

VERMONT MUNICIPAL BOND BANK

**FINANCIAL STATEMENTS
DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR 2017
AND
INDEPENDENT AUDITOR'S REPORTS**

VERMONT MUNICIPAL BOND BANK
DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Vermont Municipal Bond Bank

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Vermont Municipal Bond Bank (the Bond Bank), a component unit of the State of Vermont, as of and for the year ended December 31, 2018, 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, 2018, 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 2017 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 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 May 29, 2019 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
May 29, 2019

*Mudgett, Jennett &
Shrop-Wisner, P.C.*

**VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

The Vermont Municipal Bond Bank (Bank or VMBB) was created by the Act in 1970 as a body corporate and politic with corporate succession and is constituted as an instrumentality exercising public and essential governmental functions of the State of Vermont. The Bank's primary purpose is to provide Vermont's municipalities with inexpensive access to capital markets. As of December 31, 2018, the Bank has issued over \$2.5 billion in tax-exempt and taxable bonds through 87 series of bonds for municipalities, including 28 refunding bonds, and one conduit debt series for the Vermont State College System.

This discussion of the VMBB's financial performance provides an overview of the Bank's financial activities for the fiscal year ended December 31, 2018. 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.

2018 Financial Highlights

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

In 2017, the Bank issued \$160,065,000 through five series of bonds. Two bond series, totaling \$58,910,000 provided loans to 24 municipalities and one Green Bond series of \$6,115,000 provided 2 municipal loans for environmentally-beneficial projects in Vermont. One bond series, totaling \$27,380,000, was issued to advance refund the VMBB's previously issued 2013 Series 1 bonds. The VMBB also issued \$67,660,000 2017 Series A Bonds for the purpose of issuing loans to the Vermont State College System which constitute special not general obligations of the Bond Bank. Municipal bonds of \$69,995,000 were refunded or retired in 2017.

As of December 31, 2018, the VMBB had 490 loans outstanding to 218 different municipalities totaling \$548,480,020. As of December 31, 2017, the VMBB had 499 loans outstanding to 256 different municipalities totaling \$555,844,436.

Outstanding Loans by Debt Type as of 12/31/18	Summary			
	# Loans	% Total	Amount	% Total
General Obligation Bonds	483	98.57%	532,285,804	97.04%
Revenue Bonds	7	1.43%	16,194,216	2.96%
Total	490	100.00%	548,480,020	100.00%

Outstanding Loans by Project Type as of 12/31/18	Summary			
	# Loans	% Total	Amount	% Total
Local Government	305	62.24%	319,379,362	58.23%
School District	149	30.41%	206,933,188	37.73%
Other Governmental Unit	36	7.35%	22,167,470	4.04%
Total	490	100.00%	548,480,020	100.00%

Major Statement of Net Position items changed as follows from 2018 to 2017:

Indicators	12/31/2018 Balance	12/31/2017 Balance, Restated	Variance	Percent Variance
Total Assets and Deferred Outflows of Resources	\$664,814,176	\$673,366,568	\$(8,552,392)	(1.27)%
Total Liabilities	\$626,328,272	\$635,860,687	\$(9,532,415)	(1.49)%
Total Net Position	\$38,485,904	\$37,505,881	\$980,023	2.61%
Net Position Unrestricted	\$25,799,239	\$24,084,825	\$1,714,414	7.12%
Net Position Restricted	\$12,686,665	\$13,421,056	\$(734,391)	(5.47)%

Assets and Deferred Outflows of Resources

In the Operating Fund, Total Assets increased \$1,740,703 or 7.22%. Cash and Cash Equivalents increased by \$2,061,061 or 266.70% while investments decreased by \$280,733 or 1.21%.

In the Bond Fund, Total Current Assets decreased \$6,134,632 or 10.48%. Noncurrent Assets decreased \$1,867,642 or 0.33%, and Restricted Cash decreased \$2,813,383 or 74.97% from the prior year. Restricted Investments increased by \$7,649,978 or 14.95% and Total Loans to Municipalities decreased by \$7,364,416 or 1.32%. Deferred Outflows of Resources decreased by \$2,290,821 or 8.27%.

Liabilities

In the Bond Fund, Total Current Liabilities increased by \$1,340,596 or 2.83% while Total Noncurrent Liabilities decreased by \$10,899,300 or 1.85%.

