

VERMONT MUNICIPAL BOND BANK
FINANCIAL STATEMENTS
DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR 2014
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Vermont Municipal Bond Bank

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Municipal Bond Bank (the Bond Bank), a component unit of the State of Vermont, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Bond Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Vermont Municipal Bond Bank as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Bond Bank's 2014 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and each major fund in our report dated June 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016 on our consideration of the Bond Bank's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Bank's internal control over financial reporting and compliance.

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

Montpelier, Vermont
June 9, 2016

**VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015**

The Vermont Municipal Bond Bank (Bank or VMBB) was enacted in 1969 as an instrumentality of the State of Vermont. The Bank's primary purpose is to provide Vermont's municipalities with inexpensive access to capital markets. To date, the Bank has issued over \$2.1 billion in tax-exempt and taxable bonds through 79 series of bonds, including 26 refunding bonds.

This discussion of the VMBB's financial performance provides an overview of the Bank's financial activities for the fiscal year ended December 31, 2015. The statements are divided into two funds. The Bond Fund reports the financial activities of the pool of funds loaned to municipalities. The Bond Fund assets and liabilities are held by one corporate trustee, U.S. Bank, N.A. The Operating Fund is made up of activities relating to the administrative operations of the VMBB.

2015 Financial Highlights

In 2015, the Bank issued \$115,965,000 through five series of bonds. One bond series, totaling \$7,975,000, provided loans to 7 municipalities and one taxable bond series of \$10,425,000 provided a deposit to the General Operating Reserve Fund (GORF). Three bond series, totaling \$97,565,000, were issued to advance refund the VMBB's previously issued 2004 Series 2 bonds and partially refund the 2007 Series 1, 2005 Series 2, 2005 Series 3, 2008 Series 1 and 2009 Series 1 bonds. In 2014, the Bond Bank issued \$119,820,000 through four series of bonds. Two bond series, totaling \$80,500,000, provided loans to 27 municipalities, and two bond series, totaling \$39,320,000, were issued to advance refund the VMBB's previously issued 2005 Series 1 and 2006 Series 1 bonds.

Municipal bonds of \$147,570,000 and \$85,590,000 were refunded or retired in 2015 and 2014, respectively.

As of December 31, 2015, the VMBB had 527 loans outstanding to 271 different municipalities totaling \$534,506,801.

Outstanding Loans by Debt Type as of 12/31/15	Summary			
	# Loans	% Total	Amount	% Total
General Obligation Bonds	520	98.67%	\$512,260,743	95.84%
Revenue Bonds	7	1.33%	\$22,246,058	4.16%
Total	527	100.00%	\$534,506,801	100.00%

Outstanding Loans by Project Type as of 12/31/15	Summary			
	# Loans	% Total	Amount	% Total
Local Government	306	58.07%	\$321,398,983	60.13%
School District	182	34.53%	\$187,280,646	35.04%
Other Governmental Unit	39	7.40%	\$25,827,172	4.83%
Total	527	100.00%	\$534,506,801	100.00%

Major Statement of Net Position items changed as follows from 2014 to 2015:

Indicators	12/31/2014 Balance	12/31/2015 Balance	Variance	Percent Variance
Total Assets and Deferred Outflows of Resources	\$676,732,700	\$646,199,939	\$(30,532,761)	(4.51)%
Total Liabilities	\$641,778,340	\$609,776,143	\$(32,002,197)	(4.99)%
Total Net Position	\$34,954,360	\$36,423,796	\$1,469,436	4.20%
Net Position Unrestricted	\$12,756,019	\$23,991,326	\$11,235,307	88.08%
Net Position Restricted	\$22,198,341	\$12,432,470	\$(9,765,871)	(43.99)%

Assets and Deferred Outflows of Resources

In the Operating Fund, Total Assets increased \$11,230,806 or 87.91%. Cash and Cash Equivalents decreased by \$13,497 or 0.82% and investments increased by \$11,192,919 or 101.14%.

In the Bond Fund, Total Current Assets decreased \$1,454,019 or 2.45%, and Noncurrent Assets decreased \$45,468,650 or 7.75%. Restricted Cash increased \$239,182 or 7.64% from the prior year, Restricted Investments decreased by \$5,127,830 or 9.17%, and Total Loans to Municipalities decreased by \$41,986,946 or 7.28%. Deferred Outflows of Resources increased by \$5,159,102 or 28.14%.

Liabilities

In the Bond Fund, Total Current Liabilities decreased by \$189,031 or 0.36% and Total Noncurrent Liabilities decreased by \$31,808,665 or 5.40%. The major contributor to the decrease in Total Liabilities was the decrease in Total Bonds Payable of \$31,789,894 or 4.97%.

Total Bonds Payable (Current and Noncurrent) were \$607,206,343 at December 31, 2015 and \$638,996,237 at December 31, 2014.

Net Position

Restricted Net Position in the Bond Fund decreased from 2014 to 2015 by \$9,765,871 or 43.99%. Unrestricted Net Position in the Operating Fund increased by \$11,235,307 or 88.08% from 2014 to 2015. These changes in net position were largely due to a \$12,043,788 transfer from the Bond Fund to the Operating Fund resulting from the General Operating Reserve Fund deposit of \$10,425,000 from the 2015 Series 4 Taxable Bond issue. Total Net Position at December 31, 2015 equaled 6.00% of Total Bonds Payable and Unrestricted Net Position equaled 3.95% of Total Bonds Payable. Total Net Position at December 31, 2014 equaled 5.47% of Total Bonds Payable and Unrestricted Net Position equaled 2.0% of Total Bonds Payable.

Operating Summary

Major Revenue and Expense item changes from 2014 to 2015 are as follows:

Revenue & Expense Indicators	12/31/2014 Balance	12/31/2015 Balance	Variance	Percent Variance
Total All Revenue (Including Transfers In)	\$27,456,104	\$37,155,501	\$9,699,397	35.33%
Total All Expenses (Including Transfers Out)	\$25,371,783	\$35,686,065	\$10,314,282	40.65%
Operating Income (Loss)	\$20,450,850	\$19,355,623	\$(1,095,227)	(5.36)%
Bond Fund Revenue	\$26,944,769	\$24,962,627	\$(1,982,142)	(7.36)%
Bond Fund Expenses	\$25,036,471	\$22,684,710	\$(2,351,761)	(9.39)%
Operating Fund Revenue	\$511,335	\$149,086	\$(362,249)	(70.84)%
Operating Fund Expenses	\$335,312	\$957,567	\$622,255	185.57%
Bond Fund Change in Net Position	\$490,206	\$(9,765,871)	\$(10,256,077)	(2,092.20)%
Operating Fund Change in Net Position	\$1,594,115	\$11,235,307	\$9,641,192	604.80%

Investment Portfolio

The VMBB's unrestricted investment portfolio on December 31, 2015 was valued at "fair market value" of \$22,259,569. The December 31, 2014 "fair market value" of the investment portfolio was \$11,066,650. The total cost of the portfolio was \$22,383,435 on December 31, 2015 and \$11,074,391 on December 31, 2014.

