VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY – OPERATING FUND (A COMPONENT UNIT OF THE STATE OF VERMONT)

FINANCIAL STATEMENTS AND REPORTS ON INTERNAL CONTROL AND COMPLIANCE

YEARS ENDED DECEMBER 31, 2022 AND 2021

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VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY – OPERATING FUND
(A COMPONENT UNIT OF THE STATE OF VERMONT)
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INDEPENDENT AUDITORS' REPORT

Members of the Board
Vermont Educational and Health Buildings Financing Agency
Burlington, Vermont

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the Vermont Educational and Health Buildings Financing Agency – Operating Fund (the Agency), a component unit of the state of Vermont, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2022, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

Prior Period Financial Statements

The basic financial statements of the Agency as of December 31, 2021 were audited by other auditors whose report dated July 14, 2022, expressed an unmodified opinion on those financial statements.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2023 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
June 2, 2023

This section of the Vermont Educational and Health Buildings Financing Agency's Annual Financial Statements presents readers of these financial statements a narrative, overview, and analysis of the financial activities of the Vermont Educational and Health Buildings Financing Agency for the fiscal years ended December 31, 2022 and 2021. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Organization

The Vermont Educational and Health Buildings Financing Agency (the Agency) provides tax-exempt conduit debt access for capital expenditures and refinancing of indebtedness for eligible 501(c)(3) Vermont health care entities, educational institutions and private libraries. Debt issued by the Agency does not constitute a debt of the State of Vermont, its legislature or any political subdivision.

Payments on the Agency's debt instruments are solely the responsibility of the borrowers and the trustees holding the related assets. The Agency has no general liability with respect to these obligations and has no beneficial interest in the assets held by trustees. As a result, the obligations are not reported as liabilities in these financial statements. Further, the related assets held by trustees are not reported as assets in these financial statements.

These financial statements present financial information solely for the Agency's Operating Fund. The discussion of the Agency's financial performance provides an overview of the Agency's financial activities for the fiscal years ended December 31, 2022 and 2021.

As of December 31, 2022, the Agency had 22 loans in an aggregate outstanding loan balance of $926.2 million.

Outstanding Revenue Bonds at December 31, 2022

Borrower Type	Number of Loans	Outstanding Balance as of December 31, 2022	Percent of Total
Health	13	$ 469,772,125	50.72%
Higher Education	5	425,930,000	45.99%
Primary and Secondary Education	4	30,471,247	3.29%
Total	22	$ 926,173,372	100.00%

As of December 31, 2021, the Agency had 20 loans in an aggregate outstanding loan balance of $929.5 million.

Outstanding Revenue Bonds at December 31, 2021

Borrower Type	Number of Loans	Outstanding Balance as of December 31, 2021	Percent of Total
Health	12	$ 494,101,866	53.16%
Higher Education	5	417,615,000	44.93%
Primary and Secondary Education	3	17,734,650	1.91%
Total	20	$ 929,451,516	100.00%

ASSETS

Total Assets decreased by $213,889 or 11.9% from 2021 to 2022. The change resulted from the decrease in the fair value of investments.

Asset Summary at December 31, 2022 and 2021

			Variance	
	2022	2021	Amount	Percent
Cash and Cash Equivalents	$ 130,343	$ 100,002	$ 30,341	30.34%
Investments	1,450,866	1,695,096	(244,230)	-14.41%
Total Assets	$ 1,581,209	$ 1,795,098	$ (213,889)	-11.92%

Total Assets increased by $70,639 or 4.1% from 2020 to 2021. The change resulted from increased cash and increased fair value of investments.

Asset Summary at December 31, 2021 and 2020

			Variance	
	2021	2020	Amount	Percent
Cash and Cash Equivalents	$ 100,002	$ 58,760	$ 41,242	70.19%
Investments	1,695,096	1,665,699	29,397	1.76%
Total Assets	$ 1,795,098	$ 1,724,459	$ 70,639	4.10%

LIABILITIES AND NET POSITION

Total liabilities increased $5,458, or 49.3% from 2021 to 2022. Liabilities as of December 31, 2022 exclusively consisted of accounts payable of $16,532 due to the Vermont Municipal Bond Bank (a related organization) which was paid in February 2023.

Liabilities and Net Position Summary at December 31, 2022 and 2021

			Variance	
	2022	2021	Amount	Percent
Liabilities	$ 16,532	$ 11,074	$ 5,458	49.29%
Net Position	1,564,677	1,784,024	(219,347)	-12.30%
Total Liabilities and Net Position	$ 1,581,209	$ 1,795,098	$ (213,889)	-11.92%

Total liabilities as of December 31, 2021 exclusively consisted of accounts payable of $11,074 due to the Vermont Municipal Bond Bank which was paid in January 2022.

