NEW ISSUE

In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, under existing law, assuming continued compliance with certain provisions of the Internal Revenue Code of 1986, as amended, interest on the Bonds (as hereinafter defined) will not be included in the gross income of holders of such bonds for federal income tax purposes. Interest on the Bonds will not constitute a preference item for the purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, but will be included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the further opinion of Bond Counsel, the Bonds are exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. See "TAX EXEMPTION" herein.

$67,660,000
VERMONT MUNICIPAL BOND BANK
Vermont State Colleges System Bonds
2017 Series A

Dated: Date of Delivery **Due: October 1**
as shown on the inside cover

The Vermont State Colleges System Bonds, 2017 Series A (the "Bonds") of the Vermont Municipal Bond Bank (the "Bank") are issuable only as fully registered bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as the registered Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of $5,000 or any integral multiple thereof. Purchasers of beneficial interests will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered Bondholder, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See "THE BONDS – Book-Entry-Only System" herein.

Principal of and semiannual interest will be paid, as set forth herein, directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent, so long as DTC or its nominee, Cede & Co., is the registered Bondholder. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participant as more fully described herein. The Bonds are subject to redemption, as more fully set forth herein.

The Bonds are direct and special obligations of the Bank payable solely from the funds and accounts established by the General Resolution for VSCS Program (as defined herein) and rights to receive revenues thereunder, subject to the provisions of other resolutions issued on behalf of the VSCS (as defined herein) hereafter pledging particular assets, monies or revenues to particular notes and bonds of the Bank as more fully described in this Official Statement. None of the funds and accounts established under the Pool Resolution (as defined herein), or any other funds of the Bank not held under the General Resolution for VSCS Program, are pledged to the security of the Bonds The Bank does not possess any ad valorem taxing powers. The State of Vermont is not obligated to pay the principal of and interest on the Bonds, and neither the faith and credit nor the taxing power of the State of Vermont is pledged to the payment of such principal and interest. See "SECURITY FOR THE BONDS" herein.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the VSCS by its counsel, Primmer Piper Eggleston & Cramer PC, Certain legal matters will be passed on for the Underwriters by their counsel, Locke Lord LLP, Boston, Massachusetts. Omnicap Group LLC, Hermosa Beach, California and Lamont Financial Services Corporation, Fairfield, New Jersey, serve as financial advisors to the Bank. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on or about May 24, 2017.

Morgan Stanley **Citigroup**

May 17, 2017

$67,660,000
Vermont Municipal Bond Bank
Vermont State Colleges System Bonds
2017 Series A

Maturity (October 1)	Principal	Interest Rate	Yield	CUSIP† Number	Maturity (October 1)	Principal	Interest Rate	Yield	CUSIP† Number
2021	$2,615,000	5.00%	1.32%	924214ZZ5	2030	$4,100,000	5.00%	2.61%*	924214B24
2022	2,750,000	5.00	1.50	924214A25	2031	4,315,000	5.00	2.68*	924214B32
2023	2,890,000	5.00	1.67	924214A33	2032	4,535,000	5.00	2.75*	924214B40
2024	3,040,000	5.00	1.87	924214A41	2033	4,740,000	4.00	3.15*	924214B57
2025	3,195,000	5.00	2.05	924214A58	2034	4,935,000	4.00	3.23*	924214B65
2026	3,360,000	5.00	2.21	924214A66	2035	5,135,000	4.00	3.29*	924214B73
2027	3,530,000	5.00	2.32	924214A74	2036	5,345,000	4.00	3.33*	924214B81
2028	3,710,000	5.00	2.42*	924214A82	2037	5,565,000	4.00	3.37*	924214B99
2029	3,900,000	5.00	2.54*	924214A90					

* Yield to first optional call date of October 1, 2027.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright © 2017 CUSIP Global Services. The CUSIP numbers listed above are being provided solely for the convenience of the Bondowners and the Bank makes no representations with respect to such numbers or undertakes any responsibility for their accuracy. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors, including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products.

The information set forth herein has been obtained from the Bank, VSCS, The Depository Trust Company and other sources which are believed to be reliable, but information from other than the Bank or VSCS is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Bank or VSCS, respectively. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank or VSCS since the date hereof, except as expressly set forth herein. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Bank or VSCS.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. All quotations from and summaries and explanations of provisions of laws, resolutions, the Bonds and other documents herein do not purport to be complete; reference is made to said laws, resolutions, the Bonds and other documents for full and complete statements of their provisions. Copies of the above are available for inspection at the principal office of the Bank. In connection with this offering, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and certain dealer banks and banks acting as agents at prices lower or yields higher than the public offering prices or yields stated on the inside cover page hereof and said offering prices or yields may be changed from time to time by the Underwriters.

TABLE OF CONTENTS

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$67,660,000

VERMONT MUNICIPAL BOND BANK

Vermont State Colleges System Bonds
2017 Series A

INTRODUCTORY STATEMENT

This Official Statement is provided for the purpose of setting forth information concerning the Vermont Municipal Bond Bank (the "Bank") and the Vermont State Colleges , also known as the Vermont State Colleges System ("VSCS"), in connection with the sale of $67,660,000 Vermont Municipal Bond Bank Vermont State Colleges System Bonds, 2017 Series A (the "Bonds"). The Bonds are issued pursuant to the Vermont Municipal Bond Bank Law, being Public Act No. 216 of the Laws of Vermont of the 1969 Adjourned Session of the Vermont General Assembly, as amended (the "Act").

The Bonds are to be issued under and are to be secured by the Bank's General Bond Resolution for Vermont State Colleges System adopted on March 30, 2017 (the "General Resolution for VSCS Program") and the Bank's Series Resolution adopted on March 30, 2017 authorizing the issuance of the Bonds (collectively, with the General Resolution for VSCS Program, the "Resolution"). The Bonds and any additional bonds issued under the General Resolution for VSCS Program (referred to collectively herein as the "VSCS Program Bonds") constitute, or in the case of additional bonds will constitute, special obligations of the Bank, to which the interests of the Bank in the funds and accounts established by the General Resolution for VSCS Program and rights to receive revenues under the General Resolution for VSCS Program are pledged for the payment of principal, redemption premium, if any, and interest thereon subject to the provisions of other resolutions issued on behalf of the VSCS hereafter pledging particular assets, monies or revenues to particular notes and bonds.

VSCS has requested the Bank to issue the Bonds and loan the proceeds thereof to VSCS under a loan agreement dated as of May 1, 2017 (the "Loan Agreement") with the Bank. To evidence repayment of the loan, VSCS is issuing a general unsecured obligation (the "VSCS Bond") to the Bank. The Loan Agreement requires that the payment of principal and interest on the VSCS Bond be sufficient, together with other amounts available under the Resolution, if any, to pay principal, redemption premium, if any, and interest on the Bonds. The VSCS and the Bank will enter into separate loan agreements with respect to any future loans from the Bank to the VSCS from the proceeds of any additional VSCS Program Bonds issued under the General Resolution for VSCS Program.

The Bank. The Bank is 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 "State").

Pursuant to the Act, the Bank is authorized to issue the Bonds for the purpose of, among other purposes, (1) providing funds to enable the Bank to make loans to counties, municipalities or other public bodies of the State, including VSCS, (2) refunding bonds previously issued by the Bank, and (3) establishing or increasing reserves with which to secure or to pay debt service and all other costs and expenses of the Bank incident to and necessary or convenient to carry out its corporate purposes. As described under "SECURITY FOR THE BONDS – No Reserve Fund for VSCS Program Bonds," no reserve fund is established under the General Resolution for VSCS Program or will be funded in connection with the Bonds. Additional VSCS Program Bonds may be issued by the Bank in the future to make loans to VSCS for any purposes then permitted by law. Repayment of any such future loans to VSCS would be evidenced by the direct purchase by the Bank from VSCS of VSCS' bonds, notes or evidences of debt constituting general obligations of the VSCS (referred to herein collectively with the VSCS Bond, the "VSCS Bonds").

VSCS. VSCS is a public corporation and instrumentality of the State organized and existing under the laws of the State to plan, supervise, administer, and operate facilities for higher education. VSCS has issued, and may continue to issue, general unsecured bonds and other indebtedness on a parity with the VSCS Bond under Sections 2171 to 2186, inclusive, of Title 16 of Vermont Statutes Annotated (the "VSCS Act"). A portion of such outstanding VSCS indebtedness is expected to be repaid from the proceeds of the Bonds. See Appendix A – "CERTAIN INFORMATION REGARDING THE VERMONT STATE COLLEGES SYSTEM." The VSCS Bond will be issued under the VSCS Act as a general, unsecured obligation pursuant to a resolution adopted by VSCS on May 9, 2017.

The Bonds. The Bonds are being issued to provide monies which will be used to purchase the VSCS Bond in the aggregate principal amount of $67,660,000. The proceeds of the Bonds will be used to retire certain outstanding tax-exempt indebtedness of VSCS, to pay termination payments with respect to interest rate swaps related to a portion of such indebtedness and to pay certain costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

Security for the Bonds. The Bonds will constitute, in the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, special obligations of the Bank, and to which the interests of the Bank in the funds and accounts established under the General Resolution for VSCS Program and rights to receive revenues thereunder are pledged for the payment of principal, redemption premium, if any, and interest thereon. The Bonds, and other bonds issued on a parity therewith under the General Resolution for VSCS Program, are further secured by the pledge of the VSCS Bonds purchased by the Bank under the General Resolution for VSCS Program and the amounts paid by VSCS or required to be paid by the VSCS to the Bank pursuant to the Loan Agreement and any future loan agreements pursuant to which such other bonds are issued, for principal and interest on such VSCS Bonds (the "VSCS Bond Payments") and the investments thereof and the proceeds of such investments, if any, and all funds and accounts established by the General Resolution for VSCS Program, except the Rebate Fund. Pursuant to the Loan Agreement, the VSCS Bond Payments are due on the 1st day of the month prior to the principal and interest payment dates on the Bonds. Under the Act, the Bank may enforce its right to receive VSCS Bond Payments by intercepting, via the State Treasurer, certain available State funding to VSCS. All VSCS Program Bonds, notwithstanding their date of issuance, are secured equally and ratably by all of the above. Additional series of VSCS Program Bonds may be authorized and issued by the Bank pursuant to the General Resolution for VSCS Program on a parity with the Bonds.

The Bank is obligated to pay the principal of and interest on the Bonds solely from pledged revenues or funds of the Bank held under the General Resolution for VSCS Program. No other funds of the Bank are available to pay VSCS Program Bonds, and the State is not obligated to pay the principal of or interest thereon and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or interest on VSCS Program Bonds.

Official Statement. There follows in this Official Statement a brief description of the Bank and a description of VSCS, together with summaries of the terms of the Bonds, the Resolution, the Loan Agreement and certain provisions of the Act. All references herein to the Act and the Resolution are qualified in their entirety by reference to such law and such documents, copies of which are available from the Bank, and all references to the Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolution. Terms not otherwise defined herein shall have the meanings given such terms in Appendix B and the Resolution.

VERMONT MUNICIPAL BOND BANK

The Vermont Municipal Bond Bank 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.

Purposes of the Bank

It is the policy of the State, as declared in the Act, to foster and promote by all reasonable means the provision of adequate capital markets for the financing by counties, municipalities or other public bodies of the State, including the VSCS (the "Governmental Units"), of their respective public improvements and other municipal purposes from proceeds of their bonds (the "Municipal Bonds") and notes and to assist such Governmental Units in such financing by making funds available at reduced interest costs for orderly financing especially during periods of restricted credit or money supply, particularly for those Governmental Units not otherwise able to borrow for such purposes. In furtherance of this policy, the Bank is empowered to issue its bonds, including the Bonds, to make funds available at reduced rates and on more favorable terms for borrowing by such Governmental Units through the purchase by the Bank of their Municipal Bonds. Each Governmental Unit requesting the Bank to purchase its Municipal Bonds is required to complete an application form containing certain information concerning the Governmental Unit and the Municipal Bonds proposed to be purchased.

The Bonds are the first issue of VSCS Program Bonds under the General Resolution for VSCS Program. The Bank also issues bonds under its General Bond Resolution adopted on May 3, 1988 (the "Pool Resolution") for the benefit of a pool of Governmental Units. As of May 1, 2017, the Bank has $592,145,000 bonds outstanding under the Pool Resolution. None of the funds and accounts established under the Pool Resolution, or any other funds of the Bank not held under the General Resolution for VSCS Program, are pledged to the security of the Bonds or any other VSCS Program Bonds issued under the General Resolution for VSCS Program.

Powers of the Bank

In order to fulfill its purposes, the Bank has, among others, the following powers:

(1) To borrow money and to issue its negotiable bonds or notes and to provide for and secure the payment thereof and to provide for the rights of the holders thereof, and to purchase, hold and dispose of any of its bonds or notes;

(2) To fix and revise from time to time and charge and collect fees and charges for the use of its services or facilities;

(3) In connection with any loan to a Governmental Unit, to consider the need, desirability or eligibility of the loan, the ability of the Governmental Unit to secure borrowed money from other sources and the costs thereof, and the particular public improvement or purpose to be financed by the Municipal Bonds to be purchased by the Bank;

(4) To charge for its costs and services in review or consideration of any proposed loan to a Governmental Unit or purchase of Municipal Bonds of a Governmental Unit, and to charge therefor whether or not the loan is made or the Municipal Bonds are purchased;

(5) To establish any terms and provisions with respect to any purchase of Municipal Bonds by the Bank, including date and maturities of the Municipal Bonds, provisions as to redemption or payment prior to maturity, and any other matters which are necessary, desirable or advisable in the judgment of the Bank;

(6) To enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bank or pertaining to any loan to a Governmental Unit or any purchase or sale of Municipal Bonds or other investments or to the performance of its duties and execution or carrying out of any of its powers under the Act;

(7) To purchase or hold Municipal Bonds at such prices and in such manner as the Bank deems advisable, and to sell Municipal Bonds acquired or held by it at such prices without relation to cost and in such manner as the Bank deems advisable, all consistent with the policy of the State as declared in the legislative findings of the Act;

(8) To invest any funds or monies of the Bank not then required for loan to Governmental Units and for the purchase of Municipal Bonds in the same manner as permitted for investment of funds belonging to the State or held in the treasury, except as otherwise provided by the Act (however, the General Resolution for VSCS Program limits investments to certain securities as hereinafter set forth);

(9) To prescribe any form of application or procedure required of a Governmental Unit for the loan or purchase of its Municipal Bonds and to fix the terms and conditions of that loan or purchase and to enter into agreements with Governmental Units with respect to any loan or purchase; and

(10) To do all things necessary, convenient or desirable to carry out the powers expressly granted or necessarily implied in the Act.

Organization and Membership of the Bank

The membership of the Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the State Senate for terms of two years. The four directors appointed by the Governor must be residents of the State and must be qualified voters therein for at least one year next preceding the time of appointment. Each director holds office for the term of his appointment and until his successor shall have been appointed and qualified. A director is eligible for reappointment. Any vacancy in a directorship occurring other than by the expiration of the term is filled for the unexpired term only in the same manner as the original appointment, except that the advice and consent of the Senate is not required if it is not in session.

The directors elect one of their number as Chairman. The directors also elect a Secretary and a Treasurer who need not be directors, and the same person may be elected to serve both as Secretary and Treasurer. The powers of the Bank are vested in the directors thereof, and three directors of the Bank constitute a quorum. Action may be taken and motions and resolutions adopted by the Bank at any meeting thereof by the affirmative vote of at least three directors of the Bank, including the director ex-officio. A vacancy in the directorship of the Bank does not impair the right of a quorum to exercise all the powers and perform all the duties of the Bank.

The Bank's membership is as follows:

DAVID R. KIMEL, *Chair*; term expires January 31, 2018.

Mr. Kimel is a resident of the City of St. Albans, Vermont. He is a retired broadcast group owner and business consultant. He is a member of the Vermont Association of Broadcasters Hall of Fame. He is currently the Manager of the Collins Perley Center. Mr. Kimel also sits on the District Six Environmental Board. He holds a Bachelor of Science degree in Business Administration.

DEBORAH WINTERS, *Treasurer*; term expires January 31, 2018.

Ms. Winters is a resident of Swanton, Vermont and an owner of Firetech Sprinkler Corp. She is a member of the board of Directors of the Champlain Valley Exposition. She holds a Bachelor of Science degree in Civil Engineering and Operations Research from Princeton University and a Master of Business Administration from Boston University.

KATHRYN T. BOARDMAN; term expires January 31, 2017*.

Ms. Boardman is a resident of Shelburne, Vermont and is a Mortgage Originator for Citizens Bank. Ms. Boardman graduated from the University of Vermont, receiving a Bachelor of Science degree in 1973.

DAVID R. COATES; term expires January 31, 2017*.

Mr. Coates is a resident of Colchester, Vermont and a retired partner in the Burlington office of KPMG. He is a past president of the Vermont Society of CPA's and currently serves on the Governor's Council of Economic Advisors. He is a member of the Board of Directors of Green Mountain Power and is also on the Board of Directors of National Life of Vermont.

ELIZABETH PEARCE, *Ex-Officio*.

Treasurer Pearce is a resident of Barre, Vermont and has more than 30 years of experience in government finance at both the state and local levels. She served as Vermont's Deputy Treasurer for more than seven years before assuming her current role as Treasurer. Prior to joining the Vermont State Treasurer's Office, she served as Deputy Treasurer for Cash Management at the Massachusetts State Treasurer's Office from 1999-2003; Deputy Comptroller for the Town of Greenburgh, New York; and Accounting Manager and Financial Operations Manager for the Town of West Hartford, Connecticut. In addition, she has served as a fiscal officer with the Massachusetts Department of Social Services and as a project director for the Massachusetts Executive Office of Human Services. Ms. Pearce has a Bachelor of Arts degree from the University of New Hampshire.

The Executive Director and Secretary to the Bank is as follows:

ROBERT W. GIROUX, *Executive Director, Secretary.*

Mr. Giroux, a resident of Georgia, Vermont, is also the Executive Director of the Vermont Educational and Health Buildings Financing Agency. Prior positions include Business Manager for the Lamoille North Supervisory Union School District in Hyde Park, Vermont and Program Administrator for Vermont Legal Aid, Inc. in Burlington, Vermont. He has served as a board member for numerous non-profit organizations. Mr. Giroux has a Bachelor of Arts degree in Business Administration and a Master of Science degree in Administration, both from Saint Michael's College.

* As noted above, directors serve until their successors are appointed and qualified.

VERMONT STATE COLLEGES SYSTEM

The Vermont State Colleges, also known as the Vermont State Colleges System, is a public corporation and instrumentality of the State organized and existing under the laws of the State to plan, supervise, administer, and operate facilities for higher education. VSCS has previously issued bonds under Sections 2171 to 2186, inclusive, of Title 16 of Vermont Statutes Annotated (the "VSCS Act"), a portion of which is expected to be repaid on the date of issuance of the Bonds from the proceeds thereof.

The VSCS Bond will be issued under the VSCS Act as a general, unsecured obligation pursuant to a resolution adopted by VSCS on May 9, 2017. The VSCS may issue additional bonds in the future.

For further information about VSCS, see Appendix A – "CERTAIN INFORMATION REGARDING THE VERMONT STATE COLLEGES SYSTEM."

THE BONDS

Description

The Bonds shall be dated their date of delivery, shall mature on October 1 in the years and principal amounts, and shall bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

The Bonds shall bear interest from their date, payable on October 1, 2017 and semi-annually thereafter on April 1 and October 1 of each year. The Bonds initially will be issued as one fully registered bond for each maturity in the aggregate principal amount for such maturity as set forth on the inside cover page of this Official Statement in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Beneficial ownership in the Bonds may be acquired or transferred only through book-entries made on the records of DTC and its participants in the principal amount of $5,000 or integral multiples thereof. The principal of and interest on the Bonds will be paid by U.S. Bank National Association, as Trustee and paying agent (the "Paying Agent"). As long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to Cede & Co. Interest on any Bond which is payable and is punctually paid or provided for on any interest payment date will be paid to the registered owner at the close of business on the March 15 and September 15 next preceding such interest payment date (the "Record Date").

Book-Entry-Only System

Unless otherwise noted, portions of the description which follows of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of interest and other payments on the Bonds to DTC Participants or Beneficial Owners of the Bonds, confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Bonds is based solely on information furnished by DTC to the Bank for inclusion in this Official Statement. Accordingly, the Bank, the Governmental Units and the Underwriters do not and cannot make any representations concerning these matters.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all of the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bank as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

The principal of and interest and premium, if any, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bank or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bank or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bank or Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Bank may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In such event, Bond certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE BANK BELIEVES TO BE RELIABLE, BUT THE BANK TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

Redemption Provisions

The Bonds maturing prior to October 1, 2028 are not subject to redemption. The Bonds maturing on and after October 1, 2028 are subject to redemption at the option of the Bank, at any time on and after October 1, 2027, either as a whole, or in part (and by lot if less than all of a maturity is to be redeemed), from the maturities designated by the Bank at a Redemption Price of par plus accrued interest to the date of redemption.

Notice of such redemption shall be mailed not less than thirty (30) days before the redemption date to the registered owners of any Bonds or portions of Bonds to be redeemed. Notice of redemption having been given, as aforesaid, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date and from and after such redemption date, interest on such Bonds shall cease to accrue and become payable.

Exchange and Transfer

The Resolution provides that Bonds, upon surrender thereof at the corporate trust office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or his attorney duly authorized in writing, may, at the option of the registered owner thereof, be exchanged for an equal aggregate principal amount of Bonds of the same maturity of any other authorized denominations.

The Bonds shall be transferable only upon the books of the Bank, which shall be kept for the purpose at the corporate trust office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Upon the transfer of any Bond the Bank shall issue in the name of the transferee a new registered Bond or Bonds of the same aggregate principal amount and maturity as the surrendered Bond.

In all cases in which the privilege of exchanging bonds or transferring registered bonds is exercised, the Bank shall execute and the Trustee shall deliver bonds in accordance with the provisions of the General Resolution for VSCS Program. The Bonds are interchangeable for bonds of like series at the office of the Trustee upon the payment of a charge sufficient to reimburse it for any tax, fee or any other governmental charge required to be paid. The cost of preparing each new Bond upon each exchange or transfer, and any other expenses of the Bank or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge) shall be paid by the Bank as an Administrative Expense. See, however, "Book-Entry-Only System" herein for a description of the exchange and transfer provisions applicable to beneficial ownership interests in the Bonds.

SOURCES AND USES OF FUNDS

The proceeds of sale of the Bonds are expected to be used and applied as set forth below, rounded to the nearest dollar.

Sources of Funds:	
Principal amount of Bonds	$67,660,000
Aggregate Original Issue Premium for the Bonds	10,557,129
TOTAL SOURCES	$78,217,129
Uses of Funds:	
Repayment of Outstanding VSCS Indebtedness	$66,462,096
VSCS Swap Termination Fees	10,931,885
Costs of Issuance (including Underwriters' Discount)	823,148
TOTAL USES	$78,217,129

PLAN OF FINANCING

Proceeds of the Bonds are expected to be used to make a loan to the Vermont State Colleges System (the "VSCS Loan"), through the purchase by the Bank of the VSCS Bond. Such proceeds will be used by VSCS to retire certain outstanding tax-exempt indebtedness of VSCS, to pay termination payments with respect to interest rate swaps related to a portion of such indebtedness and to pay certain costs of issuance of the Bonds. See Appendix A – "CERTAIN INFORMATION REGARDING THE VERMONT STATE COLLEGES SYSTEM " under the heading "Indebtedness of the Corporation" for more information about the outstanding indebtedness and swaps of VSCS.

SECURITY FOR THE BONDS

The following is a brief summary of security for the VSCS Program Bonds, including the Bonds. For a more detailed description, see Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION FOR VSCS PROGRAM" hereto, the Resolution and the Act.

The Bank's obligation to pay the principal of and interest on VSCS Program Bonds is subject to the provisions of other resolutions now or hereafter pledging particular monies, assets or revenues to particular notes or bonds. The State is not obligated to pay the principal of or interest on VSCS Program Bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment thereof. VSCS Program Bonds are special obligations of the Bank, and to which the interests of the Bank in the funds and accounts established by the General Resolution for VSCS Program and rights to receive revenues under the General Resolution for VSCS Program are pledged for the payment of the principal or Redemption Price of and interest on VSCS Program Bonds.

No other funds of the Bank are available to pay VSCS Program Bonds, and the State is not obligated to pay the principal of or interest thereon and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal of or interest on VSCS Program Bonds.

To secure the payment of the principal or Redemption Price of and interest on VSCS Program Bonds, the Bank pledges and assigns for the benefit of the Holders of VSCS Program Bonds, all VSCS Bonds and VSCS Bond Payments. The General Resolution for VSCS Program creates a continuing pledge and first lien on the foregoing to secure the full and final payment of the principal or Redemption Price of and interest on all of the bonds issued pursuant to the General Resolution for VSCS Program. The VSCS Bonds and the VSCS Bond Payments, the investments thereof and the proceeds of such investments, if any, and all funds and accounts established by the Resolution (except for any Rebate Fund established in connection with a series of bonds) are pledged for the payment of the principal or Redemption Price of and interest on VSCS Program Bonds in accordance with the terms and provisions of the Resolution. The foregoing pledge is subject to the provisions of any other resolutions or indentures pledging and appropriating particular monies, assets or revenues to particular notes or bonds.

There shall at all times be scheduled payments of principal and interest on VSCS Bonds pledged under the General Resolution for VSCS Program which, when added to interest and other income, if any, estimated by the Bank to be derived from the investment or deposit of money available therefor in any Fund or Account created by the General Resolution for VSCS Program, will be sufficient to pay Debt Service on all Outstanding VSCS Program Bonds when due.

Loan Agreement and VSCS Bond Payments

The Loan Agreement under which the VSCS Loan is made to the VSCS must comply with certain terms and conditions, including the following:

(a) VSCS shall, prior to or as soon as practicable upon the issuance of VSCS Program Bonds, issue one or more VSCS Bonds which are valid general obligations of VSCS;

(b) VSCS shall be obligated to pay Fees and Charges to the Bank at the times and in the amounts which will enable the Bank to pay the amounts specified in "Fees and Charges" below; and

(c) the Bank shall not sell and VSCS shall not redeem prior to maturity any VSCS Bonds prior to the date on which a sufficient amount of Outstanding VSCS Program Bonds issued with respect to the VSCS Loan are redeemable, and in the event of any sale or redemption prior to maturity of such VSCS Bonds thereafter, the same shall be in an amount equal to the aggregate of (i) the principal amount, interest to accrue to the next redemption date, and redemption premium, if any, needed to redeem a sufficient amount of Outstanding Bonds to assure that there shall at all times be scheduled payments of principal and interest on VSCS Bonds pledged under the General Resolution for VSCS Program, which, when added to interest and other income estimated by the Bank to be derived from the investment or deposit of money available therefor in any Fund or Account created by the General Resolution for VSCS Program, will be sufficient to pay Debt Service on all Outstanding Bonds when due, and (ii) the costs and expenses of the Bank in effecting the redemption of VSCS Program Bonds so to be redeemed, less the amount of monies available in the applicable sub-account or sub-accounts in the Redemption Account and for application to the redemption of VSCS Program Bonds so to be redeemed in accordance with the terms and provisions of the General Resolution for VSCS Program, as determined by the Bank.

Fees and Charges

The Bank shall establish, make, maintain and charge such Fees and Charges to the VSCS to which a VSCS Loan is made, and shall from time to time revise such Fees and Charges whenever necessary, so that such Fees and Charges actually collected from the VSCS will at all times produce monies which, together with other monies available therefor, including any grants made by the United States of America or any agency or instrumentality thereof or by the State or any agency or instrumentality thereof, will be at least sufficient to pay, as the same becomes due, the Administrative Expenses of the Bank and the fees and expenses of the Trustee and Paying Agents.

Intercept of State Funding and Other Enforcement of VSCS Bonds

The Bank shall diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of, all terms, covenants and conditions of the Loan Agreement and the VSCS Bonds evidencing VSCS Loans made by the Bank, including the prompt collection, and the giving of notice to the State Treasurer of any failure or default of the VSCS in the payment, of its VSCS Bonds or of its Fees and Charges.

On April 19, 2016, the Act was amended with respect to the provisions relating the State Treasurer's ability to intercept State funding to Governmental Units, including the VSCS, that are in default on their payment obligations on Municipal Bonds, including VSCS Bonds, acquired or held by the Bank. Effective July 1, 2016, the Act, as so amended, provides that upon receipt by the State Treasurer of written notice from the Bank (or the Trustee) that a Governmental Unit is in default on the payment of principal or interest on a Municipal Bond acquired or held by the Bank, the State Treasurer will immediately withhold all further payment to the Governmental Unit of any or all funds appropriated and payable by the State to the Governmental Unit, until the default is cured. During the default period, the State Treasurer will make direct payment of all, or as much as is necessary, of the withheld amounts to the Bank, or at the Bank's direction, to the Trustee or paying agent for the bonds, so as to cure, or cure insofar as possible, the default as to the bond or the interest on the bond.

On January 26, 2017, the State Treasurer, the Bank and the Commissioner of the Vermont Department of Finance and Management (the "Commissioner") entered into a State Intercept Memorandum of Agreement (the "Intercept MOA") to establish procedures with respect to the intercept of State funds described above. Under the Intercept MOA, as applicable for VSCS Program Bonds, upon any failure of VSCS to pay in full on the due date of the VSCS Bond Payments (March 1 and September 1 for the VSCS Bond), within ten business days the Bank shall notify the State Treasurer of the amount not paid by VSCS. No later than six business days following the receipt of such notice, the State Treasurer will determine an estimate of the amount of State funds due to VSCS for the remainder of the fiscal year and work with the Commissioner to intercept such funds and remit them to the Trustee. The MOA further provides that to the extent there remains any unpaid VSCS Bond Payments as of the end of a fiscal year of the State, State funds available in the next fiscal year would be intercepted.

Any intercepted payment made by the State Treasurer to the Bank (or the Trustee or paying agent for the Bonds), as described above, will be credited as if made directly by the Governmental Unit.

The Act, as so amended, further provides that no provision thereof shall be construed: (1) to limit, impair, or impede the rights or remedies granted to the holders of bonds issued by the Bank and the Governmental Units; (2) to require the State to continue the payment of State aid or assistance to any Governmental Unit; (3) to limit or prohibit the State from repealing or amending any law relating to State aid or assistance, including the manner and time of payment or apportionment, or the amount of aid or assistance; (4) to create any obligation on the part of the State Treasurer or the State to make any payment on behalf of a defaulting Governmental Unit other than from funds appropriated and payable to a defaulting Governmental Unit by the State.

For information about State funding to VSCS during each of the prior five fiscal years and a comparison of such amounts to the maximum annual debt service on the Bonds, see Appendix A – "CERTAIN INFORMATION REGARDING THE VERMONT STATE COLLEGES SYSTEM – State Appropriations." Over the last five fiscal years, base State appropriations to VSCS were between 4.30 and 4.54 times the maximum annual debt service on the Bonds.

There can be no assurance that State appropriations to the VSCS in the amounts set forth in Appendix A hereto or in any other amount will continue in future years or that such appropriations will be available at the time needed, if necessary, to satisfy the VSCS Bond Payments. The State has no obligation to appropriate any funds to the VSCS in any year.

In addition, the Act provides that upon the sale and issuance of any Municipal Bonds to the Bank by any Governmental Unit, that Governmental Unit is deemed to agree that on the failure of that Governmental Unit to pay interest or principal on any of the Municipal Bonds owned or held by the Bank when payable, all defenses to nonpayment are waived. Notwithstanding any other law, including any law under which the Municipal Bonds were issued by that Governmental Unit, the Bank upon nonpayment is constituted a holder or owner of the Municipal Bonds as being in default.

Pledge of VSCS Bonds and VSCS Bond Payments

To secure the payment of the principal or Redemption Price of and interest on VSCS Program Bonds, the Bank pledges and assigns to the Trustee for the benefit of the Holders of VSCS Program Bonds all VSCS Bonds and VSCS Bond Payments. The pledge of such VSCS Bonds and VSCS Bond Payments for the benefit of the Holders of VSCS Program Bonds shall be valid and binding from and after the date of adoption of the General Resolution for VSCS Program, and such VSCS Bonds and VSCS Bond Payments shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bank, irrespective of whether such parties have notice thereof. The foregoing pledge is subject to the provisions of any other resolutions or indentures hereafter issued on behalf of VSCS pledging and appropriating particular monies, assets or revenues to particular notes or bonds.

