

VERMONT MUNICIPAL BOND BANK
FINANCIAL STATEMENTS
DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 5
Basic Financial Statements:	
Statement of Net Position	6
Statement of Revenues, Expenses and Change in Net Position.....	7
Statement of Cash Flows	8 - 9
Notes to Financial Statements.....	10 - 26
Compliance Report:	
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 <i>Government Auditing Standards</i>	27 - 28

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, 2017, 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, 2017, 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 2016 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 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 1, 2018 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 1, 2018

Mudgett, J. J. 5
Joseph A. Wise, P.C.

**VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

The Vermont Municipal Bond Bank (Bank or VMBB) was created by the Act in 1970 as a body corporate and politic with corporate succession and is constituted as an instrumentality exercising public and essential governmental functions of the State of Vermont. The Bank's primary purpose is to provide Vermont's municipalities with inexpensive access to capital markets. As of December 31, 2017, the Bank has issued over \$2.5 billion in tax-exempt and taxable bonds through 85 series of bonds for municipalities, including 28 refunding bonds, and one conduit debt series for the Vermont State College System.

This discussion of the VMBB's financial performance provides an overview of the Bank's financial activities for the fiscal year ended December 31, 2017. 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.

2017 Financial Highlights

In 2017, the Bank issued \$160,065,000 through five series of bonds. Two bond series, totaling \$58,910,000 provided loans to 24 municipalities and one Green Bond series of \$6,115,000 provided 2 municipal loans for environmentally-beneficial projects in Vermont. One bond series, totaling \$27,380,000, was issued to advance refund the VMBB's previously issued 2013 Series 1 bonds. The VMBB also issued \$67,660,000 2017 Series A Bonds for the purpose of issuing loans to the Vermont State College System which constitute special not general obligations of the Bond Bank. 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.

Municipal bonds of \$69,995,000 and \$105,785,000 were refunded or retired in 2017 and 2016, respectively.

As of December 31, 2017, the VMBB had 499 loans outstanding to 256 different municipalities totaling \$555,844,436. As of December 31, 2016, the VMBB had 497 loans outstanding to 255 different municipalities totaling \$533,073,138.

Outstanding Loans by Debt Type as of 12/31/17	Summary			
	# Loans	% Total	Amount	% Total
General Obligation Bonds	492	98.60%	\$537,572,938	96.71%
Revenue Bonds	7	1.40%	\$18,271,498	3.29%
Total	499	100.00%	\$555,844,436	100.00%

Outstanding Loans by Project Type as of 12/31/17	Summary			
	#Borrowers	% Total	Amount	% Total
Local Government	318	63.73%	\$347,164,463	62.46%
School District	142	28.46%	\$186,205,749	33.50%
Other Governmental Unit	39	7.81%	\$22,474,224	4.04%
Total	499	100.00%	\$555,844,436	100.00%

Major Statement of Net Position items changed as follows from 2017 to 2016:

Indicators	12/31/2017 Balance	12/31/2016 Balance	Variance	Percent Variance
Total Assets and Deferred Outflows of Resources	\$673,160,330	\$646,214,195	\$26,946,135	4.17%
Total Liabilities	\$635,860,687	\$609,068,834	\$26,791,853	4.40%
Total Net Position	\$37,299,643	\$37,145,361	\$154,282	0.42%
Net Position Unrestricted	\$24,084,825	\$24,131,119	\$(46,294)	(0.19)%
Net Position Restricted	\$13,214,818	\$13,014,242	\$200,576	1.54%

Assets and Deferred Outflows of Resources

In the Operating Fund, Total Assets decreased \$48,258 or 0.20%. Cash and Cash Equivalents decreased by \$437,174 or 36.13% while investments increased by \$294,645 or 1.28%.

In the Bond Fund, Total Current Assets decreased \$2,346,776 or 4.18%. Noncurrent Assets increased \$24,470,942 or 4.55%, and Restricted Cash increased \$277,998 or 8.00% from the prior year. Restricted Investments increased by \$2,963,692 or 6.18% and Total Loans to Municipalities increased by \$22,771,298 or 4.27%. Deferred Outflows of Resources increased by \$176,675 or 0.64%.

Liabilities

In the Bond Fund, Total Current Liabilities increased by \$1,751,396 or 3.84% while Total Noncurrent Liabilities increased by \$25,042,421 or 4.44%.

