VERMONT MUNICIPAL BOND BANK

FINANCIAL STATEMENTS
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR 2018

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Vermont Municipal Bond Bank

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Municipal Bond Bank (the Bond Bank), a component unit of the State of Vermont, as of and for the year ended December 31, 2019, 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 Bond Bank'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 Bond Bank'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, 2019, 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.

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

Other Matters

Report on Summarized Comparative Information

We have previously audited the Bond Bank's 2018 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 May 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 2, 2020 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 2, 2020

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

VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019

The Vermont Municipal Bond Bank (d/b/a Vermont Bond Bank) was created by the Vermont General Assembly 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 Vermont Bond Bank's primary purpose is to provide Vermont's municipalities with inexpensive access to capital markets. As of December 31, 2019, the Vermont Bond Bank (Bond Bank) has issued over $2.6 billion in tax-exempt and taxable bonds through 89 series of bonds for municipalities, including 28 refunding bonds, and one conduit debt series for the Vermont State College System.

This discussion of the Bond Bank's financial performance provides an overview of the Bond Bank's financial activities for the fiscal year ended December 31, 2019. 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 Bond Bank.

<u>2019 Financial Highlights</u>

In 2019, the Bond Bank issued $56,370,000 through two series of Local Investment Bonds. The 2019 Series 1 Bonds were issued in the amount of $24,870,000 and provided loans to 3 municipalities with 4 projects. The 2019 Series 2 Bonds were issued in the amount of $31,500,000 to provide loans to 17 municipalities with 21 projects.

In 2018, the Bond Bank issued $41,165,000 through two series of Local Investment Bonds. The 2018 Series 1 Bonds were issued in the amount of $7,990,000 and provided loans to 6 municipalities. The 2018 Series 2 Bonds were issued in the amount of $33,175,000 to provide loans to 16 municipalities with 20 projects.

As of December 31, 2019, the Bond Bank had 488 loans outstanding to 198 governmental units totaling $557,553,968. As of December 31, 2018, the Bond Bank had 490 loans outstanding to 218 governmental units totaling $548,480,020. The reduction in governmental units from 2018 to 2019 was due to both loan repayments and a significant number of school consolidations that became effective in July 2019.

Outstanding Loans by Debt Type as of 12/31/19	Summary			
	# Loans	% Total	Amount	% Total
General Obligation Bonds	483	99%	543,492,034	97%
Revenue Bonds	5	1%	14,061,934	3%
Total	488	100%	557,553,968	100%

Outstanding Loans by Borrower Type as of 12/31/19	Summary			
	# Loans	% Total	Amount	% Total
Local Government	310	63.39%	337,050,333	60.45%
School District	144	29.45%	200,141,086	35.90%
Other Governmental Unit	34	7.16%	20,362,549	3.65%
Total	488	100.00%	557,553,968	100.00%

Assets and Deferred Outflows of Resources

Combined Total Assets and Deferred Outflows of Resources increased $11,117,038 or 1.67% from 2018 to 2019 and was driven by an increase in loans to municipalities and increases in investment value. Total Loans to Municipalities increased by $9,073,948 or 1.65%. The Operating Fund accounted for most of the appreciation in the fair value of investments with combined total assets increasing by $1,215,536 or 4.70% from 2018 to 2019.

Liabilities

Changes in Total Liabilities were nearly all contained in the Bond Fund which increased by $7,701,722 or 1.23% from 2018 to 2019. This was due to bond issuance activity that corresponded with the loan activity.

Net Position

Restricted Net Position in the Bond Fund increased from 2018 to 2019 by $2,199,780 or 17.34% with unrestricted Net Position in the Operating Fund increasing by $1,220,313 or 4.73% over the same period. These changes in net position were largely due to the appreciation in fair value of investments.

Total Net Position at December 31, 2019 equaled 6.63% of Total Bonds Payable and Unrestricted Net Position equaled 4.28% of Total Bonds Payable. Total Net Position at December 31, 2018 equaled 6.17% of Total Bonds Payable and Unrestricted Net Position equaled 4.13% of Total Bonds Payable.