VSCS is authorized to incur debt and issue bonds for a variety of capital costs and to secure its obligation as a general obligation of the VSCS payable from funds available to the VSCS. See Appendix A – "CERTAIN INFORMATION REGARDING THE VERMONT STATE COLLEGES SYSTEM " under the heading "Indebtedness of the Corporation." The intercept of State funds appropriated for VSCS, as described above under "Intercept of State Funding and Other Enforcement of VSCS Bonds" is not available to general obligation debt of VSCS, but is provided under the Act as a remedy for the Bank, as the holder of Municipal Bonds, including VSCS Bonds.

No Reserve Fund for VSCS Program Bonds

The Act provides that the Bank may establish and maintain a reserve fund to secure its bonds and, if funded, the State, by its General Assembly, is legally authorized, but not legally obligated, to appropriate annually such sum as is necessary to restore the reserve fund to its required funding amount. No reserve fund is established under the General Resolution for VSCS Program or will be funded in connection with the Bonds. Accordingly, the State will not be called upon to appropriate funds for the Bonds. The reserve fund established by the Pool Resolution is not pledged to and is not available to pay the Bonds or any other VSCS Program Bonds issued under the General Resolution for VSCS Program.

AGREEMENT OF THE STATE AND THE BANK

Section 4621 of the Act provides that the State does pledge to and agree with the holders of the bonds or notes of the Bank that it will not limit or restrict the rights vested in the Bank to fulfill the terms of any agreement made with bondholders or noteholders, or in any way impair the rights or remedies of such holders until the bonds and notes, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceedings by or on behalf of such holders, are fully met and discharged, and, under the General Resolution for VSCS Program, the Bank covenants that it will not cause the State to take any such action.

BONDS AS LEGAL INVESTMENTS

Under the provisions of Section 4623 of the Act, the Bonds, in the State, are securities in which all public officers and bodies of the State and all its municipalities and municipal subdivisions, all insurance companies and associations, and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are or may be authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them.

SECURITY FOR PUBLIC DEPOSITS

Bonds or notes of the Bank are authorized security for any and all public deposits in the State.

TAX EXEMPTION

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel to the Bank ("Bond Counsel"), is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which requirements must be satisfied subsequent to the date of issuance of the Bonds in order to ensure that interest on the Bonds is and continues to be excludable from the gross income of the holders thereof. Failure to so comply could cause the interest on the Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of the Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds and payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Bank has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, because the Bonds are not "private activity bonds" under the Code, interest on the Bonds will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to any other matters of federal tax law relating to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law to certain holders of the Bonds: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of the holder's interest expense allocated to interest on such bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds and (vi) receipt of investment income, including interest on the Bonds, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit otherwise provided by Section 32(a) of the Code.

Interest paid on tax-exempt obligations such as the Bonds is generally required to be reported by payors to the Internal Revenue Service ("IRS") and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to "backup withholding" if the bond holder fails to provide the information required on IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has specifically identified the bond holder as being subject to backup withholding because of prior underreporting. Neither the information reporting requirement nor the backup withholding requirement affects the excludability of interest on the Bonds from gross income for federal tax purposes.

In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel has not opined as to the taxability of the Bonds and the interest thereon under the laws of any state other than Vermont.

For federal and Vermont income tax purposes, interest on the Bonds includes any original issue discount, which with respect to a Bond, is equal to the excess, if any, of the stated redemption price at maturity of such bond over the initial offering price at which a substantial amount of all Bonds of the same series and maturity was sold. Original issue discount accrues based on a constant yield method over the term of a Bond. Holders of Bonds should consult their own tax advisors with respect to the computations of original issue discount during the period in which any such Bond is held.

An amount equal to the excess, if any, of the purchase price of a Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Vermont income tax purposes. The required amortization of such premium during the term of a Bond will result in reduction of the holder's tax basis on such Bond. Such amortization also will result in reduction of the amount of the stated interest on the Bonds taken into account as interest for tax purposes. Holders of Bonds purchased at a premium should consult their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to the state or local tax consequences of owning such Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds, including legislation, court decisions, or administrative actions, whether at the federal or state level, may affect the tax exempt status of interest on the Bonds or the tax consequences of ownership of the Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for federal income tax purposes or any state tax benefit. Tax reform proposals and deficit reduction measures, including the limitation of federal tax expenditures, are expected to be under ongoing consideration by the United States Congress. These efforts to date have included provisions to reduce the benefit of the interest exclusion from income for certain holders of tax-exempt bonds, including bonds issued prior to the proposed effective date of the applicable legislation. Future proposed changes could affect the market value or marketability of the Bonds and, if enacted, could also affect the tax treatment of all or a portion of the interest on the Bonds for some or all holders. Holders should consult their own tax advisors with respect to any of the foregoing tax consequences.

On the date of delivery of the Bonds, the original purchasers thereof will be furnished with an opinion of Bond Counsel substantially in the form attached hereto. See Appendix C – "PROPOSED FORM OF OPINION OF BOND COUNSEL."

LITIGATION AND OTHER PROCEEDINGS

There is no controversy or litigation of any nature now pending, or to the knowledge of the Bank, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds or prohibiting the Bank from making the VSCS Loan with the proceeds of the Bonds or any proceeding of the Bank taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Bonds or the existence or powers of the Bank.

There is no controversy or litigation of any nature, now pending or threatened, restraining or enjoining the issuance, sale, execution or delivery of the VSCS Bond to the Bank, or in any way contesting or affecting the sale or validity of the VSCS Bond or the Loan Agreement or any proceedings of VSCS taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or securities provided for the payment of the VSCS Bonds or the existence or powers of VSCS. See Appendix A – "CERTAIN INFORMATION REGARDING THE VERMONT STATE COLLEGES SYSTEM."

APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel. The VSCS Loan made by the Bank with the proceeds of the Bonds will be made by the Bank subject to the approval of the VSCS Bond securing the VSCS Loan and to the validity and enforceability of the Loan Agreement entered into by the VSCS by bond counsel to VSCS, and such bond counsel will, at the time of the making of the VSCS Loan, provide the Bank with an opinion as to the validity and enforceability of the VSCS Bond securing the VSCS Loan and the Loan Agreement entered into by VSCS.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission, the Bank and VSCS will undertake to provide annual reports and notice of certain events with respect to the Bank and VSCS by filing with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access (EMMA) system. A description of this undertaking is set forth in Appendix E attached hereto.

In reviewing its compliance with existing continuing disclosure undertakings in connection with this issue, VSCS discovered that in the past five years it failed to include its current budget as required in its annual reports filed with EMMA and it did not timely file notice of rating downgrades that occurred in May 2014 and August 2015. VSCS has since made corrective filings to address these issues.

FINANCIAL ADVISORS

Omnicap Group LLC, Hermosa Beach, California and Lamont Financial Services Corporation, Fairfield, New Jersey, serve as financial advisors to the Bank. PFM Financial Advisors LLC, Boston, Massachusetts, serves as financial advisor to the VSCS. Each of the financial advisors is a municipal advisor registered with the Securities and Exchange Commission and the MSRB, is an independent advisory firm, and is not engaged in the business of underwriting, trading or distribution municipal securities or other public securities and therefore will not participate in the underwriting.

FINANCIAL STATEMENTS

The financial statements of the Bank for the fiscal year ended December 31, 2015 have been examined by Mudgett, Jennett & Krogh-Wisner, P.C., independent public accountants, as indicated in their report with respect thereto, and are included in Appendix D-1.

The financial statements of the VSCS for the fiscal year ended June 30, 2016 have been examined by O'Connor & Drew, P.C., independent public accountants, as indicated in their report with respect thereto, and are included in Appendix D-2.

UNDERWRITING

The Bonds are being purchased by the underwriters, for whom Morgan Stanley & Co. LLC is acting as representative, at an aggregate purchase price of $77,906,738.11 (consisting of the aggregate stated principal amount of the Bonds, $67,660,000.00, plus original issue premium, $10,557,128.90, less aggregate Underwriters' discount, $310,390.79). The Contract of Purchase for the Bonds provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Underwriters are subject to certain terms and conditions set forth in the Contract of Purchase. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into unit investment trusts) and others at prices lower than the public offering prices stated on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Bonds.

RATINGS

S&P Global Ratings ("S&P"), 55 Water Street, New York, New York, and Moody's Investors Service, Inc. ("Moody's"), 7 World Trade Center at 250 Greenwich Street, New York, New York have rated the Bonds "AA", and "Aa1", respectively. Such ratings reflect only the views of such rating agencies and any desired explanation of the significance of such ratings may be obtained from S&P and Moody's, respectively. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any period of time or that such ratings will not be revised or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any revision or withdrawal of the ratings may have an effect on the market price of the Bonds.

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MISCELLANEOUS

The quotations from, and summaries and explanations of the Act, the Resolution and the Loan Agreement contained herein do not purport to be complete and reference is made to said law, Resolution and Loan Agreement for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Act and the Resolution may be obtained upon request directed to the Bank or to the Underwriters.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Bank and the purchasers or Holders of any of the Bonds.

VERMONT MUNICIPAL BOND BANK

By: *<u>/s/ Robert W. Giroux</u>*
Executive Director

APPENDIX A
VERMONT STATE COLLEGES

Introduction

Vermont State Colleges, also known as Vermont State Colleges System ("*VSCS*" or the "*Corporation*") was created by an act of the Vermont General Assembly on July 28, 1961 (as codified at 16 V.S.A. 2171 *et seq.*, the "*Act*") as a public corporation and instrumentality of Vermont (the "*State*"), with a purpose to "plan, supervise, administer and operate facilities for education above the high school level, supported in whole or in substantial part with state funds." Upon its creation, VSCS acquired Castleton Teachers College (which subsequently became Castleton State College in 1961 and then Castleton University in 2015, referred to herein as "*CU*" or "*Castleton*"), Johnson Teachers College (which subsequently became Johnson State College in 1961, referred to herein as "*JSC*" or "*Johnson*"), Lyndon Teachers College (which subsequently became Lyndon State College in 1961, referred to herein as "*LSC*" or "*Lyndon*") and Vermont Technical College ("*VTC*"). In 1972, the Community College of Vermont ("*CCV*") was merged into the Corporation. The Corporation, therefore, consists of five separate colleges (the "*Colleges*").

Certain Provisions of the Act Establishing the Corporation

Section 2171 of the Act provides in part that:

"(c) The Corporation may acquire, hold and dispose of property in fee or in trust, or any other estate, except as provided in subsection (d) of this section, shall have a common seal, and shall be an instrumentality of the state for the purposes set forth in this section. The State of Vermont shall support and maintain the Corporation.

(d) The Corporation shall not abandon, lease, sell or dispose of any of the institutions under its control unless such action is specifically authorized by the General Assembly. The terms of any such sale, lease or other disposal shall be prescribed by the Agency of Administration, with the approval of the Governor, within the terms of the authorization of the General Assembly.

(e) The Corporation may make expenditures for capital improvements. The Corporation is authorized to borrow money for building purposes, to give security therefor as may be required, to execute necessary or proper instruments in connection therewith, and is also authorized to accept, use, and administer such funds as may be made available to it for any of its corporate purposes by the United States or any of its agencies, and to agree to any terms and conditions with reference thereto which may be required thereby not inconsistent with its corporate purposes."

Organization and Membership of the Corporation

The Act provides that the Corporation shall be governed by a fifteen-member Board of Trustees (the "*Board*"). The Governor of Vermont (the "*Governor*") appoints five of the Trustees (the "*Appointed Trustees*"), and the Board elects four of the Trustees (the "*Elected Trustees*"), in each case to serve four-year terms. In addition to the Appointed Trustees and Elected Trustees, the Board is comprised of: (i) one Trustee who shall be a matriculated student at one of the Colleges and is selected annually by students across the Colleges as their representative; (ii) four Trustees serving four-year terms who are members of the Vermont Legislature and are elected every other year by the General Assembly of the Legislature as their representatives; and (iii) the Governor.

The officers of the Board consist of a Chair, Vice-Chair, Secretary and Treasurer. There are five standing committees of the Board: Audit; Education, Personnel & Student Life; Executive; Finance & Facilities; and Long Range Planning.

Below are the names of, positions held by, and terms of the present members of the Board:

Name	Board Position(s)	Occupation	Term Expiration
The Honorable Phillip B. Scott, Governor	Member	Governor of State of Vermont	*Ex-Officio*
Janette Bombardier	Member	Senior Vice President, Green Mountain Power	February 28, 2021
M. Jerome Diamond	Member	Attorney	February 28, 2019
Rep. Lynn Dickinson	Member	Business Manager	February 28, 2020
Morgan Easton	Member	Student	May 31, 2017
J. Churchill Hindes	Member	Health Care Administrator	February 28, 2021
Tim Jerman	Vice-Chair	Retired	February 28, 2018
Rep. Bill Lippert, Jr.	Member	Retired	February 28, 2020
Karen Handy Luneau	Secretary	Co-Owner, Handy Toyota	February 28, 2021
Christopher J. Macfarlane	Member	Facility Manager, Hood Distribution	February 28, 2019
Rep. Jim Masland	Member	Consultant and Building Contractor	February 28, 2018
Linda Milne	Treasurer	Certified Public Accountant	February 28, 2021
Martha O'Connor	Chair	Retired	February 28, 2021
Michael S. Pieciak	Member	Commissioner, Vermont Department of Financial Regulation	February 28, 2021
Alyson Richards	Member	CEO, Permanent Fund for Vermont's Children	February 28, 2019

The Colleges

The operating Colleges of the Corporation include: (a) three four-year, campus-based, liberal arts colleges — Castleton, Johnson, and Lyndon; (b) a four-year, campus-based technical college - VTC; (c) a two-year, non campus-based community college providing education at twelve sites around the State - CCV; and (d) system offices and services (the "*Office of the Chancellor*"). These entities serve in excess of 12,000 students in both leased and owned facilities, the latter comprised of more than 150 buildings, which when combined with infrastructure, equipment and approximately 1,700 acres of land have a combined replacement value of approximately $563 million. Following are brief descriptions of each of the Colleges:

CASTLETON UNIVERSITY was founded in 1787 and is located about 10 miles west of Rutland, Vermont, in the village of Castleton. Castleton is a four-year, coeducational, liberal arts college with present enrollment of approximately 2,300 students. Castleton awards associate degrees primarily in nursing; bachelor degrees primarily in arts & sciences, business, communication, and physical education-related programs; and master degrees in education. Accreditation is by the New England Association of Schools and Colleges ("*NEASC*"), the Commission on Accreditation of Athletic Training Education, the National Council on Social

Work Education, and the National League for Nursing Accrediting Commission. Castleton's President of 16 years, David Wolk, has announced his retirement effective December 2017, and a national search for his replacement is currently underway.

JOHNSON STATE COLLEGE was founded in 1828 and is located about 35 miles northeast of Burlington, Vermont, in the Village of Johnson. JSC is a four-year, coeducational, liberal arts college with present enrollment of approximately 1,500 students. Johnson awards a small number of associate degrees in business, general studies and technical theatre; bachelor degrees primarily in arts & sciences, business, elementary education, and psychology; and master degrees in education, counseling, and studio art. Accreditation is by the NEASC. Johnson's current President is Elaine C. Collins, Ph.D.

LYNDON STATE COLLEGE was founded in 1911 and is located about 10 miles north of St. Johnsbury, Vermont, at the village of Lyndonville. LSC is a four-year, coeducational college offering a wide array of professional programs along with programs in the liberal arts and sciences. The present enrollment is approximately 1,250 students, most of whom major in a professional program. Lyndon awards associate degrees primarily in business, graphic design, and general studies; bachelor degrees primarily in business, visual arts, education, exercise science, human services, television studies, and meteorology; and master degrees in education. Accreditation is by the NEASC, as well as the Commission on Accreditation of Allied Health Education Programs (CAAHEP). Lyndon's interim President is Dr. Nolan Atkins. On July 1, 2017, Dr. Elaine Collins will assume the presidencies of both Johnson and Lyndon, and Dr. Atkins will become Provost of both colleges, pending the unification of the two colleges into NORTHERN VERMONT UNIVERSITY on July 1, 2018. See "Cost Savings Initiatives" below for a further discussion of this unification.

VERMONT TECHNICAL COLLEGE was founded in 1866 and is located about 25 miles south of Montpelier, Vermont, in the Village of Randolph Center. VTC is a four-year, coeducational, technical college with present enrollment of approximately 1,600 students. VTC awards one-year certificates in nursing; associate degrees primarily in architecture, nursing, computer science, automotive technology, and engineering technology (architectural & building, civil, electrical & electronics, mechanical, rehabilitation); and bachelor degrees primarily in business, computer science, electromechanical engineering, sustainable technology and design and agriculture. Accreditation is by the NEASC, the Accrediting Board for Engineering Technology, the National League for Nursing, the Vermont State Board of Nursing, the National Automotive Technology Education Foundation, the Federal Aviation Administration, the American Veterinary Medical Association and the Commission on Accreditation for Respiratory Care. VTC's current President is Patricia Moulton.

COMMUNITY COLLEGE OF VERMONT was founded in 1970 and is located in owned and leased space at 12 sites including Bennington, Brattleboro, Middlebury, Montpelier, Morrisville, Newport, Rutland, Springfield, St. Albans, St. Johnsbury, and White River Junction, with administrative offices based in the City of Montpelier. CCV also has a location in Winooski where VSCS leases the property but owns the building. CCV is a two-year, coeducational, community college with present enrollment of approximately 6,000 students. CCV awards associate degrees in a broad range of studies geared toward needs of its students, many of whom are working adults. Accreditation is by the NEASC. CCV's current President is Joyce Judy.

THE SYSTEM OFFICES AND SERVICES are located in Montpelier, Vermont. This consolidated administrative component of the Corporation is comprised of: (1) the Office of the Chancellor; (2) the Board; (3) Administrative Information Systems; and (4) System Support - administratively centralized to serve the Corporation and the Colleges. Each College President reports to the Chancellor of the Corporation (the *"Chancellor"),* who is also the chief executive officer of the Corporation. George B. "Jeb" Spaulding is the current Chancellor. The Executive Officers of the Corporation, listed below, coordinate the Corporation's respective functions in concert with related staff officials of each College.

Executive Officers

Set forth below is summary biographical information concerning the Chancellor and the staff of the Office of the Chancellor.

Chancellor – George B. "Jeb" Spaulding

George B. "Jeb" Spaulding began his tenure as Chancellor of VSCS in January 2015. Since becoming Chancellor, he has focused on creating a more comprehensive and interconnected system of distinctive institutions, in order to increase opportunities and supports for students, create a stronger more diverse community of faculty and staff, and ensure a stronger financial foundation for all VSCS institutions.

From 2011 to 2014, Mr. Spaulding served as Secretary of the Vermont Agency of Administration, the senior cabinet position in the Executive Branch, under Governor Peter Shumlin. In 2003, he won his first of five elections to become Vermont State Treasurer, and in 2009 served as President of the National Association of State Treasurers. As State Treasurer, Mr. Spaulding served on the boards of the Vermont Economic Development Authority, the Vermont Student Assistance Corporation, the Vermont Housing Finance Authority, the Vermont Municipal Bond Bank, the Vermont Education and Health Building Finance Agency, and the Vermont Pension Investment Committee.

Mr. Spaulding was a Vermont State Senator from 1985 to 2000, chairing, at various points, the Senate Appropriations Committee, Senate Education Committee, Joint Fiscal Committee, and Joint Administrative Rules Committee. During his time as a State Senator, he was a trustee of the New England Board of Higher Education and a Commissioner of the Education Commission of the States. Mr. Spaulding earned his BA in Mass Communications in 1975 and an M.Ed. in Administration and Planning in 1993, both from the University of Vermont. Over the years, he has been active in numerous local service organizations, such as Red Cross, United Way, 4-H, and Rotary.

Chief Financial Officer – Stephen T. Wisloski

Steve Wisloski has been the Chief Financial Officer of the Corporation since January 2016. Prior to working for the Corporation, Mr. Wisloski served five years as Vermont's Deputy State Treasurer and another two years as Director of Investments and Debt Management. Mr. Wisloski also worked for Public Financial Management for twelve years, and served as an acquisition program manager in the U.S. Air Force. Mr. Wisloski earned a BS in Political Science from the Massachusetts Institute of Technology.

General Counsel – Sophie Zdatny

Sophie Zdatny began her tenure with VSCS as Associate General Counsel in August 2014, and has served as General Counsel since January 2017. Previously she spent 15 years in private practice litigating cases and two years clerking for a federal judge. She taught several classes at West Virginia University's College of Law, prior to moving to Vermont in 2008. She previously served as the President of the Vermont Bar Foundation and she currently sits on the Vermont Board of Bar Examiners. She is a member of the Central Vermont American Inns of Court. She has a BA in Political Science from Wellesley College and a J.D. from West Virginia University.

Chief Academic Officer – Yasmine L. Ziesler, Ph.D.

Dr. Ziesler supports the work of the Education, Personnel, and Student Life (EPSL) Committee of the Board. She works closely with several VSCS-wide teams including the academic deans, institutional research, registrars, teaching and learning technologies, and advising technology. Prior to joining the Chancellor's Office in 2015, Dr. Ziesler served as Dean of Technology and Associate Academic Dean at Castleton, and she began her VSCS career at the CCV in 2003. Dr. Ziesler received her Ph.D. in anthropology from Boston University and a BA in cognitive science-psycholinguistics from Brown University. She served as a Fulbright English teacher in the Republic of Korea in 1995-1996.

Mission of the Vermont State Colleges

For the benefit of Vermont, VSCS provides affordable, high quality, student-centered, and accessible education, fully integrating professional, liberal, and career study, consistent with student aspirations and regional and state needs. This integrated education, in conjunction with experiential learning opportunities, assures that graduates of VSCS programs will:

1. Demonstrate competence in communication, research and critical thinking;
2. Practice creative problem-solving both individually and collaboratively;
3. Be engaged, effective, and responsible citizens;
4. Bring to the workplace appropriate skills and an appreciation of work quality and ethics; and
5. Embrace the necessity and joy of lifelong learning for personal and professional growth.

VSCS provides continuing educational opportunities for individuals to meet their specific goals.

Vision of the Vermont State Colleges

To realize its mission for the benefit of Vermont:

- The VSCS will be known for high quality programs, as measured by the skills, knowledge and contributions of students, graduates and clients.
- VSCS system resources – human, financial, technological and physical – will be collaboratively leveraged to achieve our mission and stated goals, and to address agreed upon priorities.
- The VSCS will develop a culture of continuous improvement, supported by college and system assessment systems that measure progress toward stated goals.
- The VSCS will be recognized as a great place to work, in terms of what it offers employees as well as what it contributes to local communities.
- The VSCS will have comprehensive and timely access to data that inform college and system planning, management and decision making.
- The VSCS will maximize the advantages of being a system and minimize bureaucracy to maintain one comprehensive and interconnected system comprised of five distinct institutions.
- VSCS structures and delivery systems will be flexible enough to both anticipate and quickly adapt to shifting internal and external forces.
- VSCS services will be delivered when and where students and clients need them.
- The VSCS will meet or exceed students' and clients' expectations related to service.

Six Priorities to Support the Mission of the Vermont State Colleges

The following are the six primary strategies of VSCS:

Strategy 1: Increase the continuation rate of high school students on to postsecondary education.

- Provide effective leadership and advocacy, with partners, on the urgent need to increase postsecondary affordability and attainment while sustaining program quality.
- Expand strategies targeted at current populations of high school students who are not continuing with postsecondary education.
- Expand existing and create additional flexible academic pathways into and through degree programs, including providing meaningful certificates and associate degrees.

Strategy 2: Improve the retention and graduation rates at the Colleges.

- Implement degree maps to create clear curriculum paths to graduation.
- Improve access and use of data and advising technologies.

- Develop multiple delivery models for degree completion, including online, connected classrooms, and flexible schedule options.
- Continue to increase comprehensive and strategic approaches to student support services.

Strategy 3: Become a more attractive destination for Vermont high school graduates.

- Create a positive brand at the VSCS system level that supports the unique characteristics of each college and is rooted in the sustained quality of the academic experience.
- Continue to improve technological and physical infrastructure.
- Enhance relationships with school counselors statewide.
- Establish VSCS celebration and support of academic excellence.

Strategy 4: Serve well more working age Vermonters.

- Improve and expand flexible and online delivery of programs across the VSCS to increase number of degree programs available to students statewide.
- Work with employers on needs assessment and flexibility of delivery.
- Improve the entire technology infrastructure of the VSCS to ensure that it is user friendly and competitive.

Strategy 5: Operate as a more integrated system to expand student opportunities and achieve operational efficiencies.

- In addition to maximizing productive collaboration and integration across the entire system, develop strategic alliances between Johnson and Lyndon State Colleges, as well as Vermont Technical College and Community College of Vermont, intended to complement and/or supplement their individual strengths and weaknesses.
- Improve the entire technology infrastructure of the VSCS to ensure that it is user friendly and competitive.
- Review the financial model of the VSCS to ensure institutional stability and explore financial incentives that support collaboration and system interconnectedness.
- Reduce transferability and course-sharing barriers to expand the diversity of student academic and co-curricular learning opportunities.

Strategy 6: Increase state financial support and other supplemental revenues.

- More effectively advocate for state support.
- Increase grant-writing capacity in the VSCS.
- Collaborate on shared fundraising resources.

Other Activities of the Corporation

The Corporation oversees and advises entities engaged in activities other than traditional higher education.

The Corporation oversees the Vermont Small Business Development Center (the "*VTSBDC*") through the position of the VSCS Chancellor as a member of the VTSBDC's governing body. The VTSBDC is the Vermont branch of a federal initiative, the goal of which is to spur economic development through promoting the growth and success of small businesses. The VTSBDC supports Vermont companies through training on all aspects of business, delivered via group seminars, workshops and individualized consultation.

In addition, the Corporation advises the Vermont Manufacturing Extension Center ("*VMEC*") through the position of Allan Rodgers, a Professor of Business at VTC, as a member of VMEC's Advisory Board. VMEC was formed in response to Vermont's selection for a Manufacturing Extension Partnership by the National Institute of

Standards and Technology. As such, VMEC's goal is to improve manufacturing in Vermont and to strengthen the global competitiveness of the State's smaller manufacturers.

The Technology Extension Division ("*TED*") was established in 1991 to meet the education and training needs of Vermont employers. Since then, TED has served hundreds of companies and thousands of employees. TED draws upon the resources of VSCS and nationally recognized training vendors to provide educational programming in sales and marketing, supervision and management, healthcare, computer technology and manufacturing processes and operations.

Vermont Interactive Television ("*VIT*") was an interactive communications system for education, conference and training which the VSCS administered and for which it received modest State appropriations. VIT was discontinued by the General Assembly on December 31, 2015.

Relationship with the State

The Corporation is an instrumentality of the State for operating facilities for education for above high school level. The Corporation has the statutory power to acquire, hold and dispose of property and to make expenditures for capital improvements. As such, the Corporation enjoys certain public and private aspects of operation. The Corporation's real and personal property used for educational (and not commercial) purposes is exempt from taxation.

Additionally, although the Corporation's financial statements are presented to the Legislature and the State financial officials each year, the revenues and debts of the Corporation are not the revenues or debts of the State.

Faculty and Employees

VSCS employees include both unionized and non-unionized individuals.

Full-time faculty at the four campus-based Colleges (Castleton, Johnson, Lyndon, and VTC) comprise approximately 255 persons who are represented by the American Federation of Teachers ("*AFT*"). The initial certification for this unit was in 1973. The current full time faculty agreement expires August 31, 2018. Part-time faculty at the same four Colleges comprises approximately 170 persons who are also represented by AFT. The initial certification for this unit was in 1991. The current part-time faculty agreement expires August 31, 2017; negotiations to replace this contract commenced on April 14 with the establishment of ground rules, with a second meeting on April 21 at which the parties exchanged non-economic proposals. Two additional meetings are scheduled in May. The approximately 680 faculty who teach at CCV are all part-time and are not currently represented by any union. There are also 50 faculty who teach in the External Degree Program through Johnson who also are not currently represented by a union.

The 60 supervisory staff at the four campus-based Colleges who are not managerial or confidential employees are members of the Supervisory Unit of the VSCS United Professionals/AFT union. This unit was certified initially in 2002. The current agreement with this unit expires in 2020. The United Professionals/AFT union also represents the 190 professional, administrative, and technical staff at the four campus-based colleges. This unit also was originally certified in 2002. The most recent agreement with this unit expires in 2020.

The remainder of unionized employees at the four campus-based Colleges, approximately 180 individuals, are represented by the Vermont State Employees Association. This unit was certified in 1993 as being represented by the VSEA although it had been certified prior to that date with different representation. The current agreement with this unit expires in 2020.

There are approximately 300 other employees of the four campus-based Colleges, the CCV and the Chancellor's Office. None of these employees is currently represented by a union.

The following two tables show the total VSCS staff for the last five years and the VSCS's full time faculty for the 2016-2017 academic year, respectively.

	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
Total VSCS Staff	2,326	2,305	2,210	2,133	2,089

	2016-2017 Full-Time Faculty			
	CU	JSC	LSC	VTC
Total Full Time Faculty	96	43	52	81
Tenured Faculty	57	26	30	43
Student/Faculty Ratio	13 to 1	13 to 1	15 to 1	11 to 1

Retirement Plans; Post Retirement Obligations

All full-time employees are eligible for membership in the Corporation's retirement plan with TIAA-CREF (the "*Retirement Plan*") after varying waiting periods, except for a small number that have been members of either the Vermont Employees' Retirement System or the Vermont State Teachers' Retirement System.

Contributions to the Retirement Plan are determined by employee category, and employees are not required to make contributions thereto. For the years ended June 30, 2016 and 2015, the Colleges' total payroll expense was approximately $78,970,000 and $79,923,000, respectively, of which approximately $51,430,000 and $53,787,000, respectively, represented salaries and wages of employees covered under the defined contribution plan. The Colleges' requirements to contribute to the retirement plan are specified by the four collective bargaining agreements and by personnel policies for non-represented employees. During the years ended June 30, 2016 and 2015, contributions made by the Colleges under this plan totaled approximately $6,138,000 and $6,246,000, or approximately 11.93% and 11.61% of covered salaries, respectively.

Additionally, certain employees participate in one of two state defined benefit plans (Vermont Employees Retirement System or Vermont State Teachers Retirement System). Employees who were participants in either of these plans prior to their employment by any of the Colleges are allowed to continue participation. Covered salaries for employees participating in the Vermont Employees Retirement System during the year ended June 30, 2015 were approximately $64,700 and employer contributions were approximately $6,900. During the year ended June 30, 2016, there were no covered salaries for employees participating in the Vermont Employees Retirement System and there were no employer contributions. There were no contributions to the Vermont State Teachers Retirement System during 2016 and 2015.

Full-time faculty employees who have worked for the Colleges for 15 years may elect early retirement at age 55 and receive 50% of their annual salary as of their retirement date; full-time faculty employees who have worked for the Corporation for ten years may elect early retirement at age 55 and receive 40% of their annual salary as of their retirement date. In addition, the Corporation will pay 12% of the retiree's early retirement wages to the individual. This 12% payment represents the Corporation's contribution which would have been made to the individual TIAA/CREF pension account. The payments due under this program are made by the Corporation and expense is recorded as the payments are incurred. During the years ended June 30, 2016 and 2015, the expenses for these benefits were approximately $1,011,000 and $1,017,000, respectively. The early retirement benefit is no longer being offered to new hires, but those employees who were eligible for early retirement before the benefit was discontinued in February 2015 have the option of electing for early retirement in October of every year. The benefit will be completely phased out when those employees currently eligible for early retirement either elect for early retirement or reach the age of 65.

The Corporation's other post-employment benefit ("*OPEB*") cost, primarily for health care, is calculated based on the annual required contribution of the employer ("*ARC*"). The Corporation has elected to calculate the ARC and related information using the unit credit actuarial cost method. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover estimated utilization of healthcare and the special early retirement payments each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years for healthcare and not to exceed ten years for early retirement using a closed period, level dollar amortization method. As of July 1, 2015, the Corporation's unfunded actuarial accrued liability was $157.9 million and is being recognized over 30 years as a post-employment benefit obligation, per GASB Statement 45. GASB Statement 45 requires State and local governments to reflect the value of post-employment benefits for current employees and retirees during the period of their active employment rather than when the benefits are paid during their retirement, beginning with the financial statements for fiscal year beginning July 1, 2007. GASB does not require additional costs to be funded on the Corporation's budgetary basis, and no funding is reflected for this purpose in the Corporation's budget. On a budgetary (cash basis), the Corporation continues to finance these costs, along with all other employee health care expenses, on a pay-as-you-go basis.