Total Bonds Payable (Current and Noncurrent) were \$633,485,645 at December 31, 2017 and \$606,908,105 at December 31, 2016.

Net Position

Restricted Net Position in the Bond Fund increased from 2016 to 2017 by \$200,576 or 1.54%. Unrestricted Net Position in the Operating Fund decreased by \$46,294 or 0.19% from 2016 to 2017. These changes in net position were largely due to net transfers from the Operating Fund to the Bond Fund of \$157,995. Operating income exceeded net nonoperating revenue and expenses in the Bond Fund by \$42,581 and investment income exceeded operating loss in the Operating Fund by \$111,701. Total Net Position at December 31, 2017 equaled 5.89% of Total Bonds Payable and Unrestricted Net Position equaled 3.80% of Total Bonds Payable. 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.

Operating Summary

Major Revenue and Expense item changes from 2017 to 2016 are as follows:

Revenue & Expense Indicators	12/31/2017 Balance	12/31/2016 Balance	Variance	Percent Variance
Total All Revenue (Including Transfers In)	\$25,566,615	\$24,967,978	\$598,637	2.40%
Total All Expenses (Including Transfers Out)	\$25,412,333	\$24,246,413	\$1,165,920	4.81%
Operating Income (Loss)	\$17,265,470	\$17,370,141	\$(104,671)	(0.60)%
Bond Fund Revenues	\$24,682,065	\$24,327,926	\$354,139	1.46%
Bond Fund Expenses	\$24,639,484	\$23,566,960	\$1,072,524	4.55%
Operating Fund Revenues	\$618,938	\$460,858	\$158,080	34.30%
Operating Fund Expenses	\$507,237	\$500,259	\$6,978	1.39%
Bond Fund Change in Net Position	\$200,576	\$581,772	\$(381,196)	(65.52)%
Operating Fund Change in Net Position	\$(46,294)	\$139,793	\$(186,087)	(133.12)%

Investment Portfolio

The VMBB's unrestricted investment portfolio on December 31, 2017 was valued at "fair market value" of \$23,228,443, excluding investment cash deposits of \$465,173. The December 31, 2016 "fair market value" of the investment portfolio was \$22,933,798, excluding investment cash deposits of \$663,072. The total cost of the portfolio, excluding cash deposits, was \$23,279,717 on December 31, 2017 and \$23,042,834 on December 31, 2016.

Subsequent Events

In February 2018, the VMBB issued \$7,990,000 2018 Series 1 Bonds designated as Local Investment Bonds to reflect the local impact of the projects that are capitalized by the 2018 Bonds. This designation is intended to alert individual investors of the reduced barriers to investing in Vermont's local communities through the \$1,000 denominations of the 2018 Bonds. During 2018, the Bond Bank may issue additional series bonds when 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 Michael Gaughan, Executive Director, Vermont Municipal Bond Bank, Champlain Mill, 20 Winooski Falls Way, Winooski, VT 05404, at 802-654-7377 or michaelg@vtbondagency.org.

