This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there by any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 26, 2004

New Issue

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$118,000,000*
STATE OF VERMONT
General Obligation Refunding Bonds
2004 Series A

Dated: Date of Delivery **Due:** February 1, as shown below

The 2004 Series A Bonds (the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $1,000 or any integral multiple thereof for Bonds maturing on or before February 1, 2009 and in the denomination of $5,000 or any integral multiple thereof for Bonds maturing after February 1, 2009. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds (See "BOOK-ENTRY ONLY SYSTEM" herein).

Interest on the Bonds will be payable semiannually on February 1 and August 1, commencing August 1, 2004. The Bonds will be subject to redemption prior to maturity as more fully described herein.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS-Security for the Bonds" herein.

2004 Series A Bonds

Due February 1*	Principal Amount*	Interest Rate	Yield	CUSIP Number†	Due February 1*	Principal Amount*	Interest Rate	Yield	CUSIP Number†
2005	$11,855,000				2011	$8,405,000			
2006	14,280,000				2012	8,160,000			
2007	11,445,000				2013	7,185,000			
2008	13,780,000				2014	7,150,000			
2009	13,125,000				2015	7,100,000			
2010	12,185,000				2016	3,330,000			

The Bonds are offered subject to the final approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about February _, 2004.

Citigroup **UBS Financial Services Inc.**

February , 2004

* Preliminary, subject to change.

† Copyright 2003, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the State does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

STATE OF VERMONT

ELECTED OFFICERS

Name	Title
JAMES H. DOUGLAS	Governor
BRIAN E. DUBIE	Lieutenant Governor
GEORGE B. "JEB" SPAULDING	Treasurer
DEBORAH L. MARKOWITZ	Secretary of State
ELIZABETH M. READY	Auditor of Accounts
WILLIAM H. SORRELL	Attorney General

BOND COUNSEL
Orrick, Herrington & Sutcliffe LLP
New York, New York

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES DESCRIBED IN THIS OFFICIAL STATEMENT HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO DEALER, BROKER, SALESPERSON, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER, SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE STATE OF VERMONT SINCE THE DATE HEREOF.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND CERTAIN DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

TABLE OF CONTENTS

Page

INTRODUCTORY STATEMENT 1

Payment and Security for the Bonds 1

THE BONDS 1

Description of the Bonds 1
Authorization and Purpose 2
Security for the Bonds 2
Record Date 2
Optional Redemption 3

PLAN OF REFUNDING 3

BOOK-ENTRY ONLY SYSTEM 4

STATE GOVERNMENT 5

Governmental Organization 5

STATE ECONOMY 7

General 7
Demographic Trends 7
Property Valuation 9
Economic Activity 10
Economic Forecast -- Summary Data 18
Composition of the Vermont Economy 18
Largest Private Employers 22
Income Levels and Income Growth Performance 22
Employment Statistics 23
Transportation 24
Utilities 24

STATE FUNDS AND REVENUES 25

Budget Process 25
Internal Control System 25
New Statewide Financial Management Information System 26
Generally Accepted Accounting Principles and GASB Statement No. 34 26
Issues in the Preparation of the CAFR for Fiscal Year 2002 26
Fund Structure 27
Governmental Fund Types 27
Proprietary Fund Types 28
Fiduciary Fund Types 28
Account Group 28
GAAP-Based Fund Results 29
State General Fund Revenues 29
State Transportation Fund Revenues 31
Education Fund; Act 60 and Act 68 - Property Tax Reform 31
Federal Receipts 33
Tobacco Litigation Settlement Fund 33
Recent Proposed Tax Changes 33

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS 34

Fiscal Year 2001 34
Fiscal Year 2002 35
Fiscal Year 2003 (Preliminary – unaudited) 35
Fiscal Year 2004 General, Transportation and Education Funds to Date 36
Fiscal Year 2004 General Fund Results to Date 37
Fiscal Year 2004 Transportation Fund Results to Date 37
Fiscal Year 2004 Education Fund Results to Date* 37
Budget Stabilization Reserves 37
Financial Summaries 38

Page

REVENUE ESTIMATES 42

MAJOR GENERAL FUND PROGRAMS AND SERVICES 46

Human Services 46
Aid to Municipalities 47
Higher Education 48

GOVERNMENTAL FUNDS OPERATIONS 48

STATE INDEBTEDNESS 50

State Indebtedness and Procedure for Authorization 50
Debt Statement 51
Selected Debt Statistics 53
Capital Debt Affordability Advisory Committee 54
Debt Service Requirements 55
Short-Term Debt 57
Total Authorized Unissued Debt 57
Contingent Liabilities 58
Reserve Fund Commitments 58

PENSION PLANS 59

EMPLOYEE RELATIONS 64

LITIGATION 64

TAX MATTERS 64

FINANCIAL ADVISOR 66

VERIFICATION OF MATHEMATICAL COMPUTATIONS 66

RATINGS 66

LEGAL MATTERS 67

CERTIFICATES OF STATE OFFICERS 67

Absence of Litigation 67
The Governor's and Treasurer's Certificate 67

CONTINUING DISCLOSURE AGREEMENT 67

UNDERWRITING 67

ADDITIONAL INFORMATION 68

APPENDIX A – State of Vermont Annual Financial Report for the Fiscal Year Ended June 30, 2002 ..... A-1

APPENDIX B – Form of Continuing Disclosure Agreement B-1

APPENDIX C – Form of Bond Counsel Opinion C-1

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF VERMONT

$118,000,000*
GENERAL OBLIGATION REFUNDING BONDS
2004 SERIES A

INTRODUCTORY STATEMENT

This Official Statement of the State of Vermont (the "State"), including the cover page and appendices, is provided for the purpose of presenting certain information relating to the State in connection with the sale of $118,000,000* aggregate principal amount of its General Obligation Refunding Bonds, 2004 Series A (the "Bonds"). See "THE BONDS" herein for a description of the Bonds and the security therefor.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS--Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated the date of delivery and will mature on February 1 in each of the years as set forth on the cover page of this Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the cover page of this Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $1,000 or any integral multiple thereof for Bonds maturing on or before February 1, 2009 and in principal amounts of $5,000 or any integral multiple thereof for Bonds maturing after February 1, 2009 on the records of the Depository Trust Company, New York, New York ("DTC") and its Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of Chittenden Trust Company, Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 1, and August 1, commencing August 1, 2004, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

---

* Preliminary, subject to change.

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, pursuant to Section 961, Chapter 13, of Title 32 of the Vermont Statutes Annotated (the "Refunding Bond Act"). The Bonds are being issued to provide funds to refund certain of the State's outstanding general obligation bonds as described under "PLAN OF REFUNDING."

The Refunding Bond Act is a part of the State Taxation and Finance Law, Chapter 13 of Title 32 of the Vermont Statutes Annotated (the "General Obligation Bond Law"). The Refunding Bond Act authorizes the State Treasurer, with the approval of the Governor, to issue general obligation bonds to refund all or any portion of one or more issues of general obligations bonds at any time after the issuance of the bonds to be refunded and to refinance outstanding certificates of participation or long-term lease purchase agreements. The Refunding Bond Act further authorizes the State Treasurer to contract with a bank or trust company to serve as escrow agent for the proceeds of the refunding bonds.

The Refunding Bond Act provides that the portion of the proceeds of refunding bonds deposited with the escrow agent and required for the payment of the bonds to be refunded shall be irrevocably committed and pledged to such purpose and the holders of the refunded bonds shall have a lien upon such moneys and investments which shall become valid and binding upon the issuance of the refunding bonds, without any further act (including, without limitation, the filing or recording of the escrow contract) and that the pledge and lien upon such moneys and investments shall become valid and binding against all parties having claims of any kind in tort, contract or otherwise, against the State, irrespective of whether such parties have notice thereof.

In addition to the Bonds, the State expects to issue approximately $42,200,000 aggregate principal amount of its General Obligation Bonds 2004 Series B (the "2004 Series B Bonds") in the near future to finance certain capital projects.

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues thereof, see "STATE FUNDS AND REVENUES" and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see "STATE INDEBTEDNESS--State Indebtedness and Procedure for Authorization" herein.

Record Date

The record date for each payment of interest is the fifteenth day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Optional Redemption

The Bonds maturing on and prior to will not be subject to redemption prior to maturity.

The Bonds maturing on and after will be subject to redemption prior to maturity, at the option of the State, on and after , either in whole or in part at any time and by lot within a maturity, at a redemption price of % of the principal amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

If less than all of the Bonds of a particular maturity are called for redemption, the Bonds within such maturity to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the State by lot in such manner as the State in its discretion may determine.

Notice of redemption of Bonds, specifying the maturities and dates of Bonds to be redeemed, the redemption date, the redemption prices, expressed as a percentage of the principal amount and the place or places of payment of the redemption price and the numbers and portions of the Bonds to be redeemed, shall be mailed, postage prepaid, by the Paying Agent not more than 60 days and not less than 30 days prior to the date set for redemption to the registered owners of any Bonds or portions of Bonds to be redeemed, at their last addresses appearing on the registry books kept by the Paying Agent. Failure to mail such notice to the owner of any Bond will not affect the redemption of any other Bonds. If moneys for the redemption are held by the Paying Agent on the redemption date and if notice of the redemption shall have been duly mailed, then from and after the redemption date interest on the Bonds (or the portions thereof) called for redemption shall cease to accrue.

PLAN OF REFUNDING

The Bonds are being issued for the purpose of providing funds to refund certain of the State's general obligation bonds (the "Refunded Bonds"). The Refunded Bonds will consist of the State's general obligation bonds listed in the following table:

Series	Maturity Date	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price

Upon delivery of the Bonds, the State will enter into an Escrow Agreement (the "Escrow Agreement") with Chittenden Trust Company, as Escrow Agent (the "Escrow Agent"). Upon receipt of the proceeds of the Bonds, the Escrow Agent will deposit in the Escrow Fund established under the Escrow Agreement an amount which will be invested in direct obligations of the United States of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts and bearing interest at rates sufficient to pay when due interest on and, on the redemption date, the outstanding principal of and redemption premium, if any, on the Refunded Bonds. The Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Refunded Bonds.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State and the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and the State takes no responsibility for the accuracy thereof.

THE STATE CANNOT AND DOES NOT GIVE ANY ASSURANCE THAT DTC WILL DISTRIBUTE TO PARTICIPANTS, OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE TO BENEFICIAL OWNERS, PAYMENTS OF PRINCIPAL OF, INTEREST AND PREMIUM, IF ANY, ON THE BONDS, OR ANY OTHER NOTICE OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE OR ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NEITHER THE STATE NOR THE UNDERWRITERS ARE RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENTS OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE BONDS OR ANY ERROR OR DELAY RELATING THERETO.

STATE GOVERNMENT

Governmental Organization

The Constitution of Vermont provides for three traditional branches of Government--the Legislative, the Executive and the Judicial. The elected officers of the State are the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts and the Attorney General. All are elected at general elections for a term of two years, and each may succeed himself or herself in office with no limitation on terms.

The Legislative Branch: The bicameral General Assembly of Vermont convenes biennially with an adjourned session in the biennium. The House of Representatives has 150 members and the Senate has 30 senators. Members of the House of Representatives and Senate are elected for two-year terms in each general election. Bills for the raising of revenues must originate in the House of Representatives but may be amended or rejected by the Senate.

The Executive Branch: All constitutional officers of the State reside in the Executive Branch. The Governor is responsible for the faithful execution of all laws enacted by the Legislature and the management of the major departments and agencies of the Executive Branch, briefly described as follows:

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Personnel, the Department of Buildings and General Services.

(2) Agency of Transportation: The Agency consists of five functional divisions which are responsible for the planning, design, construction, maintenance and operation of State highways, railroads, and airports and the Department of Motor Vehicles which is responsible for the administration of motor vehicle registrations, drivers' licenses and other motor vehicle regulations. The Agency of Transportation is responsible for the administration and collection of the motor vehicle purchase and use and motor fuel taxes as well as motor vehicle registrations and renewals and driver's license fees.

(3) State Board of Education: The State Board of Education consists of seven persons, all of whom are appointed by the Governor with the advice and consent of the Senate. The State Board of Education has supervision over and management responsibilities for the Department of Education and the public school system and has the power to establish such advisory commissions as in the judgment of the Board will be of assistance to it in carrying out its duties. The Board has the authority to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; to examine and determine all appeals made to it; and to make regulations governing the certification and qualification of all public school teachers.

(4) Agency of Natural Resources: The Agency consists of the Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, the Department of Environmental Conservation, the Division of Protection, the Interagency Committee on Natural Resources and the State Natural Resources Conservation Council. The Environmental Board, the Interstate Commission on the Lake Champlain Basin and the New England Interstate Water Pollution Control Commission are attached to the Agency for the purposes of administrative support.

(5) Agency of Commerce and Community Development: The resources of the Agency of Commerce and Community Development are utilized to foster continued improvement in the Vermont economy and provide assistance to Vermont communities in their efforts to plan for the future. The Agency is composed of the Department of Economic Development, the Department of Housing and Community Affairs, the Division for Historic Preservation, the Department of Tourism and Marketing, and Vermont Life Magazine.

(6) Agency of Human Services: The Agency of Human Services administers the programs responsible for meeting the human service needs of Vermont citizens. The Agency is composed of the Departments of Social and Rehabilitation Services, Prevention, Assistance, Transition and Health Access, Corrections, Health, Developmental and Mental Health Services, Aging and Disabilities, and the Offices of Child Support, State Economic Opportunity, Alcohol and Drug Abuse, and Rate Setting.

(7) Other Agencies and Departments: There are a number of other agencies and departments responsible for other service areas within the Executive Branch as follows: the Agency of Agriculture, Food and Markets, the Department of Banking, Insurance, Securities and Health Care Administration, the Department of Employment and Training, the Department of Labor and Industry, the Department of

Libraries, the Department of Liquor Control, the Military Department, the Department of Public Safety, the Department of Public Service and the Public Service Board.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, and Superior, District, Family, Environmental, and Probate Courts and the Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices. There are 32 Trial Judges sitting in the Superior, District and Family Courts, including one Administrative Judge. The Family Court also has five magistrates. The Environmental Court has one Judge. All judges are appointed by the Governor with the advice and consent of the Senate for six-year terms. The Judicial Bureau has four hearing officers appointed by the Administrative Judge. The Probate Court has eighteen districts in the State, each with a Probate Judge elected by the electorate of their respective districts for terms of four years.

There are fourteen counties in the State. Their administration consists of two Assistant Judges of each Superior Court, one or two Judges of Probate, a State's Attorney and a Sheriff, all of whom are elected quadrennially. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executory in that the major responsibilities and functions of government pass directly from the State to the cities and towns.

STATE ECONOMY

General

Vermont, which is known as the Green Mountain State, was first settled in 1666 when the French built Fort St. Anne on Isle LaMotte in Lake Champlain. The first English settlement was in 1690 at a location that is now the southern Vermont town of Vernon. Vermont ratified the United States Constitution on January 10, 1791 and joined the Union as the fourteenth State on March 4 of the same year. Rural in character, Vermont measures 9,615 square miles (including land and water area), ranking the State 45th among the 50 states. In terms of land area only, Vermont's 9,249 square miles ranks it 43rd among the 50 states. Vermont's population as measured by the 2000 Census on April 1, 2000 was 608,827, a ranking of 49th among the fifty states, which ranking is unchanged since the 1990 Census (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 in 2000. Population counts as of April 1, 2000 indicate the State's largest cities and towns are Burlington, population 38,889; Essex, population 18,626; Rutland, population 17,292; Colchester, population 16,986; and Bennington, population 15,737.

Demographic Trends

Mid-year estimates from the Census Bureau for 2002 show that Vermont's population grew by an estimated 4,000 persons between 2001 and 2002, representing a 0.6% rate of increase. That rate of increase was slower than the 1.1% increase in population for the nation between 2001 and 2002, and was approximately the same as the 0.7% rate of population increase experienced for the New England region as a whole. Vermont experienced a growth of an estimated 51,800 persons (rounded) between 1990 and 2002, representing an average annual rate of 0.8% per year. That represented a slightly faster annual rate of increase over the 1990-2002 timeframe than the 0.6% rate of growth per year that was experienced by the New England region as a whole. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 1.2% per year over the same period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970-2002

	----------Vermont----------		----------New England[1]----------		----------United States---------	
Year	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]
2002	617	0.6%	14,144	0.7%	288,369	1.1%
2001	613	0.5	14,052	0.7	285,318	1.1
2000	610	0.8	13,952	0.5	282,224	1.2
1990	565	1.0	13,229	0.7	249,623	0.9
1980	513	1.4	12,372	0.4	227,225	1.1
1970	446	--	11,878	--	203,792	--

1 The New England states are: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
2 All population estimates are as of July 1 of the year indicated.
3 For 2002 and 2001, the annual percentage increase is calculated versus the previous year. For 1970, 1980, 1990 and 2000, the annual percentage increase is the average annual increase during the preceding ten-year period.
SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the Census Bureau indicates that in 2002 the median age of the Vermont population was 38.8 years, 3.1 years older than the national average median age of 35.7 years. Among the various age groupings, Vermont has a proportionally higher concentration of persons in the 18 years and older age category (at 77.3% of the State's population versus 74.7% of the total population of the United States), and a concentration that is slightly higher than the New England regional average in that age group (at 77.3% for Vermont versus 76.7% for the New England region). Vermont has below average age concentrations in the under 5 years age category (at 5.1% of the State's total population) relative to both the New England average (at 6.0% of the New England regional population) and U.S. average (at 6.8% of the total U.S. population). Vermont also had a below average concentration in the over 65 years age category (at 12.9% of the State's population) relative to the New England average concentration (at 13.5% of the regional population). However, the percentage of Vermont's population in the over 65 years age category (at 12.9% of the State population) was slightly higher than that for the U.S. population as a whole (at 12.3% of the U.S. population overall). Vermont also has a slightly higher percentage of its population in the 85 years and older category (at 1.7% of the State total) relative to the U.S. population (at 1.6% of the U.S. population), but a slightly lower percentage than the New England region as a whole (at 1.9% of the New England regional population).

The Vermont population has a significantly higher level of educational attainment than the U.S. population as a whole according to the latest data from the U.S. Bureau of the Census (March 2002). Table 2 shows that a total of 87.4% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 21st among the 50 states and above the national average of 84.1%. In addition, 30.8% of Vermont residents over 25 years of age have received a four-year college degree, which ranks Vermont seventh highest among the 50 states. The percentage of Vermont residents aged 25 years and over with a four-year college degree exceeds the comparable national average of 26.7% of residents with a four-year college degree.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of March 2002

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	87.4%	21st	84.1%
COLLEGE:			
Bachelor's Degree or More	30.8%	7th	26.7%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the 2000 Census also indicates that Vermont's population remains primarily rural. A total of 72.2% of the State's population lived outside of the State's single metropolitan area—the highest percentage among the 50 states. Vermont's percentage as of April 1, 2000 was over 3½ times the national average percentage of persons living outside of metropolitan areas (19.7%), and was almost seven times the average for the Northeast U.S.

Table 3
Metropolitan vs. Non-Metropolitan Area Populations
As of April 1, 2000

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	225,968	80.3%	55,453	19.7%
Northeast	47,986	89.5	5,608	10.5
New England	11,707	84.1	2,215	15.9
Vermont	169	27.8	439	72.2

SOURCE: Bureau of the Census, U.S. Department of Commerce.

Property Valuation

Annually, the Vermont Tax Department through its Division of Property Valuation and Review conducts a study of all the grand lists (i.e., tax rolls) prepared by the towns in the State. The purpose of this study, commonly known as the "Equalization Study," is to derive estimates of the fair market value of all of the property in the State in order to determine the property tax rates. Since most towns' grand lists are not at the statutorily required 100 percent fair market value standard in any given year, the study attempts to bring all property on the grand lists to 100 percent of market value, thereby "equalizing" all values statewide.

In general, equalized property values were determined by comparing grand list values to actual market sales or property appraisals and deriving the ratio representing that relationship for each municipality. The resulting estimates for property in each municipality were then aggregated to derive an estimate of the market value of all property in the State.

Changes to Vermont Statutes due to Act 178 of the 1996 Session of the Vermont Legislature (changing the agricultural and forest taxation program to reflect the value of property based on its "Current Use") and Act 60 of the 1997 Session (changing the method of education financing in Vermont) altered the nature of determining the value of taxable property under Vermont Law. The changes had the following effects: (1) the Current Use program requires municipalities to assess property enrolled in that program at their "use" value as opposed to market value;

and (2) the definition of taxable property now reflects only the total fair market value or use value of property that is subject to taxation for school purpose.

The State's Current Use program provides for property taxation of active agricultural land, farm buildings, conservation and managed forest land at their productive use value rather than fair market value. Use value is almost always lower than market value resulting in lower values included in the grand lists.

Change in the composition of the grand list under Act 60 also reduced the value of total taxable property for funding schools. First, machinery and equipment and inventory are exempted from the education property tax. Second, property is excluded from the taxable property value (for a period up to 10 years) as a result of locally voted exemptions and stabilization agreements approved prior to July 1, 1997.

Table 4 sets forth the fair market value of all taxable property in the State as certified by the Division of Property Valuation and Review from 1990 to 1996 and comparable estimates for 1997 through 2002. The estimates from 1997 - 2002 include an estimate of the fair market value of property enrolled in the Current Use Program. These later values have not been certified by the Division of Property Valuation and Review.

Table 4
Equalized Property Values
1990-2002

Equalization Date As of April 1,	Fair Market Value
2002**	$46,929,258,396
2001**	43,942,727,721
2000**	41,358,590,703
1999**	39,053,369,590
1998**	38,967,094,160
1997**	38,399,375,459
1995*	37,558,139,758
1993*	36,471,723,016
1992	36,766,102,513
1991	35,286,508,007
1990	31,300,748,717

* After 1992 and beginning with 1993, the Fair Market Value and Assessed Value of all taxable property in the State is equalized every two years. Beginning in 1998, equalization studies were again conducted annually by the Division of Property Valuation and Review.
** Estimated, based on an estimate for the difference between the Fair Market Value and the Use Value of property enrolled in the Current Use Program. The estimate of the amount of the exemptions for property enrolled in the Current Use Program in 1997 was $744.8 million, $792.3 million in 1998, $816.7 million in 1999, $866.1 million in 2000, $924.4 million in 2001, and $1,157.9 million in 2002.
SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Economic Activity

The opinions set forth in this section are provided by Economic & Policy Resources, Inc., Williston, Vermont, based upon such firm's independent evaluation of economic information and trends in the State of Vermont and the United States. The firm serves as a consultant to the State of Vermont with responsibilities as to matters of the analysis of economic trends and economic forecasting as well as providing technical forecasting services to the State with respect to the short-term, consensus revenue estimating process performed pursuant to Vermont statute.

The description of the economic forecast for the United States and Vermont is based on the same underlying forecast contained under "The Economic.com National Economic Forecast Assumptions" herein that is

provided by Economy.com of West Chester, Pennsylvania. The economic forecasts are completed in conjunction with the New England Economic Project ("NEEP"), a nonprofit regional economic forecasting group.

The U.S. Economic Situation. Over the course of the second half of calendar 2003, the U.S. economy finally began to show real signs of a genuine rebound. Interest rates have held steady at near 45 year lows, and business productivity has recently been very strong. The third quarter U.S. Gross Domestic Product (GDP) statistics and other indicators show that business investment spending has increased. Massive deficit spending by the federal government and the third installment of personal and business tax relief is boosting consumption and related economic activity. U.S. equity markets have also come back impressively since the spring of 2003, and there are indications that global economic conditions are improving as well. This potent combination of growth supporting developments all contributed to the dramatic 8.2% growth rate in inflation-adjusted GDP during the July 1 to September 30 quarter of calendar 2003.

Given the above, there is little remaining doubt that the U.S. economy is now rebounding. However, even with the recent brighter tone to the U.S. economy's performance, one critical recovery component that would consolidate the recovery remains missing—a genuine recovery in U.S. labor market conditions. As of December 2003, the U.S. economy has lost a total of nearly 2.3 million jobs since its last cyclical peak in December of 2000. News reports of out-sourcing and off-shoring of American jobs are abundant, and wage growth has been subdued. Low wage growth, in combination with strong productivity gains and increasing demand, has resulted in a surge in corporate profits over the past year. This increased corporate profitability has laid the groundwork for increased levels of business investment and renewed hiring in calendar 2004. Based on historical precedent, recent increases in the hiring of temporary workers should indicate that there will soon be stronger levels of permanent hiring activity as well.

However, even with the strong rebound in GDP during the third quarter of calendar 2003, there are many indications that the pace of economic activity during the current economic recovery will remain more subdued and uneven in comparison to past U.S. recoveries. One of the primary reasons underpinning that outlook for a slower U.S. recovery includes the fact that the interest rate-sensitive auto and housing sectors, which typically lead the economy out of recession, will not likely fulfill their historic recovery-leading roles this time. This is because each sector remained atypically strong during the short and shallow national economic downturn, and each have experienced production levels over the past several years that have exceeded underlying demand fundamentals. That unsustainable pace likely means that production levels and sales activity will recede as interest rates rise. This will act to offset prospective economic gains associated with increasing business investment spending, increased hiring, and the expanding global economy over the next two to three calendar years. There also are additional risks to the U.S. recovery associated with the burgeoning federal deficit, a widening U.S. trade and current account deficit, and rising household debt levels.

The Vermont Situation: Looking at the Vermont recovery, the State's labor markets continue to make progress, but the recovery remains uneven and insecure. Progress over the last two months in Vermont has not been strong, and the State has had to contend with the impacts on the labor market of the third major job reduction at the IBM manufacturing facility in Essex Junction that was first included in the November 2003 data. As of January 2004, announced job reductions at the IBM facility now total roughly 1,800 jobs over the past two years. These reductions have acted to restrain the pace of job recovery across that period. Even so, the State's pace of job recovery remains as one of the strongest in the country (15th of the 50 states for private sector payroll jobs over the year ended November 2003—corresponding to the latest month where data are available), and the State's relative performance remains as the strongest among the six states in the New England region.

Sources of support for the Vermont recovery have recently included strong levels of residential construction activity (both for single family homes and related to real estate development around Vermont's major resort areas), good job growth in the Health-Education, Business Services, Leisure-Hospitality, and Financial Services sectors, a reported pick up in Canadian tourism activity related to the weakening U.S. dollar versus the Canadian dollar, a decent fall tourism season and a good start to the winter season, and an improving level of activity for Vermont's niche goods and services producers related to the national pick up and improving outlook for business investment spending.

The Economy.com National Economic Forecast Assumptions: The Economy.com national economic forecast establishes the basis for the State's economic outlook. Economy.com provides a detailed five-year forecast for the U.S. economy two times per year to the State through the State's affiliation with the New England Economic Project (NEEP). The following section details the national economic forecast underpinning the Vermont economic forecast that was developed during October of 2003.

Recent reports of economic activity confirmed that the U.S. economy had gained relatively strong forward momentum. Evidence of the economic recovery's revival was found in various reports of demand and production activity indicators. This evidence of a stronger national economic rebound also included indicators of reduced layoff activity, and was starting to include indications of increased hiring and investment spending by businesses, which had been a missing part of the national economic recovery. As a result, the previously struggling U.S. economic recovery was expected to soon evolve into a genuine, sustainable economic upturn. The Economy.com forecast scenario included the expectation of a consolidation of the U.S. economic recovery, with more typical "recovery-like" rates of GDP growth over the second half of calendar year 2003, and a long-awaited turnaround in U.S. labor markets by the beginning of calendar year 2004. More specifically, the Economy.com scenario included a level of stepped-up business investment spending reflecting the combination of replacement demand for aging equipment in the information technology sector, new capital and inventory investment spending tied to improved business profitability and cash flow, and more generous depreciation-expensing benefits resulting from federal tax law changes during the past two years. In addition, Economy.com also pointed out that, over the near-term, the recovery-supporting effects of soaring federal government spending for items such as national defense, homeland security, various types of infrastructure, and transfer payments (such as for extended unemployment benefits that have only recently expired) will also help consolidate the national recovery. According to Economy.com, there have been only a very few periods in modern postwar history where inflation-adjusted federal spending—excluding interest payments on the national debt—have been as strong as it is currently. If this Economy.com scenario is realized, the expected improvement in the rates of output and job recovery-growth will be enough to begin to reduce the national unemployment rate by the end of 2004.

Because of the uncertainties with respect to the ongoing war on terrorism (principally domestic threats and security issues related to the ongoing conflict in Iraq) and because the recovery in job markets has taken so long to get "on track," the Economy.com forecast also was careful to point out that this outlook for the U.S. economy in calendar years 2004-06 remains in no way assured, especially if the business sector's initial hiring response fails to be sustained in the future as expected. The main unknown in that hiring situation remained how the complex interplay of moderately rising demand, intensifying import competition (especially from China and East Asia), and the business sector's appetite for maintaining strong productivity gains pans out. Without an improvement in the rate of job recovery-growth, Economy.com expected that the recent encouraging signs in demand, production, and hiring could fade by early 2004 just as the demand-supporting benefits of the tax cut and mortgage borrowing run their course from the standpoint of stimulating the economy.

Adding to those concerns, Economy.com also pointed out that both monetary and fiscal policymakers have little flexibility and few real monetary or fiscal policy tools left at their disposal to provide any added stimulation to the U.S. economy should the recovery falter. Economy.com observed that with the federal funds rate now at 1%, the Fed has little interest rate capacity to maneuver further. Similarly, Economy.com also acknowledged that with the deficit approaching one-half trillion dollars, fiscal policy makers likewise have few additional options available to boost the economy out of another round of demand-based problems.

However, while the national forecast scenario acknowledged the above risks to the U.S. recovery, its outlook for the rest of calendar 2003 and into 2004-06 was for a general improvement in the rate of recovery. The Economy.com forecast anticipated that the U.S. recovery will finally consolidate and become the self-sustaining upturn that has been widely expected for much of the past two years. Table 8 sets forth the specifics of the Economy.com forecast by major macroeconomic variable for the calendar 2002-06 time frame.

Specifically, the Economy.com forecast expected that output growth as measured by GDP will return to a healthier, roughly 4 percent annual growth rate range during the later half of calendar 2003, and carry over into the 2004-06 time frame. Job growth was expected to average between 1.0% and 2.3% on an annual basis over that same period, following a –0.8% contraction in calendar 2002. Inflation-adjusted personal income was expected to average between 1.8% and 2.5% over the forecast period. The Economy.com national forecast also expected that

short-term interest rates will remain at historically low levels over the initial stages of the forecast period with rates expected to trend upward as the economy strengthens later in calendar 2003 and throughout the balance of the forecast period. The outlook for overall inflation in the national Economy.com forecast as measured by the Consumer Price Index (CPI-U) and the chain-weighted GDP deflator was reflective of continued restrained inflation against a backdrop of current and expected favorable productivity fundamentals over the next five years.

The Vermont Economic Outlook: Despite the surprisingly upbeat character of Vermont's economy and labor markets overall, the October 2003 State economic forecast update represents a significant downgrade in the 2004-06 forecast when compared to the State economic forecast developed during the spring of 2003. This downward revision was for the most part driven by the permanent job reduction at IBM (the State's largest private employer) in mid-October 2003, and the slow pace of the U.S. recovery through the initial fall months of 2003.

Regarding job reductions at IBM, there was an additional 514 permanent job reduction in October 2003, resulting in 1,803 jobs lost over the past two years. This brings the number of jobs at the IBM-Essex Junction facility down to a level of approximately 6,000 that was characteristic of the early 1990s, which was when the Essex Junction plant previously experienced economic "difficulties." Looking ahead over the longer-term for IBM Essex Junction, the operating results and employment will be uncertain for the next five years given a sharp increase in the level of international competition for the relatively weak amount of global demand that has been evident in the industry. Employment levels are expected to fluctuate with quarterly order levels and financial performance.

Indirect job and income effects of the IBM reductions will be noticeable in the State's economic performance over the next several quarters as the "multiplier effect" works through the Vermont economy. However, a significant portion of the short-term economic and fiscal effect of the first two job reductions have already been felt, and have been surprisingly modest as many workers have been assimilated into the Vermont economy within the industry and elsewhere. The latest job reduction took effect after mid-October, and began to show up in the State's job count statistics beginning in November 2003. The roughly 500 job reduction represents only about 1/8 of the total private sector labor market recovery experienced during the 12 months through August 2003. Therefore, while the reduction represents a significant set-back for the Vermont economic recovery, it was not expected to derail the Vermont recovery overall.

The still weak U.S. economic recovery represented a major recovery handicap. The Vermont economy cannot continue to sustain its recovery without a significant turnaround in U.S. labor markets. The U.S. economy remained the most significant economic driver for the Vermont economic recovery, particularly with respect to the capital goods-intensive manufacturing and the travel and tourism sectors. As such, the Vermont economy will not be able to buck a trend without an improving U.S. economic performance for a significant period. Therefore, the expected consolidation of the U.S economic rebound in the near-term future remained a central driving factor in any respective increase in the rate of Vermont's economic rebound.

The details of the October 2003 Vermont forecast update relative to the forecast of May 2003 showed a mix for calendar 2004 with some macro-indicators up, such as inflation-adjusted personal income at 0.5 percentage points, and others down for the year, such as non-farm job growth at –0.5 percentage points. However, the forecast comparison for calendar 2005 through 2007 was downward, with all major macro-indicators lower across the board than were expected last May; however, the magnitude of these downward revisions was expected to be less than one percentage point in all cases.

On a quarter to quarter basis, this October 2003 forecast revision showed the impacts of the IBM job reduction with a slight dip in Vermont's job performance statistics during the fourth quarter of 2003 and the first calendar quarter of 2004 although both output and income growth statistics remain positive over the period. Job growth numbers were forecast to then climb back up on a positive recovery track by the middle of calendar 2004, posting the strongest rates of job addition for the forecast period during the first half of calendar 2005 at 1.0% and 1.4%.[1]

---

1 It should be acknowledged here that although they are the strongest of the forecast period, they are substantially weaker than those registered during the initial recovery period in early 2003.

As a result of this sluggish pace of recovery, the Vermont economy overall was not expected to complete its employment recovery (using private sector jobs as a benchmark) and make a transition to an expansionary mode until the fourth quarter of calendar 2004, a one quarter delay when compared to the previous forecast of May 2003. The manufacturing sector was not projected to recover until well beyond the forecast horizon. This was primarily due to the IBM job cutbacks, and a poorer job recovery-growth performance elsewhere in manufacturing over the entire 2003-07 time frame estimated at –1.8% per year. This was expected considering the magnitude of the IBM job declines over the last two years. The more than 1,800 jobs permanently lost at the IBM facility by themselves over the past two years would represent the equivalent of one of the State's five largest employers in 2003.

There are many risks to the outlook, including:

(1) The threat of continued high energy prices
(2) Global economic uncertainty—including economic weakness in Latin America, Japan, and significant parts of Europe
(3) The persistently high and increasing U.S. current account deficit
(4) Still fragile business capital spending response and continued historically weak hiring activity
(5) The longer-term threat of higher interest rates relative to the deteriorating federal budget situation
(6) The weak state-local fiscal climate
(7) Ongoing high consumer debt levels
(8) Continuing military operations in Iraq
(9) The ongoing, terrorist threat throughout the U.S. and the western world

In addition, there are a number of threats to the outlook unique to Vermont. Examples include the relatively high level of electrical energy costs in Vermont versus the national average (which threatens Vermont's already fragile manufacturing sector) and the imposition of certain environmental regulations which increase the cost of development and are adversely impacting real estate markets in certain parts of the State.

The downside risk in this latest forecast revision is consistent with the risk assessment over the past two years and is likely to remain during the year ahead. As the U.S. and Vermont economies begin to move forward at a more typical character and pace, a recovery-expansion will be accompanied by an unusually high level of uncertainty into the indefinite future.

Even with this somewhat more restrained outlook for the Vermont economy after calendar 2003, that Vermont's economy remains one of the most fundamentally sound state economies in the New England region. Data presented in Tables 5 through 7 show that the State economy and the economy of the Burlington metropolitan area have one of the lowest unemployment rates, and one of the best job growth performances in the region over the last business cycle and the most recent period of economic recessions in the Northeastern region of the United States.

Table 5
Total Unemployment Rate Comparison of Vermont,
Seven Northeastern States and the U.S.

	November 2003	October 2003	November 2002	Change from Last Year
Vermont	4.0%	4.0%	3.7%	0.3%
Connecticut	5.0	4.9	4.6	0.4
Maine	4.9	5.1	4.7	0.2
Massachusetts	5.4	5.6	5.4	0.0
New Hampshire	4.3	4.4	5.0	-0.7
New Jersey	5.5	5.7	6.0	-0.5
New York	6.1	6.2	6.3	-0.2
Rhode Island	4.9	4.4	5.4	-0.5
United States	5.9	6.0	5.9	0.0

Notes: Data are seasonally adjusted and exclude the Armed Forces.

Source: Vermont Department of Employment and Training.

Table 6
Comparison of Unemployment Rates in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Annual Average % 1997	Annual Average % 1998	Annual Average % 1999	Annual Average % 2000	Annual Average % 2001	Annual Average % 2002	Average % Jan. 2003-November 2003
Connecticut							
Bridgeport	6.0%	4.0%	3.9%	2.7%	4.1%	5.3%	5.7%
Hartford	5.3	3.5	3.3	2.4	3.3	4.5	4.9
New Haven	5.2	3.3	3.1	2.3	3.2	4.1	4.5
Stamford	3.2	2.2	2.1	1.4	2.4	3.2	3.0
Waterbury	5.9	4.0	3.8	2.9	4.6	6.0	5.9
Maine							
Lewiston-Auburn	5.8	4.6	3.9	3.2	3.9	4.1	4.6
Portland	2.8	2.3	2.1	1.8	2.2	2.7	2.9
Massachusetts							
Boston	3.4	2.8	2.7	2.2	3.3	4.8	5.0
Brockton	4.7	3.7	3.5	3.0	3.9	5.4	5.8
Fitchburg	5.0	4.0	4.1	3.5	5.0	7.3	7.5
Lawrence	5.1	4.6	4.2	3.7	5.3	7.9	7.7
Lowell	3.9	3.4	3.3	2.6	4.1	6.5	6.6
New Bedford	7.6	6.5	5.9	5.1	6.0	7.5	7.9
Pittsfield	5.3	4.4	4.2	3.5	4.1	5.1	5.4
Springfield	4.2	3.8	3.6	3.1	3.8	5.2	5.7
Worcester	3.7	3.2	3.2	2.8	3.9	5.8	6.4
New Hampshire							
Manchester	2.7	2.6	2.5	2.5	3.4	4.6	4.3
Nashua	2.8	2.8	2.9	2.9	4.2	6.2	5.5
Portsmouth	2.8	2.4	2.2	2.3	2.9	4.4	4.0
Rhode Island							
Providence	5.6	4.9	4.3	4.0	4.8	5.4	5.6
Vermont							
Burlington	2.7	2.3	2.0	1.9	2.5	3.0	3.3

Note: Labor Market Area Unemployment Rates are subject to sporadic revisions, depending on the State. Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: Federal Reserve Bank of Boston.

Table 7
Comparison of Total Non-Agricultural Employment in New England's Largest Metropolitan Areas
(Numbers in Thousands)

City	March 1989	November 2003	Change in Number of Jobs March 1989 to November 2003	March 1989 to November 2003 % Change
Connecticut				
Bridgeport	199.8	185.8	-14.0	-7.0%
Hartford	657.2	598.6	-58.6	-8.9
New Haven	265.0	260.5	-4.5	-1.7
Stamford	200.6	194.2	-6.4	-3.2
Waterbury	89.1	82.8	-6.3	-7.1
Maine				
Lewiston-Auburn	41.2	46.1	4.9	11.9
Portland	131.4	158.2	26.8	20.4
Massachusetts				
Boston	1,911.5	1,932.9	21.4	1.1
Brockton	90.6	100.8	10.2	11.3
Fitchburg	53.9	52.1	-1.8	-3.3
Lawrence	143.6	151.3	7.7	5.4
Lowell	115.3	121.6	6.3	5.5
New Bedford	69.2	64.0	-5.2	-7.5
Pittsfield	45.1	43.6	-1.5	-3.3
Springfield	265.9	256.9	-9.0	-3.4
Worcester	224.4	220.8	-3.6	-1.6
New Hampshire				
Manchester	95.2	109.0	13.8	14.5
Nashua	91.3	93.1	1.8	2.0
Portsmouth	109.4	126.9	17.5	16.0
Rhode Island				
Providence	518.4	527.1	8.7	1.7
Vermont				
Burlington	87.4	109.1	21.7	24.8

Note: Labor Market Area Unemployment Rates are subject to sporadic revisions, depending on the State.
Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are seasonally adjusted.

Sources: Federal Reserve Bank of Boston, U.S. Bureau of Labor Statistics.

Economic Forecast -- Summary Data

The opinions set forth in this section are provided by Economic & Policy Resources, Inc. based upon the firm's independent evaluation of economic information and trends influencing the State of Vermont. The firm serves as a consultant to the State of Vermont with responsibilities for matters of economic trends and projections including revenue analysis and monitoring.

The following table sets forth comparative statistics and assumptions corresponding to the current short-term economic outlook for the Vermont and national economies. The U.S. data correspond to the assumed macroeconomic environment for the Vermont economy during the period as provided by Economy.com in August-September of 2003, a nationally recognized economic forecasting firm. The Vermont statistics present the specific detail for the Vermont economic forecast that was developed in October of 2003.

Table 8

Calendar Year Forecast Comparison: United States, New England and Vermont

	----------Actual----------					----------Forecast----------				
	1998	1999	2000	2001	2002	2003[1]	2004	2005	2006	2007
Real Output (% Change)										
U.S Gross Domestic Product	4.3	4.1	3.8	0.3	2.4	2.3	3.7	3.1	3.4	3.0
New England										
Gross Domestic Product	5.4	4.7	7.4	(0.1)	0.4	1.2	3.5	2.7	3.2	2.8
Vermont Gross State Product	4.0	4.3	4.7	3.8	1.5	1.8	2.7	2.1	2.6	2.3
Non-Farm Employment (% Change)										
U.S.	2.6	2.4	2.2	0.0	(1.1)	(0.2)	0.9	2.1	1.7	1.3
New England	2.3	2.0	2.4	0.1	(1.5)	(0.6)	0.9	1.7	1.3	0.9
Vermont	2.0	2.3	2.4	1.1	(0.8)	1.4	0.4	1.2	1.1	1.0
Personal Income										
Change (in 1996 dollars)										
U.S.	5.9	3.2	5.2	1.3	1.3	1.6	2.9	2.7	2.5	2.3
New England	6.0	3.5	7.1	1.2	0.3	0.9	2.4	2.1	1.9	1.8
Vermont	6.1	4.0	4.9	3.2	1.6	2.7	2.3	1.7	1.8	1.9
Unemployment										
U.S.	4.9	4.5	4.2	4.0	4.8	6.0	6.1	5.7	5.4	5.2
New England	4.4	3.5	3.3	2.8	3.7	4.5	4.8	4.5	4.2	4.1
Vermont	4.0	3.4	3.0	2.9	3.6	4.0	4.3	4.1	4.0	3.9

1 2003 values in this table reflect projected rates as of October 2003.
Sources: Economy.com (U.S.), New England Economic Project October 2003 Forecast (New England, Vermont)

Table 8 illustrates that the Vermont economy experienced a milder economic downturn over the 2001-02 period relative to both the nation and the New England region as a whole. The State's rate of job recovery and income growth performance as of October 2003 also appears to be significantly stronger than both the U.S. average and the New England regional average. In calendar 2004, Vermont is expected to trail both the national economy and the New England regional economy in output, job, and income growth, but still have a significantly lower unemployment rate. This would be expected, given the State's relatively milder economic downturn as indicated by these data. Vermont's expected comparative performance for calendar years 2005-2007 are mixed while still trailing the projected U.S. growth rate averages in output, job and income growth, but generally posting a slightly stronger performance than the New England region in employment and income growth. Relative to both the U.S. and New England region economies, the unemployment rate in Vermont is expected to remain at a significantly lower level over the entire calendar year 2003-2007 horizon, even if it is somewhat higher than the average unemployment rate experienced in Vermont during the late-1990s.