In addition to earned retirement benefits, full-time employees who retire are entitled to a reduced amount of paid premium life insurance and paid health insurance premiums for themselves and, subject to certain requirements, for their spouses. Premiums for such coverage are fully paid by the Corporation.

The following table shows the components of the Corporation's annual OPEB costs for the years ended June 30, 2016 and 2015 and the changes in the Corporation's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	2016	2015
Annual required contribution	$13,570,498	$12,610,000
Interest on net OPEB obligation	2,052,506	1,835,392
Adjustment to annual required contribution	(3,593,440)	(3,128,429)
Annual OPEB cost	12,029,564	11,316,963
Contribution made	(7,164,046)	(5,527,188)
Increase in net OPEB obligation	4,865,548	5,789,775
Net OPEB obligation – Beginning of year	54,733,504	48,943,729
Net OPEB obligation – End of year	$59,599,052	$54,733,504

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the years ended June 30, 2016 and 2015 are as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$12,029,564	59.6%	$59,599,052
June 30, 2015	11,316,963	48.8	54,733,504

Operating Information - Admissions and Student Enrollment

The following tables set forth the applicants, admits and matriculants at each College and for VSCS in total for each of the last five years.

Admissions Data by College
(Fall 2012-2016)
(First-time Freshmen only)

Institution Name	Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
	Applicants	Applicants	Applicants	Applicants	Applicants
Castleton University	2,358	2,251	2,022	2,076	2,121
Johnson State College	877	864	926	850	1,043
Lyndon State College	1,492	1,354	1,168	1,180	1,208
Vermont Technical College	600	568	470	443	463
TOTAL	5,327	5,037	4,586	4,549	4,835
	Admits	Admits	Admits	Admits	Admits
Castleton University	2,096	2,072	1,853	2,009	2,017
Johnson State College	852	837	884	809	987
Lyndon State College	1,459	1,345	1,158	1,162	1,184
Vermont Technical College	506	469	391	376	407
TOTAL	4,913	4,723	4,286	4,356	4,595
	Enrolled	Enrolled	Enrolled	Enrolled	Enrolled
Castleton University	470	480	374	445	480
Johnson State College	238	225	222	204	204
Lyndon State College	338	365	297	272	271
Vermont Technical College	220	194	186	215	204
TOTAL	1,266	1,264	1,079	1,136	1,159

From IPEDS Admissions Surveys
Enrollments include both full-time and part-time students

SAT Average for Matriculants
(4-Year Colleges Only)

	2012-13	2013-14	2014-15	2015-16	2016-17
Reading	475	472	473	480	473
Math	479	476	476	475	479

Geographic Diversification

The following chart indicates the average geographic diversification for all of the Colleges, including CCV, for the Fall of 2016.

Vermont	84%
Other New England	9%
Mid-Atlantic	5%
Other U.S.	1%
Foreign	1%

For the Fall of 2016, the average geographic composition of students for all VSCS, excluding CCV, is approximately 76% Vermont students and 24% from states other than Vermont.

Top Competitor Schools for each College

Johnson State College	Lyndon State College	Castleton University	Vermont Technical College
University of Vermont	Plymouth State College	University of Vermont	University of Vermont
Champlain College	Westfield State	Keene State College	Champlain College
Keene State College	Champlain College	Plymouth State College	Norwich University
UMaine - Farmington	Colby-Sawyer College	Colby-Sawyer College	N.H. Technical College

Student Enrollment

Below is a summary of student enrollment numbers showing actual enrollment for the past five academic years, detailed by each of the Colleges: CU, JSC, LSC, VTC, and CCV.

Total Student Enrollment by College

	2012	2013	2014	2015	2016
CCV	6,311	6,194	6,019	5,983	5,863
CU	2,156	2,175	2,183	2,246	2,342
JSC	1,783	1,692	1,613	1,514	1,525
LSC	1,508	1,519	1,430	1,266	1,256
VTC	1,645	1,543	1,542	1,559	1,645
Total*	12,911	12,656	12,305	12,036	12,009

* Students may enroll at more than one College. Totals shown eliminate duplication of such students and therefore are less than the sum of the individual College enrollments.

The majority of students at campus-based CU, JSC, LSC, and VTC pursue full-time studies, while most of those at CCV are part-time students.

Total Student Headcount

		Fall 2012	Fall 2013	Fall 2014	Fall 2015	Fall 2016
Undergraduate:	In-State	10,405	10,192	9,904	9,633	9,508
	Out-of-State	2,072	2,047	1,964	1,864	1,869
	Total	12,477	12,239	11,868	11,497	11,377
Graduate:	In-State	389	375	400	480	547
	Out-of-State	45	42	37	59	85
	Total	434	417	437	539	632
Total:	Part-time	6,319	6,317	6,371	6,252	6,208
	Full-time	6,592	6,339	5,934	5,784	5,801
	Total Headcount:	12,911	12,656	12,305	12,036	12,009

Total Full Time Equivalency Enrollment by College

	2012	2013	2014	2015	2016
CCV	3,520	3,387	3,186	3,077	2,984
CU	2,024	2,036	1,940	1,960	2,015
JSC	1,415	1,343	1,296	1,225	1,223
LSC	1,374	1,376	1,283	1,162	1,116
VTC	1,401	1,302	1,274	1,286	1,335
Total*	9,685	9,396	8,929	8,640	8,593

* Students may enroll at more than one College. Totals shown eliminate duplication of such students and therefore are less than the sum of the individual College enrollments.

Retention

Set forth below are the undergraduate retention rates for the four-year Colleges for first time freshman returning for their second year at the respective Colleges indicated.

Undergraduate Retention Rates for Full-time First-time Freshmen
(4-year colleges only)

	2011-12	2012-13	2013-14	2014-15	2015-16
Castleton University	71%	74%	69%	74%	75%
Johnson State College	65%	62%	68%	69%	69%
Lyndon State College	65%	64%	61%	67%	68%
Vermont Technical College	70%	70%	71%	78%	70%

Degrees Awarded

The following is a summary of the number of degrees awarded for the academic years indicated:

Degrees awarded

	2012	2013	2014	2015	2016
Undergraduate Certificates	290	275	242	217	203
Associate Degrees	956	997	962	947	970
Bachelor's Degrees	1020	1,006	1,032	1,028	979
Post-Baccalaureate Certificates	0	0	0	0	0
Masters Degrees	97	112	97	116	94
Total:	2,363	2,390	2,333	2,308	2,246

Student Tuition Charges

Set forth below are the student tuition charges for each of the Colleges for the 2016-2017 academic year.

	Full Time Tuition Rate,			
School	In-State	Out-of-State	New England Board of Higher Education	International
CU	$10,248	$25,656	$15,408	$15,408
JSC	10,224	22,680	15,336	22,680
LSC	10,224	21,912	15,336	21,912
VTC	12,960	24,792	19,440	28,488

	Per-Credit Hour Rate			
School	In-State	Out-of-State	New England Board of Higher Education	International
CCV	$253	$506	$380	$506

Historic Tuition Rates

Set forth below are the historic student tuition charges at each of the Colleges for the academic years indicated.

Tuition*	2012-13	2013-14	2014-15	2015-16	2016-17
Castleton					
In-State	$ 8,928	$ 9,312	$ 9,768	$10,248	$10,248
Out-of-State (all)	21,528	23,040	24,432	25,656	25,656
Johnson					
In-State	$ 8,928	$ 9,312	$ 9,600	$ 9,984	$10,224
Out-of-State (all)	19,968	20,976	21,600	22,680	22,680
Lyndon					
In-State	$ 8,928	$ 9,312	$ 9,696	$ 9,984	$10,224
Out-of-State (all)	19,200	19,968	20,760	21,384	21,912
Vermont Technical College					
In-State	$11,088	$11,520	$11,856	$12,456	$12,960
Out-of-State	21,192	22,032	22,704	23,832	24,792
Community College of Vermont (per credit hour)					
In-State	$223	$232	$239	$246	$253
Out-of-State	446	464	478	492	506

* Beginning in 2010-2011 Castleton, Johnson and Lyndon began charging different rates for out-of-state students. Previously, all three Colleges charged the same rate for all out-of-state students.

Under the auspices of the New England Board of Higher Education ("*NEBHE*") Regional Student Program, students from other New England states can enroll in academic programs of the Corporation that are not offered at their home state institutions but are offered in Vermont, and pay tuition rates equal to 150% of the Corporation's in-state rate.

Student mix of those paying in-state versus out-of-state tuitions tends to vary by type of institution, with apportionment of Vermonters to non-Vermonters approximately 60% at Lyndon, 71% at Castleton, 83% at Johnson, 88% at Vermont Technical College, and about 94% at the Community College of Vermont.

Room and Board (all but CCV)

	2012-13	2013-14	2014-15	2015-16	2016-17
Room	$5,232	$5,442	$5,606	$5,774	$5,948
Board	3,420	3,558	3,666	3,776	3,890

Students Living on Campus

	2012-13	2013-14	2014-15	2015-16	2016-17
Castleton	1,076	1,140	982	1,061	1,106
Johnson	606	482	496	475	473
Lyndon	698	676	655	600	580
Vermont Tech	514	487	461	464	425

Student Financial Aid

Sources of financial aid are essentially federal programs (Federal Pell Grants, Federal Supplemental Education Opportunity Grants, Federal Student Work Study, subsidized and unsubsidized loans, Federal Perkins loans, and Nursing loans), state programs, and funding by the Corporation along with some private giving. The following provides a summary of total student financial aid for the past five fiscal years:

Expenditures by Financial Aid Type

	2012	2013	2014	2015	2016
Institutional Aid	$4,861,053	$7,850,285	$8,773,765	$9,822,103	$10,884,721
State Aid	4,796,275	5,098,431	5,031,506	4,624,004	4,950,236
Federal Aid	21,912,732	21,976,461	22,151,062	20,172,321	17,971,789
Other Aid	6,312,245	3,175,475	3,131,531	3,596,997	3,804,752
Total Aid	$37,882,305	$38,100,652	$39,087,864	$38,215,425	$37,611,498

Operating Revenues and Expenditures

Following are summaries of operating revenues and expenditures for the Corporation for each of the past five fiscal years (ended June 30).

REVENUES	2012	(Restated) 2013	2014	2015	2016
Operating Revenues					
Tuition and Fees (Gross)	$110,632,877	$113,637,743	$115,690,089	$115,146,051	$116,026,307
Dorm and Dinning	19,928,368	20,651,576	20,674,084	19,926,641	20,075,440
(Less Scholarship Allowance)	(20,881,867)	(22,608,571)	(24,752,899)	(25,212,668)	(24,761,694)
Net Tuition and Fees:	$109,679,378	$111,680,748	$111,611,274	$109,860,024	$111,340,053
Federal Grants and Contracts	$11,417,042	$12,094,281	$11,917,991	$11,267,895	$11,261,929
State and Local Grants and Contracts	2,034,437	1,696,272	2,144,216	1,872,176	2,291,236
Non-Governmental Grants and Contracts	1,386,443	1,343,831	1,081,688	1,384,237	1,136,090
Interest Income (from Accts Receivable)	102,176	105,440	87,029	87,334	81,693
Sales and Services	5,799,595	5,529,267	5,848,881	6,008,981	6,083,859
Auxiliary Enterprises	661,213	959,296	916,820	1,104,783	123,571
Other Operating Revenue	1,045,694	1,535,602	1,001,239	1,567,754	1,823,430
TOTAL OPERATING REVENUE	$132,125,978	$134,944,737	$134,609,138	$133,153,184	$134,141,861

EXPENSES					
Operating Expenses					
Salaries and Wages	$79,821,981	$81,453,823	$82,488,029	$79,922,958	$78,963,999
Employee Benefits	32,960,102	35,132,980	36,608,474	36,875,289	37,499,120
Employee Benefits - GASB 45	8,032,158	7,063,266	6,189,974	5,789,775	4,865,548
Scholarships and Fellowships	7,908,653	8,007,863	7,191,107	6,741,524	6,920,136
Supplies and Other Services	41,898,700	42,567,893	41,490,709	39,341,671	40,860,715
Utilities	6,683,132	6,926,313	7,289,372	7,142,919	6,176,191
Depreciation	7,624,758	13,238,072	14,030,027	14,087,773	10,488,999
TOTAL OPERATING EXPENSES	$184,929,484	$194,390,210	$195,287,692	$189,901,909	$185,774,708
Operating Income (Loss)	$(52,803,506)	$(59,445,473)	$(60,678,554)	$(56,748,725)	$(51,632,847)
NON-OPERATING REVENUES (EXPENSES)					
State Appropriations	$25,998,079	$25,891,792	$27,330,899	$27,221,566	$25,702,913
Federal Grants and Contracts	20,327,223	20,797,045	19,909,045	18,451,754	16,639,503
Gifts	2,230,363	2,623,021	3,220,107	4,255,144	3,060,797
Investment Income (Net of Expense)	1,334,768	2,189,117	3,861,415	358,253	624,012
Interest Expenses on Capital Debt	(6,397,681)	(6,434,642)	(5,916,020)	(5,758,495)	(5,569,104)
Other Non-Operating Revenues	560,198	853	11,533	(50,502)	(655,014)
Net Non-Operating Revenues	$44,052,950	$45,067,186	$48,416,979	$44,477,720	$39,803,107
Income/(loss) before Other Rev, Exp, Gains, Losses	$(8,750,556)	$(14,378,287)	$(12,261,575)	$(12,271,005)	$(11,829,740)
Capital Appropriations	2,099,484	4,099,241	1,688,000	1,488,000	3,006,258
Capital Grants and Gifts	58,501	12,568,125	110,302	7,970	237,866
Additions to Non-Expendable Assets	990,077	536,886	1,070,322	520,945	462,918
Increase/(Decrease) in Net Assets	$(5,602,494)	$2,825,965	$(9,392,951)	$(10,254,090)	$(8,122,698)

Net Income Available for Debt Service

The following table sets forth for each of the past five fiscal years, the net income available for debt service (an internally-generated measure solely for illustrative purposes), calculated as the increase (decrease) in net assets, adding back accruals for GASB 45/OPEB and depreciation expense, and removing interest on capital debt expense.

	2012	(Restated) 2013	2014	2015	2016
Increase/(Decrease) in Net Assets	($5,602,494)	$2,825,965	($9,392,951)	($10,254,090)	($8,122,698)
Plus GASB 45/OPEB Accrual	8,032,158	7,063,266	6,189,974	5,789,775	4,865,548
Plus Depreciation	7,624,758	13,238,072	14,030,027	14,087,773	10,488,999
Plus Interest on Capital Debt	6,397,681	6,434,642	5,916,020	5,758,495	5,569,104
Net Income Available for Debt Service	$16,452,103	$29,561,945	$16,743,070	$15,381,953	$12,800,953

Management's Discussion and Analysis

Tuition and fees, net of scholarship allowances, are the largest component of operating revenues and the primary source of funding for the Corporation's academic programs. Net tuition and fees increased by $1.5 million, or 1.3% in fiscal year 2016, as a result of higher tuition and room and board rates. This contrasts with fiscal year 2015, in which net tuition and fees decreased by $1.75 million, or 1.6% due to declining enrollments, despite higher tuition and room and board rates.

Compensation and benefits of $121.3 million in fiscal year 2016, $122.6 million in fiscal year 2015, and $125.3 million in fiscal year 2014 comprise the most significant portion of total expenses. Compensation and benefits decreased by $4 million, or 3.2% in the two fiscal years from 2014 to 2016. These decreases reflect declines in employee headcount more than offsetting contractually mandated employee compensation increases and healthcare cost increases. In 2016, $4.9 million was accrued for post-retirement benefits, which represents a reduction of $1.3 million or 20% in the two fiscal years from 2014.

Net assets totaled approximately $45.6 million at June 30, 2016, a decrease of approximately $8.1 million in fiscal year 2016. The majority of the decrease was attributable to the GASB 45 accrual of $4.9 million.

State Appropriations

The State provides an annual appropriation of funds for the operating budgets. This annual appropriation is allocated evenly among the Colleges. Due to the VSCS history of increased tuition and room and board rates, the operating appropriations continue to become a smaller portion of the VSCS budget. Over the past five years, State base appropriations have remained relatively level at approximately $25 million. Appropriations are made on an annual basis and these funds are disbursed to the Corporation in equal monthly installments during the fiscal year.

In addition, the State also provides an annual capital appropriation for specific projects. Over the past five years, the annual capital appropriations have ranged from $1.4 million to $4.1 million. There can be no assurance that operating or capital appropriations of the State to VSCS will continue at past levels.

VSCS is responsible for submitting both budgetary and capital appropriations to the State as part of the budget development process. The State's Department of Finance and Management typically sets a deadline for VSCS's appropriation request for the upcoming fiscal year's budget and current fiscal year's budget adjustment in September, and for VSCS's capital appropriation in October. These requests are then included in the Governor's budget recommendation to the General Assembly at the start of the Legislative session in January. VSCS is also responsible for tracking the status of its appropriations requests, and for testifying to Legislative committees upon request. Vermont's Legislative session typically adjourns by mid-May, and as such, both base budgetary and capital appropriations are finalized prior to the start of VSCS's July 1 fiscal year, and are incorporated into VSCS's annual budget development process.

The following tables sets forth, for the current and past four fiscal years, the base appropriation for VSCS, the pro forma coverage provided by such base appropriation of the maximum annual debt service for the Series A Bonds, the additional appropriation for Allied Health Programs, the additional capital appropriations, and the total appropriations.

Fiscal Year	Base Appropriation for VSCS (includes WD, VIT and Next Generation)	Pro Forma Base Appropriation Coverage of Maximum Annual Debt Service on the Series A Bonds*	Appropriation for Allied Health Programs	Capital Appropriations (includes VIT)	Total Appropriations
2013	$24,392,926	4.30 x	$1,116,503	$4,099,241	$29,608,670
2014	25,777,480	4.54 x	1,149,998	1,688,000	28,615,478
2015	25,560,096	4.50 x	1,157,775	1,488,000	28,205,871
2016	25,247,249	4.45 x	1,157,775	2,620,000	29,025,024
2017	25,034,898	4.41 x	1,157,775	2,500,000	28,692,673

* Pro forma coverage calculated as base state appropriation for VSCS operations divided by the maximum annual debt service for the Series A Bonds, $5,678,425, as described in the table captioned "Debt Service on Indebtedness of the Corporation" under the heading "Indebtedness of the Corporation" below.

Cost Savings Initiatives

Over the past several years, VSCS has completed or is in the process of undertaking the following initiatives:

First, VSCS does not have a defined benefit pension plan, and it closed its retiree health care benefit to new employees (except full time faculty) in the fall of 2012, and to full time faculty in the fall of 2015. This action has resulted in an almost 40% decrease in the VSCS's OPEB liability accrual, from over $8 million as of the fiscal year ended June 30, 2012 to less than $4.9 million in as of the fiscal year ended June 30, 2016.

Second, in spring 2016, and in a partnership between three of its unions and its non-bargaining unit employees, VSCS reduced the employer contribution to its 403(b) retirement plan by over 20%, and enacted a mandatory high deductible health care plan for new employees. These groups collectively represent over 70 percent of VSCS's full-time employees. The 403(b) plan change became effective on July 1, 2016 for new employees of these groups, and will take effect July 1, 2017 for existing employees of those same groups. The high deductible health plan also became available optionally to existing employees of these groups on January 1, 2017. The System does not anticipate material savings in fiscal year 2017 from these changes, but anticipates savings of almost \$900,000 from the 403(b) plan change in fiscal year 2018. If the 403(b) plan change is negotiated in the full-time faculty union's next contract, the System expects to save an additional \$400,000 per year or \$1.3 million annually in 2019 and later fiscal years. Savings from the high deductible health plan are estimated to increase gradually to \$1 million per year by fiscal year 2022, at which point approximately one third of System employees are estimated to be utilizing that plan.

Third, in summer 2016 VSCS commenced a series of business office consolidations, removing functions performed at each of the Colleges and centralizing them in the Chancellor's Office. Accounts payable was completed in November 2016, accounting is scheduled to be completed in June 2017, and payroll and grants administration are planned for December 2017, with targeted permanent savings of almost \$1 million annually.

Fourth, in fall 2016 the Board approved the unification of Johnson and Lyndon into the new Northern Vermont University ("*NVU*"). In addition to greatly enhancing the resources and faculty available to students from what will be the third-largest university in Vermont (after University of Vermont and Champlain College), NVU is expected to provide an additional \$2 million in annual personnel savings from consolidation of leadership, senior staff and non-academic functions.

Finally, the VSCS has received substantial additional support during the current Legislative session. The General Assembly approved \$770,000 in the fiscal year 2017 budget adjustment act to support the creation of NVU, and also passed the biennium capital bill with an increase to VSCS's base capital appropriation of \$600,000, from \$1.4 million to \$2 million, in each of fiscal years 2018 and 2019 for a total increase of \$1.2 million. The General Assembly is also considering a substantial increase to VSCS's base budget appropriation; the House of Representatives has proposed a \$2 million one-time increase funded by a distribution from the Higher Education Endowment Trust Fund, while the Senate has proposed a \$4 million permanent increase funded from the State's general fund. Both chambers have also proposed additional one-time support of \$880,000 for NVU.

Budget Methodology

The Corporation provides primary responsibility for each College's operating budget to the individual College President by permitting each College to retain all operating revenue generated by tuition, room and board and auxiliary services. The Board establishes annual tuition and room and board levels and approves each budget, but the revenue retention and control of operating expenses provide autonomy and incentives to each College to maintain its annual budget and to close each fiscal year with at least a balanced budget. The President of each College reports to the Chancellor, and the Chancellor, in turn, reports to the Board.

Capital Budgets of the Corporation

The Corporation develops annual capital budgets for each College by prioritizing operations, maintenance and capital projects. From these considerations, the Corporation selects projects for further pursuit of funding from applicable sources. Proposals for funding are subject to Board approval.

Funding for academic or general purpose projects is sought from State capital appropriations, the Corporation's yearly allocation being affected by both the State's capital debt affordability ceiling as well as competition with other State agencies for available funding. In fiscal year 2016, VSCS received \$2.4 million, consisting of a \$1.4 million "base" capital appropriation used primarily for deferred building maintenance and for a variety of other important maintenance and code, life and safety needs, and \$1 million for engineering technology laboratory upgrades at VTC. In fiscal year 2017, VSCS received \$3.05 million in capital appropriations. Of this amount, \$1.4 million was a base capital appropriation, and the balance consisted of \$500,000 for engineering technology laboratories at VTC, \$1 million for science laboratories at CU, and \$150,000 for solar installations and sound equipment at LSC.

Funding for projects related to dormitory and dining facilities is annually addressed to a notable extent with approximately $1,000,000 per year from "dorm/dining capital fees" paid by students (as part of their room & board fee) living and eating on campus. Examples of projects the Corporation has funded in this way include: (a) periodic roof repair and replacement necessary for dorm and dining buildings; (b) bathroom upgrades addressing both operation and physical access; (c) improvements of boilers, emergency generators and various heating, ventilating and air handling systems; and (d) repair, replacement and refurbishment of windows, alarm systems, locking systems, carpeting and furnishings.

Indebtedness of the Corporation

The Corporation had outstanding indebtedness of $122,514,997 as of June 30, 2016. The following table provides unaudited information relating to all of the Corporation's bonds and notes payable as of May 1, 2017, totaling approximately $117.6 million.

Indebtedness of the Corporation

Obligation	Amount Owed As of May 1, 2017
Revenue Bonds – Series 2010A (including original issue premium of $88,231)	$ 3,143,231
Revenue Bonds – Series 2010B (Build America Bonds)	30,265,000
Revenue Refunding Bonds – Series 2013† (including original issue premium of $1,495,377)	17,435,377
CU - New Student Housing (2005)* Variable rate (69% of one-month LIBOR plus 1.31%) term loan of $5,200,000 for 20 years with monthly payments of principal and interest due through December 2025; collateralized by substantially all unrestricted revenue and assets not previously pledged as collateral on other debt	2,918,686
VSCS - Capital Construction Projects (2008)* Variable rate (69% of the one-month LIBOR plus 1.21%) term loan of $72,000,000 for 20 years with monthly payments of principal and interest due through May 2028; collateralized by substantially all unrestricted revenue, accounts receivable, contract rights, inventory and machinery and equipment not previously pledged as collateral on other debt.	61,907,772
VSCS - Capital Construction Projects (2009)* Variable rate (69% of one-month LIBOR plus 3.12%) term loan of $2,750,000 for 20 years with monthly payments of principal and interest due through January 2029; loan has a negative pledge against assets.	1,951,170
Total Amount Owed:	**$117,621,236**

* Expected to be repaid in full from the proceeds of the Vermont Municipal Bond Bank Vermont State Colleges System Bonds, 2017 Series A (the "Series A Bonds").

The VSCS issued tax-exempt variable rate term loans in 2005, 2008 and 2009 as described in the table above and, in connection with such loans, entered into the interest rate swap agreements described below. Upon the issuance of the Series A Bonds, VSCS expects to use proceeds thereof loaned to it by the Bank (i) to repay the 2005, 2008 and 2009 term loans in full, (ii) to pay termination payments with respect to, and to terminate, the associated interest rate swap agreements, and (iii) to pay certain costs of issuance of the Series A Bonds. On April 4, 2017, VSCS received notice that the $72,000,000 variable-rate loan issued in 2008 has been selected for examination by the IRS as part of its program of routinely examining municipal debt issuances to determine compliance with federal tax requirements. VSCS has submitted a written response to the IRS audit letter; however, there is no assurance as to the timing or result of the IRS audit or whether the Series A Bonds would become the subject of an IRS examination and the results thereof.

To manage its borrowing costs, VSCS entered into an interest swap in connection with its $5,200,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 4.97%. The loan and the related swap agreement mature on December 16, 2025, and the swap's notional amount of $5,200,000 matches the $5,200,000 variable rate loan. The swap was entered into at the same time the loan was issued in December 2005. Under the swap, VSCS pays the counterparty a fixed payment of 4.97% and receives a variable payment computed as 69% of the one-month London Interbank Offered Rate (LIBOR) plus 1.31%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $459,283 as of June 30, 2016 and $419,350 as of June 30, 2015.

To manage its borrowing costs, VSCS entered into an interest rate swap in connection with its $72,000,000 variable-rate loan. The intention of the swap was to effectively change VSCS's variable interest rate on the loan to a synthetic fixed rate of 4.63%. The loan and the related swap agreement mature in May 2028, and the swap's notional amount of $72,000,000 matches the $72,000,000 variable rate loan. The swap was entered into at the same time the loan was issued in May 2008. Under the swap, VSCS pays the counterparty a fixed payment of 4.63% and receives a variable payment computed as 69% of the one-month USD-LIBOR-BBA (United States Dollar - London Interbank Offered Rate - British Bankers Association) plus 1.21%. The loan has a thirty year amortization with a twenty year term. The first two years of the loan are interest only payments. This will allow VSCS to more closely match the revenue streams produced by the capital projects. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $14,328,670 as of June 30, 2016 and $10,516,510 as of June 30, 2015.

To manage its borrowing costs, VSCS entered into an interest rate swap in connection with its $2,750,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 5.25%. The loan and the related swap agreement mature on January 15, 2029, and the swap's notional amount of $2,750,000 matches the $2,750,000 variable rate loan. The swap was entered into at the same time the loan was issued in January 2009. Under the swap, VSCS pays the counterparty a fixed payment of 2.25% and receives a variable payment computed as 69% of the one-month LIBOR plus 3.12%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $175,311 as of June 30, 2016 and a positive fair value of $89,107 as of June 30, 2015. All outstanding swaps are expected to be terminated in connection with the issuance of the Series A Bonds.

The following table sets forth the debt service on VSCS existing debt (excluding debt service expected to be repaid with the proceeds of the Series A Bonds) and pro forma debt service on the Series A Bonds.

Debt Service on Indebtedness of the Corporation

Fiscal Year (June 30)	Debt Service on Existing Debt*	Debt Service on Series A Bonds	Total Debt Service
2017	$6,066,119	—	$6,066,119
2018	6,060,619	$2,665,613	8,726,231
2019	5,871,992	3,125,800	8,997,792
2020	4,361,669	3,125,800	7,487,469
2021	4,342,777	3,125,800	7,468,577
2022	4,308,817	5,675,425	9,984,242
2023	4,285,065	5,676,300	9,961,365
2024	4,266,609	5,675,300	9,941,909
2025	4,190,016	5,677,050	9,867,066
2026	3,888,501	5,676,175	9,564,676
2027	3,860,694	5,677,300	9,537,994
2028	3,856,720	5,675,050	9,531,770
2029	3,575,002	5,674,050	9,249,052
2030	3,541,473	5,673,800	9,215,273
2031	3,517,288	5,673,800	9,191,088
2032	3,486,535	5,678,425	9,164,960
2033	3,453,183	5,677,175	9,130,358
2034	2,120,935	5,674,000	7,794,935
2035	2,090,930	5,675,500	7,766,430
2036	2,056,238	5,674,100	7,730,338
2037	2,021,679	5,674,500	7,696,179
2038	1,986,891	5,676,300	7,663,191
2039	1,946,695	—	1,946,695
2040	1,901,092	—	1,901,092
2041	1,859,719	—	1,859,719

* Excludes debt service on debt to be refunded with the Series A Bonds, including the 2005, 2008 and 2009 term loans and payments under the related interest rate swap agreements.

Gifts and Endowments

During fiscal year 2016, the Corporation received $3 million in gifts. Each College has a Director of Development to help realize improvements in giving by increasing development efforts including annual fund drives, alumni appeals, and cultivating "friends of the college."

The Corporation's investment objective for its endowments is to exceed the consumer price index and the relevant market index pertaining to the particular types of investments. The endowments have a spending policy of up to 5% of current value or the trailing three year average, whichever is less. The Corporation had an endowment value of $23.2 million on June 30, 2016. As of March 30, 2017, the endowment was valued at $25.9 million. The following table indicates the market value of the endowment funds for the five fiscal years ending June 30, 2012 through 2016.

Fiscal Year	Market Value
2012	$19,403,000
2013	$20,012,000
2014	$23,912,000
2015	$23,642,000
2016	$23,214,000

Insurance

The Corporation manages its risks through a combination of self-insurance and commercial insurance purchased in the name of the Corporation. Property, casualty, auto, general liability, and educators' liability insurance is carried with various companies selected periodically through bidding that is assisted by Vermont brokers. Employee health insurance and workers' compensation coverage is self-insured by the Corporation. The Corporation uses stop loss insurance to help manage the risk involved in these two areas.

Future Capital Projects

The Corporation has no significant additional capital projects planned at the current time.

No Litigation

The VSCS is not aware of any litigation, pending or threatened, wherein any unfavorable decision would have a material adverse impact on the financial condition of the VSCS.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION FOR VSCS PROGRAM

The following is a brief summary of certain provisions of the General Bond Resolution for Vermont State Colleges System (the "General Resolution for VSCS Program") adopted by the Vermont Municipal Bond Bank (the "Bank") on March 30, 2017, including certain terms used in the General Resolution for VSCS Program and used and not elsewhere defined in this Official Statement. This summary does not purport to be complete and reference is made to the General Resolution for VSCS Program for full and complete statements of its terms and provisions.

"Accountant's Certificate" shall mean a certificate signed by a certified public accountant or a firm of certified public accountants of recognized standing selected by the Bank.

"Accreted Value" shall mean, as of any interest payment date, with respect to any non-interest bearing Bonds, the amount representing the original principal plus the amount of interest that has accrued to such date as specified in the Series Resolution.

"Administrative Expenses" shall mean the Bank's expenses of carrying out and administering its powers, duties and functions, as authorized by the Act, and shall include, without limiting the generality of the foregoing: administrative expenses, legal, accounting and consultant's services and expenses, payments to underwriters or placement agents of the Bonds, payments to pension, retirement, health and hospitalization funds, fees of a Credit Bank or insurer, rebate payments to the United States Treasury Department, and any other expenses required or permitted to be paid by the Bank under the provisions of the Act or the Resolution or otherwise.

"Aggregate Debt Service" for any period shall mean, as of any date of calculation and with respect to all Bonds, the sum of the amounts of Debt Service for such period.

"Bond" or **"Bonds"** shall mean any Bond or the issue of Bonds, as the case may be, established and created by the Resolution and issued pursuant to a Series Resolution.

"Bondholders" or **"Holder of Bonds"** or **"Holder"** (when used with reference to Bonds) or the registered owner of any Outstanding Bond or Bonds.

