

VERMONT MUNICIPAL BOND BANK
FINANCIAL STATEMENTS
DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2014 AND 2013

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 5
Basic Financial Statements:	
Statement of Net Position	6
Statement of Revenues, Expenses and Change in Net Position.....	7
Statement of Cash Flows	8 - 9
Notes to Financial Statements.....	10 - 24
Compliance Report:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26

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, 2014, 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, 2014, 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 2013 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 18, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, 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 15, 2015 on our consideration of the Bond Bank's internal control over financial reporting; on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bond Bank's internal control over financial reporting and compliance.

*Mudgett, Jennott &
Krogh-Wisner, P.C.*

Montpelier, Vermont
June 15, 2015

**VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

The Vermont Municipal Bond Bank (Bank or VMBB) was enacted in 1969 as an instrumentality of the State of Vermont. The Bank's primary purpose is to provide Vermont's municipalities with inexpensive access to capital markets. To date, the Bank has issued over \$2.0 billion in tax-exempt and taxable bonds through 74 series of bonds, including 23 refunding bonds.

This discussion of the VMBB's financial performance provides an overview of the Bank's financial activities for the fiscal year ended December 31, 2014. 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.

2014 Financial Highlights

In 2014, the Bank issued \$119,820,000 through four series of bonds. Two bond series, totaling \$80,500,000, provided loans to 27 municipalities. Two bond series, totaling \$39,320,000, were issued to advance refund the VMBB's previously issued 2005 Series 1 and 2006 Series 1 bonds. In 2013, the Bond Bank issued one series of bonds in the amount of \$54,895,000 to fund municipal loans of \$55,907,200 for 25 municipalities.

Municipal bonds of \$46,270,000 and \$46,280,000 were retired in 2014 and 2013 respectively.

As of December 31, 2014, the VMBB had 552 loans outstanding to 283 different municipalities totaling \$577,381,153.

Outstanding Loans by Debt Type as of 12/31/14	Summary			
	# Loans	% Total	Amount	% Total
General Obligation Bonds	545	98.73%	\$553,227,814	95.82%
Revenue Bonds	7	1.27%	\$24,153,339	4.18%
Total	552	100.00%	\$577,381,153	100.00%

Outstanding Loans by Project Type as of 12/31/14	Summary			
	# Loans	% Total	Amount	% Total
Local Government	311	56.34%	\$338,340,846	58.60%
School District	200	36.23%	\$211,676,099	36.66%
Other Governmental Unit	41	7.43%	\$27,364,209	4.74%
Total	552	100.00%	\$577,381,153	100.00%

Major Statement of Net Position items changed as follows from 2013 to 2014:

Indicators	12/31/2013 Balance	12/31/2014 Balance	Variance	Percent Variance
Total Assets and Deferred Outflows of Resources	\$630,696,511	\$677,620,106	\$46,923,595	7.44%
Total Liabilities	\$596,939,066	\$641,778,340	\$44,839,274	7.51%
Total Net Position	\$33,757,445	\$35,841,766	\$2,084,321	6.17%
Net Position Unrestricted	\$11,161,904	\$12,756,019	\$1,594,115	14.28%
Net Position Restricted	\$22,595,541	\$23,085,747	\$490,206	2.17%

Assets and Deferred Outflows of Resources

In the Operating Fund, Total Assets increased \$1,612,081 or 14.4%. Cash and Cash Equivalents increased by \$1,300,409 or 386.5% and investments increased by \$297,860 or 2.8%.

In the Bond Fund, Total Current Assets increased \$3,574,799 or 6.4%. Noncurrent Assets increased \$40,180,335 or 7.3%, and Restricted Cash and Investments increased \$5,847,575 or 11.0% from the prior year. Restricted Investments increased by \$4,561,942 or 8.9% while Total Loans to Municipalities increased by \$36,528,044 or 6.8%. Deferred Outflows of Resources increased by \$1,556,380 or 9.3%.

Liabilities

In the Bond Fund, Total Current Liabilities increased by \$6,363,434 or 13.7% and Total Noncurrent Liabilities increased by \$38,457,874 or 7.0%. The major contributor to the increase in Total Liabilities was the increase in Total Bonds Payable of \$45,193,947 or 7.6%.

