**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, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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 December 6, 2007, 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the 2007 and 2006 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
December 6, 2007

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, 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 148 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 2007 and Fiscal 2006 information due to the fact that the Financial Statements include Fiscal 2007 and Fiscal 2006 information.

## FISCAL 2007

### Fiscal 2007 Highlights and Overall Financial Position

- During the year ended June 30, 2007 VSAC provided over $22.5 million in grants and scholarships to Vermont students.
- VSAC originated over $620.7 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.90 billion in education loans receivable including interest at June 30, 2007.
- VSAC returned over $6.0 million in interest and principal rebates to students in its loan programs during fiscal 2007, and paid over $4.6 million in fees on behalf of our borrowers (amortized over the life of the loans).
- VSAC's total net assets increased $16 million to $138.8 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 get a complete view of VSAC's financial position.

**Condensed Financial Information**

**Statements of Net Assets**

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| **Assets:** | | |
| Cash and investments | $ 270,109 | $ 152,208 |
| Education loans receivable (including interest) | 1,895,433 | 1,670,870 |
| Other assets | 36,015 | 35,857 |
| Total assets | $2,201,557 | $1,858,935 |
| **Liabilities:** | | |
| Bonds and notes payable (including interest) | $2,020,066 | $1,705,825 |
| Arbitrage earnings rebatable | 32,254 | 23,525 |
| Other liabilities | 10,407 | 6,737 |
| Total liabilities | 2,062,727 | 1,736,087 |
| **Net Assets:** | | |
| Restricted | 85,581 | 69,951 |
| Unrestricted | 51,182 | 50,786 |
| Net investment in property and equipment | 2,067 | 2,111 |
| Total net assets | 138,830 | 122,848 |
| Total liabilities and net assets | $2,201,557 | $1,858,935 |

## Statements of Revenues and Expenses

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| **Revenues:** | | |
| Interest earned from education loan financing | $147,635 | $126,898 |
| Other loan and guarantee program revenues | 6,537 | 5,155 |
| Investment interest | 10,381 | 9,414 |
| Vermont state appropriations | 18,457 | 18,746 |
| Federal grants | 4,347 | 3,841 |
| Scholarship and gift revenue | 4,665 | 4,126 |
| Other revenue | 878 | 1,087 |
| Total operating revenues | 192,900 | 169,267 |
| **Expenses:** | | |
| Student aid | 22,511 | 22,808 |
| Interest rebated to borrowers | 6,074 | 6,561 |
| Interest on debt | 74,653 | 56,371 |
| Other loan financing costs | 38,916 | 35,538 |
| Corporate operating expenses and depreciation | 34,764 | 32,985 |
| Total expenses | 176,918 | 154,263 |
| Excess of revenues over expenses | 15,982 | 15,004 |
| Total net assets at the beginning of the year | 122,848 | 107,844 |
| Total net assets at the end of the year | $138,830 | $122,848 |

Net Assets

Cash and investment balances increased from June 30, 2006 to 2007 from $152.2 to $270.1 million. Bonds for fiscal 2008 loan originations were issued in June 2007. The bonds for fiscal 2007 originations were issued in July 2006.

Student loans and interest receivable totaled $1.9 billion at June 30, 2007, up from $1.7 billion in 2006.

U.S. Treasury arbitrage payable is described in the expense discussion. This liability increased as of June 30, 2007, to $32.3 million, or approximately 1.4% of total assets. Unrestricted net assets increased from $50.8 million in 2006 to $51.2 million in 2007. The unrestricted funds are used to finance student loans and for corporate working capital. Unrestricted net assets invested in student loans totaled $42.6 million at June 30, 2007.

Restricted net assets increased from $70.0 million to $85.6 million at June 30, 2007. $80.2 million were restricted by bond resolutions, an increase in equity within the bond estates of $13.6 million. The remaining $5.4 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2007 operations resulted in an increase in net assets of $16.0 million. All revenues for 2007 are considered operating revenues. VSAC realized $192.9 million in revenues versus $176.9 million in total expenses. VSAC 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 2007, interest revenue and subsidies increased from $126.9 to $147.6 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented $15.2 million in 2007. VSAC also receives special allowance payments under certain interest rate conditions. Increasing interest rates, and loan portfolio growth during 2007, offset by changes in rules regarding eligibility of certain loans subject to floor rates resulted in a decrease in special allowance payments from $45.4 million in 2006 to $42.4 million in 2007.

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. Thus, the net spread on loans carries minimal interest rate risk.

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 $6.5 million in 2007 and $5.2 million in 2006.

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 $9.4 million to $10.4 million, as interest rates increased and our total invested funds increased. The increase in invested funds is related to the timing of student loan bond issues.

VSAC's regular appropriation increased from $17.7 million to $18.5 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 increased from $3.8 million to $4.3 million in fiscal 2007.

Scholarship revenues, principally restricted gifts and grants, increased from $4.1 million in 2006 to $4.7 million in 2007.

