

VERMONT MUNICIPAL BOND BANK
FINANCIAL STATEMENTS
DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR 2009
AND
INDEPENDENT AUDITOR'S REPORTS

VERMONT MUNICIPAL BOND BANK

DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Vermont Municipal Bond Bank

We have audited the basic financial statements of the Vermont Municipal Bond Bank, a component unit of the State of Vermont, as of and for the years ended December 31, 2010 and 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bond Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Vermont Municipal Bond Bank as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report, dated May 18, 2011, on our consideration of Vermont Municipal Bond Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Montpelier, Vermont
May 18, 2011

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

**VERMONT MUNICIPAL BOND BANK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

The Vermont Municipal Bond Bank (Bank or VMBB) was established in 1970 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 \$1.75 billion in tax-exempt and taxable bonds through 58 series of bonds, including 17 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, 2010. 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, The Bank of New York Mellon Trust Company, N.A. and Deutsche Bank Trust Company America. The Operating Fund is made up of activities relating to the administrative operations of the VMBB.

2010 Financial Highlights

In 2010, the Bank issued \$98,390,000 through 5 bond series to fund municipal loans of \$59,085,000 for 30 municipalities and \$39,305,000 to refund the 2000 Series 1 Bonds and advance refund the 2001 Series 1 Bonds. In 2009, \$61,560,000 in bonds were issued to fund municipal loans of \$61,115,000 for 22 municipalities and \$26,025,000 to refund the 1998 Series 2 and 1999 Series 1 Bonds.

Municipal bonds of \$44,575,000 and \$44,730,000 were retired in 2010 and 2009 respectively. The 2010 Series 4 Bonds refunded \$22,875,000 of the 2000 Series 1 Bonds and \$18,270,000 of the 2001 Series 1 Bonds. The 2009 Series 2 Bonds refunded \$7,365,000 of the 1998 Series 2 Bonds.

Major Balance Sheet items changed as follows from 2009 to 2010:

Balance Sheet Indicators	12/31/2009 Balance	12/31/2010 Balance	Increase (Decrease)	% Increase (Decrease)
Total Assets	\$532,312,717	\$550,061,570	\$17,748,853	3.33%
Total Liabilities	\$505,664,754	\$518,890,366	\$13,225,612	2.62%
Total Net Assets	\$26,647,963	\$31,171,204	\$4,523,241	16.97%
Unrestricted Net Assets	\$10,920,592	\$11,029,000	\$108,408	0.99%
Restricted Net Assets	\$15,727,371	\$20,142,204	\$4,414,833	28.07%

The \$46,353 transfer from the 2010 Operating Fund to the 2010 Bond Fund represents \$216,667 in investment restructuring savings in the reserve fund offset by \$263,020 of bond issue costs.

Assets

In the Operating Fund, Total Assets increased \$124,968 or 1.14%. Cash and Cash Equivalents increased by \$351,634 or 51.09% while Investments decreased by \$170,632 or -1.69%, due primarily to the transfer of investment funds to cash.

In the Bond Fund, Total Current Assets increased \$1,637,580 or 3.64% primarily due to the increase in the Current Portion of Loans to Municipalities. Noncurrent Assets increased \$15,986,305 or 3.36%. Loans to Municipalities increased by \$13,587,862 or 3.20%. Restricted Investments increased by \$2,672,408 or 5.86% and Restricted Cash decreased \$416,734 or -62.13% from the prior year.

Liabilities

In the Bond Fund, Total Current Liabilities increased by \$1,876,473 or 4.00% primarily due to the increase in the Current Portion of Bonds Payable. Total Noncurrent Liabilities increased by \$11,332,579 or 2.49%. The major contributor to the increase in Total Noncurrent Liabilities was the increase in Bonds Payable of \$11,417,007.

Total Bonds Payable (Current and Noncurrent) was \$502,454,768 as of December 31, 2009 and \$516,646,775 as of December 31, 2010.

Net Assets

Restricted Net Assets in the Bond Fund showed an increase from 2009 to 2010 of \$4,414,833 or 28.07%. Unrestricted Net Assets in the Operating Fund increased by \$108,408 or .99% from 2009 to 2010. Total Net Assets at December 31, 2010 equaled 6.03% of Total Bonds Payable and Unrestricted Net Assets equaled 2.13% of Total Bonds Payable. Total Net Assets at December 31, 2009 equaled 5.3% of Total Bonds Payable and Unrestricted Net Assets equaled 2.17% of Total Bonds Payable.