Liabilities and Net Position Summary at December 31, 2021 and 2020

			Variance	
	2021	2020	Amount	Percent
Liabilities	$ 11,074	$ 6,542	$ 4,532	69.28%
Net Position	1,784,024	1,717,917	66,107	3.85%
Total Liabilities and Net Position	$ 1,795,098	$ 1,724,459	$ 70,639	4.10%

OPERATING SUMMARY

In 2022, the Agency issued two new bonds and one refunding bond. This was a decrease of one issuance from the previous year and resulted in a decrease in operating revenue. Issuer fees decreased from $117,188 in 2021 to $101,000 in 2022. This decrease in revenue was offset by decreased operating expenses.

Expenses decreased by $15,214 year over year largely as a result of variable costs associated with the decreased issuances and lower management fees due to lower shared salary expenses driven by staff vacancy savings.

Total revenues decreased by $300,668 or 105.1%, driven primarily by the unrealized losses on the investment portfolio due to poor market performance as a result of continued upward movement in interest rates. As a result of the above activity, the Agency's Net Position decreased by $219,347 versus an increase of $66,107 in the prior year.

Revenues and Expense Summary – Years ended December 31, 2022 and 2021

			Variance	
	2022	2021	Amount	Percent
Annual Fees from Borrowers	$ 60,263	$ 62,795	$ (2,532)	-4.03%
Initial Fees from Borrowers	101,000	117,188	(16,188)	-13.81%
Interest and Dividends	39,259	50,119	(10,860)	-21.67%
Net Appreciation (Depreciation) in Fair Value of Investments	(215,005)	56,083	(271,088)	-483.37%
Total Revenues	(14,483)	286,185	(300,668)	-105.06%
Total Expenses	204,864	220,078	(15,214)	-6.91%
Change of Net Position	$ (219,347)	$ 66,107	$ (285,454)	-431.81%

In 2021, the Agency issued two new and two refunding bonds. This was an increase of one issuance from the previous year and resulted in an increase in operating revenue. Issuer fees increased from $75,000 in 2020 to $117,188 in 2021. This increase in revenue was offset by increased operating expenses and reduced investment income.

Expenses increased by $32,326 from 2020 to 2021 largely as a result of variable costs associated with the increased issuances.

Total revenues increased by $20,427 or 7.7%, driven primarily by the higher issuance fees As a result of the above activity, the Agency's Net Position increased by $66,107 in 2021 versus an increase of $78,006 in 2020.

Revenues and Expense Summary - Years ended December 31, 2021 and 2020

			Variance	
	2021	2020	Amount	Percent
Annual Fees from Borrowers	$ 62,795	$ 62,290	$ 505	0.81%
Initial Fees from Borrowers	117,188	75,000	42,188	56.25%
Interest and Dividends	50,119	43,848	6,271	14.30%
Net Appreciation (Depreciation) in Fair Value of Investments	56,083	84,620	(28,537)	-33.72%
Total Revenues	286,185	265,758	20,427	7.69%
Total Expenses	220,078	187,752	32,326	17.22%
Change of Net Position	$ 66,107	$ 78,006	$ (11,899)	-15.25%

CONTACT FOR FURTHER INFORMATION

This financial report is designed to provide the reader with a general overview of the Agency's finances. Questions about this report or requests for additional financial information should be directed to Michael Gaughan, Executive Director, Vermont Educational and Health Buildings Financing Agency, 100 Bank Street, Suite 401, Burlington, VT 05401, at 802-861-0073 or michael@vtbondagency.org.

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY – OPERATING FUND
(A COMPONENT UNIT OF THE STATE OF VERMONT)
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	130,343	$ 100,002
Investments	1,450,866	1,695,096
Total Assets	$ 1,581,209	$ 1,795,098
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	16,532	$ 11,074
NET POSITION		
Unrestricted	1,564,677	1,784,024
Total Liabilities and Net Position	$ 1,581,209	$ 1,795,098

See accompanying Notes to Financial Statements.

VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY – OPERATING FUND
(A COMPONENT UNIT OF THE STATE OF VERMONT)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUES		
Annual Fees from Institutions	$ 60,263	$ 62,795
Initial Fees from Institutions	101,000	117,188
Total Operating Revenues	161,263	179,983
OPERATING EXPENSES	204,864	220,078
OPERATING INCOME (LOSS)	(43,601)	(40,095)
NONOPERATING REVENUES (EXPENSES)		
Interest and Dividends	39,259	50,119
Net Appreciation (Depreciation) in Fair Value of Investments	(215,005)	56,083
Total Nonoperating Revenues (Expenses)	(175,746)	106,202
CHANGE IN NET POSITION	(219,347)	66,107
Net Position - Beginning of Year	1,784,024	1,717,917
NET POSITION - END OF YEAR	$ 1,564,677	$ 1,784,024

See accompanying Notes to Financial Statements.

VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY – OPERATING FUND
(A COMPONENT UNIT OF THE STATE OF VERMONT)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from institutions:		
Annual Fees	$ 60,263	$ 62,795
Initial Fees	101,000	117,188
Cash Paid to Suppliers	(199,406)	(215,546)
Net Cash Used by Operating Activities	(38,143)	(35,563)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(75,440)	(175,323)
Proceeds from Sales of Investments	104,665	202,009
Interest and Dividends	39,259	50,119
Net Cash Provided by Investing Activities	68,484	76,805
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,341	41,242
Cash and Cash Equivalents - Beginning of Year	100,002	58,760
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 130,343	$ 100,002
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ (43,601)	$ (40,095)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used by Operating Activities:		
Increase (Decrease) in the Following Liabilities:		
Accounts Payable	5,458	4,532
Net Cash Used by Operating Activities	$ (38,143)	$ (35,563)

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Vermont Educational and Health Buildings Financing Agency (the Agency) is a public instrumentality of the State of Vermont created in 1966 and becoming operational in 1969. The Board of the Agency consists of four ex-officio members, seven members appointed by the Governor of the State of Vermont and two members selected by the appointed members. The Agency is considered a component unit of the State of Vermont and is included as part of the State of Vermont's financial reporting entity.

The purpose of the Agency is to facilitate financing for capital expenditures and refinancing of indebtedness for eligible Vermont health care, educational institutions and non-profit private libraries through the issuance of primarily tax-exempt debt instruments.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America (U.S. GAAP) in conformity with the principles of fund accounting as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes U.S. GAAP for governmental units.

The following is a summary of the significant accounting policies and financial statement presentation.

Basis of Presentation

The financial statement presentation follows the recommendations of GASB in its Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Agency is a special-purpose entity with only business-type activities. Under GASB Statement No. 34, such entities present only the financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

The Agency uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability for payment is incurred. Operating revenues include annual and initial fees from institutions. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Agency primarily issues tax-exempt bonds that do not constitute a debt of the state of Vermont, its legislature or any political subdivision. These debt instruments are payable solely from payments made by the related borrowing institutions and related assets held by trustees. The Agency has no general liability with respect to these obligations and has no beneficial interest in the related assets held by trustees. Accordingly, the bonds are not reported as liabilities and any related assets held by trustees are not reported as assets in these financial statements. Therefore, the financial statements present financial information solely for the Operating Fund. (See Note 5.)

Cash and Cash Equivalents

The Agency considers all cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Investments

The Agency's Board appointed Raymond James & Associates, Inc. as its investment advisor and custodian to oversee the Agency's investments. The Agency reports investments at fair value as discussed in Note 3 to the financial statements.

Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of any contingent assets and liabilities 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.

Prior Year Totals

Certain amounts presented in the statement of cash flows for the year ended December 31, 2021 have been reclassified to conform with the December 31, 2022 presentation. The reclassifications have no impact on the previously reported change in net position.

Adoption of New Accounting Standards

In May 2019, the GASB issued GASB Statement No. 91, Conduit Debt Obligations. This standard clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangement associated with conduit debt obligations.

The Agency adopted the requirements of the guidance effective January 1, 2022, and has applied the provisions of this standard to the beginning of the earliest comparative period presented.

NOTE 2 CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Agency's deposits may not be recovered. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

At December 31, 2022 and 2021, the Agency's depository accounts were fully insured or collateralized. At December 31, 2022 and 2021, respectively, cash and cash equivalents included $31,493 and $44,976, respectively, of deposits in an investment multibank cash sweep account held with the custodian which was FDIC insured.

NOTE 3 INVESTMENTS

The Agency has adopted an investment policy and investment procedures to guide management and the Board in the investment of Agency funds. The Agency's overall goal is to protect the assets of the Agency through the use of safe and predictable investments and to achieve growth in excess of inflation in order to provide income to supplement administration of current programs and provide a source of capitalization for new programs. The Agency's investment policy for long-term investments includes that the "prudent investor rule" shall be used for managing the Agency's assets.

As of December 31, 2022 and 2021, respectively, the Agency's investments of $1,450,866 and $1,695,096, respectively, consisted of investments in equity securities and mutual funds held by the custodian.

Fair Value and Classification

The Agency reports investments at fair value using quoted prices in active markets for identical assets or liabilities in active markets to which the organization has access at the measurement date. This is considered a level 1 input valuation technique under the framework established by U.S. GAAP for measuring fair value.

