investment Plan.

VSAC administers the State grant program, funded by State appropriations, at no cost to the State. VSAC administers and awards over 119 scholarship funds, including VSAC assisted scholarships and scholarship funds held and managed by VSAC.

VSAC's education loan programs are financed through issuance of limited obligation bonds and short-term credit facilities. Certain education loans are guaranteed by VSAC as a guarantor and/or reinsured by the U.S. Department of Education through the Federal Family Education Loan (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, College Challenge Access Grant, and Talent Search, as well as through State grants, and general corporate support.

Management's Discussion and Analysis Report includes Fiscal 2011 and Fiscal 2010 information due to the fact that the Financial Statements include Fiscal 2011 and Fiscal 2010 information.

FISCAL 2011

Fiscal 2011 Highlights and Overall Financial Position

- During the year ended June 30, 2011, VSAC had a net surplus, occurring primarily in the restricted bond trusts, of \$16.4 million compared to a surplus of \$23.8 million during the year ended June 30, 2010.
- Bonds issued to finance student loans saw interest expense decrease \$5.0 million from 2010 to 2011. This was mainly due to a decrease in bond and notes payable balances caused by the bond buyback program and the closeout of the ECASLA Participation note.
- VSAC recorded gains of \$17.1 million by selectively retiring certain bonds before their maturity for less than par value. This gain was \$27.1 million in 2010.
- VSAC's total net assets increased \$16.4 million to \$154.1 million.
- During the year ended June 30, 2011 VSAC provided \$25.1 million in grants and scholarships to Vermont students.
- VSAC originated \$58.1 million in student loans to students and parents. VSAC holds and services \$1.9 billion in education loans receivable and related interest at June 30, 2011.
- VSAC returned approximately \$6.3 million in interest rebates to students in its loan programs during fiscal 2011.
- During fiscal 2011 VSAC 'Put' or sold virtually all 2009-2010 origination FFEL Program loans to the U.S. Department of Education due to an inability to secure permanent financing. The transaction produced \$4.3 million in one-time revenue, but resulted in a reduction of FFEL Program loan balances reducing long term loan servicing revenues

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

- During VSAC's fiscal 2010, the Federal government passed the *Student Aid and Fiscal Responsibility Act* (SAFRA) legislation which ended new originations under the FFEL Program as of July 1, 2010. The discontinuation of the FFEL Program is reducing VSAC's loan related revenue over time and is the prime factor driving year over year decreases in education loan and guarantee program revenues (\$11.3 million and \$1.9 million respectively).
- The SAFRA legislation also allows qualified governmental and nonprofit entities to become servicers of William D. Ford Federal Direct Loan Program loans. VSAC is a qualified governmental entity and is working towards becoming a federal loan servicer under this program. We anticipate beginning our servicing activity late in calendar 2012.

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 assets presents the results of VSAC's operations. The statement reports all revenues and expenses, and reconciles the beginning and end of year net asset balances.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Condensed Financial Information

Statement of Net Assets

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 234,881	\$ 141,700
Education loans receivable (plus interest)	1,891,206	2,411,116
Other assets	<u>29,044</u>	<u>34,759</u>
Total assets	<u>\$2,155,131</u>	<u>\$2,587,575</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$1,965,780	\$2,414,364
U.S. Treasury rebates payable	21,558	20,272
Other liabilities	<u>13,668</u>	<u>15,196</u>
Total liabilities	2,001,006	2,449,832
Net assets:		
Restricted	112,168	98,710
Unrestricted	40,943	37,655
Net investment in capital assets	<u>1,014</u>	<u>1,378</u>
Total net assets	<u>154,125</u>	<u>137,743</u>
Total liabilities and net assets	<u>\$2,155,131</u>	<u>\$2,587,575</u>

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Statement of Revenues and Expenses

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Revenues:		
Interest earned from education loan financing	\$ 68,754	\$ 80,034
Other loan and guarantee program revenues	5,363	7,248
Investment interest	453	709
Vermont state appropriations	21,341	21,990
Federal grants	6,011	5,006
Scholarship and gift revenue	3,682	4,056
Other income	<u>5,167</u>	<u>740</u>
Total operating revenues	110,771	119,783
Expenses:		
Student aid	25,053	25,823
Interest rebated to borrowers	6,283	6,671
Interest on debt	16,135	21,093
Other loan financing costs	30,614	36,469
Corporate operating expenses and depreciation	<u>33,405</u>	<u>33,092</u>
Total expenses	111,490	123,148
Deficiency of operating revenues over operating expenses	(719)	(3,365)
Gains on early bond retirement	<u>17,101</u>	<u>27,134</u>
Excess of revenues over expenses	16,382	23,769
Total net assets at the beginning of the year	<u>137,743</u>	<u>113,974</u>
Total net assets at the end of the year	<u>\$154,125</u>	<u>\$137,743</u>

Net Assets

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

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

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

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Unrestricted net assets increased from \$37.7 million in 2010 to \$40.9 million in 2011. The unrestricted assets are used to provide credit enhancement for new credit facilities, finance student loans, and for corporate working capital. The \$3.2 million increase in unrestricted net assets is primarily due to the closure of the ECASLA Participation and return of credit enhancement provided in previous years to various credit facilities. Unrestricted net assets invested in student loans totaled \$11.6 million at June 30, 2011.

Restricted net assets increased from \$98.7 million to \$112.1 million at June 30, 2011. This increase was primarily in the bond funds and was driven by the gains on early debt retirement. Of the \$112.1 million, \$105.8 million is restricted by bond resolutions. The remaining \$6.3 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2011 financial results increased net assets by \$16.4 million. All revenues, except gains on early retirement of debt, are considered operating revenues. VSAC realized \$127.9 million in total revenues versus \$111.5 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, fees earned in the federal guarantee program and \$17.1 million in gains on early bond retirement.

Overall loan revenue to VSAC is closely related to the general interest rate environment and the amount of loans outstanding. During 2011, loan revenue decreased from \$80.0 to \$68.8 million. The components of loan revenue change are:

	<u>2011</u>	<u>2010</u>
U.S. Department of Education interest benefits	\$ 11,684	\$ 19,107
U.S. Department of Education special allowance	8,210	9,213
Borrower interest and fees on student loans	91,192	108,044
Borrower interest returned to U.S. Department of Education	<u>(42,332)</u>	<u>(56,330)</u>
	<u>\$ 68,754</u>	<u>\$ 80,034</u>

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

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

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

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

Years ended June 30, 2011 and 2010

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

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

Federal grants increased from \$5.0 million in fiscal 2010 to \$6.0 million in fiscal 2011. The increase is due to a \$1.0 million increase in the Federal College Access Challenge grant, which was provided for in the legislation which ended the FFEL Program.

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

Other income increased from \$0.7 million to \$5.2 million primarily as the result of selling the 2009/2010 FFEL loans originated to U.S. Department of Education. Each loan generated a \$75 non-recurring fee at the time of sale.

Expenses

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

Student Aid – VSAC provided Vermont students with \$25.1 million in student aid during fiscal 2011. \$19.2 million in grant aid was provided from State appropriations. An additional \$5.8 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 22.5% of VSAC's operating expenses in fiscal 2010 compared to 21.0% in 2010.

While not strictly a student aid expense, interest rebated to borrowers helps current and former students and parents manage their education debt. VSAC provided \$6.3 million in rebates of interest to borrowers in 2011 which represents 5.6% of VSAC's operating expenses in fiscal 2011 compared to 5.4% in 2010.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the \$58.1 million of loans VSAC made available to students and parents in fiscal 2011.

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

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

Years ended June 30, 2011 and 2010

With the decrease in bond balances (due to the bond buyback program and Put transaction) and ongoing low interest rates from fiscal 2010 to 2011, VSAC interest costs decreased from \$21.1 to \$16.1 million. This expense represents 14.5% of VSAC operating expenses in fiscal 2011 down from 17.1% in 2010.