Subsequent Events

The VMBB is planning to issue one series of new money bonds in the summer of 2016 in an amount as yet to be determined and possible refundings if the economics warrant.

Contact for Further Information

This financial report is designed to provide the reader with a general overview of the Vermont Municipal Bond Bank's finances. Questions about this report or requests for additional financial information should be directed to Robert W. Giroux, Executive Director, Vermont Municipal Bond Bank, 20 Winooski Falls Way, Winooski, VT 05404, at 802-654-7377 or bobg@vtbondagency.org.

**VERMONT MUNICIPAL BOND BANK
STATEMENT OF NET POSITION
DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR 2014**

	2015			2014
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Current assets -				
Cash and cash equivalents	\$ 8,196,692	\$ 1,623,373	\$ 9,820,065	\$ 9,716,170
Accrued interest receivable	1,859,057	108,746	1,967,803	2,081,694
Accounts receivable	-	15,048	15,048	14,240
Current portion of loans to municipalities	47,769,464	-	47,769,464	49,176,408
Investments	-	22,259,569	22,259,569	11,066,650
Total current assets	<u>57,825,213</u>	<u>24,006,736</u>	<u>81,831,949</u>	<u>72,055,162</u>
Noncurrent assets -				
Restricted cash	3,370,026	-	3,370,026	3,130,844
Restricted investments	50,770,750	-	50,770,750	55,898,580
Loans to municipalities	486,737,337	-	486,737,337	527,317,339
Total noncurrent assets	<u>540,878,113</u>	<u>-</u>	<u>540,878,113</u>	<u>586,346,763</u>
Total assets	<u>598,703,326</u>	<u>24,006,736</u>	<u>622,710,062</u>	<u>658,401,925</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow on refunding of bonds payable	<u>23,489,877</u>	<u>-</u>	<u>23,489,877</u>	<u>18,330,775</u>
Total assets and deferred outflows of resources	<u>\$ 622,193,203</u>	<u>\$ 24,006,736</u>	<u>\$ 646,199,939</u>	<u>\$ 676,732,700</u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities -				
Accounts payable	\$ -	\$ 15,410	\$ 15,410	\$ 19,911
Accrued arbitrage rebate	354,124	-	354,124	340,140
Bond interest payable	2,036,861	-	2,036,861	2,229,876
Current portion of bonds payable	50,100,000	-	50,100,000	50,110,000
Total current liabilities	<u>52,490,985</u>	<u>15,410</u>	<u>52,506,395</u>	<u>52,699,927</u>
Noncurrent liabilities -				
Accrued arbitrage rebate	163,405	-	163,405	192,176
Bonds payable	557,106,343	-	557,106,343	588,886,237
Total noncurrent liabilities	<u>557,269,748</u>	<u>-</u>	<u>557,269,748</u>	<u>589,078,413</u>
Total liabilities	<u>609,760,733</u>	<u>15,410</u>	<u>609,776,143</u>	<u>641,778,340</u>
NET POSITION:				
Restricted, prior year restated	12,432,470	-	12,432,470	22,198,341
Unrestricted	-	23,991,326	23,991,326	12,756,019
Total net position	<u>12,432,470</u>	<u>23,991,326</u>	<u>36,423,796</u>	<u>34,954,360</u>
Total liabilities and net position	<u>\$ 622,193,203</u>	<u>\$ 24,006,736</u>	<u>\$ 646,199,939</u>	<u>\$ 676,732,700</u>

The notes to financial statements are an integral part of this statement.

VERMONT MUNICIPAL BOND BANK
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>2015</u>			<u>2014</u>
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
OPERATING REVENUES:				
Interest	\$ 21,491,488	\$ -	\$ 21,491,488	\$ 21,958,285
Other income	<u>-</u>	<u>11,263</u>	<u>11,263</u>	<u>13,335</u>
Total operating revenues	<u>21,491,488</u>	<u>11,263</u>	<u>21,502,751</u>	<u>21,971,620</u>
OPERATING EXPENSES:				
Bond issue costs	1,115,891	-	1,115,891	1,011,825
Other expense	73,670	-	73,670	173,633
Operating expenses	<u>-</u>	<u>957,567</u>	<u>957,567</u>	<u>335,312</u>
Total operating expenses	<u>1,189,561</u>	<u>957,567</u>	<u>2,147,128</u>	<u>1,520,770</u>
OPERATING INCOME (LOSS)	<u>20,301,927</u>	<u>(946,304)</u>	<u>19,355,623</u>	<u>20,450,850</u>
NONOPERATING REVENUES (EXPENSES):				
Interest and investment revenue (loss)	1,878,741	137,823	2,016,564	3,340,262
Interest rebate	1,592,398	-	1,592,398	1,605,863
Interest expense	(21,322,764)	-	(21,322,764)	(23,851,013)
Arbitrage recovery (rebate)	<u>(172,385)</u>	<u>-</u>	<u>(172,385)</u>	<u>538,359</u>
Total nonoperating revenues (expenses)	<u>(18,024,010)</u>	<u>137,823</u>	<u>(17,886,187)</u>	<u>(18,366,529)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	2,277,917	(808,481)	1,469,436	2,084,321
TRANSFER TO OPERATING FUND	<u>(12,043,788)</u>	<u>12,043,788</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(9,765,871)	11,235,307	1,469,436	2,084,321
NET POSITION, beginning of year, restated	<u>22,198,341</u>	<u>12,756,019</u>	<u>34,954,360</u>	<u>32,870,039</u>
NET POSITION, end of year	\$ <u>12,432,470</u>	\$ <u>23,991,326</u>	\$ <u>36,423,796</u>	\$ <u>34,954,360</u>

The notes to financial statements are an integral part of this statement.

VERMONT MUNICIPAL BOND BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014
(Page 1 of 2)