**VERMONT MUNICIPAL BOND BANK
STATEMENT OF NET POSITION
DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR 2016**

	<u>2017</u>			<u>2016</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	\$ 8,972,918	\$ 772,793	\$ 9,745,711	\$ 9,401,584
Accrued interest receivable	1,822,291	-	1,822,291	1,798,862
Accounts receivable and prepaid expenses	-	94,271	94,271	-
Current portion of loans to municipalities	47,740,029	-	47,740,029	46,197,983
Investments	-	23,228,443	23,228,443	22,933,798
Total current assets	<u>58,535,238</u>	<u>24,095,507</u>	<u>82,630,745</u>	<u>80,332,227</u>
Noncurrent assets -				
Restricted cash	3,752,632	-	3,752,632	3,474,634
Restricted investments	50,957,750	-	50,957,750	47,994,058
Loans to municipalities	508,104,407	-	508,104,407	486,875,155
Total noncurrent assets	<u>562,814,789</u>	<u>-</u>	<u>562,814,789</u>	<u>538,343,847</u>
Total assets	<u>621,350,027</u>	<u>24,095,507</u>	<u>645,445,534</u>	<u>618,676,074</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow on refunding of bonds payable	<u>27,714,796</u>	<u>-</u>	<u>27,714,796</u>	<u>27,538,121</u>
Total assets and deferred outflows of resources	<u>\$ 649,064,823</u>	<u>\$ 24,095,507</u>	<u>\$ 673,160,330</u>	<u>\$ 646,214,195</u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities -				
Accounts payable	\$ 73,265	\$ 10,682	\$ 83,947	\$ 12,646
Accrued arbitrage rebate	47,933	-	47,933	68,590
Bond interest payable	2,143,921	-	2,143,921	2,035,133
Current portion of bonds payable	45,105,000	-	45,105,000	43,515,000
Total current liabilities	<u>47,370,119</u>	<u>10,682</u>	<u>47,380,801</u>	<u>45,631,369</u>
Noncurrent liabilities -				
Accrued arbitrage rebate	99,241	-	99,241	44,360
Bonds payable	588,380,645	-	588,380,645	563,393,105
Total noncurrent liabilities	<u>588,479,886</u>	<u>-</u>	<u>588,479,886</u>	<u>563,437,465</u>
Total liabilities	<u>635,850,005</u>	<u>10,682</u>	<u>635,860,687</u>	<u>609,068,834</u>
NET POSITION:				
Restricted	13,214,818	-	13,214,818	13,014,242
Unrestricted	-	24,084,825	24,084,825	24,131,119
Total net position	<u>13,214,818</u>	<u>24,084,825</u>	<u>37,299,643</u>	<u>37,145,361</u>
Total liabilities and net position	<u>\$ 649,064,823</u>	<u>\$ 24,095,507</u>	<u>\$ 673,160,330</u>	<u>\$ 646,214,195</u>

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>			<u>2016</u>
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
OPERATING REVENUES:				
Interest	\$ 21,323,306	\$ -	\$ 21,323,306	\$ 21,078,997
Other income	<u>-</u>	<u>29,244</u>	<u>29,244</u>	<u>12,838</u>
Total operating revenue	<u>21,323,306</u>	<u>29,244</u>	<u>21,352,550</u>	<u>21,091,835</u>
OPERATING EXPENSES:				
Bond issue costs	883,261	-	883,261	620,657
Other expense	2,696,582	-	2,696,582	2,600,778
Operating expenses	<u>-</u>	<u>507,237</u>	<u>507,237</u>	<u>500,259</u>
Total operating expenses	<u>3,579,843</u>	<u>507,237</u>	<u>4,087,080</u>	<u>3,721,694</u>
OPERATING INCOME (LOSS)	<u>17,743,463</u>	<u>(477,993)</u>	<u>17,265,470</u>	<u>17,370,141</u>
NONOPERATING REVENUE (EXPENSES):				
Interest and investment revenue	1,908,862	589,694	2,498,556	2,082,932
Interest rebate	1,557,514	-	1,557,514	1,577,048
Interest expense	(21,059,641)	-	(21,059,641)	(20,345,525)
Arbitrage recovery (rebate)	<u>(107,617)</u>	<u>-</u>	<u>(107,617)</u>	<u>36,969</u>
Total nonoperating revenue (expenses)	<u>(17,700,882)</u>	<u>589,694</u>	<u>(17,111,188)</u>	<u>(16,648,576)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	42,581	111,701	154,282	721,565
TRANSFER TO BOND FUND	<u>157,995</u>	<u>(157,995)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	200,576	(46,294)	154,282	721,565
NET POSITION, beginning of year	<u>13,014,242</u>	<u>24,131,119</u>	<u>37,145,361</u>	<u>36,423,796</u>
NET POSITION, end of year	\$ <u>13,214,818</u>	\$ <u>24,084,825</u>	\$ <u>37,299,643</u>	\$ <u>37,145,361</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, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016
(Page 1 of 2)