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 $22.5 million in student aid during fiscal 2007. $18.5 million in grant aid was provided from State appropriations. An additional $4.0 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 12.7% 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 $6.1 million in rebates of interest to borrowers in fiscal 2007. VSAC has not been able to provide the level of borrower benefits on consolidation loans that it has on other 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 2006 to 2007 is primarily the result of the continuing shift from Stafford and PLUS loans to consolidation loans in our portfolio. These rebates represent 3.4% of VSAC's fiscal 2007 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 $620.7 million of loans VSAC made available to students and parents in fiscal 2007.

*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 all bonds issued to finance loans 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 2006 to 2007, VSAC interest costs rose from $56.4 to $74.7 million. This represented 42.0% of VSAC operating expenses in fiscal 2007.

*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 $2.0 billion in outstanding bonds. These costs totaled $38.9 million in fiscal 2007, representing approximately 21.9% 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 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 arbitrage 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 2007, VSAC's provision for losses on student loans was $8.5 million compared to $10.7 million in fiscal 2006.

*Costs of Operations* – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $34.8 million in fiscal 2007, an increase of approximately 5.4% from fiscal 2006. Salaries and benefits were $24.3 million in fiscal 2007, approximately 70% of costs of operations. Overall costs of operations represent 19.6% of total operating expenses.

Total expenses for 2007 totaled $176.9 million. Revenues totaled $192.9 million. The excess of revenues over expenses was $16.0 million. The change in total net assets for the year was an increase of $16.0 million. The ending balance of net assets was $138.8 million, as compared to $122.8 million at June 30, 2006.

## FISCAL 2006

Fiscal 2006 Highlights and Overall Financial Position

- During the year ended June 30, 2006 VSAC provided over $22.8 million in grants and scholarships to Vermont students.
- VSAC originated over $752.3 million in student loans, including new loans to students and parents and consolidation of existing loans. VSAC holds $1.63 billion in education loans receivable at June 30, 2006.
- VSAC returned over $6.5 million in interest and principal rebates to students in its loan programs during fiscal 2006, and paid over $600 thousand in fees on behalf of our borrowers.
- VSAC's total net assets increased $15 million to $122.8 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 get a complete view of VSAC's financial position.

### Condensed Financial Information

**Statements of Net Assets**

| | 2006 | 2005 |
|---|---|---|
| | (In Thousands) | |
| **Assets:** | | |
| Cash and investments | $ 152,208 | $ 399,072 |
| Education loans receivable (plus interest) | 1,670,870 | 1,473,076 |
| Other assets | 35,857 | 27,873 |
| Total assets | $1,858,935 | $1,900,021 |
| **Liabilities:** | | |
| Bonds and notes payable (plus interest) | $1,705,825 | $1,762,638 |
| Arbitrage earnings rebatable | 23,525 | 20,083 |
| Other liabilities | 6,737 | 9,456 |
| Total liabilities | 1,736,087 | 1,792,177 |
| **Net Assets:** | | |
| Restricted | 69,951 | 54,736 |
| Unrestricted | 50,786 | 50,731 |
| Net investment in property and equipment | 2,111 | 2,377 |
| Total net assets | 122,848 | 107,844 |
| Total liabilities and net assets | $1,858,935 | $1,900,021 |

**Statements of Revenues and Expenses**

| | 2006 | 2005 |
|---|---|---|
| | (In Thousands) | |
| **Revenues:** | | |
| Interest earned from education loan financing | $126,898 | $102,018 |
| Other loan and guarantee program revenues | 5,155 | 4,422 |
| Investment interest | 9,414 | 4,472 |
| Vermont state appropriations | 18,746 | 17,143 |
| Federal grants | 3,841 | 3,425 |
| Scholarship and gift revenue | 4,126 | 3,986 |
| Other revenue | 1,087 | 791 |
| Total operating revenues | 169,267 | 136,257 |
| **Expenses:** | | |
| Student aid | 22,808 | 20,828 |
| Interest rebated to borrowers | 6,561 | 7,567 |
| Interest on debt | 56,371 | 32,317 |
| Other loan financing costs | 35,538 | 39,066 |
| Corporate operating expenses and depreciation | 32,985 | 30,305 |
| Total expenses | 154,263 | 130,083 |
| Excess of revenues over expenses | 15,004 | 6,174 |
| Total net assets at the beginning of the year | 107,844 | 101,670 |
| Total net assets at the end of the year | $122,848 | $107,844 |

Net Assets

Cash and investment balances decreased from June 30, 2005 to 2006 from $399.0 to $152.2 million. Bonds for fiscal 2007 loan originations were not issued until July 2006. The bonds for fiscal 2006 originations had been issued in June 2005.

Student loans and interest receivable totaled $1.6 billion at June 30, 2006, up from $1.4 billion in 2005.

U.S. Treasury arbitrage payable is described in the expense discussion. This liability increased as of June 30, 2006, to $23.5 million, or approximately 0.3% of total assets.

Unrestricted net assets increased from $50.7 million in 2005 to $50.8 million in 2006. The unrestricted funds are used to finance student loans and for corporate working capital. Unrestricted net assets invested in student loans totaled $42.1 million at June 30, 2006.

Property, plant and equipment increased to $23.4 million as of June 30, 2006, with the completion of VSAC's new headquarters in Winooski. The net investment in plant, taking into account bonds payable for the construction of the building, was $2.1 million at June 30, 2006, a reduction of $266 thousand dollars from June 30, 2005.

