

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 2018 Bonds (as hereinafter defined) will not be included in the gross income of holders of such bonds for federal income tax purposes. In the further opinion of Bond Counsel, the 2018 Bonds are exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. See “TAX EXEMPTION” herein.



\$33,175,000

VERMONT MUNICIPAL BOND BANK

2018 Series 2 Bonds

(Local Investment Bonds)

Dated: Date of Delivery

Due: December 1, as shown on the inside cover

The 2018 Series 2 Bonds (Local Investment Bonds) (the “2018 Bonds”) 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 2018 Bonds will be made in book-entry-only form, in the denomination of \$1,000 or any integral multiple thereof. Purchasers of beneficial interests will not receive certificates representing their interest in the 2018 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 2018 Bonds. See “THE 2018 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 2018 Bonds are subject to redemption, as more fully set forth herein.

The 2018 Bonds are direct and general obligations of the Vermont Municipal Bond Bank (the “Bank”) payable out of any revenues or funds subject to the provisions of other resolutions now or hereafter pledging particular monies, assets or revenues to particular notes or bonds of the Bank as more fully described in this Official Statement. 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 2018 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.

The 2018 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 on for the Underwriters by their counsel, Locke Lord LLP, Boston, Massachusetts. Omnicap Group LLC, El Segundo, California and Lamont Financial Services Corporation, Fairfield, New Jersey, serve as financial advisors to the Bank. It is expected that the 2018 Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on or about July 19, 2018.

Morgan Stanley

Citigroup

July 10, 2018

\$33,175,000
Vermont Municipal Bond Bank
2018 Series 2 Bonds
(Local Investment Bonds)

<u>Maturity</u> <u>(December 1)</u>	<u>Principal</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP*</u> <u>Number</u>
2019	\$1,055,000	5.000%	1.54%	924214 K32
2020	1,085,000	2.250	1.68	924214 K40
2021	1,510,000	2.500	1.82	924214 K57
2022	1,610,000	3.000	1.94	924214 K65
2023	1,620,000	2.250	2.07	924214 K73
2024	1,620,000	2.500	2.21	924214 K81
2025 [†]	1,615,000	4.000	2.32	924214 K99
2026 [†]	1,635,000	5.000	2.41	924214 L23
2027 [†]	1,615,000	5.000	2.49	924214 L31
2028 [†]	2,190,000	5.000	2.56	924214 L49
2029	1,560,000	3.000	3.14	924214 L56
2030	1,555,000	3.000	3.18	924214 L64
2031	1,545,000	3.125	3.21	924214 L72
2032	1,500,000	3.125	3.24	924214 L80
2033 [†]	1,495,000	5.000	2.73	924214 L98
2034 [†]	1,505,000	5.000	2.77	924214 M22
2035 [†]	1,520,000	5.000	2.81	924214 M30
2036 [†]	1,535,000	5.000	2.84	924214 M48
2037 [†]	1,545,000	5.000	2.86	924214 M55
2038	3,105,000	3.375	3.43	924214 M63

\$755,000 3.375% Term Bonds maturing December 1, 2043 to Yield 3.50% - CUSIP* Number 924214 M71

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[†] Priced at the stated yield to the first optional redemption date, June 1, 2025.

INTRODUCTION TO THE OFFICIAL STATEMENT

The following is furnished solely to provide limited introductory information regarding the \$33,175,000 Vermont Municipal Bond Bank, 2018 Series 2 Bonds (Local Investment Bonds) (the “2018 Bonds”) and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing elsewhere in this Official Statement, including the appendices hereto. Investors should read the entire Official Statement to obtain information essential to making an informed decision.

Issuer:	Vermont Municipal Bond Bank (the “Bank”)								
Purpose:	The 2018 Bonds are being issued: (i) to purchase municipal bonds issued by Governmental Units (defined herein); (ii) to make a deposit to the Reserve Fund (defined herein); (iii) to fund capitalized interest on the 2018 Bonds; and (iv) to pay costs of issuance of the 2018 Bonds.								
Security:	The 2018 Bonds are general obligations of the Bank and are secured on a parity with other bonds issued and to be issued (collectively, the “Bonds”) under the Bank’s General Resolution (defined herein). The Bonds are secured by a pledge of the municipal bonds issued by Governmental Units and purchased by the Bank (“Municipal Bonds”) and the amounts required to be paid by such Governmental Units to the Bank pursuant to loan agreements for principal and interest on the Municipal Bonds (“Municipal Bonds Payments”). The Bonds are further secured under the Act by an intercept by the State Treasurer of State funding to any Governmental Units that are in default on their Municipal Bonds Payments. The Bonds are further secured by the Reserve Fund (defined herein). If there is a draw on the Reserve Fund that reduces the amount therein below the Required Debt Service Reserve, the State is legally authorized, but not legally obligated, to appropriate annually the amount required to replenish the Reserve Fund. See “SECURITY FOR THE BONDS.”								
Redemption Provisions:	The 2018 Bonds maturing on and after December 1, 2025 are subject to redemption at the option of the Bank, at any time on and after June 1, 2025, in whole or in part, at par plus accrued interest to the date of redemption. The 2018 Bonds are also subject to mandatory sinking fund redemption as described herein. See “THE 2018 BONDS–Redemption Provisions.”								
Denominations:	The 2018 Bonds will be issued in denominations of \$1,000 and integral multiples thereof.								
Local Investment Bonds:	The Bank has designated the 2018 Bonds as Local Investment Bonds, both to highlight the local impact of the projects capitalized by the 2018 Bonds and to alert individual investors to the reduced barriers to investing in Vermont’s local communities through the \$1,000 denominations referred to above. See “THE 2018 BONDS–Local Investment Bonds.”								
Ratings:	S&P Global Ratings (“S&P”) and Moody’s Investors Service, Inc. (“Moody’s”) have rated the 2018 Bonds “AA+”, and “Aa1”, respectively. See “RATINGS.”								
Principal Payments:	Annually, each December 1, commencing December 1, 2019.								
Interest Payments:	Semi-annually, each June 1 and December 1, commencing December 1, 2018.								
Tax Status:	Interest on the 2018 Bonds will not be included in the gross income of the holders thereof for federal income tax purposes. The 2018 Bonds are exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. See “TAX EXEMPTION.”								
Professional Consultants to the Bank:	<table><tr><td><i>Financial Advisors:</i></td><td>Lamont Financial Services Corporation, Fairfield, New Jersey</td></tr><tr><td></td><td>Omnicap Group LLC El Segundo, California</td></tr><tr><td><i>Bond Counsel:</i></td><td>Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. Boston, Massachusetts</td></tr><tr><td><i>Trustee and Paying Agent:</i></td><td>U.S. Bank National Association Boston, Massachusetts</td></tr></table>	<i>Financial Advisors:</i>	Lamont Financial Services Corporation, Fairfield, New Jersey		Omnicap Group LLC El Segundo, California	<i>Bond Counsel:</i>	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. Boston, Massachusetts	<i>Trustee and Paying Agent:</i>	U.S. Bank National Association Boston, Massachusetts
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<i>Bond Counsel:</i>	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. Boston, Massachusetts								
<i>Trustee and Paying Agent:</i>	U.S. Bank National Association Boston, Massachusetts								
Registration:	The 2018 Bonds initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2018 Bonds.								

Legal Matters:	All legal matters incident to the authorization, issuance, sale and delivery of the 2018 Bonds are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel. The opinion will be substantially in the form attached hereto as Appendix C. Certain legal matters will be passed on for the Underwriters by their counsel, Locke Lord LLP, Boston, Massachusetts.
Authority for Issuance:	The 2018 Bonds are being 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 Bank’s General Bond Resolution adopted on May 3, 1988 (the “General Resolution”) and the Series Resolution authorizing the issuance of the 2018 Bonds (the “Series Resolution”), adopted June 11, 2018.
Conditions Affecting Issuance:	The 2018 Bonds are offered when, as and if issued, subject to the approving legal opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, and subject to the other conditions contained in the Contract of Purchase between the Bank and Morgan Stanley & Co. LLC, on behalf of itself and Citigroup Global Markets Inc. (together, the “Underwriters”).
Delivery:	The 2018 Bonds are expected to be issued on or about July 19, 2018, at DTC on behalf of the Underwriters.
Book-Entry Only:	The 2018 Bonds will be issued as book-entry only securities through DTC.
Limitations on Offering or Reoffering Securities:	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. 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 2018 Bonds offered hereby, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.
No Litigation:	There is no 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 2018 Bonds. See “LITIGATION AND OTHER PROCEEDINGS.”
Continuing Disclosure:	The Bank will undertake to provide continuing disclosure with respect to the 2018 Bonds. See “CONTINUING DISCLOSURE.”

Questions regarding the 2018 Bonds or the Official Statement can be directed to, and additional copies of the Official Statement, the Bank’s audited financial reports and the Resolutions may be obtained from the Bank’s financial advisors, Omnicap Group LLC (310) 318-3095 and Lamont Financial Services Corporation (973) 200-8717.

DEBT SUMMARY

The summary data in the table below is furnished solely as a summary and does not purport to be comprehensive. All such data is subject in all respects to more detailed descriptions contained elsewhere in this Official Statement. Investors should read the entire Official Statement to obtain information essential to making an informed decision. See “OUTSTANDING BONDS AND OTHER OUTSTANDING INDEBTEDNESS.”

Outstanding Bonds as of May 31, 2018

General Resolution Bonds	\$584,510,000
Other Debt*	<u>67,660,000</u>
Total Outstanding Debt	\$652,170,000

* Represents VSCS Program Bonds (as defined herein).

The information set forth herein has been obtained from the Bank and other sources which are believed to be reliable, but information from other than the Bank is not to be construed as a representation by the Bank. 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 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.

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 2018 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 2018 Bonds and other documents herein do not purport to be complete; reference is made to said laws, resolutions, the 2018 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 2018 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 2018 Bonds to certain dealers (including dealers depositing the 2018 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.

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\$33,175,000
Vermont Municipal Bond Bank
2018 Series 2 Bonds
(Local Investment Bonds)

INTRODUCTORY STATEMENT

This Official Statement is provided for the purpose of setting forth information concerning the Vermont Municipal Bond Bank (the “Bank”) in connection with the sale of \$33,175,000 2018 Series 2 Bonds (Local Investment Bonds) (the “2018 Bonds”). The 2018 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 2018 Bonds are to be issued under and are to be secured by the Bank’s General Bond Resolution adopted on May 3, 1988 (the “General Resolution”) and the Series Resolution authorizing the issuance of the 2018 Bonds (the “Series Resolution”), adopted June 11, 2018.

The Bank and the Governmental Units. 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 bonds for, among other purposes, (1) providing funds to enable the Bank to make loans to counties, municipalities or other public bodies of the State, including public school districts (the “Governmental Units”), (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.

Loans to Governmental Units are made through the direct purchase by the Bank from such Governmental Units of their bonds, notes or evidences of debt constituting either general obligations of the Governmental Units (the “General Obligation Bonds”) or obligations of the Governmental Units payable solely out of the earnings or profits derived from the operation of a Public Utility (the “Revenue Bonds”). General Obligation Bonds and Revenue Bonds are sometimes collectively referred to herein as “Municipal Bonds.” A portion of the proceeds of the 2018 Bonds will be used to purchase General Obligation Bonds issued by the Governmental Units identified in Table 1 of Appendix B (the “2018 Municipal Bonds”). For a list of all of the Governmental Units that have Municipal Bonds outstanding that were purchased by the Bank pursuant to the General Resolution and the outstanding balances of such Municipal Bonds, see Table 2 of Appendix B hereto.

The 2018 Bonds. The 2018 Bonds are being issued to provide monies which will be used, together with other funds of the Bank: (i) to purchase the 2018 Municipal Bonds in the aggregate principal amount of \$32,582,500; (ii) to make a deposit into the Reserve Fund (as hereinafter defined) established with U.S. Bank National Association, as trustee (the “Trustee”) pursuant to the General Resolution; (iii) to fund capitalized interest on the 2018 Bonds; and (iv) to pay certain costs of issuance of the 2018 Bonds. See “SOURCES AND USES OF FUNDS” herein and Appendix B hereto.

Amendment to the General Resolution with respect to the 2018 Bonds. The Bank intends, upon the issuance of the 2018 Bonds, to implement an amendment to the General Resolution permitting the 2018 Bonds to be issued in denominations of \$1,000 and integral multiples thereof. *By their purchase of the 2018 Bonds, the original purchasers thereof (i) shall consent and shall be deemed to have consented to such proposed amendment and (ii) shall waive and shall be deemed to have waived any other formal notice, implementation, execution or timing requirements that may otherwise be required under the*

General Resolution in order to implement such proposed amendment. As a result, such proposed amendment will be effective on the date of issuance of the 2018 Bonds.