	<u>2017</u>			<u>2016</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	\$ 46,271,333	\$ -	\$ 46,271,333	\$ 48,192,310
Interest (net of refunding interest savings)	18,606,688	-	18,606,688	18,536,479
Cash paid to suppliers for goods and services	-	(362,021)	(362,021)	(367,625)
Cash paid to employees for services	-	(147,180)	(147,180)	(120,350)
Loans to municipalities	(69,042,631)	-	(69,042,631)	(46,758,647)
Bond issue costs	(809,996)	-	(809,996)	(620,657)
Other receipts	-	29,244	29,244	12,838
Net cash provided (used) by operating activities	<u>(4,974,606)</u>	<u>(479,957)</u>	<u>(5,454,563)</u>	<u>18,874,348</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	92,228,325	-	92,228,325	90,211,756
Principal reductions	(69,995,000)	-	(69,995,000)	(105,785,000)
Interest expense	(16,783,313)	-	(16,783,313)	(9,120,491)
Arbitrage rebate	(73,393)	-	(73,393)	(367,610)
Interest rebate	1,557,514	-	1,557,514	1,577,048
Transfers	<u>157,995</u>	<u>(157,995)</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>7,092,128</u>	<u>(157,995)</u>	<u>6,934,133</u>	<u>(23,484,297)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	1,124,858	2,342,545	3,467,403	7,491,229
Purchase of investments	(4,366,548)	(2,637,190)	(7,003,738)	(5,493,374)
Earnings (loss) on investments	<u>1,905,469</u>	<u>589,694</u>	<u>2,495,163</u>	<u>2,193,613</u>
Net cash provided (used) by investing activities	<u>(1,336,221)</u>	<u>295,049</u>	<u>(1,041,172)</u>	<u>4,191,468</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	781,301	(342,903)	438,398	(418,481)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,191,617</u>	<u>1,209,967</u>	<u>9,401,584</u>	<u>9,820,065</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>8,972,918</u>	\$ <u>867,064</u>	\$ <u>9,839,982</u>	\$ <u>9,401,584</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, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016
(Page 2 of 2)

	<u>2017</u>			<u>2016</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)	\$ 17,743,463	\$ (477,993)	\$ 17,265,470	\$ 17,370,141
Adjustments to reconcile operating income				
(loss) to net cash provided (used) by				
operating activities -				
(Increase)/decrease in following assets:				
Accrued interest receivable	(20,036)	-	(20,036)	58,260
Accounts receivable	-	-	-	15,048
Loans to municipalities	(22,771,298)	-	(22,771,298)	1,433,663
Increase/(decrease) in following liabilities:				
Accounts payable	<u>73,265</u>	<u>(1,964)</u>	<u>71,301</u>	<u>(2,764)</u>
Net cash provided (used) by				
operating activities	\$ <u>(4,974,606)</u>	\$ <u>(479,957)</u>	\$ <u>(5,454,563)</u>	\$ <u>18,874,348</u>
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Refunding loss amortization:	\$ <u>2,199,432</u>	\$ <u>-</u>	\$ <u>2,199,432</u>	\$ <u>2,123,460</u>

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 in 1970 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, 2017, 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 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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

A. Authorizing legislation (continued) -

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.
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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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

A. Authorizing legislation (continued) -

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.
February 7, 2017	2017 Series 1 Resolution authorizing the issuance of the \$31,920,000 2017 Series 1 Bonds and 2017 Series 2 Resolution authorizing the issuance of the \$6,115,000 2017 Series 2 Green Bonds.
March 30, 2017	2017 General Vermont State Colleges System (VSCS) Bond Resolution allowing for multiple series of parity bonds that will constitute special not general obligations of the Bond Bank and 2017 Series A Resolution authorizing the issuance of the \$67,660,000 2017 VSCS Series 1 Bonds.
June 21, 2017	2017 Series 3 Resolution authorizing the issuance of the \$26,990,000 2017 Series 3 Bonds and 2017 Series 4 Resolution authorizing the issuance of \$27,380,000 Series 4 Refunding Bonds and the partial refunding of the 2013 Series 1 Bonds.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017, 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, 2017 AND 2016**

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, 2016, 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 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, 2017, general operating reserve cash of \$772,793 was in cash and governmental money markets fund rated Aaa by Moody's Investors Service (Moody's). Unrestricted cash and cash equivalents in the Bond Fund of \$8,972,918 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, 2017 and 2016 are identified on the following page.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

4. Investments (continued):

	<u>Operating Fund</u>	
	<u>2017</u>	<u>2016</u>
Agency Securities	\$ 2,552,400	\$ 2,453,569
Asset-Backed Securities	1,599,750	1,373,150
Corporate Securities	7,317,513	7,124,790
Corporate Securities: Yankee	390,776	156,283
Mortgage Backed Securities (MBS)	7,085,683	7,388,503
MBS: Collateralized	201,170	460,619
MBS: Commercial	1,462,442	49,278
Municipal Securities	520,337	314,812
U.S. Treasury Securities	<u>2,098,372</u>	<u>3,612,794</u>
	<u>\$ 23,228,443</u>	<u>\$ 22,933,798</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	0%	100%	U.S. Treasury	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, 2017, the Bond Bank's unrestricted investments are identified on the following page.

