New Issue – Book Entry Only

In the opinion of Edwards Angell 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."

$15,000,000
STATE OF VERMONT
General Obligation Bonds
(VERMONT CITIZEN BONDS)
2005 Series E

Dated: Date of Delivery **Due:** July 15, as shown below

The 2005 Series E Bonds (the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $1,000 or any integral multiple thereof. 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, as more fully described herein. See "EXHIBIT I - BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on January 15 and July 15 commencing July 15, 2006. The Bonds will not be subject to redemption prior to maturity.

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.

Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number[†]
2006	$1,500,000	3.10%	3.16%	924258 NK8
2007	1,500,000	3.125	3.23	924258 NL6
2008	1,500,000	3.20	3.27	924258 NM4
2009	1,500,000	3.30	3.37	924258 NN2
2010	1,500,000	3.40	3.46	924258 NP7
2011	1,500,000	3.50	3.57	924258 NQ5
2012	1,500,000	3.60	3.67	924258 NR3
2013	1,500,000	4.00	3.76	924258 NS1
2014	1,500,000	4.00	3.87	924258 NT9
2015	1,500,000	4.00	3.94	924258 NU6

The Bonds are offered when, as and if issued by the State and accepted by the Underwriter, subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about December 13, 2005.

CITIGROUP

December 6, 2005

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
Edwards Angell 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 SUPPLEMENTAL 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 SUPPLEMENTAL OFFICIAL STATEMENT AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THIS SUPPLEMENTAL 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 SUPPLEMENTAL 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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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND CERTAIN DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS SUPPLEMENTAL OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS SUPPLEMENTAL OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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SUPPLEMENTAL OFFICIAL STATEMENT

STATE OF VERMONT

$15,000,000
GENERAL OBLIGATION BONDS
(VERMONT CITIZEN BONDS)
2005 SERIES E

INTRODUCTORY STATEMENT

This Introductory Statement is intended to be a brief description of, and is therefore qualified by, the information contained in this Supplemental Official Statement. Each prospective purchaser reviewing this Introductory Statement is directed to review this entire Supplemental Official Statement, including the Appendices and the Official Statement attached hereto and made a part hereof (EXHIBIT I), as well as all the documents referenced, summarized or described in this Supplemental Official Statement.

This Supplemental Official Statement of the State of Vermont (the “State”), including cover pages, appendices and EXHIBIT I, is provided for the purpose of presenting certain information relating to the State in connection with the sale of the State’s $15,000,000 aggregate principal amount of its General Obligation Bonds (Vermont Citizen Bonds), 2005 Series E (the “Bonds”). See “THE BONDS” herein for a description of the Bonds and the security therefor. The State of Vermont (the “State”) previously issued $30,000,000 aggregate principal amount of its General Obligation Bonds, 2005 Series D (the “2005 Series D Bonds”) on November 22, 2005. In connection with the offering of the 2005 Series D Bonds, the State prepared its Official Statement, dated November 15, 2005 (the “Official Statement”) which is attached hereto as EXHIBIT I and made a part hereof. EXHIBIT I contains information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. This Supplemental Official Statement is to be read and understood only in conjunction with the Official Statement and is subject to the limitations described therein. All capitalized terms not defined herein shall have the meanings ascribed to them in the Official Statement. The terms of the Bonds are described generally in this Supplemental Official Statement, which should be read together with the entire Official Statement.

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 July 15 in each of the years as set forth on the cover page of this Supplemental 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 Supplemental Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $1,000 or any integral multiple thereof on the records of The Depository Trust Company, New York, New York (“DTC”) and its Participants. See “EXHIBIT I - 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 January 15 and July 15 commencing July 15, 2006, 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 other capital projects as may be authorized by the General Assembly. Under Vermont law the State Treasurer, with the approval of the Secretary of Administration, 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. See EXHIBIT I – "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization."

General Obligation Bonds (Vermont Citizen Bonds), 2005 Series E

Act 43 of 2005		
Section 1	State Buildings – Various Projects	$7,241,282
Section 6	Education – Various Projects	1,215,274
Section 9	Agency of Natural Resources – Various Projects	6,543,444
		$15,000,000

Security for the Bonds

The Bonds will be general obligations of the State of Vermont 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 and accounting thereof, see EXHIBIT I - "STATE FUNDS AND REVENUES" hereto and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see EXHIBIT I - "STATE INDEBTEDNESS--State Indebtedness and Procedure for Authorization."