Total Bonds Payable (Current and Noncurrent) were \$623,950,453 at December 31, 2018 and \$633,485,645 at December 31, 2017.

Net Position

Restricted Net Position in the Bond Fund decreased from 2017 to 2018 by \$734,391 or 5.47%. Unrestricted Net Position in the Operating Fund increased by \$1,714,414 or 7.12% from 2017 to 2018. These changes in net position were largely due to net transfers from the Bond Fund to the Operating Fund of \$1,999,461. Operating income exceeded net nonoperating revenue and expenses in the Bond Fund by \$1,265,070 while operating loss exceeded investment income in the Operating Fund by \$285,047. 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. Total Net Position at December 31, 2017 equaled 5.92% of Total Bonds Payable and Unrestricted Net Position equaled 3.80% of Total Bonds Payable.

Operating Summary

Major Revenue and Expense item changes from 2018 to 2017 are as follows:

Revenue & Expense Indicators	12/31/2018 Balance	12/31/2017 Balance	Variance	Percent Variance
Total All Revenue (Including Transfers In)	\$28,100,491	\$25,635,392	\$2,465,099	9.62%
Total All Expenses (Including Transfers Out)	\$27,120,468	\$25,481,110	\$1,639,358	6.43%
Operating Income (Loss)	\$17,723,372	\$17,265,470	\$457,902	2.65%
Bond Fund Revenues	\$25,349,641	\$24,789,682	\$559,959	2.26%
Bond Fund Expenses	\$24,084,571	\$24,747,101	\$(662,530)	(2.68)%
Operating Fund Revenues	\$751,389	\$687,715	\$63,674	9.26%
Operating Fund Expenses	\$1,036,436	\$576,014	\$460,422	79.93%
Bond Fund Change in Net Position	\$(734,391)	\$200,576	---	---
Operating Fund Change in Net Position	\$1,714,414	\$(46,294)	---	---

Investment Portfolio

The VMBB's unrestricted investment portfolio on December 31, 2018 was valued at "fair market value" of \$22,947,710, excluding investment cash deposits of \$521,661. The December 31, 2017 "fair market value" of the investment portfolio was \$23,228,443, excluding investment cash deposits of \$465,173. The total cost of the portfolio, excluding cash deposits, was \$23,382,919 on December 31, 2018 and \$23,279,717 on December 31, 2017.

Subsequent Events

In February 2019, the VMBB issued \$24,870,000 2019 Series 1 Bonds designated as Local Investment Bonds to reflect the local impact of the projects that are capitalized by the 2019 Bonds. This designation is intended to alert individual investors of the reduced barriers to investing in Vermont's local communities through the \$1,000 denominations of the 2019 Bonds. During 2019, the Bond Bank may issue additional series bonds.

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, 2018
WITH COMPARATIVE TOTALS FOR 2017**

	<u>2018</u>			<u>2017</u>
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
ASSETS AND DEFERRED				
OUTFLOWS OF RESOURCES				
ASSETS:				
Current assets -				
Cash and cash equivalents	\$ 3,642,522	\$ 2,833,854	\$ 6,476,376	\$ 9,745,711
Accrued interest receivable	1,678,234	3,954	1,682,188	1,822,291
Accounts receivable and prepaid expenses	-	50,692	50,692	94,271
Current portion of loans to municipalities	47,079,850	-	47,079,850	47,740,029
Investments	-	22,947,710	22,947,710	23,228,443
Total current assets	<u>52,400,606</u>	<u>25,836,210</u>	<u>78,236,816</u>	<u>82,630,745</u>
Noncurrent assets -				
Restricted cash	939,249	-	939,249	3,752,632
Restricted investments	58,813,966	-	58,813,966	51,163,988
Loans to municipalities	<u>501,400,170</u>	<u>-</u>	<u>501,400,170</u>	<u>508,104,407</u>
Total noncurrent assets	<u>561,153,385</u>	<u>-</u>	<u>561,153,385</u>	<u>563,021,027</u>
Total assets	613,553,991	25,836,210	639,390,201	645,651,772
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred outflow on refunding of bonds payable	<u>25,423,975</u>	<u>-</u>	<u>25,423,975</u>	<u>27,714,796</u>
Total assets and deferred outflows of resources	\$ <u>638,977,966</u>	\$ <u>25,836,210</u>	\$ <u>664,814,176</u>	\$ <u>673,366,568</u>
LIABILITIES AND NET POSITION				
LIABILITIES:				
Current liabilities -				
Accounts payable	\$ -	\$ 36,971	\$ 36,971	\$ 83,947
Accrued arbitrage rebate	140,270	-	140,270	47,933
Bond interest payable	2,140,445	-	2,140,445	2,143,921
Current portion of bonds payable	<u>46,430,000</u>	<u>-</u>	<u>46,430,000</u>	<u>45,105,000</u>
Total current liabilities	<u>48,710,715</u>	<u>36,971</u>	<u>48,747,686</u>	<u>47,380,801</u>
Noncurrent liabilities -				
Accrued arbitrage rebate	60,133	-	60,133	99,241
Bonds payable	<u>577,520,453</u>	<u>-</u>	<u>577,520,453</u>	<u>588,380,645</u>
Total noncurrent liabilities	<u>577,580,586</u>	<u>-</u>	<u>577,580,586</u>	<u>588,479,886</u>
Total liabilities	<u>626,291,301</u>	<u>36,971</u>	<u>626,328,272</u>	<u>635,860,687</u>
NET POSITION:				
Restricted	12,686,665	-	12,686,665	13,421,056
Unrestricted	<u>-</u>	<u>25,799,239</u>	<u>25,799,239</u>	<u>24,084,825</u>
Total net position	<u>12,686,665</u>	<u>25,799,239</u>	<u>38,485,904</u>	<u>37,505,881</u>
Total liabilities and net position	\$ <u>638,977,966</u>	\$ <u>25,836,210</u>	\$ <u>664,814,176</u>	\$ <u>673,366,568</u>