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. Investments (continued):

Ratings by

Moody's	Agency	Asset-	Corporate	Corporate	Mortgage				U.S.
Investors	Securities	Backed	Securities	Securities:	Backed	MBS:	MBS:	Municipal	Treasury
<u>Service</u>	<u>Securities</u>	<u>Securities</u>	<u>Securities</u>	<u>Yankee</u>	<u>Securities</u>	<u>Collateralized</u>	<u>Commercial</u>	<u>Securities</u>	<u>Securities</u>
Aaa	\$ 2,552,400	\$ 1,599,750	\$ 144,352	\$ -	\$ 7,085,683	\$ 201,170	\$ 1,462,442	\$ -	\$ 2,098,372
Aa1	-	-	173,876	-	-	-	-	483,146	-
Aa2	-	-	-	158,026	-	-	-	-	-
Aa3	-	-	348,759	-	-	-	-	37,191	-
A1	-	-	472,677	-	-	-	-	-	-
A2	-	-	562,789	-	-	-	-	-	-
A3	-	-	1,629,538	232,750	-	-	-	-	-
Baa1	-	-	2,418,470	-	-	-	-	-	-
Baa2	-	-	688,961	-	-	-	-	-	-
Baa3	-	-	703,822	-	-	-	-	-	-
Ba1	-	-	174,269	-	-	-	-	-	-
	<u>\$ 2,552,400</u>	<u>\$ 1,599,750</u>	<u>\$ 7,317,513</u>	<u>\$ 390,776</u>	<u>\$ 7,085,683</u>	<u>\$ 201,170</u>	<u>\$ 1,462,442</u>	<u>\$ 520,337</u>	<u>\$ 2,098,372</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 by Asset Class (Years)
Agency Securities	3.22
Asset-Backed Securities	1.95
Corporate Securities	4.17
Corporate Securities: Yankee	6.03
Mortgage Backed Securities (MBS)	4.00
MBS: Collateralized	3.75
MBS: Commercial	3.88
Municipal Securities	4.95
U.S. Treasury Securities	5.04

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, 2017 AND 2016**

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, 2017 and 2016 are as follows:

	<u>Bond Fund</u>	
	<u>2017</u>	<u>2016</u>
U.S. Treasury Bonds	\$ 7,114,313	\$ 7,621,992
U.S. Treasury Notes	35,010,525	31,720,160
U.S. Treasury Strips	5,702,813	5,597,969
U.S. Governments	<u>3,130,099</u>	<u>3,053,937</u>
	<u>\$ 50,957,750</u>	<u>\$ 47,994,058</u>

Restricted investments in the Bond Fund at December 31, 2017 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	\$ 7,114,313	\$ 816,283	\$ 1,430,928	\$ 491,548	\$ 4,375,554
U.S. Treasury Notes	35,010,525	470,807	4,628,936	6,249,393	23,661,389
U.S. Treasury Strips	5,702,813	1,448,244	2,904,291	1,350,278	-
U.S. Governments	<u>3,130,099</u>	<u>-</u>	<u>1,775,283</u>	<u>18,821</u>	<u>1,335,995</u>
	<u>\$ 50,957,750</u>	<u>\$ 2,735,334</u>	<u>\$ 10,739,438</u>	<u>\$ 8,110,040</u>	<u>\$ 29,372,938</u>

Restricted cash - On December 31, 2017, \$3,752,632 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, 2017 AND 2016**

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 2017 includes interest credits to municipalities from the 2009 Series 2 refunding of \$328,959, the 2010 Series 4 refunding of \$1,121,228, the 2011 Series 4 refunding of \$80,000, the 2011 Series 6 refunding of \$65,000, the 2012 Series 3 refunding of \$180,000, the 2014 Series 2 refunding of \$110,000, the 2014 Series 4 refunding of \$75,000, the 2015 Series 1 refunding of \$83,921, the 2015 Series 3 refunding of \$31,200, the 2015 Series 5 refunding of \$36,982, the 2016 Series 2 of \$450,000 and the 2017 Series 4 of \$134,292. In 2016, other expense included 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.

