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

FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

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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, 2005 and 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005, on our consideration of Vermont Student Assistance Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control on financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2 – 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2005 and 2004 information, 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.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 7, 2005

The Vermont Student Assistance Corporation (VSAC or the Corporation) is a public non-profit corporation created by the State of Vermont to provide opportunities for Vermont residents to pursue post-secondary 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 guarantees, makes, finances and services education loans to students and parents. VSAC also administers student employment programs, and outreach services to students and adults seeking post-secondary education opportunities. The Corporation also contracts with several schools and colleges in Vermont to serve as the financial aid office for the institution. 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 also administers and awards over 105 scholarship funds, including both scholarship funds held and managed by VSAC, and outside scholarships.

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

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

Management's Discussion and Analysis Report includes Fiscal 2005 and Fiscal 2004 information due to the fact that the Financial Statements include Fiscal 2005 and Fiscal 2004 information.

FISCAL 2005

Fiscal 2005 Highlights and Overall Financial Position

- During the year ended June 30, 2005 VSAC provided over $20.8 million in grants and scholarships to Vermont students.
- VSAC originated over $494.4 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.5 billion in education loans receivable at June 30, 2005.
- VSAC returned over $7.6 million in interest and principal rebates to students in its loan programs during fiscal 2005.
- VSAC's total net assets increased $6.2 million to $107.8 million.

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 gain a complete understanding of VSAC's financial position.

Condensed Financial Information

Statement of Revenues and Expenses

	2005	2004
	(in thousands)	
Revenues:		
Interest and fees earned from education loan financing	$102,018	$ 84,539
Other loan and guarantee program revenues	4,422	4,948
Investment interest	4,472	2,058
Vermont state appropriations	17,143	16,684
Federal grants	2,693	3,823
Scholarship and gift revenue	4,718	3,710
Other revenue	791	552
Total operating revenues	136,257	116,314
Expenses:		
Student aid	20,828	21,609
Interest rebated to borrowers	7,567	13,309
Interest on debt	32,317	17,937
Other loan financing costs	39,064	13,095
Corporate operating expenses and depreciation	30,307	28,383
Total expenses	130,083	94,333
Excess of revenue over expenses	6,174	21,981
Total net assets at the beginning of the year	101,670	79,689
Total net assets at the end of the year	$107,844	$101,670

Revenues

VSAC's fiscal 2005 operations resulted in an increase in net assets of $6.2 million. All revenues for 2005 are considered operating revenues. VSAC realized $136.3 million in revenues versus $130.1 million in total expenses. VSAC's revenues include interest income on student loans, as well as various federal interest subsidies and special allowance payments.

Overall loan revenue to VSAC is closely related to the general interest rate environment. During 2005, interest revenue and subsidies increased from $84.5 to $102.0 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented $8.7 million in 2005. VSAC also receives special allowance payments under certain interest rate conditions. Increasing interest rates, and loan portfolio growth during 2005, resulted in an increase in special allowance payments from $46.5 million in 2004 to $52.4 million in 2005.

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 $4.4 million in 2005 and $4.9 million 2004.

Rising interest rates resulted in increasing interest revenue on investments. Investments include student loan funds temporarily invested in cash and short term investments, and scholarship funds invested for long-term growth and income. Interest on all investments increased from $2.1 million to $4.5 million, as interest rates increased. These cash investments are related to timing of student loan bond issues.

VSAC's appropriation increased slightly from $16.7 million to $17.1 million. As in prior years, the State's appropriation for the grant program is used entirely to provide grant funds directly to students. VSAC receives no administrative allowance for administering the State grant program.

Federal grants decreased from $3.8 million to $2.7 million in fiscal 2005. A one-time award of approximately $1.0 million was received in fiscal 2004.

Scholarship revenues increased from $3.7 million in 2004 to $4.7 million for 2005.

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 $20.8 million in student aid during fiscal 2005, $17.1 million was provided from State appropriations. An additional $4.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 16.0% of VSAC's operating expenses.

While not strictly a student aid expense, interest rebated to borrowers is an item that helps current and former students and parents manage their education debt. VSAC provided $7.6 million in rebates of interest to borrowers in fiscal 2005. VSAC has not been able to provide the level of borrower benefits on consolidation loans that it has on underlying FFELP loans, since VSAC is required to pay a 1.05% annual fee to the Department of Education on consolidated loans. The decrease in interest rebated to borrowers from 2004 to 2005 is primarily the result of the continuing shift from Stafford and PLUS loans to consolidation loans in our portfolio. These rebates represent 5.8% of VSAC's fiscal 2005 operating expenses.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the $494 million of loans VSAC made available to students and parents in fiscal 2005.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues both tax-exempt and taxable bonds in the public markets. The interest costs of these bonds represent a major expense category for VSAC. Since the vast majority of these bonds are variable rate securities, interest costs vary from year to year as the general interest rate environment changes. The variable nature of these securities matches the variable rate structure of most of our loans, so revenues and expenses related to the bonds are highly correlated.

With the increase in interest rates from fiscal 2004 to 2005, VSAC interest costs rose from $17.9 to $32.3 million. Overall indebtedness increased from $1.5 to $1.8 billion. Interest on debt represented 24.8% of VSAC operating expenses in fiscal 2005.

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 $1.8 billion in outstanding bonds and notes. These costs totaled $39.0 million in fiscal 2005, representing approximately 30.0% of total operating expenses. 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 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 2005, VSAC's provision for losses on student loans increased $10.3 million over the previous year due to a revised methodology to determine its allowance for loan loss. VSAC commissioned a study to gather historical default information from other lenders or servicers of non-guaranteed loans, and utilized both VSAC and industry experience to estimate expected default performance over the entire economic life of loans in our portfolio.