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

VERMONT MUNICIPAL BOND BANK
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2018</u>			<u>2017</u>
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
OPERATING REVENUES:				
Interest	\$ 21,006,313	\$ -	\$ 21,006,313	\$ 21,323,306
Other income	-	47,643	47,643	29,244
Total operating revenue	<u>21,006,313</u>	<u>47,643</u>	<u>21,053,956</u>	<u>21,352,550</u>
OPERATING EXPENSES:				
Bond issue costs	494,105	-	494,105	883,261
Other expense	2,311,219	-	2,311,219	2,696,582
Operating expenses	-	525,260	525,260	507,237
Total operating expenses	<u>2,805,324</u>	<u>525,260</u>	<u>3,330,584</u>	<u>4,087,080</u>
OPERATING INCOME (LOSS)	<u>18,200,989</u>	<u>(477,617)</u>	<u>17,723,372</u>	<u>17,265,470</u>
NONOPERATING REVENUE (EXPENSES):				
Net appreciation/(depreciation) in fair value of investments	(888,363)	(511,176)	(1,399,539)	1,462
Interest and investment revenue	2,757,004	703,746	3,460,750	2,497,094
Interest rebate	1,538,336	-	1,538,336	1,557,514
Interest expense	(20,390,884)	-	(20,390,884)	(21,059,641)
Arbitrage recovery (rebate)	47,988	-	47,988	(107,617)
Total nonoperating revenue (expenses)	<u>(16,935,919)</u>	<u>192,570</u>	<u>(16,743,349)</u>	<u>(17,111,188)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	1,265,070	(285,047)	980,023	154,282
TRANSFER TO OPERATING FUND	<u>(1,999,461)</u>	<u>1,999,461</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(734,391)	1,714,414	980,023	154,282
NET POSITION, beginning of year (restated)	<u>13,421,056</u>	<u>24,084,825</u>	<u>37,505,881</u>	<u>37,351,599</u>
NET POSITION, end of year	\$ <u>12,686,665</u>	\$ <u>25,799,239</u>	\$ <u>38,485,904</u>	\$ <u>37,505,881</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, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017
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	<u>2018</u>			<u>2017</u>
	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Summarized Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from municipalities -				
Principal	\$ 47,780,031	\$ -	\$ 47,780,031	\$ 46,271,333
Interest (net of refunding interest savings)	18,844,909	-	18,844,909	18,606,688
Cash paid to suppliers for goods and services	-	(343,725)	(343,725)	(456,292)
Cash paid to employees for services	-	(155,246)	(155,246)	(147,180)
Loans to municipalities	(40,415,615)	-	(40,415,615)	(69,042,631)
Bond issue costs	(567,370)	-	(567,370)	(809,996)
Other receipts	-	91,222	91,222	29,244
Net cash provided (used) by operating activities	<u>25,641,955</u>	<u>(407,749)</u>	<u>25,234,206</u>	<u>(5,548,834)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	43,455,821	-	43,455,821	92,228,325
Principal reductions	(45,105,000)	-	(45,105,000)	(69,995,000)
Interest expense	(25,989,552)	-	(25,989,552)	(16,783,313)
Arbitrage recovery (rebate)	101,217	-	101,217	(73,393)
Interest rebate	1,538,336	-	1,538,336	1,557,514
Transfers	<u>(1,999,461)</u>	<u>1,999,461</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(27,998,639)</u>	<u>1,999,461</u>	<u>(25,999,178)</u>	<u>6,934,133</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	4,986,285	3,073,065	8,059,350	3,467,403
Purchase of investments	(9,822,880)	(2,792,332)	(12,615,212)	(7,003,738)
Earnings (loss) on investments	(888,363)	(511,176)	(1,399,539)	1,462
Investment income	<u>2,751,246</u>	<u>699,792</u>	<u>3,451,038</u>	<u>2,493,701</u>
Net cash provided (used) by investing activities	<u>(2,973,712)</u>	<u>469,349</u>	<u>(2,504,363)</u>	<u>(1,041,172)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(5,330,396)</u>	<u>2,061,061</u>	<u>(3,269,335)</u>	<u>344,127</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,972,918</u>	<u>772,793</u>	<u>9,745,711</u>	<u>9,401,584</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>3,642,522</u>	\$ <u>2,833,854</u>	\$ <u>6,476,376</u>	\$ <u>9,745,711</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, 2018
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017
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	<u>2018</u>			<u>2017</u>
	<u>Bond</u>	<u>Operating</u>	<u>Total</u>	<u>Summarized</u>
	<u>Fund</u>	<u>Fund</u>		<u>Total</u>
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED)				
BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 18,200,989	\$ (477,617)	\$ 17,723,372	\$ 17,265,470
Adjustments to reconcile operating income				
(loss) to net cash provided (used) by				
operating activities -				
(Increase)/decrease in following assets:				
Accrued interest receivable	149,815	-	149,815	(20,036)
Accounts receivable	-	43,579	43,579	(94,271)
Loans to municipalities	7,364,416	-	7,364,416	(22,771,298)
Increase/(decrease) in following liabilities:				
Accounts payable	<u>(73,265)</u>	<u>26,289</u>	<u>(46,976)</u>	<u>71,301</u>
Net cash provided (used) by				
operating activities	\$ <u>25,641,955</u>	\$ <u>(407,749)</u>	\$ <u>25,234,206</u>	\$ <u>(5,548,834)</u>
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Refunding loss amortization:	\$ <u>2,290,821</u>	\$ <u>-</u>	\$ <u>2,290,821</u>	\$ <u>2,199,432</u>