Operating Summary

Major Revenue and Expense item changes from 2009 to 2010 are as follows:

Revenue & Expense Indicators	12/31/2009 Balance	12/31/2010 Balance	Increase (Decrease)	% Increase (Decrease)
Total All Revenue	\$22,639,448	\$26,275,344	\$3,635,896	16.06%
Total All Expenses	\$22,734,944	\$21,752,103	(\$982,841)	(4.32%)
Total Surplus (Loss)	(\$95,496)	\$4,523,241	\$4,618,737	4836.57%
Bond Fund Revenue	\$22,407,642	\$25,573,919	\$3,166,277	14.13%
Bond Fund Expenses	\$22,343,690	\$21,205,439	(\$1,138,251)	(5.09%)
Operating Fund Revenue	\$231,806	\$701,425	\$469,619	202.59%
Operating Fund Expense	\$391,254	\$546,664	\$155,410	39.72%
Bond Fund Change in Net Assets	(\$135,165)	\$4,414,833	\$4,549,998	3366.25%
Operating Fund Change in Net Assets	\$39,669	\$108,408	\$68,739	173.28%

Investment Portfolio

The VMBB's unrestricted investment portfolio on December 31, 2010 was valued at "fair market value" of \$9,945,918. The December 31, 2009 "fair market value" of the investment portfolio was \$10,116,550. The total cost of the portfolio was \$9,235,995 on December 31, 2010 and \$10,014,112 on December 31, 2009.

Subsequent Events

The VMBB issued its 2011 Series 1 Bonds in mid-March 2011 and expects to issue its 2011 Series 2 and Series 3 Bonds in mid-July 2011. 2011 Series 1 Bonds totaled \$9,500,000. At the time of this report, the VMBB was not able to predict the number and volume of loans for the 2011 Series 2 and 3 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 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
BALANCE SHEETS
DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR 2009**

	2010			2009
<u>ASSETS</u>	<u>Bond Fund</u>	<u>Operating Fund</u>	<u>Total</u>	<u>Total</u>
Current assets -				
Cash and cash equivalents	\$ 2,178,771	\$ 1,039,861	\$ 3,218,632	\$ 2,534,819
Accrued interest receivable	2,021,766	46,243	2,068,009	2,131,999
Accounts receivable	-	26,236	26,236	69,547
Current portion of loans to municipalities	42,482,138	-	42,482,138	41,125,470
Investments	-	9,945,918	9,945,918	10,116,550
Total current assets	<u>46,682,675</u>	<u>11,058,258</u>	<u>57,740,933</u>	<u>55,978,385</u>
Noncurrent assets -				
Restricted cash	254,056	-	254,056	670,790
Restricted investments	48,277,587	-	48,277,587	45,605,179
Loans to municipalities	437,749,795	-	437,749,795	424,161,933
Unamortized bond issue costs	6,039,199	-	6,039,199	5,896,430
Total noncurrent assets	<u>492,320,637</u>	<u>-</u>	<u>492,320,637</u>	<u>476,334,332</u>
Total assets	<u>\$ 539,003,312</u>	<u>\$ 11,058,258</u>	<u>\$ 550,061,570</u>	<u>\$ 532,312,717</u>
 <u>LIABILITIES AND NET ASSETS</u>				
Liabilities:				
Current liabilities -				
Accounts payable	\$ -	\$ 29,258	\$ 29,258	\$ 12,698
Accrued arbitrage rebate	185,167	-	185,167	1,070,524
Bond interest payable	1,786,378	-	1,786,378	1,799,548
Current portion of bonds payable	46,795,000	-	46,795,000	44,020,000
Total current liabilities	<u>48,766,545</u>	<u>29,258</u>	<u>48,795,803</u>	<u>46,902,770</u>
Noncurrent liabilities -				
Accrued arbitrage rebate	242,788	-	242,788	327,216
Bonds payable	469,851,775	-	469,851,775	458,434,768
Total noncurrent liabilities	<u>470,094,563</u>	<u>-</u>	<u>470,094,563</u>	<u>458,761,984</u>
Total liabilities	<u>518,861,108</u>	<u>29,258</u>	<u>518,890,366</u>	<u>505,664,754</u>
Net assets:				
Restricted	20,142,204	-	20,142,204	15,727,371
Unrestricted	-	11,029,000	11,029,000	10,920,592
Total net assets	<u>20,142,204</u>	<u>11,029,000</u>	<u>31,171,204</u>	<u>26,647,963</u>
Total liabilities and net assets	<u>\$ 539,003,312</u>	<u>\$ 11,058,258</u>	<u>\$ 550,061,570</u>	<u>\$ 532,312,717</u>

The notes to financial statements are an integral part of these statements.

