

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND**

**FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
AND
INDEPENDENT AUDITOR'S REPORTS**

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
DECEMBER 31, 2008 AND 2007**

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INDEPENDENT AUDITOR'S REPORT

The Members of the Board
Vermont Educational and Health
Buildings Financing Agency

We have audited the accompanying basic financial statements of the Vermont Educational and Health Buildings Financing Agency - Operating Fund, a component unit of the State of Vermont, as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Agency'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Educational and Health Buildings Financing Agency - Operating Fund as of December 31, 2008 and 2007, 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 a report, dated September 2, 2009, on our consideration of Vermont Educational and Health Buildings Financing Agency - Operating Fund'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 over 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.

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

Montpelier, Vermont
September 2, 2009

Mudgett, Jennett &
Krogh-Wisner P.C.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

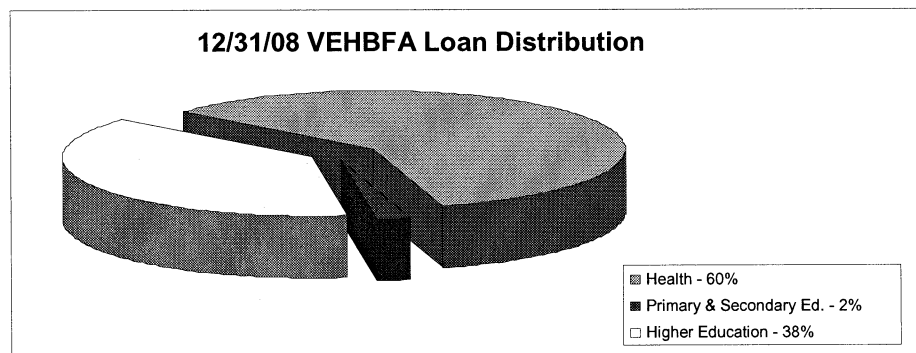
The Vermont Educational and Health Buildings Financing Agency (the "Agency") facilitates financing for capital expenditures and refinancing of indebtedness for eligible 501(3) Vermont health care and educational institutions through the issuance of primarily tax-exempt debt instruments. The Agency issues debt instruments, which do not constitute a debt of the State of Vermont, its legislature or any political subdivision. These debt instruments are payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Agency has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. As a result, the Agency has elected to exclude these obligations and related assets held by trustees from the financial statements. These financial statements present financial information solely for the Agency's Operating Fund. The discussion of the Agency's financial performance provides an overview of the Agency's financial activities for the fiscal year ended December 31, 2008.

Financial Highlights

In 2008, the Agency issued \$222,680,000 in new and refunding bonds on behalf of seven borrowers. In 2007, the Agency issued \$82,550,000 in bonds on behalf of three borrowers. Initial fees from borrowers increased 103.5%, from \$93,500 in 2007 to \$190,266 in 2008. This increase in initial fees correlates with the increased issuance of new and refunding bonds from 2007 to 2008.

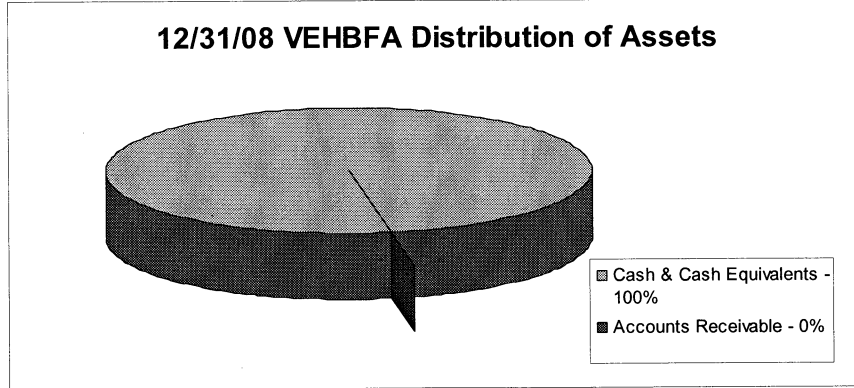
Outstanding Revenue Bonds at 12/31/08

| | Total Number | Total Amount |
|-------------------------------|---------------------|------------------------|
| Higher Education | 21 | \$425,265,262 |
| Primary & Secondary Education | 7 | \$19,671,490 |
| Health | 30 | \$671,165,000 |
| Total | 58 | \$1,116,101,752 |



