

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

**FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
AND
INDEPENDENT AUDITOR'S REPORTS**

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
DECEMBER 31, 2007 AND 2006**

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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, 2007 and 2006, 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, 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 a report, dated October 13, 2008, 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
October 13, 2008

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

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

The Vermont Educational and Health Buildings Financing Agency (the "Agency") facilitates financing for capital expenditures and refinancing of indebtedness for eligible 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, 2007.

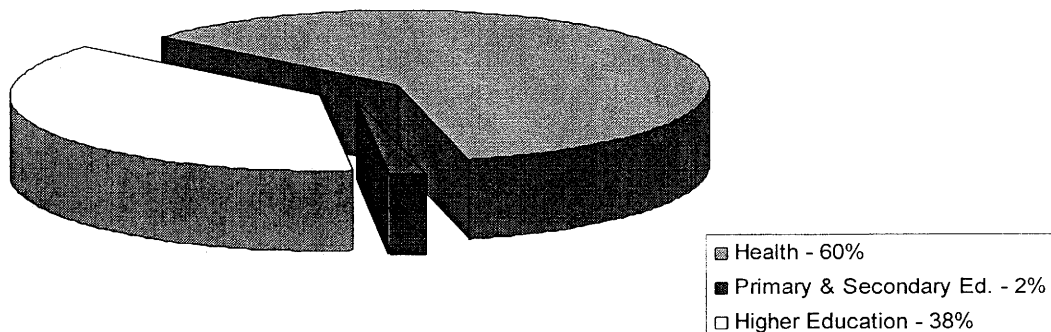
Financial Highlights

In 2007, the Agency issued \$82,550,000 in new bonds on behalf of three borrowers. In 2006, the Agency issued \$180,615,000 in bonds on behalf of eight borrowers. Initial fees from borrowers decreased -58.7%, from \$226,280 in 2006 to \$93,500 in 2007. This reduction in initial fees correlates with the reduction of new bonds issued from 2006 to 2007.

Outstanding Revenue Bonds at 12/31/07

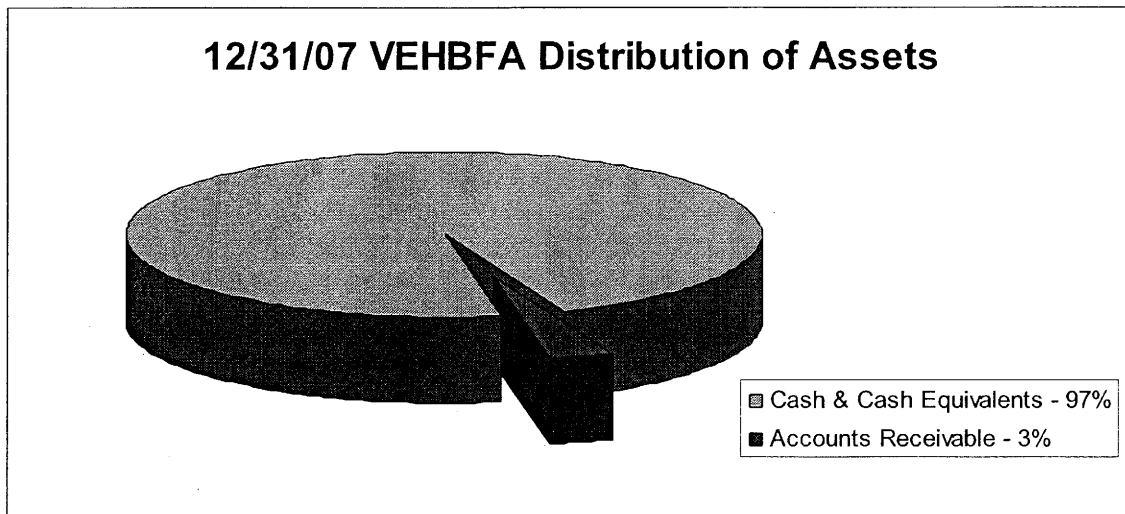
	Total Number	Total Amount
Higher Education	23	\$420,391,052
Primary & Secondary Education	7	\$21,210,250
Health	30	\$671,815,000
Total	60	\$1,113,416,302