Restricted net assets increased from $54.7 million to $70.0 million at June 30, 2006. $66.6 million were restricted by bond resolutions, an increase in equity within the bond estates of $13.9 million. The remaining $3.4 million is restricted for scholarships and grants, and for programs to encourage students to pursue higher education.

Revenues

VSAC's fiscal 2006 operations resulted in an increase in net assets of $15.0 million. All revenues for 2006 are considered operating revenues. VSAC realized $169.3 million in revenues versus $154.3 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 2006, interest revenue and subsidies increased from $102.0 to $126.9 million. Interest for certain loans is paid by the U.S. Department of Education as a subsidy to qualifying borrowers. This interest subsidy represented $11.8 million in 2006. VSAC also receives special allowance payments under certain interest rate conditions. Increasing interest rates, and loan portfolio growth during 2006, resulted in an increase in special allowance payments from $40.9 million in 2005 to $45.4 million in 2006.

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. Thus, the net spread on loans carries minimal interest rate risk.

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 $5.2 million in 2006 and $4.4 million 2005.

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 $4.5 million to $9.4 million, as interest rates increased and our total invested funds increased. The increase in invested funds is related to the timing of student loan bond issues.

VSAC's regular appropriation increased from $17.1 million to $17.7 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. In fiscal 2006, VSAC received an additional $1.0 million supplemental appropriation to invest in programs and other initiatives that encourage Vermont K-12 students to pursue educational opportunities beyond high school. The funds will be expended in future years, and are considered restricted net assets at June 30, 2006.

Federal grants increased from $3.4 million to $3.8 million in fiscal 2006.

Scholarship revenues, principally restricted gifts and grants, increased from $4.0 million in 2005 to $4.1 million in 2006.

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 $22.8 million in student aid during fiscal 2006. $17.7 million in grant aid was provided from State appropriations. An additional $4.4 million was made available through various scholarship programs managed by VSAC. Direct aid in the form of grants and scholarships represented 14.7% 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 $6.6 million in rebates of interest to borrowers in fiscal 2006. VSAC has not been able to provide the level of borrower benefits on consolidation loans that it has on other 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 2005 to 2006 is primarily the result of the continuing shift from Stafford and PLUS loans to consolidation loans in our portfolio. These rebates represent 4.2% of VSAC's fiscal 2006 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 $752.3 million of loans VSAC made available to students and parents in fiscal 2006.

*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 all bonds issued to finance loans 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 2005 to 2006, VSAC interest costs rose from $32.3 to $56.4 million. This represented 36.4% of VSAC operating expenses in fiscal 2006.

*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 $1.7 billion in outstanding bonds and notes. These costs totaled $35.5 million in fiscal 2006, representing approximately 22.9% 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.

In fiscal 2006, VSAC's provision for losses on student loans was $10.7 million compared to $11.6 million in fiscal 2005. In fiscal 2005, VSAC commissioned a study to gather historical default information from other lenders or servicers of nonguaranteed 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.

*Costs of Operations* – The costs of operating VSAC's programs, as well as facilities and overhead costs totaled $33.0 million in fiscal 2006, an increase of approximately 6.7% from fiscal 2005. Salaries and benefits were $23.6 million in fiscal 2006, approximately 71.5% of costs of operations. Overall costs of operations represent 21.4% of total operating expenses.

Total expenses for 2006 totaled $154.3 million. Revenues totaled $169.3 million. The excess of revenues over expenses was $15.0 million. The change in total net assets for the year was an increase of $15.0 million. The ending balance of net assets was $122.8 million, as compared to $107.8 million at June 30, 2005.

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

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

ASSETS

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| Current assets: | | |
| Cash and cash equivalents | $ 267,058 | $ 151,041 |
| Investments | 3,051 | 1,167 |
| Receivables: | | |
| Student loans, net | 126,260 | 117,298 |
| Student loan interest and special allowance | 54,979 | 41,736 |
| Investment interest | 777 | 572 |
| Federal administrative and program fees | 567 | 109 |
| Other | 1,198 | 2,211 |
| Other assets | 1,526 | 1,572 |
| Total current assets | 455,416 | 315,706 |
| Noncurrent assets: | | |
| Receivables: | | |
| Student loans, net | 1,714,194 | 1,511,836 |
| Capital assets, net | 22,628 | 23,402 |
| Deferred bond issuance costs, net | 9,319 | 7,991 |
| Total noncurrent assets | 1,746,141 | 1,543,229 |
| Total assets | $2,201,557 | $1,858,935 |

LIABILITIES AND NET ASSETS

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| Current liabilities: | | |
| Bonds payable | $ 41,655 | $ 735 |
| Accounts payable and other liabilities | 5,257 | 4,651 |
| Deferred revenue | 5,150 | 2,086 |
| Accrued interest on bonds payable | 3,746 | 3,120 |
| U.S. Treasury rebates payable | 547 | 233 |
| Total current liabilities | 56,355 | 10,825 |
| Noncurrent liabilities: | | |
| Bonds payable | 1,974,665 | 1,701,970 |
| U.S. Treasury rebates payable | 31,707 | 23,292 |
| Total noncurrent liabilities | 2,006,372 | 1,725,262 |
| Total liabilities | 2,062,727 | 1,736,087 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 2,067 | 2,111 |
| Restricted | 85,581 | 69,951 |
| Unrestricted | 51,182 | 50,786 |
| Total net assets | 138,830 | 122,848 |
| Total liabilities and net assets | $2,201,557 | $1,858,935 |