Security for the 2018 Bonds. The 2018 Bonds will constitute general obligations of the Bank, and the full faith and credit of the Bank are pledged for the payment of principal, redemption premium, if any, and interest thereon. The 2018 Bonds and other bonds issued or Outstanding on a parity therewith under the General Resolution (collectively, the “Bonds”) are further secured by the pledge of the Municipal Bonds and the amounts paid by the Governmental Units or required to be paid by the Governmental Units to the Bank pursuant to the Loan Agreements for principal and interest on the Municipal Bonds (the “Municipal Bonds Payments”) and the investments thereof and the proceeds of such investments, if any, and all funds and accounts established by the General Resolution, except the Rebate Fund.

Pursuant to the Act, the State Treasurer may intercept State funding to Governmental Units that are in default on their Municipal Bonds Payments to the Bank. The Loan Agreements provide that Municipal Bonds Payments are due to the Bank on the first day of the month prior to the principal and interest payment dates on the Bonds. Accordingly, the intercept by the State Treasurer is scheduled to occur prior to the principal and interest payment dates on the Bonds. See “SECURITY FOR THE BONDS – Intercept of State Funds and Other Enforcement of Municipal Bonds.”

The Bonds are further secured by the Vermont Municipal Bond Bank Revenue Bond Reserve Fund (the “Reserve Fund”). The Reserve Fund is funded in an amount equal to the least of (i) maximum annual debt service coming due in any year on each series of Bonds, (ii) 125% of average annual debt service on each series of Bonds or (iii) 10% of the proceeds of each series of Bonds (the “Required Debt Service Reserve”). Moneys in the Reserve Fund are applied to the payment of the interest on and principal of Bonds issued under the General Resolution, as they become due and payable, to the extent other monies of the Bank, including without limitation, Municipal Bonds Payments and intercepted State funding, if any, are not then available. The Act provides that any draw on the Reserve Fund shall be replenished by appropriation of the General Assembly of the State. While the 2018 Bonds and the replenishment obligation do not constitute a legally enforceable obligation of the State or create a debt on behalf of the State, Bond Counsel is of the opinion that the State, by its General Assembly, is legally authorized, but not legally obligated, to appropriate annually such sum to restore the Reserve Fund, all to the extent described under “SECURITY FOR THE BONDS – Reserve Fund” herein.

All Bonds, notwithstanding their date of issuance, are secured equally and ratably by all of the above. Additional series of Bonds may be authorized and issued by the Bank pursuant to the General Resolution on a parity with the Bonds. The Bank has issued \$2,155,090,000 in aggregate principal amount of Bonds (including Bonds issued to refund other Bonds) under the General Resolution. For more information regarding parity Bonds under the General Resolution, see “OUTSTANDING BONDS AND OTHER OUTSTANDING INDEBTEDNESS” herein. The Bank has not defaulted on its payments of Bonds under the General Resolution.

The Bank is obligated to pay the principal of and interest on the Bonds only from pledged revenues or funds of the Bank, 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 the Bonds.

For information about the State, including a general description of the State’s economy, reference is made to the State’s most recent official statement or information statement. Copies of such official statement or information statement as well as the State’s most recent Annual Financial Report may be obtained upon written request from the office of the State Treasurer, 109 State Street, Montpelier, Vermont 05601-0564. No representation or warranty is made hereby, as to the timeliness or accuracy of the information contained in any such statements or reports.

Official Statement. There follows in this Official Statement a brief description of the Bank together with summaries of the terms of the 2018 Bonds, the Resolution 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 2018 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 A and the Resolution.

THE 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 Governmental Units of their respective public improvements and other municipal purposes from proceeds of their 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 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 submits an application to the Bank. The Bank underwrites the loans and approves or denies the applications based on creditworthiness. If approved, the Governmental Unit enters into a loan agreement (the "Loan Agreement") with the Bank pursuant to which the Governmental Unit issues Municipal Bonds. The payment of principal and interest on the Municipal Bonds, together with other amounts available under the General Resolution, are required to be sufficient to pay principal, redemption premium, if any, and interest on the Bonds.

The directors of the Bank consider and discuss each application for the purchase of Municipal Bonds in open meeting and accept or reject each application. In considering each Governmental Unit's application the directors rely on the information contained therein and such additional information as the directors deem relevant and consult with the Executive Director and the Bank's financial consultants.

General Obligation Bonds. The information regarding General Obligation Bonds considered by the directors includes, among other things, the following information supplied by each Governmental Unit: the amount of debt of each Governmental Unit, the amount by which such debt will be increased by the proposed purchase of the Governmental Unit's General Obligation Bonds, the state or local valuation, tax levy and taxes receivable, the population trends and the economic outlook for the community as supplied by the Governmental Unit, any litigation which may affect a Governmental Unit's ability to pay the debt service on its bonds and any legal analysis with respect thereto. The directors' review of the sources of revenue as set forth above includes the nature of such revenue. Nothing has come to the attention of the directors that leads them to believe that such revenue of the Governmental Units making applications will or could be nonrecurring. In certain cases, the Governmental Unit expects to derive revenues from identified sources to pay its General Obligation Bonds. While the general obligation of the Governmental Unit secures its General Obligation Bonds, the timing of the receipt of Municipal Bonds Payments could be affected by a shortfall in revenues.

Revenue Bonds. The information and other factors regarding Revenue Bonds considered by the directors include, among other things, the following: financial statements for a period of three years prior to

the date of the application with at least the most recent year having been audited, certification that certain debt service requirements are expected to be met in the future, Vermont Public Service Board approval of new electrical generation capacity construction or construction of electric or transmission facilities, if applicable, the agreement to maintain the coverage of annual net revenues of the project or system to which the proceeds are loaned of not less than 1.25 times the annual debt service on the obligations payable from the subject system, the agreement to limit the issuance of additional bonds to pay for project costs, except when additional bonds are needed to keep the electric system operating or are for other limited purposes, and the agreement to maintain a contingency reserve fund to be funded over not more than four years from revenues at an amount not less than (i) 10% of the operating expenses determined every year based upon the prior fiscal year's actual operating expenses plus (ii) 10% of debt service on such Revenue Bonds for the prior fiscal year. The Bank also requires that (i) the Governmental Unit shall at all times maintain rates, fees or charges which will produce revenues in each year sufficient, together with other moneys available therefor, to pay the debt service in each year on all Revenue Bonds issued for that system which are then outstanding as such Revenue Bonds become due and payable; and (ii) the Governmental Unit comply with certain reporting requirements. The directors may from time to time examine other or different information and impose other or additional requirements on Governmental Units. The directors may also, at their discretion, waive the delivery of information or the requirements imposed on any or all Governmental Units issuing Revenue Bonds. The directors of the Bank may also consider and discuss any litigation which may affect the Governmental Units' ability to pay the debt service on their bonds and any legal analysis with respect thereto. The directors, however, can give no assurance that revenues of any system will be sufficient to meet the obligations of the Governmental Unit on the Revenue Bonds or other obligations of that system.

Under the General Resolution, the Bank has heretofore purchased eight issues of Revenue Bonds in the aggregate principal amount of \$37,360,620, of which seven issues remained outstanding as of May 31, 2018, in the approximate aggregate principal amount of \$18,271,496.

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 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.

The Act requires approval by the State Treasurer and the Governor to make effective any resolution of the Bank regarding the issuance of bonds. The Bank obtained such approval with respect to the 2018 Bonds on June 22, 2018.

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, 2020.

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, 2020.

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, 2019.

Ms. Boardman is a resident of South Burlington, 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, 2019.

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:

MICHAEL GAUGHAN, *Executive Director, Secretary*.

Mr. Gaughan is a resident of Winooski, Vermont. He became Executive Director and Secretary of the Bank and Executive Director of the Vermont Educational and Health Buildings Financing Agency on January 2, 2018. He was previously a Director and a Public-Private Partnerships Manager for a national community development finance nonprofit. He also has related experience as a public finance banker focused on governmental, housing, and community facilities transactions. Mr. Gaughan earned a Bachelor of Arts degree from Middlebury College and a Master of City Planning degree from the University of Pennsylvania.

THE 2018 BONDS

Description

The 2018 Bonds shall be dated their date of delivery, shall mature on December 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 2018 Bonds shall bear interest from their date, payable on December 1, 2018 and semi-annually thereafter on June 1 and December 1 of each year. The 2018 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 2018 Bonds may be acquired or transferred only through book-entries made on the records of DTC and its participants in the principal amount of \$1,000 or integral multiples thereof. The principal of and interest on the 2018 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 2018 Bonds, such payments will be made directly to Cede & Co. Interest on any 2018 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 May 15 and November 15 next preceding such interest payment date (the “Record Date”).

Local Investment Bonds

The Bank self-designated the 2018 Bonds as Local Investment Bonds. This designation is intended to reflect the local impact of the projects that are capitalized by the 2018 Bonds. Moreover, the designation is also intended to alert individual investors to the reduced barriers to investing in Vermont’s local communities through the \$1,000 denominations of the 2018 Bonds.

The Bank has a history of financing projects similar to those capitalized by the 2018 Bonds while providing access to capital for communities throughout Vermont.

The Bank recently began a best efforts program to quantify the impact of the Bank’s activities and intends to summarize impacts through the Bank’s annual report. While the Bank is not required to disclose impacts, it expects to do so on a voluntary basis as data is available. The 2018 Bonds are the second series of Local Investment Bonds issued by the Bank.

Estimated impacts for projects capitalized by the 2018 Bonds include:

- Over 600,000 square feet of facilities upgraded
- Nearly 360,000 kWh of energy efficiency savings and/or renewable energy produced
- Over 95,000 people directly served by the projects
- Over 11,000 linear feet of streetscape improvements, including multi-purpose paths and sidewalk improvements
- Over 6,700 student seats enhanced
- Over 70 construction jobs created
- One pocket park created
- One fire truck purchased

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 2018 Bonds, payment of interest and other payments on the 2018 Bonds to DTC Participants or Beneficial Owners of the 2018 Bonds, confirmation and transfer of beneficial ownership interests in the 2018 Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the 2018 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 2018 Bonds. The 2018 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 2018 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 rating of AA+ from S&P Global Ratings. 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 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2018 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 2018 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 2018 Bonds, except in the event that use of the book-entry system for the 2018 Bonds is discontinued.

To facilitate subsequent transfers, all of the 2018 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 2018 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 2018 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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, 2018 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, 2018 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

Optional Redemption

The 2018 Bonds maturing prior to December 1, 2025 are not subject to redemption. The 2018 Bonds maturing on and after December 1, 2025 are subject to redemption at the option of the Bank, at any time on and after June 1, 2025, 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 2018 Bonds or portions of 2018 Bonds to be redeemed. Notice of redemption having been given, as aforesaid, the 2018 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 2018 Bonds shall cease to accrue and become payable.

Mandatory Sinking Fund Redemption

The 2018 Bonds maturing December 1 of the year 2043 will be subject to redemption prior to maturity by lot on each December 1, under the provisions of the Resolution, at the principal amount thereof plus accrued interest to the redemption date, without premium, from sinking fund payments and on the dates, as set forth below:

2018 Bonds maturing December 1, 2043

<u>Year</u>	<u>Sinking Fund Payment</u>	<u>Year</u>	<u>Sinking Fund Payment</u>
2039	\$115,000	2042	\$110,000
2040	115,000	2043 [†]	300,000
2041	115,000		

[†] Maturity.

Exchange and Transfer

The Resolution provides that 2018 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 2018 Bonds of the same maturity of any other authorized denominations.

The 2018 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 2018 Bond the Bank shall issue in the name of the transferee a new registered 2018 Bond or Bonds of the same aggregate principal amount and maturity as the surrendered 2018 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. The 2018 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 2018 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 2018 Bonds.

SOURCES AND USES OF FUNDS

The proceeds of sale of the 2018 Bonds and other available funds are expected to be used and applied as set forth below, rounded to the nearest dollar.

Sources of Funds:

Principal amount of 2018 Bonds	\$33,175,000
Net Original Issue Premium for the 2018 Bonds	2,149,185
Contribution from funds available under the General Resolution	<u>200,000</u>
TOTAL SOURCES	\$35,524,185

Uses of Funds:

Loans to Governmental Units	\$32,582,500
Deposit to the Reserve Fund	2,410,803
Capitalized Interest on the 2018 Bonds	225,000
Costs of Issuance (including Underwriters' Discount)	<u>305,882</u>
TOTAL USES	\$35,524,185

In accordance with the provisions of the Act and the Resolution, the funds on deposit in the Reserve Fund at the time of issuance of the 2018 Bonds will be at least equal to the Required Debt Service Reserve.