Major Statement of Net Position items changed as follows from 2018 to 2019:

	Bond Fund				Operating Fund				Total			
			Change				Change				Change	
	2018	2019	#	%	2018	2019	#	%	2018	2019	#	%
Total Assets and Deferred Outflow of Resources	638,977,966	648,879,468	9,901,502	1.55%	25,836,210	27,051,746	1,215,536	4.70%	664,814,176	675,931,214	11,117,038	1.67%
Total Liabilities	626,291,301	633,993,023	7,701,722	1.23%	36,971	32,194	(4,777)	-12.92%	626,328,272	634,025,217	7,696,945	1.23%
Net Position Unrestricted	-	-	-	-	25,799,239	27,019,552	1,220,313	4.73%	25,799,239	27,019,552	1,220,313	4.73%
Net Position Restricted	12,686,665	14,886,445	2,199,780	17.34%	-	-	-	-	12,686,665	14,886,445	2,199,780	17.34%
Total Net Position	12,686,665	14,886,445	2,199,780	17.34%	25,799,239	27,019,552	1,220,313	4.73%	38,485,904	41,905,997	3,420,093	8.89%

Operating Summary

Revenues in both the Bond Fund and Operating Fund increased by approximately 2.01% and 155.19%, respectively. Both changes were driven by increases in the appreciated fair market value of investments. In the Operating Fund, appreciation in the fair market value of investments accounted for 42.61% of revenue. Interest and investment revenue accounted for 44.29% of revenue due to a 20.68% increase from $703,746 in 2018 to $849,308 in 2019. Major Revenue and Expense item changes from 2018 to 2019 are as follows:

	Bond Fund				Operating Fund				Total			
			Change				Change				Change	
	2018	2019	#	%	2018	2019	#	%	2018	2019	#	%
Revenues	25,349,641	25,858,805	509,164	2.01%	751,389	1,917,434	1,166,045	155.19%	26,101,030	27,776,239	1,675,209	6.42%
Expenses	24,084,571	23,737,607	(346,964)	-1.44%	1,036,436	618,539	(417,897)	-40.32%	25,121,007	24,356,146	(764,861)	-3.04%
Net Income (Loss) Prior to Transfers	1,265,070	2,121,198	-	-	(285,047)	1,298,895	-	-	980,023	3,420,093	-	-
Net Transfers In / Out	(1,999,461)	78,582	2,078,043	-103.93%	1,999,461	(78,582)	(2,078,043)	-103.93%	0	0	-	-
Change in Net Position	(734,391)	2,199,780	-	-	1,714,414	1,220,313	-	-	980,023	3,420,093	-	-

Investment Portfolio

The Bond Bank's unrestricted investment portfolio on December 31, 2019 was valued at "fair market value" of $24,611,624, excluding investment cash deposits of $92,635. The December 31, 2018 "fair market value" of the investment portfolio was $22,947,710, excluding investment cash deposits of $521,661. The total cost of the portfolio, excluding cash deposits, was $24,213,622 on December 31, 2019 and $23,382,919 on December 31, 2018.

Subsequent Events

In January 2020, the Bond Bank issued the Vermont State Colleges System Issue 2020 Series A Bonds in the amount of $24,185,000. The conduit bond transaction was authorized under the General Bond Resolution for Vermont State Colleges System adopted by the Bond Bank on March 30, 2017.

In February 2020, the Bond Bank issued the 2020 Series 1 Bonds in the amount of $22,365,000. The bonds were authorized under the 1988 General Resolution and designated as Local Investment Bonds to reflect the local impact of the projects that are capitalized by the 2020 Bonds.

In April 2020, the Bond Bank redeemed $855,000 of the remaining 2009 Series 2 bonds with funds on hand.

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, 2019
WITH COMPARATIVE TOTALS FOR 2018

	2019			2018
	Bond Fund	Operating Fund	Total	Summarized Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Current assets -				
Cash and cash equivalents	$ 3,549,863	$ 2,385,190	$ 5,935,053	$ 6,476,376
Accrued interest receivable	1,766,577	2,548	1,769,125	1,682,188
Accounts receivable and prepaid expenses	-	52,384	52,384	50,692
Current portion of loans to municipalities	48,549,680	-	48,549,680	47,079,850
Investments	-	24,611,624	24,611,624	22,947,710
Total current assets	53,866,120	27,051,746	80,917,866	78,236,816
Noncurrent assets -				
Restricted cash	1,379,371	-	1,379,371	939,249
Restricted investments	61,496,534	-	61,496,534	58,813,966
Loans to municipalities	509,004,288	-	509,004,288	501,400,170
Total noncurrent assets	571,880,193	-	571,880,193	561,153,385
Total assets	625,746,313	27,051,746	652,798,059	639,390,201
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow on refunding of bonds payable	23,133,155	-	23,133,155	25,423,975
Total assets and deferred outflows of resources	$ 648,879,468	$ 27,051,746	$ 675,931,214	$ 664,814,176
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities -				
Accounts payable	$ 4,950	$ 32,194	$ 37,144	$ 36,971
Accrued arbitrage rebate	105,462	-	105,462	140,270
Bond interest payable	2,187,615	-	2,187,615	2,140,445
Current portion of bonds payable	44,290,000	-	44,290,000	46,430,000
Total current liabilities	46,588,027	32,194	46,620,221	48,747,686
Noncurrent liabilities -				
Accrued arbitrage rebate	28,674	-	28,674	60,133
Bonds payable	587,376,322	-	587,376,322	577,520,453
Total noncurrent liabilities	587,404,996	-	587,404,996	577,580,586
Total liabilities	633,993,023	32,194	634,025,217	626,328,272
NET POSITION:				
Restricted	14,886,445	-	14,886,445	12,686,665
Unrestricted	-	27,019,552	27,019,552	25,799,239
Total net position	14,886,445	27,019,552	41,905,997	38,485,904
Total liabilities and net position	$ 648,879,468	$ 27,051,746	$ 675,931,214	$ 664,814,176