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, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| Operating revenues: | | |
| U.S. Department of Education: | | |
| Interest benefits | $ 15,161 | $ 11,764 |
| Special allowance | 42,361 | 45,427 |
| Interest and fees on student loans | 90,113 | 69,707 |
| Vermont state appropriations | 18,457 | 18,746 |
| Interest on cash and investments | 10,381 | 9,414 |
| Guarantee agency administrative revenues | 6,537 | 5,155 |
| Federal grants | 4,347 | 3,841 |
| Scholarship and gift income | 4,665 | 4,126 |
| Other income | 878 | 1,087 |
| Total operating revenues | 192,900 | 169,267 |
| Operating expenses: | | |
| Interest, net of amortization | 74,653 | 56,371 |
| Salaries and benefits | 24,324 | 23,578 |
| Grants and scholarships | 22,511 | 22,808 |
| Interest rebated to borrowers | 6,074 | 6,561 |
| Other general and administrative | 8,788 | 7,868 |
| Interest subject to U.S. Treasury rebate | 8,933 | 4,791 |
| Credit enhancement and remarketing fees | 5,443 | 6,292 |
| Consolidation and lender paid fees | 14,344 | 12,913 |
| Other loan related expenses | 1,361 | 535 |
| Provision for losses on student loans | 8,502 | 10,655 |
| Depreciation and amortization | 1,652 | 1,539 |
| Amortization of bond issuance costs | 333 | 352 |
| Total operating expenses | 176,918 | 154,263 |
| Excess of operating revenues over operating expenses | 15,982 | 15,004 |
| Net assets, beginning of year | 122,848 | 107,844 |
| Net assets, end of year | $138,830 | $122,848 |

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, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| Cash flows from operating activities: | | |
| Cash received from customers, donors and governments | $ 76,813 | $ 67,205 |
| Principal payments received on student loans | 404,830 | 551,007 |
| Cash paid to suppliers for goods and services | (41,907) | (35,985) |
| Grants and scholarship disbursements | (22,511) | (22,809) |
| Loans made and purchased | (620,741) | (752,277) |
| Cash paid to employees for salaries and benefits | (24,121) | (23,567) |
| Interest and fees received on student loans | 78,020 | 65,378 |
| Vermont state appropriations received | 18,457 | 18,746 |
| Net cash used in operating activities | (131,160) | (132,302) |
| Cash flows from noncapital financing activities: | | |
| Proceeds from the sale of bonds | 314,150 | – |
| Payments on bonds | – | (56,950) |
| Interest paid to bond holders | (72,850) | (54,733) |
| Net cash provided (used) by noncapital financing activities | 241,300 | (111,683) |
| Cash flows from capital and related financing activities: | | |
| Payments on bonds payable | (735) | (725) |
| Interest paid to bond holders | (977) | (776) |
| Acquisition and construction of fixed assets | (878) | (10,821) |
| Net cash used by capital and related financing activities | (2,590) | (12,322) |
| Cash flows from investing activities: | | |
| Interest received on cash and investments | 10,176 | 9,419 |
| Purchase of investments, net | (1,709) | (628) |
| Net cash provided by investing activities | 8,467 | 8,791 |
| Net increase (decrease) in cash and cash equivalents | 116,017 | (247,516) |
| Cash and cash equivalents, beginning of year | 151,041 | 398,557 |
| Cash and cash equivalents, end of year | $ 267,058 | $ 151,041 |

| | 2007 | 2006 |
|---|---|---|
| | (In Thousands) | |
| Reconciliation of operating income to net cash used in operating activities: | | |
| Excess of operating revenues over operating expenses | $ 15,982 | $ 15,004 |
| Adjustments to reconcile the excess of operating revenues over operating expenses to net cash used in operating activities: | | |
| Depreciation and amortization | 1,652 | 1,539 |
| Provision for losses on student loans | 8,502 | 10,655 |
| Amortization of loan origination fees, net | (145) | (889) |
| Amortization of bond issuance costs | 333 | 352 |
| Accretion of bond discount | 200 | 201 |
| Unrealized gain on investments | (175) | (24) |
| Loss on disposal of fixed assets | – | 12 |
| Investment interest received | (10,176) | (9,419) |
| Interest paid to bond holders | 73,827 | 55,509 |
| Changes in operating assets and liabilities: | | |
| Investment interest receivable | (206) | 5 |
| Student loans receivable | (219,677) | (198,100) |
| Student loan interest receivable | (13,243) | (9,460) |
| Federal administrative and program fees receivable | (457) | 144 |
| Other receivables | 1,013 | (1,484) |
| Other assets | 46 | (190) |
| Deferred bond issuance costs | (1,661) | (7) |
| Accounts payable and other liabilities | 606 | 202 |
| Deferred revenue | 3,064 | (455) |
| Accrued interest on bonds payable | 626 | 661 |
| U.S. Treasury rebates payable | 8,729 | 3,442 |
| Total adjustments | (147,142) | (147,306) |
| Net cash used in operating activities | $(131,160) | $(132,302) |