Composition of the Vermont Economy

Tables 9 and 10 include data that profile the earnings and employment levels by major industry for the State of Vermont under the new North American Industry Classification System (NAICS). The earnings data cover

the calendar year 2001-2002 period (Calendar year 2002 being the latest year where complete annual average data are available). Employment data by industry are provided for the 1999-2002 calendar year period for Vermont and 2002 for the U.S. (2002 being the latest year where annual average data are available).

The data show that manufacturing remains one of the State's most important sectors, representing an estimated 13.6% of all non-farm employment in 2002 (versus 15.6% of non-farm jobs in 1999) and an estimated 16.7% of total earnings in 2002 versus 18.2% of total earnings in 2001. Other important parts of Vermont's economic base include: Education and Health Care (at 16.8% of 2002 non-farm employment, up from 15.2% of total non-farm employment in 1999) representing 14.7% of total earnings (up from 13.7% of total earnings in 2001), and Retail Trade (at 13.4% of 2002 non-farm employment, up slightly from 13.2% of non-farm jobs in 1999) representing 8.8% of total earnings in 2002 (up from 8.6% of total earnings in 2001). Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on Manufacturing, Leisure and Hospitality, Education and Health Services, and Retail Trade. At the same time, it has a slightly lower dependence on sectors such as Professional Services, Financial Activities, and Wholesale Trade for its employment and earnings.

Table 9
Total Earnings By Industry
2001-2002
($Thousands)

	2001		2002	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$133,337	0.8%	$82,871	0.5%
Non Farm Industry:				
Construction	827,798	6.9	825,242	6.7
Mining	42,424	0.4	42,495	0.3
Manufacturing	2,187,337	18.2	2,043,993	16.7
Wholesale Trade	484,405	4.0	503,394	4.1
Retail Trade	1,034,439	8.6	1,078,197	8.8
Financial Activities	712,778	5.9	742,251	6.1
Information	301,832	2.5	304,389	2.5
Transportation, Warehousing and Utilities	445,790	3.7	472,675	3.9
Professional Services	1,193,245	9.9	1,212,844	9.9
Education and Health Care	1,652,268	13.7	1,798,149	14.7
Leisure and Hospitality	648,158	5.4	675,336	5.5
Other Private Services-Providing	416,375	3.5	411,112	3.4
Total Private Non-Farm Industries	9,946,849	82.8	10,110,017	82.5
Government and Government Enterprises	$1,938,585	16.1%	$2,061,805	16.8%
Total Farm and Non-Farm Earnings	$12,018,771	100.0%	$12,254,693	100.0%

Notes: Total may not add due to rounding. Total Earnings is comprised of wages and salaries, other labor income and proprietor's income.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 10
Vermont Non-Agricultural Employment by Industry
1999-2002

	1999		2000		2001		2002		U.S. 2002	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Total Goods-Producing	60,850	20.9%	62,400	20.9%	61,850	20.5%	55,100	18.5%	22,619,000	17.3%
Construction	14,450	5.0	14,900	5.0	15,200	5.0	14,850	5.0	6,732,000	5.2
Mining	1,050	0.4	1,050	0.4	1,100	0.4	1,000	0.4	581,000	0.4
Manufacturing	45,400	15.6	46,400	15.5	45,550	15.1%	40,650	13.6	15,306,000	11.7
Total Services-Providing	230,550	79.1	236,150	79.1	240,250	79.5	243,450	81.5	107,757,000	82.7
Wholesale Trade	9,450	3.2	9,800	3.3	10,050	3.3	10,050	3.4	5,641,000	4.3
Retail Trade	38,600	13.2	39,650	13.3	39,900	13.2	40,100	13.4	15,047,200	11.5
Transportation , Warehousing and Utilities	8,700	3.0	8,650	2.9	8,650	2.9	8,650	2.9	4,205,300	3.2
Information	6,750	2.3	6,800	2.3	6,800	2.3	6,700	2.2	3,420,000	2.6
Financial Activities	12,600	4.3	12,300	4.1	13,150	4.4	13,200	4.4	7,843,000	6.0
Professional and Business Services	20,600	7.1	20,800	7.0	20,700	6.9	20,400	6.8	16,010,000	12.3
Education and Health Services	44,400	15.2	46,050	15.4	47,900	15.4	50,300	16.8	16,184,000	12.4
Leisure and Hospitality	32,500	11.2	32,950	11.0	32,900	10.9	33,100	11.1	11,969,000	9.2
Other	9,300	3.2	9,700	3.2	9,950	3.3	10,100	3.4	5,348,900	4.1
Government	47,650	16.4	49,450	16.6	50,150	16.6	50,850	17.0	21,489,000	16.5
Total Non-Farm	284,850	100.0%	291,500	100.0%	298,700	100.0%	298,700	100.0%	131,759	100.0%

Notes: Totals may not add due to rounding.
Source: U.S. Bureau of Labor Statistics and Vermont Department of Employment & Training, Current Employment Statistics Series.

Largest Private Employers

The Vermont economy reflects a mix of manufacturing, tourist-based, higher education, services (including health care, business, and private sector higher education services), and trade employers. As of June 30, 2003, the State's largest private employer is IBM, a global manufacturer of semiconductor and related devices, with a total of more than 6,000 workers on its payroll. Although the company reduced its payroll by 514 workers as of November 2003 (for a total job reduction of over 1800 positions during the last two years), the company has recently secured two major long-term supply contracts (one private sector and the other with the U.S. Department of Defense) and remains as the State's largest private employer. Fletcher Allen Health Care is the State's second largest private employer, with more than 3,000 but less than 5,999 workers. Employers with more than 1,000 employees in the State reflect a mix of retail (Martin's Food Stores, Price Chopper Stores, Shaw's Supermarkets), financial institutions (Chittenden Trust Company), manufacturers (General Electric Company), health care (Rutland Hospital), and higher education (Middlebury College). Ethan Allen, Inc. also remains as a significant private manufacturing employer with more than 500 but less than 999 employees. The University of Vermont and State Agricultural College is a major employer in the State with over 1,000 employees. However, it is classified as a public sector employer in payroll job survey data by the Vermont Department of Employment and Training.

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1988-2002 period. Table 11 indicates that on an average annual basis, total personal income in Vermont has increased by 5.2% per year from 1988 to 2002, as compared to the 4.8% average for the New England region and a 5.4% national average rate of growth during the same period. According to the U.S. Department of Commerce data presented in Table 12, Vermont's per capita personal income in calendar 1988 was $16,197, or 93.1% of the U.S. average of $17,403. By calendar 2002, Vermont's per capita personal income had risen to $29,464, 95.6% of the U.S. average of $30,832. Vermont's growth rate in per capita personal income was 2.5% in calendar 2002, significantly above both the national average per capita personal income growth rate of 1.4% during calendar 2002 and the 1.1% growth rate for New England as a whole for that same year. These same data show that despite the State's recession in calendar 2002, Vermont's rate of per capita personal income growth out performed the six New England states on average in 2002.

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
1988-2002
($ in millions)

	State of Vermont		New England		United States	
Calendar Year	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth
2002	$18,167	3.1%	$530,315	1.7%	$8,891,093	2.5%
2001	17,627	5.2	521,283	3.2	8,677,490	3.3
2000	16,752	7.6	505,001	9.8	8,398,871	8.0
1999	15,575	5.7	459,782	5.2	7,779,521	4.9
1998	14,738	7.2	437,134	7.1	7,418,497	7.1
1997	13,752	5.2	408,231	6.3	6,928,545	6.0
1996	13,073	5.0	384,144	5.4	6,538,103	5.6
1995	12,449	4.6	364,297	4.9	6,192,235	5.3
1994	11,898	4.8	347,347	4.3	5,878,362	5.0
1993	11,357	3.3	333,140	3.3	5,598,446	4.1
1992	10,999	6.5	322,471	5.0	5,376,622	6.1
1991	10,332	1.4	307,013	1.4	5,065,416	3.7
1990	10,193	4.3	302,739	3.5	4,885,525	6.6
1989	9,769	9.7	292,630	6.9	4,582,429	7.7
1988	8,905	--	273,667	--	4,255,000	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 12
Growth in Nominal Dollar Per Capita Personal Income for
Vermont, New England and the United States
1988-2002

Calendar Year	State of Vermont Per Capita Income	State of Vermont Percent Growth	New England Per Capita Income	New England Percent Growth	United States Per Capita Income	United States Percent Growth
2002	$29,464	2.5%	$37,494	1.1%	$30,832	1.4%
2001	28,756	4.7	37,096	2.5	30,413	2.2
2000	27,465	6.6	36,195	8.9	29,760	6.7
1999	25,757	4.9	33,227	4.4	27,880	3.7
1998	24,547	6.6	31,829	6.4	26,893	5.8
1997	23,026	4.6	29,924	5.6	25,412	4.2
1996	22,019	4.2	28,340	4.8	24,270	4.4
1995	21,135	3.7	27,040	4.3	23,255	4.1
1994	20,379	3.7	25,928	3.8	22,340	3.7
1993	19,657	2.4	24,984	2.8	21,539	2.8
1992	19,204	5.7	24,299	4.9	20,960	4.7
1991	18,171	0.7	23,175	1.3	20,023	2.3
1990	18,047	3.0	22,884	3.1	19,572	5.4
1989	17,517	8.1	22,200	6.1	18,566	6.7
1988	16,197	--	20,915	--	17,403	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment Statistics

Vermont had a labor force of 348,700 on an average annual basis in 2002, of whom 335,600 were employed and 13,100 were unemployed. Vermont's 3.7% unemployment rate in that year compared favorably with the 5.8% unemployment rate for the nation overall and a 4.9% average unemployment rate for the New England region. The following table sets forth recent comparative trends in labor force, employment, and unemployment rates for the Vermont, New England and U.S. economies from 1990 to 2002, and calendar 2003 to-date through the month of November.

Table 13
Average Annual Employment and Unemployment Rate

Year	State of Vermont Labor Force (in thousands)	State of Vermont Employment (in thousands)	State of Vermont Unemployment Rate (%)	New England Unemployment Rate (%)	United States Unemployment Rate (%)
2003[1]	353	338	4.1%	5.1%	6.0%
2002	349	336	3.7	4.9	5.8
2001	340	328	3.6	3.7	4.8
2000	334	324	2.9	2.8	4.0
1999	336	326	3.0	3.3	4.2
1998	330	319	3.4	3.5	4.5
1997	327	314	4.0	4.4	4.9
1996	324	309	4.6	4.8	5.4
1995	319	305	4.2	5.4	5.6
1994	315	300	4.7	5.9	6.1
1993	316	299	5.5	6.8	6.9
1992	310	290	6.7	8.1	7.5
1991	304	284	6.4	8.0	6.9
1990	304	289	5.0	5.7	5.6

Sources: Vermont Department of Employment and Training (Vermont); Federal Reserve Bank of Boston (New England and United States).

[1] Average for January-November period.

Transportation

Highway. Vermont's highway system includes 320 miles of interstate routes, over 2,312 miles of toll-free State highways, and approximately 11,320 miles of supporting roads. The recent groundbreaking for the construction of new sections of the Chittenden County Circumferential Highway occurred in December of 2003 and the construction of the Bennington By-pass project is ongoing.

Rail. The State owns 392 rail corridor miles out of a total of 747 rail corridor miles within the State. The State-owned rail miles are operated by Vermont Rail Systems, CSF Acquisition, Inc. and Northern Vermont Railroad (CDAC). At present Vermont Railway, Green Mountain Railroad, Washington County Railroad and Northern Vermont Railroad are servicing freight customers. Other private rail operators that provide freight service in Vermont are New England Central Railroad, St. Lawrence & Atlantic Railroad, and Guilford Rail Systems. State supported Amtrak service includes two passenger trains, the "Vermonter" which operates from Washington, D.C. to St. Albans, Vermont and the "Ethan Allen Express" with service from New York City to Rutland, Vermont.

Transit. Vermont Transit, a Greyhound subsidiary, operates bus routes in many of the major communities. There are 13 public transit providers, who provided an estimated 3.0 million passenger trips each year.

Air. There are 17 public use airports, including 10 State-owned airports and two which are municipally owned, including Burlington International Airport (the "BIA"). In October of 2002, the BIA was named as the second fastest growing airport in the country, second only to the Long Beach, California airport by The Boyd Group/ASRC, Inc. In calendar year 2002, the airport handled 1,109,000 passengers—its all-time high. In calendar year 2003, BIA had a total of 1,097,000 passengers arrive or depart resulting in its second busiest year ever.

In 2003, Jet Blue Airlines added a third daily roundtrip flight to JFK and beyond, there are numerous jet and regional jet connections to Philadelphia, Cincinnati, Pittsburgh, Detroit, Chicago, Newark, Cleveland, Boston and Washington, DC from BIA. Currently, all daily trips except for service to New York's LaGuardia Airport and Washington's Reagan Airport, are served by jet or regional jet aircraft. In February of 2003, US Airways reduced its seat capacity on two of its routes due to financial restructuring. However, as 2003 progressed, other airlines, including US Airways increased their number of flights serving Burlington to make up for this lost capacity. Fares at Burlington are seen as very competitive with other regional airports serving the northeast.

Utilities

In recent years, there have been a number of positive developments which will contribute to the stability of the electric utility industry in Vermont. In the interest of maintaining stability, Vermont has taken a go-slow approach to retail choice. The State currently allows for "economic development" rates for portions of the power used by businesses in Vermont subject to the approval of the Vermont Public Service Board. Several businesses have filed for and received approval for such rates in conjunction with their service provider over the past several years. Most recently, IBM received approval for such a rate on the last 15 percent of the power it uses in December of 2003.

In terms of supply, the State has in place power commitments continuing for the remainder of the decade. In addition, significant regulatory settlements of litigation over power costs have benefited most electric utilities in the State, and a financial settlement of the Hydro-Quebec ice storm arbitration has had a positive bearing on the financial health of the electric utilities affected by the outages of 1998. Regarding the transmission-reliability issue, the Vermont Electric Power Company ("VELCO") has begun an initiative to substantially upgrade the State's transmission system as part of a larger effort to improve the capacity and reliability of the electric transmission system of the New England region.

On July 31, 2002 a consortium of New England utilities—including Green Mountain Power and Central Vermont Public Service Corporation—sold the Vermont Yankee Nuclear Power Plant to Entergy Nuclear of Mississippi for $180 million. The plant serves an estimated 320,000 Vermont electric customers and the Public Service Board found that the sale constitutes a net present value benefit to Vermonters of $263 million to $383 million. The company in 2003 subsequently filed a request with the Vermont Public Service Board to substantially increase its energy output at the facility. This request is still pending before the Vermont Public Service Board as of January 2004.

The 2003 General Assembly established an eight member Renewable Power Supply Acquisition Authority to assess and report on the advisability and feasibility of purchasing several hydroelectric facilities on the Connecticut and

Deerfield Rivers owned by a private company that is currently in Chapter 11 bankruptcy proceedings. Although the Authority's consultant, Lexecon, Inc., concluded that there is a low probability of Vermont assembling a viable transaction, having the opportunity to bid on the assets it may desire, and prevailing in a competitive auction, the Authority decided to look further at two alternatives and report back to the legislature at a later date with a final recommendation. Those alternatives are for the State or the Authority to purchase an interest in the facilities along with a private partner or to enter into a purchase power contract with the new owner of the facilities.

Natural gas is an important source of energy in northwestern sections of Vermont which receive natural gas service through Vermont's connection to the Trans Canada Pipeline system. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline loops currently being constructed. Large LPG rail depots are currently under construction at two locations in Vermont. Completion of the depots will increase the quantity of LPG available for distribution.

The Public Service Board also continues to implement telecommunications competition for local exchange service providers as directed by the Federal Telecommunications Act of 1996. Hearings have been conducted on several issues including interconnection agreements, pricing unbundled elements and arbitration of disagreements between providers. Vermont currently has an extensive telecommunications network. Verizon provides local telephone service to approximately 85% of Vermont access lines while nine other local exchange companies serve the areas of the State not served by Verizon. As of August 2002, 85 telephone companies are authorized to provide local exchange service in competition with Verizon, and an extensive fiber optic network reaches all regions of the State. Mass market broadband services are increasingly available in both urban and rural markets either from incumbent and competitive telephone companies, or from cable companies. Vermont has had a number of years of robust long distance competition, and in-state rates around $.05/minute are available on some plans. Cellular telephone service comes from Rural Cellular, Verizon Mobile and U.S. Cellular, while Nextel, Sprint PCS and Devon Mobile are currently building personal wireless service networks. Vermont has pioneered the use of a state telephone Universal Service Fund to promote key social objectives while supporting competition. A Statewide enhanced "9-1-1" emergency telephone system is now in place throughout Vermont.

STATE FUNDS AND REVENUES

Budget Process

The head of every State department, board, or commission, and any officer or individual in charge of any activity for which funds are appropriated by the General Assembly is required to file with the Commissioner of Finance and Management statements showing in detail the amount appropriated and expended for the current and previous fiscal years and the amount estimated to be necessary for such activity for the ensuing fiscal year. The Governor submits to the General Assembly, not later than the third Tuesday of every regular and adjourned session, a recommended budget for appropriations or other authorizations for expenditures from the State Treasury for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act which must be approved by the Governor before expenditures may be made.

Internal Control System

The State operates on a July 1 to June 30 fiscal year. The Commissioner of Finance and Management is responsible for the accounting system of the State and for approving the issuance of payments by the State Treasurer. No disbursements may be withdrawn from the Treasury without a warrant approved by the Commissioner of Finance and Management with the following exceptions.

In the case of refunds of tax revenues, the Treasurer may disburse funds from the Treasury without an appropriation as long as the Commissioner has signed a warrant authorizing same.

The amount necessary each year to pay the maturing principal of and interest on the State's outstanding general obligation bonds is required to be included in the annual appropriation bill for the expense of State Government. Interest and maturing principal payments on the State's outstanding general obligation bonds may be disbursed from the Treasury without a warrant from the Commissioner of Finance and Management if they become due before an appropriation for the payment has been made. Interest and maturing principal payments on the State's outstanding general obligation notes may be disbursed from the Treasury without a warrant from the Commissioner of Finance and

Management. Likewise, interest and maturing principal payments on the State's outstanding general obligation notes may be disbursed from the Treasury without a warrant from the Commissioner of Finance and Management if they become due before an appropriation for the payment has been made.

New Statewide Financial Management Information System

During fiscal year 2001, the State implemented a new statewide financial management information system called VISION. VISION, which stands for Vermont's Integrated Solution for Information and Organizational Needs, became operational on July 1, 2001, the first day of fiscal year 2002. The goal of this new system was to provide the State with a fully integrated financial management information system that met the business processing and informational requirements of departments, agencies, the Governor and legislators, as well as to support sound financial and programmatic management and strategic planning. The new VISION system represented a significant technology change and, as further described below, difficulties were encountered in implementing the new technology.

Generally Accepted Accounting Principles and GASB Statement No. 34

Since fiscal year 1997, the State has prepared its Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles. In its fiscal year 2002 CAFR, the State implemented the financial accounting and reporting requirements required to be implemented under Governmental Accounting Standards Board (GASB) Statement No. 34. In addition to the individual fund statements (with some modifications) presented in previous years, the State prepared two new government-wide financial statements that present financial information on Vermont viewed as a whole, similar to reporting in the private sector. These two government-wide statements are the "Statement of Net Assets" and the "Statement of Activities" and include the financial activity of the primary government (minus its fiduciary activity) as well as its discretely presented component units. GASB Statement No. 34 requires that fiduciary activity be excluded from these government-wide statements. Several new note disclosures were added or current ones revised to meet the new reporting requirements.

GASB Statement No. 34 requires that funds be categorized as either governmental fund types, proprietary fund types or fiduciary fund types. Additionally, the reporting of the fund statements are modified in several ways. First, the funds in each fund type are categorized as either major funds or non-major funds based on GASB Statement No. 34 parameters. Each major fund's activity is reported in its own individual column on the financial statement while the non-major funds' activities are consolidated and reported in a single column entitled "non-major funds." Funds previously reported as non-expendable trust funds (fiduciary funds) have been reclassified as governmental funds and are now reported as permanent funds. Funds previously reported as expendable trust funds are now reported as either enterprise funds, special funds, or fiduciary type – private purpose funds, depending on the characteristics of the fund.

The budget vs. actual financial activity for the major governmental funds is now reported as required supplementary information (RSI). Each fund is presented via its own schedule and reports its original budget, final budget, actual expenditures on a budgetary basis, and the variances between its final budget and actual expenditures. A reconciliation of the GAAP balances to budgetary fund balances due to the accounting methods' differences is presented subsequent to these schedules.

A "Management Discussion and Analysis" report that compares and analyzes Vermont's primary government's current and previous fiscal years' activities with emphasis on the current year is included as RSI. This report is required to be presented in an easily readable format and is based upon known facts, decisions, and conditions.

Vermont has included its general capital (fixed) assets including its infrastructure assets in fiscal year's 2002 CAFR for the first time. (Proprietary funds have been reporting their capital assets and associated depreciation for several years.) GASB Statement No. 34 also requires that State infrastructure assets, which are defined as long-lived capital assets, be included as part of its capital assets reporting. All capital assets are reported at either their historical cost if adequate records are available to ascertain that value, or at a "best estimate" of their historical cost. They have been depreciated over their estimated useful lives and are reported net of their accumulated depreciation.

Issues in the Preparation of the CAFR for Fiscal Year 2002

The State's CAFR for the fiscal year ended June 30, 2002 was not released until November 21, 2003, significantly later than scheduled and significantly later than the release of the CAFR for recent prior fiscal years. The State did not meet the March 31, 2003 State and Federal reporting deadline for submitting the CAFR for fiscal year

2002. This delay resulted from difficulties encountered in implementing the new VISION system combined with challenges encountered in implementing GASB Statement No. 34. In addition, the State Auditor was unable to audit the capital asset information in the governmental activities column of the entity-wide statements due to the lack of detailed accounting records of general fixed assets and construction in progress and qualified its opinion in this regard. Information regarding capital assets was required to be included in the CAFR for the first time pursuant to GASB Statement No. 34.

Difficulties with the VISION system included: technical problems with the system resulting in the need for subsequent corrective action, an insufficient level of expertise among decentralized users of the system as well as those entering data into the system resulting in numerous errors that were not discovered until year-end, insufficient staffing levels to centrally operate the new system resulting in delays in implementing corrective action, and overly-generous deadlines resulting in insufficient time to take corrective action. In addition, the State Auditor commented that there was insufficient oversight by the Department of Finance and Management or the Office of the State Treasurer, as applicable, of certain petty cash accounts and bank accounts, untimely reconciliation of accounts and poor controls over certain financial reporting activities.

The State took several steps during fiscal year 2003 designed to address the issues that delayed the preparation of the CAFR for fiscal year 2002. Consultants were hired to create month-end reconciliation reports to resolve problem transactions immediately rather than at year-end, technical issues were resolved to allow for timely reconciliation of all cash accounts and additional staff was hired to assist in the month-end and year-end closing processes. A senior accountant was added and an internal reorganization took place to assist with the compilation of the financial statements. Additional project management processes have been, and continue to be, implemented. The Department of Finance and Management and the Office of the State Treasurer believe these steps, along with practical experience gained in the past two years, put the State in a more favorable position to complete future annual financial statements in a more timely manner. In addition, the Department of Finance and Management and the Office of the State Treasurer jointly reviewed the reconciliation process, resolving several important procedural and system issues and creating a more formal tracking system to review reconciliation progress. All Treasury bank accounts are now current. The Treasurer's office has also implemented a new process to track reporting for agency bank accounts and to review internal controls.

Fund Structure

The State's financial statements are structured into three fund types. The general characteristics of the fund types are as follows.

Governmental Fund Types

General Fund (Major Fund): By act of the General Assembly, the General Fund is established as the basic operating fund of the State. The General Fund is required to be used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS--Budget Stabilization Reserves." Debt service requirements on General Fund bonds and notes are paid from the General Fund.

Transportation Fund (Major Fund): Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on Transportation Fund bonds and notes (which include the State Transportation and Highway bonds and notes) and certain other functions of government. The principal sources of revenue in this fund are motor fuel taxes, purchase and use taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS--Budget Stabilization Reserves.

Education Fund (Major Fund): Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as well as property tax reform. The principal sources of revenue in this fund (16 V.S.A. 4025(a)) are the education property tax, the local share property tax, revenues from the state lotteries, the tax on telecommunications services, revenues from brokerage fees, an

increase in the meals and rooms and alcoholic beverages tax, a 16 percent increase in the gasoline tax, one sixth of the motor vehicles purchase and use tax revenue and funds appropriated or transferred by the General Assembly. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

Federal Revenue Fund (Major Fund): All federal grant receipts are recorded in this fund, except for those federal funds specifically earmarked for transportation or fish and wildlife purposes. Grants of these types are recorded in the State's Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within this fund are from federal reimbursement for various health, education and welfare programs, the State counterpart of which is reflected in the General Fund.

Special Fund (Major Fund): These funds account for proceeds of specific revenues not categorized above that are legally restricted to expenditures for specific purposes. These purposes cover the entire spectrum of State government.

Fish and Wildlife Fund (Non-major Fund): Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and federal grants.

Capital Project Funds (Non-major Funds): These funds account for capital improvement appropriations which are or will be primarily funded by the issue of State bonds. Separate bond funds are maintained as corollaries to both the General Fund and Transportation Fund.

Permanent Funds (Non-major Funds): These funds report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or its citizenry, such as higher education, cemetery care and monument preservation. In previous years, these funds were reported as non-expendable trust funds.

Proprietary Fund Types

Enterprise Fund Types: These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the State's intent is that the costs of providing goods or services to the public be financed or recovered primarily through user charges, or (b) where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These types of funds are reported in both major (3 funds) and non-major (6 funds) categories as described above.

Internal Service Funds: There are twenty funds of this type reported by the State. These funds are used to account for the financing of goods and services provided by one State department or agency to other State departments or agencies, or to other governmental units, on a cost-reimbursement basis. These funds are consolidated into one column and are reported in the Proprietary Funds' financial statements.

Fiduciary Fund Types

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These funds include Pension Trust Funds (see "PENSION PLANS"), Private Purpose Trust Funds, and Agency Funds. The State reports one Private Purpose Trust Fund (Abandoned Property Fund) that is managed by the State Treasurer and accounts for all abandoned property in the State. The Agency Funds reports assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding and State income tax withholding.

Account Group

In accordance with the requirements of GASB Statement No. 34, the requirement to report account groups has been deleted. The information previously reported in these groups is now included in the government-wide financial statements and other areas of the CAFR.

GAAP-Based Fund Results

The following is selective comparable financial information based on audited financial data for specific governmental funds for fiscal years ending June 30, 2002 and 2001 as contained in each fiscal year's CAFR.

For 2002, the General Fund had a $149.6 million total fund balance as compared to a restated $173.1 million total fund balance in 2001, a decrease of over $23.5 million. The unreserved undesignated portion of this fund balance increased from $86.6 million in 2001 to $97.9 million in 2002. This increase occurred even after the General Fund Budget Stabilization Reserve had been fully funded at $9.4 million. The Legislature's designated "Reservation for General Fund Surplus" and the Agency of Human Services' "Reservation for Human Caseload Management" remained the same at $4.3 million and $18.0 million respectively.

For fiscal year 2002, the Transportation Fund had a total fund balance of $16.4 million, an increase of $1.3 million compared to the restated fiscal year 2001 balance. The unreserved undesignated portion of this total fund balance was $0.5 million which represents a decrease of $5.7 million compared to fiscal year 2001. The Budget Stabilization Reserve in the Transportation Fund was fully funded at $9.9 million.

For fiscal year 2002, the Education Fund had a total fund balance of $17.3 million, a decrease of $18.1 million compared to fiscal year 2001 balance. The unreserved undesignated portion of this total fund balance was $3.0 million which represents a decrease of $11.4 million compared to fiscal year 2001. The Budget Stabilization Reserve in the Education Fund decreased from $21.0 million in fiscal year 2001 to $14.2 million in fiscal year 2002.

For fiscal year 2002, the Federal Revenue Fund had a total fund balance of $41.7 million, an increase of $16.1 million compared to the fiscal year 2001 balance. The fiscal year 2002 unreserved undesignated portion of this total fund balance was $28.6 million which represents an increase of $5.1 million compared to fiscal year 2001. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

The principal sources of State General Fund revenues are personal and corporate income taxes, a general State sales tax, a meals and rooms tax and insurance taxes.

The following is a brief discussion of the principal General Fund revenue sources (amounts are unaudited for fiscal year 2003). For a discussion of the Governor's proposed tax changes, see "Recent Proposed Tax Changes," herein.

Personal Income Tax: From January 1, 1994 through December 31, 1999, Vermont personal income tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont personal income tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont personal income tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cut effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure for tax years 2001 and 2002 was made permanent utilizing the same revenue base maintenance approach devised under the 2001 to 2002 temporary change. The personal income tax accounted for $411.2 million or 47.5% of net General Fund revenues in fiscal year 2003.

Sales and Use Tax: The 2003 Vermont General Assembly increased the general Vermont sales and use tax rate from 5% to 6% effective October 1, 2003. Major exemptions to the State's general sales and use tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to, in part, fund Act 60 (the State's education finance reform legislation). The telecommunications sales tax rate was increased to the general sales tax rate of 6% effective October 1, 2003. As of July 1, 2004, the 2003 session of the Vermont General Assembly changed the statutory structure of these taxes from: (1) 100% of the annual receipts of the general sales and use tax to the General Fund, and (2) 100% of the gross receipts of the telecommunications tax to the Education Fund, to a statutory transfer of one-third of total gross sales and use tax receipts (inclusive of the telecommunications tax) from the General Fund to the Education Fund. In fiscal year 2003, combined sales and use tax and telecommunications tax totaled $231.3 million. The general sales and use tax portion of the tax totaled $218.6 million or 25.2% of net General Fund receipts. Receipts in the telecommunications tax totaled $13.7 million, 2.4% of Education Fund receipts for fiscal year 2003.

Meals and Rooms Tax: A 9% tax is imposed on taxable meals and the rent of each occupancy. The meals and rooms tax imposed on liquor consumed on the premises is 10%. Current law includes a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund through June 30, 2004. As of July 1, 2004, 100% of the gross receipts from this tax will remain in the State's General Fund. After transfer to the Education Fund of the statutory percentage of gross receipts, the $83.1 million in net General Fund revenues represented 9.6% of revenues available to the General Fund in fiscal year 2003.

Corporate Income Tax: Effective January 1, 1997, the net income of corporations is taxed at the greater of $250 or the following rates: first $10,000 -- 7.0%; next $15,000 -- 8.1%; next $225,000 -- 9.2%; excess over $250,000 -- 9.75%. Beginning on July 1, 1998, 19.0% of total collections in this tax source were allocated to the Education Fund. For the tax years beginning in 2002, Vermont made adjustments to its corporate income tax designed to substantially maintain the State's tax base that was in effect prior to the changes in depreciation expenses included in the federal stimulus legislation effective in 2001. Subsequent federal bonus depreciation legislation has not reduced the State's base because of these adjustments. Current law includes a statutory transfer of 19% the gross tax collected on corporate income (including S corporations, partnerships, and limited liability companies) from the General Fund to the Education Fund through June 30, 2004. As of July 1, 2004, 100% of the gross receipts from this tax will remain in the General Fund. After transfer to the Education Fund of the statutory percentage of gross receipts, the $28.6 million in net General Fund revenues represented 3.3% of revenues available to the General Fund in fiscal year 2003.

Insurance Tax: Insurance companies are taxed at a rate of 2.0% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written. The rate schedule for captive insurance rate was reduced in 2003 to a range from .0038 to .00072 (from previous rates of .004 to .00075) in order to reinforce the State as a preferred domicile for Captive Insurers in an increasingly competitive industry climate. Insurance taxes accounted for $42.5 million or 4.9% of net General Fund revenues in fiscal year 2003.

Telephone Receipts and Property Tax: In addition to the general corporate income tax, a tax of 2.37% is levied on net book value of personal property in the State of persons or corporations owning or operating a telephone line or business within the State. For businesses with less than $50,000,000 in annual gross operating receipts in the State in the preceding taxable year, taxpayers may elect to pay the gross receipts tax of 5.25% in lieu of the income and property tax. Fiscal year 2003 telephone receipts and property taxes generated $10.1 million or 1.2% of net General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax are retained by the General Fund, and the remainder deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. In practice the legislature often modifies this formula to the benefit of the General Fund. In fiscal year 2003 after statutory transfers, net receipts totaled $12.5 million or 1.4% of revenues available to the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2003, liquor taxes generated $11.2 million or 1.3% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $5.1 million or 0.6% of net General Fund revenues in fiscal year 2003.

Estate Tax: Transfers of estates are taxed in an amount equal to the federal credit for State death taxes as computed from the Internal Revenue Code in effect on January 1, 2001. The estate tax accounted for $15.6 million or 1.8% of net General Fund revenues in fiscal year 2003.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 was restructured for periods beginning in 2004. Until January 1, 2004 plants were assessed a tax of 3.5% of the value thereof less an adjustment for local taxes as appraised by the Commissioner of Taxes. Effective January 1, 2004 the tax is assessed on generation according to a rate schedule ranging from a $2.0 million minimum to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000. The tax raised $2.6 million in fiscal year 2003 or 0.3% of net General Fund revenues.

Bank Franchise Tax: The State levies a bank franchise tax based on average monthly deposits. The tax rate on such deposits was increased from .004% to .0096% pursuant to Act 60 Property Tax Reform legislation. Beginning on July 1, 1998 and through June 30, 2004, 58.3% of total collections in this tax source are allocated to the Education Fund. As of July 1, 2004, 100% of gross receipts from this tax will be dedicated to the General Fund. After transfer to the Education Fund of the statutory percentage, the $2.6 million in net General Fund revenues represented 0.3% of revenues available to the General Fund in fiscal year 2003.

Other Taxes-Fees: In addition to the taxes discussed above, the State levies taxes and other minor fees that are credited to the General Fund. Current law includes the dedication of 100% of the revenues raised from increased brokerage fees as passed under Act 60 to the Education Fund through June 30, 2004. Effective July 1, 2004, 100% of the revenues raised by those increased brokerage fees will be dedicated to the General Fund. Net revenues in this category last fiscal year were $22.1 million, or 2.6% of revenues available to the General Fund in fiscal year 2003.

State Transportation Fund Revenues

The following is a brief discussion of the major sources of Transportation Fund revenues and the amount derived from each source in fiscal year 2003 (amounts for fiscal year 2003 are unaudited).

Purchase and Use Tax: A purchase and use tax that is equivalent to the sales tax rate is assessed on the "taxable cost" (purchase price or value, less allowance for resale value of buyer's used vehicle) upon first registration of the motor vehicle. Effective August 1, 1997, the purchase and use tax was increased from 5% to 6% pursuant to Act 60 property tax reform legislation. Beginning on July 1, 1998, 16.7% of total collections in this tax source began to be deposited directly into the Education Fund. Effective July 1, 2000, the $750 ceiling on trucks over 6,100 lbs., agricultural vehicles, school buses, trailers, and motorcycles was increased to $1,100. As of July 1, 2004, one-third of gross receipts collected under this tax will be deposited directly into the Education Fund pursuant to Act 68 of the Acts of 2003. After the statutory transfer of receipts to the Education Fund, revenues totaled $68.7 million in fiscal year 2003, representing 33.1% of net revenues available to the Transportation Fund in that fiscal year.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers. The amount is determined by the type, size, weight, and function of the vehicle. Driver's license fees are also included in this category as well as miscellaneous registration and license fees. During the 2002 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2002. In fiscal year 2003, motor vehicle fees accounted for $51.6 million, representing 24.8% of net revenues and fees available to the Transportation Fund in that fiscal year.

Motor and Diesel Fuel Taxes: Effective August 1, 1997, pursuant to Act 60 property tax reform legislation, gasoline distributors are taxed at a rate of nineteen cents (plus one cent per gallon petroleum licensing fee) per gallon sold, a 4 cent per gallon increase above the previous rate. Beginning on July 1, 1999 and through June 30, 2004, 16.0% of total gasoline tax collections were allocated to the Education Fund. Effective July 1, 2004, 100% of the tax collected from gasoline distributors will be dedicated to the Transportation Fund pursuant to Act 68 of the Acts of 2003. In fiscal year 2003, the motor fuel tax accounted for $54.0 million or 26.0% of net fees and revenues available to the Transportation Fund in that year. Since 2000, diesel tax has been has been imposed at the distributor level at twenty-five cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. In fiscal year 2003, the diesel fuel tax accounted for $16.4 million or 7.9% of net revenues and fees available to the Transportation Fund in that fiscal year.

Other Taxes-Revenue: These categories include all remaining sources of revenue for the Transportation Fund. Some of the items are registration fees on off-road vehicles, a tax on aviation fuel, title fees, overweight permit fees, air and rail revenue and revenue from fines and penalties. In fiscal year 2003, these other taxes and revenues accounted for $17.1 million or 8.2% of net revenues available to the Transportation Fund in that fiscal year.

Education Fund; Act 60 and Act 68 - Property Tax Reform

In 1997 Vermont passed comprehensive legislation aimed at responding to a Vermont Supreme Court decision holding its system of funding education unconstitutional. The resulting law, known as Act 60, mandated substantial change to both the focus and funding of K-12 education. The focus of the system is on academic outcomes for children incorporating standards based on performance and assessment. The State has made several major changes to its funding model for primary and secondary public education over the past six years.

Prior to Act 60, each school district funded educational expenditures within that district and established and collected school taxes from the population of the district. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues. The funding approach enacted in Act 60 provided for a block grant from the State to each school district on a per student basis commencing in fiscal year 1999. The law provided for the amount of the grant to grow based on the inflation index each year. The block grant was funded through a uniform statewide property tax (described below) as well as with significant State appropriations. Additionally, the State shares with the local school districts in the costs of certain programs, such as special education and transportation, through categorical grants for such purposes. Individual school districts could raise additional funds above those provided by the State through "local share" taxes levied at the local level. However, school districts that voted to spend more than the block grant and imposed a higher tax must share the increased revenues with all other districts. In this way, school districts with relatively strong property values per pupil share resources with less wealthy districts.

Prior to the enactment of Act 60, school tax rates were determined by each school district and ranged from as little as $.125 per $100 of listed property value in one school district to over $3.00 per $100 in another, adjusted for inequities in town grand lists of property values. Act 60 created a statewide school tax at a uniform rate of $1.10 per $100 that was implemented over a three-year transitional period that began in fiscal year 1999. In addition to creating the statewide tax rate to specifically support education, Act 60 increased several broad based taxes and committed the increases to the Education Fund. In addition, all lottery receipts were dedicated to the Education Fund.

Act 60 eliminated the school tax on machinery and equipment. Combined with the tax rate reductions accomplished in many communities, this saved businesses in Vermont an estimated $28 million (1997 dollars).

In addition to the business property tax relief provided to industrial and commercial owners, Act 60 provided that any household with income of less than $75,000 do not pay more than 2% of that income for the statewide school taxes. In addition, the local school tax is based on a percentage of the statewide tax so residents receive help with the state and local school tax based on their income. If a household's income is over $75,000, the taxes on the first $160,000 of Homestead value are used in the calculation. In 1998, the "income sensitivity" benefit was paid through a one-time "prebate" at the beginning of the school year. The General Assembly has since changed the program to allow prebate payments to taxpayers 30 days prior to their taxes being due locally. With 62 separate first payment due dates, the State is able to spread the prebate payments out over more time to better manage cash flow. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total tax (municipal and school) after prebate exceeds between 3.5% and 5.0% of their income based on a sliding scale.

The Statewide property tax is billed and collected at the local level. A netting process is followed, with the State paying any net amounts due the towns in three payments while the towns pay net amounts due the State in two equal payments.

As part of the transition to the school funding methodology under Act 60, the State guaranteed the yield of local share taxes for fiscal years 2000 and 2001, assuring participating communities of a certain level of resources for spending above the block grant amount regardless of the pool of communities that spend above the block grant amount. Since fiscal year 2001, the State has committed available resources from within the Education Fund to subsidize the yield of local share taxes without any guarantee. The design of the pool insulates the State to a substantial degree. Communities that spent above the block grant amount were the participants in the pool and are responsible for raising those monies. The yield mechanism was designed to have a dampening effect on spending. If a property wealthy community spent less, they contributed less to the pool and the yield went down for all communities. If a property poor town spent more without some corresponding increase in wealthier towns, the yield also went down. As towns reduced the yield they would have to increase their own local share tax rate to maintain the same spending level.

In 2003 the Legislature passed Act 68, which modified the statewide property tax by eliminating the sharing pool and imposing a split Grand List. Homestead property is assessed at the rate of $1.10 per $100 of assessed value multiplied by the district spending adjustment while all other property is assessed at $1.59 per $100 and is not subject to the district spending adjustment.

In addition to the bifurcated taxes in the General Fund and Transportation Fund mentioned above, and the property taxes discussed in this section, revenues from the state lotteries under Chapter 14 of Title 31 are also dedicated to the Education Fund. In addition, the State allocates 39% of Medicaid reimbursement revenues for qualified medical services provided to students in grades K-12 to the Education Fund consistent with Title 16 VSA, Section 2959a and recent changes in federal law governing those reimbursements. The Education Fund also has earned minimal amounts

interest income over the years. In fiscal year 2003, Lottery revenues totaled $15.5 million, representing 2.7% of net revenues available to the Education Fund. Education Fund Medicaid reimbursement revenues for fiscal 2003 were $8.3 million, representing 1.4% of total Education Fund revenues in that fiscal year.