Costs of operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $30.3 million in fiscal 2005, an increase of approximately 6.8% from fiscal 2004. Salaries and benefits were $21.5 million in fiscal 2005, approximately 71% of costs of operations. Overall costs of operations represent 23.3% of total operating expenses.

Total expenses for 2005 totaled $130.1 million. Revenues totaled $136.3. The excess of revenues over expenses was $6.2 million. The change in total net assets for the year was an increase of $6.2 million. The ending balance of net assets was $107.8 million, as compared to $101.6 million at June 30, 2004.

Condensed Financial Information

Statement of Net Assets

	2005	2004
	(in thousands)	
Assets:		
Cash and investments	$ 399,071	$ 341,371
Education loans receivable (plus interest)	1,473,076	1,310,175
Other assets	27,874	16,843
Total assets	$1,900,021	$1,668,389
Liabilities:		
Bonds and notes payable (plus interest)	$1,762,638	$1,551,701
U.S. Treasury arbitrage payable	20,083	8,604
Other liabilities	9,456	6,414
Total liabilities	1,792,177	1,566,719
Net assets:		
Restricted	54,736	48,829
Unrestricted	50,731	50,392
Net investment in property and equipment	2,377	2,449
Total net assets	107,844	101,670
Total liabilities and net assets	$1,900,021	$1,668,389

Net Assets

Cash balances from June 30, 2004 to 2005 increased from $341.4 million to $399.0 million as a result of fiscal 2005 bond proceeds not fully utilized for loan originations at June 30, 2005. Combined cash and investments were $399.0 million at year end.

Student loans and interest receivable totaled $1.5 billion at June 30, 2005, up from $1.3 billion in 2004.

U.S. Treasury arbitrage payable was described in the expense discussion. This liability increased as of June 30, 2005, to $20.1 million, or approximately 1.0% of total assets.

Unrestricted net assets increased from $50.4 million in 2004 to $50.7 million in 2005. The unrestricted funds are used to finance student loans, funds used for corporate working capital and investments in property, plant and equipment. Unrestricted net assets invested in student loans totaled $40.0 million at June 30, 2005.

Property, plant and equipment increased during the fiscal year, as new acquisitions of $11.7 million exceeded depreciation expense of $1.5 million. Construction costs of VSAC's new building accounted for $10.3 million of the acquisitions.

FISCAL 2004

Fiscal 2004 Highlights and Overall Financial Position

- During the year ended June 30, 2004 VSAC provided over $21.6 million in grants and scholarships to Vermont students.
- VSAC originated over $451.7 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.3 billion in education loans receivable at June 30, 2004.
- VSAC returned over $13.3 million in interest and principal rebates to students in its loan programs during fiscal 2004.
- VSAC expanded its services and offerings to students and families through its Resource Center, outreach counselors, website and through the Vermont Higher Education Investment Plan.
- VSAC's total net assets increased $22.0 million to $101.7 million. As a result of a change in interpretation of DE regulations surrounding special allowance, VSAC made a reassignment of student loans that qualify for special allowance categories eligible for the 9.5% floor interest rate. This resulted in approximately $8.3 million of additional special allowance billings in 2004 from the DE. This amount was collected in July of 2004. In September 2004, the DE issued a report indicating the adjustment appeared to be in compliance with current guidance and regulations.
- VSAC's unrestricted Net Assets increased $22.7 million as a result of available equity from bonds either maturing or refunded. VSAC's net revenue base continued to grow as loan originations, including traditional Stafford and PLUS loans, consolidation loans and alternative loans, increased.

Condensed Financial Information

Statement of Revenues and Expenses

	2004	2003
	(in thousands)	
Revenues:		
Interest and fees earned from education loan financing	$ 84,539	$ 70,530
Other loan and guarantee program revenues	4,948	4,973
Investment interest	2,058	2,568
Vermont state appropriations	16,684	16,582
Federal grants	3,823	2,550
Scholarship and gift revenue	3,710	3,651
Other revenue	552	1,189
Total operating revenues	116,314	102,043
Expenses:		
Student aid	21,609	20,603
Interest rebated to borrowers	13,309	14,664
Interest on debt	17,937	20,043
Other loan financing costs	13,095	12,174
Corporate operating expenses and depreciation	28,383	26,345
Total expenses	94,333	93,829
Excess of revenue over expenses	21,981	8,214
Total net assets at the beginning of the year	79,689	71,475
Total net assets at the end of the year	$101,670	$ 79,689

Revenues

VSAC's fiscal 2004 operations resulted in an increase in net assets of $22.0 million. All revenues for 2004 are considered operating revenues. VSAC realized $116.3 million in revenues versus $94.3 million in total expenses in 2004. VSAC's revenues include interest income on student loans, as well as various federal interest subsidies and special allowance payments.

Overall loan revenue to VSAC is closely related to the general interest rate environment. Most student loans held by VSAC have variable interest rates. During 2004, interest revenue and subsidies increased from $70.5 to $84.4 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented $8.6 million in 2004. VSAC also receives special allowance payments when variable borrower interest rates fall below certain levels. Low interest rates, and the reinterpretation of Department of Education Regulations in 2004 accounted for an increase in these special allowance payments from $16.1 to $29.4 million. The reinterpretation accounted for approximately $8.3 million of the increase.