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, 2007 and 2006

| | Federal Loan Reserve Fund | VHEIP | 2007 Total | 2006 Total |
|---|---|---|---|---|
| | (In Thousands) | | | |
| ASSETS HELD FOR OTHERS | | | | |
| Cash and cash equivalents | $11,050 | $ 946 | $11,996 | $10,318 |
| Investments | – | 71,412 | 71,412 | 52,564 |
| Student loans receivable and accrued student loan interest | – | 5,633 | 5,633 | 3,814 |
| Investment interest receivable | 47 | 23 | 70 | 49 |
| Due from U.S. Department of Education | 1,873 | – | 1,873 | 1,878 |
| Other assets | 70 | 297 | 367 | 215 |
| Total assets | $13,040 | $78,311 | $91,351 | $68,838 |
| LIABILITIES | | | | |
| Accounts payable and other liabilities | $ 803 | $ 111 | $ 914 | $ 635 |
| Note payable | – | 5,807 | 5,807 | 4,338 |
| Federal advances | 538 | – | 538 | 538 |
| Amounts held on behalf of investors | – | 72,393 | 72,393 | 53,259 |
| Return of reserves due to U.S. Department of Education | 276 | – | 276 | 552 |
| Federal loan reserve funds held for U.S. Department of Education | 11,423 | – | 11,423 | 9,516 |
| Total liabilities | $13,040 | $78,311 | $91,351 | $68,838 |

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.

## 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, 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 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.

### *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 refinance existing student loans.

## 2. Summary of Significant Accounting Policies (Continued)

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

*Allowance for Loan Losses*

VSAC issues loans that are either guaranteed at default by VSAC, as guarantor under the FFEL Program, and reinsured by DE, or that carry no guarantee against default. Loans not guaranteed create the greatest loss exposure for VSAC and account for 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 rate for nonguaranteed loans is 100%. For guaranteed loans, the loss rates are either 2% or 3% based on 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, 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.

*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.*

## 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. 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.

*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.

(Dollars in Thousands)

## 2. Summary of Significant Accounting Policies (Continued)

*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.

## 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, 2007 and 2006 are presented below:

| | 2007 | 2006 |
|---|---|---|
| Cash and repurchase agreements | $ 7,822 | $ 14,414 |
| Money market accounts | 259,236 | 136,627 |
| | $267,058 | $151,041 |

(Dollars in Thousands)

## 3. Cash, Cash Equivalents and Investments (Continued)

At June 30, 2007 and 2006, 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, 2007 were $ 8,996 and the bank balances at June 30, 2006 were $15,511. The difference between the bank balances and the amounts recorded on the financial statements is outstanding checks and deposits in transit. Additionally, $8,198 and $14,889 of the bank balances at June 30, 2007 and 2006, 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 $798 and $622 at June 30, 2007 and 2006, respectively, were uninsured and uncollateralized.

At June 30, 2007 and 2006, 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.

*Investments*

VSAC held the following investments at June 30, 2007 and June 30, 2006:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Domestic equities | $ 1,804 | $ 2,004 | $ 727 | $ 752 |
| Corporate bonds | 647 | 641 | 239 | 233 |
| U.S. Government bonds | 409 | 406 | 182 | 182 |
| | $ 2,860 | $ 3,051 | $ 1,148 | $ 1,167 |

(Dollars in Thousands)

## 3. Cash, Cash Equivalents and Investments (Continued)

At June 30, 2007, the ratings for investments in debt securities are summarized as follows:

| Investment | Maturities | Fair Value | Standard & Poor's Rating |
|---|---|---|---|
| Corporate bonds: | | | |
| Citigroup Inc. (3.500%) | 2/1/2008 | $ 25 | AA |
| Boeing Cap Corp (4.750%) | 8/25/2008 | 40 | A+ |
| Target Corp. (5.400%) | 10/1/2008 | 20 | A+ |
| Texaco Capital (5.500%) | 1/15/2009 | 20 | AA |
| Washington Mutual (4.000%) | 1/15/2009 | 15 | A- |
| IBM Corp. (5.375%) | 2/1/2009 | 20 | A+ |
| Bankamerica Corp (7.125%) | 3/1/2009 | 21 | AA- |
| FPL Group Cap Inc. (7.375%) | 6/1/2009 | 21 | A- |
| JP Morgan Chase (5.715%) | 6/28/2009 | 19 | AA- |
| SBC Communications (4.125%) | 9/15/2009 | 19 | A |
| Lehman Bros Hldgs (7.875%) | 11/1/2009 | 20 | A+ |
| Berkshire Hathaway (4.125%) | 1/15/2010 | 44 | AAA |
| Countrywide Finl (4.500%) | 6/15/2010 | 24 | A |
| General Dynamics (4.500%) | 8/15/2010 | 24 | A |
| Gen Elec Cap Crp (4.875%) | 10/21/2010 | 25 | AAA |
| SBC Communications (5.300%) | 11/15/2010 | 25 | A |
| Caterpiller Fin Crp (5.050%) | 12/1/2010 | 25 | A |
| Goldman Sachs Group (6.875%) | 1/15/2011 | 26 | AA- |
| Quebec Prov (6.125%) | 1/22/2011 | 26 | A+ |
| Conoco Funding Co. (6.350%) | 10/15/2011 | 36 | A- |
| Household Fin Co. (6.375%) | 10/15/2011 | 15 | AA- |
| Occidental Petroleum (6.750%) | 1/15/2012 | 26 | A- |
| Costco Wholesale Corp. (5.300%) | 3/15/2012 | 25 | A |
| United Tech Corp. (6.100%) | 5/15/2012 | 46 | A |
| Wells Fargo & Co. (5.125%) | 9/1/2012 | 24 | AA |
| Capital One Fin (5.500%) | 6/1/2015 | 10 | BBB+ |
| | | $ 641 | |