Federal Receipts

In fiscal year 2002, the State received approximately $964.1 million from the federal government. This amount represented reimbursement to the State for expenditures for various health, welfare, educational, and highway programs, and distributions of various restricted or categorical grants-in-aid. The fiscal year 2003 federal receipts, when finalized and audited, are expected to be approximately $1,034.3 million. The fiscal year 2004 Appropriations Act, as passed, anticipates $1,082.9 million in federal receipts.

Federal grants normally are restricted to some degree, depending on the particular program being funded, on matching resources by the State. The largest categories of federal grants and reimbursements in fiscal year 2003 were made in the areas of Human Services, $643.2 million; Transportation, $154.6 million; Education, $87.3 million (preliminary); and Natural Resources, $27.6 million.

Tobacco Litigation Settlement Fund

According to the Master Settlement Agreement with tobacco companies, Vermont's expected and actual receipts of settlement funds are as follows (in millions):

	Expected	Actual
Fiscal year 2001	$28.47	$24.68
Fiscal year 2002	34.18	31.14
Fiscal year 2003	34.51	30.63
Fiscal year 2004	28.80	25.20*
Fiscal year 2005	24.83	**

* estimated, ** not available

Pursuant to the Agreement, the expected settlement amounts were adjusted for inflation and the effect of any decreases in the sale of tobacco products to the base year.

In fiscal year 2000, the Vermont legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the Agreement are deposited in the Tobacco Litigation Settlement Fund. For fiscal year 2004, the Legislature appropriated $17.3 million from such Fund (the same as fiscal years 2001, 2002 and 2003) to healthcare services and $5.1 million to programs in the Health and Education departments for tobacco enforcement, prevention and education programs. Additionally, $2.5 million was appropriated to substance abuse and youth protection programs in the Agency of Human Services. The remainder of the receipts is earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. Such remaining receipts were transferred to the Tobacco Investment Trust Fund at the end of fiscal years 2000, 2001 and 2002. The receipts remaining at the end of fiscal year 2003 were not transferred to the Tobacco Investment Trust Fund but were instead transferred to the Health Access Trust Fund. The Tobacco Investment Trust Fund balance at the end of fiscal year 2003 was $23.5 million.

Recent Proposed Tax Changes

The Governor has proposed two changes designed to be revenue neutral to Vermont's tax structure. Such changes require the enactment of legislation. There can be no assurance that such changes will be enacted or will be enacted in the form proposed or when such changes, if enacted, would be effective.

The Governor has proposed changing the personal income tax by repealing the current 40% capital gains exemption and lowering personal income tax rates. The elimination of the 40% capital gains exemption would increase revenues by approximately $16 million. Such increase in revenues would offset the reduction in revenues that would result from lowering all five of Vermont's marginal income tax rates. The largest rate reduction would lower by 6.9% (from 7.2% to 6.7%) the rate applicable to the $47,450 - $114,650 bracket. This reduction would lower Vermont's national ranking on income in this range from 8th highest to 16th highest. The second largest rate reduction would be in

the $114,650 - $174,700 bracket, which would be lowered by 5.9% (from 8.5% to 8.0%). Over 170,000 filers would experience a tax reduction while slightly over 11,000 would experience a tax increase.

The Governor has also proposed changing the corporate income tax by adopting a unitary combination approach to the definition of income subject to the corporate income tax and lowering corporate income tax rates. Sixteen other states use the unitary combination approach to measuring corporate income. The basis of this approach is to include all of a business entity's income, including that of affiliates whether inside or outside the state, as the basis for application of the tax. Such income is then apportioned among states based on relative weightings of payroll, real and tangible personal property, and sales. The portion of the income apportioned to each state is subject to the corporate income tax rates imposed by that state. The application of the unitary combination approach would increase revenues by approximately $5 million. Such increase in revenues would offset the reduction in revenues that would result from an across-the-board reduction in corporate income tax rates of about 14%. Such a reduction would cause Vermont's top corporate rate of 9.75% to be lowered to 8.5% and change the State's national ranking from 5th highest to 16th highest.

In addition, because of strong growth in grand list property valuation, the Governor has proposed a decrease of five cents for both the statewide residential property tax rate, currently set at $1.10, and the statewide non-residential rate, currently set at $1.59. When the statewide rates were set during the 2003 legislative session, the rate of grand list growth was estimated at 7.6%. The actual experience has been close to 10%.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

Fiscal Year 2001

Fiscal year 2001 finished with General Fund revenues totaling $909.8 million. Combined with $11.6 million undesignated from the previous year the State had a total of $921.4 to cover appropriations of $880.7 leaving an operating surplus of $40.7 million. Base appropriations were $836.7 million with one-time expenditures totaling $36.5 million. The surplus was designated by the General Assembly as follows: transfers to other funds ($17.2 million), reserves ($3.2 million), debt avoidance through the payment of capital expenditures ($12.0 million) and $4.3 million was carried forward undesignated.

Vermont counts tax refunds against General Fund revenue before revenues are accounted for. Due to extraordinary delays in refunding in fiscal year 2001 as a result of implementation and processing delays, the State, to maintain comparative values, reduced 2001 General Fund revenues by $33.4 million and held those funds in reserve for payment of refunds in fiscal year 2002. The actual cost of refunds appropriately assigned to fiscal year 2001 was $29.3 million. The balance, $4.1 million, was made available and spent in fiscal year 2002.

Transportation Funds for fiscal year 2001 totaled $194.3 million. With transfers and prior years' surpluses the total available for transportation purposes was $209.6 million. The original appropriation of $199.3 million was increased for extraordinary winter maintenance costs to $203.3 million leaving an operating surplus of $6.2 million which was allocated for a variety of purposes including an increase in the Budget Stabilization Reserve of $0.1 million for a total Budget Stabilization Reserve balance of $10.1 million at the end of fiscal year 2001. There was no undesignated reserve in the Transportation Fund at the end of fiscal year 2001.

The Education Fund, as in previous years, was expected to operate at a deficit, though at a declining rate. For fiscal year 2001, Education Fund "gross" receipts* of $926.4 million were offset by $934.9 million in "gross" expenditures*. The operating shortfall was $8.5 million compared to $24.8 million in fiscal year 2000 and $27.3 million in fiscal year 1999. The Education Fund was carrying an undesignated balance of $10.7 million which after being applied to the shortfall allowed an additional $2.2 million to move to the Budget Stabilization Reserve, keeping it at the statutory maximum allowed. The Budget Stabilization Reserve in the Education Fund held $21.0 million at the end of fiscal year 2001 and there was $0.02 million in undesignated reserves.

---

* In order to reduce transactions between the State, towns and school districts, state funds collected at the local level were left in local treasuries and "netted" against obligations the State had to local school districts. "Net" operating statements for the Education Fund only showed the funds that actually flowed through the State treasury. "Gross" operating statements provide a better view of State spending for education in Vermont.

Fiscal Year 2002

Fiscal Year 2002 General Fund revenues were originally estimated to be $913.1 million when first projected by consensus revenue forecasts in July 2001. Vermont revisited and reestablished consensus numbers twice more through the fiscal year as the economy and State revenues showed signs of weakness. Targets were set in November of 2001 and lowered again in January of 2002. With each review and adjustment to the revenue forecast there was also a review and downward adjustment to the State's appropriation level. The January General Fund forecast was established at $866.6 million. With surpluses carried forward from fiscal year 2001, direct applications, and miscellaneous adjustments total revenues anticipated to be available were $893.6 million. Actual year-end General Fund total revenues for fiscal year 2002 were $857.0 million.

Appropriations for fiscal year 2002 were adjusted as forecast revenues were reduced during the year. The Governor implemented two separate rescissions in the fall of 2001 totaling $17.01 million. Additionally, contingent appropriations were cancelled by virtue of the lower revenue estimates, and legislation was passed to finalize fiscal year appropriations at $872.1 million, down from $893.4. The budget also required that $19.5 million be transferred to the Transportation and Education Funds. Final year-end results left a General Fund operating deficit of $15.1 million and with the additional transfers, a total deficit of $34.6 million. The deficit was erased using funds from the General Fund Stabilization Reserve Fund, leaving a balance of $12.8 million in reserve (consisting of $8.4 million in the Stabilization Reserve and $4.3 million in unallocated reserves). Vermont also had a General Fund reserve of $18.1 million known as the Human Services Caseload Reserve to address unexpected pressures caused by caseload growth due to economic conditions.

The State appropriates most of its tobacco settlement funds to Medicaid health programs and to tobacco education and prevention programs. There was, however, a total of $10.9 million not so appropriated from tobacco settlement funds between fiscal year 2002 and fiscal year 2003 that the Legislature specifically set aside to help address the shortfall in the General Fund. The rest of the shortfall was met with reductions in General Fund appropriations totaling $18.6 million and reductions in expenditures from other funds of $1.9 million. The funds saved from the appropriation reductions in other funds were transferred to the General Fund.

The Transportation Fund Revenues for fiscal year 2002 were also adjusted downward early in the fiscal year though the consensus forecast in January indicated a slight recovery from some of the downward pressure. In fact, Transportation Fund year-end results indicated revenues recovered to end the year at $207.6 million, providing enough funds for a modestly more aggressive paving and maintenance program than first thought to be possible. From the $9.7 million operating surplus, $3.1 million was transferred to other funds and $1.0 million was added to the Transportation Fund Budget Stabilization Reserve leaving an operating surplus balance of $5.7 million to be carried forward to fiscal year 2003. For fiscal year 2002, the Budget Stabilization Reserve in the Transportation Fund ended the year with a $9.9 million balance.

For fiscal year 2002, "gross" Education Fund receipts were $972.4 and "gross" expenditures of $984.7, resulting in an operating deficit of $12.2 million. An operating deficit had been projected in the Education Fund for fiscal year 2002 since early in fiscal year 2001. As part of a multi-year plan, the State decided it would rely on the Education Fund Stabilization Reserve to cover such deficit and anticipated that the reserve would be restored in the following two years. At one time the projected deficit was estimated to be as much as $14.3 million. The deficit was covered by the Education Fund Stabilization Reserve, leaving a balance of $14.4 million in the Education Fund Stabilization Reserve at the end of fiscal year 2002.

The Tax Department, which experienced processing issues related to the implementation of a new software application for personal income tax processing, successfully implemented a multi-faceted strategy to eliminate the problems of timely processing it experienced in fiscal year 2001. Processing of refunds was dramatically accelerated and interest paid on delayed refunds was thus greatly reduced.

Fiscal Year 2003 (Preliminary – unaudited)

With strong revenue results in the final fiscal quarter, the State finished fiscal year 2003 with a total of $883.9 million in General Fund revenues. With total appropriations of $889.7 million (including $2.0 million in one-time expenditures), the resulting operating deficit for 2003 was $5.8 million. Base appropriations represented a 2.9% increase over the previous year while total General Fund revenues grew at 3.1%. The General Fund operating deficit of $5.8 million was offset by transfers from the Transportation Fund ($6.5 million), Tobacco Settlement Fund ($9.2 million) and

other ($0.2 million). As a result, a net transfer of $10.8 million was made to the General Fund Budget Stabilization Reserve bringing it to $23.6 million.

Fiscal year 2003 Transportation Fund revenues totaled $214.0 million. With previous year balances and transfers, the total available for fiscal year 2003 was $219.6 million. Appropriations totaled $210.8 million and the Transportation Fund had an operating surplus of $8.9 million. With the addition of $0.7 million drawn from the Transportation Fund Stabilization Reserve, such operating surplus was transferred as follows: $6.5 million to the General Fund and $3.2 million among three other funds. The balance of the Transportation Fund Stabilization Reserve at the end of fiscal year 2003 was $9.2 million.

The Education Fund experienced a $3.2 million operating deficit for fiscal year 2003 and ended the year with no undesignated surplus balance, and a Education Fund Budget Stabilization Reserve of $11.0 million, just over half of the statutory maximum target.

Fiscal Year 2004 General, Transportation and Education Funds to Date

The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 15, 2003, current law General Fund revenues in fiscal year 2004 had been projected to be $881.5 million and on June 18, 2003, the Legislature passed a budget of $898.2 million. On July 15, 2003, the Emergency Board met to consider the forecast and agreed to a General Fund revenue forecast of $908.0 million for fiscal year 2004, which represented an increase over the estimates made when the budget was being prepared earlier in 2003. This increase largely reflects the addition of revenue from a 1% increase in the sales tax, which will be allocated to the General Fund during the period October 1, 2003 – June 30, 2004 and, starting July 1, 2004, will be allocated to the Education Fund.

As part of the 2003 Federal Tax Cut and Economic Stimulus package, the State received $50 million in one-time federal aid plus $32.9 million in enhanced Medicaid support. This assistance to the State's General Fund enabled Vermont to bolster various reserve accounts, make one-time expenditures for investments in computer upgrades, tourism marketing, public safety, and corrections. Additionally $11.9 million was set aside for use in the fiscal year 2004 Budget Adjustment process.

The General Fund through December 2003 performed 5.1% ahead of the July 15, 2003 consensus cash flow expectations of the Legislature and the Administration. This follows strong revenues in the final quarter of fiscal year 2003. Over the first six months of fiscal 2004, General Fund receipts have been supported by stronger than expected personal income withholding and corporate estimated tax receipts, a strong performance by the State's sales and use tax, and higher than expected insurance and estate tax receipts. In total, cumulative General Fund receipts through the month of December were $21.9 million ahead of the level expected in its cumulative consensus cash flow target. As a result, on January 15, 2004, the Emergency Board agreed to a $15.9 million increase in the fiscal year 2004 General Fund revenue forecast, raising the total to $923.9 million.

In the Transportation Fund, total receipts were 2.5% ahead of expectations through the month of December. The $2.5 million positive receipts performance is attributable to the stronger than expected motor vehicle purchase and use tax receipts over the period. Modest under performance and over performance in other Transportation Fund receipt categories have essentially offset each other. On January 15, 2004, the Emergency Board increased the fiscal year 2004 Transportation Fund forecast by $1.2 million to a total of $214.4 million. Current projections for the Transportation Fund show total receipts are on a course that will support the appropriations approved for fiscal 2004.

In fiscal year 2004, the Education Fund has experienced higher than expected revenue growth. This was largely the result of an upward adjustment to grand list growth rate, from 8.1 to 10.0 percent (reflecting increasing property values). The effect of this has been a projected increase in the revenue from property taxes by about $28 million. The fiscal year 2004 (gross) total revenue is projected to be $ 1.1 billion and the operating surplus is expected to be $30.6 million. As a result, the administration has recommended that legislation be passed authorizing a property tax rate cut of five cents (per $100 of valuation) effective July 1, 2005. With these latest forecasts, the current level of education spending appears to be sustainable for the foreseeable future.

Fiscal Year 2004 General Fund Results to Date

July 1, 2003 – December 31, 2003
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Personal Income Tax	$209,079,000	$219,028,976
Sales and Use Tax	115,557,000	120,640,496
Corporate Income Tax	12,991,000	15,623,511
Meals and Rooms Tax	43,222,000	43,869,553
Property Transfer	5,255,000	5,971,322
Other Revenues	47,559,000	50,430,469
Total	$433,663,000	$455,564,327

[1] Official Revenue Estimates as of July 15, 2003.

Fiscal Year 2004 Transportation Fund Results to Date

July 1, 2003 – December 31, 2003
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Gasoline Tax	$28,359,000	$27,775,872
Diesel Tax	8,158,000	8,455,014
Purchase and Use Tax	30,993,000	34,479,506
Motor Vehicle Fees	23,268,000	24,019,665
Other Revenues	9,025,000	7,545,951
Total	$99,803,000	$102,276,008

[1] Official Revenue Estimates as of July 15, 2003.

Fiscal Year 2004 Education Fund Results to Date*

July 1, 2003 – December 31, 2003
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Corporate Income Tax	$3,045,000	$3,664,774
Meals and Rooms Tax	9,818,000	9,992,388
Bank Franchise Tax	1,954,000	1,771,436
Lottery	8,705,000	9,682,366
Gasoline Tax	4,664,000	5,553,348
Motor Vehicle Purchase & Use Tax	6,351,000	6,835,877
Telecommunications Tax	7,929,000	6,564,288
Other Revenues	2,285,000	1,192,928
Total	$44,751,000	$45,257,405

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of July 15, 2003.

Budget Stabilization Reserves

The 1987 Legislature initially established the General Fund Budget Stabilization Reserve to "reduce the effects of annual variations in State revenues upon the budget of the State by retaining surpluses in General Fund revenues." Under current law, Budget Stabilization Reserves have been established within the General Fund, the Transportation Fund, and the Education Fund.

Act No. 61 of the 1997 Legislative session amended both the General Fund and Transportation Fund budget stabilization laws by stipulating that the respective reserves shall consist of 5% of the prior year budgetary appropriations and further stipulated that in any fiscal year if the General Fund or Transportation Fund is found to have an undesignated fund deficit as determined by generally accepted accounting principles, the applicable Budget Stabilization Reserve shall be used to the extent necessary to offset that deficit. This was done to reflect the State's change to reporting its financial condition in accordance with generally accepted accounting principles.

For the fiscal year ending June 30, 2001, the General Fund Budget Stabilization Reserve was $43.0 million and the Transportation Fund Budget Stabilization Reserve was $8.9 million. The statutory provisions for maintaining a Budget Stabilization Reserve are based on a percentage of prior year appropriations. The Education Fund is the recipient of a large General Fund appropriation each year. The reserve for the amount of the fund based on the percentage of appropriation to the Education Fund is considered to be part of the General Fund Budget Stabilization Reserve and such amount is not taken into consideration when calculating the Education Fund Budget Stabilization Reserve. At the end of fiscal year 2001 the Budget Stabilization Reserve in the Education Fund was funded to $20.8 million.

To balance the fiscal year 2002 budget, the State utilized the Budget Stabilization Reserve in the General Fund and in the Education Fund. After using $34.6 million from the General Fund Budget Stabilization Reserve, this left $30.8million in General Fund reserves, $8.4million in the Budget Stabilization Reserve, $4.3 million in unallocated reserves and $18.1 million in the Human Services Caseload Reserve. The balance in the unallocated reserve was transferred to the General Fund Budget Stabilization Reserve as part of the Governor's plan to reduce the fiscal year 2003 projected deficit The Transportation Budget Stabilization Reserve was not spent, and ended fiscal year 2002 fully funded with a balance of $9.9 million. The Education Fund had a fiscal year 2002 deficit that was anticipated at the beginning of the year and was covered by $6.6 million from the Education Fund Budget Stabilization Reserve resulting in a remaining balance of $14.2 million in the Education Fund Budget Stabilization Reserve. This amount was less than was planned at the beginning of the year. Statutes required that the Legislature plan to rebuild the Education Fund Budget Stabilization Reserve.

The General Fund Budget Stabilization Reserve ended fiscal year 2003 just over half funded at $23.6 million, helped by strong fourth quarter fiscal year 2003 revenues (which were $10.4 million ahead of the then current revenue estimate) and the transfer of $4.3 million from the prior year unallocated reserve. On June 30, 2003, the Human Services Caseload reserve totaled $17.2 million. The Transportation Fund Budget Stabilization Reserve ended the year nearly fully funded at $9.2 million. The Education Fund Budget Stabilization Reserve ended fiscal year 2003 just over half funded at $11.0 million. The Education Fund Budget Stabilization Reserve is statutorily required to be between 3.5 and 5.0 percent of education spending (excluding the General Fund transfer which is already considered in the General Fund Stabilization Reserve.). In fiscal year 2003 the reserve dipped to 2.6 percent, and this, in conjunction with a new education financing system prompted an additional General Fund transfer to the Education Fund in 2004. As a result of this transfer and higher than expected property values, the Education Fund Budget Stabilization Reserve is expected to end fiscal year 2004 well in excess of full funding. Based on current revenue projections, the Education Fund Budget Stabilization Reserve is expected to be fully funded at 5.0 percent for the next several years.

Current projections are that the Budget Stabilization Reserves for the General Fund, Transportation Fund and Education Fund will all be fully replenished to their respective statutory levels by June 30, 2004. To this end, the Governor has proposed the transfer of $3.3 million to the General Fund Budget Stabilization Reserve as part of the fiscal year 2004 Budget Adjustment.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2001 through 2003, and budgeted operating results for fiscal year 2004 for the primary operating funds of the State, the General Fund, the Transportation Fund, and the Education Fund.

General Fund Operating Statement
Fiscal Years 2001 – 2004
($ in Millions)

	Actual FY 2001	Actual FY 2002	Preliminary Actual FY 2003	As Passed FY 2004
Sources				
Current law revenues	$895.85	$832.69	$863.21	$896.10
2003 H.480 (Act 68) sales tax implementation	-	-	-	27.80
Direct applications & reversions	9.90	20.27	18.01	13.17
Additional Property Transfer Tax	-	-	2.66	4.25
Tax refund reserve	33.39	4.05	-	-
Tax refunds paid out	(29.34)	-	-	-
Current year sources	909.80	857.01	883.88	941.32
For approp from prior year surplus reserve	11.59	-	-	-
Prior year unallocated operating surplus	0.00	0.00	0.00	0.00
Total sources	921.39	857.01	883.88	941.32
Uses				
Base appropriations	836.69	862.92	887.71	898.03
Pay Act	-	-	-	2.00
One-time appropriations	7.73	9.22	2.01	16.99
Additional GF transfer to Ed Fund due to Act 68 2003	-	-	-	28.90
One-time approps from prior year surplus reserve	11.59	-	-	-
Contingent one-time approps from same year surplus	17.18	-	-	-
School construction approp from prior year surplus reserve	8.00	-	-	-
Same year reversion: Human Services Caseload Reserve	(0.50)	-	-	(7.50)
Federal Flexible Funding Replacement	-	-	-	(50.00)
Total uses	880.69	872.14	889.72	888.42
Operating surplus (deficit)	40.70	(15.13)	(5.84)	52.90
Transfers of surplus (to) / from other funds				
Transportation Fund	(5.51)	(13.85)	6.45	-
Tobacco Settlement	-	-	9.20	-
General Bond Fund	-	-	0.16	-
Transportation Fund Stablization Reserve	(0.64)	-	-	-
Housing & Conservation Trust Fund	(1.00)	-	-	-
Medicaid Reimbursement Administrative Fund	-	-	-	-
VHAP Trust Fund	(10.00)	-	-	-
Education Fund	-	(5.60)	-	-
Total transfers (to) / from other funds	(17.15)	(19.45)	15.81	0.00
Transfers of surplus (to)/from Reserves				
Budget Stabilization Reserve	(1.66)	34.58	(15.12)	(20.93)
Human Services Caseload Reserve	(1.50)	-	-	-
Reserved for transfer to the Education Fund	-	-	-	-
Reserved for transfer to Debt Service	(12.00)	-	-	-
Reserved in GF Surplus Reserve	(4.34)	-	4.34	(24.47)
Total reserved in the GF	(19.50)	34.58	(9.97)	(52.90)
Total transfer of surplus	(36.65)	15.13	5.84	(52.90)
Unallocated operating surplus	4.05	0.00	0.00	0.00
GF Reserves (cumulative)				
Budget Stabilization Reserve	43.02	8.44	23.56	44.49
Human Services Caseload Reserve	18.05	18.05	17.24	24.74
Reserved for transfer to Debt Service	12.00	-	-	-
Reserved in GF Surplus Reserve	4.34	4.34	-	24.47
Reserved for school construction	15.21	-	-	-
Total GF reserve balances	$92.62	$30.83	$40.80	$93.70

*** Results may not add due to rounding**

Transportation Fund Operating Statement
Fiscal Years 2001 – 2004
($ in Millions)

	Actual FY 2001	Actual FY 2002	Preliminary Actuals FY 2003	As Passed FY 2004
Sources				
Current law revenues	$185.95	$197.94	$205.34	$214.40
Federal reimbursements	8.22	8.41	8.59	3.30
Direct applications & transfers in	0.12	1.26	0.05	6.74
Current year sources	194.29	207.61	213.98	224.44
For approp from General Fund Transfer	$5.51	$13.85	$0.00	$0.00
For approp from RMMTC Reserve	0.00	1.17	0.00	0.00
Prior year unallocated operating surplus	9.75	0.00	5.65	0.00
Total sources	209.55	222.63	219.63	224.44
Uses				
Base appropriations	203.32	211.20	211.20	212.97
Pay Act	0.00	2.45	3.34	0.00
Rescission	0.00	(1.91)	(3.79)	0.00
Contingent one-time approp from prior year	0.00	1.17	0.00	0.00
Total uses	203.32	212.91	210.75	212.97
Operating surplus (deficit)	6.23	9.72	8.88	11.47
Allocation of surplus				
Transfers of surplus (to) / from other funds:				
General Fund	0.64	0.00	(6.45)	0.00
Downtown Fund	(0.80)	(0.70)	(0.80)	(0.80)
Central Garage Fund	(4.45)	(1.98)	(1.99)	(2.11)
Art Acquisition Fund	0.00	(0.01)	0.00	0.00
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / from other funds	(4.98)	(3.06)	(9.61)	(3.28)
Reserved in TF (designated):				
Budget Stabilization Reserve	(0.08)	(1.01)	0.73	(1.38)
Total allocated	(5.06)	(4.07)	(8.88)	(4.66)
Unallocated operating surplus / (deficit)	1.17	5.65	0.00	6.81
TF Reserves (cumulative)				
Budget Stabilization Reserve	8.88	9.89	9.16	10.54
Rutland MMTC Reserve	1.17	0.00	0.00	0.00
Total TF reserve balances	$10.05	$9.89	$9.16	$10.54

*** Results may not add due to rounding**

Education Fund Operating Statement*
Fiscal Years 2001 – 2004
($ in Millions)

	Actual FY 2001	Actual FY 2002	Preliminary Actual FY 2003	As Passed FY 2004
Sources				
Current law revenues	$72.94	$69.80	$70.66	$76.80
Lottery Revenue	17.44	16.59	15.53	19.60
Statewide Property Tax	406.73	424.15	453.96	489.89
Local Share Property Tax Receipts	171.09	197.39	231.88	245.80
General Fund Appropriations	238.03	246.36	254.96	268.40
Reduction to General Fund appropriation			(9.28)	
Medicaid Reimbursement	8.18	8.26	8.28	8.29
Direct Applications/Reversions	11.79	9.67	4.85	0.00
Interest on Fund Balance	0.22	0.17	(0.31)	0.00
Current year sources	926.42	972.39	1,030.54	1,108.78
Prior year unallocated operating surplus	10.69	0.02	0.00	0.00
Total sources	937.11	972.41	1,030.54	1,108.78
Uses				
Base appropriations	786.59	809.71	828.18	859.50
Local Share Payments	148.31	174.94	205.58	217.48
School Construction Assistance	0.00	0.00	0.00	0.00
Total uses	934.90	984.65	1,033.76	1,076.98
Operating surplus (deficit)	2.21	(12.24)	(3.23)	31.80
Transfer of surplus (to) / from other funds				
General Fund	0.00	5.60	0.00	0.00
Total transfers (to) / from other funds	0.00	5.60	0.00	0.00
Transfer of surplus (to) / from Reserves				
Education Fund/Reserve	(2.21)	6.64	3.23	(12.39)
Total reserved in the Education Fund	(2.21)	6.64	3.23	(12.39)
Total transfer of surplus	(2.21)	12.24	3.23	(12.39)
Unallocated operating surplus	0.00	0.00	0.00	19.41
Education Fund Budget Stabilization Reserve	18.63	20.84	14.20	10.97
Total EF reserve balances	$20.84	$14.20	$10.97	$23.36

*** Results may not add due to rounding**

* Gross Operating Statement. In order to reduce transactions between the State, towns and school districts, state funds collected at the local level were left in local treasuries and "netted" against obligations the State had to local school districts. "Net" operating statements for the Education Fund only showed the funds that actually flowed through the State treasury. "Gross" operating statements provide a better view of State spending for education in Vermont.

REVENUE ESTIMATES

Act No. 178 of the 1996 Adjourned Session established a mechanism by which the State adopts official revenue estimates for the current and subsequent fiscal years. By July 15th and January 15th of each year, and at such other times as the Emergency Board or the Governor deem proper, the joint fiscal office and the Secretary of Administration are to provide to the Emergency Board (comprised of the Governor and the Chairs of the key taxing and spending committees of the Vermont Legislature) their respective revenue estimates for the General, Transportation and Federal Funds for the current and next succeeding fiscal year. Act 60 added portions of the Education Fund to that statute beginning in July of 1998. The Emergency Board, within ten days of receipt of such estimates, is required to determine an official revenue estimate for the current and next succeeding fiscal year.

A consensus revenue forecast for fiscal years 2004 and 2005 was completed in early January of 2004 and was approved by the Emergency Board on January 15, 2004 (the "January Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, and an overall forecasted level of receipts for the General Fund and Transportation Fund, and receipts other than property tax receipts in the Education Fund. The January Forecast incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the State's participation in the New England Economic Project (N.E.E.P.). The N.E.E.P. organization is a regional economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. It is expected the January Forecast will be updated on or before July 15, 2004 as part of the normal, statutory forecasting cycle.

The following discussion describes the level of revenues estimated, under the January Forecast, to be deposited in the General Fund in fiscal 2004 and fiscal 2005. Such estimates reflect both the anticipated increase or decrease in collections of the taxes of each category and the allocation of such collections between the General Fund and the Education Fund pursuant to Act 68. The January Forecast does not incorporate any of the Governor's proposed tax changes. See "STATE FUNDS AND REVENUES--Recent Proposed Tax Changes."

Personal Income Tax: The January Forecast for the personal income tax for fiscal year 2004 and fiscal year 2005 is based on: (1) recent trends in actual receipts, (2) most recent expectations for job and wage growth over the period (See "STATE ECONOMY–Economic Activity–The Vermont Outlook"), (3) the expectation of a continued subdued environment relative to the late 1990s for financial capital gains, and (4) expectations of a spring filings in fiscal 2004 being approximately equal to spring filings in fiscal 2003 due to over-withholding in the personal income tax. Regarding the fourth factor, this over-withholding has occurred in the aftermath of 2003 federal income tax legislation that raised the standard deduction for married joint filers retroactive to January 2003. Although the Vermont legislature acted preemptively in 2001 and 2002 to substantially off-set the State revenue reducing effects of this legislation, the federal marriage penalty relief provisions are expected to be one of the few provisions of federal tax relief to flow through to the State and therefore contribute to a flat spring filing season. The January Forecast expects revenue receipts of $428.6 million in fiscal year 2004 and $448.3 million in fiscal year 2005, reflecting a 3.8% and a 5.0% annual growth rate, respectively. Relative to the July 2003 Consensus Forecast, these revised forecasts represent increases of 1.7% and 1.6%, respectively.

Sales and Use Tax: The January Forecast for the sales and use tax for fiscal 2004 and fiscal 2005 reflects the current status of collections over the first half of fiscal 2004 (which should be maintained over the rest of 2004), and the expected consolidation of the national and State economic recoveries. Sales and use tax revenues to date in fiscal 2004 have been supported by an upbeat late holiday retailing season, good levels of tourism activity, recovering State labor markets, and the effect of a one percentage point increase in the tax rate that became effective October 1, 2003. For fiscal 2004 and 2005, the January Forecast includes an underlying tax-rate adjusted and modest growth rate of 3.2% and 1.9%, respectively. The January Forecast expects revenues of $253.8 million to be deposited in the General Fund in fiscal 2004 and $182.1 million to be deposited in the General Fund in fiscal 2005, including the incremental revenue from the one percentage point increase in the tax rate for eight months of fiscal 2004 and all of fiscal 2005 (taxes in this revenue source are generally collected on a one month lagged basis). Total receipts from the State's sales tax on telecommunications, which has been imposed since October of fiscal year 1998 and was increased to 6% effective October 1, 2003, are expected under the January Forecast to be $17.4 million in fiscal 2004 and $19.2 million in fiscal 2005. These estimates reflect the changed allocation under Act 68 of the 2003 Acts where one-third of all sales and use tax revenues—including the Telecommunications tax—are allocated to the Education Fund beginning on July 1, 2004.

Corporate Income Tax: The January Forecast reflects that corporate receipts in recent times have benefited from the generally improving State and national economies and rising productivity. The January Forecast also fully reflects the revenue restraining effects of increased tax avoidance measures, and increased claims for State tax credits under the incentives program of the Vermont Economic Progress Council. The January Forecast further reflects State legislation enacted to off-set federal tax reduction measures that have been enacted as part of the recent federal "economic stimulus packages." The January Forecast for total corporate income tax revenues includes a 9.2% increase (prior to the Education Fund transfer) for fiscal 2004, reflecting the strong recent increases in corporate profitability and collections in this tax over the first half of the year. Collections were especially strong during December, reflecting upbeat fourth quarter estimated payments for calendar year corporations. Historically, this has been an early indication of a favorable spring filing season during March-April. For fiscal 2005, the January Forecast includes another increase of 6.2% (prior to the Education Fund transfer) over fiscal 2004. Total corporate income tax receipts deposited to the General Fund, according to the January Forecast, are expected to total $31.3 million in fiscal 2004 and $41.1 million in 2005. The fiscal 2005 forecast number reflects the allocation change in Act 68 where 100% of corporate tax is retained by the General Fund beginning on July 1st of that year and for each year thereafter.

Meals and Rooms Tax: The gradual strengthening U.S. and State economic recoveries, the weakening U.S. dollar (particularly relative to the Canadian dollar), an upbeat fall foliage tourist season, and a strong start for the State's winter tourism season has generated good receipts momentum so far in fiscal 2004. As of the winter of 2004, public concern about the potential for additional terrorist attacks is apparently continuing to induce tourists in the northeastern U.S. corridor to seek travel destinations that can be reached via ground transportation modes in lieu of air travel. The January Forecast for fiscal 2004 for the meals and rooms tax totals $85.7 million, representing an increase of 3.1% versus fiscal 2003. The January Forecast for fiscal year 2005 totals $108.1 million, an increase of 26.1% versus fiscal 2004. That strong growth rate for meals and rooms tax receipts for fiscal 2005 includes the allocation change under Act 68 where 100% of the gross tax collections received under this tax source are retained by the General Fund beginning on July 1, 2004 (corresponding to the beginning of the State's 2005 fiscal year) and for each succeeding fiscal year thereafter.

Other Taxes and Revenues: This category of taxes, fees, and other revenues is comprised of revenue sources ranging from the State's tax on insurance premiums (including captive insurance companies), taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, the estate tax, fines assessed by regulatory authorities and the judicial system, and other similar levies and assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont. The January Forecast consensus for these revenue sources reflect historical collections patterns, special factors and circumstances that have been identified in consultation with contacts in various State departments and agencies responsible for receipts collection and monitoring for these sources. For the January Forecast, specific factors include: (1) continued strong collections in the Insurance Tax which is in part due to the continuing growth of the captive insurance industry, (2) a roughly doubling in the Fines component due to the settlement of litigation in the multi-state lawsuit involving 10 prominent securities firms and a $0.5 million fine paid by Fletcher Allen Health Care related to the improper permitting of its current expansion project, and (3) upbeat first half collections in the Liquor and Estate Tax components. The January Forecast fully reflects the allocation changes to affected tax sources as prescribed by Act 68, and fully reflects the recent federal tax changes in the Estate Tax. The January Forecast does not include any revenues from lottery profits/sales since these revenues are now statutorily transferred to the State's Education Fund as of July 1, 1998.

The following table compares actual General Fund revenue collections on a fiscal year basis for fiscal year 2002 and 2003. Revenues for fiscal 2002 reflect adjustments made for fiscal year 2001 personal income tax refund payments actually made in fiscal 2002.

Sources (Available to the General Fund)	Fiscal 2002	Fiscal 2003	Percentage Change
Personal Income Taxes	$407,834,705	$411,343,166	0.9%
Sales & Use Taxes	214,840,796	218,629,263	1.8
Corporate Taxes	25,904,395	28,623,127	10.5
Meals & Rooms Taxes	81,075,431	83,148,169	2.6
Other Taxes	91,087,401	104,831,119	15.1
Total Taxes	820,742,728	846,574,844	3.1
Non-Tax Revenues	18,677,972	19,514,835	4.5
Total General Fund	$839,420,700	$866,089,679	3.2%

Source: Vermont Department of Finance and Management.

The following table reflects General Fund revenue history from fiscal year 2001 through fiscal year 2003 and projected and forecasted revenue amounts for fiscal year 2004 and fiscal year 2005:

General Fund Revenues[1] (Net)
($ in Millions)

COMPONENT	Actual 2001	Percent Change	Actual 2002	Percent Change	Actual 2003	Percent Change	Forecast[2] 2004	Percent Change	Forecast[2] 2005	Percent Change
TAXES:										
Personal Income	$454.3	5.2%	$407.8	10.2%	$411.3	0.9%	$426.8	3.8%	$448.3	5.0%
Sales & Use	215.1	-0.7	214.8	-0.1	218.6	1.8	253.8	16.1	194.9	-23.2
Corporate	40.9	-0.1	25.9	-36.7	28.6	10.5	31.3	9.2	41.0	31.1
Rooms & Meals	79.3	5.5	81.1	2.2	83.1	2.6	85.7	3.1	108.1	26.1
Cigarette[3]	0.0	-100.0	-	-	-	-	-	-	-	-
Liquor	10.5	12.9	10.6	0.4	11.2	5.7	11.9	6.3	12.1	1.7
Insurance	32.1	5.8	34.9	8.9	42.5	21.7	45.7	7.5	47.2	3.4
Telephone Receipts	1.2	-2.9	0.2	-84.9	0.2	-3.7	0.2	2.5	0.2	-14.3
Telephone Property	9.2	1.0	10.2	10.8	9.9	-2.6	9.5	-4.2	9.5	-0.4
Beverage	4.8	0.5	5.0	3.1	5.1	1.3	5.2	2.8	5.3	1.9
Electrical Energy	3.1	-10.8	2.8	-9.9	2.6	-8.3	2.6	0.9	2.1	-17.5
Estate	12.7	-6.2	13.3	4.2	15.6	17.8	13.9	-10.9	12.9	-7.2
Property Transfer	7.0	2.1	9.9	41.6	12.5	25.4	10.6	-15.0	10.3	-3.1
Bank Franchise	3.7	5.8	2.2	-39.6	2.6	18.4	2.7	1.5	6.7	151.0
Other taxes	2.1	-26.4	2.0	-2.7	2.7	36.3	3.1	13.9	3.2	3.2
TOTAL TAXES:	$876.0	1.7%	$820.7	-6.3	$846.6	3.1%	$902.9	6.7%	$901.7	-0.1%
OTHER REVENUES:										
Business Licenses	$2.5	-3.7%	$2.6	0.5%	$2.7	5.9%	$2.1	-22.5%	$2.4	14.3%
Fees	9.3	-1.1	8.6	-7.2	8.2	-5.5	8.6	5.4	11.5	33.7
Services	1.2	-5.8	1.2	4.0	2.0	60.1	1.1	-44.6	1.3	18.2
Fines, Forfeits	1.9	-19.9	2.5	31.8	3.5	36.2	7.2	108.3	3.0	-58.3
Interest, Premiums	8.0	12.4	3.1	-61.6	1.5	-51.5	1.4	-5.5	2.0	42.9
Special Assessments	0.4	-11.0	0.1	-85.5	0.1	180.5	0.1	-33.2	0.1	0.0
Other	0.6	-13.9	0.7	5.0	1.6	141.4	0.5	-68.2	0.6	20.0
TOTAL OTHER	$23.9	-0.1%	$18.7	-21.7	$19.5	4.2%	$21.0	7.6%	$20.9	-0.5
TOTAL GENERAL FUND	$899.9	1.6%	$839.5	-6.7%	$866.1	3.2%	$923.9	6.7%	$922.6	-0.1

1 Figures for fiscal 2003 and beyond are unaudited.
2 Based on consensus revenue forecast completed in January 2004.
3 As of July 1, 2000 (corresponding to the beginning of fiscal 2001) were deposited in the Health Care Access Trust Fund.

Source: Vermont Department of Finance and Management.

MAJOR GENERAL FUND PROGRAMS AND SERVICES

Human Services[1]

The largest single agency of State Government is the Vermont Agency of Human Services. The Agency was founded in 1971 to oversee the planning and administration of the Departments of Corrections, Health, Developmental and Mental Health Services, Social and Rehabilitation Services, Aging and Disabilities, and Prevention, Assistance, Transition and Health Access (PATH), Office of Economic Opportunity and Child Support.

The Agency is also responsible for implementing and administering the major federal programs in Vermont such as Medicaid, Temporary Assistance to Needy Families (welfare), and Aid to the Aged, Blind, and Disabled. As a result, 55% of the Agency's budget, $1,266.9 million is paid with federal receipts for fiscal year 2004.

The budget for Medicaid is the largest in the Agency and the largest single program in State government. For fiscal year 2003 Medicaid expenditures are expected, when fully accounted, to be $752.3 million with approximately 66% of this amount being supported by federal dollars. This compares to fiscal year 2002 when total Medicaid expenditures were $696.6 million. Included in the Medicaid programs is expanded coverage through the Vermont Health Access Plan (VHAP) for Vermonters approved under a demonstration waiver with the U.S. Department of Health and Human Services. In fiscal year 2003 this program provided healthcare coverage for an average of 36,029 Vermonters per month otherwise uncovered by Medicaid. The average caseload had been budgeted at 37,293 per month. The VHAP program is not an entitlement as Vermont statute allows the program to be managed to the money available. While the State has not had to restrict enrollment, it can manage (freeze or reduce) the caseload.

State government is a prodigious purchaser of pharmaceuticals. As such, the State is responsible for Medicaid patients in nursing homes, mental institutions, correctional facilities, and the State's voluntary programs. The State has been developing several strategies to help reduce the growth rate of pharmaceutical cost. Vermont is developing a multi-state coalition to institute volume purchases, prior authorization protocols, as well as developing management policies to respond to trends and encourage the use of cost effective alternatives. The State has limited State expenditures in its voluntary pharmaceutical programs to $10.5 million in fiscal year 2003 and $11.2 million in fiscal year 2004.

Vermont initiated welfare reform legislation in 1994, providing incentives to work, making dependence on Aid to Needy Families with Children (ANFC) benefits transitional and providing increased access to jobs above poverty incomes, job training, and child care.

Under the federal welfare reform legislation, known as the Personal Responsibility and Work Opportunity Reconciliation Act, welfare is now distributed through a block grant called Temporary Aid to Needy Families (TANF). Vermont has received TANF funds through fiscal year 2003 at a fixed rate of $47.4 million a year. In June of 1995 the TANF caseload was 27,132. Current caseloads in June of fiscal year 2003 were just 13,668, a total decrease of 49.6%. The average caseload has decreased in the past two years by 7.0%. Recognizing that this trend may turn at some point, Vermont has accumulated a Human Services Caseload Reserve of $17.2 million in addition to its other Budget Stabilization Reserve funds of $23.6 million available for future economic declines and related caseload increases.

Corrections - incarceration, detention, and community supervision of offenders - is consolidated in the Agency of Human Services. Like other states, Vermont has seen significant caseload increases over the last decade. To meet the need Vermont has constructed several new correctional facilities.