Record Date

The record date for each payment of interest is the last business 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.

Redemption

The Bonds will not be subject to redemption prior to maturity.

ADDITIONAL INFORMATION AFFECTING THE STATE

The Official Statement attached hereto as EXHIBIT I contains important financial and other information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. The information in the following paragraph should be read together with such information.

The following paragraph updates the information under the heading "STATE INDEBTEDNESS – Short-Term Debt:"

The State expects to obtain a line of credit of $30 million by mid-January 2006. The State currently expects any borrowing under this line to occur, if at all, by the end of January 2006 and does not expect any outstanding short-term borrowings at its 2006 fiscal year end.

The following paragraph updates the information under the heading "PENSION PLANS:"

On November 30, 2005, the full Report of the Commission on Funding the Vermont State Teachers' Retirement System ("System") was delivered to the Governor and the General Assembly. If all of the recommendations in the report were to be adopted, the effects would include an increase in the System's unfunded liability to an estimated $315.1 million as of June 30, 2005 (to be amortized over 30 years), and a reduction of $21.0 million to the fiscal year 2007 actuarially recommended contribution (from $59.2 million to $38.2 million). There can be no assurance that any of the Commission's recommendations will be adopted.

TAX MATTERS

In the opinion of Edwards Angell 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 B 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 Supplemental 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.

RATINGS

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

UNDERWRITING

The Bonds are being purchased for re-offering by the Underwriter, Citigroup Global Markets Inc., at an aggregate purchase price of $15,020,220.00 and the Underwriter will receive a fee from the State in an amount equal to $60,000.00. The Contract of Purchase provides that the Underwriter will purchase all of the Bonds if any are purchased. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices stated on the cover page hereof. The public offering prices (or yields) set forth on the cover page hereof may be changed from time to time after the initial offering by the Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Edwards Angell 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 B. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

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

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Supplemental Official Statement (including EXHIBIT I hereto), as of the date of this Supplemental 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 A to this Supplemental Official Statement, "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. The State's fiscal year 2004 annual report was sent to the NRMSIRs on April 12, 2005.

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, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, 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 Supplemental Official Statement are based, in part, on unaudited information related to fiscal year 2005 and projections and forward looking statements related to fiscal year 2006 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 2005, 2006 and 2007 cannot be verified until after the close of the applicable fiscal year and the release of the audited financial statements related thereto. In addition the accuracy of all projections and forward statements for fiscal years 2006 and 2007 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 this Supplemental 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 Supplemental 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 Supplemental 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: December 6, 2005

APPENDIX A

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 General Obligation Bonds (Vermont Citizen Bonds), 2005 Series E (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, 2005 (to be filed no later than June 30, 2006), 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 November 15, 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: December __, 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: General Obligation Bonds, 2005 Series E

Date of Issuance: December __, 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 December __, 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 B

PROPOSED FORM OF OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

(Date of Delivery)

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

$15,000,000
State of Vermont
General Obligation Bonds (Vermont Citizen Bonds),
2005 Series E
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.

EDWARDS ANGELL PALMER & DODGE LLP

EXHIBIT I

OFFICIAL STATEMENT, DATED NOVEMBER 15, 2005 OF THE STATE OF VERMONT RELATING TO ITS $30,000,000 GENERAL OBLIGATION BONDS, 2005 SERIES D

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New Issue – Book Entry Only

In the opinion of Edwards Angell 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."

$30,000,000
STATE OF VERMONT
General Obligation Bonds
2005 Series D

Dated: Date of Delivery

Due: July 15, as shown below

The 2005 Series D 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 January 15 and July 15 commencing July 15, 2006. 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 D Bonds

Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number†	Due July 15	Principal Amount	Interest Rate	Yield	CUSIP Number†
2006	$750,000	3.50%	3.12%	924258 MP8	2016	$2,250,000	4.00%	4.09%	924258 MZ6
2007	750,000	3.50	3.20	924258 MQ6	2017	2,250,000	4.125	4.22	924258 NA0
2008	750,000	3.50	3.26	924258 MR4	2018	2,250,000	4.25	4.30	924258 NB8
2009	750,000	3.50	3.37	924258 MS2	2019	2,250,000	5.00	4.28*	924258 NC6
2010	750,000	3.50	3.46	924258 MT0	2020	2,250,000	4.50	4.45*	924258 ND4
2011	750,000	4.00	3.60	924258 MU7	2021	2,250,000	5.00	4.26*	924258 NE2
2012	750,000	4.00	3.70	924258 MV5	2022	2,250,000	5.00	4.30*	924258 NF9
2013	750,000	4.00	3.82	924258 MW3	2023	2,250,000	5.00	4.34*	924258 NG7
2014	750,000	4.00	3.90	924258 MX1	2024	2,250,000	5.00	4.38*	924258 NH5
2015	750,000	4.00	4.00	924258 MY9	2025	2,250,000	5.00	4.42*	924258 NJ1

* Priced at the stated yield to the July 15, 2015 redemption date at a redemption price of 100%. See "THE BONDS – Optional Redemption" herein.