VERMONT MUNICIPAL BOND BANK
STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009

	2010			2009
	Bond Fund	Operating Fund	Total	Total
REVENUE:				
Interest	\$ 22,226,593	\$ -	\$ 22,226,593	\$ 22,585,568
Other income	<u>-</u>	<u>5,641</u>	<u>5,641</u>	<u>77,248</u>
Total operating revenue	<u>22,226,593</u>	<u>5,641</u>	<u>22,232,234</u>	<u>22,662,816</u>
EXPENSES:				
Amortization of bond issue costs	331,199	-	331,199	315,937
Other expense	36,939	-	36,939	170,975
Operating expenses	<u>-</u>	<u>546,664</u>	<u>546,664</u>	<u>391,254</u>
Total operating expenses	<u>368,138</u>	<u>546,664</u>	<u>914,802</u>	<u>878,166</u>
OPERATING INCOME (LOSS)	<u>21,858,455</u>	<u>(541,023)</u>	<u>21,317,432</u>	<u>21,784,650</u>
NONOPERATING REVENUE (EXPENSES):				
Interest and investment revenue (loss)	3,252,193	695,784	3,947,977	(23,368)
Interest rebate	95,133	-	95,133	-
Interest expense	(20,438,298)	-	(20,438,298)	(21,824,889)
Arbitrage recovery (rebate)	<u>(399,003)</u>	<u>-</u>	<u>(399,003)</u>	<u>(31,889)</u>
Total nonoperating revenue (expenses)	<u>(17,489,975)</u>	<u>695,784</u>	<u>(16,794,191)</u>	<u>(21,880,146)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	4,368,480	154,761	4,523,241	(95,496)
TRANSFER TO BOND FUND	<u>46,353</u>	<u>(46,353)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	4,414,833	108,408	4,523,241	(95,496)
NET ASSETS, beginning of year	<u>15,727,371</u>	<u>10,920,592</u>	<u>26,647,963</u>	<u>26,743,459</u>
NET ASSETS, end of year	\$ <u>20,142,204</u>	\$ <u>11,029,000</u>	\$ <u>31,171,204</u>	\$ <u>26,647,963</u>

The notes to financial statements are an integral part of these statements.

VERMONT MUNICIPAL BOND BANK
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009
(Page 1 of 2)

	2010			2009
	Bond Fund	Operating Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from municipalities -				
Principal	\$ 41,125,470	\$ -	\$ 41,125,470	\$ 40,111,667
Interest (net of refunding interest savings)	22,244,685	-	22,244,685	22,327,368
Cash paid to suppliers for goods and services	-	(398,419)	(398,419)	(342,504)
Cash paid to employees for services	-	(88,374)	(88,374)	(83,267)
Loans to municipalities	(56,070,000)	-	(56,070,000)	(61,115,000)
Other receipts	-	5,641	5,641	77,248
Net cash provided (used) by operating activities	7,300,155	(481,152)	6,819,003	975,512
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Proceeds from bonds issued	57,245,000	-	57,245,000	62,901,940
Principal reductions	(44,575,000)	-	(44,575,000)	(44,730,000)
Interest expense	(18,929,461)	-	(18,929,461)	(20,207,041)
Bond issue costs	(473,968)	-	(473,968)	(700,897)
Arbitrage rebate	(1,368,788)	-	(1,368,788)	(183,116)
Interest rebate	95,133	-	95,133	-
Transfers	46,353	(46,353)	-	-
Net cash provided (used) by noncapital financing activities	(7,960,731)	(46,353)	(8,007,084)	(2,919,114)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sales of investments	2,957,089	44,540,873	47,497,962	27,377,451
Purchase of investments	(3,655,048)	(44,017,446)	(47,672,494)	(27,865,230)
Earnings on investments	1,690,714	355,712	2,046,426	2,189,127
Net cash provided (used) by investing activities	992,755	879,139	1,871,894	1,701,348
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	332,179	351,634	683,813	(242,254)
CASH AND CASH EQUIVALENTS, beginning of year	1,846,592	688,227	2,534,819	2,777,073
CASH AND CASH EQUIVALENTS, end of year	\$ 2,178,771	\$ 1,039,861	\$ 3,218,632	\$ 2,534,819

The notes to financial statements are an integral part of these statements.