12/31/07 VHBFA Loan Distribution



Assets

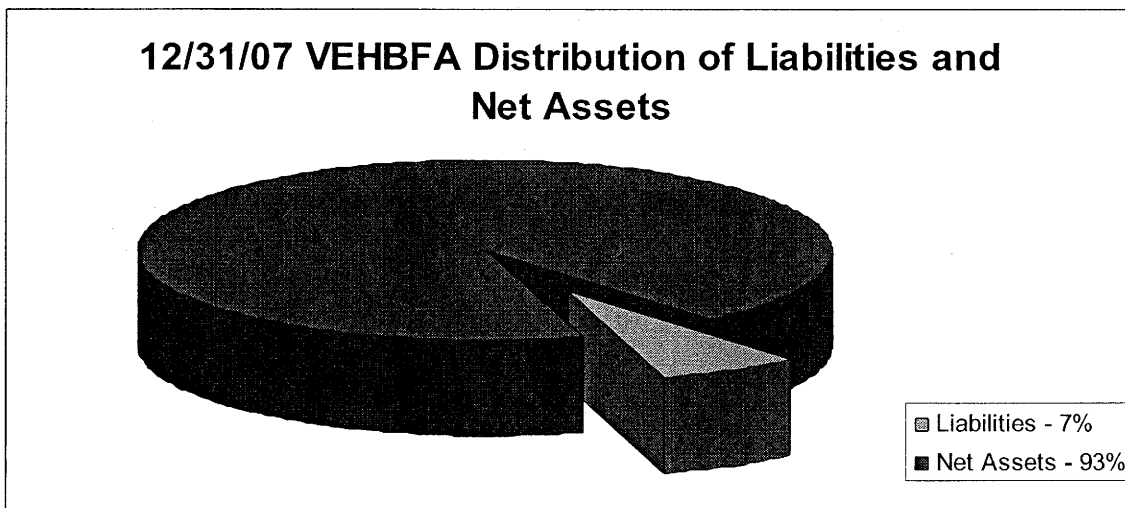
Total assets increased \$108,124 from \$1,211,745 in 2006 to \$1,319,869 in 2007, or +8.9%. Assets are made up primarily of cash & cash equivalents in 2007 and investments in 2006.



Liabilities and Net Assets

In 2007, liabilities increased \$60,343 to \$86,500 or a 230.7% increase from 2006's total of \$26,157. This was due to an increase in accounts payable at year-end.

Net Assets increased \$47,781 from 2006's \$1,185,588 to 2007's \$1,233,369, or +4.0%.



2007 Net Assets Summary

12/31/06 Balance	2007 Activity	12/31/07 Balance
\$1,185,588	+\$47,781	\$1,233,369

Operating Summary

The financial activities of the Agency in 2007 had no significant events to report. Operating revenue in 2007 amounted to \$174,352 which represents a decrease of \$124,228 over the prior year's operating revenue of \$298,580. Investment earnings were up by \$19,433 in 2007 due to improved investment opportunities. Initial fee income was down by \$132,780 from 2006's \$226,280 to 2007's \$93,500. This decrease was due to the bond counsel fees being paid directly out of bond proceeds in 2007. Total expenses of \$200,012 represent a decrease of \$140,050 over the prior year's expenses of \$340,062, again due to the bond counsel fees being paid out of the bond proceeds in 2007.