The Bonds are offered subject to the final approving opinion of Edwards Angell 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 November 22, 2005.

Merrill Lynch & Co.

November 15, 2005

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
Edwards Angell 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

$30,000,000
GENERAL OBLIGATION BONDS
2005 SERIES D

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 $30,000,000 aggregate principal amount of its General Obligation Bonds, 2005 Series D (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 July 15 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 January 15 and July 15 commencing July 15, 2006, 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 December 2005, $15,000,000 General Obligation Bonds, 2005 Series E (Vermont Citizen Bonds) (the “2005 Series E Bonds”) to finance additional capital projects.

Act 43 of 2005		
Section 1	State Buildings – Various Projects	$ 4,751,556
Section 2	Taxes – Mapping Technology	100,000
Section 3	Human Services – Various Projects	1,913,000
Section 4	Judiciary – Building Projects	950,000
Section 5	Commerce & Community Development – Historic Site Projects	455,000
Section 6	Education – Various Projects	5,300,000
Section 7	University of Vermont – Building Projects	1,700,000
Section 8	Vermont State Colleges – Building Projects	1,700,000
Section 9	Natural Resources – Various Projects	4,751,556
Section 10	Military – Building Projects	100,000
Section 11	Vermont Historical Society – Historic Renovation	50,000
Section 12	Public Safety – Building Projects	3,000,000
Section 13	Criminal Justice and Fire Service Training Councils – Building Projects	355,000
Section 14	Agriculture, Food and Markets – Various Projects	2,238,888
Section 15	Vermont Rural Fire Protection – Dry Hydrants	100,000
Section 16	Building Community Grants – Historic Preservation	1,050,000
Section 17	Vermont Public Television – Technology Upgrade	425,000
Section 18	Vermont Interactive Television – Equipment	60,000
Section 19	Vermont Veterans’ Home – Heating Plant	750,000
Section 20	Vermont Veterans’ Memorial – Cemetery Expansion	250,000
		$30,000,000

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 last business 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 July 15, 2015 will not be subject to redemption prior to maturity.

The Bonds maturing on and after July 15, 2016 will be subject to redemption prior to maturity, at the option of the State, on and after July 15, 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.

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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 Human Resources, the Department of Information and Innovation, the Department of Libraries, 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 Office of the Secretary, Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, and the Department of Environmental Conservation. The Natural Resources Board is 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 Office of the Secretary, the Departments of Disabilities, Aging and Independent Living (DAIL), Corrections (DOC), Health (DOH), Children and Families (DCF), the Office of Health Access (OVHA) and the Developmental Disabilities Council.

(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 Labor, 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 2004 the median age of the Vermont population was 40.4 years, 4.2 years older than the national average median age of 36.2 years. Among the various age groupings, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 77.5% of the State's population versus 74.5% of the total population of the United States) in 2004. The State also had a concentration that was slightly higher than the New England regional average in that over 18 years age group in 2004 (at 77.5% for Vermont versus 76.3% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 5.2% of the State's total population) relative to both the New England average (at 6.1% of the New England regional population) and U.S. average (at 7.0% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 12.7% of the State population) in 2004 was slightly higher than that for the U.S. population as a whole (at 12.0% of the U.S. population overall) in 2004, and marginally lower than the New England average (at 12.8% of the total). In addition, the percentage of Vermont's population in 2004 aged 45-64 years (at 29.7% of the State's population) was significantly higher than both the percentage of the New England regional population (at 26.5% of the total) and the U.S. population overall (at 26.5% of the total) in 2004. Vermont also had a slightly higher percentage of its population in the 85 years and older category (at 1.4% of the State total) relative to the U.S. population (at 1.3% of the U.S. population) in 2004, but a slightly lower percentage than the New England region overall (at 1.5% of the New England regional population) in 2004.