VERMONT MUNICIPAL BOND BANK
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009
(Page 2 of 2)

	2010			2009
	Bond Fund	Operating Fund	Total	Total
RECONCILIATION OF OPERATING INCOME				
(LOSS) TO NET CASH PROVIDED (USED)				
BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 21,858,455	\$ (541,023)	\$ 21,317,432	\$ 21,784,650
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -				
Amortization of bond issue costs	331,199	-	331,199	315,937
(Increase)/decrease in following assets:				
Accrued interest receivable	55,031	-	55,031	(87,225)
Accounts receivable	-	43,311	43,311	(45,792)
Loans to municipalities	(14,944,530)	-	(14,944,530)	(21,003,333)
Increase/(decrease) in following liabilities:				
Accounts payable	-	16,560	16,560	11,275
Net cash provided (used) by operating activities	\$ <u>7,300,155</u>	\$ <u>(481,152)</u>	\$ <u>6,819,003</u>	\$ <u>975,512</u>

The notes to financial statements are an integral part of these statements.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 (with amendments enacted at the 1971 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 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 Secretary and a Treasurer who need not be directors, and the same person may be elected to serve in both capacities.

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 of 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, 2010, 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."
July 13, 2000	2000 Series 1 Resolution authorizing the issuance of \$48,545,000 2000 Series 1 Bonds. In addition, this resolution provided for an advance refunding and defeasance of all remaining 1989 Series 1 Bonds. This Series was refunded and defeased in 2010.
July 13, 2001	2001 Series 1 Resolution authorizing the issuance of \$38,520,000 2001 Series 1 Bonds. This Series was partially refunded and defeased in 2010.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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

A. Authorizing legislation (continued) -

July 17, 2002	2002 Series 1 Resolution authorizing the issuance of \$34,640,000 2002 Series 1 Bonds.
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.
June 16, 2003	2003 Series 2 Resolution authorizing the issuance of \$65,035,000 2003 Series 2 Bonds.
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.
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.
June 20, 2006	2006 Series 1 Resolution authorizing the issuance of \$45,115,000 2006 Series 1 Bonds.
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.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 3 Resolution authorizing the issuance of \$1,365,000 Federally Taxable Qualified School Construction Bonds 2010 Series 3 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).

- 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 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 deferred and 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 of the deferred amount is reported as a reduction of the face amount of the bonds payable.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

2. Summary of significant accounting policies (continued):

- B. Fund accounting - The financial statements of the Bond Bank have been prepared in accordance with generally accepted accounting principles 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 revenue includes 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Bond Bank has elected not to follow subsequent private-sector guidelines.

- 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, 2010, the Trustees are The Bank of New York Mellon Trust Company, N.A. and the Deutsche Bank Trust Company Americas. The Directors also engage Dwight Asset Management Company to provide investment management services for the Operating Fund.

Investments with readily determinable fair values are reported at their fair values on the balance sheet. Unrealized gains and losses are included in revenue.

- F. Use of estimates - The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 which are mutual funds invested primarily in commercial paper and government securities. \$254,056 of cash in reserve funds is restricted by the terms of the bond requirements. The Board has directed management to invest in cash or near cash investments, Aaa rated funds or government securities. The Bond Bank formally adopted a custodial credit risk policy on June 15, 2009.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 Capital Aggregate Bond Index on an annualized basis by 40 basis points, net of investment advisory fees, over a rolling five-year period; and 3) to provide for cash funding needs through regular interest income. The classification and fair value of unrestricted investments held at December 31, 2010 and 2009 are as follows:

	<u>Operating Fund</u>	
	<u>2010</u>	<u>2009</u>
Asset-Backed Securities	\$ 586,840	\$ 704,607
Commercial MBS	679,326	784,751
Corporate Investment Grade	2,097,284	2,064,110
Non-Corporate Credit	351,825	14,812
Mortgage-Backed Securities	3,319,566	3,625,481
U.S. Treasury Notes	<u>2,911,077</u>	<u>2,922,789</u>
	<u>\$ 9,945,918</u>	<u>\$ 10,116,550</u>