6. Bond liability activity:

Bond liability activity for the year ended December 31, 2017, was as follows:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2017</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 554,110,000	\$ 92,405,000	\$ 69,995,000	\$ 576,520,000	\$ 45,105,000
Plus unamortized premium (discount)	<u>52,798,105</u>	<u>13,534,988</u>	<u>9,367,448</u>	<u>56,965,645</u>	<u>-</u>
Total bonds payable	606,908,105	105,939,988	79,362,448	633,485,645	45,105,000
Accrued arbitrage rebate	<u>112,950</u>	<u>76,150</u>	<u>41,926</u>	<u>147,174</u>	<u>47,933</u>
	<u>\$ 607,021,055</u>	<u>\$ 106,016,138</u>	<u>\$ 79,404,374</u>	<u>\$ 633,632,819</u>	<u>\$ 45,152,933</u>

7. Bonds payable:

Bonds payable consist of the following:

	<u>2017</u>	<u>2016</u>
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
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
2008 Series 1 Bonds consist of \$1,775,000 Serial Bonds with interest at 5.0% through December 1, 2018; interest payable semi-annually. Partially refunded by 2015 Series 5.	1,775,000	3,505,000

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2008 Series 2 Bonds consist of \$5,580,000 Term Bonds with interest at 6.25% through December 1, 2032; interest payable semi-annually.	5,580,000	5,635,000
2009 Series 1 Bonds consist of \$6,360,000 Serial Bonds with interest at 3.25% to 3.5% through December 1, 2019; interest payable semi-annually. Partially refunded by 2015 Series 5.	6,360,000	9,400,000
2009 Series 2 Bonds consist of \$4,300,000 Refunding Bonds with interest at 2.75% to 4.1% through December 1, 2028; less unamortized discount of \$5,981; interest payable semi-annually.	4,294,019	5,901,883
2010 Series 1 Bonds consist of \$2,715,000 Serial Bonds with interest at 3.0% through December 1, 2020; interest payable semi-annually. Partially refunded by 2016 Series 2.	2,715,000	3,625,000
2010 Series 2 Bonds consist of \$1,945,000 Serial Bonds with interest at 3.97% 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.	5,955,000	6,545,000
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 \$11,730,000 Refunding Bonds with interest at 3.3% to 5.0% through December 1, 2031; plus unamortized premium of \$358,826; interest payable semi-annually.	12,088,826	15,659,946
2010 Series 5 Bonds consist of \$5,585,000 Serial Bonds with interest at 4.054% 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.	17,670,000	18,685,000
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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2011 Series 2 Bonds consist of \$5,805,000 Serial Bonds with interest at 2.25% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	5,805,000	7,265,000
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 \$6,465,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2032; plus unamortized premium of \$283,992; interest payable semi-annually.	6,748,992	8,189,130
2011 Series 5 Bonds consist of \$6,555,000 Serial Bonds with interest at 3.0% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	6,555,000	7,970,000
2011 Series 6 Bonds consist of \$16,880,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,015,742; interest payable semi-annually.	17,895,742	20,670,952
2012 Series 1 Bonds consist of \$26,025,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2032; \$1,645,000 4.0% Term bonds maturing December 1, 2042; plus unamortized premium of \$2,469,852; interest payable semi-annually.	30,139,852	32,325,025
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 \$18,330,000 Refunding Bonds with interest at 5.0% through December 1, 2024; plus unamortized premium of \$1,775,891; interest payable semi-annually.	20,105,891	23,269,938
2012 Series 4 Bonds consist of \$5,320,000 Serial Bonds with interest at 4.0% 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 \$700,427; interest payable semi-annually.	7,480,427	8,026,837