The Vermont population in 2004 had 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 2004). Table 2 shows that a total of 90.8% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 6th among the 50 states (tied with the State of New Hampshire) and above the national average of 85.2% of the U.S. population aged 25 years and older. In addition, a total of 34.2% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont seventh highest among the 50 states. The percentage of Vermont residents aged 25 years and over with a four-year college degree exceeds the comparable national average of 27.7% of U.S. residents aged 25 years and over with a four-year college degree.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of March 2004

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	90.8%	6th(Tied)	85.2%
COLLEGE:			
Bachelor's Degree or More	34.2%	7th	27.7%

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

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

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

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

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

Property Valuation

The Vermont Department of Taxes, through its Division of Property Valuation and Review, annually conducts a study of all the grand lists (i.e., tax rolls) prepared by the municipalities 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 law 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 purposes.

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 1995 and comparable estimates for 1997 through 2004. The State experienced a significant increase in estimated fair market value between 2002 and 2004 in part due to strong price appreciation in residential and second home markets. The estimates from 1997 - 2004 include an estimate of the fair market value of property enrolled in the Current Use Program. These later values have been estimated by, but have not been certified by, the Division of Property Valuation and Review of the Vermont Department of Taxes.

Table 4
Equalized Property Values
1990-2004

Equalization Date As of April 1,	Fair Market Value
2004**	$56,533,233,817
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, and $1,369.1 million in 2004.
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 economic forecasting group with participating members in all six New England states.

The U.S. Economic Situation: The late summer hurricanes that devastated the Gulf Coast region from Texas to Alabama were natural disasters of immense proportion. News reports indicate that more than 1,000 Americans lost their lives either directly or indirectly due to those storms, and millions more had their lives disrupted. At their peak impact, the powerful storms caused the loss of 4 million barrels per day in refining capacity, 1.4 million barrels per day in crude oil production, and roughly 6 billion cubic feet per day of natural gas production. By mid-October, news reports indicated that only about one-third of the Gulf Coast region's idled energy production had come back on line. At that time, a total of 5 refineries, amounting to 1.3 million barrels in refining capability per day or 7.7% of total U.S. refinery capacity, remained shutdown. In response, energy prices spiked quickly and sharply in the hurricanes' aftermath, with crude oil prices rising to more than $70 per barrel and the price of gasoline per gallon topping out at well over $3.00 per gallon nationally, although they have recently receded.

Although energy prices were rising even prior to Hurricanes Katrina and Rita, heating oil prices (at +9.7% over its year-ago average prior to Katrina) and natural gas prices (at +11.8% over its year ago average prior to Katrina) had increased only modestly. Following Hurricanes Katrina and Rita, crude oil prices have risen by more than 15%.[1] Gasoline and home heating oil prices have risen from pre-Katrina levels by 33.2% and 45.0%, respectively. Natural gas has experienced a near doubling in price at $13.40 per million BTUs during the month of October after averaging only $7.10 per million BTUs on a year-over-year basis for the period of calendar year 2005 prior to the impacts of the Gulf Coast hurricanes.

Despite these sudden and significant energy price spikes, the U.S economy through mid-October is faring surprisingly well. The economy outside of the impacted Gulf Coast region is growing moderately. The consensus forecast is that the negative effects of the storms while significant, are manageable and largely temporary in nature.

First, initial jobs reports following Hurricanes Katrina and Rita indicate that the U.S. economy has lost far fewer jobs than was initially expected. This appears to be a result of two factors: (1) stronger than expected job gains in the rest of the country, and (2) the fact that many impacted Gulf Coast businesses appear to have kept at least some of their employees on the payroll through the early months of recovery. While it is not known how much longer the second factor will continue to help mitigate job losses, the former is a reflection of the underlying fundamentally sound condition of the U.S economy during the late summer leading up to the storms.

Second, consumer spending, which has been most responsible for fueling the U.S. economy recovery-expansion over much of its first 4 years, is also holding up in the aftermath of Hurricanes Katrina and Rita. Recent reports on retail sales indicate that year-over-year growth for the month of September remained at the level of just under 7%. While this level of growth is less than the double-digit rates of growth experienced this summer before the Gulf Coast hurricanes, the double digit growth rates coincided with the peak of auto discounting activity, and a 7% nominal dollar level of increase is indicative of a relatively healthy 3-3½% real rate of growth in consumption after inflation.