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 $5.0 million in 2004 and 2003.

Lower interest rates resulted in declining interest revenue on investments. Investments include student loan funds temporarily invested in cash and short term investments, and scholarship funds invested for long-term growth and income. Interest on all investments declined from $2.6 million to $2.1 million in 2004, as interest rates declined. These investments are related to timing of student loan bond issues.

VSAC's appropriation increased slightly from $16.6 million to $16.7 million. As in prior years, the State's appropriation for the grant program is used entirely to provide grant funds directly to students. VSAC receives no administrative allowance for administering the State grant program.

Federal grants also increased from $2.6 million to $3.8 million in fiscal 2004. A one-time award of approximately $1.0 million accounted for the majority of the increase.

Scholarship revenues remained at $3.7 million for 2004.

Expenses

VSAC has four main types of expenses: student aid; interest and other costs of debt; non-interest costs of financing loans; and costs of operations.

Student Aid – VSAC provided Vermont students with $21.6 million in student aid during 2004; $16.7 million was provided from State appropriations. An additional $3.7 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 22.9% of VSAC's operating expenses. The total aid in 2004 increased 4.9% over 2003.

While not strictly a student aid expense, interest rebated to borrowers is an item that helps current and former students and parents manage their education debt. VSAC provided $13.3 million in rebates of interest to borrowers in fiscal 2004 down slightly from 2003 due to the overall decline in interest rates on these loans. These rebates represent 14.1% of VSAC's fiscal 2004 operating expenses.

It is also important to note that, while not an expense to the Corporation, the largest portion of aid to students is the $451.7 million of loans VSAC made available to students and parents in fiscal 2004.

Interest Costs – In order to provide Vermont students and parents with low cost loans, VSAC issues both tax-exempt and taxable bonds in the public markets. The interest costs of these bonds represent a major expense category for VSAC. Since the vast majority of these bonds are variable rate securities, interest costs vary from year to year as the general interest rate environment changes. The variable nature of these securities matches the variable rate structure of most of our student loans, so revenues and expenses related to the bonds are highly correlated.

With the decrease in interest rates from fiscal 2003 to 2004, VSAC interest costs fell from $20.0 to $17.9 million, even as overall indebtedness increased from $1.33 to $1.55 billion. This represented 18.9% of VSAC operating expenses in fiscal 2004.

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, and provisions for changes in arbitrage earnings liability to the U.S. Treasury, as well as a variety of other costs incurred in issuing and managing over $1.55 billion in outstanding bonds and notes. These costs totaled $13.1 million in 2004, representing approximately 13.9% of total operating expenses. 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 bond-financed loans and investments that would be returned to the U.S. Treasury if the loan portfolios were completely liquidated at June 30, and all bondholders were repaid. It represents earnings to date, and is a function of past and current interest rates on debt and assets held by VSAC. It is fairly volatile and is managed to minimize the probability of a liability balance at the end of a bond life cycle.

Costs of operations – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $28.4 million in 2004, an increase of approximately 7.7% from 2003. Salaries and benefits were $20.5 million in fiscal 2004, approximately 72% of costs of operations. Overall costs of operations represent 30.1% of total operating expenses.

Total expenses for 2004 were $94.3 million. Revenues totaled $116.3. The excess of revenues over expenses was $22.0 million. The change in total net assets for the year was an increase of $22.0 million. The ending balance of net assets was $101.7 million, as compared to $79.7 million at June 30, 2003.

Condensed Financial Information

Statement of Net Assets

	2004	2003
	(in thousands)	
Assets:		
Cash and investments	$ 341,371	$ 272,538
Education loans receivable (plus interest)	1,310,175	1,147,143
Other assets	16,843	12,265
Total assets	$1,668,389	$1,431,946
Liabilities:		
Bonds and notes payable (plus interest)	$1,551,701	$1,333,404
U.S. Treasury arbitrage payable	8,604	13,007
Other liabilities	6,414	5,846
Total liabilities	1,566,719	1,352,257
Net assets:		
Restricted	48,829	48,681
Unrestricted	50,392	28,144
Net investment in property and equipment	2,449	2,864
Total net assets	101,670	79,689
Total liabilities and net assets	$1,668,389	$1,431,946

Net Assets

Cash balances increased from June 30, 2003 to 2004 from $272.5 to $341.3 million as a result of fiscal 2004 bond proceeds not fully utilized for loan originations at June 30, 2004. Combined cash and investments were $341.3 million at year end.

Student loans and interest receivable totaled $1.31 billion at June 30, 2004, up from $1.15 billion in 2003.

U.S. Treasury arbitrage payable was described in the expense discussion. This liability decreased as of June 30, 2004, to $8.6 million, or approximately 0.52% of total assets.

Unrestricted net assets increased from $28.1 million in 2003 to $50.4 million in 2004 resulting from available equity from bonds either maturing or refunded. The unrestricted funds are used to finance student loans, funds used for corporate working capital and investments in property, plant and equipment. Unrestricted net assets invested in student loans totaled $36.3 million at June 30, 2004.

Property, plant and equipment increased during the fiscal year, as new acquisitions of $4.9 million exceeded depreciation expense of $1.5 million. The result was an increase in both the property, plant and equipment asset, and the corresponding net asset figure to $6.3 million at June 30, 2004. Land purchased for VSAC's new building accounted for $3.2 million of the acquisitions.