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
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 \$84,577; interest payable semi-annually.	1,214,577	1,241,436
2013 Series 1 Bonds consist of \$18,545,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of \$1,125,804; interest payable semi-annually. Partially refunded by 2017 Series 4.	19,670,804	51,099,420
2014 Series 1 Bonds consist of \$25,235,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,682,149; interest payable semi-annually.	26,917,149	28,330,451
2014 Series 2 Bonds consist of \$14,505,000 Refunding Bonds with interest at 5.0% through December 1, 2025; plus unamortized premium of \$1,265,094; interest payable semi-annually.	15,770,094	18,236,666
2014 Series 3 Bonds consist of \$42,700,000 Serial Bonds with interest at 5.0% through December 1, 2034; \$1,450,000 5.0% Term Bonds maturing December 1, 2044; plus unamortized premium of \$5,068,801; interest payable semi-annually.	49,218,801	52,578,924
2014 Series 4 Bonds consist of \$18,755,000 Refunding Bonds with interest at 2.0% to 5.0% through December 1, 2026; plus unamortized premium of \$1,583,834; interest payable semi-annually.	20,338,834	22,967,583
2015 Series 1 Bonds consist of \$26,940,000 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 \$1,905,795; interest payable semi-annually.	29,540,795	30,155,396
2015 Series 2 Bonds consist of \$5,670,000 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 \$284,926; interest payable semi-annually.	7,694,926	8,024,970
2015 Series 3 Bonds consist of \$4,760,000 Refunding Bonds with interest at 2.0% to 3.0% through December 1, 2025; plus unamortized premium of \$62,981; interest payable semi-annually.	4,822,981	6,399,794

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
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 \$49,790,000 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 \$3,946,454; interest payable semi-annually.	55,816,454	56,807,729
2016 Series 1 Bonds consist of \$35,690,000 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 \$7,271,232; interest payable semi-annually.	47,346,232	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 \$12,550,262; interest payable semi-annually.	64,940,262	66,312,182
2017 Series 1 Bonds consist of \$27,500,000 Serial Bonds with interest at 2.5% to 5.0% through December 1, 2037; \$4,420,000 3.75% Term Bonds maturing December 1, 2047; plus unamortized premium of \$4,090,809; interest payable semi-annually.	36,010,809	-
2017 Series 2 Bonds consist of \$4,360,000 Serial Bonds with interest at 2.125% to 5.0% through December 1, 2030; \$1,755,000 3.75% Term Bonds maturing December 1, 2047; plus unamortized premium of \$185,288; interest payable semi-annually.	6,300,288	-
2017 Series 3 Bonds consist of \$23,095,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2037; \$3,895,000 5.0% Term Bonds maturing December 1, 2047; plus unamortized premium of \$5,159,029; interest payable semi-annually.	32,149,029	-

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2017 Series 4 Bonds consist of \$26,380,000 Refunding Serial Bonds with interest at 3.0% to 5.0% through December 1, 2033; \$360,000 3.25% Term Bonds maturing December 1, 2037; \$640,000 4.0% Term Bonds maturing December 1, 2043; plus unamortized premium of \$4,099,861; interest payable semi-annually.	31,479,861	-
	633,485,645	606,908,105
Less current portion	<u>(45,105,000)</u>	<u>(43,515,000)</u>
	\$ <u>588,380,645</u>	\$ <u>563,393,105</u>

The annual requirements to amortize bonds payable as of December 31, 2017 are as follows:

Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 45,105,000	\$ 25,727,117	\$ 70,832,117
2019	45,190,000	24,077,146	69,267,146
2020	41,165,000	22,415,970	63,580,970
2021	39,750,000	20,726,455	60,476,455
2022	38,400,000	19,026,107	57,426,107
2023 to 2027	172,350,000	68,692,405	241,042,405
2028 to 2032	119,955,000	33,997,053	153,952,053
2033 to 2037	50,155,000	11,400,459	61,555,459
2038 to 2042	15,550,000	3,925,050	19,475,050
2043 to 2047	8,900,000	1,160,830	10,060,830
	<u>576,520,000</u>	<u>231,148,592</u>	<u>807,668,592</u>
Unamortized premium (discount) at December 31, 2017	<u>56,965,645</u>	-	<u>56,965,645</u>
	\$ <u>633,485,645</u>	\$ <u>231,148,592</u>	\$ <u>864,634,237</u>

The deferred outflow on refunding of bonds payable at December 31, 2017 includes, \$1,309,266 in 2009 Series 2 Bonds, \$1,675,902 in 2010 Series 4 Bonds, \$820,994 in 2011 Series 4 Bonds, \$1,079,925 in 2011 Series 6 Bonds, \$2,019,642 in 2012 Series 3 Bonds, \$727,519 in 2012 Series 5 Bonds, \$802,506 in 2014 Series 2 Bonds, \$1,416,611 in 2014 Series 4 Bonds, \$2,968,429 in 2015 Series 1 Bonds, \$2,250,891 in 2015 Series 3 Bonds, \$3,569,005 in 2015 Series 5 Bonds, \$6,697,999 in 2016 Series 2 Bonds and \$2,376,107 in 2017 Series 4 Bonds.

