

VERMONT MUNICIPAL BOND BANK
FINANCIAL STATEMENTS
DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR 2015
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2016 AND 2015

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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, 2016, 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, 2016, and the respective changes in financial position and cash flows 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 2015 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 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 7, 2017 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.

Montpelier, Vermont
June 7, 2017

*Mudgett, Bennett &
Hugh-Nixon, P.C.*

**VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

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 \$2.3 billion in tax-exempt and taxable bonds through 81 series of bonds, including 27 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, 2016. 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.

2016 Financial Highlights

In 2016, the Bond Bank issued \$94,260,000 through two series of bonds. The \$41,870,000 2016 Series 1 Bonds provided loans to 20 municipalities, and \$52,390,000 2016 Series 2 Refunding Bonds were issued to advance refund the VMBB's previously issued 2007 Series 2, 2010 Series 1, 2011 Series 2, and 2011 Series 5 bonds. 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 partial refund the 2007 Series 1, 2005 Series 2, 2005 Series 3, 2008 Series 1, and 2009 Series 1 bonds.

Municipal bonds of \$105,785,000 and \$147,570,000 were refunded or retired in 2016 and 2015, respectively.

As of December 31, 2016, the VMBB had 497 loans outstanding to 255 different municipalities totaling \$533,073,138. 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 12/31/16	Summary			
	# Loans	% Total	Amount	% Total
General Obligation Bonds	490	98.592%	\$512,789,361	96.195%
Revenue Bonds	7	1.408%	\$20,283,777	3.805%
Total	497	100.00%	\$533,073,138	100.00%

Outstanding Loans by Project Type as of 12/31/16	Summary			
	#Borrowers	% Total	Amount	% Total
Local Government	130	50.980%	\$325,675,641	61.093%
School District	98	38.431%	\$183,306,850	34.386%
Other Governmental Unit	27	10.588%	\$24,095,647	4.520%
Total	255	100.00%	\$533,073,138	100.00%

Major Statement of Net Position items changed as follows from 2016 to 2015:

Indicators	12/31/2016 Balance	12/31/2015 Balance	Variance	Percent Variance
Total Assets and Deferred Outflows of Resources	\$646,214,195	\$646,199,939	\$14,256	.002%
Total Liabilities	\$609,068,834	\$609,776,143	\$(707,309)	(0.12)%
Total Net Position	\$37,145,361	\$36,423,796	\$721,565	1.98%
Net Position Unrestricted	\$24,131,119	\$23,991,326	\$139,793	0.58%
Net Position Restricted	\$13,014,242	\$12,432,470	\$581,772	4.68%

Assets and Deferred Outflows of Resources

In the Operating Fund, Total Assets increased \$137,029 or 0.57%. Cash and Cash Equivalents decreased by \$413,406 or 25.47% while investments increased by \$674,229 or 3.03%.

In the Bond Fund, Total Current Assets decreased \$1,636,751 or 2.83%. Noncurrent Assets decreased \$2,534,266 or 0.47%, and Restricted Cash increased \$104,608 or 3.10% from the prior year. Restricted Investments decreased by \$2,776,692 or 5.47% and Total Loans to Municipalities decreased by \$1,433,663 or 0.27%. Deferred Outflows of Resources increased by \$4,048,244 or 17.23%.

Liabilities

In the Bond Fund, Total Current Liabilities decreased by \$6,872,262 or 13.09% while Total Noncurrent Liabilities increased by \$6,167,717 or 1.11%.

Total Bonds Payable (Current and Noncurrent) were \$606,908,105 at December 31, 2016 and \$607,206,343 at December 31, 2015.

Net Position

Restricted Net Position in the Bond Fund increased from 2015 to 2016 by \$581,772 or 4.68%. Unrestricted Net Position in the Operating Fund increased by \$139,793 or 0.58% from 2015 to 2016. These changes in net position were largely due to interest and investment revenue exceeding operating and non operating expenses in the Bond Fund and investment income and equity reimbursement in the Operating Fund. Total Net Position at December 31, 2016 equaled 6.12% of Total Bonds Payable and Unrestricted Net Position equaled 3.98% of Total Bonds Payable. Total Net Position at December 31, 2015 equaled 6.0% of Total Bonds Payable and Unrestricted Net Position equaled 3.95% of Total Bonds Payable.