Changes in Long-Term Debt

Bonds, notes and interest payable increased by $218.3 million to $1.55 billion in 2004. The increase resulted from new borrowings exceeding maturities and refundings of existing debt during fiscal year 2004. During the fiscal year, VSAC issued $380.9 million in new bonds and notes. These bonds and notes provided $218 million of new capital, and retired and refunded $160.6 million of existing debt.

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

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

ASSETS

	2005	2004
	(In Thousands)	
Current assets:		
Cash and cash equivalents (notes 3, 8 and 9)	$ 398,557	$ 341,371
Investments (note 3)	515	–
Receivables:		
Student loans, net (notes 4, 5, 8 and 9)	108,329	104,380
Student loan interest and special allowance (note 10)	32,276	33,941
Investment interest	577	218
Federal administrative and program fees	253	446
Other	727	1,073
Other assets	1,382	1,389
Total current assets	542,616	482,818
Noncurrent assets:		
Receivables:		
Student loans, net (notes 4, 5, 8 and 9)	1,332,471	1,171,854
Capital assets, net (note 7)	16,598	6,324
Deferred bond issuance costs, net	8,336	7,393
Total noncurrent assets	1,357,405	1,185,571
Total assets	$1,900,021	$1,668,389

LIABILITIES AND NET ASSETS

	2005	2004
	(In Thousands)	
Current liabilities:		
Bonds and notes payable (notes 8 and 9)	$ 57,675	$ 30,400
Accounts payable and other liabilities	6,915	3,117
Deferred revenue	2,541	3,297
Accrued interest on bonds payable	2,459	1,307
U.S. Treasury rebates payable (note 9)	253	2,560
Total current liabilities	69,843	40,681
Noncurrent liabilities:		
Bonds and notes payable (notes 8 and 9)	1,702,504	1,519,994
U.S. Treasury rebates payable (note 9)	19,830	6,044
Total noncurrent liabilities	1,722,334	1,526,038
Total liabilities	1,792,177	1,566,719
Commitments and contingencies (notes 7, 12 and 13)		
Net assets:		
Invested in capital assets, net of related debt	2,377	2,449
Restricted:		
Bond resolution	52,696	48,197
Grants and scholarships	2,040	632
Unrestricted	50,731	50,392
Total net assets	107,844	101,670
Total liabilities and net assets	$1,900,021	$1,668,389

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, 2005 and 2004

	2005	2004
	(In Thousands)	
Operating revenues:		
U.S. Department of Education (note 10):		
Interest benefits	$ 8,667	$ 8,590
Special allowance	40,931	29,420
Interest and fees on student loans	52,420	46,529
Vermont state appropriations	17,143	16,684
Interest on investments	4,472	2,058
Guarantee agency administrative revenues	4,422	4,948
Federal grants	2,693	3,823
Scholarship and gift income	4,718	3,710
Other income	791	552
Total operating revenues	136,257	116,314
Operating expenses:		
Interest, net of amortization	32,317	17,937
Salaries and benefits (note 11)	21,516	20,457
State grants and scholarships	20,828	21,609
Interest rebated to borrowers	7,567	13,309
Other general and administrative	7,324	6,399
Interest subject to U.S. Treasury rebate (note 9)	11,529	(3,145)
Credit enhancement and remarketing fees	5,677	5,040
Consolidation and lender paid fees	9,578	8,387
Other loan related expenses	284	470
Provision for losses on student loans (note 4)	11,640	1,260
Depreciation and amortization (note 7)	1,467	1,529
Amortization of bond issuance costs	356	1,081
Total operating expenses	130,083	94,333
Excess of operating revenues over operating expenses	6,174	21,981
Net assets, beginning of year	101,670	79,689
Net assets, end of year	$107,844	$101,670

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, 2005 and 2004

	2005	2004
	(In Thousands)	
Cash flows from operating activities:		
Cash received from customers	$ 66,646	$ 39,729
Principal payments received on student loans	316,109	297,849
Cash paid to suppliers for goods and services	(49,546)	(57,949)
Loans made	(494,359)	(451,689)
Cash paid to employees for services	(21,504)	(20,329)
Interest received on student loans	52,191	47,049
Vermont state appropriations received	17,143	16,684
Net cash used in operating activities	(113,320)	(128,656)
Cash flows from noncapital financing activities:		
Proceeds from the sale of bonds/notes payable	270,385	358,850
Payments on bonds/notes payable	(60,800)	(160,585)
Interest paid to bond holders	(30,124)	(18,123)
Premiums paid at redemption for bond refunding	–	(1,562)
Net cash provided by noncapital financing activities	179,461	178,580
Cash flows from capital and related financing activities:		
Proceeds from the sale of bonds/notes payable	–	22,006
Interest paid to bond holders	(841)	(226)
Acquisition and construction of fixed assets	(11,760)	(4,989)
Net cash (used) provided by capital and related financing activities	(12,601)	16,791
Cash flows from investing activities:		
Interest received on investments	4,113	2,118
Redemption of investments	–	10,870
Purchase of investments	(467)	–
Net cash provided by investing activities	3,646	12,988
Net increase in cash and cash equivalents	57,186	79,703
Cash and cash equivalents, beginning of year	341,371	261,668
Cash and cash equivalents, end of year	$ 398,557	$ 341,371

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

STATEMENTS OF CASH FLOWS
(CONTINUED)