Assets

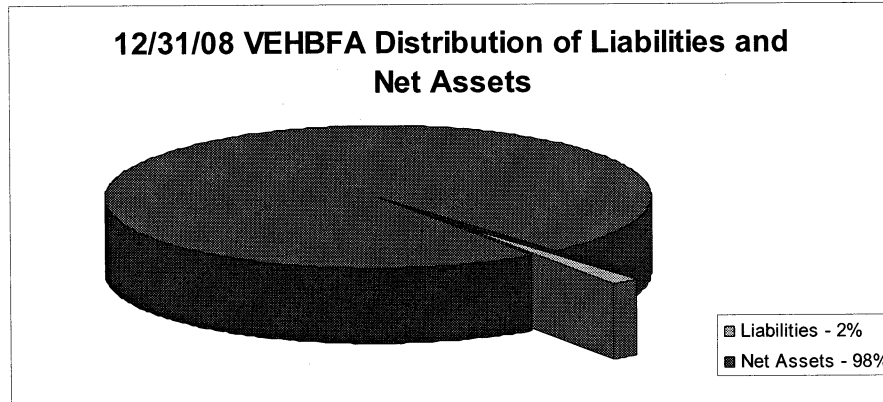
Total assets decreased \$52,941 from \$1,319,869 in 2007 to \$1,266,928 in 2008, or 4.0%. This was due to a decrease in accounts receivable at year-end. Assets are made up primarily of cash and cash equivalents invested in the Fidelity Institutional Money Market Funds Government Portfolio Class III.



Liabilities and Net Assets

In 2008, liabilities decreased \$66,014 to \$20,486 or a 76.3% decrease from 2007's total of \$86,500. This was due to a decrease in accounts payable at year-end.

Net assets increased \$13,073, or 1.1%, from 2007's \$1,233,369 to 2008's \$1,246,442.



2008 Net Assets Summary

| 12/31/07 Balance | 2008 Activity | 12/31/08 Balance |
|-------------------------|----------------------|-------------------------|
| \$1,233,369 | \$13,073 | \$1,246,442 |

Operating Summary

The financial activities of the Agency in 2008 had no significant events to report. Operating revenue in 2008 amounted to \$274,724 which represents an increase of \$100,372 over the prior year's operating revenue of \$174,352. Investment earnings were down by \$41,382 in 2008 due primarily to mark to market adjustments to the Agency's investment portfolio. Initial fee income was up by \$96,766 from 2007's \$93,500 to 2008's \$190,266. This increase was due to the increased bond activity from 2007 to 2008. Total expenses of \$293,710 represent an increase of \$93,698 over the prior year's expenses of \$200,012, again due to increased bond activity.

2008 Revenue & Expense Summary

| Total Revenue | Total Expenses | Surplus(Deficit) |
|----------------------|-----------------------|-------------------------|
| \$306,783 | \$293,710 | \$13,073 |

Subsequent to year end, the Agency authorized \$66,160,000 in new and refunding bonds for eight borrowers and issued \$62,575,987. Of this amount, \$12,000,000 was retired shortly after being issued.

Contact for Further Information

This financial report is designed to provide the reader with a general overview of the Agency's finances. Questions about this report or requests for additional financial information should be directed to Robert W. Giroux, Executive Director, Vermont Educational and Health Buildings Financing Agency, 58 East State Street, P.O. Box 564, Montpelier, VT 05601, at 802-223-2717 or Bobg@vtbondagency.org.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|-----------------------------------|------------------------|------------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,266,928 | \$ 1,276,936 |
| Accounts receivable | <u> -</u> | <u> 42,933</u> |
| Total current assets | <u>1,266,928</u> | <u>1,319,869</u> |
| Total assets | \$ <u>1,266,928</u> | \$ <u>1,319,869</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ <u> 20,486</u> | \$ <u> 86,500</u> |
| Total liabilities | 20,486 | 86,500 |
| Net assets | <u>1,246,442</u> | <u>1,233,369</u> |
| Total liabilities and net assets | \$ <u>1,266,928</u> | \$ <u>1,319,869</u> |