The Corrections budget for fiscal year 2004 is $94.7 million. That represents an increase of 9.7% over fiscal year 2003. Incarceration within state facilities grew by 69 through fiscal year 2003 to end the fiscal year at 1,426 inmates, and the number of inmates housed in out-of-state facilities grew by an additional 154 to end the fiscal year at a total of 546. Vermont has been a pioneer in community corrections and was one of the very first states to establish a system of community reparative boards that have the offender face the community and victims to make reparations at the local level thereby avoiding the need to use the correctional facilities. Recognizing that managing offenders in the community, where they might still be able hold their job and housing, is significantly cheaper than incarceration, the Department of Corrections continues to develop community-based programs.

---

[1] Expenditures and balances are presented on a cash basis.

The sources of Agency of Human Services appropriations for fiscal year 2003 and fiscal year 2004 are as follows:

	Fiscal 2003 Appropriations	Current Law Fiscal 2004 Appropriations
General Fund	$249,997,615	$295,607,946
Federal Funds	610,483,058	704,413,640
Tobacco Settlement	24,160,570	23,057,490
Special Funds	189,243,483	228,766,162
Other Funds	11,510,046	15,067,666
Total	$1,085,394,772	$1,266,912,904

Aid to Municipalities

Significant portions of Vermont's budget are used to support the cities, towns and school districts. The General Fund transfer to the Education Fund for support of K-12 schools is $255.0 million. Additionally the State contributes $20.4 million to the Teacher's Retirement System. Total Education Fund expenditures are $1.0 billion (including the General Fund transfer). Department of Education administration is paid for with General and Federal funds allowing the Education Fund to be spent entirely on direct support of students and reduction of school taxes burdens. Additionally, $5.1 million is distributed to towns to reimburse taxes reduced for land conservation and management programs. More than $52 million is spent each year through the Agency of Transportation on town highway programs.

	Fiscal 2003 Appropriations	Current Law Fiscal 2004 Appropriations
State Aid to Local School Districts	$574,030,000	$591,193,189
Special Education Aid to Local Districts	96,915,179	102,358,864
Vermont State Teachers' Retirement System Contributions	20,446,282	20,446,282
Town Highway Grants	36,894,889	37,415,413
Total	$728,286,350	$751,413,748

Additionally, the State provides local direct tax support to individual taxpayers through the following programs:

	Fiscal 2003 Appropriations	Current Law Fiscal 2004 Appropriations
Homestead Property Tax Assistance	$97,087,000	$107,969,706
Land Use Reimbursement	5,100,000	5,700,000
Total	$102,187,000	$113,669,706

Higher Education

The State provides extensive assistance for programs of higher education through a higher education system that includes three major components. These include direct appropriations to the University of Vermont and the Vermont State College system and support through direct financial aid grants to students by the Vermont Student Assistance Corporation, which also receives an annual appropriation.

	Fiscal 2003 Appropriations	Current Law Fiscal 2004 Appropriations
University of Vermont	$34,182,130	$36,197,999
Vermont State Colleges	20,176,862	21,361,961
Vermont Student Assistance Corporation	15,445,766	16,356,671
Total	$69,804,758	$73,916,631

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2000 to fiscal year 2004.

General Fund Appropriations by Major Function

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003[1]	Fiscal 2004[2]
General Government	$42,250,133	$44,452,433	$47,068,232	$41,064,042	$41,630,492
Protection to Persons and Property	44,274,910	47,042,350	49,844,089	61,548,160	65,151,728
Human Services	291,647,133	309,340,629	320,808,480	325,587,454	294,728,782
Education	325,270,663	337,418,757	351,296,278	355,453,763	378,907,538
Employment & Training	402,160	411,063	781,260	653,367	1,107,259
Natural Resources	11,180,223	11,927,832	12,458,771	16,111,498	15,645,804
Transportation	---	---	---	---	---
Commerce and Community Development	11,861,675	12,125,613	12,197,467	12,716,688	13,731,433
Other – One-Time[3]	64,527,395	50,322,229	13,727,088	7,794,260	19,116,500
Debt Service	68,968,111	68,142,447	63,959,160	68,786,318	65,902,202
Total Appropriations	$860,382,404	$881,183,354	$872,140,825	$889,715,550	$895,921,738

1 Final, but unaudited.
2 As passed.
3 One-time appropriations in fiscal years 2000 through 2004.
Source: Vermont Department of Finance and Management.

GOVERNMENTAL FUNDS OPERATIONS

The following table sets forth the total revenues, expenditures and changes in total fund balances for all governmental fund types of the State for fiscal year 1998 through fiscal year 2002 presented on a GAAP basis. Through 2001, the governmental funds include the General, Special, Transportation, Education, Federal and Fish and Wildlife Funds as well as Capital Projects Funds (General Bond Fund and Transportation Bond Fund). For 2002, in accordance with the requirements of GASB Statement No. 34, Permanent Funds are now included and reported as governmental funds. Prior to fiscal year 2002, Permanent Funds were reported as non-expendable trust funds (fiduciary funds). See "STATE FUNDS AND REVENUES--Fund Structure."

STATE OF VERMONT
ALL GOVERNMENTAL FUND TYPES
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

	Fiscal Year Ended June 30,				
	1998	1999	2000	2001	2002*
REVENUES:					
Earnings of Departments:					
Fees	$ 30,723,658	$ 33,416,275	$ 34,442,295	$ 36,193,167	$ 36,708,774
Rents and Leases	181,960	214,157	205,403	182,595	1,727,405
Sales of Service	17,973,512	15,606,889	17,276,552	10,861,647	13,886,288
Federal Funds	690,679,253	752,470,334	847,344,627	849,190,708	964,141,863
Fines, Forfeits and Penalties	7,373,244	8,953,403	10,489,734	9,449,787	14,209,581
Interest	7,216,805	9,410,231	11,548,738	12,813,248	6,883,583
Business Licenses	13,815,872	14,516,886	15,648,026	19,720,980	8,468,457
Non-Business Licenses	47,421,867	48,883,000	51,836,110	50,316,187	57,658,175
Special Assessments	32,768,035	7,581,026	9,329,929	12,797,215	21,629,014
Taxes	981,170,111	1,092,581,137	1,529,512,665	1,590,021,858	1,600,725,756
Other	34,210,995	43,597,589	39,170,217	43,052,988	78,526,877
Total Revenues	1,863,535,312	2,027,230,927	2,566,804,296	2,634,600,380	2,804,565,773
EXPENDITURES:					
General Government	130,983,914	72,582,300	72,377,387	91,208,675	81,922,934
Protection to Persons and Property	113,904,695	126,537,008	134,520,793	141,541,764	175,976,394
Human Services	771,326,892	824,563,158	910,137,339	910,389,884	1,065,880,257
Employment and Training	23,926,899	25,997,774	27,631,323	25,999,908	26,285,028
Education	315,650,561	492,704,507	893,172,183	894,781,354	1,035,570,629
Natural Resources	67,002,990	76,188,643	88,148,291	86,780,546	90,056,115
Commerce and Community Development	32,808,072	40,875,808	30,920,684	34,941,291	36,899,379
Transportation	229,415,218	246,716,884	267,400,584	294,277,972	311,133,424
Public Services Enterprises	1,505,472	1,517,976	1,272,134	1,257,308	2,001,936
Debt Service	69,951,578	72,067,102	74,855,283	73,895,944	69,214,647
Other	5,630,110	1,304,778	4,971,000	12,132,666	0
Total Expenditures	1,762,106,401	1,981,055,938	2,505,407,001	2,567,207,312	2,894,940,743
Excess of Revenues Over (Under) Expenditures	101,428,911	46,174,989	61,397,295	67,393,068	(90,374,970)
OTHER FINANCING SOURCES (USES):					
Bond and Note Proceeds	111,160,293	34,285,000	37,000,000	-	51,000,000
Lottery Transfers In	22,229,341	19,055,102	19,426,594	16,950,084	16,679,154
Net Operating Transfers In (Out)	(125,468,298)	(14,187,717)	(76,642,494)	(81,179,859)	4,732,503
Other Sources (Uses)	(73,967,925)	3,488,320	1,018,351	66,590	123,348
Total Other Financing Sources (Uses)	(66,046,589)	42,640,705	(19,197,549)	(64,163,185)	72,535,005
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	35,382,322	88,815,694	42,199,746	3,229,883	(17,839,965)
Fund Balance, July 1 (as restated)	155,989,627	191,371,949	280,311,714	321,926,077	357,577,512
Fund Balance, June 30	$ 191,371,949	$ 280,187,643	$ 322,511,460	$ 325,155,960	$ 339,737,547

* Fiscal year 2002's Comparative Statement of Revenues, Expenditures and Changes in Fund balance includes both major and non-major categories of governmental funds. The non-major category of funds includes the Permanent Funds which were classified and reported as non-expendable trust funds in prior years.

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institution Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's Public Improvement bonds and the State's Transportation and Highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State, however, also has established certain statewide authorities which have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general obligation notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated state deficits, and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and, except for capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including, but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of $1 million before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by the General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due "without further order or authority" and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due "without further order or authority." To the extent not otherwise provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriation bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State. The provisions of the General Obligation Bond Law above recited do not constitute, in the opinion of Bond Counsel, express consent by the State to be sued by a bondholder or a noteholder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the Bonds and on other bonds and notes when due, either from the General Fund or from the Transportation Fund or from amounts appropriated therefor by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefor if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2003, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State. The following table and the Selected Debt Statistics that follow it do not reflect the issuance of the 2004 Series B Bonds, the Bonds or the refunding to be effected by the Bonds.

State of Vermont
Debt Statement
As of June 30, 2003
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$418,304
Transportation Fund	13,049
Special Fund	16,895
Contingent Liabilities:	
VEDA Mortgage Insurance Program	5,098
VEDA Financial Access Program	915
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	415,730
Vermont Housing Finance Agency	75,940
VEDA Indebtedness	55,000
Gross Direct and Contingent Debt	$1,000,931
Less:	
Contingent Liabilities	(6,013)
Reserve Fund Commitments	(546,670)
Net Tax-Supported Debt	$448,248

1 Does not include (i) general obligation bonds which were refunded and (ii) the accretion in the value of capital appreciation bonds.

Selected Debt Statistics[1]

	1999	2000	2001	2002	2003[2]	Projected 2004
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[3]	$ 515,369	$ 502,971	$ 454,888	$ 460,495	$448,248	$444,086
Population[4]	604,700	610,000	613,000	616,600	620,700	623,800
Debt Per Capita	$ 852	$ 825	$ 742	$ 747	$722	$712
Personal Income ($ in millions)	$ 15,575	$ 16,752	$ 17,627	$ 18,167	$18,960	$19,620
Debt as a Percent of Personal Income	3.3%	3.0%	2.6%	2.5%	2.4%	2.3%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[3]	$ 72,449	$ 74,934	$ 73,976	$ 69,199	$72,504	$70,533
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,147,688	$1,211,263	$1,236,987	$1,048,164	$1,076,515	$1,066,352
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	6.3%	6.2%	6.0%	6.6%	6.7%	6.6%

Percentage Of Debt To Be Retired (as of June 30, 2003)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	51.9%	45.2%	54.4%	45.8%
10 years	88.2	79.4	93.7	80.2
15 years	100.0	95.9	100.0	96.2
20 years	100.0	100.0	100.0	100.0

Sources: Annual Report of the Commissioner of Finance; U.S. Department of Commerce, Bureau of Economic Analysis.

1 General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis.
2 Population and personal income are projected in 2003 and 2004.
3 Excludes general obligation bonds which were refunded. Excludes any interest on Revenue Anticipation Notes.
4 Reflects latest population data available for July 1 of the indicated year.
5 Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments.
6 See "Debt Service Requirements" herein for a description of Special Fund bonds.

Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee was created by the 1990 Vermont Legislature to estimate annually the maximum amount of new long-term general obligation debt that prudently may be authorized by the State for the next fiscal year. The Committee's estimate is required by law to be based on a number of considerations, historic and projected, including debt service requirements, debt service as a percent of total General and Transportation Fund revenues, outstanding debt as a percent of personal income, and per capita debt ratios. The Committee is comprised of five members, four of whom are ex-officio State officials and one of whom is appointed by the Governor from the private sector for a two-year term. The Committee was directed by law to issue a report by September 30 of each calendar year. The amount of general obligation debt authorized by the Vermont Legislature in recent years has never exceeded the Committee's recommended levels.

For fiscal year 2001, the Committee voted to recommend a maximum of $34 million as the prudent amount of debt to be authorized and the Legislature authorized $34 million of additional general obligation bonds. Due to year-end surpluses in fiscal years 2000 and 2001, the State applied $22 million in cash to the $34 million in projects authorized thereby reducing the fiscal year 2001 bond authorization to $12 million. For fiscal year 2002, the Committee voted to recommend a maximum of $39 million as the prudent amount of debt to be authorized and the Legislature authorized $39 million of general obligation bonds. A total of $51 million of general obligation bonds was authorized, therefore, for fiscal years 2001 and 2002. This authorization was fully exhausted through the issuance of bonds in the fall of 2001. For each fiscal year 2003 and 2004, the Committee voted to recommend a maximum of $39 million and the Legislature authorized $39 million of general obligation bonds. In fiscal year 2003, $3.2 million of the $39 million of general obligation bonds authorized by the Legislature were not issued. In fiscal year 2004 the State expects to issue such $3.2 million of general obligations bonds together with the $39 million of general obligations bond previously authorized for fiscal year 2004, for a total of $42.2 million. For fiscal year 2005, the Committee voted to recommend a maximum of $41 million; the Legislature will consider the authorization of debt during the 2004 legislative session.

The following table sets forth, as of the dates indicated, the total amount of new debt authorized by the State.

Total New Debt Authorization by Fiscal Year

Fiscal Year	Amount of Authorization (in Millions)
1995	$60.9
1996	50.0
1997	42.8
1998	42.9
1999	39.0
2000	39.0*
2001	34.0*
2002	39.0
2003	39.0**
2004	39.0**
2005	41.0***

* Approximately $2 million of revenues were used to pay for capital projects authorized in fiscal year 2000 instead of the proceeds of bonds. Approximately $22 million of revenues were used to pay for capital projects authorized in fiscal year 2001 instead of the proceeds of bonds. This had the effect of reducing the authorized amount of bonds by $2 million in fiscal year 2000 (to $37 million) and by $22 million in fiscal year 2001 (to $12 million).

** In fiscal year 2003, $3.2 million of the $39 million of general obligation bonds authorized by the Legislature were not issued. The State expects to issue such $3.2 million of general obligations bonds together with the $39 million of general obligations bond previously authorized for fiscal year 2004, for a total of $42.2 million.

*** Recommended by the Capital Debt Affordability Advisory Committee; subject to Legislative authorization.

Debt Service Requirements

Set forth below is a schedule of the principal and interest requirements of all general obligation bonds of the State outstanding on June 30, 2003 exclusive of bonds that were refunded in advance of their scheduled maturities. The Special Fund bonds are general obligation bonds issued to refund certain certificates of participation and a lease purchase agreement. This schedule does not reflect the issuance of the 2004 Series B Bonds, the Bonds or the refunding to be effected by the Bonds.

STATE OF VERMONT
Debt Service on General Obligation Bonds
As of June 30, 2003

GENERAL FUND[1]

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2004	$43,026,964	$22,739,065	$65,766,029	$375,276,838
2005	38,811,910	20,667,054	59,478,964	336,464,928
2006	37,000,228	19,223,858	56,224,086	299,464,700
2007	36,018,372	17,853,221	53,871,593	263,446,328
2008	34,419,444	16,569,912	50,989,358	229,026,884
2009	33,727,231	15,273,250	49,000,481	195,299,653
2010	30,820,933	13,805,996	44,626,929	164,478,720
2011	28,271,769	12,611,818	40,883,587	136,206,951
2012	26,881,773	8,338,986	35,220,759	109,325,178
2013	23,180,707	6,195,491	29,376,198	88,144,471
2014	23,147,449	5,304,005	28,451,454	62,997,022
2015	15,742,065	2,965,747	18,707,812	47,254,957
2016	12,592,065	2,195,982	14,788,047	34,662,892
2017	9,802,064	1,580,508	11,382,572	24,860,828
2018	7,615,828	1,102,921	8,718,749	17,245,000
2019	6,245,000	729,193	6,974,193	11,000,000
2020	4,560,000	513,150	5,073,150	6,440,000
2021	4,560,000	294,200	4,854,200	1,880,000
2022	1,880,000	44,650	1,924,650	--

[1] Reflects only General Obligation Bonds, not other obligations payable from the General Fund.

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2004	$1,779,732	$624,443	$2,404,175	$11,269,008
2005	1,535,002	539,645	2,074,647	9,734,006
2006	1,269,860	463,072	1,732,932	8,464,146
2007	1,268,786	404,422	1,673,208	7,195,360
2008	1,240,111	345,938	1,586,047	5,955,249
2009	1,226,836	286,957	1,513,793	4,728,413
2010	1,181,288	228,409	1,409,697	3,547,125
2011	1,181,283	171,792	1,353,075	2,365,842
2012	1,165,943	112,899	1,278,842	1,199,899
2013	384,248	54,733	438,981	815,651
2014	382,671	35,657	418,328	432,980
2015	132,936	21,307	154,243	300,044
2016	132,936	14,746	147,682	167,108
2017	132,936	8,185	141,121	34,172
2018	34,172	1,623	35,795	--

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2004	$1,555,000	$827,985	$2,382,985	$15,340,000
2005	1,630,000	758,010	2,388,010	13,710,000
2006	1,705,000	678,260	2,383,260	12,005,000
2007	1,900,000	594,835	2,494,835	10,105,000
2008	1,985,000	510,850	2,495,850	8,120,000
2009	2,090,000	405,675	2,495,675	6,030,000
2010	2,205,000	294,715	2,499,715	3,825,000
2011	840,000	186,225	1,026,225	2,985,000
2012	480,000	145,950	625,950	2,505,000
2013	505,000	123,150	628,150	2,000,000
2014	530,000	98,910	628,910	1,470,000
2015	560,000	72,940	632,940	910,000
2016	590,000	45,500	635,500	320,000
2017	320,000	16,000	336,000	--

Short-Term Debt

The Treasurer is authorized to borrow on the credit of the State through the issuance of notes and tax exempt commercial paper (1) to pay expenses of government for which appropriations have been made but for which anticipated revenues have not been received, (2) for the purpose of defraying accumulated State deficits, (3) in anticipation of the receipt of State bond proceeds and (4) for paying costs of issuance of such obligations. In addition, the Treasurer is authorized to enter into credit or liquidity facilities with respect to such obligations.

The following table sets forth the maximum amounts of revenue anticipation borrowings outstanding at any date during each of the five most recent fiscal years and fiscal year 2004 and the amounts outstanding as of each fiscal year end. Since 1998, the State has met its short term borrowing needs using revenue anticipation notes only, which notes have been paid in full and on time. The State issued $48,000,000 of revenue anticipation notes in September, 2003. Such notes are due on March 5, 2004. The State does not anticipate additional short-term borrowing for fiscal year 2004.

Revenue Anticipation Notes
($ in Millions)
Fiscal Year Ended June 30

	1999	2000	2001	2002	2003	2004[1]
Maximum outstanding during fiscal year	None	None	None	None	$75	$48
Outstanding at fiscal year end	None	None	None	None	None	None

1 Projected. The State issued $48,000,000 of revenue anticipation notes in September, 2003. Such notes are due on March 5, 2004.

Total Authorized Unissued Debt

The State has issued all of the bonds authorized to be issued pursuant to Acts adopted prior to fiscal year 2002. Act 149 of 2002 authorized $39 million of bonds to be issued in 2003. The State did not issue approximately $3.2 million of such amount in fiscal year 2003 which amount is being added to bonds to be issued in 2004, for a total of approximately $42.2 million.

Notwithstanding any provision of law, the State Treasurer is authorized to transfer unspent proceeds derived from the sale of State bonds or notes previously issued for additional projects authorized by the General Assembly; and the State Treasurer is further authorized to issue bonds or notes of the State to replenish such transferred funds for application to the

original capital projects. Under Section 954 of Title 32, the State Treasurer shall provide the Secretary of Administration with notification of any such transfers and shall provide the Chairpersons of the House and Senate Committees on Institutions with an annual report on all such transfers during the preceding fiscal year.

Contingent Liabilities

Vermont Economic Development Authority. In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed the Vermont Economic Development Authority in 1993 ("VEDA" or the "Authority") transferring to it the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority and the Vermont Industrial Aid Board. Each of the original entities was delegated a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a twelve-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Commissioner of Agriculture, Food and Markets of the State of Vermont, and nine persons appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $15 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State, to finance machinery and equipment, and to provide working capital. The full faith and credit of the State is pledged to support these activities of the Authority. As of June 30, 2003, the Authority had mortgage insurance contracts outstanding of $5,098,145.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lender enrolls in the program. The full faith and credit of the State is pledged in an amount equal to the reserve premium deposited by the participating lenders for each enrolled loan, with the aggregate amount of credit that may be pledged not to exceed $2 million at any time. The State's contingent liability at June 30, 2003 was $915,022. The State's cumulative net cash contribution since inception is $265,646.

Reserve Fund Commitments

Vermont Municipal Bond Bank: The Vermont Municipal Bond Bank (the "Bond Bank") was established by the State in 1970 for the purpose of aiding governmental units in the financing of their public improvements by making available a voluntary, alternate method of marketing their obligations in addition to the ordinary competitive bidding channels. By using the Bond Bank, small individual issues of governmental units can be combined into one larger issue that would attract more investors. The Bond Bank is authorized to issue bonds in order to make loans to municipalities in the State through the purchase of either general obligation or revenue bonds of the municipalities. The Bond Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the Senate for terms of two years. To date, the Bond Bank has issued 41 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2003 was $415,730,000. The Bond Bank's outstanding bonds have been issued under two separate general bond resolutions, one adopted on May 3, 1988 (the "1988 resolution") and one adopted on February 17, 1972 (the "1972 resolution"). For bonds issued under the 1972 resolution, the Bond Bank is required to maintain a reserve fund at all times equal to the maximum annual debt service requirement. For bonds issued under the 1988 resolution, the Bond Bank is required to maintain a reserve fund equal to the lesser of: the maximum annual debt service requirement, 125% of average annual debt service, or 10% of the proceeds of any series of bonds. The Bond Bank anticipates issuing all additional bonds under the 1988 resolution. If the reserve funds have less than the required amount, the chair shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. Since the participating municipalities have always met their obligations on their bonds the State has never needed to appropriate any money to the reserve fund, and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency was created by the State in 1974 for the purpose of promoting the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency consists of seven commissioners, including ex-officio the Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, or their designees, and four commissioners to be appointed by the Governor with the advice and consent of the Senate for terms of four years. The Agency is empowered to issue notes and bonds in an amount not to exceed $900,000,000 outstanding at any one time.

As of June 30, 2003, its total outstanding indebtedness was $667,308,916. The act established a debt service reserve fund similar to the reserve fund for the Vermont Municipal Bond Bank but limited the amount of outstanding indebtedness which may be secured by this fund to $125,000,000. If the reserve funds have less than the required amount, the chairman shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. As of June 30, 2003, the reserve fund requirement was $6,790,850, and the value of the fund was $7,135,000. It has not been necessary for the State to appropriate money to maintain the reserve fund, and it is not anticipated that any appropriation will be needed. As of June 30, 2003, the outstanding debt of the Agency secured by the reserve fund was $75,940,000.

Vermont Economic Development Authority: The Authority has established a commercial paper program to fund loans to local and regional development corporations and to businesses under certain programs in an amount aggregating up to $70 million. The Authority's commercial paper for these purposes is supported by a direct-pay letter of credit from a bank. The direct-pay letter of credit is secured from various repayment sources, including a $21 million leverage fund held by a trustee and a debt service reserve fund pledge from the State in an amount not to exceed $55 million. This debt service reserve pledge is based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. The amount of commercial paper outstanding under this program at June 30, 2003 was $34,000,000.

PENSION PLANS

The State maintains three statutory pension plans: the Vermont State Teachers' Retirement System, with 10,355 active and 4,169 retired members as of June 30, 2003; the Vermont State Employees' Retirement System, which includes general State employees and State Police, with 7,876 active and 3,728 retired members as of June 30, 2003; and the Vermont Municipal Employees' Retirement System, with 5,460 active and 1,028 retired members as of June 30, 2003. Each retirement system is serviced by an independent actuarial firm.

Public Employee Retirement Systems Defined Benefit Plan
Analysis of Funding Progress Using GASB Statement No. 25
($ in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Vermont State Employees' Retirement System							
	6/30/99	$ 804,970	$ 876,412	$71,441	91.9%	$238,281	30.0%
	6/30/00	895,151	967,064	71,913	92.6	266,519	27.0
	6/30/01	954,821	1,026,993	72,172	93.0	278,507	25.9
	6/30/02	990,450	1,017,129	26,679	97.4	300,994	8.9
	6/30/03	1,025,469	1,052,004	26,535	97.5	319,855	8.3
Vermont State Teachers' Retirement System							
	6/30/99	$ 931,056	$1,066,400	$135,344	87.3%	$372,299	36.4%
	6/30/00	1,037,466	1,174,087	136,621	88.4	387,999	35.2
	6/30/01	1,116,846	1,254,341	137,496	89.0	403,258	34.1
	6/30/02	1,169,294	1,307,202	137,908	89.5	418,904	32.9
	6/30/03	1,218,001	1,358,822	140,821	89.6	437,239	32.2
Vermont Municipal Employees' Retirement System							
	6/30/99	$137,454	$114,481	($22,973)	120.1%	$ 70,808	(32.4%)
	6/30/00	161,900	138,697	(23,203)	116.7	87,147	(26.6)
	6/30/01	177,928	158,786	(19,142)	112.1	101,873	(18.8)
	6/30/02	193,278	176,109	(17,169)	109.7	106,986	(16.0)
	6/30/03	222,854	218,533	(4,321)	102.0	126,216	(3.4)

Source: Annual Actuarial Valuation Reports

The following tables set forth the total assets, amount of employee and employer contributions, net investment income, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the Vermont State Teachers', Vermont State Employees' and Vermont Municipal Employees' Retirement Systems defined benefit plans for fiscal year 1994 through fiscal year 2003, inclusive.

Vermont State Teachers' Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2003	$1,099,109,824	$18,820,703	$20,446,282	$ 52,506,838	$59,619,320
2002	1,090,866,255	18,073,548	20,448,248	(56,937,537)	54,266,491
2001	1,154,185,392	16,350,020	19,143,827	(38,810,722)	48,929,303
2000	1,207,519,089	15,747,082	18,586,240	90,583,761	44,632,926
1999	1,159,656,713	15,684,409	18,080,000	105,919,955	38,879,837
1998	1,021,729,143	14,597,611	18,080,000	144,785,913	36,139,629
1997	900,736,475	14,329,170	18,080,000	161,620,196	33,586,667
1996	703,392,428	13,834,709	11,480,000	45,679,843	34,086,306
1995	601,099,962	13,191,489	18,080,000	35,323,377	29,800,415
1994	517,057,237	13,776,364	20,580,000	48,144,866	27,912,707

Vermont State Employees' Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2003	$ 917,711,810	$12,171,186	$24,394,933	$ 40,435,216	$53,795,326
2002	975,195,519	11,723,858	23,788,282	(55,362,596)	51,373,166
2001	1,084,280,086	10,845,315	19,548,598	(78,694,636)	48,176,511
2000	1,176,318,988	8,628,317	19,012,608	113,121,773	45,843,848
1999[3]	1,066,254,319	8,174,412	23,059,182	77,622,035	60,636,039
1998	958,998,101	7,427,456	23,752,988	140,574,272	37,408,346
1997	842,579,617	7,050,071	24,123,075	143,867,034	35,377,546
1996	638,674,000	7,165,566	19,614,590	62,764,697	30,796,536
1995	538,670,983	6,135,289	20,383,360	31,827,597	28,129,308
1994	473,120,324	4,779,117	21,790,524	63,170,797	27,081,545

1 Source: June 30, 1994 - 1996, Annual Actuarial Valuation Reports. Beginning June 30, 1997, Comprehensive Annual Financial Reports.

2 Net Investment Income is presented in accordance with GASB 25 beginning June 30, 1997. Prior to June 30, 1997, the Net Investment Income does not include unrealized gains and losses.

3 June 30, 1999 State Employees' Retirement System includes transfers to a newly created Defined Contribution Plan for exempt employees.

Vermont Municipal Employees' Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2003	$197,420,510[3]	$5,000,479	$5,707,184	$2,630,247	$6,233,647
2002	200,880,056	4,412,699	4,941,465	(2,884,622)	5,877,465
2001[4]	195,169,272	4,066,523	4,571,993	(506,729)	9,215,493
2000	197,020,268	4,414,961	4,788,671	8,624,104	4,357,654
1999	158,723,203	3,574,005	3,960,602	19,618,932	3,862,374
1998[5]	135,323,847	3,311,019	3,714,140	22,863,273	4,809,235
1997	110,145,785	3,220,930	3,541,693	18,486,921	3,320,060
1996	86,949,200	3,121,356	3,365,821	3,362,091	3,360,160
1995	73,232,751	2,993,887	3,045,585	4,189,763	2,489,489
1994	59,743,078	2,673,625	3,003,674	3,915,255	2,135,601

1 Source: June 30, 1993 - 1996, Annual Actuarial Valuation Reports. Beginning June 30, 1997, Comprehensive Annual Financial Reports.

2 Investment Income is presented in accordance with GASB 25 beginning June 30, 1997. Prior to June 30, 1997, the Net Investment Income does not include unrealized gains and losses.

3 Two large municipalities joined the Vermont Municipal Employees' Retirement System during fiscal year 2003 and transferred in existing assets totaling over $6.0 million to cover partial liability for past service.

4 June 30, 2001 Vermont Municipal Employees' Retirement System includes transfers to a newly created Defined Contribution Plan.

5 Disbursements for June 30, 1998 in the Vermont Municipal Employee's Retirement System were significantly higher due to the withdrawal from the system of the community of Stowe.

The State appropriates funding for pension costs associated with its two major retirement plans, the Vermont State Employees' Retirement System and the Vermont State Teachers' Retirement System, covering substantially all State employees and teachers, respectively. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class. In 1990, however, the Legislature again made both systems contributory, the Vermont State Teachers' Retirement System effective July 1, 1990 and the Vermont State Employees' Retirement System effective January 1, 1991. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are fixed on the basis of the liabilities of the systems as shown by actuarial valuations. Present law provides that the systems' unfunded accrued liabilities shall be amortized over 30 years beginning July 1, 1988.

There is also a Vermont Municipal Employees' Retirement System that was established effective July 1, 1975. Prior to July 1, 1987, the State was statutorily responsible for contributions to the system's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers pay quarterly into the pension accumulation fund percentages of the annual earnable compensation of each membership group as "normal" contributions and "accrued liability" contributions. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

Of the three Vermont Retirement System defined benefit plans, only the Vermont State Teachers' Retirement System and the Vermont State Employees' Retirement System are funded with both State contributions and employee contributions. Both of these plans have had improving Percent of Funded Ratios defined as Actuarial Value of Assets to Actuarial Accrued Liability. Since fiscal year 1995 the Vermont State Teachers' Retirement System ratio has improved from 80.4% to 89.6% at 2003 fiscal year end, and the Vermont State Employees' Retirement System Ratio has improved from 70.7% to 97.5% over the same period. The Vermont Municipal Employees' Retirement System receives no State contributions. Its funded ratio has declined in the past several years; however at 102.0% at fiscal year 2003 year end it remains overfunded.

Notwithstanding the above improvements, in recent years State contributions paid into the Vermont State Teachers' Retirement System have been less than the actuarially recommended contributions. In fiscal years 2003 and 2004 the actuarially recommended contributions were $28.3 million and $41.7 million, respectively, while State appropriations remain level funded at $20.5 million in each year. Both of these appropriations were made prior to a recent actuarial study completed following the end of fiscal year 2003 which had more conservative investment and experience assumptions than prior studies, and which had the effect of raising actuarially recommended contributions. At fiscal year end June 30, 2003 the cumulative deficiency, net of amounts repaid through additional contributions and investment earnings, was $131.1 million, and the Unfunded Actuarial Liability was $140.8 million. For fiscal year 2005, the actuarially recommended contribution is $43.6 million with an appropriation to be determined in the current legislative session. This fiscal year 2005 recommendation includes $12.4 million to reduce the system's unfunded actuarial accrued liability (UAAL) and is part of an actuarial schedule designed to eliminate the UAAL by the end of fiscal year 2018.

Recent Vermont State Teachers' Retirement System investment performance to date in fiscal year 2004 has been very favorable. However, depending upon future Vermont State Teachers' Retirement System actuarial developments and investment market conditions, continued funding of Vermont State Teachers' Retirement System at levels below the actuarially recommended levels could have the impact of increasing the Vermont State Teachers' Retirement System unfunded liability and increasing Vermont's future tax burden with respect to pension funding obligations.

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Over 800 eligible employees had a one-time, irrevocable option of transferring the actuarial value of their accrued benefit from the defined benefit to the defined contribution plan on January 1, 1999. The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees elected to transfer to the defined contribution plan, representing approximately 45% of the eligible population. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan as a result of the election on January 4, 1999. As the attendant decrease in liabilities in the defined

benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2003, plan assets totaled $26.7 million and there were 551 participants.

The Legislature granted authority to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that may be offered in lieu of the defined benefit plan currently available under the Municipal Retirement System. The plan was made available to new members effective July 1, 2000. The defined contribution plan may be offered by municipal employers to one or more groups of eligible employees. Once offered by the employer, each eligible employee is required to make an election to participate.

Sixty-one municipalities chose to offer the defined contribution plan to their employees in 2000. Eighty-one employees elected the defined contribution plan and transferred the actuarial value of their accrued benefits totaling $3.3 million on July 1, 2001. Employers that did not offer the defined contribution plan to their employees by December 31, 1999 have an opportunity to do so by December 31 of any subsequent year, with transfer effective the following July 1. An additional 20 municipalities chose to offer the plan prior to December 31 of 2000 and $656,125 was transferred on behalf of 262 employees who chose the plan. At June 30, 2003, 91 municipalities had offered the plan with 447 participants and a total market value of $5.7 million.

EMPLOYEE RELATIONS

As of June 30, 2003, there were 8,126 FTE positions in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary positions. Therefore, they are not included in the number of positions.

The State's classified employees are represented by the Vermont State Employees' Association ("VSEA"). The State's current contract with VSEA, which began on July 1, 2003 and expires on June 30, 2005, provides cost of living adjustments for most of the State's classified employees of 1.5% effective July 13, 2003 and 2.5% effective July 11, 2004 in addition to traditional longevity-based salary increases (steps) which represent an average cost of 1.98% per year. The contract also contains a livable wage provision which provides additional quarterly lump sum cash payments to those employees whose annualized salaries are less than $18,720. Each quarterly payment is equal to one-fourth of the difference between the employees' annualized base salary at the start of the calendar quarter and $18,720.

LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. See "CERTIFICATES OF STATE OFFICERS—Absence of Litigation" for a discussion of the Attorney General's certificate regarding litigation affecting the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of

the opinion that interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers

of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the State, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The State has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, Bond Counsel is not obligated to defend the State or Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the State and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the State legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the State or the Beneficial Owners to incur significant expense.

FINANCIAL ADVISOR

Government Finance Associates, Inc., New York, New York, serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the State relating to (a) computation of anticipated receipts of principal and interest on the Government Obligations and the anticipated payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the Government Obligations was examined by The Arbitrage Group, Inc., independent public accountants and consultants. Such computations were based solely upon assumptions and information supplied by Underwriter on behalf of the State. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

RATINGS

The State has received ratings of "AA+," "Aa1" and "AA+" from Fitch Inc., Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (each, a "Rating Agency"), respectively on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgment, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriters by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish certificates of the Treasurer and Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of each officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, commencing with the report for the 2002-2003 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the State with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs"). The notices of material events will be filed by the State with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in Appendix B hereto, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to existing continuing disclosure agreements, the State has filed the annual information required, although the State's filing of such information for fiscal years 1999-2000 and 2000-2001 was not within the time periods required by such continuing disclosure agreements. For fiscal year 2002, the State satisfied its covenant with respect to continuing disclosure by sending notice to the NRMSIRs that it was unable to provide the fiscal year 2002 annual report by June 30, 2003. See "STATE FUNDS AND REVENUES--New Statewide Financial Management Information System". The State's fiscal year 2002 annual report was sent to the NRMSIRS on January 6, 2004.

UNDERWRITING

The Bonds are being purchased for re-offering by the Underwriters, Citigroup Global Markets Inc. and UBS Financial Services Inc., at an aggregate purchase price of $_____. The State will pay the Underwriters a fee equal to $_____. The Contract of Purchase provides that the Underwriters will purchase all of the Bonds if any are purchased. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices stated on the cover page

hereof. The public offering prices (or yields) set forth on the cover page hereof may be changed from time to time after the initial offering by the Underwriters.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. George B. "Jeb" Spaulding, 133 State Street, Montpelier, Vermont 05633-6200, telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022, Telephone: (212) 521-4090.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Official Statement are based, in part, on estimates related to fiscal year 2003 and projections and forward looking statements related to fiscal year 2004 and subsequent years. No assurance can be given that the budget, the revenue and expenditure estimates or the forward-looking statements discussed will be realized. The accuracy of the budget, the revenue and expenditure estimates and forward statements related to fiscal years 2003 and 2004 cannot be verified until after the close of the fiscal year. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: _____
James H. Douglas
Governor

By: _____
George B. "Jeb" Spaulding
Treasurer

Dated: February , 2004

APPENDIX A

STATE OF VERMONT ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

[THIS PAGE INTENTIONALLY LEFT BLANK]

ELIZABETH M. READY
STATE AUDITOR

STATE OF VERMONT

OFFICE OF THE STATE AUDITOR
132 STATE STREET
MONTPELIER, VERMONT 05633-5101

Independent Auditor's Report

Speaker, House of Representatives
and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont
State House
Montpelier, Vermont

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont, as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Vermont's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities and funds that aggregate the following percentages of total assets and revenues:

Opinion Unit	Percentage of Total Assets	Percentage of Total Revenues
Business-Type Activities	**96.9%**	**80.5%**
Aggregate Discretely Presented Component Units	**100.0%**	**100.0%**
Aggregate Remaining Funds	**7.8%**	**3.1%**

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities and funds, is based solely upon the reports of the other auditors.

Except as discussed in the following paragraph, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Special Environmental Revolving Fund (blended into the Federal Revenue Fund), the Vermont State Infrastructure Bank (blended into

the Transportation Fund) and the Vermont Sustainable Jobs Fund (a discretely presented component unit) were not audited in accordance with *Government Auditing Standards*. 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 audit provides a reasonable basis for our opinions.

We were unable to audit the capital asset information in the governmental activities column of the entity-wide financial statements because sufficient competent documentation supporting the amounts reported for capital assets in those statements could not be provided by management of the State.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the capital assets in the governmental activities column of the entity-wide financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the State of Vermont, as of June 30, 2002, and the related change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information for the State of Vermont as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the State of Vermont has implemented the following Governmental Accounting Standards Board Statements: Statement No. 34 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments;* Statement No. 35 *Basic Financial Statements – and Management Discussion and Analysis – for Public Colleges and Universities;* Statement No. 37 *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus;* Statement No. 38 *Certain Financial Statement Note Disclosures*, and Interpretation No. 6 *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2001.

Management's Discussion and Analysis on pages 15 through 27, and the budget to actual – budgetary basis schedules on pages 103 through 108 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

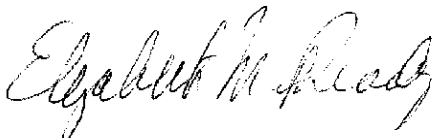
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Vermont's basic financial statements. The combining,

individual fund and account group financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 21, 2003, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain laws and regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Elizabeth M. Ready
State Auditor



November 21, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2002. This section is meant to present an overview and highlights occurring within Vermont during the designated fiscal year. Please read this in conjunction with the transmittal letter found at the front of this report and the financial statements that follow this section. Be advised that fiscal year 2002 is the first year that Vermont has implemented the requirements of the Governmental Accounting Standards Board's Statement Number 34 (GASB No. 34); hence, there are few comparisons with the previous fiscal year (2001). Future reports are required to and will include many comparisons with the previous year's activities.

HIGHLIGHTS

Government-Wide The net assets (assets minus liabilities) of Vermont's primary government totaled $1.14 billion, an increase of $20.6 million as compared to fiscal year 2001. Of this amount, a negative $49 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the State's ongoing obligations to citizens and creditors.
Vermont's Component Units reported net assets of $701.7 million, an increase of approximately $15 million over fiscal year 2001.

Changes in Net Assets – The State's primary government's net assets of $1.14 billion increased by $20.6 million (a 1.83% increase) in fiscal year 2002. Net assets of governmental activities increased by $23.4 million (a 2.92% increase), while net assets of the business-type activities showed a decrease of $2.86 million (0.89% decrease).

Fund Level - Governmental Funds – Fund Balances – As of the close of fiscal year 2002, the State's governmental funds reported a combined ending fund balance of $339.7 million, a decrease of $17.9 million over the prior year. Of this total amount, $233.7 million represents the "unreserved fund balances". Of this $233.7 million, $51.8 million is categorized as "designated for specific purposes in the capital projects funds leaving $181.9 million categorized as "unreserved and undesignated." This amount is approximately 6.3% of the total governmental fund expenditures for FY2002.

Long-term Debt:
The State's primary government's total long-term debt obligations outstanding increased by approximately $6 million during the current fiscal year. The key component in this increase was a $6 million net increase in the balance of General Obligation Bonds and Notes Payable outstanding. See Note 19 – Changes in Long-term Liabilities for more information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to Vermont's basic financial statements. Vermont's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements themselves. These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of financial statements that present different views of the State – the **government-wide financial statements** and the **fund financial statements and combining major component units financial statements.** These financial statements also include the **notes to the financial statements** that provide explanations or more detail for both of the above type financial statements.

Government-Wide Financial Statements
Vermont's government-wide financial statements provide a broad view of the State's operations in a manner similar to a private-sector business. These statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. They are prepared using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most private sector businesses. They take into account all financial activity including revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the State's net assets may serve as a useful indicator as to whether the financial position of the State is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and their associated program revenues for each function of the State.

Both of the above financial statements segregate Vermont's financial activity into three different types of state activities. These three types of activities are:

Governmental Activities – The financial activities reported in this section generally represent those services normally associated with state government. These include education, general

government, health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and transportation. These activities are mostly funded with taxes, grants, and intergovernmental revenues.

Business-Type Activities – These business-type activities of the State include the operations of Vermont's enterprise funds. These activities include operating the unemployment compensation trust fund program, liquor control, lottery commission, federal surplus property activities, publishing Vermont Life magazine, making equipment loans to municipalities, as well as several other activities. These functions normally recover all or a portion of their costs through user fees and charges to external users of their goods and services.