Years Ended June 30, 2005 and 2004

	2005	2004
	(In Thousands)	
Reconciliation of operating income to net cash used in operating activities:		
Excess of operating revenues over operating expenses	$ 6,174	$ 21,981
Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities:		
Depreciation and amortization	1,467	1,529
Provision for losses on student loans	11,640	1,260
Amortization of alternative fees received	(466)	(145)
Amortization of bond issuance costs	356	1,081
Amortization of bond (premium) discount	200	(508)
Unrealized gain on investments	(48)	–
Gains/losses on disposal of fixed assets	19	–
Investment interest received	(4,113)	(2,118)
Interest paid to bond holders	30,964	18,349
Changes in operating assets and liabilities:		
(Increase) decrease in investment interest receivable	(359)	60
Increase in student loans receivable	(175,740)	(153,695)
Decrease (increase) in student loans interest receivable	1,665	(10,452)
Decrease (increase) in federal administrative and program fees receivable	193	(36)
Decrease (increase) in other receivables	346	(273)
Decrease in other assets	7	96
Increase in deferred bond issuance costs	(1,298)	(2,046)
Increase in accounts payable and other liabilities	3,798	14
(Decrease) increase in deferred revenue	(756)	554
Increase in accrued interest on bonds payable	1,152	96
(Increase) decrease in U.S. Treasury rebates payable	11,479	(4,403)
Total adjustments	(119,494)	(150,637)
Net cash used in operating activities	$(113,320)	$(128,656)

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, 2005 and 2004

	Federal Loan Reserve Fund	VHEIP	2005 Total	2004 Total
	(In Thousands)			
ASSETS HELD FOR OTHERS				
Cash and cash equivalents	$ 8,663	$ 405	$ 9,068	$ 9,171
Investments	–	40,446	40,446	29,166
Student loans receivable and accrued student loan interest	–	3,533	3,533	3,028
Investment interest receivable	19	8	27	19
Due from U.S. Department of Education	2,716	–	2,716	1,044
Other assets	39	40	79	46
Total assets	$11,437	$44,432	$55,869	$42,474
LIABILITIES				
Accounts payable and other liabilities	$ 968	$ 70	$ 1,038	$ 398
Note payable	–	3,504	3,504	3,009
Federal advances	538	–	538	538
Amounts held on behalf of investors (note 6)	–	40,858	40,858	29,487
Return of reserves due to U.S. Department of Education	552	–	552	552
Federal loan reserve funds held for U.S. Department of Education (note 5)	9,379	–	9,379	8,490
Total liabilities	$11,437	$44,432	$55,869	$42,474

See accompanying notes to the financial statements.

1. Authorizing Legislation

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

The Vermont Student Development Fund, Inc. (the "Fund"), a separate non-profit 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 post secondary 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. The operations of the Fund are immaterial.

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.

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 Governmental Accounting Standards Board (GASB) pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, to the extent these pronouncements do not conflict with GASB pronouncements.

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.

Restriction on Net Assets

The restricted net assets of VSAC are restricted by the bond resolutions, state statutes, 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 management of VSAC 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.

2. Summary of Significant Accounting Policies (Continued)

Student Loans

Student loans consist primarily of guaranteed student loans which are made to post-secondary students attending eligible educational institutions and guaranteed parental loans made to parents of dependent undergraduate students, graduate and professional students, and independent undergraduate students attending eligible educational institutions. Student loans also include consolidation loans which are loans to eligible students that combine two or more existing student loans and extend the repayment period.

Student loans are stated at their unpaid principal balance less net deferred loan origination fees. Loan origination fees received are deferred and amortized over the estimated life of the loan using a method that approximates the level yield method.

Allowance for Loan Losses

A substantial portion of student loans are guaranteed by VSAC, as guarantor under the FFEL Program, and substantially all such loans are reinsured by DE. However, there is still the risk that loans may lose their guarantee and become uncollectible under certain circumstances and certain student loans are not guaranteed. Also, loans originated subsequent to October 1, 1993, are only reinsured by DE for 98% of the principal amount. Student loans issued under the FFEL program originated prior to October 1, 1993, are 100% reinsured by DE. At June 30, 2005 and 2004, most of VSAC's student loans are subject to the 98% guarantee from DE. Therefore, management of VSAC has established an allowance for loan losses to provide for probable losses on the 98% guaranteed loans and for loans that have no guarantee. 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 unguaranteed loans in the portfolio, delinquencies, current economic conditions and historical loss experience.

Operating Revenue and Expenses

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

Cash Equivalents

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

2. Summary of Significant Accounting Policies (Continued)

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*.

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. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

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 and Deferred Loss on Refunding

Bond discounts 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.

2. Summary of Significant Accounting Policies (Continued)

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.

Reclassification

Certain items in the 2004 financial statements have been reclassified to conform to the current year presentation.

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.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Cash and Cash Equivalents

The carrying amounts which represent both cost and fair value of cash and cash equivalents as of June 30, 2005 and 2004 are presented below:

	2005		2004	
	Balance	Amount Insured or Collateralized	Balance	Amount Insured or Collateralized
Cash and repurchase agreements	$ 5,871	$ 6,515	$ 4,307	$ 4,709
Money market accounts	392,686	See Below	337,064	See Below
	$398,557		$341,371	

At June 30, 2005 and 2004, cash and repurchase agreements are comprised of various bank accounts and principal cash held by a bank trust department. The bank balances at June 30, 2005, were $6,896 and the bank balances at June 30, 2004, were $5,161. The difference between the net bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $6,515 and $4,709 of the bank balances at June 30, 2005 and 2004, 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. The remainder of bank balances of $381 and $452 at June 30, 2005 and 2004, respectively, were uninsured and uncollateralized.