(Dollars in Thousands)

## 3. Cash, Cash Equivalents and Investments (Continued)

| Investment | Maturities | Fair Value | Standard & Poor's Rating |
|---|---|---|---|
| U.S. Government bonds: | | | |
| U.S. Treasury Note (4.375%) | 1/31/2008 | $ 25 | – |
| U.S. Treasury Note (4.625%) | 2/29/2008 | 25 | – |
| U.S. Treasury Note (5.000%) | 7/31/2008 | 25 | – |
| U.S. Treasury Note (4.875%) | 1/31/2009 | 25 | – |
| U.S. Treasury Note (4.500%) | 2/15/2009 | 25 | – |
| U.S. Treasury Note (5.500%) | 5/14/2009 | 25 | – |
| U.S. Treasury Note (6.000%) | 8/15/2009 | 25 | – |
| U.S. Treasury Note (4.625%) | 11/15/2009 | 50 | – |
| U.S. Treasury Note (6.500%) | 2/15/2010 | 26 | – |
| U.S. Treasury Note (5.750%) | 8/15/2010 | 26 | – |
| U.S. Treasury Note (4.500%) | 11/15/2010 | 10 | – |
| Tenn valley Auth (5.625%) | 1/18/2011 | 25 | AAA |
| U.S. Treasury Note (5.125%) | 6/30/2011 | 25 | – |
| U.S. Treasury Note (4.500%) | 11/30/2011 | 24 | – |
| Fed Nat'l Mtg Assn (5.000%) | 4/30/2013 | 5 | AAA |
| Ishares Lehman TIPS Bond Fund | | 40 | AAA |
| | | $406 | |

*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. VSAC's current investment manager works with a target of 30% of investments in fixed rate securities with a target duration of no greater than three years.

*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 70% of the total portfolio in equity issues, balanced between growth and value styles, biased toward large and mid-cap. As of June 30, 2007 and 2006, 12% and 14%, 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, 2007 or 2006.

*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

At June 30, 2007, VSAC held student loans with interest rates ranging from 2.875% to 10.860%; the majority is 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.

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, 2007 and 2006 are summarized as follows:

| | 2007 | 2006 |
|---|---|---|
| **Status:** | | |
| Interim status | $ 387,861 | $ 360,984 |
| Deferral status | 310,029 | 283,972 |
| Repayment status | 1,170,425 | 1,011,222 |
| Less: allowance for loan losses | (25,987) | (21,265) |
| deferred origination fees, net | (5,587) | (5,779) |
| Plus: deferred fees paid on borrowers behalf | 3,713 | – |
| Total student loans receivable | 1,840,454 | 1,629,134 |
| Less: noncurrent student loans receivable | 1,714,194 | 1,511,836 |
| Current student loans receivable | $ 126,260 | $ 117,298 |

(Dollars in Thousands)

## 4. Student Loans Receivable (Continued)

| | 2007 | 2006 |
|---|---|---|
| **Guarantee type:** | | |
| U.S. Department of Education | $1,591,464 | $1,422,102 |
| U.S. Department of Health and Human Services | 11,810 | 13,928 |
| Other – nonguaranteed | 265,041 | 220,148 |
| Less: allowance for loan losses | (25,987) | (21,265) |
| deferred origination fees, net | (5,587) | (5,779) |
| Plus: deferred fees paid on borrowers behalf | 3,713 | – |
| Total student loans receivable | 1,840,454 | 1,629,134 |
| Less: noncurrent student loans receivable | 1,714,194 | 1,511,836 |
| Current student loans receivable | $ 126,260 | $ 117,298 |

$1,824,999 and $1,614,303 of student loans were pledged to the repayment of bonds as of June 30, 2007 and 2006 respectively.

Transactions in the allowance for loan losses for the years ended June 30, 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance July 1 | $21,265 | $12,611 |
| Net loans charged off | (3,780) | (2,001) |
| Provision for losses on student loans | 8,502 | 10,655 |
| Balance June 30 | $25,987 | $21,265 |

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.