	<u>2015</u>			<u>2014</u>
	<u>Bond</u>	<u>Operating</u>	<u>Total</u>	<u>Summarized</u>
	<u>Fund</u>	<u>Fund</u>		<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from municipalities -				
Principal	\$ 49,616,946	\$ -	\$ 49,616,946	\$ 48,463,404
Interest (net of refunding interest savings)	21,571,570	-	21,571,570	21,732,673
Cash paid to suppliers for goods and services	-	(851,702)	(851,702)	(224,842)
Cash paid to employees for services	-	(111,174)	(111,174)	(106,689)
Loans to municipalities	(7,630,000)	-	(7,630,000)	(84,991,449)
Bond issue costs	(1,115,891)	-	(1,115,891)	(1,011,825)
Other receipts	-	11,263	11,263	13,335
Net cash provided (used) by operating activities	<u>62,442,625</u>	<u>(951,613)</u>	<u>61,491,012</u>	<u>(16,125,393)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	112,837,013	-	112,837,013	118,263,620
Principal reductions	(147,570,000)	-	(147,570,000)	(85,590,000)
Interest expense	(21,700,673)	-	(21,700,673)	(12,711,001)
Deposit paid to refunding escrow	(2,031,115)	-	(2,031,115)	-
Arbitrage rebate	(187,172)	-	(187,172)	(10,344)
Interest rebate	1,592,398	-	1,592,398	1,605,863
Transfers	<u>(12,043,788)</u>	<u>12,043,788</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(69,103,337)</u>	<u>12,043,788</u>	<u>(57,059,549)</u>	<u>21,558,138</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	7,172,407	2,685,682	9,858,089	2,892,612
Purchase of investments	(2,283,759)	(13,878,601)	(16,162,360)	(9,038,047)
Earnings on investments	<u>1,889,456</u>	<u>87,247</u>	<u>1,976,703</u>	<u>3,329,867</u>
Net cash provided (used) by investing activities	<u>6,778,104</u>	<u>(11,105,672)</u>	<u>(4,327,568)</u>	<u>(2,815,568)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	117,392	(13,497)	103,895	2,617,177
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,079,300</u>	<u>1,636,870</u>	<u>9,716,170</u>	<u>7,098,993</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 8,196,692</u></u>	<u><u>\$ 1,623,373</u></u>	<u><u>\$ 9,820,065</u></u>	<u><u>\$ 9,716,170</u></u>

The notes to financial statements are an integral part of this statement.

VERMONT MUNICIPAL BOND BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014
(Page 2 of 2)

	<u>2015</u>			<u>2014</u>
	<u>Bond</u>	<u>Operating</u>	<u>Total</u>	<u>Summarized</u>
	<u>Fund</u>	<u>Fund</u>		<u>Total</u>
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED)				
BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 20,301,927	\$ (946,304)	\$ 19,355,623	\$ 20,450,850
Adjustments to reconcile operating income				
(loss) to net cash provided (used) by				
operating activities -				
(Increase)/decrease in following assets:				
Accrued interest receivable	153,752	-	153,752	(51,979)
Accounts receivable	-	(808)	(808)	(14,185)
Loans to municipalities	41,986,946	-	41,986,946	(36,528,045)
Increase/(decrease) in following liabilities:				
Accounts payable	-	(4,501)	(4,501)	17,966
Net cash provided (used) by				
operating activities	\$ <u>62,442,625</u>	\$ <u>(951,613)</u>	\$ <u>61,491,012</u>	\$ <u>(16,125,393)</u>

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL
AND FINANCING ACTIVITIES

Refunding loss amortization	\$ <u>1,894,581</u>	\$ <u>-</u>	\$ <u>1,894,581</u>	\$ <u>1,693,595</u>
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The notes to financial statements are an integral part of this statement.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

1. Authorizing legislation and nature of funds:

- A. Authorizing legislation - The Vermont Municipal Bond Bank (Bond Bank) was established by the General Assembly of the State of Vermont at the 1969 adjourned session for the purpose of fostering and promoting the provision of adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for financing public improvements or other purposes. The Bond Bank is authorized to carry out this function by borrowing money, issuing bonds and notes and purchasing bonds and notes of local governmental units. The Bond Bank is a component unit of the State of Vermont.

The Bond Bank is administered by a Board of Directors, with a mandate to provide municipalities with access to municipal bond proceeds at the lowest possible interest rates.

The Board is comprised of five directors consisting of the Treasurer of the State of Vermont (Ex-officio) and four directors appointed by the Governor of the State of Vermont, with the advice and consent of the Senate, to serve terms of two years each, two terms expiring on February 1 in alternate years, or until a successor is appointed. The Directors elect a Chair, Secretary and a Treasurer.

Eligible municipalities are defined as any city, town, village, school district, fire district, consolidated sewer or water district, or a solid waste district organized under the laws of the State, and also includes every municipal corporation identified in subdivision 1751(1) of V.S.A., Title 24.

As of December 31, 2015, the following resolutions had been adopted by the Bond Bank and remain active:

<u>Date</u>	<u>Resolution</u>
February 17, 1972	General Bond Resolution "Creating and establishing an issue of bonds of the Vermont Municipal Bond Bank; providing for the issuance from time to time of said bonds; providing for the payment of principal and interest of said bonds, and providing for the rights of the holders thereof."
May 3, 1988	General Bond Resolution "Creating and Establishing an issue of bonds for the Vermont Municipal Bond Bank; providing for the issuance from time to time of said bonds; providing for the payment of the principal and interest of said bonds; and providing for the rights of the holders thereof."
January 28, 2003	2003 Series 1 and Series A Resolution authorizing the issuance of \$43,760,000 Series 1 Bonds and \$7,690,000 Series A Bonds. In addition, this resolution provided for an advance refunding and defeasance of all remaining 1992 Series A, 1992 Series 2, 1993 Series 1 and 1994 Series 1 Bonds. 2003 Series 1 was partially refunded and defeased in 2012.
June 8, 2004	2004 Series 1 and Series 2 Resolution authorizing the issuance of \$63,180,000 Series 1 Bonds and \$35,170,000 Series 2 Bonds. In addition, this resolution provided for an advance refunding and defeasance of all remaining 1995 Series 1 Bonds. 2004 Series 1 was partially refunded and defeased in 2012. 2004 Series 2 was refunded and defeased in 2015.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

1. Authorizing legislation and nature of funds (continued):

A. Authorizing legislation (continued) -

June 14, 2005	2005 Series 1, Series 2 and Series 3 Resolution authorizing the issuance of \$39,200,000 Series 1 Bonds, \$55,580,000 Series 2 Refunding Bonds, and \$35,675,000 Series 3 Refunding Bonds. In addition, the resolution provided for an advance refunding and defeasance of the remaining 1996 Series 1 Bonds and the advance refunding and defeasance of the remaining 1995 Series 2 Bonds. 2005 Series 1 was partially refunded and defeased by 2014 Series 2. 2005 Series 2 and 2005 Series 3 were partially refunded and defeased by 2015 Series 3.
June 20, 2006	2006 Series 1 Resolution authorizing the issuance of \$45,115,000 2006 Series 1 Bonds. 2006 Series 1 was partially refunded and defeased by 2014 Series 4.
June 15, 2007	2007 Series 1 Resolution authorizing the issuance of the \$52,450,000 2007 Series 1 Bonds and 2007 Series 2 Resolution authorizing the issuance of \$29,695,000 Series 2 Refunding Bonds and the refunding of the 1997 Series 1 Bonds and 1998 Series 1 Bonds. 2007 Series 1 was partially refunded and defeased by 2015 Series 1.
June 16, 2008	2008 Series 1 and Series 2 Resolution authorizing the issuance of \$37,935,000 2008 Series 1 Bonds and \$5,635,000 2008 Series 2 Bonds. 2008 Series 1 was partially refunded and defeased by 2015 Series 5.
June 15, 2009	2009 Series 1 Resolution authorizing the issuance of the \$61,560,000 2009 Series 1 Bonds and 2009 Series 2 Resolution authorizing the issuance of \$26,025,000 Series 2 Refunding Bonds and the refunding of the 1998 Series 2 Bonds and 1999 Series 1 Bonds. 2009 Series 1 was partially refunded and defeased by 2015 Series 5.
June 10, 2010	2010 Series 1 Resolution authorizing the issuance of the \$23,430,000 2010 Series 1 Bonds, 2010 Series 2 Resolution authorizing the issuance of \$9,770,000 Federal Taxable Recovery Zone Economic Development Bonds (RZEDBs) 2010 Series 2 Bonds, 2010 Series 3 Resolution authorizing the issuance of \$1,365,000 Federally Taxable Qualified School Construction Bonds 2010 Series 3 Bonds and 2010 Series 4 Resolution authorizing the issuance of \$39,305,000 Series 4 Refunding Bonds and the refunding of 2000 Series 1 Bonds and 2001 Series 1 Bonds.
October 12, 2010	2010 Series 5 Resolution authorizing the issuance of \$24,520,000 Federally Taxable RZEDBs 2010 Series 5 Bonds.
January 25, 2011	2011 Series 1 Resolution authorizing the issuance of \$9,500,000 Federally Taxable Qualified School Construction Bonds 2011 Series 1 Bonds.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