On August 2, 2017, the Bond Bank issued \$27,380,000 of 2017 Series 4 Refunding Bonds with interest rates from 3.0% to 5.0% to refund \$26,480,000 of 2013 Series 1 Bonds with interest rates of 4.40% to 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, \$26,480,000 of 2013 Series 1 Bonds to be called on December 1, 2023, 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. \$18,545,000 of the 2013 Series 1 Bonds were not refunded and still outstanding on December 31, 2017.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

7. Bonds payable (continued):

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,376,107. 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 26 years.

The Bond Bank completed the advance refunding to reduce its total debt service payment over 26 years by \$1,537,595 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$1,252,249, with a net present value savings of \$1,254,318. Through bond debt savings, municipalities will receive interest savings of \$1,254,318.

In 2016, the Bond Bank defeased and partially defeased \$2,180,000 of 2007 Series 2 Bonds, \$13,735,000 of 2010 Series 1 Bonds, \$10,955,000 of 2011 Series 2 Bonds and \$28,815,000 of 2011 Series 5 Bonds placing the proceeds in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$2,180,000 2007 Series 2 Bonds have been 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 considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. \$2,715,000 of 2010 Series 1 Bonds, \$5,805,000 of 2011 Series 2 Bonds and \$6,555,000 of 2011 Series 5 Bonds were not refunded and remain outstanding on December 31, 2017.

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 bonds were issued under the 2017 General Vermont State Colleges System (VSCS) Bond Resolution allowing for multiple series of parity bonds that will constitute special not general obligations of the Bond Bank. The bonds are direct obligations of the Bank payable solely from the funds and accounts established by the General Resolution for the VSCS Program. None of the funds and accounts established under the Bond Fund, or any other funds of the Bank not held under the General Resolution for the VSCS Program, are pledged to the security of the Bonds. Accordingly, the bonds are not reported as liabilities, and any related assets held by trustees are not reported as assets, in the accompanying financial statements. At December 31, 2017, the outstanding bonds payable were \$67,660,000 under this resolution.

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>2017</u>	<u>2016</u>
Reserve Fund -		
Amortized value	\$ 51,796,567	\$ 49,038,999
Reserve requirement	<u>43,215,144</u>	<u>43,824,788</u>
Excess above requirement	\$ <u>8,581,423</u>	\$ <u>5,214,211</u>

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

8. Reserve requirement (continued):

The value includes amortization of premium or discount and accrued interest on securities held in the reserve funds. Restricted cash of \$3,752,632 and \$3,474,634 is included in the amortized value at December 31, 2017 and December 31, 2016, 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 2017.

10. Transfer to Bond Fund:

The \$157,995 transfer during 2017 to the Bond Fund includes 2017 bond issue payments of \$2,550 and equity contributions of \$316,780 totaling \$319,330 and reimbursements of equity contributions from the Bond Fund of \$161,335.

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 2017 and 2016, the Bond Bank funded the SEP plan in the amount of \$27,903 and \$29,482, 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 \$73,669 as of December 31, 2017. 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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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>
2018	\$ 400,918
2019	32,098
2020	10,633
2021	10,633
2022	10,633
2023 to 2027	53,165
2028 to 2032	53,165
2033 to 2037	53,165
2038	<u>10,633</u>
	\$ <u>635,043</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 second additional three-year term option was accepted by the Bond Bank in June 2017 for the three years effective October 1, 2017. Total occupancy expense was \$16,574 and \$18,303 for the fiscal years ended December 31, 2017 and December 31, 2016, respectively.

15. Subsequent events:

In February 2018, the VMBB issued \$7,990,000 2018 Series 1 Bonds. The 2018 Series 1 Bonds are Local Investment Bonds for the purpose of issuing loans to governmental units. The Bond Bank anticipates the issuance of bonds for various Vermont municipalities' capital projects in the summer of 2018 in an amount as yet to be determined.

Mudgett
Jennett &
Krogh-Wisner, P.C.

Certified Public Accountants #435

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

The 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, 2017, 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 1, 2018.

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 1, 2018

Mudgett, Jarrett &
Hughes, P.C.