



Management Discussion and Analysis Year Ended December 31, 2005

The Vermont Municipal Bond Bank (Bank or VMBB) was established in 1970 as a quasi-state agency with the purpose of providing Vermont's municipalities with easy and inexpensive access to the tax-exempt municipal bond market. To date the Bank has issued over \$1.39 billion in tax-exempt bonds for over 790 projects and 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, 2005. 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 the two corporate trustees, TD Banknorth Wealth Management Group and Deutsche Bank Trust Companies Americas. The Operating Fund is made up of activities relating to the administrative operations of the VMBB.

2005 Financial Highlights

In 2005, the Bank issued \$39,200,000 in new bonds to fund municipal loans of \$36,635,000 for 30 municipalities and \$91,255,000 to refund the 1995 and 1996 Series Bonds. In 2004, the Bank issued \$63,180,000 in bonds to fund municipal loans of \$60,555,000 for 37 municipalities.

Municipal bonds of \$38,510,000 and \$36,750,000 were retired in 2005 and 2004 respectively.

Major Balance Sheet items changed as follows from FY 2004 to FY 2005:

Balance Sheet Indicators	12/31/2004 Balance	12/31/2005 Balance	Increase (Decrease)	% Increase (Decrease)
Total Assets	\$490,334,945	\$492,504,515	\$2,169,570	0.4%
Total Liabilities	\$473,201,877	\$473,680,711	\$478,834	0.1%
Total Net Assets	\$17,136,068	\$18,823,804	\$1,687,736	9.8%
Unrestricted Net Assets	\$7,970,765	\$9,821,931	\$1,851,166	23.2%

Transfers included an equity contribution from the Operating Fund to the Bond Fund of \$150,000 to help offset bond issue costs, net of a transfer from the nonrebutable accounts in the Bond Fund of \$2,024,422 to operations. Similar transfers in 2004 consisted of \$350,000 as an equity contribution to the Bond Fund, and an additional \$157,587 for bond issue costs, net of a transfer from the nonrebutable accounts in the Bond Fund of \$23,452 to operations.

Assets

In the Operating Fund, Total Assets increased \$1,851,166 or 23.2%. Cash and Cash Equivalents increased by \$1,655,009 or 58.9%, due primarily to a unique opportunity for the VMBB to restructure the 2004 and 2005 bond issue reserves.

**Vermont Municipal Bond Bank
Management Discussion and Analysis
Year Ended December 31, 2005**

In the Bond Fund, Total Current Assets increased \$1,390,303 or 3.5%. Noncurrent Assets decreased \$1,074,197 or 0.2%, and Restricted Cash and Investments combined decreased \$532,857, or 1.2% from the prior year. These decreases were partially offset by an increase in Restricted Investments of \$1,569,762 or 3.7%.

Liabilities

In the Bond Fund, the Total Current Liabilities increase of \$3,524,977 was partially offset by the decrease in the Total Noncurrent Liabilities of \$3,045,441. Major contributors to the Total Liabilities increasing were the changes to Current Portion of Bonds Payable (a \$3,725,000 increase) and Bonds Payable (a \$2,945,734 decrease).

Total Bonds Payable (Current and Noncurrent) was \$471,095,847 as of 12/31/05 and \$470,316,581 as of 12/31/04.

Net Assets

Restricted Net Assets in the Bond Fund were fairly flat from 2004 to 2005, decreasing by \$163,430. Unrestricted Net Assets in the Operating Fund increased by \$1,853,166 from 2004 to 2005, due primarily to the restructuring of the 2004 and 2005 bond issue reserves.

Total Net Assets at 12/31/05 equaled 4% of Bonds Payable and Unrestricted Net Assets equaled 2% of Bonds Payable.

Operating Summary

Major Revenue and Expense item changes from FY'04 to FY'05 are as follows:

Revenue & Expense Indicators	12/31/2004 Balance	12/31/2005 Balance	Increase (Decrease)	% Increase (Decrease)
Total All Revenue	\$24,118,264	\$24,206,330	\$88,066	0.4%
Total All Expenses	\$24,166,758	\$22,518,594	(\$1,648,164)	-6.8%
Surplus (Loss)	(\$48,494)	\$1,687,736	\$1,736,230	-3580.3%
Bond Fund Revenue	\$23,741,820	\$23,998,214	\$256,394	1.1%
Bond Fund Expenses	\$23,887,929	\$22,137,222	(\$1,750,707)	-7.3%
Operating Fund Revenue	\$376,444	\$208,116	(\$168,328)	-44.7%
Operating Fund Expenses	\$278,829	\$381,372	\$102,543	36.8%

The Total All Revenue increase of \$88,066 was due primarily to an increase to Interest and Investment Revenue of \$86,389 (0.4%) over the prior year. The Bond Revenue increase can be attributed primarily to Interest earnings. While the Operating Revenue decrease can be attributed to a drop in Investment earnings.

The reduction in Total All Expenses from FY 2004 to FY 2005 is due primarily to a reduction in Interest Expense of \$1,542,644 (7.2%). This decline was completely in the Bond Fund. The \$102,543 increase in Operating Fund Expenses was due primarily to changing the Executive Director's position from part-time to full-time and the addition of certain operating expenses.

**Vermont Municipal Bond Bank
Management Discussion and Analysis
Year Ended December 31, 2005**

Future Developments

Financing

The VMBB expects to issue its 2006 Series 1 Bonds in mid-July 2006. The Bank expects to issue \$44 million in new bonds to fund municipal loans for 20 municipalities with an approximate loan value of \$41 million.

Investment Earnings

The VMBB Board of Directors has adopted a conservative investment policy resulting in a substantial amount of the Bank's investments in short term, high quality paper. Because of the close correlation between returns on short term, high quality paper and the Federal Funds rate, and because the Federal Funds rate has risen significantly over the last several years, the VMBB expects its investment income to grow in the near future. We anticipate that operating revenues will exceed operating expenses resulting in an increase in the VMBB's Unreserved Net Asset balance.

Contact for Further Information

This financial Report is designed to provide the reader with a general overview of the Bond Bank's finances. Questions about this report or additional financial information needs should be directed to Robert W. Giroux, Executive Director, Vermont Municipal Bond Bank, 56 East State Street, P.O. Box 564, Montpelier, VT 05601, at 802-223-2717, or at Bobg@vtbondagency.org.