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing \$1.9 billion in outstanding bonds and notes. These costs totaled \$30.6 million in fiscal 2011, representing approximately 27.5% of total operating expenses (down from 29.6% in 2010). Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness, and by changes in arbitrage liability. Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

In fiscal 2011, VSAC's provision for losses on student loans was \$11.2 million compared to \$12.4 million in fiscal 2010. This reduction is primarily due to a \$1 million decrease in the portfolio of loans that do not carry a default guaranty.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled \$33.4 million in fiscal 2011, an increase of approximately 1% from fiscal 2010. During 2011, VSAC implemented a Voluntary Separation Program to reduce labor costs in response to the end of the FFEL Program. This resulted in a one-time expense of \$2.0 million in 2011. Salaries and benefits were \$25.1 million in fiscal 2011 (including the Separation Program costs), approximately 75.0% of costs of operations. Overall costs of operations represent 29.9% of total operating expenses in fiscal 2011 compared to 26.9% in 2010.

Expenses for 2011 totaled \$111.5 million. Revenues totaled \$127.9 million. The surplus of revenues over expenses was \$16.4 million. The change in total net assets for the year was an increase of \$16.4 million. The ending balance of net assets at June 30, 2011 was \$154.1 million, as compared to \$137.7 million at June 30, 2010.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

FISCAL 2010

Fiscal 2010 Highlights and Overall Financial Position

- During the year ended June 30, 2010, VSAC had a net surplus, occurring primarily in the restricted bond trusts, of \$23.8 million compared to a deficit of \$10.9 million during the year ended June 30, 2009.
- Bonds issued to finance student loans saw interest expense decrease \$36.1 million from 2009 to 2010, but this was largely offset by the impact of an increase of \$25.2 million of borrower interest required to be paid to the U.S. Department of Education which decreased year over year revenues. Most of the remaining benefit of the decrease in bond interest expense was offset by an increase of arbitrage expense of \$10.4 million.
- VSAC recorded gains of \$27.1 million by selectively retiring certain bonds before their maturity for less than par value. This activity was new this year.
- VSAC's total net assets increased \$23.8 million to \$137.7 million.
- During the year ended June 30, 2010 VSAC provided over \$25.8 million in grants and scholarships to Vermont students.
- VSAC originated \$393.9 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds and services \$2.4 billion in education loans receivable and related interest at June 30, 2010.
- VSAC returned over \$6.7 million in interest rebates to students in its loan programs during fiscal 2010, and paid over \$3.2 million in fees on behalf of our borrowers (amortized over the life of the loans).
- During VSAC's fiscal 2010, the Federal government passed the *Student Aid and Fiscal Responsibility Act* (SAFRA) legislation which ended new originations under the FFEL Program as of July 1, 2010. The discontinuation of the FFEL will reduce VSAC's loan related revenue over time.
- The SAFRA legislation also allows qualified governmental and nonprofit entities to become servicers of federally owned loans. VSAC is a qualified governmental entity and is evaluating becoming a federal loan servicer under this program.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Condensed Financial Information**Statement of Net Assets**

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Assets:		
Cash and investments	\$ 141,700	\$ 127,084
Education loans receivable (plus interest)	2,411,116	2,290,257
Other assets	<u>34,759</u>	<u>35,056</u>
Total assets	<u>\$2,587,575</u>	<u>\$2,452,397</u>
Liabilities:		
Bonds and notes payable (plus interest)	\$2,414,364	\$2,308,911
U.S. Treasury rebates payable	20,272	17,686
Other liabilities	<u>15,196</u>	<u>11,826</u>
Total liabilities	2,449,832	2,338,423
Net assets:		
Restricted	98,710	74,816
Unrestricted	37,655	36,894
Net investment in capital assets	<u>1,378</u>	<u>2,264</u>
Total net assets	<u>137,743</u>	<u>113,974</u>
Total liabilities and net assets	<u>\$2,587,575</u>	<u>\$2,452,397</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Statement of Revenues and Expenses

	<u>2010</u>	<u>2009</u>
	(In Thousands)	
Revenues:		
Interest earned from education loan financing	\$ 80,034	\$105,949
Other loan and guarantee program revenues	7,248	6,392
Investment interest	709	2,104
Vermont state appropriations	21,990	19,539
Federal grants	5,006	4,883
Scholarship and gift revenue	4,056	3,591
Other income (loss)	<u>740</u>	<u>(241)</u>
Total operating revenues	119,783	142,217
Expenses:		
Student aid	25,823	24,744
Interest rebated to borrowers	6,671	6,346
Interest on debt	21,093	57,156
Other loan financing costs	36,469	29,783
Corporate operating expenses and depreciation	<u>33,092</u>	<u>35,059</u>
Total expenses	<u>123,148</u>	<u>153,088</u>
Deficiency of operating revenues over operating expenses	(3,365)	(10,871)
Gains on early bond retirement	<u>27,134</u>	<u>—</u>
Excess (deficiency) of revenues over expenses	23,769	(10,871)
Total net assets at the beginning of the year	<u>113,974</u>	<u>124,845</u>
Total net assets at the end of the year	<u><u>\$137,743</u></u>	<u><u>\$113,974</u></u>

Net Assets

Cash and investment balances increased from June 30, 2009 to 2010 from \$127.1 to \$141.7 million.

Student loans and interest receivable totaled \$2.4 billion at June 30, 2010, up from \$2.3 billion in 2009 representing natural growth in the student loan portfolio.

U.S. Treasury rebates payable is described in the expense discussion. This liability increased as of June 30, 2010, to \$20.3 million, or approximately 0.78% of total assets.

Unrestricted net assets increased from \$36.9 million in 2009 to \$37.7 million in 2010. The unrestricted assets are used to provide credit enhancement for new credit facilities, finance student loans, and for corporate working capital. The \$0.8 million increase in unrestricted net assets is primarily due to revenues generated by VSAC's loan guarantee functions, offset by administrative expenses. Unrestricted net assets invested in student loans totaled \$12.4 million at June 30, 2010.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Restricted net assets increased from \$74.8 million to \$98.7 million at June 30, 2010. This increase was primarily in the bond funds and was driven by the gains on early debt retirement. Of the \$98.7 million, \$94.0 million is restricted by bond resolutions. The remaining \$4.7 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2010 financial results increased net assets by \$23.8 million. All revenues, except gains on early retirement of debt, for 2010 are considered operating revenues. VSAC realized \$146.9 million in revenues versus \$123.1 million in total expenses. VSAC revenues include interest income on student loans, various federal interest subsidies and special allowance payments, State of Vermont appropriations, and fees earned in the federal guarantee program.

Overall loan revenue to VSAC is closely related to the general interest rate environment. During 2010, loan revenue decreased from \$105.9 to \$80.0 million. The components of loan revenue change are:

	<u>2010</u>	<u>2009</u>
U.S. Department of Education Interest Benefits	\$ 19,107	\$ 18,245
U.S. Department of Education Special Allowance	9,213	14,818
Borrower interest and fees on student loans	108,044	104,022
Borrower interest returned to Department of Education	<u>(56,330)</u>	<u>(31,136)</u>
	<u>\$ 80,034</u>	<u>\$105,949</u>

Interest for certain loans is paid by DE as a subsidized interest benefit to qualifying borrowers. The DE also pays special allowance payments under certain interest rate conditions. Decreasing interest rates and changes in rules regarding eligibility of certain loans subject to floor rates, partially offset by increases in the overall size of the loan portfolio, resulted in a decrease in special allowance payments. Additionally, certain borrower interest in excess of the special allowance formulae must be returned to DE each quarter. The amount returned increased as special allowance payments 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 outstanding bond rates are reset on 7, 28 and 35 day intervals. Rates on student loans are reset each quarter and are based on short term commercial paper or LIBOR rates.

Other revenues associated with the loan and loan guarantee programs include consolidation fees, default aversion fees, collections revenues, and other program fees and revenues. These fees and revenues totaled \$7.2 million in 2010 and \$6.4 million in 2009.

Interest rates remained low throughout the year resulting in decreased interest revenue on investments. Investments include student loan funds temporarily invested in short term investments, and scholarship funds invested for long-term growth and income. Returns on all investments decreased from \$2.1 million to \$0.7 million, as interest rates remained at historically low levels.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

VSAC's regular appropriation increased from \$19.5 million to \$22.0 million. This increase is due primarily to a funding restoration arising from the Federal economic stimulus. As in prior years, the State's appropriation for the grant program was allocated entirely to provide grant funds directly to students.

Federal grants increased from \$4.9 million to \$5.0 million in fiscal 2010.

Scholarship revenues, principally restricted gifts and grants, increased from \$3.6 million in 2009 to \$4.1 million in 2010.