2007 Revenue & Expense Summary

Total Revenue	Total Expenses	Surplus(Deficit)
\$247,793	\$200,012	+\$47,781

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,276,936	\$ 5,436
Accounts receivable	42,933	-
Investments	<u>-</u>	<u>1,206,309</u>
Total current assets	<u>1,319,869</u>	<u>1,211,745</u>
Total assets	\$ <u>1,319,869</u>	\$ <u>1,211,745</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ <u>86,500</u>	\$ <u>26,157</u>
Total liabilities	86,500	26,157
Net assets	<u>1,233,369</u>	<u>1,185,588</u>
Total liabilities and net assets	\$ <u>1,319,869</u>	\$ <u>1,211,745</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, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
REVENUE:		
Annual fees from institutions	\$ 80,852	\$ 72,300
Initial fees from institutions	<u>93,500</u>	<u>226,280</u>
Total operating revenue	174,352	298,580
EXPENSES	<u>200,012</u>	<u>340,062</u>
OPERATING LOSS	(25,660)	(41,482)
NONOPERATING REVENUE:		
Interest and other investment revenue	<u>73,441</u>	<u>54,008</u>
CHANGE IN NET ASSETS	47,781	12,526
NET ASSETS, beginning of year	<u>1,185,588</u>	<u>1,173,062</u>
NET ASSETS, end of year	\$ <u>1,233,369</u>	\$ <u>1,185,588</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, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from institutions -		
Annual fees	\$ 80,852	\$ 73,807
Initial fees	67,051	231,280
Cash paid to suppliers	(109,956)	(298,033)
Cash paid to employees	<u>(46,197)</u>	<u>(32,947)</u>
Net cash used in operating activities	<u>(8,250)</u>	<u>(25,893)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from matured investments	1,206,309	995,372
Purchase of investments	-	(1,199,187)
Earnings on investments	<u>73,441</u>	<u>44,672</u>
Net cash provided by investing activities	<u>1,279,750</u>	<u>(159,143)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,271,500	(185,036)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,436</u>	<u>190,472</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>1,276,936</u>	\$ <u>5,436</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (25,660)	\$ (41,482)
Adjustments to reconcile operating loss to net cash used in operating activities -		
(Increase)/decrease in following assets -		
Accounts receivable	(42,933)	6,507
Increase/(decrease) in following liabilities -		
Accounts payable	<u>60,343</u>	<u>9,082</u>
Net cash used in operating activities	<u>\$ (8,250)</u>	<u>\$ (25,893)</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, 2007 AND 2006**

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 5), and related assets held by trustees, from the financial statements. Therefore, the financial statements present financial information solely for the Operating Fund.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. Summary of significant accounting policies (continued):

- D. Cash equivalents - The Agency considers money market funds to be cash equivalents.
- E. Investments - Investments at December 31, 2006 consisted primarily of commercial paper and United States government obligations and are reported at fair value. Unrealized gains and losses are included in investment revenue.
- F. 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.
- G. 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. Cash and cash equivalents includes \$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. There were no significant uninsured amounts at December 31, 2006.

3. Investments:

The classification and fair value of investments held at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Commercial Paper	\$ -	\$ 702,820
Federal Home Loan Notes	<u>-</u>	<u>503,489</u>
	<u>\$ -</u>	<u>\$ 1,206,309</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have an interest rate risk policy. All of the Agency's investments matured during the 2007 fiscal year and were deposited in the money market fund invested primarily in governmental securities. The money market is considered a cash equivalent.

Overall credit risk is the risk that an issuer or other counterparty to the investment will not fulfill its obligations. The Agency's investments included GE Capital Corporation commercial paper which was rated AAA at December 31, 2006. The Agency does not have a credit risk policy.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

4. 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 \$102,960 with a receivable balance of \$16,484 at December 31, 2007. During 2006, approximately \$68,500 was paid to the related party with an additional amount of \$26,157 accrued and payable at December 31, 2006.