Discretely Presented Component Units – These are legally separate (incorporated) entities for which the elected officials of the primary government have financial accountability. The State's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of major and non-major component units. This categorization is determined by the relative size of the entities' assets, liabilities, revenues and expenses in relation to the total of all component units.
For more information regarding the classification of major and non-major component units, please refer to Note 1 under "Component Units."

The State's three discretely presented "major" component units contained in the aggregate figure include the activity of the following entities:

University of Vermont and State Agricultural College
Vermont State Colleges
Vermont Student Assistance Corporation

The State's eight other "non-major" component units that are combined into a single column for reporting in the fund financial statements include the following entities:

Vermont Economic Development Authority
Vermont Housing and Conservation Board
Vermont Sustainable Jobs Fund
Vermont Municipal Bond Bank
Vermont Educational and Health Buildings Financing Agency
Vermont Center for Geographic Information
Vermont Veterans Home
Vermont Transportation Authority

Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the State's component units are presented in Note 1 to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Major Component Unit Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Vermont's government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on individual parts of the State government in more detail than the government-wide statements. All of the funds of the State can be divided into three categories: governmental, proprietary, and fiduciary. For the governmental and proprietary funds, the major funds are reported in individual columns in the fund financial statements while the non-major funds are presented in a consolidated column in the fund financial statements. Combining schedules in the Supplementary Information present detailed non-major fund activity. Fiduciary Funds are reported by fiduciary type (pension, private purpose trusts and agency funds) with combining schedules presented in the Supplementary Information. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

The three categories of funds are:

Governmental Funds – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds' Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances provide reconciliations on the pages immediately following each governmental fund financial statement to facilitate this comparison.

The State reports seventeen governmental funds of which five are classified as "major" governmental funds. These major funds include the General Fund, Transportation Fund, Education Fund, Special Fund, and the Federal Revenue Fund. Each major fund is presented in a separate column in the Governmental Fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balance. The "non-major" governmental funds include the Fish and Wildlife Fund, the two capital bond funds, and nine Permanent Funds and are presented in one consolidated column in the governmental fund statements.

The governmental funds financial statements can be found immediately following the government-wide financial statements.

Proprietary Funds – These statements contain two basic types of funds (business-type or enterprise funds and internal service funds) and are used to report activities that operate more like those of commercial enterprises. These statements include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes In Net Assets, and the Statement of Cash Flows.

Enterprise funds account for activity for services provided to the general public, federal government, and non-state government entities. They normally derive their revenue by charging user fees for their services.

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. These funds' activities have been combined with the governmental activities in the government-wide statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The State reports nine enterprise funds of which three are reported as "major funds " and are reported in separate columns on the proprietary fund statements. These three are the Unemployment Compensation Fund, the Liquor Control Fund, and the Vermont Lottery Commission. The other six enterprise funds are reported as "non-major funds" and are consolidated into one column on the proprietary funds' statements. They include the:

Industrial Homework Office Fund
Federal Surplus Property Fund
Vermont Life Magazine Fund
Vermont Municipal Equipment Loan Fund
Vermont Adaptive Equipment Loan Fund
Unemployment Compensation Contingency Fund

The State presents twenty internal service funds which are reported in one consolidated column entitled "Governmental Activities – Internal Service Funds Total" on the Proprietary Funds Statement of Net Assets; Statement of Revenues, Expenses, and Changes In Net Assets; and Statement of Cash Flows. The twenty internal service funds are as follows:

Highway Garage Fund
Offender Work Programs
Communications and Information Technology
Supply Center Fund
Copy Center Fund
Single Audit Revolving Fund
Medical Insurance Fund
Dental Insurance Fund
Life Insurance Fund
Postage Fund

Workers' Compensation Insurance Fund
State Liability Insurance Fund
Risk Management All-Other Insurance Fund
Property Management Fund
Equipment Revolving Fund
State Surplus Revolving Fund
Employee Assistance Plan
Long-term Disability Plan
Facilities Operations Fund
GOVNET Fund

The proprietary funds financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds – These funds are used to account for resources held for the benefit of parties outside of state government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. They use the accrual basis of accounting.

The State's fiduciary funds are divided into the following three basic categories: the Pension Trust Funds (six separate retirement plans for employees); the Private Purpose Trust Funds (which report only the Abandoned Property Fund previously reported as an expendable trust fund); and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund detail can be found in the combining financial statements described below.

The fiduciary funds financial statements can be found immediately following the proprietary fund financial statements.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units financial statements.

Required Supplementary Information Other Than MD&A
The basic financial statements are followed by a section of required supplementary information. This section includes:

Schedules comparing the original budgets, final budgets, actual inflows, outflows, and balances stated on the budgetary basis, and variances between the final budgeted amounts and actual amounts presented on a budgetary basis for the General Fund and each major Special Revenue Fund.

A reconciliation between the statutory fund balance for budgetary purposes and the fund balance as presented in the governmental fund financial statements for each major governmental fund is also reported.

Other Supplementary Information

Combining Financial Statements
The combining financial statements referred to earlier in connection with fiduciary funds and non-major component units are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

- Non-major governmental funds
- Non-major proprietary (enterprise) funds
- Internal service funds
- Fiduciary funds including:
  - Individual pension trust funds
  - Individual agency funds
- Non-major component units

Statistical Data The data reported in this section includes the following:

- A ten-year comparison of Revenues by Source and Expenditures by Function- General and Special Revenue Funds
- A discussion of state indebtedness and procedure for authorization for issuing debt
- A ten-year comparison of general obligation bonded debt to assessed taxable property value and general obligation bonded debt per capita
- A ten-year comparison of annual debt service expenditures for bonded debt to fund expenditures – General Fund and Transportation Fund
- A ten-year comparison of property values and taxes in Vermont
- Demographic Statistics
- Vermont's largest employers as of March, 2002

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (government and business-type activities) totaled $1.14 billion at the end of 2002, compared to $1.12 billion at the end of the previous year.

The largest portion of the State's net assets (68.54%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt still outstanding that was used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the State's net assets (35.74%) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets.

The business-type activities' positive unrestricted net asset balance may be used to meet the State's ongoing obligations to citizens and creditors. The governmental activities' negative unrestricted net assets balance is mainly the result of the following: debt issued by the State for municipal, non-profit or component unit capital purposes that does not result in a governmental activities' capital asset; and the restricting of net assets for the budget stabilization reserves.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following condensed financial statement information is derived from the State's government-wide, June 30, 2002 financial statements. Although the government-wide statements include component unit activity, the component unit activity has not been included here.

	Governmental Activities (1000's)	Business-type Activities (1000's)	Total (1000's)
Current Assets	$502,866	$332,081	$834,947
Non-current Assets:			
Capital Assets	963,983	505	964,488
Other Assets	247,715	1,873	249,588
Total Assets	1,714,564	334,459	2,049,023
Current Liabilities	291,269	15,027	306,296
Non-current Liabilities	597,642	609	598,251
Total Liabilities	888,911	15,636	904,547
Net Assets:			
Invested in Capital Assets, Net of Related Debt	783,951	505	784,456
Restricted	94,310	314,711	409,021
Unrestricted	(52,608)	3,607	(49,001)
Total Net Assets	$825,653	$318,823	$1,144,476

Changes in Net Assets

The State's primary government's total net assets increased by $20.6 million (1.83%.) Approximately 52% of the primary government's total revenue came from taxes, while 33% resulted from operating and capital grants and contributions (including federal aid). Charges for programs and general revenues other than taxes provided the remaining 15% of the total revenues. The primary government's expenses cover a range of services. The largest expenses were incurred in the areas of education (35.11%), social services (35.47%), and transportation (8.73%). In 2002, governmental activity expenses exceeded program revenues by almost $1.59 billion, resulting in the use of approximately $1.6 billion in general revenues (mostly taxes). On the other hand, business-type activities' expenses ($190.3 million) exceeded related program revenues ($184.4 million) by approximately $5.9 million. The following condensed financial information's source is the "Statement of Activities" for the year ended June 30, 2002 and is for the primary government only.

	Governmental Activities (1000's)	Business-Type Activities (1000's)
Revenues:		
Program Revenues:		
Charges for Services	$195,759	$ 184,387
Operating Grants and Contributions	831,069	
Capital Grants and Contributions	144,364	
General Revenues:		
Income Taxes	429,431	
Sales Taxes	217,685	
Statewide Property Tax	424,244	
Meals and Rooms	100,623	
Other Taxes	385,674	
Miscellaneous	37,813	19,965
Total Revenues	2,766,662	204,352
Expenses:		
General Government	87,432	
Protection To Persons and Property	173,209	
Human Services	1,046,569	
Employment and Training	25,972	
General Education	1,035,751	
Natural Resources	71,367	
Commerce and Community Development	36,782	
Transportation	257,520	
Public Service Enterprises	2,002	

Interest on Debt	23,549	
Business-type Activities		190,282
Total Expenses	2,760,153	190,282
Increase (Decrease) in Net Assets Before Transfers	6,509	14,070
Transfers	16,930	(16,930)
Change in Net Assets	23,439	(2,860)
Net Assets, Beginning of Year (as restated)	802,214	321,683
Net Assets, End of Year	$825,653	$318,823

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State uses fund accounting to account for its ongoing operations and to demonstrate compliance with finance-related legal requirements imposed by both legislative mandates as well as externally imposed restrictions.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $339.7 million. $233.7 million or 68.8% of this fund balance constitutes an unreserved fund balance, which is available for spending in the coming year. The remainder of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior fiscal year ($23.5 million), 2) for human caseload management ($18 million), 3) to be held in permanent trust funds for education, wildlife and prevention of tobacco related health issues ($7.4 million), 4) for budget stabilization purposes ($33.6 million), or 5) for a variety of other restricted purposes ($23.5 million).

General Fund

The general fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the general fund was $97.9 million which is an $11.3 million (13.1%) increase compared to the balance at the end of fiscal year 2001. The total fund balance approximated $149.6 million as of June 30, 2002, which is a decrease of $23.5 million or 13.6% compared to the balance at June 30, 2001. $51.7 million of this balance is reserved for various purposes including $9.44 million in the budget stabilization (rainy day) fund (see Note 20-

Subsequent Events for updated information concerning the stabilization reserve). This leaves approximately $97.9 million as undesignated and available for appropriation in the future.

This decline in fund balance measurement can be attributed to a decline in tax revenues, especially in personal income tax revenue, and a 14.9% increase in general fund expenditures overall as measured on a GAAP basis.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. The unreserved portion of its fund balance represents approximately 15.6% while its total fund balance represents approximately 23.8% of its total fund expenditures as measured on a GAAP basis.

Education Fund

The education fund experienced a decrease in the unreserved portion of its fund balance amounting to $11.4 million as well as a decline in its total fund balance of $18.1 million. Its revenues were up $24 million but its expenditures increased by $67.4 million resulting in a net decrease of resources available of approximately $43.4 million.

Special Fund

The special fund changed substantially from fiscal year 2001 to 2002 due primarily to the reclassification of previously designated expendable trust funds to special funds. The total fund balance increased from $44.9 million to a restated $69.1 million at June 30, 2001 due to the GASB Statement #34 required reclassification being instituted. See Note 10 for additional information regarding these reclassifications.

Federal Revenue Fund

The activity in this fund reports all federal activity transacted in the State except for federal activity associated with transportation activity and fish and wildlife activity. Federal activity for these two areas is reported in those two funds. For fiscal year 2002, federal revenue was up $102.4 million while associated federal expenditures were only up $94.6 million. This differential accounted for approximately half of the increase in the overall increase in the total fund balance of $16.1 million.

Proprietary Funds

The State's proprietary funds provide the same type of information found in the business-type activities section in the government-wide financial statements, but in more detail. These funds consist of 9 enterprise funds and 20 internal service funds. The Unemployment Compensation Trust Fund's total net assets ($314.2 million) accounts for approximately 92.9% of the enterprise funds total net assets. The internal service funds' net assets total approximately $19.7 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final budget were relatively minor ($23.8 million increase in appropriations) and can be briefly summarized as follows:

1. Protection to Persons and Property received $8.6 million in supplemental appropriations for increased expenses in providing police protection.

2. General Education received $5.7 million in supplemental appropriations for increased expenses.
3. Commerce and Community Development received $7.2 million in supplemental appropriations to focus on creating additional job opportunities in the State.

These increases in appropriations were funded by decreasing appropriated amounts in almost all of the other functions of State government. As budgetary revenue estimates were less than actual budgetary revenue amounts received, these supplemental appropriations were primarily funded from available fund balances. During the year, actual budgetary-based revenues received were less than original and final budgetary estimates by approximately $69.1 million and $28.6 million respectively, with most of this shortfall being realized in the area of tax revenue. Expenditures were less than original and final budgetary estimates by approximately $17.5 million and $41.3 million respectively. However, in both the original and final scenarios, existing fund balance was budgeted to fund appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to approximately $1.89 billion, net of accumulated depreciation of $926 million, leaving a net book value of approximately $964 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in expenditures in the State's investment in capital assets for fiscal year 2002 over 2001 was about $121.3 million. Much of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled $52.3 million. Additional information on the State's capital assets can be found in Note 4 of the notes to the financial statements of this report.

Debt Administration

The State has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990 the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the State. The authorization and issuance of State debt including all the terms and other related terms are statutory. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May and June preceding such fiscal year, or in subsequent fiscal years. Bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the debt.

The State of Vermont's total debt increased by a little over $6 million during the current fiscal year. The State issued $51 million worth of general obligation bonds and accreted $3.6 million of capital appreciation bonds while paying approximately $48.5 million in principal payments

during the fiscal year. Additional information on the State's long-term indebtedness can be found in Note 8 of the notes to the financial statements of this report.
The State's bond ratings as of October 2003 are as follows: Moody's – Aa1; S&P – AA+; and Fitch – AA+.

ECONOMIC CONDITIONS

The economic conditions described here represent conditions as they existed during and at the end of fiscal year 2002. According to the economic forecast and opinions put forth by Economic and Policy Resources, Inc of Williston, Vermont, which utilizes the underlying forecast contained in "The Economic.com National Forecast Assumptions" provided by Economy.com of West Chester, Pa. and which was completed in conjunction with the New England Economic Project (NEEP), the U.S economic recovery appears to be slowing as 2002 progresses because of near term weakness and volatility. Because of this weakness and volatility, consumers and businesses are unlikely to increase spending, a key ingredient in any near term recovery. Transition from recovery to expansion seems unlikely in the near term because of these perceptions.

In contrast to the national recovery's progress, Vermont's broad based recovery has yet to begin. Reduced investment earnings resulting from the recent downturn in the stock market and reduced interest rates have dampened the recovery. There have been significant layoffs by employers in the State. However, on a bright note, even with these layoffs, Vermont's unemployment rate as of June 2002 was 4.3%, which was about the same rate experienced in 2001. Further, this compares favorably to the nation's average unemployment rate of 5.9% and the rest of New England's rate of 4.4%.

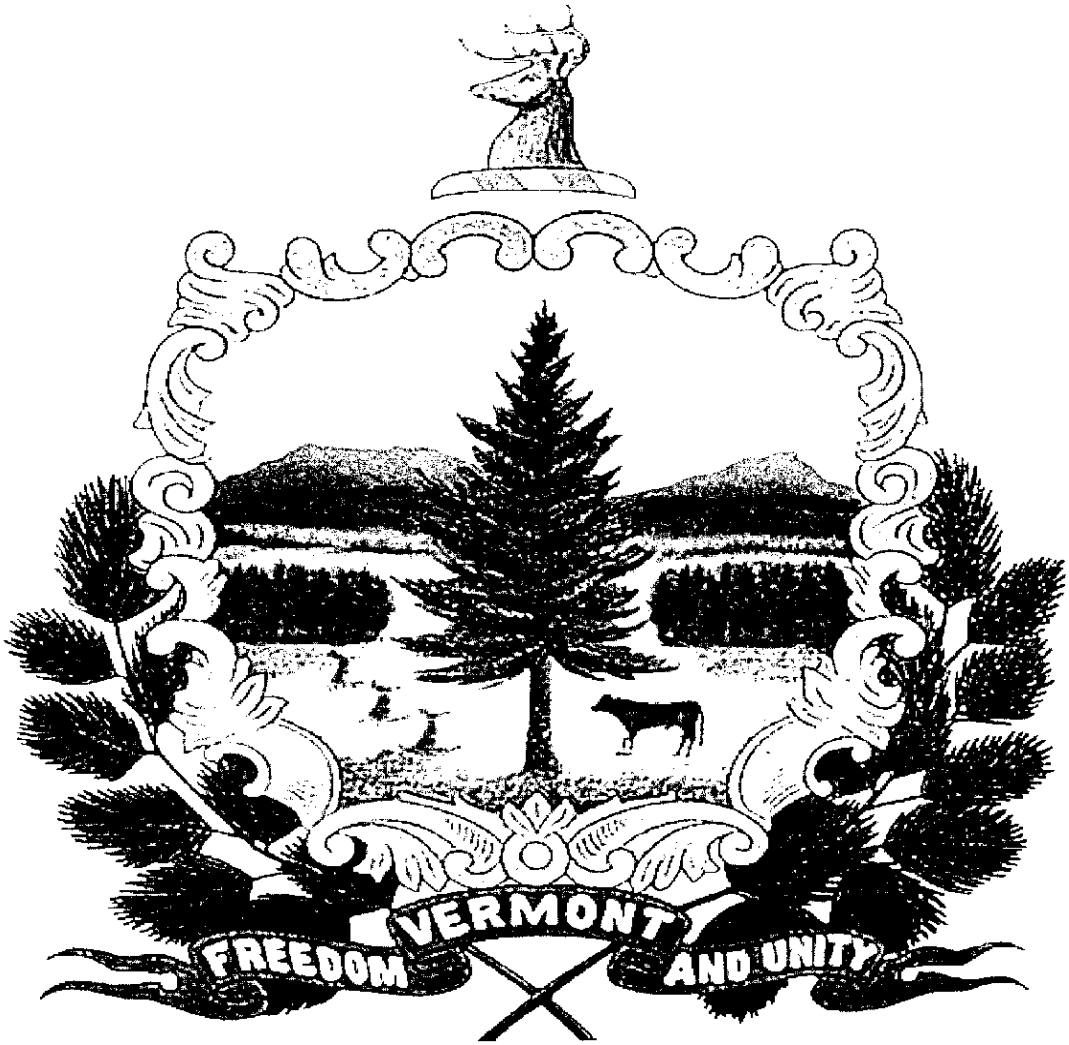
Perhaps the most important fact in Vermont's economic recovery is the fact that the national economic recovery is now in place and will begin to affect Vermont in the near future, perhaps in the proximity of the winter of 2003.

It should be noted that Vermont's total economic picture including the economic facts and forecasts presented above are considered by legislative leaders and management in preparing the State's budget for both current and future years.

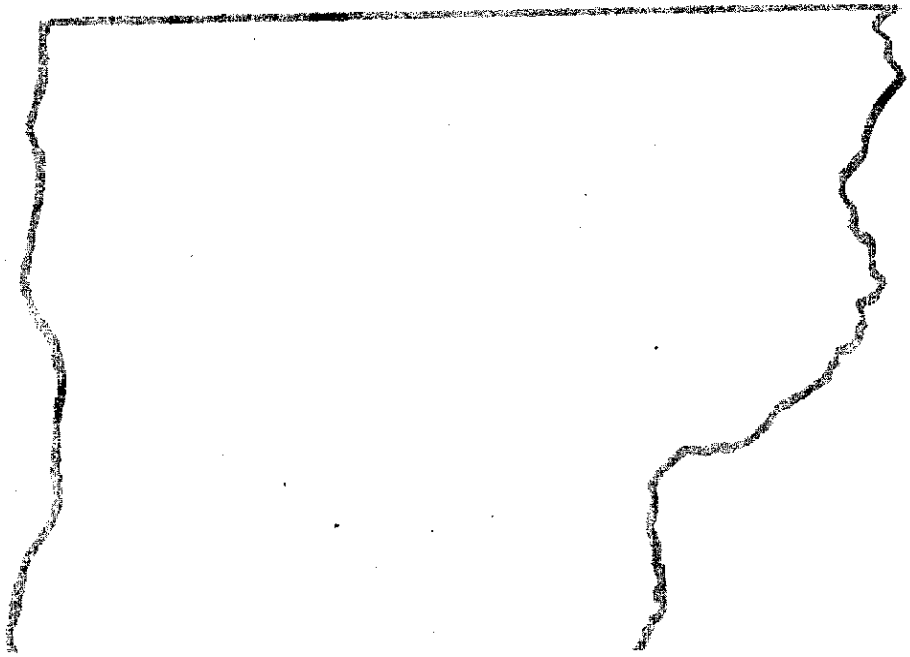
REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Vermont's finances for all of Vermont's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

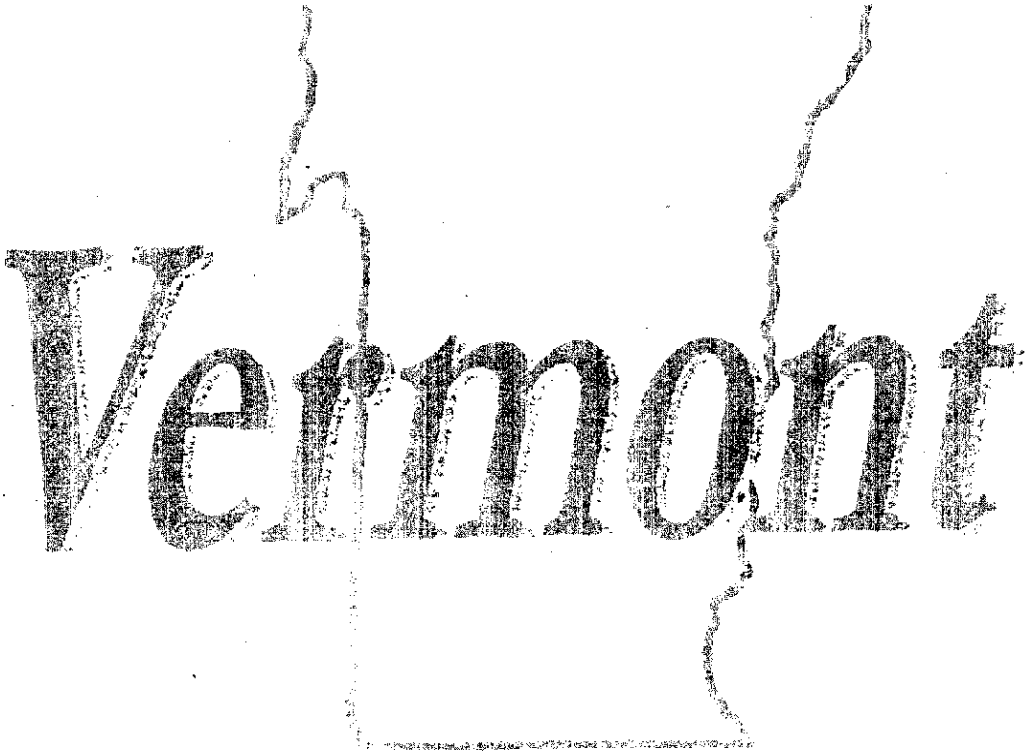
State of Vermont
Department of Finance and Management
109 State Street
Pavilion Building
Montpelier, Vermont 05609-0401



BASIC FINANCIAL STATEMENTS



THIS PAGE INTENTIONALLY LEFT BLANK



GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2002

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	$ 211,070,570	$ 311,826,171	$ 522,896,741	$ 212,429,185
Taxes receivable	114,345,639	8,558,941	122,904,580	-
Loans and notes receivable-current	4,441,339	1,682,967	6,124,306	119,522,444
Federal grants receivable	120,294,572	580,649	120,875,221	12,301,545
Other receivables	32,345,927	1,150,067	33,495,994	66,034,191
Investments	8,527,676	4,431,350	12,959,026	134,129,134
Inventories	2,496,293	4,543,324	7,039,617	1,972,746
Internal balances	838,793	(838,793)	0	-
Receivable from primary government	-	-	0	10,627
Receivable from component units	7,709,928	-	7,709,928	-
Other current assets	795,225	146,036	941,261	6,983,913
Total current assets	502,865,962	332,080,712	834,946,674	553,383,785
Noncurrent assets:				
Cash and cash equivalents	-	698,574	698,574	8,550,138
Taxes receivable	77,873,038	-	77,873,038	-
Other receivables	19,311,947	46,007	19,357,954	-
Notes and loans receivable	125,504,996	1,128,805	126,633,801	1,380,283,033
Investments	24,782,131	-	24,782,131	402,391,933
Other noncurrent assets	242,540	-	242,540	43,781,612
Capital assets:				
Land	4,183,634	-	4,183,634	13,177,213
Construction in progress	323,966,636	-	323,966,636	1,394,558
Capital assets being depreciated:				
Infrastructure	1,270,533,277	-	1,270,533,277	16,173,670
Property, plant and equipment	290,674,590	1,046,597	291,721,187	474,670,481
Less accumulated depreciation	(925,374,893)	(541,835)	(925,916,728)	(250,104,012)
Total capital assets, net of depreciation	963,983,244	504,762	964,488,006	255,311,910
Total noncurrent assets	1,211,697,896	2,378,148	1,214,076,044	2,090,318,626
Total assets	1,714,563,858	334,458,860	2,049,022,718	2,643,702,411
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	155,685,113	10,208,508	165,893,621	52,917,322
Income tax refunds payable	44,902,176	-	44,902,176	-
Payable to primary government	-	-	0	7,709,928
Payable to component units	10,627	-	10,627	-
Accrued interest payable	8,919,557	-	8,919,557	3,903,070
Bonds, notes and leases payable	51,355,000	-	51,355,000	129,449,926
Compensated absences	16,313,547	188,154	16,501,701	-
Claims and judgments	8,675,158	3,670,907	12,346,065	-
Current portion of other long-term liabilities	-	-	0	1,946,686
Deferred revenue	5,407,232	959,681	6,366,913	31,716,350
Total current liabilities	291,268,410	15,027,250	306,295,660	227,643,282
Long-term liabilities:				
Lottery prize awards payable	-	484,243	484,243	-
Bonds, notes and leases payable	435,110,090	-	435,110,090	1,659,405,235
Compensated absences	9,750,536	124,623	9,875,159	-
Claims and judgments	19,332,778	-	19,332,778	-
Other long-term liabilities	133,448,826	-	133,448,826	54,920,876
Total long-term liabilities	597,642,230	608,866	598,251,096	1,714,326,111
Total liabilities	$ 888,910,640	$ 15,636,116	$ 904,546,756	$ 1,941,969,393

NET ASSETS				
Invested in capital assets, net of related debt	$ 783,951,377	$ 504,762	$ 784,456,139	$ 159,352,039
Restricted for:				-
Unemployment compensation	-	314,212,191	314,212,191	-
Equipment purchase commitments	-	20,042	20,042	-
Surplus property		479,005	479,005	-
Higher Education	-	-	0	289,038,291
Funds held in permanent investments:				
Expendable	1,518,780	-	1,518,780	-
Nonexpendable	7,416,453	-	7,416,453	-
Budget stabilization	33,575,978		33,575,978	-
Capital projects	51,798,769	-	51,798,769	75,755,871
Unrestricted	(52,608,139)	3,606,744	(49,001,395)	177,586,817
Total net assets	$ 825,653,218	$ 318,822,744	$ 1,144,475,962	$ 701,733,018

The accompanying notes are an integral part of the financial statements.

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activites:				
General government	$ 87,431,591	$ 9,699,360	$ 2,821,291	$ -
Protection to persons & property	173,208,802	73,459,483	28,057,555	7,326,650
Human services	1,046,568,774	24,892,193	635,626,572	4,871,222
Employment & training	25,972,322	2,830,314	21,045,881	-
General education	1,035,750,817	3,211,121	75,838,839	-
Natural resources	71,367,475	24,057,234	17,625,395	15,468,156
Commerce & community development	36,782,068	678,310	14,150,021	-
Transportation	257,519,692	54,870,144	35,903,602	116,697,632
Public service enterprises	2,001,936	2,061,251	-	-
Interest on long-term debt	23,549,404	-	-	-
Total governmental activites	2,760,152,881	195,759,410	831,069,156	144,363,660
Business-type activites:				
Vermont Lottery Commission	65,590,029	82,000,455	-	-
Liquor Control	33,311,074	33,118,564	-	-
Unemployment Compensation	88,557,267	66,441,794	-	-
Other	2,823,430	2,825,694	-	-
Total business-type activities	190,281,800	184,386,507	0	0
Total primary government	$ 2,950,434,681	$ 380,145,917	$ 831,069,156	$ 144,363,660
Component Units:				
University of Vermont	$ 345,610,000	$ 178,577,000	$ 163,913,000	$ 10,038,000
Vermont State Colleges	100,250,838	57,995,029	44,798,723	-
Vermont Student Assistance Corporation	99,644,000	60,200,000	37,007,000	-
Other	59,012,629	32,725,161	17,257,067	-
Total component units	$ 604,517,467	$ 329,497,190	$ 262,975,790	$ 10,038,000

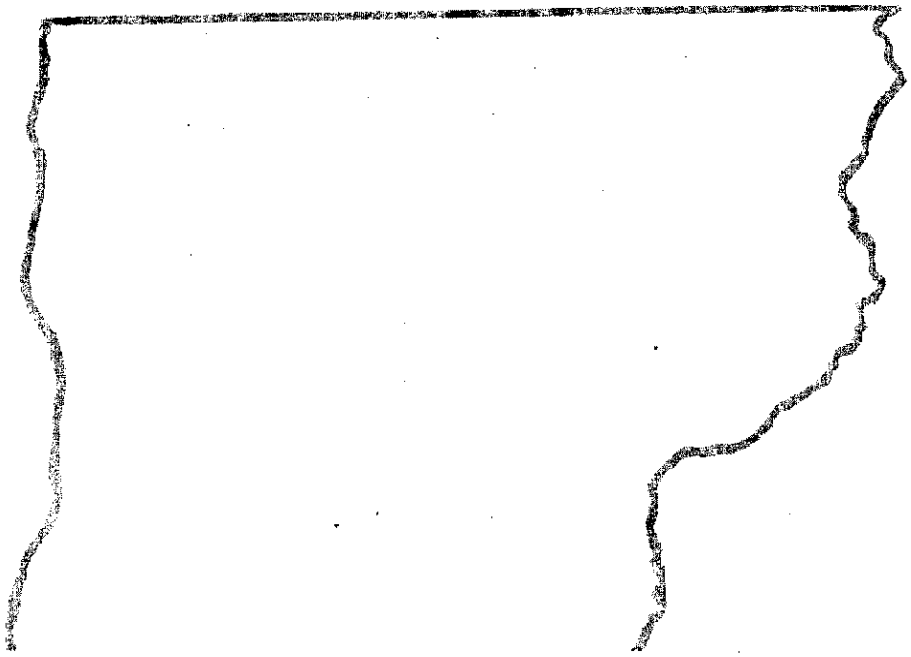
General Revenues:
Taxes:
Personal and corporate income
Sales and use
Meals and rooms
Puchase and use
Motor fuel
Statewide property
Other taxes
Total taxes
Unrestricted investment earnings
Tobacco litigation settlement
Miscellaneous
Transfers
Total general revenues and transfers

Changes in net assets
Net Assets - Beginning

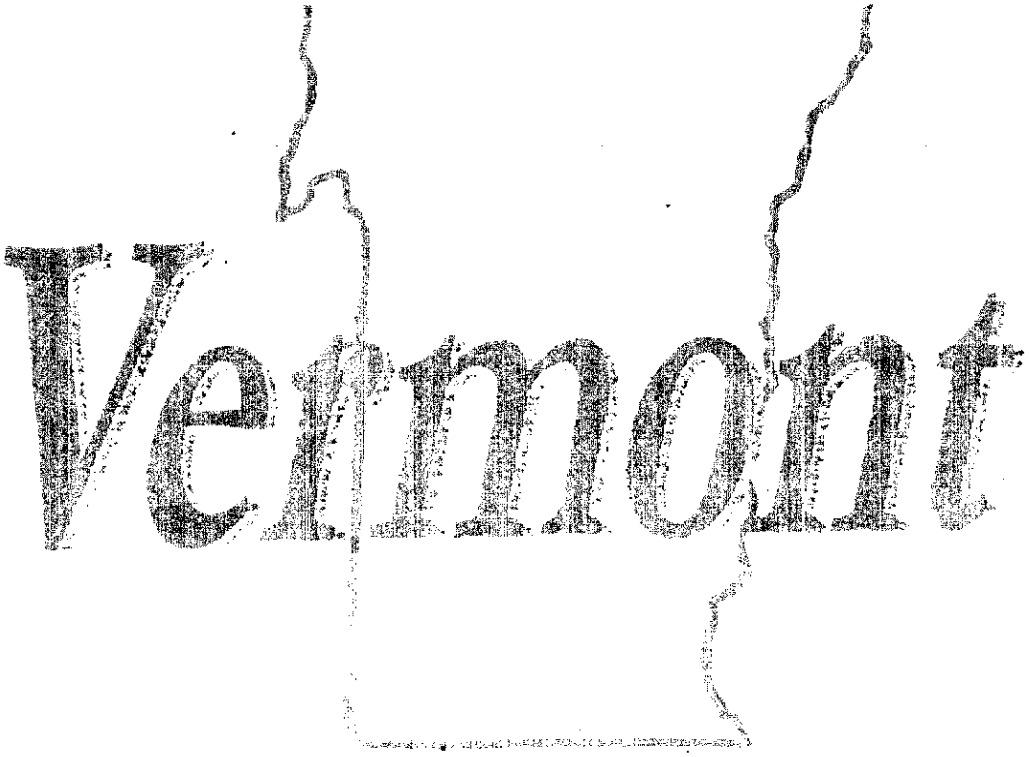
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activites	Total	Component Units
$ (74,910,940)	$ -	$ (74,910,940)	$ -
(64,365,114)	-	(64,365,114)	-
(381,178,787)	-	(381,178,787)	-
(2,096,127)	-	(2,096,127)	-
(956,700,857)	-	(956,700,857)	-
(14,216,690)	-	(14,216,690)	-
(21,953,737)	-	(21,953,737)	-
(50,048,314)	-	(50,048,314)	-
59,315	-	59,315	-
(23,549,404)	-	(23,549,404)	-
(1,588,960,655)	0	(1,588,960,655)	-
-	16,410,426	16,410,426	-
-	(192,510)	(192,510)	-
-	(22,115,473)	(22,115,473)	-
-	2,264	2,264	-
0	(5,895,293)	(5,895,293)	0
(1,588,960,655)	(5,895,293)	(1,594,855,948)	0
-	-	-	6,918,000
-	-	-	2,542,914
-	-	-	(2,437,000)
-	-	-	(9,030,401)
0	0	0	(2,006,487)
429,430,661	-	429,430,661	-
217,685,005	-	217,685,005	-
100,622,918	-	100,622,918	-
79,455,165	-	79,455,165	-
69,223,434	-	69,223,434	-
424,243,836	-	424,243,836	-
236,994,926	-	236,994,926	11,088,000
1,557,655,945	0	1,557,655,945	11,088,000
4,529,099	19,964,380	24,493,479	5,910,584
31,000,098	-	31,000,098	-
2,284,384	295	2,284,679	-
16,929,798	(16,929,798)	-	-
1,612,399,324	3,034,877	1,615,434,201	16,998,584
23,438,669	(2,860,416)	20,578,253	14,992,097
802,214,549	321,683,160	1,123,897,709	686,740,921
$ 825,653,218	$ 318,822,744	$ 1,144,475,962	$ 701,733,018



THIS PAGE INTENTIONALLY LEFT BLANK



GOVERMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002

	General Fund	Transportation Fund	Education Fund
ASSETS:			
Cash and cash equivalents	$ 33,948,372	$ 15,293,408	$ 19,880,368
Investments	-	-	-
Receivables:			
Taxes receivable (net)	172,121,640	6,465,898	9,563,550
Accrued interest receivable	-	-	-
Notes and loans receivable	16,717,660	916,236	-
Other receivables (net)	2,138,404	8,612,758	-
Intergovernmental receivable - federal government	-	12,343,618	-
Due from other funds	520,121	89,224	1,625,433
Due from component units	1,239,332	1,493,304	-
Interfund receivable	22,349,097	-	-
Advances to other funds	523,700	-	-
Advances to component units	1,914,486	-	-
Restricted cash	-	2,548,877	-
Total assets	**$ 251,472,812**	**$ 47,763,323**	**$ 31,069,351**
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	$ 12,430,909	$ 14,872,122	$ 9,502,103
Accrued liabilities	7,417,859	3,847,799	-
Retainage payable	591,880	3,757,953	-
Accrued interest payable	-	-	-
Due to other funds	1,538,083	1,180,639	242,326
Due to component units	-	10,627	-
Interfund payable	-	-	-
Tax refunds payable	792,633	-	-
Deferred revenue	79,107,531	7,729,726	4,068,877
Total liabilities	**101,878,895**	**31,398,866**	**13,813,306**
FUND BALANCE:			
Reserved for:			
Encumbrances	6,334,834	293,639	-
Budget stabilization	9,441,773	9,890,396	14,243,809
Debt service	68,763	-	-
Advances and notes receivable	13,454,375	-	-
General fund surplus	4,347,360	-	-
Appropriation	-	5,644,836	-
Human caseload management	18,048,618	-	-
Endowments	-	-	-
Unreserved:			
Designated for specific purposes	-	-	-
Undesignated	97,898,194	535,586	3,012,236
Total fund balance	**149,593,917**	**16,364,457**	**17,256,045**
Total liabilities and fund balance	**$ 251,472,812**	**$ 47,763,323**	**$ 31,069,351**

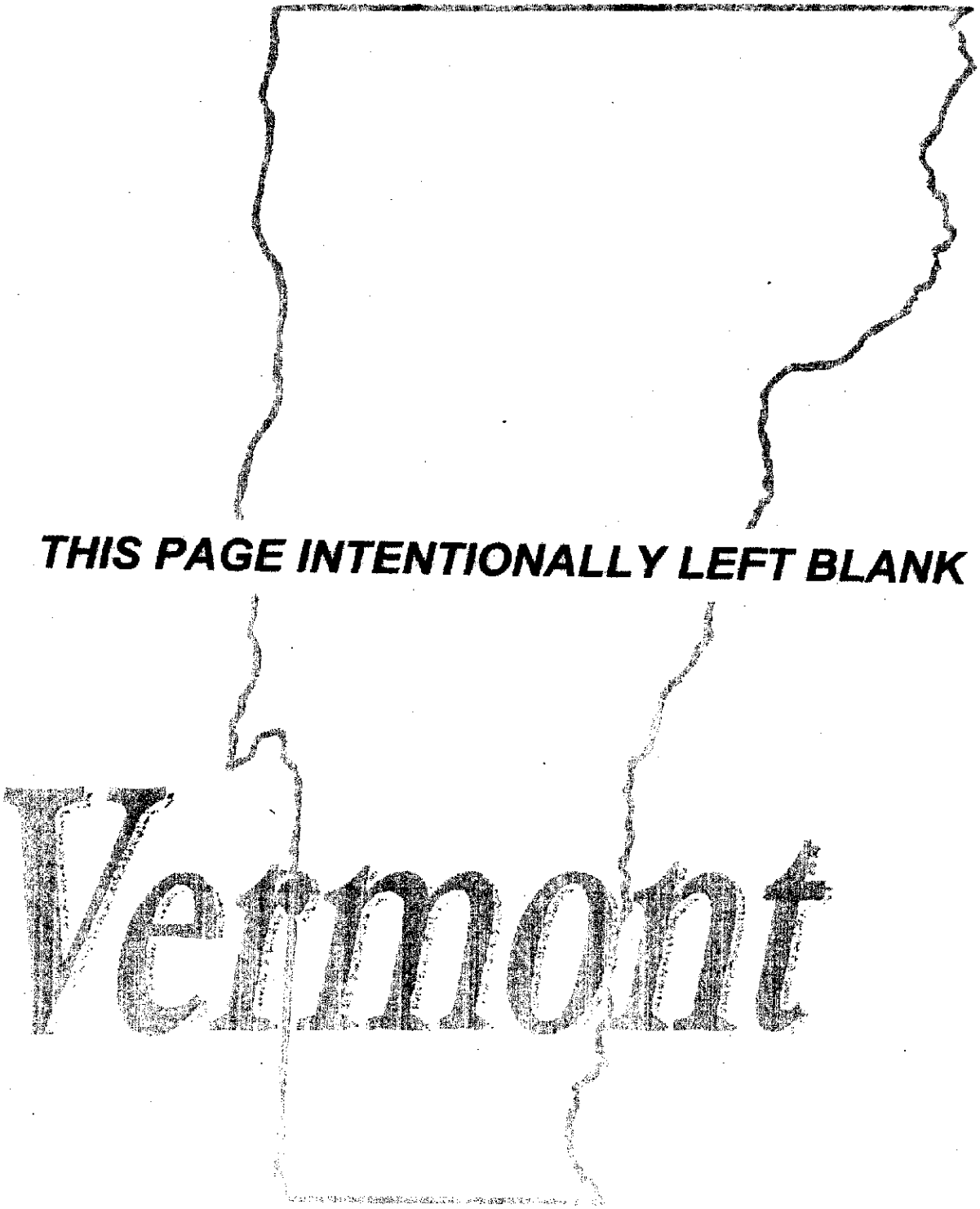
The accompanying notes are an intergral part of the financial statements.

Special Fund	Federal Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 36,551,408	$ -	$ 63,259,628	$ 168,933,184
25,040,575	-	8,269,232	33,309,807
3,985,485	-	82,104	192,218,677
1,000	-	-	1,000
331,902	111,980,537	-	129,946,335
20,146,301	9,228,731	788,619	40,914,813
-	107,673,358	277,596	120,294,572
6,300,568	257,192	11,855	8,804,393
-	3,062,806	-	5,795,442
-	-	-	22,349,097
-	-	-	523,700
-	-	-	1,914,486
3,303,000	-	-	5,851,877
$ 95,660,239	**$ 232,202,624**	**$ 72,689,034**	**$ 730,857,383**
$ 31,488,359	$ 60,112,404	$ 2,229,844	$ 130,635,741
1,988,877	4,359,348	370,052	17,983,935
138,336	-	1,494,969	5,983,138
150,534	-	-	150,534
147,169	1,087,819	10,951	4,206,987
-	-	-	10,627
-	3,676,265	6,155	3,682,420
-	-	-	792,633
15,461,531	121,306,156	-	227,673,821
49,374,806	**190,541,992**	**4,111,971**	**391,119,836**
821,362	13,046,730	3,009,969	23,506,534
-	-	-	33,575,978
-	-	-	68,763
-	-	-	13,454,375
-	-	-	4,347,360
-	-	-	5,644,836
-	-	-	18,048,618
-	-	7,416,453	7,416,453
-	-	51,798,769	51,798,769
45,464,071	28,613,902	6,351,872	181,875,861
46,285,433	**41,660,632**	**68,577,063**	**$ 339,737,547**
$ 95,660,239	**$ 232,202,624**	**$ 72,689,034**	**$ 730,857,383**

Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2002

Total fund balances from previous page		**$ 339,737,547**
Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:		
Land	4,157,478	
Construction in progress	323,938,097	
Depreciable capital assets and infrastructure, net of $900,792,154 of accumulated depreciation	613,439,730	
Capital assets, net of accumulated depreciation		941,535,305
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		19,544,659
Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:		
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds		222,439,039
Deferred charge for unamortized bond issuance costs		242,540
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:		
Bonded debt	(486,465,090)	
Accrued interest payable on bonds	(8,769,023)	
Compensated absences (net of internal service funds' liability)	(25,053,390)	
Tax refunds payable	(44,109,543)	
Other long-term liabilities	(133,448,826)	
Long-term liabilities		(697,845,872)
Net assets of governmental activities		**$ 825,653,218**

The accompanying notes are an integral part of the financial statements.