Expenses

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

Student Aid – VSAC provided Vermont students with \$25.8 million in student aid during fiscal 2010. \$20.5 million in grant aid was provided from State appropriations. An additional \$5.3 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 21% of VSAC's operating expenses in fiscal 2010 compared to 16.2% in 2009.

While not strictly a student aid expense, interest rebated to borrowers and fees paid on behalf of borrowers are items that help current and former students and parents manage their education debt. VSAC provided \$6.7 million in rebates of interest to borrowers and \$3.2 million in payment of fees on behalf of borrowers in fiscal 2010. The interest rebates represent 5.4% of VSAC's operating expenses in fiscal 2010 compared to 4.1% in 2009.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the \$393.9 million of loans VSAC made available to students and parents in fiscal 2010.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues both tax-exempt and taxable variable interest bonds and uses short-term credit facilities. The interest costs of the bonds represent a major expense category for VSAC. The interest rates for the bonds are set using auction or remarketing processes that result in rates closely tracking various SIFMA indices or one month LIBOR. Capital markets continued to experience significant stress in 2010 and an ongoing liquidity freeze adversely affected the auction bond market, negatively impacting VSAC's auction bonds. When auctions were not successful in resetting rates, rates were derived using formulas. The formulas use an index (JJ Kenny or short term commercial paper) multiplied by a margin or an average of treasury bills with a margin added to that index. The unprecedented actions taken by the Federal Reserve and U.S. government helped keep interest rates down significantly reducing interest costs for 2010. However, the movements did not reverse the pressure on VSAC's net interest spread between our student loan assets and our bond costs. To help reduce VSAC's exposure to auction bonds, the corporation selectively retired \$167.6 million of bonds before their scheduled maturity date.

With the decrease in bond interest rates from fiscal 2009 to 2010, VSAC interest costs decreased from \$57.2 to \$21.1 million. This expense represents 17.1% of VSAC operating expenses in fiscal 2010 down from 37.3% in 2009.

VERMONT STUDENT ASSISTANCE CORPORATION

(A Component Unit of the State of Vermont)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Years ended June 30, 2011 and 2010

Other Loan Financing Costs – Other expenses incurred in the loan financing area include credit enhancement and remarketing fees for our bond issues, consolidation and lender fees VSAC pays to the federal government, provisions for changes in arbitrage earnings liability to the U.S. Treasury, and increases in VSAC's provision for uninsured loan losses, as well as a variety of other costs incurred in issuing and managing over \$2.4 billion in outstanding bonds and notes. These costs totaled \$36.5 million in fiscal 2010, representing approximately 29.6% of total operating expenses (up from 19.5% in 2009). Changes in these financing costs from year to year are principally due to changes in the total outstanding indebtedness, and by changes in arbitrage liability. Arbitrage liability represents earnings on tax exempt bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

In fiscal 2010, VSAC's provision for losses on student loans was \$12.4 million compared to \$12.8 million in fiscal 2009.

Costs of Operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled \$33.1 million in fiscal 2010, a decrease of approximately 5.6% from fiscal 2009. Salaries and benefits were \$24.3 million in fiscal 2010, approximately 73.4% of costs of operations. Overall costs of operations represent 26.9% of total operating expenses in fiscal 2010 compared to 22.9% in 2009.

Expenses for 2010 totaled \$123.1 million. Revenues totaled \$146.9 million. The surplus of revenues over expenses was \$23.8 million. The change in total net assets for the year was an increase of \$23.8 million. The ending balance of net assets at June 30, 2010 was \$137.7 million, as compared to \$114.0 million at June 30, 2009.

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

STATEMENTS OF NET ASSETS

June 30, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents	\$ 231,702	\$ 138,942
Investments	3,179	2,758
Receivables:		
Student loans, net	166,743	174,381
Student loan interest and special allowance	28,409	40,056
Investment interest	15	17
Federal administrative and program fees	313	503
Other	708	3,887
Other assets	<u>1,311</u>	<u>1,688</u>
Total current assets	432,380	362,232
Noncurrent assets:		
Receivables:		
Student loans, net	1,696,054	2,196,679
Capital assets, net	18,456	19,634
Deferred bond issuance costs, net	<u>8,241</u>	<u>9,030</u>
Total noncurrent assets	<u>1,722,751</u>	<u>2,225,343</u>
Total assets	<u>\$2,155,131</u>	<u>\$2,587,575</u>

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Current liabilities:		
Bonds and notes payable	\$ 329,420	\$ 306,906
Accounts payable and other liabilities	7,084	8,182
Deferred revenue	6,584	7,014
Accrued interest on bonds payable	928	1,103
U.S. Treasury rebates payable	<u>427</u>	<u>104</u>
Total current liabilities	344,443	323,309
Noncurrent liabilities:		
Bonds payable	1,635,432	2,106,355
U.S. Treasury rebates payable	<u>21,131</u>	<u>20,168</u>
Total noncurrent liabilities	<u>1,656,563</u>	<u>2,126,523</u>
Total liabilities	2,001,006	2,449,832
Net assets:		
Invested in capital assets, net of related debt	1,014	1,378
Restricted	112,168	98,710
Unrestricted	<u>40,943</u>	<u>37,655</u>
Total net assets	<u>154,125</u>	<u>137,743</u>
Total liabilities and net assets	<u>\$2,155,131</u>	<u>\$2,587,575</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 ASSETS

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Operating revenues:		
Interest and fees on student loans:		
U.S. Department of Education interest benefits	\$ 11,684	\$ 19,107
U.S. Department of Education special allowance	8,210	9,213
Borrower interest and fees on student loans	91,192	108,044
Borrower interest returned to Department of Education	(42,332)	(56,330)
Vermont state appropriations	21,341	21,990
Interest on cash and investments	453	709
Guarantee agency administrative revenues	5,363	7,248
Federal grants	6,011	5,006
Scholarship and gift income	3,682	4,056
Other income	<u>5,167</u>	<u>740</u>
Total operating revenues	110,771	119,783
Operating expenses:		
Interest, net of amortization	16,135	21,093
Salaries and benefits	25,064	24,277
Grants and scholarships	25,053	25,823
Interest rebated to borrowers	6,283	6,671
Other general and administrative	6,992	7,456
Interest subject to U.S. Treasury rebate	1,285	2,732
Credit enhancement and remarketing fees	6,253	6,785
Consolidation and lender paid fees	9,693	10,627
Other loan related expenses	1,065	1,692
Provision for losses on student loans	11,242	12,410
Depreciation and amortization	1,349	1,359
Amortization of bond issuance costs	<u>1,076</u>	<u>2,223</u>
Total operating expenses	111,490	123,148
Deficiency of operating revenues over operating expenses	(719)	(3,365)
Nonoperating revenues:		
Gain on early bond retirement	<u>17,101</u>	<u>27,134</u>
Excess of revenues over expenses	16,382	23,769
Net assets, beginning of year	137,743	113,974
Net assets, end of year	<u>\$154,125</u>	<u>\$137,743</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers, donors and governments	\$ 38,152	\$ 51,387
Principal payments received on student loans	247,054	252,225
Cash paid to suppliers for goods and services	(32,996)	(32,960)
Grants and scholarship disbursements	(25,053)	(25,823)
Loans made and purchased	(58,082)	(393,929)
Cash paid to employees for salaries and benefits	(23,543)	(24,364)
Interest and fees received on student loans	70,040	53,918
Vermont state appropriations received	<u>21,341</u>	<u>21,990</u>
Net cash provided (used) by operating activities	236,913	(97,556)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds and note payable	19,000	670,782
Payments on bonds	(146,399)	(537,337)
Interest paid to bond holders	<u>(15,281)</u>	<u>(20,237)</u>
Net cash provided (used) by noncapital financing activities	(142,680)	113,208
Cash flows from capital and related financing activities:		
Payments on bonds payable	(820)	(795)
Interest paid to bond holders	(894)	(919)
Proceeds from disposition of fixed assets	—	7
Acquisition and construction of fixed assets	<u>(190)</u>	<u>(217)</u>
Net cash used by capital and related financing activities	(1,904)	(1,924)
Cash flows from investing activities:		
Interest received on cash and investments	455	717
Purchase of investments	(1,384)	(1,863)
Proceeds from sale of investments	<u>1,360</u>	<u>1,636</u>
Net cash provided by investing activities	<u>431</u>	<u>490</u>
Net increase in cash and cash equivalents	92,760	14,218
Cash and cash equivalents, beginning of year	<u>138,942</u>	<u>124,724</u>
Cash and cash equivalents, end of year	\$ <u>231,702</u>	\$ <u>138,942</u>
Supplemental disclosure of non-cash noncapital financing activities:		
Assignment of student loans, net of cash paid, to U.S. Department of Education in exchange for payment of the note payable under the ECASLA program	\$ <u>303,226</u>	\$ <u>—</u>