SECURITY FOR THE BONDS

The following is a brief summary of security for the Bonds, including the 2018 Bonds. For a more detailed description, see Appendix A – “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION” hereto, the Resolution and the Act.

The Bank's obligation to pay the principal of and interest on the 2018 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 the 2018 Bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment thereof. The 2018 Bonds are general obligations of the Bank, and the full faith and credit of the Bank are pledged for the payment of the principal or Redemption Price of and interest on the 2018 Bonds.

To secure the payment of the principal or Redemption Price of and interest on the 2018 Bonds, the Bank pledges and assigns for the benefit of the Holders of the 2018 Bonds, all Municipal Bonds and Municipal Bonds Payments. The General Resolution 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. The Municipal Bonds and the Municipal Bonds 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 the 2018 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 Municipal Bonds pledged under the General Resolution 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, will be sufficient to pay Debt Service on all Outstanding Bonds when due.

Loan Agreements and Municipal Bonds Payments

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

- (a) the Municipality which is a party to such Loan Agreement must be a Governmental Unit as defined by the Act and the Loan Agreement must be executed in accordance with existing laws;
- (b) the Municipality shall, prior to or as soon as practicable upon the issuance of bonds of the Bank issued to make a Loan to the Municipality, issue Municipal Bonds which are valid obligations of the Municipality;
- (c) the Municipality 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
- (d) the Bank shall not sell and the Municipality shall not redeem prior to maturity any of the Municipal Bonds prior to the date on which a sufficient amount of Outstanding Bonds issued with respect to the Loan to such Municipality are redeemable, and in the event of any sale or redemption prior to maturity of such Municipal 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 Municipal Bonds pledged under the General Resolution, 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, 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 Bonds so to be redeemed, less the amount of monies available in the applicable sub-account or sub-accounts in the Redemption Account and available for withdrawal from the Reserve Fund and for application to the redemption of Bonds so to be redeemed in accordance with the terms and provisions of the General Resolution, as determined by the Bank.

Pledge of Municipal Bonds and Municipal Bonds Payments

To secure the payment of the principal or Redemption Price of and interest on the Bonds, the Bank pledges and assigns to the Trustee for the benefit of the Holders of the Bonds all Municipal Bonds and Municipal Bonds Payments. The pledge of such Municipal Bonds and Municipal Bonds Payments for the benefit of the Holders of the Bonds shall be valid and binding from and after the date of adoption of the General Resolution, and such Municipal Bonds and Municipal Bonds 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 pledging and appropriating particular monies, assets or revenues to particular notes or bonds.

Each Governmental Unit is authorized to incur debt and issue bonds for a variety of capital costs and to secure its obligation as a general obligation of such Governmental Unit payable from unlimited ad valorem property taxes. With respect to certain types of capital costs, bonds may be secured as a revenue obligation of such Governmental Unit, payable from the revenues of the public utility or other revenue-generating project being financed. In the case of general obligation bonds, the Governmental Unit is required by state law to provide annually for the assessment and collection of taxes of an amount sufficient to pay debt service.

Fees and Charges

The Bank shall establish, make, maintain and charge such Fees and Charges to each Municipality to which a 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 each such Municipality 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:

- (i) to pay, as the same becomes due, the Administrative Expenses of the Bank; and
- (ii) to pay, as the same become due, the fees and expenses of the Trustee and Paying Agents.

Intercept of State Funds and Other Enforcement of Municipal 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 all Loan Agreements and the Municipal Bonds evidencing Loans made by the Bank, including the prompt collection of Municipal Bonds Payments and Fees and Charges and the giving of notice to the State Treasurer of any failure or default of any Municipality in making payments with respect to its Municipal Bonds.

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 that are in default on their payment obligations on Municipal 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, upon any failure of a Governmental Unit to pay a Municipal Bonds Payment in full on the due date thereof (which due date is the 1st day of the month prior to the principal and interest payment dates on the Bonds), within ten business days the Bank shall notify the State Treasurer of the amount not paid by such Governmental Unit. 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 such Governmental Unit for the remainder of the fiscal year and work with the Commissioner to intercept and remit such funds to the Trustee. The Intercept MOA further provides that to the extent there remains any unpaid Municipal Bonds Payments with respect to such Governmental Unit as of the end of a fiscal year of the State, State funds available in the next fiscal year with respect to such Governmental Unit would be intercepted.

The payments described in the paragraph above made by the State Treasurer to the Bank (or the Trustee or paying agent for the bonds) will be credited as if made directly by the Governmental Unit. The payment will be offset against any appropriation otherwise payable to the Governmental Unit by the State during each fiscal year. Upon receipt of the payment, the Bank, or the Bank's trustee or paying agent, will provide written notice of the payment to 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.

In addition, the Act provides that on 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. If an execution is issued on that Governmental Unit for payment of such Governmental Unit's General Obligation Bonds and if funds are not available in its treasury to make payment, the governing body of that Governmental Unit shall forthwith assess a tax on the grand list of the Governmental Unit, sufficient to make payment with twelve percent interest thereon, and cause the tax to be collected within sixty days; and further, with respect to Revenue Bonds of a Governmental Unit, upon nonpayment and demand on that Governmental Unit for payment, such Governmental Units shall make payment together with twelve percent interest thereon as provided for by the Act, which shall be due and payable within sixty days. 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.

Reserve Fund

The Act provides that the Bank shall establish and maintain a special fund called the Vermont Municipal Bond Bank Revenue Bond Reserve Fund in which there shall be deposited:

- (i) all monies appropriated by the State for the purpose of such fund;
- (ii) all proceeds of bonds required to be deposited therein by terms of any contract between the Bank and its Bondholders or any resolution of the Bank with respect to the proceeds of bonds; and
- (iii) any other monies or funds of the Bank which it determines to deposit therein.

Monies in the Reserve Fund shall be held and applied solely to the payment of the interest on and principal of Bonds issued under the General Resolution, as they become due and payable and for the retirement of Bonds. Money may not be withdrawn if it reduces the amount in the Reserve Fund to an amount less than the Required Debt Service Reserve except for payment of interest then due and payable on Bonds and the principal of Bonds then maturing and payable and for the retirement of Bonds in accordance with the terms of any contract between the Bank and its Bondholders and for which payment other monies of the Bank, including without limitation monies from Municipal Bonds Payments or intercepted State funds, are not then available.

Section 4675 of the Act provides that in order to assure the maintenance of the Required Debt Service Reserve in the Reserve Fund, there shall be appropriated annually and paid to the Bank for deposit in the Reserve Fund, such sum as shall be certified by the Chair of the Bank to the Governor or to the Governor-elect, as is necessary to restore the Reserve Fund to an amount equal to the Required Debt Service Reserve. The Act further provides that the Chair shall annually, on or before February 1, make and deliver to the Governor or to the Governor-elect his certificate stating the sum required to restore the Reserve Fund to the amount aforesaid, that the Governor or Governor-elect shall, on or before March 1, submit a request for appropriation for the sum so certified, and the sum so certified shall be appropriated and paid to the Bank during the then current State fiscal year.

While the 2018 Bonds and the aforesaid provisions of the Act do not constitute a legally enforceable obligation of the State of Vermont or create a debt on behalf of the State, Bond Counsel is of the opinion that the State of Vermont, by its General Assembly, is legally authorized, but not legally obligated, to appropriate annually such sum as shall have been certified by the Chair of the Bank to the Governor or the Governor-elect as is necessary to restore the Reserve Fund to an amount equal to the Required Debt Service Reserve and, upon the making of such appropriations in accordance with the Act, there shall be paid to the Bank for deposit in the Reserve Fund the amounts appropriated.

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OUTSTANDING BONDS AND OTHER OUTSTANDING INDEBTEDNESS

Pursuant to the General Resolution, the Bank has heretofore issued other Bonds for the purpose of purchasing General Obligation Bonds and Revenue Bonds issued by Governmental Units and to establish and maintain the Reserve Fund. The Outstanding series of Bonds are as follows:

<u>Series</u>	<u>Outstanding as of May 31, 2018</u>
2008 Series 1	\$1,775,000
2008 Series 2 (Federally Taxable)	5,580,000
2009 Series 1	6,360,000
2009 Series 2 Refunding	4,300,000
2010 Series 1	2,715,000
2010 Series 2 (Federally Taxable - RZEDB)	5,955,000
2010 Series 3 (Federally Taxable - QSCB)	1,365,000
2010 Series 4 Refunding	11,730,000
2010 Series 5 (Federally Taxable – RZEDB)	17,670,000
2011 Series 1 (Federally Taxable - QSCB)	9,500,000
2011 Series 2	5,805,000
2011 Series 3 (Federally Taxable - QSCB)	2,940,000
2011 Series 4 Refunding	6,465,000
2011 Series 5	6,555,000
2011 Series 6 Refunding	16,880,000
2012 Series 1	27,670,000
2012 Series 2 (Federally Taxable – QSCB)	8,855,000
2012 Series 3 Refunding	18,330,000
2012 Series 4	6,780,000
2012 Series 5 Refunding	1,130,000
2013 Series 1	18,545,000
2014 Series 1	25,235,000
2014 Series 2 Refunding	14,505,000
2014 Series 3	44,150,000
2014 Series 4 Refunding	18,755,000
2015 Series 1 Refunding	27,635,000
2015 Series 2	7,410,000
2015 Series 3 Refunding	4,760,000
2015 Series 4 (Federally Taxable)	10,425,000
2015 Series 5 Refunding	51,870,000
2016 Series 1	40,075,000
2016 Series 2 Refunding	52,390,000
2017 Series 1	31,920,000
2017 Series 2 (Green Bonds)	6,115,000
2017 Series 3	26,990,000
2017 Series 4 Refunding	27,380,000
2018 Series 1 (Local Investment Bonds)	<u>7,990,000</u>
Total	\$584,510,000

In addition to Bonds issued pursuant to the General Resolution, the Bank has issued bonds (“VSCS Program Bonds”) pursuant to its General Bond Resolution for Vermont State Colleges System adopted March 30, 2017 (the “General Resolution for VSCS Program Bonds”). As of May 31, 2018, the Bank has

issued a single series of VSCS Program Bonds, outstanding in the principal amount of \$67,660,000. VSCS Program Bonds are payable from different funds and assets than, and are not on a parity with, the Bonds. None of the funds and accounts established under the General Resolution or any funds of the Bank not held under the General Resolution for VSCS Program Bonds are pledged to secure the VSCS Program Bonds.

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, 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 2018 Bonds, in the State of Vermont, 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 2018 Bonds will not be included in the gross income of holders of the 2018 Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the “Code”), which must be satisfied subsequent to the date of issuance of the 2018 Bonds in order to ensure that interest on the 2018 Bonds is and continues to be excludable from the gross income of holders of the 2018 Bonds. Failure to comply with certain of such requirements could cause interest on the 2018 Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the 2018 Bonds. In particular, and without limitation, these requirements include restrictions on the use, expenditure and investment of 2018 Bond proceeds and the 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, interest on the 2018 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, for tax years that began prior to January 1, 2018, corporations, under Section 55 of the Code. Bond Counsel has not opined as to any other matters of federal tax law relating to the 2018 Bonds. However, prospective purchasers should be aware that certain collateral consequences may

result under federal tax law for certain holders of the 2018 Bonds. The nature and extent of these consequences depends on the particular tax status of the holder and the holder's other items of income or deduction. Holders should consult their own tax advisors with respect to such matters.

Interest paid on tax-exempt obligations such as the 2018 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 2018 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 2018 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 2018 Bonds from gross income for federal tax purposes.

In the opinion of Bond Counsel, under existing law, interest on the 2018 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 2018 Bonds and the interest thereon under the laws of any state other than Vermont.

For federal and Vermont income tax purposes, interest on the 2018 Bonds includes any original issue discount, which with respect to a 2018 Bond, is equal to the excess, if any, of the stated redemption price at maturity of such 2018 Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all such 2018 Bonds with the same maturity was sold. Original issue discount accrues based on a constant yield method over the term of a 2018 Bond. Holders should consult their own tax advisors with respect to the computations of original issue discount during the period in which any such 2018 Bond is held.