"Credit Bank" shall mean with respect to purchases in connection with tenders of Variable Rate Bonds, the person (other than an Insurer) providing a letter of credit, a line of credit, a guaranty or other credit- or liquidity-enhancement facility, as designated in the Series Resolution providing for the issuance of such Bonds.

"Credit Facility" shall mean with respect to purchases in connection with tenders of Variable Rate Bonds, a letter of credit, a line of credit, a guaranty or another credit- or liquidity-enhancement facility (other than an insurance policy issued by an Insurer), as designated in the Series Resolution providing for the issuance of such Bonds.

"Debt Service" for any period shall mean, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, and (ii) that portion of principal for such Series which would accrue during such period if such principal were deemed to accrue daily in equal amounts from the next preceding principal payment date for such Series (or, if there shall be no such preceding principal payment date, from a date one year preceding the due date of such principal payment or from the date of delivery of such Series of Bonds if such date occurred less than one year prior to the date of such principal payment). Such interest and principal payments for such Series shall be calculated on the assumption that no Bonds (except Variable Rate Bonds actually tendered for payment prior to the stated maturity thereof) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of the principal payment on the due date thereof; provided, however, that with respect to Variable Rate Bonds tendered for payment before the stated maturity thereof, interest shall be deemed to accrue on the date required to be paid pursuant to such tender, and provided further that with respect to Variable Rate Bonds or variable rate VSCS Bonds interest requirements shall be determined in the manner set forth in the Series Resolution. A Series Resolution may provide that interest expense on Credit Facilities drawn upon to purchase but not to retire Bonds, to the extent such interest exceeds the interest otherwise payable on such Bonds may be included in the determination of Debt Service.

"Fees and Charges" shall mean all fees and charges authorized to be charged by the Bank pursuant to subsection (8) of section 4591 of the Act and charged by the Bank to the VSCS pursuant to the terms and provisions of VSCS Loan Agreements.

"Fiduciary" or **"Fiduciaries"** shall mean the Trustee, any Paying Agent, or any or all of them, as may be appropriate.

"Fiscal Year" shall mean any twelve (12) consecutive calendar months commencing with the first day of January and ending on the last day of the following December.

"Outstanding" when used with reference to Bonds, other than Bonds referred to in Section 11.5 of the Resolution, shall mean, as of any date, Bonds theretofore or then being delivered under the provisions of the Resolution, except: (i) any Bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (ii) any Bonds for the payment or redemption of which monies equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in trust (whether at or prior to the maturity or redemption date, provided that if such bonds are to be redeemed, notice of such redemption shall have been given as in Article IV of the Resolution provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Section 4.6 or Section 11.6 of the Resolution, (iv) Bonds deemed to have been paid as provided in subsection 2 of Section 14.1, and (v) Variable Rate Bonds for which the Purchase Price has been deposited with the Trustee.

"Paying Agent" for the Bonds of any Series shall mean the bank or trust company and its successor or successors, appointed pursuant to the provisions of the Resolution and a Series Resolution or any other resolution of the Bank adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

"Redemption Price" shall mean, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution and the Series Resolution pursuant to which the same was issued.

"Variable Rate Bonds" means any Bonds the interest rate on which is not established at the time of issuance of such bonds at a single numerical rate for the entire term of such Bonds a feature of which may include an option on the part of the Holders of such Bonds to tender to the Bank or to any depositary, Paying Agent or other fiduciary for such Holders, or to an agent of any of the foregoing, all or a portion of such Bonds for purchase. No Variable Rate Bonds shall be issued unless (a) such Bonds shall have been rated "A" or higher (without reference to gradations of such categories such as "plus" or "minus") by Moody's Investors Service and S&P Global Ratings, (b) any obligations the Bank may have, other than its obligation on such Bonds (which need not be uniform as to all Holders thereof), to reimburse any person for its having extended a Credit Facility or similar arrangement shall be subordinated to the obligation of the Bank on the Bonds (c) a maximum interest rate is established in the Series Resolution authorizing such Bonds and (d) upon any change in the interest rate of such Variable Rate Bonds, the Bank shall comply with Section 601(2) of the Resolution.

"Vermont State Colleges System" or **"VSCS"** means the public corporation of the state of Vermont established pursuant to section 2171 of Chapter 72 of the Vermont Statutes Annotated.

"VSCS Bonds" shall mean the bonds, notes, or other evidence or debt issued by the VSCS and authorized pursuant to the Act and other laws of the State and which have heretofore or will hereafter be acquired by the Bank as evidence of indebtedness of a VSCS Loan to the VSCS pursuant to the Act.

"VSCS Bond Payments" shall mean the amounts paid or required to be paid, from time to time, for principal and interest by the VSCS to the Bank on VSCS Bonds.

"VSCS Loan" shall mean a loan heretofore or hereafter made by the Bank to the VSCS pursuant to the Act and more particularly described in the applicable Series Resolution.

"VSCS Loan Agreement" shall mean an agreement heretofore or hereafter entered into between the Bank and the VSCS setting forth the terms and conditions of a VSCS Loan.

"**2017 Series A Bonds**" means the Bank's Vermont State Colleges System Bonds, 2017 Series A.

"2017 Series A Series Resolution" means the Bank's Series Resolution adopted on March 30, 2017 authorizing the issuance of the Series 2017 A Bonds.

FUNDS AND ACCOUNTS

The General Resolution for VSCS Program establishes the following special Funds and Accounts held by the Trustee:

Revenue Fund
- General Account
- Operating Account
- Interest Account
- Principal Account
- Redemption Account

The 2017 Series A Series Resolution establishes a Rebate Fund for the 2017 Series A Bonds. Funds maintained in the Rebate Fund are not pledged to secure payments on the 2017 Series A Bonds and the Bondholders shall have no right in or claims to such money in the Rebate Fund.

Revenue Fund

General Account

The General Resolution for VSCS Program provides for the deposit to the General Account of: (i) all proceeds of a Series of Bonds to be used to make VSCS Loans; (ii) all monies received as VSCS Bond Payments; (iii) the balance of monies remaining in the Redemption Account when the Trustee is able to purchase principal amounts of Bonds at a purchase price less than an amount equal to the proceeds from the sale or redemption of VSCS Bonds and (iv) the excess of proceeds resulting from the VSCS's redemption of its VSCS Bonds.

The General Resolution for VSCS Program provides for the following withdrawals to be made from the General Account for the following purposes:

(1) On or before each interest payment date of the Bonds, the Trustee shall withdraw from the General Account and deposit in the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will on such interest payment date be equal to the installment of interest on the Bonds then falling due.

(2) On or before each principal payment date of the Bonds, the Trustee shall withdraw from the General Account and deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will on such principal payment date be equal to the principal becoming due on the Bonds on such principal payment date.

(3) On or before each interest payment date for each Series of Bonds after providing for the payments into the Interest Account pursuant to Section 6.3.2 of the General Resolution for VSCS Program and the principal payments, if any, pursuant to Section 6.3.3 of the General Resolution for the VSCS Program, the Trustee shall withdraw from the General Account and deposit in the Operating Account the aggregate of the amounts requisitioned by the Bank as of such interest payment date for the six-month period to and including the next succeeding interest payment date, for the following purposes:

(a) To pay the estimated Administrative Expenses of the Bank due and to become due during such six-month period with respect to such Series of Bonds;

(b) To pay the fees and expenses of the Trustee and Paying Agents then due and to become due during such six-month period with respect to such Series of Bonds; and

(c) Financing costs incurred with respect to such Series of Bonds, including fees and expenses of the attorney or firm of attorneys of recognized standing in the field of municipal law selected by the Bank, initial Trustee's and Paying Agent's fees and expenses, costs and expenses of financial consultants, printing costs and expenses, the payment to any officers, departments, boards, agencies, divisions and commissions of the State of Vermont of any statement of cost and expense rendered to the Bank pursuant to Section 4556 of the Act, and all other financing and other miscellaneous costs, in the aggregate amount specified in the resolution authorizing such Series of Bonds.

(4) As of the last day of each Fiscal Year, and not later than the twentieth day (20^{th}) of the succeeding Fiscal Year, after providing for all payments required to have been made during such Fiscal Year into the Interest Account pursuant to Section 6.3.3 of the General Resolution for VSCS Program, into the Principal Account pursuant to Section 6.3.3 of the General Resolution for VSCS Program, and into the Operating Account pursuant to Section 6.3.4 of the General Resolution for VSCS Program, the Trustee shall withdraw from the General Account and shall pay to the Bank for any of its lawfully authorized purposes the balance of the monies so remaining in the General Account; provided, however, that the Bank, in its absolute discretion, may direct the Trustee to deposit any or all of such balance to be withdrawn from the General Account to the credit of the Redemption Account and the payment to the Bank of such balance shall be reduced accordingly; and provided further that no such transfer to the Bank shall be made unless, after giving effect to such transfer, total assets of Accounts established under the General Resolution for VSCS Program shall exceed total liabilities, determined in accordance with generally accepted accounting principles and evidenced by a certificate of an Authorized Officer.

Operating Account

The General Resolution for VSCS Program provides that all Fees and Charges received by the Trustee shall be deposited upon receipt in the Operating Account. Such Fees and Charges collected by the Trustee shall be used, together with such portion of the proceeds of the sale of Bonds, if any, as shall be provided by a Series Resolution and the deposits made to the Operating Account from the General Account, as described hereinbefore, and any other monies which may be made available to the Bank for the purposes of the Operating Account from any source or sources, to pay (i) Administrative Expenses of the Bank, (ii) the fees and expenses of the Trustee and Paying Agents, and (iii) financing costs incurred with respect to a Series of Bonds. Monies at any time held for the credit of the Operating Account shall be used for and applied solely to such purposes. The General Resolution for VSCS Program further provides that payments from the Operating Account shall be made by the Trustee upon receipt of a requisition, signed by an Authorized Officer, describing each payment, the amount of the payment, the party to whom payment is to be made, and specifying that each item is a proper charge against the monies in the Operating Account.

Interest Account and Principal Account

(1) The monies in the Interest Account and the Principal Account in the Revenue Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds in the manner provided in the General Resolution for VSCS Program. All monies deposited in the Interest Account and the Principal Account in the Revenue Fund shall be disbursed and applied by the Trustee at the times and in the manner provided in the General Resolution for VSCS Program.

(2) The Trustee shall, on or before each interest payment date of the Bonds, pay, out of the monies then held for the credit of the Interest Account, to itself and the Paying Agents, the amounts required for the payment by it and such Paying Agents of the interest becoming due on the Bonds on such interest payment date, and such amounts so withdrawn are irrevocably pledged for and shall be applied to the payment of such interest. The Trustee shall also pay out of the Interest Account to itself and the appropriate Paying Agents, on or before any redemption date for Bonds being refunded by a Refunding Issue, the amount required for the payment of interest on the Bonds then to be redeemed, to the extent not otherwise provided pursuant to the General Resolution for VSCS Program.

(3) The Trustee shall, on or before each principal payment date of the Bonds, pay, out of the monies then held for the credit of the Principal Account, to itself and the Paying Agents, the amounts required for the payment by it and such Paying Agents of the principal becoming due on the Bonds on such principal payment date, and such amounts so withdrawn are irrevocably pledged for and shall be applied to the payment of such principal.

Redemption Account

The General Resolution for VSCS Program provides that the monies in the Redemption Account shall be used solely for the purpose of paying the Redemption Price on the Bonds. The Trustee shall establish in the Redemption Account a separate sub-account for the Bonds of each Series outstanding. Monies held in each such separate sub-account by the Trustee shall be applied to the purchase or retirement of the Bonds of the Series in respect of which such sub-account was created provided that after such purchase or retirement there shall be scheduled payments of principal and interest on VSCS Bonds pledged under the General Resolution for VSCS Program which, when added to interest and other income estimated by the Bank to be derived from the investment or deposit of money available therefor in any Fund or Account created by the General Resolution for VSCS Program, will be sufficient to pay Debt Service on all Outstanding Bonds when due. Monies for the redemption of Bonds may be deposited in the Redemption Account from the General Account at the direction of the Bank as provided above under the caption "General Account". In the event VSCS Bonds or other obligations securing a VSCS Loan shall be sold by the Bank in accordance with the terms of the applicable VSCS Loan Agreement, or redeemed by the VSCS, the Bank shall deposit the proceeds from such sale or redemption, except an amount thereof equal to the cost and expenses of the Bank in effectuating the redemption of the Bonds to be redeemed upon such sale by the Bank or redemption by the VSCS, into the applicable sub-account in the Redemption Account.

Investment of Funds

The General Resolution for VSCS Program provides that all monies held by the Trustee shall be continuously and fully secured, for the benefit of the Bank and the Holders of the Bonds. The Trustee shall invest the Funds and Accounts upon the direction of the Bank as follows:

Monies in the Revenue Fund (and each of the Accounts therein) shall, as nearly as may be practicable, be invested upon the direction of the Bank in obligations the maturity or redemption date at the option of the holder of which shall coincide as nearly as practicable with the times at which monies in such Funds will be required for the purposes provided in the General Resolution for VSCS Program as follows: (a) direct obligations of the United States of America for the payment of money, or obligations for the payment of money which are guaranteed or insured as to payment of principal and interest by the United States of America, and direct obligations for the payment of money, issued by an agency or instrumentality of the United States of America, or obligations for the payment of money which are guaranteed or insured as to payment of principal and interest by an agency or instrumentality of the United States of America, (b) bonds and other legally created direct, general obligations of any state of the United States of America and any political subdivision of any state of the United States of America for the payment of money, provided that any such issuer at the date of such investment is not in default in the payment of principal or interest on any of its direct, general obligations, (c) direct obligations for the payment of money, issued by an agency or instrumentality of any state of the United States of America for the payment of money which are guaranteed or insured as to payment of principal and interest by the state or commonwealth of which the issuer is an instrumentality, (d) bonds and other evidences of indebtedness of the United States of America, of any state thereof, or of any political subdivision thereof, or of any public authority or instrumentality of one or more of the foregoing, which are payable as to both principal and interest from adequate special revenues pledged or otherwise appropriated or by law required to be provided for the purpose of that payment, but not including any obligations payable solely out of special assessments on properties benefited by local improvements; except that bonds or evidences or indebtedness of issuers outside the state of Vermont must be, at the time the investment is made, rated "A" or higher by S&P Global Ratings or Moody's Investors Service with respect to long term indebtedness and A-1 or P-1 or higher by S&P Global Ratings or Moody's Investors Service, respectively, with respect to short term indebtedness (in every case without reference to gradations of such categories such as "plus" or "minus"), (e) interest bearing obligations issued, assumed or guaranteed by any solvent institution created or existing under the laws of the United States of America or of any state, whether or not secured, which are not in default as to interest or principal, if those obligations at the time of investment are rated "A" or higher by S&P Global Ratings or Moody's Investors Service with respect to long term indebtedness and P-1 or A-1 or higher by S&P Global Ratings or Moody's Investors Service, respectively, with respect to short term indebtedness (in every case without reference to gradations of such categories such as "plus" or "minus"), including, among others, (A) certificates of deposit or time deposits of any bank, any branch of any bank, trust company or national banking association that has a combined capital surplus and undivided profits not less than $25,000,000, (B) any repurchase agreement with a maturity of not more than 30 days, that is with a bank or trust company (including the Trustee and its affiliates) that has a combined capital, surplus and undivided profits not less than $100,000,000 or with primary government dealers (any such government dealer must be a member of Securities Investor Protection Corporation), for obligations described in (a) hereof having on the date of the repurchase agreement and on the first day of every month thereafter a fair market value equal to at least 102% of the amount of the repurchase obligation of the bank, trust company or government dealer; provided, however, that (i) the purchase obligation of the bank, trust company or government dealer is collateralized by such obligations themselves, (ii) such obligations purchased must be transferred to the Trustee (unless the purchase agreement is with the bank serving as Trustee or any related party) or a third party agent by physical delivery or by an entry made on the records of the issuer of such obligations and such Trustee or third party agent and segregated from securities owned generally by the bank, trust company or government dealer, or the Trustee is furnished with an opinion of counsel stating that a perfected security interest under the Uniform Commercial Code of the state in which the securities are located or book entry procedures present at 31 Code of Federal Regulations ("C.F.R.") §306.1 et seq. or 31 C.F.R. §350.0 et seq. in such investments has been created for the benefit of the Holders of the Bonds, and (iii) if the repurchase agreement is with the bank serving as Trustee or any related party, the third party holding such investments holds them as agent for the beneficial owners of the Bonds rather than as agent for the bank serving as Trustee or any other party and the investments be evaluated no less frequently than weekly to determine if their fair market value equals or exceeds the required 102% level and, if upon such valuation, the fair market value is found to be deficient, then the bank, trust company or government dealer shall have no more than five business days to pledge additional obligations authorized hereunder for such repurchase agreement so as to satisfy such requirement or the third party holding the investments must be required to liquidate the collateral and disburse the proceeds to the Trustee, (f) units of a taxable government money market portfolio comprised solely of obligations listed in (a) above with the yield adjusted so as to maintain the value of such units at par and (g) such other investments as may from time to time be permitted by the Act and approved in writing by Moody's Investors Service and S&P Global Ratings.

In lieu of the investments of monies above authorized, the Trustee shall upon direction of the Bank deposit monies from any fund or account held by the Trustee under the terms of the General Resolution for VSCS Program in interest-bearing time deposits, or shall make other similar banking arrangements, with itself or a member bank or banks of the Federal Reserve System or banks the deposits of which are insured by the Federal Deposit Insurance Corporation; provided, that all monies in each such interest-bearing time deposit or other similar banking arrangement shall be continuously and fully secured by direct obligations of the United States of America or of the State or obligations the principal and interest of which are guaranteed by the United States of America or the State, of a market value equal at all times to the amount of the deposit or the other similar banking arrangement.

Issuance of Additional Obligations

The General Resolution for VSCS Program provides that the Bank shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge and lien on the VSCS Bonds and the VSCS Bond Payments or which will be payable from the Revenue Fund, except that additional Series of Bonds may be issued from time to time pursuant to a Series Resolution subsequent to the issuance of the initial Series of Bonds under the Resolution on a parity with the Bonds of such initial Series of Bonds and secured by an equal charge and lien on the VSCS Bonds and the VSCS Bond Payments, and payable equally and ratably from the Revenue Fund for the purposes of (i) making VSCS Loans to the VSCS, (ii) making payments into the Interest Account or the Operating Account, (iii) the refunding of Notes theretofore issued by the Bank to provide funds to make VSCS Loans, and (iv) subject to the provisions and limitations on the issuance of Refunding Bonds, the refunding of any Bonds then Outstanding, under the conditions and subject to the limitations stated below.

No additional Series of Bonds shall be issued subsequent to the issuance of the initial Series of Bonds under the Resolution unless:

(a) the principal amount of the additional Bonds then to be issued, together with the principal amount of the Bonds and Notes of the Bank theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;

(b) there is at the time of the issuance of such additional Bonds no deficiency in the amounts required by the Resolution or any Series Resolution to be paid into the Revenue Fund; and

(c) upon the issuance of such additional obligations there shall be scheduled payments of principal and interest on the VSCS Bonds pledged under the General Resolution for VSCS Program which, when added to interest and other income estimated by the Bank to be derived from the investment or deposit of money available therefor in any Fund or Account created by the General Resolution for VSCS Program, will be sufficient to pay Debt Service on all Outstanding Bonds when due.

The Bank expressly reserves the right to adopt one or more other general bond resolutions and reserves the right to issue Notes and any other obligations so long as the same are not a charge or lien on the VSCS Bonds, the VSCS Bond Payments and the Fees and Charges, or payable from the Revenue Fund created pursuant to the General Resolution for VSCS Program. In addition, the Bank may issue Variable Rate Bonds under the General Resolution for VSCS Program.

Issuance of Refunding Bonds

The General Resolution for VSCS Program provides that: (1) All or any part of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds or any part of one or more Series of Outstanding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other monies available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Act, the General Resolution for VSCS Program and the Series Resolution authorizing said Series of Refunding Bonds.

(2) A Series of Refunding Bonds may be authenticated and delivered only upon receipt by the Trustee (in addition to the receipt by it of the documents required by the General Resolution for VSCS Program for the delivery of any Series of Bonds) of:

(a) A certificate of an Authorized Officer setting forth (1) the Aggregate Debt Service for the then current and each future calendar year (i) with respect to all Series of Bonds Outstanding immediately prior to such authentication and delivery and (ii) with respect to all Series of Bonds to be Outstanding immediately thereafter, and (2) that the Aggregate Debt Service for each such year set forth pursuant to (1)(ii) of this paragraph (a) is no greater than the Aggregate Debt Service set forth pursuant to (1)(i) of this paragraph (a);

(b) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on the redemption date specified in such instructions;

(c) Irrevocable instructions to the Trustee, satisfactory to it, to mail the required notice to the Holders of the Bonds being refunded;

(d) Either (i) monies in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which monies shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) direct obligations of the United States of America in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the General Resolution for VSCS Program relative to defeasance of Bonds and any monies required pursuant thereto, which direct obligations of the United States of America and monies shall be held in trust and used only as provided by such provisions; and

(e) A certificate of an Authorized Officer containing such additional statements as may be reasonably necessary to show compliance with the requirements of the General Resolution for VSCS Program which provide for Refunding Bonds.

(3) In the event that the Aggregate Debt Service immediately after issuance of the Refunding Bonds is reduced, the Bank shall allocate the Debt Service savings in the manner specified in the Series Resolution authorizing such Series, which shall have been determined after consideration by the Bank of

factors including without limitation, the amount of Fees and Charges, if any, paid by VSCS to the Bank in connection with the Bonds being refunded.

Modification of VSCS Loan Agreement Terms

The Bank shall not consent to the modification of, or modify, the rate or rates of interest or method of determining such rates, or the amount or time of payment of any installment of principal or interest of any VSCS Bonds evidencing a VSCS Loan, or the amount or time of payment of any Fees and Charges payable with respect to such VSCS Loan, or the security for or any terms and provisions of such VSCS Loan or the VSCS Bonds evidencing the same, in a manner which adversely affects or diminishes the rights of the Bondholders; provided, however, that, in the event the Bonds issued to provide the funds with which the Bank has made a VSCS Loan are being or have been refunded and the Refunding Bonds are in a principal amount in excess of or less than the principal amount of the Bonds refunded, the Bank may consent to the modification of and modify the VSCS Loan Agreement relating to such VSCS Loan and the VSCS Bonds evidencing the same, and the VSCS Bond Payments to be made thereunder so long as such VSCS Bond Payments are sufficient to maintain the scheduled payments of principal and interest on VSCS Bonds pledged under the General Resolution for VSCS Program which, when added to interest and other income estimated by the Bank to be derived from the investment or deposit of money available therefor in any Fund or Account created by the General Resolution for VSCS Program, will be sufficient to pay Debt Service on all Outstanding Bonds when due.

Sale of VSCS Bonds by Bank

The Bank shall not sell any VSCS Bonds or other obligations issued as evidence of a VSCS Loan made by the Bank prior to the date on which a sufficient amount of Outstanding Bonds issued with respect to such VSCS Loan are redeemable, and shall not after such date sell any such VSCS Bonds or other obligations issued as evidence of a VSCS Loan made by the Bank, unless the sales price thereof received by the Bank shall not be less than the aggregate of: (i) the principal amount, the interest to accrue to the redemption date and redemption premium, if any, needed to redeem a sufficient amount of Bonds to assure Bank compliance with the provisions of the General Resolution for VSCS Program governing the scheduled payments of principal and interest on VSCS Bonds pledged under the General Resolution for VSCS Program which, when added to interest and other income estimated by the Bank to be derived from the investment or deposit of money available therefor in any Fund or Account created by the General Resolution for VSCS Program, will be sufficient to pay Debt Service on all Outstanding Bonds when due, and (ii) the costs and expenses of the Bank in effecting the redemption of the Outstanding Bonds so to be redeemed, less the amount of monies or securities available in the applicable sub-account or sub-accounts in the Redemption Account and for application to the redemption of such Bonds in accordance with the terms and provisions of the General Resolution for VSCS Program, as determined by the Bank.

Account and Reports

(1) The Bank shall keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to all VSCS Bond Payments, VSCS Bonds, the Fees and Charges and all funds and accounts established by the General Resolution for VSCS Program, which shall at all reasonable times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than five percent (5%) in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

(2) The Bank shall annually, within ninety (90) days after the close of each Fiscal Year, file with the Trustee a copy of an annual report for such Fiscal Year (the "Annual Report"), accompanied by

an Accountant's Certificate, setting forth in complete and reasonable detail: (a) its operations and accomplishments; (b) its receipts and expenditures during such Fiscal Year in accordance with the categories or classifications established by the Bank for its operating and capital outlay purposes; (c) its assets and liabilities at the end of such Fiscal Year, including a schedule of its VSCS Bond Payments, VSCS Bonds, Fees and Charges and the status of reserve, special or other funds and the funds and accounts established by the General Resolution for VSCS Program; and (d) a schedule of its Bonds Outstanding and other obligations outstanding at the end of such Fiscal Year, together with a statement of the amounts paid, redeemed and issued during such Fiscal Year. A copy of each such annual report and Accountant's Certificate shall be mailed promptly thereafter by the Bank to each Bondholder who shall have filed his name and address with the Bank for such purpose.

Budgets

(1) The Bank shall, at least sixty (60) days prior to the beginning of each calendar year, prepare and file in the office of the Trustee a preliminary budget covering its fiscal operations for the succeeding calendar year which shall be open to inspection by any Bondholder. The Bank shall also prepare a summary of such preliminary budget and on or before forty-five (45) days prior to the beginning of each calendar year mail a copy thereof to any Bondholder who shall have filed his name and address with the Bank for such purpose.

(2) In the event the Holders of ten percent (10%) or more in principal amount of the Outstanding Bonds shall file with the Bank thirty (30) days or more prior to the beginning of a calendar year a written request for a public hearing on such preliminary budget, the Bank shall call and hold such public hearing in the City of Montpelier, in the State of Vermont, such hearing to be held not later than fifteen (15) days prior to the beginning of such calendar year. Notice of such public hearing shall be published once in an Authorized Newspaper, not less than ten (10) days prior to the date of such hearing, and shall contain a statement of the purpose of the hearing and the place and hour at which the same will be held. At such hearing any Bondholder, or his duly authorized attorney or representative, shall be entitled to be heard on any of the provisions contained in such preliminary budget.

(3) The Bank shall adopt an annual budget covering its fiscal operations for the succeeding calendar year not later than December 1 of each year and file the same with the Trustee and with such officials of the State as required by the Act, as then amended, which budget shall be open to inspection by any Bondholder. In the event the Bank shall not adopt an annual budget for the succeeding calendar year on or before December 1, the budget for the preceding calendar year shall be deemed to have been adopted and be in effect for such calendar year until the annual budget for such calendar year shall have been adopted as above provided. The Bank may at any time adopt an amended annual budget in the manner provided in the Act as then amended.

Personnel and Servicing of Programs

(1) The Bank shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons employed by the Bank shall be qualified for their respective positions.

(2) The Bank may pay to the VSCS from the Operating Account such amounts as are necessary to reimburse the VSCS for the reasonable costs of any services performed for the Bank.

Waiver of Laws

The Bank shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the General Resolution for VSCS Program or in any Series Resolution or in the Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the Bank.

Defaults

The Trustee shall be and by the General Resolution for VSCS Program is vested with all of the rights, powers and duties of a trustee appointed by Bondholders pursuant to Section 4702 of the Act, and the right of Bondholders to appoint a trustee pursuant to Section 4702 of the Act is abrogated in accordance with the provision of subdivision 18 of Section 4648 of the Act.

The General Resolution for VSCS Program declares each of the following events an "event of default":

(a) If the Bank shall default in the payment of the principal or Redemption Price of or interest on any Bond when and as the same shall become due, whether at maturity or upon call for redemption, and such default shall continue for a period of thirty (30) days; or

(b) if the Bank shall fail or refuse to comply with the provisions of the Act or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the General Resolution for VSCS Program, any Series Resolution, any Supplemental Resolution, or in the Bonds contained, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Holders of not less than five percent (5%) in principal amount of the Outstanding Bonds;

provided, however, that an event of default shall not be deemed to exist under the provisions of clause (c) above upon failure of the Bank to make and collect Fees and Charges required to be made and collected by the provisions of the General Resolution for VSCS Program or upon the failure of the Bank to enforce any obligation undertaken by the VSCS pursuant to a VSCS Loan Agreement including the making of the stipulated VSCS Bond Payments so long as the Bank may be otherwise directed by law and so long as the Bank shall be provided with monies from the State or otherwise, sufficient in amount to pay the principal of and interest on all Bonds as the same shall become due during the period for which the Bank shall be directed by law to abstain from making and collecting such Fees and Charges and from enforcing the obligations of VSCS under the applicable VSCS Loan Agreement.

Remedies

(1) Upon the happening and continuance of any event of default specified in paragraph (a) above, the Trustee shall proceed, or upon the happening and continuance of any event of default specified in paragraph (b) above, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights;

(a) by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, including the right to require the Bank to make and collect Fees and

Charges and VSCS Bond Payments adequate to carry out the covenants and agreements as to, and pledge of, such Fees and Charges and VSCS Bond Payments, and other properties and to require the Bank to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(b) by bringing suit upon the Bonds;

(c) by action or suit in equity, to require the Bank to account as if it were the Trustee of an express trust for the Holders of the Bonds;

(d) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds; and

(e) in accordance with the provisions of the Act, declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds, to annul such declaration and its consequences.

(2) In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Bank for principal, Redemption Price, interest or otherwise, under any provision of the General Resolution for VSCS Program or a Series Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Bank for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable.

Priority of Payments After Default

In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal or Redemption Price then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the Act and the General Resolution for VSCS Program, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the General Resolution for VSCS Program, shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

These provisions are in all respects subject to provisions in the General Resolution for VSCS Program as to the extension of payment of principal and interest on the Bonds.

Whenever monies are to be applied by the Trustee pursuant to the provisions of the General Resolution for VSCS Program provision governing priority of payments after default, such monies shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such monies available for application and the likelihood of additional money becoming available for such application in the future; the deposit of such monies with the Paying Agents, or otherwise setting aside such monies in trust for the proper purpose, shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Bank, to any Bondholder or to any other person for any delay in applying any such monies, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the General Resolution for VSCS Program as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such monies, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Termination of Proceedings

In case any proceeding taken by the Trustee on account of any event of default shall have been discontinued or abandoned for any reason, then in every such case the Bank, the Trustee and the Bondholders shall be restored to their former positions and rights under the General Resolution for VSCS Program, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Limitation on Rights of Bondholders

No Holder of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the General Resolution for VSCS Program, or for the protection or enforcement of any right under the General Resolution for VSCS Program or any right under law unless such Holder shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the General Resolution for VSCS Program or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the General Resolution for VSCS Program or for any other remedy provided in the General Resolution for VSCS Program or under law. It is understood and intended that no one or more Holders of the Bonds secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the General Resolution for VSCS Program, or to enforce any right thereunder or under law with respect to the Bonds or the General Resolution for VSCS Program, except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner therein provided and for the benefit of all Holders of the Outstanding Bonds. Notwithstanding the foregoing provisions, the obligation of the Bank shall be absolute and unconditional to pay the principal and Redemption Price of and interest on the Bonds to the respective Holders thereof pertaining thereto at the respective due dates thereof, and nothing therein shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Anything in the General Resolution for VSCS Program to the contrary notwithstanding, each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the General Resolution for VSCS Program or any Series Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorney's fees, against any party litigant in any suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but such provisions shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least twenty-five percent (25%) in principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or Redemption Price of or interest on any Bond on or after the respective due date thereof expressed in such Bond.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or to the Holders of the Bonds under the General Resolution for VSCS Program is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given thereunder or now or hereafter existing at law or in equity or by statute.

No Waiver of Default

No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the General Resolution for VSCS Program to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Notice of Event of Default

The Trustee shall give to the Bondholders notice of each event of default under the General Resolution for VSCS Program known to the Trustee within ninety (90) days after the knowledge of the occurrence thereof, unless such event of default shall have been remedied or cured before the giving of such notice; provided that, except in the case of default in the payment of the principal or Redemption Price of or interest on any of the Bonds, or in the making of any payment required to be made into the Revenue Fund, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders. Each such notice of event of default shall be given by the Trustee by mailing written notice thereof: (1) to all registered Holders of Bonds, as the names and addresses of such Holders appear upon the books for registration and transfer of Bonds as kept by the Trustee; (2) to such Bondholders as have filed their names and addresses with the Trustee for that purpose; and (3) to such other persons as is required by law.

