

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND**

**FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
AND
INDEPENDENT AUDITOR'S REPORTS**

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
DECEMBER 31, 2011 AND 2010**

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INDEPENDENT AUDITOR'S REPORT

The Members of the Board
Vermont Educational and Health
Buildings Financing Agency

We have audited the accompanying basic financial statements of the Vermont Educational and Health Buildings Financing Agency - Operating Fund, a component unit of the State of Vermont, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Agency'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 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 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 Educational and Health Buildings Financing Agency - Operating Fund as of December 31, 2011 and 2010, 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 a report, dated August 6, 2012, on our consideration of Vermont Educational and Health Buildings Financing Agency - Operating Fund'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.

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.

Montpelier, Vermont
August 6, 2012

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

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

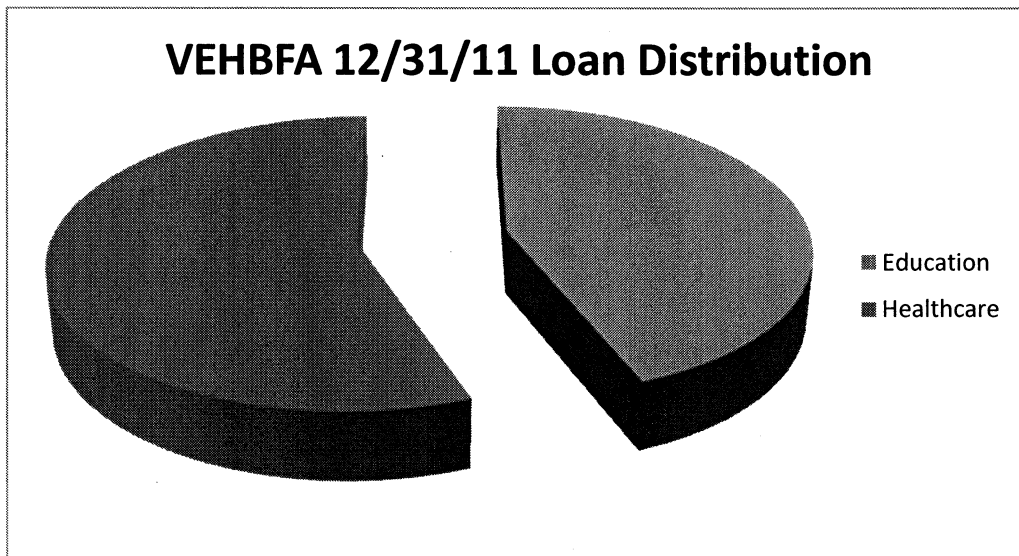
The Vermont Educational and Health Buildings Financing Agency (the "Agency") facilitates financing for capital expenditures and refinancing of indebtedness for eligible 501(c)(3) Vermont health care, educational institutions and private libraries through the issuance of primarily tax-exempt debt instruments. The Agency issues debt instruments, which 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. As a result, the Agency has elected to exclude these obligations and related assets held by trustees from the 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 year ended December 31, 2011.

Financial Highlights

In 2011, the Agency issued \$29,750,000 in new and refunding bonds on behalf of three borrowers. In 2010, the Agency issued \$246,725,117 of new and refunding bonds on behalf of eight borrowers. Initial fees from borrowers decreased 76%, from \$227,078 in 2010 to \$55,320 in 2011. This decrease in initial fees correlates with the decrease in the par amount issued of new and refunding bonds from 2010 to 2011.

Outstanding Revenue Bonds at 12/31/11

	Total Borrowers	Total Amount
Education	11	\$445,985,097
Health	16	\$560,734,732
Total	27	\$1,006,719,830



Assets

Total Assets decreased by \$52,120 or 4.3% from 2010 to 2011. Assets are made up primarily of cash and cash equivalents and investments. In 2011, the Agency began actively investing its cash and cash equivalents through a portfolio of fixed and equity investments, resulting in a reclassification of funds from cash to investments.

Asset Summary

	2011	2010	Variance	
			Amount	Percent
Cash & Cash Equivalents	\$156,500	\$1,209,010	(\$1,052,510)	-87.1%
Investments	\$1,011,730	\$0	\$1,011,730	---
Accounts Receivable	\$0	\$11,340	(\$11,340)	-100.0%
Total Assets	\$1,168,230	\$1,220,350	(\$52,120)	-4.3%

Liabilities and Net Assets

Net Assets decreased \$41,488 from 2010 to 2011, or 3.5%.