The notes to financial statements are an integral part of these statements.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------|---------------------|---------------------|
| REVENUE: | | |
| Annual fees from institutions | \$ 84,458 | \$ 80,852 |
| Initial fees from institutions | <u>190,266</u> | <u>93,500</u> |
| Total operating revenue | 274,724 | 174,352 |
| EXPENSES | <u>293,710</u> | <u>200,012</u> |
| OPERATING LOSS | (18,986) | (25,660) |
| NONOPERATING REVENUE: | | |
| Interest and other investment revenue | <u>32,059</u> | <u>73,441</u> |
| CHANGE IN NET ASSETS | 13,073 | 47,781 |
| NET ASSETS, beginning of year | <u>1,233,369</u> | <u>1,185,588</u> |
| NET ASSETS, end of year | \$ <u>1,246,442</u> | \$ <u>1,233,369</u> |

The notes to financial statements are an integral part of these statements.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from institutions - | | |
| Annual fees | \$ 84,458 | \$ 80,852 |
| Initial fees | 150,701 | 67,051 |
| Cash paid to suppliers | (227,367) | (109,956) |
| Cash paid to employees | <u>(49,859)</u> | <u>(46,197)</u> |
| Net cash used in operating activities | <u>(42,067)</u> | <u>(8,250)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from matured investments | - | 1,206,309 |
| Interest and other investment revenue | <u>32,059</u> | <u>73,441</u> |
| Net cash provided by investing activities | <u>32,059</u> | <u>1,279,750</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (10,008) | 1,271,500 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>1,276,936</u> | <u>5,436</u> |
| CASH AND CASH EQUIVALENTS, end of year | \$ <u>1,266,928</u> | \$ <u>1,276,936</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | \$ (18,986) | \$ (25,660) |
| Adjustments to reconcile operating loss to net cash used in operating activities - | | |
| (Increase)/decrease in following assets: | | |
| Accounts receivable | 42,933 | (42,933) |
| Increase/(decrease) in following liabilities: | | |
| Accounts payable | <u>(66,014)</u> | <u>60,343</u> |
| Net cash used in operating activities | \$ <u>(42,067)</u> | \$ <u>(8,250)</u> |

The notes to financial statements are an integral part of these statements.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

1. Summary of operations and significant accounting policies:

Operations:

The Vermont Educational and Health Buildings Financing Agency (the Agency) is a public instrumentality of the State of Vermont created in 1966 and operational in 1969. The board of the Agency consists of four ex-officio members, seven members appointed by the Governor of the State of Vermont and two members selected by the appointed members. The Agency is considered a component unit of the State of Vermont and is included as part of the State of Vermont's financial reporting entity.

The purpose of the Agency is to facilitate financing for capital expenditures and refinancing of indebtedness for eligible Vermont health care, educational institutions and non-profit libraries through the issuance of primarily tax-exempt debt instruments.

Accounting policies:

The accounting policies of the Agency conform to generally accepted accounting principles. The following is a summary of the significant accounting policies and financial statement presentation.

- A. Basis of presentation - The financial statement presentation follows the recommendations of the Governmental Accounting Standards Board (GASB) in its Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Agency is a special-purpose entity with only business-type activities. Under GASB No. 34, such entities present only the financial statements required for enterprise funds.
- B. Measurement focus and basis of accounting - The Agency uses the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation for payment is incurred. Operating revenue includes annual and initial fees from institutions. The accounts of the Agency are maintained in accordance with the principles of fund accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance.
- C. Reporting entity - The Agency issues primarily tax-exempt instruments, which do not constitute a debt of the State of Vermont, its legislature or any political subdivision. These debt instruments are payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Agency has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. The Agency has elected to exclude these obligations (Note 4), and related assets held by trustees, from the financial statements. Therefore, the financial statements present financial information solely for the Operating Fund.
- D. Cash equivalents - The Agency considers money market funds to be cash equivalents.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

1. Summary of significant accounting policies (continued):

E. Use of estimates - The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of 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.