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Authorizing legislation and nature of funds:

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

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

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

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

As of December 31, 2018, the following resolutions had been adopted by the Bond Bank and remain active:

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

A. Authorizing legislation (continued) -

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

A. Authorizing legislation (continued) -

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

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

A. Authorizing legislation (continued) -

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.

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

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

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

2. Summary of significant accounting policies:

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

- A. Advance refundings -** All advance refundings completed are accounted for in accordance with the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. Under GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is amortized as a component of interest expense over the remaining life of the old debt, or the life of the new debt, whichever is shorter. The unamortized portion is reported as a deferred outflow of resources.
- B. Fund accounting -** The financial statements of the Bond Bank have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) in conformity with the principles of fund accounting.
- C. Measurement focus and basis of accounting -** The Bond Bank uses the economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when the obligation for payment is incurred. Operating revenues include interest from loans to municipalities and accrued interest receivable from municipalities. Interest expense on related bonds payable is recorded as a nonoperating expense in accordance with GASB Statements No. 9 and 34.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Summary of significant accounting policies (continued):

- 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, 2018, 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. 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. 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, 2017, from which the summarized information was derived. The prior year's information on investment gains and losses has been reclassified and restated to conform with the current year's financial presentation. See note 2.I. which follows.
- I. Restated net position - The beginning bond fund net position was restated from \$13,214,818 to include restricted investment sinking funds of \$206,238 available at December 31, 2017, for a restated bond fund net position beginning of year, of \$13,421,056.

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, 2018, general operating reserve cash was \$2,833,854. Of this total, \$251,192 was in collateralized and FDIC insured cash accounts. The remaining total of \$2,572,484 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 \$3,642,522 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.