THIS PAGE INTENTIONALLY LEFT BLANK

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Transportation Fund	Education Fund
REVENUES:			
Taxes:			
Personal income tax	$ 443,453,138	$ -	$ -
Corporate income tax	26,503,865	-	6,216,892
Sales and use tax	215,503,133	-	-
Meals and rooms	80,963,579	-	18,161,994
Motor fuel tax	-	52,576,402	10,568,055
Purchase and use tax	-	65,991,808	13,518,316
Statewide property tax	-	-	424,198,212
Other taxes	90,646,412	18,584,187	44,391,871
Earnings of departments:			
Fees	8,374,304	1,966,819	2,542,500
Rents and leases	11,374	825,851	-
Sales of service	1,483,324	95,319	-
Federal grants	-	152,601,234	-
Fines, forfeits and penalties	2,114,612	9,449,327	-
Investment income	2,949,284	90,759	171,844
Licenses:			
Business	2,559,090	404,546	-
Non-business	121,254	48,597,970	-
Special assessments	57,216	-	-
Other revenues	1,034,857	3,117,850	-
Total revenues	**875,775,442**	**354,302,072**	**519,769,684**
EXPENDITURES:			
General government	46,652,276	11,499,244	-
Protection to persons and property	55,572,530	31,295,161	-
Human services	310,434,496	2,032,660	-
Employment & training	1,376,062	-	-
General education	118,167,849	4,689,594	818,329,889
Natural resources	16,868,210	1,289,343	-
Commerce and community development	15,127,450	-	-
Transportation	-	311,050,934	-
Public service enterprises	-	-	-
Debt service	63,899,370	2,910,054	-
Total expenditures	**628,098,243**	**364,766,990**	**818,329,889**
Excess of revenues over (under) expenditures	**247,677,199**	**(10,464,918)**	**(298,560,205)**
Other Financing Sources (Uses):			
Proceeds from the sale of bonds	-	-	-
Premium on sale of bonds	-	-	-
Transfers in	20,380,670	15,592,657	280,438,797
Transfers (out)	(291,521,686)	(3,864,212)	-
Total other financing sources (uses)	**(271,141,016)**	**11,728,445**	**280,438,797**
Excess of revenues and other sources over (under) expenditures and other (uses)	**(23,463,817)**	**1,263,527**	**(18,121,408)**
Fund balance, July 1 (as restated)	**173,057,734**	**15,100,930**	**35,377,453**
Fund balance, June 30	**$ 149,593,917**	**$ 16,364,457**	**$ 17,256,045**

The accompanying notes are an intergral part of the financial statements.

Special Fund	Federal Revenue Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 443,453,138
-	-	-	32,720,757
-	-	-	215,503,133
-	-	-	99,125,573
5,092,542	-	986,434	69,223,433
-	-	-	79,510,124
-	-	-	424,198,212
82,733,035	-	635,881	236,991,386
23,612,018	-	213,133	36,708,774
804,931	-	85,249	1,727,405
12,307,645	-	-	13,886,288
-	807,720,150	3,820,479	964,141,863
2,632,894	-	12,748	14,209,581
2,680,585	380,417	610,694	6,883,583
5,503,071	-	1,750	8,468,457
2,035,189	-	6,903,762	57,658,175
21,554,901	-	16,897	21,629,014
71,442,196	2,650,629	281,345	78,526,877
230,399,007	**810,751,196**	**13,568,372**	**2,804,565,773**
10,349,204	2,893,860	10,528,350	81,922,934
54,221,452	33,349,146	1,538,105	175,976,394
141,670,231	610,158,601	1,584,269	1,065,880,257
1,381,857	23,527,109	-	26,285,028
4,806,868	74,685,151	14,891,278	1,035,570,629
23,477,430	32,248,141	16,172,991	90,056,115
4,803,815	14,163,296	2,804,818	36,899,379
58,179	-	24,311	311,133,424
2,001,936	-	-	2,001,936
2,405,223	-	-	69,214,647
245,176,195	**791,025,304**	**47,544,122**	**2,894,940,743**
(14,777,188)	**19,725,892**	**(33,975,750)**	**(90,374,970)**
-	-	51,000,000	51,000,000
123,348	-	-	123,348
8,191,177	7,753,440	15,257,833	347,614,574
(16,362,037)	(11,394,166)	(3,060,816)	(326,202,917)
(8,047,512)	**(3,640,726)**	**63,197,017**	**72,535,005**
(22,824,700)	**16,085,166**	**29,221,267**	**(17,839,965)**
69,110,133	**25,575,466**	**39,355,796**	**357,577,512**
$ 46,285,433	**$ 41,660,632**	**$ 68,577,063**	**$ 339,737,547**

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2002

Total net change in fund balances from the previous page	$	(17,839,965)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period (net of internal service funds).		
Capital outlay/functional expenditures		114,096,618
Depreciation expense and expensed net book value of disposed capital assets		(48,420,835)
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		48,535,000
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Bonds issued		(51,000,000)
Bond premium is amortized over the life of the bonds in the statement of activities		(115,423)
Bond issuance costs are reported as expenditures in the governmental funds, but this cost is amortized over the life of the bonds in the statement of activities		242,540
Revenue and expense reimbursements in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds		8,023,193
Personal income tax revenues in the statement of activities are reported net of estimated refunds		(44,109,543)
Some expenses reported in the statement of activities do not require the use of current financial resources and, thererfore, are not reported as expenditures in the governmental funds.		
Net decrease in accrued interest payable		422,421
Accreted interest on capital appreciation bonds		(3,556,732)
Increase in compensated absences		(415,563)
Increase in employer pension related costs		(903,174)
Increase in arbitrage rebate liability		(305,863)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities		1,933,667
Notes and loans issued by governmental funds are reported as an expenditure in governmental funds and repayments are reported as a revenue in the governmental funds, but the issuances and repayment increase or decrease notes and loans receivable in the statement of net assets		16,852,328
Total changes in net assets of governmental activities as reported on the statement of activities	$	23,438,669

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2002

			Business-type
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 308,429,651	$ 2,324,782	$ 364,761
Investments	-	-	4,431,350
Receivables:			
Taxes receivable	8,558,941	-	-
Accrued interest receivable	-	-	-
Accounts receivable (net of allowance for uncollectibles)	115,675	155,870	573,265
Loans receivable	-	-	-
Due from other funds	-	-	214,660
Intergovernmental receivable - federal	580,649	-	-
Inventories, at cost	-	3,518,500	458,023
Prepaid expenses	-	-	-
Total current assets	**317,684,916**	**5,999,152**	**6,042,059**
Restricted and Noncurrent Assets:			
Cash-subscription reserve fund	-	-	-
Loans receivable	-	-	-
Accounts receivable - subscriptions	-	-	-
Imprest cash and change fund - advances	-	5,700	-
Total restricted & noncurrent assets	**0**	**5,700**	**0**
Capital Assets:			
Land	-	-	-
Machinery, equipment and buildings	-	704,985	275,739
Less accumulated depreciation	-	(326,347)	(149,615)
Total capital assets, net of depreciation	**0**	**378,638**	**126,124**
Total assets	**317,684,916**	**6,383,490**	**6,168,183**
LIABILITIES			
Current Liabilities:			
Accounts payable	3,432,868	5,603,836	724,047
Accrued salaries and benefits	-	290,933	110,344
Claims payable	-	-	3,670,907
Due to agents	-	180,728	-
Due to other funds	39,857	245,661	42,243
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	484,243
Deferred revenue	-	-	238,868
Total current liabilities	**3,472,725**	**6,321,158**	**5,270,652**
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions	-	-	-
Cash advances by state treasurer	-	5,700	500,000
Total liabilities payable from restricted assets	**0**	**5,700**	**500,000**
Total liabilities	**3,472,725**	**6,326,858**	**5,770,652**
NET ASSETS			
Invested in capital assets, net of related debt	-	378,638	126,124
Restricted for unemployment compensation benefits	314,212,191	-	-
Restricted for equipment purchase commitments	-	-	20,042
Restricted for surplus property	-	-	-
Unrestricted	-	(322,006)	251,365
Total net assets	**$ 314,212,191**	**$ 56,632**	**$ 397,531**

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

Activities - Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 706,977	$ 311,826,171	$ 36,270,409
-	4,431,350	-
-	8,558,941	-
12,456	12,456	-
292,801	1,137,611	11,815,764
1,682,967	1,682,967	-
39,857	254,517	79,497
-	580,649	-
566,801	4,543,324	2,496,293
146,036	146,036	795,225
3,447,895	**333,174,022**	**51,457,188**
689,974	689,974	-
1,128,805	1,128,805	-
46,007	46,007	-
2,900	8,600	15,100
1,867,686	**1,873,386**	**15,100**
-	-	26,156
65,873	1,046,597	47,004,522
(65,873)	(541,835)	(24,582,739)
0	**504,762**	**22,447,939**
5,315,581	**335,552,170**	**73,920,227**
110,963	9,871,714	5,717,877
67,566	468,843	1,681,697
-	3,670,907	28,007,936
-	180,728	-
-	327,761	886,595
373,648	373,648	17,777,214
-	484,243	-
30,839	269,707	172,450
583,016	**15,647,551**	**54,243,769**
689,974	689,974	-
2,900	508,600	15,100
692,874	**1,198,574**	**15,100**
1,275,890	**16,846,125**	**54,258,869**
-	504,762	22,447,939
-	314,212,191	-
-	20,042	-
479,005	479,005	17,316
3,560,686	3,490,045	(2,803,897)
$ **4,039,691**	$ **318,706,045**	$ **19,661,358**
Adjustment to reflect the consolidation of internal service activities related to enterprise funds	116,699	
Net Assets - Business-type Activities..... $	318,822,744	

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Business-type		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Operating Revenues			
Charges for sales and services	$ 39,493,412	$ 31,979,758	$ -
Ticket sales	-	-	81,982,303
Rental income	-	-	-
License fees	-	168,419	18,152
Advertising revenue	-	-	-
Other operating revenues	26,948,382	970,387	-
Total operating revenues	**66,441,794**	**33,118,564**	**82,000,455**
Operating Expenses			
Cost of sales and services	84,759,310	26,258,363	-
Cash and free ticket prizes	-	-	52,323,450
Agents commissions and fees	-	-	4,733,543
Megabucks expenses	-	-	4,441,376
Lottery tickets	-	-	1,339,694
Salaries and wages	-	120,549	1,038,583
Insurance premium expense	-	-	-
Transportation	-	-	133,945
Warehouse expense	-	824,488	-
Depreciation	-	120,218	66,640
Rentals	-	-	50,675
Utilities	-	-	-
Stores and agencies expense	-	3,517,336	-
Promotions and advertising	-	-	-
Administration	-	1,296,804	811,587
Inspection and enforcement expense	-	1,221,038	-
Supplies	-	-	27,036
Distribution and postage	-	-	-
Travel	-	-	-
Loss on Bad debts	-	-	17,577
Other operating expenses	3,797,957	11,838	648,999
Total operating expenses	**88,557,267**	**33,370,634**	**65,633,105**
Operating income (loss)	**(22,115,473)**	**(252,070)**	**16,367,350**
Non-Operating Revenues (Expenses)			
Gain (loss) on disposal of fixed assets	-	295	-
Other	-	-	-
Interest expense	-	-	-
Investment income	19,638,238	-	311,804
Total non-operating revenues (expenses)	**19,638,238**	**295**	**311,804**
Income (loss) before contributions and transfers	**(2,477,235)**	**(251,775)**	**16,679,154**
Capital contributions from other funds	-	-	-
Transfer in	323,601	-	-
Transfer (out)	(353,615)	(250,644)	(16,679,154)
Changes in net assets	**(2,507,249)**	**(502,419)**	**0**
Total net assets July 1, restated	**316,719,440**	**559,051**	**397,531**
Total net assets June 30	**$ 314,212,191**	**$ 56,632**	**$ 397,531**

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

Activities - Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 1,866,147	$ 73,339,317	$ 126,934,055
-	81,982,303	-
-	0	9,820,870
-	186,571	-
567,137	567,137	-
392,410	28,311,179	39,713
2,825,694	**184,386,507**	**136,794,638**
889,983	111,907,656	75,816,061
-	52,323,450	-
-	4,733,543	-
-	4,441,376	-
-	1,339,694	-
888,324	2,047,456	16,486,570
-	0	14,822,834
32,283	166,228	20,416
-	824,488	-
-	186,858	3,866,469
3,345	54,020	1,219,693
448	448	249,760
-	3,517,336	-
419,514	419,514	-
185,549	2,293,940	7,364,985
-	1,221,038	-
17,925	44,961	1,492,510
262,513	262,513	61,269
5,413	5,413	-
30,000	47,577	(146)
102,196	4,560,990	9,720,303
2,837,493	**190,398,499**	**131,120,724**
(11,799)	**(6,011,992)**	**5,673,914**
-	295	(129,947)
-	0	(1,942,670)
-	0	(18,253)
14,338	19,964,380	413,465
14,338	**19,964,675**	**(1,677,405)**
2,539	**13,952,683**	**3,996,509**
-	0	121,385
353,615	677,216	2,001,597
(323,601)	(17,607,014)	(4,069,125)
32,553	**(2,977,115)**	**2,050,366**
4,007,138	**321,683,160**	**17,610,992**
$ 4,039,691	**$ 318,706,045**	**$ 19,661,358**

Total change in net assets reported above	(2,977,115)
Consolidation adjustment of internal service activities related to Enterprise Funds	116,699
Change in Net Assets - Business-type Activities	$ (2,860,416)

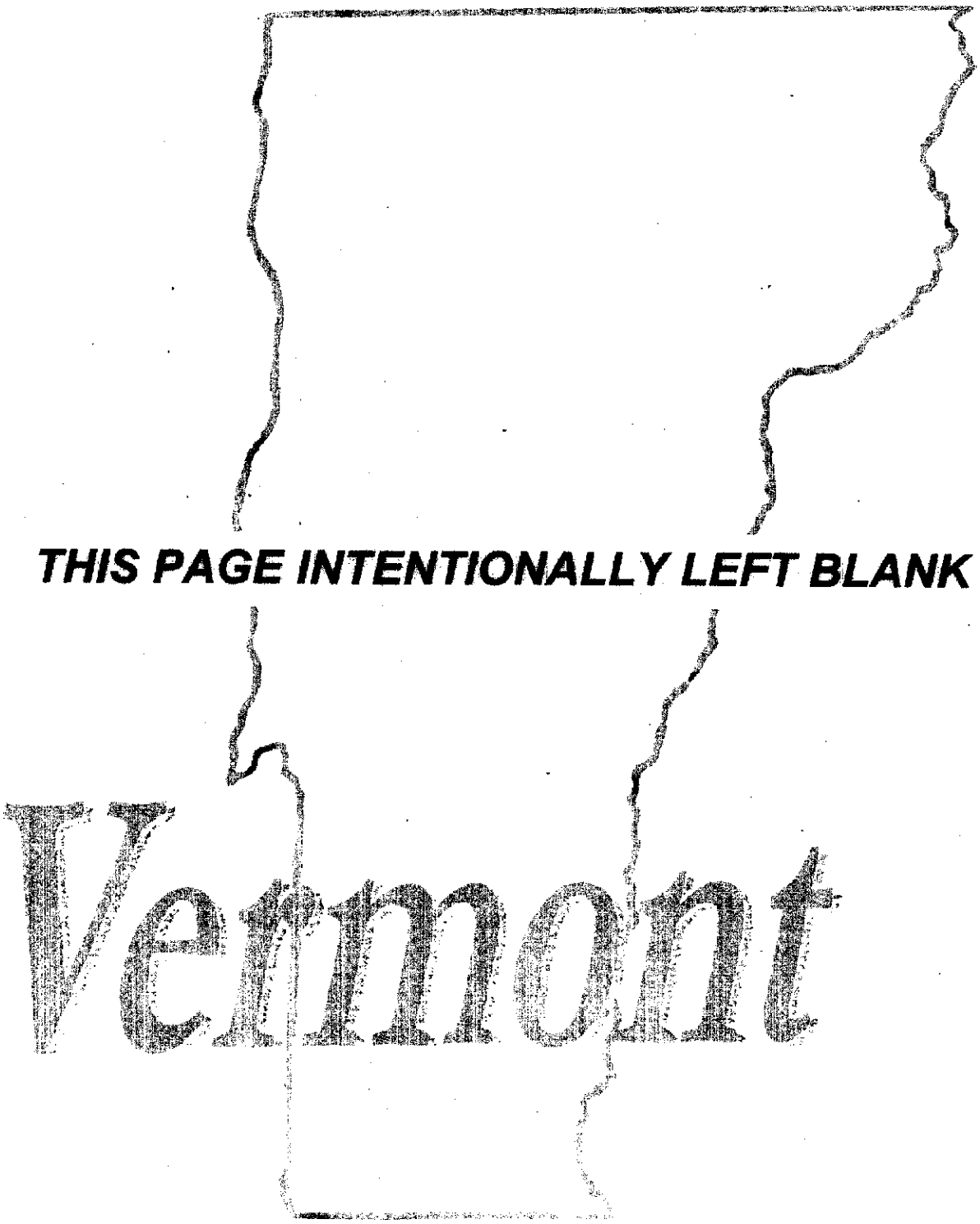
STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Business- Type Activities		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers	$ 49,803,057	$ 43,220,060	$ 82,217,834
Cash paid to suppliers for goods and services	-	(28,631,719)	-
Loans received (made)	-	-	-
Cash paid to employees for services	-	(2,739,559)	-
Cash paid for prizes and commissions	-	-	(57,087,943)
Cash paid to claimants	(87,335,716)	-	-
Liquor taxes and licenses paid	-	(11,100,254)	-
Cash paid for fees, operations and other	-	-	(8,771,900)
Other operating revenues (expenses)	16,682,876	958,548	18,152
Net cash provided (used) by operating activities	**(20,849,783)**	**1,707,076**	**16,376,143**
Cash Flows from Noncapital Financing Activities:			
Operating/equity transfers in (out)	-	(250,644)	(16,893,814)
Other	-	-	-
Interfund loans and advances	-	-	200,000
Net cash provided (used) by noncapital financing activities	**0**	**(250,644)**	**(16,693,814)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of fixed assets	-	(116,333)	(40,677)
Proceeds from sale of fixed assets	-	295	-
Net cash provided (used) by capital and related financing activities	**0**	**(116,038)**	**(40,677)**
Cash Flows From Investing Activities:			
Interest and dividends on investments	19,638,238	-	98,332
Proceeds from sales/maturities of investments	-	-	434,000
Net cash provided (used) by investing activities	**19,638,238**	**0**	**532,332**
Net increase (decrease) in cash and cash equivalents	**(1,211,545)**	**1,340,394**	**173,984**
Cash and cash equivalents at July 1,	**309,641,196**	**990,088**	**190,777**
Cash and cash equivalents at June 30 (see note below)	**$ 308,429,651**	**$ 2,330,482**	**$ 364,761**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	$ (22,115,473)	$ (252,070)	$ 16,367,350
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	-	120,218	66,640
Expense from non-operating investment and other activity	(30,014)	-	-
(Increase) decrease in accounts/taxes receivable	898,073	(28,372)	184,409
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	225,963	105,052
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in other assets	(588,491)	-	-
Increase (decrease) in accounts payable	-	1,928,216	(263,345)
Increase (decrease) in accrued salaries and benefits	-	3,825	917
Increase (decrease) in claims payable	1,221,551	-	(433,642)
Increase (decrease) in due to agents	-	2,069	-
Increase (decrease) in future and unclaimed prizes payable	-	-	297,640
Increase (decrease) in deferred income	-	-	51,122
Increase (decrease) in due to other funds	6,817	(365,103)	-
Increase (decrease) in other liabilities	(242,246)	72,330	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	**1,265,690**	**1,959,146**	**8,793**
Net cash provided (used) by operating activities	**$ (20,849,783)**	**$ 1,707,076**	**$ 16,376,143**

NOTE: Total cash/cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash-subscription reserve fund,
The accompanying notes are an integral part of the financial statements.

- Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 3,560,453	$ 178,801,404	$ 133,505,588
(3,743,293)	(32,375,012)	(55,115,232)
44,505	44,505	-
(884,857)	(3,624,416)	(17,523,294)
-	(57,087,943)	-
-	(87,335,716)	(46,922,532)
-	(11,100,254)	-
-	(8,771,900)	-
300,722	17,960,298	(223,973)
(722,470)	**(3,489,034)**	**13,720,557**
8,736	(17,135,722)	(1,970,250)
-	0	(1,942,670)
-	200,000	9,127,529
8,736	**(16,935,722)**	**5,214,609**
-	(157,010)	(6,790,430)
-	295	10,256
0	**(156,715)**	**(6,780,174)**
14,338	19,750,908	428,838
-	434,000	-
14,338	**20,184,908**	**428,838**
(699,396)	**(396,563)**	**12,583,830**
2,099,247	312,921,308	23,686,579
$ 1,399,851	$ 312,524,745	$ 36,270,409
$ (11,799)	$ (6,011,992)	$ 5,673,914
-	186,858	3,886,469
185,304	155,290	-
(123,679)	930,431	(3,211,898)
(737,131)	(737,131)	-
5,739	5,739	-
-	0	356
(136,425)	194,590	(53,532)
96,817	96,817	(452,068)
-	(588,491)	-
51,403	1,716,274	3,717,538
2,886	7,628	845,931
-	787,909	2,498,352
-	2,069	-
-	297,640	-
(46,450)	4,672	66,190
(6,817)	(365,103)	769,305
-	(169,916)	-
(2,318)	(2,318)	-
(710,671)	**2,522,958**	**8,046,843**
$ **(722,470)**	$ **(3,489,034)**	$ **13,720,557**

and Imprest cash on the Statement of Net Assets



THIS PAGE INTENTIONALLY LEFT BLANK

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2002

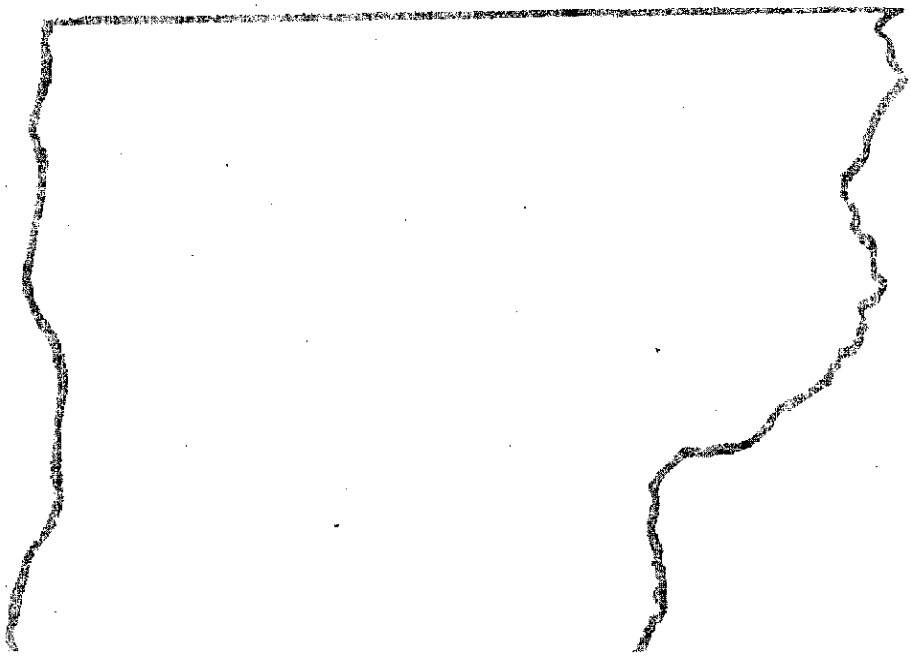
	Pension Trust Funds	Private Purpose Trust Funds: Abandoned Property Fund	Agency Funds
ASSETS			
Cash and cash equivalents	$ 53,637,233	$ 1,843,884	$ 16,283,801
Investments at fair value	2,213,391,983	-	-
Receivables:			
Taxes	-	-	737,248
Contributions	4,446,076	-	-
Investment principal and interest	14,055,117	-	-
Other	122,864,295	-	568,861
Due from other funds	771,649		192,459
Prepaid expenses	1,283,850	-	-
Total assets	**2,410,450,203**	**1,843,884**	**17,782,369**
LIABILITIES			
Liabilities:			
Accounts payable	2,845,878	17,626	-
Accrued liabilities	39,859	3,440	-
Claims payable	-	1,366,790	-
Due to other funds	-	5,990	4,675,182
Interfund loans payable	-	-	515,815
Due to depositories	-	-	230,398
Intergovernmental payable - other governments	-	-	1,290,579
Amounts held in custody for others	-	-	8,814,699
Other liabilities	140,531,576	-	2,255,696
Total liabilities	**143,417,313**	**1,393,846**	**$ 17,782,369**
NET ASSETS			
Reserved for endowments, claims and distributions		450,038	
Reserved for pension benefits	2,267,032,890	-	
Total net assets	**$ 2,267,032,890**	**$ 450,038**	

The accompanying notes are an integral part of the financial statements.

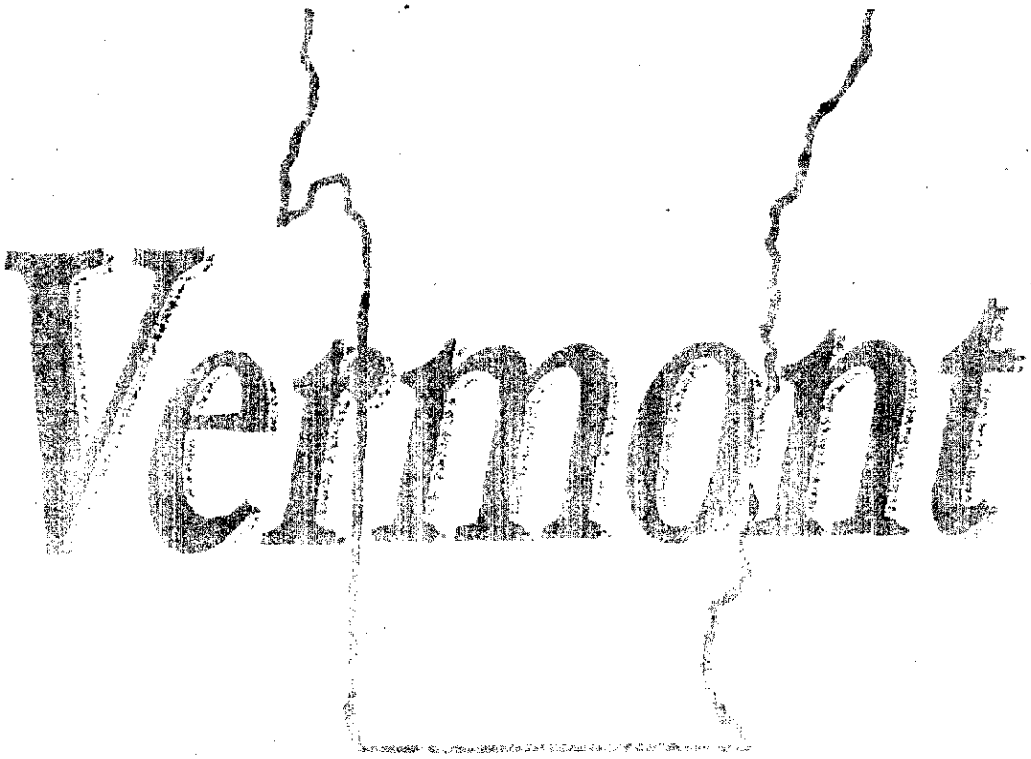
STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Pension Trust Funds	Private Purpose Trust Funds Abandoned Property Fund
ADDITIONS		
Contributions:		
Employer	$ 50,961,099	$ -
Plan member	35,152,814	-
Other contributions	16,277	-
Total contributions	86,130,190	0
Investment Income:		
Net appreciation (depreciation) in fair value of investments	(177,184,738)	-
Dividends	23,565,734	-
Interest income	49,999,616	88,802
Securities lending income	4,870,423	-
Other income	1,073,282	-
Less Investment Expenses:		
Investment managers and consultants	(9,564,618)	-
Securities lending expenses	(4,085,386)	-
Net investment income (loss)	(111,325,687)	88,802
Escheat property remittances	0	2,314,127
Total additions	**(25,195,497)**	**2,402,929**
DEDUCTIONS		
Retirement allowances	97,832,847	-
Refunds of contributions	1,990,512	-
Death claims	441,024	-
Operating expenses	15,536,040	341,120
Transfers out	-	2,414,331
Total deductions	**115,800,423**	**2,755,451**
Net increase (decrease)	**(140,995,920)**	**(352,522)**
Net assets held in trust for others Beginning of fiscal year	**2,408,028,810**	**802,560**
Net assets held in trust for others end of fiscal year	**$ 2,267,032,890**	**$ 450,038**

The accompanying notes are an integral part of the financial statements.



THIS PAGE INTENTIONALLY LEFT BLANK



COMPONENT UNIT FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2002

ASSETS	Vermont Student Assistance Corporation 06/30/02	University of Vermont and State Agricultural College 06/30/02	Vermont State Colleges 06/30/02	Total Nonmajor Component Units	Total Component Units
Current Assets:					
Cash and cash equivalents	$ 143,541,000	$ 35,980,000	$ 3,864,139	$ 29,044,046	$ 212,429,185
Investments	23,987,000	66,839,000	4,920,444	38,382,690	134,129,134
Accounts receivable	-	22,722,000	6,940,200	223,752	29,885,952
Accrued interest receivable - loans	24,895,000	-	-	6,669,030	31,564,030
Accrued interest receivable - investments	203,000	-	-	356,558	559,558
Loans and notes receivable - current portion	81,141,000	3,272,000	-	35,109,444	119,522,444
Other receivables	560,000	3,423,000	-	41,851	4,024,851
Due from federal government	336,000	-	-	11,965,545	12,301,545
Due from primary government	-	-	-	10,627	10,627
Inventories (at cost)	-	1,763,000	93,758	115,988	1,972,746
Prepaid expenses	-	4,799,000	-	306,171	5,105,171
Other current assets	1,226,000	-	558,173	94,569	1,878,742
Total current assets	**275,889,000**	**138,798,000**	**16,376,714**	**122,320,071**	**553,383,785**
Restricted and Non-Current Assets:					
Cash	-	5,894,000	451,321	2,204,817	8,550,138
Investments	-	321,526,000	20,665,437	60,198,496	402,391,933
Deferred bond issue costs	5,206,000	-	-	5,128,574	10,334,574
Loans and notes receivable (net)	905,967,000	31,933,000	5,276,243	437,106,790	1,380,283,033
Other assets	22,666,000	10,701,000	-	80,038	33,447,038
Total restricted and noncurrent assets	**933,839,000**	**370,056,000**	**26,393,001**	**504,718,715**	**1,835,006,716**
Capital Assets:					
Land	-	10,243,000	2,764,367	169,846	13,177,213
Construction in process	-	-	1,382,401	12,157	1,394,558
Building and leasehold improvements	1,215,000	277,925,000	87,186,620	13,410,790	379,737,410
Equipment, furniture and fixtures	9,064,000	78,230,000	4,064,631	3,574,440	94,933,071
Infrastructure	-	-	16,173,670	-	16,173,670
Accumulated depreciation	(7,489,000)	(187,406,000)	(65,400,242)	(9,808,770)	(250,104,012)
Total capital assets, net of depreciation	**2,790,000**	**198,992,000**	**46,171,447**	**7,358,463**	**255,311,910**
Total assets	**1,212,518,000**	**707,846,000**	**88,941,162**	**634,397,249**	**2,643,702,411**
LIABILITIES					
Current Liabilities:					
Accounts payable	2,799,000	11,739,000	5,145,762	658,475	20,342,237
Accrued salaries and enefits	-	19,221,000	-	921,378	20,142,378
Accrued interest payable	-	-	-	1,043,657	1,043,657
Bond interest payable	1,104,000	-	-	1,755,413	2,859,413
Deferred revenue	-	28,374,000	3,074,950	267,400	31,716,350
Due to other governments	328,000	-	-	-	328,000
Accrued arbitrage rebate	1,074,000	-	-	557,586	1,631,586
Current portion - bonds, notes and leases payable	54,300,000	2,306,000	1,060,000	71,783,926	129,449,926
Due to primary government	-	-	-	5,795,442	5,795,442
Escrowed cash deposits	-	-	-	137,150	137,150
Other current liabilities	2,295,000	315,000	-	9,672,557	12,282,557
Total current liabilities	**61,900,000**	**61,955,000**	**9,280,712**	**92,593,084**	**225,728,796**
Restricted and Non-Current Liabilities:					
Bonds, notes and leases payable	1,043,052,000	182,198,000	19,697,427	414,457,808	1,659,405,235
Accounts payable and accrued liabilities	-	-	215,937	-	215,937
Accrued arbitrage rebate	13,425,000	-	-	604,506	14,029,506
Other liabilities	22,666,000	13,469,000	4,429,603	110,830	40,675,433
Advances from primary government	-	-	-	1,914,486	1,914,486
Total liabilities payable from restricted assets	**1,079,143,000**	**195,667,000**	**24,342,967**	**417,087,630**	**1,716,240,597**
Total liabilities	**1,141,043,000**	**257,622,000**	**33,623,679**	**509,680,714**	**1,941,969,393**
NET ASSETS					
Invested in capital assets, (net of related debt)	2,790,000	121,412,000	27,899,771	7,250,268	159,352,039
Restricted	41,707,000	236,624,000	10,707,291	75,755,871	364,794,162
Unrestricted - designated	26,978,000	-	-	30,000	27,008,000
Unrestricted	-	92,188,000	16,710,421	41,660,396	150,578,817
Total net assets	**$ 71,475,000**	**$ 450,224,000**	**$ 55,317,483**	**$ 124,716,535**	**$ 701,733,018**

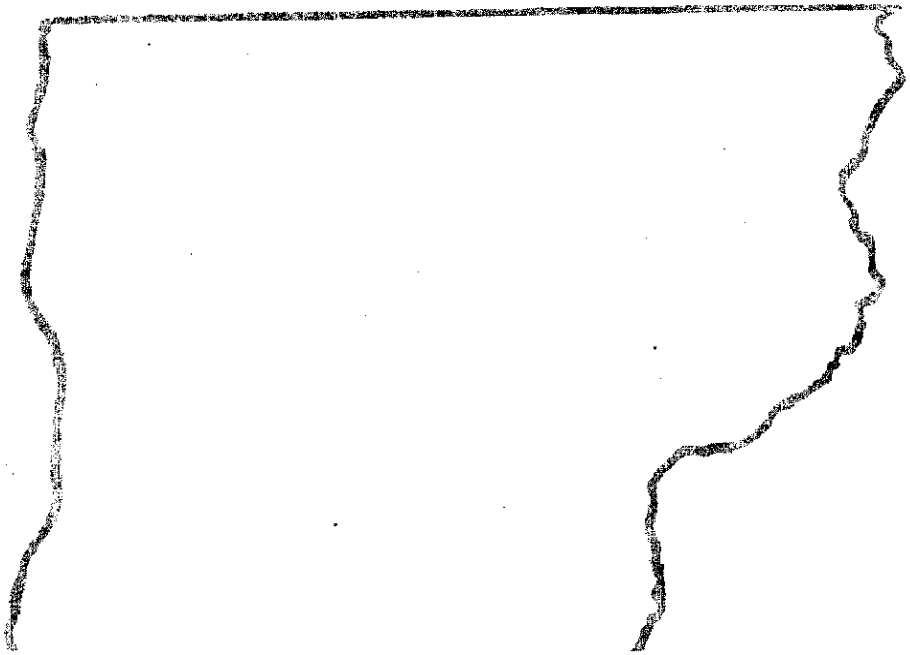
The accompanying notes are an integral part of the financial statements

STATE OF VERMONT
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2002

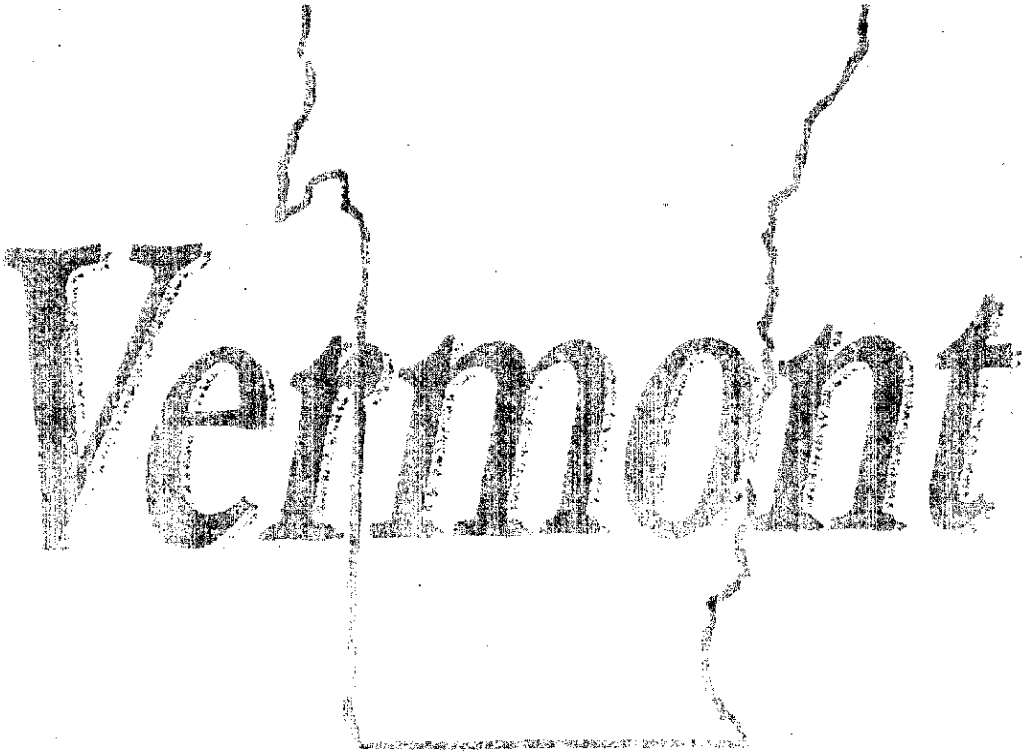
		Program Revenues			
Function/Program	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Assets**
Vermont Student Assistance Corporation	$ 99,644,000	$ 60,200,000	$ 37,007,000	$ 0	$ (2,437,000)
University of Vermont	345,610,000	178,577,000	163,913,000	10,038,000	6,918,000
Vermont State Colleges	100,250,838	57,995,029	44,798,723	0	2,542,914
Total nonmajor component units	59,012,629	32,725,161	17,257,067	0	(9,030,401)
Total component units	$ 604,517,467	$ 329,497,190	$ 262,975,790	$ 10,038,000	(2,006,487)

General Revenues:	
Property transfer tax	11,088,000
Investment income	5,910,584
Total general revenues	16,998,584
Changes in net assets	14,992,097
Net assets - beginning	686,740,921
Net assets - ending	$ 701,733,018

The accompanying notes are an integral part of the financial statements.



THIS PAGE INTENTIONALLY LEFT BLANK



State of Vermont
Notes To The Financial Statements
Fiscal Year Ended June 30, 2002

	INDEX	Page No.
Note 1	Reporting Entity	62
Note 2	Cash, Cash Equivalents, Investments	73
Note 3	Not Utilized	-
Note 4	Capital Assets	76
Note 5	Retirement Plans	78
Note 6	Restricted Net Assets- Discretely Presented Component Units	83
Note 7	Lease Commitments	83
Note 8	General Obligation Bonds and Notes Payable	84
Note 9	Prior Years' Bond Refundings	85
Note 10	Accounting Method Changes and Fund Equity Restatements	87
Note 11	Segment Information for Enterprise Funds	88
Note 12	Contingent and Limited Liabilities	89
Note 13	Litigation	90
Note 14	Budget Stabilization Reserves	90
Note 15	Joint Venture	90
Note 16	Risk Management	91
Note 17	Deficit Fund Balances	94
Note 18	Interfund Balances	96
Note 19	Changes in Long-Term Liabilities	99
Note 20	Subsequent Events	100

STATE OF VERMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2002

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the State of Vermont have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Newly implemented in these statements are the requirements of GASB Statements Nos. 34, 35, 37, and 38 and GASB Interpretation No. 6. The implementation of GASB Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – For Local and State Governments, and GASB Statement No. 35 – Basic Financial Statements – Management Discussion – For Public Colleges and Universities – establish new reporting requirements for state and local governments and public colleges and universities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected. Statement No. 37 – Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments amend or clarify several areas as found in GASB Statements Nos. 14 and 34. Statement No. 38 – Certain Financial Note Disclosures modifies certain current disclosures and adds additional disclosure requirements. GASB Interpretation No. 6 clarifies the application of existing standards for distinguishing the respective portions of certain types of liabilities that should be reported as (a) governmental fund liabilities and expenditures and (b) general long-term liabilities of the government.

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and fund types, and the cash flows of the various proprietary funds. The financial statements are presented as of and for the period ending June 30, 2002.

A. Reporting Entity

The financial statements include the various agencies, boards, commissions, public trusts, and authorities of the State as well as legally separate entities over which the State's executive, legislative, and judicial branches exercise oversight responsibility. Oversight responsibility as defined by GASB includes the following considerations:

Financial interdependency
Selection of governing authority
Designation of management
Ability to significantly influence operations
Accountability for fiscal matters

In addition, the following criteria were considered during the evaluation of the legally separate entities for inclusion in the CAFR as Component Units:

The scope of public services as to whether its activity benefits the State or its citizens, and whether the activity is conducted within the geographic boundaries of Vermont and is generally available to Vermont residents.

The existence of any special relationships regardless of whether the government exercises oversight responsibility that would cause the State's financial statements to be misleading or incomplete if the entity's financial activity were to be omitted.