## 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, 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| *Additions:* | | |
| Reimbursement from DE on default loan purchases | $18,755 | $17,780 |
| Default loan collections | 123 | 242 |
| Loan administrative fees | 2,445 | 2,231 |
| Investment income | 511 | 360 |
| Other receipts | 118 | – |
| Total additions | 21,952 | 20,613 |
| *Deductions:* | | |
| Purchases of defaulted loans from lenders | 19,381 | 18,395 |
| Default aversion fee paid | 664 | 699 |
| Other disbursements | – | 1,382 |
| Total deductions | 20,045 | 20,476 |
| Net increase in Federal loan reserve funds held | 1,907 | 137 |
| Federal loan reserve funds held, at beginning of year | 9,516 | 9,379 |
| Federal loan reserve funds held, at end of year | $11,423 | $ 9,516 |

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 2007 and 2006, VSAC maintained sufficient reserves to fully comply with these requirements.

Total outstanding loans issued under the FFEL Program were $1,591,464 and $1,422,101 at June 30, 2007 and 2006, 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, 2007 and 2006 were as follows:

| | 2007 | 2006 |
|---|---|---|
| *Additions:* | | |
| Investment income | $ 2,023 | $ 2,686 |
| Net realized and unrealized gains | 5,736 | 251 |
| Student loan interest income | 336 | 231 |
| Net participant subscriptions/redemptions | 11,090 | 9,272 |
| Total additions | 19,185 | 12,440 |
| *Deductions:* | | |
| Operational expenses | 51 | 39 |
| Total deductions | 51 | 39 |
| Net increase in assets held on behalf of investors | 19,134 | 12,401 |
| Assets held on behalf of investors, at beginning of year | 53,259 | 40,858 |
| Assets held on behalf of investors, at end of year | $72,393 | $53,259 |

(Dollars in Thousands)

## 7. Capital Assets

A summary of capital assets activity for the years ended June 30, 2007 and 2006, were as follows:

| | Estimated Lives | Balance July 1, 2005 | Acquisitions | Dispositions | Balance June 30, 2006 | Net Acquisitions | Balance June 30, 2007 |
|---|---|---|---|---|---|---|---|
| Land | – | $ 3,150 | $ – | $ – | $ 3,150 | $ – | $ 3,150 |
| Furniture and equipment | 3 – 5 Years | 5,066 | 2,496 | 189 | 7,373 | 825 | 8,198 |
| Leasehold improvements | 5 Years | 721 | – | 721 | – | – | – |
| Software | 3 – 5 Years | 2,477 | 278 | 1,508 | 1,247 | 57 | 1,304 |
| Building | 5 – 30 Years | 11,072 | 5,581 | – | 16,653 | (4) | 16,649 |
| | | 22,486 | 8,355 | 2,418 | 28,423 | 878 | 29,301 |
| Less accumulated depreciation | | 5,888 | 1,539 | 2,406 | 5,021 | 1,652 | 6,673 |
| Capital assets, net | | $16,598 | $ 6,816 | $ 12 | $23,402 | $ (774) | 22,628 |
| Less bonds payable, net | | | | | | | 20,561 |
| Net investment in property and equipment | | | | | | | $ 2,067 |

Depreciation charged to operations for the years ended June 30, 2007 and 2006 was $1,652 and $1,539, respectively.

## 8. Bonds Payable

VSAC has issued the following bonds payable at June 30, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| 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 3.61% to 3.91% during fiscal year 2007 (3.78% at June 30, 2007). | $ 40,900 | $ 40,900 |
| 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 3.44% to 3.94% during fiscal year 2007 (3.87% to 3.94% at June 30, 2007). | 96,000 | 96,000 |

(Dollars in Thousands)

## 8. Bonds Payable (Continued)

| | 2007 | 2006 |
|---|---|---|
| 1996 Series F, G, H and I, dated May 29, 1996; comprised of auction rate bonds maturing December 2036; interest is reset every 35 days and payable semi-annually at rates which ranged from 3.6% to 3.94% during fiscal year 2007 (3.84% to 3.94% at June 30, 2007). | $ 100,000 | $ 100,000 |
| 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 3.55% to 3.99% during fiscal year 2007 (3.87% to 3.95% at June 30, 2007). | 165,000 | 165,000 |
| 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 3.55% to 3.92% during fiscal year 2007 (3.83% to 3.92% at June 30, 2007). | 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 3.45% to 3.95% during fiscal year 2007 (3.75% to 3.95% at June 30, 2007). | 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 4.95% to 5.37% during fiscal year 2007 (5.25% to 5.32% at June 30, 2007). | 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 3.6% to 4.0% during fiscal year 2007 (3.90% to 4.00% at June 30, 2007). | 112,500 | 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 3.07% to 3.92% during fiscal year 2007 (3.86% to 3.92% at June 30, 2007). | 165,900 | 165,900 |

(Dollars in Thousands)

## 8. Bonds Payable (Continued)

| | 2007 | 2006 |
|---|---|---|
| 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 3.62% to 4.0% during fiscal year 2007 (3.87% to 4.00% at June 30, 2007). | $ 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 at rates which ranged from 3.63% to 3.86% during fiscal year 2007 (3.86% at June 30, 2007). | 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 3.65% to 3.95% during fiscal year 2007 (3.88% and 3.93% at June 30, 2007). | 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 at rates which ranged from 5.29% to 5.37% during fiscal year 2007 (5.32% at June 30, 2007). | 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 at rates which ranged from 3.4% to 3.99% during fiscal year 2007 (3.8% at June 30, 2007). | 120,385 | 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 at rates which ranged from 5.2% to 5.34% during fiscal year 2007 (5.29% and 5.3% at June 30, 2007). | 119,600 | 119,600 |
| 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 3.45% to 3.98% during fiscal year 2007 (3.85% to 3.98% at June 30, 2007). | 175,250 | – |
| 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 with initial interest rates of 3.93%. | 138,900 | – |