Modifications of Resolution and Outstanding Bonds

The General Resolution for VSCS Program provides procedures whereby the Bank may amend the General Resolution for VSCS Program or a Series General Resolution for VSCS Program by adoption of a supplemental resolution. Amendments that may be made without the consent of Bondholders must be for purposes of further securing the Bonds, imposing further limitations on or surrendering rights of the Bank or curing ambiguities.

Amendments of the respective rights and obligations of the Bank and the Bondholders may be made with the written consent of the Holders of at least two-thirds in principal amount of the Outstanding Bonds to which the amendment applies; but no such amendment shall permit a change in the terms of redemption or maturity of the principal of any Bond or of any installment of interest thereon or a reduction in the principal amount or Redemption Price thereof, or the rate of interest thereon or reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect such amendment.

Amendments may be made in any respect with the written consent of the Holders of all of the Bonds then Outstanding.

Defeasance

(1) If the Bank shall pay or cause to be paid to the Holders of all Bonds and coupons then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the General Resolution for VSCS Program, then, at the option of the Bank, expressed in an instrument in writing signed by an Authorized Officer and delivered to the Trustee, the covenants, agreements and other obligations of the Bank to the Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Bank, execute and deliver to the Bank all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Bank all money, securities and funds held by them pursuant to the General Resolution for VSCS Program which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

(2) Bonds or interest installments for the payment or redemption of which monies shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Bank of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have

been paid within the meaning and with the effect expressed in paragraph (1) above. All Outstanding Bonds of any Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (1) above if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Bank shall have given to the Trustee in form satisfactory to it, irrevocable instructions to mail notice of redemption on said date of such Bonds, (b) there shall have been deposited with the Trustee either monies in an amount which shall be sufficient, or direct obligations of the United States of America the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Bank shall have given the Trustee in form satisfactory to it irrevocable instructions to mail notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the General Resolution for VSCS Program and stating such maturity or redemption date upon which monies are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Failure to mail any notice shall not effect the ability of the Bank to defease any of the Bonds. Neither direct obligations of the United States of America or monies deposited with the Trustee pursuant to the provision in the General Resolution for VSCS Program providing for defeasance or principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided, however, that any cash received from such principal or interest payments on such direct obligations of the United States of America deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in direct obligations of the United States of America maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the Bank, as received by the Trustee, free and clear of any trust, lien or pledge.

(3) Anything in the General Resolution for VSCS Program to the contrary notwithstanding, any monies held by the Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six (6) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such monies were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such monies if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the Bank, be repaid by the Fiduciary to the Bank, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Bank for the payment of such Bonds; provided, however, that before being required to make any such payment to the Bank, the Fiduciary shall, at the expense of the Bank, mail to the Bondholders and cause to be published at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper, a notice that said monies remain unclaimed and that, after a date named in said notice, which date shall be not less than thirty (30) days after the date of the first publication of such notice, the balance of such monies then unclaimed will be returned to the Bank.

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MINTZ LEVIN

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May __, 2017

Vermont Municipal Bond Bank
Winooski, Vermont

Re: Vermont Municipal Bond Bank, Vermont State Colleges System Bonds, 2017 Series A (the "Bonds")

We have acted as bond counsel to the Vermont Municipal Bond Bank (the "Bank") in connection with the issuance by the Bank of the Bonds pursuant to the provisions of the Vermont Municipal Bond Bank Law, Public Act No. 216 of the Laws of Vermont enacted by the General Assembly of the State of Vermont at the 1969 Adjourned Session, as amended (the "Act"), the General Bond Resolution for Vermont State Colleges System adopted by the Bank on March 30, 2017 (the "General Resolution for VSCS Program"), and the Series Resolution adopted by the Bank on March 30, 2017 authorizing the issuance of the Bonds (the "Series Resolution," and together with the General Resolution for VSCS Program, the "Resolutions"). Terms not otherwise defined herein shall have the same meanings as set forth in the Resolutions.

We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion. In addition, we have examined and relied upon the opinions of bond counsel to the Vermont State Colleges, also known as the Vermont State Colleges System ("VSCS") dated the date hereof, relative to the validity and enforceability of the bond issued by the VSCS (the "VSCS Bond") which secure the loan to the VSCS financed by the Bank from the proceeds of the Bonds (the "Loan"), and to the validity and enforceability of the Loan Agreement dated as of May 1, 2017 (the "Loan Agreement") between the Bank and the VSCS.

The Bonds are being issued by means of a book-entry-only system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and not available for distribution to the public, evidencing ownership of the Bonds in denominations of $5,000 or integral multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

The Bonds are payable on October 1 in the years and principal amounts, bear interest at the rates and are subject to redemption prior to maturity, all as provided in the Series Resolution.

As to questions of fact material to our opinion, we have relied upon the representations of the Bank contained in the Resolutions and in the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bank is duly created and validly existing as a body politic and corporate constituted as an instrumentality of the State of Vermont (the "State"), under and pursuant to the laws of the State with the power to adopt the Resolutions, perform the agreements on its part contained therein and issue the Bonds.

2. The Resolutions have been duly adopted by the Bank and constitute valid and binding obligations of the Bank enforceable upon the Bank.

3. Pursuant to the Act and subject to the exceptions and terms of the Resolutions, the Resolutions create a valid lien on the VSCS Bond, the VSCS Bond Payments and moneys and securities held or set aside thereunder for the security of the Bonds on a parity with any other bonds to be issued under the General Resolution for VSCS Program.

4. The Bonds have been duly authorized, executed and delivered by the Bank and are valid and binding direct and special obligations of the Bank payable solely from the funds and accounts established by the Resolutions and rights to receive revenues thereunder.

5. In the General Resolution for VSCS Program, the Bank has validly covenanted and will be legally obligated to enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of the VSCS Bonds securing the Loan made by the Bank, including the prompt collection of payments of principal and interest on such VSCS Bond and Fees and Charges (as defined in the General Resolution for VSCS Program).

6. Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to compliance with various requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

7. Interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes.

8. Except as set forth in paragraph (6), we express no opinion as to federal tax consequences of holding the Bonds, and except as set forth in paragraph (7), we express no opinion as to any state or local tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds and the Resolutions may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.

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VERMONT MUNICIPAL BOND BANK

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

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2015 AND 2014

TABLE OF CONTENTS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Vermont Municipal Bond Bank

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

141 Main Street • P.O. Box 937, Montpelier, Vermont 05601 • Phone (802) 229-9193

Other Matters

Report on Summarized Comparative Information

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016 on our consideration of the Bond Bank's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Bank's internal control over financial reporting and compliance.

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

Montpelier, Vermont
June 9, 2016

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

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

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

2015 Financial Highlights

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

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

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

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

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

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

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

Assets and Deferred Outflows of Resources

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

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

Liabilities

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

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

Net Position

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

Operating Summary

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

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

Investment Portfolio

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

Subsequent Events

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

Contact for Further Information

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

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

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

	2015 Bond Fund	2015 Operating Fund	2015 Total	2014 Summarized Total
Refunding loss amortization	$ 1,894,581	$ -	$ 1,894,581	$ 1,693,595

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

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

1. Authorizing legislation and nature of funds:

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

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

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

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

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

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

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

A. Authorizing legislation (continued) -

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

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

A. Authorizing legislation (continued)

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

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

A. Authorizing legislation (continued) -

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

B. Basis of presentation and nature of funds - The financial statement presentation follows the recommendations of the Governmental Accounting Standards Board (GASB) in its Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Bond Bank is a special-purpose entity with only business-type activities. Under GASB Statement No. 34, such entities should present only the financial statements required for enterprise funds. The accompanying financial statements include two distinct funds, each of which is considered a separate accounting entity. The following funds are used by the Bond Bank.

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

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

2. Summary of significant accounting policies:

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

A. Advance refundings - All advance refundings completed are accounted for in accordance with the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The unamortized portion is reported as a deferred outflow of resources.

B. Fund accounting - The financial statements of the Bond Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) in conformity with the principles of fund accounting.

2. Summary of significant accounting policies (continued):

C. Measurement focus and basis of accounting - The Bond Bank uses the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation for payment is incurred. Operating revenues include interest from loans to municipalities and accrued interest receivable from municipalities. Interest expense on related bonds payable is recorded as a nonoperating expense in accordance with GASB Statements No. 9 and 34.

D. Cash equivalents - The Bond Bank considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.

E. Investments - The Directors appoint trustees to oversee the investments in the Bond Fund. As of December 31, 2015, the Trustee is the U.S. Bank National Association. The Directors engaged McDonnell Investment Management, LLC to provide investment management services for the Operating Fund.

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

F. Deferred outflows/inflows or resources - In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources, if applicable, are reported as separate sections on the Statement of Net Position. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period.

G. Use of estimates - The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Prior year totals - The financial statements include certain prior year summarized comparative information in total but not by fund as presented in the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Bond Bank's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

I. Prior year restatement - The prior year's noncurrent asset loans to municipalities and the prior year's beginning net position have been reduced by $887,406 to reflect the correct balance on the trustee's loan schedule as of December 31, 2014. This adjustment had no effect on the December 31, 2015 fiscal year.

3. Custodial credit risk - deposits:

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

3. Custodial credit risk - deposits (continued):

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

4. Investments:

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

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

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

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

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

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

4. Investments (continued):

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

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

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

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

4. Investments (continued):

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

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

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

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

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

5. Loans to municipalities:

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

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

6. Bond liability activity:

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

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

7. Bonds payable:

Bonds payable consist of the following:

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

7. Bonds payable (continued):

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

7. **Bonds payable (continued):**

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

7. Bonds payable (continued):

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

7. Bonds payable (continued):

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

7. Bonds payable (continued):

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

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

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

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

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

7. Bonds payable (continued):

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

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

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

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

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

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

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

7. Bonds payable (continued):

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

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

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

8. Reserve requirement:

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

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

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

9. Accrued arbitrage rebate payable:

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

10. Transfer to Operating Fund:

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

11. Pension plan:

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

12. Related party transactions:

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

13. Equity contribution reimbursements:

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

Scheduled equity contribution reimbursements are as follows:

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

14. Commitments:

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

15. Subsequent events:

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

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Financial Statements and Management's Discussion and Analysis

June 30, 2016 and 2015

CONTENTS

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Vermont State Colleges
Montpelier, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2016 and 2015, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Colleges' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont State Colleges at June 30, 2016 and 2015 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-18 and the schedule of funding progress on page 57 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.

Supplemental Information
Our audits were conducted for the purpose of forming an opinion on the financial statements of Vermont State Colleges, taken as a whole. The schedule of expenditures of federal awards on pages 63-70 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, on our consideration of Vermont State Colleges' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Vermont State Colleges' internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 19, 2016

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Introduction

The Management's Discussion and Analysis (MD&A) is required supplemental information due to the Governmental Accounting Standards Board (GASB) reporting model. It is designed to help the reader's understanding of the accompanying financial statements and notes. As this MD&A contains summarized information, tables and graphs, it should be read in conjunction with the accompanying financial statements and notes.

Vermont State College System

The Vermont State College System unites five distinctive public colleges in the common purpose of providing first-rate higher education at reasonable cost in order to improve the quality of life for the citizens of Vermont.

The colleges are:
Community College of Vermont (CCV)
Castleton University (CU)
Johnson State College (JSC)
Lyndon State College (LSC)
Vermont Technical College (VTC)

Significant Events Affecting These Financial Statements

Events that affect these statements during the past five years include:

- Enrollment trends over the past 5 years are down for all of the VSC institutions, counting by either FTE (full time equivalent) or by headcount. There was an uptick from FY15 to FY16 for Castleton University and Vermont Technical College, but the downward trend continued for the other three schools. The primary reason for this trend is the declining number of students graduating from high school in the state.
- Accrual of the costs of other post-employment benefits (OPEB) totaling over $60 million through FY2016, which is not being pre-funded, but paid when incurred during retirement periods. Groups have been closed for all staff hired in the future which will reduce this liability over time.
- Debt financing was secured for construction projects in FY2008 and FY2010, with construction projects placed in service through FY2013. In 2005, 2008 and 2009, VSC borrowed funds for construction projects. For each of these, we entered into debt swap arrangements with the lender to provide a fixed interest rate over the life of these loans. The market value of these debt swaps is reflected in the Statement of Net Assets. It is included in the Asset section as deferred outflows of resources, and in the liability section as Interest Rate Swap.

Using the Financial Statements

The following discussion and analysis provides an overview of the financial statements and activities of Vermont State Colleges (VSC) for the year ended June 30, 2016 and selected comparative information for the previous 4 years. Since this MD&A is designed to focus on current activities, resulting changes and currently known facts, please read in conjunction with the financial statements and notes that follow this section.

These financial statements have been prepared in accordance with GASB (Government Accounting Standards Board) principles. In June 1999, GASB released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*. Changes in Statement No. 34 compared to prior GASB pronouncements require a comprehensive consolidated look at the entity as a whole, as well as capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This essentially applies Statement No. 34 to public colleges and universities. Previously, the financial statements focused on the individual fund groups rather than VSC as a whole.

A brief explanation of each financial statement required by the GASB reporting model follows:

Financial Statements

The Vermont State College System's financial statements include three primary components:

- Statement of Net Position (SNP)
- Statement of Revenues, Expenses and Changes in Net Position (SRECNP)
- Statement of Cash Flow (SCF)

Statement of Net Position

The Statement of Net Position presents the financial position of VSC at one point in time - June 30, and includes all assets, liabilities, and the net position of the System. Net position represents the residual interest in the System's assets after liabilities are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 1 on page 6 shows the condensed Statement of Net Position for the past five years.

Assets are items of economic value owed by an institution. They include capital assets like land, buildings and equipment: cash and investments, and amounts owed to us by students or others. Total assets are categorized as either current or noncurrent.

Statement of Net Position – Continued

Current assets are available to satisfy current liabilities, which are those amounts expected to be payable within the next year. The major components of current assets are cash and accounts receivable, which are primarily funds due to the VSC by students and granting agencies.

Total assets (including deferred outflows) of $268 million as of the end of the current fiscal year decreased by $4 million or 1% from prior year, the decrease was primarily in Capital Assets due to depreciation. There were also sales of investments during the year increasing our cash. Over the 5 years, assets have decreased by $25 million, $12 million in current assets plus investments, and an additional $7 million in capital assets. As enrollment has declined, we have used investments to fund activities, and have deferred maintenance of our capital assets.

Noncurrent assets consist primarily of endowment and other investments, in addition to capital assets. Investments were $43 million at June 30, 2016, a decrease of $7 million or 14% since June 30, 2015 – this decrease was primarily from sales of investments to ensure cash was available during July and August, an annual low point in our cash position. At the beginning of the 5-year period, current assets included a Certificate of Deposit which matured in FY2013. Some of these funds were invested and are now reflected in Long Term investments.

Liabilities are obligations owed by the institutions. They include funds owed to others like vendors, employees, taxing agencies, bondholders. Liabilities are also classified as current and long-term. Current liabilities are those that due during the next fiscal year.

Current liabilities of $25 million and $24 million as of June 30, 2016 and 2015 respectively include primarily accounts payable, and unearned revenue related to the next fiscal year. Current liabilities have not changed significantly from FY2012.

Noncurrent liabilities increased by $4 million to $198 million during FY2016. An increase in postemployment benefits (OPEB) liability of $5 million was offset by a decrease in long term debt of $6 million. During the 5-year period, the VSC has recorded an increase in this OPEB liability of $24 million, bringing the total OPEB liability to $60 million. Bonds payable are declining as bond holders are being paid.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

Statement of Net Position – Continued

TABLE 1: Condensed Statement of Net Position as of June 30
($ in millions)

	2016	% change	2015	% change	2014	2013	2012
Current Assets	30	25%	24	14%	21	25	65
Noncurrent Assets							
Investments	43	-14%	50	-9%	55	51	20
Capital assets, net	174	-4%	181	-3%	187	194	181
Other	6	0%	6	-19%	6	7	10
Deferred outflows (Rate swaps)	15	36%	11	0%	11	11	17
Total Assets and Def'd outflows	268	-1%	272	-3%	280	288	293
Current liabilities	25	4%	24	4%	23	23	26
Non current liabilities							
Post employm't benefit oblig	60	9%	55	12%	49	43	36
Bonds and Notes payable	117	-5%	123	-3%	127	131	136
Other	21	31%	16	-6%	17	17	23
Total Liabilities	223	2%	218	1%	216	214	221
Net investment in cap'l assets	54	-5%	57	-5%	60	66	52
Restricted							
Nonexpendable	18	6%	17	6%	16	15	14
Expendable	9	0%	9	-10%	10	8	6
Unrestricted	-36	24%	-29	32%	-22	-15	0
Total Net Position	45	-17%	54	-16%	64	74	72
Total Liabilties and Net Position	268	-1%	272		280	288	293

Net Position

Net position is equal to the total assets minus the total liabilities, and represents the value of the institution at a point in time: for VSC financial statements on June 30.

Net investment in capital assets represents the historic cost of the System's capital assets reduced by total accumulated depreciation, plus the outstanding principal balances on debt used for the acquisition, construction, or improvement of those assets.

Net Position – Continued

Total net position decreased from $72 million to $45 million over the five years reported here, primarily from the recognition of post retirement costs totaling $24 million during the period. Without this OPEB cost, our net position for FY2016 would be just $3 million less than our FY2012 net position. Changes in our net position from FY2015 to FY2016 include a decrease in capital assets (-$7M) the increase in unfunded post-retirement benefit obligations (-$5M) and reduction in amount owed on debt (+$6M).

Net investment in capital assets decreased by $3 million from June 30, 2015 to June 30, 2016 due to depreciation, offset partially by reduction in outstanding debt related to capital assets. Net investment in capital assets increased during the prior years during a period of capital construction.

The restricted nonexpendable port of the Net Position represents the permanent endowment funds for the system. These are donations to the colleges that cannot be spent without permission of the donor. They are invested and the earnings are used, based on the instructions of the donor. Most of the earnings on our endowment funds are used for scholarships. The increase of $1 million in FY2016 and $4 million over 5 years is due to gifts received for endowments during the period.

The restricted expendable portion of Net Position includes unexpended, but restricted gifts and grants, and unexpended endowment appreciation, subject to externally imposed conditions on their use. There was no significant change from June 30, 2015 to June 30, 2016. Over the 5-year period, expendable net assets have increased by $3 million, as earnings have outpaced the 5% spending on endowments permitted by Board policy.

The unrestricted portion of the Net Position is affected primarily by OPEB obligations, which are unfunded. That liability increased by $5 million in FY2016 to $60 million as of June 30, 2016. Since FY2012, the unrestricted net position has declined by $36 million as post-employment benefit obligations are recorded.

During FY2016 the system's total Net Position declined from $54 million to $45 million. This is due primarily to our unrestricted net assets being reduced from the annual booking of the VSC OPEB liability. The details of the change in net position are shown in the Statement of Revenues, Expenses, and Changes in Net Position beginning on page 9.

Capital Assets and Debt Administration

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment for educational, research, cultural programs and for residential life. Table 2 on page 8 provides detail from the past 5 years related to the Capital Assets held by the System.

Capital Assets and Debt Administration – Continued

Construction in Progress reflects amounts paid for buildings or other assets that were not completed at year end. When completed and placed in service, the total cost is moved to the appropriate capital asset category. Depreciation of that asset begins the month after it is placed in service.

During the 5-year period, there was significant construction done at all five colleges, funded by debt acquired in FY2008 and FY2010. Construction in Progress increased during the years of construction, representing construction not completed on June 30. During FY2014 as construction projects were completed Construction in Progress returned to a level prior to receipt of debt funding. Building and Improvements increased throughout the period, reflecting the completed projects. Infrastructure includes water & sewer systems, heating & electrical systems, telecommunication systems, and roads. The increase in infrastructure over the five-year period is due to projects on the campuses as well as enhanced communications systems for the entire System. Equipment shows a significant increase in FY2013 due to a donation of software valued at $12 million. Table 2 provides detail about Capital Assets, including related information (depreciation expense and outstanding principal on construction loans).

Table 2: Capital Assets as of June 30
($ in millions)

	2016	% Change	2015	% Change	2014	2013	2012
Land	10	0%	10	67%	6	6	6
Construction in progress	2	0%	2	-33%	3	8	7
Infrastructure	38	0%	38	0%	38	36	35
Buildings and improvements	254	1%	252	1%	250	241	233
Leasehold improvements	4	0%	4	0%	2	2	0
Equipment	33	3%	32	0%	32	31	17
Total Capital Assets	341		338		331	324	298
Accumulated Depreciation	-167	6%	-157	9%	-144	-129	-117
Capital Assets, Net	174		181		187	195	181
Related information							
Depreciation Expense	10	-29%	14	0%	14	13	8
Outstanding Principal, Related Loans	123	-3%	127	-3%	131	135	141

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports total operating revenues, operating expenses, non-operating revenues and expenses, and other changes in net position, showing the total change in net position for the fiscal year. Table 3 on page 9 shows the Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years.

Operating and Non-operating Revenue

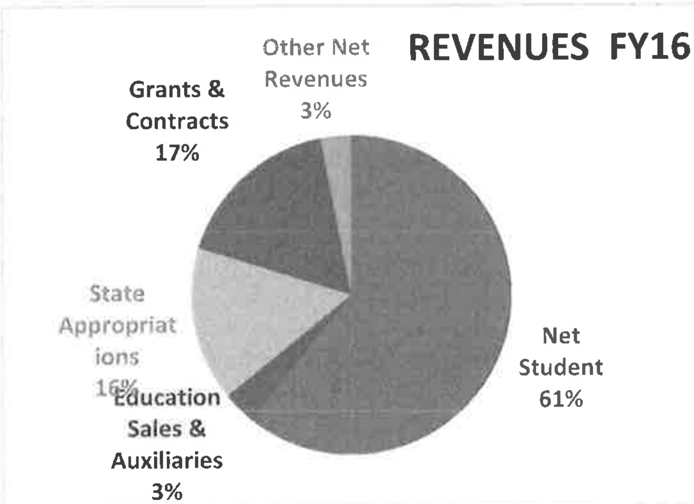
Accounting rules require that our audited financials include operating revenues, operating expenses and non-operating revenues and expenses. The following sections provide an analysis of the total operating and non-operating revenues and expenses. The VSC's primary source of revenue is from student fees. This accounts for 61% of operating and non-operating income. In addition, the System receives revenue from state appropriations, governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; and investment income.

Table 3: Condensed Statements of Revenues, Expenses, and Changes in Net Position

($ in millions)

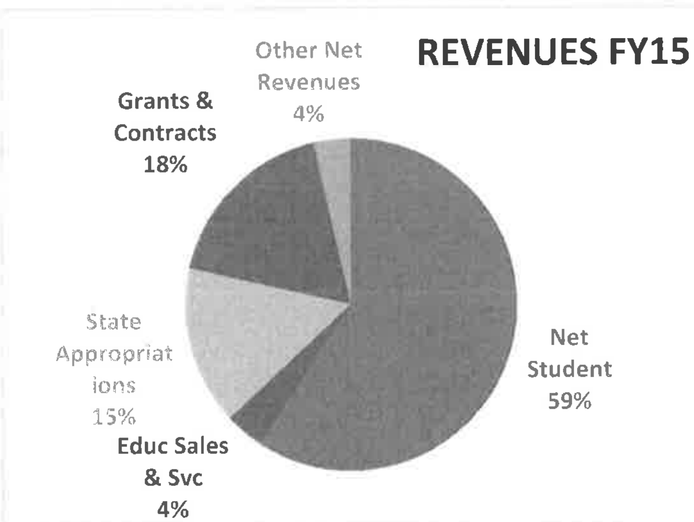
	2016	% Change	2015	% Change	2014	2013	2012
Net Student Fees	112	2%	110	-2%	112	112	110
Grants and contracts	15	0%	15	0%	15	15	15
Other Operating Revenues	8	0%	8	0%	8	8	7
Operating Revenues	135	2%	133	-1%	135	135	132
Operating Expenses	186	-2%	190	-3%	195	194	185
Operating Loss	-51	-11%	-57	-5%	-60	-59	-53
Nonoperating Revenues (Expenses)							
Non Capital Appropriations	26	-4%	27	0%	27	26	26
Federal Grants & Contracts	17	-6%	18	-10%	20	20	20
Gifts currently expendable	3	-25%	4	33%	3	3	2
Investment Income & Interest	1	0%	0	-100%	4	2	1
Interest Expense	-6	50%	-4	-33%	-6	-6	-6
Other nonoperating revenues	-1	0%	0	0%	0	0	1
Net Nonoperating Revenues	40	-11%	45	-6%	48	45	44
Total Change before other Revenues	-11	-8%	-12	0%	-12	-14	-9
Other Changes in Net Position							
Capital Appropriation	3	50%	2	0%	2	4	2
Capital gifts and grants	0	0%	0	-	0	13	0
Endowment gifts	0	0%	0	0%	1	0	1
Change in Net Position	-8	-20%	-10	11%	-9	3	-6

Operating and Non-operating Revenue - Continued



FY2016 Revenues
($ in thousands)

Net Student	$111,340
Educational Sales/Aux	6,207
State Appropriations	28,709
Grants & Contracts	31,329
Other Net Revenues	5,636
TOTAL	$183,221



FY2015 Revenues
($ in thousands)

Net Student	$109,860
Educational Sales/Aux	7,114
State Appropriations	28,710
Grants & Contracts	32,976
Other Net Revenues	6,746
TOTAL	$185,406

Tuition and Fee Revenue

Net Tuition and fees includes tuition and fees plus residence and dining fees less scholarship allowances. Table 3 shows the trend for Tuition and Fee Revenue from FY2012 through FY2016. For the System, student-based revenue has been flat during the five year period, despite increases in tuition. Enrollments in a time of decreasing high school graduates in the state have created a challenge for the schools in our system.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

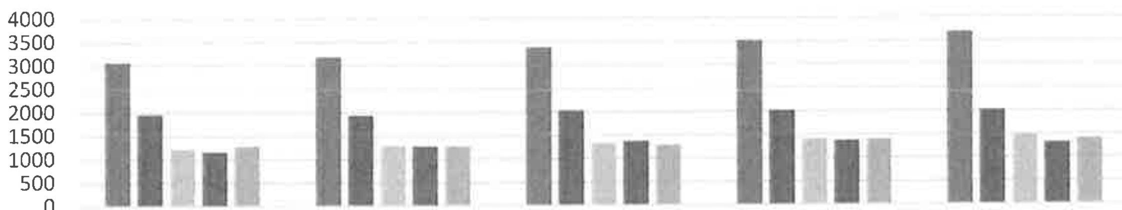
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2016 and 2015

<u>Tuition and Fee Revenue – Continued</u>

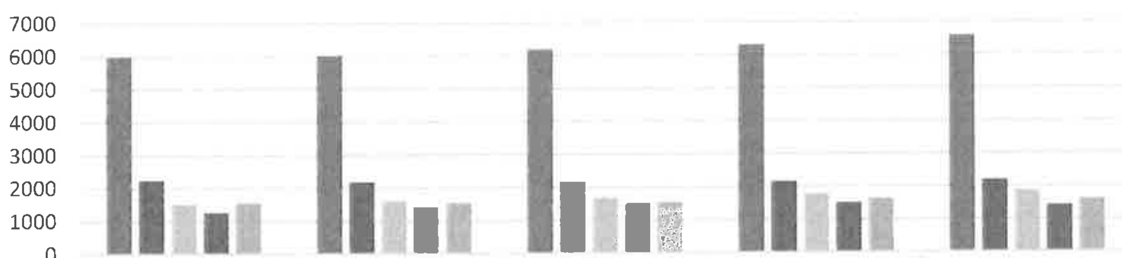
The following Charts show enrollments and student revenues for each college during this 5-year period. Enrollments are displayed by both FTE and by Headcount. FTE (Full Time Equivalent) provides better comparative information and Headcount shows the total number of individuals who have benefited from VSC education. These charts show the decline in enrollment for CCV, JSC and LSC from FY2015 to FY2016, which begins with the Fall 2015 term. Both Castleton University and Vermont Technical College had increases in FY2016 hopefully beginning a new trend.

Fall Enrollment by FTE by College



	Fall 2015	Fall 2014	Fall 2013	Fall 2012	Fall 2011
CCV	3077	3186	3387	3520	3685
CU	1960	1940	2036	2024	2014
JSC	1225	1296	1343	1415	1493
LSC	1162	1283	1376	1374	1320
VTC	1286	1274	1302	1401	1405

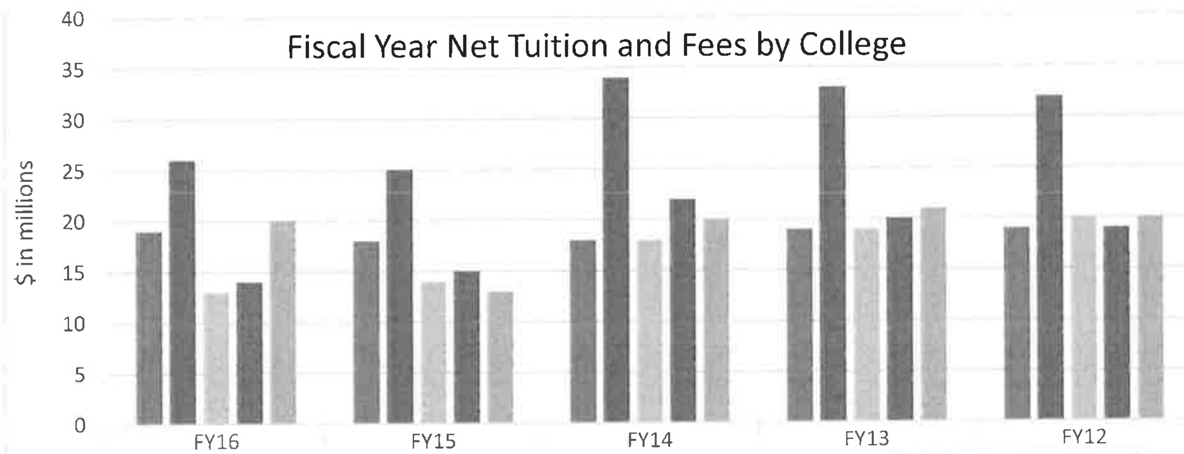
Fall Enrollment by Headcount by College



	Fall 2015	Fall 2014	Fall 2013	Fall 2012	Fall 2011
CCV	5983	6019	6194	6311	6578
CU	2246	2183	2175	2156	2192
JSC	1514	1613	1692	1783	1859
LSC	1266	1430	1519	1508	1422
VTC	1559	1542	1543	1645	1603

Tuition and Fee Revenue – Continued

The chart below displays Net Tuition and Fees for each college during the five-year period. It is notable that CCV has by far the largest number of students – both FTE and Headcount, but their net tuition is consistently outpaced by Castleton, and generally on par with the other 3 schools. CCV, as a Community College has the lowest tuition cost and charges for courses on a per credit basis, while the residential schools charge on a semester basis. However, CCV's net tuition has remained much more stable during the more recent years than the other colleges.



	FY16	FY15	FY14	FY13	FY12
CCV	19	18	18	19	19
CU	26	25	34	33	32
JSC	13	14	18	19	20
LSC	14	15	22	20	19
VTC	20	13	20	21	20

Operating and Non-operating Expenses

Table 4 on page 13 shows the total Operating and Non-Operating Expenses for the past 5 years, and the charts on pages 13-14 provide a quick view of the percent of expenses by type for FY2016 and FY2015.

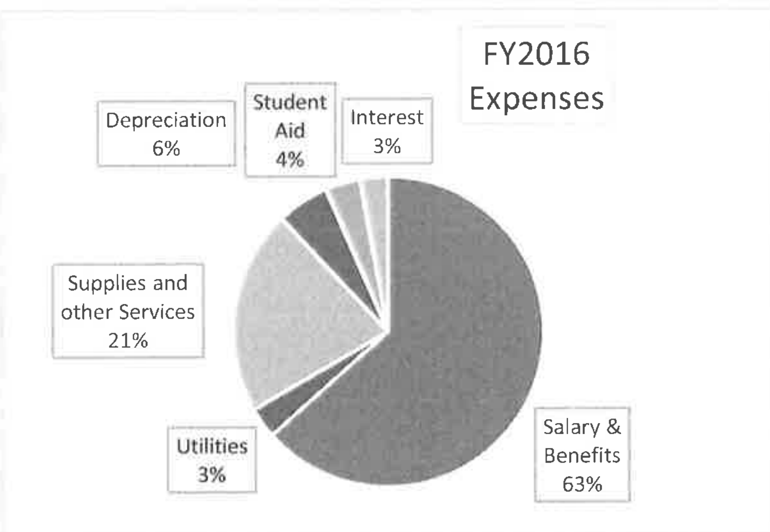
The largest percentage of VSC expenses are for salary and benefits (about 63%). Those expenses have continued to grow through FY2014, but staff reductions created a decline in FY2015 and again in FY2016. The only other expense that has increased significantly during this period is depreciation. However a software donation in FY2013 has now been fully depreciated, so this expense is returning to normal levels. Supplies and services is the second largest expense (21%).