The fair value and classification of investments held at December 31 is as follows:

	Year ended December 31 (Level 1)	
	2022	2021
Large Company U.S. Stock	$ 326,491	$ 373,415
Small Company U.S. Stock	46,614	119,314
International	62,648	95,199
Specialty Stocks	43,591	45,032
Total Equities	479,344	632,960
Preferred Stock Mutual Funds	89,124	102,755
Fixed Income Mutual Funds	882,398	959,381
Total Investments	$ 1,450,866	$ 1,695,096

NOTE 3 INVESTMENTS (CONTINUED)

The Agency's Finance Committee developed an Investment Policy Statement which provides target allocations of asset classification that are reviewed quarterly by the Committee and are employed by the Agency's investment advisor. The Investment Policy Statement additionally provides guidelines for the fixed income and equity portfolios. These guidelines generally address standards related to credit quality, duration, and concentration. The Agency's asset allocations in its investment portfolios at December 31, 2022 and 2021 based on the investment advisor's analysis is as follows:

	Investment Policy Statement Range	Target Allocation	Allocation as of December 31, 2022
Large/Mid Company U.S. Stock	15% to 25%	20 %	21 %
Small Company U.S. Stock	1% to 5%	3	3
International Stock	2% to 8%	4	4
Specialty Stock	1% to 5%	3	3
Total Equities		30	31
Fixed Income Investments	45% to 65%	60	57
Preferred Stock	0% to 10%	5	6
Cash	0% to 15%	5	6
Total Fixed Income and Cash		70	69
Total		100 %	100 %

	Investment Policy Statement Range	Target Allocation	Allocation as of December 31, 2021
Large/Mid Company U.S. Stock	15% to 25%	20 %	22 %
Small Company U.S. Stock	1% to 5%	3	5
International Stock	2% to 8%	4	5
Specialty Stock	1% to 5%	3	3
Total Equities		30	35
Fixed Income Investments	45% to 65%	60	57
Preferred Stock	0% to 10%	5	4
Cash	0% to 15%	5	4
Total Fixed Income and Cash		70	65
Total		100 %	100 %

NOTE 3 INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will affect the fair value of certain investments. The Agency's investments in fixed income mutual funds of $971,522 at December 31, 2022 had an average duration of 5 years and the average maturity was 6 years based on information provided by the Agency's investment advisor. The Agency's investments in fixed income mutual funds of $1,062,136 at December 31, 2021 had an average duration of 5.8 years and the average maturity was 6.7 years based on information provided by the Agency's investment advisor.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency's investments in equity mutual funds and exchange traded funds at December 31, 2022 and 2021 were not rated. As of December 31, 2022 and 2021, respectively, the Agency's investments in preferred stock and fixed income mutual funds of $971,522 and $1,062,136, respectively, had an average credit quality of A based on information provided by the Agency's investment advisor.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of U.S. Treasury and federal agency bonds and notes, the Agency's Investment Policy Statement limits fixed income investments in any one issuer to 10%, and limits equity investments in any one company to 5% at cost or 8% at market of any manager's portfolio. At December 31, 2022 and 2021, the Agency did not hold more than these limits in any one issuer based on information provided by the Agency's investment advisor, and the Agency was not exposed to concentration of credit risk as no applicable investments with a single issuer exceeded 5% of total investments.

NOTE 4 RELATED PARTIES

The Agency has a memorandum of understanding with the Vermont Municipal Bond Bank (Bond Bank) for general and administrative services. The total amount paid during the year to the Bond Bank was $104,409 with an additional amount of $16,532 accrued and payable at December 31, 2022. During 2021, approximately $107,080 was paid to the Bond Bank with a payable of $11,074 accrued at December 31, 2021.

NOTE 5 CONDUIT DEBT OBLIGATIONS

The Agency provides tax-exempt conduit debt access for capital expenditures and refinancing of indebtedness for eligible 501(c)(3) Vermont health care entities, educational institutions and private libraries (entities). Debt issued by the Agency does not constitute a debt of the State of Vermont, its legislature or any political subdivision, and the bonds are payable solely from payments received from the entities. In addition, no commitments beyond the payments from these entities and maintenance of the tax-exempt status of the conduit debt obligations were extended by the Agency for any of those bonds. As of December 31, 2022, and 2021, respectively, revenue bonds and construction notes payable consisted of twenty-two and twenty borrowers, respectively, with aggregate principal amounts payable of $926,173,372 and $929,451,516, respectively.

NOTE 6 COMMITMENTS AND SUBSEQUENT EVENTS

The Agency's Board approved one conduit borrowing in January 2023 and another conduit borrowing in February 2023.

Management has evaluated subsequent events through June 2, 2023, 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*

Members of the Board
Vermont Educational and Health Buildings Financing Agency
Burlington, Vermont

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 Vermont Educational and Health Buildings Financing Agency – Operating Fund (Agency), a component unit of the state of Vermont, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 2, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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 or significant deficiencies may exist that were not identified.

Members of the Board
Vermont Educational and Health Buildings Financing Agency

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Agency'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 financial statements. 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 Agency'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 Agency's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
June 2, 2023