(Dollars in Thousands)

**8. Bonds Payable (Continued)**

| | 2007 | 2006 |
|---|---|---|
| 2003 General Obligation bond dated December 9, 2003, with a final maturity date of March 1, 2034, interest rates are fixed ranging from 2.0% to 5.0% payable semi-annually. | $ 20,695 | $ 21,430 |
| Total bonds payable | 2,017,430 | 1,704,015 |
| Bond discount, net | (134) | (138) |
| Deferred loss on refunding, net | (976) | (1,172) |
| Total bonds payable | 2,016,320 | 1,702,705 |
| Less current portion of bonds payable | 41,655 | 735 |
| Noncurrent portion bonds payable | $1,974,665 | $1,701,970 |

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 R-U, 2001 Series V-AA, 2002 Series BB-DD, 2003 Series FF-LL, 2004 Series MM-PP, 2005 Series QQ-SS, 2006 TT-VV, and the 2007 WW/XX 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 also 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, 2007, all bonds authorized under the underlying bond resolutions have been issued, except $91,100 of bonds that are expected to be issued in December 2007.

(Dollars in Thousands)

## 8. Bonds 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, 2007 through 2011 and in five-year increments thereafter to maturity for VSAC, are as follows:

| Fiscal Year June 30, | Principal | Interest | Total |
|---|---|---|---|
| FY08 | $ 41,655 | $ 82,889 | $ 124,544 |
| FY09 | 1,670 | 82,102 | 83,772 |
| FY10 | 795 | 82,045 | 82,840 |
| FY11 | 820 | 82,020 | 82,840 |
| FY12 | 42,355 | 81,912 | 124,267 |
| FY13 – 17 | 127,980 | 388,950 | 516,930 |
| FY18 – 22 | 3,815 | 376,080 | 379,895 |
| FY23 – 27 | 100,865 | 369,298 | 470,163 |
| FY28 – 32 | 3,540 | 354,956 | 358,496 |
| FY33 – 37 | 714,800 | 294,126 | 1,008,926 |
| FY38 – 42 | 979,135 | 95,311 | 1,074,446 |
| Total | $2,017,430 | $2,289,689 | $4,307,119 |

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, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | $1,702,705 | $1,760,179 |
| Issuance | 314,150 | – |
| Redemptions and refundings | (735) | (57,675) |
| Accretion of discount | 200 | 201 |
| Balance at end of year | $2,016,320 | $1,702,705 |

## 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, 2007 and 2006 of $32,254 and $23,525, respectively. VSAC has estimated the current portion to be $547 and $233 at June 30, 2007 and 2006, respectively. VSAC refunded the U.S. Treasury $233 and $1,112 in excess earnings in 2007 and 2006, 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 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 tax exempt obligations issued before October 1, 1993 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.

(Dollars in Thousands)

## 11. Endowment Funds

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

In 1998, the Vermont General Assembly enacted a version of the Uniform Prudent Investor Act. The Act does not address in any explicit or clear manner a trustee's ability to spend net appreciation of donor-restricted endowments. The VSAC Board of Directors has established a policy, and most endowment agreements specify gains and appreciation on these funds be treated with a total return approach. In this approach, the amount of funds that may be expended from an endowment is based on a percentage of the fund's 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.

At June 30, 2007 and 2006, the total net assets related to endowment funds were $3,152 and $1,564, respectively. Expendable restricted net assets totaled $240 and $66, respectively. The remaining $2,912 and $1,498, 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, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Restricted by bond resolutions | $80,176 | $66,576 |
| Restricted for grants and scholarships | 1,509 | 811 |
| Donor restricted for scholarships | 3,152 | 1,564 |
| Restricted appropriation for educational programs | 744 | 1,000 |
| Total restricted net assets | $85,581 | $69,951 |

(Dollars in Thousands)

## 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, 2007 and 2006 amounted to $16,428 and $16,753, respectively; VSAC's total payroll was $17,343 and $16,464, respectively. Total contributions by VSAC amounted to $1,643 and $1,675 in 2007 and 2006, respectively, which represented 10% of the covered payroll.

## 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, 2007 and 2006 is as follows:

| | 2007 | 2006 |
|---|---|---|
| Balance, beginning of year | $ 419 | $ 253 |
| Claims paid | (3,680) | (3,576) |
| Accrual for estimated claims | 3,573 | 3,742 |
| Balance, end of year | $ 312 | $ 419 |

## 15. Loan Commitments

At June 30, 2007 and 2006, VSAC had commitments to extend credit for student loans of approximately $56,726 and $56,557, 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. FFELP Legislation

On September 27, 2007, the President signed the College Cost Reduction and Access Act. The Act reduces certain fees paid by the Federal government to lenders and guarantors participating in the Federal Family Education Loan Program (FFELP) starting on October 1, 2007.