F. Income taxes - As a public instrumentality of the State of Vermont, the Agency is a tax-exempt entity. Therefore, there is no provision for income taxes.

2. Custodial credit risk - deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be recovered. At December 31, 2008 and 2007, cash and cash equivalents included \$1,265,928 and \$1,276,023 of uninsured deposits in the Fidelity Institutional Money Market Funds Government Portfolio Class III. This money market is rated Aaa by Moody's Investors Services.

3. Related party transactions:

The Agency reimburses a related party for general and administrative services. The total amount paid during the year to the related party was approximately \$48,354 with an additional amount of \$20,486 accrued and payable at December 31, 2008. During 2007, approximately \$102,960 was paid to the related party with a receivable balance of \$16,484 at December 31, 2007.

4. Revenue bonds payable:

Revenue bonds and construction notes payable of the Agency's underlying borrowers consist of the following at December 31, 2008:

| <u>Revenue Bonds Outstanding</u> | <u>Due</u> | <u>Interest Rate</u> | <u>Amount</u> |
|--|-------------|----------------------|---------------|
| VHA of New England Capital - Asset Financing Program, 1985 Issue | 2025 | (a) | \$ 32,500,000 |
| Southern Vermont College, 1987 Issue | 2009 | (b) | 22,500 |
| Middlebury College, 1988 Issue | 2009 - 2028 | (c) | 32,915,000 |
| Champlain College, 1993 Issue | 2009 - 2013 | 6% | 1,410,000 |
| Fletcher Allen Health Care (formerly MCHV), 1994 Issue | 2009 - 2013 | 4.93% (f) | 13,400,000 |
| Central Vermont Medical Center, 1996 Issue | 2009 - 2022 | 5.0% | 13,600,000 |
| Lyndon Institute, 1996 Issue | 2009 - 2014 | 6.6% | 1,770,000 |
| Capital Asset Financing Series, 1997 Issue | 2009 - 2022 | 3.57% | 4,810,000 |
| Capital Asset Financing Series 3, 1999 Issue | 2009 - 2024 | (g) | 800,000 |
| Copley Manor, 1999 Issue | 2009 - 2029 | 6.15% - 6.25% | 7,900,000 |
| Green Mountain College, 1999 Issue | 2009 - 2011 | 5.7% | 486,326 |