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

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Deficiency of operating revenues over operating expenses	\$ (719)	\$ (3,365)
Adjustments to reconcile the deficiency of operating revenues over operating expenses to net cash provided (used) by operating activities:		
Depreciation and amortization	1,349	1,359
Provision for losses on student loans	11,242	12,410
Amortization of loan origination fees, net	4,402	2,420
Amortization of bond issuance costs	1,076	2,223
Accretion of bond discount	136	200
Realized and unrealized gain on investments	(396)	(172)
Loss on disposal of fixed assets	19	528
Investment interest received	(455)	(717)
Interest paid to bond holders	16,175	21,156
Changes in operating assets and liabilities:		
Investment interest receivable	2	7
Student loans receivable	189,393	(144,376)
Student loan interest receivable	11,647	8,688
Federal administrative and program fees receivable	190	(13)
Other receivables	3,179	(3,158)
Other assets	377	209
Deferred bond issuance costs	(286)	(649)
Accounts payable and other liabilities	(1,098)	3,608
Deferred revenue	(430)	(238)
Accrued interest on bonds payable	(175)	(263)
U.S. Treasury rebates payable	<u>1,285</u>	<u>2,587</u>
Total adjustments	<u>237,632</u>	<u>(94,191)</u>
Net cash provided (used) by operating activities	\$ <u>236,913</u>	\$ <u>(97,556)</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2011 and 2010

	Federal Loan Reserve <u>Fund</u>	<u>VHEIP</u>	2011 <u>Total</u>	2010 <u>Total</u>
	(In Thousands)			
<u>ASSETS HELD FOR OTHERS</u>				
Cash and cash equivalents	\$ 12,955	\$ —	\$ 12,955	\$ 15,807
Investments	—	151,335	151,335	116,321
Investment interest receivable	—	95	95	86
Due from U.S. Department of Education	3,335	—	3,335	2,440
Other assets	<u>—</u>	<u>77</u>	<u>77</u>	<u>69</u>
Total assets	<u>\$ 16,290</u>	<u>\$ 151,507</u>	<u>\$ 167,797</u>	<u>\$ 134,723</u>
<u>LIABILITIES</u>				
Accounts payable and other liabilities	\$ 611	\$ 208	\$ 819	\$ 1,174
Federal advances	538	—	538	538
Amounts held on behalf of investors	—	151,299	151,299	116,579
Federal loan reserve funds held for U.S. Department of Education	<u>15,141</u>	<u>—</u>	<u>15,141</u>	<u>16,432</u>
Total liabilities	<u>\$ 16,290</u>	<u>\$ 151,507</u>	<u>\$ 167,797</u>	<u>\$ 134,723</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, 2011 and 2010

(Dollars in Thousands)

1. Authorizing Legislation

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that Use Proprietary Fund Accounting*, VSAC applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, to the extent these pronouncements do not conflict with GASB pronouncements.

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

New Accounting Pronouncement

In December 2010 GASB issued Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This pronouncement is intended to codify all sources of Generally Accepted Accounting Principles for state and local governments so that they can be found in one source. This statement will supersede Statement No. 20. It is effective for financial statements for periods beginning after December 15, 2011 and earlier application is encouraged. VSAC is evaluating the impact of this statement but anticipates no changes in accounting or reporting applications will result from its adoption.

Restrictions on Net Assets

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

Management Estimates

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Student Loans

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

Student loans are stated at their unpaid principal balance net of allowances for loan losses and deferred loan origination fees, net of costs. Loan origination fees received and fees paid by the Corporation on behalf of borrowers are deferred and amortized over the estimated life of the loan using a method that approximates the level yield method.

Allowance for Loan Losses

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

Operating Revenue and Expenses

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

Cash Equivalents

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

Investments

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollars in Thousands)

2. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

Bond Issuance Costs

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

Bond Discount/Premium and Deferred 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 unamortized deferred loss related to refunded bonds is deferred and amortized over the life of the original or refunded bonds, whichever is shorter.

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 deferred revenue until they become unrestricted.

FFEL Program Support

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

Compensated Absences

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

Income Tax Status

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments

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

Cash and Cash Equivalents

The carrying amounts which represent both cost and fair value of cash and cash equivalents as of June 30, 2011 and 2010 are presented below:

	<u>2011</u>	<u>2010</u>
Cash and repurchase agreements	\$ 15,104	\$ 19,992
Money market accounts	<u>216,598</u>	<u>118,950</u>
	<u>\$231,702</u>	<u>\$138,942</u>

At June 30, 2011 and 2010, cash and repurchase agreements are comprised of various commercial bank accounts. The bank balances at June 30, 2011 were \$15,897 and the bank balances at June 30, 2010 were \$20,187. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, \$15,897 and \$20,187 of the bank balances at June 30, 2011 and 2010, respectively, were covered by Federal depository insurance or collateralized by repurchase agreements for which the securities are held by the bank's trustee in VSAC's name. No bank balances at June 30, 2011 and 2010 were uninsured or uncollateralized.

At June 30, 2011 and 2010, 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, 2011 and 2010, \$193,188 and \$109,857, respectively, of cash and cash equivalents are limited to their use for the repayment of bond and note obligations.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Investments

VSAC held the following investments at June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Domestic equities	\$ 2,034	\$ 2,309	\$ 1,858	\$ 1,806
Corporate bonds	343	344	341	352
Government bonds	<u>513</u>	<u>526</u>	<u>582</u>	<u>600</u>
	<u>\$ 2,890</u>	<u>\$ 3,179</u>	<u>\$ 2,781</u>	<u>\$ 2,758</u>

At June 30, 2011, the ratings for investments in debt securities are summarized as follows:

<u>Investment</u>		<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Corporate bonds:				
AT&T Inc.	4.450%	5/15/2021	\$ 10	A-
Bank of Nova Scotia	2.375%	12/17/2013	26	AA-
Berkshire Hathaway	5.400%	5/15/2018	28	AA+
Cisco Systems Inc	4.950%	2/15/2019	11	A+
Conocophillips	4.750%	2/1/2014	22	A
GE Company	5.000%	2/1/2013	11	AA+
General Electric Cap Corporation	5.625%	9/15/2017	27	AA+
Hewlett Packard Company	4.750%	6/2/2014	27	A
JP Morgan Chase & Company	6.000%	1/15/2018	22	A+
Pepsico Inc.	3.100%	1/15/2015	37	A-
SBC Communications	5.100%	9/15/2014	11	A-
United Tech Corporation	6.100%	5/15/2012	47	A
Wal-Mart Stores	4.550%	5/1/2013	43	AA
Wells Fargo & Company	5.625%	12/11/2017	<u>22</u>	AA-
			<u>\$ 344</u>	

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

<u>Investment</u>		<u>Maturities</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Government bonds:				
Fed Home Ln Mtg	5.000%	1/30/2014	\$ 39	AAA
Fed Home Ln Mtg	4.750%	11/17/2015	51	AAA
FNMA	5.375%	6/12/2017	41	AAA
U.S. Treasury Note	4.125%	8/31/2012	5	AAA
U.S. Treasury Note	3.125%	8/31/2013	111	AAA
U.S. Treasury Bonds	4.250%	11/15/2014	55	AAA
U.S. Treasury Note	4.875%	8/15/2016	46	AAA
U.S. Treasury Note	4.750%	8/15/2017	40	AAA
U.S. Treasury Note	3.125%	5/15/2019	52	AAA
U.S. Treasury Note	2.625%	8/15/2020	24	AAA
Ontario Prov Cda	5.000%	10/18/2011	25	AA-
Ontario Prov Cda	2.950%	2/5/2015	<u>37</u>	AA-
			<u>\$526</u>	

On August 5, 2011, U.S. Government securities were downgraded to AA+ by Standard & Poor.