Operating Summary

Major Revenue and Expense item changes from 2016 to 2015 are as follows:

Revenue & Expense Indicators	12/31/2016 Balance	12/31/2015 Balance	Variance	Percent Variance
Total All Revenue (Including Transfers In)	\$24,967,978	\$37,155,501	\$(12,187,523)	(32.80)%
Total All Expenses (Including Transfers Out)	\$24,246,413	\$35,686,065	\$(11,439,652)	(32.06)%
Operating Income (Loss)	\$17,370,141	\$19,355,623	\$(1,985,482)	(10.26)%
Bond Fund Revenues	\$24,327,926	\$24,962,627	\$(634,701)	(2.54)%
Bond Fund Expenses	\$23,566,960	\$22,684,710	\$882,250	3.89%
Operating Fund Revenues	\$460,858	\$149,086	\$311,772	209.12%
Operating Fund Expenses	\$500,259	\$957,567	\$(457,308)	(47.76)%
Bond Fund Change in Net Position	\$581,772	\$(9,765,871)	\$10,347,643	105.96%
Operating Fund Change in Net Position	\$139,793	\$11,235,307	\$(11,095,514)	(98.76)%

Investment Portfolio

The VMBB's unrestricted investment portfolio on December 31, 2016 was valued at "fair market value" of \$22,933,798. The December 31, 2015 "fair market value" of the investment portfolio was \$22,259,569. The total cost of the portfolio was \$23,042,834 on December 31, 2016 and \$22,383,435 on December 31, 2015.

Subsequent Events

In March 2017, the VMBB issued \$31,920,000 2017 Series 1 Bonds and \$6,115,000 2017 Series 2 Green Bonds. The 2017 Series 1 Bonds are new money bonds for the purpose of issuing loans to five governmental units. The 2017 Series 2 Bonds (Green Bonds) are new money bonds issued to fund Green Projects of two governmental units that emphasize sustainable building practices and energy efficiency improvements. In May 2017, the VMBB issued \$67,660,000 2017 Series A Bonds for the purpose of issuing loans to the Vermont State College System. During 2017, the Bond Bank may issue additional series of new money bonds 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, 2016
WITH COMPARATIVE TOTALS FOR 2015**