5. Revenue bonds payable:

Revenue bonds and construction notes payable consist of the following at December 31, 2007:

<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)	67,500
Middlebury College, 1988 Issue	2008 - 2028	(c)	33,615,000
Champlain College, 1993 Issue	2008 - 2013	6%	1,645,000
Fletcher Allen Health Care (formerly			
MCHV), 1994 Issue	2008 - 2013	5.6% (h)	15,650,000
Southwestern Vermont Medical Center,			
1995 Issue	2008 - 2025	5.2% - 5.6%	9,705,000
Central Vermont Medical Center, 1996 Issue	2008 - 2022	4.625% - 5.0%	14,260,000
Lyndon Institute, 1996 Issue	2008 - 2014	6.6%	1,975,000
Capital Asset Financing Series, 1997 Issue	2008 - 2022	(c)	5,100,000
Brattleboro Hospital, 1998 Issue	2008 - 2028	4.4% - 5.375%	7,345,000
Bennington College, 1999 Issue	2014 - 2029	6.5% - 6.625%	7,655,000
Capital Asset Financing Series 3, 1999 Issue	2008 - 2024	(i)	840,000
Copley Manor, 1999 Issue	2008 - 2029	6.15% - 6.25%	8,080,000
Green Mountain College, 1999 Issue	2008 - 2011	5.7%	662,513
Marlboro College, 1999 Issue	2008 - 2018	(l)	3,870,000
Middlebury College, 1999 Issue	2038	5.0%	60,000,000
St. Michael's College, 1999 Issue	2008 - 2023	4.15% - 5.0%	13,170,000
Vermont Mental Health Pool, 1999 Issue	2008 - 2019	6.0% - 6.25%	4,210,000
Copley Hospital, 2000 Issue	2008 - 2030	(e)	3,960,000
Fletcher Allen Health Series A, 2000 Issue	2008 - 2027	5.25% - 6.25%	96,265,000
Fletcher Allen Health Series B, 2000 Issue	2027 - 2030	(f)	50,000,000
Helen Porter Nursing Home, 2000 Issue	2008 - 2030	(e)	3,975,000
Rutland Regional Medical Center,			
2001 Issue	2016 - 2032	(c)	21,825,000
St. Michael's College, 2001 Issue	2008 - 2023	3.45% - 5.0%	7,175,000
Union Institute Project, 2001 Issue	2008 - 2021	(g)	6,140,000
Springfield Hospital, 2002 Series A Issue	2008 - 2031	(e)	8,225,000
Middlebury College, 2002 Series A Issue	2008 - 2032	5.0% - 5.375%	68,150,000

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

5. Revenue bonds payable (continued):

<u>Revenue Bonds Outstanding</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Amount</u>
Middlebury College, 2002 Series B Issue	2032	(d)	20,000,000
Putney School, 2002 Issue	2008 - 2017	4.01%	1,850,000
Development & Mental Health Acquisition Pool, 2002 Series A & B Issues	2008 - 2032	4.375% - 6.5%	9,245,000
Lake Champlain Waldorf School, 2003 Series A Issue	2008 - 2023	8.0%	340,000
Lake Champlain Waldorf School, 2003 Series B Issue	2008 - 2023	5.0%	310,250
St. Johnsbury Academy, 2003 Issue	2008 - 2033	(c)	7,005,000
Rutland Medical Center, 2003 Issue	2008 - 2015	(c)	6,785,000
Vermont Law School, 2003 Series A Issue	2009 - 2033	5.0% - 5.5%	6,230,000
Vermont Law School, 2003 Series B Issue	2008 - 2033	(e)	3,745,000
Champlain College, 2003 Issue	2008 - 2013	3.985% - 4.999%	12,250,066
St. Michael's College, 2003 Issue	2008 - 2028	2.5% - 6.0%	13,475,000
Fletcher Allen Health Care, 2004 Series A Issue	2008 - 2023	2.0% - 5.0%	41,685,000
Fletcher Allen Health Care, 2004 Series B Issue	2008 - 2034	(f)	163,225,000
Stratton Mountain, 2004 Issue	2008 - 2034	(j)	6,705,000
Landmark College, 2004 Series A Issue	2008 - 2034	3.0% - 5.0%	12,830,000
Landmark College, 2004 Series B Issue	2008 - 2019	(j)	3,825,000
Putney School, 2004 Issue	2008 - 2017	3.96%	2,000,000
Brattleboro Memorial Hospital, 2004 Issue	2008 - 2029	(k)	4,970,000
Northeastern VT Regional Hospital, 2004 Issue	2008 - 2029	(k)	11,210,000
Mt. Ascutney Hospital, 2004 Issue	2013 - 2034	(k)	4,315,000
Mt. Ascutney Hospital, 2005 Series A Issue	2013 - 2034	(j)	4,830,000
Northwestern Medical Center, 2005 Series A Issue	2008 - 2030	(c)	11,755,000
Porter Hospital, 2005 Series A Issue	2008 - 2035	(c)	15,145,000
Vermont Academy, 2005 Series A Issue	2008	(c)	3,000,000
Bennington College, 2006 Issue	2008 - 2021	3.96%	2,860,973
Development & Mental Health Services Pool, 2006 Series A & B Issues	2008 - 2036	3.75% - 5.80%	13,540,000
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
Middlebury College, 2006 Series B Issue	2008 - 2026	(m)	54,875,000
Norwich University, 2006 Issue	2008 - 2036	(n)	50,750,000