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	2019			2018
	Bond Fund	Operating Fund	Total	Summarized Total
OPERATING REVENUES:				
Interest	$ 20,977,602	$ -	$ 20,977,602	$ 21,006,313
Other income	-	116,549	116,549	47,643
Total operating revenue	20,977,602	116,549	21,094,151	21,053,956
OPERATING EXPENSES:				
Bond issue costs	542,265	-	542,265	494,105
Other expense	1,782,090	-	1,782,090	2,311,219
Operating expenses	-	618,539	618,539	525,260
Total operating expenses	2,324,355	618,539	2,942,894	3,330,584
OPERATING INCOME (LOSS)	18,653,247	(501,990)	18,151,257	17,723,372
NONOPERATING REVENUE (EXPENSES):				
Net appreciation/(depreciation) in fair value of investments	384,725	951,577	1,336,302	(1,399,539)
Interest and investment revenue	2,981,293	849,308	3,830,601	3,460,750
Interest rebate	1,515,185	-	1,515,185	1,538,336
Interest expense	(21,308,862)	-	(21,308,862)	(20,390,884)
Arbitrage recovery (rebate)	(104,390)	-	(104,390)	47,988
Total nonoperating revenue (expenses)	(16,532,049)	1,800,885	(14,731,164)	(16,743,349)
NET INCOME (LOSS) BEFORE TRANSFERS	2,121,198	1,298,895	3,420,093	980,023
NET TRANSFER TO BOND FUND	78,582	(78,582)	-	-
CHANGE IN NET POSITION	2,199,780	1,220,313	3,420,093	980,023
NET POSITION, beginning of year	12,686,665	25,799,239	38,485,904	37,505,881
NET POSITION, end of year	$ 14,886,445	$ 27,019,552	$ 41,905,997	$ 38,485,904

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, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018
(Page 1 of 2)

	2019			2018
	Bond Fund	Operating Fund	Total	Summarized Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from municipalities -				
Principal	$ 48,867,092	$ -	$ 48,867,092	$ 47,780,031
Interest (net of refunding interest savings)	19,102,697	-	19,102,697	18,844,909
Cash paid to suppliers for goods and services	-	(433,946)	(433,946)	(343,725)
Cash paid to employees for services	-	(189,370)	(189,370)	(155,246)
Loans to municipalities	(57,941,040)	-	(57,941,040)	(40,415,615)
Bond issue costs	(537,315)	-	(537,315)	(567,370)
Other receipts	-	114,857	114,857	91,222
Net cash provided (used) by operating activities	9,491,434	(508,459)	8,982,975	25,234,206
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	58,660,820	-	58,660,820	43,455,821
Principal reductions	(46,430,000)	-	(46,430,000)	(45,105,000)
Interest expense	(23,485,823)	-	(23,485,823)	(25,989,552)
Arbitrage recovery (rebate)	(170,657)	-	(170,657)	101,217
Interest rebate	1,515,185	-	1,515,185	1,538,336
Transfers	78,582	(78,582)	-	-
Net cash provided (used) by noncapital financing activities	(9,831,893)	(78,582)	(9,910,475)	(25,999,178)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	1,910,684	2,733,847	4,644,531	8,059,350
Purchase of investments	(5,033,374)	(4,397,761)	(9,431,135)	(12,615,212)
Earnings (loss) on investments	384,725	951,577	1,336,302	(1,399,539)
Investment income	2,985,765	850,714	3,836,479	3,451,038
Net cash provided (used) by investing activities	247,800	138,377	386,177	(2,504,363)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,659)	(448,664)	(541,323)	(3,269,335)
CASH AND CASH EQUIVALENTS, beginning of year	3,642,522	2,833,854	6,476,376	9,745,711
CASH AND CASH EQUIVALENTS, end of year	$ 3,549,863	$ 2,385,190	$ 5,935,053	$ 6,476,376

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, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018