Total Bonds Payable (Current and Noncurrent) were \$638,996,237 at December 31, 2014 and \$593,802,290 at December 31, 2013.

Net Position

Restricted Net Position in the Bond Fund increased from 2013 to 2014 by \$490,206 or 2.2%. Unrestricted Net Position in the Operating Fund increased by \$1,594,115 or 14.3% from 2013 to 2014. Total Net Position at December 31, 2014 equaled 5.6% of Total Bonds Payable and Unrestricted Net Position equaled 2.0% of Total Bonds Payable. Total Net Position at December 31, 2013 equaled 5.7% of Total Bonds Payable and Total Unrestricted Net Position equaled 1.9% of Total Bonds Payable.

Operating Summary

Major Revenue and Expense item changes from 2013 to 2014 are as follows:

Revenue & Expense Indicators	12/31/2013 Balance	12/31/2014 Balance	Variance	Percent Variance
Total All Revenue (Including Transfers In)	\$25,703,714	\$27,456,104	\$1,752,390	6.8%
Total All Expenses (Including Transfers Out)	\$24,193,453	\$25,371,783	\$1,178,330	4.9%
Operating Income (Loss)	\$22,300,072	\$20,450,850	(\$1,849,222)	(8.3%)
Bond Fund Revenue	\$25,880,185	\$26,944,769	\$1,064,584	4.1%
Bond Fund Expenses	\$23,696,738	\$25,036,471	\$1,339,733	5.7%
Operating Fund Revenue	(\$176,471)	\$511,335	\$687,806	389.8%
Operating Fund Expenses	\$496,715	\$335,312	(\$161,403)	(32.5%)
Bond Fund Change in Net Position	\$2,097,243	\$490,206	(\$1,607,037)	(76.6%)
Operating Fund Change in Net Position	(\$586,982)	\$1,594,115	\$2,181,097	371.6%

Investment Portfolio

The VMBB's unrestricted investment portfolio on December 31, 2014 was valued at "fair market value" of \$11,066,650. The December 31, 2013 "fair market value" of the investment portfolio was \$10,768,790. The total cost of the portfolio was \$11,074,391 on December 31, 2014 and \$10,983,964 on December 31, 2013.

Subsequent Events

On May 27, 2015 the VMBB closed on one refunding bond series in the amount of \$30,630,000. The VMBB is planning to issue one series of new money bonds in the summer of 2015 in an amount as yet to be determined.

Contact for Further Information

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF NET POSITION
DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013

	2014			2013
	Bond Fund	Operating Fund	Total	Summarized Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
ASSETS:				
Current assets -				
Cash and cash equivalents	\$ 8,079,300	\$ 1,636,870	\$ 9,716,170	\$ 7,098,993
Accrued interest receivable	2,023,524	58,170	2,081,694	2,019,320
Accounts receivable	-	14,240	14,240	55
Current portion of loans to municipalities	49,176,408	-	49,176,408	46,981,124
Investments	-	11,066,650	11,066,650	10,768,790
Total current assets	59,279,232	12,775,930	72,055,162	66,868,282
Noncurrent assets -				
Restricted cash	3,130,844	-	3,130,844	1,845,211
Restricted investments	55,898,580	-	55,898,580	51,336,638
Loans to municipalities	528,204,745	-	528,204,745	493,871,985
Total noncurrent assets	587,234,169	-	587,234,169	547,053,834
Total assets	646,513,401	12,775,930	659,289,331	613,922,116
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow on refunding of bonds payable	18,330,775	-	18,330,775	16,774,395
Total assets and deferred outflows of resources	\$ 664,844,176	\$ 12,775,930	\$ 677,620,106	\$ 630,696,511
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities -				
Accounts payable	\$ -	\$ 19,911	\$ 19,911	\$ 1,945
Accrued arbitrage rebate	340,140	-	340,140	322,770
Bond interest payable	2,229,876	-	2,229,876	2,053,812
Current portion of bonds payable	50,110,000	-	50,110,000	43,940,000
Total current liabilities	52,680,016	19,911	52,699,927	46,318,527
Noncurrent liabilities -				
Accrued arbitrage rebate	192,176	-	192,176	758,249
Bonds payable	588,886,237	-	588,886,237	549,862,290
Total noncurrent liabilities	589,078,413	-	589,078,413	550,620,539
Total liabilities	641,758,429	19,911	641,778,340	596,939,066
NET POSITION:				
Restricted, prior year restated	23,085,747	-	23,085,747	22,595,541
Unrestricted	-	12,756,019	12,756,019	11,161,904
Total net position	23,085,747	12,756,019	35,841,766	33,757,445
Total liabilities and net position	\$ 664,844,176	\$ 12,775,930	\$ 677,620,106	\$ 630,696,511

