New Issue

In the opinion of Palmer & Dodge LLP, Bond Counsel, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, 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."

$26,000,000
STATE OF VERMONT
General Obligation Bonds
2005 Series A

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

The 2005 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 $5,000 or any integral multiple thereof. 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 March 1 and September 1 commencing September 1, 2005. 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.

2005 Series A Bonds

Due March 1	Principal Amount	Interest Rate	Yield	CUSIP Number†	Due March 1	Principal Amount	Interest Rate	Yield	CUSIP Number†
2006	$550,000	3.000%	2.00%	924258 KV7	2016	$2,050,000	4.000%	3.71*%	924258 LF1
2007	550,000	3.000	2.25	924258 KW5	2017	2,050,000	4.000	3.79*	924258 LG9
2008	550,000	3.000	2.40	924258 KX3	2018	2,050,000	4.000	3.86*	924258 LH7
2009	550,000	3.000	2.55	924258 KY1	2019	2,050,000	4.000	3.75*	924258 LJ3
2010	550,000	3.000	2.70	924258 KZ8	2020	2,050,000	4.000	3.80*	924258 LK0
2011	550,000	3.000	2.85	924258 LA2	2021	2,050,000	4.000	3.85*	924258 LL8
2012	550,000	3.000	3.00	924258 LB0	2022	2,050,000	4.000	4.00	924258 LM6
2013	550,000	3.000	3.15	924258 LC8	2023	2,050,000	4.000	4.00	924258 LN4
2014	550,000	3.250	3.28	924258 LD6	2024	2,050,000	4.000	4.04	924258 LP9
2015	550,000	3.500	3.40	924258 LE4	2025	2,050,000	4.000	4.07	924258 LQ7

*Priced to par call on March 1, 2015

The Bonds are offered subject to the final approving opinion of Palmer & Dodge LLP, Boston, Massachusetts, and to certain other conditions referred to herein and in the Notice of Sale. 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 March 2, 2005.

Citigroup Global Markets Inc.

February 16, 2005

† Copyright 2003, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a 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

JAMES H. DOUGLAS, *Governor*

BRIAN E. DUBIE, *Lieutenant Governor*

GEORGE B. "JEB" SPAULDING, *Treasurer*

DEBORAH L. MARKOWITZ, *Secretary of State*

RANDOLPH D. BROCK III, *Auditor of Accounts*

WILLIAM H. SORRELL, *Attorney General*

BOND COUNSEL
Palmer & Dodge LLP
Boston, Massachusetts

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.

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STATE OF VERMONT

$26,000,000
GENERAL OBLIGATION BONDS
2005 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 $26,000,000 aggregate principal amount of its General Obligation Bonds, 2005 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 their date of delivery and will mature on March 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 $5,000 or any integral multiple thereof 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 March 1 and September 1 commencing September 1, 2005, 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.

Authorization and Purpose

The Bonds are authorized to be 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 ("General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following statutes and Acts of the General Assembly set forth the capital purposes of the State for which the Bond proceeds are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Bonds to the extent not expended for the purposes referenced below, may be expended for such capital projects as may be authorized by the

General Assembly. See "STATE INDEBTEDNESS-State Indebtedness and Procedure for Authorization." Under Vermont law the State Treasurer is authorized to transfer unspent proceeds from the sale of bonds, including the Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State authorized by the General Assembly. The State also expects to issue in March or April 2005, $15,000,000 General Obligation Bonds, 2005 Series B (Vermont Citizen Bonds) (the "2005 Series B Bonds") to finance additional capital projects. The State is also reviewing a possible refunding bond issue, the timing and amount of which will be subject to market conditions.

Act 121 of 2004		
Section 1	State Buildings – Various Projects	$11,015,000
Section 2	Taxes – Equipment	150,000
Section 3	Human Services – Various Projects	1,185,000
Section 4	Judiciary – Building Projects	4,420,000
Section 6	Education – Various Projects	5,525,000
Section 10	Natural Resources – Various Projects	1,870,000
Section 11	Military – Various Projects	140,000
Section 13	Public Safety – Various Projects	1,325,000
Section 14	Criminal Justice and Fire Service Training Councils – Various Projects	370,000
		$26,000,000

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 March 1, 2015 will not be subject to redemption prior to maturity.

The Bonds maturing on and after March 1, 2016 will be subject to redemption prior to maturity, at the option of the State, on and after March 1, 2015, either in whole or in part at any time and by lot within a maturity, at a redemption price of 100% 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.

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. THE STATE IS NOT 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, and the Department of Buildings and General Services.

(2) Agency of Transportation: The Agency of Transportation consists of five functional divisions that 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 of Natural Resources 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 of Natural Resources 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 31 Trial Judges sitting in the Superior, District and Family Courts, including one Administrative Judge. The Family Court also has six magistrates. The Environmental Court has two Judges. 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 2004 show that Vermont's population grew by an estimated 2,050 persons between 2003 and 2004, representing a 0.3% rate of increase. That rate of increase was slower than the 1.0% increase in population for the nation between 2003 and 2004, and was the same as the 0.3% 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 2004, representing an average annual rate of 0.7% per year. That represented a slightly faster annual rate of increase over the 1990-2004 timeframe than the 0.5% 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
1970-2004

	----------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]
2004	621	0.3%	14,239	0.3%	293,655	1.0%
2003	619	0.5	14,201	0.5	290,789	1.0
2002	617	0.6	14,130	0.6	287,941	1.0
2001	613	0.5	14,046	0.7	285,102	1.0
2000	610	0.8	13,953	0.5	282,192	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 2004, 2003, 2002, and 2001, the annual percentage increase is calculated versus the previous year. For 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 2003 the median age of the Vermont population was 40.1 years, 4.2 years older than the national average median age of 35.9 years. Among the various age groupings, Vermont had 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) in 2003, and a concentration that was slightly higher than the New England regional average in that age group (at 77.8% for Vermont versus 76.8% for the New England region) in 2003. Vermont had below average age concentrations in the under 5 years age category (at 5.0% of the State's total population) relative to both the New England average (at 5.9% 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) in 2003. 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 12.4% of the U.S. population overall) in 2003. In addition, the percentage of Vermont's population in 2003 aged 14-24 years (at 16.2% of the State's population) significantly exceeded both the percentage of the New England regional population (at 14.7% of the total) and the U.S. population overall (at 15.6% of the total) in 2003. Vermont also had a slightly higher percentage of its population in the 85 years and older category (at 1.8% of the State total) relative to the U.S. population (at 1.6% of the U.S. population) in 2003, but a slightly lower percentage than the New England region as a whole (at 2.0% of the New England regional population) in 2003.

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 2003). Table 2 shows that a total of 88.9% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 11th among the 50 states and above the national average of 84.6%. In addition, 31.3% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont ninth 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 27.2% 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 2003

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	88.9%	11th	84.6%
COLLEGE:			
Bachelor's Degree or More	31.3%	9th	27.2%

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 municipalities' 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 General Assembly (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 were exempted from the education property tax. Second, property was excluded from the taxable property value (for a period up to 10 years) for 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 State experienced a significant increase in estimated fair market value between 2002 and 2003 in part due to strong price appreciation in residential and second home markets. The estimates from 1997 - 2003 include an estimate of the fair market value of property enrolled in the Current Use Program. These later values have been estimated, but have not been certified, by the Division of Property Valuation and Review of the Vermont Department of Taxes.

Table 4
Equalized Property Values
1990-2003

Equalization Date As of April 1,	Fair Market Value
2003**	$51,168,536,723
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, $1,157.9 million in 2002, and $1,205.0 million in 2003.

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 Partnership ("NEEP"), a nonprofit regional economic forecasting group.

The U.S. Economic Situation: After experiencing a "soft-patch" during the second and third quarters of calendar year 2004, the U.S. economy has since regained its positive momentum. Output growth has rebounded to a 4.0% GDP annual growth rate during the third quarter of 2004. Following the 3.3% annual rate of output increase during the second quarter of calendar 2004 and 4.5%, 4.2%, 7.4% growth rates for the third quarter of 2003 through the first quarter of 2004, real GDP growth appears to be in a sustainable recovery. Nearly all sectors of the economy are contributing to the gain in output including reasonably strong rates of growth in household consumption, capital investment by the business sector, government expenditures, and growing exports. The only significant sector of the U.S. economy exerting a significant drag on U.S. GDP growth is the continuing strong increase in imports. However, the drag on output growth from rising imports has not been enough to jeopardize the U.S. economy's pace of recovery.

By most measures and economic indicators, the U.S. economy may have finally crossed from recovery to economic expansion as of the beginning of calendar year 2005. Although the pace of progress to reach this point has been slow, output, incomes, corporate profits, and employment are now all at or above their pre-recession peaks of approximately three years ago. The U.S. economy added-back 2.2 million payroll jobs during calendar year 2004, an average of approximately 185,000 payroll jobs each month during the course of the year. At the end of December of 2004, U.S. labor markets had only 51,000 payroll jobs left to recover before employment will surpass its previous peak established in December of 2000. Once the national labor market recovery is complete, the U.S. economy will have completed its transition from the recovery to the expansion phase in nearly all aspects and phases of the current business cycle. Only the manufacturing sector's jobs recovery remains.

The current 16-month national labor market recovery through December 2004 has been the slowest of any since the Great Depression. When measured relative to the "jobless recovery" of the early 1990s, the gap in total payroll jobs recovered through December of 2004 totals 4.7 million fewer jobs added during this labor market upturn relative to the corresponding 16-month period of labor market recovery and expansion between February 1993 and July 1994. In addition, wage growth has been historically sluggish during the current recovery, with inflation-adjusted wages and salaries increasing at an average annual rate of less than one percent. This has resulted in a decline in wages as a share of GDP during the calendar years 2000 to 2003.

The restrained rate of labor market recovery during the current economic up-cycle is not a new development. However, it is unusual that the current slow rate of labor market recovery has occurred during a period of unprecedented fiscal and monetary stimulus. For the last three years, interest rates that have been at or near historic lows and a progression of four major federal tax reductions have resulted in an historic level of stimulus. This level of stimulus is illustrated by the federal budget and its negative swing from a large surplus (which restrains economic recovery and growth because a surplus removes more resources from the economy than it spends) to a large deficit (which stimulates economic activity because the government spends more than it takes in the form of taxes and fees). Federal fiscal data show that the federal budget balance has gone from a $236 billion surplus in federal fiscal year 1999 to a more than $422 billion deficit in federal fiscal year 2004, a negative swing of nearly $0.66 trillion in five fiscal years.

The near term prospects for the U.S. economy through calendar year 2005 remain relatively positive. Although the economy's growth is expected to slow during the year, GDP growth should still be able to at least match the economy's current growth potential of 3.0% to 3.5%, as long as energy prices moderate during calendar year 2005. Leading the list of factors supporting the case for continued economic growth is the continuing positive capital spending situation and outlook. Strong productivity growth and still historically low interest rates have supported a very strong financial performance for businesses over the past several years. This was true even before the recently enacted federal legislation authorizing more corporate tax breaks and the expiration of accelerated depreciation benefits. This strong business climate has arisen from recent very strong productivity growth and the resulting boost to businesses' profitability has promoted capital spending by the business sector. In turn, capital spending has contributed to GDP growth. Evidence of strong capital spending includes recent double-digit advances of a 13.0% annual rate during the third quarter of 2004 and a 12.4% annual rate of increase during the second quarter of 2004 in real equipment investment spending. In addition, a relatively strong inventory rebuilding cycle has occurred over the last year, as consumption demand has strengthened. This resulted in what has been widely viewed as the best holiday retail shopping season since 1999.

A third recovery-supporting development is increased hiring activity by U.S. businesses. After declining somewhat to a 134,000 per month level during the July to September 2004 quarter, the monthly rate of payroll job

gains bounced back to a 202,000 per month level during the October to December 2004 period. This level is nearly 50,000 jobs per month higher than is necessary to keep up with labor force and productivity growth, to help lower the national rate of unemployment, and to generate the wage-income growth to support the level of consumption needed to keep U.S. output activity moving forward at a 3.0% to 3.5% annual rate of growth. This is a critical development because consumption remains as the major driver in the U.S. economy. Maintaining a level of job addition above 150,000 payroll jobs per month will be pivotal to producing the wage and disposable income gains necessary to maintain a reasonable level of growth in consumption spending. This will be especially important as the economic stimulus from the string of recent federal tax cuts subsides and the current upward trend of interest rates makes the stimulating effect of the still relatively low level of interest rates increasingly less accommodating to growth.

The principal threats to near-term growth prospects for the U.S. economy involve the still volatile energy price outlook and the ballooning, and increasingly unsustainable increase in the U.S. trade and current account deficits. Energy prices, particularly the prices of oil and natural gas, remain high and elevated, in part due to still strong global demand for energy (particularly from China), concerns about supply (Iraq, Russia, and the political situation in Venezuela), lean domestic inventories, and lack of U.S. refining capacity for oil. From the perspective of consumption, high-rising oil, gasoline and natural gas prices act like a tax increase on household budgets, with no offsetting increase in government spending to soften the effect. High-rising energy prices channel consumption dollars away from the purchase of other items and drive cost increases in nearly all consumer items over the long-term as energy price increases are passed along production and distribution chains. The result of high-rising energy prices is both a reduction in the amount of dollars for discretionary purchases and a reduction in the overall purchasing power of each dollar of the household sector. If production decisions at U.S. businesses are driven by the trend in overall demand, the recent sharp increases in oil and gasoline prices (if they do not moderate as expected) would act as significant impediments to the U.S. economy going forward through calendar years 2005 and 2006.

The escalating trade and current account deficits will likely produce economic adjustments that will likely lead to higher inflation and interest rates. When these adjustments begin, there will be negative impacts on the parts of the U.S. economy that have most benefited from lower interest rates, principally vehicles and housing. The principal risk to the U.S. economy is that these adjustments will affect a broader range of sectors than just the interest rate sensitive sectors of the economy. This risk is especially high if these deficits continue to escalate for a protracted period of time during calendar years 2005 and 2006.

The Vermont Situation: While recent economic data show that the pace of the State's labor market recovery has improved following a flat period during the summer and fall of 2004, the State's job recovery remains uneven and below the rates of recovery experienced during the early 1990s labor market recovery. This condition has prevailed in Vermont and elsewhere since the last state and national labor market peaks. However, in contrast to the early 1990s period, real estate sales activity remains strong throughout Vermont. As a result, residential construction activity also continues to be strong throughout the State, particularly around the State's major resorts due to in-state and out-of-state demand for vacation and retirement second-homes. Although exceptionally strong real estate sales activity has fueled steady transaction and capital gains income increases in Vermont, it has yet to increase employment in the Construction sector based on job market data published by the Vermont Department of Employment and Training.[1]

The State is also benefiting from the relatively high level of national capital spending activity. The most visible indications of the recovery in capital spending are early signs of an employment turnaround and recovery in the State's factory sector, a development that differentiates Vermont from every other state in the region as well as the manufacturing sector of the nation as a whole. State tax receipts, a timely indicator of economic conditions across Vermont, have continued to post strong year-over-year gains on a tax rate adjusted basis. Through December 31, 2004, strong income and consumption tax receipts growth (with the lone exception of the Motor Vehicle Purchase & Use Tax[2]) have supported an overall rate of revenue growth that is well above the general rate of inflation. These data indicate a level of economic activity or overall economic health in the State that appears to exceed the so far below normal market recovery portrayed by Vermont's major labor market statistics.

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[1] Preliminary data from the State's Quarterly Census of Employment and Wages (QCEW) program indicate that the payroll job survey of employers may be under-counting the number of jobs in the Vermont economy in the construction and other employment sectors.

[2] This slowdown was expected given the very strong level of vehicle sales activity experienced in Vermont and nationally during the 2001-2004 low interest rate environment that encouraged purchases of vehicles to occur during this period rather than in future years.

Even the labor market recovery rate (relative to what has occurred in the Vermont economy since the State's last labor market peak in January of calendar year 2001) constitutes a relatively positive overall economic performance. First, the State's recovery that began back in April of 2003 has been significantly handicapped by both the direct and indirect effects of three major job reduction actions at the State's IBM manufacturing facility located in Essex Junction. During the period dating back to late 2001, announced job reductions at the IBM Essex Junction facility have totaled approximately 1,850 jobs. Recent announcements indicate a total of approximately 250 job add-backs at the company's facility following its success in securing long-term supply contracts from both private sector and public sector customers. However, job levels at IBM-Essex Junction have still contracted by approximately 1,600 jobs over the last three years. That level of job contraction corresponds to a number of jobs that would represent a "top ten employer" in the State. Considering this job category had a $61,027 average wage in calendar 2003, the 3rd highest average annual wage level of all significant Vermont job categories with more than 100 jobs, the net reduction of employment at IBM has handicapped Vermont's labor market recovery over the last three years.

The State's labor market recovery is even more impressive when considered in light of the recent poor performance by U.S. equity markets and the toll of the September 11, 2001 terrorist attacks had on the national-state travel-tourism sector. Vermonters have one of the highest relative dependencies among all states in the nation on non-wage/salary sources of income. Poor equity market performance during the calendar 2000-2002 period constrained Vermont household income growth and related consumption expenditures. The negative effects on all forms of travel and tourism activity (but particularly on the State's previously growing international sub-component) in the aftermath of the September 2001 terrorist attacks is similarly well documented. Because of the high significance of the travel and tourism sector on the Vermont economy, the negative impact on activity in this sector resulting from the heightened security and more difficult travel environment during the post-September 11 period has had a negative effect on the Vermont economy as well. While the State has not recaptured all of the activity and jobs lost in the tourism and tourism dependent sectors in the aftermath of the terrorist attacks, heightened levels of real estate development activity continue at several major resorts representing a significant source of growth for the State's economy and ongoing labor market recovery.

The primary areas of support for the Vermont labor market recovery include: (1) Health Care and Social Assistance (6,500 jobs), (2) Professional and Business Services (900 jobs), (3) Construction (900 jobs), and (4) Private Education Services (600 jobs). According to data from the Vermont Department of Employment & Training, three of these four categories have completed their respective recoveries and have shifted into an expansion mode. The exception is the Professional and Business Services sector that is 75% recovered. In the three remaining categories, recoveries are underway in Leisure and Hospitality (at 62.5% recovered), and the Retail Trade sector (at 23.5% recovered). There is a small but significant 200 jobs recovery that is underway in the Manufacturing sector. Although those 200 jobs "recovered" represent only 1.9% of the 10,500 jobs lost since the manufacturing sector's last cyclical peak, this may suggest a shift to at least a stable employment situation in this previously hard-hit jobs category. This development, along with IBM's recent announcements of job add-backs over the past year, indicates that the worst of this sector's struggles may be over as the U.S. economy picks up some significant growth momentum.

The Economy.com National Economic Forecast Assumptions: The Economy.com national economic forecast establishes the U.S. macro forecast which forms the underlying basis for the State's short-term economic outlook. Economy.com provides a detailed five-year forecast for the U.S. economy two times per year to the State through Economic & Policy Resources, Inc.'s affiliation with the New England Economic Partnership (NEEP). The following section details the national economic forecast underpinning the Vermont economic forecast that was developed during the September-October period of 2004.

The Economy.com forecast for the U.S. economy calls for a moderate pace of recovery-expansion over the 2004-08 period at a level roughly equal to the economy's potential of 3.5 % per year. This modest expectation is primarily due to the fading monetary and fiscal stimulus and the drag on growth associated with rising and persistently high energy prices (notwithstanding that energy prices are expected to trend lower in response to an expected increase in global energy production). The forecast highlights that the Federal Reserve has begun a series of tightening moves that began last June, and that the Federal Reserve's tightening posture is expected to continue throughout calendar year 2005 and 2006. In the area of fiscal policy, Economy.com points to moderating spending growth (following the double-digit advances of recent years), rising personal tax bills, and the end of accelerated

depreciation benefits for businesses (possibly partially offset by the most recent round of corporate tax cuts) as the primary factors reducing the large federal fiscal stimulus of recent years.

A significant part of the Economy.com forecast scenario is the expected moderation in oil prices. The forecast includes a drop in oil prices from levels of over $50 per barrel during the Fall of calendar 2004 to the roughly $35 per barrel by the fourth quarter of calendar year 2004. Much of this expected price decline trend is a function of moderating demand (principally in the U.S. and China) and an expected significant ramp up in global production from OPEC and other major producers. The Economy.com forecast also acknowledges a number of risks to the U.S. and global economies, ranging from the prospect of another terrorist attack (with particular concern that such an attack or alternatively a "political meltdown" could occur in a key energy producing nation) to increasing inflationary pressures, high consumer debt levels-leverage in the now rising interest rate monetary policy environment, and the longer-term risks associated with the increasingly large structural federal budget deficit. In summary, the Economy.com forecast generally calls for an orderly transition process within a wide range of potentially challenging macroeconomic issues, particularly in the areas of energy prices, monetary policy and real estate markets-housing prices.

More specifically, the Economy.com forecast projects that GDP growth over the 2004-08 period will average 4.4% for 2004, 3.3% for 2005 and post annual rates of growth between roughly 3.0%-3.5% for the 2006-08 period. Payroll job growth is expected to average approximately 1.5% per year over the same period, with a 1.1% rate of payroll job gain in calendar 2004 and a 1.8% annual increase in calendar 2005. Over the 2006, 2007 and 2008 period, annual payroll job growth rates of 1.5%, 1.2% and 1.4%, respectively, are expected. Regarding inflation-adjusted personal income, rates of growth are expected to range from a low of 2.8% in calendar 2006 to a high of 3.2% in calendar years 2007 and 2008. The Economy.com national forecast also projected that short-term interest rates will increase over the forecast period in accordance with an expected inflation-controlling monetary policy on the part of the Federal Reserve.

However, the critical element in this forecast is that the trend of U.S. interest rates is up; only the pace and final interest rate levels are unknown. The outlook for overall inflation in the national Economy.com forecast as measured by either the Consumer Price Index (CPI-U) or the chain-weighted GDP deflator continues indicate a restrained but increasing rate of price increases. A key aspect of this inflation outlook is an orderly transition for housing prices from their current speculative highs to rates of change that more appropriately reflect the underlying fundamentals in the U.S. economy.

The Vermont Economic Outlook: The following sets forth the current short-term economic forecast for Vermont for the calendar years 2004 to 2008. The current forecast is that economic conditions in Vermont will improve over the first six to eight quarters of the forecast period (or though mid- to late calendar year 2006), experience a declining sub-cycle through the middle of the forecast period, and then improve in calendar 2008 more than expected in economic outlooks recently published for the State. This expected progression is primarily due to the continued strength of real estate markets and construction activity, an expected bottoming and possible rebound in numbers of factory jobs, and continued general improvement in the U.S. economy. The U.S. economy has the most significant impact of any factor on the Vermont economy. As with previously published economic forecasts for the State, the size of revisions in the State's economic forecast are typically less than 0.5% for the State's major indicators. The most significant upward revisions are typically in the initial stages of the forecast period, and the most significant downward revisions occur during the middle portion of the forecast period when the State is expected to experience a downward sub-cycle.

As with the State's current 21 month labor market recovery, Vermont's economic recovery is expected to remain uneven with rates of recovery of only one- half to two-thirds of Vermont's historic recovery norms. The pace of payroll job recovery and growth exceeded a 2.0% annual rate until the third quarter of calendar year 2004 and the fourth quarter of calendar 2004 is expected to exceed 3.0% when it is published in January 2005.[3] Similarly, inflation-adjusted personal income growth is expected to remain below 2.5% throughout the forecast period after a relatively strong end to calendar 2004. Total Personal Income is projected to follow a similar pattern: up over the near-term, and then scaling down through 2005. However, rising rates of inflation are expected to push nominal dollar personal income growth up above a 4.0% annual rate beginning in the second half of calendar 2006. This elevated level of personal income growth is expected to continue through 2008.

[3] This forecast update includes an annual payroll job recovery rate of more than +2.0% for the last three quarters of calendar 2004.

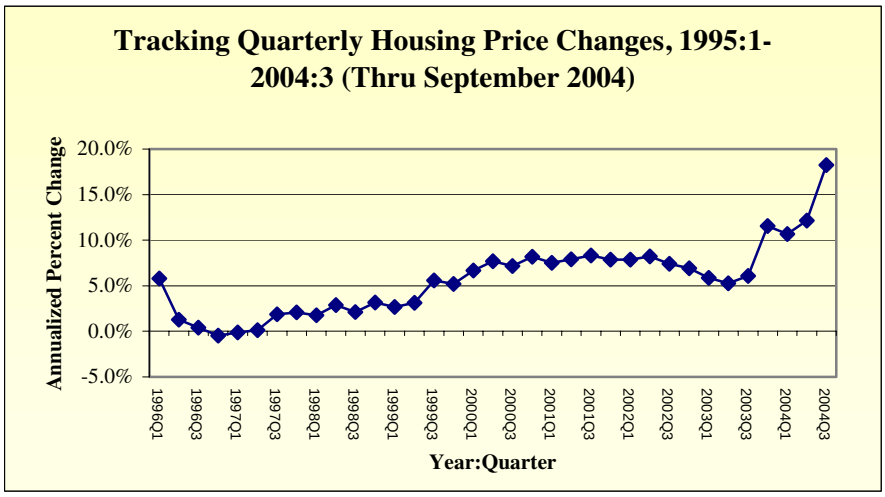
The current State forecast reflects a continuation of a restrained pace to the Vermont economic and labor market recovery, including an initial turnaround followed by a slow rate of recovery in the factory sector. While the occurrence of some recovered jobs in manufacturing is encouraging, more than 10,000 jobs were lost during the difficult 2000 to 2004 factory sector job recession in Vermont. Thus the initial recovery represents less than 2% of the total number of jobs lost during the manufacturing sector's difficult period. The situation is best characterized as an ongoing, "heightened risk situation" in the Vermont factory sector. While the Vermont factory sector's initial move into recovery is a welcome development and one of the more important highlights of the State's current economic outlook, many major employers in this category remain vulnerable to further job downsizings. This major forecast risk factor to the State's overall economic forecast will continue at least throughout the entire calendar year 2004 to 2008 forecast period.

As a result, the Vermont economy is expected to complete its labor market recovery (using private sector jobs as a benchmark) by the end of the first quarter of calendar year 2005. Total payroll employment (defined as total private sector plus government sector jobs) is expected to reach the pre-recession peak of 303,600 jobs by the first quarter of calendar year 2005. This expected milestone represents a significant acceleration in the state's pace of labor market recovery from the slowdown experienced during the Summer and Fall of calendar 2004. Nonetheless, job count data from the State's Quarterly Census of Employment and Wages (QCEW) through the month of June of calendar year 2004 indicate that the State's payroll job survey results may be significantly underestimating the pace of the State's labor market recovery.

Recent price trends in state housing markets are another significant development. Last Spring, the NEEP forecast revision included the expectation that real estate prices, specifically single family home prices, would make an orderly transition from their near double-digit rates of escalation to a level of increase that more appropriately reflects underlying household income growth and other economic fundamentals of the Vermont economy. This moderating trend in housing price increases appeared to be developing through late calendar year 2003 through mid-calendar year 2004.

However, real estate prices have reaccelerated similar to those in the speculative price bubble that developed during the late-1980s and this acceleration does not appear to be correlated with underlying economic fundamentals. This development appears to be being fueled by: (1) still historically low interest rates, (2) investor motivated price appreciation due to a lack of attractive investment alternatives, (3) sustained high levels of second and sometimes third home acquisition by out-of-state investors in a security conscious market with a generally aging population, and (4) an apparent increase in financing activity reflecting a rush to lock-in home financing rates before further monetary policy tightening by the Federal Reserve.

These real estate market factors raise the prospect of continued double-digit home price increases in the State for at least part of calendar years 2005 and 2006. Including the 18.3% annualized rate of increase in housing prices in Vermont during the third quarter of calendar 2004, the state has experienced four consecutive quarters of greater than 10% annual rates of housing price increases, and five consecutive quarters of an increasing rate of housing price appreciation. The contribution to economic activity and state revenue growth associated with this increase in real estate prices and sales activity has been a significant during the last three years.



However, most real estate cycles encompass a level of speculative sales activity that is not supported by the economy's longer-term fundamentals. In such speculative price situations, extended periods of unsupported price increases can result in steep corrections in real estate markets that can cause economic harm. The State economic forecast calls for an end to the current housing price escalation. This housing price cycle is expected to end within the next six to eight calendar quarters. When the slowdown in real estate sales activity occurs, it is expected to slow economic growth in Vermont. However, if orderly, it is not expected to stop the State's economic recovery. A disorderly unwinding of the current housing price escalations in Vermont represents one of the most significant downside forecast risks for the State's economy, especially during late calendar year 2006 to early-calendar year 2007.

Data presented in Tables 5 through 7 show that the State economy and the economy of the Burlington metropolitan area continue to be among the strongest in the New England region. The State and its major metropolitan area have among the lowest unemployment rates, and among the best relative job recovery-growth performances in the region over the last business cycle and the most recent period of economic recession-recovery in the Northeastern region of the United States.

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

	November 2004	October 2004	November 2003	Change From Last Year
Vermont	3.1%	2.7%	4.4%	-1.3%
Connecticut	4.2	4.2	4.9	-0.7
Maine	4.5	4.2	5.1	-0.6
Massachusetts	4.2	4.3	5.3	-1.1
New Hampshire	3.2	3.0	4.2	-1.0
New Jersey	4.2	4.5	5.3	-1.1
New York	4.8	5.0	6.2	-1.4
Rhode Island	3.8	4.0	4.5	-0.7
United States	5.2	5.1	5.6	-0.4

Notes: Data are not 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 % 1998	Annual Average % 1999	Annual Average % 2000	Annual Average % 2001	Annual Average % 2002	Annual Average % 2003	Average % Jan. 2004 – Nov. 2004
Connecticut							
Bridgeport	4.0%	3.9%	2.7%	4.2%	5.3%	6.7%	5.6%
Hartford	3.5	3.3	2.4	3.4	4.5	5.9	5.1
New Haven	3.3	3.1	2.3	3.2	4.1	5.4	4.7
Stamford	2.2	2.1	1.4	2.4	3.2	3.6	2.9
Waterbury	4.0	3.8	2.9	4.7	6.0	7.3	6.2
Maine							
Lewiston-Auburn	4.6	3.9	3.2	3.9	4.1	4.7	4.0
Portland	2.3	2.1	1.8	2.2	2.7	2.9	2.8
Massachusetts							
Boston	2.8	2.7	2.2	3.3	4.8	5.2	4.5
Brockton	3.7	3.5	3.0	4.0	5.4	6.1	5.7
Fitchburg	4.0	4.1	3.5	5.0	7.3	7.9	7.3
Lawrence	4.6	4.2	3.7	5.3	8.1	8.2	7.4
Lowell	3.4	3.3	2.6	4.1	6.5	6.8	5.7
New Bedford	6.5	5.9	5.1	6.0	7.5	8.2	7.4
Pittsfield	4.4	4.2	3.5	4.1	5.2	5.6	5.1
Springfield	3.8	3.6	3.1	3.8	5.2	6.0	5.6
Worcester	3.2	3.2	2.8	3.9	5.8	6.4	5.6
New Hampshire							
Manchester	2.6	2.5	2.5	3.4	4.5	4.2	3.8
Nashua	2.8	2.9	2.9	4.3	6.1	5.4	4.6
Portsmouth	2.4	2.2	2.3	2.9	4.4	4.1	3.5
Rhode Island							
Providence	4.9	4.3	4.0	4.8	5.4	5.7	5.6
Vermont							
Burlington	2.3	2.0	1.9	2.5	3.0	3.7	2.8

Note: Labor Market Area Unemployment Rate is 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 2004	Change in Number of Jobs March 1989 to November 2004	March 1989 to November 2004 % Change
Connecticut				
Bridgeport	199.8	183.1	-16.7	-8.4%
Hartford	657.2	585.7	-71.5	-10.9
New Haven	265.0	252.3	-12.7	-4.8
Stamford	200.6	196.9	-3.7	-1.8
Waterbury	89.1	81.9	-7.2	-8.1
Maine				
Lewiston-Auburn	41.2	47.7	6.5	15.8
Portland	131.4	161.9	30.5	23.2
Massachusetts				
Boston	1,911.5	1,918.9	7.4	0.4
Brockton	90.6	100.4	9.8	10.8
Fitchburg	53.9	52.2	-1.7	-3.2
Lawrence	143.6	152.6	9.0	6.3
Lowell	115.3	123.5	8.2	7.1
New Bedford	69.2	64.7	-4.5	-6.5
Pittsfield	45.1	43.3	-1.8	-4.0
Springfield	265.9	256.9	-9.0	-3.4
Worcester	224.4	232.6	8.2	3.7
New Hampshire				
Manchester	95.2	110.2	15.0	15.8
Nashua	91.3	95.6	4.3	4.7
Portsmouth	109.4	127.5	18.1	16.5
Rhode Island				
Providence	518.4	536.5	18.1	3.5
Vermont				
Burlington	87.4	110.0	22.6	25.9

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 2004, a nationally recognized economic forecasting firm. The Vermont statistics present the specific detail for the Vermont economic forecast that was developed during the September-October of 2004 period and published in November of 2004.

Table 8

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

	----------Actual----------					----------Forecast----------				
	1999	2000	2001	2002	2003	2004[1]	2005	2006	2007	2008
Real Output (% Change)										
U.S. Gross Domestic Product	4.4	3.7	0.8	1.9	3.0	4.4	3.3	3.3	3.5	3.6
New England										
Gross Domestic Product	4.7	7.4	0.0	1.6	1.7	3.1	3.1	3.5	3.6	3.5
Vermont Gross State Product	4.9	4.7	3.8	1.5	0.4	3.3	3.4	2.8	2.8	2.9
Non-Farm Employment (% Change)										
U.S.	2.4	2.2	0.0	(1.1)	(0.3)	1.1	1.8	1.5	1.2	1.4
New England	2.0	2.4	0.1	(1.5)	(1.2)	0.2	1.7	1.4	0.9	1.1
Vermont	2.3	2.4	1.1	(0.9)	(0.2)	1.1	1.9	1.1	0.9	1.1
Personal Income %Change (Current Dollars)										
U.S.	3.4	5.4	1.4	0.3	1.3	2.9	3.0	2.8	3.2	3.2
New England	5.4	9.9	3.6	1.2	2.7	4.2	3.8	3.9	4.3	4.3
Vermont	5.8	7.9	5.2	3.3	4.1	5.4	4.1	3.6	4.2	4.3
Unemployment										
U.S.	4.2	4.0	4.8	5.8	6.0	5.6	5.4	5.4	5.2	5.0
New England	3.3	2.8	3.7	4.8	5.4	4.8	4.7	4.6	4.5	4.3
Vermont	3.0	2.9	3.6	3.7	4.6	3.5	3.4	3.4	3.2	3.1

[1] 2004 values in this table reflect projected rates as of October 2004.
Sources: Economy.com (U.S.), New England Economic Partnership October 2004 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-November 2004 also appears to be significantly stronger than both the U.S. average and the New England regional average. In calendar 2005, Vermont is expected to experience slightly higher rates of output, job, and income growth versus the U.S. and New England regional averages. In addition, the State is expected to also have a significantly lower unemployment rate. This would be expected, given the State's relatively milder economic downturn as indicated by these data that same year. Vermont's expected comparative performance for calendar years 2006-2008 are mixed. While trailing the projected U.S. growth rate averages in output and job growth, Vermont is expected to have slightly stronger rates of personal income growth and a lower unemployment rate. Relative to the New England region, Vermont is expected to have slightly lower rates of output growth, while generally mirroring the rate of job growth—except for a slightly lower rate of job growth in calendar 2006. The State's rates of personal income growth over the 2006-08 period are expected to be similar to those of the region, and the unemployment rate for Vermont during those years is expected to continue to track well below the regional average.

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 2000-2003 calendar year period for Vermont and 2003 for the U.S. (2003 being the latest year where annual average data are available).