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

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

Concentration of Credit Risk: VSAC places no limit on the amount of investments in any one issuer. However, VSAC's investment manager is currently instructed to invest approximately 70% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap. As of June 30, 2011 and 2010, 11% and 13%, respectively, of VSAC's investments were invested in U.S. Treasuries. No other single issuer represented more than 5% of VSAC's investments at either June 30, 2011 or 2010

Custodial Credit Risk

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

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4. Student Loans Receivable

At June 30, 2011, VSAC held student loans with interest rates ranging from 1.63% to 10.0%; the majority insured by DE and the U.S. Department of Health and Human Services. Approximately 15% of student loans are not guaranteed. Most of VSAC's borrowers are located in the New England states.

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

Student loans receivable as of June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Status:		
Interim status	\$ 160,943	\$ 490,061
Deferral status	308,982	401,011
Repayment status	1,427,676	1,510,173
Less: Allowance for loan losses	(34,135)	(34,338)
Deferred origination fees, net	(3,568)	(4,123)
Plus: Deferred fees paid on borrowers behalf	<u>2,899</u>	<u>8,276</u>
 Total student loans receivable	 1,862,797	 2,371,060
Less: noncurrent student loans receivable	<u>1,696,054</u>	<u>2,196,679</u>
 Current student loans receivable	 <u>\$ 166,743</u>	 <u>\$ 174,381</u>
 Guarantee type:		
U.S. Department of Education	\$1,561,807	\$2,059,693
U.S. Department of Health and Human Services	6,537	7,676
Other – Guaranteed	35,818	38,948
Nonguaranteed	293,439	294,928
Less: Allowance for loan losses	(34,135)	(34,338)
Deferred origination fees, net	(3,568)	(4,123)
Plus: Deferred fees paid on borrowers behalf	<u>2,899</u>	<u>8,276</u>
 Total student loans receivable	 1,862,797	 2,371,060
Less: noncurrent student loans receivable	<u>1,696,054</u>	<u>2,196,679</u>
 Current student loans receivable	 <u>\$ 166,743</u>	 <u>\$ 174,381</u>

VERMONT STUDENT ASSISTANCE CORPORATION

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4. Student Loans Receivable (Continued)

\$1,886,864 and \$2,392,554 of student loans were pledged to the repayment of bonds and notes as of June 30, 2011 and 2010, respectively.

Transactions in the allowance for loan losses for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Balance July 1	\$ 34,338	\$ 33,765
Net loans charged off	(11,445)	(11,837)
Provision for losses on student loans	<u>11,242</u>	<u>12,410</u>
Balance June 30	<u>\$ 34,135</u>	<u>\$ 34,338</u>

The allowance for loan losses represents management's estimate of probable losses on student loans. Management uses the amounts of loans in the portfolio, loss rate, delinquencies, current economic conditions, and historical loss experience. Should any of these factors change significantly from those currently used by management, the estimate will change. At June 30, 2011 and 2010, \$79,921 and \$73,973, respectively, of student loan receivable were over 90 days past due, of which all but \$13,124 and \$12,926, respectively, were guaranteed by one of the guarantee types shown above.

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

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

Changes in Federal loan reserve funds held for DE for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
<i>Additions:</i>		
Reimbursement from DE on default loan purchases	\$31,446	\$30,635
Default loan collections	191	164
Loan administrative fees	10	3,114
Investment income	29	36
Other, net	<u>173</u>	<u>971</u>
Total additions	31,849	34,920

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

	<u>2011</u>	<u>2010</u>
<i>Deductions:</i>		
Purchases of defaulted loans from lenders	\$32,514	\$32,551
Default aversion fee paid	<u>626</u>	<u>716</u>
Total deductions	<u>33,140</u>	<u>33,267</u>
Net (decrease) increase in federal loan reserve funds held	(1,291)	1,653
Federal loan reserve funds held, at beginning of year	<u>16,432</u>	<u>14,779</u>
Federal loan reserve funds held, at end of year	<u>\$15,141</u>	<u>\$16,432</u>

To provide security and liquidity against potential defaults, VSAC is required to maintain reserves as specified by Title 16, Vermont Statutes Annotated §2864, Section 422 of Act 20 United States Code 1072, and under various agreements with the bond liquidity and credit enhancement providers. The *Higher Education Act Amendments of 1998* require VSAC to maintain reserves equal to 0.25% of student loans guaranteed. During 2011 and 2010, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were \$1,561,807 and \$2,059,693 at June 30, 2011 and 2010, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

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

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

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

The changes in assets held on behalf of investors for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
<i>Additions:</i>		
Investment income	\$ 2,416	\$ 1,922
Net realized and unrealized gains	17,665	7,887
Net participant subscriptions/redemptions	<u>14,639</u>	<u>24,646</u>
Total additions	34,720	34,455
<i>Deductions:</i>		
Operational expenses	<u>—</u>	<u>634</u>
Total deductions	<u>—</u>	<u>634</u>
Net increase in assets held on behalf of investors	34,720	33,821
Assets held on behalf of investors, at beginning of year	<u>116,579</u>	<u>82,758</u>
Assets held on behalf of investors, at end of year	<u>\$151,299</u>	<u>\$116,579</u>

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

	<u>Estimated Lives</u>	Balance July 1, 2009	Net Acqui- sitions (Disposals)	Balance June 30, 2010	Net Acqui- sitions (Disposals)	Balance June 30, 2011
Land	—	\$ 3,150	\$ —	\$ 3,150	\$ —	\$ 3,150
Furniture and equipment	3 – 15 Years	8,139	42	8,181	(144)	8,037
Software	3 – 5 Years	1,950	(373)	1,577	14	1,591
Building	5 – 30 Years	<u>16,765</u>	<u>—</u>	<u>16,765</u>	<u>7</u>	<u>16,772</u>
		30,004	(331)	29,673	(123)	29,550
Less accumulated depreciation		<u>8,694</u>	<u>1,345</u>	<u>10,039</u>	<u>1,055</u>	<u>11,094</u>
Capital assets, net		21,310	\$(1,676)	19,634	\$(1,178)	18,456
Less bonds payable, net of bond discount		<u>(19,046)</u>		<u>(18,256)</u>		<u>(17,442)</u>
Net investment in property and equipment		\$ <u>2,264</u>		\$ <u>1,378</u>		\$ <u>1,014</u>

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7. Capital Assets (Continued)

Depreciation charged to operations for the years ended June 30, 2011 and 2010 was \$1,349 and \$1,359, respectively.

In fiscal year 2010, VSAC completed and placed into service a software system for which certain project modules were eliminated from the final software solution. VSAC recognized a loss on the disposal of these project modules of \$535.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes at June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
<i><u>Bonds Payable:</u></i>		
<i><u>Bonds Payable which were issued to finance the origination of student loans:</u></i>		
1995 Series A, B, C and D, dated June 29, 1995; comprised of auction rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.5% to 0.96% during fiscal year 2011 (0.5% to 0.66% at June 30, 2011).	\$ 72,000	\$ 72,000
1996 Series F, G, H and I, dated May 22, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.56% to 0.96% during fiscal year 2011 (0.56% to 0.66% at June 30, 2011).	72,550	72,550
1998 Series K-O, dated June 24, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.438% to 0.84% during fiscal year 2011 (0.438% to 0.543% at June 30, 2011).	111,800	123,750
2000 Series R, S, T and U, dated May 31, 2000; comprised of auction rate bonds maturing December 2034. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.508% to 0.823% during fiscal year 2011 (0.508% to 0.613% at June 30, 2011).	112,150	112,300
2001 Series V, W and Z dated June 27, 2001; comprised of auction rate bonds maturing December 2035. Interest is reset every 35 days for Series V and W, and every 7 days for Series Z. Interest is payable semi-annually at rates which ranged from 0.438% to 0.869% during fiscal year 2011 (0.438% to 0.473% at June 30, 2011).	84,600	84,750
2001 Series X, Y and AA dated June 27, 2001; comprised of auction rate bonds maturing December 2036; interest is reset, and payable, every 28 days for Series X and Y, and every 7 days for Series AA. Interest rates ranged from 0.00% to 17.86% during fiscal year 2011 (0.464% to 1.498% at June 30, 2011).	28,300	75,350

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8. Bonds and Notes Payable (Continued)