	<u>2016</u>			<u>2015</u>
	<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	\$ 8,191,617	\$ 1,209,967	\$ 9,401,584	\$ 9,820,065
Accrued interest receivable	1,798,862	-	1,798,862	1,967,803
Accounts receivable	-	-	-	15,048
Current portion of loans to municipalities	46,197,983	-	46,197,983	47,769,464
Investments	-	22,933,798	22,933,798	22,259,569
Total current assets	<u>56,188,462</u>	<u>24,143,765</u>	<u>80,332,227</u>	<u>81,831,949</u>
Noncurrent assets -				
Restricted cash	3,474,634	-	3,474,634	3,370,026
Restricted investments	47,994,058	-	47,994,058	50,770,750
Loans to municipalities	486,875,155	-	486,875,155	486,737,337
Total noncurrent assets	<u>538,343,847</u>	<u>-</u>	<u>538,343,847</u>	<u>540,878,113</u>
Total assets	<u>594,532,309</u>	<u>24,143,765</u>	<u>618,676,074</u>	<u>622,710,062</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow on refunding				
of bonds payable	<u>27,538,121</u>	<u>-</u>	<u>27,538,121</u>	<u>23,489,877</u>
Total assets and deferred outflows of resources	<u>\$ 622,070,430</u>	<u>\$ 24,143,765</u>	<u>\$ 646,214,195</u>	<u>\$ 646,199,939</u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities -				
Accounts payable	\$ -	\$ 12,646	\$ 12,646	\$ 15,410
Accrued arbitrage rebate	68,590	-	68,590	354,124
Bond interest payable	2,035,133	-	2,035,133	2,036,861
Current portion of bonds payable	<u>43,515,000</u>	<u>-</u>	<u>43,515,000</u>	<u>50,100,000</u>
Total current liabilities	<u>45,618,723</u>	<u>12,646</u>	<u>45,631,369</u>	<u>52,506,395</u>
Noncurrent liabilities -				
Accrued arbitrage rebate	44,360	-	44,360	163,405
Bonds payable	<u>563,393,105</u>	<u>-</u>	<u>563,393,105</u>	<u>557,106,343</u>
Total noncurrent liabilities	<u>563,437,465</u>	<u>-</u>	<u>563,437,465</u>	<u>557,269,748</u>
Total liabilities	<u>609,056,188</u>	<u>12,646</u>	<u>609,068,834</u>	<u>609,776,143</u>
NET POSITION:				
Restricted	13,014,242	-	13,014,242	12,432,470
Unrestricted	<u>-</u>	<u>24,131,119</u>	<u>24,131,119</u>	<u>23,991,326</u>
Total net position	<u>13,014,242</u>	<u>24,131,119</u>	<u>37,145,361</u>	<u>36,423,796</u>
Total liabilities and net position	<u>\$ 622,070,430</u>	<u>\$ 24,143,765</u>	<u>\$ 646,214,195</u>	<u>\$ 646,199,939</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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2016</u>			<u>2015</u>
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
OPERATING REVENUES:				
Interest	\$ 21,078,997	\$ -	\$ 21,078,997	\$ 21,491,488
Other income	-	12,838	12,838	11,263
Total operating revenue	<u>21,078,997</u>	<u>12,838</u>	<u>21,091,835</u>	<u>21,502,751</u>
OPERATING EXPENSES:				
Bond issue costs	620,657	-	620,657	1,115,891
Other expense	2,600,778	-	2,600,778	73,670
Operating expenses	-	500,259	500,259	957,567
Total operating expenses	<u>3,221,435</u>	<u>500,259</u>	<u>3,721,694</u>	<u>2,147,128</u>
OPERATING INCOME (LOSS)	<u>17,857,562</u>	<u>(487,421)</u>	<u>17,370,141</u>	<u>19,355,623</u>
NONOPERATING REVENUE (EXPENSES):				
Interest and investment revenue	1,634,912	448,020	2,082,932	2,016,564
Interest rebate	1,577,048	-	1,577,048	1,592,398
Interest expense	(20,345,525)	-	(20,345,525)	(21,322,764)
Arbitrage recovery (rebate)	36,969	-	36,969	(172,385)
Total nonoperating revenue (expenses)	<u>(17,096,596)</u>	<u>448,020</u>	<u>(16,648,576)</u>	<u>(17,886,187)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	760,966	(39,401)	721,565	1,469,436
TRANSFER TO OPERATING FUND	<u>(179,194)</u>	<u>179,194</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	581,772	139,793	721,565	1,469,436
NET POSITION, beginning of year	<u>12,432,470</u>	<u>23,991,326</u>	<u>36,423,796</u>	<u>34,954,360</u>
NET POSITION, end of year	\$ <u>13,014,242</u>	\$ <u>24,131,119</u>	\$ <u>37,145,361</u>	\$ <u>36,423,796</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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015
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	<u>2016</u>			<u>2015</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	\$ 48,192,310	\$ -	\$ 48,192,310	\$ 49,616,946
Interest (net of refunding interest savings)	18,536,479	-	18,536,479	21,571,570
Cash paid to suppliers for goods and services	-	(367,625)	(367,625)	(851,702)
Cash paid to employees for services	-	(120,350)	(120,350)	(111,174)
Loans to municipalities	(46,758,647)	-	(46,758,647)	(7,630,000)
Bond issue costs	(620,657)	-	(620,657)	(1,115,891)
Other receipts	-	12,838	12,838	11,263
Net cash provided (used) by operating activities	<u>19,349,485</u>	<u>(475,137)</u>	<u>18,874,348</u>	<u>61,491,012</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	90,211,756	-	90,211,756	112,837,013
Principal reductions	(105,785,000)	-	(105,785,000)	(147,570,000)
Interest expense	(9,120,491)	-	(9,120,491)	(21,700,673)
Deposit paid to refunding escrow	-	-	-	(2,031,115)
Arbitrage rebate	(367,610)	-	(367,610)	(187,172)
Interest rebate	1,577,048	-	1,577,048	1,592,398
Transfers	(179,194)	179,194	-	-
Net cash provided (used) by noncapital financing activities	<u>(23,663,491)</u>	<u>179,194</u>	<u>(23,484,297)</u>	<u>(57,059,549)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	5,204,312	2,286,917	7,491,229	9,858,089
Purchase of investments	(2,532,228)	(2,961,146)	(5,493,374)	(16,162,360)
Earnings (loss) on investments	<u>1,636,847</u>	<u>556,766</u>	<u>2,193,613</u>	<u>1,976,703</u>
Net cash provided (used) by investing activities	<u>4,308,931</u>	<u>(117,463)</u>	<u>4,191,468</u>	<u>(4,327,568)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,075)	(413,406)	(418,481)	103,895
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,196,692</u>	<u>1,623,373</u>	<u>9,820,065</u>	<u>9,716,170</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>8,191,617</u>	\$ <u>1,209,967</u>	\$ <u>9,401,584</u>	\$ <u>9,820,065</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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015
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	<u>2016</u>			<u>2015</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)	\$ 17,857,562	\$ (487,421)	\$ 17,370,141	\$ 19,355,623
Adjustments to reconcile operating income				
(loss) to net cash provided (used) by				
operating activities -				
(Increase)/decrease in following assets:				
Accrued interest receivable	58,260	-	58,260	153,752
Accounts receivable	-	15,048	15,048	(808)
Loans to municipalities	1,433,663	-	1,433,663	41,986,946
Increase/(decrease) in following liabilities:				
Accounts payable	-	(2,764)	(2,764)	(4,501)
Net cash provided (used) by				
operating activities	\$ <u>19,349,485</u>	\$ <u>(475,137)</u>	\$ <u>18,874,348</u>	\$ <u>61,491,012</u>
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Refunding loss amortization:	\$ <u>2,123,460</u>	\$ <u>-</u>	\$ <u>2,123,460</u>	\$ <u>1,894,581</u>