	2019			2018
	Bond Fund	Operating Fund	Total	Summarized Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 18,653,247	$ (501,990)	$ 18,151,257	$ 17,723,372
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
(Increase)/decrease in following assets:				
Accrued interest receivable	(92,815)	-	(92,815)	149,815
Accounts receivable	-	(1,692)	(1,692)	43,579
Loans to municipalities	(9,073,948)	-	(9,073,948)	7,364,416
Increase/(decrease) in following liabilities:				
Accounts payable	4,950	(4,777)	173	(46,976)
Net cash provided (used) by operating activities	$ 9,491,434	$ (508,459)	$ 8,982,975	$ 25,234,206

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

	Bond Fund	Operating Fund	Total	Summarized Total
Refunding loss amortization:	$ 2,290,820	$ -	$ 2,290,820	$ 2,290,821

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

1. Authorizing legislation and nature of funds:

A. Authorizing legislation - The Vermont Municipal Bond Bank (d/b/a Vermont 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 Vermont Bond Bank (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, 2019, the following resolutions had been adopted by the Bond Bank and remain active:

Date	Resolution
February 17, 1972	General Bond Resolution "Creating and establishing an issue of bonds of the Vermont Municipal Bond Bank; providing for the issuance from time to time of said bonds; providing for the payment of principal and interest of said bonds, and providing for the rights of the holders thereof."
May 3, 1988	General Bond Resolution "Creating and Establishing an issue of bonds for the Vermont Municipal Bond Bank; providing for the issuance from time to time of said bonds; providing for the payment of the principal and interest of said bonds; and providing for the rights of the holders thereof."
June 16, 2008	2008 Series 2 Resolution authorizing the issuance of $5,635,000 2008 Series 2 Bonds.
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.

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.

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 and the 2014 Series 2 Resolution authorizing the issuance of the $18,285,000 2014 Series 2 Refunding Bonds and the refunding of the 2005 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.

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

A. Authorizing legislation (continued) -

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.
January 25, 2018	2018 Series 1 Resolution authorizing the issuance of the $7,990,000 2018 Series 1 Local Investment Bonds.
June 11, 2018	2018 Series 2 Resolution authorizing the issuance of the $33,175,000 2018 Series 2 Local Investment Bonds.
January 30, 2019	2019 Series 1 Resolution authorizing the issuance of the $24,870,000 2019 Series 1 Local Investment Bonds.
June 11, 2019	2019 Series 2 Resolution authorizing the issuance of the $31,500,000 2019 Series 2 Local Investment Bonds.

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

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

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

2. Summary of significant accounting policies:

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

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

2. Summary of significant accounting policies (continued):

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, 2019, the Trustee is the U.S. Bank National Association. The Directors engaged Loomis, Sayles & Company, L.P. to provide investment management services for the Operating Fund. Investments with readily determinable fair values are reported at their fair values on the Statement of Net Position. See Note 4.

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. Long-term obligations - Governmental activities, business-type activities, and proprietary funds report long-term debt and other long-term obligations as liabilities in the applicable statement of net position. Governmental funds report the amount of debt issued as other financing sources and the repayment of debt as debt service expenditures.

H. 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.

I. 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, 2018, from which the summarized information was derived. The prior year's information on investment gains and losses has been reclassified to conform with the current year's financial presentation.

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, 2019, general operating reserve cash was $2,385,190. Of this total, $279,335 was in collateralized and FDIC insured cash accounts. The remaining total of $2,105,855 was held within "government money markets funds" rated Aaa-mf by Moody's Investors Service (Moody's). Unrestricted cash and cash equivalents in the Bond Fund of $3,549,863 was held within "government money markets funds" rated Aaa-mf by Moody's, held by the Trustee. These funds are secured in eligible investments as defined in the General Resolution.

4. Investments:

<u>Unrestricted investments</u> - 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; and 2) to outperform the investment returns of the Barclays Intermediate Aggregate Bond Index.

The Bond Bank reports fair value measures of its assets and liabilities using a three-level hierarchy that prioritizes the inputs used to measure fair value. GASB Statement No. 72, *Fair Value Measurement and Application*, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement. The three levels of inputs used to measure fair value are as follows.

- Level 1. Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.
- Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets in markets that are not active;
  - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
  - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value if observable inputs are not available.

The Bond Bank measures fair value using level 1 inputs because they are available and generally provide the most reliable evidence of fair value for the Bond Bank's measurement of investments.

4. Investments (continued):

The classification and fair value of unrestricted investments held at December 31, 2019 and 2018 are identified as follows:

	Operating Fund	
	2019	2018
Agency Securities	$ 1,628,203	$ 1,362,689
Asset-Backed Securities	2,274,255	2,045,480
Corporate Securities	6,087,142	6,949,849
Corporate Securities: Yankee	345,615	573,047
Mortgage Backed Securities (MBS)	10,072,711	7,787,065
MBS: Collateralized	1,317,897	1,388,528
MBS: Commercial	-	166,587
Municipal Securities	-	695,824
U.S. Treasury Securities	2,885,801	1,978,641
	$ 24,611,624	$ 22,947,710

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

Sector	Min%	Max%	Quality	Min%	Max%
U.S. Treasury	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, 2019, the Bond Bank's unrestricted investments are identified on the next page.