1. Authorizing legislation and nature of funds (continued):

A. Authorizing legislation (continued) -

June 15, 2011	2011 Series 2 Resolution authorizing the issuance of \$25,665,000 2011 Series 2 Bonds, 2011 Series 3 Resolution authorizing the issuance of \$2,940,000 Federally Taxable Qualified School Construction Bonds 2011 Series 3 Bonds and 2011 Series 4 Resolution authorizing the issuance of \$14,370,000 Series 4 Refunding Bonds and the refunding of 2002 Series 1 Bonds.
November 7, 2011	2011 Series 5 Resolution authorizing the issuance of \$43,695,000 2011 Series 5 Bonds and 2011 Series 6 Resolution authorizing the issuance of \$25,895,000 Series 6 Refunding Bonds and the refunding of 2003 Series 2 Bonds.
June 13, 2012	2012 Series 1 Resolution authorizing the issuance of \$36,125,000 2012 Series 1 Bonds, 2012 Series 2 Resolution authorizing the issuance of \$8,855,000 Qualified School Construction Bonds 2012 Series 2 Bonds and 2012 Series 3 Resolution authorizing the issuance of \$26,590,000 Series 3 Refunding Bonds and the refunding of 2004 Series 1 Bonds.
October 24, 2012	2012 Series 4 Resolution authorizing the issuance of \$8,790,000 2012 Series 4 Bonds and 2012 Series 5 Resolution authorizing the issuance of \$6,485,000 Series 5 Refunding Bonds and the refunding of 2003 Series 1 Bonds.
June 19, 2013	2013 Series 1 Resolution authorizing the issuance of \$54,895,000 2013 Series 1 Bonds and 2014 Series 2 Resolution authorizing the issuance of \$18,285,000 Series 2 Refunding Bonds and the partial refunding of the 2005 Series 1 Bonds.
November 20, 2013	2014 Series 1 Resolution authorizing the issuance of the \$29,475,000 2014 Series 1 Bonds.
June 10, 2014	2014 Series 3 Resolution authorizing the issuance of the \$51,025,000 2014 Series 3 Bonds and the 2014 Series 4 Resolution authorizing the issuance of \$21,035,000 Series 4 Refunding Bonds and the refunding of the 2006 Series 1 Bonds.
April 14, 2015	2015 Series 1 Resolution authorizing the issuance of the \$30,630,000 2015 Refunding Bonds and the refunding of the 2004 Series 2 Bonds and the partial refunding of the 2007 Series 1 Bonds.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

1. Authorizing legislation and nature of funds (continued):

A. Authorizing legislation (continued) -

June 22, 2015	2015 Series 2 Resolution authorizing the issuance of the \$7,975,000 2015 Series 2 Serial Bonds, the 2015 Series 3 Resolution authorizing the issuance of \$14,535,000 2015 Series 3 Refunding Bonds with the partial refunding of the 2005 Series 2 Bonds and the partial refunding of the 2005 Series 3 Bonds and the 2015 Series 5 Resolution authorizing the issuance of \$52,400,000 2015 Series 5 Refunding Bonds with the partial refunding of the 2008 Series 1 Bonds and the partial refunding of the 2009 Series 1 Bonds.
October 8, 2015	2015 Series 4 Resolution authorizing the issuance of the \$10,425,000 2015 Series 4 Taxable Bonds.

- B. Basis of presentation and nature of funds - 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 Bond Bank is a special-purpose entity with only business-type activities. Under GASB Statement No. 34, such entities should present only the financial statements required for enterprise funds. The accompanying financial statements include two distinct funds, each of which is considered a separate accounting entity. The following funds are used by the Bond Bank.

Operating Fund - The Operating Fund is used to administer the operations of the Bond Bank and derives its revenues principally from investment income.

Bond Fund - The Bond Fund is used to administer the activities of the Bond Bank for the municipal loan program. The Fund issues bonds which are utilized to finance capital improvements or other purposes for local municipalities throughout the State of Vermont.

2. Summary of significant accounting policies:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

- A. Advance refundings - All advance refundings completed are accounted for in accordance with the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The unamortized portion is reported as a deferred outflow of resources.
- B. Fund accounting - The financial statements of the Bond Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) in conformity with the principles of fund accounting.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

2. Summary of significant accounting policies (continued):

- C. Measurement focus and basis of accounting - The Bond Bank 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 revenues include interest from loans to municipalities and accrued interest receivable from municipalities. Interest expense on related bonds payable is recorded as a nonoperating expense in accordance with GASB Statements No. 9 and 34.
- D. Cash equivalents - The Bond Bank considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.
- E. Investments - The Directors appoint trustees to oversee the investments in the Bond Fund. As of December 31, 2015, the Trustee is the U.S. Bank National Association. The Directors engaged McDonnell Investment Management, LLC to provide investment management services for the Operating Fund.

Investments with readily determinable fair values are reported at their fair values on the Statement of Net Position. Unrealized gains and losses are included in revenue.

- F. Deferred outflows/inflows or resources - In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources, if applicable, are reported as separate sections on the Statement of Net Position. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period.
- G. Use of estimates - The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources 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.
- H. Prior year totals - The financial statements include certain prior year summarized comparative information in total but not by fund as presented in the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Bond Bank's financial statements for the year ended December 31, 2014, from which the summarized information was derived.
- I. Prior year restatement - The prior year's noncurrent asset loans to municipalities and the prior year's beginning net position have been reduced by \$887,406 to reflect the correct balance on the trustee's loan schedule as of December 31, 2014. This adjustment had no effect on the December 31, 2015 fiscal year.

3. Custodial credit risk - deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the Bond Bank's deposits may not be recovered. Cash consists of money market accounts invested primarily in commercial paper and government securities. The Bond Bank's custodial credit risk policy directs management to invest in cash or near cash investments that are either 100% FDIC insured or Aaa rated funds or government securities. As of December 31, 2015, general operating reserve cash of \$901,533 was in a money market fund rated Aaa by Moody's Investors Service (Moody's).