Entities that may meet only one of the above criteria for inclusion in this report have not been included.

As required by generally accepted accounting principles, these financial statements present the primary government and component units of the State of Vermont.

COMPONENT UNITS

Component Units are entities which are legally separate from the State, but which are either financially accountable to the State, or whose relationships with the State are such that exclusion would cause the

State's financial statements to be misleading or incomplete. Their activity may be "blended" into the activity of the primary government or may be reported separately. If they are reported separately, they are called "discretely presented component units." Vermont does not report any blended component units in this CAFR but does report discretely presented component units that may report blended component units in their financial statements (See the Vermont Municipal Bond Bank). Component Units designation as either "major" or "non-major" has been determined by applying the criteria of GASB Statement No. 34. See Section C – Fund Financial Statements – for definitions of major and non-major funds. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

The Component Units columns of the government-wide financial statements report the financial results of the following entities:

Major Component Units

Vermont Student Assistance Corporation (VSAC) – VSAC was established by the general assembly to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. For further information, contact their administrative offices at the Champlain Mill, P.O. Box 2000, Winooski, Vermont 05404-2601

University Of Vermont (UVM) - The University of Vermont's financial report includes both the university and the State Agricultural College. The requirements of GASB Statement Nos. 34, 35, 37, and 38 have been implemented in its FY2002 financial statements, which have been issued under separate cover. Additional information may be obtained by contacting the university's administrative offices in Burlington, Vermont.

Vermont State College System (VSC) – The Vermont State College System's annual report includes the financial activity for the following organizations:

System Offices and Services
Community College of Vermont
Castleton State College
Johnson State College
Lyndon State College
Vermont Technical College
Vermont Interactive Television
Practical Nursing Program
Vermont Manufacturing Extension Center

The requirements of GASB Statements Nos. 34, 35, 37, and 38 have been implemented in its audited financial statements that have been issued under separate cover. Additional information may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, Post Office Box 359, Waterbury, Vermont 05676.

Non-Major Component Units

Vermont Educational and Health Buildings Financing Agency (VEHBFA) – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible educational or health related entities. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 133 State Street, Montpelier, Vermont 05633.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this non-profit organization with two goals: Create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 136 Main Street, Drawer 20, Montpelier, Vermont 05620-3501.

Vermont Economic Development Authority (VEDA) – VEDA, a tax exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital.

VEDA also administers the State Infrastructure Bank (SIB) and the Drinking Water State Revolving Loan Fund – Private Loans. These two funds are administered for the benefit of the State and are consolidated

and reported in VEDA's agency fund. Audited financial statements or additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purposes of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. VMBB is authorized to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. It has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

VMBB also administers the *Special Environmental Revolving Fund* in accordance with 24 V.S.A. 4753(b). This fund has a June 30 year-end and issues its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 133 State Street, Montpelier, Vermont 05633.

Vermont Center For Geographic Information (VCGI) – The Vermont Legislature established VCGI and charged it with creating a comprehensive strategy for the development and use of a geographic information system. Audited financial statements or additional information may be obtained by contacting them at 58 South Main Street, Waterbury, Vermont 05671.

Vermont Sustainable Jobs Fund, Inc. – The Vermont Legislature established a jobs program and directed VEDA to set up a non-profit 503(c)(3) corporation to implement the program and to establish policies and procedures in order to fulfill the goals of the jobs program as listed in 10 V.S.A. 326(a). Audited financial statements and additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

Vermont Transportation Authority (VTA) – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. Its only current activity is managing the commuter rail line running from Shelburne to Burlington, Vermont. Audited financial statements and additional information may be obtained from VTA at 1 Main Street, Burlington, Vermont 05401.

Vermont Veterans' Home – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the home. The home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

JOINT VENTURES

A joint venture is a legal entity or other contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The following entities in which the State has been participating have been classified as joint ventures. The financial activities of these organizations have not been included in the State's financial statements; however, see Note 15 for a summary of the financial activity of the Tri-State Lotto Commission.

Connecticut River Atlantic Salmon Committee (10 V.S.A. 4654)
Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)
New England Board of Higher Education (16 V.S.A. 2692)
New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)
Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)
Tri-State Lotto Commission (31 V.S.A. 673)
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government is accountable only because it appoints a voting majority of the board but for which it is not financially accountable. The following entities have been classified as related organizations but their financial activity has not been included in the State's financial statements.

Vermont State Housing Authority (24 V.S.A. 4005)
Vermont Housing Finance Agency (10 V.S.A. 611)

EXCLUDED ORGANIZATIONS

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 "The Financial Reporting Entity."

Vermont Council On The Humanities
Vermont Council On The Arts
Vermont Historical Society
Vermont Public Power Supply Authority

These organizations have not been included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State's primary government and exclusion from the reporting entity would not render Vermont's financial statements incomplete or misleading.

B. Government-wide Financial Statements

Vermont's Government-wide Financial Statements (the Statement of Net Assets and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units except fiduciary activity. Fiduciary fund activity has not been included in these entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from these government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities sources of revenues are normally taxes and
inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources by management are not presented as restricted net assets. When both restricted and non-restricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

C. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and major component units. Major governmental funds, major proprietary funds, and major component units are reported in individual columns in their respective fund financial statements. Non-major funds are consolidated and reported in a single column. The single test for classifying a fund as either major or non-major consists of applying the following two steps:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, etc) for all funds in that category or type (that is total governmental or total proprietary), **and**
b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to the above major fund criteria, any other governmental or enterprise fund that the government officials believe is particularly important to financial statement users (i.e. because of public interest or for consistency) may be reported as a major fund.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of year-end. Principle revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. See special consideration for personal income tax revenue recognition under the "Receivables" section of this footnote. Expenditures generally are recorded when a liability is due and payable. See the "Tax Refunds" section of this footnote for the special consideration afforded the recognition of personal income tax refunds in this report.
Modifications to the modified accrual basis of accounting include:

> Employees vested annual, personal, and compensated leave time is recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in the government-wide financial statements and does not include any accruals for the State's share of any taxes due when the expenditures are actually paid.
>
> Interest on general long-term debt is recognized when due to be paid.
>
> Executed purchase orders and contracts are recorded as a reservation of fund balance, usually as an encumbrance.
>
> Debt service expenditures and claims and judgments are recorded only when payment is due to be paid.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units – The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred. The State's proprietary funds have elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from non–operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation(s). Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

University of Vermont (UVM) and the Vermont State College System (VSC) – These entities account for their activity using the economic resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles set forth for public colleges and universities. As noted under the "Component Units" section, they have adopted the requirements of GASB Statement Nos. 34, 35, 37 and 38 in preparing their separate financial reports.

E. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds:

GOVERNMENTAL FUNDS

General Fund – The General Assembly has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance and to account for all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

Special Revenue Funds - These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

Transportation Fund – This fund is used primarily for preservation, maintenance, and improvements to the State's transportation infrastructure. This infrastructure includes highways, bridges, railroads, airports, public transportation, and other related activities. The fund is also used for maintenance and staffing of highway rest areas, construction of transportation capital facilities, and to provide funding for transportation related debt service requirements. The principle sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for federal aid transportation projects.

Education Fund – This fund was established by the Vermont Legislature to equalize statewide funding requirements. Expenditures authorized for funding are codified in 16 V.S.A. 4025(b) and may include only legitimate items of current education expense. Sources of funding are described in 16 V.S.A. 4025(a). A stabilization reserve for the Education Fund has also been established in accordance with 16 V.S.A. 4026.

Fish and Wildlife Fund – This fund's revenue is restricted by statute and can only be utilized for fish and wildlife purposes. Principle sources of revenue include license fees and federal grants.

Federal Revenue Fund – All federal grant receipts are recorded in this fund except for those federal funds specifically designated for transportation or fish and wildlife purposes. Federal grants of these latter two types are recorded in the State's Transportation Fund or Fish and Wildlife Fund respectively.

Special Fund – This fund consolidates many individual special revenue funds that account for proceeds or specific revenues not categorized above that are legally restricted to expenditures for specific purposes. These purposes cross the entire gamut of state government activities.

Capital Projects Funds – These funds, consisting of the General Bond Fund and the Transportation Bond Fund, account for capital improvement expenditures. These appropriations are primarily funded by the issuance of State capital bonds. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

Permanent Funds – These funds report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or citizenry, such as higher education, cemetery care, monument preservation, etc. In previous years, these funds were reported as non-expendable trust funds.

Proprietary Funds– These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public or other departments of government; or where prudent financial management dictates that periodic determinations of results of operations are appropriate. These funds include the following types:

Enterprise Funds – These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation associated with providing the goods and services to the public primarily through user charges. The Unemployment Trust Fund, previously reported as an expendable trust fund, is now reported as an enterprise fund as required by GASB Statement No.34.

Internal Service Funds – These funds are used to account for the financing of goods and services provided by one state department to other state agencies, departments, or intergovernmental units. The objective is

not to make a profit but rather to recover the total cost of providing these goods and services. In the government-wide financial statements, Internal Service Funds are reported within the governmental activities.

FIDUCIARY FUNDS

Fiduciary Funds – These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These funds include the following:

Pension Trust Funds -- These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement System of Vermont, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, and the State's Single Deposit Investment Account.

Private Purpose Trust Fund – The State reports only one fund under this category, the *Abandoned Property Fund* managed by the State Treasurer's Office. This fund accounts for all abandoned property in the State that is required to be reported and sent to the State for safekeeping. The State Treasurer is required to return this property to its rightful owner if they can be determined. If no one claims the property after a prescribed amount of time has passed, the Treasurer is required to transfer it to the General Fund where the Legislature will appropriate it. However, if a valid claim is submitted after the Legislature has appropriated this property, the State is still required to return this property or its equivalent value to the rightful owner.

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding, etc.

BUDGETARY PROCESS

Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the General Assembly to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by the November 1 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the General Assembly, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The General Assembly then enacts into law an appropriations act that must be approved by the Governor before any expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the General Assembly to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis usually at the program level. The Governor may amend appropriations within limits established by statute. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects are available for expenditure in the following fiscal year(s).

CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer, except for the Pension Trust Funds, Capital Projects Funds, and the Single Deposit Investment Account Fund. Cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

Income earned by these short-term investments is allocated to those funds authorized to receive it while any remaining earnings are deposited in the General Fund.

Cash and cash equivalents as reported in the financial statements include bank accounts, imprest cash, short-term investments with an original maturity of 3 months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants receivable.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes (see exception for personal income taxes below), federal grants receivable, and notes receivable from component units. Revenues accrued in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from component units that will be collected by the State within 60 days. Personal income taxes receivable are primarily assessed taxes owed by the taxpayer as of June 30 that are received by the State during the following 10 months. These revenues are accrued in accordance with measurable and available criteria under the modified accrual basis of accounting. Federal receivables are amounts due from the federal government to reimburse the State for expenditures incurred pursuant to federally funded programs. Notes receivable in the General Fund consist primarily of advances in the form of Vermont Economic Development Authority notes purchased by the State. See Note 12 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these receivables.

The " Other Receivables" balance of $122,864,295 on the Statement of Fiduciary Net Assets – Pension Trust Funds includes $88,520,605 for the Vermont State Retirement Fund; $22,372,908 for the State Teachers' Retirement Fund; and $11,970,782 for the Vermont Municipal Employees' Retirement Fund. These amounts represent monies due to the respective retirement funds for investments sold or matured prior to June 30, 2002, but for which the receipts were received subsequent to June 30, 2002.

INVENTORIES

Inventories of materials and supplies reported in the governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are generally valued at the lower of average cost or market.

CAPITAL ASSETS AND DEPRECIATION

Capital Assets, which include property, plant, equipment, and infrastructure assets are recorded in the Government-wide Statement of Net Assets at historical cost if available or, if donated or the actual cost is not known, at the estimated fair market value at the date the State acquired them. Infrastructure assets such as roads and bridges are being capitalized and reported for the first time in FY 2002. Interest incurred on debt issued for construction of these fixed assets is not capitalized.

Vermont defines a Capital Asset as a physical resource that costs at least $5,000 and provides a future economic benefit for a minimum of 2 years. This includes capital leases and buildings that are not considered to be part of an infrastructure asset. All land regardless of cost, is capitalized and is not depreciated.

Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature; utilized primarily by the general public as compared to state employees; cost at least $50,000 and provide future economic benefit for at least 3 years. Normally, they can be preserved for a significantly greater number of years than most capital assets. They are generally much greater in value and have a longer economic life than capital assets.
Capital Assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 20 to 50 years and useful lives for equipment are 3 to 24 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes 4 and 7 respectively.

Fixed assets in the proprietary funds are capitalized at cost when acquired. Depreciation is calculated and recorded using the straight-line method with estimated useful lives being the same as those for the governmental fixed assets.

When a fixed asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements.

DEFERRED REVENUE

Revenue in the government-wide financial statements, the proprietary fund financial statements and the General Fund is deferred if cash has been received prior to being earned.

PAYABLES

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred and payment was due prior to year-end (usually June 30) and where payment was actually made subsequent to year-end. When paying its liabilities, it is the policy of the State to apply restricted resources first to situations where either restricted or unrestricted net assets may be used.

The "other liabilities" balance totaling $140,531,576 on the Statement of Fiduciary Net Assets – Pension Trust Funds includes $81,879,452 for the Vermont State Retirement Fund, $23,335,939 for the Vermont Teacher's Retirement Fund, $28,086,522 for the Vermont Municipal Employees' Retirement Fund, and $7,229,663 for the Single Investment Deposit Account. These figures represent amounts due for securities purchased prior to June 30, 2002, but which were paid subsequent to June 30, 2002.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned as of June 30, 2002. Retainage payable consists of portions of progress payment amounts due to contractors that have been withheld and which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

TAX REFUNDS

Tax refunds primarily represent amounts owed by the State to taxpayers because of overpayment of their 2001 calendar year tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as personal income tax refunds payable at June 30, 2002 in the governmental funds statements is comprised of refunds for filed tax returns due and payable at June 30, 2002. The amount reported as personal income tax refunds payable at June 30, 2002 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2002 tax liability as well as overpayments for calendar year 2001 and prior years' tax liabilities that have not been paid out as of June 30, 2002.

ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Un-liquidated encumbrances remaining at fiscal year-end are reported in the Reserved For Encumbrances account as a component of fund equity for the governmental fund types.

FUND BALANCES

Fund balances for governmental funds are either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation; (2) funds legally separated for a specific use such as "reserved for encumbrances;" or (3) funds segregated by legal restrictions.

Certain other reservations of the Governmental Funds' fund balances are described below.

Budget Stabilization Reserve – These reserves are established in the General, Transportation, and Education funds. They were created to reduce the effects of annual variations in state revenues by reserving certain surpluses of revenue. See Note 14 for a more complete disclosure of these reserves as it pertains to the current fiscal year.

The following reservations apply to the General Fund:

Reserve For Debt Service – During fiscal year 1993, the State initiated a lawsuit to recover costs associated with asbestos removal. A settlement agreement between the contractor and the State was reached which resulted in net proceeds of $1,734,543 being credited to and reserved in the General Fund to meet future debt obligations associated with issuance of bonds relating to asbestos removal. The reserved amount is reduced annually through fiscal year 2009 in proportion to the repayment schedule of the bonds issued to refinance the asbestos removal. Public Act 178 of 1996 authorized the use of $860,874 of these funds in fiscal year 1996. The remaining reserved balance at June 30 2002 is $68,763.

Reserve For Human Caseload Management – The reserve for human caseload management, established pursuant to 32 V.S.A. Section 308b(a) was created to be available for appropriation to meet caseload-related needs at the Agency of Human Services. The Secretary of Administration may transfer to this reserve any general fund unexpended appropriations directly attributable to Aid To Needy Families With Children (ANFC) caseload reductions and the effective management of related federal receipts. For fiscal year 2002, the balance remained at $18,048,618.

Reserve For General Fund Surplus – The reserve for general fund surplus was established pursuant to Public Act 1 of 1999, Section 88. This reserve is to be credited with the budgetary based surplus for the year ended June 30, 2002 as determined by the Commissioner of Finance and Management. The reserve shall not be expended except by specific authorization of the General Assembly. The balance at June 30, 2002 remained at $4,347,360.

COMPENSATED ABSENCES

Compensated absences include accumulated unpaid vacation, compensatory time, and personal leave credits. Classified state employees may accrue vacation leave based on the number of years employed up to a maximum rate of 24 days annually and may not accumulate more than a maximum of 45 days (360 hours) at any one time. The State's total vacation liability at June 30, 2002 was $21,905,735 of which $20,786,104 was applicable to the governmental funds. This liability is expected to be liquidated in future periods as either salary payments or cash payments upon termination of employment. Compensatory time and personal leave time accumulates as earned by the employees but must be taken within an accrual year. The State's liability for compensatory time and personal leave time at June 30, 2002 was $4,471,125 of which $4,267,286 was applicable to the governmental funds.

Employees earn sick leave credits based on the number of years employed with a maximum accrual rate of 21 days per fiscal year. Sick leave may only be liquidated if and when sickness or injury is incurred. Additionally, if employment is terminated, any sick leave that the individual may have accrued is cancelled without any payout; therefore, it is not an accruable liability to the State. There is no limit on the amount of sick leave an employee may accumulate. The dollar value of unused sick leave accumulated at June 30, 2002 is approximately $115,839,301.

Liabilities related to proprietary fund types are recorded in the fund where the employees are assigned. The above amounts are calculated based on an employee's pay rate in effect on June 30, 2002.

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

In the government-wide financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight- line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issued are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

INTERFUND TRANSACTIONS

INTERFUND LOANS – Short-term loans between funds outstanding at year-end for such things as cash overdrafts are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long-term interfund loans receivable and payable.

REIMBURSEMENTS – Reimbursements result when one fund makes an expenditure for a second fund when that expenditure or expense is properly applicable to the second fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures/expenses in the reimbursing fund.

QUASI-EXTERNAL TRANSACTIONS –These transactions occur between two government funds that would be accounted for as revenue and expenditures if they occurred between a government entity and a private sector entity.

RESIDUAL EQUITY TRANSFERS – These transfers are defined as non-recurring and non-routine transfers of equity between two funds.

OPERATING TRANSFERS – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Operating transfers are not revenue, expenditures, or expenses, and are classified as "Other Funding Sources (Uses)" in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

PREPAID EXPENSES

In governmental funds, all purchases are recorded as expenditures when paid. In the proprietary and fiduciary funds, certain payments reflect costs applicable to future accounting periods and as such, are recorded as prepaid expenses. These prepaid items will be expensed as they are liquidated.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

RECLASSIFICATIONS

Certain amounts in prior year's presentations have been reclassified to conform to the current year's presentation.

Note 2: CASH, CASH EQUIVALENTS, AND INVESTMENTS:

The State pools substantially all cash and investments of governmental, proprietary, and agency funds, except those which are maintained separately in accordance with legal restrictions. Separate cash and investment accounts are generally maintained for pension funds and capital projects funds. Each fund's equity share of the total pooled cash and investments and restricted assets are included on the accompanying balance sheets.

Schedule of Deposit and Investment Disclosures
June 30, 2002
Primary Government and Component Units

Cash and Cash Equivalents	$ 801,223,867
Investments	2,787,654,207
Restricted Cash	15,115,689
Total	**$ 3,603,993,763**
Deposits, Investments, and Reconciling Items	
Carrying Value of Deposits	$ 291,849,378
Carrying Value of Investments	3,001,844,541
Cash on Hand	828,951
U.S. Treasury - Unemployment Account	309,470,893
Total	**$ 3,603,993,763**

DEPOSITS:

The following statutory requirement and Treasury Department policy have been implemented to minimize risk associated with deposits. 32 V.S.A. Sec. 431 establishes the requirements the State Treasurer must adhere to when depositing public monies. The statute sets parameters regarding the amount of funds that may be on deposit with any particular institution at any one time. Although not statutorily required, the State Treasurer requires State cash deposits to be collateralized with either United States Treasury securities or Vermont Municipal securities or a combination of same with a current market value equal to at least 102% of the amount of the deposit.

Deposits are classified as to credit risk by the three categories described below:

Category 1 Fully insured or collateralized with securities held by the State or its agent in the State's name.

Category 2 Collateralized with securities held by the pledging institution's trust department or its agent in the State's name.

Category 3 Uncollateralized.

At June 30, 2002, the State's deposits, listed by credit risk category, are shown in the following schedule:

	Categories			Bank	Reported
	1	2	3	Balance	Amount
Primary Government	$ 4,732,754	$ 11,486,924	$ 90,294,361	$ 106,514,039	$ 77,614,205
Component Units	2,298,143	150,016,827	66,561,049	218,876,019	214,235,173
Total	**$ 7,030,897**	**$ 161,503,751**	**$ 156,855,410**	**$ 325,390,058**	**$ 291,849,378**

INVESTMENTS:

Effective July 1, 1997, the State adopted provisions of GASB No.31, "Accounting and Reporting for Certain Investments and for External Investment Pools." GASB No.31 requires investments to be reported at fair value in the balance sheet.

The U.S. Treasury - unemployment account balance of $309,470,893 at June 30, 2002 is on deposit with the U.S.Treasury and is not categorized.

The disclosure of carrying (book) amounts by type of investment are classified in the following three categories of credit risk:

1. Insured, registered or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by counterparty's Trust Department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the State's name.

32 V.S.A. 433 defines the parameters the Treasurer must adhere to when investing State monies. Types of investments the Treasurer may utilize include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations; certificates of deposit issued by banks and savings and loan associations approved by the Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. The boards overseeing the various pension funds have adopted their own sets of investment guidelines.

At June 30, 2002 the State's investments, categorized by the credit risk categories listed above, are shown in the following schedule:

INVESTMENTS

	Categories			Carrying
	1	2	3	Amount
Primary Government				
Stocks	$ 1,147,785,825	$ -	$ -	$ 1,147,785,825
U.S. Government Securities	398,698,936	-	-	398,698,936
Corporate Bonds and Notes	571,915,516	-	-	571,915,516
Other Investments	-	-	-	0
Subtotals	2,118,400,277	0	0	$ 2,118,400,277
Not Categorized:				
Real Estate/Venture Capital	-	-	-	227,730,145
Mutual Funds	-	-	-	111,550,513
Lottery Annuity	-	-	-	848,748
Mortgages	-	-	-	49,641
Totals - Primary Government	$ 2,118,400,277	$ 0	$ 0	$ 2,458,579,324
Component Units				
U.S. Government Obligations	$ 48,982,863	$ 32,582,000	$ 30,597,074	$ 112,161,937
Corporate Bonds	3,563,063	4,345,000	-	7,908,063
Stocks	36,161,782	-	-	36,161,782
Other	15,832,272	207,862,698	163,338,465	387,033,435
Totals - Component Units	**$ 104,539,980**	**$ 244,789,698**	**$ 193,935,539**	**$ 543,265,217**
Totals - Reporting Entity				**$ 3,001,844,541**

Securities Lending Transactions

State statutes and boards of trustees policies permit the State of Vermont Treasurer's office to use investments of the three pension plans to enter into securities lending transactions - loans of securities to broker dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The pension plans' securities dealer, State Street Bank and Trust Company (State Street), is the agent in lending the plans' domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. At year-end the pension plans have no credit risk exposure to borrowers because the amounts the plans owe the borrowers exceed the amounts the borrowers owe the plans. The lending agent indemnified Vermont by agreeing to purchase replacement securities or to return cash collateral in the event borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay Vermont for income distributions by the securities' issuers while the securities were on loan. There were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, Vermont and the borrowers maintained the right to terminate all securities loans on demand. The cash collateral received on each loan was invested in collective investment pools with an average duration of 69 days at June 30, 2002. Because loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. On June 30, 2002, the collateral held and the market value of the securities on loan for Vermont was $141,183,316 and $125,861,080, respectively.

Below are the statutory references that allow the pension plans to participate in the securities lending program.

Statute Reference	Retirement Plan
3 V.S.A. 471(m)	Vermont State Employees' Retirement Fund
16 V.S.A. 1942(q)	Vermont Teachers' Retirement Fund
24 V.S.A. 5062(o)	Vermont Municipal Employees' Retirement Fund

Note 3: NOT UTILIZED

Note 4: Capital Assets:

Capital Assets activities for the fiscal year ended June 30, 2002 were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 4,183,634	$ -	$ -	$ -	$ 4,183,634
Construction in process	248,679,980	107,942,195	(32,655,539)	-	323,966,636
Works of Art	103,321	8,200	-	-	111,521
Total capital assets, not being depreciated	252,966,935	107,950,395	(32,655,539)	0	328,261,791
Capital assets, being depreciated:					
Buildings and improvements	196,682,703	2,381,131	-	-	199,063,834
Machinery and equipment	85,080,003	10,780,308	(4,849,299)	488,223	91,499,235
Infrastructure	1,238,789,930	32,655,539	(912,192)	-	1,270,533,277
Total capital assets, being depreciated	1,520,552,636	45,816,978	(5,761,491)	488,223	1,561,096,346
Less accumulated depreciation for:					
Buildings and improvements	(97,565,790)	(5,200,056)	-	-	(102,765,846)
Machinery and equipment	(54,103,313)	(8,118,355)	4,627,518	(723,841)	(58,317,991)
Infrastructure	(726,261,717)	(38,842,259)	812,920	-	(764,291,056)
Total accumulated depreciation	(877,930,820)	(52,160,670)	5,440,438	(723,841)	(925,374,893)
Total capital assets, being depreciated, net	642,621,816	(6,343,692)	(321,053)	(235,618)	635,721,453
Governmental activities capital assets, net	$ 895,588,751	$ 101,606,703	$ (32,976,592)	$ (235,618)	$ 963,983,244

Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, being depreciated:					
Buildings and improvements	$ 41,850	$ -	$ -	$ -	$ 41,850
Machinery and equipment	873,167	151,869	(20,289)	-	1,004,747
Total capital assets, being depreciated	915,017	151,869	(20,289)	0	1,046,597
Less accumulated depreciation for:					
Buildings and improvements	(11,385)	(5,231)	-	-	(16,616)
Machinery and equipment	(363,881)	(181,627)	20,289	-	(525,219)
Total accumulated depreciation	(375,266)	(186,858)	20,289	0	(541,835)
Total capital assets, being depreciated, net	539,751	(34,989)	0	0	504,762
Business-type activities capital assets, net	$ 539,751	$ (34,989)	$ 0	$ 0	$ 504,762

Current period depreciation expense was charged to functions of the Primary Government as follows:

Governmental Activities:		Business-type Activities:	
General Government	$ 5,103,723	Liquor Control	$ 120,218
Protection to Persons and Property	1,794,111	Lottery	66,640
Human Services	870,698	Total	$ 186,858
Employment & Training	123,103		
General Education	7,314		
Natural Resources	1,297,372		
Commerce and Community Development	59,823		
Transportation	39,038,057		
Depreciation on Capital Assets held by the Internal Service Funds	3,866,469		
Total	$ 52,160,670		

Discretely Presented Component Units

	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 12,092,540	$ 921,673	$ (38,000)	$ 201,000	$ 13,177,213
Construction in process	12,157	1,382,401	-	-	1,394,558
Total capital assets, not being depreciated	12,104,697	2,304,074	(38,000)	201,000	14,571,771
Capital assets, being depreciated:					
Buildings and improvements	366,689,572	13,223,838	(1,754,000)	1,578,000	379,737,410
Machinery and equipment	82,228,845	14,518,233	(31,335)	(1,782,672)	94,933,071
Infrastructure	16,173,670	-	-	-	16,173,670
Total capital assets, being depreciated	465,092,087	27,742,071	(1,785,335)	(204,672)	490,844,151
Less accumulated depreciation	(229,673,760)	(17,813,586)	31,334	(2,648,000)	(250,104,012)
Total capital assets, being depreciated, net	235,418,327	9,928,485	(1,754,001)	(2,852,672)	240,740,139
Component unit capital assets, net	$ 247,523,024	$ 12,232,559	$ (1,792,001)	$ (2,651,672)	$ 255,311,910

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS:

A. Retirement Plan Descriptions

Defined Benefit Retirement Plans

In accordance with State Statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer public employee defined benefit retirement system which covers substantially all general state employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment. The membership consists of:

(1) employees who belonged to the original contributory system (Groups A and D with a contribution rate of 5.1% of payroll and Group C with a contribution rate of 6.28% of payroll)

(2) vested members of the non-contributory system (Group E)

(3) members of the new contributory system (Group F) who contribute at a rate of 3.35% of payroll.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost sharing multiple-employer public employee retirement system. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the state board of education. Membership in the system for those covered classes is a condition of employment. The membership is made up of:

(1) contributory members from the old system (Group A) who contribute at a rate of 5.5%

(2) vested members of the non-contributory system (Group B)

(3) members of a new contributory system who contribute at a rate of 3.4% of covered payroll (Group C).

The State appropriates funding for pension costs associated with the above two plans. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class (see Note 5 E. Single Deposit Investment Account). However, in 1990, the Legislature again made both systems contributory effective July 1, 1990 for the STRS and January 1, 1991 for the VSRS. The State's contribution to each system is based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are calculated based upon the liabilities of each system as determined by actuarial valuations. Present law provides that each system's unfunded accrued liability will be amortized over 30 years. This amortization began July 1, 1988 and has 16 years remaining (the liability will be fully amortized in fiscal year 2018).

The Vermont Municipal Employees Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost sharing multiple-employer public employees' retirement system that is administered by the State Treasurer and its Board of Trustees. It is designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employers is required to join the system upon the completion of three years of continuous service.

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers

make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial evaluations.

Defined Contribution Retirement Plans

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional defined contribution plan for exempt state employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds.

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees representing approximately 45% of the eligible employees elected to transfer to the defined contribution plan. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan on January 4, 1999 as a result of the election. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or defined contribution plan.

Employees are required to contribute at the rate equivalent to the contribution rate for Group F members of the VSRS. The State is required to contribute, to each employee's account, at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. For the fiscal year ended June 30, 2002, plan member contributions were $567,086 and State employer contributions were $1,411,414. As of June 30, 2002, the Vermont State Defined Contribution Plan's net assets totaled $26,002,011 and there were 530 participants.

The Legislature granted authority (24 V.S.A. Section 5070) to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that could be offered in lieu of the defined benefit plans currently available under the Municipal Retirement System. The board implemented a defined contribution plan that became available to new members effective July 1, 2000. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001 actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999 will have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective the following year's July 1.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Employees become vested in the plan after 12 months of service. For fiscal year ending June 30, 2002, plan participants and the municipalities each contributed $373,657 while members transferred $618,356 into the defined contribution plan from other pension plans. As of June 30, 2002, the Municipal Employees' Defined Contribution Plan's net assets at fair value totaled $4,733,355 and there were 389 participants.

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, information describing each defined benefit plan's provisions including vesting requirements, benefits provided, post retirement adjustments, etc., and information relating to the two defined contribution plans is available for inspection at the Retirement Division, State Treasurer's Office, 133 State Street, Montpelier, Vermont 05633-6901.

B. Plan Membership

At June 30, 2002, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Retirees and beneficiaries of deceased retirees currently receiving benefits	3,633	3,991	903
Terminated employees entitled to benefits but not yet receiving them (vested)	744	2,932	168
Inactive members:	1,019	513	870
Active employees:			
Vested	5,122	7,408	2,202
Non-vested	2,603	2,849	2,722
Total active employees	7,725	10,257	4,924
Total participants	13,121	17,693	6,865

C. Schedules of Employer Contributions and Funding Progress

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions.

	VSRS	STRS	MERS
Valuation date	06/30/02	06/30/02	07/01/02
Actuarial cost method	Entry age normal cost with frozen initial liability	Entry age normal cost with frozen initial liability	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	level percentage of payroll
Remaining amortization period	16 years	16 years	16 years
Asset valuation method	Actuarial value of assets using a five year smoothing technique	Actuarial value of assets using a five year smoothing technique	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return	8.0%	8.5%	8.0%
Projected salary increases	4.5%-7.79%	4.9%-8.9%	5.6%
Cost-of-living adjustments	1.5%-3.0%	2%-4%	2%-2.3%
Post Retirement Adjustments			
allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C,D - 5%	Group A - 5%	N/A
allowances in payment for at least one year adjusted for cost of living based on one-half of CPI but not in excess of percentage indicated	Group F - 5%	Group C - 5%	Group A - 2% Group B,C, D - 3%

Schedule Of Employer Contributions

Year Ended 6/30	VSRS Annual Required Contribution	VSRS Percentage Contributed	STRS Annual Required Contribution	STRS Percentage Contributed	MERS Annual Required Contribution	MERS Percentage Contributed
1993	27,990,000	81.64%	28,820,000	69.02%	2,692,159	100.00%
1994	27,224,000	80.04%	25,805,000	79.75%	3,003,874	100.00%
1995	29,245,000	69.70%	27,452,000	65.86%	3,045,585	100.00%
1996	24,222,000	88.52%	28,712,000	39.98%	3,365,821	100.00%
1997	24,098,000	99.48%	30,722,000	58.85%	3,541,692	100.00%
1998	22,598,000	104.26%	26,927,000	67.14%	3,665,833	100.00%
1999	23,268,000	98.66%	20,724,000	87.24%	4,233,559	100.00%
2000	19,548,817	97.26%	19,936,345	93.23%	4,788,671	100.00%
2001	19,679,398	99.34%	20,970,278	91.29%	4,571,993	100.00%
2002	24,189,000	98.34%	22,146,880	92.33%	4,984,484	100.00%

Schedule of Funding Progress
(dollar amounts in 1000's)

Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS						
1993	400,084	631,637	231,553	63.3%	210,032	110.2%
1994	428,678	665,427	236,749	64.4%	217,043	109.1%
1995	480,049	679,427	199,378	70.7%	225,089	88.6%
1996	560,659	664,173	103,514	84.4%	226,792	45.6%
1997	639,128	753,883	114,755	84.8%	227,000	50.6%
1998	733,716	804,501	70,785	91.2%	235,956	30.0%
1999	804,970	876,412	71,441	91.9%	238,281	30.0%
2000	895,151	967,064	71,913	92.6%	266,519	27.0%
2001	954,821	1,026,993	72,172	93.0%	278,507	25.9%
2002	990,450	1,017,129	26,679	97.4%	300,994	8.9%
STRS						
1993	433,327	555,220	121,893	78.1%	324,537	37.6%
1994	473,229	597,851	124,622	79.2%	335,155	37.2%
1995	520,850	648,052	127,202	80.4%	346,975	36.7%
1996	570,776	700,377	129,601	81.5%	355,895	36.4%
1997	717,396	849,179	131,783	84.5%	364,595	36.1%
1998	821,977	955,694	133,717	86.0%	357,899	37.4%
1999	931,056	1,066,400	135,344	87.3%	372,299	36.4%
2000	1,037,466	1,174,087	136,621	88.4%	387,999	35.2%
2001	1,116,846	1,254,341	137,496	89.0%	403,258	34.1%
2002	1,169,294	1,307,202	137,908	89.5%	418,904	32.9%
MERS						
1993	52,536	51,292	(1,244)	102.4%	55,900	-2.2%
1994	60,646	59,251	(1,394)	102.4%	62,300	-2.2%
1995	70,082	67,039	(3,043)	104.5%	62,200	-4.9%
1996	81,396	73,401	(7,994)	110.9%	68,700	-11.6%
1997	96,197	85,686	(10,510)	112.3%	70,800	-14.8%
1998	113,678	102,005	(11,673)	111.4%	79,056	-14.8%
1999	137,454	114,481	(22,973)	124.6%	70,808	-32.4%
2000	161,900	138,697	(23,203)	116.7%	87,147	-26.6%
2001	177,928	156,786	(19,142)	112.1%	101,873	-18.8%
2002	193,278	176,109	(17,169)	109.7%	106,986	-16.0%

* Decrease from prior year due to change in actuarial cost method and asset valuation method

D. State of Vermont's Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation (NPO) to the Vermont State Retirement System and the State Teachers' Retirement System at June 30, 2002 were as follows:

	VSRS	STRS
Annual Required Contribution (ARC)	$24,169,000	$22,146,880
Interest on NPO	3,243,168	7,392,403
Adjustment to ARC	(3,346,923)	(9,484,824)
Annual Pension Cost (APC)	$24,085,245	$21,054,459
Employer Contribution Made	23,788,282	20,448,248
Increase (Decrease) in NPO	$296,963	$606,211
NPO - Beginning of Year	38,154,923	86,969,443
NPO - End of Year	$38,451,886	$87,575,654
Percentage of APC contributed	98.77%	97.12%

E. Single Deposit Investment Account

Public Act 41 of the 1981 Session authorized a new Group B non-contributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS). The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Pension Trust Funds, was also established according to the provisions of this Act.

The STRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

(1) have both their accumulated employee contributions and accumulated interest returned to them; or
(2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
(3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

The VSRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group E plan had their choice between the following three options:

(1) have both their accumulated employee contributions and accumulated interest returned to them;
(2) have their accumulated contributions returned to them and only their accumulated interest invested by the the retirement board in the SDIA; or
(3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2002, there were 1,622 STRS members and 1,252 VSRS members, with net assets of $103,479,863. in the Single Deposit Investment Account.

F. Other Post Employment Benefits

The State offers both post employment medical insurance and life insurance benefits in addition to providing pension benefits.

Employees retiring for any reason (disability, early, or normal) including the State Police, are entitled to receive medical coverage for themselves and their dependents over the lifetime of the retiree, with 20% of the cost to be paid by the retiree. If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits also continue for the spouse, along with the pension. However, generally, the surviving spouse must pay 100% of the cost.

In the case of life insurance, if a state employee retires or terminates due to disability prior to age 60, and proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. At that time, if the retiree has a total of 20 years or more of active and retired (while receiving disability) service, life insurance automatically changes to $5,000 fully paid and 100% of the premium is paid by the State.

Note 6: RESTRICTED NET ASSETS – Discretely Presented Component Units

Restricted net assets are those portions of total net assets that are not appropriable for expenditure or that are legally segregated for a specific future use. Net assets restricted at June 30, 2002 are as follows.

Discretely Presented Component Units	Vermont Student Assistance Corp	University Of Vermont	Vermont State Colleges	Non-major Component Units
Restricted for:				
Bond Resolution	$ 41,267,000	$ 0	$ 0	$ 0
Grants and Scholarships	440,000	0	0	0
Project Commitments	0	0	0	11,914,140
Restricted- Nonexpendable	0	50,915,000	7,987,231	0
Restricted- Expendable	0	185,709,000	2,720,060	6,686,363
Loans Receivable (1)	0	0	0	57,155,368
Total Component Units Restricted Net Assets	$ 44,497,000	$ 236,624,000	$ 10,707,291	$ 75,755,871

(1) Loans receivable for the Vermont Housing & Conservation Board include federally restricted funds.

Note 7: LEASE COMMITMENTS:

Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment:

Fiscal Year	Non Cancelable Leases	Cancelable Leases	Primary Government Totals	Vermont State Colleges	Vermont Student Assistance Corporation	Total Reporting Entity
2003	$ 4,366,130	$ 204,208	$4,570,338	$1,609,947	$ 654,000	$6,834,285
2004	3,430,723		3,430,723	991,793	663,000	5,085,516
2005	2,691,909		2,691,909	809,731		3,501,640
2006	1,763,438		1,763,438	623,605		2,387,043
2007	1,467,793		1,467,793	499,678		1,967,471
2008-2012	2,764,543		2,764,543	543,473		3,308,016
Totals	$16,484,536	$ 204,208	$16,688,744	$5,078, 227	$1,317,000	$23,083,971

Capital Leases

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2002 are as follows:

Fiscal Year	Vermont State Colleges	Total Reporting Entity
2003	$43,105	$43,105
2004	34,338	34,338
2005	34,338	34,338
2006	20,029	20,029
2007	0	0
Thereafter	0	0
Total Minimum Lease Payments	$131,180	$131,180
Less: interest	(13,128)	(13,128)
Present value of minimum lease payments	$118,682	$118,682

The State of Vermont, acting through its Agency of Transportation (AOT) entered into a capital lease with Main Street Landings Company, for premises in and adjacent to Union Station at 1 Main Street, Burlington, Vermont on January 20, 1998. The term of the lease was for a 20 year period and the entire 20 year rent of $1,500,000 was prepaid in four equal installments beginning November 26,1996 and ending in 1998. The terms of the lease gives the State the right to purchase a condominium interest in their leased property at the end of the lease term for $500,000 subject to certain terms and conditions. The State is also required to pay its share of certain annual operating costs throughout the term of the lease. The State has allowed the Vermont Transportation Authority (VTA) to utilize these premises under the terms of a Memorandum of Agreement between AOT and VTA.

Note 8: GENERAL OBLIGATION BONDS AND NOTES PAYABLE:

General obligation bonds and notes payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways and assistance to municipalities for construction of water and sewage systems and local schools. Also, bonds have been authorized and issued to refund outstanding general obligation bonds.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. Except for zero coupon capital appreciation bonds, the bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

Changes in bond and note principal payable during fiscal year 2002 are summarized as follows:

		General Obligation Bonds
Balance July 1, 2001		$ 480,443,358
Additions:		
Issuances	$ 51,000,000	
Accretions	3,556,732	
Total		54,556,732
Deductions:		
Principal repayments	$ 48,535,000	
Total		(48,535,000)
Balance June 30, 2002		$ 486,465,090

During fiscal years 1991, 1992, and 1994, the State issued zero coupon capital appreciation bonds. Zero coupon capital appreciation bonds are bonds issued at a discount to their face value. Instead of interest being paid on a periodic (i.e. semi-annual) basis, an increase in the principal due (accreted amount) is recognized on a regular basis. The total accreted amount at maturity will be the face value of the bonds.

On December 1,1993, the State issued capital appreciation bonds with a maturity value of $32,625,000 maturing on August 1 in the years 1999 through 2013. Proceeds from these bonds totaled $17,987,640. At June 30, 2002, the accreted value of these bonds was $18,781,159.

On October 30,1991, capital appreciation bonds with a maturity value of $20,575,000 were issued. These bonds mature on October 15 in the years 1996 through 2011. Proceeds from these bonds totaled $9,999,837 and have an accreted value of $9,491,205 at June 30, 2002.

During fiscal year 1991, capital appreciation bonds were issued with a maturity value of $48,935,000 and are scheduled to mature on December 1 in the years 1995 through 2010. Proceeds from these bonds totaled $19,310,002 and have an accreted value of $27,457,728 at June 30, 2002.

Future general obligation debt service requirements at June 30, 2002 are as follows:

Fiscal Year	Current Interest Bonds Principal	Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2003	$43,335,000	$21,149,312	$8,020,000	$72,504,312
2004	39,915,000	18,570,671	8,230,000	66,715,671
2005	36,750,000	16,728,959	7,400,000	60,878,959
2006	34,970,000	14,950,244	7,410,000	57,330,244
2007	34,415,000	13,233,448	7,495,000	55,143,448
2008-2012	148,155,000	42,791,722	32,315,000	223,261,722
2013-2017	77,710,000	13,052,423	3,750,000	94,512,423
2018-2021	15,485,000	1,564,331	-	17,049,331
Totals	$430,735,000	$142,041,109	$74,620,000	$647,396,109

At June 30, 2002, there remained $39,000,868 of authorized but unissued General Obligation Bonds.