4. Investments (continued):

Ratings by Moody's Investors Service	Agency Securities	Asset-Backed Securities	Corporate Securities	Corporate Securities: Yankee	Mortgage Backed Securities	MBS: Collateralized	U.S. Treasury Securities
Aaa	$ 1,628,203	$ 1,876,079	$ 148,064	$ -	$ 10,072,711	$ 1,317,897	$ 2,885,801
Aa1	-	327,602	178,663	161,456	-	-	-
Aa2	-	70,574	64,705	-	-	-	-
Aa3	-	-	298,066	-	-	-	-
A1	-	-	390,695	184,159	-	-	-
A2	-	-	919,045	-	-	-	-
A3	-	-	1,163,059	-	-	-	-
Baa1	-	-	516,646	-	-	-	-
Baa2	-	-	1,268,334	-	-	-	-
Baa3	-	-	806,000	-	-	-	-
Ba1	-	-	125,079	-	-	-	-
Ba3	-	-	136,147	-	-	-	-
B1	-	-	26,014	-	-	-	-
B2	-	-	46,625	-	-	-	-
	$ 1,628,203	$ 2,274,255	$ 6,087,142	$ 345,615	$ 10,072,711	$ 1,317,897	$ 2,885,801

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	2.66
Asset-Backed Securities	1.36
Corporate Securities	4.24
Corporate Securities: Yankee	4.09
Mortgage Backed Securities (MBS)	3.27
MBS: Collateralized	6.30
U.S. Treasury Securities	4.98

4. Investments (continued):

Restricted investments - The Bond Fund investments are restricted to meet the reserve requirements for each issue. The General Resolution provides that all monies held by the Trustees shall be continuously and fully secured, for the benefit of the Bond Bank and the holders of the bonds. The restricted investments in the Bond Fund are to be invested in obligations with maturity dates which coincide as nearly as practicable with dates of debt service or other purposes provided in the General Resolution. Allowable investments are limited by certain restrictions and include 1) direct obligations of the United States of America or obligations which are guaranteed or insured by the United States of America, or instrumentality or agency thereof; 2) state and municipal bonds provided they are rated at least A at the time of investment; 3) interest bearing obligations issued, assumed, or guaranteed by any solvent U.S. institution rated at least A at the time of investment, certificates of deposit or time deposits at banking institutions with capital surplus and undivided profits of not less than $25,000,000; 4) repurchase agreements with maturities of not more than 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, 2019 and 2018 are as follows:

	Bond Fund	
	2019	2018
U.S. Treasury Bonds	$ 13,675,093	$ 11,815,553
U.S. Treasury Notes	42,113,330	39,615,483
U.S. Treasury Strips	2,462,394	4,297,707
U.S. Governments	3,245,717	3,085,223
	$ 61,496,534	$ 58,813,966

Restricted investments in the Bond Fund at December 31, 2019 mature as follows:

		Investment Maturity (in Years)			
Investment Type	Fair Value	< 1	1-5	6-10	> 10
U.S. Treasury Bonds	$ 13,675,093	$ 323,225	$ 4,636,944	$ 3,730,001	$ 4,984,923
U.S. Treasury Notes	42,113,330	526,378	6,439,417	10,437,191	24,710,344
U.S. Treasury Strips	2,462,394	790,385	1,672,009	-	-
U.S. Governments	3,245,717	-	1,891,435	1,354,282	-
	$ 61,496,534	$ 1,639,988	$ 14,639,805	$ 15,521,474	$ 29,695,267

Restricted cash - On December 31, 2019, $1,379,371 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 capitalized interest, reserve requirements and issue costs. The loans mature during the same periods as the related bonds payable.

Interest savings from refundings may be passed through to the municipalities and are included in other expense. Other expense for 2019 includes interest credits to municipalities from the 2010 Series 4 refunding of $926,938, the 2011 Series 4 refunding of $55,000, the 2012 Series 3 refunding of $185,000, the 2014 Series 2 refunding of $100,000, the 2014 Series 4 refunding of $80,000, the 2015 Series 1 refunding of $205,142, the 2015 Series 3 refunding of $158,924, the 2015 Series 5 refunding of $37,036 and the 2017 Series 4 of $34,050.