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013

	2014			2013
	Bond Fund	Operating Fund	Total	Summarized Total
OPERATING REVENUES:				
Interest	\$ 21,958,285	\$ -	\$ 21,958,285	\$ 24,074,146
Other income	-	13,335	13,335	-
Total operating revenues	<u>21,958,285</u>	<u>13,335</u>	<u>21,971,620</u>	<u>24,074,146</u>
OPERATING EXPENSES:				
Bond issue costs	1,011,825	-	1,011,825	454,564
Other expense	173,633	-	173,633	822,795
Operating expenses	-	335,312	335,312	496,715
Total operating expenses	<u>1,185,458</u>	<u>335,312</u>	<u>1,520,770</u>	<u>1,774,074</u>
OPERATING INCOME (LOSS)	<u>20,772,827</u>	<u>(321,977)</u>	<u>20,450,850</u>	<u>22,300,072</u>
NONOPERATING REVENUES (EXPENSES):				
Interest and investment revenue (loss)	2,842,262	498,000	3,340,262	63,354
Interest rebate	1,605,863	-	1,605,863	1,566,214
Interest expense	(23,851,013)	-	(23,851,013)	(21,781,026)
Arbitrage recovery (rebate)	538,359	-	538,359	(638,353)
Total nonoperating revenues (expenses)	<u>(18,864,529)</u>	<u>498,000</u>	<u>(18,366,529)</u>	<u>(20,789,811)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>1,908,298</u>	<u>176,023</u>	<u>2,084,321</u>	<u>1,510,261</u>
TRANSFER TO OPERATING FUND	<u>(1,418,092)</u>	<u>1,418,092</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>490,206</u>	<u>1,594,115</u>	<u>2,084,321</u>	<u>1,510,261</u>
NET POSITION, beginning of year	<u>22,595,541</u>	<u>11,161,904</u>	<u>33,757,445</u>	<u>32,247,184</u>
NET POSITION, end of year	<u>\$ 23,085,747</u>	<u>\$ 12,756,019</u>	<u>\$ 35,841,766</u>	<u>\$ 33,757,445</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, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013
(Page 1 of 2)

	2014			2013
	Bond Fund	Operating Fund	Total	Summarized Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from municipalities -				
Principal	\$ 48,463,404	\$ -	\$ 48,463,404	\$ 46,286,847
Interest (net of refunding interest savings)	21,732,673	-	21,732,673	23,258,318
Cash paid to suppliers for goods and services	-	(224,842)	(224,842)	(535,789)
Cash paid to employees for services	-	(106,689)	(106,689)	(103,187)
Loans to municipalities	(84,991,449)	-	(84,991,449)	(55,907,200)
Bond issue costs	(1,011,825)	-	(1,011,825)	(454,564)
Other receipts	-	13,335	13,335	-
Net cash provided (used) by operating activities	<u>(15,807,197)</u>	<u>(318,196)</u>	<u>(16,125,393)</u>	<u>12,544,425</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	118,263,620	-	118,263,620	54,895,000
Principal reductions	(85,590,000)	-	(85,590,000)	(46,280,000)
Interest expense	(12,711,001)	-	(12,711,001)	(19,409,846)
Arbitrage rebate	(10,344)	-	(10,344)	(572,887)
Interest rebate	1,605,863	-	1,605,863	1,566,214
Transfers	(1,418,092)	1,418,092	-	-
Net cash provided (used) by noncapital financing activities	<u>20,140,046</u>	<u>1,418,092</u>	<u>21,558,138</u>	<u>(9,801,519)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	1,389,316	1,503,296	2,892,612	5,988,201
Purchase of investments	(7,236,891)	(1,801,156)	(9,038,047)	(6,477,895)
Earnings on investments	2,831,494	498,373	3,329,867	58,222
Net cash provided (used) by investing activities	<u>(3,016,081)</u>	<u>200,513</u>	<u>(2,815,568)</u>	<u>(431,472)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,316,768	1,300,409	2,617,177	2,311,434
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,762,532</u>	<u>336,461</u>	<u>7,098,993</u>	<u>4,787,559</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,079,300</u>	<u>\$ 1,636,870</u>	<u>\$ 9,716,170</u>	<u>\$ 7,098,993</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, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2013
(Page 2 of 2)**