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

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

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 ninety days after the date of the downgrade. At December 31, 2010, the Bond Bank's investments in other than U.S. Government debt or debt guaranteed by the U.S. Government were as shown in the table on the following page.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

4. Investments (continued):

Rating by Moody's Investors Services	Asset- Backed Securities	Commercial MBS	Corporate Investment Grade	Non-Corporate Credit	Mortgage- Backed Securities
Aaa	\$ 449,087	\$ 372,228	\$ 169,897	\$ 52,394	\$ -
Aa1	-	102,489	-	198,011	-
Aa2	3,466	-	56,967	101,420	95,959
Aa3	-	20,845	83,278	-	-
A1	-	-	81,802	-	9,051
A2	-	-	258,735	-	69,474
A3	-	-	295,319	-	-
Baa1	-	-	234,556	-	-
Baa2	-	-	479,497	-	-
Baa3	-	-	293,517	-	-
B3	81,642	-	-	-	-
Not rated	<u>52,645</u>	<u>183,764</u>	<u>143,716</u>	<u>-</u>	<u>3,145,082</u>
	<u>\$ 586,840</u>	<u>\$ 679,326</u>	<u>\$ 2,097,284</u>	<u>\$ 351,825</u>	<u>\$ 3,319,566</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.

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 Capital 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)	1.36
Commercial Mortgage-Backed Securities (CMBS)	3.16
Corporate Investment Grade	4.76
Non-Corporate Credit	11.50
Residential Mortgage-Backed Securities (MBS)	3.39
Treasury	3.22

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

4. Investments (continued):

Restricted investments -

The Bond Fund investments are restricted to meet the reserve requirements for each issue. The General Resolution provides that all monies held by the Trustees shall be continuously and fully secured, for the benefit of the Bond Bank and the holders of the bonds. The restricted investments in the Bond Fund are to be invested in obligations with maturity dates which coincide as nearly as practicable with dates of debt service or other purposes provided in the General Resolution. Allowable investments are limited by certain restrictions and include 1) direct obligations of the United States of America or obligations which are guaranteed or insured by the United States of America, or instrumentality or agency thereof; 2) state and municipal bonds provided they are rated at least A at the time of investment; 3) interest bearing obligations issued, assumed, or guaranteed by any solvent U.S. institution rated at least A at the time of investment, certificates of deposit or time deposits at banking institutions with capital surplus and undivided profits of not less than \$25,000,000; 4) repurchase agreements with maturities of not more than 30 days with a bank or trust company that has a combined capital surplus and undivided profits not less than \$100,000,000 or with primary government dealers who are members of the Securities Investor Protection Corporation; and 5) units of a taxable government money market portfolio comprised solely of obligations listed above. The funds may also be deposited in an interest bearing account held by the Trustee provided that the account is fully secured by direct obligations of the United States of America. The classification and fair value of restricted investments held at December 31, 2010 and 2009 are as follows:

	Bond Fund	
	2010	2009
U.S. Treasury Bonds	\$ 9,796,432	\$ 9,878,457
U.S. Treasury Notes	22,392,600	19,437,537
U.S. Treasury Strips	1,369,005	2,293,578
U.S. Governments	14,719,550	13,995,607
	\$ 48,277,587	\$ 45,605,179

Restricted investments in the Bond Fund at December 31, 2010 mature as follows:

<u>Investment Type</u>	<u>Fair Value</u>	Investment Maturity (in Years)			
		< 1	1-5	6-10	> 10
U.S. Treasury Bonds	\$ 9,796,432	\$ -	\$ 3,774,540	\$ 4,988,450	\$ 1,033,442
U.S. Treasury Notes	22,392,600	894,022	3,576,358	3,758,403	14,163,817
U.S. Treasury Strips	1,369,005	744,456	527,142	97,407	-
U.S. Governments	14,719,550	943,771	3,552,859	7,873,967	2,348,953
	\$ 48,277,587	\$ 2,582,249	\$ 11,430,899	\$ 16,718,227	\$ 17,546,212

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 2010 and 2009 includes interest credits to municipalities from the 2007 Series 2 refunding of \$36,939 and \$170,975, respectively.