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 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.

The classification and fair value of unrestricted investments held at December 31, 2018 and 2017 are identified as follows:

	<u>Operating Fund</u>	
	<u>2018</u>	<u>2017</u>
Agency Securities	\$ 1,362,689	\$ 2,552,400
Asset-Backed Securities	2,045,480	1,599,750
Corporate Securities	6,949,849	7,317,513
Corporate Securities: Yankee	573,047	390,776
Mortgage Backed Securities (MBS)	7,787,065	7,085,683
MBS: Collateralized	1,388,528	201,170
MBS: Commercial	166,587	1,462,442
Municipal Securities	695,824	520,337
U.S. Treasury Securities	1,978,641	2,098,372
	<u>\$ 22,947,710</u>	<u>\$ 23,228,443</u>

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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	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, 2018, the Bond Bank's unrestricted investments are identified below.

Ratings by Moody's Investors <u>Service</u>	<u>Agency Securities</u>	<u>Asset- Backed Securities</u>	<u>Corporate Securities</u>	<u>Corporate Securities: Yankee</u>	<u>Mortgage Backed Securities</u>	<u>MBS: Collateralized</u>	<u>MBS: Commercial</u>	<u>Municipal Securities</u>	<u>U.S. Treasury Securities</u>
Aaa	\$ 1,362,689	\$ 1,723,670	\$ 142,469	\$ -	\$ 7,787,065	\$ 1,388,528	\$ 166,587	\$ -	\$ 1,978,641
Aa1	-	321,810	169,890	156,175	-	-	-	457,081	-
Aa2	-	-	-	-	-	-	-	-	-
Aa3	-	-	461,770	-	-	-	-	238,743	-
A1	-	-	339,425	194,605	-	-	-	-	-
A2	-	-	564,793	-	-	-	-	-	-
A3	-	-	1,584,355	222,267	-	-	-	-	-
Baa1	-	-	1,599,533	-	-	-	-	-	-
Baa2	-	-	1,303,799	-	-	-	-	-	-
Baa3	-	-	617,621	-	-	-	-	-	-
Ba1	-	-	166,194	-	-	-	-	-	-
	<u>\$ 1,362,689</u>	<u>\$ 2,045,480</u>	<u>\$ 6,949,849</u>	<u>\$ 573,047</u>	<u>\$ 7,787,065</u>	<u>\$ 1,388,528</u>	<u>\$ 166,587</u>	<u>\$ 695,824</u>	<u>\$ 1,978,641</u>

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. Investments (continued):

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

	Weighted Average Duration by Asset Class (Years)
Agency Securities	3.49
Asset-Backed Securities	1.44
Corporate Securities	3.63
Corporate Securities: Yankee	4.94
Mortgage Backed Securities (MBS)	4.69
MBS: Collateralized	4.53
MBS: Commercial	4.35
Municipal Securities	4.62
U.S. Treasury Securities	5.91

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, 2018 and 2017 are as follows:

	<u>Bond Fund</u>	
	<u>2018</u>	<u>2017</u>
U.S. Treasury Bonds	\$ 11,815,553	\$ 7,320,551
U.S. Treasury Notes	39,615,483	35,010,525
U.S. Treasury Strips	4,297,707	5,702,813
U.S. Governments	<u>3,085,223</u>	<u>3,130,099</u>
	\$ <u>58,813,966</u>	\$ <u>51,163,988</u>

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

4. Investments (continued):

Restricted investments in the Bond Fund at December 31, 2018 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	\$ 11,815,553	\$ 526,713	\$ 824,187	\$ 7,381,750	\$ 3,082,903
U.S. Treasury Notes	39,615,483	793,066	5,124,613	9,188,735	24,509,069
U.S. Treasury Strips	4,297,707	1,980,165	964,575	1,352,967	-
U.S. Governments	3,085,223	-	1,811,815	-	1,273,408
	<u>\$ 58,813,966</u>	<u>\$ 3,299,944</u>	<u>\$ 8,725,190</u>	<u>\$ 17,923,452</u>	<u>\$ 28,865,380</u>

Restricted cash - On December 31, 2018, \$939,249 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 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.

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

6. Bond liability activity:

Bond liability activity for the year ended December 31, 2018, was as identified on the following page.