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

4. Revenue bonds payable (continued):

| <u>Revenue Bonds Outstanding</u> | <u>Due</u> | <u>Interest Rate</u> | <u>Amount</u> |
|---|-------------|----------------------|---------------|
| Marlboro College, 1999 Issue | 2009 - 2018 | (j) | 3,630,000 |
| Middlebury College, 1999 Issue | 2038 | 5.0% | 60,000,000 |
| St. Michael's College, 1999 Issue | 2009 - 2023 | 4.20% - 5.0% | 11,855,000 |
| Vermont Mental Health Pool, 1999 Issue | 2009 - 2019 | 6.0% - 6.25% | 3,740,000 |
| Copley Hospital, 2000 Issue | 2009 - 2030 | (e) | 3,865,000 |
| Fletcher Allen Health Series A, 2000 Issue | 2009 - 2027 | 5.30% - 6.25% | 95,615,000 |
| Helen Porter Nursing Home, 2000 Issue | 2009 - 2030 | (e) | 3,885,000 |
| Rutland Regional Medical Center, 2001 Issue | 2016 - 2032 | (c) | 21,825,000 |
| St. Michael's College, 2001 Issue | 2009 - 2023 | 3.80% - 5.0% | 6,880,000 |
| Springfield Hospital, 2002 Series A Issue | 2009 - 2031 | (e) | 8,030,000 |
| Middlebury College, 2002 Series A Issue | 2009 - 2032 | 5.0% - 5.375% | 67,315,000 |
| Middlebury College, 2002 Series B Issue | 2032 | (d) | 20,000,000 |
| Putney School, 2002 Issue | 2009 - 2017 | 4.01% | 1,695,000 |
| Development & Mental Health Acquisition Pool, 2002 Series A & B Issues | 2009 - 2032 | 4.375% - 6.5% | 9,005,000 |
| Lake Champlain Waldorf School, 2003 Series A Issue | 2009 - 2023 | 8.0% | 364,490 |
| Lake Champlain Waldorf School, 2003 Series B Issue | 2009 - 2023 | 5.0% | 292,000 |
| St. Johnsbury Academy, 2003 Issue | 2009 - 2033 | (c) | 6,835,000 |
| Rutland Medical Center, 2003 Issue | 2009 - 2015 | (c) | 6,015,000 |
| Vermont Law School, 2003 Series A Issue | 2009 - 2033 | 5.0% - 5.5% | 6,230,000 |
| Vermont Law School, 2003 Series B Issue | 2009 - 2033 | (e) | 3,695,000 |
| Champlain College, 2003 Issue | 2009 - 2013 | 4.480% - 4.999% | 10,586,441 |
| St. Michael's College, 2003 Issue | 2009 - 2028 | 3.25% - 6.0% | 13,070,000 |
| Fletcher Allen Health Care, 2004 Series A Issue | 2009 - 2023 | 2.5% - 5.0% | 39,920,000 |
| Fletcher Allen Health Care, 2004 Series B Issue | 2009 - 2034 | 4.0% - 5.5% | 157,800,000 |
| Stratton Mountain School, 2004 Issue | 2009 - 2034 | (h) | 6,585,000 |
| Landmark College, 2004 Series A Issue | 2009 - 2034 | 3.25% - 5.0% | 12,440,000 |
| Putney School, 2004 Issue | 2009 - 2017 | 3.96% | 2,000,000 |
| Northeastern VT Regional Hospital, 2004 Issue | 2009 - 2029 | (i) | 10,875,000 |
| Mt. Ascutney Hospital, 2004 Issue | 2013 - 2034 | (i) | 4,315,000 |
| Mt. Ascutney Hospital, 2005 Series A Issue | 2013 - 2034 | (h) | 4,830,000 |
| Northwestern Medical Center, 2005 Series A Issue | 2009 - 2030 | (c) | 11,440,000 |

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

4. Revenue bonds payable (continued):

| <u>Revenue Bonds Outstanding</u> | <u>Due</u> | <u>Interest Rate</u> | <u>Amount</u> |
|---|-------------|----------------------|-------------------------|
| Porter Hospital, 2005 Series A Issue | 2009 - 2035 | (c) | 14,850,000 |
| Vermont Academy, 2005 Series A Issue | 2009 | (c) | 1,900,000 |
| Bennington College, 2006 Issue | 2009 - 2021 | 3.96% | 2,714,995 |
| Development & Mental Health Services Pool, 2006 Series A & B Issues | 2009 - 2036 | 3.75% - 5.80% | 13,445,000 |
| Gifford Medical Center, 2006 Series A Issue | 2012 - 2036 | (c) | 20,315,000 |
| Middlebury College, 2006 Series A Issue | 2046 | 5.0% | 35,425,000 |
| Brattleboro Retreat, 2007 Series A Issue | 2009 - 2022 | (h) | 2,800,000 |
| North Country Hospital, 2007 Series A Issue | 2009 - 2034 | (i) | 23,410,000 |
| Fletcher Allen Health Care, 2007 Series A Issue | 2009 - 2036 | 4.00% - 4.75% | 56,260,000 |
| Developmental and Mental Health Services Acquisition Pool, 2008 Series A Issue | 2009-2037 | 4.00% - 5.750% | 11,330,000 |
| Brattleboro Memorial Hospital Project, 2008 Series A Issue | 2009-2028 | (i) | 11,015,000 |
| Landmark College, 2008 Series A Issue | 2009-2033 | (i) | 3,140,000 |
| Southwestern Vermont Medical Center Project, 2008 Series A Issue | 2038 | (i) | 8,865,000 |
| Norwich University Project, 2008 Series A Issue | 2009-2038 | (h) | 78,200,000 |
| Middlebury College Project, 2008 Series A Issue | 2009-2026 | (k) | 53,480,000 |
| Fletcher Allen Health Care Project, 2008 Series A Issue | 2027-2030 | (h) | <u>54,705,000</u> |
| Total bonds outstanding | | | \$ <u>1,116,101,752</u> |