An amount equal to the excess, if any, of the purchase price of a 2018 Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Vermont 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 2018 Bond. Such amortization also will result in reduction of the amount of the stated interest on the 2018 Bond taken into account as interest for tax purposes. Holders of 2018 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 2018 Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2018 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 2018 Bonds or the tax consequences of ownership of the 2018 Bonds. No assurance can be given that future legislation, if enacted into law, will not contain provisions which could directly or indirectly reduce or eliminate the benefit of the exclusion of the interest on the 2018 Bonds from gross income for federal income tax purposes or any state tax benefit. Tax reform proposals and deficit reduction measures, including but not limited to proposals 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, and other proposals to limit federal tax expenditures, have been and are expected to be under ongoing consideration by the United States Congress. These proposed changes could affect the market value or marketability of the 2018 Bonds, and, if enacted into law, could also affect the tax treatment of all or a portion of the interest on the 2018 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 2018 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 2018 Bonds or prohibiting the Bank from making the Loans with the proceeds of the 2018 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 2018 Bonds or the existence or powers of the Bank.

APPROVAL OF LEGALITY

All legal matters incident to the authorization, issuance, sale and delivery of the 2018 Bonds are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel. Each Loan made by the Bank with a portion of the proceeds of the 2018 Bonds will be made by the Bank subject to the approval of the Municipal Bonds securing each Loan and to the validity and enforceability of the Loan Agreements entered into by each of the Governmental Units by bond counsel to each of the Governmental Units, and such bond counsel will, at the time of the making of each Loan, provide the Bank with an opinion as to the validity and enforceability of the Municipal Bonds securing the Loan and the Loan Agreement entered into by each Municipality.

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 will undertake to provide annual reports and notice of certain events with respect to the Bank and any Obligated Person 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.

FINANCIAL ADVISORS

Lamont Financial Services Corporation, Fairfield, New Jersey and Omnicap Group LLC, El Segundo, California serve as financial advisors to the Bank. 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 of the 2018 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Bank for the fiscal year ended December 31, 2017 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.

UNDERWRITING

The 2018 Bonds are being purchased by the underwriters, for whom Morgan Stanley & Co. LLC is acting as representative, at an aggregate purchase price of \$35,220,373.50 (consisting of the aggregate stated principal amount of the 2018 Bonds, plus net original issue premium, \$2,149,185.05, less aggregate Underwriters’ discount, \$103,811.55). The Contract of Purchase for the 2018 Bonds provides that the

Underwriters will purchase all of the 2018 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 2018 Bonds to certain dealers (including dealers depositing the 2018 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 2018 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 2018 Bonds.

Citigroup Global Markets Inc., an underwriter of the 2018 Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

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 2018 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 2018 Bonds.

MISCELLANEOUS

The quotations from, and summaries and explanations of the Act, the Resolutions and the Loan Agreements contained herein do not purport to be complete and reference is made to said law, Resolutions and Loan Agreements 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, the Resolutions and prior Official Statements of the Bank may be obtained upon request directed to the Bank or to the Underwriters.

It is the current policy of the Bank to provide copies of the Act, the Resolutions and prior Official Statements of the Bank related to a Series of Bonds upon request directed to the Bank. In addition, the Bank files with the Trustee a copy of its annual report for each Fiscal Year. The Bank reserves the right at any time to change this policy to comply with law or for any other reason.

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 2018 Bonds.

VERMONT MUNICIPAL BOND BANK

By: /s/ Michael Gaughan
Executive Director

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SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The following is a brief summary of certain provisions of the General Resolution, including certain terms used in the General Resolution 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 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 and satisfactory to the Trustee.

“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 Municipal Bonds interest requirements shall be determined by reference to the maximum interest rate. 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 Municipalities pursuant to the terms and provisions of 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.

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

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

“Municipal Bonds” shall mean the bonds, notes, or other evidence or debt issued by any Municipality 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 Loan to the Municipality pursuant to the Act.

“Municipal Bonds Payment” shall mean the amounts paid or required to be paid, from time to time, for principal and interest by a Municipality to the Bank on Municipal Bonds.

“Municipality” shall mean any Governmental Unit as defined by the Act.

“1972 Resolution” shall mean the General Bond Resolution adopted by the Bank on February 17, 1972, as supplemented or amended in accordance with the terms thereof.

“Outstanding” when used with reference to Bonds, other than Bonds referred to in Section 1105 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 406 or Section 1106 of the

Resolution, (iv) Bonds deemed to have been paid as provided in subsection 2 of Section 1401, 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.

“Prior Series Resolutions” shall mean resolutions authorizing a series of Bonds of the Bank heretofore adopted by the Bank pursuant to and supplemental of the Resolution.

“Public Utility” shall mean a public utility for which a Governmental Unit may issue indebtedness pursuant to Subchapter 2 of Chapter 53 of Title 24 of the Vermont Statutes and which provides a service within a service area.

“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.

“Required Debt Service Reserve” shall mean, as of any date of calculation, the sum of amounts of money (or cash equivalent available under a letter of credit, insurance policy or similar security instrument) required to be on deposit in the Reserve Fund pursuant to each Series Resolution which amounts with respect to each Series of Bonds issued under the Resolution shall be equal to the lesser of: the maximum amount of principal and interest maturing and becoming due in any succeeding calendar year on all Bonds of such Series then Outstanding as of such date of calculation, 125% of average annual Debt Service due on the Bonds Outstanding of such Series, or 10% of the proceeds of any such Series of Bonds. With respect to Variable Rate Bonds, and for purposes of determining the Required Debt Service Reserve, interest requirements shall be determined in the manner set forth in the Series Resolution.

“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 depository, 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 Standard & Poor's, (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.

FUNDS AND ACCOUNTS

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

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

Reserve Fund

The 2018 Series 1 Resolution establishes a Rebate Fund for the 2018 Bonds. Funds maintained in such Rebate Fund are not pledged to secure payments on the 2018 Bonds and the Bondholders shall have no right in or claims to such money in such Rebate Funds.

Revenue Fund

General Account

The General Resolution provides for the deposit to the General Account of: (i) all proceeds of a Series of Bonds to be used to make Loans; (ii) any income or interest earned by the Reserve Fund due to the investment thereof (provided a transfer will not reduce the amount of the Reserve Fund below the Required Debt Service Reserve); (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 Municipal Bonds; (iv) the excess of proceeds resulting from a Municipality's redemption of its Municipal Bonds; and (v) all monies received as Municipal Bonds Payments.

The General Resolution 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 of the Bonds after providing for the payments into the Interest Account pursuant to paragraph (1) above and the principal payments, if any, pursuant to paragraph (2) above, 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;

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

(c) Financing costs incurred with respect to a 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 (20th) 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 paragraph (1) above, into the Principal Account pursuant to paragraph (2) above, and into the Operating Account pursuant to paragraph (3) above, the Trustee shall withdraw from the balance of the monies so remaining in the General Account and deposit to the credit of the Reserve Fund such amount (or the balance of the monies so remaining in the General Account if less than the required amount) as shall be required to bring the Reserve Fund up to the Required Debt Service Reserve.

(5) As of the last day of each Fiscal Year, and not later than the twentieth (20th) day 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 paragraph (1) above, into the Principal Account pursuant to paragraph (2) above, into the Operating Account pursuant to paragraph (3) above, and after making the transfers, if any, to the Reserve Fund pursuant to paragraph (4) above, 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 shall exceed total liabilities, determined in accordance with generally accepted accounting principles and evidenced by a certificate of an Authorized Officer.

In addition, amounts on deposit in the General Account representing earnings on investments in the Reserve Fund may be deposited at any time into the applicable Rebate Fund in lieu of deposit to the Operating Account for such purpose.

Operating Account

The General Resolution provides that all Fees and Charges received by the Trustee shall be deposited upon receipt in the Operating Account. Such Fees and Charges collected from Municipalities 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 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. 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.

(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.

(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.

The General Resolution further provides that in the event there shall be, on any interest payment date, a deficiency in the Interest Account, or in the event there shall be, on any principal payment date, a deficiency in the Principal Account, the Trustee shall make up such deficiencies from the Reserve Fund by the withdrawal of monies therefrom for that purpose.

Redemption Account

The General Resolution 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 Municipal Bonds pledged under the General Resolution 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, 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 in paragraph (4), under the caption "General Account", and, if at any time upon the payment or retirement of Bonds at maturity or upon the purchase or redemption of Bonds the monies and securities in the Reserve Fund are in excess of the Required Debt Service Reserve and the use or transfer of such excess is not otherwise provided for in the General Resolution, the Trustee,

upon the request of the Bank, shall transfer such excess to the applicable sub-account in the Redemption Account. In the event Municipal Bonds or other obligations securing a Loan shall be sold by the Bank in accordance with the terms of the applicable Loan Agreement, or redeemed by the Municipality, 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 Municipality, into the applicable sub-account in the Redemption Account.

If at any time the monies on deposit to the credit of the Reserve Fund, or the investments thereof, are less than the Required Debt Service Reserve, and there are then monies on deposit in any sub-account in the Redemption Account resulting from monies credited thereto from the General Account at the direction of the Bank or from excess monies which have been previously transferred from the Reserve Fund to the Redemption Account resulting from the retirement of Bonds, there shall be withdrawn from sub-accounts and deposited to the credit of the Reserve Fund an amount sufficient (or all the monies in said sub-accounts if less than the amount sufficient) to make up such deficiency.

Reserve Fund

The Reserve Fund shall be held by the Trustee. The Bank shall pay into the Reserve Fund (i) such portion of the monies appropriated and made available by the State and paid to the Bank for the purposes of the Reserve Fund; (ii) all monies paid to the Bank pursuant to Section 4675 of the Act for the purpose of restoring the Reserve Fund to the amount of the Required Debt Service Reserve; (iii) such portion of the proceeds of the sale of the Bonds, if any, as shall be provided by the Series Resolution authorizing the issuance thereof; (iv) such portion of the proceeds of the sale of Notes, if any, as shall be provided by the resolution of the Bank authorizing the issuance thereof; and (v) any other monies which may be made available to the Bank for the purposes of the Reserve Fund from any other source or sources. The Trustee shall deposit in and credit to the Reserve Fund all monies transferred from the General Account and all monies transferred from the Redemption Account as above provided.

Monies and securities held for the credit of the Reserve Fund shall be transferred by the Trustee to the Interest Account and Principal Account at the times and in the amounts required in the event there shall be, on any interest payment date, a deficiency in the Interest Account, or in the event there shall be, on any principal payment date, a deficiency in the Principal Account.

Any income or interest earned by the Reserve Fund due to the investment thereof shall be transferred by the Trustee promptly to the General Account, but only to the extent that any such transfer will not reduce the amount of the Reserve Fund below the Required Debt Service Reserve. If, at any time upon the payment or retirement of Bonds at maturity or upon purchase or redemption, the monies and securities in the Reserve Fund are in excess of an amount equal to the Required Debt Service Reserve and the use or transfer of such excess is not otherwise provided for in the General Resolution, the Trustee, upon the written request of the Bank signed by an Authorized Officer, shall transfer such excess to and deposit the same in the Redemption Account. Currently, the Reserve Fund is invested only in direct obligations of the United States of America described in clause (a) of the second paragraph under the heading "INVESTMENT OF FUNDS." However, the Bank reserves the right to invest the Reserve Fund as permitted under the General Resolution as described under such heading.

Investment of Funds

The General Resolution 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) and the Reserve Fund 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 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, including the commonwealth of Puerto Rico, 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 or of the commonwealth of Puerto Rico 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 Standard & Poor's Ratings Service or Moody's Investors Service with respect to long term indebtedness and A-1 or P-1 or higher by Standard & Poor's Ratings Service 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 Standard & Poor's Ratings Service or Moody's Investors Service with respect to long term indebtedness and P-1 or A-1 or higher by Standard & Poor's Ratings Service 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 Standard & Poor's Ratings Service.

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 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 Bonds

The General Resolution 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 Municipal Bonds and the Municipal Bonds Payments or which will be payable from the Revenue Fund or Reserve 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 Municipal Bonds and the Municipal Bonds Payments, and payable equally and ratably from the Revenue Fund and Reserve Fund for the purposes of (i) making Loans to Municipalities, (ii) making payments into the Interest Account, the Operating Account or the Reserve Fund, (iii) the funding of Notes theretofore issued by the Bank to provide funds to make 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 into the Reserve Fund;
- (c) the amount of the Reserve Fund, upon the issuance and delivery of such additional Bonds and the deposit in the Reserve Fund of any amount provided therefor in the

Series Resolution authorizing the issuance of such additional Bonds, shall not be less than the Required Debt Service Reserve;

(d) the provisions of Section 4675 of the Act providing for the maintenance of the Reserve Fund in an amount equal to the Required Debt Service Reserve by the appropriation and payment of monies by the State for such purpose shall not have been repealed or amended to the detriment of Bondholders; and

(e) upon the issuance of such additional obligations there shall be scheduled payments of principal and interest on Municipal Bonds pledged under the General Resolution 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, 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 Municipal Bonds, the Municipal Bonds Payments and the Fees and Charges, or payable from the Revenue Fund or Reserve Fund created pursuant to the General Resolution. In addition, the Bank may issue Variable Rate Bonds under the General Resolution.