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

3. Custodial credit risk - deposits (continued):

Unrestricted cash and cash equivalents in the Bond Fund of \$8,196,692 were deposited in interest bearing accounts held by the Trustee and were fully secured by direct obligations of the United States of America.

4. Investments:

Unrestricted investments - The Bond Bank's investment objectives for its unrestricted investments are 1) to obtain regular, predictable interest income, through the investment in a diversified portfolio of U.S. Treasury and other government securities, corporate, mortgage and asset-backed securities, and other fixed income securities; 2) to outperform the investment returns of the Barclays Intermediate Aggregate Bond Index; and 3) to provide for cash funding needs through regular interest income. The classification and fair value of unrestricted investments held at December 31, 2015 and 2014 are as follows:

	Operating Fund	
	2015	2014
Asset-Backed Securities (ABS)	\$ 723,015	\$ 596,569
Commercial Mortgage-Backed Securities (CMBS)	637,751	800,790
Corporate Investment Grade	7,035,243	3,592,443
Municipal Securities	182,621	193,902
Mortgage-Backed Securities (MBS)	9,128,852	4,298,717
U.S. Treasury Securities	4,552,087	1,584,229
	<u>\$ 22,259,569</u>	<u>\$ 11,066,650</u>

The Bond Bank's investment policy permits the following ranges expressed as percentages of market value of the account:

<u>Sector</u>	<u>Min%</u>	<u>Max%</u>	<u>Quality</u>	<u>Min%</u>	<u>Max%</u>
U.S. Treasury Securities	0%	100%	U.S. Treasury Securities	0%	100%
Federal Agency	0%	50%	Federal Agency	0%	100%
Mortgage-Backed Securities	0%	50%	Aaa/AAA	0%	50%
Corporate	0%	50%	Aa/AA	0%	50%
Asset-Backed Securities	0%	35%	A/A	0%	40%
Commercial MBS	0%	10%	Baa/BBB	0%	15%
Supranational	0%	10%	Ba/BB	0%	10%

Concentration of credit risk - With the exception of U.S. Treasury, agency and agency mortgage issues, the Bond Bank's investment policy provides that no more than 5% of the portfolio may be invested in the obligations of any one issuer.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In addition to the ranges listed above, the Bond Bank's investment policy provides that the weighted average portfolio quality must be rated at least Aa2 by Moody's and/or AA by Standard & Poor's. Issues downgraded below BB-/Ba3 must be disposed of in a prudent manner with a target disposition within 90 days after the date of the downgrade. As of December 31, 2015, the Bond Bank's investments are identified on the following page.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

4. Investments (continued):

Rating by Moody's Investors Service	Asset- Backed Securities	Commercial MBS	Corporate Investment Grade	Municipal Securities	Mortgage- Backed Securities	U.S. Treasury Securities
Aaa	\$ 723,015	\$ 637,751	\$ 140,759	\$ 2,630	\$ 9,128,852	\$ 4,552,087
Aa1	-	-	121,796	90,676	-	-
Aa3	-	-	210,659	89,315	-	-
A1	-	-	1,186,822	-	-	-
A2	-	-	775,279	-	-	-
A3	-	-	1,237,075	-	-	-
Baa1	-	-	2,164,005	-	-	-
Baa2	-	-	401,078	-	-	-
Baa3	-	-	338,283	-	-	-
Ba1	-	-	459,487	-	-	-
	<u>\$ 723,015</u>	<u>\$ 637,751</u>	<u>\$ 7,035,243</u>	<u>\$ 182,621</u>	<u>\$ 9,128,852</u>	<u>\$ 4,552,087</u>

Interest rate risk - In accordance with its investment policy, the Bond Bank manages its exposure to declines in fair values of its unrestricted investments by limiting the weighted average maturity of its investment portfolio to within a range of 80% to 120% of that of the Barclays Intermediate Aggregate Bond Index. There are no limitations on the duration, or maturity, of specific securities. The weighted average duration for unrestricted investments is as follows:

	Weighted Average Duration (Years)
Asset-Backed Securities (ABS)	1.159
Commercial Mortgage-Backed Securities (CMBS)	2.105
Corporate Investment Grade	3.847
Municipal Securities	2.483
Mortgage-Backed Securities (MBS)	3.897
U. S. Treasury Securities	4.996

Restricted investments - The Bond Fund investments are restricted to meet the reserve requirements for each issue. The General Resolution provides that all monies held by the Trustees shall be continuously and fully secured, for the benefit of the Bond Bank and the holders of the bonds. The restricted investments in the Bond Fund are to be invested in obligations with maturity dates which coincide as nearly as practicable with dates of debt service or other purposes provided in the General Resolution. Allowable investments are limited by certain restrictions and include 1) direct obligations of the United States of America or obligations which are guaranteed or insured by the United States of America, or instrumentality or agency thereof; 2) state and municipal bonds provided they are rated at least A at the time of investment; 3) interest bearing obligations issued, assumed, or guaranteed by any solvent U.S. institution rated at least A at the time of investment, certificates of deposit or time deposits at banking institutions with capital surplus and undivided profits of not less than \$25,000,000; 4) repurchase agreements with maturities of not more than

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

4. Investments (continued):

30 days with a bank or trust company that has a combined capital surplus and undivided profits not less than \$100,000,000 or with primary government dealers who are members of the Securities Investor Protection Corporation; and 5) units of a taxable government money market portfolio comprised solely of obligations listed above. The funds may also be deposited in an interest bearing account held by the Trustee provided that the account is fully secured by direct obligations of the United States of America. The classification and fair value of restricted investments held at December 31, 2015 and 2014 are as follows:

	<u>Bond Fund</u>	
	<u>2015</u>	<u>2014</u>
U.S. Treasury Bonds	\$ 12,434,835	\$ 13,999,336
U.S. Treasury Notes	26,327,370	26,062,800
U.S. Treasury Strips	841,801	115,962
U.S. Governments	<u>11,166,744</u>	<u>15,720,482</u>
	<u>\$ 50,770,750</u>	<u>\$ 55,898,580</u>

Restricted investments in the Bond Fund at December 31, 2015 mature as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturity (in Years)</u>			
		<u>< 1</u>	<u>1-5</u>	<u>6-10</u>	<u>> 10</u>
U.S. Treasury Bonds	\$ 12,434,835	\$ 1,099,353	\$ 3,043,393	\$ 1,586,645	\$ 6,705,444
U.S. Treasury Notes	26,327,370	902,502	3,567,125	5,811,849	16,045,894
U.S. Treasury Strips	841,801	-	664,606	177,195	-
U.S. Governments	<u>11,166,744</u>	<u>3,413,170</u>	<u>4,819,074</u>	<u>1,589,167</u>	<u>1,345,333</u>
	<u>\$ 50,770,750</u>	<u>\$ 5,415,025</u>	<u>\$ 12,094,198</u>	<u>\$ 9,164,856</u>	<u>\$ 24,096,671</u>

Restricted cash - On December 31, 2015, \$3,370,026 of cash in reserve funds was restricted by the terms of the bond requirements.