	2014			2013
	Bond Fund	Operating Fund	Total	Summarized Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 20,772,827	\$ (321,977)	\$ 20,450,850	\$ 22,300,072
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
(Increase)/decrease in following assets:				
Accrued interest receivable	(51,979)	-	(51,979)	6,967
Accounts receivable	-	(14,185)	(14,185)	29,193
Loans to municipalities	(36,528,045)	-	(36,528,045)	(9,620,353)
Increase/(decrease) in following liabilities:				
Accounts payable	-	17,966	17,966	(171,454)
Net cash provided (used) by operating activities	\$ (15,807,197)	\$ (318,196)	\$ (16,125,393)	\$ 12,544,425

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL
AND FINANCING ACTIVITIES**

Refunding loss amortization	\$ <u>1,693,595</u>	\$ <u>-</u>	\$ <u>1,693,595</u>	\$ <u>1,435,880</u>
-----------------------------	---------------------	-------------	---------------------	---------------------

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

1. Authorizing legislation and nature of funds:

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

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

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

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

As of December 31, 2014, 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."
January 28, 2003	2003 Series 1 and Series A Resolution authorizing the issuance of \$43,760,000 Series 1 Bonds and \$7,690,000 Series A Bonds. In addition, this resolution provided for an advance refunding and defeasance of all remaining 1992 Series A, 1992 Series 2, 1993 Series 1 and 1994 Series 1 Bonds. 2003 Series 1 was partially refunded and defeased in 2012.
June 8, 2004	2004 Series 1 and Series 2 Resolution authorizing the issuance of \$63,180,000 Series 1 Bonds and \$35,170,000 Series 2 Bonds. In addition, this resolution provided for an advance refunding and defeasance of all remaining 1995 Series 1 Bonds. 2004 Series 1 was partially refunded and defeased in 2012.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

A. Authorizing legislation (continued) -

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

A. Authorizing legislation (continued) -

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

- 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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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

- B. Basis of presentation and nature of funds (continued) - 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, 2014, the Trustee is the U.S. Bank National Association. The Directors engaged McDonnell Investment Management, LLC to provide investment management services for the Operating Fund.

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

2. Summary of significant accounting policies (continued):

- F. Deferred outflows/inflows or resources - In addition to assets and liabilities, deferred outflows of resources (previously reported as assets) and deferred inflows of resources (previously reported as liabilities), 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. The Bond Bank reports the unamortized portion of the loss on refunding of bonds payable as a deferred outflow of resources. The Bond Bank does not currently report any deferred inflows of resources.
- 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, 2013, from which the summarized information was derived.

3. Custodial credit risk - deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the Bond Bank's deposits may not be recovered. Cash consists of money market accounts invested primarily in commercial paper and government securities. The Bond Bank's custodial credit risk policy directs management to invest in cash or near cash investments that are either 100% FDIC insured or Aaa rated funds or government securities. As of December 31, 2014, general operating reserve cash of \$339,226 was in a money market fund rated Aaa by Moody's Investors Service (Moody's).