Operating and Non-operating Expenses - Continued

Included in Salaries and Benefits are annual accruals related to post-employment benefits.

Table 4: Total Operating and Non-operating Expenses for Years Ended June 30
($ in millions)

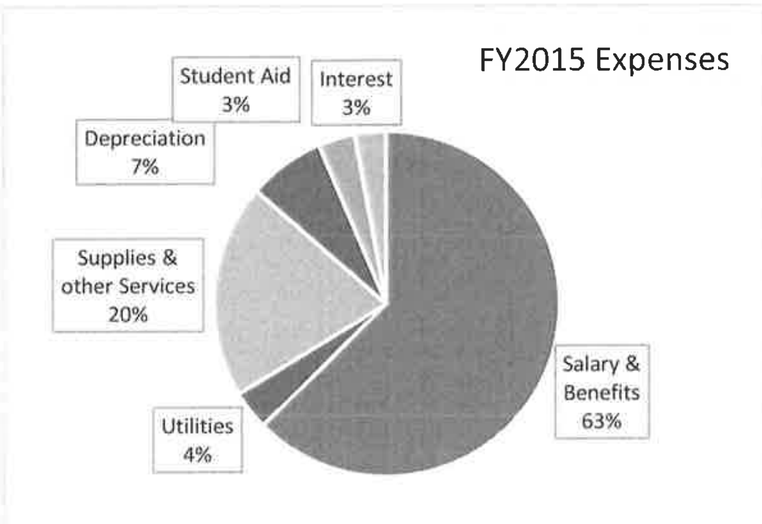
	2016	% change	2015	% change	2014	2013	2012
Operating							
Salaries & Benefits	121	-2%	123	-2%	125	123	120
Utilities	6	-14%	7	0%	7	7	7
Supplies and Svcs	41	5%	39	-7%	42	43	42
Depreciation	11	-21%	14	0%	14	13	8
Student Aid	7	0%	7	0%	7	8	8
Total Operating	186		190		195	194	185
Nonoperating							
Interest on Debt	5	-17%	6	0%	6	6	6
TOTAL Expenses	191	-3%	196	-2%	201	200	191



FY2016 Expenses
($ in thousands)

Salary/Benefits	$121,329
Utilities	6,176
Supplies/Services	40,861
Depreciation	10,489
Student Aid	6,920
Interest on Debt	5,569
TOTAL	$191,344

Operating and Non-operating Expenses – Continued



FY2015 Expenses
($ in thousands)

Salary/Benefits	$122,588
Utilities	7,143
Supplies/Services	39,342
Depreciation	14,088
Student Aid	6,741
Interest on Debt	5,758
TOTAL	$195,660

Student Financial Aid

Student financial aid awards are made from a variety of sources including federal, state, private, and system funds. Aid received from third parties is recognized as grants and contracts revenue, and aid funded with endowments is recognized as investment income on the Statements of Revenues, Expenses, and Changes in Net Position while the distribution of aid from all sources is shown as one of two components:

- Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues.
- Scholarships and Fellowships Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses. These amounts are reported as operating expense.

Total student financial aid including both the amounts reported in net tuition revenue and scholarship expenses over the past five years is shown below.

Table 5: Student Finance Aid
($ in millions)

	FY16	FY15	FY14	FY13	FY12
Scholarship Allowances (included in revenue)	25	25	25	23	21
Scholarship Expenses (included in expenses)	7	7	7	8	8
Total Student Aid	32	32	32	31	29

Statement of Cash Flows

The Statement of Cash Flows shows inflows and outflows of cash excluding both revenue and expense that is accrued to comply with accounting rules. The Condensed Statement of Cash Flows for VSC is in Table 6 on page 16.

Cash flows from operating activities

Cash flows from operating activities on the Statement of Cash Flows will always be different from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) because of the inclusion of noncash items, such as depreciation expenses on the SRECNP. Also, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows both revenues earned and expenses incurred though cash has not yet exchanged hands. The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing, food service and bookstore operations. Cash outlays include payment of wages and benefits; operating expenses such as utilities, supplies, insurance and repairs; and scholarships awarded to students. During the last five fiscal years operating cash flow has been fairly consistent.

Cash flows from noncapital financing activities

There are two primary sources of noncapital financing: state appropriations and non-operating federal grants that fund PELL student grants. Accounting standards require that we reflect these sources of revenue as non-operating, even though each of the colleges depends on them to continue the current level of operations. Both the state operating appropriations and PELL grant funds from the federal government have been fairly consistent over the last 5 fiscal years.

Cash flows from capital and related financial activities

Cash flows from capital and related financing activities include all capital plant funds and related long term debt activities (excluding depreciation and amortization of bond premiums, since these are non-cash transactions), as well as capital gifts, grants and appropriations.

Cash flows from investing activities

Purchase or sale of investments and income earned on investments are included in cash flows from investing activities. An item on the cash flow statement belongs in the investing activities section if it results from any gains (or losses) from investments in financial markets and operating subsidiaries. The activity from the last three fiscal years reflect the activity surrounding the VSC CD being liquidated in FY12 and reinvested into other instruments, as well as activity related to endowment investments.

Statement of Cash Flows - Continued

Table 6: Condensed Statements of Cash Flows
($ in millions)

Cash flows from:	2016	% change	2015	% change	2014	2013	2012
Operating	-38	9%	-35	-15%	-41	-43	-35
Non capital financing	45	-6%	48	-2%	49	49	49
Capital and related financing	-12	-8%	-13	30%	-10	-12	-17
Investing	7	17%	6	500%	1	-29	41
Net increase (decrease)	2	-67%	6	-700%	-1	-35	38
Cash, Beginning of Year	9	200%	3	-25%	4	39	1
Cash, End of Year	11	22%	9	200%	3	4	39
Operating cash flows if noncapital appropriations and PELL grants were included							
Operating	-38	9%	-35	-15%	-41	-43	-35
Non capital appropriations	26	-4%	27	4%	26	26	28
Non operating federal grants	17	-15%	20	-5%	21	20	22
Operating cash flows including appropriation and fed grants	5	-58%	12	100%	6	3	15

Consistent with accounting standards, cash flows from state operating appropriations and federal PELL grant revenue are included in noncapital financing activities, even though they provide funding for operating activities. The bottom section of Table 6 shows that with these revenue sources added to the operating cash flows, the result is positive cash flows in all years.

Economic Factors That Will Affect the Future

Demographic Trend

Vermont continues to experience a demographic decline in the overall number of graduating Vermont high school students, and this is expected to last several years into the future. All of the colleges have adopted programs and strategies to better recruit in this shrinking market. In addition, the State of Vermont has been initiating programs that permit high school students to attend college, and receive both high school and college credits for courses. The VSC has taken a lead in participating in these programs that will benefit the students by reducing their overall cost of college, as well as provide some additional revenue for the colleges.

Economic Factors That Will Affect the Future – Continued

Demographic Trend - Continued

In order to respond to these demographic changes, the VSC has also begun some structural changes that are expected to reduce costs, and at the same time enhance our ability to provide high quality services to our students. Beginning in the Fall of 2016, some administrative functions that do not impact student experience are being consolidated at the Chancellor's Office. Secondly, the system is beginning the process unifying Lyndon State College and Johnson State College into a single institution, effective at the beginning of the 2018-2019 academic year. Both campuses will be maintained, but administrative functions will be combined to reduce costs, and students from both campuses will be able to attend courses, and participate in student activities at either campus. The goal is to continue to provide high quality educational services to students, to increase both academic and campus life opportunities for students at both the campuses in Johnson and Lyndon, and create a financial model that is sustainable over time for the new unified college and for the system as a whole. Though there are some one-time costs to implement the unification of Lyndon and Johnson, the long term costs are expected to be reduced. The expectation is that both of these initiatives: consolidation of administrative functions for all colleges in the system, and unification of Lyndon and Johnson will reduce administrative costs, enable the schools to focus their time and energy on serving students, and strengthen the Vermont State College system as a whole.

Vermont State Appropriations

For FY2016, State Appropriations were $28,709,000, or 16% of total operating and non-operating revenues. VSC continues to rely on this important revenue source from the State of Vermont to help keep tuition as low as possible.

Post-Employment Benefits

A ruling of the Government Accounting Standards Board (GASB) that became effective in FY2008 requires that we recognize the future costs of retirement benefits on our books. For VSC, this includes employer costs of medical, prescription, dental and life insurance plans for all current employees who have already become eligible to receive retirement benefits, and those employees who may become eligible before they retire. The cost of these benefits must be recognized during the period of active employment rather than when they are paid during retirement. Because of VSC's unique early retirement wages benefit for the full-time faculty, VSC must also account for this liability under GASB ruling.

The annual cost to VSC includes the actuarially calculated costs for the year, less payments made during the year to our self-insurance plan for current retirees and early retirement benefits paid to retired full-time faculty.

Economic Factors That Will Affect the Future – Continued

Post-Employment Benefits - Continued

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with total eligible employees (active, retirees and beneficiaries) of 200 or more.

VSC's current actuarial study estimated that the accumulated value of prior benefits liability for the current list of employees as of July 1, 2015, was approximately $145,672,000 for post-retirement health, dental and life insurance benefits and for early retirement benefits. The present value of all benefits (past and future obligations) is estimated to be $157,886,000. The VSC has come to agreement with all of the bargaining units representing eligible staff, to close the groups of staff eligible for this benefit. This is reducing the increase in the liability and will over time reduce the liability itself.

Other Factors

As a result of negative market conditions during both FY2015 and FY2016, VSC had net realized and unrealized losses on the endowments, and other investments.

Approximately 704 of the 1,010 full-time employees at VSC are covered by union contracts. VSC employs approximately 2,133 full and part-time employees.

VSC Employees as of November 1, 2015

Bargaining Unit Employees	
Full Time	704
Part Time	213
TOTAL	917
Non-Bargaining Unit Employees	
Full Time	306
Part Time & Temp	910
TOTAL	1216
TOTAL Employees	2133

VSC has contractual commitments for various construction projects currently under way. The funds have been set aside for these projects.

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	2016	2015
Current Assets:		
Cash and equivalents (Note 2)	$ 10,550,080	$ 8,607,778
Accounts receivable, net (Note 3)	11,277,010	10,637,361
Inventories	18,048	489,165
Deposit with bond trustees (Note 2)	5,326,532	3,220,623
Other current assets	3,037,717	1,530,668
Total Current Assets	30,209,387	24,485,595
Non-Current Assets:		
Cash and equivalents (Note 2)	626,272	677,095
Long-term investments (Note 2)	43,274,853	49,777,168
Notes receivable, net (Note 3)	5,529,077	5,352,816
Other assets	25,901	19,273
Capital assets, net (Note 10)	173,828,839	180,883,632
Total Non-Current Assets	223,284,942	236,709,984
Total Assets	253,494,329	261,195,579
Deferred Outflows of Resources:		
Interest rate swap, accumulated decrease in fair value (Note 4)	14,963,264	11,024,967
Total Assets and Deferred Outflows of Resources	$ 268,457,593	$ 272,220,546

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

Liabilities and Net Position

	2016	2015
Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	**$ 12,910,396**	$ 12,867,683
Unearned revenue and deposits	**6,802,946**	6,477,785
Current portion of long-term debt (Note 4)	**5,422,083**	4,661,213
Total Current Liabilities	**25,135,425**	24,006,681
Non-Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	**48,106**	50,035
Unearned revenue and deposits	**25,555**	171,643
Refundable grants	**6,038,367**	6,041,112
Post-employment benefit obligations (Note 8)	**59,599,052**	54,733,504
Interest rate swap (Note 4)	**14,963,264**	11,024,967
Long-term debt, excluding current portion (Note 4)	**117,092,914**	122,514,996
Total Non-Current Liabilities	**197,767,258**	194,536,257
Total Liabilities	**222,902,683**	218,542,938
Net Position:		
Investment in capital assets, net	**54,415,707**	56,533,789
Restricted nonexpendable	**17,787,829**	17,180,471
Restricted expendable	**9,466,755**	9,331,469
Unrestricted	**(36,115,381)**	(29,368,121)
Total Net Position	**45,554,910**	53,677,608
Total Liabilities and Net Position	**$ 268,457,593**	$ 272,220,546

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,

	2016	2015
Operating Revenues:		
Tuition and fees	**$ 116,026,307**	$ 115,146,051
Residence and dining	**20,075,440**	19,926,641
Less: scholarship allowances	**(24,761,694)**	(25,212,668)
Net Tuition, Fees, and Residence and Dining Revenue	**111,340,053**	109,860,024
Federal grants and contracts	**11,261,929**	11,267,895
State and local grants and contracts	**2,291,236**	1,872,176
Non-governmental grants and contracts	**1,136,090**	1,384,237
Interest income	**81,693**	87,334
Sales and services of educational activities	**6,083,859**	6,008,981
Other auxiliary enterprises	**123,571**	1,104,783
Other operating revenues	**1,823,430**	1,567,754
Total Operating Revenues	**134,141,861**	133,153,184
Operating Expenses (Notes 5, 9 and 11):		
Salaries and wages	**78,963,999**	79,922,958
Employee benefits (Notes 7 and 8)	**42,364,668**	42,665,064
Scholarships and fellowships	**6,920,136**	6,741,524
Supplies and other services	**40,860,715**	39,341,671
Utilities	**6,176,191**	7,142,919
Depreciation (Note 10)	**10,488,999**	14,087,773
Total Operating Expenses	**185,774,708**	189,901,909
Net Operating Loss	**(51,632,847)**	(56,748,725)
Non-Operating Revenues (Expenses):		
State appropriations (Note 6)	**25,702,913**	27,221,566
Federal grants and contracts	**16,639,503**	18,451,754
Gifts	**3,060,797**	4,255,144
Investment income, net of expenses (Note 2)	**624,012**	358,253
Interest expense on capital debt	**(5,569,104)**	(5,758,495)
Other non-operating revenues	**(655,014)**	(50,502)
Net Non-Operating Revenues	**39,803,107**	44,477,720
Decrease in Net Position Before Other Revenues	**(11,829,740)**	(12,271,005)
Other Revenues:		
State appropriations for capital expenditures (Note 6)	**3,006,258**	1,488,000
Capital grants and gifts	**237,866**	7,970
Additions to non-expendable assets	**462,918**	520,945
Decrease in Net Position	**(8,122,698)**	(10,254,090)
Net Position, Beginning of Year	**53,677,608**	63,931,698
Net Position, End of Year	**$ 45,554,910**	$ 53,677,608

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

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Statements of Cash Flows

For the Years Ended June 30,

	2016	2015
Cash Flows from Operating Activities:		
Tuition and fees	**$ 104,364,711**	$ 108,669,503
Grants and contracts	**14,741,582**	15,296,077
Sales and services of educational activities	**5,682,339**	7,006,158
Auxiliary enterprises	**123,571**	1,104,783
Interest received	**81,693**	87,334
Payments to suppliers	**(48,924,005)**	(51,226,868)
Payments to employees	**(115,674,117)**	(117,236,770)
Loans issued to students	**(1,019,987)**	(1,076,965)
Collection of loan payments	**822,982**	938,239
Other cash receipts	**1,774,645**	1,582,516
Net Cash Applied to Operating Activities	**(38,026,586)**	(34,855,993)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**25,702,913**	27,221,566
Non-operating federal grants	**16,639,503**	18,451,754
Gifts and grants	**3,074,717**	2,421,144
Net Cash Provided by Non-Capital Financing Activities	**45,417,133**	48,094,464
Cash Flows from Capital and Related Financing Activities:		
Capital and non-expendable grants and gifts	**700,784**	528,915
Capital appropriations	**3,006,258**	1,488,000
Purchase of capital assets	**(4,307,772)**	(6,438,297)
Change in deposits with bond trustee	**(2,105,909)**	1,205,531
Proceeds from sale of capital assets	**302,000**	229,925
Payments on capital debt	**(4,522,152)**	(3,620,700)
Interest expense on capital debt	**(5,708,164)**	(5,897,555)
Other receipts	**10,787**	(50,502)
Net Cash Applied to Capital and Related Financing Activities	**(12,624,168)**	(12,554,683)

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Statements of Cash Flows - Continued

For the Years Ended June 30,

	2016	2015
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	$ 15,280,616	$ 19,536,324
Purchase of investments	(8,754,764)	(15,136,742)
Interest and dividends received on investments	599,248	1,168,011
Net Cash Provided by Investing Activities	7,125,100	5,567,593
Net Increase in Cash and Equivalents	1,891,479	6,251,381
Cash and Equivalents, Beginning of Year	9,284,873	3,033,492
Cash and Equivalents, End of Year	$ 11,176,352	$ 9,284,873
Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	$ (51,632,847)	$ (56,748,725)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	10,488,999	14,087,773
Bad debts	468,314	79,029
Net (gain) loss on disposal of capital assets	-	56,614
Changes in assets and liabilities:		
Accounts receivable	(1,201,256)	746,593
Inventories	471,117	(36,602)
Other assets	(1,512,540)	892,002
Notes receivable	(176,261)	66,575
Accounts payable and accrued liabilities	40,784	655,570
Unearned revenues, deposits and refundable grants	161,556	(444,597)
Post-employment benefit obligations	4,865,548	5,789,775
Net Cash Applied to Operating Activities	$ (38,026,586)	$ (34,855,993)
Non-Cash Transactions:		
Equipment provided by capital grants and gifts	$ 94,235	$ 1,834,000
Unrealized losses	$ (181,528)	$ (1,072,259)
Net loss on disposal of capital assets	$ (665,801)	$ -

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

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to the Financial Statements

June 30, 2016 and 2015

Note 1 - **Summary of Significant Accounting Policies**

Organization
Vermont State Colleges include the following entities: System Office and Services, Community College of Vermont ("CCV"), Castleton University ("CU"), Johnson State College ("JSC"), Lyndon State College ("LSC"), Vermont Technical College ("VTC"), Vermont Manufacturing Extension Center ("VMEC"), Small Business Development Center ("SBDC"), and Vermont Tech Office of Continuing Education and Workforce Development ("TED").

VSC formerly included Vermont Interactive Television ("VIT") and Allied Health Nursing Program ("Allied Health"). VIT was an audio-video network bringing instruction and public service events to sites throughout Vermont (including Bennington, Brattleboro, Johnson, Lyndon, Middlebury, Montpelier, Newport, Randolph Center, Rutland, Springfield, St. Albans, White River and Williston). Budgetary management of VIT was maintained separately. VIT ceased operations during the year ended June 30, 2016. Allied Health Nursing Program merged operations with Vermont Technical College during the year ended June 30, 2016.

The accounting policies and procedures used by the Vermont State Colleges ("VSC" or the "Colleges") in accounting for and reporting their financial transactions are based on the accrual method of accounting. The significant accounting policies followed by the Colleges are described below.

Basis of Presentation
The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB").

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation - Continued

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The accompanying statements of revenues, expenses and changes in net position demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are reported as general revenues.

The Colleges have determined that they function as a business-type activity, as defined by GASB. The effect of inter-fund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management's discussion and analysis, basic financial statements and required supplementary information. The Colleges present the statements of net position, revenues, expenses and changes in net position, and cash flows on a combined college-wide basis.

The Colleges' policy is to define operating activities in the statement of revenues, expenses and changes in net position as those that generally result from exchange transactions such as charges for services provided to students and for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the Colleges' operating appropriations from the State of Vermont ("the "State"), net investment income, gifts, certain grants and interest expense.

Net Position

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following four net position categories:

Investment in capital assets, net: Capital assets, net of accumulated depreciation and of outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted - nonexpendable: Net position subject to externally imposed conditions that VSC must maintain in perpetuity.

Restricted - expendable: Net position that is subject to externally-imposed conditions that can be fulfilled by the actions of the Colleges or by the passage of time.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Net Position - Continued

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the Colleges' Board of Trustees.

In accordance with VSC's policy pertaining to the expenditure of restricted dollars, unrestricted dollars are spent first, followed by restricted dollars, if appropriate.

Cash and Equivalents
The Colleges consider all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Allowance for Doubtful Accounts
Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

Inventories
Inventories are stated at the lower of cost (first-in, first-out retail inventory method) or market, and consist of bookstore items.

Capital Assets
Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the Board's capitalization policy, vehicles, equipment and works of art and historical treasures with a unit cost of at least $5,000 are capitalized. Land, building, leasehold and infrastructure improvements with a unit cost of $50,000 or more are capitalized. Software with a unit cost of $500,000 or more is capitalized. Interest cost on debt related to capital assets is capitalized during the construction period and then depreciated over the life of the project. The Colleges' capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Restricted expendable net position includes certain capital funds appropriated by the State of Vermont to the Vermont Department of Buildings and General Services for the benefit of VSC and unexpended as of fiscal year-end.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Investments
Investments are stated at fair value. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of the investment securities will occur and that such changes could materially affect the amounts reported in the statement of net position.

Other Significant Accounting Policies
The Colleges' employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for those accumulated vacation and sick days allowable in accordance with the applicable union contract in force or in the case of non-union personnel, according to the State or Colleges policy.

Amounts of vested and accumulated vacation leave are reported as accrued compensation and benefits. Amounts are determined based upon the personal service rates in effect as of the balance sheet date. No liability is recorded for non-vesting accumulating rights to receive vacation and sick pay benefits.

Refundable Grants
Refundable grants consist primarily of the refundable portion of the Federal Perkins and Nursing Student loans.

Unearned Revenue and Deposits
Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are reported as unearned revenues.

Student Fees
Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to students, and they are reflected as expenses.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Bond and Note Premiums
Bond and note underwriter's premiums are amortized on the straight line basis over the life of the respective bond. VSC incurred bond premiums related to the 2010 and 2013 bonds at the time of the issuance of the bonds. The bond premium for the 2010 bond of $377,743 is amortized on a straight-line basis over approximately 8.5 years. The bond premium for the 2013 bond of $1,898,889 is amortized over 20 years. Cumulative amortization of the bond premium totals $553,963 and $414,903 as of June 30, 2016 and 2015, respectively. The bond premium is included in bonds and notes payable.

Post-Employment Benefits
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"), requires governments to account for other post-employment benefits ("OPEB"), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses and changes in net position when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the balance sheet over time.

Income Taxes
The Internal Revenue Service has determined that the Colleges are a wholly-owned instrumentality of the State of Vermont, and as such are generally exempt from federal income tax. However, the Colleges are subject to federal income tax on unrelated business income.

Grants
The Colleges receive financial assistance from federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit by the granting agency.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Governmental Accounting Pronouncements

GASB Statement 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

Reclassifications

Certain amounts on the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Note 2 - **Cash and Equivalents, and Investments**

Cash and Equivalents
Cash and equivalents with maturities of 90 days or less from purchase date are recorded at cost, which approximates market value.

In operating a central treasury and investment pool, individual college cash receipts (except the federal loan funds) are deposited in separate collection deposit accounts in the name of VSC. Disbursements are made from other bank accounts that are funded by transfers from the central treasury.

In accordance with the Uniform Prudent Management of Institutional Funds Act, VSC deems all realized and unrealized gains on permanently restricted investments to be temporarily restricted if the income is restricted by the donor. Absent donor restrictions, the Board of Trustees has adopted a spending policy whereby 5% of the lesser of the current market value of investments or the average portfolio value over the last three years is allowed to be drawn down and allocated to operations.

Cash and equivalents included with non-current assets are restricted primarily for specific programs or to be used to pay for capital construction projects.

At June 30, 2016, the balance of current assets - cash and equivalents consists of approximately $15,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $10,535,000 per the accounting records of the Colleges, and approximately $12,967,000 per bank records. Of the bank balances, approximately $729,000 was covered by federal depository insurance and approximately $12,238,000 was uninsured and uncollateralized at June 30, 2016.

At June 30, 2016, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $626,000 per the accounting records of the Colleges, and approximately $615,000 per bank records. Of the bank balances, approximately $595,000 was covered by federal depository insurance and approximately $20,000 was uninsured and uncollateralized at June 30, 2016.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Cash and Equivalents - Continued

At June 30, 2015, the balance of current assets - cash and equivalents consists of approximately $16,000 in petty cash, and the remainder deposited in FDIC insured banking institutions of approximately $8,592,000 per the accounting records of the Colleges, and approximately $9,178,000 per bank records. Of the bank balances, approximately $724,000 was covered by federal depository insurance and approximately $8,454,000 was uninsured and uncollateralized at June 30, 2015.

At June 30, 2015, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $677,000 per the accounting records of the Colleges, and approximately $665,000 per bank records. Of the bank balances, approximately $638,000 was covered by federal depository insurance and approximately $27,000 was uninsured and uncollateralized at June 30, 2015.

Investments

Investments of the various funds at June 30, 2016 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 7,058,295	$ 7,107,615
Corporate bonds	10,563,149	10,638,802
Common stock	6,006,025	6,531,479
Hedge fund shares	949,893	1,000,000
Mutual funds	14,422,151	11,554,829
Money market	4,275,340	4,275,305
Held by bond trustee	5,326,532	5,326,532
Total Investments	$ 48,601,385	$ 46,434,562

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - Continued
Investments of the various funds at June 30, 2015 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 6,977,619	$ 7,245,948
Corporate bonds	13,173,540	13,465,356
Common stock	13,878,749	11,113,932
Mutual funds	7,828,418	7,750,276
Money market	7,918,842	7,918,781
Held by bond trustee	3,220,623	3,220,623
Total Investments	$ 52,997,791	$ 50,714,916

Investment maturities include deposits held by the bond trustee, which are invested in various government securities, corporate bonds, commercial grade paper, and money market accounts. The majority of these funds are related to the 2013 and 2010 bonds, and they are held in the bond fund, the reserve fund and the construction fund. Within the bond fund, there is a principal account, an interest account, and a sinking fund account.

2016
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 4,275,340	$ 4,275,340	$ -	$ -	$ -
Corporate Bonds	10,563,149	2,446,435	4,817,669	3,299,045	-
U.S. Govt. Bonds	7,058,295	1,461,260	3,676,217	1,920,818	-
Total	21,896,784	$ 8,183,035	$ 8,493,886	$ 5,219,863	$ -
Other Investments					
Common Stock and Mutual Funds	21,378,069				
Held by Bond Trustee	5,326,532				
Total	$ 48,601,385				

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - Continued

2015
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 7,918,842	$ 7,918,842	$ -	$ -	$ -
Corporate Bonds	13,173,540	3,624,183	6,092,524	3,444,793	12,040
U.S. Govt. Bonds	6,977,619	1,450,468	3,664,469	1,862,682	-
Total	28,070,001	$ 12,993,493	$ 9,756,993	$ 5,307,475	$ 12,040
Other Investments					
Equity Securities and Mutual Funds	21,707,167				
Held by Bond Trustee	3,220,623				
Total	$ 52,997,791				

Investment income for the years ended June 30, is as follows:

	2016	2015
Interest and dividend income	**$ 1,119,769**	$ 1,068,567
Net realized and unrealized gain	**(298,380)**	(475,293)
Total investment income	**821,389**	593,274
Less: management fees	**(197,377)**	(235,021)
Investment income, net	**$ 624,012**	$ 358,253

Realized gain (loss) is included as a component of investment income. The calculation of realized gains (losses) is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - Continued
The risk categories for the bond fund holdings held by VSC at June 30, are as follows:

Investment rating*	2016	2015
AAA	$ 7,058,295	$ -
AA+	-	8,013,318
AA	1,092,226	806,692
AA-	835,472	1,637,702
A+	1,509,297	1,541,891
A	2,711,908	4,229,678
A-	1,317,289	971,113
BBB+	821,704	578,344
BBB	858,981	419,946
BBB-	291,850	808,992
BB+	330,436	245,464
BB	222,564	242,336
BB-	183,415	204,208
B+	194,748	157,907
B	84,037	116,542
B-	67,488	129,485
CCC+	41,734	40,611
CCC-	-	6,930
	$ 17,621,444	$ 20,151,159

*These ratings are determined by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. All ratings represent the opinions of the research provider and are disclaimed as not representations or guarantees of performance.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - Continued
The applicable risk ratings as defined by Standard & Poor's are as follows:

AAA - An obligation rated 'AAA' has an extremely strong capacity to meet its financial commitments. It is the highest rating given to an obligor.

AA - An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A - An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB - An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - An obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economical conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - An obligation rated 'CCC' is currently vulnerable to non-payment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - Continued
Plus (+) or minus (-): The ratings from 'AAA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Fair Value Hierarchy
The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

U.S. Government Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Corporate Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Common Stock: Value based on quoted prices in active markets of similar instruments.

Hedge Fund Shares: Hedge fund shares held by the Colleges are closed-end hedge funds that are registered with the SEC. The fair values of the investments in this class have been estimated using the net asset value ("NAV") per share of the investments. The hedge fund shares held by the Colleges have redemption periods under 90 days and are considered redeemable in the near term.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Fair Value Hierarchy - Continued

Mutual funds: Valued at daily closing price as reported by the fund. Mutual funds held by the Colleges are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Colleges are deemed to be actively traded.

Money market: Value based on quoted prices in active markets of similar instruments.