6. Long-term liabilities:

Long-term liability activity for the year ended December 31, 2010, was as follows:

	<u>December 31,</u> <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2010</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 461,145,000	\$ 57,245,000	\$ 47,350,000	\$ 471,040,000	\$ 46,795,000
Less deferred amount on refundings	(11,865,177)	(2,633,560)	(1,022,308)	(13,476,429)	-
Plus unamortized premium (discount)	<u>9,154,945</u>	<u>5,003,316</u>	<u>1,870,057</u>	<u>12,288,204</u>	<u>-</u>
Total bonds payable	458,434,768	59,614,756	48,197,749	469,851,775	46,795,000
Accrued arbitrage rebate	<u>327,216</u>	<u>399,003</u>	<u>483,431</u>	<u>242,788</u>	<u>185,167</u>
	<u>\$ 458,761,984</u>	<u>\$ 60,013,759</u>	<u>\$ 48,681,180</u>	<u>\$ 470,094,563</u>	<u>\$ 46,980,167</u>

7. Bonds payable:

Bonds payable consist of the following:

	<u>2010</u>	<u>2009</u>
2000 Series 1 Bonds consist of \$24,620,000 Serial Bonds with interest at 4.88% to 5.5% through December 1, 2020; and \$490,000, 5.625% Term Bonds due December 2030; less unamortized discount of \$78,056; interest payable semi-annually. Refunded by 2010 Series 4.	\$ -	\$ 25,031,944
2001 Series 1 Bonds consist of \$1,890,000 Serial Bonds with interest at 4.4% due December 1, 2011; interest payable semi-annually. Refunded \$16,810,000 Serial Bonds and \$1,460,000 Term Bonds by 2010 Series 4.	1,890,000	22,093,255

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

7. Bonds payable (continued):

	<u>2010</u>	<u>2009</u>
2002 Series 1 Bonds consist of \$16,775,000 Serial Bonds with interest at 3.8% to 5.0% through December 1, 2022; and \$300,000, 5.0% Term Bonds due December 2032; less unamortized discount of \$50,153; interest payable semi-annually.	17,024,847	18,471,134
2003 Series A Bonds consist of \$905,000 Serial Bonds with interest at 3.6% to 4.1% through December 1, 2015; less unamortized discount of \$774; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$304,532.	599,694	653,172
2003 Series 1 Bonds consist of \$14,255,000 Serial Bonds with interest at 3.6% to 4.8% through December 1, 2024; less unamortized discount of \$15,544; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$1,012,371.	13,227,085	15,662,467
2003 Series 2 Bonds consist of \$36,170,000 Serial Bonds with interest at 3.0% to 5.0% through December 1, 2023, \$870,000 4.5% Term Bonds due December 1, 2028 and \$650,000 4.6% Term Bonds due December 1, 2033; plus unamortized premium of \$945,962; interest payable semi-annually.	38,635,962	42,286,164
2004 Series 1 Bonds consist of \$41,395,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2024; and \$1,195,000 5.0% Term Bonds due December 1, 2034; plus unamortized premium of \$554,265; interest payable semi-annually.	43,144,265	46,315,764
2004 Series 2 Bonds consist of \$15,275,000 Serial Bonds with interest at 3.5% to 5.0% through December 1, 2025; less unamortized discount of \$57,361; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$1,887,474.	13,330,165	15,717,024

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

7. Bonds payable (continued):

	<u>2010</u>	<u>2009</u>
2005 Series 1 Bonds consist of \$28,280,000 Serial Bonds with interest at 3.25% to 5.0% through December 1, 2025; plus unamortized premium of \$881,663; interest payable semi-annually.	29,161,663	31,418,236
2005 Series 2 Bonds consist of \$29,465,000 Refunding Bonds with interest at 3.25% to 5.0% through December 1, 2025; plus unamortized premium of \$757,581; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$2,970,693.	27,251,888	31,604,065
2005 Series 3 Bonds consist of \$11,580,000 Refunding Bonds with interest at 3.3% to 5.0% through December 1, 2021; plus unamortized premium of \$249,954; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$1,333,635.	10,496,319	13,411,321
2006 Series 1 Bonds consist of \$35,655,000 Serial Bonds with interest at 4.0% to 5.0% through December 1, 2026; plus unamortized premium of \$14,723; interest payable semi-annually.	35,669,723	38,286,453
2007 Series 1 Bonds consist of \$42,915,000 Serial Bonds with interest at 3.875% to 5.0% through December 1, 2037; and \$1,645,000 5.0% Term Bonds due December 1, 2019; plus unamortized premium of \$616,174; interest payable semi-annually.	45,176,174	47,829,468
2007 Series 2 Bonds consist of \$20,640,000 Refunding Bonds with interest at 3.5% to 4.6% through December 1, 2029; plus unamortized premium of \$325,422; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$1,311,433.	19,653,989	22,355,320
2008 Series 1 Bonds consist of \$32,900,000 Serial Bonds with interest at 2.9% to 5.0% through December 1, 2038; and \$1,165,000 4.3% Term Bonds due December 1, 2026; plus unamortized premium of \$385,535; interest payable semi-annually.	34,450,535	36,477,033