Issuance of Refunding Bonds

The General Resolution 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 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 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 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 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 to certain Municipalities in the manner specified in the Series Resolution authorizing such Series.

Modification of 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 Municipal Bonds evidencing a Loan, or the amount or time of payment of any Fees and Charges payable with respect to such Loan, or the security for or any terms and provisions of such Loan or the Municipal 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 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 Loan Agreement relating to such Loan and the Municipal Bonds evidencing the same, and the Municipal Bonds Payments to be made thereunder so long as such Municipal Bonds Payments are sufficient to maintain the scheduled payments of principal and interest on Municipal Bonds pledged under the General Resolution 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, will be sufficient to pay Debt Service on all Outstanding Bonds when due.

Sale of Municipal Bonds by Bank

The Bank shall not sell any Municipal Bonds or other obligations issued as evidence of a Loan made by the Bank prior to the date on which a sufficient amount of Outstanding Bonds issued with respect to such Loan are redeemable, and shall not after such date sell any such Municipal Bonds or other obligations issued as evidence of a 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 governing the scheduled payments of principal and interest on Municipal Bonds pledged under the General Resolution 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, 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 available for withdrawal from the Reserve Fund and for application to the redemption of such Bonds in accordance with the terms and provisions of the General Resolution, 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 Municipal Bonds Payments, Municipal Bonds, the Fees and Charges and all funds and accounts established by the General Resolution, 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 Municipal Bonds Payments, Municipal Bonds, Fees and Charges and the status of reserve, special or other funds and the funds and accounts established by the General Resolution; 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 respective State agency, municipality or political subdivision of the State from the Operating Account such amounts as are necessary to reimburse the respective State agency, municipality or political subdivision of the State 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 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 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 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 Section 4675 of the Act, or the State shall fail to appropriate and pay to the Bank, as and when required by such Section, for deposit in the Reserve Fund any amount or amounts as shall be certified by the Chairman of the Bank pursuant to such provisions of the Act; or

(c) if the Bank shall fail or refuse to comply with the provisions of the Act, other than as provided in (b) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the General Resolution, 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 or upon the failure of the Bank to enforce any obligation undertaken by a Municipality pursuant to a Loan Agreement including the making of the stipulated Municipal Bonds 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, other than withdrawals from or

reimbursements of the Reserve Fund, 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 Municipalities under the applicable 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 paragraphs (b) and (c) 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 Municipal Bonds Payments adequate to carry out the covenants and agreements as to, and pledge of, such Fees and Charges and Municipal Bonds 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 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, 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, 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 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 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 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, 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, or for the protection or enforcement of any right under the General Resolution 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 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 or for any other remedy provided in the General Resolution 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, or to enforce any right thereunder or under law with respect to the Bonds or the General Resolution, 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 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 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 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 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 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 or the Reserve 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 provides procedures whereby the Bank may amend the General Resolution or a Series General Resolution 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 not less than sixty-six and two-thirds percent ($66\frac{2}{3}\%$) 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, 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 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 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 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 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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APPENDIX B

TABLE 1

The proceeds of the 2018 Series 2 Bonds and other available funds are being used primarily to purchase the General Obligation Bonds of the Governmental Units in the principal amounts listed below.

<u>Governmental Unit</u>	<u>Amount</u>
Addison Northwest School District	\$ 7,630,000
Montpelier Roxbury School District	4,900,000
Mill River Unified Union School District	3,500,000
Missisquoi Valley Union Middle/High School	2,900,000
Montpelier City	2,600,000
St. Albans City	2,000,000
Shelburne Town	2,000,000
Barre City	1,870,000
Tri Town Water District #1	1,000,000
South Burlington City School District	950,500
Chester Town	669,000
Killington Town	634,000
Vergennes City	500,000
Hardwick School District	459,000
Oxbow Union High School #30	420,000
Colchester Fire District #3	300,000
Winooski City	250,000
	<hr/>
Total	<u>\$ 32,582,500</u>

APPENDIX B**TABLE 2**

Table 2 sets forth (1) a list of the Governmental Units that have Municipal Bonds outstanding that were purchased by the Bank pursuant to the Bank's General Resolution adopted on May 3, 1988, as supplemented (the "Resolution"), including the Municipal Bonds anticipated to be purchased with the proceeds of the 2018 Series 2 Bonds and other available funds; (2) the anticipated outstanding balances of such Municipal Bonds as of the date of issuance of the 2018 Series 2 Bonds; and (3) the ratio of such balances to the total amount of outstanding Municipal Bonds purchased under the Resolution, expressed as a percentage. Please note that certain of the enumerated Governmental Units are comprised of one or more other Governmental Units. Also, as a result of incentives provided under Act 46 of 2015 of the General Assembly of the State of Vermont, a number of school districts in the State have merged. For school districts with outstanding loans from the Bank, the outstanding balances are shown on this table on a consolidated basis.

<u>Governmental Unit</u>	<u>Outstanding Principal Amount</u>	<u>Percent of Total</u>	<u>%</u>
Addison Central School District	\$ 2,058,000	0.35	%
Addison Northwest School District	12,285,000	2.06	
Albany Town	310,000	0.05	
Bakersfield Fire District	12,623	0.00	
Bakersfield Town School District	843,750	0.14	
Barre City	13,523,703	2.27	
Barre Town	796,397	0.13	
Barton Village	1,953,643	0.33	
Barton Village (R)	1,520,000	0.25	
Bellows Falls Village	530,000	0.09	
Bennington School District, Inc.	4,461,000	0.75	
Bennington Town	3,240,000	0.54	
Berkshire Town School District	2,860,000	0.48	
Berlin Town	75,000	0.01	
Bethel Town	205,000	0.03	
Bethel Town School District	275,000	0.05	
Black River Union School District #39	160,000	0.03	
Blue Mt. Union School District	155,000	0.03	
Bolton Town	100,000	0.02	
Bradford Academy & Graded School District	1,145,000	0.19	
Bradford Town	325,621	0.05	
Bradford Village	80,000	0.01	
Brandon Fire District #1	1,525,000	0.26	
Brandon Town	2,793,576	0.47	
Brattleboro Town	21,896,667	3.67	
Brattleboro Union School District	9,600,000	1.61	
Brighton Town	190,000	0.03	
Bristol Town	1,290,716	0.22	
Brookline Town	130,000	0.02	

APPENDIX B**TABLE 2**

Burlington City	\$ 11,410,000	1.91 %
Burlington City (R)	11,716,496	1.96
Cabot Town	759,538	0.13
Cabot Town School District	100,000	0.02
Calais Town	70,000	0.01
Cambridge Town School District	2,440,000	0.41
Castleton Fire District #3	1,482,315	0.25
Castleton Town	1,275,000	0.21
Cavendish Town	30,000	0.01
Cavendish Town School District	490,000	0.08
Champlain Valley School District	34,288,035	5.75
Champlain Water District	5,523,325	0.93
Charlotte Town	805,000	0.14
Chelsea Town	1,323,301	0.22
Chester Town	3,334,374	0.56
Chester-Andover Union School District #29	160,000	0.03
Chittenden County	630,000	0.11
Colchester Fire District #1	823,333	0.14
Colchester Fire District #2	796,637	0.13
Colchester Fire District #3	410,000	0.07
Colchester Town	4,200,000	0.70
Cold Brook Fire District #1	2,875,000	0.48
Coventry Fire District #1	3,669	0.00
Danby-Mt. Tabor Fire District #1	478,347	0.08
Danville Fire District #1	828,957	0.14
Derby Center Village	737,835	0.12
Derby Line Village	560,000	0.09
Derby Town	540,000	0.09
East Calais Fire District #1	103,239	0.02
East Haven Town School District	40,000	0.01
East Montpelier Town	1,365,000	0.23
Elmore-Morristown Unified School District	340,000	0.06
Enosburg Falls Village	2,485,000	0.42
Enosburg Falls Village (R)	450,000	0.08
Enosburgh Town School District	2,115,000	0.35
Essex Junction Village	4,090,000	0.69
Essex Town	5,520,000	0.93
Essex Westford Educational Community Unified Union School District	6,490,000	1.09
Fair Haven Town	57,263	0.01
Fairfax Town School District	145,000	0.02
Ferrisburgh Fire District #1	65,000	0.01
Franklin Town School District	175,000	0.03
Georgia Town	910,000	0.15
Georgia Town School District	2,320,000	0.39

APPENDIX B**TABLE 2**

Glover Town School District	\$ 50,000	0.01 %
Grand Isle Consolidated Water Dist	1,297,126	0.22
Grand Isle Town	1,750,000	0.29
Greater Upper Valley Solid Waste Management District	1,220,000	0.20
Green Mountain Union High School	609,000	0.10
Guilford Town	197,500	0.03
Halifax Town	50,000	0.01
Hardwick School District	459,000	0.08
Hardwick Town	1,375,000	0.23
Hardwick Village (R)	250,000	0.04
Hartford Town	13,041,419	2.19
Hartford Town School District	9,711,150	1.63
Harwood Unified Union School District	5,315,000	0.89
Hinesburg Town	4,956,507	0.83
Hubbardton Town	170,000	0.03
Huntington Town	908,700	0.15
Huntington Town School District	1,446,431	0.24
Jamaica Town	712,500	0.12
Jericho Town	660,000	0.11
Jericho Underhill Water District	420,000	0.07
Jericho Village	30,000	0.01
Johnson Village	1,286,313	0.22
Killington Town	1,564,000	0.26
Lamoille North School District	16,272,731	2.73
Lincoln Town	680,500	0.11
Lincoln Town School District	1,230,328	0.21
Ludlow Town	1,961,132	0.33
Ludlow Village	40,000	0.01
Lyndon Town	1,119,274	0.19
Lyndonville Village	1,688,116	0.28
Manchester Town	8,160,000	1.37
Manchester Town School District	870,000	0.15
Maple Run Unified School District	5,973,762	1.00
Marshfield Village	230,118	0.04
Mendon Town	346,000	0.06
Middlebury Town	24,776,250	4.16
Middlesex Town	480,000	0.08
Mill River Unified Union School District	4,190,500	0.70
Miller's Run Union School District #37	200,000	0.03
Milton Town	2,507,836	0.42
Milton Town School District	2,830,000	0.47
Missisquoi Valley Union Middle/High School	2,900,000	0.49
Monkton Town School District	60,000	0.01
Montgomery Town	300,000	0.05

APPENDIX B**TABLE 2**

Montgomery Town School District	\$ 520,000	0.09 %
Montpelier City	18,437,500	3.09
Montpelier Fire District	365,000	0.06
Montpelier Roxbury School District	9,085,000	1.52
Moretown Town	540,000	0.09
Morrisville Village	2,425,000	0.41
Morrisville Village (R)	480,000	0.08
Mountain Towns Regional Education District U301	775,000	0.13
Mt. Anthony Union High School District #14	3,045,000	0.51
Mt. Holly Town School District	80,000	0.01
Mt. Mansfield Modified Union School District	5,272,375	0.88
New Haven Town	350,000	0.06
Newark Town School District	10,000	0.00
Newbury Town School District	120,000	0.02
Newbury Village	18,725	0.00
Newfane Town	187,500	0.03
Newport City	525,000	0.09
North Bennington Village	200,000	0.03
North Branch Fire District No. 1	1,710,000	0.29
North Country Union High School District No. 22	2,610,000	0.44
North Hero Town	1,450,000	0.24
North Troy Village	55,000	0.01
Northfield Town	5,706,498	0.96
Norwich Town	1,575,000	0.26
NW Vermont Solid Waste Management District	510,000	0.09
Orange Southwest School District	290,000	0.05
Orleans Village	885,657	0.15
Otter Valley Unified Union School District	8,983,882	1.51
Oxbow Union High School #30	420,000	0.07
Patricia A. Hannaford Career Center	850,000	0.14
Peacham Fire District #1	203,015	0.03
Pittsfield Town	425,000	0.07
Pittsford Town	720,511	0.12
Plainfield Town	423,487	0.07
Poultney Village	1,415,000	0.24
Pownal Town	1,526,619	0.26
Proctor Town School District	600,000	0.10
Putney Town	2,163,334	0.36
Putney Town School District	1,060,000	0.18
Randolph Town	6,870,000	1.15
Readsboro Town	265,306	0.04
Richford Town	926,214	0.16
Richmond Town	1,335,000	0.22
Ripton Town	50,000	0.01