Held by bond trustee: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the fair value of the Plan's assets measured on a recurring basis:

Assets at Fair Value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ 7,058,295	$ -	$ -	$ 7,058,295
Corporate bonds	10,563,149	-	-	10,563,149
Common stock	6,006,025	-	-	6,006,025
Hedge fund shares	-	949,893	-	949,893
Mutual funds	14,422,151	-	-	14,422,151
Money market	4,275,340	-	-	4,275,340
Held by bond trustee	5,326,532	-	-	5,326,532
Total Assets at Fair Value	$ 47,651,492	$ 949,893	$ -	$ 48,601,385

Note 2 - **Cash and Equivalents, and Investments - Continued**

Fair Value Hierarchy – Continued

Assets at Fair Value as of June 30, 2015

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ 6,977,619	$ -	$ -	$ 6,977,619
Corporate bonds	13,173,540	-	-	13,173,540
Common stock	13,878,749	-	-	13,878,749
Mutual funds	7,828,418	-	-	7,828,418
Money market	7,918,842	-	-	7,918,842
Held by bond trustee	3,220,623	-	-	3,220,623
Total Assets at Fair Value	$ 52,997,791	$ -	$ -	$ 52,997,791

Note 3 - **Accounts Receivable, Notes Receivable and Allowance for Bad Debts**

The composition of the Colleges' accounts receivable at June 30, is summarized as follows:

	2016	2015
Student accounts receivable	$ 10,168,405	$ 9,962,008
Grants receivable	3,918,547	4,042,020
Other receivable	2,502,541	1,760,345
Subtotal	16,589,493	15,764,373
Allowance for doubtful accounts	(5,312,483)	(5,127,012)
Total accounts receivable, net	$ 11,277,010	$ 10,637,361

The notes receivable balance in the statement of net position represents the Perkins notes receivable. It is shown net of an allowance for bad debts of approximately $592,000 and $591,000 at June 30, 2016 and 2015, respectively. This allowance is the aggregate that was reserved for by each college based upon historical bad loan reserve requirements, the net increase in the allowance of $1,000 and 11,000 in 2016 and 2015, respectively, has been reflected in operating expenses.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Long-Term Liabilities**

Long-term liabilities consist of the following at June 30:

	2016				
	Beginning balances	**Additions**	**Reductions**	**Ending balances**	**Current portion**
Long-term liabilities					
Bonds and notes payable	$ **127,176,209**	$ **-**	$ **4,661,212**	$ **122,514,997**	$ **5,422,083**
Fair market value of interest rate swap	**11,024,967**	**3,938,297**	**-**	**14,963,264**	**-**
Net OPEB obligation	**54,733,504**	**12,029,564**	**7,164,016**	**59,599,052**	**-**
Accounts payable and accrued liabilities	**12,917,718**	**1,840,520**	**1,799,736**	**12,958,502**	**12,910,396**
Unearned revenue and deposits	**6,649,428**	**882,620**	**703,547**	**6,828,501**	**6,802,946**
Refundable grants	**6,041,112**	**-**	**2,745**	**6,038,367**	**-**
Total long-term liabilities	$ **218,542,938**	$ **18,691,001**	$ **14,331,256**	$ **222,902,683**	$ **25,135,425**

	2015				
	Beginning balances	**Additions**	**Reductions**	**Ending balances**	**Current portion**
Long-term liabilities					
Bonds and notes payable	$ 130,935,969	$ -	$ 3,759,760	$ 127,176,209	$ 4,661,213
Fair market value of interest rate swap	10,674,356	350,611	-	11,024,967	-
Net OPEB obligation	48,943,729	11,316,963	5,527,188	54,733,504	-
Accounts payable and accrued liabilities	12,262,148	12,781,671	12,126,101	12,917,718	12,867,683
Unearned revenue and deposits	7,091,001	1,873,231	2,314,804	6,649,428	6,477,785
Refundable grants	6,044,136	-	3,024	6,041,112	-
Total long-term liabilities	$ 215,951,339	$ 26,322,476	$ 23,730,877	$ 218,542,938	$ 24,006,681

Note 4 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable
Outstanding debt is as follows:

	2016	2015
Revenue Bonds, Series 2010A: 3.0% - 4.0% serial bonds aggregating \$5,710,000 maturing 2011 through 2018 and a \$5,375,000 4.0% term bond due July 2017. Interest on the serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of \$132,348 and \$176,464 has been added to this liability at June 30, 2016 and 2015, respectively. [1]	**\$ 4,972,348**	\$ 6,741,464
Revenue Bonds, Series 2010B: 4.751% - 5.101% serial bonds aggregating \$3,800,000 maturing 2018 through 2020, and 6.101%, 6.861%, and 7.211% term bonds of \$6,255,000, \$5,580,000, and \$14,630,000 due July 2025, July 2030, and July 2040, respectively. Interest on the term bond is payable semi-annually on the unpaid balances. [2]	**30,265,000**	30,265,000
CU - New Student Housing: Variable rate (69% of one-month LIBOR plus 1.31%) term loan of \$5,200,000 for 20 years with monthly payments of principal and interest due through December 2025; collateralized by substantially all unrestricted revenue and assets not previously pledged as collateral on other debt. [3,5]	**3,113,764**	3,363,177

Note 4 - **Long-Term Liabilities - Continued**

	2016	2015
Bonds and Notes Payable - Continued		
VSC - Capital Construction Projects: Variable rate (69% of the one-month LIBOR plus 1.21%) term loan of $72,000,000 for 20 years with monthly payments of principal and interest due through May 2028; collateralized by substantially all unrestricted revenue, accounts receivable, contract rights, inventory and machinery and equipment not previously pledged as collateral on other debt.[4, 5]	**$ 63,179,580**	$ 64,804,979
VSC - Capital Construction Projects: Variable rate (69% of one-month LIBOR plus 3.12%) term loan of $2,750,000 for 20 years with monthly payments of principal and interest due through January 2029; loan has a negative pledge against assets.[6]	**2,038,984**	2,151,324
Revenue Bonds, Series 2013: 4.0% - 5.0% serial bonds aggregating $13,715,000 maturing 2015 through 2032 and 3.125% - 5.0% term bonds aggregating $4,450,000 maturing 2027 through 2030. Interest on serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of $1,590,321 and $1,685,265 has been added to the liability at June 30, 2016 and 2015, respectively.	**18,945,321**	19,850,265
	$ 122,514,997	$ 127,176,209

Note 4 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

[1] In December 2010, VSC issued Revenue Bonds, Series 2010A, in the principal amount of $11,085,000. The 2010A Bonds were issued for the purpose of (1) refinancing a portion of the Series 1998 Bonds; (2) refinancing certain indebtedness of VSC including loans to improve the Blair Park, Williston, Randolph, and Vermont campuses of VSC; and (3) paying the costs of issuance of the 2010A Bonds.

[2] In December 2010, VSC issued Federally Taxable Build America Bonds, Series 2010B, in the principal amount of $30,265,000. The 2010B Bonds were issued for the purpose of (1) financing certain upgrades to the Community College of Vermont's Montpelier campus, including a 12,000 square foot building addition; (2) constructing a new residence hall and other related improvements at Castleton University; (3) renovating an academic building and a visual arts center at Johnson State College; (4) expanding parking facilities at Lyndon State College together with building improvements for Lyndon State College's journalism program; (5) financing library renovations, the installation of certain energy or heating systems, construction of additional on-campus housing at the Randolph campus of Vermont Technical College ("VTC"), and improvements at VTC's Blair Park, Williston, Vermont campus; and (6) paying the costs of issuance of the 2010B Bonds. VSC is expected to receive a 35% subsidy of the interest paid on the Series 2010B Build America Bonds from the Federal Government, which will be recorded as a reduction of bond interest expense. (Sequester for federal budget reduced subsidy of interest by 7.6%).

[3] To manage its borrowing costs, VSC entered into an interest swap in connection with its $5,200,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 4.97%.

The loan and the related swap agreement mature on December 16, 2025, and the swap's notional amount of $5,200,000 matches the $5,200,000 variable rate loan. The swap was entered into at the same time the loan was issued in December 2005. Under the swap, VSC pays the counterparty a fixed payment of 4.97% and receives a variable payment computed as 69% of the one-month London Interbank Offered Rate ("LIBOR") plus 1.31%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $459,283 as of June 30, 2016 and $419,350 as of June 30, 2015.

Note 4 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - Continued

[4] To manage its borrowing costs, VSC entered into an interest rate swap in connection with its $72,000,000 variable-rate loan. The intention of the swap was to effectively change VSC's variable interest rate on the loan to a synthetic fixed rate of 4.63%.

The loan and the related swap agreement mature in May 2028, and the swap's notional amount of $72,000,000 matches the $72,000,000 variable rate loan. The swap was entered into at the same time the loan was issued in May 2008. Under the swap, VSC pays the counterparty a fixed payment of 4.63% and receives a variable payment computed as 69% of the one-month USD-LIBOR-BBA (United States Dollar - London Interbank Offered Rate - British Bankers Association) plus 1.21%.

The loan has a thirty year amortization with a twenty year term. The first two years of the loan are interest only payments. This will allow VSC to more closely match the revenue streams produced by the capital projects. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $14,328,670 as of June 30, 2016 and $10,516,510 as of June 30, 2015.

[5] A former member of senior management also serves on the Board of the lender. Therefore, once the Board approved the capital construction projects, he recused himself completely from all financing proposal reviews, negotiations, financing or banking discussions or decisions relating to these transactions.

[6] To manage its borrowing costs, VSC entered into an interest rate swap in connection with its $2,750,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 5.25%.

The loan and the related swap agreement mature on January 15, 2029, and the swap's notional amount of $2,750,000 matches the $2,750,000 variable rate loan. The swap was entered into at the same time the loan was issued in January 2009. Under the swap, VSC pays the counterparty a fixed payment of 2.25% and receives a variable payment computed as 69% of the one-month LIBOR plus 3.12%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $175,311 and $89,107 as of June 30, 2016 and 2015, respectively.

Note 4 - **Long-Term Liabilities - Continued**

Debt Roll-Forward

Long-term debt activity for the years ended June 30, 2016 and 2015 was as follows:

	Balance June 30, 2015	Additions	Repayments	Balance June 30, 2016	Current Portion
New Housing - CU	$ 3,363,177	$ -	$ (249,413)	$ 3,113,764	$ 262,308
TD Banknorth - FY 2008 Capital Projects	64,804,979	-	(1,625,399)	63,179,580	1,702,442
CCV Montpelier	2,151,324	-	(112,340)	2,038,984	118,273
Series 2010-A	6,565,000	-	(1,725,000)	4,840,000	1,785,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	176,464	-	(44,116)	132,348	44,116
Series 2010 Bonds	37,006,464	-	(1,769,116)	35,237,348	1,829,116
Series 2013	18,165,000	-	(810,000)	17,355,000	1,415,000
Series 2013 Bond Premium	1,685,265	-	(94,944)	1,590,321	94,944
Series 2013 Bonds	19,850,265	-	(904,944)	18,945,321	1,509,944
Total Bonds and Notes Payable	$ 127,176,209	$ -	$ (4,661,212)	$ 122,514,997	$ 5,422,083

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to the Financial Statements - Continued

June 30, 2016 and 2015

Note 4 - **Long-Term Liabilities - Continued**

Debt Roll-Forward - Continued

	Balance June 30, 2014	Additions	Repayments	Balance June 30, 2015	Current Portion
New Housing - CU	$ 3,600,340	$ -	$ (237,163)	$ 3,363,177	$ 249,414
TD Banknorth - FY 2008 Capital Projects	66,356,816	-	(1,551,837)	64,804,979	1,625,399
CCV Montpelier	2,258,024	-	(106,700)	2,151,324	112,340
Series 2010-A	8,290,000	-	(1,725,000)	6,565,000	1,725,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	220,580	-	(44,116)	176,464	44,116
Series 2010 Bonds	38,775,580	-	(1,769,116)	37,006,464	1,769,116
Series 2013	18,165,000	-	-	18,165,000	810,000
Series 2013 Bond Premium	1,780,209	-	(94,944)	1,685,265	94,944
Series 2013 Bonds	19,945,209	-	(94,944)	19,850,265	904,944
Total Bonds and Notes Payable	$ 130,935,969	$ -	$ (3,759,760)	$ 127,176,209	$ 4,661,213

Note 4 - **Long-Term Liabilities - Continued**

Debt Roll-Forward - Continued

Maturities of long-term debt for the next five fiscal years and thereafter are as follows:

Years Ending June 30,	Principal Amount	Interest Amount
2017	$ 5,422,083	$ 5,325,744
2018	5,647,584	5,078,704
2019	5,707,937	4,854,637
2020	4,384,276	4,678,926
2021	4,570,055	4,479,981
2022-2026	25,441,047	19,125,660
2027-2031	54,065,854	8,420,761
2032-2036	9,091,161	2,709,790
2037-2041	8,185,000	852,600
	$ 122,514,997	$ 55,526,803

The interest amounts above reflect the 4.63%, 4.97% and 5.25% fixed rates on the debt subject to the swap agreements previously described (and interest rebate on 2010 bond).

According to the terms of the agreements under which the revenue bonds were sold, the bonds are general obligations of VSC. The 2013, 2010 and 1998 Revenue Bonds are also collateralized by deposits held by the trustee in the Bond Fund. VSC is required to make payments to the trustee for deposit into the Bond Fund sufficient to pay the principal, interest and sinking fund requirements, when due.

Note 5 - **Functional Expense Classification**

The following table details VSC's operating expenses by functional expense classification:

	2016	2015
Instruction	**$ 58,156,936**	$ 61,057,688
Research	**65,542**	46,777
Public service	**11,047,939**	10,513,093
Academic support	**22,233,116**	22,956,107
Student services	**31,382,155**	36,201,870
Institutional support	**37,389,823**	28,842,277
Physical plant	**8,090,062**	9,454,800
Student financial support	**6,920,136**	6,741,524
Depreciation	**10,488,999**	14,087,773
Total	**$ 185,774,708**	$ 189,901,909

Note 6 - **Appropriations**

VSC's operating appropriation from the State of Vermont is made directly to the Colleges and is drawn down on the basis of a monthly allotment. Included in the annual state appropriation for operations is funding for Allied Health of approximately $1,158,000 in 2016 and 2015; VMEC of approximately $428,000 in 2016 and 2015; and VIT of approximately $220,000 in 2016 and $817,000 in 2015.

Capital appropriations for VSC made from the State Bond Funds were approximately $3,006,000 and $1,488,000 in fiscal years 2016 and 2015, respectively.

Note 7 - **Retirement Plans**

Eligible faculty and staff participate in a defined contribution retirement plan administered by Teachers Insurance Annuity Association and College Retirement Equities Fund ("TIAA-CREF"). For the years ended June 30, 2016 and 2015, the Colleges' total payroll expense was approximately $78,970,000 and $79,923,000, respectively, of which approximately $51,430,000 and $53,787,000 represented salaries and wages of employees covered under the defined contribution plan, respectively. The Colleges' requirements to contribute to the retirement plan are specified by four collective bargaining agreements and by personnel policies for non-represented employees. Employer contribution rates are established by employee category. There are no required employee contributions to the plan. Depending upon the position category, employees may be eligible for the plan from as early as date of hire to as long as two years from date of hire. All eligible employees are vested from the date of eligibility. During the years ended June 30, 2016 and 2015, contributions made by the Colleges under this plan totaled approximately $6,138,000 and $6,246,000, or approximately 11.93% and 11.61% of covered salaries, respectively.

Additionally, certain employees participate in one of two defined benefit plans (Vermont Employees Retirement System or Vermont State Teachers Retirement System). Employees who were participants in either of these plans prior to their employment by the Colleges are allowed to continue participation. Covered salaries for employees participating in the Vermont Employees Retirement System during the years ended June 30, 2015 were approximately $64,700 and employer contributions were approximately $6,900. During the year ended June 30, 2016, there were no covered salaries for employees participating in the Vermont Employees Retirement System and there were no employer contributions. There were no contributions to the Vermont State Teachers Retirement System during 2016 and 2015.

In addition, full-time faculty employees who have worked for the Colleges for 15 years may elect early retirement at age 55 and receive 50% of their annual salary as of their retirement date; full-time faculty employees who have worked for VSC for ten years may elect early retirement at age 55 and receive 40% of their annual salary as of their retirement date. In addition, VSC will pay 12% of the retiree's early retirement wages to the individual. This 12% payment represents VSC's contribution, which would have been made to the individual TIAA/CREF pension account. The payments due under this program are funded by VSC, as needed. During the years ended June 30, 2016 and 2015, contributions for these benefits were approximately $1,011,000 and $1,017,000, respectively.

Note 7 - **Retirement Plans - Continued**

The early retirement benefit is no longer being offered to new hires, but those employees who were eligible for early retirement before the benefit was discontinued have the option of electing for early retirement in October of every year. The benefit will be completely phased out when those employees currently eligible for early retirement either elect for early retirement or reach the age of 65.

Note 8 - **Post-Employment Benefits Other Than Pension**

Plan Description: VSC administers a self-insured single-employer defined benefit healthcare plan. The plan provides lifetime healthcare payments for eligible employees, spouses or civil union partners. The self-insured plan, administered by CIGNA, covers both active and retired members. Benefit provisions are established through negotiations between VSC and the unions representing VSC employees, and they are reviewed during the bargaining period prior to the termination date of each union contract. The retiree healthcare plan does not issue a publicly available financial report. During the years ended June 30, 2016 and 2015, 533 and 527 retirees were receiving post-retirement benefits, respectively.

Funding Policy: Contribution requirements are also negotiated between VSC and union representatives. VSC contributes 100% of the current-year utilization costs for eligible employees, spouses or civil union partners. For the fiscal years 2016 and 2015, VSC recognized employer contributions of $7,164,016 and $5,527,188, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2016 and 2015, there were no member contributions.

Annual OPEB Cost and Net OPEB Obligation: VSC's OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"). VSC has elected to calculate the ARC and related information using the unit credit actuarial cost method permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover estimated utilization of healthcare and the special early retirement payments each year, and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years for healthcare and not to exceed ten years for early retirement using a closed period, level dollar amortization method.

Note 8 - **Post-Employment Benefits Other Than Pension - Continued**

The following table shows the components of VSC's annual OPEB costs for the years ended June 30, 2016 and 2015, and the changes in VSC's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	2016	2015
Annual required contribution	**$ 13,570,498**	$ 12,610,000
Interest on net OPEB obligation	**2,052,506**	1,835,392
Adjustment to annual required contribution	**(3,593,440)**	(3,128,429)
Annual OPEB cost	**12,029,564**	11,316,963
Contribution made	**(7,164,016)**	(5,527,188)
Increase in net OPEB obligation	**4,865,548**	5,789,775
Net OPEB Obligation - Beginning of Year	**54,733,504**	48,943,729
Net OPEB Obligation - End of Year	**$ 59,599,052**	$ 54,733,504

VSC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the years ended June 30, 2016, 2015 and 2014 are as follows:

Fiscal Years Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$ 12,029,564	59.6%	$ 59,599,052
June 30, 2015	$ 11,316,963	48.8%	$ 54,733,504
June 30, 2014	$ 11,548,353	46.4%	$ 48,943,729

Note 8 - **Post-Employment Benefits Other Than Pension - Continued**

Funding Status and Funding Progress: As of the most recent actuarial valuation date, the actuarial accrued liability for benefits was $157,885,679, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was $51,430,000, and the ratio of the unfunded actuarial liability to annual covered payroll was 307.0%. The latest actuarial valuation date was on July 1, 2015.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, retirement rates, marital status, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the specified pattern of sharing of benefit costs between employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The following actuarial assumptions were made:

Discount Rate: The discount rate used in the calculation was 3.75%.

Projected Salary Increase Rate: The projected salary increase rate used was 4.5%.

Future Employment: Age related turnover rates were developed based on the experience from the years ended June 30, 2005 through 2009. These rates were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Note 8 - **Post-Employment Benefits Other Than Pension - Continued**

Mortality: Life expectancies were based on the RP2014 mortality table by gender and status (active versus current retired) published by the Retirement Plans Experience Committee of the Society of Actuaries.

Retirement Rate: Age related retirement rates tables were developed based on input and analysis of the current retiree population overall and the new retirees over the last five years. The age related tables assumed rates of retirement beginning at age 55.

Marital Status: Marital status of member at the calculation date was assumed to be 70% married based on current retiree population. Spousal participation was assumed to be 90% at the calculation date.

Healthcare Cost Trend Rate: Dental claims are expected to increase at 2.0 per annum. Medical trend rates are based on the Society of Actuaries ("SOA") Long-Run Medical Cost Trend Model.

The required schedule of funding progress immediately following the notes to the financial statements presents information related to the actuarial accrued liability for benefits. Pursuant to the requirements of GASB Statement No. 45, this schedule will present multi-year trend information in future years about whether the actuarial accrued liability for benefits is increasing or decreasing over time.

Note 9 - **Leases**

The Colleges have various operating leases for classrooms, office space, equipment and motor vehicles. The majority of these leases have terms equal to or less than ten years and in some cases contain escalation and maintenance clauses, as well as renewal options. Total rental expense for all operating leases was approximately $2,657,000 and $3,003,000 in 2016 and 2015, respectively.

Note 9 - **Leases - Continued**

Future minimum rental payments required under operating leases with noncancelable terms in excess of one year at June 30, 2015 are as follows:

Years Ending June 30,	Real Estate	Vehicles and Equipment	Total
2017	$ 2,487,603	$ 237,888	$ 2,725,491
2018	2,144,985	225,595	2,370,580
2019	1,885,067	203,665	2,088,732
2020	1,895,583	47,169	1,942,752
2021	1,690,032	31,968	1,722,000
2022 and thereafter	6,317,836	-	6,317,836
	$ 16,421,106	$ 746,285	$ 17,167,391

Note 10 - **Capital Assets**

Property and equipment activity for the years ended June 30, 2016 and 2015 is summarized below:

	Balance June 30, 2015	Additions	Transfers	Retirements	Balance June 30, 2016
Land	$ 9,929,364	$ -	$ -	$ (924,700)	$ 9,004,664
Construction-in-process	1,621,470	3,352,940	(2,812,496)	-	2,161,915
Subtotal - Capital assets not depreciated	11,550,834	3,352,940	(2,812,496)	(924,700)	11,166,579
Infrastructure	38,254,321	60,273	97,515	-	38,412,108
Buildings and improvements	251,836,941	-	2,251,904	-	254,088,848
Leasehold improvements	4,124,343	-	-	(34,071)	4,090,271
Equipment	32,248,362	988,794	463,077	(777,638)	32,922,589
Subtotal - Capital assets depreciated	326,463,967	1,049,067	2,812,496	(811,709)	329,513,816
Less accumulated depreciation	(157,131,169)	(10,488,999)	-	768,609	(166,851,556)
Capital assets, net	$ 180,883,632	$ (6,086,992)	$ -	$ (967,800)	$ 173,828,839

Note 10 - **Capital Assets - Continued**

	Balance June 30, 2014	Additions	Transfers	Retirements	Balance June 30, 2015
Land	$ 6,428,274	$ 3,501,090	$ -	$ -	$ 9,929,364
Construction-in-process	3,197,135	2,841,275	(4,416,940)	-	1,621,470
Subtotal - Capital assets not depreciated	9,625,409	6,342,365	(4,416,940)	-	11,550,834
Infrastructure	37,955,276	-	299,045	-	38,254,321
Buildings and improvements	249,467,273	870,815	1,863,132	(364,279)	251,836,941
Leasehold improvements	2,144,024	-	1,980,319	-	4,124,343
Equipment	31,478,282	1,059,117	274,444	(563,481)	32,248,362
Subtotal - Capital assets depreciated	321,044,855	1,929,932	4,416,940	(927,760)	326,463,967
Less accumulated depreciation	(143,670,416)	(14,087,773)	-	627,020	(157,131,169)
Capital assets, net	$ 186,999,848	$ (5,815,476)	$ -	$ (300,740)	$ 180,883,632

Note 11 - **Contingencies and Commitments**

Contingencies

VSC participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures that may be disallowed by the granting agency cannot be determined at this time.

VSC is involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters is indeterminable, but in the opinion of management, the amount of ultimate liability would not have a significant impact on VSC's financial condition.

Note 11 - **Contingencies and Commitments - Continued**

Contingencies - Continued

VSC is also exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSC manages these risks through a combination of commercial insurance packages purchased in the name of VSC, and through self-insurance for medical and dental claims. VSC has entered into contracts with a third-party claims administrator, which essentially caps medical claim costs (stop-loss) at an agreed-upon level. Individual stop-loss is $175,000 of paid claims per covered member per year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Reserves for medical and dental claims are included in accrued liabilities in the amount of approximately $1,905,000 at June 30, 2016 and $1,595,000 at June 30, 2015 and are based on historical data. A medical and dental claim roll-forward is presented below:

	2016	2015
Medical and dental claims reserve, beginning of year	**$ 1,595,000**	$ 1,592,000
Incurred claims	**18,292,000**	18,640,000
Payments on claims	**(17,982,000)**	(18,637,000)
Medical and dental claims reserve, end of year	**$ 1,905,000**	$ 1,595,000

VSC self-insures its workers' compensation program and is operated by a third-party claims administrator. Contributions to the plan are based on estimated payroll and rates adjusted by an experience modification factor. VSC has purchased stop-loss insurance, which is effective for aggregate claims in excess of $876,550 per year. VSC has obtained a letter of credit in the amount of $450,000 to be used in the event of failure to pay premiums on the stop-loss policy. This is collateralized by a certificate of deposit. A workers' compensation roll-forward is presented below:

	2016	2015
Workers' compensation reserve, beginning of year	**$ 166,000**	$ 175,000
Workers' compensation accrued during the year	**343,000**	347,000
Claims paid/reserved/claims administration	**(266,000)**	(356,000)
Workers' compensation reserve, end of year	**$ 243,000**	$ 166,000

Note 11 - **Contingencies and Commitments - Continued**

Commitments
VSC has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2016:

Project	Expended through June 30, 2016	Committed Future Costs	Total Committed Costs of Project
CU Haskell Heating	$ 65,586	$ 146,384	$ 211,970
CU Haskell Sprinkler	40,000	24,860	64,860
CCV St. Albans HVAC upgrade	-	99,800	99,800
LSC Stevens Roof	-	107,104	107,104
JSC Governors Electrical	122,350	2,520	124,870
JSC Roofing Projects	87,714	23,832	111,546
VTC Norwich Dairy Plant	340,207	6,511	346,718
	$ 655,857	$ 411,011	$ 1,066,868

At June 30, 2016, invoices related to construction projects of approximately $240,000 were included in accounts payable.

Employment Contracts
The Colleges have employment contracts with certain officers that expire on various dates through fiscal years 2017 and 2018. The agreements provide for aggregate annual base salaries of $1,074,392 in fiscal year 2017 and $135,000 in fiscal year 2018 and may be terminated with cause at any time.

Note 11 - **Contingencies and Commitments - Continued**

Service Concession Agreements
The Colleges have entered into a service concession agreement with Sodexco Operations, LLC ("Sodexco") to manage and operate its food services for VSC's students, faculty, staff, employees and guests through June 2022; the agreement is cancelable by either party at any time. Under the agreement Sodexco shall make annual contributions to VSC to be used at VSC's discretion for food service facility enhancements. The annual contributions shall commence on July 1st of each year and shall be in accordance with the following schedule:

Years Ending June 30,		
2017	$	225,000
2018		445,000
2019		445,000
2020		445,000
2021		707,500
2022		707,500
Total	$	2,975,000

REQUIRED SUPPLEMENTARY INFORMATION

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Funding Progress (Unaudited)

June 30, 2016 and 2015

Actuarial Valuation Date		Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2015	$	-	$ 157,886,000	$ 157,886,000	0%	$ 51,430,000	307.0%
July 1, 2013	$	-	$ 135,344,800	$ 135,344,800	0%	$ 54,018,000	250.6%
July 1, 2011	$	-	$ 117,611,000	$ 117,611,000	0%	$ 52,025,735	226.1%

VSC has to date performed five actuarial valuations, the latest on July 1, 2015, for purposes of satisfying the requirements of GASB Statement No. 45. The actuarial accrued liability for all benefits at this time was $157,886,000, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was $51,429,838, and the ratio of the unfunded actuarial liability to annual covered payroll was 307.0%.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE *UNIFORM GUIDANCE*

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE *UNIFORM GUIDANCE*

To the Board of Trustees of
Vermont State Colleges
Montpelier, Vermont

Report on Compliance for Each Major Federal Program
We have audited Vermont State Colleges' (the Colleges) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Vermont State Colleges' major federal programs for the year ended June 30, 2016. The Colleges' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Vermont State Colleges' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Vermont State Colleges' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Colleges' compliance.

Opinion on Each Major Federal Program
In our opinion, the Colleges complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2016-001, 2016-002, 2016-003, 2016-004, 2016-005, and 2016-006. Our opinion on each major federal program is not modified with respect to these matters.

The Colleges' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Colleges' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance
Management of the Vermont State Colleges is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Vermont State Colleges' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Vermont State Colleges' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Vermont State Colleges, as of and for the year ended June 30, 2016. We issued our report thereon dated October 19, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 19, 2016

INDEPENDENT AUDITORS' 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*

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' 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*

To the Board of Trustees of
Vermont State Colleges
Montpelier, Vermont

We have audited, 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, the financial statements of Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2016 and 2015, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Vermont State Colleges' basic financial statements and have issued our report thereon dated October 19, 2016.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Vermont State Colleges' 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 communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 19, 2016

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
;TER					
Opportunity Grant	84.007	N/A	N/A	$ 1,282,401	$ -
	84.033	N/A	N/A	1,175,582	-
	84.268	N/A	N/A	47,073,426	-
ginning of year)	84.038	N/A	N/A	5,352,816	-
rrent year expenditures)	84.038	N/A	N/A	639,972	-
	84.063	N/A	N/A	17,009,714	-
⁴ssistance Cluster				72,533,911	-
	84.042A	N/A	N/A	1,565,376	-
	84.047A	N/A	N/A	1,007,980	-
				2,573,356	-
ER					
ration:					
ıllege & Fellowship Program	43.001	University of Vermont	NNX10AK67H	9,248	-
evelopment	43.008	University of Vermont	NNX16AK55A	4,171	-
College & Fellowship Program	43.008	University of Vermont	NNX15AP86H	10,000	-
ls				23,419	
	47.050	N/A	N/A	49,296	-
	47.050	N/A	N/A	16,371	-
	47.076	N/A	N/A	124,049	-
				189,716	-
	47.050	University of Vermont	gco-1034945	44,688	-
e Competitive Research	47.073	University of Vermont	27788 SUB 51497	26,117	-
	47.076	University of Vermont	25399 SUB51105	165,659	-
ls				236,464	

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2016

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
ːR - CONTINUED					
e Competitive Research	47.081	N/A	N/A	$ 100,244	$ -
ːlopment Cluster				549,843	-
r Children	10.559	Vermont Department of Education	N/A	19,927	-
ːrvices:					
k Grant	93.575	Vermont Dept. Children & Families	N/A	13,922	-
ng Funds of the Child Care and	93.596	Vermont Dept. Children & Families	N/A	294,975	-
				308,897	-
ːrvices:					
	93.778	Office of Vermont Health Access (OVHA)	11-W-00194/1	225,326	-
ːllenge Grants Program	10.217	Vermont Student Assistance Corp	P334S110006	12,354	-
	10.769	Vermont USDA	N/A	13,952	-
				26,306	-
	11.307	N/A	N/A	14,521	-
hip	11.611	N/A	N/A	500,000	-
				514,521	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2016

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
for Business Firms	12.002	Vermont Agency of Commerce & Community Development	N/A	$ 44,272	$ -
	17.282	N/A	N/A	2,103,798	-
:					
& Tech Act	45.310	VT Department of Libraries	N/A	1,000	-
:ers	59.037	N/A	N/A	635,022	-
:ers	59.037	N/A	N/A	69,108	-
nership Program	59.058	N/A	N/A	39,880	-
nership Program	59.058	N/A	N/A	22,934	-
	59.061	N/A	N/A	1,609	-
				768,553	-
.m	66.708	Vermont Agency of Natural Resources	N/A	48,592	-
	84.116Z	N/A	N/A	35,358	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2016

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
d:					
Basic Grants to States	84.048	Vermont Department of Education	V048A150045	$ 667,426	$ -
Basic Grants to States	84.048	Vermont Department of Education	4319R2171501	154,978	-
Basic Grants to States	84.048	Vermont Department of Education	V048A50045	48,300	-
diness for Undergraduate Programs	84.334	Vermont Student Assistance Corp	P334S110006-15	16,879	-
diness for Undergraduate Programs	84.334S	Vermont Student Assistance Corp	P334S110006-15	7,005	-
hips	84.366	Vermont Department of Education	4655R1171601	324,112	21,946
vith Intellectual Disabilities into	84.407A	University of Vermont	25280	75,594	-
ls				1,294,294	21,946
ɔment	90.601	Northern Border Regional Commission	NBRC-14-G-VT00001	65,067	-
rvices:					
lity and Outcomes	93.226	NCAA	N/A	29,487	-
lity and Outcomes	93.226	NCAA	N/A	14,597	-
urces	93.389	University of Vermont	29252SUB51797	234,202	-
urces	93.389	University of Vermont	29252SUB51796	123,175	-
urces	93.389	University of Vermont	2P20GM103449-14	93,902	-
ı Training	93.859	University of Vermont	8P20GM103449	7,453	-
ls				502,816	-
Service:					
Education	94.005	Maine Campus Compact/Bates College	N/A	3,101	-
	94.006	Vermont Agency of Human Services	13AFHVT0010006	184,654	-
ls				187,755	-
				5,592,332	21,946
ds				$ 81,803,592	$ 21,946

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2016

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Johnson State University	Lyndon State College	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
	84.007	N/A	N/A	$ 205,640	$ 323,990	$ 358,874	$ 161,383	$ 232,514	$ -	$ -	$ 1,282,401	$ -
	84.033	N/A	N/A	123,125	294,747	423,174	185,662	148,874	-	-	1,175,582	-
	84.268	N/A	N/A	5,789,756	13,755,423	10,115,326	9,074,199	8,338,722	-	-	47,073,426	-
	84.038	N/A	N/A	-	2,103,255	1,484,022	1,206,684	558,855	-	-	5,352,816	-
)	84.038	N/A	N/A	-	-	155,881	301,140	182,951	-	-	639,972	-
	84.063	N/A	N/A	6,985,057	2,889,095	2,765,999	2,398,068	1,971,495	-	-	17,009,714	-
				13,103,578	19,366,510	15,303,276	13,327,136	11,433,411	-	-	72,533,911	-
	84.042A	N/A	N/A	321,457	292,341	391,590	308,135	251,853	-	-	1,565,376	-
	84.047A	N/A	N/A	-	262,500	421,942	323,537	-	-	-	1,007,980	-
				321,457	554,841	813,533	631,672	251,853	-	-	2,573,356	-
ogram	43.001	University of Vermont	NNX10AK67H	-	-	-	-	9,248	-	-	9,248	-
	43.008	University of Vermont	NNX16AK55A	-	-	-	-	4,171	-	-	4,171	-
Program	43.008	University of Vermont	NNX15AP86H	-	-	-	-	10,000	-	-	10,000	-
				-	-	-	-	23,419	-	-	23,419	
	47.050	N/A	N/A	-	-	-	49,296	-	-	-	49,296	-
	47.050	N/A	N/A	-	16,371	-	-	-	-	-	16,371	-
	47.076	N/A	N/A	-	-	124,049	-	-	-	-	124,049	-
				-	16,371	124,049	49,296	-	-	-	189,716	-
	47.050	University of Vermont	geo-1034945	-	-	-	44,688	-	-	-	44,688	-
h	47.073	University of Vermont	27788 SUB 51497	-	26,117	-	-	-	-	-	26,117	-
	47.076	University of Vermont	25399 SUB51105	-	-	165,659	-	-	-	-	165,659	-
				-	26,117	165,659	44,688	-	-	-	236,464	-
h	47.081	N/A	N/A	-	-	100,244	-	-	-	-	100,244	-
				-	42,488	389,952	93,984	23,419	-	-	549,843	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2016