Other expense for 2018 includes interest credits to municipalities from the 2009 Series 2 refunding of $85,576, the 2010 Series 4 refunding of $901,860, the 2011 Series 4 refunding of $55,000, the 2012 Series 3 refunding of $180,000, the 2014 Series 2 refunding of $105,000, the 2014 Series 4 refunding of $80,000, the 2015 Series 1 refunding of $219,717, the 2015 Series 3 refunding of $160,571, the 2015 Series 5 refunding of $37,119, the 2016 Series 2 of $450,000 and the 2017 Series 4 of $36,376.

6. Bond liability activity:

Bond liability activity for the year ended December 31, 2019, was as follows:

	January 1, 2019	Additions	Reductions	December 31, 2019	Amounts Due Within One Year
Bonds payable	$ 572,580,000	$ 56,370,000	$ 46,430,000	$ 582,520,000	$ 44,290,000
Plus unamortized premium (discount)	51,370,453	5,689,803	7,913,934	49,146,322	-
Total bonds payable	623,950,453	62,059,803	54,343,934	631,666,322	44,290,000
Accrued arbitrage rebate	200,403	55,617	121,884	134,136	105,462
	$ 624,150,856	$ 62,115,420	$ 54,465,818	$ 631,800,458	$ 44,395,462

7. Bonds payable:

Bonds payable consist of the following:

	2019	2018
2008 Series 2 Bonds consist of $5,425,000 Term Bonds with interest at 6.25% through December 1, 2032; interest payable semi-annually.	5,425,000	5,515,000
2009 Series 1 Bonds consist of $3,230,000 Serial Bonds with interest at 3.5% through December 1, 2019; interest payable semi-annually. Partially refunded by 2015 Series 5.	-	3,230,000
2009 Series 2 Bonds consist of $855,000 Refunding Bonds with interest at 3.3% to 4.1% through December 1, 2028; less unamortized discount of $3,210; interest payable semi-annually.	851,790	2,265,405
2010 Series 1 Bonds consist of $900,000 Serial Bonds with interest at 3.0% through December 1, 2020; interest payable semi-annually. Partially refunded by 2016 Series 2.	900,000	1,805,000
2010 Series 2 Bonds consist of $620,000 Serial Bonds with interest at 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.	4,630,000	5,295,000
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 $5,725,000 Refunding Bonds with interest at 3.3% to 5.0% through December 1, 2031; plus unamortized premium of $71,839; interest payable semi-annually.	5,796,839	9,118,921
2010 Series 5 Bonds consist of $3,485,000 Serial Bonds with interest at 4.454% 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.	15,570,000	16,630,000

7. Bonds payable (continued):

	2019	2018
2011 Series 1 Bonds consist of $9,500,000 Term Bonds with interest at 5.66% maturing December 1, 2025; interest payable semi-annually.	9,500,000	9,500,000
2011 Series 2 Bonds consist of $2,895,000 Serial Bonds with interest at 2.75% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	2,895,000	4,350,000
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 $3,880,000 Refunding Bonds with interest at 3.375% to 5.0% through December 1, 2032; plus unamortized premium of $114,003; interest payable semi-annually.	3,994,003	5,277,786
2011 Series 5 Bonds consist of $3,280,000 Serial Bonds with interest at 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	3,280,000	5,105,000
2011 Series 6 Bonds consist of $11,885,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2033; plus unamortized premium of $483,112; interest payable semi-annually.	12,368,112	15,082,180
2012 Series 1 Bonds consist of $22,645,000 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 $1,658,528; interest payable semi-annually.	25,948,528	28,031,320
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 $12,295,000 Refunding Bonds with interest at 5.0% through December 1, 2024; plus unamortized premium of $835,109; interest payable semi-annually.	13,130,109	17,125,557

7. Bonds payable (continued):

	2019	2018
2012 Series 4 Bonds consist of $4,395,000 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 $508,267; interest payable semi-annually.	6,363,267	6,923,006
2012 Series 5 Bonds consist of $535,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of $44,793; interest payable semi-annually.	579,793	687,717
2013 Series 1 Bonds consist of $12,700,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2023; plus unamortized premium of $549,986; interest payable semi-annually. Partially refunded by 2017 Series 4.	13,249,986	16,612,305
2014 Series 1 Bonds consist of $22,925,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2033; plus unamortized premium of $1,178,146; interest payable semi-annually.	24,103,146	25,508,928
2014 Series 2 Bonds consist of $10,540,000 Refunding Bonds with interest at 5.0% through December 1, 2025; plus unamortized premium of $613,057; interest payable semi-annually.	11,153,057	13,416,663
2014 Series 3 Bonds consist of $37,455,000 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 $3,547,261; interest payable semi-annually.	42,452,261	45,845,663
2014 Series 4 Bonds consist of $14,345,000 Refunding Bonds with interest at 2.0% to 5.0% through December 1, 2026; plus unamortized premium of $994,056; interest payable semi-annually.	15,339,056	17,800,782
2015 Series 1 Bonds consist of $20,945,000 Refunding Bonds with interest at 1.625% to 5.0% through December 1, 2027; $695,000 3.75% Term Bonds maturing on December 1, 2037; plus unamortized premium of $1,352,183; interest payable semi-annually.	22,992,183	26,033,873