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016, 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."
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. 2007 Series 2 was partially refunded and defeased by 2016 Series 2.
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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

A. Authorizing legislation (continued) -

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. 2010 Series 1 was partially refunded and defeased by 2016 Series 2.
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.
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. 2011 Series 2 was partially refunded and defeased by 2016 Series 2.
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. 2011 Series 5 was partially refunded and defeased by 2016 Series 2.
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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

A. Authorizing legislation (continued) -

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.
June 22, 2015	2015 Series 2 Resolution authorizing the issuance of the \$7,975,000 2015 Series 2 Serial Bonds and 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.
June 7, 2016	2016 Series 1 Resolution authorizing the issuance of the \$41,870,000 2016 Series 1 Bonds and 2016 Series 2 Resolution authorizing the issuance of the \$52,390,000 2016 Series 2 Refunding Bonds the partial refunding of the 2007 Series 2 Bonds, the 2010 Series 1 Bonds, the 2011 Series 2 Bonds and the 2011 Series 5 Bonds.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

- 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.
- 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, 2016, 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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

2. Summary of significant accounting policies (continued):

- E. Investments (continued) - 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 of 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, 2015, from which the summarized information was derived.

3. Custodial credit risk - deposits:

Custodial credit risk for deposits is the risk that, in the event of a the failure of a depository financial institution, 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, 2016, general operating reserve cash of \$660,962 was in a money market fund rated Aaa by Moody's Investors Service (Moody's). Unrestricted cash and cash equivalents in the Bond Fund of \$8,191,617 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, 2016 and 2015 are identified on the following page.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

4. Investments (continued):

	<u>Operating Fund</u>	
	<u>2016</u>	<u>2015</u>
Agency Securities	\$ 2,453,569	\$ 1,687,968
Asset-Backed Securities	1,373,150	723,015
Corporate Securities	7,124,790	6,928,563
Corporate Securities: Yankee	156,283	106,680
Mortgage Backed Securities (MBS)	7,388,503	7,440,883
MBS: Commercial Agency Guaranteed	460,619	589,478
MBS: Commercial	49,278	48,274
Municipal Securities	314,812	182,621
U.S. Treasury Securities	<u>3,612,794</u>	<u>4,552,087</u>
	<u>\$ 22,933,798</u>	<u>\$ 22,259,569</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 - Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. 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, 2016, the Bond Bank's unrestricted investments are identified on the following page.