Third, activity in housing markets through September 2005 also continued to be strong. Sales of existing homes in the last pre-hurricanes report for August came in at 7.29 million units sold, just under the all-time record high of 7.35 million units sold recorded during the month of June. Although new home sales fell 9.9% during the month of August, new residential construction during the month of September bounced back to 2.108 million units. That was the highest level of activity for new home construction since February 2005, and was at least in part due to the postponement of activity at the end of August due to Hurricane Katrina. Over the past six months, new home construction has tracked at approximately 5% below its February peak. Looking ahead, residential re-building in hurricane impacted areas along the Gulf Coast is likely to exert a net positive impact on national new home construction activity over the next several years.

Fourth, the business sector—at least parts that are outside the impacted Gulf Coast region—appears to be solid this fall. Most indicators relating to the financial condition of the business sector remain generally upbeat,

[1] Initiatives such as the opening of the Strategic Petroleum Reserve and increased importation of oil from abroad has helped to limit the rise in oil prices following these hurricanes.

with corporate balance sheets remaining in a strong condition due to several years of high and still rising corporate profitability. Although there are some indicators that suggest there was a pre-Katrina slowing in the pace of business investment, orders for capital goods remain at generally healthy levels and the ISM[2] survey indicators point towards an expanding business sector.

Nonetheless, the U.S. economy will not be able to completely avoid the disruptive effects of the storms. Higher energy prices of the magnitude indicated above will almost certainly exert a drag on the U.S economy's performance over at least the next 2 or 3 quarters. This energy price drag will come primarily in the form of (1) reduced household consumption and (2) higher business costs. Of immediate concern to the former is the upcoming holiday retailing season and winter heating season. The recent spike in energy prices is expected to impact the national inflation rate. Higher energy prices may have already begun to impact prices of other goods and services. Rising prices will complicate the monetary-interest rate policy Federal Reserve, which already has resulted in a dozen tightening moves dating back to the summer of 2004.

The latest spike in energy costs and the Federal Reserve's effort to raise short-term interest rates have eroded underlying consumption fundamentals. Recent reports of faster overall inflation indicate not only diminished purchasing power of household budgets; they also have recently begun to elevate concerns about inflation in the bond market. Long-term rates have finally begun to rise. Rising long-term interest rates will slow down the pace of real estate sales activity and home construction and will also make it significantly harder for households to tap into the capital gains from their houses to finance their spending. A recent federal study conducted by the Chairman of the Federal Reserve indicated that households pulled approximately $600 billion in cash from their homes during 2004, mostly in the form of capital gains from sales, cash-out re-financings, and home equity loans. Past studies indicate that households use roughly one-fourth to one-third of such cash extractions for personal consumption. This source of funds accounted for as much as 40% of the increase in consumer spending last year—corresponding to roughly one percentage point of GDP growth. With the loss of the embedded capital gains in the home as a source of funds to support household consumption, the drain on the economy could be significantly larger than just the economic impacts associated with the expected slowdown in home construction.

While such a slowdown will be significant, it is not expected to reach a level that would threaten the current expansion. A one percentage point reduction in consumption would mean an easing back in the inflation-adjusted rate of consumption growth to the 3% range—down from the 4% annual rate of growth in consumption the U.S. economy experienced over the past two calendar years. While that level of consumption growth is still significant, the expected slowdown comes when already financially struggling households will be coping with higher home heating bills, rising borrowing costs, and potential price increases for all products and services. Retailers are likely to be disappointed this holiday season and possibly well into the 2006 calendar year, unless or until energy prices moderate significantly as the remaining idled Gulf Coast energy production facilities and refineries come back on line.

The Vermont Situation: Turning to the Vermont recovery and economic situation, the most recent data show that the State's labor market turned to expansion in September of 2004 for total nonfarm payroll jobs and in May 2005 for private sector payroll jobs. The State's labor markets took a total of 16 months to re-capture the 7,500 total nonfarm payroll jobs lost during the January 2001 to April 2003 labor market downturn, and a total of 24 months to re-capture the 9,400 private sector, nonfarm payroll jobs lost during its January 2001 to April 2003 labor market recession over the same time frame. Since shifting to an expansionary mode, State labor markets overall have added a total of 5,000 total nonfarm payroll jobs, including a total of 2,000 net new jobs in the private (or non-governmental) component of the Vermont economy.