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

6. Bond liability activity (continued):

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2018</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 576,520,000	\$ 41,165,000	\$ 45,105,000	\$ 572,580,000	\$ 46,430,000
Plus unamortized premium (discount)	<u>56,965,645</u>	<u>2,748,266</u>	<u>8,343,458</u>	<u>51,370,453</u>	<u>-</u>
Total bonds payable	633,485,645	43,913,266	53,448,458	623,950,453	46,430,000
Accrued arbitrage rebate	<u>147,174</u>	<u>93,274</u>	<u>40,045</u>	<u>200,403</u>	<u>140,270</u>
	<u>\$ 633,632,819</u>	<u>\$ 44,006,540</u>	<u>\$ 53,488,503</u>	<u>\$ 624,150,856</u>	<u>\$ 46,570,270</u>

7. Bonds payable:

Bonds payable consist of the following:

	<u>2018</u>	<u>2017</u>
2008 Series 1 Bonds consist of \$1,775,000 Serial Bonds with interest at 5.0% through December 1, 2018; interest payable semi-annually. Partially refunded by 2015 Series 5.	\$ -	\$ 1,775,000
2008 Series 2 Bonds consist of \$5,515,000 Term Bonds with interest at 6.25% through December 1, 2032; interest payable semi-annually.	5,515,000	5,580,000
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	6,360,000
2009 Series 2 Bonds consist of \$2,270,000 Refunding Bonds with interest at 3.1% to 4.1% through December 1, 2028; less unamortized discount of \$4,595; interest payable semi-annually.	2,265,405	4,294,019
2010 Series 1 Bonds consist of \$1,805,000 Serial Bonds with interest at 3.0% through December 1, 2020; interest payable semi-annually. Partially refunded by 2016 Series 2.	1,805,000	2,715,000
2010 Series 2 Bonds consist of \$1,285,000 Serial Bonds with interest at 4.170% to 4.27% through December 1, 2020; \$2,165,000 5.12% Term Bonds due December 1, 2025; and \$1,845,000 5.738% Term Bonds maturing December 1, 2030; interest payable semi-annually.	5,295,000	5,955,000

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. Bonds payable (continued):

	<u>2018</u>	<u>2017</u>
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 \$8,930,000 Refunding Bonds with interest at 3.3% to 5.0% through December 1, 2031; plus unamortized premium of \$188,921; interest payable semi-annually.	9,118,921	12,088,826
2010 Series 5 Bonds consist of \$4,545,000 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.	16,630,000	17,670,000
2011 Series 1 Bonds consist of \$9,500,000 Term Bonds with interest at 5.66% maturing December 1, 2025; interest payable semi-annually.	9,500,000	9,500,000
2011 Series 2 Bonds consist of \$4,350,000 Serial Bonds with interest at 2.5% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	4,350,000	5,805,000
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 \$5,090,000 Refunding Bonds with interest at 3.375% to 5.0% through December 1, 2032; plus unamortized premium of \$187,786; interest payable semi-annually.	5,277,786	6,748,992
2011 Series 5 Bonds consist of \$5,105,000 Serial Bonds with interest at 3.0% to 4.0% through December 1, 2021; interest payable semi-annually. Partially refunded by 2016 Series 2.	5,105,000	6,555,000
2011 Series 6 Bonds consist of \$14,370,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2033; plus unamortized premium of \$712,180; interest payable semi-annually.	15,082,180	17,895,742
2012 Series 1 Bonds consist of \$24,350,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2032; \$1,645,000 4.0% Term bonds maturing December 1, 2042; plus unamortized premium of \$2,036,320; interest payable semi-annually.	28,031,320	30,139,852

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

7. Bonds payable (continued):

	<u>2018</u>	<u>2017</u>
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 \$15,865,000 Refunding Bonds with interest at 5.0% through December 1, 2024; plus unamortized premium of \$1,260,557; interest payable semi-annually.	17,125,557	20,105,891
2012 Series 4 Bonds consist of \$4,865,000 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 \$598,006; interest payable semi-annually.	6,923,006	7,480,427
2012 Series 5 Bonds consist of \$630,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2023; plus unamortized premium of \$57,717; interest payable semi-annually.	687,717	1,214,577
2013 Series 1 Bonds consist of \$15,790,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2023; plus unamortized premium of \$822,305; interest payable semi-annually. Partially refunded by 2017 Series 4.	16,612,305	19,670,804
2014 Series 1 Bonds consist of \$24,095,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2033; plus unamortized premium of \$1,413,928; interest payable semi-annually.	25,508,928	26,917,149
2014 Series 2 Bonds consist of \$12,520,000 Refunding Bonds with interest at 5.0% through December 1, 2025; plus unamortized premium of \$896,663; interest payable semi-annually.	13,416,663	15,770,094
2014 Series 3 Bonds consist of \$40,140,000 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 \$4,255,663; interest payable semi-annually.	45,845,663	49,218,801
2014 Series 4 Bonds consist of \$16,535,000 Refunding Bonds with interest at 2.0% to 5.0% through December 1, 2026; plus unamortized premium of \$1,265,782; interest payable semi-annually.	17,800,782	20,338,834