The payroll jobs data through November of calendar year 2004 show that manufacturing remains one of the State's most important sectors, representing an estimated 9.9% of total all non-farm employment in 2003 (versus 11.8% of non-farm jobs in 2001) and an estimated 16.6% of total earnings in 2002 versus 17.7% of total earnings in 2002. Other important parts of Vermont's economic base include: Health Care (at 12.1% of 2003 total employment, up from 11.2% of total employment in 2001), and also representing 12.3% of total earnings in 2003 (up from 11.9% of total earnings in 2001), and Retail Trade (at 12.1% of 2003 total employment, essentially the same level of total employment in 2001). Retail Trade also represented 8.7% of total earnings in 2003 (down slightly from the 8.8% share of total earnings in 2001). Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on Manufacturing, Private Education Services, Health Care, Retail Trade, Accommodations and Food Services, Arts, Entertainment, and Recreation, and the Farm sector. At the same time, the State has a slightly lower dependence on sectors such as Professional and Technical Services, Financial Activities, Transportation, Warehousing and Utilities, Administrative and Waste Services, and the Wholesale Trade sector for its employment and earnings.

Table 9
Total Earnings By Industry
2002-2003
($Thousands)

	2002		2003	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$111,451	0.8%	$130,088	0.9%
Non-Farm Industry:				
Construction	874,007	6.6	948,097	6.9
Mining	54,007	0.4	54,612	0.4
Manufacturing	2,337,532	17.7	2,285,630	16.6
Wholesale Trade	538,757	4.1	575,824	4.2
Retail Trade	1,162,921	8.8	1,197,890	8.7
Financial Activities	631,314	4.8	682,551	4.9
Real Estate and Rental and Leasing	192,935	1.5	213,100	1.5
Transportation, Warehousing and Utilities	508,744	3.9	517,691	3.8
Professional and Technical Services	900,304	6.8	955,291	6.9
Education Services	360,827	2.7	379,960	2.8
Health Care and Social Assistance	1,573,786	11.9	1,692,497	12.3
Arts, Entertainment, and Recreation	116,370	0.9	122,655	0.9
Accommodations and Food Services	562,132	4.3	580,312	4.2
Administrative and Waste Services	277,536	2.1	283,965	2.1
Other Private Services-Providing	807,958	6.1	840,721	6.1
Total Private Non-Farm Industries	10,899,130	82.5	11,330,796	82.1
Government and Government Enterprises	$2,203,835	16.8%	$2,343,655	17.0%
Total Farm and Non-Farm Earnings	$13,214,416	100.0%	$13,804,539	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
2001-2003

	2001		2002		2003		U.S. 2003	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	9,489	2.3%	9,738	2.4%	9,530	2.3%	3,034,000	1.8%
Non-Farm Industry:								
Construction	27,977	6.8	27,455	6.7	28,202	6.9	9,706,100	5.8
Mining	1,348	0.3	1,170	0.3	1,072	0.3	719,800	0.4
Manufacturing	48,305	11.8	43,679	10.7	40,776	9.9	15,128,300	9.1
Wholesale Trade	11,404	2.8	11,390	2.8	11,606	2.8	6,108,000	3.7
Retail Trade	49,463	12.1	49,943	12.2	49,590	12.1	18,466,300	11.1
Financial Activities	13,362	3.3	13,284	3.3	13,422	3.3	8,038,100	4.8
Transportation, Warehousing and Utilities	10,863	2.7	10,939	2.7	10,756	2.6	5,892,200	3.5
Real Estate and Rental and Leasing	3,158	0.8	3,173	0.8	3,206	0.8	5,820,900	3.5
Professional and Technical Services	23,514	5.8	23,557	5.8	23,884	5.8	10,752,000	6.3
Education Services	15,563	3.8	16,149	4.0	16,513	4.0	3,310,200	2.0
Health Care and Social Assistance	45,839	11.2	47,621	11.6	49,850	12.1	16,503,300	9.9
Arts, Entertainment, and Recreation	9,131	2.2	9,714	2.4	9,910	2.4	3,387,700	2.0
Accommodations and Food Services	31,758	7.8	31,812	7.8	31,571	7.7	11,128,000	6.7
Administrative and Waste Services	13,438	3.3	13,709	3.4	14,183	3.5	9,714,800	5.8
Other	41,165	10.1	42,333	10.4	42,995	10.5	15,994,700	9.6
Total Private Sector Non-Farm	346,318	84.7	345,928	84.5	347,536	84.5	140,490,400	84.1
Government	53,008	13.0	53,505	13.1	54,275	13.2	23,466,000	14.1
Total Employment	408,815	100.0%	409,171	100.0%	411,341	100.0%	166,900,400	100.0%

Notes: Includes total jobs and proprietors. 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, 2004, the State's largest private employer is IBM, a global manufacturer of semiconductor and related devices, with a total of more than 6,000 jobs. Although the company reduced its payroll by over 1,800 positions during the last three years, the company has over the past 18 months secured major long-term supply contracts for both private sector and governmental (e.g. the U.S. Department of Defense). IBM therefore 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. Other top 10 private sector employers in the State include several companies with more than 1,000 employees in the State. These employers 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), higher education (Middlebury College), and wholesale trade (C&S Wholesalers). Ethan Allen, Inc. also remains as a significant private manufacturing employer with more than 500 but less than 999 employees. However, recent employment reductions have resulted in the company falling out of the list of the State's ten largest private sector employers. 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 by the Vermont Department of Employment and Training in its Quarterly Census of Employment and Wages program and in its payroll job count survey.

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 1988-2003 period. Table 11 indicates that on an average annual basis, total personal income in Vermont has increased by 4.4% per year from 1988 to 2003, as compared to the 4.1% average for the New England region and a 4.2% 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 $15,992, or 91.6% of the U.S. average of $17,331. By calendar 2003, Vermont's per capita personal income had risen to $30,534, 97.1% of the U.S. average of $31,459. Vermont's growth rate in per capita personal income was 3.1% in calendar 2003, significantly above both the national average per capita personal income growth rate of 2.2% during calendar 2003 and the 1.6% growth rate for New England as a whole for that same year. These same data show that Vermont's rate of per capita personal income growth was 3.1% in 2003, which out performed five of the six New England states.

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
1988-2003
($ 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
2003	$18,903	3.6%	$540,069	2.1%	$9,148,680	3.2%
2002	18,247	2.6	528,913	0.9	8,868,261	1.7
2001	17,789	5.4	524,389	4.1	8,718,165	3.5
2000	16,883	7.9	503,961	9.9	8,422,074	8.0
1999	15,650	5.8	458,387	5.4	7,796,137	5.1
1998	14,787	7.6	435,052	7.4	7,415,709	7.4
1997	13,737	5.4	404,990	6.0	6,907,332	6.1
1996	13,039	5.4	382,164	5.7	6,512,485	6.0
1995	12,370	4.8	361,504	5.1	6,144,741	5.3
1994	11,809	4.9	344,112	4.3	5,833,906	5.2
1993	11,257	3.1	330,058	2.9	5,548,121	3.7
1992	10,919	6.8	320,794	5.4	5,349,384	6.3
1991	10,227	1.3	304,280	1.3	5,032,196	3.5
1990	10,096	4.2	300,474	3.2	4,861,936	6.4
1989	9,684	10.2	291,087	6.9	4,571,133	7.9
1988	8,792	9.4	272,305	10.0	4,237,460	7.7

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
1988-2003

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2003	$30,534	3.1%	$38,018	1.6%	$31,459	2.2%
2002	29,603	2.0	37,420	0.2	30,795	0.7
2001	29,024	4.9	37,328	3.3	30,580	2.5
2000	27,680	7.0	36,121	9.0	29,847	6.8
1999	25,881	5.1	33,126	4.6	27,939	3.9
1998	24,629	7.1	31,677	6.7	26,883	6.1
1997	23,002	4.7	29,687	5.3	25,334	4.8
1996	21,964	4.6	28,194	5.1	24,175	4.8
1995	21,002	3.8	26,832	4.5	23,076	4.1
1994	20,226	3.8	25,687	3.8	22,172	3.9
1993	19,485	2.2	24,752	2.4	21,346	2.4
1992	19,065	6.0	24,172	5.2	20,854	4.8
1991	17,985	0.6	22,969	1.1	19,892	2.1
1990	17,876	2.9	22,712	2.8	19,477	5.2
1989	17,365	8.6	22,083	6.1	18,520	6.9
1988	15,992	7.5	20,811	8.8	17,331	6.7

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

Employment Statistics

Vermont had a labor force of 350,700 on an average annual basis in 2003, of whom 334,700 were employed and 16,000 were unemployed. Vermont's 4.6% unemployment rate in that year compared favorably with the 6.0% unemployment rate for the nation overall and a 5.4% 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 2003, and calendar 2004 to-date through the month of November.

Table 13
Average Annual Employment and Unemployment Rate

	State of Vermont			New England	United States
Year	Labor Force (in thousands)	Employment (in thousands)	Unemployment Rate (%)	Unemployment Rate (%)	Unemployment Rate (%)
2004[1]	353	341	3.5%	4.8%	5.6%
2003	351	335	4.6	5.4	6.0
2002	349	336	3.7	4.8	5.8
2001	339	327	3.6	3.7	4.8
2000	333	324	2.9	2.8	4.0
1999	338	327	3.0	3.3	4.2
1998	332	321	3.4	3.5	4.5
1997	328	315	4.0	4.4	4.9
1996	325	310	4.6	4.8	5.4
1995	320	306	4.2	5.4	5.6
1994	315	300	4.7	5.9	6.1
1993	315	298	5.5	6.8	6.9
1992	309	289	6.7	8.1	7.5
1991	303	283	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 first completed section of the Bennington By-pass was opened in October of 2004. The western segment of this important part of the State's highway infrastructure is the first of three segments to be completed. In its entirety, the project is expected to alleviate east-west traffic in the U.S. Route 9 to U.S. Route 7 corridor that currently passes through downtown Bennington. Construction of new sections of the Chittenden County Circumferential Highway was suspended on May 10, 2004 as a result of a U.S. District Court decision. That decision required the Vermont Agency of Transportation to complete an updated environmental impact assessment that met the current requirements of the National Environmental Policy Act. This assessment is currently underway and is expected to be completed within the next two years.

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 provide 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 ("BIA"). The BIA set a new record for air passenger boardings, with 634,798 emplanements during calendar year 2004. This level surpassed the previous record set in calendar year 2002 by 15 percent. A $25.6 million facilities expansion plan is currently underway at the BIA. This plan includes the completion of a significant addition to the airport's parking garage, the completion of a second skywalk between the parking garage and the terminal, and expanded baggage handling and terminal-waiting facilities. The BIA's plan for calendar year 2005 includes the addition of 4 or 5 loading areas in the north terminal.

In 2004, the list of commerical air carriers serving the airport grew to seven airlines, with the discount carrier Independence Air beginning service in July 2004. Jet Blue Airlines' role at the BIA grew to become the the second most significant carrier, with a 23 percent share of total passenger boardings, during calendar year 2004. Other major carriers currently at the BIA include Delta Airlines and United Airlines. The BIA's annual total passenger count of incoming and departing passengers continues to exceed 1 million passengers.

US Airways is the BIA's largest carrier with 25% of total passenger boardings. If US Airways were to discontinue operations, service to Washington DC, Philadelphia, Pittsburgh, and New York could be impacted. Airport officals are currently developing plans to address any potential adverse impact on service levels should US Airways or any of the airport's other current major carriers discontinue operations. With a full slate of major carriers already at the BIA, it is expected that service options to address any impacted destinations would be developed in cooperation with those remaining carriers through different hubs.

Neither the State nor BIA can predict what impact the financial difficulties being experienced by individual carriers and the airline industry, in general, will have on BIA.

Utilities

In recent years, there have been a number of positive developments that have contributed 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. Many businesses have filed for and received approval for such rates in conjunction with their service provider over the past several years, including IBM, other large manufacturers and ski areas.

In terms of supply, the State has in place major power contracts from stable priced sources 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. The Vermont Public Service Board issued conditional approval for the request in the Spring of 2004.

Natural gas is an important source of energy in northwestern sections of Vermont that 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 in place, and have increased the quantity of LPG stored locally.

Vermont currently has an extensive telecommunications network. Verizon offers local telephone service to approximately 85% of Vermont consumers while nine other incumbent local exchange companies serve the areas of the State not served by Verizon. Over one hundred telephone companies are authorized to provide 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. Resolution of a long-term regulatory dispute with Adelphia Communications has resulted in expanded cable modem service throughout much of rural Vermont, and Verizon is expanding the reach of its DSL services. Vermont has had a number of years of robust long distance competition. Cellular telephone service comes from Rural Cellular, Verizon Mobile and U.S. Cellular, while Nextel and Sprint PCS 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 expended for the prior fiscal year and the amounts appropriated and expected to be expended for the current 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 General Assembly authorizes all disbursements of State funds through the budgeting and appropriation processes. The Commissioner of Finance and Management, who is responsible for the accounting and internal control systems of the State approves the issuance of payments by the State Treasurer by signing a warrant. No disbursements may be withdrawn from the Treasury without an appropriation and 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. 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.

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 fiscal year 2003, the State's CAFR received an "unqualified opinion" on its Basic Financial Statements from the State Auditor of Accounts. This was the first time the State has received an unqualified opinion since it brought its financial reporting into compliance with generally accepted accounting principles (GAAP).

Vermont had included its general capital (fixed) assets including its infrastructure assets in fiscal year's 2002 CAFR for the first time but had received a qualified opinion due to the State Auditor's inability to verify the

reported values presented. (Proprietary funds have been reporting their capital assets and associated depreciation for several years.) GASB Statement No. 34 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 are depreciated over their estimated useful lives and are reported net of their accumulated depreciation in the Government-wide financial statements.

The State rectified this matter for fiscal year 2003 and the values presented in the financial statements were audited and accepted which resulted in an unqualified opinion.

Issues in the Preparation of the CAFR for Fiscal Years 2002, 2003 and 2004

The State's fiscal year 2002 CAFR was not released until November 21, 2003, significantly later than scheduled and also beyond its March 31, 2003 State and Federal reporting deadline. This delay resulted from difficulties encountered in implementing a new statewide financial management information system (VISION) 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 capital assets and construction in progress and qualified its opinion in this regard. Information regarding infrastructure assets was required to be included in the CAFR for the first time in fiscal year 2002 pursuant to GASB Statement No. 34.

For fiscal year 2003, the State took several steps 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 were, and continue to be, implemented. The Department of Finance and Management and the Office of the State Treasurer believed these steps would put the State in a more favorable position to complete future annual financial statements in a more timely manner. The result is that the fiscal year 2003 CAFR, although not issued until December 2004, was completed in a shorter time frame than the fiscal year 2002 CAFR. The fiscal year 2004 CAFR is expected to be completed and issued in the spring of calendar year 2005.

All fiscal year 2004 financial information contained in this official statement is preliminary and unaudited.

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. Through fiscal year 2004, the 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, 20 percent of the meals and rooms and alcoholic beverages tax, 16 percent of the gasoline tax, one sixth of the motor vehicles purchase and use tax revenue, 19 percent of the tax on corporations including Subchapter S corporations, partnerships and limited liability companies, 58.3 percent of bank franchise tax revenue, and funds appropriated or transferred by the General Assembly. Beginning in fiscal year 2005, in accordance with 16 V.S.A. 4025(a) as amended, the sources of funding are as follows: statewide education property tax; revenues from the state lotteries; revenue from the electric generating plant education property tax; one-third of the purchase and use tax; one-third of the sales and use tax; Medicaid reimbursements pursuant to 16 V.S.A. 2959a(f) 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 nine 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.

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-one 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, agencies, or 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.

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, 2003 and 2002 as contained in each fiscal year's CAFR.

For 2003, the General Fund had a $99.8 million total fund balance as compared to a $149.6 million total fund balance in 2002, a decrease of $49.8 million. The unreserved undesignated portion of this fund balance decreased from $97.9 million in 2002 to $47.1 million in 2003. This decrease occurred after the General Fund Budget Stabilization Reserve balance was increased from $9.4 million in 2002 to $23.6 million in 2003, the General Assembly's designated "Reservation for General Fund Surplus" was transferred to the General Fund Budget Stabilization Reserve, and the Agency of Human Services' "Reservation for Human Services Caseload Management" decreased from $18.0 million in 2002 to $17.2 million in 2003 due to appropriations from the Human Services Caseload Management reserve exceeding unexpended appropriations transferred to it. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $107.3 million at the end of fiscal year 2002 to $70.7 million at the end of fiscal year 2003 or a total decrease of $36.6 million.

For fiscal year 2003, the Transportation Fund had a total fund balance of $ 4.5 million, a decrease of $11.9 million compared to fiscal year 2002's balance. The unreserved undesignated portion of 2003's total fund balance was a negative $4.8 million which represents a decrease of $5.3 million compared to fiscal year 2002. The Budget Stabilization Reserve in the Transportation Fund declined slightly from $9.9 million in 2002 to $9.2 million in 2003. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $10.4 million at the end of fiscal year 2002 to $4.4 million at the end of fiscal year 2003 or a total decrease of $6.0 million.

For fiscal year 2003, the Education Fund had a total fund balance of $7.0 million, a decrease of $10.2 million compared to fiscal year 2002's balance. The unreserved undesignated portion of 2003's total fund balance was a negative $4.1 million which represents a decrease of $7.1 million compared to fiscal year 2002. The Budget Stabilization Reserve in the Education Fund decreased from $14.2 million in fiscal year 2002 to $11.1 million in fiscal year 2003. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $17.2 million at the end of fiscal year 2002 to $7.0 million at the end of fiscal year 2003 or a total decrease of $10.2 million

For fiscal year 2003, the Federal Revenue Fund reported a total fund balance of $41.6 million, which remained essentially the same as the balance in 2002 of $41.7 million. Fiscal year 2003's unreserved undesignated portion of this total fund balance increased from $3.0 million in 2002 to $30.4 million in 2003, an increase of $27.4 million. There is no budget stabilization reserve in the Federal Revenue Fund.

The fiscal year 2004 preliminary operating results contained under the heading "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2004" have not been prepared on a GAAP basis and are unaudited.

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 2004). 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 of calculating Vermont income tax based on federal taxable income 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 $429.8 million or 45.2% of net General Fund revenues in fiscal year 2004.

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 2004, combined sales and use tax and telecommunications tax totaled $272.2 million. The general sales and use tax portion of the tax totaled $255.8 million or 26.9% of net General Fund receipts. Receipts in the telecommunications tax totaled $16.4 million or 2.5% of Education Fund receipts for fiscal year 2004.

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%. Through June 30, 2004, the law required a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund. Since 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 $88.3 million in net General Fund revenues represented 9.2% of revenues available to the General Fund in fiscal year 2004.

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%. 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. Beginning on July 1, 1998, 19% of the gross tax collected on corporate income (including S corporations, partnerships, and limited liability companies) was allocated from the General Fund to the Education Fund. Effective July 1, 2004, 100% of the gross receipts from this tax remains in the General Fund. After transfer to the Education Fund of the statutory percentage of gross receipts, the $45.2 million in net General Fund revenues represented 4.7% of revenues available to the General Fund in fiscal year 2004.

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 $47.0 million or 4.9% of net General Fund revenues in fiscal year 2004.

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. Effective June 7, 2004, no new elections to pay the gross receipts tax may be made. Fiscal year 2004 telephone receipts and property taxes generated $10.4 million or 1.1% 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 recent years, the General Assembly has often modified this formula to the benefit of the General Fund. In fiscal year 2004 after statutory transfers, net receipts totaled $11.1 million or 1.2% 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 $11.7 million or 1.2% 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 $5.2 million or .05% of net General Fund revenues in fiscal year 2004.

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 $14.7 million or 1.5% of net General Fund revenues in fiscal year 2004.

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 $2.7 million in fiscal year 2004 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 has been dedicated to the General Fund. After transfer to the Education Fund of the statutory percentage, the $2.7 million in net General Fund revenues represented 0.3% of revenues available to the General Fund in fiscal year 2004.

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 has been dedicated to the General Fund. Net revenues in this category last fiscal year were $25.8 million, or 2.7% of revenues available to the General Fund in fiscal year 2004.

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 2004 (amounts for fiscal year 2004 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 is 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 $71.9 million in fiscal year 2004, representing 33.5% 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 2004, motor vehicle fees accounted for $55.2 million, representing 25.7% 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 is dedicated to the Transportation Fund pursuant to Act 68 of the Acts of 2003. In fiscal year 2004, the motor fuel tax accounted for $54.3 million or 25.3% 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 2004, the diesel fuel tax accounted for $18.0 million or 8.4% 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 2004, these other taxes and revenues accounted for $15.2 million or 7.1% 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 does 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 currently assessed at the rate of $1.10 per $100 of assessed value multiplied by the district spending adjustment while all other property is currently assessed at $1.59 per $100 and is not subject to the district spending adjustment. These rates may be adjusted annually based upon the Education Fund balance. For fiscal year 2006, the Administration is recommending to the General Assembly that the homestead and non-residential rates be reduced to $1.02 and $1.51, respectively.

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 2004, Lottery revenues totaled $20.3 million, representing 3.2% of net revenues available to the Education Fund. Education Fund Medicaid reimbursement revenues for fiscal 2004 were $8.6 million, representing 1.4% of total Education Fund revenues in that fiscal year.

Federal Receipts

In fiscal year 2004, the State received approximately $1,075.7 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 2005 federal receipts, when finalized and audited, are expected to be approximately $1,113.0 million. The fiscal year 2005 Appropriations Act, as passed, anticipates $1,099.4 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 2004 were made in the areas of Human Services, $751.5 million; Transportation, $122.2 million; Education, $104.0 million; Employment and Training, $22.8 million and Public Safety, $20.4 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	25.82
Fiscal year 2005	26.10	27.0*
Fiscal year 2006	21.90	**

* 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 2005, the Legislature appropriated $17.3 million from such Fund (the same as fiscal years 2001, 2002, 2003 and 2004) to healthcare services and $4.7 million to programs in the Health and Education departments for tobacco enforcement, prevention and education programs. Additionally, $4.6 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. In 2004, $600,000 of remaining receipts were transferred to the Health Access Trust Fund and the balance remained in the Tobacco Litigation Settlement Fund. The balance of the Tobacco Investment Trust Fund at the end of fiscal year 2004 was $28.7 million. The balance of the Health Access Trust Fund was $23.6 million.

Recent Proposed Tax Changes

The Governor's proposal to change income taxation of corporations was acted on by the General Assembly in 2004 and is effective for tax years beginning on or after January 1, 2006. Corporations will be subject to tax on their income on a unitary combined basis instead of the current separate reporting approach. This system apportions the taxable income of an entire multi-state group of affiliated corporations that is engaged in a unitary business. The definition of "affiliated group" excludes captive insurance companies and corporations with 80% or more of their property or payroll overseas. A unitary business is one or more related business organizations engaged in business activity both within and without the state among which there exists a unity of ownership, operation, and use; or an interdependence in their functions. See 2003 (Adj. Sess.) Act No. 152. Unitary combined reporting will diminish the effectiveness of certain tax avoidance techniques currently available to multi-state corporations. The act also lowers corporate tax rates effective January 1, 2006. Regulations explaining the new law will be presented to the Legislature in January, 2005. The January 14, 2005 consensus revenue forecast for the State's General Fund made by Economic and Policy Resources (EPR) of Williston, Vt. (the Douglas Administration's revenue forecaster) and the Legislature's economist estimates a negative $2.0 million revenue impact in fiscal year 2006 (which includes the first phase of the two-staged tax rate reductions and the change in the weighting of the sales factor) and a negative $0.8 million revenue impact in fiscal year 2007 (comprised of a $5.0 million gain from unitary reporting, $4.8 million loss from the second phase of the rate reductions and a $1.0 million loss resulting from the change in the weighting of the sales factor).

In the 2005 legislative session, the Governor will propose simplification of the Economic Advancement Tax Incentives (EATI) Program administered by the Vermont Economic Progress Council. Currently, the program offers a complex assortment of credits and exemptions that are not directly tied to the goal of creating good paying jobs. The proposal is to streamline the EATIs into a single payroll-based incentive that would be administered

through the payroll withholding filings of the qualifying company. This would simplify administration by eliminating carry-forwards and recapture and would provide a current benefit to qualifying companies.

The Administration will also propose a change in the way electric transmission and distribution property is assessed for purposes of property tax. The current basis for taxation is fair market value. In most cases, towns use the Tax Department's estimate of fair market value derived from replacement cost new less depreciation. Since these companies are regulated utilities they are required to report the net book value of their assets on FERC forms that are filed with the Public Service Department. The proposal is to change the property tax base to net book value, which is an audited and easily verifiable number. Using the same value for rate-setting and property taxation would increase efficiency and reduce litigation between the utilities and the towns. The proposal will include transition provisions to minimize dislocations caused by moving to the new base.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

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

With strong revenue results in the final fiscal quarter, the State finished fiscal year 2003 with a total of $882.1 million in General Fund revenues. With total appropriations of $888.0 million (including $2.0 million in one-time expenditures), the resulting operating deficit for 2003 was $5.9 million. Base appropriations represented a 1.3% increase over the previous year while total General Fund revenues grew at 3.6%. The General Fund operating deficit of $5.9 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 $9.9 million was made to the General Fund Budget Stabilization Reserve increasing its balance to $23.6 million or 54% of the statutory maximum target.

Fiscal year 2003 Transportation Fund revenues totaled $214.00 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 or 92% of the statutory maximum target.

The Education Fund experienced a $3.4 million operating deficit for fiscal year 2003 and ended the year with no undesignated surplus balance, and an Education Fund Budget Stabilization Reserve of $11.1 million or 51% of the statutory maximum target.

Fiscal Year 2004

With strong revenue results in the final four months, the State finished fiscal year 2004 with a total of $972.4 million in General Fund revenue. With total appropriations of $915.4 million, the resulting operating surplus for fiscal year 2004 was $57.0 million.

State revenues were greatly influenced by unexpected receipts from the Federal government. 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 (to Vermont's Health Access Trust Fund). 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.

The General Fund operating surplus of $57.0 million was reduced by transfers to various Internal Service Funds ($10.0 million), the Transportation Fund ($4.5 million), the Teachers' Retirement Fund ($4.0 million), the Human Services Caseload Reserve ($3.0 million), the Health Access Trust Fund ($2.0 million), and other funds ($2.6 million). As a result, a net transfer of $20.9 million was made to the General Fund Budget Stabilization Reserve bringing it to statutory maximum target of $44.5 million. In addition, $15.6 million was dedicated to the General Fund Surplus Reserve to carry forward to fiscal year 2005.

Fiscal year 2004 Transportation Fund revenues totaled $214.6 million. With previous year balances and transfers, the total available for fiscal year 2004 was $224.12 million. Appropriations totaled $222.24 million and the Transportation Fund had an operating surplus of $1.9 million. Allocation of the operating surplus included a $0.5 million transfer to various designations and a transfer of $1.4 million to the Transportation Budget Stabilization Reserve. The balance of the Transportation Fund Stabilization Reserve at the end of fiscal year 2004 was $10.5 million, which is the maximum statutory target.

The Education Fund experienced a $28.4 million operating surplus for fiscal year 2004. Allocations of the operating surplus included designation of $1.8 million for fiscal year 2005 use and a transfer of $11.7 million to the Education Fund Budget Stabilization Reserve. The Education Fund ended fiscal year 2004 with an undesignated surplus balance of $14.9 million, and an Education Fund Budget Stabilization Reserve of $22.8 million, which is the maximum statutory target.

Fiscal Year 2005 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, 2004, current law General Fund revenues in fiscal year 2004 were projected to be $922.6 million and on June 10, 2004, the General Assembly passed a budget of $956.3 million. On July 15, 2004, the Emergency Board met to consider the forecast and agreed to a General Fund revenue forecast of $950.0 million for fiscal year 2005, which represented an increase over the estimates made when the budget was being prepared earlier in 2004. On January 14, 2005, based on the receipts for the first half of fiscal year 2005, the Emergency Board agreed to a $31.3 million increase in the fiscal year 2005 General Fund revenue forecast, raising the total to $981.3 million. The increases in the estimates in July 2004 and January 2005 reflect an improved Vermont economy and strong and steady revenue growth since the spring of 2003. On January 19, 2005, the Governor presented his proposed fiscal year 2006 budget and a recommendation to use the surplus revenues for $32.9 million of appropriations to various human services needs and $36.7 million for transfers to various other funds and for fiscal year 2006 needs. The proposed budget may be found at **http://www.state.vt.us/fin/Key_Budget_Documents.htm**.

Through December 2004 the General Fund experienced a 6.8 % year-over-year revenue increase. This follows strong revenue receipts in the General Fund during the final quarter of fiscal year 2003 and all of 2004. During the first six months of fiscal 2005, General Fund receipts have been supported by stronger than expected personal income and corporate income tax receipts, a strong performance by the State's sales and use tax, and higher than expected property transfer and estate tax receipts.

The Transportation Fund during the July to December period has posted a relatively flat negative 0.2% year-over-year revenue performance. Revenue receipts activity trailed expectations in the diesel fuel and motor vehicle purchase and use tax categories over the first six months of fiscal year 2005. On January 14, 2005, the Emergency Board lowered the fiscal year 2005 Transportation Fund forecast by $0.6 million to a total of $213.7 million, based on receipts activity over the first half of the fiscal year.

In fiscal year 2005, the Education Fund has experienced higher than expected revenue growth. This was largely the result of an upward adjustment in the grand list growth rate, from 8.1% to 9.1% (reflecting increasing property values from 2004 to 2005). The fiscal year 2005 (gross) total revenue is projected to be $ 1.14 billion and the operating deficit is expected to be $11.6 million (before utilizing the prior year undesignated reserve of $14.9 million), due to a jump in the rate of school spending. The spending growth is expected to slow, while property values are projected to increase. As a result, the Administration has recommended that legislation be passed authorizing a property tax rate cut of eight cents (off the statutory rates per $100 of valuation) effective July 1, 2006. The Act 68 Education Finance reform was designed so that these surplus revenues (beyond what was required to fund education spending and a full budget stabilization reserve) would be returned to property tax payers in the form of reduced rates. Last year, the Governor proposed, and the General Assembly accepted, a five-cent reduction from the statutory rates, effective July 1, 2005. The Governor's recommendation for fiscal year 2006 represents an incremental three-cent reduction. With these latest forecasts, the current level of education spending appears to be sustainable for the foreseeable future.

Fiscal Year 2005 General Fund Results to Date

	July 1, 2004 – December 31, 2004 (Unaudited)	
	Revenue Estimate[1]	Revenue Collections
Personal Income Tax	$227,998,400	$238,043,934
Sales and Use Tax	98,805,000	104,323,771
Corporate Income Tax	20,591,000	22,226,244
Meals and Rooms Tax	56,358,500	57,318,420
Property Transfer	6,744,600	8,084,957
Other Revenues	56,848,000	56,621,993
Total	$467,345,500	$486,619,319

[1] Official Revenue Estimates as of July 15, 2004.

Fiscal Year 2005 Transportation Fund Results to Date

	July 1, 2004 – December 31, 2004 (Unaudited)	
	Revenue Estimate[1]	Revenue Collections
Gasoline Tax	$34,638,900	$33,046,488
Diesel Tax	8,859,800	7,525,756
Purchase and Use Tax	28,704,100	27,607,239
Motor Vehicle Fees	23,587,900	26,117,840
Other Revenues	7,514,100	7,739,040
Total	$103,304,800	$102,036,364

[1] Official Revenue Estimates as of July 15, 2004.

Fiscal Year 2005 Education Fund Results to Date*

	July 1, 2004 – December 31, 2004 (Unaudited)	
	Revenue Estimate[1]	Revenue Collections
Sales and Use Tax	$49,402,500	$51,876,649
Lottery	8,872,800	9,494,143
Motor Vehicle Purchase & Use Tax	14,352,000	13,803,619
Other Revenues	(39,700)	(288,272)
Total	$72,587,600	$74,886,139

* 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, 2004.

Budget Stabilization Reserves

The 1987 the General Assembly 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 $30.8 million in General Fund reserves, $8.4 million 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 General Assembly 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.

The General Fund Budget Stabilization Reserve ended fiscal year 2004 fully funded at $44.5 million with an additional $15.6 in General Fund Surplus Reserve. On June 30, 2004, the Human Services Caseload Reserve totaled $18.5 million, a $1.8 million increase over the fiscal year 2003 balance. The Transportation Fund Budget Stabilization Reserve ended the year fully funded at $10.5 million. The Education Fund Budget Stabilization Reserve ended fiscal year 2004 fully funded at $22.8 million. The General Fund and Transportation Fund Budget Stabilization Reserves are statutorily capped at 5% of prior year appropriations while the Education Fund Budget Stabilization Reserve is statutorily required to be between 3.5 and 5.0 percent of prior year education spending (excluding the General Fund transfer which is already considered in the General Fund Stabilization Reserve).

Current projections are that the Budget Stabilization Reserves for the General Fund, Transportation Fund and Education Fund will remain fully funded at their respective statutory levels on June 30, 2005 and for the forseeable future.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2002 through 2004, and as passed for fiscal year 2005 for the primary operating funds of the State, the General Fund, the Transportation Fund, and the Education Fund. The General Assembly is considering legislation to amend the budget for fiscal year 2005 to increase certain expenditures based on the increased revenue estimates of January 14, 2005. All fiscal year 2004 information is unaudited.

General Fund Operating Statement*
Fiscal Years 2001 – 2005
($ in Millions)

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	As Passed FY 2005
Sources					
Current law revenues	$895.85	$832.69	$863.21	$921.65	$950.00
2003 H.480 (Act 68) sales tax implementation	0.00	0.00	0.00	28.90	0.00
Direct applications & reversions	9.90	20.27	18.13	17.30	12.53
Additional Property Transfer Tax	0.00	0.00	2.66	5.88	7.85
VEDA Debt Forgiveness	0.00	0.00	(1.90)	1.34	(2.00)
Tax refund reserve	33.39	4.05	0.00	0.00	0.00
Tax refunds paid out	(29.34)	0.00	0.00	0.00	0.00
Current year sources	909.80	857.01	882.10	972.39	968.38
For approp from prior year surplus reserve	11.59	0.00	0.00	0.00	15.63
Total Sources	921.39	857.01	882.10	972.39	984.01
Uses					
Base appropriations	836.69	862.92	881.82	907.25	950.53
Pay Act	0.00	0.00	5.89	0.52	5.74
One-time appropriations	7.73	9.22	2.01	34.54	0.00
HS Caseload Reserve-BAA Appropriation	0.00	0.00	0.00	1.70	0.00
Additional GF transfer to Ed Fund due to Act 68	0.00	0.00	0.00	28.90	0.00
One-time approps from prior year surplus reserve	11.59	0.00	0.00	0.00	0.00
Contingent one-time approps from same year	17.18	0.00	0.00	0.00	0.00
School construction approp from prior year surplus	8.00	0.00	0.00	0.00	0.00
Same year reversion: Human Services Caseload	(0.50)	0.00	0.00	(7.50)	0.00
Federal Flexible Funding Replacement	0.00	0.00	0.00	(50.00)	0.00
Transfer from Caseload Reserves	0.00	0.00	(1.76)	0.00	0.00
Total Uses	880.69	872.14	887.96	915.41	956.27
Operating Surplus (deficit)	40.70	(15.13)	(5.86)	56.98	27.74
Transfers of Surplus (to) / From Other Funds					
Human Services Caseload Reserve	0.00	0.00	0.00	(3.00)	0.00
Transportation Fund	(5.51)	(13.85)	6.45	(4.47)	0.00
Tobacco Settlement	0.00	0.00	9.20	0.00	0.00
General Bond Fund	0.00	0.00	0.16	(1.71)	0.00
Education Fund	0.00	(5.60)	0.00	0.00	0.00
Transportation Fund Stabilization Reserve	(0.64)	0.00	0.00	0.00	0.00
Housing & Conservation Trust Fund	(1.00)	0.00	0.00	0.00	0.00
VHAP Trust Fund	(10.00)	0.00	0.00	(2.00)	0.00
Internal Service Fund	0.00	0.00	0.00	(10.01)	0.00
Assorted Funds	0.00	0.00	0.00	(0.93)	0.00
Total Transfers (to) / From Other Funds	(17.15)	(19.45)	15.81	(22.12)	0.00
Transfers of Surplus (to)/from Reserves					
Budget Stabilization Reserve	(1.66)	34.58	(15.10)	(20.93)	(1.28)
Human Services Caseload Reserve	(1.50)	0.00	0.81	1.70	0.00
Reserved for transfer to Debt Service	(12.00)	0.00	0.00	0.00	0.00
Reserved in GF Surplus Reserve	(4.34)	0.00	4.34	(15.63)	(26.46)
Total reserved in the GF	(19.50)	34.58	(9.95)	(34.86)	(27.74)
Total transfer of Surplus	(36.65)	15.13	5.86	(56.98)	(27.74)
Unallocated Operating Surplus	4.05	0.00	0.00	0.00	0.00
GF Reserves (cumulative)					
Budget Stabilization Reserve	43.02	8.44	23.56	44.49	45.77
Human Services Caseload Reserve	18.05	18.05	17.24	18.54	18.54
Reserved for transfer to Debt Service	12.00	0.00	0.00	0.00	0.00
Reserved in GF Surplus Reserve	4.34	4.34	0.00	15.63	26.46
Reserved for school construction	15.21	0.00	0.00	0.00	0.00
Total GF Reserve Balances	$92.62	$30.83	$40.80	$78.66	$90.77

* Results may not add due to rounding.