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

4. Investments (continued):

Ratings by Moody's Investors Service	Agency Securities	Asset- Backed Securities	Corporate Securities	Corporate Securities: Yankee	Mortgage Backed Securities	MBS: Commercial Agency Guaranteed	MBS: Commercial	Municipal Securities	U.S. Treasury Securities
Aaa	\$ 2,453,569	\$ 1,373,150	\$ 142,914	\$ -	\$ 7,388,503	\$ 460,619	\$ 49,278	\$ -	\$ 3,612,794
Aa1	-	-	171,077	156,283	-	-	-	276,528	-
Aa3	-	-	162,409	-	-	-	-	38,284	-
A1	-	-	1,241,475	-	-	-	-	-	-
A2	-	-	424,637	-	-	-	-	-	-
A3	-	-	1,548,899	-	-	-	-	-	-
Baa1	-	-	2,298,361	-	-	-	-	-	-
Baa2	-	-	612,431	-	-	-	-	-	-
Baa3	-	-	188,085	-	-	-	-	-	-
Ba1	-	-	334,502	-	-	-	-	-	-
	<u>\$ 2,453,569</u>	<u>\$ 1,373,150</u>	<u>\$ 7,124,790</u>	<u>\$ 156,283</u>	<u>\$ 7,388,503</u>	<u>\$ 460,619</u>	<u>\$ 49,278</u>	<u>\$ 314,812</u>	<u>\$ 3,612,794</u>

Interest rate risk - Interest rate risk is the risk that changes in interest rates will affect the fair value of certain investments. 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)
Agency Securities	3.91
Asset-Backed Securities	1.86
Corporate Securities	3.91
Corporate Securities: Yankee	3.84
Mortgage Backed Securities (MBS)	4.08
MBS: Commercial Agency Guaranteed	2.99
MBS: Commercial	3.79
Municipal Securities	4.16
U.S. Treasury Securities	5.11

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

4. Investments (continued):

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 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, 2016 and 2015 are as follows:

	<u>Bond Fund</u>	
	<u>2016</u>	<u>2015</u>
U.S. Treasury Bonds	\$ 7,621,992	\$ 12,434,835
U.S. Treasury Notes	31,720,160	26,327,370
U.S. Treasury Strips	5,597,969	841,801
U.S. Governments	<u>3,053,937</u>	<u>11,166,744</u>
	<u>\$ 47,994,058</u>	<u>\$ 50,770,750</u>

Restricted investments in the Bond Fund at December 31, 2016 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	\$ 7,621,992	\$ 790,790	\$ 2,385,659	\$ 500,861	\$ 3,944,682
U.S. Treasury Notes	31,720,160	677,856	3,687,172	5,625,452	21,729,680
U.S. Treasury Strips	5,597,969	-	4,121,395	1,476,574	-
U.S. Governments	<u>3,053,937</u>	<u>-</u>	<u>1,714,458</u>	<u>17,943</u>	<u>1,321,536</u>
	<u>\$ 47,994,058</u>	<u>\$ 1,468,646</u>	<u>\$ 11,908,684</u>	<u>\$ 7,620,830</u>	<u>\$ 26,995,898</u>

Restricted cash - On December 31, 2016, \$3,474,634 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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

5. Loans to municipalities (continued):

Interest savings from refundings may be passed through to the municipalities and are included in other expense. Other expense for 2016 includes interest credits to municipalities from the 2009 Series 2 refunding of \$353,635, the 2010 Series 4 refunding of \$1,095,851, the 2011 Series 4 refunding of \$50,000, the 2012 Series 3 refunding of \$180,000, the 2014 Series 2 for \$100,000, the 2015 Series 1 refunding for \$91,137, the 2015 Series 3 refunding of \$46,819, the 2015 Series 5 refunding of \$39,038 and the 2016 Series 2 of \$644,298. In 2015, other expense included interest credits to municipalities from the 2009 Series 2 refunding of \$73,383 and 2012 Series 3 refunding of \$287.