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. Bonds payable (continued):

	<u>2018</u>	<u>2017</u>
2015 Series 1 Bonds consist of \$23,720,000 Refunding Bonds with interest at 1.45% to 5.0% through December 1, 2027; \$695,000 3.75% Term Bonds maturing on December 1, 2037; plus unamortized premium of \$1,618,873; interest payable semi-annually.	26,033,873	29,540,795
2015 Series 2 Bonds consist of \$5,385,000 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 \$243,779; interest payable semi-annually.	7,368,779	7,694,926
2015 Series 3 Bonds consist of \$3,275,000 Refunding Bonds with interest at 2.0% to 3.0% through December 1, 2025; plus unamortized premium of \$31,497; interest payable semi-annually.	3,306,497	4,822,981
2015 Series 4 Bonds consist of \$2,025,000 Taxable Serial Bonds with interest at 2.2% 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.	10,300,000	10,425,000
2015 Series 5 Bonds consist of \$49,555,000 Refunding Serial Bonds with interest at 2.0% to 5.0% through December 1, 2035; \$2,080,000 4.0% Term Bonds maturing December 1, 2039; plus unamortized premium of \$3,187,835; interest payable semi-annually.	54,822,835	55,816,454
2016 Series 1 Bonds consist of \$33,890,000 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 \$6,616,029; interest payable semi-annually.	44,891,029	47,346,232
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 \$11,178,343; interest payable semi-annually.	62,633,343	64,940,262
2017 Series 1 Bonds consist of \$26,650,000 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 \$3,627,997; interest payable semi-annually.	34,697,997	36,010,809

VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

7. Bonds payable (continued):

	<u>2018</u>	<u>2017</u>
2017 Series 2 Bonds consist of \$4,020,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2030; \$1,755,000 3.75% Term Bonds maturing December 1, 2047; plus unamortized premium of \$141,132; interest payable semi-annually.	5,916,132	6,300,288
2017 Series 3 Bonds consist of \$22,300,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2037; \$3,895,000 5.0% Term Bonds maturing December 1, 2047; plus unamortized premium of \$4,621,858; interest payable semi-annually.	30,816,858	32,149,029
2017 Series 4 Bonds consist of \$26,300,000 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 \$3,663,611; interest payable semi-annually.	30,963,611	31,479,861
2018 Series 1 Bonds consist of \$4,995,000 Serial Bonds with interest at 3.0% 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 \$599,081; interest payable semi-annually.	8,589,081	-
2018 Series 2 Bonds consist of \$32,420,000 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 \$2,149,185; interest payable semi-annually.	35,324,185	-
	623,950,453	633,485,645
Less current portion of bonds payable	<u>(46,430,000)</u>	<u>(45,105,000)</u>
	\$ <u>577,520,453</u>	\$ <u>588,380,645</u>

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. Bonds payable (continued):

The annual requirements to amortize bonds payable as of December 31, 2018 are as follows:

Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 46,430,000	\$ 25,685,290	\$ 72,115,290
2020	42,515,000	23,965,814	66,480,814
2021	41,525,000	22,243,274	63,768,274
2022	40,320,000	20,494,576	60,814,576
2023	39,450,000	18,609,017	58,059,017
2024 to 2028	169,925,000	66,605,027	236,530,027
2029 to 2033	120,750,000	32,221,663	152,971,663
2034 to 2038	48,550,000	10,936,852	59,486,852
2039 to 2043	15,645,000	3,548,892	19,193,892
2044 to 2048	7,470,000	782,008	8,252,008
	<u>572,580,000</u>	<u>225,092,413</u>	<u>797,672,413</u>
Unamortized premium (discount) at December 31, 2018	<u>51,370,453</u>	<u>-</u>	<u>51,370,453</u>
	<u>\$ 623,950,453</u>	<u>\$ 225,092,413</u>	<u>\$ 849,042,866</u>