APPENDIX B**TABLE 2**

Rivendell Interstate School District	\$ 3,505,000	0.59 %
Rochester Town	693,937	0.12
Rochester Town School District	325,000	0.05
Rockingham Town	4,279,961	0.72
Rockingham Town School District	9,648,234	1.62
Royalton Town	130,000	0.02
Royalton Town School District	2,125,000	0.36
Rutland City	8,035,711	1.35
Rutland Town	1,440,000	0.24
Rutland Town Fire District #5	10,000	0.00
Rutland Town School District	430,000	0.07
Salisbury Town	850,000	0.14
Shaftsbury Town	1,100,000	0.18
Shelburne Town	6,570,000	1.10
Shoreham Town	229,690	0.04
Shrewsbury Town	200,000	0.03
Slate Valley Modified Unified Union School District	625,000	0.10
South Burlington City	11,230,000	1.88
South Burlington City School District	4,440,500	0.74
South Burlington Fire District #1	10,000	0.00
South Hero Fire District #4	320,000	0.05
South Hero Town	1,300,000	0.22
Spaulding Union School District	90,000	0.02
Springfield Town	3,595,000	0.60
Springfield Town School District	15,370,000	2.58
St. Albans City	27,745,972	4.65
St. Albans Town	220,000	0.04
St. Johnsbury Town	2,460,000	0.41
St. Johnsbury Town School District	315,000	0.05
Stannard Town	20,000	0.00
Starksboro Town School District	550,000	0.09
Stockbridge Town	60,000	0.01
Stowe Fire District #3	111,545	0.02
Stowe Town	13,452,000	2.26
Stowe Town School District	1,380,000	0.23
Strafford Town	951,111	0.16
Sunderland Town	280,800	0.05
Swanton Village	3,601,724	0.60
Swanton Village (R)	3,855,000	0.65
Thetford Town	150,000	0.03
Thetford Town School District	930,500	0.16
Townshend Town	460,000	0.08
Tri Town Water District #1	1,000,000	0.17
Troy Town	6,827	0.00

APPENDIX B**TABLE 2**

Underhill Town	\$ 105,000	0.02 %
Union School District #23	75,000	0.01
Union School District #32	1,520,000	0.25
Vergennes City	820,000	0.14
Waitsfield Town	772,500	0.13
Wallingford Fire District #1	803,549	0.13
Warren Town	513,405	0.09
Washington County	20,000	0.00
Waterbury Town	5,435,000	0.91
Waterbury Village	3,132,038	0.53
Weathersfield Town School District	2,840,000	0.48
West River Modified Union Education District	1,445,000	0.24
West Rutland Town	3,786,995	0.64
West Rutland Town School District	1,330,000	0.22
West Windsor Town School District	515,000	0.09
Westminster Fire District #3	120,000	0.02
Westminster Town School District	760,000	0.13
Whitingham Town School District	3,605,190	0.60
Williamstown Town	2,077,200	0.35
Williamstown Town School District	2,525,000	0.42
Williston Town	7,949,115	1.33
Wilmington Town	130,000	0.02
Wilmington Town School District	1,489,827	0.25
Wilmington Water District	746,542	0.13
Windsor Central Modified Union School District	600,000	0.10
Windsor County	1,200,000	0.20
Windsor Town	4,911,667	0.82
Winooski City	2,970,000	0.50
Winooski School District	200,000	0.03
Woodstock Town	630,000	0.11
Worcester Town	264,333	0.04
<u>TOTAL</u>	<u>\$ 596,260,047</u>	<u>100.00 %</u>

(R) = Revenue Bond

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MINTZ LEVIN

One Financial Center
Boston, MA 02111
617-542-6000
617-542-2241 fax
www.mintz.com

[Closing Date]

Vermont Municipal Bond Bank
Winooski, Vermont

Re: Vermont Municipal Bond Bank 2018 Series 2 Bonds (Local Investment 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 above-captioned bonds (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 adopted by the Bank on May 3, 1988, as amended (the “General Resolution”), and the Series Resolution adopted by the Bank on June 11, 2018 authorizing the issuance of the Bonds (the “Series Resolution,” and together with the General Resolution, 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 governmental units (as defined in the Act) (the “Governmental Units”), dated the date hereof, relative to the validity and enforceability of the bonds issued by such Governmental Units (said bonds and other bonds heretofore acquired, the “Municipal Bonds”) which secure the loans financed by the Bank from a portion of the proceeds of the Bonds (the “Loans”), and to the validity and enforceability of the respective loan agreements entered into by such Governmental Units (the “Loan Agreements”).

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 \$1,000 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 December 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.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

BOSTON | LONDON | LOS ANGELES | NEW YORK | SAN DIEGO | SAN FRANCISCO | STAMFORD | WASHINGTON

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 Municipal Bonds, the Municipal Bond Payments and moneys and securities held or set aside thereunder (except for the Rebate Fund) for the security of the Bonds on a parity with other bonds issued or to be issued under the General Resolution.
4. The Bonds have been duly authorized, executed and delivered by the Bank and are valid and binding direct and general obligations of the Bank, and the full faith and credit of the Bank are pledged to the payment of the principal of and interest on the Bonds.
5. In the General Resolution, 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 Municipal Bonds securing the Loans made by the Bank, including the prompt collection of payments of principal and interest on such Municipal Bonds and Fees and Charges (as defined in the General Resolution), and to make and deliver to the Governor or Governor-elect of the State, in compliance with the provisions of the Act, a certificate stating the amount, if any, required to restore the Reserve Fund to the Required Debt Service Reserve. Further, the General Assembly of the State is legally authorized, although not legally obligated, to appropriate annually such sum as shall have been certified by the Chair of the Bank to the Governor or Governor-elect of the State as is necessary to restore the Reserve Fund to an amount equal to the Required Debt Service Reserve, and upon the making of such appropriations in accordance with the Act there shall be paid to the Bank for deposit in the Reserve Fund the amounts appropriated.
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. Interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals. 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.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

Vermont Municipal Bond Bank

[Closing Date]

Page 3

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, 2017
WITH COMPARATIVE TOTALS FOR 2016
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Vermont Municipal Bond Bank

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Municipal Bond Bank (the Bond Bank), a component unit of the State of Vermont, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Bond Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Vermont Municipal Bond Bank as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Bond Bank's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the business-type activities and each major fund in our report dated June 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2018 on our consideration of the Bond Bank's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Bank's internal control over financial reporting and compliance.

Montpelier, Vermont
June 1, 2018

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

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

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

This discussion of the VMBB's financial performance provides an overview of the Bank's financial activities for the fiscal year ended December 31, 2017. The statements are divided into two funds. The Bond Fund reports the financial activities of the pool of funds loaned to municipalities. The Bond Fund assets and liabilities are held by one corporate trustee, U.S. Bank, N.A. The Operating Fund is made up of activities relating to the administrative operations of the VMBB.

2017 Financial Highlights

In 2017, the Bank issued \$160,065,000 through five series of bonds. Two bond series, totaling \$58,910,000 provided loans to 24 municipalities and one Green Bond series of \$6,115,000 provided 2 municipal loans for environmentally-beneficial projects in Vermont. One bond series, totaling \$27,380,000, was issued to advance refund the VMBB's previously issued 2013 Series 1 bonds. The VMBB also issued \$67,660,000 2017 Series A Bonds for the purpose of issuing loans to the Vermont State College System which constitute special not general obligations of the Bond Bank. In 2016, the Bond Bank issued \$94,260,000 through two series of bonds. The \$41,870,000 2016 Series 1 Bonds provided loans to 20 municipalities, and \$52,390,000 2016 Series 2 Refunding Bonds were issued to advance refund the VMBB's previously issued 2007 Series 2, 2010 Series 1, 2011 Series 2, and 2011 Series 5 bonds.

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

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

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

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

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

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

Assets and Deferred Outflows of Resources

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

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

Liabilities

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

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

Net Position

Restricted Net Position in the Bond Fund increased from 2016 to 2017 by \$200,576 or 1.54%. Unrestricted Net Position in the Operating Fund decreased by \$46,294 or 0.19% from 2016 to 2017. These changes in net position were largely due to net transfers from the Operating Fund to the Bond Fund of \$157,995. Operating income exceeded net nonoperating revenue and expenses in the Bond Fund by \$42,581 and investment income exceeded operating loss in the Operating Fund by \$111,701. Total Net Position at December 31, 2017 equaled 5.89% of Total Bonds Payable and Unrestricted Net Position equaled 3.80% of Total Bonds Payable. Total Net Position at December 31, 2016 equaled 6.12% of Total Bonds Payable and Unrestricted Net Position equaled 3.98% of Total Bonds Payable.

Operating Summary

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

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

Investment Portfolio

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

Subsequent Events

In February 2018, the VMBB issued \$7,990,000 2018 Series 1 Bonds designated as Local Investment Bonds to reflect the local impact of the projects that are capitalized by the 2018 Bonds. This designation is intended to alert individual investors of the reduced barriers to investing in Vermont's local communities through the \$1,000 denominations of the 2018 Bonds. During 2018, the Bond Bank may issue additional series bonds when the economics warrant.

Contact for Further Information

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

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

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

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

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

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

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016
(Page 1 of 2)

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

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2016
(Page 2 of 2)

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

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

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

1. Authorizing legislation and nature of funds:

- A. Authorizing legislation - The Vermont Municipal Bond Bank (Bond Bank) was established by the General Assembly of the State of Vermont in 1970 for the purpose of fostering and promoting the provision of adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for financing public improvements or other purposes. The Bond Bank is authorized to carry out this function by borrowing money, issuing bonds and notes and purchasing bonds and notes of local governmental units. The Bond Bank is a component unit of the State of Vermont.

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

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

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

As of December 31, 2017, the following resolutions had been adopted by the Bond Bank and remain active:

<u>Date</u>	<u>Resolution</u>
February 17, 1972	General Bond Resolution "Creating and establishing an issue of bonds of the Vermont Municipal Bond Bank; providing for the issuance from time to time of said bonds; providing for the payment of principal and interest of said bonds, and providing for the rights of the holders thereof."
May 3, 1988	General Bond Resolution "Creating and Establishing an issue of bonds for the Vermont Municipal Bond Bank; providing for the issuance from time to time of said bonds; providing for the payment of the principal and interest of said bonds; and providing for the rights of the holders thereof."
June 16, 2008	2008 Series 1 and Series 2 Resolution authorizing the issuance of \$37,935,000 2008 Series 1 Bonds and \$5,635,000 2008 Series 2 Bonds. 2008 Series 1 was partially refunded and defeased by 2015 Series 5.
June 15, 2009	2009 Series 1 Resolution authorizing the issuance of the \$61,560,000 2009 Series 1 Bonds and 2009 Series 2 Resolution authorizing the issuance of \$26,025,000 Series 2 Refunding Bonds and the refunding of the 1998 Series 2 Bonds and 1999 Series 1 Bonds. 2009 Series 1 was partially refunded and defeased by 2015 Series 5.

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

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

A. Authorizing legislation (continued) -

June 10, 2010	2010 Series 1 Resolution authorizing the issuance of the \$23,430,000 2010 Series 1 Bonds, 2010 Series 2 Resolution authorizing the issuance of \$9,770,000 Federal Taxable Recovery Zone Economic Development Bonds (RZEDBs) 2010 Series 2 Bonds, 2010 Series 3 Resolution authorizing the issuance of \$1,365,000 Federally Taxable Qualified School Construction Bonds 2010 Series 3 Bonds and 2010 Series 4 Resolution authorizing the issuance of \$39,305,000 Series 4 Refunding Bonds and the refunding of 2000 Series 1 Bonds and 2001 Series 1 Bonds. 2010 Series 1 was partially refunded and defeased by 2016 Series 2.
October 12, 2010	2010 Series 5 Resolution authorizing the issuance of \$24,520,000 Federally Taxable RZEDBS 2010 Series 5 Bonds.
January 25, 2011	2011 Series 1 Resolution authorizing the issuance of \$9,500,000 Federally Taxable Qualified School Construction Bonds 2011 Series 1 Bonds.
June 15, 2011	2011 Series 2 Resolution authorizing the issuance of \$25,665,000 2011 Series 2 Bonds, 2011 Series 3 Resolution authorizing the issuance of \$2,940,000 Federally Taxable Qualified School Construction Bonds 2011 Series 3 Bonds and 2011 Series 4 Resolution authorizing the issuance of \$14,370,000 Series 4 Refunding Bonds and the refunding of 2002 Series 1 Bonds. 2011 Series 2 was partially refunded and defeased by 2016 Series 2.
November 7, 2011	2011 Series 5 Resolution authorizing the issuance of \$43,695,000 2011 Series 5 Bonds and 2011 Series 6 Resolution authorizing the issuance of \$25,895,000 Series 6 Refunding Bonds and the refunding of 2003 Series 2 Bonds. 2011 Series 5 was partially refunded and defeased by 2016 Series 2.
June 13, 2012	2012 Series 1 Resolution authorizing the issuance of \$36,125,000 2012 Series 1 Bonds, 2012 Series 2 Resolution authorizing the issuance of \$8,855,000 Qualified School Construction Bonds 2012 Series 2 Bonds and 2012 Series 3 Resolution authorizing the issuance of \$26,590,000 Series 3 Refunding Bonds and the refunding of 2004 Series 1 Bonds.
October 24, 2012	2012 Series 4 Resolution authorizing the issuance of \$8,790,000 2012 Series 4 Bonds and 2012 Series 5 Resolution authorizing the issuance of \$6,485,000 Series 5 Refunding Bonds and the refunding of 2003 Series 1 Bonds.
June 19, 2013	2013 Series 1 Resolution authorizing the issuance of \$54,895,000 2013 Series 1 Bonds and 2014 Series 2 Resolution authorizing the issuance of \$18,285,000 Series 2 Refunding Bonds and the partial refunding of the 2005 Series 1 Bonds.