6. Bond liability activity:

Bond liability activity for the year ended December 31, 2016, was as follows:

	<u>January 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 565,635,000	\$ 94,260,000	\$ 105,785,000	\$ 554,110,000	\$ 43,515,000
Plus unamortized premium (discount)	<u>41,571,343</u>	<u>21,907,025</u>	<u>10,680,263</u>	<u>52,798,105</u>	<u>-</u>
Total bonds payable	607,206,343	116,167,025	116,465,263	606,908,105	43,515,000
Accrued arbitrage rebate	<u>517,529</u>	<u>30,443</u>	<u>435,022</u>	<u>112,950</u>	<u>68,590</u>
	<u>\$ 607,723,872</u>	<u>\$ 116,197,468</u>	<u>\$ 116,900,285</u>	<u>\$ 607,021,055</u>	<u>\$ 43,583,590</u>

7. Bonds payable:

Bonds payable consist of the following:

	<u>2016</u>	<u>2015</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
2007 Series 1 Bonds consist of \$2,615,000 Serial Bonds with interest at 4.25% through December 1, 2017. Partially refunded by 2015 Series 1.	2,615,000	5,135,000
2007 Series 2 Bonds consist of \$2,525,000 Refunding Bonds with interest at 4.25% through December 1, 2017; interest payable semi-annually. Partially refunded by 2016 Series 2.	2,525,000	7,245,838

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. Bonds payable (continued):

	<u>2016</u>	<u>2015</u>
2008 Series 1 Bonds consist of \$3,505,000 Serial Bonds with interest at 5.0% through December 1, 2018; interest payable semi-annually. Partially refunded by 2015 Series 5.	3,505,000	5,260,000
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 \$9,400,000 Serial Bonds with interest at 3.0% to 3.5% through December 1, 2019; interest payable semi-annually. Partially refunded by 2015 Series 5.	9,400,000	12,355,000
2009 Series 2 Bonds consist of \$5,910,000 Refunding Bonds with interest at 2.75% to 4.1% through December 1, 2028; less unamortized discount of \$8,117; interest payable semi-annually.	5,901,883	7,414,598
2010 Series 1 Bonds consist of \$3,625,000 Serial Bonds with interest at 3.0% through December 1, 2020; interest payable semi-annually. Partially refunded by 2016 Series 2.	3,625,000	19,223,091
2010 Series 2 Bonds consist of \$2,535,000 Serial Bonds with interest at 3.646% 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.	6,545,000	7,090,000
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 \$15,090,000 Refunding Bonds with interest at 4.0% to 5.0% through December 1, 2031; plus unamortized premium of \$569,946; interest payable semi-annually.	15,659,946	19,701,424
2010 Series 5 Bonds consist of \$6,600,000 Serial Bonds with interest at 3.734% 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.	18,685,000	19,685,000

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. Bonds payable (continued):

	<u>2016</u>	<u>2015</u>
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 \$7,265,000 Serial Bonds with interest at 2.0% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	7,265,000	20,142,605
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 \$7,795,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2032; plus unamortized premium of \$394,130; interest payable semi-annually.	8,189,130	9,720,722
2011 Series 5 Bonds consist of \$7,970,000 Serial Bonds with interest at 3.0% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	7,970,000	41,153,977
2011 Series 6 Bonds consist of \$19,290,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,380,952; interest payable semi-annually.	20,670,952	24,910,168
2012 Series 1 Bonds consist of \$27,765,000 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 \$2,915,025; interest payable semi-annually.	32,325,025	34,569,134
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 \$20,875,000 Refunding Bonds with interest at 5.0% through December 1, 2024; plus unamortized premium of \$2,394,938; interest payable semi-annually.	23,269,938	26,525,787

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. Bonds payable (continued):