Care and

CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Johnson State University	Lyndon State College	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
10.559	Vermont Department of Educatior	N/A	$ -	$ -	$ -	$ 19,927	$ -	$ -	$ -	$ 19,927	$ -
93.575	Vermont Dept. Children & Familie:	N/A	13,922	-	-	-	-	-	-	13,922	-
93.596	Vermont Dept. Children & Families	N/A	294,975	-	-	-	-	-	-	294,975	-
			308,897	-	-	-	-	-	-	308,897	-
93.778	Office of Vermont Health Access (OVHA	11-W-00194/1	-	-	-	-	225,326	-	-	225,326	-
10.217	Vermont Student Assistance Corp	P334S110006	-	-	12,354	-	-	-	-	12,354	-
10.769	Vermont USDA	N/A	-	-	-	-	-	13,952	-	13,952	-
			-	-	12,354	-	-	13,952	-	26,306	-
11.307	N/A	N/A	-	-	-	-	-	14,521	-	14,521	-
11.611	N/A	N/A	-	-	-	-	-	500,000	-	500,000	-
			-	-	-	-	-	514,521	-	514,521	-
12.002	Vermont Agency of Commerce & Community Development	N/A	-	-	-	-	-	44,272	-	44,272	-
17.282	N/A	N/A	816,124	-	-	-	1,287,674	-	-	2,103,798	-
45.310	VT Department of Libraries	N/A	-	-	-	1,000	-	-	-	1,000	-
59.037	N/A	N/A	-	-	-	-	-	635,022	-	635,022	-
59.037	N/A	N/A	-	-	-	-	-	69,108	-	69,108	-
59.058	N/A	N/A	-	-	-	-	-	39,880	-	39,880	-
59.058	N/A	N/A	-	-	-	-	-	22,934	-	22,934	-
59.061	N/A	N/A	-	-	-	-	-	1,609	-	1,609	-
			-	-	-	-	-	768,553	-	768,553	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2016

CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Johnson State University	Lyndon State College	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
66.708	Vermont Agency of Natural Resource	N/A	$ -	$ -	$ -	$ -	$ -	$ 48,592	$ -	$ 48,592	$ -
84.116Z	N/A	N/A	-	-	-	35,358	-	-	-	35,358	-
84.048	Vermont Department of Education	V048A150045	667,426	-	-	-	-	-	-	667,426	-
84.048	Vermont Department of Education	4319R2171501	-	-	-	-	154,978	-	-	154,978	-
84.048	Vermont Department of Education	V048A50045	48,300	-	-	-	-	-	-	48,300	-
84.334	Vermont Student Assistance Corp	P334S110006-15	16,879	-	-	-	-	-	-	16,879	-
84.334S	Vermont Student Assistance Corp	P334S110006-15	-	-	-	-	7,005	-	-	7,005	-
84.366	Vermont Department of Education	4655R1171601	-	-	-	324,112	-	-	-	324,112	21,946
84.407A	University of Vermont	25280	-	-	75,594	-	-	-	-	75,594	-
			732,605	-	75,594	324,112	161,983	-	-	1,294,294	21,946
90.601	Northern Border Regional Commission	NBRC-14-G-VT00001	-	-	-	65,067	-	-	-	65,067	-
93.226	NCAA	N/A	-	-	29,487	-	-	-	-	29,487	-
93.226	NCAA	N/A	-	-	14,597	-	-	-	-	14,597	-
93.389	University of Vermont	29252SUB51797	-	-	234,202	-	-	-	-	234,202	-
93.389	University of Vermont	29252SUB51796	-	123,175	-	-	-	-	-	123,175	-
93.389	University of Vermont	2P20GM103449-14	-	-	-	93,902	-	-	-	93,902	-
93.859	University of Vermont	8P20GM103449	-	-	-	7,453	-	-	-	7,453	-
			-	123,175	278,286	101,355	-	-	-	502,816	-
94.005	Maine Campus Compact/Bates College	N/A	-	3,101	-	-	-	-	-	3,101	-
94.006	Vermont Agency of Human Service	13AFHVT0010006	-	-	-	184,654	-	-	-	184,654	-
			-	3,101	-	184,654	-	-	-	187,755	-
			1,548,729	126,276	366,234	711,546	1,449,657	1,389,890	-	5,592,332	21,946
			$ 15,282,661	$ 20,090,115	$ 16,872,995	$ 14,784,265	$ 13,383,666	$ 1,389,890	$ -	$ 81,803,592	$ 21,946

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Vermont State Colleges (the "Colleges") under programs of the Federal Government for the year ended June 30, 2016. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Colleges.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 3 - **De Minimis Indirect Cost Rate**

The Colleges have elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 – **Federal Student Loan Program**

Perkins Loan Program

The Federal Perkins Loan Program ("Perkins") is administered directly by the Colleges and balances and transactions relating to the program are included in the College's basic financial statements. During the year ended June 30, 2016, $625,632 of loans were advanced under the Perkins program and $14,340 of administrative costs were incurred. As of June 30, 2016, loan balances receivable, net under Perkins was $5,529,077.

There was no federal capital contribution or match by the Colleges during the current year.

Note 4 – **Federal Student Loan Program - Continued**

Direct Student Loan Program

The Colleges disbursed $47,073,426 of loans under the Federal Direct Student Loans program, which include Stafford Subsidized and Unsubsidized Loans and Parent Plus Loans. It is not practical to determine the balances of the loans outstanding to students of the Colleges under the program as of June 30, 2016. The Colleges are only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the Colleges' financial statements.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Current Year Findings and Questioned Costs

Year Ended June 30, 2016

<u>Section I – Summary of Auditors' Results:</u>

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weaknesses identified?	____ yes	__x__ no
• Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	__x__ no
Noncompliance material to the financial statements noted?	____ yes	__x__ no

Federal Awards

Type of auditor's report issued:	Unmodified	
Internal control over major programs:		
• Material weaknesses identified?	____ yes	__x__ no
• Significant deficiencies identified that are not considered to be material weaknesses?	__x__ yes	____ no
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	__x__ yes	____ no

Identification of major programs:

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Current Year Findings and Questioned Costs - Continued

Year Ended June 30, 2016

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster	
Federal Supplemental Educational Opportunity Grant Program	**84.007**
Federal Work-Study Program	**84.033**
Federal Perkins Loan Program	**84.038**
Federal Pell Grant Program	**84.063**
Federal Direct Student Loans	**84.268**
TRIO Cluster	
Student Support Services	**84.042A**
Upward Bound	**84.047A**

Dollar threshold used to distinguish
Between type A and type B programs: $750,000

Auditee qualified as a low-risk auditee? __x__ yes ____ no

Section II – Financial Statement Findings:

None

Section III – Federal Award Findings and Questioned Costs:

Finding number:	2016-001
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Criteria
According to 34 CFR Section 685.309(b)(2):

> A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next sixty days, notify the Secretary within thirty days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:
>
> 1. Enrolled at that school but has ceased to be enrolled on at least a half-time basis
> 2. Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended
> 3. Has changed his or her permanent address

Condition
The Federal government requires the College to report student enrollment changes to the National Student Loan Data System (NSLDS) within sixty days. Out of a sample of forty students with enrollment status changes, one student's changes were not reported in a timely manner to the NSLDS. The College took 62 days to report the status change for this student.

Cause
The College reports student enrollment status changes to the NSLDS through the National Student Clearinghouse (NSC), a third-party contractor, and is responsible for ensuring that student enrollment status changes are reported to the NSLDS in a timely and accurate manner. It is the responsibility of the Registrar to submit the enrollment status changes to NSC and to ensure that controls are in place to timely submit updates once the Registrar's office receives a student withdrawal form.

The College reported this student's enrollment status change to the NSC in the required timeframe but the NSC did not notify the NSLDS of the enrollment change until after the 60 day period.

Effect
The College did not report one student's enrollment change within the required timeframe of sixty days.

Questioned Costs
N/A

Perspective
Of the statistically valid sample of forty students selected for testing, one student was determined to have a status change reported to the NSLDS more than sixty days after the College made the status change determination. This student represents 2.5% of the total sample. This is a repeat finding; see prior year finding 2015-001.

Recommendation
We recommend that management review its control procedures for reporting student financial aid data to the NSLDS to ensure proper controls are in place to ensure that all information is reported in a timely manner. Also, we recommend that VSC's IT department develop a query to identify students who have changed status outside of the large batches at the end of each semester.

Views of Responsible Officials
This finding was discovered at one college within the VSC system for award year 2016. The College agrees with the finding.

Finding number:	2016-002
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Criteria
According to 34 CFR Section 685.309(b)(2):

> A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next sixty days, notify the Secretary within thirty days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:
>
> 1. Enrolled at that school but has ceased to be enrolled on at least a half-time basis
> 2. Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended
> 3. Has changed his or her permanent address

According to the NSLDS Enrollment Reporting Guide:

> The effective date for a withdrawn ('W') or completion/graduation status ('G') is the date that the school assigns to the withdrawal or completion/graduation.

Condition
The Federal government requires the College to accurately report student enrollment changes to the National Student Loan Data System (NSLDS). Out of a sample of forty students with enrollment status changes, four of the students who officially withdrew but were not properly reported to NSLDS, which resulted in the effective withdrawal dates for theses student being reported incorrectly to the NSLDS.

Cause
The College reports student enrollment status changes to the NSLDS through the National Student Clearinghouse (NSC), a third-party contractor, and is responsible for ensuring that student enrollment status changes are reported to the NSLDS in a timely and accurate manner.

Cause - Continued
To report enrollment status changes, the College uploads "Roster Files" to the NSC periodically that detail the enrollment status of every student at the College. For three students tested, there was an oversight by the College during the submission of the first "Roster File" of the Spring 2016 semester to NSC. The three students officially withdrew but were improperly excluded from the subsequent "Roster File" submitted after their withdrawal, which was also the first "Roster File" submission of the Spring 2016 semester. NSC noted that the three students were no longer listed as active students on the "Roster File" and reverted back to an effective withdrawal date for these students as of the last day of the previously active semester. The last day of the previously active semester was reported to the NSLDS as the effective withdrawal date but was not the correct effective withdrawal date for any of the three students.

The fourth student was not initially identified by the College's Colleague computer system as a withdrawal due to complications from updates to the Colleague system during fiscal year 2016. Due to the Colleague system complications, the student was omitted on the first "Roster File" submitted to the NSC in the Fall 2015 semester. Similarly to the other three students, NSC noted the student was no longer listed as an active student on the "Roster File" and reverted back to an effective withdrawal date for the student as of the last day of the previously active semester. Again, the last day of the previously active semester was reported to the NSLDS as the effective withdrawal date but was not the correct effective withdrawal date. The Colleague system complications were resolved later in the Fall 2015 semester and the fourth student's withdrawal was then properly uploaded to the NSC but NSC was unable to process a second effective withdrawal date for the same semester.

Effect
The four students were reported to NSLDS with an incorrect effective withdrawal date and the deferment period for these students was unnecessarily reduced.

Questioned Costs
N/A

Perspective
Of the statistically valid sample of forty students selected for testing, four students were determined to have incorrect effective dates with the NSLDS due to the College's omission of the students from the reporting Roster File. These students represent 10.0% of the total sample. These appear to be isolated occurrences of noncompliance.

Recommendation
We recommend that management review its control procedures for reporting student financial aid data to the NSLDS to ensure proper controls are in place to ensure that all information is reported in an accurate manner.

Views of Responsible Officials
This finding was discovered at two colleges within the VSC system for award year 2016. Both colleges agree with the finding.

Finding number:	2016-003
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Criteria

According to 34 CFR Section 668.22(a):

> When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of this section.

According to 34 CFR Section 668.22(c)(3):

> Notwithstanding paragraphs (c)(1) and (2) of this section, an institution that is not required to take attendance may use as the student's withdrawal date a student's last date of attendance at an academically-related activity provided that the institution documents that the activity is academically related and documents the student's attendance at the activity.

According to the NSLDS Enrollment Reporting Guide:

> The effective date for a withdrawn ('W') or completion/graduation status ('G') is the date that the school assigns to the withdrawal or completion/graduation.

Condition

The federal government requires the College to use an accurate withdrawal date for the Return of Title IV Aid calculation as well as accurately report student enrollment changes to the National Student Loan Data System (NSLDS).

For students who officially withdraw, the College is inconsistent when applying a withdrawal date to the student for NSLDS reporting and the Return of Title IV Aid calculation. The College uses the student's official withdrawal form date as an effective withdrawal date when reporting to NSLDS but uses the last date of attendance as the withdrawal date when performing the student's Return of Title IV Aid calculation.

Out of a sample of forty students with a Return of Title IV Aid calculation, the College has eleven students whose effective withdrawal dates reported to NSLDS do not match the withdrawal dates per the Return of Title IV Aid calculations.

Schedule of Current Year Findings and Questioned Costs - Continued

Year Ended June 30, 2016

Condition - Continued
The withdrawal date per the official withdrawal form and the last date of attendance are both considered valid withdrawal dates for a non-attendance taking school but once one of those dates is determined, the withdrawal dates should be consistently applied to NSLDS reporting and the Return of Title IV Aid calculation.

Cause
For official withdrawals, the College uses the student's official withdrawal form date as an effective withdrawal date when reporting to NSLDS but uses the last date of attendance when performing the student's Return of Title IV Aid calculation.

Effect
The withdrawal dates per the College are not consistent between the effective withdrawal date reported to NSLDS and the withdrawal date used for the Return of Title IV Aid calculation for eleven students in our sample.

Questioned Costs
N/A

Perspective
Of the statistically valid sample of forty students selected for testing, eleven students were determined to have inconsistent withdrawal dates. This appears to be a systematic issue at the College because the College is knowingly using two different dates for reporting to NSLDS and calculating the Return of Title IV Aid.

Recommendation
We recommend that the College use the same withdrawal date as an effective date for NSLDS and withdrawal date per the Return of Title IV Aid calculation.

Views of Responsible Officials
This finding was discovered at multiple colleges within the VSC system for award year 2016. All three Colleges agree with the finding.

Finding number:	2016-004
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Criteria
When a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the recipient's withdrawal date.

According to 34 C.F.R. Section 668.22(j)(2):

For an institution that is not required to take attendance, an institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the –

(i) Payment period or period of enrollment, as appropriate;
(ii) Academic year in which the student withdrew; or
(iii) Educational program from which the student withdrew.

Condition
The College is non-attendance taking and for one withdrawn student tested, the College did not determine the student withdrew until 150 days after the end of the payment period, which ended the earliest of the aforementioned dates. The student withdrew in September 2015 but the College did not determine the student's withdrawal until May 2016. The College did not determine the withdrawal date within the 30 day period after the end of the payment period, which was the Fall 2015 semester.

Cause
The College runs an "All 'F' Report" at the end of each semester to identify the students that failed all classes taken. The College investigates each student on the report to determine whether each student failed all classes by merit or failed due to unofficially withdrawing from the College. During the Fall 2015 semester, the student in question was enrolled at Castleton University but took classes at the Community College of Vermont, while receiving Title IV funds. The student received all failing grades during the Fall 2015 semester at the Community College of Vermont but those grades were not reflected when Castleton University ran their "All 'F' Report" at the end of the semester because the classes were not taken at Castleton University. The College was unaware of the student's withdrawal until it was discovered during our testing.

Effect
The College did not determine the withdrawal date of one withdrawn student within the 30 day period after the end of the payment period.

Questioned Costs
N/A

Perspective
Of the statistically valid sample of forty students selected for testing, one student was determined to be withdrawn more than 30 days after the end of the payment period. This student represents 2.5% of the total sample. It appears this is an isolated occurrence of noncompliance.

Recommendation
We recommend the College develop a report to identify all failing students that incorporates classes taken by the student at both at the specific college at which the student is enrolled as well as the other colleges in the Vermont State College system.

Views of Responsible Officials
This finding was discovered at one college within the VSC system for award year 2016. The College agrees with the finding.

Finding number:	2016-005
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grant Program
CFDA #'s:	84.063
Award year:	2016

Criteria

According to 34 CFR Section 690.83(b):

1. An institution shall report to the Secretary any change in the amount of a grant for which a student qualifies, including any related Payment Data changes by submitting to the Secretary the student's Payment Data that disclosed the bases and result of the change in award for each student. The institution shall submit the student's Payment Data reporting any change to the Secretary by the reporting deadlines published by the Secretary in the Federal Register.

2. An institution shall submit, in accordance with deadline dates established by the Secretary, through publication in the Federal Register, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct.

According to the DOE Federal Register (Volume 80, Number 47, 80 FR 1280):

> An institution must submit Pell Grant, Iraq and Afghanistan Service Grant, Direct Loan, and TEACH Grant disbursement records, as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student's previously reported disbursement.

Condition

Federal regulations require institutions to report to the Federal Government's Common Origination and Disbursement System (COD) payments to students for Federal Pell Grants within 15 days of disbursement to students.

We sampled forty students and one student's Pell grant disbursement was reported late to the COD in the Fall 2015 semester. The College reported the student's disbursement to the COD 125 days after the disbursement date.

Cause

In a previous year, this condition existed due to a weakness in the College's Colleague electronic reporting process to the COD system, whereby it was difficult to discern after the data was transmitted which individual Pell records were accepted by the COD system. The issue was identified and the College redesigned and implemented a new system report edit function in its electronic reporting process that helped to quickly identify data reporting errors with the COD system and allowed the College to correct Pell student data within the required 15 day reporting window.

The Colleague system updates in fiscal year 2016 created unknown complications and the new system report edit function was altered. The College unknowingly no longer received a complete list of data reporting errors with the COD system. Later in the fiscal year, the College performed another Colleague system update and the system report edit function reverted back to generating full error reports. The system then generated a list of data reporting errors that had been previously missed due to the interruption from the initial Colleague system update. The students that made up those older data reporting errors were already past the 15 day threshold and had not been properly reported to COD.

Effect

Of the students tested, the College did not report one students' Pell grant disbursement to the COD within the required 15 days.

Questioned Costs

N/A

Perspective

Of the statistically valid sample of forty students selected for testing, one students' Pell grant disbursement was reported more than 15 days are the disbursement date to the student. This student represents 2.5% of the total sample.

Through discussion with the College's financial aid personnel, this finding affected Pell disbursement reporting of 11 additional students outside of our sample of forty students. These additional students were all discovered by the College and reported to the COD on the same day in the Spring 2016 semester, which was beyond the 15 day limit to report Pell disbursements for these students. In total, all students affected were due to an isolated incident directly related to the complications from the Colleague system update. The Colleague system now appears to be operating properly.

Recommendation

We recommend that management strengthen their oversight of COD reporting to ensure timely reporting of aid disbursement information.

Views of Responsible Officials
This finding was discovered at one college within the VSC system for award year 2016. The College agrees with the finding.

Finding number:	2016-006
Federal agency:	U.S. Department of Education
Programs:	TRIO Cluster (Student Support Services)
CFDA #'s:	84.042A
Award year:	2016

Criteria

According to 34 CFR Section 646.11:

> (a) An applicant must assure the Secretary in the application that—
> (1) Not less than two-thirds of the project participants will be—
> (i) Low-income individuals who are first generation college students; or
> (ii) Individuals with disabilities;
> (2) The remaining project participants will be low-income individuals, first generation college students, or individuals with disabilities; and
> (3) Not less than one-third of the individuals with disabilities served also will be low-income individuals.

According to OMB No. 1840-0525, grantees must submit an annual performance report to the Department of Education each year of the project period.

Condition

The College did not accurately report the eligibility status of two program participants on the Student Support Services Annual Performance Report (APR). The two program participants were both individuals with a disability, first-generation, and low-income but were coded as only first generation and low-income individuals.

Omitting the disability from the eligibility status of these participants affected the calculation on the APR that ensures not less than one-third of the individuals with disabilities were also low-income individuals. Upon recalculation using the correct eligibility codes, the College was in compliance with the regulation that not less than one-third of the individuals with disabilities were also low-income individuals.

Cause

The College was not documenting a participant's disability if the individual met another eligibility requirement (e.g. first generation and/or low income). These two participants both had another eligibility requirement and therefore, their disability was not documented in the APR. The incorrect eligibility statuses recorded for those two participants caused an incorrect calculation on the Annual Performance Report when determining whether not less than one-third of the individuals with disabilities were also low-income individuals.

Effect
The eligibility status for the two participants was inaccurately reported on the APR. When determining whether not less than one-third of the individuals with disabilities were also low-income individuals on the APR, incorrect eligibility statuses were used and the calculation was incorrectly reported.

Questioned Costs
N/A

Perspective
Of the statistically valid sample of forty participants selected for testing, two participants' had incorrect eligibility statuses. This appears to be a systematic issue with the way the College records the eligibility status of disabled participants when the participant meets anther eligibility requirement.

Recommendation
We recommend that management improve their participant coding process to properly determine and document a participant's eligibility status, specifically regarding individuals with disabilities and other eligibility requirements.

Views of Responsible Officials
This finding was discovered at one college within the VSC system for award year 2016. The College agrees with the finding.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Summary Schedule of Prior Year Findings

Year Ended June 30, 2016

Finding number:	2015-001
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grant Program
CFDA #'s:	84.063
Award year:	2014

Condition

The Federal government requires the College to report student enrollment changes to the National Student Loan Data System (NSLDS) within sixty days. Out of a sample of forty students with enrollment status changes, four of the students' changes were not reported in a timely manner to the NSLDS. For three of those students, the timeframe taken to report the status ranges from 159-168 days. The fourth student's graduation was never reported to the NSLDS.

Current Year Status:

Our current year testing revealed a finding in this area. See finding 2016-003 for more information and corrective action plan.

Finding number:	2015-002
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2015

Condition

When a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the proper amount of Title IV funds to be refunded as of the recipient's withdrawal date. The institution should complete a "Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program" worksheet in order to determine the proper amount of Title IV funds to be refunded. Once a recipient's withdrawal date is determined, an institution needs to calculate the percentage of the payment period or period of enrollment completed. The percentage of the payment period or period of enrollment completed represents the percentage of Title IV funds earned by the recipient.

We tested 40 recipient files for compliance with this requirement. The refund for one student who withdrew was not calculated using the proper withdrawal date. This resulted in a net excess of $86 being returned to the Federal Government.

Current Year Status:

The recommendation was adopted by management during the fiscal year ended June 30, 2016. No similar findings were noted during the audit.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Corrective Action Plan

Finding number:	2016-001
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Corrective Action Plan:

Vermont Technical College ("VTC")

There is a policy and procedure in place by the Registrar's Office that includes a transmission schedule that is coordinated with the Registrar Offices across Colleges incorporated in the VSC. Each college within the VSC has a designated day of the week for reporting as only one college at a time can be in the system for reporting and transmitting. From time to time there are technical problems with transmissions which can cause timing issues and delays in data reporting when trying to meet deadline compliance, as in the case with the student discussed in this finding. VTC will look at the transmission schedule and see whether we can report earlier to create more of a buffer zone for error edits and transmission issues.

Timeline for Implementation of Corrective Action Plan:

Vermont Technical College

This policy and timeline will be reviewed and any changes implemented by December 2016 under the direction of the Registrar.

Contact Person

Vermont Technical College

Catherine McCullough, Director of Financial Aid

Finding number:	2016-002
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Corrective Action Plan:

Community College of Vermont ("CCV")

As reported to the audit team, the erroneous reporting of the withdrawal date was due to the CCV's inability to retrieve accurate information from our reporting tool after the SQL update to our data system. CCV's registrar team worked to resolve those issues by creating new reports with accurate data in midterm of the Fall 15 semester.

Lyndon State College ("LSC")

Lyndon State College has traditionally followed the NSC schedule for roster updates using the approved methodology of reporting enrolled students. Thus, the three students were correctly recorded with NSLDS as withdrawn, but the dates of withdrawal were incorrect because NSC used a default date of the close of the prior term. To avoid this problem from occurring in the future, LSC will "pre-report" spring enrollment to establish a baseline. The enrollment activity during the start of the semester will then be manually reported as adjustments to that baseline, up until the point of the regular spring enrollment reporting at which point current registration reporting procedures will resume and continue through the balance of the semester.

Timeline for Implementation of Corrective Action Plan:

Community College of Vermont ("CCV")

The corrective action plan has already been implemented. CCV's registrar team worked to resolve those issues by creating new reports with accurate data in midterm of the Fall 2015 semester.

Lyndon State College ("LSC")

This updated procedure will be further defined in Fall 2016 for implementation for the Spring 2017 semester.

Contact Person

Community College of Vermont ("CCV")

Pam Chisholm, Dean of Enrollment Services

Lyndon State College ("LSC")

Miranda Fox, Registrar

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Corrective Action Plan - Continued

Finding number:	2016-003
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Corrective Action Plan:

Community College of Vermont ("CCV")

As reported to the audit team, CCV felt with the return of Title IV Funds, we were being good fiduciary stewards of federal funds by using the last date of attendance for the Return of Title IV Aid calculation. CCV will work to identify the best data point to use consistently for both purposes going forward and implement this process update.

Castleton University ("CU")

CU will use the same withdrawal date (i.e. the last date of attendance) as an effective date for NSLDS reporting and withdrawal date per the Return of Title IV Aid calculation.

Vermont Technical College ("VTC")

To alleviate future errors in reporting actual withdrawal dates, the registrar's office will implement a workflow that will institute checks and balances to review and self-audit work and data submitted to NSLDS.

Timeline for Implementation of Corrective Action Plan:

Community College of Vermont ("CCV")

Financial Aid and the Registrar will make this determination before the end of the Fall 16 semester and also will review any official withdrawals that have been previously processed for the Fall 16 semester.

Castleton University ("CU")

Effective immediately (10/13/16), the Chief Academic Officer will instruct the Registrar's Office to implement the Corrective Action Plan.

Vermont Technical College ("VTC")

This workflow will be instituted by the Registrar and any changes implemented by December 2016.

Contact Person

Community College of Vermont ("CCV")

Pam Chisholm, Dean of Enrollment Services

Castleton University ("CU")

Lori Arner, Registrar

Contact Person – Continued
Vermont Technical College ("VTC")
Catherine McCullough, Director of Financial Aid

Management's Corrective Action Plan - Continued

Finding number:	2016-004
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2016

Corrective Action Plan:
Castleton University ("CU")
CU will develop a report to identify all failing students that incorporates classes taken by the student at both CU as well as other colleges in the Vermont State College system.

Timeline for Implementation of Corrective Action Plan:
Castleton University ("CU")
The report will be run by the Registrar's Office at the end of the current (Fall 2016) semester (and all subsequent semesters).

Contact Person
Castleton University ("CU")
Lori Arner, Registrar

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Corrective Action Plan - Continued

Finding number:	2016-005
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grant Program
CFDA #'s:	84.063
Award year:	2016

Corrective Action Plan:
Community College of Vermont ("CCV")
As reported to the audit team, the College has worked to correct the reporting errors as a result of the SQL conversion to identify, in a timely manner, students records that are not being correctly to the COD system. CCV's corrective action plan was to correct the reporting errors.

Timeline for Implementation of Corrective Action Plan:
Community College of Vermont ("CCV")
The corrective action plan has already been implemented. It was implemented shortly after CCV became aware of the issue.

Contact Person
Community College of Vermont ("CCV")
Pam Chisholm, Dean of Enrollment Services

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Corrective Action Plan - Continued

Finding number:	2016-006
Federal agency:	U.S. Department of Education
Programs:	TRIO Cluster (Student Support Services)
CFDA #'s:	84.042A
Award year:	2016

Corrective Action Plan:

Community College of Vermont ("CCV")

CCV's corrective action plan was to update the TRIO enrollment paperwork immediately after discovering the error with the addition of "Disability" as an eligibility category. Previously, disability status was documented on the TRIO application and verified manually in a separate ADA tracking database, but relied on a manual process to be included in the TRIO database. This manual process did not successfully prevent errors. To avoid such human error in the future, disability status is now documented on the enrollment paperwork and feeds directly into data entry into our database. Additionally, the TRIO Director runs monthly reports to evaluate the proportion of students with disabilities to students with disabilities who are low-income, as a failsafe to ensure accurate documentation and reporting.

Timeline for Implementation of Corrective Action Plan:

Community College of Vermont ("CCV")

The corrective action plan has already been implemented.

Contact Person

Community College of Vermont ("CCV")

Heather Weinstein, Dean of Students

APPENDIX E

Vermont Municipal Bond Bank
Vermont State Colleges System Bonds
2017 Series A
(the "Bonds")

<u>Continuing Disclosure Undertaking</u>

Prior to the issuance of the Bonds, the Vermont Municipal Bond Bank (the "Bank"), the Vermont State Colleges, also known as the Vermont State Colleges System ("VSCS"), and U.S. Bank National Association, as dissemination agent (the "Dissemination Agent") will enter into a continuing disclosure agreement (the "Disclosure Agreement") setting forth the undertakings of the Bank and VSCS regarding continuing disclosure with respect to the Bonds.

In the Disclosure Agreement, the Bank will undertake for the benefit of the registered owners and Beneficial Owners (the "owners") of the Bonds to provide to the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access system ("EMMA") pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), within the meaning of the Rule, not later than September 1 of each year, (a) the year-end audited financial statements of the Bank for the preceding fiscal year and report of independent auditor similar in form and scope to the statements, information and reports included in Appendix D-1 to this Official Statement if audited financial statements are then available, provided, however, that if audited financial statements of the Bank are not then available, such audited financial statements shall be delivered to EMMA when they become available (but in no event later than December 1 of each year) or (b) notice of the Bank's failure, if any, to provide any such information.

In the Disclosure Agreement, VSCS will undertake for the benefit of the owners of the Bonds to provide to EMMA pursuant to the Rule, within the meaning of the Rule, not later than February 1 of each year, (a) (i) the year-end audited financial statements of VSCS for the preceding fiscal year and report of independent auditors similar in form and scope to the statements, information and reports included in Appendix D-2 to this Official Statement if audited financial statements are then available, provided, however, that if audited financial statements of VSCS are not then available, such audited financial statements shall be delivered to EMMA when they become available (but in no event later than May 1 of each year) and (ii) (1) information, updated through the last day of the fiscal year of such Annual Report unless otherwise noted, relating to VSCS, substantially in the same level of detail as is found in Appendix A to this Official Statement under the headings "***Operating Information – Admissions and Student Enrollment***," "***Operating Information – Student Tuition Charges***," "***Student Financial Aid***" and "***State Appropriations***" and (2) the budget of VSCS for the current fiscal year, to the extent not included in the audited financial statements referred to in (a) (i) above or (b) notice of VSCS's failure, if any, to provide any such information.

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issues with respect to which the Bank or VSCS, as applicable, is an "obligated person" (as defined in the Rule), that are available to the public on EMMA. The annual financial statements referred to above shall have been prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Bank or VSCS, as applicable.

In the Disclosure Agreement, the Bank also will undertake for the benefit of the owners of the Bonds to provide to EMMA in a timely manner, not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) modifications to rights of security holders, if material;

(viii) bonds calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Bank or VSCS;

(xiii) the consummation of a merger, consolidation, or acquisition involving the Bank or VSCS or the sale of all or substantially all of the assets of the Bank or VSCS, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in subparagraph (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Bank or VSCS in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Bank or VSCS, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Bank or VSCS.

Nothing in the Disclosure Agreement shall preclude the Bank or VSCS from disseminating any information in addition to that required under the Disclosure Agreement. If the Bank or VSCS disseminates any such additional information, nothing in the Disclosure Agreement shall obligate the Bank or VSCS to update such information or include it in any future materials disseminated.

To the extent permitted by law, the provisions of the Disclosure Agreement shall be enforceable against the Bank and VSCS in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Bank). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of the Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Bank or VSCS and to compel the Bank or VSCS and any of their officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Bank or VSCS in connection with such undertakings and shall not include any rights to monetary damages. The obligations of the Bank and VSCS in respect of the Disclosure Agreement shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of the Disclosure Agreement may be amended by the Bank, VSCS and the Dissemination Agent, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Bank or VSCS for the benefit of the owners of the Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Bank or VSCS (such as bond counsel to the Bank) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

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