Among the major employment sectors of the State economy, a total of five of seven NAICS[3] super-sectors are now in expansion, with only the still hard-hit Manufacturing sector (at only 4.8% recovered through August 2005) and the Leisure and Hospitality sector (at 83.3% recovered through August 2005[4]) still not fully back to their pre-recession peaks. The Health Sector experienced no employment downturn during the 2001-2003 period and

[2] ISM refers to Institute of Supply Management.
[3] NAICS refers to North American Industry Classification System.
[4] This is not surprising given the impact of the September 11, 2001 terrorist attacks which significantly altered the dynamics of the travel industry.

continued to add jobs throughout the national and State period of recession and labor market weakness. Another major contributor to the labor market recovery-expansion has been the Construction sector at 3,000 net jobs added since this sector's cyclical low. Of those 3,000 jobs added, a total of 2,300 jobs have been net new jobs, accounting for 46.0% of the total net new payroll jobs added during the State's expansionary period.

While the State's labor markets have been in expansion for just over one year, the pace and profile of the state's labor market recovery-expansion remains uneven and historically restrained. Using the most recent data from the Vermont Department of Labor for August of 2005 (the latest month where data are available), the pace of the state's labor market recovery for total nonfarm payroll jobs remains at only 78.1% of the early 1990s "jobless recovery," or approximately 3,500 fewer jobs than would be the case if the Vermont Economy recovered at the early 1990s recovery rate. For private sector nonfarm payroll jobs, the recovery rate through August 2005 is similarly restrained at 77.6% of the early 1990s jobless recovery experience, by 3,200 fewer jobs than would be the case if the Vermont Economy recovered at the early 1990's rate. This restrained labor market recovery-expansion condition prevails throughout the greater New England region and throughout many other regions across the country as well.

Much of the restraint is limited to the mixed character of job developments in the State's factory sector. On the upside, there have been public announcements of business expansions among companies serving niche or specialty markets including companies such as Vermont Butter and Cheese of Websterville, Northern Power Systems of Waitsfield, GE Aircraft Engines of Rutland, Energizer Battery of St. Albans, Vermont Precision Tool of Swanton and Gilman Paper and Tubbs Furniture plants in Brandon are all examples of companies adding or planning to add to the state's factory job base. On the downside are recent announcements of job cutbacks at companies such as York Capacitor of Winooski due to out-sourcing to Mexico, Belden Incorporated of Essex Junction due to jobs out-sourced to Mexico, Specialty Filaments Inc. of Burlington due to corporate consolidation and down-sizing, Bombardier Capital of Colchester due to a corporate acquisition, and Husky Injection Molding Systems of Milton due to consolidation of operations in Canada.

Recent news of the upcoming acquisition of IDX Systems, Inc. in South Burlington by GE Healthcare of London, England also has raised concerns about the future of the company's headquarters in South Burlington with roughly 750 high-paying jobs. Company officials have indicated that the acquisition is a significant plus for the Vermont Economy because the company will now have the resources its needs to elevate its profile and growth potential to the global stage, which was not possible without the systems and resources GE Health. While it is unclear how the acquisition will impact the operations of the company's Vermont location. While in the past there has been elevated risk to the State's employment at acquired facilities, most of past experience has involved manufacturing companies selling physical products. IDX primarily sells an intellectual product and supporting services. There is no past experience in out-of-state acquisitions for a company of this type. Therefore, it is not known whether this acquisition has employment risk following previous patterns.

Turning to the IBM-Essex Junction facility, the company's recent employment stability continues as IBM continues to augment initial success in securing long-term supply contracts. Over the past 18 months, IBM has announced long-term supply contracts for significant public sector clients, including the U.S Department of Defense and private sector clients, including the Intersil Corporation of Milpitas, CA. IBM announced that it had reached a deal with Eastman Kodak to have the IBM-Essex Junction facility produce image censors. Image censors are used in devices such as cell phones and digital cameras, and have recently been experiencing strong demand growth. The new contract will ensure that engineering and design work will continue to be done at the company's Essex Junction fabrication facility. Although the company announced that it would not be adding to its current employment base because of the contract, the agreement represents another important piece of IBM's long-range business model to secure long-term supply contracts to support its continued operations at this Vermont facility.

Despite those gains, recent developments in the State's manufacturing sector and the only small level of recovery in this sector's job base through August of 2005 indicates that significant employment vulnerabilities remain for this important goods-producing sector. The most significant concerns are found in the State's resource processing sectors, and in those sectors where a product is a commodity-based good that is subject to intense price competition. Taken against the employment history of over 10,000 manufacturing sector jobs lost during the State's last and lengthy factory employment downturn, a job turnaround that includes only 500 "recovered jobs" through August 2005 is viewed by the State with guarded optimism.