	<u>2016</u>	<u>2015</u>
2012 Series 4 Bonds consist of \$5,755,000 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 \$811,837; interest payable semi-annually.	8,026,837	8,583,112
2012 Series 5 Bonds consist of \$1,130,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of \$111,436; interest payable semi-annually.	1,241,436	1,748,467
2013 Series 1 Bonds consist of \$46,750,000 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 \$3,349,420; interest payable semi-annually.	51,099,420	54,086,566
2014 Series 1 Bonds consist of \$26,345,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,985,451; interest payable semi-annually.	28,330,451	29,743,975
2014 Series 2 Bonds consist of \$16,500,000 Refunding Bonds with interest at 5.0% through December 1, 2025; plus unamortized premium of \$1,736,666; interest payable semi-annually.	18,236,666	20,606,238
2014 Series 3 Bonds consist of \$45,160,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2034; \$1,450,000 5.0% Term Bonds maturing December 1, 2044; plus unamortized premium of \$5,968,924; interest payable semi-annually.	52,578,924	55,848,415
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 \$1,932,583; interest payable semi-annually.	22,967,583	23,316,331
2015 Series 1 Bonds consist of \$27,265,000 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 \$2,195,396; interest payable semi-annually.	30,155,396	31,003,327

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. Bonds payable (continued):

	<u>2016</u>	<u>2015</u>
2015 Series 2 Bonds consist of \$5,955,000 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 \$329,970; interest payable semi-annually.	8,024,970	8,355,581
2015 Series 3 Bonds consist of \$6,285,000 Refunding Bonds with interest at 2.0% to 3.0% through December 1, 2025; plus unamortized premium of \$114,794; interest payable semi-annually.	6,399,794	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	10,425,000
2015 Series 5 Bonds consist of \$50,020,000 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 \$4,707,729; interest payable semi-annually.	56,807,729	57,873,630
2016 Series 1 Bonds consist of \$37,485,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2036; \$3,145,000 5.0% Term Bonds maturing December 1, 2041; \$1,240,000 5.0% Term Bonds maturing December 1, 2046; plus unamortized premium of \$7,984,843; interest payable semi-annually.	49,854,843	-
2016 Series 2 Bonds consist of \$50,225,000 Refunding Serial Bonds with interest at 3.0% to 5.0% through December 1, 2036; \$2,165,000 3.0% Term Bonds maturing December 1, 2041; plus unamortized premium of \$13,922,182; interest payable semi-annually.	66,312,182	-
	606,908,105	607,206,343
Less current portion	<u>(43,515,000)</u>	<u>(50,100,000)</u>
	\$ <u>563,393,105</u>	\$ <u>557,106,343</u>

**VERMONT MUNICIPAL BOND BANK
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7. Bonds payable (continued):

The annual requirements to amortize bonds payable as of December 31, 2016 are as follows:

Year ending December 31,	Principal	Interest	Total
2017	\$ 43,515,000	\$ 24,421,672	\$ 67,936,672
2018	43,040,000	22,865,897	65,905,897
2019	43,115,000	21,277,876	64,392,876
2020	38,975,000	19,684,450	58,659,450
2021	37,520,000	18,085,810	55,605,810
2022 to 2026	165,640,000	65,847,532	231,487,532
2027 to 2031	106,465,000	31,864,727	138,329,727
2032 to 2036	57,160,000	9,949,792	67,109,792
2037 to 2041	11,840,000	2,891,471	14,731,471
2042 to 2046	6,840,000	764,414	7,604,414
	<u>554,110,000</u>	<u>217,653,641</u>	<u>771,763,641</u>
Unamortized premium (discount) at December 31, 2016	<u>52,798,105</u>	<u>-</u>	<u>52,798,105</u>
	<u>\$ 606,908,105</u>	<u>\$ 217,653,641</u>	<u>\$ 824,561,746</u>

The deferred outflow on refunding of bonds payable at December 31, 2016 includes, \$1,428,291 in 2009 Series 2 Bonds, \$1,795,610 in 2010 Series 4 Bonds, \$875,727 in 2011 Series 4 Bonds, \$1,147,420 in 2011 Series 6 Bonds, \$2,308,161 in 2012 Series 3 Bonds, \$873,023 in 2012 Series 5 Bonds, \$902,819 in 2014 Series 2 Bonds, \$1,574,012 in 2014 Series 4 Bonds, \$3,392,490 in 2015 Series 1 Bonds, \$2,532,253 in 2015 Series 3 Bonds, \$3,731,233 in 2015 Series 5 Bonds and \$6,977,082 in 2016 Series 2 Bonds.