At June 30, 2005 and 2004, the money market accounts are primarily invested in the Federated Prime Cash Obligations Fund. The Fund objective is to provide current income consistent with stability of principal and liquidity. The Prime Cash Obligations Fund invests primarily in a portfolio of short-term, high quality fixed income securities insured by banks, corporations and the U.S. Government. The underlying assets are not held in the name of VSAC.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

Investments

VSAC held the following investments at June 30, 2005. There were no investments as of June 30, 2004.

	Cost	Fair Value
Domestic equities	$ 304	$ 354
Corporate bonds	123	121
U.S. Government bonds	40	40
	$ 467	$ 515

At June 30, 2005, the ratings for investments in debt securities are summarized as follows:

Investment	Maturities	Fair Value	Standard & Poor's Rating
Corporate bonds:			
Chevron Texaco Bonds (3.375%)	02/15/2008	25	AA
Citigroup Bonds (3.5%)	02/01/2008	25	AA-
GE Capital Corporation Bonds (6.5%)	11/01/2006	26	AAA
JP Morgan Chase Bonds (CPI +1.73%)	06/28/2009	20	A+
Wal-Mart Stores Bonds (5.45%)	08/01/2006	25	AA
		121	
U.S. Government bonds:			
U.S. Treasuries (1.65%)	09/30/2005	20	–
U.S. Treasuries (2.75%)	07/31/2006	20	–
		40	

Interest Rate Risk. Through its investment policy, VSAC manages its interest rate risk by establishing a target range of 20% to 35% of its investments in fixed rate securities. VSAC's current investment manager works with a target of 26% of investments in fixed rate securities with a target duration of no greater than three years, with a minimum of 10% of the total portfolio in U.S. Government treasury issues.

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.

(Dollars in Thousands)

3. Cash, Cash Equivalents and Investments (Continued)

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 53% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap stocks (no investment in companies with market capitalizations less than $500 million). As of June 30, 2005, 8% of VSAC's investments were invested in U. S. Treasuries. No other single issuer represented more than 5% of VSAC's investments.

Custodial Credit Risk

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

A significant portion of cash and cash equivalents are limited to their use for the repayment of bond and note obligations, and to satisfy certain reserve requirements specified by the bond and note indentures.

4. Student Loans Receivable

Student loans have annual interest rates ranging from 2.77% to 11.0%; the majority are insured by DE and the U.S. Department of Health and Human Services. There are certain student loans that are not guaranteed. Most of VSAC's borrowers are located in the New England states, primarily in the State of Vermont.

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, 2005 and 2004, are summarized as follows:

	2005	2004
Status:		
Interim status	$ 338,598	$ 306,215
Deferral status	254,206	214,247
Repayment status	864,105	759,031
Less: Allowance for loan losses	(12,611)	(1,806)
Deferred origination fees, net	(3,498)	(1,453)
Total student loans receivable	1,440,800	1,276,234
Less: noncurrent student loans receivable	1,332,471	1,171,854
Current student loans receivable	$ 108,329	$ 104,380

(Dollars in Thousands)

4. Student Loans Receivable (Continued)

	2005	2004
Guarantee type:		
U.S. Department of Education	$1,298,034	$1,179,464
U.S. Department of Health and Human Services	16,901	18,713
Other – nonguaranteed	141,974	81,316
Less: Allowance for loan losses	(12,611)	(1,806)
Deferred origination fees, net	(3,498)	(1,453)
Total student loans receivable	1,440,800	1,276,234
Less: noncurrent student loans receivable	1,332,471	1,171,854
Current student loans receivable	$ 108,329	$ 104,380

The student loans are pledged to the repayment of bonds.

Transactions in the allowance for loan losses for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Balance July 1	$ 1,806	$ 1,079
Net loans charged off	(835)	(533)
Provision for losses on student loans	11,640	1,260
Balance June 30	$12,611	$ 1,806

The significant increase in the Allowance for loan losses from 2004 to 2005 resulted from a revised estimate. VSAC commissioned a study to gather historical default information from other lenders or servicers of non-guaranteed loans, and utilized both VSAC and industry experience to more accurately estimate expected default performance over the entire economic life of loans in our portfolio.

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.

(Dollars in Thousands)

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

Changes in Federal loan reserve funds held for DE for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Additions:		
Reimbursement from DE on default loan purchases	$14,799	$13,444
Default loan collections	83	72
Loan administrative fees	2,128	1,982
Investment income	157	54
Total additions	17,167	15,552
Deductions:		
Purchases of defaulted loans from lenders	15,234	13,794
Default aversion fee paid	613	585
Other disbursements	431	257
Total deductions	16,278	14,636
Federal loan reserve funds held, at beginning of year	8,490	7,574
Federal loan reserve funds held, at end of year	$ 9,379	$ 8,490

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 .25% of student loans guaranteed. During 2005 and 2004, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $1,298,034 and $1,179,464 at June 30, 2005 and 2004, respectively. Defaults on FFEL Program loan guarantees are paid by DE through the Federal Loan Reserve Fund.

(Dollars in Thousands)

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 three plans available: the Managed Allocation Option, the 100% Equity Option, and the Interest Income Option. The Managed Allocation Option and the 100% Equity Option 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 100% Equity Option are not age based and remain 100% in equity investments. Investments in the Managed Allocation, and 100% Equity, option are not guaranteed. The Interest Income Option is managed by VSAC. Funds in the Interest Income Option are invested in an interest-bearing note to VSAC, which is expected to return at least the 91-day U.S. Treasury Bill rate. VSAC uses the proceeds from the note to make federally guaranteed education loans.