The deferred outflow on refunding of bonds payable at December 31, 2018 includes, \$1,190,242 in 2009 Series 2 Bonds, \$1,556,195 in 2010 Series 4 Bonds, \$766,261 in 2011 Series 4 Bonds, \$1,012,429 in 2011 Series 6 Bonds, \$1,731,121 in 2012 Series 3 Bonds, \$582,015 in 2012 Series 5 Bonds, \$702,193 in 2014 Series 2 Bonds, \$1,259,210 in 2014 Series 4 Bonds, \$2,544,368 in 2015 Series 1 Bonds, \$1,969,530 in 2015 Series 3 Bonds, \$3,406,778 in 2015 Series 5 Bonds, \$6,418,915 in 2016 Series 2 Bonds and \$2,284,718 in 2017 Series 4 Bonds.

In August 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, 2018, \$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, 2018, \$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.

In 2015, the Bond Bank partially defeased 2009 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, 2018, \$32,065,000 of the 2009 Series 1 Bonds to be called on December 1, 2019 are still outstanding and are considered defeased.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, the outstanding bonds payable were \$67,660,000 under this resolution.

8. Reserve requirement:

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

	<u>2018</u>	<u>2017</u>
Reserve Fund -		
Amortized value	\$ 52,957,473	\$ 51,796,567
Reserve requirement	<u>43,557,924</u>	<u>43,215,144</u>
Excess above requirement	\$ <u>9,399,549</u>	\$ <u>8,581,423</u>

The value includes amortization of premium or discount and accrued interest on securities held in the reserve funds. Restricted cash of \$939,249 and \$3,752,632 is included in the amortized value at December 31, 2018 and December 31, 2017, 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 2018.

10. Transfer to Operating Fund:

The \$1,999,461 transfer during 2018 to the Operating Fund includes restructuring cash investments of \$2,023,497, equity reimbursements of \$115,285, reimbursement of bond issue repayments of \$8,182, US Treasury arbitrage reimbursement of \$116,868 totaling \$2,263,832 and to the Bond Fund equity contributions of \$264,371.

11. Retirement plan:

As of December 31, 2018, the Bond Bank had a simplified employee pension (SEP) plan for regular employees. In 2018, the Bond Bank's policy was to contribute 14.6% 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 2018 and 2017, the Bond Bank contributed to retirement plans in the amount of \$25,304 and \$27,903, respectively.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

12. Related party transactions:

The Bond Bank receives reimbursements from related parties for general and administrative services the Bond Bank provides. The total amounts receivable in the Operating Fund as of December 31, 2018 and December 31, 2017 from the related parties were \$46,403 and \$73,669, respectively.

13. Equity contribution reimbursements:

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

Scheduled equity contribution reimbursements are as follows:

Year ending December 31,	<u>Principal</u>
2019	\$ 317,731
2020	10,633
2021	10,633
2022	10,633
2023	10,633
2024 to 2028	53,165
2029 to 2033	53,165
2034 to 2038	<u>53,165</u>
	\$ <u>519,758</u>

14. Commitments:

On September 1, 2009, the Bond Bank entered into a lease agreement for a five-year term with annual rent payments of \$14,728. The lease agreement has two additional three-year terms, at the option of the Bond Bank, with rent adjusted in accordance with a consumer price index adjustment. The second additional three-year term option was accepted by the Bond Bank in June 2017 for the three years effective October 1, 2017. Total occupancy expense was \$18,838 and \$16,574 for the fiscal years ended December 31, 2018 and December 31, 2017, respectively.

15. Subsequent events:

In February 2019, the Bond Bank issued \$24,870,000 2019 Series 1 Bonds designated as Local Investment Bonds to reflect the local impact of the projects that are capitalized by the 2019 Bonds. The Bond Bank anticipates the issuance of additional bonds for various Vermont municipalities' capital projects during 2019 in amounts as yet to be determined. Management has evaluated subsequent events through May 24, 2019, which is the date the financial statements were available to be issued.

**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, 2018, and the related notes to the financial statements, which collectively comprise the Bond Bank's basic financial statements, and have issued our report thereon dated May 29, 2019.

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 Bond Bank's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
May 29, 2019

*Mudgett, Janet &
Joseph Mudgett, P.C.*