Transportation Fund Operating Statement*
Fiscal Years 2001 – 2005
($ in Millions)

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	As Passed FY 2005
Sources					
Current law revenues	$185.95	$197.94	$205.34	$214.57	$214.36
Federal reimbursements	8.22	8.41	8.59	3.91	0.00
Direct applications & transfers in	0.12	1.26	0.05	5.64	1.40
Current Year Sources	194.29	207.61	213.98	224.12	215.76
For approp from General Fund Transfer	5.51	13.85	0.00	0.00	0.00
For approp from RMMTC Reserve	0.00	1.17	0.00	0.00	0.00
Prior year unallocated operating surplus	9.75	0.00	5.65	0.00	7.44
Total Sources	209.55	222.63	219.63	224.44	223.20
Uses					
Base appropriations	203.32	211.20	211.20	221.03	220.70
Budget Adjustments	0.00	0.00	0.00	0.93	0.00
Excess Receipts	0.00	0.00	0.00	0.27	0.00
Pay Act	0.00	2.45	3.34	0.00	1.46
Rescission	0.00	(1.91)	(3.79)	0.00	0.00
Contingent one-time approp from prior year	0.00	1.17	0.00	0.00	0.00
Total Uses	203.32	212.91	210.75	222.24	222.16
Operating Surplus (deficit)	6.23	9.72	8.88	1.89	1.04
Allocation of Surplus					
Transfers of surplus (to) / from other funds:					
General Fund	0.64	0.00	(6.45)	4.77	0.00
Downtown Fund	(0.80)	(0.70)	(0.80)	(0.80)	(0.80)
Central Garage Fund	(4.45)	(1.98)	(1.99)	(2.11)	(0.10)
FMS Development Fund	0.00	0.00	0.00	(1.56)	0.00
Art Acquisition Fund	0.00	(0.01)	0.00	0.00	0.00
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	(4.98)	(3.06)	(9.61)	(0.06)	(1.27)
Reserved in TF (designated):					
Bond Insurance Premium Reserve	0.00	0.00	0.00	(0.13)	0.13
Transportation FMS Development Fund	0.00	0.00	0.00	0.31)	0.00
Budget Stabilization Reserve	(0.08)	(1.01)	0.73	(1.38)	(0.17)
Total Reserved in the TF (designated)	(0.08)	(1.01)	0.73	(1.82)	(0.04)
Total Allocated	(5.06)	(4.07)	(8.88)	(1.89)	(1.31)
Unallocated Operating Surplus / (deficit)	1.17	5.65	0.00	0.00	(0.27)
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	$0.00	$0.00	$0.00	$0.13	$0.00
Transportation FMS Development Fund	0.00	0.00	0.00	0.31	0.31
Budget Stabilization Reserve	8.88	9.89	9.16	10.54	10.71
Rutland MMTC Reserve	1.17	0.00	0.00	0.00	0.00
Total TF Reserve Balances	$10.05	$9.89	$9.16	$10.98	$11.02

* Results may not add due to rounding.

Education Fund Operating Statement*
Fiscal Years 2001 – 2005
($ in Millions)

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Actual FY 2004	As Passed FY 2005
Sources					
Current law revenues	$72.94	$69.80	$70.66	$79.41	$31.17
Sales Tax (after FY04)	0.00	0.00	0.00	0.00	101.93
Lottery Revenue	17.44	16.59	15.53	20.30	19.40
Statewide Property Tax	406.73	424.15	453.96	487.54	386.14
Local Share Property Tax Receipts	171.09	197.39	231.88	252.13	347.32
General Fund Appropriations	238.03	246.36	245.68	268.40	249.30
Medicaid Reimbursement	8.18	8.26	8.28	8.63	8.20
Direct Applications/Reversions	11.79	9.55	4.73	0.00	1.58
Interest on Fund Balance	0.22	0.17	(0.31)	(0.32)	(0.20)
Prior year unallocated operating surplus	10.69	0.00	0.00	0.00	0.00
Total Sources	937.11	972.27	1,030.41	1,116.09	1,144.84
Uses					
Base appropriations	786.59	809.71	825.00	859.69	1,153.64
Local Share Payments	148.31	174.94	205.58	225.87	0.00
School Construction Assistance	0.00	0.00	3.19	2.13	0.46
Total Uses	934.90	984.65	1,033.76	1,087.69	1,154.10
Operating Surplus (deficit)	2.21	(12.38)	(3.36)	28.40	(9.26)
Allocation of Surplus					
Transfer of surplus (to) / from other funds					
General Fund	0.00	5.60	0.00	0.00	0.00
Total Transfers (to) / from other Funds	0.00	5.60	0.00	0.00	0.00
Reserved in the Education Fund (designated)	0.00	0.00	0.00	(1.87)	0.00
Budget Stabilization Reserve	(2.21)	6.40	3.36	(11.68)	(0.49)
Total Reserved in the Education Fund	(2.21)	6.40	3.36	(13.55)	(0.49)
Total Allocated	(2.21)	12.00	3.36	(13.55)	(0.49)
Unallocated Operating Surplus	0.00	0.00	0.00	14.85	5.10
Education Fund Reserves (cumulative)	20.84	14.44	11.08	22.76	23.25
Total EF Reserve Balances	$20.84	$14.44	$11.08	$22.76	$23.25

* Results may not add due to rounding.

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 2005, 2006 and 2007 was completed in early January, 2005 and was approved by the Emergency Board on January 14, 2005 (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 Partnership (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, 2005 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 years 2005, 2006, and 2007. 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 years 2005, 2006, and 2007 reflects a consensus assessment of : (1) recent trends in actual receipts by major personal income tax sub-component, (2) the most recent consensus expectations for job and wage growth over the period (See "STATE ECONOMY–Economic Activity–The Vermont Outlook"), (3) the expectation of continued strong real estate capital gains, and (4) expected strong business profits growth for taxpayers that pay their business tax liability through their personal income tax filing (e.g. Proprietors, Subchapter S Corporations, certain partnerships and similar entities). The January Forecast expects revenue receipts of $468.1 million in fiscal year 2005 and $491.2 million in fiscal year 2006, reflecting 8.9% and a 4.9% annual growth rate, respectively. Relative to the July 2004 Consensus Forecast, these revised forecasts represent increases of 3.4% and 3.9%, respectively.

Sales and Use Tax: The January Forecast for the sales and use tax for fiscal 2005, 2006, and fiscal 2007 reflects strong receipts over the first half of fiscal 2005, and a less than expected negative response to the tax rate increase that became effective on October 1, 2003. The January Forecast includes no additional revenue from the multi-state streamlined sales tax initiative agreement that is aimed at collecting sales taxes from out-of-state vendors, mostly mail order and internet retailers. Although the implementation of this sales tax initiative in Vermont could significantly expand sales tax revenues, implementation of this initiative is currently too uncertain to be included in the January Forecast.

The January Forecast expects revenues of $203.9 million in fiscal 2005, and $211.1 million in fiscal year 2006, reflecting year-over-year growth rates of a negative 20.3% (a 12.3% increase prior to the Education Fund transfer including the Telecommunications Sales Tax) and 3.5%, respectively. These revised forecasts represent an increase of 3.6% for fiscal year 2005 and 4.0% for fiscal year 2006 relative to the July 2004 consensus forecast. 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 included in the January Forecast. The January Forecast also reflects 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 at the beginning of fiscal year 2005.

Corporate Income Tax: The January Forecast reflects recent trends in corporate tax collections over the first half of fiscal 2005, and recent favorable corporate profits that have prevailed nationally and in Vermont as the economic recovery and productivity strengthened. The January Forecast also reflects the revenue restraining effects of increased claims for State tax credits under the incentives program of the Vermont Economic Progress Council. The January Forecast further reflects State unitary tax reform legislation and accompanying tax rate reductions that were enacted during the 2004 session of the Vermont General Assembly. This legislation is expected to reduce corporate tax receipts by $2.0 million in fiscal 2006 (which includes the first of a two-phased reduction in rates and the change in the weighting of the sales factor in the state's three factor income weighting formula. The impact during fiscal year 2007 is projected to be a net $0.8 million loss, composed of an estimated $5.0 million in increased receipts from the unitary reporting provision, a $4.8 million loss from the second round of rate reductions, and a $1.0 million loss from the change in the weighting of the sales factor in the state's three factor income weighting formula.

The $50.4 million January Forecast for total corporate income tax revenues in fiscal year 2005 includes a 9.6% decline (prior to considering the change in the Education Fund transfer) for the fiscal year, and an 11.6% increase after the change in the Education Fund transfer. For fiscal 2006, the $45.6 million January Forecast includes another decline of 9.5% versus fiscal year 2005 receipts. The January Forecast for fiscal 2007 totals $48.0 million, an increase of 3.7% versus fiscal year 2006. Relative to the July 2004 consensus forecast, the January Forecast represents increases of 7.5% and 9.5% for fiscal year 2005 and fiscal year 2006, respectively. The fiscal year 2005-07 forecast numbers reflect the allocation change in Act 68 where 100% of corporate tax is retained by the General Fund beginning on July 1, 2004 (or the beginning of fiscal 2005) and for each year thereafter.

Meals and Rooms Tax: The continued upturn in the U.S. and State economies, the weakening U.S. dollar (particularly relative to the Canadian dollar), and a strong fall foliage tourist season has generated a $1.0 million increase in meals and room tax receipts through the first half of fiscal 2005. A slow start to the winter tourism season and the lean natural snow base at many State resorts to date this winter have resulted in only a small $1.0 million increase (or 0.9% increase relative to the July 2004 consensus forecast) and $2.0 million forecast increase in the January Forecast for fiscal years 2005 and 2006, respectively. Weather conditions have a significant impact on winter tourism activity and therefore the level of the State's meals and rooms tax collections. Good snow cover is an especially important factor for encouraging tourism activity during the critical holiday weekends in January and February of the winter season. Currently this tax source is experiencing longer term growth of between 3.0% to 4.0%. The January Forecast for fiscal 2005 for the meals and rooms tax totals $112.6 million, representing an increase of 27.4% versus fiscal 2004 inclusive of the Act 68 Education Fund transfer change. The January Forecast for fiscal year 2006 totals $117.1 million, an increase of 4.0% versus fiscal 2005. The 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. Assuming a level Education Fund transfer, the January Forecast projects a 3.7% rate of increase in the meals and rooms tax for fiscal year 2005 versus fiscal year 2004.

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, the factors causing an upward trend include: (1) the continuing strength in the State's real estate market activity sector and strong price appreciation in the State's residential and second home markets, and (2) strong 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 and projected General Fund revenue collections on a fiscal year basis for fiscal year 2002 through fiscal year 2005. 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	Fiscal 2004	Fiscal 2005	Percentage Change '04-'05
Personal Income Taxes	$407,834,705	$411,343,166	$429,816,793	$468,100,000	8.9%
Sales & Use Taxes	214,840,796	218,629,263	255,828,735	203,900,000	-20.3
Corporate Taxes	25,904,395	28,623,127	45,136,446	50,400,000	11.7
Meals & Rooms Taxes	81,075,431	83,148,169	88,384,230	112,600,000	27.4
Other Taxes	91,087,401	104,831,119	109,915,009	123,100,000	12.0
Total Taxes	820,742,728	846,574,844	929,081,213	958,100,000	3.1
Non-Tax Revenues	18,677,972	19,514,835	21,477,862	23,300,000	8.3
Total General Fund	$839,420,700	$866,089,679	$950,559,075	$981,300,000	3.2%

Source: Vermont Department of Finance and Management. Fiscal year 2004 information is unaudited and fiscal 2005 data are projected as part of the January Forecast. Totals may not add due to rounding.

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The following table reflects General Fund revenue history from fiscal year 2002 through fiscal year 2004 and projected and forecasted revenue amounts for fiscal year 2005 and fiscal year 2006:

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

COMPONENT	Actual 2002	Percent Change	Actual 2003	Percent Change	Actual 2004	Percent Change	Forecast[2] 2005	Percent Change	Forecast[2] 2006	Percent Change
TAXES:										
Personal Income	$407.8	10.2%	$411.3	0.9%	$429.8	4.5%	$468.1	8.9%	$491.2	4.9%
Sales & Use	214.8	-0.1	218.6	1.8	255.8	17.0	203.9	-20.3	211.1	3.6
Corporate	25.9	-36.7	28.6	10.5	45.1	57.7	50.4	11.7	45.6	-9.5
Rooms & Meals	81.1	2.2	83.1	2.6	88.4	6.3	112.6	27.4	117.1	4.0
Liquor	10.6	0.4	11.2	5.7	11.7	4.5	12.5	6.9	13.0	4.0
Insurance	34.9	8.9	42.5	21.7	47.0	10.7	49.7	5.7	51.3	3.2
Telephone Receipts	0.2	-84.9	0.2	-3.7	0.3	50.9	0.3	16.9	0.3	-4.3
Telephone Property	10.2	10.8	9.9	-2.6	10.1	1.6	10.5	3.9	10.7	2.0
Beverage	5.0	3.1	5.1	1.3	5.2	2.9	5.3	1.9	5.4	1.9
Electrical Energy	2.8	-9.9	2.6	-8.3	2.8	7.4	2.6	-6.0	2.6	0.0
Estate	13.3	4.2	15.6	17.8	14.7	-5.7	13.4	-8.9	13.9	3.7
Property Transfer	9.9	41.6	12.5	25.4	11.1	-11.0	14.3	29.0	12.7	-11.2
Bank Franchise	2.2	-39.6	2.6	18.4	2.7	3.2	8.4	209.7	9.9	17.9
Other taxes	2.0	-2.7	2.7	36.3	4.4	59.8	6.1	40.2	5.5	-9.8
TOTAL TAXES:	$820.7	-6.3	$846.6	3.1%	$929.1	9.7%	$958.1	3.1%	$990.3	3.4%
OTHER REVENUES:										
Business Licenses	$2.6	0.5%	$2.7	5.9%	$2.7	0.6%	$2.7	-1.0%	$2.8	3.7%
Fees	8.6	-7.2	8.2	-5.5	8.9	8.5	12.8	44.2	13.1	2.3
Services	1.2	4.0	2.0	60.1	1.6	-18.8	1.7	5.5	1.8	2.9
Fines, Forfeits	2.5	31.8	3.5	36.2	7.4	114.1	4.1	-44.6	3.9	-4.9
Interest, Premiums	3.1	-61.6	1.5	-51.5	0.4	-73.4	1.2	204.9	1.8	50.0
Special Assessments	0.1	-85.5	0.1	180.5	0.0	-73.0	0.1	23.7	0.1	0.0
Other	0.7	-3.6	1.6	141.4	0.5	-71.4	0.7	55.5	0.7	3.6
TOTAL OTHER	$18.7	-21.9	$19.5	4.6%	$21.5	10.1%	$23.3	8.3	$24.1	3.8
TOTAL GENERAL FUND	$839.5	-6.7%	$866.1	3.2%	$950.6	9.8%	$981.3	3.2%	$1,014.5	3.4%

1 Figures for fiscal 2004 and beyond are unaudited. See "STATE FUNDS AND REVENUES – State General Fund Revenues" for information pertaining to changes in certain tax rates during the years shown.

2 Based on consensus revenue forecast completed in January 2005.

Source: Vermont Department of Finance and Management

MAJOR GENERAL FUND PROGRAMS AND SERVICES

Human Services

The Agency of Human Services comprises the following departments and offices:

Office of the Secretary: This Office includes the Division of Administrative Services that provides Agency planning and oversight functions for the Secretary. It also provides support for the Division of Rate Setting, the Director of Housing & Transportation, the Investigations Unit, the Human Services Board, and the Developmental Disabilities Council.

Department of Aging and Independent Living: The Department assists elderly Vermonters and adults with disabilities to live as independently as possible. It helps adults with disabilities to find and maintain meaningful employment. It licenses inpatient health care facilities and long-term care providers.

Department of Corrections: In partnership with Vermont communities, the DOC serves and protects the public by offering a continuum of graduated sanctions for offenders to repair the damage their crimes have caused to victims and communities. The Department operates corrections facilities for incarcerated offenders and Community Correctional Service Centers for offenders convicted of lesser crimes. It also supports 63 Community Reparative Boards that develop sanctions and restorative plans in order for many nonviolent offenders to make amends for their crimes and return value to their communities.

Department of Health: DOH protects and promotes health, and prevents disease and injury through public health programs to maintain and improve the health status of all Vermonters. Programs focus on infectious and chronic disease control and prevention (e.g., injury prevention, and healthy babies programs), surveillance (e.g., disease reporting), and protection (e.g., restaurant inspections). The Department also oversees provision of services to adults with mental illness, children and adolescents experiencing a severe emotional disturbance and their families.

Department for Children and Family Services: DCF administers several programs that address the basic needs of Vermonters who are unable to provide for themselves and their dependents. These programs promote the well-being of families and individuals through welfare-to-work services, in-kind benefits, and cash assistance. DCF also helps families and individuals lead healthy and independent lives by providing support services and offering educational, information, and prevention services to communities. Social services seek to break the cycle of abuse, neglect, and delinquency. Child care services take a lead role in developing quality child care services in Vermont. The Division of Child Support enforces state and federal statutes to ensure that children receive financial support from absent parents and improves financial security for children by obtaining child support obligations and payments.

Office of Vermont Health Access: The OVHA, promotes the well-being of families and individuals through the provision of health care coverage. The OVHA is the state office responsible for the management of Medicaid, the State Children's Health Insurance Program, and other publicly funded health insurance programs in Vermont. As such, it is the largest insurer in Vermont in terms of dollars spent and the second largest insurer in terms of covered lives.

The sources of Agency of Human Services appropriations for fiscal year 2003, 2004 and fiscal year 2005 are as follows:

	Fiscal 2003 Appropriations	Fiscal 2004 Appropriations	Current Law Fiscal 2005 Appropriations
General Fund	$324,151,034	$303,216,957	$377,747,829
Federal Funds	615,741,478	738,937,432	705,792,781
Tobacco Settlement	24,160,570	23,057,490	25,359,288
Special Funds	206,164,812	223,524,694	265,872,320
Other Funds	11,510,046	15,285,826	30,520,953
Total	$1,181,727,940	$1,304,022,399	$1,405,293,171

Medicaid

Traditional Medicaid provides comprehensive coverage to the lowest income population that is aged, blind or disabled, and to families with dependent children. Dr. Dynasaur is the State's program for uninsured and underinsured children. It was expanded in State fiscal year 1999 to cover children with family income up to 300% of the Federal Poverty Level ("FPL") with the advent of the State Childrens Health Insurance Program ("SCHIP"). Particular emphasis is being placed on identifying and enrolling children with special health and education needs. A federal waiver expanded eligibility in State fiscal year 1999 for parents and caretakers with income up to 185% FPL. Medicaid also funds Ladies First, which is a breast cancer program and the Qualified Medicare Beneficiary ("QMB") and Specified Low-income Medicare Beneficiary ("SLMB") Medicare cost sharing programs to cover Medicare Part B premiums and Medicare deductibles and coinsurance.

The fiscal year 2006 average Medicaid caseload is currently estimated to be approximately 101,894 beneficiaries per month.

Vermont Health Access Plan (VHAP) - A federal waiver allows provision of assistance to uninsured Vermonters with income up to 150% FPL who do not meet the categorical criteria for Medicaid eligibility. The waiver also allows coverage of uninsured parents or caretaker relatives of dependent children with incomes up to 185% FPL. The benefit package is similar, but less comprehensive, than Medicaid. A separate pharmacy-only benefit is provided to elderly and disabled individuals with incomes up to 150% of FPL.

The fiscal year 2006 average VHAP caseload is currently estimated to be approximately 22,733 beneficiaries per month. The fiscal year 2006 average VHAP-Pharmacy caseload is currently estimated to be approximately 9,316 beneficiaries per month.

VScript and VScript Expanded - Provides pharmaceutical assistance to low-income aged and disabled Vermonters with incomes between 150% and 175 % FPL (VScript) and up to 225% (VScript Expanded). The benefit covers the cost of maintenance drugs. Beginning January 1, 2004, VScript and VScript Expanded beneficiaries pay premiums and no longer have other cost sharing in their coverage. Due to waiver approval, VScript qualifies for federal financial participation the same as the Medicaid 1115 waiver amendment. OVHA has requested a waiver approval for VScript Expanded, and is fully State-funded at this time.

The fiscal year 2006 average VScript caseload is currently estimated to be approximately 2,847 beneficiaries per month. The fiscal year 2006 average VScript Expanded caseload is currently estimated to be approximately 2,695 beneficiaries per month.

Healthy Vermonters - Provides pharmaceutical assistance - drugs at the Medicaid rate - to elderly and disabled individuals with income up to 400% FPL and others with income up to 300% FPL. VScript and VScript Expanded beneficiaries are also enrolled in Healthy Vermonters with assistance for pharmaceuticals for acute conditions.

The fiscal year 2006 average Healthy Vermonters caseload is currently estimated to be approximately 11,355 beneficiaries per month.

Long-Term Care - Per Act 160 (1996), the Department of Aging and Independent Living is mandated to improve independent living options and reduce reliance on institutional care. OVHA is working with the Department on the approval and implementation of a Federal Long Term Care waiver. Approximately 60% of all Nursing Home beds in the State are occupied by Medicaid patients. To meet the mandate, a Long-Term Care budget has been developed to include costs for Nursing Homes, Home & Community Based Waiver Services, and Enhanced Residential Care Services.

Medicaid Reform - As with most states, Vermont is making changes in its Medicaid program in response to its increasing financial demands. If left unaddressed, the program is currently expected to have a nearly $78 million deficit in State fiscal year 2006. The Governor's budget and related legislation proposes a combination of increased premiums, health care management, reductions in provider costs, and support of the private insurance market including transitioning Medicaid beneficiaries to employment-based insurance, to address the potential deficit.

In summary, the Governor has proposed addressing the prospective deficit by asking all major stakeholders to participate.

- Taxpayers would effectively contribute by transferring almost $40 million of surplus fiscal year 2005 revenues and increasing by $10 million fiscal year 2006 support to the Health Access Trust Fund (Medicaid).

- Program recipients would contribute through increased monthly premium payments ($9 million), programmatic changes and expense reductions ($13 million).

- Medical providers would contribute through approximately $21 million in cost savings or payment reductions.

- The Federal government would also participate through a proposed five-year commitment for more predictable funding and program flexibility.

The Governor's proposal is currently being considered by the Vermont General Assembly. There can be no assurance that these proposals will be enacted or that, even if enacted, they will be sufficient to avoid any deficits in the Medicaid program. In addition, various other factors outside the control of the State, including actions by the Federal government, may adversely affect the costs of the Medicaid program.

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 $249.3 million. Additionally the State expects to contribute $20.4 million to the Teachers' Retirement System. The large increase in "state aid to local school districts" in fiscal year 2005 is explained by the provisions of Act 68 of 2003 that eliminated local share property taxes and replaced them with State imposed tax rates. Total Education Fund expenditures are $1.2 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, $6.2 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	Fiscal 2004 Appropriations	Current Law Fiscal 2005 Appropriations
State Aid to Local School Districts	$574,030,000	$591,193,189	$906,562,829
Special Education Aid to Local Districts	96,915,179	102,358,864	105,256,030
Vermont State Teachers' Retirement System Contributions	20,446,282	20,446,282	20,446,282
Town Highway Grants	36,894,889	37,415,413	40,419,751
Total	$728,286,350	$751,413,748	$1,072,684,892

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

	Fiscal 2003 Appropriations	Fiscal 2004 Appropriations	Current Law Fiscal 2005 Appropriations
Homestead Property Tax Assistance	$97,087,000	$107,969,706	$93,811,600
Land Use Reimbursement	5,100,000	5,700,000	6,199,676
Total	$102,187,000	$113,669,706	$100,011,276

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	Fiscal 2004 Appropriations	Current Law Fiscal 2005 Appropriations
University of Vermont	$36,202,911	$36,927,057	$37,942,512
Vermont State Colleges	22,198,736	22,864,231	23,283,734
Vermont Student Assistance Corporation	16,581,671	16,683,804	17,167,609
Total	$74,983,318	$76,475,092	$78,393,855

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2001 to fiscal year 2005.

General Fund Appropriations by Major Function

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004[1]	Fiscal 2005[2]
General Government	$42,250,133	$44,452,433	$47,068,232	$41,064,042	$42,222,002	$42,043,760
Protection to Persons and Property	44,274,910	47,042,350	49,844,089	61,548,160	65,608,963	71,917,292
Human Services	291,647,133	309,340,629	320,808,480	325,587,454	304,140,498	379,510,390
Education	325,270,663	337,418,757	351,296,278	355,453,763	379,192,238	361,906,234
Employment & Training	402,160	411,063	781,260	653,367	1,107,259	1,086,261
Natural Resources	11,180,223	11,927,832	12,458,771	16,111,498	15,909,804	19,133,539
Transportation	---	---	---	---	---	
Commerce and Community Development	11,861,675	12,125,613	12,197,467	12,716,688	14,006,433	14,346,023
Other – One-Time[3]	64,527,395	50,322,229	13,727,088	7,794,260	27,865,690	5,743,862
Debt Service	68,968,111	68,142,447	63,959,160	68,786,318	65,362,579	60,579,557
Total Appropriations	$860,382,404	$881,183,354	$872,140,825	$889,715,550	$915,415,466	$956,266,918

1 Final, but unaudited.
2 As passed.
3 One-time appropriations in fiscal years 2000 through 2005.
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 1999 through fiscal year 2003 presented on a GAAP basis. Through fiscal year 2001, the governmental funds included the General, Special, Transportation, Education, Federal and Fish and Wildlife Funds as well as Capital Projects Funds (General Bond Fund and Transportation Bond Fund). Since fiscal year 2002, in accordance with the requirements of GASB Statement No. 34, Permanent Funds are 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,				
	1999	2000	2001	2002*	2003*
REVENUES:					
Earnings of Departments:					
Fees	$ 33,416,275	$ 34,442,295	$ 36,193,167	$ 36,708,774	$ 47,770,289
Rents and Leases	214,157	205,403	182,595	1,727,405	912,556
Sales of Service	15,606,889	17,276,552	10,861,467	13,886,288	13,119,135
Federal Funds	752,470,334	847,344,627	849,190,708	964,141,863	1,036,188,776
Fines, Forfeits and Penalties	8,953,403	10,489,734	9,449,787	14,209,581	15,150,570
Interest	9,410,231	11,548,738	12,813,248	6,883,583	5,561,830
Business Licenses	14,516,886	15,648,026	19,720,980	8,468,457	8,998,922
Non-Business Licenses	48,883,000	51,836,110	50,316,187	57,658,175	62,828,447
Special Assessments	7,581,026	9,329,929	12,797,215	21,629,014	22,454,287
Taxes	1,092,581,137	1,529,512,665	1,590,021,858	1,600,725,756	1,615,244,889
Other	43,597,589	39,170,217	43,052,988	78,526,877	85,137,810
Total Revenues	2,927,230,927	2,566,804,295	2,634,600,380	2,804,565,773	2,913,367,511
EXPENDITURES:					
General Government	72,582,300	72,377,387	91,208,675	81,922,934	65,774,389
Protection to Persons and Property	126,537,008	134,520,793	141,541,764	175,976,394	186,419,718
Human Services	824,563,158	910,137,339	910,389,884	1,065,880,257	1,202,966,613
Employment and Training	25,997,774	27,631,323	25,999,908	26,285,028	27,904,668
Education	492,704,507	893,172,183	894,781,354	1,035,570,629	1,090,652,345
Natural Resources	76,188,643	88,148,291	86,780,546	90,056,115	87,357,285
Commerce and Community Development	40,875,808	30,920,684	34,941,291	36,899,379	33,843,415
Transportation	246,716,884	267,400,585	294,277,972	311,133,424	284,978,573
Public Services Enterprises	1,517,976	1,272,134	1,257,308	2,001,936	1,897,774
Debt Service	72,067,102	74,855,283	73,895,944	69,214,647	73,213,994
Other	1,304,778	4,971,000	12,132,666	0	0
Total Expenditures	1,981,055,938	2,505,407,001	2,567,207,312	2,894,940,743	3,055,008,774
Excess of Revenues Over (Under) Expenditures	46,174,989	61,397,295	67,393,068	(90,374,970)	(141,641,263)
OTHER FINANCING SOURCES (USES):					
Bond and Note Proceeds	34,285,000	37,000,000	-	51,000,000	67,355,000
Lottery Transfers In	19,055,102	19,426,594	16,950,084	16,679,154	16,222,604
Net Operating Transfers In (Out)	(14,187,717)	(76,642,494)	(81,179,859)	4,732,503	19,067,442
Other Sources (Uses)	3,488,320	1,018,351	66,590	123,348	(49,113,424)
Total Other Financing Sources (Uses)	42,640,705	(19,197,549)	(64,163,185)	72,535,005	53,531,622
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	88,815,694	42,199,746	3,229,883	(17,839,965)	(88,109,641)
Fund Balance, July 1 (as restated)	191,371,949	280,311,714	321,926,077	357,577,512	339,461,551
Fund Balance, June 30	$ 280,187,643	$ 322,511,460	$ 325,155,960	$ 339,737,547	$ 251,351,910

* Fiscal year 2002's and 2003'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 zero coupon bonds or 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, 2004, 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 Bonds or the expected issuance of the 2005 Series B Bonds.

State of Vermont
Debt Statement
As of June 30, 2004
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$414,993
Transportation Fund	14,349
Special Fund	15,340
Contingent Liabilities:	
VEDA Mortgage Insurance Program	10,614
VEDA Financial Access Program	958
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	446,455
Vermont Housing Finance Agency	92,160
VEDA Indebtedness	55,000
Gross Direct and Contingent Debt	$1,049,870
Less:	
Contingent Liabilities	(11,572)
Reserve Fund Commitments	(593,615)
Net Tax-Supported Debt	$444,683

[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]

	2000	2001	2002	2003	2004[2]	Projected 2005[2]
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[3]	$502,971	$454,888	$460,495	$448,248	$444,683	$440,356
Population[4]	609,941	612,964	616,500	619,343	621,394	623,157
Debt Per Capita	$825	$742	$747	$724	$716	$707
Personal Income ($ in millions by fiscal year)	$16,306	$17,376	$18,026	$18,650	$19,654	$20,552
Debt as a Percent of Personal Income	3.1%	2.6%	2.6%	2.4%	2.3%	2.1%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[3]	$76,014	$74,894	$69,199	$72,504	$70,736	$67,450
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,211,263	$1,236,987	$1,048,164	$1,073,709	$1,167,512	$1,197,388
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	6.3%	6.1%	6.6%	6.8%	6.1%	5.6%

Percentage Of Debt To Be Retired (as of June 30, 2004)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	60.7%	46.5%	51.3%	47.1%
10 years	90.4	80.7	87.1	81.2
15 years	100.0	95.4	95.6	95.5
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. Fiscal year 2004 information is unaudited.

[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 2005. Personal income is also projected for 2004.
[3] Excludes general obligation bonds which were refunded. Excludes any interest on Revenue Anticipation Notes.
[4] Reflects latest population data available from the U.S. Census Bureau for Vermont 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 General Assembly 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 General Assembly 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 General Assembly 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 General Assembly 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 General Assembly 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 General Assembly were not issued. Such amount was reallocated by the General Assembly and was issued in fiscal year 2004 together with the $39 million of general obligation bonds 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 and the General Assembly authorized $41 million of additional general obligation bonds. Of this $41 million authorization, $26 million of bonds are being offered hereby, and $15 million of bonds are expected to be offered in March or April 2005. At its meeting in September 2004, the Committee voted to recommend a maximum of $45 million of general obligation bonds for fiscal year 2006.

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
2006	45.0***

* 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 issued such $3.2 million of general obligation bonds together with the $39 million of general obligation bonds previously authorized for fiscal year 2004, for a total of $42.2 million principal amount of bonds issued in fiscal year 2004.

*** 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, 2004, 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 Bonds.

STATE OF VERMONT
Debt Service on General Obligation Bonds
As of June 30, 2004

GENERAL FUND[1]

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2005	$42,003,736	$20,727,428	$62,731,164	$372,989,742
2006	39,839,053	19,568,246	59,407,299	333,150,689
2007	38,462,527	18,448,209	56,910,736	294,688,162
2008	36,724,332	17,221,718	53,946,050	257,963,830
2009	35,924,793	15,924,200	51,848,993	222,039,037
2010	32,923,738	14,452,647	47,376,385	189,115,299
2011	30,287,137	13,238,273	43,525,410	158,828,162
2012	28,837,141	8,921,971	37,759,112	129,991,021
2013	24,996,318	6,816,120	31,812,438	104,994,703
2014	24,883,060	5,942,627	30,825,687	80,111,643
2015	17,539,245	3,452,159	20,991,404	62,572,398
2016	14,339,245	2,662,153	17,001,398	48,233,153
2017	11,459,245	2,059,778	13,519,023	36,773,908
2018	9,218,008	1,554,684	10,772,692	27,555,900
2019	8,307,180	1,146,268	9,453,448	19,248,720
2020	6,622,180	751,139	7,373,319	12,626,540
2021	6,622,180	449,703	7,071,883	6,004,360
2022	3,942,180	214,264	4,156,444	2,062,180
2023	2,062,180	85,065	2,147,245	0

[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
2005	$1,693,175	$642,076	$2,335,251	$12,656,190
2006	1,428,035	591,085	2,019,120	11,228,155
2007	1,434,630	529,677	1,964,307	9,793,525
2008	1,405,223	463,613	1,868,836	8,388,302
2009	1,394,275	395,224	1,789,499	6,994,027
2010	1,348,482	327,384	1,675,866	5,645,545
2011	1,350,915	261,419	1,612,334	4,294,630
2012	1,335,576	194,543	1,530,119	2,959,054
2013	553,637	128,400	682,037	2,405,417
2014	552,060	104,313	656,373	1,853,357
2015	290,755	77,294	368,049	1,562,602
2016	290,755	65,209	355,964	1,271,847
2017	290,755	52,729	343,484	981,092
2018	191,992	39,855	231,847	789,100
2019	157,820	31,919	189,739	631,280
2020	157,820	25,606	183,426	473,460
2021	157,820	19,293	177,113	315,640
2022	157,820	12,981	170,801	157,820
2023	157,820	6,510	164,330	0

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2005	$1,630,000	$753,180	$2,383,180	$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	0

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 2005 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 does not anticipate any short-term borrowing for fiscal year 2005.

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

	2000	2001	2002	2003	2004	2005*
Maximum outstanding during fiscal year	None	None	None	$75	$48	None
Outstanding at fiscal year end	None	None	None	None	None	None

*To date and anticipated.

Total Authorized Unissued Debt

The State has issued all of the bonds authorized to be issued pursuant to Acts adopted prior to fiscal year 2004.