The changes in assets held on behalf of investors for the years ended June 30, 2005 and 2004, were as follows:

	2005	2004
Additions:		
Investment income	$ 1,279	$ 860
Net realized and unrealized gains	1,224	1,845
Student loan interest income	152	101
Net participant subscriptions/redemptions	8,761	8,144
Total additions	11,416	10,950
Deductions:		
Operational expenses	45	31
Total deductions	45	31
Assets held on behalf of investors, at beginning of year	29,487	18,568
Assets held on behalf of investors, at end of year	$40,858	$29,487

(Dollars in Thousands)

7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2005 and 2004, were as follows:

	Estimated Lives	Balance July 1, 2003	Acquisitions	Balance June 30, 2004	Acquisitions	Balance June 30, 2005
Land	–	$ –	$ 3,150	$ 3,150	$ –	$ 3,150
Furniture and equipment	3 – 5 Years	2,660	1,701	4,361	705	5,066
Leasehold improvements	5 Years	721	–	721	–	721
Software	3 – 5 Years	1,754	43	1,797	680	2,477
Construction in progress		630	95	725	10,347	11,072
		5,765	4,989	10,754	11,732	22,486
Less accumulated depreciation		2,901	1,529	4,430	1,458	5,888
Capital assets, net		$ 2,864	$ 3,460	$ 6,324	$ 10,274	$ 16,598

The acquisitions and accumulated depreciation for 2005 was reduced by $28 and $9, respectively, for disposals.

Depreciation charged to operations for the years ended June 30, 2005 and 2004, was $1,467 and $1,529, respectively.

VSAC has a commitment to construct new corporate headquarters. At June 30, 2004, VSAC had incurred $10,621 in construction costs under this contract which leaves an outstanding commitment of $4,040.

8. Bonds and Notes Payable

VSAC has issued the following bonds and notes payable at June 30, 2005 and 2004, which were issued to finance the origination of student loans:

Bonds Payable:	2005	2004
1985 Series A, dated December 27, 1985; comprised of floating rate monthly demand bonds with the balance maturing in January 2008; interest is payable monthly at variable rates which ranged from 1.15% to 2.85% during fiscal year 2005 (2.85% at June 30, 2005).	$ 40,900	$ 40,900
1995 Series A, B, C and D, dated June 27, 1995; comprised of auction rate bonds maturing December 2025; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.3% to 3.17% during fiscal year 2005 (2.63% to 2.95% at June 30, 2005).	96,000	96,000

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2005	2004
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 1.3% to 3.12% during fiscal year 2005 (2.6% to 3.0% at June 30, 2005).	$ 100,000	$ 100,000
1998 Series K-O, dated June 16, 1998; comprised of auction rate bonds maturing December 2032; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.38% to 3.25% during fiscal year 2005 (2.6% to 3.0% at June 30, 2005).	165,000	165,000
2000 Series P and Q, dated May 31, 2000; comprised of auction rate bonds maturing in December 2005. Interest is reset every 35 days and payable semi-annually; at rates which ranged from 1.4% to 3.17% during fiscal year 2005 (2.7% at June 30, 2005).	11,950	11,950
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 1.4% to 3.15% during fiscal year 2005 (2.62% to 3.04% at June 30, 2005).	172,550	172,550
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 1.12% to 3.17% during fiscal year 2005 (2.55% to 2.95% at June 30, 2005).	84,750	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 1.2% to 3.33% during fiscal year 2005 (2.95% to 3.33% at June 30, 2005).	80,000	80,000
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 1.05% to 3.16% during fiscal year 2005 (2.6% to 2.75% at June 30, 2005).	112,500	112,500

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2005	2004
2003 Series EE dated May 30, 2003; comprised of auction rate bonds maturing December 2005; interest is reset every 35 days and payable semi-annually at rates which ranged from 1.37% to 3.15% during fiscal year 2005 (2.93% at June 30, 2005).	$ 45,000	$ 45,000
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 which ranged from 1.38% to 3.15% during fiscal year 2005 (2.6% to 2.78% at June 30, 2005).	165,900	165,900
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 which ranged from 1.35% to 3.17% during fiscal year 2005 (2.65% to 2.9% at June 30, 2005).	150,000	150,000
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; which ranged from 1.43% to 3.03% during fiscal year 2005 (2.62% at June 30, 2005).	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; which ranged from 1.43% to 3.1% during fiscal year 2005 (2.6% to 3.1% at June 30, 2005).	134,500	134,500
2004 Series OO dated June 3, 2004; comprised of auction rate bonds maturing December 2038; interest is reset and payable every 28 days, interest rates ranged from 1.57% to 3.16% during fiscal year 2005 (3.16% at June 30, 2005).	65,800	65,800
2005 Series QQ dated June 21, 2005; comprised of floating rate weekly demand bonds maturing December 2039; interest is reset every 7 days and payable semi-annually; initial rates were 2.6% (2.6% at June 30, 2005).	120,385	–
2005 Series RR/SS dated June 21, 2005; comprised of auction rate bonds maturing December 2039; interest is reset and payable every 28 days; initial rates were 3.27% (3.27% at June 30, 2005).	119,600	–

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

	2005	2004
2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates fixed ranging from 2.0% to 5.0% payable semi-annually.	$ 22,155	$ 22,155
Notes Payable:		
2003 Series A-XVII, dated December 15, 2003, is due December 2004, and interest at 1.5% is due at maturity.	–	30,400
Total bonds and notes payable	1,761,690	1,552,105
Bond discount, net	(144)	(149)
Deferred loss on refunding, net	(1,367)	(1,562)
Total bonds and notes payable	1,760,179	1,550,394
Less current portion of bonds and notes payable	57,675	30,400
Noncurrent portion bonds and notes payable	$1,702,504	$1,519,994

All bonds, 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.