A significant and contrasting development with respect to the State's current economic expansion compared to the jobless recovery-expansion of the early-mid 1990s, is the continuing robust level of real estate sales and home construction activity throughout the State. Anecdotal reports and supporting secondary data on construction spending and permits indicate that the 2005 construction season was strong, even if somewhat below the very high, near record level of construction activity that occurred in the State during the 2004 construction season. Real estate and construction activity has been particularly strong near and around the State's major resort areas where second home sales and construction activity have come to dominate regional housing markets. Nearly all of the State's resort areas have multi-year, aggressive facilities expansion/upgrade plans underway. In addition, many of the State's resorts also have been tapping into the aging demographics of the regional population, and have undertaken major, multi-year second home construction programs. This activity has been particularly strong at the Okemo LLC resort, the Stowe Mountain Resort, the Stratton Mountain Resort, and the Killington Resort. Such activity has impacted areas surrounding these major resorts, and has been a source of record or near-record levels of new home construction in Vermont over the past two years. At the same time, this second home activity has placed price pressures on the already unbalanced demand and supply for homes. This imbalance has been intensified as pockets of existing, year-round single family housing has been converted to seasonal residences, and as second homes have come to dominate new home building activity. As a result, the State has experienced seven consecutive quarters of double-digit rate of home price increases on a year-over-year basis (from the fourth quarter of 2003 through the second quarter of 2005), with strong prospects for an additional four to six quarters. This real estate and housing construction activity is creating strong job growth in areas such as real estate and financial services, adding much more to the State's output and job growth performance than would be the case without this heightened level of real estate and construction activity.

The above situation is reflected in the data describing Vermont's year-over-year comparative job change performance and rank among the 50 states and the six New England states through August 2005 (the latest month where comparative data are available). The data show that Vermont ranks second in the New England region and sixteenth in the country in terms of its year-over-year job growth in construction. Similarly, the State ranks second in the New England region and fifth nationally in the year-over-year change in financial activities jobs, a sector closely tied to real estate activity as well. The State also ranks high in year-over-year job change in the professional and business services sector (first in New England and seventh nationally) and in manufacturing (second in New England and eighteenth nationally). Data on manufacturing sector job change over the August 2004 to August 2005 period shows that only 21 of the 50 states have actually added jobs over that period. A total of 28 states have lost jobs and one state has experienced a flat year-over-year job change performance. Over the past year, Vermont ranks second in New England and seventeenth nationally in year-over-year change in both total nonfarm payroll employment and total private sector nonfarm employment over the past year. Over the August 2005 to August 2005 time frame, Vermont has unfavorable job change performance in the Leisure and Hospitality job category (sixth in New England and forty-eighth nationally).

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 August-October period of 2005.

The Economy.com forecast for the U.S. economy includes "best guesses" of impact of the highly destructive Gulf Coast hurricanes of late summer—principally Hurricane Katrina. The forecast scenario includes an expectation of an elevated level of energy prices through November of 2005—or through the duration of the hurricane season. The forecast scenario includes an expected triple-digit increase in the benchmark West Texas Intermediate Crude Oil price per barrel (+115.0% annual rate) for the third quarter of 2005 that causes a 2005 year-over-year price increase of 40.0% with another +5.5% annual rate of increase expected during the fourth quarter of 2005. This period of rising prices is then followed by a 18.6% (annual rate) decline during the first quarter of 2006 and a 35.6% annual rate decline in the second quarter of 2006, with the price per barrel of West Texas Intermediate Crude declining to the mid-$50s per barrel range. The energy price increase results in some forward cost-push inflation, with the CPI and Chain-Weighted Price Deflator each are expected to be roughly ½ to ¾ of a percentage point per year higher than recent inflation history. It is expected that roughly $50-$60 billion will be added to the national energy bill over the next year due to the production interruption caused by the hurricanes. Rising energy costs are expected to make monetary policy even more challenging for the Federal Reserve prior to the impact of the hurricanes. Short-term interest rates such as the Federal Funds rate are expected to increase by another ¾ of a percentage point through mid-2006, with mortgage rates following by roughly the same amount over the period.