5. Loans to municipalities:

Loans to municipalities are secured by revenues or are general obligations of the municipalities. Interest rates correspond with the interest rates on the related bonds payable by the Bond Bank plus, in some cases, an increment is added to fund reserve requirements and issue costs. The loans mature during the same periods as the related bonds payable.

Interest savings from refundings may be passed through to the municipalities and are included in other expense. Other expense for 2015 includes interest credits to municipalities from the 2009 Series 2 refunding of \$73,383 and the 2012 Series 3 refunding of \$287. In 2014, other expense included interest credits to municipalities from the 2009 Series 2 refunding of \$90,039, 2011 Series 6 refunding of \$83,422 and 2012 Series 3 refunding of \$172.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

6. Bond liability activity:

Bond liability activity for the year ended December 31, 2015, was as follows:

	January 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	December 31, <u>2015</u>	Amounts Due Within <u>One Year</u>
Bonds payable	\$ 597,240,000	\$ 115,965,000	\$ 147,570,000	\$ 565,635,000	\$ 50,100,000
premium (discount)	<u>41,756,237</u>	<u>8,966,904</u>	<u>9,151,798</u>	<u>41,571,343</u>	<u>-</u>
Total bonds payable	638,996,237	124,931,904	156,721,798	607,206,343	50,100,000
Accrued arbitrage rebate	<u>532,316</u>	<u>101,951</u>	<u>116,738</u>	<u>517,529</u>	<u>354,124</u>
	<u>\$ 639,528,553</u>	<u>\$ 125,033,855</u>	<u>\$ 156,838,536</u>	<u>\$ 607,723,872</u>	<u>\$ 50,454,124</u>

7. Bonds payable:

Bonds payable consist of the following:

	<u>2015</u>	<u>2014</u>
2003 Series A Bonds consist of \$330,000 Serial Bonds with interest at 4.1% through December 1, 2015; interest payable semi-annually.	\$ -	\$ 330,000
2004 Series 2 Bonds consist of \$5,900,000 Serial Bonds with interest at 4.125% to 5.0% through December 1, 2025; less unamortized discount of \$14,702; interest payable semi-annually. Refunded by 2015 Series 1.	-	5,885,298
2005 Series 1 Bonds consist of \$1,745,000 Serial Bonds with interest at 4.0% through December 1, 2015; interest payable semi-annually. Partially refunded by 2014 Series 2.	-	1,745,000
2005 Series 2 Bonds consist of \$13,000,000 Refunding Bonds with interest at 3.75% to 5.0% through December 1, 2025; plus unamortized premium of \$136,795; interest payable semi-annually. Partially refunded by 2015 Series 3.	-	13,136,795
2005 Series 3 Bonds consist of \$6,290,000 Refunding Bonds with interest at 4.0% to 5.0% through December 1, 2021; plus unamortized premium of \$99,899; interest payable semi-annually. Partially refunded by 2015 Series 3.	-	6,389,899

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

	<u>2015</u>	<u>2014</u>
2006 Series 1 Bonds consist of \$2,330,000 Serial Bonds with interest at 4.125% through December 1, 2016; interest payable semi-annually. Partially refunded by 2014 Series 4.	2,330,000	4,585,000
2007 Series 1 Bonds consist of \$5,135,000 Serial Bonds with interest at 4.25% through December 1, 2017. Partially refunded by 2015 Series 1.	5,135,000	34,072,074
2007 Series 2 Bonds consist of \$7,110,000 Refunding Bonds with interest at 3.9% to 4.6% through December 1, 2029; plus unamortized premium of \$135,838; interest payable semi-annually.	7,245,838	9,725,837
2008 Series 1 Bonds consist of \$5,260,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2018; interest payable semi-annually. Partially refunded by 2015 Series 5.	5,260,000	26,569,916
2008 Series 2 Bonds consist of \$5,635,000 Term Bonds with interest at 6.25% through December 1, 2032; interest payable semi-annually.	5,635,000	5,635,000
2009 Series 1 Bonds consist of \$12,355,000 Serial Bonds with interest at 3.0% to 3.5% through December 1, 2019; interest payable semi-annually. Partially refunded by 2015 Series 5.	12,355,000	49,180,554
2009 Series 2 Bonds consist of \$7,425,000 Refunding Bonds with interest at 2.50% to 4.1% through December 1, 2028; less unamortized discount of \$10,402; interest payable semi-annually.	7,414,598	9,592,520
2010 Series 1 Bonds consist of \$17,265,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2030; and \$615,000 4.20% Term Bonds due December 1, 2035; and \$545,000 4.25% Term Bonds maturing December 1, 2040; plus unamortized premium of \$798,091; interest payable semi-annually.	19,223,091	20,367,217
2010 Series 2 Bonds consist of \$3,080,000 Serial Bonds with interest at 3.511% to 4.27% through December 1, 2020; \$2,165,000 5.12% Term Bonds due December 1, 2025; and \$1,845,000 5.738% Term Bonds maturing December 1, 2030; interest payable semi-annually.	7,090,000	7,625,000

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

	<u>2015</u>	<u>2014</u>
2010 Series 3 Bonds consist of \$1,365,000 Term Bonds with interest at 5.388% maturing December 1, 2026; interest payable semi-annually.	1,365,000	1,365,000
2010 Series 4 Bonds consist of \$18,865,000 Refunding Bonds with interest at 4.0% to 5.0% through December 1, 2031; plus unamortized premium of \$836,424; interest payable semi-annually.	19,701,424	23,850,897
2010 Series 5 Bonds consist of \$7,600,000 Serial Bonds with interest at 3.145% to 5.604% through December 1, 2025; \$3,440,000 5.204% Term Bonds due December 1, 2023; \$8,150,000 6.036% Term Bonds due December 1, 2035; and \$495,000 6.186% Term Bonds due December 1, 2040; interest payable semi-annually.	19,685,000	20,670,000
2011 Series 1 Bonds consist of \$9,500,000 Term Bonds with interest at 5.66% maturing December 1, 2025; interest payable semi-annually.	9,500,000	9,500,000
2011 Series 2 Bonds consist of \$19,490,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2031; \$130,000 4.50% Term Bonds due December 1, 2036; and \$100,000 4.50% Term Bonds maturing December 1, 2041; plus unamortized premium of \$422,605; interest payable semi-annually.	20,142,605	21,693,754
2011 Series 3 Bonds consist of \$2,940,000 Term Bonds with interest at 4.749% maturing December 1, 2027; interest payable semi-annually.	2,940,000	2,940,000
2011 Series 4 Bonds consist of \$9,195,000 Refunding Bonds with interest at 2.0% to 5.0% through December 1, 2032; plus unamortized premium of \$525,722; interest payable semi-annually.	9,720,722	11,935,026
2011 Series 5 Bonds consist of \$30,155,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2032; \$5,480,000 5.0% Term Bonds due December 1, 2036; \$2,590,000 5.0% Term Bonds due December 1, 2041; plus unamortized premium of \$2,928,977; interest payable semi-annually.	41,153,977	42,885,712