7. Bonds payable (continued):

	2019	2018
2015 Series 2 Bonds consist of $5,100,000 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 $205,492; interest payable semi-annually.	7,045,492	7,368,779
2015 Series 3 Bonds consist of $1,625,000 Refunding Bonds with interest at 2.0% to 3.0% through December 1, 2025: plus unamortized premium of $14,659; interest payable semi-annually.	1,639,659	3,306,497
2015 Series 4 Bonds consist of $1,850,000 Taxable Serial Bonds with interest at 2.5% 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.	10,125,000	10,300,000
2015 Series 5 Bonds consist of $47,750,000 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 $2,431,450; interest payable semi-annually.	52,261,450	54,822,835
2016 Series 1 Bonds consist of $31,965,000 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 $5,989,060; interest payable semi-annually.	42,339,060	44,891,029
2016 Series 2 Bonds consist of $49,290,000 Refunding Serial Bonds with interest at 5.0% through December 1, 2036; $2,165,000 3.0% Term Bonds maturing December 1, 2041; plus unamortized premium of $9,832,038; interest payable semi-annually.	61,287,038	62,633,343
2017 Series 1 Bonds consist of $25,785,000 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 $3,193,940; interest payable semi-annually.	33,398,940	34,697,997
2017 Series 2 Bonds consist of $3,690,000 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 $108,478; interest payable semi-annually.	5,553,478	5,916,132

7. Bonds payable (continued):

	2019	2018
2017 Series 3 Bonds consist of $21,505,000 Serial Bonds with interest at 5.0% through December 1, 2037; $3,895,000 5.0% Term Bonds maturing December 1, 2047; plus unamortized premium of $4,105,746; interest payable semi-annually.	29,505,746	30,816,858
2017 Series 4 Bonds consist of $26,215,000 Refunding Serial Bonds with interest at 3.125% 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 $3,229,481; interest payable semi-annually.	30,444,481	30,963,611
2018 Series 1 Bonds consist of $4,810,000 Serial Bonds with interest at 3.25% to 5.0% through December 1, 2034; $1,310,000 3.375% Term Bonds maturing December 1, 2038; $1,685,000 3.5% Term Bonds maturing December 1, 2044; plus unamortized premium of $514,843; interest payable semi-annually.	8,319,843	8,589,081
2018 Series 2 Bonds consist of $31,365,000 Serial Bonds with interest at 2.25% to 5.0% through December 1, 2038; $755,000 3.375% Term Bonds maturing December 1, 2043; plus unamortized premium of $1,884,202; interest payable semi-annually.	34,004,202	35,324,185
2019 Series 1 Bonds consist of $16,935,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2039; $4,195,000 3.5% Term Bonds maturing December 1, 2044; $3,740,000 4.0% Term Bonds maturing December 1, 2049 plus unamortized premium of $1,993,568; interest payable semi-annually.	26,863,568	-
2019 Series 2 Bonds consist of $29,420,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2039; $1,280,000 3.0% Term Bonds maturing December 1, 2044; $800,000 3.0% Term Bonds maturing December 1, 2049; plus unamortized premium of $3,696,235; interest payable semi-annually.	35,196,235	-
	631,666,322	623,950,453
Less current portion of bonds payable	(44,290,000)	(46,430,000)
Long term bonds payable plus unamortized net premium	$ 587,376,322	$ 577,520,453

7. Bonds payable (continued):

The annual requirements to amortize bonds payable as of December 31, 2019 are as follows:

Year ending December 31,	Principal	Interest	Total
2020	$ 44,290,000	$ 26,251,364	$ 70,541,364
2021	43,620,000	24,475,574	68,095,574
2022	42,500,000	22,650,476	65,150,476
2023	41,670,000	20,685,167	62,355,167
2024	37,800,000	18,795,913	56,595,913
2025 to 2029	172,490,000	66,980,961	239,470,961
2030 to 2034	119,205,000	32,153,314	151,358,314
2035 to 2039	51,575,000	11,699,856	63,274,856
2040 to 2044	19,295,000	4,296,372	23,591,372
2045 to 2049	10,075,000	1,005,225	11,080,225
	582,520,000	228,994,222	811,514,222
Unamortized premium (discount) at December 31, 2019	49,146,322	-	49,146,322
	$ 631,666,322	$ 228,994,222	$ 860,660,544

The deferred outflow on refunding of bonds payable at December 31, 2019 includes, $1,071,218 in 2009 Series 2 Bonds, $1,436,488 in 2010 Series 4 Bonds, $711,528 in 2011 Series 4 Bonds, $944,935 in 2011 Series 6 Bonds, $1,442,602 in 2012 Series 3 Bonds, $436,512 in 2012 Series 5 Bonds, $601,879 in 2014 Series 2 Bonds, $1,101,808 in 2014 Series 4 Bonds, $2,120,306 in 2015 Series 1 Bonds, $1,688,168 in 2015 Series 3 Bonds, $3,244,550 in 2015 Series 5 Bonds, $6,139,832 in 2016 Series 2 Bonds and $2,193,329 in 2017 Series 4 Bonds.