Liabilities & Net Assets Summary

	2011	2010	Variance	
			Amount	Percent
Liabilities	\$11,758	\$22,390	(\$10,632)	-47.5%
Net Assets	\$1,156,472	\$1,197,960	(\$41,488)	-3.5%
Total Liabilities & Net Assets	\$1,168,230	\$1,220,350	(\$52,120)	-4.3%

Operating Summary

The financial activities of the Agency in 2011 had no significant events to report. Revenue in 2011 amounted to \$154,329 which represents a decrease of \$173,919 from the prior year's revenue of \$328,397. Investment earnings were down by \$19,222 in 2011 due primarily to extremely low interest rates in the investment portfolio. Initial fee income was down by \$171,758 from 2010's \$227,078 to 2011's \$55,320. This decrease was due primarily to the decreased bond activity from 2010 to 2011. Operating expenses of \$176,744 represent a decrease of \$160,188 over the prior year's expenses of \$336,932, again due to decreased bond activity.

2011 Revenue & Expense Summary

	2011	2010	Variance	
			Amount	Percent
Annual Fees	\$99,009	\$101,170	(\$2,161)	-2.1%
Initial Fees	\$55,320	\$227,078	(\$171,758)	-75.6%
Investment Income	(\$19,073)	\$149	(\$19,222)	-1290.7%
Total Revenue	\$154,329	\$328,397	(\$173,919)	-58.8%
Total Expenses	\$176,744	\$336,932	(\$160,188)	-47.5%
Increase (Decrease) in Net Assets	(\$41,488)	(\$8,535)	(\$32,953)	-386.1%

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 Robert W. Giroux, Executive Director, Vermont Educational and Health Buildings Financing Agency, Champlain Mill, 20 Winooski Falls Way, Suite 305, Winooski, VT 05404, at 802-654-7377 or Bobg@vtbondagency.org.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 156,500	\$ 1,209,010
Investments	1,011,730	-
Accounts receivable	<u>-</u>	<u>11,340</u>
Total current assets	<u>1,168,230</u>	<u>1,220,350</u>
Total assets	\$ <u>1,168,230</u>	\$ <u>1,220,350</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ <u>11,758</u>	\$ <u>22,390</u>
Total liabilities	11,758	22,390
Net assets	<u>1,156,472</u>	<u>1,197,960</u>
Total liabilities and net assets	\$ <u>1,168,230</u>	\$ <u>1,220,350</u>

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

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Annual fees from institutions	\$ 99,009	\$ 101,170
Initial fees from institutions	<u>55,320</u>	<u>227,078</u>
Total operating revenue	154,329	328,248
OPERATING EXPENSES	<u>176,744</u>	<u>336,932</u>
OPERATING LOSS	(22,415)	(8,684)
NONOPERATING REVENUE:		
Interest and other investment revenue (loss)	<u>(19,073)</u>	<u>149</u>
INCREASE (DECREASE) IN NET ASSETS	(41,488)	(8,535)
NET ASSETS, beginning of year	<u>1,197,960</u>	<u>1,206,495</u>
NET ASSETS, end of year	\$ <u>1,156,472</u>	\$ <u>1,197,960</u>

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

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from institutions -		
Annual fees	\$ 99,009	\$ 101,170
Initial fees	66,660	215,738
Cash paid to suppliers	(141,386)	(293,742)
Cash paid to employees	<u>(45,990)</u>	<u>(45,692)</u>
Net cash used in operating activities	<u>(21,707)</u>	<u>(22,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,060,102)	-
Earnings on investments	<u>29,299</u>	<u>149</u>
Net cash provided (used) by investing activities	<u>(1,030,803)</u>	<u>149</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,052,510)	(22,377)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,209,010</u>	<u>1,231,387</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>156,500</u>	\$ <u>1,209,010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (22,415)	\$ (8,684)
Adjustments to reconcile operating loss to net cash used in operating activities -		
(Increase)/decrease in following assets -		
Accounts receivable	11,340	(11,340)
Increase/(decrease) in following liabilities -		
Accounts payable	<u>(10,632)</u>	<u>(2,502)</u>
Net cash used in operating activities	\$ <u>(21,707)</u>	\$ <u>(22,526)</u>

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

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

1. Summary of operations and significant accounting policies:

Operations:

The Vermont Educational and Health Buildings Financing Agency (the Agency) is a public instrumentality of the State of Vermont created in 1966 and 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 libraries through the issuance of primarily tax-exempt debt instruments.

Accounting policies:

The accounting policies of the Agency conform to generally accepted accounting principles. The following is a summary of the significant accounting policies and financial statement presentation.