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, 2004, the Authority had mortgage insurance contracts outstanding of $10,614,367.

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, 2004 was $958,331. The State's cumulative net cash contribution since inception is $298,484.

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 43 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2004 was $446,455,000. 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, 2004, the Agency's total outstanding indebtedness was $570,701,506.

The Agency's act requires the creation of debt service reserve funds for each issue of bonds or notes based on the Agency's resolutions and in an amount not to exceed the "maximum debt service." Of the debt that the Agency may issue, up to $125,000,000 of principal outstanding may be backed by the moral obligation of the State which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve

funds for that debt. If the reserve fund requirement for this debt has less than the required amount, under the act, the chairman of the Agency will notify the Governor or the Governor-elect, the president of the senate and the speaker of the house of the deficiency. As of June 30, 2004, the principal amount of outstanding debt covered by this moral obligation was $92,160,000. As of June 30, 2004, the debt service reserve fund requirement for this debt was $7,486,017, and the value of the debt service reserve fund was $7,901,413. Since the Agency's creation, it has not been necessary for the State to appropriate money to maintain this debt service reserve fund requirement.

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. 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 currently 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 of $55 million. This debt service reserve pledge can be increased to a maximum of $70 million and 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, 2004 was $46.4 million.

PENSION PLANS

The State maintains three statutory pension plans: the Vermont State Teachers' Retirement System, with 10,315 active, 3,084 inactive, 560 terminated, vested and 4,386 retired members as of June 30, 2004; the Vermont State Employees' Retirement System, which includes general State employees and State Police, with 8,079 active, 968 inactive, 819 terminated, vested and 3,833 retired members as of June 30, 2004; and the Vermont Municipal Employees' Retirement System, with 5,633 active, 2,438 inactive, 210 terminated, vested and 1,099 retired members as of June 30, 2004. 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
	6/30/04	1,081,359	1,107,634	26,275	97.6	336,615	7.8
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
	6/30/04	1,284,833	1,424,662	139,829	90.2	453,517	30.8
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)
	6/30/04	232,890	225,092	(7,798)	103.5	135,351	(5.8)

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 2004, 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
2004	$1,245,650,105	$21,088,345	$24,446,282	$166,325,045	$65,586,721
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
2004	$1,040,927,987	$13,716,264	$26,645,619	$138,426,552	$56,322,704
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, except that the fiscal year 2004 source is Annual Actuarial Valuation Report.

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
2004	$232,889,559	$6,507,268	$7,114,813	$27,271,821	$7,624,175
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, except that the fiscal year 2004 source is Annual Actuarial Valuation Report.

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 monthly 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.

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, 2004 and 2005, the final actuarially recommended contributions were $28.3 million, $41.7 million and $47.7 million, respectively, while State appropriations remained level funded at approximately $20.5 million in each year. An additional $4.0 million was contributed during fiscal year 2004 as a result of a revenue surplus received by the State. The 2003 and 2004 appropriations were made prior to a recent completion of an actuarial study 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. The Governor has proposed increasing the fiscal year 2006 appropriation for the Vermont State Teachers' Retirement System by $4.0 million to approximately $24.5 million, as well as an additional fiscal year 2005 allocation from excess year-end revenues, if any.

The Vermont State Teachers' Retirement System and the Vermont State Employees' Retirement System both account for pension liability under GASB Statement No. 25 and both elected the actuarial cost method known as "entry age normal cost with frozen initial liability". Statutes for both systems stipulate that the actuarially determined unfunded accrued liability as of June 30, 1988 is to be amortized over a period of years beginning July 1, 1988; such period has been set through the end of fiscal year 2017. Under GASB Statement No. 25, annual under-funding is not added to this accrued liability, but instead under-funding is added to normal costs for the following year. As a result, while the funding ratio for the Vermont State Teachers' Retirement system shows year-over-year improvements, the total required annual contribution (for unfunded accrued liability amortization and normal costs) has risen in recent years. For fiscal year 2006, the initial actuarially recommended contribution to the Vermont State Teachers' Retirement System is $49.9 million, which includes $13.0 million to reduce the system's unfunded actuarial accrued liability.

Future Vermont State Teachers' Retirement System actuarial developments, investment market conditions and continued funding of Vermont State Teachers' Retirement System at levels below the actuarially recommended levels could have the impact of continuing increases in the Vermont State Teachers' Retirement System actuarially recommended contributions and increasing Vermont's future tax burden with respect to pension funding obligations.

Recently adopted rules (GASB Statement Nos. 43 and 45) by the Governmental Accounting Standards Board covering non-pension post-employment benefits, primarily health insurance, present financial and disclosure considerations for the State of Vermont beginning in fiscal year 2008. For the first time, public sector entities will be expected to report the future costs of these benefits on their balance sheets. The standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is more conservative, and therefore will result in larger yearly cost and liability accruals, if they are funded on a pay-as-you-go basis – as they presently are in Vermont and in many other jurisdictions – and not pre-funded in the same manner as traditional pension benefits.

A recently completed preliminary analysis for the Vermont State Teachers' Retirement System indicated that an annual contribution of approximately $41 million would be necessary in fiscal year 2005 to provide pre-funding for the future liability of the system's medical plans at a level that could be deemed adequate under terms of the new GASB standards. Since the State is currently paying approximately $10 million in health insurance premiums for this coverage, the net increase in annual costs associated with pre-funding would be approximately $31 million. A similar preliminary analysis has been prepared for the Vermont State Employees Retirement System and the net increase to provide pre-funding for the future liability of retiree medical plans at a level that could be deemed adequate under terms of the new GASB standards in fiscal year 2005 would be close to $25 million. In his mid-year budget adjustment proposal, the Governor has asked the Legislature to appropriate $2 million in fiscal year 2005 to a trust fund to begin pre-funding for these costs and liabilities.

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 July 31, 2004, plan assets totaled $30.4 million and there were 578 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 July 31, 2004, 92 municipalities had offered the plan with 484 participants and a total market value of $7.6 million.

EMPLOYEE RELATIONS

As of June 30, 2004, there were 7,935 employees in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary employees. Therefore, they are not included in the number of employees.

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 Palmer & Dodge LLP, Bond Counsel to the State of Vermont ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, 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, under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel has not opined as to other State of Vermont tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than State of Vermont. 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 and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. 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 purchasers 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.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements 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 State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements. 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) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending, proposed or future legislation, including amendments to the Code, if enacted into law, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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 Bondholder's federal or state tax liability. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of

income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

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.

COMPETITIVE SALE OF BONDS

After competitive bidding on February 16, 2005, the Bonds were awarded to a group of underwriters managed by Citigroup Global Markets Inc. (the "Underwriters"). The Underwriters have supplied the information as to the public offering yield or prices of the Bonds set forth on the cover hereof. The Underwriters have informed the State that if all of the Bonds are resold to the public at those yields or prices, they anticipate the total Underwriters' compensation to be $154,440. The Underwriters may change the public offering yields or prices from time to time.

RATINGS

The State has received ratings of "AA+," "Aa1 (stable)" and "AA+ (stable)" 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 Palmer & Dodge LLP, Boston, Massachusetts, 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 (subject to the matters discussed under "TAX MATTERS" above).

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, (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 2000 and 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. The State's fiscal year 2002 annual report was sent to the NRMSIRs on January 6, 2004. For fiscal year 2003, 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 2003 annual report by June 30, 2004. The State's fiscal year 2003 annual report was sent to the NRMSIRs on December 28, 2004.

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 unaudited information related to fiscal year 2004 and projections and forward looking statements related to fiscal year 2005 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 2004, 2005 and 2006 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: /s/ James H. Douglas
Governor

By: /s/ George B. "Jeb" Spaulding
Treasurer

Dated: February 16, 2005

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APPENDIX A

STATE OF VERMONT ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The information in this Appendix A includes pages 12 through 107 of the State of Vermont Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2003. The entire CAFR is available from the State's website at http://www.state.vt.us/fin/FIN%20Publications/2003_cafr.pdf.

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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, 2003, 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	**96.0%**	**79.4%**
Aggregate Discretely Presented Component Units	**100.0%**	**100.0%**
Aggregate Remaining Funds	**4.6%**	**1.0%**

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.

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. 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

State Auditor & Deputy
(802) 828-2281
Toll Free: 1-877-290-1400

Fax: (802) 828-2198
Website: www.state.vt.us/sao
email: auditor@sao.state.vt.us

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.

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 governmental activities, business-type activities, each major fund, and the aggregate remaining fund information for the State of Vermont as of June 30, 2003, 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 discussed in Note 10 to the Financial Statements, the State of Vermont changed its method of calculating Medicaid liabilities and personal income tax revenue in fiscal year 2003.

Management's Discussion and Analysis on pages 15 through 29, and the budget to actual – budgetary basis schedules on pages 102 through 107 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 December 13, 2004, 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

December 13, 2004

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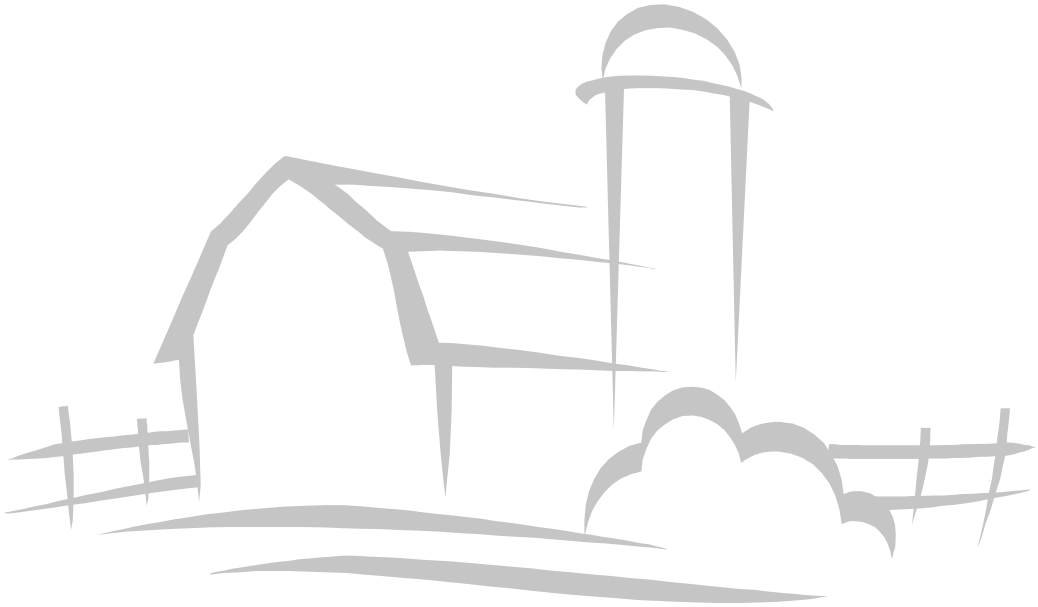


Vermont

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2003. This MD&A section is meant to present an easily readable overview and highlights occurring within Vermont during fiscal year 2003. Please read this in conjunction with the transmittal letter found at the front of this report and the financial statements that follow this section. Note that fiscal year 2003 is the first year that Vermont has implemented the comparison requirements of the Governmental Accounting Standards Board's Statement Number 34 (GASB No. 34).

FINANCIAL HIGHLIGHTS

Government-Wide Primary Government - Net assets (assets minus liabilities) of Vermont's primary government at June 30, 2003 totaled $1.117 billion, a decrease of $61 million as compared to fiscal year 2002's restated net asset balance of $1.178 billion. Fiscal year 2002 restatement consists of an increase of $34 million that was due almost entirely to an increase in reportable capital assets.

The governmental activities total fiscal year 2003 net asset balance of $848.8 million includes a negative $169.4 million reported as unrestricted net assets at June 30, 2003. This balance compares to a negative restated unrestricted net asset balance of $52.9 million at June 30, 2002, a decrease of $116.5 million. This decrease can be attributed primarily to an increase in the investment in capital assets as reported in the net assets section of the Statement of Net Assets. Unrestricted net assets represent the amount available to be used to meet the State's ongoing obligations to citizens and creditors that has not previously been invested in fixed assets or externally restricted for specific purposes.

The business-type activities for fiscal year 2002 were likewise restated for a change in the inventory valuation in the Federal Surplus Property Fund from a restricted net asset to deferred revenue of $479,005, which accounts for almost all of the decline in unrestricted net asset value.

Changes In Net Assets – Of the primary government's total decrease in net assets of $60.2 million (5.11%) in fiscal year 2003, net assets related to governmental activities decreased by $10.5 million (1.22%) and net assets related to business-type activities decreased by $49.7 million (15.61%.)

Discretely Presented Component Units - reported net assets of $740.4 million, an increase of $38.4 million over fiscal year 2002. The greatest portion of this increase can be attributed to increased program revenue in "Charges For Services" and "Operating Grants and Contributions" of $6.8 million and $22.9 million respectively; and a one time extraordinary gain on forgiveness of debt of $7.5 million owed by the Vermont Economic Development Authority to the State of Vermont.

Fund Level - Governmental Funds – Fund Balances – As of the close of fiscal year 2003, the State's governmental funds reported a combined ending fund balance of $251.4 million, a decrease of $88.1 million over a restated 2002 balance of $339.5 million. Of this total amount, $152.1 million represents "unreserved fund balances". Of this $152.1 million, $37.3 million is categorized as "designated for specific purposes in the capital projects funds leaving $114.8 million categorized as "unreserved and undesignated." This $114.8 million is the amount available for appropriation in the following year and represents 3.75% of FY2003 governmental expenditures. In comparison, fiscal year 2002's "unreserved and undesignated" amount was $181.9 million which represented 5.95% of the total governmental fund expenditures for that year.

Long-term Debt
Vermont's primary government's total long-term liabilities increased by $0.8 million during fiscal year 2003. General Obligation Bonds and Notes Payable outstanding decreased by $12.7 million while increases in the net pension obligation of $7.3 million and judgments of $5.4 million account for the majority of the increases in long-term liability. See Note 19 – Changes in Long-term Liabilities for more information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Vermont's Comprehensive Annual Financial Report (CAFR), which includes basic financial statements (BFS), required supplementary information (RSI), other supplementary information and statistical information. Vermont's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. 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 component unit's financial statements.** The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this analysis. **Notes to the financial statements** provide explanations and/or additional detail for both of the above type financial statements and are considered an integral part of the financial reporting package.

Government-Wide Financial Statements
Vermont's government-wide financial statements are designed to present a broad view of the State's operations and financial position in a manner somewhat analogous 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. The State prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents both the primary governments and its component units' assets and liabilities, with the difference between the assets and liabilities reported as "net assets". Over time, increases or decreases in the Primary Government's net assets may serve as an indicator as to whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents the financial activity and hence, the reason(s) for the changes in net assets during the reported fiscal year. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, 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 the relationship between the State's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

Both of the above financial statements segregate Vermont's financial activity into the following three different categories. The governmental activities and business-type activities are combined to report on what is termed primary government activities which is separate and distinct from the activities of the discretely presented component units.

Primary Government Activities
Governmental Activities – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and public transportation. Taxes, grants, and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – These business-type activities of the State include the operations of Vermont's enterprise activities. These activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. Activities categorized as major include the unemployment compensation trust fund program, liquor control, and the state lottery commission. Non-major activities include the federal surplus property program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. These activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

Component Units Activities
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 three major and eight 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. Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and 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 management's discussion and analysis.

Fund 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 or statements in the Supplementary Information section present detailed non-major fund activity. Fiduciary Funds are reported by fiduciary type (pension trust, private purpose trusts and agency funds) with combining schedules or statements for the individual pension and agency funds presented in the Supplementary Information section. 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 accounted for in the 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 as well as the balances of spendable resources available at the end of the fiscal year. This approach uses 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 assist in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the time period 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. Schedules reconciling the governmental funds' Balance Sheet and Statement of

Revenues, Expenditures, and Changes in Fund Balances to their respective government-wide statements are provided 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 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, two capital projects funds, and nine Permanent Funds and are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the supplementary information section of this report.

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

Proprietary Funds – This category of funds includes enterprise funds (business-type) and internal service funds and report activities that operate much like those of commercial enterprises. These funds' financial reports include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes In Net Assets; and a Statement of Cash Flows.

Enterprise funds account for services provided to the general public, federal government, and non-state government entities. They normally derive their revenue by charging user fees in order to cover the costs of 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. Because these funds' activities primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

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

The State reports nine enterprise funds of which three are reported as major funds 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 fund statements.

The State reports twenty-one 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 proprietary funds financial statements can be found immediately following the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the supplementary information section.

Fiduciary Funds – These funds are used to account for resources held by the State 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 Unclaimed Property Fund); and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals).

The fiduciary funds financial statements can be found immediately following the proprietary funds financial statements. Individual pension trust funds and agency funds financial statements are reported in the supplementary information section of this report.

Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net assets and activities of three major and nine non-major component units in a single column of such statements labeling them as discretely presented component units. The component units' financial statements can be found immediately after the fiduciary funds. Combining non-major component units' financial statements can be found in the supplementary information of this report.

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data presented 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 for the General Fund and each major Special Revenue Fund comparing their original budgeted amounts; final budgeted amounts; 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.

Notes to Required Supplementary Information include a schedule reconciling the statutory fund balance presented on a budgetary basis to the fund balance prepared on a modified accrual basis as presented in the governmental fund financial statements for each major governmental fund.

OTHER SUPPLEMENTARY INFORMATION

Combining Financial Statements
The combining fund financial statements referred to earlier in connection with non-major funds and non-major component units are presented following the required supplementary information (RSI). 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
- 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 major 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
Income and Sales Tax Rates – ten-year comparison
Vermont's largest employers as of September 2003

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 primary government's (government and business-type activities) combined net assets totaled $1.117 billion at the end of 2003, compared to a restated $1.178 billion at the end of the previous year, a 5.11% decrease. The 2002 restatement consisted of a $34 million increase in the governmental activities area due primarily to an increase of $34 million in net book value of capital assets and a $479,005 decrease in the restricted net assets for the inventory in the Federal Surplus Property Fund in the business-type activity area, which was reclassified to deferred revenue.

The largest portion of the primary government's net assets (83.09%) 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 primary government's net assets (24.53%) 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 governmental activities' negative unrestricted net assets balance is mainly the result of 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 statutorily mandated restricting of net assets for the budget stabilization reserves.

The business activities' positive unrestricted net asset balance may be used to meet the State's ongoing obligation to its citizens and creditors.

At the end of fiscal year 2003, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following condensed financial statement information is derived from the State's government-wide June 30, 2003 and 2002 financial statements. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 1
NET ASSETS
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002*	2003	2002*	2003	2002*
Current assets	$ 519.5	$ 502.9	$ 282.7	$ 332.1	$ 802.2	$ 835.0
Other assets	203.5	247.7	1.6	1.9	205.1	249.6
Capital assets	1,088.4	964.0	0.5	0.5	1,088.9	964.5
Total assets	1,811.4	1,714.6	284.8	334.5	2,096.2	2,049.1
Long-term debt outstanding	596.6	435.1	1.0	-	597.6	435.1
Other liabilities	366.0	453.8	15.1	15.6	381.1	469.4
Total liabilities	962.6	888.9	16.1	15.6	978.7	904.5
Net assets:						
Invested in capital assets, net of debt	928.0	784.0	0.5	0.5	928.5	784.5
Restricted	90.2	94.3	265.0	314.7	355.2	409.0
Unrestricted (deficit)	(169.4)	(52.6)	3.1	3.6	(166.3)	(49.0)
Total net assets	$ 848.8	$ 825.7	$ 268.6	$ 318.8	$ 1,117.4	$ 1,144.5

* Fiscal year 2002 has not been restated. Only fiscal year 2003's beginning balances has been changed.

Changes in Net Assets

Vermont's primary government's total net assets decreased $60.2 million (5.11%) during fiscal year 2003. Taxes provided 47.56% of the government's total revenue while 31.31% came from operating and capital grants and contributions (including federal aid). Charges for programs and general revenues other than taxes provided the remaining 21.13% of the total revenues. The primary government's expenses cover a range of services. The largest expenses were incurred in the areas of education (34.83%), human services (40.66%), and transportation (8.10%).

In 2003, governmental activities' expenses exceeded associated program revenues by $1.65 billion, resulting in the use of approximately $1.65 billion in general revenues and transfers (mostly taxes) to cover the shortfall.

During fiscal year 2003, business-type activities' expenses ($231.3 million) exceeded related program revenues ($180.2 million) by $51.1 million. Investment earnings of $18 million partially offset the program revenue shortfall.

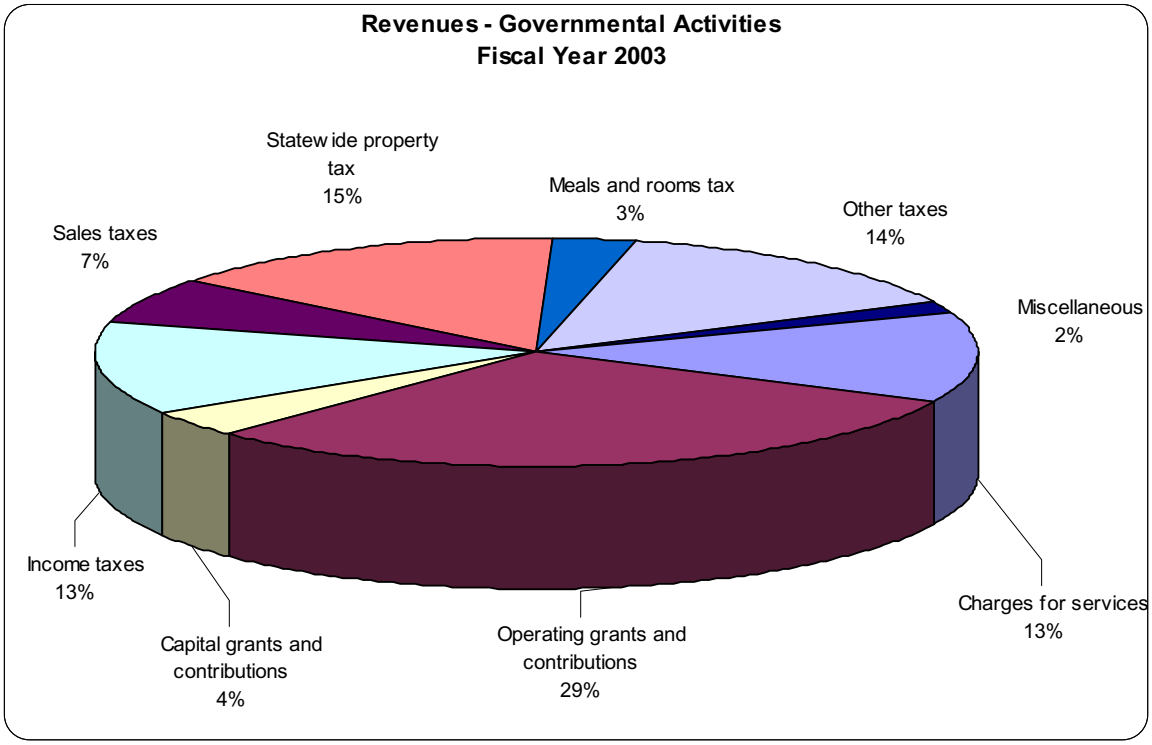
The following condensed table entitled "Changes In Net Assets" presents a comparison of activity for the fiscal years ended June 30, 2003 and 2002 and contains primary government data only.

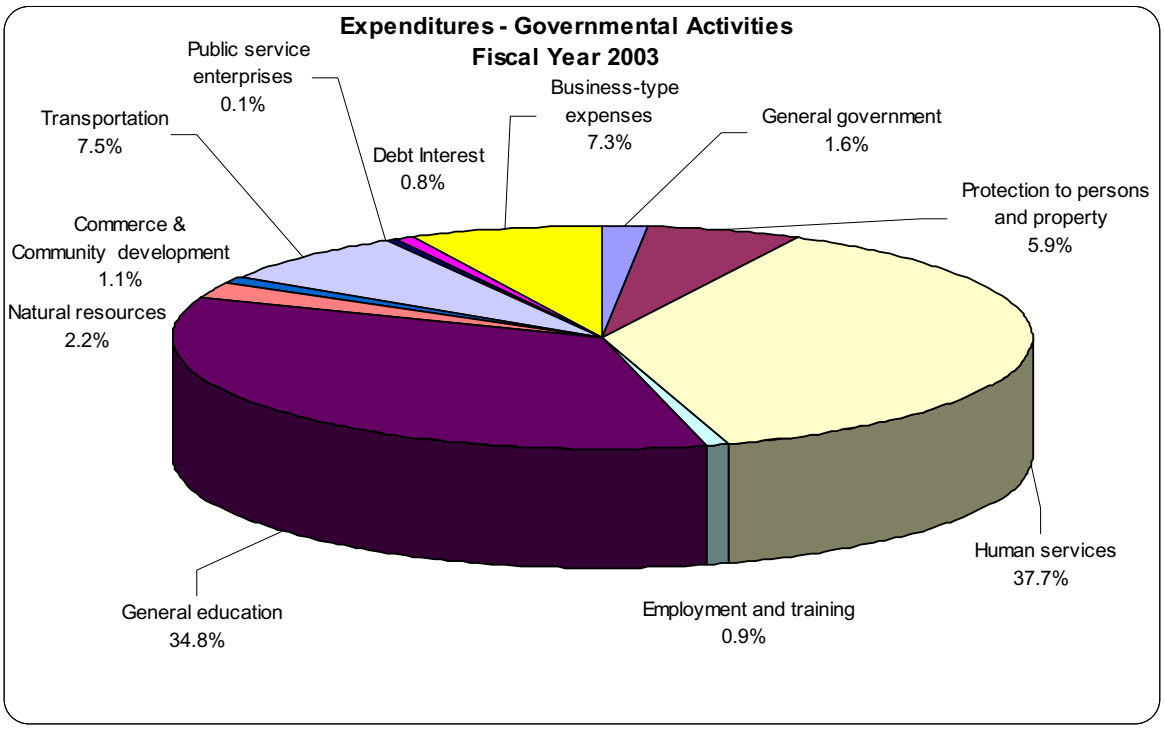
TABLE 2
CHANGES IN NET ASSETS
(In Millions)

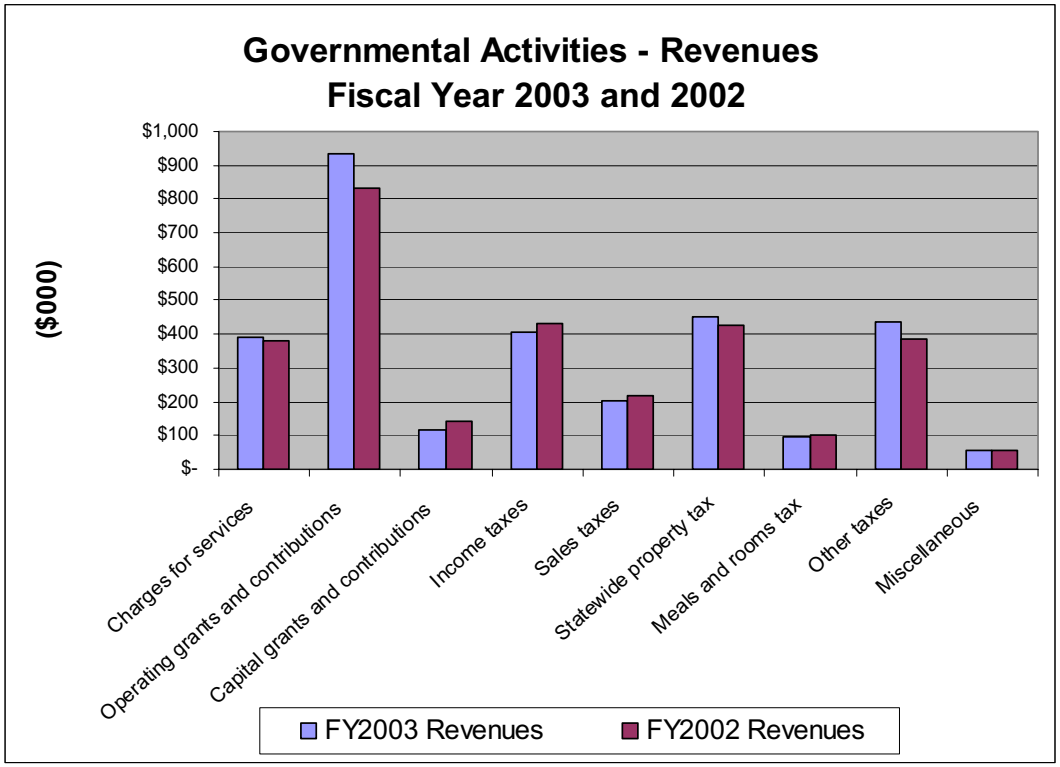
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002*	2003	2002*	2003	2002*
Revenues						
Program Revenues:						
Charges for services	$ 211.6	$ 195.8	$ 180.2	$ 184.4	$ 391.8	$ 380.2
Operating grants and contributions	935.2	831.1	-	-	935.2	831.1
Capital grants and contributions	116.0	144.4	-	-	116.0	144.4
General Revenues			-			
Income taxes	404.9	429.4	-	-	404.9	429.4
Sales taxes	205.2	217.7	-	-	205.2	217.7
Statewide property tax	453.9	424.2	-	-	453.9	424.2
Meals and rooms tax	95.4	100.6	-	-	95.4	100.6
Other taxes	437.6	385.7	-	-	437.6	385.7
Miscellaneous	37.6	37.9	18.0	19.9	55.6	57.8
Total Revenues	2,897.4	2,766.8	198.2	204.3	3,095.6	2,971.1
Expenses						
General government	51.6	87.4	-	-	51.6	87.4
Protection to persons and property	186.8	173.2	-	-	186.8	173.2
Human services	1,186.0	1,046.6	-	-	1,186.0	1,046.6
Employment and training	27.9	26.0	-	-	27.9	26.0
General education	1,097.0	1,035.8	-	-	1,097.0	1,035.8
Natural resources	69.5	71.4	-	-	69.5	71.4
Commerce and community			-			
development	33.8	36.8	-	-	33.8	36.8
Transportation	236.2	257.5	-	-	236.2	257.5
Public service enterprises	1.9	2.0	-	-	1.9	2.0
Interest on long-term debt	26.3	23.5	-	-	26.3	23.5
Business-type expenses	-	-	231.3	190.3	231.3	190.3
Total Expenses	2,917.0	2,760.2	231.3	190.3	3,148.3	2,950.5
Increase (decrease) in net assets before transfers	(19.60)	6.60	(33.10)	14.00	(52.70)	20.60
Transfers	16.60	16.90	(16.60)	(16.90)	-	-
Gain (loss) - extraordinary items	(7.50)	-	-	-	(7.50)	-
Change in net assets	(10.5)	23.5	(49.7)	(2.9)	(60.2)	20.6
Net assets, beginning of year (as restated)	859.3	802.2	318.3	321.7	1,177.6	1,123.9
Net assets, end of year	$ 848.8	$ 825.7	$ 268.6	$ 318.8	$ 1,117.4	$ 1,144.5

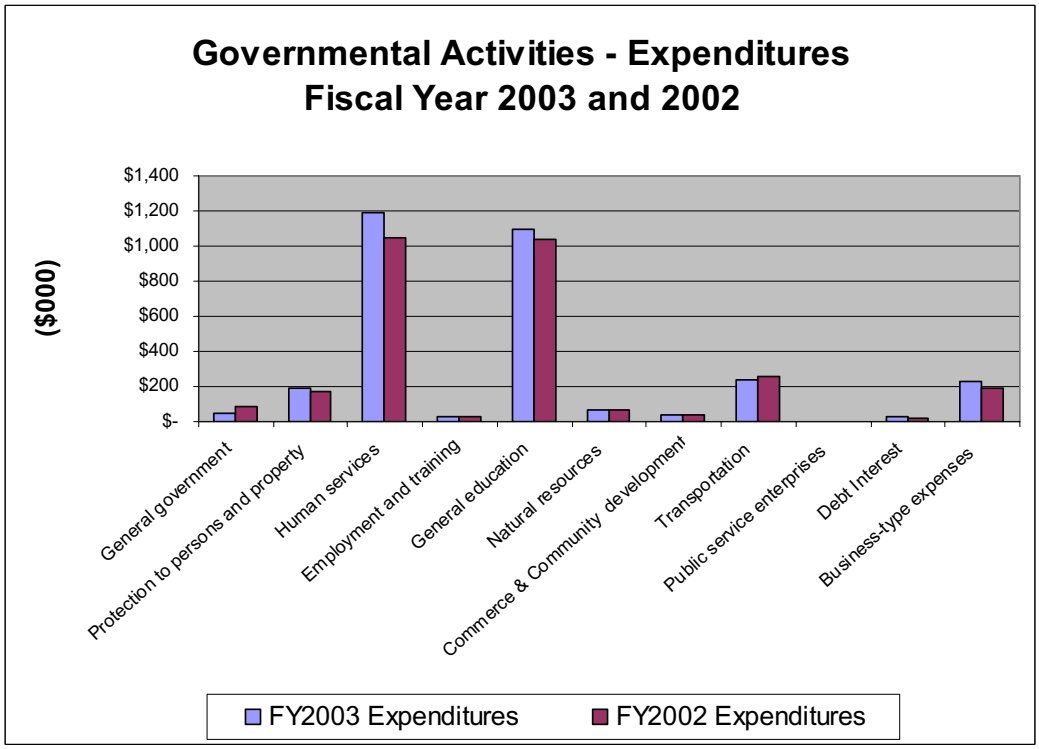
* Fiscal Year 2002's activity has not been restated. Only fiscal year 2003's beginning balances has been changed.

The graphs depicted on the following pages illustrate the Primary Government Activities of revenues and expenditures for Fiscal Year 2003 from the table titled “Changes In Net Assets”. Also included is a comparison of revenues and expenditures for fiscal years 2003 and 2002. As indicated above, the activity for fiscal years ended June 30, 2003 and 2002 contains primary government data only.


Revenues - Governmental Activities
Fiscal Year 2003
Statew ide property tax 15%
Meals and rooms tax 3%
Other taxes 14%
Sales taxes 7%
Miscellaneous 2%
Income taxes 13%
Capital grants and contributions 4%
Operating grants and contributions 29%
Charges for services 13%


Expenditures - Governmental Activities
Fiscal Year 2003
Public service enterprises 0.1%
Business-type expenses 7.3%
Transportation 7.5%
General government 1.6%
Debt Interest 0.8%
Protection to persons and property 5.9%
Commerce & Community development 1.1%
Natural resources 2.2%
Human services 37.7%
General education 34.8%
Employment and training 0.9%


Governmental Activities - Revenues
Fiscal Year 2003 and 2002
($000)
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$-
Charges for services
Operating grants and contributions
Capital grants and contributions
Income taxes
Sales taxes
Statewide property tax
Meals and rooms tax
Other taxes
Miscellaneous
FY2003 Revenues
FY2002 Revenues


Governmental Activities - Expenditures
Fiscal Year 2003 and 2002
($000)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$-
General government
Protection to persons and property
Human services
Employment and training
General education
Natural resources
Commerce & Community development
Transportation
Public service enterprises
Debt Interest
Business-type expenses
FY2003 Expenditures
FY2002 Expenditures

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 uncommitted net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2003, the State's governmental funds reported combined ending fund balances of $251.4 million. The unreserved portion of this fund balance is $152.1 million or 60.5 %, 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 ($19.9 million); 2) for human caseload management ($17.2 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 ($43.8 million), or 5) for a variety of other restricted purposes ($10.9 million).

General Fund

The general fund is the chief operating fund of the State. At the end of fiscal year 2003, the unreserved fund balance of the general fund was $47.1 million which is a $50.8 million (51.89%) decrease compared to the $97.9 million balance at the end of fiscal year 2002. The total fund balance at June 30, 2003 was $99.8 million, a decrease of $49.8 million or 33.29% compared to the balance of $149.6 million at June 30, 2002. Of this total fund balance, $52.7 million is reserved for various purposes including $23.6 million in the budget stabilization fund and $17.2 million for human caseload management.