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, 2014 and 2013 are as follows:

	<u>Operating Fund</u>	
	<u>2014</u>	<u>2013</u>
Asset-Backed Securities (ABS)	\$ 596,569	\$ 680,204
Commercial Mortgage-Backed Securities (CMBS)	800,790	877,966
Corporate Investment Grade	3,592,443	3,538,207
Municipal Securities	193,902	202,285
Mortgage-Backed Securities (MBS)	4,298,717	4,206,170
U.S. Treasury Securities	<u>1,584,229</u>	<u>1,263,958</u>
	<u>\$ 11,066,650</u>	<u>\$ 10,768,790</u>

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

4. Investments (continued):

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

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

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, 2014, the Bond Bank's investments are as follows:

<u>Rating by Moody's Investors Service</u>	<u>Asset- Backed Securities</u>	<u>Commercial MBS</u>	<u>Corporate Investment Grade</u>	<u>Municipal Securities</u>	<u>Mortgage- Backed Securities</u>	<u>U.S. Treasury Securities</u>
Aaa	\$ 596,569	\$ 800,790	\$ 53,982	\$ 13,827	\$ 4,298,717	\$ 1,584,229
Aa1	-	-	128,508	89,897	-	-
Aa2	-	-	-	-	-	-
Aa3	-	-	106,258	90,178	-	-
A1	-	-	594,120	-	-	-
A2	-	-	433,921	-	-	-
A3	-	-	507,097	-	-	-
Baa1	-	-	731,871	-	-	-
Baa2	-	-	480,276	-	-	-
Baa3	-	-	428,092	-	-	-
Ba1	-	-	128,318	-	-	-
Ba2	-	-	-	-	-	-
	<u>\$ 596,569</u>	<u>\$ 800,790</u>	<u>\$ 3,592,443</u>	<u>\$ 193,902</u>	<u>\$ 4,298,717</u>	<u>\$ 1,584,229</u>

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

4. Investments (continued):

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

	<u>Weighted Average Duration (Years)</u>
Asset-Backed Securities (ABS)	0.97
Commercial Mortgage-Backed Securities (CMBS)	2.28
Corporate Investment Grade	4.09
Municipal Securities	3.40
Mortgage-Backed Securities (MBS)	3.08
U. S. Treasury Securities	6.39

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, 2014 and 2013 are as follows:

	<u>Bond Fund</u>	
	<u>2014</u>	<u>2013</u>
U.S. Treasury Bonds	\$ 13,999,336	\$ 13,639,203
U.S. Treasury Notes	26,062,800	21,878,207
U.S. Treasury Strips	115,962	112,930
U.S. Governments	<u>15,720,482</u>	<u>15,706,298</u>
	<u>\$ 55,898,580</u>	<u>\$ 51,336,638</u>

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

4. Investments (continued):

Restricted investments in the Bond Fund at December 31, 2014 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	\$ 13,999,336	\$ 1,235,670	\$ 4,013,974	\$ 1,919,560	\$ 6,830,132
U.S. Treasury Notes	26,062,800	788,780	3,635,403	5,587,627	16,050,990
U.S. Treasury Strips	115,962	-	115,962	-	-
U.S. Governments	<u>15,720,482</u>	<u>1,842,424</u>	<u>9,400,691</u>	<u>4,477,367</u>	<u>-</u>
	\$ <u>55,898,580</u>	\$ <u>3,866,874</u>	\$ <u>17,166,030</u>	\$ <u>11,984,554</u>	\$ <u>22,881,122</u>

Restricted cash - On December 31, 2014, \$3,130,844 of cash in reserve funds was restricted by the terms of the bond requirements.

5. Loans to municipalities:

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

Interest savings from refundings may be passed through to the municipalities and are included in other expense. Other expense for 2014 includes interest credits to municipalities from the 2009 Series 2 refunding of \$90,039, 2011 Series 6 refunding of \$83,422 and 2012 Series 3 refunding of \$172. In 2013, other expense included interest credits to municipalities from the 2007 Series 2 refunding of \$34,748, 2009 Series 2 refunding of \$590,795, 2011 Series 6 refunding of \$75,000 and 2012 Series 3 refunding of \$20,000.

6. Bond liability activity:

Bond liability activity for the year ended December 31, 2014, was as follows:

	<u>January 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2014</u>	<u>Due Within One Year</u>
Bonds payable	\$ 563,010,000	\$ 119,820,000	\$ 85,590,000	\$ 597,240,000	\$ 50,110,000
Plus unamortized premium (discount)	<u>30,792,290</u>	<u>16,200,429</u>	<u>5,236,482</u>	<u>41,756,237</u>	<u>-</u>
Total bonds payable	593,802,290	136,020,429	90,826,482	638,996,237	50,110,000
Accrued arbitrage rebate	<u>1,081,019</u>	<u>-</u>	<u>548,703</u>	<u>532,316</u>	<u>340,140</u>
	\$ <u>594,883,309</u>	\$ <u>136,020,429</u>	\$ <u>91,375,185</u>	\$ <u>639,528,553</u>	\$ <u>50,450,140</u>