- A. Basis of presentation - 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 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.
- B. Measurement focus and basis of accounting - The Agency 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 annual and initial fees from institutions. The accounts of the Agency are maintained in accordance with the principles of fund accounting.

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 Agency has elected not to follow subsequent private-sector guidance.

- C. Reporting entity - The Agency issues primarily tax-exempt instruments, which 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. The Agency has elected to exclude these obligations (Note 4), and related assets held by trustees, from the financial statements. Therefore, the financial statements present financial information solely for the Operating Fund.

- D. Cash equivalents - The Agency considers money market funds to be cash equivalents.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

1. Summary of operations and significant accounting policies (continued):

- E. Investments - The Agency's Board appointed Raymond James & Associates, Inc. as trustees to oversee the Agency's investments. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.
- G. Income taxes - As a public instrumentality of the State of Vermont, the Agency is a tax-exempt entity. Therefore, there is no provision for income taxes.

2. Custodial credit risk - deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be recovered. At December 31, 2011, uninsured cash and cash equivalents included \$130,281 of uninsured deposits in JP Morgan Prime Money Market Fund. The money market fund was rated AAAM by Standard & Poor's Investors Services. The Agency's investment policy states that cash and near cash investments include the use of FDIC insured accounts or AAA/Aaa rated money market funds. At December 31, 2010, cash and cash equivalents included \$1,209,010 of uninsured deposits in Fidelity Institutional Money Market Funds Government Portfolio Class III. This money market fund was rated Aaa by Moody's Investors Services.

3. Related party transactions:

The Agency reimburses a related party for general and administrative services. The total amount paid during the year to the related party was approximately \$90,227 with an additional amount of \$9,251 accrued and payable at December 31, 2011. During 2010, approximately \$110,738 was paid to the related party with a payable balance of \$6,559 at December 31, 2010.

4. Revenue bonds payable:

As of December 31, 2011 and 2010, revenue bonds and construction notes payable of the Agency's underlying borrowers consisted of 27 and 31 series with aggregate principal amounts payable of \$1,006,719,830 and \$1,095,171,894, respectively. The Agency has no obligation for the borrowers' loan balances as discussed in Note 1.C. above.

Due to the difficulty involved in obtaining updated terms for each bond and note outstanding, the Agency has elected to disclose the aggregate amounts outstanding at year-end consistent with Governmental Accounting Standards Board Interpretation No. 2.

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS
FINANCING AGENCY - OPERATING FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

5. Investments:

The Agency has adopted an Investment Policy and Investment Procedures to guide management and the Board in the investment of Agency funds. According to the investment policy and procedures 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 the following:

- Minimum dollar-weighted average credit quality shall be AA;
- Duration will be maintained within a range of 80% to 120% of the appropriate benchmark;
- With the exception of U.S. Treasury, Agency, and agency mortgage issues, maximum allocation per issuer is 5%;
- Below investment grade bonds are limited to 10% of the portfolio;
- Futures and options are permitted, but the net position is limited to 5% of assets; and
- Investments in the portfolio must be valued in U.S. dollars.

Other than \$130,281 of money market funds, investments with the custodian as of December 31, 2011 consist of \$1,011,730 of mutual funds.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2011, the Agency's investments are rated as follows:

Rating by Standard & Poor's Ratings Services	Mutual Funds
AA	\$ 235,247
A	133,201
BBB	131,482
BB	95,761
Not rated	<u>416,039</u>
	<u>\$ 1,011,730</u>

Interest rate risk - Changes in market interest rates will affect the fair value of an interest-earning investment over time. The weighted average duration for investments is as follows:

	Weighted Average Duration (Years)
Mutual Funds - Fixed Income	<u>\$ 635,764</u> <u>2.40</u>

6. Commitments and subsequent events:

Subsequent to year end, the Agency authorized the issuance of \$135,000,000 in new bonds to two borrowers.

**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 Members of the Board
Vermont Educational and Health
Buildings Financing Agency

We have audited the financial statements of the Vermont Educational and Health Buildings Financing Agency - Operating Fund, a component unit of the State of Vermont, as of and for the year ended December 31, 2011, and have issued our report thereon dated August 6, 2012. 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

Management of Vermont Educational and Health Buildings Financing Agency - Operating Fund (the Agency) is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's 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 the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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 internal control 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 the Agency'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 and management of the Agency and is not intended to be and should not be used by anyone other than these specified parties.

Montpelier, Vermont
August 6, 2012

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