- (a) Variable rate, reset weekly, determined by the remarketing agents based on short-term municipal interest rates.
- (b) Adjustable rate based on the Bank of Boston prime rate.
- (c) Adjustable rate determined by remarketing agreement or agent, as outlined in bond documents.
- (d) Adjustable rate, reset annually, determined by the remarketing agent based on the lowest rate of interest which would cause the bonds to have a market value equal to the principal amount at the date of determination.
- (e) Adjustable rate, reset weekly, determined by the remarketing agent based on the lowest rate of interest which would cause the bonds to have a market value equal to the principal amount plus accrued interest at the date of determination.
- (f) Effective rate as a result of the 1994 Hedging Agreement.
- (g) Adjustable rate, reset weekly, based on rate determined by First Albany Short-term Trading Desk, as outlined in bond documents.
- (h) Variable rate, reset weekly, determined by the remarketing agent, as outlined in bond documents.
- (i) Variable rate, adjusted daily, determined by the remarketing agent, as outlined in bond documents.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

4. Revenue bonds payable (continued):

- (j) Fixed for five year increments, equal to 75% of the average for the ten consecutive business days preceding the determination date of the yield on U.S. Treasury securities adjusted to a constant maturity of five years, as published by the Federal Reserve Board, plus 150 basis points.
- (k) Variable rate, weekly mode, may be converted or reconverted to a daily mode, flexible mode, weekly mode or term rate mode as outlined in the bond documents.

5. Principal maturities:

The bonds of the Agency's underlying borrowers mature at various dates with mandatory sinking fund requirements due as follows:

| Year ending December 31, | <u>Amount</u> | Year ending December 31, | <u>Amount</u> |
|--------------------------|---------------|--------------------------|-------------------------|
| 2009 | \$ 25,005,616 | 2024 | 34,847,740 |
| 2010 | 23,862,097 | 2025 | 69,235,000 |
| 2011 | 25,037,956 | 2026 | 38,300,000 |
| 2012 | 25,966,413 | 2027 | 36,965,000 |
| 2013 | 36,643,794 | 2028 | 36,655,000 |
| 2014 | 28,182,023 | 2029 | 35,000,000 |
| 2015 | 28,476,804 | 2030 | 34,845,000 |
| 2016 | 30,127,074 | 2031 | 33,320,000 |
| 2017 | 30,572,859 | 2032 | 104,585,000 |
| 2018 | 31,131,033 | 2033 | 33,365,000 |
| 2019 | 31,817,922 | 2034 | 30,645,000 |
| 2020 | 33,710,406 | 2035 | 31,370,000 |
| 2021 | 34,743,515 | 2036 | 32,110,000 |
| 2022 | 36,178,250 | 2037 | 2,845,000 |
| 2023 | 34,668,250 | 2038 | 70,465,000 |
| | | 2046 | <u>35,425,000</u> |
| | | | \$ <u>1,116,101,752</u> |

6. Commitments and subsequent events:

In October 2008, the Agency authorized but did not issue \$14,150,000 for three borrowers. Due to the economic recession, only \$1,750,000 of the \$14,150,000 authorized will be issued.

Subsequent to year end, the Agency authorized \$66,160,000 in new and refunding bonds for eight borrowers. Of this amount, \$62,575,987 was issued for six borrowers and \$12,000,000 was retired shortly after being issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Members of the Board
Vermont Educational and Health
Buildings Financing Agency

We have audited the financial statements of the Vermont Educational and Health Buildings Financing Agency - Operating Fund, a component unit of the State of Vermont, as of and for the year ended December 31, 2008, and have issued our report thereon dated September 2, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Vermont Educational and Health Buildings Financing Agency - Operating Fund's (the Agency) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermont Educational and Health Buildings Financing Agency - Operating Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board and management of Vermont Educational and Health Buildings Financing Agency - Operating Fund and is not intended to be and should not be used by anyone other than these specified parties.

Montpelier, Vermont
September 2, 2009

Mudgett, Jennett &
Krogh-Wisner, P.C.