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

5. Revenue bonds payable (continued):

<u>Revenue Bonds Outstanding</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Amount</u>
Brattleboro Retreat, 2007 Series A	2009 - 2022	(j)	2,800,000
North Country Hospital, 2007 Series A	2008 - 2034	(k)	23,795,000
Fletcher Allen Health Care, 2007 Series A	2009 - 2036	4.00% - 4.25%	<u>56,260,000</u>
Total bonds outstanding			\$ <u>1,113,416,302</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) Auction rate, determined by the auction agent, may be converted to a 7-day Auction Period or to a Daily, Weekly, Short-term or Long-term Interest Rate Period.
- (g) Adjustable rate, reset weekly, based on rate determined by Huntington National Bank.
- (h) Effective rate as a result of the 1994 Hedging Agreement.
- (i) Adjustable rate, reset weekly, based on rate determined by First Albany Short-term Trading Desk, as outlined in bond documents.
- (j) Adjustable rate, reset weekly, determined by the remarketing agent, as outlined in bond documents.
- (k) Variable rate, adjusted daily, determined by the remarketing agent, as outlined in bond documents.
- (l) 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.
- (m) Periodic Auction Reset Securities (PARS) rate, convertible to daily, flexible, weekly, term or fixed rates at the option of the borrower.
- (n) Auction Mode rate.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

6. Principal maturities:

As of December 31, 2007, the bonds 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>
2008	\$ 26,274,040	2023	34,348,250
2009	24,175,616	2024	34,668,250
2010	24,382,097	2025	69,115,000
2011	25,552,956	2026	37,245,000
2012	26,361,413	2027	35,000,000
2013	37,098,794	2028	34,420,000
2014	28,742,023	2029	32,865,000
2015	29,006,804	2030	32,150,000
2016	30,597,074	2031	31,385,000
2017	31,082,859	2032	102,580,000
2018	31,601,033	2033	31,185,000
2019	32,217,922	2034	31,335,000
2020	33,910,406	2035	29,295,000
2021	35,008,515	2036	30,450,000
2022	35,938,250	2038	60,000,000
		2046	35,425,000
			<u>\$ 1,113,416,302</u>

7. Commitments and subsequent events:

The Agency issued \$222,705,000 in new bonds for seven borrowers subsequent to year end.

8. Reclassifications:

Certain prior year amounts in these financial statements have been reclassified to be more comparable to the current year balances.

Mudgett
Jennett &
Krogh-Wisner, P.C.
Certified Public Accountants #435

**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, 2007, and have issued our report thereon dated October 13, 2008. 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.

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

Montpelier, Vermont
October 13, 2008