This decline in fund balance measurement can be attributed to a decline of $54.3 million in total revenues, led by a $73.9 million (16.68%) decline in personal income tax revenue. This decline in revenues was offset by a $39.9 million (6.35%) decrease in general fund expenditures overall. Reduced human services expenditures totaling $39.7 million, consisting mostly of the State's share of Medicaid funding which now comes from the special fund, accounted for most of this decrease.

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 ($47.1 million) represents 8% of its total fund expenditures ($588.2), down from 15.59% in 2002 while its total fund balance ($99.8 million) represents 16.96% of its total expenditures ($588.2) down from 23.82% in 2002, both measured on a GAAP basis.

Transportation Fund

The Transportation Fund experienced a $22.5 million decrease in total revenues from FY2002 to FY2003. Federal grant revenue decreased $30.4 million. Revenue categories that realized increased revenue include motor fuel tax ($1.6 million); fees ($1.3 million); and non-business licenses ($5.9 million.)

Total expenditures decreased $30.5 million from FY2002 to FY2003 with a decrease of $26.5 million in the area of federal grant transportation expenditures constituting the largest part of the decrease and resulting from the decrease in federal grants expenditures. Decreases in expenditures in protection to persons and property of $3 million accounted for the majority of the remaining decrease.

Finally, transfers in to the transportation fund primarily from the general fund decreased $13.9 million while transfers out of the transportation fund to the general fund increased $7.2 million resulting in a

$21.1 million decrease in other financing sources (uses) to the transportation fund. All of the above activity resulted in a net decrease of $11.9 million in the fund balance from FY2002 to FY2003.

Education Fund
The education fund experienced a decrease in the unreserved portion of its fund balance amounting to $7.1 million as well as a decline in its total fund balance of $10.2 million. It also decreased its budget stabilization reserve by $3.2 million.

The education fund's fiscal year 2003 revenues were up $39.2 million due mostly to increases in both statewide and local property tax revenue totaling $38.4 million. Its educational expenditures also were up by $20 million as the result of increased appropriations which resulted in a reduction in operating loss of $19.2 million as compared to fiscal year 2002. Net "transfers in" from other funding sources declined by $11.3 million during fiscal year 2003.

The financial activity resulted in an overall decrease in the education fund's fund balance of $10.2 million at June 30, 2003 as compared to 2002. The budget stabilization reserve decreased by $3.2 million while the unreserved portion of its fund balance declined by $7.1 million. These decreases have resulted in the unreserved undesignated component of the fund balance being reported as a net deficit of $4.1 million. This component of the fund balance represents assets that have not been designated for specific purposes by the legislature.

Special Fund
As of July 1, 2002, the Vermont Rehabilitation Corporation's classification was changed from that of a special fund to a discretely presented non-major component unit. This reclassification resulted in a decrease of approximately $276,000 in the special fund's fiscal year 2003 beginning fund balance.

During fiscal year 2003, total revenue increased by $44.4 million with $27.8 million of this increase due to an increase in cigarette tax revenue; the result of an increase in the applicable tax rate. New insurance fees imposed by the Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) accounted for an additional $9.9 million of the increase.

Total expenditures increased by $100.6 million (41%) with the Agency of Human Services Medicaid program accounting for the largest portion of the increase ($87 million). This resulted in the State's 2003 share of Medicaid now being completely funded by the special fund whereas the general fund had funded a portion of it in 2002. An increase of $9.6 million in general education expenditures and $4.4 million increase in protection to persons and property account for the majority of the remaining increase in 2003.

Federal Revenue Fund
The activity in this fund reports all federal grant activity transacted in the State except for federal grants associated with transportation and fish and wildlife. Federal grant activity for these two areas is reported in the Transportation Fund and Fish and Wildlife Fund respectively. For fiscal year 2003, total revenue increased $102.8 million due primarily to an increase in Federal Medicaid grant revenue. Total expenditures were up $102.6 million with human services and education expenditures accounting for $89.1 million and $15.9 million respectively. The fund balance has remained quite stable decreasing only $65,284 from FY2002 to FY2003.

Proprietary Funds

Enterprise Funds
The State's enterprise funds provide the same type of information found in the business-type activities section in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund is the largest of the enterprise type funds accounting for more than 98.6% of the total net assets reported by the enterprise funds. However, The Unemployment Compensation Trust Fund's total net assets decreased from $314.2 million at June 30, 2002 to $265 million at June 30, 2003.

This decrease was the result of operating expenditures ($130.3 million) being more than double the amount of revenue received ($63.6 million.) This operating deficit was moderated somewhat by the receipt of $17.5 million in investment income.

Internal Service Funds
A new fund, the Financial and Human Resources (HR) Information Fund was reported in the internal service funds for fiscal year 2003. This new fund added $3.1 million revenue and $3.7 million of expenses that were not reported in 2002.

The internal service funds' total net assets at June 30, 2003 were $15.3 million, down from $19.7 million at June 30, 2002. There was no one fund that accounted for this decrease, but Facilities Operations Fund contributed a loss of $3.1 million and Property Management fund contributed a loss of $1.4 million. The remaining funds had both positive and negative contributions. The new fund contributed a loss of $0.6 million.

Operating Revenue increased $15.6 million to $152.4 million during fiscal year 2003. The major contributors to this increase include the medical insurance fund ($6.3 million) and the Financial and HR Information Fund ($3.1 million), and the Facilities Operations Fund ($2.4 million).

Fiscal year 2003's operating expenses totaled $156.5 million which was an increase of $25.4 million over fiscal year 2002's operating expenses and, of which the medical insurance fund contributed $68.9 million (44.1%) and the Financial & Human Resources Information Fund $3.7 million of the increase. Additionally, in fiscal year 2003, operating expenses of $156.5 million exceeded operating revenues of $152.4 million by $4.1 million.

Finally, it should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

ANALYSIS OF GENERAL FUND BUDGET HIGHLIGHTS
Differences between the general fund's original and final budget resulted in a $40.4 million increase in expenditures and can be briefly summarized as follows:

- Protection to Persons and Property received $8 million in supplemental appropriations for increased expenses in providing police protection and in the judiciary budget.
- Human Services received $21 million in supplemental appropriations for increased expenses. For fiscal year 2003, Human Services' original budgeted amount was reduced from 2002's appropriation due to the fact that beginning in FY2003, Medicaid was to be funded with special fund and federal revenues fund sources only, thereby reducing budgeted general fund.
- General Education and Natural Resources received $4.7 million and $4.2 million respectively in supplemental appropriations for increased expenditures.

The remaining functional areas received a combined increase of $4.8 million except general government which realized a reduction of $2.1 million. This reduction in general government general fund expense was the result of the implementation of the Department of Buildings and General Services direct billing of facilities operations expense (rent) to departments and the fact that funding sources other than general fund could be used by departments to pay this rent; and the implementation of the new Financial and HR fund as an internal service fund which was previously budgeted in the general fund.

As budgetary revenue estimates were less than actual budgetary revenue amounts received, a portion of these supplemental appropriations were funded by this additional revenue as well as from available fund balances. During the year, actual budgetary-based revenues received exceeded the original and final budgetary estimates by approximately $13.5 million and $10.6 million respectively with tax revenue received exceeding the final budgeted revenue estimate by $15 million.

Actual expenditures as calculated on a budgetary basis ended up being $17.6 million more than the original budget but $22.9 million less than the final appropriated amounts.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the State's primary government reported a combined capital asset figure for its governmental and business-type activities of $1.875 billion which included a "construction in progress" amount of $364 million. Accumulated depreciation totaled $786.4 million, which left a net book value of $1.1 billion. 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.

Total additions to the State's primary government's investment in capital assets for fiscal year 2003 were $153.0, with $123.1 million being in construction in progress. Much of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled $61.8 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, 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 outstanding bond debt decreased by a net $12.7 million during fiscal year 2003. This decrease can be accounted for by the issuance of $67.4 million worth of general obligation bonds and accretion of $3.3 million in principal on the State's capital appreciation bonds offset by the redemption of $51.4 million and the defeasance of $32 million in outstanding debt. Additional information on the State's long-term indebtedness is contained in Note 8 of the notes to the financial statements. The State's bond ratings as of October 2003 are as follows: Moody's – Aa1; S&P – AA+; and Fitch – AA+.

ECONOMIC CONDITIONS

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 showing real signs of a rebound beginning with the second half of calendar year 2003. Most recovery indicators seem to be up with one exception; recovery in the U.S. labor market conditions. The off-shoring of American jobs as well as meager wage growth along with strong productivity gains and increasing demand has resulted in increased corporate profits. This increased profitability has resulted in increased levels of business investment and renewed hiring in calendar 2004. However, even with the above, there are strong indicators that the pace of this economic recovery will be more subdued and uneven than past ones.

Vermont's labor markets continue to make progress, but the recovery remains uneven. Progress has been affected by several major job reductions at IBM's Essex Junction, Vermont plant. As of March 2004, announced job reductions at the IBM facility now total 1700 jobs over the last two and one-half years. These reductions have acted to restrain the pace of job recovery across that period, but even so,

Vermont's pace of job recovery remains somewhat better than the national average. It ranks 21st among the 50 states for year over year private sector payroll job changes (and 20th for total payroll jobs) for the year ended March 2004.

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

The State's component units issue their own separately issued financial statements. Their statements may be obtained by directly contacting them at the addresses found in Note 1 to the state's financial statements.

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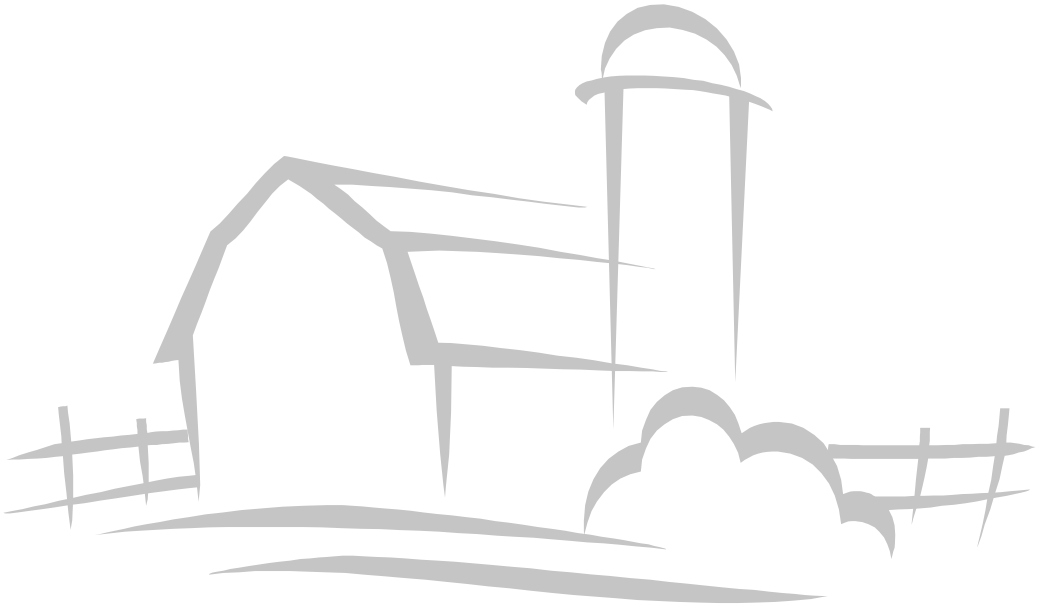

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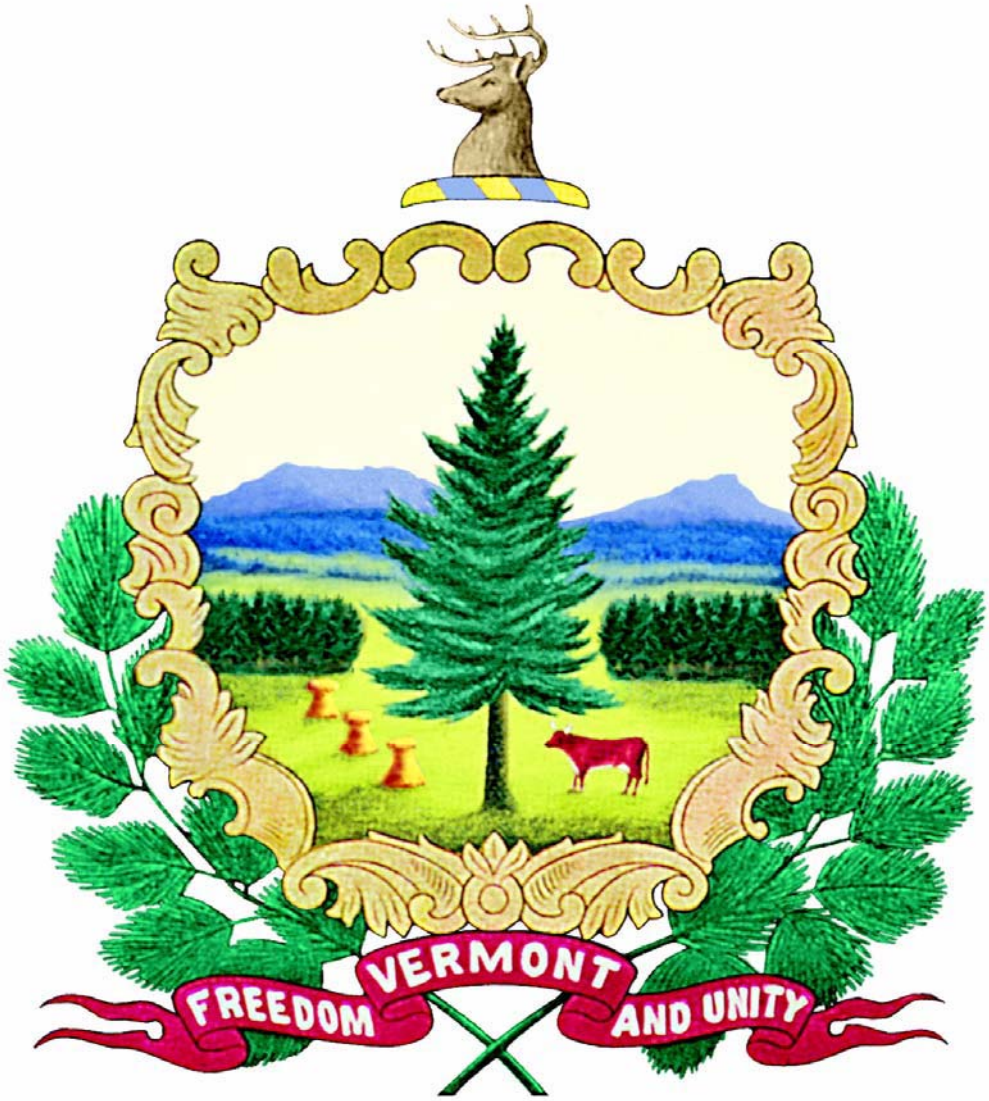

BASIC FINANCIAL STATEMENTS

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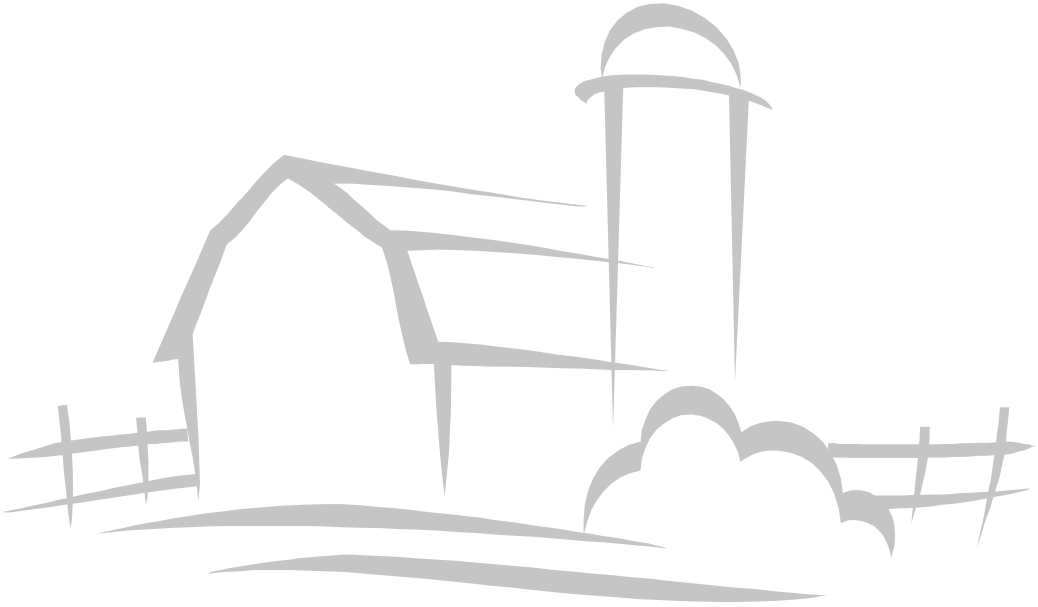

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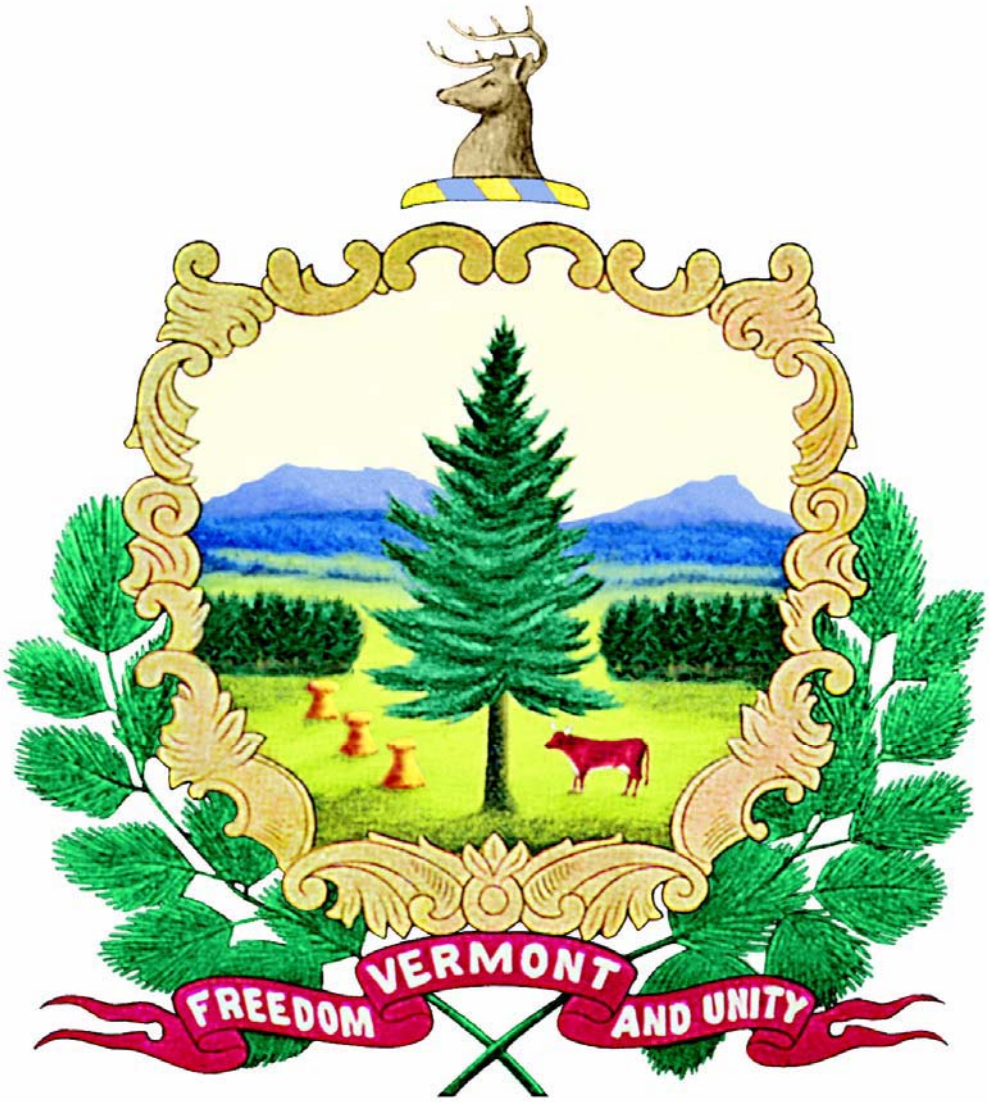

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 205,149,737	$ 263,106,310	$ 468,256,047	$ 321,790,694
Taxes receivable	111,042,033	8,333,809	119,375,842	-
Loans and notes receivable-current	5,078,998	1,676,022	6,755,020	141,132,397
Federal grants receivable	136,264,828	718,345	136,983,173	15,103,246
Other receivables	37,695,386	1,062,358	38,757,744	67,915,378
Investments	8,755,297	4,371,623	13,126,920	124,139,261
Inventories	3,003,115	4,778,500	7,781,615	2,163,409
Internal balances	1,442,718	(1,442,718)	-	-
Receivable from primary government	-	-	-	41,655
Receivable from component units	10,153,406	-	10,153,406	-
Other current assets	921,489	123,455	1,044,944	9,656,141
Total current assets	519,507,007	282,727,704	802,234,711	681,942,181
Noncurrent assets:				
Cash and cash equivalents	-	675,459	675,459	8,980,577
Taxes receivable	26,995,145	-	26,995,145	-
Other receivables	16,328,331	60,734	16,389,065	-
Notes and loans receivable	131,159,077	801,121	131,960,198	1,521,132,307
Investments	27,629,649	-	27,629,649	365,108,684
Other noncurrent assets	1,365,113	-	1,365,113	27,123,524
Capital assets:				
Land	66,560,594	-	66,560,594	17,810,928
Construction in progress	364,000,075	-	364,000,075	652,886
Works of art	111,521		111,521	-
Capital assets being depreciated:				
Infrastructure	1,080,423,167	-	1,080,423,167	16,213,062
Property, plant and equipment	363,080,731	1,184,229	364,264,960	502,198,519
Less accumulated depreciation	(785,773,282)	(650,459)	(786,423,741)	(260,727,276)
Total capital assets, net of depreciation	1,088,402,806	533,770	1,088,936,576	276,148,119
Total noncurrent assets	1,291,880,121	2,071,084	1,293,951,205	2,198,493,211
Total assets	1,811,387,128	284,798,788	2,096,185,916	2,880,435,392

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	180,384,667	9,849,534	190,234,201	50,428,355
Income tax refunds payable	51,240,775	-	51,240,775	-
Payable to primary government	-	-	-	10,153,406
Payable to component units	41,655	-	41,655	-
Accrued interest payable	9,367,868	-	9,367,868	3,217,851
Bonds, notes and leases payable	50,495,000	-	50,495,000	132,183,687
Compensated absences	16,970,133	183,530	17,153,663	-
Claims and judgments	11,205,846	3,256,533	14,462,379	-
Current portion of other long-term liabilities	-	-	-	1,514,889
Deferred revenue	46,276,727	1,886,584	48,163,311	32,229,989
Total current liabilities	365,982,671	15,176,181	381,158,852	229,728,177
Long-term liabilities:				
Lottery prize awards payable	-	879,715	879,715	-
Bonds, notes and leases payable	423,290,874	-	423,290,874	1,875,845,033
Compensated absences	8,461,837	97,669	8,559,506	-
Claims and judgments	22,198,569	-	22,198,569	-
Other long-term liabilities	142,635,885	-	142,635,885	34,507,149
Total long-term liabilities	596,587,165	977,384	597,564,549	1,910,352,182
Total liabilities	962,569,836	16,153,565	978,723,401	2,140,080,359
NET ASSETS				
Invested in capital assets, net of related debt	928,020,928	533,770	928,554,698	154,068,373
Restricted for:				-
Unemployment compensation	-	264,989,370	264,989,370	-
Component unit net assets	-	-	-	404,226,821
Funds held in permanent investments:				
Expendable	1,705,584	-	1,705,584	-
Nonexpendable	7,416,453	-	7,416,453	-
Budget stabilization	43,796,371	-	43,796,371	-
Capital projects	37,299,263	-	37,299,263	-
Unrestricted	(169,421,307)	3,122,083	(166,299,224)	182,059,839
Total net assets	$ 848,817,292	$ 268,645,223	$ 1,117,462,515	$ 740,355,033

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

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STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activites:				
General government	$ 51,573,621	$ 11,603,365	$ 2,682,062	$ -
Protection to persons & property	186,817,842	79,397,311	39,089,341	-
Human services	1,185,924,153	30,390,548	724,465,478	-
Employment & training	27,906,916	2,881,059	24,252,257	-
General education	1,096,988,222	1,874,304	85,323,777	-
Natural resources	69,459,648	18,962,892	19,746,667	14,329,014
Commerce & community development	33,849,108	1,088,366	14,657,190	-
Transportation	236,214,373	63,778,498	24,966,936	101,693,631
Public service enterprises	1,897,774	1,674,427	-	-
Interest on long-term debt	26,358,563	-	-	-
Total governmental activites	2,916,990,220	211,650,770	935,183,708	116,022,645
Business-type activites:				
Vermont Lottery Commission	63,650,809	79,412,447	-	-
Liquor Control	34,357,279	34,254,147	-	-
Unemployment Compensation	130,315,726	63,633,038	-	-
Other	3,026,310	2,920,076	-	-
Total business-type activities	231,350,124	180,219,708	0	0
Total primary government	$ 3,148,340,344	$ 391,870,478	$ 935,183,708	116,022,645
Component Units:				
University of Vermont	$ 379,503,000	$ 182,705,000	$ 182,640,000	$ 11,475,000
Vermont State Colleges	106,498,224	58,679,187	45,488,379	874,755
Vermont Student Assistance Corporation	93,829,000	57,775,000	41,700,000	-
Other	61,389,984	37,123,566	16,069,747	-
Total component units	$ 641,220,208	$ 336,282,753	$ 285,898,126	$ 12,349,755

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

Extraordinary items:
Gain (loss) on forgiveness of debt
Loss on extinguishment of debt

Changes in net assets

Net Assets - Beginning, restated (see Note 10)

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activites	Total	
$ (37,288,194)	$ -	$ (37,288,194)	$ -
(68,331,190)	-	(68,331,190)	-
(431,068,127)	-	(431,068,127)	-
(773,600)	-	(773,600)	-
(1,009,790,141)	-	(1,009,790,141)	-
(16,421,075)	-	(16,421,075)	-
(18,103,552)	-	(18,103,552)	-
(45,775,308)	-	(45,775,308)	-
(223,347)	-	(223,347)	-
(26,358,563)	-	(26,358,563)	-
(1,654,133,097)	0	(1,654,133,097)	0
-	15,761,638	15,761,638	-
-	(103,132)	(103,132)	-
-	(66,682,688)	(66,682,688)	-
-	(106,234)	(106,234)	-
0	(51,130,416)	(51,130,416)	0
(1,654,133,097)	(51,130,416)	(1,705,263,513)	0
-	-	-	(2,683,000)
-	-	-	(1,455,903)
-	-	-	5,646,000
-	-	-	(8,196,671)
0	0	0	(6,689,574)
404,947,697	-	404,947,697	-
205,205,492	-	205,205,492	-
95,354,842	-	95,354,842	-
82,089,177	-	82,089,177	-
71,257,920	-	71,257,920	-
453,868,075	-	453,868,075	-
284,253,279	-	284,253,279	11,088,000
1,596,976,482	0	1,596,976,482	11,088,000
4,602,180	18,011,637	22,613,817	27,195,488
30,545,249	-	30,545,249	-
2,446,521	2,646	2,449,167	62,323
16,582,383	(16,582,383)	-	-
1,651,152,815	1,431,900	1,652,584,715	38,345,811
(7,500,000)	-	(7,500,000)	7,500,000
-	-	-	(755,815)
(10,480,282)	(49,698,516)	(60,178,798)	38,400,422
859,297,574	318,343,739	1,177,641,313	701,954,611
$ 848,817,292	$ 268,645,223	$ 1,117,462,515	$ 740,355,033

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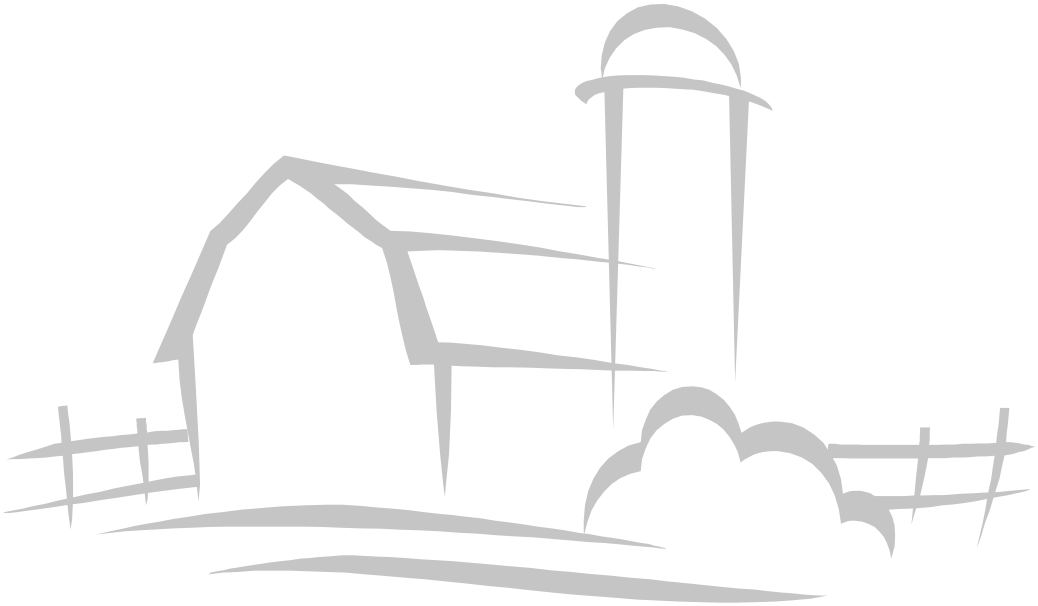
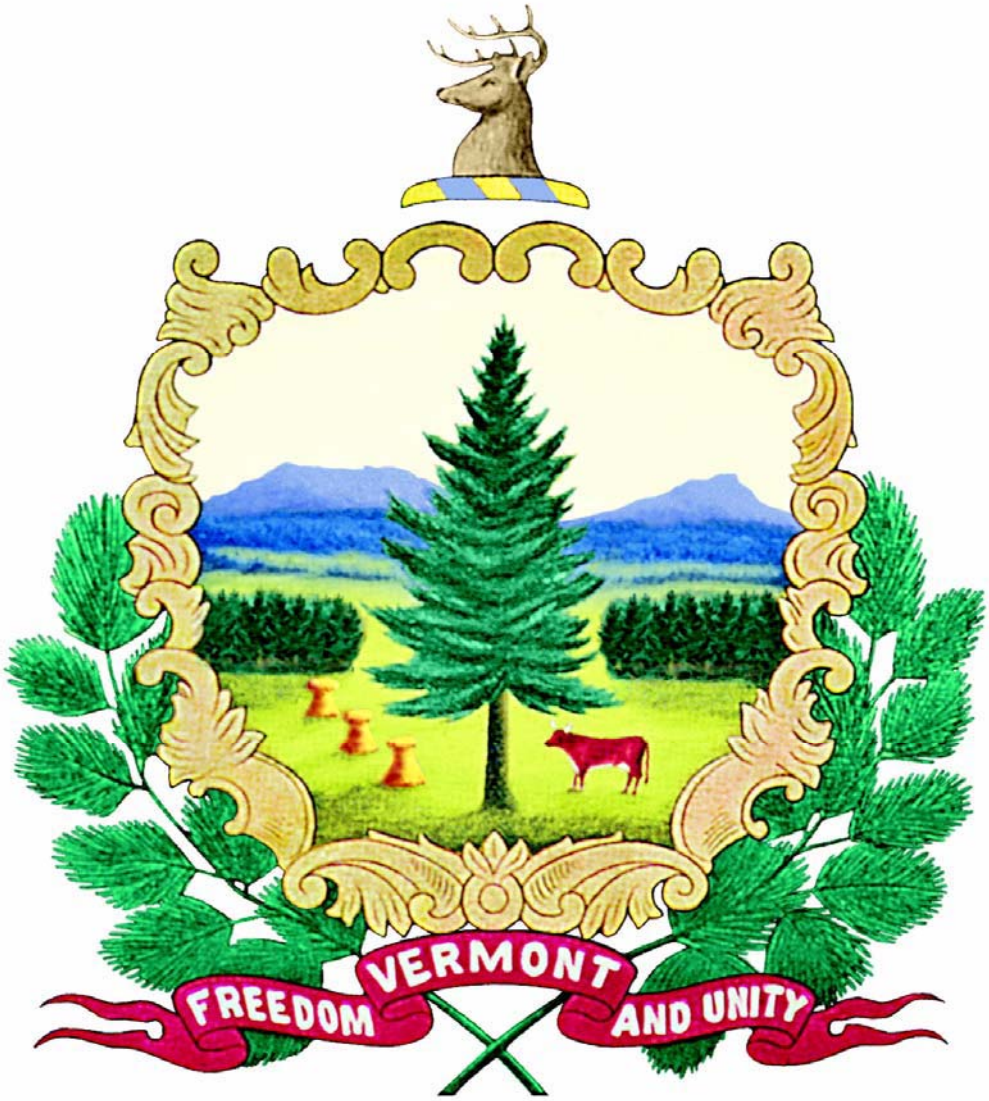


Vermont



GOVERMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Transportation Fund	Education Fund
ASSETS:			
Cash and cash equivalents	$ 22,805,481	$ 1,806,060	$ 11,314,848
Investments	-	-	-
Receivables:			
Taxes receivable (net)	121,537,086	6,900,181	6,466,646
Accrued interest receivable	-	-	-
Notes and loans receivable	8,609,999	868,666	-
Other receivables (net)	2,025,242	10,093,768	-
Intergovernmental receivable - federal government	-	22,908,370	-
Due from other funds	523,742	214,789	730,713
Due from component units	2,806,037	1,599,285	-
Interfund receivable	25,148,970	-	-
Advances to other funds	323,700	-	-
Advances to component units	1,921,695	-	-
Restricted cash	-	1,675,523	-
Total assets	**$ 185,701,952**	**$ 46,066,642**	**$ 18,512,207**
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	$ 10,193,179	$ 10,995,921	$ 9,911,352
Accrued liabilities	7,847,668	4,481,903	-
Retainage payable	243,184	2,717,193	-
Accrued interest payable	60,718	3,112	-
Due to other funds	905,830	675,614	214,660
Due to component units	-	41,655	-
Tax refunds payable	538,060	-	-
Deferred revenue	66,160,638	22,693,141	1,343,977
Total liabilities	**85,949,277**	**41,608,539**	**11,469,989**
FUND BALANCE:			
Reserved for:			
Encumbrances	977,136	58,618	34,127
Budget stabilization	23,564,564	9,156,195	11,075,612
Debt service	50,197	-	-
Advances and notes receivable	10,855,394	-	-
Human caseload management	17,243,422	-	-
Endowments	-	-	-
Unreserved:			
Designated for specific purposes	-	-	-
Undesignated	47,061,962	(4,756,710)	(4,067,521)
Total fund balance	**99,752,675**	**4,458,103**	**7,042,218**
Total liabilities and fund balance	**$ 185,701,952**	**$ 46,066,642**	**$ 18,512,207**