	<u>2011</u>	<u>2010</u>
2002 Series BB, CC and DD dated October 8, 2002; comprised of auction rate bonds maturing December 2036. Interest is reset every 35 days and payable semi-annually at rates which ranged from 0.5% to 0.90% during fiscal year 2011 (0.5% to 0.7% at June 30, 2011).	\$ 105,500	\$ 112,500
2003 Series FF, GG, HH and LL dated May 30, 2003; comprised of auction rate bonds with maturity dates ranging from June 2009 through December 2015; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.5% to 0.96% during fiscal year 2011 (0.50% to 0.66% at June 30, 2011).	164,900	164,900
2003 Series II, JJ and KK dated May 30, 2003; comprised of auction rate bonds maturing December 2037; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.54% to 0.96% during fiscal year 2011 (0.54% to 0.66% at June 30, 2011).	126,700	130,800
2004 Series MM dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.32% to 0.60% during fiscal year 2011 (0.32% at June 30, 2011).	74,700	74,700
2004 Series NN and PP dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.28% to 0.58% during fiscal year 2011 (0.28% at June 30, 2011).	120,700	120,750
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset and payable every 28 days at rates which ranged from 0.00% to 16.642% during fiscal year 2011 (0.00% at June 30, 2011).	37,700	39,650
2005 Series RR/SS dated June 21, 2005; comprised of auction rate bonds maturing December 2039; interest is reset and payable every 28 days at rates which ranged from 0.00% to 16.824% during fiscal year 2011 (16.824% at June 30, 2011).	36,850	42,375
2006 Series TT-VV dated July 12, 2006; comprised of auction rate bonds maturing December 2040; interest is reset every 35 days for the Series TT and UU and every 7 days for the Series VV. Interest is payable semi-annually at rates which ranged from 0.2% to 0.66% during fiscal year 2011 (0.20% to 0.32% at June 30, 2011).	103,925	103,925
2007 Series WW/XX dated June 19, 2007; comprised of auction rate bonds maturing December 2041; interest is reset every 35 days and payable semi-annually at rates which ranged from 0.2% to 0.66% during fiscal year 2011 (0.20% at June 30, 2011).	121,275	138,800
2007 Series YY dated December 7, 2007; comprised of auction rate bonds maturing December 2041; interest is reset and payable every 7 days at rates which ranged from 0.00% to 17.576% during fiscal year 2011 (0.00% at June 30, 2011).	82,075	88,925

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8. Bonds and Notes Payable (Continued)

	<u>2011</u>	<u>2010</u>
2008 Series B-1 dated June 26, 2008; comprised of variable rate demand bonds maturing December 2039; interest is reset every 7 days and payable semi-annually at rates which ranged from 0.08% to 0.32% during fiscal year 2011 (0.08% at June 30, 2011).	\$ 102,985	\$ 120,385
2008 Series C-1 and C-2 dated September 1, 2008; comprised of variable rate demand bonds maturing December 2040; interest is reset every 7 days and payable semi-annually at rates which ranged from 0.1% to 0.38% during fiscal year 2011 (0.10% to 0.11% at June 30, 2011).	186,000	200,000
2010 Series A-1 dated August 3, 2010; comprised of fixed rate bonds maturing between December 15, 2015 and 2030; interest is fixed and payable semi-annually at rates ranging from 3.0% to 5.0%.	19,000	—
<i><u>Other Bonds Payable:</u></i>		
2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates are fixed ranging from 2.00% to 5.00% payable semi-annually.	17,555	18,375
<i><u>Notes Payable:</u></i>		
Note Payable under the ECASLA Asset Backed Commercial Paper Conduit (ABCP) program dated June 30, 2009. A variable rate is calculated monthly by the Conduit Manager and Administrator which ranged from 0.535% to 0.543%; (0.535% at June 30, 2011) maturing September 30, 2014	183,417	210,900
Note Payable under the ECASLA Participation program dated June 15, 2009. A variable rate is calculated quarterly by the Department of Education which ranged from 0.71% to 0.91%; (0.71% at June 30, 2010) maturing September 30, 2010.	<u>—</u>	<u>306,086</u>
Total bonds and notes payable	1,964,682	2,413,771
Bond premium/discount, net	365	(119)
Deferred loss on refunding, net	<u>(195)</u>	<u>(391)</u>
Total bonds and notes	1,964,852	2,413,261
Less: current portion bonds and notes	<u>329,420</u>	<u>306,906</u>
Noncurrent portion of bonds and notes	<u>\$1,635,432</u>	<u>\$2,106,355</u>

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8. **Bonds and Notes Payable (Continued)**

All bonds and notes, except the 2003 General Obligation bonds, are limited obligations of VSAC and are secured, as provided in the underlying bond resolutions, by an assignment and pledge to the Trustee of all VSAC's rights, title and interest in student loans; and revenues derived thereon and the guarantee thereof, including the insurance of certain student loans by DE. In addition, a significant portion of cash and cash equivalents (including debt service reserve accounts which may be used to replenish any deficiency in funds required to pay principal and interest due on the bonds) are held in trust to secure the bonds, except the 2003 General Obligation bonds.

In 2011 and 2010, due to ongoing disruptions in the capital markets, the interest rates paid on auction bonds fluctuated significantly due to failed auction formulae. These rates varied from as low as 0% to as high as 18% over 2011 and 2010. This variability is tied to the variable indices in the failed auction formula and the maximum rates defined in the bond indentures.

The 1995 Series A-D, 1996 Series F-I, 1998 Series K-N, 2000 Series R-U, 2001 Series V-AA, 2002 Series BB-DD, 2003 Series FF-LL, 2004 Series MM-PP, 2005 Series RR-SS, 2006 TT-VV, and the 2007 WW-YY bonds are secured for credit-worthiness by AMBAC Assurance Corporation. The 2003 General Obligation bonds and the 1998 Series O bonds payable have no credit support. The 2008 Series B-1 bonds have liquidity support by a Letter of Credit Reimbursement Agreement issued by the Bank of New York that expires on January 6, 2012. The 2008 Series C-1 and C-2 bonds have liquidity support from a Letter of Credit Reimbursement Agreement issued by Lloyds TSB Bank plc that expires on December 9, 2011. Management intends to negotiate and renew both of these Letter of Credit Reimbursement Agreements. The ECASLA Participation note is a short term obligation to the Department of Education and has no other credit or liquidity support. The ECASLA ABCP Conduit note has liquidity support from a Put Agreement between the Department of Education, the Conduit (Straight-A Funding LLC) and the Conduit Administrator (Bank of New York-Mellon). The 2010 A-1 has no additional credit support.

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

Proceeds from issuance of the bonds and notes payable, except the 2003 General Obligation bonds, and all revenues thereon are held in trust and are restricted as follows: to repurchase bonds; finance student loans; pay interest on the bonds; maintain required reserves; and pay reasonable and necessary program expenses.

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

During 2011, VSAC retired \$133,700 of various bonds and notes for \$116,599. VSAC realized a gain of \$17,101. Additionally, during 2011 VSAC repaid the entire balance due under the ECASLA Participation program through assignment of FFEL Program loans financed by this program to the Department of Education. During 2010, VSAC retired \$167,625 of various bonds for \$140,491. VSAC realized a gain of \$27,134.

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8. Bonds and Notes Payable (Continued)

The debt service requirements, which are based on the interest rates at June 30, 2011, through 2016 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>
FY12	\$ 329,420	\$ 15,607	\$ 345,027
FY13	25,450	14,869	40,319
FY14	465	14,771	15,236
FY15	233,807	13,563	247,370
FY16	51,115	12,846	63,961
FY17 – 21	11,880	62,072	73,952
FY22 – 26	80,315	59,465	139,780
FY27 – 31	9,865	55,753	65,618
FY32 – 36	312,090	49,086	361,176
FY37 – 41	706,925	24,322	731,247
FY42 – 46	<u>203,350</u>	<u>1,082</u>	<u>204,432</u>
Total	<u>\$1,964,682</u>	<u>\$323,436</u>	<u>\$2,288,118</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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$2,413,261	\$2,307,545
Issuance	19,000	670,782
Premium on issuance	544	–
Redemptions and refundings	(468,089)	(565,266)
Accretion/amortization of discount/premium	<u>136</u>	<u>200</u>
Balance at end of year	<u>\$1,964,852</u>	<u>\$2,413,261</u>

9. U.S. Treasury Rebates Payable

The bonds issued by VSAC are subject to Internal Revenue Service (IRS) regulations which limit the amount of income which may be earned on certain cash equivalents, investments and student loans acquired with bond proceeds. Any excess earnings are to be refunded to the U.S. Treasury. VSAC has estimated that there are U.S. Treasury rebates payable at June 30, 2011 and 2010 of \$21,558 and \$20,272, respectively. VSAC has estimated the current portion to be \$427 and \$104 at June 30, 2011 and 2010, respectively. VSAC refunded to the U.S. Treasury \$144 and \$146 in excess earnings in 2011 and 2010, respectively.