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

	<u>2015</u>	<u>2014</u>
2011 Series 6 Bonds consist of \$23,065,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,845,168; interest payable semi-annually.	24,910,168	27,676,336
2012 Series 1 Bonds consist of \$29,490,000 Serial Bonds with interest at 1.5% to 5.0% through December 1, 2032; \$1,645,000 4.0% Term bonds maturing December 1, 2042; plus unamortized premium of \$3,434,134; interest payable semi-annually.	34,569,134	36,842,571
2012 Series 2 Bonds consist of \$300,000 Term Bonds with interest at 3.513% maturing December 1, 2027; and \$8,555,000 3.960% Term Bonds due December 1, 2032; interest payable semi-annually.	8,855,000	8,855,000
2012 Series 3 Bonds consist of \$23,400,000 Refunding Bonds with interest at 5.0% through December 1, 2024; plus unamortized premium of \$3,125,787; interest payable semi-annually.	26,525,787	30,597,767
2012 Series 4 Bonds consist of \$6,190,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2032; \$540,000 5.0% Term Bonds maturing December 1, 2034; \$555,000 5.0% Term Bonds maturing December 1, 2037; and \$365,000 3.375% Term Bonds maturing December 1, 2043; plus unamortized premium of \$933,112; interest payable semi-annually.	8,583,112	9,144,884
2012 Series 5 Bonds consist of \$1,595,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of \$153,467; interest payable semi-annually.	1,748,467	4,097,337
2013 Series 1 Bonds consist of \$49,175,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2033; \$445,000 4.40% Term Bonds maturing December 1, 2038; \$555,000 4.50% Term bonds maturing December 1, 2043; plus unamortized premium of \$3,911,566; interest payable semi-annually.	54,086,566	57,101,413

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

	<u>2015</u>	<u>2014</u>
2014 Series 1 Bonds consist of \$27,420,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2033; plus unamortized premium of \$2,323,975; interest payable semi-annually.	29,743,975	31,133,991
2014 Series 2 Bonds consist of \$18,285,000 Refunding Bonds with interest at 5.0% through December 1, 2025; plus unamortized premium of \$2,321,238; interest payable semi-annually.	20,606,238	21,190,809
2014 Series 3 Bonds consist of \$47,460,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2034; \$1,450,000 5.0% Term Bonds maturing December 1, 2044; plus unamortized premium of \$6,938,415; interest payable semi-annually.	55,848,415	59,010,550
2014 Series 4 Bonds consist of \$21,035,000 Refunding Bonds with interest at 2.0% to 5.0% through December 1, 2026; plus unamortized premium of \$2,281,331; interest payable semi-annually.	23,316,331	23,665,080
2015 Series 1 Bonds consist of \$27,820,000 Refunding Bonds with interest at 1.45% to 5.0% through December 1, 2027; \$695,000 3.75% Term Bonds maturing on December 1, 2037; plus unamortized premium of \$2,488,327; interest payable semi-annually.	31,003,327	-
2015 Series 2 Bonds consist of \$6,235,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2035; \$1,740,000 4.0% Term Bonds maturing December 1, 2045; plus unamortized premium of \$380,581; interest payable semi-annually.	8,355,581	-
2015 Series 3 Bonds consist of \$14,535,000 Refunding Bonds with interest at 2.0% to 3.0% through December 1, 2025; plus unamortized premium of \$323,357; interest payable semi-annually.	14,858,357	-
2015 Series 4 Bonds consist of \$2,150,000 Taxable Serial Bonds with interest at 1.7% to 3.45% through December 1, 2025; \$4,000,000 4.494% Taxable Term Bonds maturing December 1, 2040; \$4,275,000 4.6% Term Bonds maturing December 1, 2045; interest payable semi-annually.	10,425,000	-

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

	<u>2015</u>	<u>2014</u>
2015 Series 5 Bonds consist of \$50,320,000 Refunding Serial Bonds with interest at 2.0% to 5.0% through December 1, 2035; \$2,080,000 4.0% Term Bonds maturing December 1, 2039; plus unamortized premium of \$5,473,630; interest payable semi-annually.	57,873,630	-
	607,206,343	638,996,237
Less current portion	(50,100,000)	(50,110,000)
	\$ <u>557,106,343</u>	\$ <u>588,886,237</u>

The annual requirements to amortize bonds payable as of December 31, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending December 31,			
2016	\$ 50,100,000	\$ 24,442,368	\$ 74,542,368
2017	41,720,000	22,849,802	64,569,802
2018	41,385,000	21,347,877	62,732,877
2019	41,290,000	19,781,787	61,071,787
2020	37,155,000	18,222,861	55,377,861
2021 to 2025	167,585,000	67,779,428	235,364,428
2026 to 2030	108,575,000	32,619,673	141,194,673
2031 to 2035	59,600,000	10,634,797	70,234,797
2036 to 2040	11,475,000	2,918,512	14,393,512
2041 to 2045	6,750,000	866,940	7,616,940
	<u>565,635,000</u>	<u>221,464,045</u>	<u>787,099,045</u>
Unamortized premium (discount)			
at December 31, 2015	41,571,343	-	41,571,343
	\$ <u>607,206,343</u>	\$ <u>221,464,045</u>	\$ <u>828,670,388</u>

The deferred outflow on refunding of bonds payable at December 31, 2015 includes, \$805,378 in 2007 Series 2 Bonds, \$1,547,315 in 2009 Series 2 Bonds, \$1,915,317 in 2010 Series 4 Bonds, \$930,459 in 2011 Series 4 Bonds, \$1,214,915 in 2011 Series 6 Bonds, \$2,596,682 in 2012 Series 3 Bonds, \$1,018,527 in 2012 Series 5 Bonds, \$1,003,133 in 2014 Series 2 Bonds, \$1,731,413 in 2014 Series 4 Bonds, \$4,019,663 in 2015 Series 1 Bonds, \$2,813,614 in 2015 Series 3 Bonds and \$3,893,461 in 2015 Series 5 Bonds.

On May 27, 2015, the Bond Bank issued \$30,630,000 of 2015 Series 1 Refunding Bonds with interest rates from 1.0% to 5.0% to refund \$5,900,000 of 2004 Series 2 Bonds with interest rates of 4.125% to 5.0% and to refund \$25,860,000 of 2007 Series 1 Bonds with interest rates of 4.25% to 5.0%. Net proceeds and existing reserves of \$35,069,788 were deposited in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$5,900,000 of the 2004 Series 2 Bonds and \$25,860,000 of 2007 Series 1 Bonds are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. All \$25,860,000 of the defeased 2007 Series 1 Bonds were still

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

outstanding at December 31, 2015 and are callable on December 1, 2017. The defeased 2004 Series 2 Bonds were called on June 26, 2015. \$7,780,000 of the 2007 Series 1 Bonds were not refunded and \$5,135,000 remain outstanding on December 31, 2015.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$4,240,612. This difference (net of accumulated amortization), reported in the accompanying financial statements as a deferred outflow on refunding bonds payable, will be charged to operations over 10 years.