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

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

A. Authorizing legislation (continued) -

November 20, 2013	2014 Series 1 Resolution authorizing the issuance of the \$29,475,000 2014 Series 1 Bonds.
June 10, 2014	2014 Series 3 Resolution authorizing the issuance of the \$51,025,000 2014 Series 3 Bonds and the 2014 Series 4 Resolution authorizing the issuance of \$21,035,000 Series 4 Refunding Bonds and the refunding of the 2006 Series 1 Bonds.
April 14, 2015	2015 Series 1 Resolution authorizing the issuance of the \$30,630,000 2015 Refunding Bonds and the refunding of the 2004 Series 2 Bonds and the partial refunding of the 2007 Series 1 Bonds.
June 22, 2015	2015 Series 2 Resolution authorizing the issuance of the \$7,975,000 2015 Series 2 Serial Bonds and the 2015 Series 3 Resolution authorizing the issuance of \$14,535,000 2015 Series 3 Refunding Bonds with the partial refunding of the 2005 Series 2 Bonds and the partial refunding of the 2005 Series 3 Bonds and the 2015 Series 5 Resolution authorizing the issuance of \$52,400,000 2015 Series 5 Refunding Bonds with the partial refunding of the 2008 Series 1 Bonds and the partial refunding of the 2009 Series 1 Bonds.
October 8, 2015	2015 Series 4 Resolution authorizing the issuance of the \$10,425,000 2015 Series 4 Taxable Bonds.
June 7, 2016	2016 Series 1 Resolution authorizing the issuance of the \$41,870,000 2016 Series 1 Bonds and 2016 Series 2 Resolution authorizing the issuance of the \$52,390,000 2016 Series 2 Refunding Bonds the partial refunding of the 2007 Series 2 Bonds, the 2010 Series 1 Bonds, the 2011 Series 2 Bonds and the 2011 Series 5 Bonds.
February 7, 2017	2017 Series 1 Resolution authorizing the issuance of the \$31,920,000 2017 Series 1 Bonds and 2017 Series 2 Resolution authorizing the issuance of the \$6,115,000 2017 Series 2 Green Bonds.
March 30, 2017	2017 General Vermont State Colleges System (VSCS) Bond Resolution allowing for multiple series of parity bonds that will constitute special not general obligations of the Bond Bank and 2017 Series A Resolution authorizing the issuance of the \$67,660,000 2017 VSCS Series 1 Bonds.
June 21, 2017	2017 Series 3 Resolution authorizing the issuance of the \$26,990,000 2017 Series 3 Bonds and 2017 Series 4 Resolution authorizing the issuance of \$27,380,000 Series 4 Refunding Bonds and the partial refunding of the 2013 Series 1 Bonds.

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
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1. Authorizing legislation and nature of funds (continued):

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

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

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

2. Summary of significant accounting policies:

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

- A. Advance refundings - All advance refundings completed are accounted for in accordance with the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The unamortized portion is reported as a deferred outflow of resources.
- B. Fund accounting - The financial statements of the Bond Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) in conformity with the principles of fund accounting.
- C. Measurement focus and basis of accounting - The Bond Bank uses the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation for payment is incurred. Operating revenues include interest from loans to municipalities and accrued interest receivable from municipalities. Interest expense on related bonds payable is recorded as a nonoperating expense in accordance with GASB Statements No. 9 and 34.
- D. Cash equivalents - The Bond Bank considers all unrestricted highly liquid investments with original maturities of three months or less to be cash equivalents.
- E. Investments - The Directors appoint trustees to oversee the investments in the Bond Fund. As of December 31, 2017, the Trustee is the U.S. Bank National Association. The Directors engaged McDonnell Investment Management, LLC to provide investment management services for the Operating Fund.

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

2. Summary of significant accounting policies (continued):

- E. Investments (continued) - Investments with readily determinable fair values are reported at their fair values on the Statement of Net Position. Unrealized gains and losses are included in revenue.
- F. Deferred outflows/inflows of resources - In addition to assets and liabilities, deferred outflows of resources and deferred inflows of resources, if applicable, are reported as separate sections on the Statement of Net Position. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period.
- G. Use of estimates - The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- H. Prior year totals - The financial statements include certain prior year summarized comparative information in total but not by fund as presented in the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Bond Bank's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

3. Custodial credit risk - deposits:

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Bond Bank's deposits may not be recovered. Cash consists of money market accounts invested primarily in commercial paper and government securities. The Bond Bank's custodial credit risk policy directs management to invest in cash or near cash investments that are either 100% FDIC insured or Aaa rated funds or government securities. As of December 31, 2017, general operating reserve cash of \$772,793 was in cash and governmental money markets fund rated Aaa by Moody's Investors Service (Moody's). Unrestricted cash and cash equivalents in the Bond Fund of \$8,972,918 were deposited in interest bearing accounts held by the Trustee and were fully secured by direct obligations of the United States of America.

4. Investments:

Unrestricted investments - The Bond Bank's investment objectives for its unrestricted investments are 1) to obtain regular, predictable interest income, through the investment in a diversified portfolio of U.S. Treasury and other government securities, corporate, mortgage and asset-backed securities, and other fixed income securities; 2) to outperform the investment returns of the Barclays Intermediate Aggregate Bond Index; and 3) to provide for cash funding needs through regular interest income. The classification and fair value of unrestricted investments held at December 31, 2017 and 2016 are identified on the following page.

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

4. Investments (continued):

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

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

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

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

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In addition to the ranges listed above, the Bond Bank's investment policy provides that the weighted average portfolio quality must be rated at least Aa2 by Moody's and/or AA by Standard & Poor's. Issues downgraded below BB-/Ba3 must be disposed of in a prudent manner with a target disposition within 90 days after the date of the downgrade. As of December 31, 2017, the Bond Bank's unrestricted investments are identified on the following page.

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

4. Investments (continued):

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

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

	Weighted Average Duration by Asset Class (Years)
Agency Securities	3.22
Asset-Backed Securities	1.95
Corporate Securities	4.17
Corporate Securities: Yankee	6.03
Mortgage Backed Securities (MBS)	4.00
MBS: Collateralized	3.75
MBS: Commercial	3.88
Municipal Securities	4.95
U.S. Treasury Securities	5.04

Restricted investments - The Bond Fund investments are restricted to meet the reserve requirements for each issue. The General Resolution provides that all monies held by the Trustees shall be continuously and fully secured, for the benefit of the Bond Bank and the holders of the bonds. The restricted investments in

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

4. Investments (continued):

the Bond Fund are to be invested in obligations with maturity dates which coincide as nearly as practicable with dates of debt service or other purposes provided in the General Resolution. Allowable investments are limited by certain restrictions and include 1) direct obligations of the United States of America or obligations which are guaranteed or insured by the United States of America, or instrumentality or agency thereof; 2) state and municipal bonds provided they are rated at least A at the time of investment; 3) interest bearing obligations issued, assumed, or guaranteed by any solvent U.S. institution rated at least A at the time of investment, certificates of deposit or time deposits at banking institutions with capital surplus and undivided profits of not less than \$25,000,000; 4) repurchase agreements with maturities of not more than 30 days with a bank or trust company that has a combined capital surplus and undivided profits not less than \$100,000,000 or with primary government dealers who are members of the Securities Investor Protection Corporation; and 5) units of a taxable government money market portfolio comprised solely of obligations listed above. The funds may also be deposited in an interest bearing account held by the Trustee provided that the account is fully secured by direct obligations of the United States of America. The classification and fair value of restricted investments held at December 31, 2017 and 2016 are as follows:

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

Restricted investments in the Bond Fund at December 31, 2017 mature as follows:

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

Restricted cash - On December 31, 2017, \$3,752,632 of cash in reserve funds was restricted by the terms of the bond requirements.

5. Loans to municipalities:

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

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

5. Loans to municipalities (continued):

Interest savings from refundings may be passed through to the municipalities and are included in other expense. Other expense for 2017 includes interest credits to municipalities from the 2009 Series 2 refunding of \$328,959, the 2010 Series 4 refunding of \$1,121,228, the 2011 Series 4 refunding of \$80,000, the 2011 Series 6 refunding of \$65,000, the 2012 Series 3 refunding of \$180,000, the 2014 Series 2 refunding of \$110,000, the 2014 Series 4 refunding of \$75,000, the 2015 Series 1 refunding of \$83,921, the 2015 Series 3 refunding of \$31,200, the 2015 Series 5 refunding of \$36,982, the 2016 Series 2 of \$450,000 and the 2017 Series 4 of \$134,292. In 2016, other expense included interest credits to municipalities from the 2009 Series 2 refunding of \$353,635, the 2010 Series 4 refunding of \$1,095,851, the 2011 Series 4 refunding of \$50,000, the 2012 Series 3 refunding of \$180,000, the 2014 Series 2 for \$100,000, the 2015 Series 1 refunding for \$91,137, the 2015 Series 3 refunding of \$46,819, the 2015 Series 5 refunding of \$39,038 and the 2016 Series 2 of \$644,298.

6. Bond liability activity:

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

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

7. Bonds payable:

Bonds payable consist of the following:

	<u>2017</u>	<u>2016</u>
2007 Series 1 Bonds consist of \$2,615,000 Serial Bonds with interest at 4.25% through December 1, 2017. Partially refunded by 2015 Series 1.	-	2,615,000
2007 Series 2 Bonds consist of \$2,525,000 Refunding Bonds with interest at 4.25% through December 1, 2017; interest payable semi-annually. Partially refunded by 2016 Series 2.	-	2,525,000
2008 Series 1 Bonds consist of \$1,775,000 Serial Bonds with interest at 5.0% through December 1, 2018; interest payable semi-annually. Partially refunded by 2015 Series 5.	1,775,000	3,505,000

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

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2008 Series 2 Bonds consist of \$5,580,000 Term Bonds with interest at 6.25% through December 1, 2032; interest payable semi-annually.	5,580,000	5,635,000
2009 Series 1 Bonds consist of \$6,360,000 Serial Bonds with interest at 3.25% to 3.5% through December 1, 2019; interest payable semi-annually. Partially refunded by 2015 Series 5.	6,360,000	9,400,000
2009 Series 2 Bonds consist of \$4,300,000 Refunding Bonds with interest at 2.75% to 4.1% through December 1, 2028; less unamortized discount of \$5,981; interest payable semi-annually.	4,294,019	5,901,883
2010 Series 1 Bonds consist of \$2,715,000 Serial Bonds with interest at 3.0% through December 1, 2020; interest payable semi-annually. Partially refunded by 2016 Series 2.	2,715,000	3,625,000
2010 Series 2 Bonds consist of \$1,945,000 Serial Bonds with interest at 3.97% to 4.27% through December 1, 2020; \$2,165,000 5.12% Term Bonds due December 1, 2025; and \$1,845,000 5.738% Term Bonds maturing December 1, 2030; interest payable semi-annually.	5,955,000	6,545,000
2010 Series 3 Bonds consist of \$1,365,000 Term Bonds with interest at 5.388% maturing December 1, 2026; interest payable semi-annually.	1,365,000	1,365,000
2010 Series 4 Bonds consist of \$11,730,000 Refunding Bonds with interest at 3.3% to 5.0% through December 1, 2031; plus unamortized premium of \$358,826; interest payable semi-annually.	12,088,826	15,659,946
2010 Series 5 Bonds consist of \$5,585,000 Serial Bonds with interest at 4.054% to 5.604% through December 1, 2025; \$3,440,000 5.204% Term Bonds due December 1, 2023; \$8,150,000 6.036% Term Bonds due December 1, 2035; and \$495,000 6.186% Term Bonds due December 1, 2040; interest payable semi-annually.	17,670,000	18,685,000
2011 Series 1 Bonds consist of \$9,500,000 Term Bonds with interest at 5.66% maturing December 1, 2025; interest payable semi-annually.	9,500,000	9,500,000