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10. Student Loan Interest and Special Allowance Revenues

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

DE provides a special allowance to lenders participating in the Stafford, PLUS, SLS, and Consolidation student loan programs. Special allowance is paid based on a rate that is established quarterly. For loans first disbursed before January 1, 2000, the rate is based on the average rate established in the auction of the thirteen-week U.S. Treasury bills, plus a pre-determined factor, less the interest rate on the loan. For loans first disbursed on or after January 1, 2000, financed with obligations issued after October 1, 1993, the rate is based on the average rate established in the auction of three-month Financial Commercial Paper, plus a pre-determined factor, less the interest rate on the loan. Certain loans made or purchased prior to February 8, 2006 with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993, are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans made or purchased with these obligations on or after February 8, 2006 are eligible for full special allowance and are not subject to a minimum return. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations originally issued after October 1, 1993, are eligible for full special allowance and are not subject to a minimum return.

DE restricts student loan interest revenue for loans first disbursed after April 1, 2006. VSAC is required to return borrower loan interest in excess of the special allowance formulae rates for certain Stafford, PLUS, and Consolidation loans. The return of interest totaled \$42,332 and \$56,330 in 2011 and 2010, respectively, and is reflected as a reduction of interest and fees and student loans in the Statements of Revenues, Expenses and Changes in Net Assets.

11. Endowment Funds

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

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

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11. Endowment Funds (Continued)

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

The VSAC Board of Directors has established a total-return spending rate policy, and almost all of the endowment agreements specify this approach. In this approach, the amount of funds that may be expended from an endowment is based on a percentage of the fund’s average historical total value, and may come from the total return on the fund, including interest and dividend earnings, appreciation or original gift value. Total investment return in excess of the established spending rate is considered to be nonexpendable in future periods. The spending rate may be adjusted by the Board of Directors at their discretion. The Board applied this policy in several instances in FY 2010 where donors requested spending of “principal” (i.e., spending that would take a fund below its historic contributed value) and, with one exception, the Board determined that the proposed spending would not be prudent. The one exception was for an endowment where the gift instrument expressly authorized the spending of principal.

At June 30, 2011 and 2010, the total net assets related to endowment funds were \$3,343 and \$2,941, respectively. Expendable restricted net assets totaled \$157 and \$79, respectively. The remaining \$3,186 and \$2,862, respectively, of net assets related to endowment funds were nonexpendable.

12. Restricted Net Assets

Restrictions on net assets are the result of bond resolutions, state statutes, various federal regulations and program agreements, and donor restrictions. Bond resolutions restrict net assets 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 assets to use for specific grant, scholarship and educational activities. Donors have restricted a number of endowment funds for scholarship awards. Restricted net assets as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Restricted by bond resolutions	\$105,835	\$94,026
Restricted by Federal or State Statute	2,961	1,716
Donor restricted for scholarships	<u>3,372</u>	<u>2,968</u>
Total restricted net assets	<u>\$112,168</u>	<u>\$98,710</u>

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13. Retirement Benefits

Full-time employees of VSAC that meet specific eligibility requirements are participants in a retirement annuity plan. This plan is a multi-employer defined contribution plan sponsored by Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). The payroll for employees covered under the plan for the fiscal year ended June 30, 2011 and 2010 amounted to \$15,993 and \$16,913, respectively; VSAC's total payroll was \$17,475 and \$17,064, respectively. (The 2011 amount includes \$1,606 paid or accrued under an employee voluntary separation plan; see note 17.) Total contributions by VSAC amounted to \$1,599 and \$1,691 in 2011 and 2010, respectively, which represented 10% of the covered payroll.

In June of 2004 the Governmental Accounting Standards Board issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement requires recognition of current period costs related to expected future expenditures for Other Post Employment Benefits (OPEB). VSAC employees who complete 15 years of continuing service and who are not otherwise eligible for Medicare coverage may elect to continue to buy VSAC's health care coverage at COBRA rates. VSAC has determined that this obligation is not material and has not recorded a liability for OPEB at June 30, 2011 and 2010.

14. Contingencies

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

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

A summary of the reserve for self-insured medical and dental liabilities included in accounts payable and other liabilities on the statement of net assets for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 336	\$ 407
Claims paid	(3,961)	(3,828)
Accrual for estimated claims	<u>3,999</u>	<u>3,757</u>
Balance, end of year	\$ <u>374</u>	\$ <u>336</u>

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14. Contingencies (Continued)

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

A suit was brought by a former employee of DE in September 2009 in the United States District Court for the Eastern District of Virginia (the Court) under the *Federal False Claims Act*, against nine lenders participating in the federal *Higher Education Act* loan programs, including VSAC. The suit alleges wrongful acts in connection with so-called 9.5% "floor" loans, referring to Special Allowance Payment (SAP) billings submitted by VSAC to DE. On December 1, 2009, the Court dismissed VSAC from the action concluding that VSAC as an agency of the State of Vermont was not amenable to suit under the *False Claims Act*. The plaintiff appealed the dismissal in December 2010, and the appeal is now pending in the federal Court of Appeals for the 4th Circuit. A decision on the appeal is expected no earlier than the second half of 2011. VSAC strongly believes these claims to be unsupported by the facts and the law and is vigorously contesting the suit.

15. Loan Commitments

At June 30, 2011 and 2010, VSAC had commitments to extend credit for student loans of approximately \$563 and \$1,362, respectively. Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses. VSAC uses the same credit policies in making commitments as it does for student loans receivable.

16. Segment Reporting

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

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

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16. Segment Reporting (Continued)

Bond – This segment includes the activities of all VSAC education loan financing instruments, including the notes payable established under the ECASLA program, and the related secured assets. Accumulated fund 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 fund balance of this segment represents unspent invested amounts in the Vermont Student Development Fund, Inc. (d/b/a the Vermont Scholarship Fund), a permanent endowment.

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

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

Condensed Statement of Net Assets

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Assets:					
Current assets	\$31,795	\$ 387,905	\$ 9,539	\$ 3,141	\$ 432,380
Capital assets, net	18,456	—	—	—	18,456
Other noncurrent assets	<u>10,589</u>	<u>1,693,706</u>	<u>—</u>	<u>—</u>	<u>1,704,295</u>
Total assets	<u>\$60,840</u>	<u>\$2,081,611</u>	<u>\$ 9,539</u>	<u>\$ 3,141</u>	<u>\$2,155,131</u>
Liabilities:					
Current liabilities	\$ 6,115	\$ 331,981	\$ 6,167	\$ 180	\$ 344,443
Noncurrent liabilities	16,811	1,639,752	—	—	1,656,563
Interfund (receivable) payable	<u>(4,048)</u>	<u>4,048</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total liabilities	18,878	1,975,781	6,167	180	2,001,006
Net assets:					
Net investment in capital assets	1,014	—	—	—	1,014
Restricted	—	105,835	3,372	2,961	112,168
Unrestricted	<u>40,948</u>	<u>(5)</u>	<u>—</u>	<u>—</u>	<u>40,943</u>
Total net assets	<u>41,962</u>	<u>105,830</u>	<u>3,372</u>	<u>2,961</u>	<u>154,125</u>
Total liabilities and net assets	<u>\$60,840</u>	<u>\$2,081,611</u>	<u>\$ 9,539</u>	<u>\$ 3,141</u>	<u>\$2,155,131</u>

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16. Segment Reporting (Continued)