The Bond Bank completed the advance refunding to reduce its total debt service payment over 23 years by \$4,906,457 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$4,349,846, with a net present value savings of \$2,326,575. Through bond debt savings, municipalities will receive interest savings of \$2,023,535.

On September 2, 2015, the Bond Bank issued \$14,535,000 of 2015 Series 3 Refunding Bonds with interest rates of 2.0% to 3.0% to refund \$9,020,000 of 2005 Series 2 Bonds with interest rates of 3.7% to 5.0% and to refund \$5,310,000 of 2005 Series 3 Bonds with interest rates of 4.0% to 5.0%. Net proceeds and existing reserves of \$14,672,273 were deposited in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$9,020,000 of the 2005 Series 2 Bonds and \$5,310,000 of the 2005 Series 3 Bonds are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. The defeased 2005 Series 2 and 2005 Series 3 Bonds were called on December 1, 2015. \$3,980,000 of the 2005 Series 2 Bonds and \$980,000 of the 2005 Series 3 Bonds were not refunded but matured December 1, 2015.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$3,094,976. This difference (net of accumulated amortization), reported in the accompanying financial statements as a deferred outflow on refunding bonds payable, will be charged to operations over 11 years.

The Bond Bank completed the advance refunding to reduce its total debt service payment over 11 years by \$863,830 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$824,347, with a net present value savings of \$826,773. Through bond debt savings, municipalities will receive interest savings of \$826,773.

On December 15, 2015, the Bond Bank issued \$52,400,000 of 2015 Series 5 Refunding Bonds with interest rates of 2.0% to 5.0% to refund \$19,335,000 of 2008 Series 1 Bonds with interest rates of 4.0% to 5.0% and to refund \$32,065,000 of 2009 Series 1 Bonds with interest rates of 4.6% to 5.0%. Net proceeds and existing reserves of \$57,476,158 were deposited in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$19,335,000 of the 2008 Series 1 Bonds and \$32,065,000 of the 2009 Series 1 Bonds are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. All of the defeased 2008 Series 1 and the 2009 Series 1 Bonds are still outstanding and are callable on December 1, 2018 and 2019, respectively. \$5,260,000 of the 2008 Series 1 Bonds and \$12,355,000 of the 2009 Series 1 Bonds were not refunded and remain outstanding on December 31, 2015.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

7. Bonds payable (continued):

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$4,055,688. This difference (net of accumulated amortization), reported in the accompanying financial statements as a deferred outflow on refunding bonds payable, will be charged to operations over the next 24 years.

The Bond Bank completed the advance refunding to reduce its total debt service payment over 24 years by \$3,813,591 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$3,056,674, with a net present value savings of \$3,060,330. Through bond debt savings, municipalities will receive interest savings of \$3,060,331.

In 2014, the Bond Bank partially defeased the 2006 Series 1 Bonds placing the proceeds in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. The liability for these bonds is not included in the Bond Bank's financial statements. All \$21,405,000 of the 2006 Series 1 Bonds remain outstanding on December 31, 2015 and are callable on December 1, 2016.

8. Reserve requirement:

The Bond Bank is required to maintain certain amounts in reserve funds. The Trustees' evaluation of the reserve fund and the reserve requirements are summarized as follows:

	<u>2015</u>	<u>2014</u>
Reserve Fund -		
Amortized value	\$ 52,278,949	\$ 55,514,282
Reserve requirement	<u>41,998,020</u>	<u>46,500,207</u>
Excess above requirement	<u>\$ 10,280,929</u>	<u>\$ 9,014,075</u>

The value includes amortization of premium or discount and accrued interest on securities held in the reserve funds. Restricted cash of \$3,370,026 and \$3,130,844 is included in the amortized value at December 31, 2015 and December 31, 2014, respectively.

9. Accrued arbitrage rebate payable:

The accrued arbitrage rebate payable is based on interim arbitrage rebate analysis performed by the Bond Bank's arbitrage rebate counsel for bonds issued prior to 2015.

10. Transfer to Operating Fund:

The \$12,043,788 transfer during 2015 to the Operating Fund includes the General Operating Reserve Fund (GORF) deposit of \$10,425,000 from the 2015 Series 4 Taxable Bond issue with \$1,003,179 from the Debt Service Reserve Fund restructuring and reimbursements of bond issue costs and equity contributions from the Bond Fund of \$615,609.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

11. Pension plan:

The Bond Bank has a simplified employee pension (SEP) plan for full-time regular employees. To be eligible, an active employee must be twenty-one years of age. The Bond Bank may make contributions each year. In 2015 and 2014, the Bond Bank funded the SEP plan in the amount of \$27,318 and \$30,118, respectively.

12. Related party transactions:

The Bond Bank receives reimbursements from related parties for general and administrative services the Bond Bank provides. The total amounts receivable in the Operating Fund from the related parties were \$8,731 and \$12,178 as of December 31, 2015 and December 31, 2014, respectively.

13. Equity contribution reimbursements:

The Bond Bank Board has elected to make equity contributions to certain of the bond series that it has issued. The Board may elect to be reimbursed for equity contributions at the closing of the bond series or when a refunding of a bond series is made. The reimbursement is made as a transfer from the Bond Fund to the Operating Fund.

Scheduled equity contribution reimbursements are as follows:

Year ending December 31,	
2016	\$ 295,065
2017	10,633
2018	285,633
2019	32,098
2020	10,633
2021 to 2025	53,165
2026 to 2030	53,165
2031 to 2035	53,165
2036 to 2038	<u>31,899</u>
	<u>\$ 825,456</u>

14. Commitments:

On September 1, 2009, the Bond Bank entered into a lease agreement for a five-year term with annual rent payments of \$14,728. The lease agreement has two additional three-year terms, at the option of the Bond Bank, with rent adjusted in accordance with a consumer price index adjustment. The first additional three-year term option was accepted by the Bond Bank in May 2014. Total occupancy expense was \$18,701 and \$17,504 for the fiscal years ended December 31, 2015 and December 31, 2014, respectively.

15. Subsequent events:

The Bond Bank anticipates the issuance of bonds for various Vermont municipalities' capital projects in the summer of 2016 in an amount as yet to be determined.

**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 Board of Directors
Vermont Municipal Bond Bank

We have audited, in accordance with the 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, the financial statements of the business-type activities and each major fund of the Vermont Municipal Bond Bank, a component unit of the State of Vermont, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Vermont Municipal Bond Bank's basic financial statements, and have issued our report thereon dated June 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Vermont Municipal Bond Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermont Municipal Bond Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Vermont Municipal Bond Bank's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermont Municipal Bond Bank's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Montpelier, Vermont
June 9, 2016

*Wadgett, Bennett &
Krogh-Wisner, P.C.*