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

Special Fund	Federal Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 37,483,182	$ 37,449,771	$ 48,859,982	$ 159,719,324
27,337,380	-	9,047,566	36,384,946
3,048,453	-	84,812	138,037,178
1,000	-	-	1,000
190,000	126,569,410	-	136,238,075
17,350,281	11,344,397	456,348	41,270,036
-	112,866,821	489,637	136,264,828
6,759,770	1,583,899	4,596	9,817,509
-	3,826,389	-	8,231,711
-	-	-	25,148,970
-	-	-	323,700
-	-	-	1,921,695
3,430,000	-	-	5,105,523
$ 95,600,066	**$ 293,640,687**	**$ 58,942,941**	**$ 698,464,495**
$ 37,830,513	$ 82,549,323	$ 2,347,537	$ 153,827,825
2,299,499	5,196,010	401,432	20,226,512
1,494,583	92,850	115,127	4,662,937
33,906	-	-	97,736
850,470	1,585,405	251,557	4,483,536
-	-	-	41,655
-	-	-	538,060
10,414,817	162,621,751	-	263,234,324
52,923,788	**252,045,339**	**3,115,653**	**447,112,585**
1,840,921	11,201,089	5,750,211	19,862,102
-	-	-	43,796,371
-	-	-	50,197
-	-	-	10,855,394
-	-	-	17,243,422
-	-	7,416,453	7,416,453
-	-	37,299,263	37,299,263
40,835,357	30,394,259	5,361,361	114,828,708
42,676,278	**41,595,348**	**55,827,288**	**251,351,910**
$ 95,600,066	**$ 293,640,687**	**$ 58,942,941**	**$ 698,464,495**

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2003

Total fund balances from previous page		**$ 251,351,910**
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	66,534,438	
Construction in progress	363,587,536	
Depreciable capital assets and infrastructure, net of $761,228,786 of accumulated depreciation	633,162,058	
Capital assets, net of accumulated depreciation		1,063,284,032
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		15,168,346
Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:		
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds		218,271,332
Deferred charge for unamortized bond issuance costs		475,900
Deferred for unamoritized gain on sale of refunding bonds		889,213
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:		
Bonded debt	(473,785,874)	
Accrued interest payable on bonds	(9,270,132)	
Compensated absences (net of internal service funds' liability)	(24,228,835)	
Tax refunds payable	(50,702,715)	
Other long-term liabilities	(142,635,885)	
Long-term liabilities		(700,623,441)
Net assets of governmental activities		**$ 848,817,292**

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

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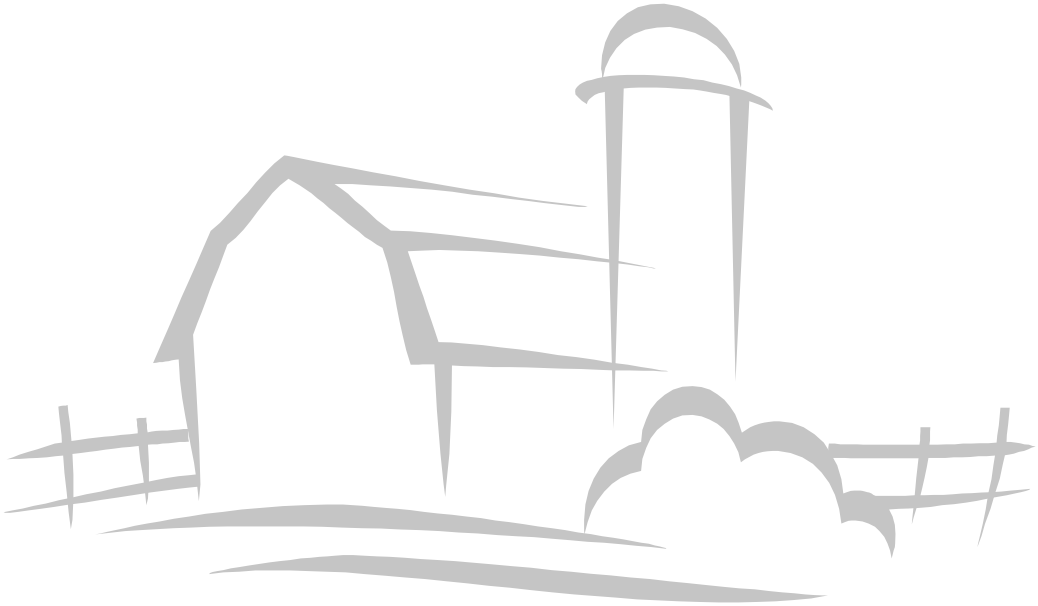


Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	Transportation Fund	Education Fund
REVENUES:			
Taxes:			
Personal income tax	$ 369,498,175	$ -	$ -
Corporate income tax	26,731,020	-	6,269,864
Sales and use tax	217,983,997	-	-
Meals and rooms	83,065,137	-	18,810,967
Motor fuel tax	-	54,183,114	10,833,015
Purchase and use tax	-	68,619,196	13,469,981
Statewide property tax	-	-	453,913,699
Other taxes	105,269,018	16,667,627	53,114,886
Earnings of departments:			
Fees	8,168,611	3,314,869	2,532,729
Rents and leases	-	619,034	-
Sales of service	1,645,369	65,065	-
Federal grants	-	122,152,213	-
Fines, forfeits and penalties	3,346,942	8,570,496	-
Investment income	1,408,677	73,390	14,672
Licenses:	-		
Business	2,709,071	695,972	-
Non-business	98,883	54,513,141	-
Special assessments	148,393	-	-
Other revenues	1,436,911	2,308,644	-
Total revenues	**821,510,204**	**331,782,761**	**558,959,813**
EXPENDITURES:			
General government	35,258,263	10,072,835	-
Protection to persons and property	64,382,741	28,320,277	-
Human services	270,663,749	2,011,331	-
Employment & training	1,329,245	-	-
General education	118,055,931	5,413,925	838,313,081
Natural resources	17,280,505	1,085,676	-
Commerce and community development	13,332,319	-	-
Transportation	-	284,553,067	-
Public service enterprises	-	-	-
Debt service	67,902,550	2,820,399	-
Total expenditures	**588,205,303**	**334,277,510**	**838,313,081**
Excess of revenues over (under) expenditures	**233,304,901**	**(2,494,749)**	**(279,353,268)**
Other Financing Sources (Uses):			
Proceeds from the sale of bonds	-	-	-
Proceeds from the sale of refunding bonds	30,016,694	1,538,306	-
Premium on sale of bonds	2,115,034	108,392	-
Payment to bond escrow agent	(32,131,728)	(1,646,698)	-
Premium on sale of short-term notes	678,750	-	-
Transfers in	33,335,916	1,674,543	270,210,675
Transfers (out)	(314,955,861)	(11,086,148)	(1,071,234)
Total other financing sources (uses)	**(280,941,195)**	**(9,411,605)**	**269,139,441**
Extraordinary item			
Loss on forgiveness of notes receivable	(2,204,948)	-	-
Net change in fund balances	**(49,841,242)**	**(11,906,354)**	**(10,213,827)**
Fund balance, July 1, restated (see Note 10)	**149,593,917**	**16,364,457**	**17,256,045**
Fund balance, June 30	**$ 99,752,675**	**$ 4,458,103**	**$ 7,042,218**

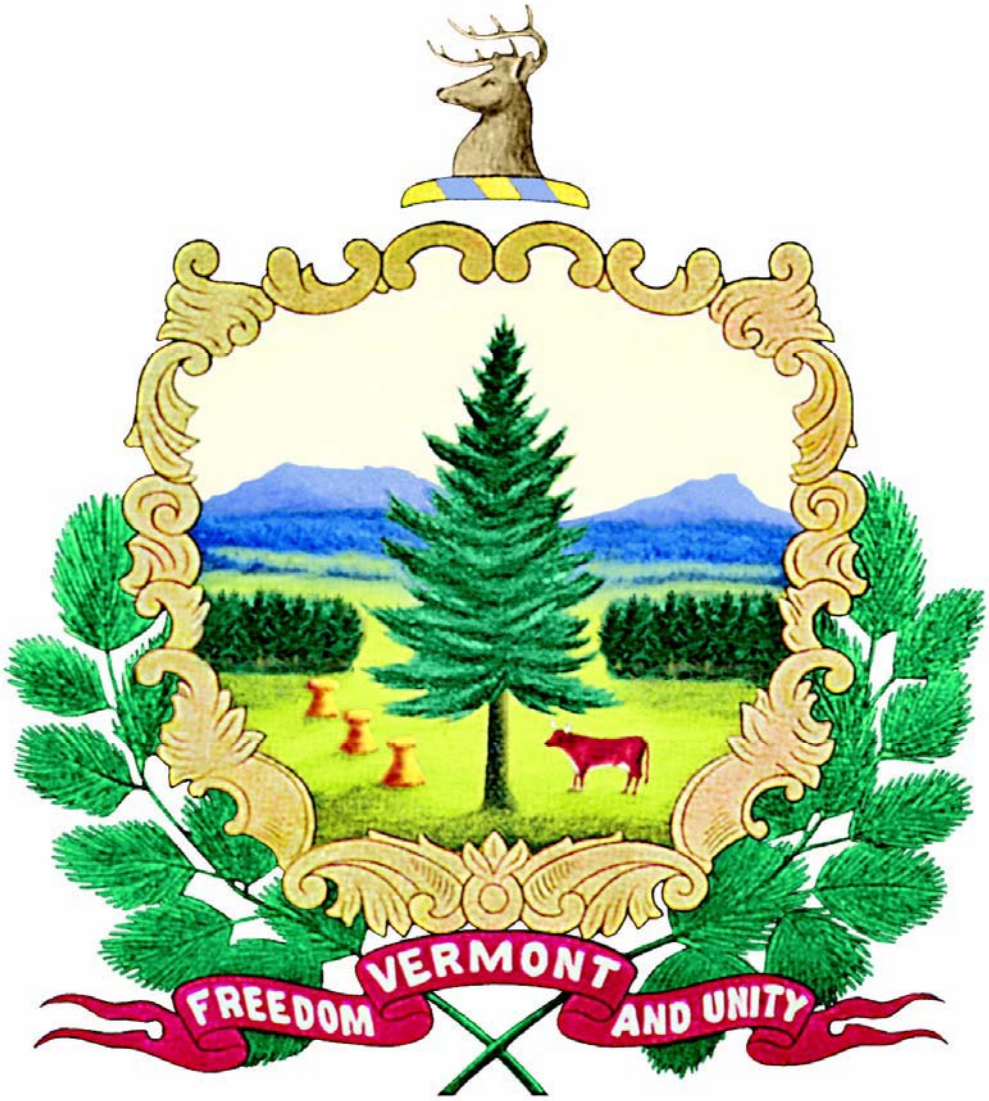
The accompanying notes are an integral part of the financial statements.

Special Fund	Federal Revenue Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 369,498,175
-	-	-	33,000,884
-	-	-	217,983,997
-	-	-	101,876,104
5,226,366	-	1,015,426	71,257,921
-	-	-	82,089,177
-	-	-	453,913,699
110,573,401	-	-	285,624,932
33,522,624	-	231,456	47,770,289
227,266	-	66,256	912,556
11,408,701	-	-	13,119,135
-	909,927,497	4,109,066	1,036,188,776
3,198,372	-	34,760	15,150,570
3,027,850	323,350	713,891	5,561,830
5,592,014	-	1,865	8,998,922
2,127,914	-	6,088,509	62,828,447
22,286,195	-	19,699	22,454,287
77,644,328	3,297,237	450,690	85,137,810
274,835,031	**913,548,084**	**12,731,618**	**2,913,367,511**
8,716,575	2,562,390	9,164,326	65,774,389
58,651,613	32,903,139	2,161,948	186,419,718
228,674,088	699,272,083	2,345,362	1,202,966,613
2,299,071	24,276,352	-	27,904,668
14,430,007	90,559,263	23,880,138	1,090,652,345
22,750,763	29,818,050	16,422,291	87,357,285
5,441,840	14,189,446	879,810	33,843,415
425,503	-	3	284,978,573
1,897,774	-	-	1,897,774
2,491,045	-	-	73,213,994
345,778,279	**893,580,723**	**54,853,878**	**3,055,008,774**
(70,943,248)	**19,967,361**	**(42,122,260)**	**(141,641,263)**
-	-	35,800,000	35,800,000
-	-	-	31,555,000
190,378	-	-	2,413,804
-	-	-	(33,778,426)
-	-	-	678,750
92,772,078	2,926,589	370,201	401,290,002
(25,352,367)	(22,959,234)	(6,797,716)	(382,222,560)
67,610,089	**(20,032,645)**	**29,372,485**	**55,736,570**
-	-	-	(2,204,948)
(3,333,159)	**(65,284)**	**(12,749,775)**	**(88,109,641)**
46,009,437	**41,660,632**	**68,577,063**	**339,461,551**
$ 42,676,278	**$ 41,595,348**	**$ 55,827,288**	**$ 251,351,910**

State of Vermont
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, 2003

Total net change in fund balances from the previous page	$	(88,109,641)
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		145,421,670
Depreciation expense and expensed net book value of disposed capital assets		(57,595,361)
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.		
Principal repayment		51,355,000
Payment to refunding bond escrow agent		33,778,426
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		(35,800,000)
Refunding bonds issued		(31,555,000)
Bond premium is amortized over the life of the bonds in the statement of activities		(2,202,267)
Refunding bonds gain amortized over the life of the refunded bonds		(889,213)
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		233,360
Receivables in the governmental funds that are not availableto provide current financial resources are not reported as revenues in the governmental funds		(13,265,108)
Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities		(6,593,172)
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 increase in accrued interest payable		(501,109)
Accreted interest on capital appreciation bonds		(3,320,784)
Decrease in compensated absences		824,555
Increase in employer pension related costs		(7,288,589)
Decrease 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		(4,376,313)
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		9,097,401
Total changes in net assets of governmental activities as reported on the statement of activities	$	(10,480,282)

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, 2003

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 259,391,051	$ 1,977,126	$ 583,725
Investments	-	-	4,371,623
Receivables:			
Taxes receivable	8,333,809	-	-
Accrued interest receivable	-	-	-
Accounts receivable (net of allowance for uncollectibles)	142,027	230,384	508,252
Loans receivable	-	-	-
Due from other funds	-	-	214,660
Intergovernmental receivable - federal	718,345	-	-
Inventories, at cost	-	3,339,226	438,079
Prepaid expenses	-	-	-
Total current assets	**268,585,232**	**5,546,736**	**6,116,339**
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	-	-	-
Construction in Process	-	-	-
Machinery, equipment and buildings	-	845,776	259,280
Less accumulated depreciation	-	(400,206)	(179,614)
Total capital assets, net of depreciation	**0**	**445,570**	**79,666**
Total assets	**268,585,232**	**5,998,006**	**6,196,005**
LIABILITIES			
Current Liabilities:			
Accounts payable	3,566,987	5,607,061	247,524
Accrued salaries and benefits	-	304,755	110,344
Claims payable	-	-	3,256,533
Due to agents	-	172,227	-
Due to other funds	28,875	286,122	730,713
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	879,715
Deferred revenue	-	-	273,645
Total current liabilities	**3,595,862**	**6,370,165**	**5,498,474**
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions	-	-	-
Cash advances by state treasurer	-	5,700	300,000
Total liabilities payable from restricted assets	**0**	**5,700**	**300,000**
Total liabilities	**3,595,862**	**6,375,865**	**5,798,474**
NET ASSETS			
Invested in capital assets, net of related debt	-	445,570	79,666
Restricted for unemployment compensation benefits	264,989,370	-	-
Unrestricted	-	(823,429)	317,865
Total net assets	**$ 264,989,370**	**$ (377,859)**	**$ 397,531**

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

Business-type Activities - Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 1,154,408	$ 263,106,310	$ 40,309,790
-	4,371,623	-
-	8,333,809	-
22,035	22,035	-
159,660	1,040,323	11,849,980
1,676,022	1,676,022	-
28,875	243,535	78,047
-	718,345	-
1,001,195	4,778,500	3,003,115
123,455	123,455	921,489
4,165,650	**284,413,957**	**56,162,421**
666,859	666,859	-
801,121	801,121	-
60,734	60,734	-
2,900	8,600	15,100
1,531,614	**1,537,314**	**15,100**
-	-	26,156
-		412,539
79,173	1,184,229	49,224,575
(70,639)	(650,459)	(24,544,496)
8,534	**533,770**	**25,118,774**
5,705,798	**286,485,041**	**81,296,295**
48,305	9,469,877	4,816,165
73,530	488,629	2,076,489
-	3,256,533	33,404,415
-	172,227	-
-	1,045,710	113,494
425,022	425,022	24,295,472
-	879,715	-
946,080	1,219,725	1,313,735
1,492,937	**16,957,438**	**66,019,770**
666,859	666,859	-
2,900	308,600	15,100
669,759	**975,459**	**15,100**
2,162,696	**17,932,897**	**66,034,870**
8,534	533,770	25,118,774
-	264,989,370	-
3,534,568	3,029,004	(9,857,349)
$ 3,543,102	**$ 268,552,144**	**$ 15,261,425**

Adjustment to reflect the consolidation of internal service activities related to enterprise funds	93,079
Net Assets - Business-type Activities.....	$ 268,645,223

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	**Liquor Control Fund**	**Vermont Lottery Commission**
Operating Revenues			
Charges for sales and services	$ 38,309,410	$ 33,043,684	$ -
Ticket sales	-	-	79,402,557
Rental income	-	-	-
License fees	-	224,867	9,890
Federal donated property	-	-	-
Advertising revenue	-	-	-
Other operating revenues	25,323,628	985,596	-
Total operating revenues	**63,633,038**	**34,254,147**	**79,412,447**
Operating Expenses			
Cost of sales and services	124,394,658	27,019,386	-
Cash and free ticket prizes	-	-	51,400,033
Agents commissions and fees	-	-	4,590,682
Megabucks expenses	-	-	3,400,237
Lottery tickets	-	-	1,528,323
Salaries and benefits	-	-	1,053,634
Insurance premium expense	-	-	-
Transportation	-	-	152,356
Warehouse expense	-	923,548	-
Depreciation	-	123,544	56,927
Rentals	-	-	54,094
Utilities	-	-	-
Stores and agencies expense	-	3,602,228	-
Promotions and advertising	-	-	-
Administration	-	1,339,853	701,285
Inspection and enforcement expense	-	1,320,495	-
Supplies and parts	-	-	25,800
Distribution and postage	-	-	-
Travel	-	-	-
Loss on bad debts	-	-	11,774
Other operating expenses	5,921,068	2,153	681,729
Total operating expenses	**130,315,726**	**34,331,207**	**63,656,874**
Operating income (loss)	**(66,682,688)**	**(77,060)**	**15,755,573**
Non-Operating Revenues (Expenses)			
Gain (loss) on disposal of fixed assets	-	2,348	(3,280)
Other	3,578	-	-
Interest expense	-	-	-
Investment income	17,526,867	-	470,311
Total non-operating revenues (expenses)	**17,530,445**	**2,348**	**467,031**
Income (loss) before contributions and transfers	**(49,152,243)**	**(74,712)**	**16,222,604**
Capital contributions from other funds	-	-	-
Transfer in	247,497	-	-
Transfer (out)	(318,075)	(359,779)	(16,222,604)
Changes in net assets	**(49,222,821)**	**(434,491)**	**-**
Total net assets July 1, restated (see Note 10)	**314,212,191**	**56,632**	**397,531**
Total net assets June 30	**$ 264,989,370**	**$ (377,859)**	**$ 397,531**

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

Business-type Activities - Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 1,691,876	$ 73,044,970	$ 140,768,461
-	79,402,557	-
-	-	9,679,965
-	234,757	-
559,263	559,263	-
486,239	486,239	-
182,698	26,491,922	1,943,762
2,920,076	**180,219,708**	**152,392,188**
1,188,006	152,602,050	103,428,502
-	51,400,033	-
-	4,590,682	-
-	3,400,237	-
-	1,528,323	-
868,657	1,922,291	20,553,291
-	-	5,550,479
32,936	185,292	32,680
-	923,548	-
4,766	185,237	4,464,101
30,402	84,496	1,878,930
922	922	448,117
-	3,602,228	-
317,252	317,252	-
199,505	2,240,643	7,802,265
-	1,320,495	-
20,873	46,673	1,448,991
217,329	217,329	37,762
16,177	16,177	-
7,838	19,612	-
118,034	6,722,984	10,855,406
3,022,697	**231,326,504**	**156,500,524**
(102,621)	**(51,106,796)**	**(4,108,336)**
-	(932)	65,798
-	3,578	19,424
-	-	(1,168)
14,459	18,011,637	420,136
14,459	**18,014,283**	**504,190**
(88,162)	**(33,092,513)**	**(3,604,146)**
-	-	6,723
318,075	565,572	1,995,698
(247,497)	(17,147,955)	(2,798,208)
(17,584)	**(49,674,896)**	**(4,399,933)**
3,560,686	**318,227,040**	**19,661,358**
$ 3,543,102	**$ 268,552,144**	**$ 15,261,425**

Total change in net assets reported above	(49,674,896)
Consolidation adjustment of internal service activities related to Enterprise Funds	(23,620)
Change in Net Assets - Business-type Activities	$ (49,698,516)

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers	$ 44,298,795	$ 44,661,700	$ 79,502,346
Cash paid to suppliers for goods and services	-	(31,124,252)	-
Loans received (made)	-	-	-
Cash paid to employees for services	-	(2,852,977)	(793,597)
Cash paid for prizes and commissions	-	-	(55,989,673)
Cash paid to claimants	(105,293,121)	-	-
Liquor taxes and licenses paid	-	(11,467,664)	-
Cash paid for fees, operations and other	-	-	(7,292,158)
Other operating revenues (expenses)	(5,493,159)	983,444	9,890
Net cash provided (used) by operating activities	**(66,487,485)**	**200,251**	**15,436,808**
Cash Flows from Noncapital Financing Activities:			
Operating/equity transfers in (out)	-	(359,779)	(15,534,133)
Other	-	-	-
Interfund loans and advances	-	-	(200,000)
Net cash provided (used) by noncapital financing activities	**0**	**(359,779)**	**(15,734,133)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(194,846)	(13,750)
Proceeds from sale of capital assets	-	6,718	-
Net cash provided (used) by capital and related financing activities	**0**	**(188,128)**	**(13,750)**
Cash Flows From Investing Activities:			
Interest and dividends on investments	17,530,445	-	96,039
Proceeds from sales/maturities of investments	-	-	434,000
Interest & penalties received (paid)	(329,057)	-	-
Excess cash transferred	247,497	-	-
Net cash provided (used) by investing activities	**17,448,885**	**0**	**530,039**
Net increase (decrease) in cash and cash equivalents	**(49,038,600)**	**(347,656)**	**218,964**
Cash and cash equivalents at July 1,	**308,429,651**	**2,330,482**	**364,761**
Cash and cash equivalents at June 30 (see note below)	**$ 259,391,051**	**$ 1,982,826**	**$ 583,725**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	$ (66,682,688)	$ (77,060)	$ 15,755,573
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	-	123,544	56,927
(Increase) decrease in accounts/taxes receivable	198,780	(74,514)	65,013
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	179,274	19,944
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in other assets	(137,696)	-	-
Increase (decrease) in accounts payable	-	3,225	(476,523)
Increase (decrease) in accrued salaries and benefits	-	13,822	-
Increase (decrease) in claims payable	20,767	-	(414,375)
Increase (decrease) in due to agents	-	(8,501)	-
Increase (decrease) in future and unclaimed prizes payable	-	-	395,472
Increase (decrease) in deferred revenue	-	-	34,777
Increase (decrease) in due to other funds	-	40,461	-
Increase (decrease) in other liabilities	113,352	-	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	**195,203**	**277,311**	**(318,765)**
Net cash provided (used) by operating activities	**$ (66,487,485)**	**$ 200,251**	**$ 15,436,808**

NOTE: Total cash/cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash-subscription reserve fund, and Imprest cash on the Statement of Net Assets.

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

Business-type Activities - Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 3,533,614	$ 171,996,455	$ 151,023,770
(2,469,629)	(33,593,881)	(57,354,232)
51,260	51,260	-
(860,712)	(4,507,286)	(21,233,820)
-	(55,989,673)	(68,552,442)
-	(105,293,121)	-
-	(11,467,664)	-
-	(7,292,158)	-
35,690	(4,464,135)	1,279,587
290,223	**(50,560,203)**	**5,162,863**
-	(15,893,912)	(732,310)
-	-	19,424
51,374	(148,626)	6,232,471
51,374	**(16,042,538)**	**5,519,585**
(13,300)	(221,896)	(7,483,401)
-	6,718	420,986
(13,300)	**(215,178)**	**(7,062,415)**
14,459	17,640,943	419,348
-	434,000	-
329,057	-	-
(247,497)	-	-
96,019	**18,074,943**	**419,348**
424,316	**(48,742,976)**	**4,039,381**
1,399,851	**312,519,045**	**36,270,409**
$ 1,824,167	**$ 263,776,069**	**$ 40,309,790**
$ (102,621)	$ (51,106,796)	$ (4,108,336)
4,766	185,237	4,464,101
118,414	307,693	181,371
334,629	334,629	-
(9,579)	(9,579)	-
-	-	2,238
(106,237)	92,981	(506,822)
22,581	22,581	(126,264)
-	(137,696)	-
(62,658)	(535,956)	(901,712)
5,964	19,786	394,792
-	(393,608)	5,396,479
-	(8,501)	-
-	395,472	-
108,079	142,856	1,141,285
-	40,461	(774,269)
-	113,352	-
(23,115)	(23,115)	-
392,844	**546,593**	**9,271,199**
$ 290,223	**$ (50,560,203)**	**$ 5,162,863**

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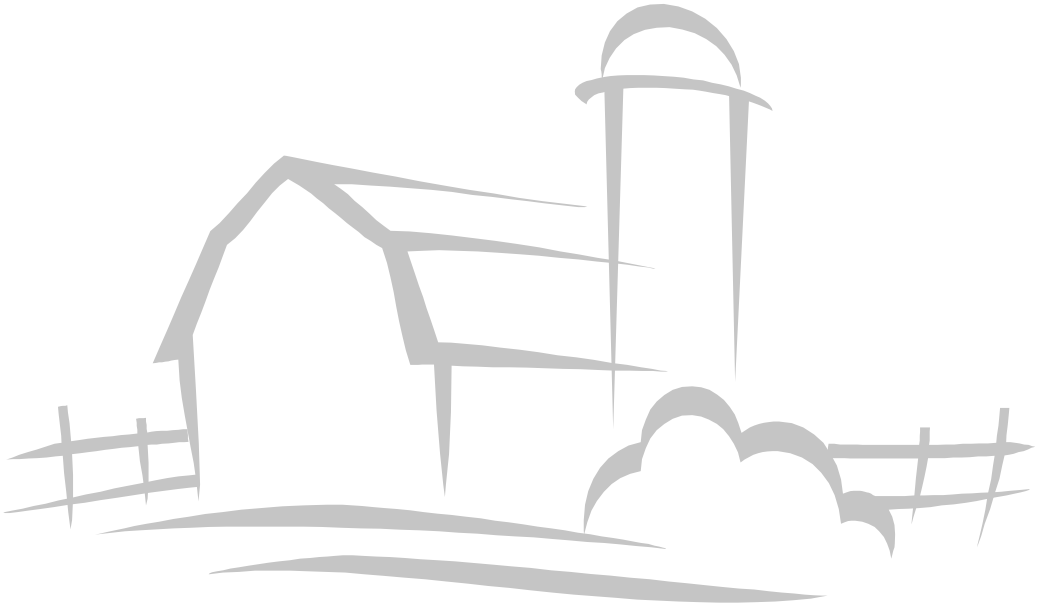

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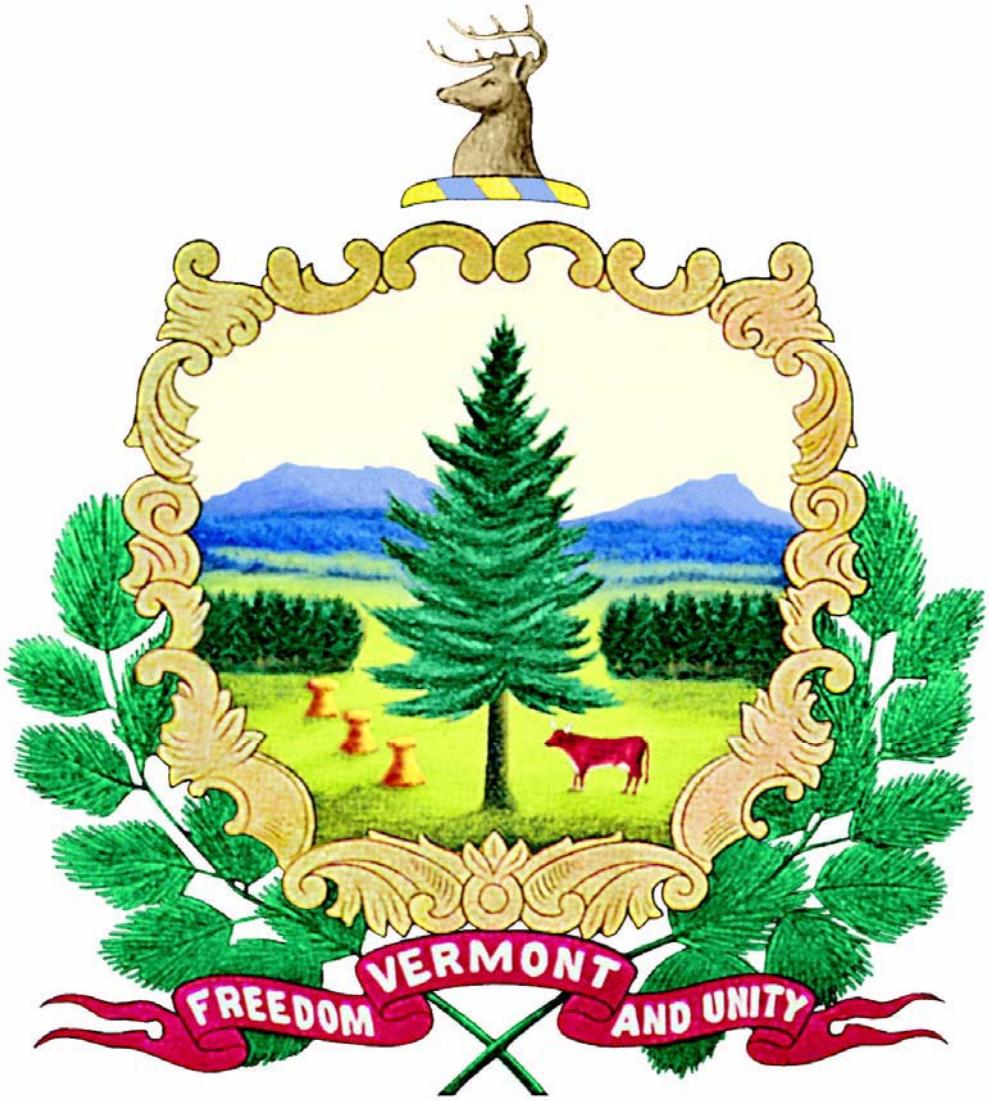

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Pension Trust Funds	Private Purpose Trust Funds: Unclaimed Property Fund	Agency Funds
ASSETS			
Cash and cash equivalents	$ 61,861,404	$ 1,702,329	$ 16,811,060
Investments at fair value	2,308,399,895	-	-
Receivables:			
Taxes	-	-	1,392,976
Contributions	4,059,113	-	-
Investment principal and interest	11,193,441	-	-
Investments sold	115,049,787	-	-
Other	10,244,344	-	447,584
Due from other funds	-	-	224,262
Prepaid expenses	894,847	-	-
Total assets	**2,511,702,831**	**1,702,329**	**18,875,882**
LIABILITIES			
Liabilities:			
Accounts payable	2,505,202	8,240	-
Accrued liabilities	41,900	8,300	-
Claims payable	-	1,365,221	-
Due to other funds	-	30,337	4,690,276
Interfund loans payable	-	-	428,476
Due to depositories	-	-	361,964
Intergovernmental payable - other governments	-	-	2,464,176
Amounts held in custody for others	-	-	10,014,008
Payable for investments purchased	155,299,422	-	-
Other liabilities	-	-	916,982
Total liabilities	**157,846,524**	**1,412,098**	**$ 18,875,882**
Net assets held in trust for benefits & other purposes	**$ 2,353,856,307**	**$ 290,231**	
RECONCILIATION OF NET ASSETS HELD IN TRUST:			
Employees' pension benefits	$ 2,353,856,307	$ -	
Other purposes	-	290,231	
Net assets held in trust for benefits & other purposes	**$ 2,353,856,307**	**$ 290,231**	

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, 2003

	Pension Trust Funds	Private Purpose Trust Funds Unclaimed Property Fund
ADDITIONS		
Contributions:		
Employer	$ 52,380,128	$ -
Plan member	36,992,076	-
Transfers from non-state systems	17,664,477	-
Total contributions	107,036,681	0
Investment Income:		
Net appreciation in fair value of investments	48,668,431	-
Dividends	24,469,494	-
Interest income	40,275,814	52,700
Securities lending income	1,853,172	-
Other income	300,694	-
Less Investment Expenses:		
Investment managers and consultants	(8,395,535)	-
Securities lending expenses	(1,416,944)	-
Net investment income	105,755,126	52,700
Escheat property remittances	-	1,761,422
Total additions	**212,791,807**	**1,814,122**
DEDUCTIONS		
Retirement benefits	104,644,799	-
Refunds of contributions	2,430,218	-
Death claims	242,090	-
Operating expenses	18,651,283	291,380
Transfers out	-	1,682,549
Total deductions	**125,968,390**	**1,973,929**
Change in net assets	**86,823,417**	**(159,807)**
Net assets held in trust for benefits & other purposes:		
beginning of fiscal year	**2,267,032,890**	**450,038**
end of fiscal year	**$ 2,353,856,307**	**$ 290,231**

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

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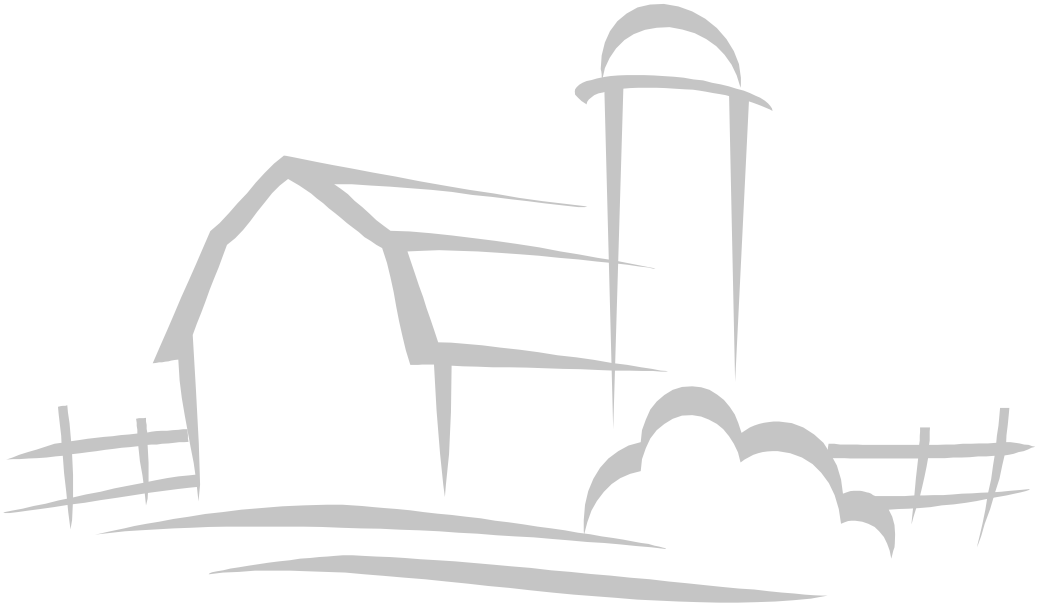