Condensed Statement of Revenues and Expenses

	<u>Oper-</u> <u>ations</u>	<u>Bond</u>	<u>Scholar-</u> <u>ships</u>	<u>Grants</u>	<u>Total</u>
Revenues:					
Interest and fees on student loans	\$ (2,891)	\$ 71,645	\$ —	\$ —	\$ 68,754
Guarantee agency administrative program revenues	5,363	—	—	—	5,363
Vermont state appropriations	—	—	1,063	20,278	21,341
Federal grants	4,810	—	1,004	197	6,011
Scholarship and gift income	—	—	3,682	—	3,682
Interest on cash and investments, and other income	<u>244</u>	<u>4,897</u>	<u>479</u>	<u>—</u>	<u>5,620</u>
Total operating revenues	7,526	76,542	6,228	20,475	110,771
Expenses:					
Operating expenses	25,194	57,477	6,122	20,272	109,065
Depreciation and amortization	<u>1,360</u>	<u>1,065</u>	<u>—</u>	<u>—</u>	<u>2,425</u>
Total expenses	<u>26,554</u>	<u>58,542</u>	<u>6,122</u>	<u>20,272</u>	<u>111,490</u>
Excess (deficiency) of operating revenues over expenses	(19,028)	18,000	106	203	(719)
Gain on early bond retirement	—	17,101	—	—	17,101
Interfund transfer	<u>21,952</u>	<u>(23,292)</u>	<u>298</u>	<u>1,042</u>	<u>—</u>
Excess of revenues over expenses	2,924	11,809	404	1,245	16,382
Total net assets, beginning of year	<u>39,038</u>	<u>94,021</u>	<u>2,968</u>	<u>1,716</u>	<u>137,743</u>
Total net assets, end of year	<u>\$41,962</u>	<u>\$105,830</u>	<u>\$ 3,372</u>	<u>\$ 2,961</u>	<u>\$154,125</u>

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June 30, 2011 and 2010

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16. Segment Reporting (Continued)

Condensed Cash Flow Statement

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Cash provided (used) by operating activities	\$ 10,384	\$ 225,778	\$ (681)	\$ 1,432	\$ 236,913
Cash used by noncapital financing activities	—	(142,680)	—	—	(142,680)
Cash used by capital and related financing activities	(1,904)	—	—	—	(1,904)
Cash provided by investing activities	<u>139</u>	<u>233</u>	<u>59</u>	<u>—</u>	<u>431</u>
Net increase (decrease) in cash and cash equivalents	8,619	83,331	(622)	1,432	92,760
Cash and cash equivalents, beginning of year	<u>20,449</u>	<u>109,857</u>	<u>6,953</u>	<u>1,683</u>	<u>138,942</u>
Cash and cash equivalents, end of year	<u>\$29,068</u>	<u>\$ 193,188</u>	<u>\$ 6,331</u>	<u>\$ 3,115</u>	<u>\$ 231,702</u>

VSAC's segment financial reporting at June 30, 2010:

Condensed Statement of Net Assets

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Assets:					
Current assets	\$23,453	\$ 327,269	\$ 9,741	\$ 1,769	\$ 362,232
Capital assets, net	19,634	—	—	—	19,634
Other noncurrent assets	<u>11,768</u>	<u>2,193,941</u>	<u>—</u>	<u>—</u>	<u>2,205,709</u>
Total assets	<u>\$54,855</u>	<u>\$2,521,210</u>	<u>\$ 9,741</u>	<u>\$ 1,769</u>	<u>\$2,587,575</u>
Liabilities:					
Current liabilities	\$ 4,925	\$ 311,558	\$ 6,773	\$ 53	\$ 323,309
Noncurrent liabilities	17,045	2,109,478	—	—	2,126,523
Interfund (receivable) payable	<u>(6,153)</u>	<u>6,153</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total liabilities	15,817	2,427,189	6,773	53	2,449,832
Net assets:					
Net investment in capital assets	1,378	—	—	—	1,378
Restricted	—	94,026	2,968	1,716	98,710
Unrestricted	<u>37,660</u>	<u>(5)</u>	<u>—</u>	<u>—</u>	<u>37,655</u>
Total net assets	<u>39,038</u>	<u>94,021</u>	<u>2,968</u>	<u>1,716</u>	<u>137,743</u>
Total liabilities and net assets	<u>\$54,855</u>	<u>\$2,521,210</u>	<u>\$ 9,741</u>	<u>\$ 1,769</u>	<u>\$2,587,575</u>

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16. Segment Reporting (Continued)

Condensed Statement of Revenues and Expenses

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Revenues:					
Interest and fees on student loans	\$ (979)	\$81,013	\$ —	\$ —	\$ 80,034
Guarantee agency administrative program revenues	7,248	—	—	—	7,248
Vermont state appropriations	—	—	667	21,323	21,990
Federal grants	3,978	—	848	180	5,006
Scholarship and gift income	—	—	4,056	—	4,056
Interest on cash and investments, and other income	<u>609</u>	<u>588</u>	<u>252</u>	<u>—</u>	<u>1,449</u>
Total operating revenues	10,856	81,601	5,823	21,503	119,783
Expenses:					
Operating expenses	7,227	86,516	5,332	20,491	119,566
Depreciation and amortization	<u>1,370</u>	<u>2,212</u>	<u>—</u>	<u>—</u>	<u>3,582</u>
Total expenses	<u>8,597</u>	<u>88,728</u>	<u>5,332</u>	<u>20,491</u>	<u>123,148</u>
Excess (deficiency) of operating revenues over expenses	2,259	(7,127)	491	1,012	(3,365)
Gain on early bond retirement	—	27,134	—	—	27,134
Interfund transfer	<u>(935)</u>	<u>935</u>	<u>—</u>	<u>—</u>	<u>—</u>
Excess of revenues over expenses	1,324	20,942	491	1,012	23,769
Total net assets, beginning of year	<u>37,714</u>	<u>73,079</u>	<u>2,477</u>	<u>704</u>	<u>113,974</u>
Total net assets, end of year	<u>\$39,038</u>	<u>\$94,021</u>	<u>\$2,968</u>	<u>\$1,716</u>	<u>\$137,743</u>

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16. Segment Reporting (Continued)

Condensed Cash Flow Statement

	<u>Oper- ations</u>	<u>Bond</u>	<u>Scholar- ships</u>	<u>Grants</u>	<u>Total</u>
Cash provided (used) by operating activities	\$ 6,464	\$(104,984)	\$ (13)	\$ 977	\$(97,556)
Cash provided by noncapital financing activities	—	113,208	—	—	113,208
Cash used by capital and related financing activities	(1,924)	—	—	—	(1,924)
Cash provided (used) by investing activities	<u>340</u>	<u>295</u>	<u>(145)</u>	<u>—</u>	<u>490</u>
Net increase (decrease) in cash and cash equivalents	4,880	8,519	(158)	977	14,218
Cash and cash equivalents, beginning of year	<u>15,569</u>	<u>101,338</u>	<u>7,111</u>	<u>706</u>	<u>124,724</u>
Cash and cash equivalents, end of year	<u>\$20,449</u>	<u>\$ 109,857</u>	<u>\$ 6,953</u>	<u>\$ 1,683</u>	<u>\$138,942</u>

17. Termination Benefits

During 2011 VSAC implemented a Voluntary Separation Program, according to the terms of which certain employees could elect to terminate their employment in return for a package of benefits. This package included continuing payment of their base compensation for a seniority-based period following their departure; the minimum period was 14 weeks and the maximum was 54 weeks. The program also included an option to pay 65% of the terminating employees' COBRA medical/dental insurance coverage for a period up to nine months following their departure from VSAC. Additionally the program included commitments to assist with job placement services for six months following termination.

Fifty-eight VSAC employees accepted the offer and executed required documents during 2011, with the last terminating employees leaving on June 10, 2011. The discounted estimated future costs under this program were accrued as of June 30, 2011, and the final payments under the program will be made in July of 2012. The accrual related to compensation was calculated based on each participating employee's rate of pay as of their termination date, together with their years of service, which determined the number of weeks of separation payments they were entitled to under the plan. The accrual for COBRA assistance was based on the employees who elected to continue their medical/dental coverage under COBRA within 60 days of their terminations and assumes these employees will continue using this benefit for the full nine months permitted under the VSP. No accrual was made for job placement assistance payments, since the amount and timing of these expenses are not estimated to be significant.

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17. Termination Benefits (Continued)

During 2011 the following expenses were recognized under this program:

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

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

18. Subsequent Events

In July 2011 the Company issued its 2011A-1 student loan bonds in a total amount of \$15,000. These bonds are fixed-rate tax-exempt bonds maturing between 2013 and 2027, bearing interest at effective rates ranging from 1.72% to 5.07%, and coupons ranging from 3.0% to 5.0%. The debt service on the bonds is supported by the moral obligation of the State of Vermont.