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

7. Bonds payable (continued):

	<u>2010</u>	<u>2009</u>
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 \$54,225,000 Serial Bonds with interest at 2.0% 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 \$3,095,764; interest payable semi-annually.	61,710,764	65,080,216
2009 Series 2 Bonds consist of \$18,055,000 Refunding Bonds with interest at 2.0% to 4.1% through December 1, 2028; and \$3,770,000 2.0% Term Bonds due December 1, 2011; plus unamortized premium of \$163,694; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$2,142,436.	19,846,258	24,126,732
2010 Series 1 Bonds consist of \$22,270,000 Serial Bonds with interest at 2.0% to 5.0% through December 1, 2030; \$615,000 4.2% Term Bonds due December 1, 2035; and \$545,000 4.25% Term Bonds maturing December 1, 2040; plus amortized premium of \$1,405,588; interest payable semi-annually.	24,835,588	-
2010 Series 2 Bonds consist of \$5,760,000 Serial Bonds with interest at 1.387% to 4.27% through December 1, 2020; \$2,615,000 5.12% Term Bonds due December 1, 2025; and \$1,845,000 5.738% Term Bonds maturing December 1, 2030; interest payable semi-annually.	9,770,000	-
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	-
2010 Series 4 Bonds consist of \$38,750,000 Refunding Bonds with interest at 3.0% to 5.0% through December 1, 2031; plus unamortized premium of \$3,015,710; interest payable semi-annually. The balance is shown net of the deferred refunding loss at December 31, 2010 of \$2,513,854.	39,251,856	-

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

7. Bonds payable (continued):

	<u>2010</u>	<u>2009</u>
2010 Series 5 Bonds consist of \$12,435,000 Serial Bonds with interest at 1.0% 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.	<u>24,520,000</u>	<u>-</u>
Less current portion	<u>516,646,775</u> <u>(46,795,000)</u>	<u>502,454,768</u> <u>(44,020,000)</u>
	<u>\$ 469,851,775</u>	<u>\$ 458,434,768</u>

The annual requirements to amortize bonds payable as of December 31, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending December 31,			
2011	\$ 46,795,000	\$ 21,436,550	\$ 68,231,550
2012	42,950,000	19,797,530	62,747,530
2013	42,395,000	18,365,787	60,760,787
2014	38,660,000	16,834,902	55,494,902
2015	39,620,000	15,405,220	55,025,220
2016 to 2020	150,390,000	55,312,901	205,702,901
2021 to 2025	98,570,000	27,035,299	125,605,299
2026 to 2030	47,715,000	8,238,466	55,953,466
2031 to 2035	7,430,000	1,588,801	9,018,801
2036 to 2040	3,310,000	356,927	3,666,927
	<u>517,835,000</u>	<u>184,372,383</u>	<u>702,207,383</u>
Deferred Refunding Loss at December 31, 2010	(13,476,429)	-	(13,476,429)
Unamortized premium (discount) at December 31, 2010	<u>12,288,204</u>	<u>-</u>	<u>12,288,204</u>
	<u>\$ 516,646,775</u>	<u>\$ 184,372,383</u>	<u>\$ 701,019,158</u>

The deferred refunding loss at December 31, 2010 includes \$1,012,371 in 2003 Series 1 Bonds, \$304,532 in 2003 Series A Bonds, \$1,887,474 in 2004 Series 2 Bonds, \$2,970,693 in 2005 Series 2 Bonds, \$1,333,635 in 2005 Series 3 Bonds, \$1,311,433 in 2007 Series 2 Bonds, \$2,142,436 in 2009 Series 2 Bonds, and \$2,513,854 in 2010 Series 4 Bonds.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