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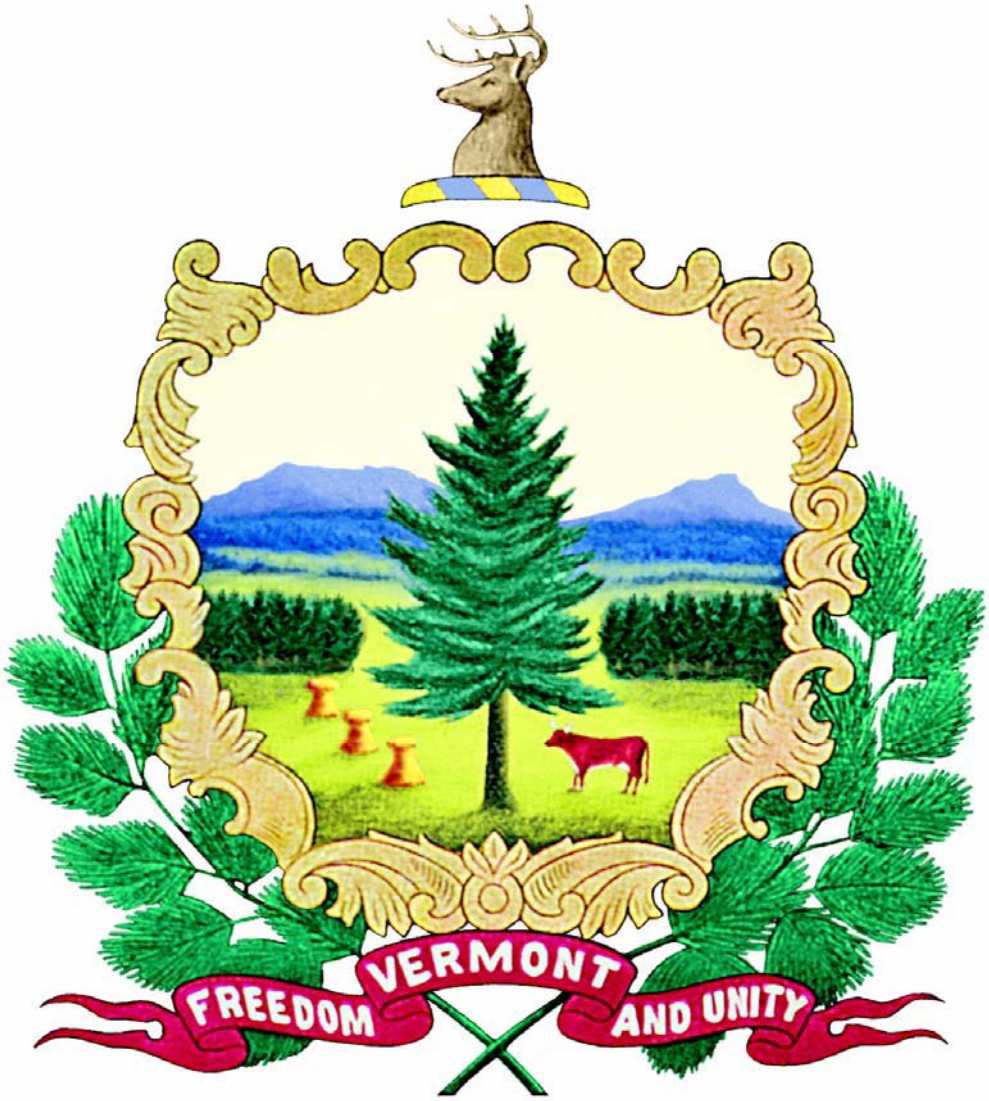

Component Unit Financial Statements

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2003

ASSETS	Vermont Student Assistance Corporation 06/30/03	University of Vermont and State Agricultural College 06/30/03	Vermont State Colleges 06/30/03	Total Nonmajor Component Units	Total Component Units
Current Assets:					
Cash and cash equivalents	$ 261,668,000	$ 18,823,000	$ 6,487,350	$ 34,812,344	$ 321,790,694
Investments	10,870,000	85,221,000	3,080,124	24,968,137	124,139,261
Accounts receivable	-	23,181,000	8,550,389	213,071	31,944,460
Accrued interest receivable - loans	23,489,000	-	-	8,360,670	31,849,670
Accrued interest receivable - investments	278,000	-	-	81,526	359,526
Loans and notes receivable - current portion	95,335,000	3,175,000	-	42,622,397	141,132,397
Other receivables	800,000	2,925,000	-	36,722	3,761,722
Due from federal government	410,000	-	-	14,693,246	15,103,246
Due from primary government	-	-	-	41,655	41,655
Inventories (at cost)	-	1,922,000	111,154	130,255	2,163,409
Prepaid expenses	-	7,398,000	-	10,382	7,408,382
Other current assets	1,485,000	-	493,243	269,516	2,247,759
Total current assets	**394,335,000**	**142,645,000**	**18,722,260**	**126,239,921**	**681,942,181**
Restricted and Non-Current Assets:					
Cash	-	3,857,000	826,671	4,296,906	8,980,577
Investments	-	301,305,000	21,110,369	42,693,315	365,108,684
Deferred bond issue costs	6,428,000	-	-	5,137,806	11,565,806
Loans and notes receivable (net)	1,028,319,000	30,173,000	5,099,520	457,540,787	1,521,132,307
Other assets	-	15,531,000	-	26,718	15,557,718
Total restricted and noncurrent assets	**1,034,747,000**	**350,866,000**	**27,036,560**	**509,695,532**	**1,922,345,092**
Capital Assets:					
Land	-	14,804,000	2,834,367	172,561	17,810,928
Construction in process	-	-	640,729	12,157	652,886
Building and leasehold improvements	1,351,000	297,858,000	88,993,971	13,432,272	401,635,243
Equipment, furniture and fixtures	4,414,000	87,356,000	5,383,993	3,409,283	100,563,276
Infrastructure	-	-	16,213,062	-	16,213,062
Accumulated depreciation	(2,901,000)	(178,858,000)	(68,787,958)	(10,180,318)	(260,727,276)
Total capital assets, net of depreciation	**2,864,000**	**221,160,000**	**45,278,164**	**6,845,955**	**276,148,119**
Total assets	**1,431,946,000**	**714,671,000**	**91,036,984**	**642,781,408**	**2,880,435,392**
LIABILITIES					
Current Liabilities:					
Accounts payable	3,103,000	8,127,000	5,718,184	1,014,944	17,963,128
Accrued salaries and benefits	-	20,154,000	-	1,121,378	21,275,378
Accrued interest payable	-	-	-	265,734	265,734
Bond interest payable	1,211,000	-	-	1,741,117	2,952,117
Deferred revenue	2,743,000	25,207,000	4,102,417	177,572	32,229,989
Accrued arbitrage rebate	1,260,000	-	-	254,889	1,514,889
Current portion - bonds, notes and leases payable	40,935,000	2,633,000	1,118,874	87,496,813	132,183,687
Due to primary government	-	-	-	8,231,711	8,231,711
Escrowed cash deposits	-	-	-	175,521	175,521
Other current liabilities	-	854,000	-	10,160,328	11,014,328
Total current liabilities	**49,252,000**	**56,975,000**	**10,939,475**	**110,640,007**	**227,806,482**
Restricted and Non-Current Liabilities:					
Bonds, notes and leases payable	1,291,258,000	179,978,000	18,880,187	385,728,846	1,875,845,033
Accounts payable and accrued liabilities	-	-	1,337,941	-	1,337,941
Accrued arbitrage rebate	11,747,000	-	-	796,626	12,543,626
Other liabilities	-	15,933,000	4,662,117	30,465	20,625,582
Advances from primary government	-	-	-	1,921,695	1,921,695
Total liabilities payable from restricted assets	**1,303,005,000**	**195,911,000**	**24,880,245**	**388,477,632**	**1,912,273,877**
Total liabilities	**1,352,257,000**	**252,886,000**	**35,819,720**	**499,117,639**	**2,140,080,359**
NET ASSETS					
Invested in capital assets, (net of related debt)	2,864,000	116,995,000	27,456,037	6,753,336	154,068,373
Restricted	48,681,000	249,629,000	11,244,596	94,672,225	404,226,821
Unrestricted - designated	28,144,000	-	-	30,000	28,174,000
Unrestricted	-	95,161,000	16,516,631	42,208,208	153,885,839
Total net assets	**$ 79,689,000**	**$ 461,785,000**	**$ 55,217,264**	**$ 143,663,769**	**$ 740,355,033**

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, 2003

Function/Program	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Vermont Student Assistance Corporation	$ 93,829,000	$ 57,775,000	$ 41,700,000	$ -	$ 5,646,000
University of Vermont	379,503,000	182,705,000	182,640,000	11,475,000	(2,683,000)
Vermont State Colleges	106,498,224	58,679,187	45,488,379	874,755	(1,455,903)
Total nonmajor component units	61,389,984	37,123,566	16,069,747	-	(8,196,671)
Total component units	$ 641,220,208	$ 336,282,753	$ 285,898,126	$ 12,349,755	(6,689,574)

General Revenues:	
Property transfer tax	11,088,000
Investment income	27,195,488
Miscellaneous	62,323
Total general revenues	38,345,811
Extraordinary items:	
Gain on forgiveness of debt	7,500,000
Loss on extinguishment of debt	(755,815)
Total extraordinary items	6,744,185
Changes in net assets	38,400,422
Net assets - beginning, restated (see Note 10)	701,954,611
Net assets - ending	$ 740,355,033

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

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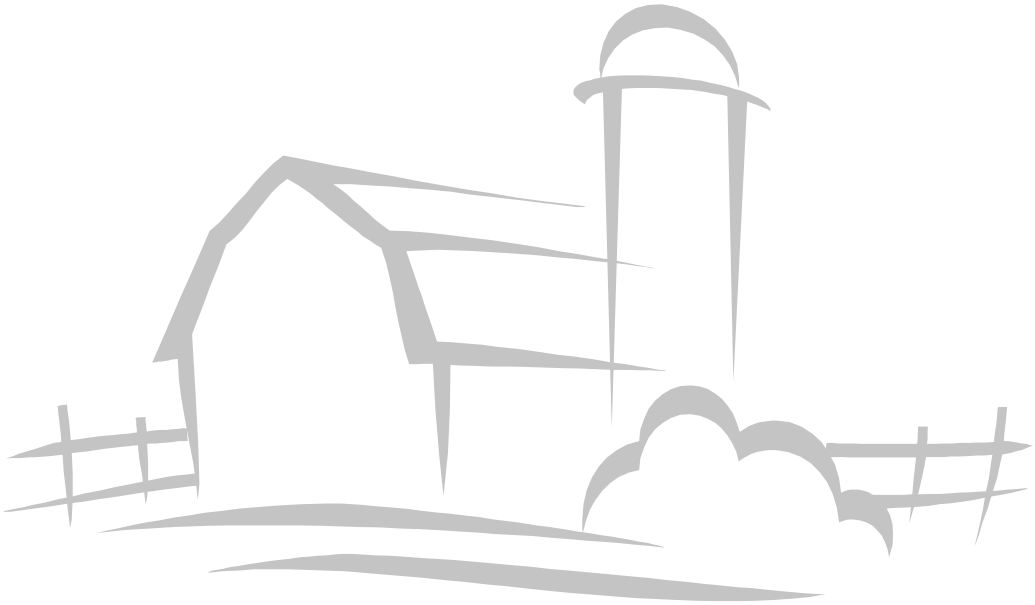

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State of Vermont
Notes To The Financial Statements
Fiscal Year Ended June 30, 2003

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STATE OF VERMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

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 Technical Bulletin 2003-1-"Requirements for Derivatives Not Reported At Fair Value On The Statement Of Net Assets." Vermont reports its derivatives at fair value in its financial statements.

The accompanying financial statements present the financial position of the State, 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, 2003.

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 that 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 Unit's 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. 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

Additional information about the system itself or about any of the individual organizations included in the system 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 149 Main Street, Montpelier, Vermont 05602.

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 and 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, which has a June 30 year-end and issues its own audited financial statements, was created by the General Assembly for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. 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 whose operations were discontinued on February 28, 2003. Audited financial statements and additional information may be obtained from VTA at 1 Main Street, Suite 101, 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.

Vermont Rehabilitation Corporation – The Vermont Rehabilitation Corporation is a non-profit quasi-public corporation that was incorporated in 1935 in accordance with 10 V.S.A. 272-277. It main purpose is to provide a limited source of loan funds to family farmers or prospective family farmers under terms and conditions which will reduce their investment costs to an extent that offers them a reasonable chance to succeed. Additional information may be obtained by contacting the Vermont State Treasurer at 133 State Street, Montpelier, Vermont 05633-6200.

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 enterprise), **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 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 fiscal year 2003 change in 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. See the "Compensated Absences" section of this footnote for additional information.

Interest on general long-term debt is recognized when due to be paid.

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.

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. A fund is a separate accounting entity with a self-balancing set of accounts. 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.

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 the cost of providing goods or services to the general public or other departments of government primarily through user charges; 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 expense 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. Their objective is not to make a profit but rather to recover the total cost of providing these goods and services by charging users of their services and products. The State added one new Internal Service Fund – Financial and Human Resource Information Fund – in FY2003. In the government-wide financial statements, Internal Service Funds are reported within the governmental activities.

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 *Unclaimed 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 he/she 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 funds 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 change in personal income tax revenue recognition criteria 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 sixty days. Amounts estimated to be collected after the sixty-day period will be recorded as deferred revenues. Prior to fiscal year 2003 personal income tax accrued revenue recognition included receivables that are assessed or estimated to be owed by the taxpayer as of June 30 that will be received by the State during the following ten months. Beginning with fiscal year 2003, the State changed its personal income tax accrued revenue recognition policy to only recognize personal income tax accrued revenues in the amount to be collected within the sixty-day period after year-end. 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 notes receivable.

The " Investments Sold" receivable balance on the Statement of Fiduciary Net Assets – Pension Trust Funds represent monies due to the respective retirement funds for investments sold or matured prior to June 30, 2003, but for which the receipts were received subsequent to June 30, 2003.

The "Other" receivable balance in the Vermont Municipal Employees' Retirement Fund represents the remaining cash balance due from several municipal entities that recently joined this plan. Please see Note 5A – Retirement Plan Descriptions for further information regarding these new entities.

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. However, inventories reported in the Federal Surplus Property Fund (an enterprise fund) are reported at the federal acquisition cost.

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. Interest incurred on debt issued for construction of these capital 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 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.

Capital 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 capital assets.

When a capital 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

Revenues in the government-wide financial statements and the proprietary fund financial statements are deferred if cash has been received prior to being earned. In governmental fund statements deferred revenues are recognized when revenues are unearned or unavailable.

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 “payable for investments purchased” balance for the Pension Trust Funds represents amounts due for securities purchased prior to June 30, 2003, which were paid subsequent to June 30, 2003.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of June 30, 2003. 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 2002 calendar year and first and second quarter 2003 calendar year personal income 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 tax refunds payable at June 30, 2003 in the governmental funds statements is comprised of tax refunds for filed

tax returns due and payable at June 30, 2003. The amount reported as tax refunds payable at June 30, 2003 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2003 tax liability as well as overpayments for calendar year 2002 and prior years' tax liabilities that have not been paid out as of June 30, 2003.

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. The remaining reserved balance at June 30 2003 is $50,197.

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.

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. 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 or forfeited.

Liabilities for compensated absences are recorded in the fund where the employees are assigned. The amounts are calculated based on an employee's pay rate in effect on June 30, 2003. Additional information including changes in balances may be found in Note 19 – Changes In Long-term Liabilities.

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 forfeited 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.

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, that affect disclosure of contingent assets and liabilities as of the date of the financial statements, and that affect the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates. During fiscal year 2003, the State changed from using 4 months of subsequent payments for prior year Medicaid liabilities to an accounting estimate of the total liability.

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, 2003
Primary Government and Component Units

Cash and Cash Equivalents	$	865,300,911
Investments		2,838,404,409
Restricted Cash		14,776,659
Total	**$**	**3,718,481,979**
Deposits, Investments, and Reconciling Items		
Carrying Value of Deposits	$	461,208,672
Carrying Value of Investments		2,995,003,270
Cash on Hand		613,604
U.S. Treasury - Unemployment Account		261,656,433
Total	**$**	**3,718,481,979**

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.

The U.S. Treasury - Unemployment Account balance of $261,656,433 at June 30, 2003 is on deposit with the U.S. Treasury and is not categorized.

At June 30, 2003, 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	$ 5,470,581	$ 11,932,936	$ 134,954,581	$ 152,358,098	$ 130,437,401
Component Units	2,448,768	20,150,788	294,488,637	317,088,193	330,771,271
Total	**$ 7,919,349**	**$ 32,083,724**	**$ 429,443,218**	**$ 469,446,291**	**$ 461,208,672**

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. Effective with fiscal year 2003, the State reports any derivatives at fair value in accordance with GASB TB 2003-1, "Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets."

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. Section 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 set of investment guidelines.

At June 30, 2003 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	$ 1,277,643,853	$ -	$ -	$ 1,277,643,853
U.S. Government Securities	390,064,442	-	-	390,064,442
Corporate Bonds and Notes	464,861,278	-	-	464,861,278
Other Investments	-	-	39,996,386	39,996,386
Subtotals	2,132,569,573	0	39,996,386	2,172,565,959
Not Categorized:				
Real Estate/Venture Capital	-	-	-	199,459,231
Mutual Funds	-	-	-	132,908,862
Lottery Annuity	-	-	-	805,863
Mortgages	-	-	-	15,410
Totals - Primary Government	$ 2,132,569,573	$ 0	$ 39,996,386	$ 2,505,755,325
Component Units				
U.S. Government Obligations	$ 52,424,994	$ 10,379,000	$ 12,876,167	$ 75,680,161
Corporate Bonds	5,184,312	3,681,000	-	8,865,312
Stocks	38,990,848	-	-	38,990,848
Other	8,847,877	229,676,747	120,241,000	358,765,624
Subtotals	105,448,031	243,736,747	133,117,167	482,301,945
Not Categorized:				
UVM Partnerships	-	-	-	6,946,000
Total Component Units	$ 105,448,031	$ 243,736,747	$ 133,117,167	489,247,945
Totals - Reporting Entity				**$ 2,995,003,270**

Securities Lending Transactions

State statutes and boards of trustees policies permit the Office of the Vermont State Treasurer 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 64 days at June 30, 2003. 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, 2003, the collateral held and the market value of the securities on loan for Vermont were $121,002,238 and $116,594,328, 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. Section 471(m)	Vermont State Employees' Retirement Fund
16 V.S.A. Section 1942(q)	Vermont Teachers' Retirement Fund
24 V.S.A. Section 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, 2003 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	$ 66,249,447	$ 311,147	$ -	$ -	$ 66,560,594
Construction in process	328,775,171	123,098,205	(87,873,301)	-	364,000,075
Works of Art	111,521	-	-	-	111,521
Total capital assets, not being depreciated	395,136,139	123,409,352	(87,873,301)	0	430,672,190
Capital assets, being depreciated:					
Buildings and improvements	241,516,067	13,164,477	-	-	254,680,544
Machinery and equipment	85,790,070	32,295,034	(9,449,544)	(235,373)	108,400,187
Infrastructure	1,013,524,508	71,980,704	(5,082,045)	-	1,080,423,167
Total capital assets, being depreciated	1,340,830,645	117,440,215	(14,531,589)	(235,373)	1,443,503,898
Less accumulated depreciation for:					
Buildings and improvements	(104,671,197)	(5,964,745)	-	-	(110,635,942)
Machinery and equipment	(52,619,363)	(15,142,260)	8,793,764	170,901	(58,796,958)
Infrastructure	(580,770,562)	(40,651,865)	5,082,045	-	(616,340,382)
Total accumulated depreciation	(738,061,122)	(61,758,870)	13,875,809	170,901	(785,773,282)
Total capital assets, being depreciated, net	602,769,523	55,681,345	(655,780)	(64,472)	657,730,616
Governmental activities capital assets, net	$ 997,905,662	$ 179,090,697	$ (88,529,081)	$ (64,472)	$ 1,088,402,806

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	1,004,747	221,896	(84,264)	-	1,142,379
Total capital assets, being depreciated	1,046,597	221,896	(84,264)	0	1,184,229
Less accumulated depreciation for:					
Buildings and improvements	(16,616)	(5,231)	-	-	(21,847)
Machinery and equipment	(525,219)	(180,006)	76,613	-	(628,612)
Total accumulated depreciation	(541,835)	(185,237)	76,613	0	(650,459)
Total capital assets, being depreciated, net	504,762	36,659	(7,651)	0	533,770
Business-type activities capital assets, net	$ 504,762	$ 36,659	$ (7,651)	$ 0	$ 533,770

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

Governmental Activities:	
General Government	$ 12,607,492
Protection to Persons and Property	1,642,406
Human Services	706,523
Employment & Training	122,308
General Education	12,160
Natural Resources	1,126,186
Commerce and Community Development	61,172
Transportation	41,016,522
Depreciation on Capital Assets held by the Internal Service Funds	4,464,101
Total	$ 61,758,870

Business-type Activities:	
Liquor Control	$ 123,544
Lottery	56,927
Federal Surplus Property	4,766
Total	$ 185,237

Discretely Presented Component Units

	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 13,177,213	$ 4,697,715	$ (64,000)	$ -	$ 17,810,928
Construction in process	1,394,558	1,056,639	-	(1,798,311)	652,886
Total capital assets, not being depreciated	14,571,771	5,754,354	(64,000)	(1,798,311)	18,463,814
Capital assets, being depreciated:					
Buildings and improvements	379,737,410	21,881,275	(366,500)	383,058	401,635,243
Machinery and equipment	94,933,071	11,302,783	(5,999,303)	326,725	100,563,276
Infrastructure	16,173,670	39,392	-	-	16,213,062
Total capital assets, being depreciated	490,844,151	33,223,450	(6,365,803)	709,783	518,411,581
Less accumulated depreciation	(250,104,012)	(16,866,827)	6,208,032	35,531	(260,727,276)
Total capital assets, being depreciated, net	240,740,139	16,356,623	(157,771)	745,314	257,684,305
Component unit capital assets, net	$ 255,311,910	$ 22,110,977	$ (221,771)	$ (1,052,997)	$ 276,148,119

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) general employees who did not join the non-contributory system on July 1, 1981(Group A) with a

contribution rate of 5.1% of payroll (contributions cease upon attainment of 25 years of creditable service),

(2) state police, law enforcement positions and airport firefighters hired after July 1, 2000 (Group C) with a contribution rate of 6.28% of payroll,

(3) judges (Group D) with a contribution rate of 5.1% of payroll,

(4) terminated vested members of the non-contributory system (Group E), and

(5) all other general employees (Group F) with a contribution 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) general teachers who did not join the non-contributory system on July 1, 1981 (Group A) with a contribution rate of 5.5% of payroll (contributions cease upon attainment of 25 years of creditable service),

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

(3) all other general teachers (Group C) with a contribution rate of 3.4% of covered payroll.

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 15 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.

During fiscal year 2003, three municipal entities (Town of Bennington, City of Montpelier and Montpelier School System) joined the MERS. The transfers from non-state systems balance in the Statement of Changes in Fiduciary Net Assets includes the $17,561,264 of actuarially determined contributions for the members added by these three municipal entities. Cash in the amount of $7,316,920 was paid to MERS and the remaining balance of $10,244,344 will be paid over a period of 30 years.

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, 2003, plan member contributions were $557,333 and State employer contributions were $1,391,658. As of June 30, 2003, the Vermont State Defined Contribution Plan's net assets totaled $26,920,943 and there were 551 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, 2003, plan participants and the municipalities each contributed $442,375 and $440,071 respectively, while members transferred $30,455 into the defined contribution plan from other pension plans. As of June 30, 2003, the Municipal Employees' Defined Contribution Plan's net assets at fair value totaled $5,775,959 and there were 447 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 are available for inspection at the Retirement Division, Office of the Vermont State Treasurer, 133 State Street, Montpelier, Vermont 05633-6901.

B. Plan Membership

At June 30, 2003, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees:			
Vested	5,235	7,546	2,494
Non-vested	2,641	2,809	2,966
Total active employees	7,876	10,355	5,460
Retirees and beneficiaries of deceased retirees currently receiving benefits	3,728	4,169	1,028
Terminated employees entitled to benefits but not yet receiving them (vested)	767	2,901	224
Inactive members	1,033	583	2,342
Total participants	13,404	18,008	9,054

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	06/30/03	06/30/03	07/01/03
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	15 years	15 years	15 years
Asset valuation method	Actuarial value of assets	Actuarial value of assets	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases	4.5%-7.79%	4.41%-10.68%	5.6%
Cost-of-living adjustments	1.5%-3.0%	1.5%-3.0%	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

	VSRS		STRS		MERS	
Year Ended 6/30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1994	27,224,000	80.04%	25,805,000	79.75%	3,003,674	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%
2003	24,715,309	98.70%	28,279,810	72.30%	5,854,111	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						
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%
2003	1,025,469	1,052,004	26,535	97.5%	319,855	8.3%
STRS						
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%	364,695	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%
2003	1,218,001	1,358,822	140,821	89.6%	437,239	32.2%
MERS						
1994	60,646	59,251	(1,394)	102.4%	62,300	-2.2%
1995	70,082	67,039	(3,043)	104.5%	79,056	-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%	87,328	-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	158,786	(19,142)	112.1%	101,873	-18.8%
2002	193,278	176,109	(17,169)	109.7%	106,986	-16.0%
2003	222,854	218,533	(4,321)	102.0%	126,216	-3.4%

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)	$24,715,309	$28,279,810
Interest on NPO	3,076,151	7,444,098
Adjustment to ARC	(3,372,972)	(8,012,591)
Annual Pension Cost (APC)	24,418,488	27,711,317
Employer Contribution Made	(24,394,934)	(20,446,282)
Increase (Decrease) in NPO	23,554	7,265,035
NPO - Beginning of Year	38,451,886	87,577,620
NPO - End of Year	$38,475,440	$94,842,655
Percentage of APC contributed	99.90%	73.78%

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; or
(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, 2003, there were 1,581 STRS members and 1,220 VSRS members, with net assets of $106,788,184 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, 2003 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	$ 48,288,000	$ -	$ -	$ -
Grants and Scholarships	393,000	-	-	-
Project Commitments	-	-	-	22,186,204
Restricted- Nonexpendable	-	52,722,000	8,703,707	-
Restricted- Expendable	-	196,907,000	2,540,889	6,500,000
Loans Receivable (1)	-	-	-	65,986,021
Total Component Units Restricted Net Assets	$ 48,681,000	$ 249,629,000	$ 11,244,596	$ 94,672,225

(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
2004	$4,614,344	$196,249	$4,810,593	$1,630,057	$654,000	$7,094,650
2005	3,879,739	100,990	3,980,729	1,379,034	299,000	5,658,763
2006	2,978,742	45,702	3,024,444	1,167,227		4,191,671
2007	2,408,802	31,295	2,440,097	1,056,026		3,496,123
2008	2,146,032	2,825	2,148,857	848,564		2,997,421
2009 to 2014	2,062,077	5,600	2,067,677	92,626		2,160,303
Totals	$18,089,736	$382,661	$18,472,397	$6,173,534	$953,000	$25,598,931

Capital Leases

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2003 are as follows:

Fiscal Year	Vermont State Colleges	Total Reporting Entity
2004	$34,338	$34,338
2005	34,338	34,338
2006	20,030	20,030
Total Minimum Lease Payments	88,706	88,706
Less: interest	(6,985)	(6,985)
Present value of minimum lease payments	$81,721	$81,721

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 give 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 terms 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 2003 are summarized as follows:

		General Obligation Bonds
Balance, July 1, 2002		$ 486,465,090
Additions:		
Issuances	67,355,000	
Accretions	3,320,784	
Total		70,675,784
Deductions:		
Redemptions	51,355,000	
Defeased	32,000,000	
Total		(83,355,000)
Balance, June 30, 2003		$ 473,785,874

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, 2003, the accreted value of these bonds was $16,964,279.

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 $8,783,695 at June 30, 2003.

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 $25,282,902 at June 30, 2003.

Future general obligation debt service requirements at June 30, 2003 are as follows:

Fiscal Year	Current Interest Bonds Principal	Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2004	$ 42,265,000	$ 20,122,018	$ 8,230,000	$ 70,617,018
2005	38,635,000	17,906,621	7,400,000	63,941,621
2006	36,855,000	16,081,356	7,410,000	60,346,356
2007	36,235,000	14,309,636	7,495,000	58,039,636
2008	34,885,000	12,686,254	7,500,000	55,071,254
2009-2013	145,590,000	40,223,059	26,565,000	212,378,059
2014-2018	71,045,000	12,134,151	2,000,000	85,179,151
2019-2022	17,245,000	1,387,993	-	18,632,993
Totals	$ 422,755,000	$ 134,851,088	$ 66,600,000	$ 624,206,088

At June 30, 2003, there remains $39,200,868 of authorized but unissued General Obligation Bonds.

See following page for a schedule of General Obligation Bonds outstanding at June 30, 2003.

General Obligation Bonds outstanding at June 30, 2003 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:								
8/1/1992	8/1/2008	3.0 to 5.75	$ 71,280,000		$ 17,860,000	$ 755,000	$	$ 18,615,000
8/1/1993	2/1/2012	3.0 to 5.0	58,415,000		44,395,000	5,275,000		49,670,000
10/15/1993	4/15/2008	3.7 to 6.6	85,000,000		11,401,500	598,500		12,000,000
11/15/1994	1/15/2014	5.6 to 7.0	70,000,000		10,321,800	208,200		10,530,000
12/1/1995	1/15/2015	4.875 to 5.125	60,000,000		37,880,000			37,880,000
11/20/1996	1/15/2016	5.0 to 5.125	38,000,000		26,000,000			26,000,000
12/12/1996	1/15/2016	3.7 to 5.6	15,000,000		10,260,000			10,260,000
10/29/1997	1/15/2017	4.5 to 5.0	28,500,000		19,617,316	1,382,684		21,000,000
12/3/1997	1/15/2017	3.9 to 5.2	14,990,000		11,040,000			11,040,000
3/15/1998	1/15/2014	4.25 to 5.0	64,575,000		37,431,775	2,778,225	10,755,000	50,965,000
5/1/1998	1/15/2017	4.5 to 5.0	7,755,000				6,140,000	6,140,000
11/23/1998	1/15/2018	4.5 to 4.75	26,630,000		20,497,176	512,824		21,010,000
12/22/1998	1/15/2004	3.6 to 4.0	7,655,000		1,530,000			1,530,000
11/1/1999	2/1/2019	4.5 to 6.5	32,000,000		26,945,000			26,945,000
12/16/1999	2/1/2010	4.55 to 5.05	5,000,000		3,500,000			3,500,000
11/14/2001	8/1/2020	3.25 to 4.75	46,000,000		43,815,000			43,815,000
12/27/2001	8/1/2011	4.0 to 4.375	5,000,000		4,500,000			4,500,000
12/11/2002	8/1/2019	3.0 to 5.0	30,800,000		30,800,000			30,800,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		29,959,000	1,596,000		31,555,000
2/4/2003	8/1/2007	2.0 to 2.2	5,000,000		5,000,000			5,000,000
Total General Obligation Current Interest Bonds					**392,753,567**	**13,106,433**	**16,895,000**	**422,755,000**
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	48,935,000	32,895,000			32,895,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	11,565,000			11,565,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	22,140,000			22,140,000
Total Maturity Value					**66,600,000**			**66,600,000**
Less: Unaccreted Interest					15,569,126			15,569,126
Total General Obligation Capital Appreciation Bonds					**51,030,874**			**51,030,874**
Total General Obligation Bonds					**$ 443,784,441**	**$ 13,106,433**	**$ 16,895,000**	**$ 473,785,874**

Note 9: BOND REFUNDINGS:

A. Bonds Defeased Through Refunding

As authorized by Vermont statutes, during fiscal year 2003, the State of Vermont advance refunded a portion of its General Obligation Bonds, 1993 Series B maturing in 2006-2013 with an average coupon rate of 4.72%, through the issuance of $31,555,000 of general obligation refunding bonds with an average coupon rate of 4.68%. Net proceeds totaling approximately $33,778,426 (of which $2,352,637 was premium and $129,211 were issuance costs, underwriter discount, and contingency) were used to purchase U.S. Government securities that were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds of which $32,000,000 remain outstanding as of June 30, 2003. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from long-term obligations in the Statement of Net Assets. As a result of this refunding, the State decreased current year debt service payments; has taken advantage of lower interest rates; and has decreased its aggregate debt service payments by approximately $1,423,130 over the next 11 years (to August 1, 2013). Further, the State will experience an economic gain (the difference between the present values of the debt service payments to the refunded and refunding bonds) of approximately $942,907.

B. Prior Defeasance

During 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, 2003, $28,080,000 of these defeased bonds remains outstanding.

Note 10: ACCOUNTING METHOD CHANGES AND FUND EQUITY RESTATEMENTS:

The Vermont Rehabilitation Corporation was previously reported in the Special Fund, renewed its registration as a corporation in fiscal year 2003, and is now reported as a discretely presented component unit.

The Federal Surplus Property Fund in fiscal year 2002 had reported the inventory as a restricted net asset. Because title to this remains with the federal government until the property is sold, the restricted net asset has been reclassified to deferred revenue.

The Governmental Activities beginning net assets has been restated for the reclassification of the Vermont Rehabilitation Corporation to a discretely presented component unit and the correction of prior period accounting errors, including the governmental activities capital assets.

The Business Activities beginning net assets has been restated due to the reclassification of the restricted net asset for federal surplus property inventory to deferred revenue.

The Vermont Veteran's Home beginning net assets has been restated to remove the fiduciary funds net assets from the business-type activities net asset balance.

During fiscal year 2003, the State changed the recognition of the medicaid liability from using 4 months of subsequent payments for prior year services to an accounting estimate of the total liability.

In the General Fund, prior to fiscal year 2003, personal income tax accrued revenue recognition included receivables that are assessed or estimated to be owed by the taxpayer as of June 30 that will be received by the State during the following 10 months. Beginning with fiscal year 2003, the State changed its personal income tax accrued revenue recognition policy to only recognize personal income tax accrued revenues in the amount to be collected within the sixty-day period after year end.

	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					
Special Fund	$ 46,285,433	$ (275,996)	$ -	$ -	$ 46,009,437
PROPRIETARY - NONMAJOR					
Enterprise Funds					
Federal Surplus Property	329,635	-	(479,005)		(149,370)
GOVERNMENT WIDE					
Government Activities	825,653,218	(275,996)		33,920,352	859,297,574
Business Activities	318,822,744		(479,005)		318,343,739
COMPONENT UNITS - NONMAJOR					
Vermont Rehabilitation Corporation	-	275,996	-		275,996
Vermont Veterans' Home	5,046,086	-	(54,403)		4,991,683

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, 2003 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	$ -	$ -	$ 28,875	$ 243,535
Total Other Current Assets	5,901,679	5,546,736	268,585,232	4,136,775	284,170,422
Total Capital Assets (Net)	79,666	445,570	-	8,534	533,770
Other Assets	-	5,700	-	1,531,614	1,537,314
Total Assets	6,196,005	5,998,006	268,585,232	5,705,798	286,485,041
Due To Other Funds	730,713	286,122	28,875	425,022	1,470,732
Total Other Current Liablilities	4,767,761	6,084,043	3,566,987	1,067,915	15,486,706
Total Restricted Liabilities	300,000	5,700	-	669,759	975,459
Total Liabilities	5,798,474	6,375,865	3,595,862	2,162,696	17,932,897
Invested in capital assets, net of related debt	79,666	445,570	-	8,534	533,770
Restricted	-	-	264,989,370	-	264,989,370
Unrestricted	317,865	(823,429)	-	3,534,568	3,029,004
Total Net Assets	$ 397,531	$ (377,859)	$ 264,989,370	$ 3,543,102	$ 268,552,144
Condensed Statement of Revenues, Expenses and Changes In Net Assets					
Charges For Sales/Service	$ 79,402,557	$ 33,043,684	$ 38,309,410	$ 1,691,876	$ 152,447,527
Other Operating Revenues	9,890	1,210,463	25,323,628	1,228,200	27,772,181
Total Operating Revenues	79,412,447	34,254,147	63,633,038	2,920,076	180,219,708
Depreciation Expense	56,927	123,544	-	4,766	185,237
Other Operating Expenses	63,599,947	34,207,663	130,315,726	3,017,931	231,141,267
Total Operating Expenses	63,656,874	34,331,207	130,315,726	3,022,697	231,326,504
Operating Income (Loss)	15,755,573	(77,060)	(66,682,688)	(102,621)	(51,106,796)
Non-operating Revenues/Expenses	467,031	2,348	17,530,445	14,459	18,014,283
Transfers In (Out)-Net	(16,222,604)	(359,779)	(70,578)	70,578	(16,582,383)
Changes in Net Assets	-	(434,491)	(49,222,821)	(17,584)	(49,674,896)
Beginning Net Assets	397,531	56,632	314,212,191	3,560,686	318,227,040
Ending Net Assets	$ 397,531	$ (377,859)	$ 264,989,370	$ 3,543,102	$ 268,552,144
Condensed Statement Of Cash Flows					
Net Cash Provided By:					
Operating Activities	$ 15,436,808	$ 200,251	$ (66,487,485)	$ 290,223	$ (50,560,203)
Noncapital Financing Activities	(15,734,133)	(359,779)	-	51,374	(16,042,538)
Capital and Related Financing Activities	(13,750)	(188,128)	-	(13,300)	(215,178)
Investing Activities	530,039	-	17,448,885	96,019	18,074,943
Cash and Cash Equivalent-July 1	364,761	2,330,482	308,429,651	1,399,851	312,524,745
Cash and Cash Equivalent-June 30	$ 583,725	$ 1,982,826	$ 259,391,051	$ 1,824,167	$ 263,781,769

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 Secretary 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, 2003, the Authority had mortgage insurance contracts totaling $5,098,145. 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 lenders register 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, 2003 was $915,022. The State's net cash contribution since inception is $265,646.