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

7. Bonds payable:

Bonds payable consist of the following:

	<u>2014</u>	<u>2013</u>
2003 Series A Bonds consist of \$330,000 Serial Bonds with interest at 4.1% through December 1, 2015; interest payable semi-annually.	\$ 330,000	\$ 485,000
2004 Series 1 Bonds consist of \$3,275,000 Serial Bonds with interest at 4.0% through December 1, 2014; interest payable semi-annually. Partially refunded by 2012 Series 3.	-	3,275,000
2004 Series 2 Bonds consist of \$5,900,000 Serial Bonds with interest at 4.125% to 5.0% through December 1, 2025; less unamortized discount of \$14,702; interest payable semi-annually.	5,885,298	8,227,911
2005 Series 1 Bonds consist of \$1,745,000 Serial Bonds with interest at 4.0% through December 1, 2015; interest payable semi-annually. Partially refunded by 2014 Series 2.	1,745,000	23,297,948
2005 Series 2 Bonds consist of \$13,000,000 Refunding Bonds with interest at 3.75% to 5.0% through December 1, 2025; plus unamortized premium of \$136,795; interest payable semi-annually.	13,136,795	17,280,175
2005 Series 3 Bonds consist of \$6,290,000 Refunding Bonds with interest at 4.0% to 5.0% through December 1, 2021; plus unamortized premium of \$99,899; interest payable semi-annually.	6,389,899	7,392,496
2006 Series 1 Bonds consist of \$4,585,000 Serial Bonds with interest at 4.125% through December 1, 2016; interest payable semi-annually. Partially refunded by 2014 Series 4.	4,585,000	28,400,793
2007 Series 1 Bonds consist of \$31,995,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2037; and \$1,645,000 5.0% Term Bond due December 1, 2019; plus unamortized premium of \$432,074; interest payable semi-annually.	34,072,074	36,774,585
2007 Series 2 Bonds consist of \$9,550,000 Refunding Bonds with interest at 3.9% to 4.6% through December 1, 2029; plus unamortized premium of \$175,837; interest payable semi-annually.	9,725,837	12,230,837

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

7. Bonds payable (continued):

	<u>2014</u>	<u>2013</u>
2008 Series 1 Bonds consist of \$25,190,000 Serial Bonds with interest at 3.5% to 5.0% through December 1, 2038; and \$1,165,000 4.3% Term Bond due December 1, 2026; plus unamortized premium of \$214,916; interest payable semi-annually.	26,569,916	28,483,645
2008 Series 2 Bonds consist of \$5,635,000 Term Bonds with interest at 6.25% through December 1, 2032; interest payable semi-annually.	5,635,000	5,635,000
2009 Series 1 Bonds consist of \$42,985,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2029; and \$2,220,000 4.60% Term Bonds due December 1, 2034; and \$2,170,000 4.625% Term Bonds maturing December 1, 2039; plus unamortized premium of \$1,805,554; interest payable semi-annually.	49,180,554	52,228,537
2009 Series 2 Bonds consist of \$9,605,000 Refunding Bonds with interest at 2.25% to 4.1% through December 1, 2028; less unamortized discount of \$12,480; interest payable semi-annually.	9,592,520	11,461,194
2010 Series 1 Bonds consist of \$18,310,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2030; and \$615,000 4.20% Term Bonds due December 1, 2035; and \$545,000 4.25% Term Bonds maturing December 1, 2040; plus unamortized premium of \$897,217; interest payable semi-annually.	20,367,217	21,488,111
2010 Series 2 Bonds consist of \$3,615,000 Serial Bonds with interest at 3.411% to 4.27% through December 1, 2020; \$2,165,000 5.12% Term Bonds due December 1, 2025; and \$1,845,000 5.738% Term Bonds maturing December 1, 2030; interest payable semi-annually.	7,625,000	8,150,000
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 \$22,710,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2031; plus unamortized premium of \$1,140,897; interest payable semi-annually.	23,850,897	28,591,459