7. Bonds payable (continued):

On September 2, 2010, the Bond Bank issued \$39,305,000 of 2010 Series 4 Refunding Bonds with rates of 2.0% to 5.0% to refund \$22,875,000 of 2000 Series 1 Bonds with interest rates of 5.0% to 5.625% and \$18,270,000 of 2001 Series 1 Bonds with interest rates of 4.5% to 5.25%. Net proceeds and existing reserves of \$43,021,010 were deposited in an irrevocable trust with an escrow agent to provide for payment of the refunded bonds. As a result, the 2000 Series 1 Bonds and \$18,270,000 of the 2001 Series 1 Bonds are considered to be defeased and the liability for those bonds has been removed from the Bond Bank's financial statements. The refunded 2000 Series 1 Bonds were called on December 1, 2010. The partially refunded 2001 Series 1 Bonds are defeased and still outstanding at December 31, 2010.

The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of \$2,633,561. This difference (net of accumulated amortization), reported in the accompanying financial statements as a deduction from bonds payable, will be charged to operations over the next 22 years.

The Bond Bank completed the advance refunding to reduce its total debt service payment over the next 22 years by \$6,852,298 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$5,609,742. With bond debt service savings, municipalities will receive interest savings of over \$4,322,215.

8. Reserve requirement:

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

	December 31, 2010		
	Deutsche Bank	Bank of NY	Total
Reserve Fund -			
Amortized value	\$ 1,008,662	\$ 44,268,604	\$ 45,277,266
Reserve requirement	345,000	40,211,108	40,556,108
Surplus	\$ 663,662	\$ 4,057,496	\$ 4,721,158
	December 31, 2009		
	Deutsche Bank	Bank of NY	Total
Reserve Fund -			
Amortized value	\$ 1,146,388	\$ 42,938,212	\$ 44,084,600
Reserve requirement	169,785	39,192,849	39,362,634
Surplus	\$ 976,603	\$ 3,745,363	\$ 4,721,966

The value includes amortization of premium or discount and accrued interest on securities held in the reserve funds. Restricted cash of \$254,056 and \$670,790 is included in the amortized value at December 31, 2010 and December 31, 2009, respectively.

**VERMONT MUNICIPAL BOND BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 2010.

10. Transfer to Bond Fund:

The transfer to the 2010 Bond Fund includes a transfer from the 2010 Operating Fund of \$263,020 for bond issue costs paid for by the Operating Fund net of a transfer to the 2010 Operating Fund of \$216,667 which represents savings resulting from the restructuring of investments in the reserve funds.

11. Pension plan:

The Bond Bank has a simplified employee pension plan for full-time regular employees. To be eligible, an active employee must be twenty-one years of age. The Bond Bank may make contributions each year. In 2010 and 2009, the Bond Bank funded the SEP Plan in the amount of \$10,906 and \$10,378, respectively.

12. Related party transactions:

The Bond Bank receives reimbursements from related parties for general and administrative services the Bond Bank provides. The total amounts receivable included in accounts receivable in the Operating Fund from the related parties are \$25,443 and \$69,547 as of December 31, 2010 and December 31, 2009, respectively.

13. Commitments:

On September 1, 2009, the Bond Bank entered into a lease agreement for a five-year term with annual rent payments of \$14,728. The lease agreement has two additional three-year terms at the option of the Bond Bank with rent adjusted in accordance with a consumer price index adjustment.

At December 31, 2010, the Bond Bank had committed to purchase mortgage backed securities at a cost of \$2,366,002. At year end, the fair market value of these commitments was \$2,343,489. In January 2011, certain of these securities were sold for \$1,503,786.

14. Subsequent events:

On March 23, 2011 the Bond Bank issued \$9,500,000 of 2011 Series 1 Bonds which consist of Federally Taxable Qualified School Construction Bonds. The Bond Bank anticipates the issuance of other new bond series to fund municipal loans in 2011.

**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 the financial statements of the Vermont Municipal Bond Bank, a component unit of the State of Vermont, as of and for the year ended December 31, 2010, and have issued our report thereon dated May 18, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Vermont Municipal Bond Bank's (the Bond Bank) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bond Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bond Bank's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vermont Municipal Bond Bank's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors and management of Vermont Municipal Bond Bank and is not intended to be and should not be used by anyone other than these specified parties.

Montpelier, Vermont
May 18, 2011

*Mudgett, Jennette E.
Kraigh-Wisner, P.C.*