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 3repayment 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, 2003, these obligations were paid in full.

Federal Grants:
The State receives federal grants that are subject to audit and review by federal grantor agencies. This could result in expenditures 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 V.S.A. 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 (Bank). The Bank is required to maintain debt service reserve funds. Title 24, V.S.A. 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 (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. 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, 2003 was $9,156,195, the General Fund's Budget Stabilization Reserve was $23,564,564 at June 30, 2003, and the Education Fund's Budget Stabilization Reserve at June 30, 2003 was $11,075,612.

Note 15: JOINT VENTURE

The State of Vermont has entered into a Tri-State Lotto Compact (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 (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 28, 2003, the Commission had total assets of $233,612,722 and total liabilities of $200,419,007. For the fiscal year ended June 28, 2003, the Commission has operating revenues of $77,078,618, interest income of $137,465, commissions, fees, and bonus expenses of $9,831,398, prize awards of $38,336,744, and other operating expenses of $4,077,849. During the fiscal year, the Commission made operating transfers to member states of $24,970,092, which includes $2,167,568 transferred to Vermont.

Note 16: RISK MANAGEMENT

A. <u>Workers' Compensation and Liability Risk Management</u>

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 statute. 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, including 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 the claims-based statistical information used to calculate the State's workers' compensation exposure is reliable. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division utilizing departmental exposure and 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 workers' compensation program described above. Its exposure to risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §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 Tort Claims Act. This liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division, utilizing departmental exposure and 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 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 Benefit 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, retired former employees allowed participation by statute or labor agreement, legislators, employees and certain former employees of outside groups which have been declared eligible to participate by statute. All or some of these named groups may participate in each plan depending upon the plan. Temporary and contractual employees are not eligible to participate in these plans.

Participating employees share in the premium cost of all of the medical plans. Premium rate setting is performed by an outside actuary in conjunction with the Employee Benefits and Fiscal and Information Management groups. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience.

The current medical plan offerings include four plan options. TotalChoice, 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 deductible and coinsurance to do so. There is no lifetime coverage limit, however, benefits are administered under a managed care arrangement. All four health plan options are self insured by the State. The State employs a third party administrator to provide administrative services, including claim payment. To limit the State's large claims exposure, the State has purchased stop loss insurance.

The self-funded State of Vermont Employee Dental Assistance Plan, provides up to $1,000 regular dental benefits annually and up to $1,750 lifetime for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Fiscal and Information Management group within the Department of Personnel sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents.

The State of Vermont Employee Life Insurance Program consists of a Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times 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 life insurance at the time of retirement receive a retiree life benefit of $5,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Fiscal and Information

Management group calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees premiums and 100% of retirees' premium costs. Only current State employees, retired State employees and current members of outside groups are eligible to participate.

A Flexible Spending Account Program is available to active State employees only. This account allows pre-tax salary deductions to be used to reimburse eligible medical and dependent care expenses.

An Employee Assistance Program (EAP) is provided for the benefit of State employees and members of their immediate household. This program assists employees and family members in addressing problems that impact their lives including stress, family issues, financial, drugs and substance abuse, and other issues. Active State employees and their families are eligible for this program. The EAP Program Manager is paid a monthly fee based on the number of employees who work for the State. The plan provides up to 5 counseling sessions per case through a network of providers. No claims costs, or claims liabilities are incurred under this plan by the State. The State pays 100% of the premium for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become permanently disabled. The plan provides financial protection for State employees and their families by continuing 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 before coverage is effective. This plan is fully insured through an insurance company, so there is no liability to the State for claims. The premium is based on a percentage of the salaries of eligible participants. The State issues payment to the insurance company for the premium and the cost is then recovered from eligible employees in the following manner: Those eligible employees who are covered by a leave plan forfeit one day of sick leave per year. Those eligible employees who are not covered by a leave plan have a one-time .2% salary reduction in their next cost-of-living increase.

Presented below 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 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
FY 2003	12,953,161	10,014,881	7,479,065	15,488,977
State Liability Insurance Fund				
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
FY 2003	6,379,617	1,853,539	1,523,564	6,709,592
Medical Insurance Fund				
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
FY 2003	8,326,868	60,927,903	58,395,510	10,859,261
Dental Insurance Fund				
FY 2001	255,754	3,717,131	3,646,996	325,889
FY 2002	325,889	4,363,223	4,340,822	348,290
FY 2003	348,290	4,529,471	4,531,176	346,585

NOTE 17: DEFICIT FUND BALANCES

The following individual funds had deficit total net assets or deficit unrestricted net assets at June 30, 2003:

Business-type Proprietary Funds

Liquor Control Fund: had a deficit unrestricted net asset balance of $823,429 and a deficit total net asset balance of $377,859 at June 30, 2003. It had a net loss before contributions and transfers of $74,712 and transferred $359,779 to the General Fund thereby reducing its total net asset balance by $434,491 from a positive balance of $56,632 at June 30, 2002 to a deficit balance of $377,859 at June 30, 2003. The department has taken several steps to reduce these deficits including lowering the inventory levels in the outlets by using a weekly delivery schedule instead of a bi-weekly one; raising prices; etc; and expects to eliminate all deficit balances within three years.

Federal Surplus Property Fund: had an operating loss of $91,174 for the fiscal year ended June 30, 2003, which further increased its total net asset deficit from $149,370 at June 30, 2002 to $240,544 at June 30, 2003. Its unrestricted net asset total was a deficit $249,078 at June 30, 2003. Management is currently reviewing the fee structure associated with this activity with plans to raise them to increase the revenue. They also are looking at increasing efficiencies where possible so as to reduce costs.

Internal Service Funds

Financial & HR Information Fund: in its first year of operation, experienced an operating loss of $534,965 while ending the year with a deficit unrestricted net asset balance of $559,697 at June 30, 2003. This deficit will be extinguished over a three-year period primarily through rate increases and cost reduction measures.

Communications & Information Technology Fund: had a deficit unrestricted net asset balance of $1,731,381 and a deficit total net asset balance of $831,861 at June 30, 2003. For fiscal year 2003, it incurred a net operating loss of $983,308, had non-operating expenses of $88,841 and made contributions and transfers of $161,501, all of which resulted in a change to its total net asset balance from a positive $401,789 at June 30, 2002 to the deficit $831,861 indicated above. This deficit will be extinguished over a two-year period through rate adjustments and efficiencies in normal business operations.

GOVNet Fund: incurred an operating loss of $141,667 during fiscal year 2003 which resulted in an increase in the deficit in both its deficit unrestricted net asset balance of $583,062 and its deficit total net asset balance of $358,950 at June 30, 2003. These deficits will be recovered via rate adjustments to its customers.

Copy Center Fund: had a deficit unrestricted net asset balance of $2,036,827 but a positive total net asset balance of $246,000 at June 30, 2003. The fund incurred an operating loss of $123,126 during fiscal year 2003, which is the major component in the Change in Net Assets of $185,235 that reduced the fund's total net asset balance from $431,235 at June 30, 2002 to $246,000 at June 30, 2003. This operating deficit will be addressed via a change in the current rate structure.

Postage Center Fund: had a deficit unrestricted net asset balance of $66,956 but a positive total net asset balance of $58,361 at June 30, 2003. For fiscal year 2003, it had operating income of $150,919 and received $85,570 in non-operating revenues. After transferring $70,200 to the General Fund, its total net asset balance increased by $166,289 from a deficit balance of $107,928 at June 30, 2002 to a positive balance of $58,361 at June 30, 2003. The deficit unrestricted net asset balance will be addressed via a change in the current rate structure charged to customers if necessary.

Facilities Operations Fund: had both a deficit unrestricted net asset balance of $9,135,840 and a deficit total net asset balance of $8,720,547 at June 30, 2003 as compared to deficits in the same categories of $5,952,287 and $5,584,944 respectively at June 30, 2002. It had an operating loss of $3,130,776 for FY2003 as compared to an operating loss of $3,642,274 for fiscal year 2002. In fiscal year 2004, the State transferred $8.4 million via one-time appropriations that reduced the deficit fund balance to an unaudited $1 million at June 30, 2004. The State intends to eliminate the balance of these deficits via a rent surcharge over a ten-year period.

Workers' Compensation Fund: had a deficit unrestricted net asset balance of $7,242,117 and a deficit total net asset balance of $7,218,111 at June 30, 2003. It incurred an operating loss of $1,854,362 for FY2003. The State expects to eliminate these deficits through rate adjustments over the next five years.

Property Management Fund: had a deficit unrestricted net asset balance of $4,191,445 and a deficit total net assets balance of $4,170,567 at June 30, 2003. For FY2003, it had operating income of $959,468 but transferred $2,385,035 to the Special Fund for funding of bond principal and interest payments during fiscal year 2003 resulting in an increase of its deficit total net asset balance of $1,425,567. This deficit net asset balance is a structural one resulting from a mismatch between twenty-year life bonds being used as the funding source for the purchase cost of a fifty-year life building. Tenants' annual rents cover 100% of the interest costs plus 2% of the bond principal amount so it will take fifty years to collect the total bond principal even though the underlying bond principal will be paid off in twenty years. The fund total net asset balance will continue to increase negatively until the bonds are paid off, and then will become less negative each succeeding year as the 2% annual principal payments are received until it finally goes to zero after fifty years.

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, 2003 were:

Fund Type/Fund	Due From Other Funds	Due To Other Funds	Interfund Loans Receivable	Interfund Loans Payable
PRIMARY GOVERNMENT				
GOVERNMENTAL FUNDS				
General Fund	$ 523,742	$ 905,830	$ 25,148,970	$
Special Revenue Funds				
Transportation Fund	214,789	675,614		
Education Fund	730,713	214,660		
Special Fund	6,759,770	850,470		
Federal Revenue Fund	1,583,899	1,585,405		
Non-major Governmental Funds				
Fish & Wildlife Fund	4,596	32,926		
General Bond Fund		218,631		
PROPRIETARY FUNDS				
Enterprise Funds				
Unemployment Compensation Trust Fund		28,875		
Liquor Control Fund		286,122		
Vermont Lottery Fund	214,660	730,713		
Non-major Enterprise Funds				
Industrial Homework Find				
Federal Surplus Fund				242,211
Vermont Life Magazine Fund				182,811
Unemployment Compensation Contingency Fund	28,875			
Internal Service Funds				
Highway Garage Fund				365,121
Offender Work Programs				350,445
Single Audit Revolving Fund	38			
Finance & Human Resource Information Fund				307,559
Communication & Information Technology Fund				3,981,090
GOVnet Fund				504,592
Supply Center Fund				368,540
Copy Center Fund				2,568,186
Postage Fund				1,409,455
Facilities Operations Fund				8,346,138
Property Management Fund				4,201,207
Equipment Revolving Fund		1,478		1,768,276
State Liability Insurance Fund	70,587	4,258		
Risk Management Fund		3,164		124,863
Workers' Compensation Fund	7,422	104,594		
FIDUCIARY FUNDS				
Pension Trust Funds				
Vermont State Retirement System	60,808			
Vermont State Defined Contribution Plan		55,049		
State Teachers' Retirement Plan				
Vermont Municipal Employees' Retirement Fund	74,028	5,759		
Vermont Municipal Employees' Defined Contribution Plan		74,028		
Private Purpose Trust Funds				
Abandoned Property Fund		30,337		
Agency Funds				
Retirement Contributions & Withholdings Fund		457		19,979
Federal Income Tax Witholdings Fund		1,048		25,453
State Income Tax Withholdings Fund		368		
Social Security Contributions & Withholdings Fund		849		97,068
Employees Insurance Contributions & Withholdings Fund		1,642		15,644
Employees Deferred Income Withholdings Fund				2,308
Child Support Collections Fund	2,367	4,677,740		
Unidentified Receipts Fund	2,150	2,150		175,727
Vendor and Other Deposits Fund		6,012		28,945
Other Employees Contributions & Withholdings Fund	219,745	10		63,352
Total Primary Government Funds	**10,498,189**	**10,498,189**	**25,148,970**	**25,148,970**
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	**$ 10,498,189**	**$ 10,498,189**	**$ 25,148,970**	**$ 25,148,970**

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
$ 323,700	$	$ 2,806,037	$	$ 1,921,695	$
		1,599,285	41,655		
		3,826,389			
	5,700				
	300,000				
	1,700				
	1,200				
	15,100				
323,700	**323,700**	**8,231,711**	**41,655**	**1,921,695**	**0**
			5,425,674		1,921,695
			2,806,037		
		41,655			
$ 323,700	**$ 323,700**	**$ 8,273,366**	**$ 8,273,366**	**$ 1,921,695**	**$ 1,921,695**

B. Operating Transfers between the individual funds of the primary government for the fiscal year ending June 30, 2003 were:

Fund Type/Fund	Transfers In	Transfers Out
GOVERNMENTAL FUNDS		
General Fund	$ 33,335,916	$ 314,955,861
Special Revenue Funds		
Transportation Fund	1,674,543	11,086,148
Education Fund	270,210,675	1,071,234
Special Fund	92,772,078	25,352,367
Federal Revenue Fund	2,926,589	22,959,234
Non-major Governmental Funds		
Fish & Wildlife Fund	370,201	
General Bond Fund		6,797,716
PROPRIETARY FUNDS		
Enterprise Funds		
Unemployment Compensation Trust Fund	247,497	318,075
Liquor Control Fund		359,779
Vermont Lottery Fund		16,222,604
Non-major Enterprise Funds		
Unemployment Contingent Trust Fund	318,075	247,497
Internal Service Funds		
Highway Garage Fund	1,990,649	
Finance & Human Resource Information Fund	5,049	29,781
Communication & Information Technology Fund		140,000
Supply Center Fund		70,192
Property Management Fund		2,385,035
Postage Fund		70,200
Long-term Disability Fund		14,000
Employees Assistance Fund		89,000
PRIVATE PURPOSE TRUST FUNDS		
Unclaimed Property Fund		1,682,549
Total	**$ 403,851,272**	**$ 403,851,272**

Note 19: CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2003, the following changes occurred in long-term liabilities:

PRIMARY GOVERNMENT

	July 1, 2002, restated	Additions	Reductions	June 30, 2003	Amounts due within one year
Governmental activities:					
Bonds payable (1)	$ 486,465,090	$ 70,675,784	$ 83,355,000	$ 473,785,874	$ 50,495,000
Compensated absences	26,064,083	27,164,332	27,796,445	25,431,970	16,970,133
Claims and judgements	28,007,936	14,071,637	8,675,158	33,404,415	11,205,946
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligation	126,029,506	7,288,589	-	133,318,095	-
Other liabilities	421,386	2,413,804	517,400	2,317,790	-
Total governmental activities long-term liabilities	$ 673,988,001	$ 121,614,146	$ 120,344,003	$ 675,258,144	$ 78,671,079
Business-type activities:					
Compensated absences	$ 312,777	$ 231,911	$ 263,489	$ 281,199	$ 183,530
Claims and judgements	3,670,907	-	414,374	3,256,533	3,256,533
Total business-type activities long-term liabilities	$ 3,983,684	$ 231,911	$ 677,863	$ 3,537,732	$ 3,440,063
Fiduciary:					
Compensated absences	$ 0	$ 81,118	$ 76,433	$ 4,685	$ 4,653
Total fiduciary long-term liabilities	$ 0	$ 81,118	$ 76,433	$ 4,685	$ 4,653
COMPONENT UNITS					
Bonds and notes payable	$ 1,788,736,479	$ 505,570,556	$ 286,360,036	$ 2,007,946,999	$ 132,151,349
Capital leases payable	118,682	-	36,961	81,721	32,338
Accrued arbitrage rebate	15,661,192	392,526	1,995,203	14,058,515	1,514,889
Other liabilities	41,206,370	5,375,518	23,764,365	22,817,523	854,000
Total component units long-term liabilities	$ 1,845,722,723	$ 511,338,600	$ 312,156,565	$ 2,044,904,758	$ 134,552,576

(1) Governmental activities bonds payable additions include $3,320,784 of accretions on capital appreciation bonds.

Note 20: SUBSEQUENT EVENTS:

Debt Issuances

The State issued $137,457,000 of 2004 Series A General Obligation Refunding Bonds dated February 11, 2004. Interest rates on these bonds vary from 1.1% to 5.0%. Payments to the bondholders are scheduled to commence August 1, 2004 and terminate February 1, 2018. The proceeds from this offering will be used to refund the following State's General Obligation Bonds:

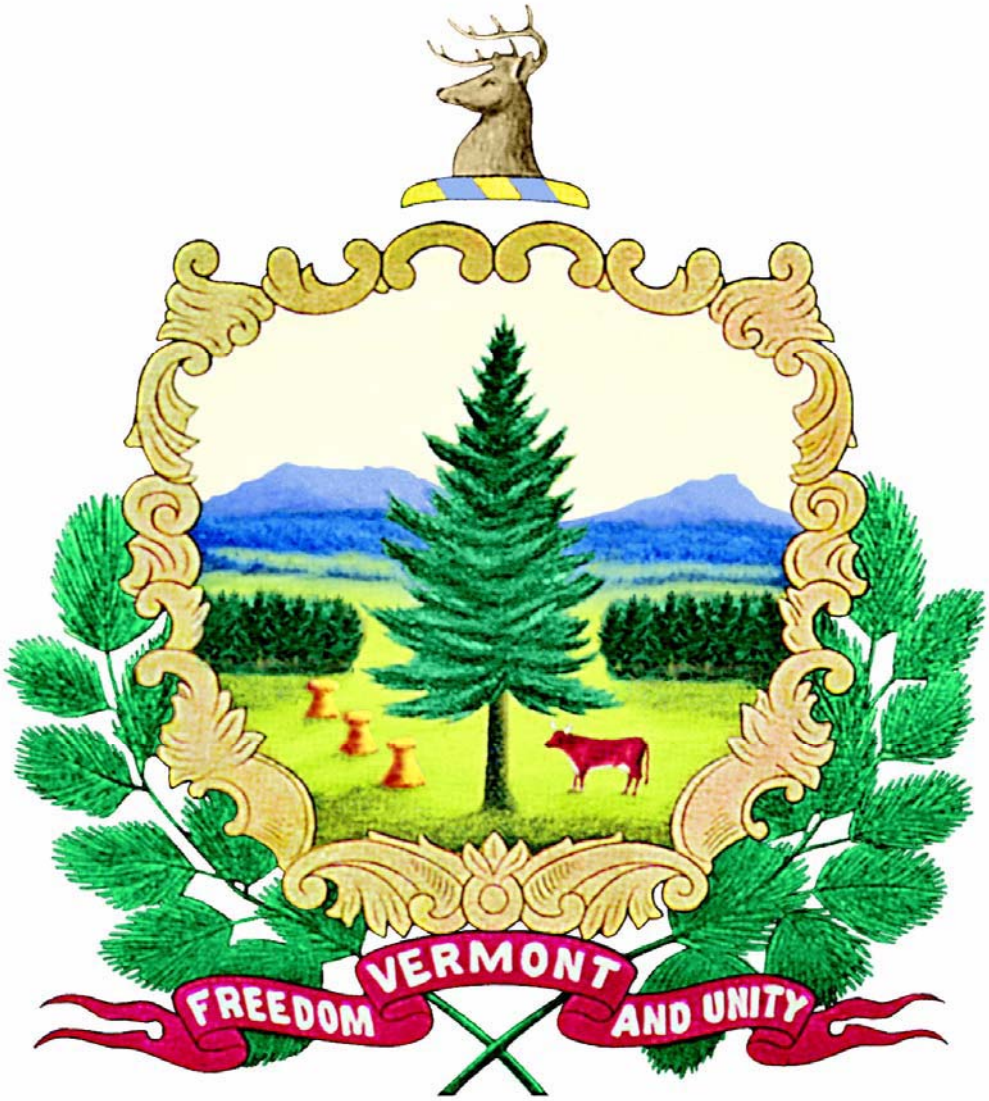
1993 Series A maturing in 2005 - 2012
1993 Series B maturing in 2005
1994 Series A maturing in 2006
1995 Series A maturing in 2008 - 2015
1996 Series B maturing in 2009 - 2016
1996 Series C maturing in 2009 - 2016
1997 Series A maturing in 2010 - 2013
1997 Series B maturing in 2010 - 2014 and in 2017
1998 Series B maturing in 2010 - 2014 and in 2016
1998 Series C maturing in 2010 - 2012
1999 Series A maturing in 2011 - 2018
2001 Series A maturing in 2012 - 2013
2002 Series A maturing in 2013

The State issued $42,200,000 of 2004 Series B General Obligation Bonds dated February 15, 2004. The State expects to use approximately $3.2 million of the proceeds to fund capital improvements authorized by the Legislature in years prior to 2003 and reallocated in Act 63 of 2003; and to use the remaining amount for capital projects authorized by Act 56 of 2003 and Act 63 of 2003. Interest rates vary on these bonds from 2% to 5%. Payments to the bondholders are scheduled to commence September 1, 2004 and terminate March 1, 2023.

The State also issued $48,000,000 of 2004 Series A General Obligation Revenue Anticipation Note dated September 5, 2003. The proceeds were used to pay the expenses of government for which appropriations had been made but for which anticipated revenues had not been received; and for the purpose of paying expenses connected with the issuance of the note. The interest rate on these notes was 1.18%. The note matured and was paid off on March 5, 2004.

Multi-State Lottery Association

In July 2003, the Vermont Lottery Commission entered into an agreement with the Multi-State Lottery Association (the Association) to participate in the "Powerball" game. Under the terms of the agreement, the Lottery may terminate the agreement at any time without prior notice if authority to participate is withdrawn by executive action or if participation is in conflict with the constitution or statutes of the State; otherwise, the Vermont Lottery Commission shall give the Association at least six months notice of its intention to withdraw.



SUPPLEMENTARY INFORMATION

Required Supplementary Information

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ 833,235,890	$ 830,434,300	$ 845,480,549	$ 15,046,249
Licenses	2,500,000	2,400,000	2,803,699	403,699
Fines, Forfeits and Penalties	2,584,000	7,200,000	3,386,646	(3,813,354)
Earnings of Departments	10,049,000	10,300,000	10,147,139	(152,861)
Interest and Premiums	3,100,000	2,650,000	1,481,581	(1,168,419)
Other	108,000	1,450,000	1,768,661	318,661
Total Revenues	**851,576,890**	**854,434,300**	**865,068,275**	**10,633,975**
Expenditures:				
General Government	41,131,676	39,012,808	35,991,283	3,021,525
Protection to Persons and Property	61,859,163	69,841,722	65,382,174	4,459,548
Human Services	255,156,362	276,118,036	270,148,777	5,969,259
Employment and Training	771,393	1,744,003	1,241,582	502,421
General Education	116,457,667	121,122,381	118,058,482	3,063,899
Natural Resources	16,609,167	20,812,091	17,510,081	3,302,010
Commerce and Community Development	12,724,150	14,575,359	13,002,117	1,573,242
Debt Service	66,958,806	68,860,859	67,902,550	958,309
Total Expenditures	**571,668,384**	**612,087,259**	**589,237,046**	**22,850,213**
Excess of Revenues over Expenditures	**279,908,506**	**242,347,041**	**275,831,229**	**33,484,188**
Other Financing Sources (Uses):				
Proceeds from Sale Refunding Bonds	-	32,131,728	32,131,728	-
Operating Transfers In	545,352	32,230,853	32,230,853	-
Payment to Escrow Agent	-	(32,131,728)	(32,131,728)	-
Premium on Sale of Short Term Note	-	678,750	678,750	-
Operating Transfers Out	(326,485,935)	(313,837,190)	(313,837,190)	-
Other Sources (Uses)	-	(2,204,948)	(2,204,948)	-
Total Other Financing Sources (Uses)	**(325,940,583)**	**(283,132,535)**	**(283,132,535)**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(46,032,077)**	**(40,785,494)**	**(7,301,306)**	**33,484,188**
Fund Balance, July 1	**68,220,238**	**68,220,238**	**68,220,238**	**-**
Fund Balance, June 30	**$ 22,188,161**	**$ 27,434,744**	**$ 60,918,932**	**$ 33,484,188**

The accompanying notes are an integral part of the required supplementary information.
See Independent Auditor's Report.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
Revenues:				
Taxes	$ 138,086,030	$ 138,220,000	$ 138,965,275	$ 745,275
Licenses	53,200,000	53,300,000	55,118,973	1,818,973
Fines, Forfeits and Penalties	-	-	8,723,256	8,723,256
Earnings of Departments	-	-	4,276,021	4,276,021
Federal	159,484,369	163,785,135	125,360,580	(38,424,555)
Interest and Premiums	-	-	1,367	1,367
Other	15,100,000	15,500,000	3,546,336	(11,953,664)
Total Revenues	**365,870,399**	**370,805,135**	**335,991,808**	**(34,813,327)**
Expenditures:				
General Government	12,498,885	10,241,548	9,994,916	246,632
Protection to Persons and Property	27,559,736	28,758,250	28,132,959	625,291
Human Services	2,021,702	2,023,529	1,535,734	487,795
General Education	5,484,080	5,742,645	5,497,117	245,528
Natural Resources	1,111,894	1,234,904	1,040,654	194,250
Transportation	322,576,260	342,575,592	288,721,879	53,853,713
Debt Service	2,835,622	3,575,329	2,820,400	754,929
Total Expenditures	**374,088,179**	**394,151,797**	**337,743,659**	**56,408,138**
Excess of Revenues over (Under) Expenditures	**(8,217,780)**	**(23,346,662)**	**(1,751,851)**	**21,594,811**
Other Financing Sources (Uses):				
Proceeds from Sale of Notes and Bonds	-	1,646,698	1,646,698	-
Operating Transfers In	-	603,309	603,309	-
Payment to Escrow Agent	-	(1,646,698)	(1,646,698)	-
Operating Transfers Out	(3,160,649)	(11,312,706)	(11,312,706)	-
Total Other Financing Sources (Uses)	**(3,160,649)**	**(10,709,397)**	**(10,709,397)**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(11,378,429)**	**(34,056,059)**	**(12,461,248)**	**21,594,811**
Fund Balance, July 1	**13,861,449**	**13,861,449**	**13,861,449**	**-**
Fund Balance, June 30	**$ 2,483,020**	**$ (20,194,610)**	**$ 1,400,201**	**$ 21,594,811**

The accompanying notes are an integral part of the required supplementary information.
See Independent Auditor's Report.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
Revenues:				
Taxes	$ 549,710,000	$ 547,935,000	$ 556,833,262	$ 8,898,262
Earnings of Departments	2,563,000	2,600,000	2,532,730	(67,270)
Interest and Premiums	150,000	150,000	(307,382)	(457,382)
Total Revenues	**552,423,000**	**550,685,000**	**559,058,610**	**8,373,610**
Expenditures:				
General Education	842,170,145	842,096,916	837,246,458	4,850,458
Total Expenditures	**842,170,145**	**842,096,916**	**837,246,458**	**4,850,458**
Excess of Revenues over (Under) Expenditures	**(289,747,145)**	**(291,411,916)**	**(278,187,848)**	**13,224,068**
Other Financing Sources (Uses):				
Operating Transfers In	271,585,935	269,522,204	269,522,204	-
Total Other Financing Sources (Uses)	**271,585,935**	**269,522,204**	**269,522,204**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(18,161,210)**	**(21,889,712)**	**(8,665,644)**	**13,224,068**
Fund Balance, July 1	**19,880,336**	**19,880,336**	**19,880,336**	**-**
Fund Balance, June 30	**$ 1,719,126**	**$ (2,009,376)**	**$ 11,214,692**	**$ 13,224,068**

The accompanying notes are an integral part of the required supplementary information.
See Independent Auditor's Report.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ -	$ -	$ 117,874,988	$ 117,874,988
Licenses	-	-	7,742,536	7,742,536
Fines, Forfeits and Penalties	-	-	3,227,172	3,227,172
Earnings of Departments	-	-	53,241,140	53,241,140
Federal	-	-	3,583,044	3,583,044
Interest and Premiums	-	-	2,675,153	2,675,153
Other	-	-	102,603,944	102,603,944
Special Fund Revenues	290,657,223	332,540,029	-	(332,540,029)
Total Revenues	**290,657,223**	**332,540,029**	**290,947,977**	**(41,592,052)**
Expenditures:				
General Government	5,671,410	15,890,075	10,998,774	4,891,301
Protection to Persons and Property	46,574,938	53,987,971	49,246,986	4,740,985
Human Services	231,812,524	251,543,362	241,526,153	10,017,209
Employment and Training	3,095,257	3,095,257	2,145,866	949,391
General Education	3,844,171	22,406,219	15,755,757	6,650,462
Natural Resources	25,562,189	29,275,114	26,445,435	2,829,679
Commerce and Community Development	6,048,162	8,487,737	5,980,808	2,506,929
Transportation	-	485,116	426,564	58,552
Public Service Enterprises	-	1,986,000	1,710,255	275,745
Debt Service	2,658,918	2,764,928	2,491,045	273,883
Total Expenditures	**325,267,569**	**389,921,779**	**356,727,643**	**33,194,136**
Excess of Revenues over (Under) Expenditures	**(34,610,346)**	**(57,381,750)**	**(65,779,666)**	**(8,397,916)**
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	-	224,284	224,284	-
Operating Transfers In	91,105,116	93,919,721	93,919,721	-
Operating Transfers Out	(17,795,352)	(26,861,092)	(26,861,092)	-
Total Other Financing Sources (Uses)	**73,309,764**	**67,282,913**	**67,282,913**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**38,699,418**	**9,901,163**	**1,503,247**	**(8,397,916)**
Fund Balance, July 1	**59,837,382**	**59,837,382**	**59,837,382**	**-**
Fund Balance, June 30	**$ 98,536,800**	**$ 69,738,545**	**$ 61,340,629**	**$ (8,397,916)**

The accompanying notes are an integral part of the required supplementary information.
See Independent Auditor's Report.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FEDERAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Federal	$ 807,577,488	$ 902,296,918	$ 880,414,737	$ (21,882,181)
Interest and Premiums	-	-	37,047	37,047
Other	-	-	6,611,635	6,611,635
Total Revenues	**807,577,488**	**902,296,918**	**887,063,419**	**(15,233,499)**
Expenditures:				
General Government	2,808,795	3,096,857	2,729,601	367,256
Protection to Persons and Property	38,231,931	41,761,121	32,632,169	9,128,952
Human Services	617,934,517	688,008,878	649,629,965	38,378,913
Employment and Training	24,098,356	24,125,420	23,901,538	223,882
General Education	99,239,930	88,595,687	87,278,389	1,317,298
Natural Resources	11,837,727	27,270,985	24,121,840	3,149,145
Commerce and Community Development	13,426,232	29,437,970	14,200,341	15,237,629
Total Expenditures	**807,577,488**	**902,296,918**	**834,493,843**	**67,803,075**
Excess of Revenues over Expenditures	**-**	**-**	**52,569,576**	**52,569,576**
Other Financing Sources (Uses):				
Operating Transfers In	-	608,919	1,081,868	-
Operating Transfers Out	(1,185,116)	(22,552,234)	(22,552,234)	-
Total Other Financing Sources (Uses)	**(1,185,116)**	**(21,943,315)**	**(21,470,367)**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(1,185,116)**	**(21,943,315)**	**31,099,209**	**52,569,576**
Fund Balance, July 1	**(4,720,941)**	**(4,720,941)**	**(4,720,941)**	**-**
Fund Balance, June 30	**$ (5,906,057)**	**$ (26,664,256)**	**$ 26,378,268**	**$ 52,569,576**

The accompanying notes are an integral part of the required supplementary information.
See Independent Auditor's Report.

Notes to Required Supplementary Information - Budgetary Reporting
For the fiscal year ended June 30, 2003

RECONCILIATION OF BUDGETARY TO GAAP

The State's annual budget is prepared on a basis (cash) other than GAAP. The actual results column of the "Budget and Actual" non-GAAP budgetary schedules are presented on a modified cash basis to provide a meaningful comparison to budget. The General and major Special Revenue Funds' statements are prepared on a modified accrual basis (GAAP). The major differences between the modified cash basis and the modified accrual basis are:

1. Expenditures are recognized when cash is paid or committed (budgetary) rather than when the obligation is incurred.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order not to double count revenues and expenditures.

The following schedule reconciles the general and special revenue funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2003.

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund
Fund Balance - Budgetary Basis	$ 60,918,932	$ 1,400,201	$ 11,214,692	$61,340,629	$26,378,268
Basis of Accounting Differences:					
To record cash on hand, restricted cash, market value of investments	36	1,675,523	-	1,601,840	225
To record taxes receivable	121,537,086	6,900,181	6,466,646	4,024,166	-
To record loans/notes receivable, due from other funds, and other receivables	2,078,880	10,302,700	730,713	20,959,333	11,822,040
To record due from federal government	-	22,908,370	-	-	111,577,788
To record accounts and retainage payable, accrued liabilities, deferred revenue.	(83,513,002)	(40,483,235)	(11,155,173)	(49,834,321)	(122,798,759)
To record tax refunds payable	(538,060)	-	-	-	-
To record due to other funds	(905,830)	(675,614)	(214,660)	(850,470)	(1,585,405)
To record due to component units	-	(41,655)	-	-	-
To record effects of blended component units	-	2,471,632	-	3,247,000	16,948,258
To record removal of discretely presented component unit	174,633	-	-	2,188,101	(747,067)
Fund Balance - GAAP Basis	$ 99,752,675	$ 4,458,103	$ 7,042,218	$42,676,278	$41,595,348

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APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT

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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 $26,000,000 General Obligation Bonds, 2005 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.

“Transmission Agent” shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit B attached hereto.

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, 2004 (to be filed no later than June 30, 2005), 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 February ___, 2005; 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. Alternative Methods for Reporting. The State may satisfy its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the SEC, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. 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 8. 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 9. 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 10. 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 11. 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 12. 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: _____, 2005

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: $26,000,000 General Obligation Bonds, 2005 Series A

Date of Issuance: _____, 2005

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 _____, 2005. 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

Transmission Agent
Disclosure USA
P.O. Box 684667
Austin, Texas 78768-4667
www.DisclosureUSA.org

APPENDIX C

FORM OF BOND COUNSEL OPINION

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Appendix C

PROPOSED FORM OF OPINION OF BOND COUNSEL

PALMER & DODGE LLP
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

(Date of Delivery)

The Honorable James H. Douglas
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$26,000,000
State of Vermont
General Obligation Bonds, 2005 Series A
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Palmer & Dodge LLP

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STATE OF VERMONT • GENERAL OBLIGATION BONDS • 2005 SERIES A

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