In 2017, the Bond Bank defeased certain 2013 Series 1 bonds placing the proceeds in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. Accordingly, the trust account assets and the liability for those bonds has been removed from the Bond Bank's financial statements. At December 31, 2019, $26,480,000 of 2013 Series 1 Bonds to be called on December 1, 2023, are still outstanding and are considered defeased.

In 2016, the Bond Bank defeased certain bonds placing the proceeds in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. Accordingly, the trust account assets and the liability for those bonds has been removed from the Bond Bank's financial statements. At December 31, 2019, $13,735,000 of 2010 Series 1 Bonds to be called on December 1, 2020, $10,955,000 of 2011 Series 2 Bonds to be called on December 1, 2021, and $28,815,000 of 2011 Series 5 Bonds to be called December 31, 2021, are still outstanding and are considered defeased.

7. Bonds payable (continued):

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, 2019, 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:

	2019	2018
Reserve Fund -		
Amortized value	$ 54,133,498	$ 52,957,473
Reserve requirement	44,141,235	43,557,924
Excess above requirement	$ 9,992,263	$ 9,399,549

The value includes amortization of premium or discount and accrued interest on securities held in the reserve funds. Restricted cash of $1,379,371 and $939,249 is included in the amortized value at December 31, 2019 and December 31, 2018, 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 2019.

10. Transfer to Bond Fund:

The $78,582 transfer during 2019 to the Bond Fund includes cost of issuance equity contributions of $306,610 from the Operating Fund and unrestricted interest earnings of $228,028 to the Operating Fund.

11. Retirement plan:

As of December 31, 2019, the Bond Bank had a simplified employee pension (SEP) plan for regular employees. In 2019, the Bond Bank’s policy was to contribute 10% of annual compensation. To be eligible, an active employee must be twenty-one years of age and have been employed by the Bond Bank for over one year. In 2019 and 2018, the Bond Bank contributed to retirement plans in the amount of $14,236 and $25,304, respectively.

12. Related party transactions:

The Bond Bank receives reimbursements from related parties for general and administrative services. The amount of related party reimbursements was $224,605 and $200,855 for the years ended December 31, 2019 and December 31, 2018, respectively. The total amounts of receivables in the Operating Fund at December 31, 2019 and December 31, 2018 were $52,384 and $46,403, respectively from these related parties.

13. 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 $21,001 and $18,838 for the fiscal years ended December 31, 2019 and December 31, 2018, respectively.

14. Subsequent events:

In January 2020, the Bond Bank issued the Vermont State Colleges System Issue 2020 Series A Bonds in the amount of $24,185,000. The conduit bond transaction was authorized under the General Bond Resolution for Vermont State Colleges System adopted by the Bond Bank on March 30, 2017.

In February 2020, the Bond Bank issued the 2020 Series 1 Bonds in the amount of $22,365,000. The bonds were authorized under the 1988 General Resolution and designated as Local Investment Bonds to reflect the local impact of the projects that are capitalized by the 2020 Bonds.

In April 2020, the Bond Bank redeemed $855,000 of the remaining 2009 Series 2 bonds with funds on hand.

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the local government landscape in general. The Bond Bank is closely monitoring the COVID-19 pandemic and its impact on the investment earnings of the Bond Bank and financial health of its loan portfolio. No adverse impacts have occurred to date, although the full impact of the COVID-19 pandemic and the scope of any potential adverse impact on the Bond Bank's finances and operations cannot be determined at this time.

The first post-COVID-19 loan payment from borrowers was due on May 1, 2020. All payments were received, and corresponding bond payments due June 1, 2020 were made. As of the date of this report, municipal markets are functioning, and the Bond Bank intends to proceed with a summer 2020 bond offering and loan pool.

The Bond Bank has evaluated subsequent events through June 2, 2020, the date on which the financial statements were available to be issued.

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 (the Bond Bank), a component unit of the State of Vermont, as of and for the year ended December 31, 2019, 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 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Bond Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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*.

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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 Bond Bank'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 Bond Bank's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Montpelier, Vermont
June 2, 2020

Mudgett Jennett &
Krogh-Wisner, P.C.