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

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2011 Series 2 Bonds consist of \$5,805,000 Serial Bonds with interest at 2.25% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	5,805,000	7,265,000
2011 Series 3 Bonds consist of \$2,940,000 Term Bonds with interest at 4.749% maturing December 1, 2027; interest payable semi-annually.	2,940,000	2,940,000
2011 Series 4 Bonds consist of \$6,465,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2032; plus unamortized premium of \$283,992; interest payable semi-annually.	6,748,992	8,189,130
2011 Series 5 Bonds consist of \$6,555,000 Serial Bonds with interest at 3.0% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	6,555,000	7,970,000
2011 Series 6 Bonds consist of \$16,880,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,015,742; interest payable semi-annually.	17,895,742	20,670,952
2012 Series 1 Bonds consist of \$26,025,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2032; \$1,645,000 4.0% Term bonds maturing December 1, 2042; plus unamortized premium of \$2,469,852; interest payable semi-annually.	30,139,852	32,325,025
2012 Series 2 Bonds consist of \$300,000 Term Bonds with interest at 3.513% maturing December 1, 2027; and \$8,555,000 3.960% Term Bonds due December 1, 2032; interest payable semi-annually.	8,855,000	8,855,000
2012 Series 3 Bonds consist of \$18,330,000 Refunding Bonds with interest at 5.0% through December 1, 2024; plus unamortized premium of \$1,775,891; interest payable semi-annually.	20,105,891	23,269,938
2012 Series 4 Bonds consist of \$5,320,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2032; \$540,000 5.0% Term Bonds maturing December 1, 2034; \$555,000 5.0% Term Bonds maturing December 1, 2037; and \$365,000 3.375% Term Bonds maturing December 1, 2043; plus unamortized premium of \$700,427; interest payable semi-annually.	7,480,427	8,026,837

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

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2012 Series 5 Bonds consist of \$1,130,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of \$84,577; interest payable semi-annually.	1,214,577	1,241,436
2013 Series 1 Bonds consist of \$18,545,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of \$1,125,804; interest payable semi-annually. Partially refunded by 2017 Series 4.	19,670,804	51,099,420
2014 Series 1 Bonds consist of \$25,235,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,682,149; interest payable semi-annually.	26,917,149	28,330,451
2014 Series 2 Bonds consist of \$14,505,000 Refunding Bonds with interest at 5.0% through December 1, 2025; plus unamortized premium of \$1,265,094; interest payable semi-annually.	15,770,094	18,236,666
2014 Series 3 Bonds consist of \$42,700,000 Serial Bonds with interest at 5.0% through December 1, 2034; \$1,450,000 5.0% Term Bonds maturing December 1, 2044; plus unamortized premium of \$5,068,801; interest payable semi-annually.	49,218,801	52,578,924
2014 Series 4 Bonds consist of \$18,755,000 Refunding Bonds with interest at 2.0% to 5.0% through December 1, 2026; plus unamortized premium of \$1,583,834; interest payable semi-annually.	20,338,834	22,967,583
2015 Series 1 Bonds consist of \$26,940,000 Refunding Bonds with interest at 1.45% to 5.0% through December 1, 2027; \$695,000 3.75% Term Bonds maturing on December 1, 2037; plus unamortized premium of \$1,905,795; interest payable semi-annually.	29,540,795	30,155,396
2015 Series 2 Bonds consist of \$5,670,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2035; \$1,740,000 4.0% Term Bonds maturing December 1, 2045; plus unamortized premium of \$284,926; interest payable semi-annually.	7,694,926	8,024,970
2015 Series 3 Bonds consist of \$4,760,000 Refunding Bonds with interest at 2.0% to 3.0% through December 1, 2025; plus unamortized premium of \$62,981; interest payable semi-annually.	4,822,981	6,399,794

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

7. Bonds payable (continued):

	<u>2017</u>	<u>2016</u>
2015 Series 4 Bonds consist of \$2,150,000 Taxable Serial Bonds with interest at 1.7% to 3.45% through December 1, 2025; \$4,000,000 4.494% Taxable Term Bonds maturing December 1, 2040; \$4,275,000 4.6% Term Bonds maturing December 1, 2045; interest payable semi-annually.	10,425,000	10,425,000
2015 Series 5 Bonds consist of \$49,790,000 Refunding Serial Bonds with interest at 2.0% to 5.0% through December 1, 2035; \$2,080,000 4.0% Term Bonds maturing December 1, 2039; plus unamortized premium of \$3,946,454; interest payable semi-annually.	55,816,454	56,807,729
2016 Series 1 Bonds consist of \$35,690,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2036; \$3,145,000 5.0% Term Bonds maturing December 1, 2041; \$1,240,000 5.0% Term Bonds maturing December 1, 2046; plus unamortized premium of \$7,271,232; interest payable semi-annually.	47,346,232	49,854,843
2016 Series 2 Bonds consist of \$50,225,000 Refunding Serial Bonds with interest at 3.0% to 5.0% through December 1, 2036; \$2,165,000 3.0% Term Bonds maturing December 1, 2041; plus unamortized premium of \$12,550,262; interest payable semi-annually.	64,940,262	66,312,182
2017 Series 1 Bonds consist of \$27,500,000 Serial Bonds with interest at 2.5% to 5.0% through December 1, 2037; \$4,420,000 3.75% Term Bonds maturing December 1, 2047; plus unamortized premium of \$4,090,809; interest payable semi-annually.	36,010,809	-
2017 Series 2 Bonds consist of \$4,360,000 Serial Bonds with interest at 2.125% to 5.0% through December 1, 2030; \$1,755,000 3.75% Term Bonds maturing December 1, 2047; plus unamortized premium of \$185,288; interest payable semi-annually.	6,300,288	-
2017 Series 3 Bonds consist of \$23,095,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2037; \$3,895,000 5.0% Term Bonds maturing December 1, 2047; plus unamortized premium of \$5,159,029; interest payable semi-annually.	32,149,029	-

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

7. Bonds payable (continued):

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

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

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

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

On August 2, 2017, the Bond Bank issued \$27,380,000 of 2017 Series 4 Refunding Bonds with interest rates from 3.0% to 5.0% to refund \$26,480,000 of 2013 Series 1 Bonds with interest rates of 4.40% to 5.0%. Net proceeds were deposited in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$26,480,000 of 2013 Series 1 Bonds to be called on December 1, 2023, are still outstanding and are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. \$18,545,000 of the 2013 Series 1 Bonds were not refunded and still outstanding on December 31, 2017.

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

7. Bonds payable (continued):

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,376,107. This difference (net of accumulated amortization), reported in the accompanying financial statements as a deferred outflow on refunding bonds payable, will be charged to operations over 26 years.

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

In 2016, the Bond Bank defeased and partially defeased \$2,180,000 of 2007 Series 2 Bonds, \$13,735,000 of 2010 Series 1 Bonds, \$10,955,000 of 2011 Series 2 Bonds and \$28,815,000 of 2011 Series 5 Bonds placing the proceeds in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, \$2,180,000 2007 Series 2 Bonds have been called on December 1, 2017, \$13,735,000 of 2010 Series 1 Bonds to be called on December 1, 2020, \$10,955,000 of 2011 Series 2 Bonds to be called on December 1, 2021, and \$28,815,000 of 2011 Series 5 Bonds to be called December 31, 2021, are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. \$2,715,000 of 2010 Series 1 Bonds, \$5,805,000 of 2011 Series 2 Bonds and \$6,555,000 of 2011 Series 5 Bonds were not refunded and remain outstanding on December 31, 2017.

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

8. Reserve requirement:

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

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

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

8. Reserve requirement (continued):

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

9. Accrued arbitrage rebate payable:

The accrued arbitrage rebate payable is based on interim arbitrage rebate analysis performed by the Bond Bank's arbitrage rebate counsel for bonds issued prior to 2017.

10. Transfer to Bond Fund:

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

11. Pension plan:

The Bond Bank has a simplified employee pension (SEP) plan for full-time regular employees. To be eligible, an active employee must be twenty-one years of age. The Bond Bank may make contributions each year. In 2017 and 2016, the Bond Bank funded the SEP plan in the amount of \$27,903 and \$29,482, respectively.

12. Related party transactions:

The Bond Bank receives reimbursements from related parties for general and administrative services the Bond Bank provides. The total amounts receivable in the Operating Fund from the related parties was \$73,669 as of December 31, 2017. At December 31, 2016, the Bond Bank included \$1,170 in payables in the Operating Fund for net purchases made by a related party on behalf of the Bond Bank.

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

13. Equity contribution reimbursements:

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

Scheduled equity contribution reimbursements are as follows:

Year ending December 31,	<u>Principal</u>
2018	\$ 400,918
2019	32,098
2020	10,633
2021	10,633
2022	10,633
2023 to 2027	53,165
2028 to 2032	53,165
2033 to 2037	53,165
2038	<u>10,633</u>
	\$ <u>635,043</u>

14. Commitments:

On September 1, 2009, the Bond Bank entered into a lease agreement for a five-year term with annual rent payments of \$14,728. The lease agreement has two additional three-year terms, at the option of the Bond Bank, with rent adjusted in accordance with a consumer price index adjustment. The second additional three-year term option was accepted by the Bond Bank in June 2017 for the three years effective October 1, 2017. Total occupancy expense was \$16,574 and \$18,303 for the fiscal years ended December 31, 2017 and December 31, 2016, respectively.

15. Subsequent events:

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

Mudgett
Jennett &
Krogh-Wisner, P.C.

Certified Public Accountants #435

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

The Board of Directors
Vermont Municipal Bond Bank

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Vermont Municipal Bond Bank, a component unit of the State of Vermont, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Vermont Municipal Bond Bank's basic financial statements, and have issued our report thereon dated June 1, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermont Municipal Bond Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Montpelier, Vermont
June 1, 2018

Mudgett, Gerrett &
Hugh-Wisner, P.C.

Vermont Municipal Bond Bank

2018 Series 2 Bonds
(Local Investment Bonds)
(the “Bonds”)

Continuing Disclosure Undertaking

Prior to the issuance of the Bonds, the Vermont Municipal Bond Bank (the “Bank”) 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 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 (“EMMA”) system 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, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Bank for such fiscal year 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 (ii) notice of the Bank's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the Bank, in each case substantially in the same level of detail as is found in the referenced Official Statement, including in any event an update of the information set forth in Appendix B of the final Official Statement.

In addition, the annual financial information shall contain the following information received by the Bank from each Obligated Person, if any, pursuant to the Loan Agreements: (a) the financial statements of each Obligated Person, if any, for the most recently ended fiscal year, prepared in accordance with generally accepted accounting principles as in effect from time to time or otherwise in accordance with applicable state law, if any, and (b) operating data for each Obligated Person, if any, for the most recently ended prior fiscal year which will include, to the extent applicable to the Obligated Person: (1) tax base and rates and collection percentages; (2) service charges, fees or rates and use data; (3) number of customers or students; (4) number of employees; (5) material changes in service delivery capacity; and (6) gain or loss of contracts having or projected to have a material impact on its financial position. “Obligated Person” means any Municipality that has issued Municipal Bonds purchased by the Bank in an amount which exceeds in the aggregate 15% of the total principal amount outstanding as of September 1 of each year of Municipal Bonds purchased by the Bank under the General Resolution.

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Bank, which have been submitted to EMMA. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the MSRB. The Bank's annual financial statements for each fiscal year shall consist of the balance sheet of the Bank and the related statements of revenue, expenses and changes in fund balances and statement of cash flows 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.

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 or with respect to any Municipal Bonds in accordance with the Loan Agreements:

- (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 obligated person;
- (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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 Obligated Person 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 Obligated Person, 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 Obligated Person.

Nothing in the Disclosure Agreement shall preclude the Bank from disseminating any information in addition to that required under the Disclosure Agreement. If the Bank disseminates any such additional information, nothing in the Disclosure Agreement shall obligate the Bank 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 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 and to compel the Bank and any of its 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 in connection with such undertakings and shall not include any rights to monetary damages. The Bank's obligations 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 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 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 (such as Bank bond counsel) 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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