* See following page for schedule of General Obligation Bonds outstanding at June 30, 2002.

Note 9: PRIOR YEARS' BOND REFUNDINGS:

During the fiscal year 1998, the State of Vermont defeased "in-substance" certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets will be utilized to make all future debt service payments on the old bonds. Accordingly, these trust assets and the liability for the old (now defeased) bonds are not included in the State's financial statements. As of June 30, 2002, $44,040,000 worth of defeased bonds remain outstanding.

General Obligation Bonds outstanding at June 30, 2002 are comprised of the following issues:

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value of Capital Appreciation Bonds	Maturity Value of Bonds Outstanding — Sources of Payments: General Fund	Transportation Fund	Special Fund	Total
General Obligation Current Interest Bonds:								
10/01/91	08/01/04	4.7 to 6.0	$ 23,040,000	$	$ 1,170,000	$ 40,000	$	$ 1,210,000
02/01/92	02/01/12	5.0 to 7.5	49,285,000		1,710,000	740,000		2,450,000
08/01/92	08/01/08	3.0 to 5.75	71,280,000		24,460,000	1,465,000		25,925,000
08/01/93	02/01/12	3.0 to 5.0	58,415,000		48,010,000	5,330,000		53,340,000
10/15/93	04/15/08	3.7 to 6.6	85,000,000		45,606,000	2,394,000		48,000,000
11/15/94	01/15/14	5.6 to 7.0	70,000,000		13,762,400	277,600		14,040,000
12/01/95	01/15/15	4.875 to 5.125	60,000,000		41,040,000			41,040,000
11/20/96	01/15/16	5.0 to 5.125	38,000,000		28,000,000			28,000,000
12/12/96	01/15/16	3.7 to 5.6	15,000,000		11,050,000			11,050,000
10/29/97	01/15/17	4.5 to 5.0	28,500,000		21,018,553	1,481,447		22,500,000
12/03/97	01/15/17	3.9 to 5.2	14,990,000		11,830,000			11,830,000
03/15/98	01/15/14	4.25 to 5.0	64,575,000		40,921,197	2,938,803	11,925,000	55,785,000
05/01/98	01/15/17	4.5 to 5.0	7,755,000				6,460,000	6,460,000
11/23/98	01/15/18	4.5 to 4.75	26,630,000		21,867,882	547,118		22,415,000
12/22/98	01/15/04	3.6 to 4.0	7,655,000		3,060,000			3,060,000
11/01/99	02/01/19	4.5 to 6.5	32,000,000		28,630,000			28,630,000
12/16/99	02/01/10	4.55 to 5.05	5,000,000		4,000,000			4,000,000
11/14/01	08/01/20	3.25 to 4.75	46,000,000		46,000,000			46,000,000
12/27/01	08/01/11	4.0 to 4.375	5,000,000		5,000,000			5,000,000
Total General Obligation Current Interest Bonds				$	$ 397,136,032	$ 15,213,968	$ 18,385,000	$ 430,735,000
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	48,935,000	$ 36,875,000			$ 36,875,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	12,850,000			12,850,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	24,895,000			24,895,000
Total Maturity Value				$	74,620,000			$ 74,620,000
Less: Unaccreted Interest					18,889,910			18,889,910
Total General Obligation Capital Appreciation Bonds				$	$ 55,730,090			$ 55,730,090
Total General Obligation Bonds				$	$ 452,866,122	$ 15,213,968	$ 18,385,000	$ 486,465,090

Note 10: ACCOUNTING METHOD CHANGES AND FUND EQUITY RESTATEMENTS:

The July I, 2001 fund balance in the General Fund was restated to record additional VEDA receivables that were omitted at June 30, 2001.

The July 1, 2001 Transportation Fund's fund balance was restated to reclassify to an agency fund the international plate registration receipts passed on to other governments.

The fund balance in the Special Fund was restated to reflect the reclassification of previously reported expendable trust funds to the Special Fund except for the Unemployment Compensation Trust & Contingency Funds and the Abandoned Property Fund and to reflect the reclassification of the Child Support Fund balance to an agency fund.

The July 1, 2001 net asset balance for the University of Vermont was restated to take into account the application of the provisions of GASB Statements Nos. 34 and 35. The restatement included a reduction in Federal loan capital contributions bad debt provision of $1.08 million, as well as a decrease in grants and deferred revenue recognition ($9.506 million).

The July 1, 2001 net assets balance for the Vermont State Colleges was restated to take into account the requirements of GASB Statements Nos. 34 and 35. These adjustments resulted in reductions in the following areas: change in capitalization policies ($46,892,674), depreciation adjustment ($61,989,354), Federal loan program capital contributions ($4,361,706), and grants and contracts deferred revenue ($674,237).

The Governmental Funds now include a new category of funds called Permanent Funds which reflect the reclassification of the previously reported non-expendable trust funds.

The Federal Surplus Property Fund's net asset balance at July 1, 2001 was restated to record additional inventory not included at June 30, 2001.

The Adaptive Equipment Loan Fund's July 1, 2001 net asset balance was restated to reflect a decrease of $14,300. This decrease reflects the amount owed to the Vermont Developmental Credit Union at June 30, 2001.

The Unemployment Compensation Funds are now classified as Enterprise Funds as per the requirements of GASB Statement No. 34.

GOVNET's net asset balance as of July 1, 2001 was restated to record additional capital assets not originally recorded.

The Vermont Veterans' Home's July 1, 2001 balance was restated to include the Home's trust fund balances previously not reported.

	Retained Earnings/Fund Balance/Net Assets, July 1	Reclassification of Fund	Change in accounting method	Correction of prior period error	Retained Earnings/Fund Balance/Net Assets, July 1, as restated
GOVERNMENTAL - MAJOR					
General Fund	$ 172,757,734	$ -	$ -	$ 300,000	$ 173,057,734
Transportation Fund	15,381,666	(280,736)	-	-	15,100,930
Special Fund	44,876,901	24,233,232	-	-	69,110,133
GOVERNMENTAL - NONMAJOR					
Permanent Funds	0	8,169,056	-	-	8,169,056
PROPRIETARY- MAJOR					
Unemployment Compensation Trust Fund	0	316,719,440	-	-	316,719,440
PROPRIETARY - NONMAJOR					
Enterprise Funds					
Federal Surplus Property	199,498	-	-	155,289	354,787
Adaptive Equipment Loan Fund	731,644	-	-	(14,300)	717,344
Unemployment Compensation Contingency Fund	0	228,264	-	-	228,264
Internal Service Funds					
GOVNET	(119,095)	-	-	(89,439)	(208,534)
FIDUCIARY FUNDS					
Private Purpose Trust Funds	0	802,560	-	-	802,560
Expendable Trust Funds	342,318,137	(342,318,137)	-	-	0
Non-expendable Trust Funds	8,169,056	(8,169,056)	-	-	0
COMPONENT UNITS - MAJOR					
University of Vermont	467,789,000		(19,328,000)	-	448,461,000
Vermont State Colleges	167,432,193	-	(113,917,971)	-	53,514,222
COMPONENT UNITS - NONMAJOR					
Vt Veterans' Home	6,314,608	-	-	45,252	6,359,860

Note 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

The State reports three major and six non-major enterprise funds relating to sales of lottery tickets, liquor, Vermont Life Magazine and related products, industrial homework products, federal surplus property, adaptive equipment loans, municipal equipment loans, and Unemployment Compensation Trust Funds. Segment Information for the year ended June 30, 2002 is as follows:

	Vermont Lottery Commission	Liquor Control Fund	Unemployment Compensation Trust Fund	Non-major Enterprise Funds	Total Enterprise Funds
Condensed Statement of Net Assets					
Due From Other Funds	$ 214,660	$ -	$ -	$ 39,857	$ 254,517
Total Other Current Assets	5,827,399	5,999,152	317,684,916	3,408,038	332,919,505
Total Capital Assets (Net)	126,124	378,638	-	-	504,762
Other Assets	-	5,700	-	1,867,686	1,873,386
Total Assets	6,168,183	6,383,490	317,684,916	5,315,581	335,552,170
Due To Other Funds	42,243	245,661	39,857	-	327,761
Total Other Current Liablilities	5,228,409	6,075,497	3,432,868	583,016	15,319,790
Total Restricted Liabilities	500,000	5,700	-	692,874	1,198,574
Total Liabilities	5,770,652	6,326,858	3,472,725	1,275,890	16,846,125
Invested in capital assets, net of related debt	126,124	378,638	-	-	504,762
Restricted	20,042	-	314,212,191	479,005	314,711,238
Unrestricted	251,365	(322,006)	-	3,560,686	3,490,045
Total Net Assets	$ 397,531	$ 56,632	$ 314,212,191	$ 4,039,691	$ 318,706,045
Condensed Statement of Revenues, Expenses and Changes In Net Assets					
Charges For Sales/Service	$ 81,982,303	$31,979,758	$ 39,493,412	$ 1,866,147	$ 155,321,620
Other Operating Revenues	18,152	1,138,806	26,948,382	959,547	29,064,887
Total Operating Revenues	82,000,455	33,118,564	66,441,794	2,825,694	184,386,507
Depreciation Expense	66,640	120,218	-	-	186,858
Other Operating Expenses	65,566,465	33,250,416	88,557,267	2,837,493	190,211,641
Total Operating Expenses	65,633,105	33,370,634	88,557,267	2,837,493	190,398,499
Operating Income (Loss)	16,367,350	(252,070)	(22,115,473)	(11,799)	(6,011,992)
Non-operating Revenues/Expenses	311,804	295	19,638,238	14,338	19,964,675
Transfers In (Out)-Net	(16,679,154)	(250,644)	(30,014)	30,014	(16,929,798)
Changes in Net Assets	-	(502,419)	(2,507,249)	32,553	(2,977,115)
Beginning Net Assets	397,531	559,051	316,719,440	4,007,138	321,683,160
Ending Net Assets	$ 397,531	$ 56,632	$ 314,212,191	$ 4,039,691	$ 318,706,045
Condensed Statement Of Cash Flows					
Net Cash Provided By:					
Operating Activities	$ 16,376,143	$ 1,707,076	$ (20,849,783)	$ (722,470)	$ (3,489,034)
Noncapital Financing Activities	(16,693,814)	(250,644)	-	8,736	(16,935,722)
Capital and Related Financing Activities	(40,677)	(116,038)	-	-	(156,715)
Investing Activities	532,332	-	19,638,238	14,338	20,184,908
Cash and Cash Equivalent-July 1	190,777	990,088	309,641,196	2,099,247	312,921,308
Cash and Cash Equivalent-June 30	$ 364,761	$ 2,330,482	$ 308,429,651	$ 1,399,851	$ 312,524,745

Note 12: CONTINGENT AND LIMITED LIABILITIES:

CONTINGENT LIABILITIES

Vermont Economic Development Authority:

In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority ("VEDA" or the "Authority") in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Vermont Industrial Aid Board to it. Each of these original entities was relegated to a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. It is governed by a twelve member board which consists of the Secretary of Commerce & Community Development, the State Treasurer, the Commissioner of Agriculture, Food and Markets, and nine public members appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $15 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State; to finance the purchase of machinery and equipment; and to provide working capital. The refinancing of existing mortgages is also possible under the act that created the Authority. As of June 30, 2002, the Authority had mortgage insurance contracts totaling $4,097,366. The full faith and credit of the State is pledged to support these activities of the Authority.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lender registers with the Authority. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed $2 million at any one time. The State's contingent liability at June 30, 2002 was $847,611. The State's net cash contribution since inception is $258,437.

The 1999 General Assembly created the Vermont Agricultural Credit Corporation ("VACC") to be operated by the Authority. The VACC assumed all of the assets and liabilities of the Family Farm Debt Stabilization Program ("DSP") and the Agriculture Finance Program ("AFP"). These programs were previously administered by the Authority. In 1988, the DSP borrowed $20,000,000 from a group of Vermont banks. A pledge of the full faith and credit of the State secured the repayment of the debt. In 1996, the authority borrowed an additional $2,000,000 from a single Vermont bank, also secured by the pledge of the full faith and credit of the State. As of June 30, 2002, the Authority had $720,266 outstanding on these obligations

Federal Grants:

The State receives federal grants that are subject to audit and review by federal grantor agencies. This could result in expenditure being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting therefrom would not be material.

LIMITED LIABILITIES

Vermont Economic Development Authority

The State has a limited liability for the Vermont Economic Development Authority. The Authority may create one or more debt service reserve funds in accordance with 10 VSA Section 219. Annually, the Authority must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont Municipal Bond Bank:

The State has a limited liability for the Vermont Municipal Bond Bank. The Bank is required to maintain debt service reserve funds. Title 24, VSA, Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate

money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency:

The State has a limited liability for the Vermont Housing Finance Agency. The Agency may create one or more debt service reserve funds in accordance with 10 VSA Section 632. Annually, the Agency must report to the State the amount necessary to bring reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

Note 13: LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, it is believed that any ultimate liability to the State resulting from these suits, not covered by various insurance policies, would not materially affect the State's overall financial condition.

Note 14: BUDGET STABILIZATION RESERVES

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in state revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances will consist of any unreserved undesignated surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the General Assembly. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. Pursuant to action taken by the Legislature, the Transportation Fund's Budget Stabilization Reserve at June 30, 2002 was $9,890,396, the General Fund's Budget Stabilization Reserve was $9,441,773 at June 30, 2002, and the Education Fund's Budget Stabilization Reserve at June 30, 2002 was $14,243,809.

Note 15: JOINT VENTURE

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission which is an interstate body, both corporate and politic, serving as a common agency of the party states and representing them both collectively and individually in the exercise of its powers and duties. The commission is composed of one member from each of the party states. Each state's lottery commission appoints one of its members to this position. The three-member commission annually elects a chairperson from among its members. The commission is empowered to operate and administer Tri-State Lotto and to promulgate rules and regulations governing the establishment and operation of the lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the commission. Fifty percent of the gross sales from each state are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

At June 29, 2002, the commission had total assets of $234,871,488 and total liabilities of $212,033,428. For the fiscal year ended June 29, 2002, the commission has operating revenues of $80,329,957, interest income of $377,761, commissions, fees, and bonus expenses of $11,402,738, prize awards of $40,296,726, and other operating expenses of $4,420,535. During the fiscal year, the commission made operating transfers to member states of $24,587,719, which includes $1,627,538 transferred to Vermont.

Note 16: RISK MANAGEMENT and INSURANCE

A. Workers' Compensation and Liability Risk Management

The Risk Management Division of the Department of Buildings and General Services administers all risk management for State government with the exception of the health and life Insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The Risk Management Division sets aside assets and pays claims utilizing the following three Internal Service Funds:

Workers' Compensation Self Insurance Fund
State Liability Self Insurance Fund
Risk Management- All Other Fund (used for the purchase of commercial insurance)

The Workers' Compensation Fund covers all state employees pursuant to state statutes. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. This liability is reviewed annually by an outside actuary and includes a review of incurred but not reported claims (IBNR). All claims are processed by Risk Management Division personnel and are audited annually by an outside claims adjuster to ensure that claims' based statistical information used to calculate the state's worker's compensation exposure is reliable. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation of this calculated contribution to participating entities is performed by the Risk Management Division utilizing exposure and departmental experience factors.

The State Liability Insurance Fund covers general and employment practices liability, discrimination, and auto liability risk. The coverage is comparable to standard private commercial policies. It offers coverage to the same group of participants as those covered by the Worker's Compensation plan described above. Its exposure to risk in Vermont is subject to the Doctrine of Sovereign Immunity and is governed by Vermont Tort Claims Act, 12 VSA 5601. Exposure outside of Vermont is potentially unlimited. It is self-insured for the first $250,000 of exposure and has purchased excess commercial insurance to cover the additional per occurrence exposure in amounts of up to $1,000,000 in Vermont and $10,000,000 for claims that are not subject to the Vermont Torts Claim Act. The State's liability is reviewed annually by an outside actuary. This review includes a review of incurred but not reported claims (IBNR). The contribution required to fully fund these estimated losses is calculated annually by an outside actuary. Allocation of each participating entity's portion of this contribution is performed by the Risk Management Division utilizing exposure and departmental experience factors. A Third Party Administrator (TPA) administers all claims other than minor property damage claims which are administered by division staff. The liability loss projections and the claims processing data are audited annually by outside claims' adjusters.

The Risk Management-All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self assumed. This coverage provides insurance for state-owned real property, bonds for various categories of employees, robbery and burglary coverage for the Federal food stamp program, errors and omissions coverage for judges, and various other miscellaneous coverage. The State's liability exposure is limited to the amount of the various deductibles associated with the respective coverage. Premium charges from the various insurers plus a 5% surcharge to cover state administration costs are either assessed directly against the entity specifically requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Entities eligible for coverage are the same as those listed above for the other funds.

B. Health Care, Dental Insurance, Life Insurance, Employee Assistance, and Long Term Disability Funds For State Employee Plans

The Employee Benefits and Wellness Division of the Department of Personnel maintains medical, dental, life insurance, employee assistance, and long term disability program funds for the benefit of current state employees, retirees, certain former employees allowed participation by statute or labor agreement, legislators, and employees of outside groups which have been declared eligible to participate by statute. All or some of these named groups may participate, depending upon the plan. Temporary and contractual employees are not eligible to participate in these plans.

The medical plan offerings changed beginning January 2002. There was one set of plan offerings in the first half of fiscal year 2002 and another set of plan offerings in the second half of FY2002. The change in medical plan offerings was negotiated with the Vermont State Employees Association, the bargaining agent for state employees. The new plans are designed to be more cost effective than the prior plans. Participating employees share in the premium cost of all of the medical plans. Premium rate setting is provided by an outside actuary in conjunction with the benefits division. The State's liability for incurred but not yet reported (IBNR) claims is calculated by an actuary and is usually based on the State's prior claims experience.

The health plans which were in place for the first half of FY2002 included two fully insured health maintenance organizations (HMOs): MVP Health Plan, and TVHP Blue Care. A self-funded/self insured indemnity plan (Choice Plus) was also offered and was administered by Blue Cross and Blue Shield of Vermont. The HMO plans' premiums were calculated by the HMO based on community rates. The coverage available to the participants was administered under a managed care arrangement. The State bore no insurance risk for catastrophic occurrences or claims dollars in excess of the premium paid to the HMO's. The self-funded Choice Plus plan provided medical benefits coverage with high dollar limitations. To limit the State's large claims exposure from this plan, the State purchased stop-loss reinsurance.

The new plan offerings implemented in the second half of FY2002 include four plan options. Total Choice, HealthGuard PPO, and SafetyNet are "preferred provider organization " indemnity type plans. There is a lifetime limit on coverage for a participant in these three plans. The SelectCare POS is a "point of service" plan option, similar to an open-ended HMO. Members may opt out of the network but must meet a high deductible and coinsurance to do so. The coverage is basically unlimited but is administered under a managed care arrangement. All four of the new plan options are primarily self insured by the state. To limit the state's large claims loss, the state has purchased stop loss insurance.

The self-funded State of Vermont Employee Dental Assistance Plan, which is administered by Northeast Delta Dental, provides up to $1,000 regular dental care annually and up to $1,750 lifetime for orthodontic care for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Benefits Division analyst, in consultation with the dental actuary of the plan's administrator, sets the premium rates. Participants include all mentioned above except for retirees. The state pays 100% of the premium for state employee participants.

The State of Vermont Employee Life Insurance Program consists of a Regular Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to twice a participant's base salary rounded down to the nearest $100. Retirees who work for the State for at least twenty years and who have insurance at the time of retirement receive a retiree life benefit of $5,000 with no AD&D coverage. Both the regular life and AD&D are fully insured products where the carrier retains liability for all claims. The benefits division analyst calculates the premium rates charged for both of these programs. The state pays 75% of active employees premiums and 100% of retirees' premium costs. Only current employees, retired employees and current members of outside groups are eligible to participate.

A flexible spending account is available to active state employees only. This account allows pre-tax salary deduction to be used to pay for eligible medical and dependent care expenses.

An Employee Assistance Program (EAP) is provided for the benefit of state employees and their immediate families. This program assists employees and family members in addressing problems that impact on lives including family, psychological, stress, financial, drugs, alcoholism, and other issues. Only current state employees and their families are eligible for this program. The manager of this program, ETP, Inc., is paid a monthly fee based on the number of employees who work for the State and provides up to 5 counseling sessions per case through a network of providers. No claim's costs, or claim's liabilities are incurred under this plan by the State. The state pays 100% of the premium for this plan.

A Long– term Disability Program (special fund through FY2001, an internal service fund beginning in FY2002) is provided as an income replacement benefit for employees who become permanently disabled. The plan provides financial protection for state employees and their families by paying a portion of their income while disabled. Only state employees who are not eligible to be represented by the employees' union, the Vermont State Employees Association, are eligible for this benefit. There is a one-year eligibility waiting period once disabled. This plan is fully insured through the carrier, the Standard, so there is no liability to the state for claims. Premium is based on a percentage of salaries of eligible participants. The combined benefit integrated with retirement and social security

income, replaces 66 2/3% of the disabled person's base salary at the time of disability. The state pays 100% of the premium for the plan. Eligible employees, depending upon whether they are covered by a leave plan, forfeit either 1 day of leave per year or have a one-time .2% salary reduction in their next cost-of-living increase to offset the state cost of the plan.

Following is a table displaying three years' changes in the respective funds' claims liability amounts.

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Balance of Liability at End of Fiscal Year
Workers' Compensation Fund				
FY 2000	9,327,495	5,728,010	4,848,810	10,206,695
FY 2001	10,206,695	7,470,814	5,686,611	11,990,898
FY 2002	11,990,898	6,258,621	5,296,358	12,953,161
State Liability Insurance Fund				
FY 2000	5,232,096	1,008,171	1,132,410	5,107,857
FY 2001	5,107,857	3,020,229	1,395,800	6,732,286
FY 2002	6,732,286	607,876	960,545	6,379,617
Choice Plus - Medical Insurance Fund				
FY 2000	4,826,276	27,388,115	26,697,579	5,516,812
FY 2001	5,516,812	31,122,193	30,178,494	6,460,511
FY 2002	6,460,511	38,189,077	36,322,720	8,326,868
Dental Insurance Fund				
FY 2000	229,570	3,483,951	3,457,767	255,754
FY 2001	255,754	3,717,131	3,646,996	325,889
FY 2002	325,889	4,363,223	4,340,822	348,290
Life Insurance Fund				
FY 2000	0	0	0	0
FY 2001	0	0	0	0
FY 2002	0	0	0	0
Employee Assistance Program				
FY 2000	0	0	0	0
FY 2001	0	0	0	0
FY 2002	0	0	0	0
Long-term Disability Plan				
FY 2002	0	0	0	0

NOTE 17: DEFICIT FUND BALANCES

The following individual funds have deficit total net assets or deficit unrestricted net assets at June 30, 2002:

Business-type Proprietary Funds

Liquor Control Fund: has a deficit unrestricted net asset balance of $322,006. Its total net assets balance remains positive but has been reduced from $559,051 at June 30, 2001 to $56,632 at June 30, 2002. It had an operating loss of $252,070 for fiscal year 2002.

Federal Surplus Property Fund: has a deficit unrestricted net asset balance of $149,370 although its total net asset balance remained positive at June 30, 2002. It had an operating loss of $25,152 for fiscal year 2002.

Internal Service Funds

Copy Center Fund: has a deficit unrestricted net asset balance of $1,807,424 but has a positive total net asset fund balance of $431,235 at June 30, 2002. It had operating income of $254,518 for FY2002 but transferred $1,085,000 to the general fund thereby reducing its total net asset balance from $1,261,717 at June 30, 2001 to $431,235 at June 30, 2002. This deficit will be extinguished by a rate adjustment to the customers of this fund.

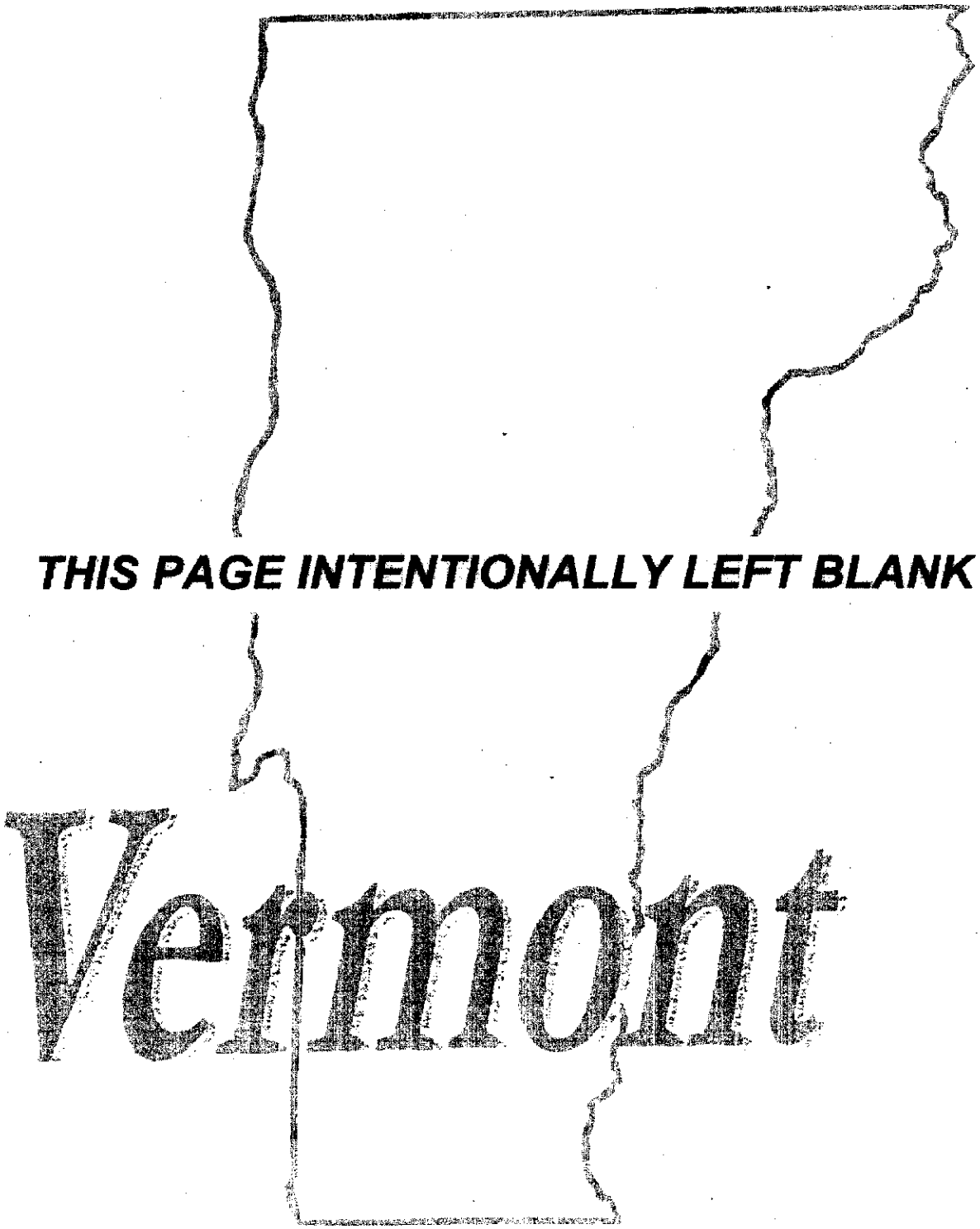
Postage Center Fund: has a deficit unrestricted net asset balance of $164,071 and a deficit total net asset balance of $107,928 at June 30, 2002. These deficits will be addressed via a change in the current rate structure.

Workers' Compensation Fund: has a deficit unrestricted and total net asset balance of $5,463,351 after incurring an operating loss of $2,139,484 for FY2002. The State expects to eliminate this deficit through rate adjustments over the next 5 years.

Property Management Fund: has a deficit unrestricted net asset balance of $2,757,068 and a deficit total net assets balance of $2,745,000 at June 30, 2002. It had operating income of $1,709,464 but transferred $2,389,385 to the special fund for funding of bond principal and interest payments during fiscal year 2002. This deficit net asset balance is a structural one resulting from a mismatch between twenty-year bonds being used as the funding source for a fifty-year life building. The bonds are being paid off over a twenty-year period depending on the building. The tenants' rents cover 100% of the interest costs plus 2% of the bond principal amount per year so it will take fifty years to collect the total bond principal even though the bond principal will be paid off in twenty years. The fund equity will continue to go negative until the bonds are paid off and then the equity balance will become less negative as the 2% annual principal payments are received until it finally goes to zero after fifty years.

Facilities Operations Fund: has a both a deficit unrestricted net assets balance and a deficit total net assets balance of $5,952,287 and $5,584,944 respectively at June 30, 2002 for its first year of operation. It had an operating loss of $3,642,274 for FY2002 and also recorded additional non-current startup costs of $1,942,670 in FY2002. The State intends to eliminate this deficit via a rent surcharge over a ten-year period.

GOVNET Fund: has a deficit unrestricted net assets balance of $326,963 and a deficit total net assets balance of $217,283 at June 30,2002. It incurred an operating loss of $8,749 for FY2002. Its deficits will be recovered via rate adjustments to its customers.



THIS PAGE INTENTIONALLY LEFT BLANK

Note 18: INTERFUND BALANCES

A. Interfund assets and liabilities for each individual fund within the Primary Government and within the Component Units at June 30, 2002 were:

Fund Type/Fund	Due From Other Funds	Due To Other Funds	Interfund Loans Receivable	Interfund Loans Payable
PRIMARY GOVERNMENT				
GOVERNMENTAL FUNDS				
General Fund	$ 520,121	$ 1,538,083	$ 22,349,097	$
Special Revenue Funds				
Transportation Fund	89,224	1,180,639		
Education Fund	1,625,433	242,326		
Special Fund	6,300,568	147,169		
Federal Revenue Fund	257,192	1,087,819		3,676,265
Non-major Governmental Funds				
Fish & Wildlife Fund	5,697	10,951		
Transportation Bond Fund	6,156			6,155
PROPRIETARY FUNDS				
Enterprise Funds				
Unemployment Compensation Trust Fund		39,857		
Liquor Control Fund		245,661		
Vermont Lottery Fund	214,660	42,243		
Non-major Enterprise Funds				
Industrial Homework Find				
Federal Surplus Fund				176,414
Vermont Life Magazine				197,234
Unemployment Compensation Contingency Fund	39,857			
Internal Service Funds				
Highway Garage Fund				173,193
Offender Work Programs				572,980
Communication & Information Technology Fund				3,970,867
Supply Center Fund				667,509
Copy Center Fund				2,507,642
Single Audit Revolving Fund				
Medical Insurance Fund		774,344		
Life Insurance Fund	2,694			
Postage Fund				834,372
Workers' Compensation Fund	7,004	103,426		
State Liability Insurance Fund	69,799	4,018		
Risk Management Fund		2,985		510,776
Property Management Fund				2,822,474
Equipment Revolving Fund		1,822		1,239,505
Facilities Operations Fund				4,216,180
GOVnet Fund				261,716
FIDUCIARY FUNDS				
Pension Trust Funds				
Vermont State Retirement System	762,157			
Vermont State Defined Contribution Plan	4,910			
State Teacher's Retirement Plan	4,582			
Vermont Municipal Employees Retirement Fund	183			
Vermont Municipal Employees Defined Contribution Plan		183		
Private Purpose Trust Funds				
Abandoned Property Fund		5,990		
Agency Funds				
Retirement Contributions & Withholdings Fund		793		5,490
Federal Income Tax Witholdings Fund		1,994		33,906
State Income Tax Withholdings Fund		506		
Social Security Contributions & Withholdings Fund		1,819		88,295
Employees Insurance Contributions & Withholdings Fund	192,352	2,673		
Employee Deferred Compensation Withholdings Fund				2,181
Child Support Collections Fund		4,658,902		
Unidentified Receipts Fund	107			335,612
Vendor and Other Deposits Fund		8,495		
Other Contributions & Withholdings Fund				50,331
Total Primary Government Funds	**$ 10,102,698**	**$ 10,102,698**	**$ 22,349,097**	**$ 22,349,097**
COMPONENT UNITS				
Vermont Student Assistance Corporation				
Non-major Component Units				
Vermont Economic Development Authority				
Vermont Housing and Conservation Board				
Vermont Transportation Authority				
Total Reporting Entity	**$ 10,102,698**	**$ 10,102,698**	**$ 22,349,097**	**$ 22,349,097**

Advances To Other Funds	Advances From Other Funds	Due From Component Units/Primary Government	Due To Component Units/Primary Government	Advances To Component Units/Primary Government	Advances From Component Units/Primary Government
$ 523,700	$	$ 1,239,332	$	$ 1,914,486	$
		1,493,304	10,627		
		3,062,806			
	5,700				
	500,000				
	1,700				
	1,200				
	15,100				
$ 523,700	**$ 523,700**	**$ 5,795,442**	**$ 10,627**	**$ 1,914,486**	**$ 0**
			4,556,110		1,914,486
			1,239,332		
		10,627			
$ 523,700	**$ 523,700**	**$ 5,806,069**	**$ 5,806,069**	**$ 1,914,486**	**$ 1,914,486**

B. Operating Transfers between the individual funds of the primary government for the fiscal year ending June 30, 2002 were:

Fund Type/Fund	Transfers In	Transfers Out
GOVERNMENTAL FUNDS		
General Fund	$ 20,380,670	$ 291,521,686
Special Revenue Funds		
Transportation Fund	15,592,657	3,864,212
Education Fund	280,438,797	
Special Fund	8,191,177	16,362,037
Federal Revenue Fund	7,753,440	11,394,166
Non-major Governmental Funds		
Fish & Wildlife Fund	44,075	
General Bond Fund	15,213,758	3,060,816
PROPRIETARY FUNDS		
Enterprise Funds		
Unemployment Compensation Trust Fund	323,601	353,615
Vermont Lottery Fund		16,679,154
Liquor Control Fund		250,644
Non-major Enterprise Funds		
Unemployment Contingent Trust Fund	353,615	323,601
Internal Service Funds		
Postage Fund		165,000
Property Management Fund		2,389,385
Highway Garage Fund	1,978,078	336,447
Copy Center Fund		1,085,000
State Liability Insurance Fund		
State Surplus Property Fund		93,293
Long-term Disability Plan	23,519	
PRIVATE PURPOSE TRUST FUNDS		
Abandoned Property Fund		2,414,331
Total	**$ 350,293,387**	**$ 350,293,387**

Note 19: CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2002, the following changes occurred in long-term liabilities:

PRIMARY GOVERNMENT

	July 1, 2001	Additions	Reductions	June 30, 2002	Amounts due within one year
Governmental activities:					
Bonds payable (1)	$ 480,443,358	$ 54,556,732	$ 48,535,000	$ 486,465,090	$ 51,355,000
Compensated absences	25,097,113	31,052,186	30,085,216	26,064,083	16,313,547
Claims and judgements	25,509,584	49,850,345	47,351,993	28,007,936	8,675,158
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligation	125,124,366	56,971,451	56,068,277	126,027,540	-
Other liabilities	0	429,211	7,925	421,286	-
Total governmental activities long-term liabilities	$ 663,174,421	$ 192,859,925	$ 182,048,411	$ 673,985,935	$ 76,343,705
Business-type activities:					
Compensated absences	$ 326,546	$ 206,333	$ 220,102	$ 312,777	$ 188,154
Claims and judgements	4,104,549	3,670,907	4,104,549	3,670,907	3,670,907
Total business-type activities long-term liabilities	$ 4,431,095	$ 3,877,240	$ 4,324,651	$ 3,983,684	$ 3,859,061
COMPONENT UNITS					
Bonds and notes payable	$ 1,650,180,886	$ 215,845,902	$ 77,290,309	$ 1,788,736,479	$ 129,409,926
Capital leases payable	195,522	-	76,840	118,682	40,000
Accrued arbitrage rebate	12,579,347	3,956,387	874,542	15,661,192	1,631,686
Other liabilities	27,509,587	14,100,540	403,757	41,206,370	315,000
Total component units long-term liabilities	$ 1,690,465,342	$ 233,902,829	$ 78,645,448	$ 1,845,722,723	$ 131,396,612

(1) Governmental activities bonds payable additions includes $3,556,732 of accretions on capital appreciation bonds.

Note 20: SUBSEQUENT EVENTS:

Debt Issuance

The State issued $30,800,000 of 2002 Series A General Obligation Bonds, dated December 1, 2002. The State expects to use approximately $1.7 million of the proceeds to fund capital improvements authorized by the legislature in years prior to 2002 with the remaining amount to be used for capital projects authorized by Act 149 of 2002. Interest rates on these bonds vary from 3% to 5%. Payments to the bondholders are scheduled to commence August 1, 2003 and terminate August 1, 2019.

The State issued $31,555,000 of 2002 Series B General Obligation Refunding Bonds dated December 1, 2002. The proceeds from this offering will be used to refund the State's General Obligation Bonds, 1993 Series B maturing in 2006-2013. Interest rates on these bonds vary from 2% to 5%. Payments to the bondholders are scheduled to commence August 1, 2003 and terminate August 1, 2013.

The State issued $5,000,000 of 2002 Series C General Obligation Bonds (Vermont Citizen Bonds) dated February 4, 2003. The proceeds from this sale will be used to fund various capital projects in the natural resources area as described in Act 149 of 2002, Section 8. Interest rates on these bonds vary from 2% to 2.2%. Payments to the bondholders will commence on August 1, 2003 and terminate August 1, 2007.

The State also issued $75,000,000 2003 Series A General Obligation Revenue Anticipation Notes dated August 28, 2002. The proceeds will be used to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, and for the purpose of paying expenses in connection with the issuance of the notes. The interest rate on these notes is 2.5% with a price to yield of 1.36%. The notes matured and were paid off in full on June 17, 2003.

Department of Information and Innovation

In Act 31 of 2003, the Legislature created a new department in the Agency of Administration called the Department of Information and Innovation. This new department will be headed by a commissioner appointed by the Governor with the advice and consent of the Senate. The commissioner will also be designated as the Chief Information Officer of the State.

The Department of Information and Innovation shall have all its responsibilities assigned to it by law and shall include but not be limited to the following:

1. provide direction and oversight for all activities directly related to information technology including telecommunications services, information technology equipment, software, accessibility to systems, and networks in state government;
2. manage an agency coordinated budget;
3. manage GOVNet and K-12 net Information systems;
4. administer communication, information and technology services which have been transferred from the Department of Buildings and General Services;
5. review all information technology requests for proposal with a value greater than $10,000;
6. review and approve all computer systems with a value greater than $150,000, annually submit a strategic plan for information technology as well as perform other independent review responsibilities as required by the Secretary of Administration;
7. inventory technology assets within state government; and
8. coordinate information technology within state government.

Federal Jobs and Growth Tax Relief Reconciliation Act of 2003

Federal tax reconciliation legislation (H.R.2) has made funds available to the State of Vermont. The State received $25 million in June 2003 with another $25 million anticipated in October 2003. An additional $33 million of federal funds that will be earned during the period April 1, 2003 through June 30, 2004 due to increased federal participation in the cost of Medicaid and Foster Care programs are also expected to be received.

Act 68 of 2003

Act 68 as passed by the 2003 Vermont Legislature, modifies as well as streamlines the revenue sources that provide the current funding for education in the State of Vermont. It changes the nature of property taxes as they apply to education funding by splitting the grand list between residential and non-residential properties and taxing each at a different rate. It eliminates the controversial "sharing pool" and replaces the varied Act 60 taxes (called "splinter taxes") with an increased sales tax.

General Fund Budget Stabilization Reserve

In September 2002, the Emergency Board moved the $4,347,360 reserved in the General Fund's fund balance at June 30, 2002 under the category entitled "General Fund Surplus" to the category entitled "Budget Stabilization" reserve. This resulted in the "General Fund Surplus" balance being reduced to $0 while the "Budget Stabilization" reserve balance increased to $13,789,133.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of $_____ General Obligation Refunding Bonds, 2004 Series A (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Holder” or “Bondholder” means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), commencing with the report for the fiscal year ended on June 30, 2003 (to be filed no later than June 30, 2004), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository or the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available;

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major General Fund Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated _____, 2004; and

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(vii) modifications to rights of Bondholders.

(viii) optional, contingent or unscheduled calls of bonds.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds.

(xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) If the Issuer determines that the occurrence of a Listed Event is material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the terms of the Bonds.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure

Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2004

STATE OF VERMONT, as Issuer

By: _____
George B. "Jeb" Spaulding
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: $_____ General Obligation Refunding Bonds, 2004 Series A

Date of Issuance: _____, 2004

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated _____, 2004. The Issuer anticipates that the Annual Report will be filed by _____.

Dated:_____

STATE OF VERMONT, as Issuer

By_____

EXHIBIT B

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Continuing Disclosure Agreement.

This list may change from time to time. The Continuing Disclosure Agreement requires that information and notices be provided to each Repository. This list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.htm.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
http://www.dpcdata.com
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
http://www.interactivedata.com
Email: NRMSIR@FTID.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

FORM OF BOND COUNSEL OPINION

[THIS PAGE INTENTIONALLY LEFT BLANK]

_____, 2004

Honorable James H. Douglas
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

Re: $118,000,000* State of Vermont General Obligation Refunding Bonds, 2004 Series A

Dear Governor Douglas:

We have acted as Bond Counsel in connection with the issuance on the date hereof, by the State of Vermont (the "State") of its General Obligation Refunding Bonds, 2004 Series A (the "Bonds") in an aggregate principal amount of $118,000,000*, issued pursuant to and by authority of Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended (the "Bond Act"). The Bond Act is a part of the State Taxation and Finance Law, Chapter 13 of Title 32 of the Vermont Statutes Annotated.

In such connection, we have reviewed the Constitution and statutes of the State, the Tax Certificate and Agreement of the State dated the date hereof (the "Tax Certificate"), certificates of officers of the State and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. The Bonds are dated their date of delivery, mature on February 1 in each of the years and bear interest, payable semi-annually on February 1 and August 1 in each year, commencing August 1, 2004, until maturity thereof, at the respective rates per annum, shown below:

2004 Series A Bonds

Due February 1	Principal Amount	Interest Rate	Yield	Due February 1	Principal Amount	Interest Rate	Yield

Certain agreements, requirements and procedures contained or referred to in the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by and validity against, any parties other than the State. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Tax Certificate including (without limitation) covenants and

* Preliminary, subject to change.

agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call your attention to the fact that the rights and obligations under the Bonds and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding general obligations of the State, to the payment of the principal of and interest on which the full faith and credit of the State are pledged.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Recycled Paper - Printed by
IMAGEMASTER 800.452.5152