The 1985 Series A bonds are secured for credit-worthiness and liquidity by an irrevocable letter of credit issued by State Street Bank. The 1995 Series A-D, 1996 Series F-I, 1998 Series K-N, 2000 Series P-Q, 2000 Series R-U, 2001 Series V, W and Z, 2001 Series X, Y and AA, 2002 Series BB-DD, 2003 Series EE, 2003 Series FF-LL, 2003 Series II-KK, 2004 Series MM, 2004 Series NN-PP, 2004 Series OO, 2005 Series QQ and 2005 Series RR/SS 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 2005 Series QQ bonds have liquidity support by a Standby Bond Purchase Agreement issued by the Bank of New York.

All bonds, except the 2003 General Obligation bonds, are subject to redemption prior to maturity at the principal amounts outstanding plus accrued interest at date of redemption. At June 30, 2005, all bonds authorized under the underlying bond resolutions have been issued.

(Dollars in Thousands)

8. Bonds and Notes Payable (Continued)

Proceeds from issuance of the bonds 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.

The debt service requirements, which are based on the interest rates at June 30, 2005, through 2011 and in five-year increments thereafter to maturity for VSAC, are as follows:

Year ending June 30,	Principal	Interest	Total
2006	$ 57,675	$ 47,136	$ 104,811
2007	735	46,453	47,188
2008	41,655	45,925	87,580
2009	1,670	45,394	47,064
2010	795	45,349	46,144
2011 – 2015	117,660	220,853	338,513
2016 – 2020	52,840	204,937	257,777
2021 – 2025	3,630	203,574	207,204
2026 – 2030	100,635	191,228	291,863
2031 – 2035	342,160	175,453	517,613
2036 – 2040	1,042,235	80,146	1,122,381
Total	$1,761,690	$1,306,448	$3,068,138

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, 2005 and 2004:

	2005	2004
Balance at beginning of year	$1,550,394	$1,332,193
Issuance	270,385	380,856
Redemptions and refundings	(60,800)	(160,585)
Deferred loss on refunding	–	(1,562)
Amortization of premiums	–	(508)
Accretion of discount	200	–
Balance at end of year	$1,760,179	$1,550,394

8. Bonds and Notes Payable (Continued)

In 2005, VSAC issued $270,385 in education loan revenue bonds and notes. The primary purpose was to finance the origination of qualifying student loans.

In June 2004, VSAC issued $275,000 in education loan revenue bonds, 2004 Series MM-PP. The primary purpose was to finance the origination of qualifying student loans. The bonds were also issued to refund certain 1993 and 1992 Series bonds, totaling $74,700 prior to June 30, 2004. The loss of $1,562 on the refunding, resulting from the difference between the reacquisition price and the net carrying amount of the old debt, was deferred. The deferred loss on refunding, reported in the Statements of Net Assets as a reduction from bonds payable, is being amortized over the life of the original bonds. The refunding reduced VSAC's debt service payments over the next 8.5 years by $23,889 which results in an economic gain of $17,536. The economic gain is calculated using the interest rates outstanding as of June 30, 2004. The interest rates on the refunding debt are variable and subject to change in the future. As interest rates rise, the amount of the economic gain will be reduced. VSAC completed the refunding to reduce its total debt service payments and to consolidate its credit enhancement providers.

Included in the above refunding was a $2,000 advance refunding. $2,000 of the proceeds from the 2004 Series bonds issuance was deposited into an irrevocable trust with the trustee to provide for all future debt service payments on certain bonds outstanding. As a result, $2,000 of bonds were considered to be defeased and the bonds payable and the amounts held in the trust have been removed from VSAC's Statement of Net Assets at June 30, 2004.

9. U.S. Treasury Rebates Payable

The bonds issued by VSAC are subject to Internal Revenue Service 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 is an arbitrage liability at June 30, 2005 and 2004, of $20,083 and $8,604, respectively. VSAC has estimated the current portion to be $253 and $2,560 at June 30, 2005 and 2004, respectively.

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 bill, 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. Loans made or purchased with funds obtained through the issuance of tax-exempt obligations issued before October 1, 1993, are eligible for one-half of the special allowance rate, subject to a minimum return of 9.5%. Loans originated 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.

In 2004, as a result of a change in interpretation of DE regulations surrounding special allowance, VSAC made a reassignment of student loans that qualify for special allowance categories eligible for the 9.5% floor interest rate. This resulted in approximately $8,300 of additional special allowance billings in 2004 from the DE. This amount was collected in July of 2004. In September 2004, the DE issued a report indicating the adjustment appeared to be in compliance with current guidance and regulations.

11. 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, 2005 and 2004, amounted to $14,408 and $14,224, respectively; VSAC's total payroll was $15,215 and $14,652, respectively. Total contributions by VSAC amounted to $1,441 and $1,422 in 2005 and 2004, respectively, which represented 10% of the covered payroll.

(Dollars in Thousands)

12. 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, 2005 and 2004, is as follows:

	2005	2004
Balance, beginning of year	$ 237	$ 258
Claims paid	(3,177)	(2,815)
Adjustment to reserve	3,193	2,794
Balance, end of year	$ 253	$ 237

13. Loan Commitments

At June 30, 2005 and 2004, VSAC had commitments to extend credit for student loans of approximately $59,278 and $15,932, 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.