On July 20, 2016, the Bond Bank issued \$52,390,000 of 2016 Series 2 Refunding Bonds with interest rates from 3.0% to 5.0% to refund \$2,180,000 of 2007 Series 2 Bonds with interest rates of 3.9% to 4.6%, to refund \$13,735,000 of 2010 Series 1 Bonds with interest rates of 3.1% to 5.0%, to refund \$10,955,000 of 2011 Series 2 Bonds with interest rates of 3.0% to 5.0%, and to refund \$28,815,000 of 2011 Series 5 Bonds with interest rates of 5.0%. Net proceeds were deposited in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$2,180,000 of 2007 Series 2 Bonds to be called on December 1, 2017, \$13,735,000 of 2010 Series 1 Bonds to be called on December 1, 2020, \$10,955,000 of 2011 Series 2 Bonds to be called on December 1, 2021, and \$28,815,000 of 2011 Series 5 Bonds to be called December 31, 2021, are still outstanding and are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$6,977,082. 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 25 years.

The Bond Bank completed the advance refunding to reduce its total debt service payment over 25 years by \$6,190,424 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$4,934,384, with a net present value savings of \$4,709,760. Through bond debt savings, municipalities will receive interest savings of \$3,502,469.

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7. Bonds payable (continued):

In, 2015, the Bond Bank partially defeased the 2007 Series 1 Bonds placing the proceeds in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result \$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 outstanding at December 31, 2016 and are callable on December 1, 2017. \$7,780,000 of the 2007 Series 1 Bonds were not refunded and \$2,615,000 remain outstanding on December 31, 2016.

In, 2015, the Bond Bank partially defeased the 2008 Series 1 Bonds and 2009 Series 1 Bonds placing the proceeds 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 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. \$3,505,000 of the 2008 Series 1 Bonds and \$9,400,000 of the 2009 Series 1 Bonds remain outstanding on December 31, 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>2016</u>	<u>2015</u>
Reserve Fund -		
Amortized value	\$ 49,038,999	\$ 52,278,949
Reserve requirement	<u>43,824,788</u>	<u>41,998,020</u>
Excess above requirement	\$ <u>5,214,211</u>	\$ <u>10,280,929</u>

The value includes amortization of premium or discount and accrued interest on securities held in the reserve funds. Restricted cash of \$3,474,634 and \$3,370,026 is included in the amortized value at December 31, 2016 and December 31, 2015, 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 2016.

10. Transfer to Operating Fund:

The \$179,194 transfer during 2016 to the Operating Fund includes 2016 bond issue payments of \$2,750 and equity contributions of \$333,000 totaling \$335,750 and reimbursements of equity contributions from the Bond Fund of \$514,944.

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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 2016 and 2015, the Bond Bank funded the SEP plan in the amount of \$29,482 and \$27,318, 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 was \$8,731 as of December 31, 2015. At December 31, 2016, the Bond Bank included \$1,170 in payables in the Operating Fund for net purchases made by a related party on behalf of the Bond Bank.

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,	<u>Principal</u>
2017 \$	161,335
2018	285,633
2019	32,098
2020	10,633
2021	10,633
2022 to 2026	53,165
2027 to 2031	53,165
2032 to 2036	53,165
2037 to 2038	<u>21,266</u>
\$	<u>681,093</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 \$18,303 and \$18,701 for the fiscal years ended December 31, 2016 and December 31, 2015, respectively.

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15. Subsequent events:

In March 2017, the VMBB issued \$31,920,000 2017 Series 1 Bonds and \$6,115,000 2017 Series 2 Green Bonds. The 2017 Series 1 Bonds are new money bonds for the purpose of issuing loans to five governmental units. The 2017 Series 2 Bonds (Green Bonds) are new money bonds issued to fund Green Projects of two governmental units that emphasize sustainable building practices and energy efficiency improvements. In May 2017, the VMBB issued \$67,660,000 2017 Series A Bonds for the purpose of issuing loans to the Vermont State College System. The Bond Bank anticipates the issuance of bonds for various Vermont municipalities' capital projects in the summer of 2017 in an amount as yet to be determined.