The initial federal response to the Gulf Coast storms is expected to result in additional federal funds being earmarked for the re-building versus what would have otherwise occurred. Added to spending on Iraq and past tax-cutting, the federal budget deficit is growing. This deteriorating federal fiscal situation will likely result in more upward pressure on interest rates throughout the forecast period—especially if China and the Bank of Japan pull back even modestly on their U.S. debt purchasing activity. The end result of this environment over the next 12 months is that elevated energy prices will result in a measurable reduction in disposable income and higher business costs over the near term period (the third quarter of 2005 and the fourth quarter of 2005), reducing otherwise healthy GDP growth by roughly ¼ of a percentage point (annual rate) in the third quarter of 2005 and by roughly ½ of a percentage point (annual rate) in the fourth quarter of 2005.[5] This lost output is expected to be made up during 2006 as Gulf Coast re-building gets underway later this calendar year. By the end of calendar year 2006, all of the lost GDP growth from the second half of calendar 2005 expected to be recaptured. This leads to a dip in the GDP growth rate in calendar 2007, before another mini- up-cycle in 2008-09.

The Economy.com scenario is consistent with a view that the positive anti-inflationary push from increasing productivity is mostly over, as output per hour drops to the +1.9%-2.3% range from the +3.4% environment over the 3-year period during calendar 2002-04. As a result, corporate profitability is expected to fall by one-third to a level that is only one-half of the double-digit rate of profit growth (12.5% to 16.5%) enjoyed by the business sector over the 2002-04 time frame. In addition, the Economy.com national scenario includes the expectation that housing markets will undergo and complete an orderly transition from the current frothy double-digit price increase environment (including a +13.0% in 2005), to a still strong, but easing +8.1% pace of home price appreciation for 2006. This initial slowdown is then followed by a two calendar years of sub 2% year-over-year price change for 2007 and 2008 of less that 2%. In New England, the housing price adjustment is expected to be more abrupt, with a +13.3% increase anticipated for calendar year 2005 dropping to only a 2.7% housing price appreciation rate for in 2006. Calendar year 2006 is then followed by a +1.5% housing price increase average for 2007 and by a mid-+2½% rate of housing price gain environment for calendar years 2008 and 2009.

The overall macro indicators follow an expected profile where total output and payroll job growth experiences a temporary "speed-bump" during the second half of calendar year 2005 versus what would have otherwise been a slightly higher rate of job growth in the absence of the Gulf storms. Job and output growth then increase slightly in 2006 reflecting the re-capturing of lost GDP and job growth as the re-building effort gets going along the Gulf coast in late calendar 2005 and calendar 2006. Total job growth then has a sub-cycle in 2007, where job growth dips to below 1.0%. Job growth then re-strengthens in the out years of the forecast period. All job growth occurs outside of the factory sector which continues to decline over the calendar 2005-09 forecast period. The unemployment rate continues to track lower as slack in labor markets is taken up (after the Katrina-induced bulge), before falling into the high 4% range in the post-2008 time frame. The northeastern region experiences the same oscillating cycle, but slightly more negative during the down-cycles—reflecting its higher reliance on fossil fuels and therefore greater sensitivity to the negative impacts of the expected elevated level of energy prices.

The Vermont Economic Outlook: The following sets forth the current short-term economic forecast for Vermont for the calendar year 2005 to 2009 period. The current short-term economic forecast for Vermont, which is still preliminary, incorporates expected impacts on the Vermont economy related to the rising energy price and rising construction cost environment expected in the aftermath of Hurricanes Katrina and Rita. It also reflects the consensus expectation that the U.S economy will be able to negotiate the current negative "speed bump" in economic activity caused by the resulting energy price spike, and then have to contend with the restraining headwinds of the further intensification of high and rising construction materials prices as the massive re-building effort in the Gulf Coast region gets underway later this year and onto calendar 2006. This further intensification of price increases for construction materials will likely cause the price of new residential and second homes to rise significantly over the course of the Gulf Coast re-building effort to the detriment of sales activity in Vermont housing markets.

The latest Vermont macroeconomic forecast calls for a continued, generally positive expansionary course for output, employment and income growth, but with a somewhat restrained and at times uneven course over the

[5] According to Economy.com, increases in energy prices are usually managed by households as follows: 1/3 is financed by taking on higher debt, 1/3 is paid for by reducing savings, and 1/3 is dealt with by cutting back spending elsewhere (which reduces GDP growth).

calendar year 2005-09 forecast period. Payroll job growth is expected to fluctuate within a +1.5% to +2.0% range over the next four to six calendar quarters before experiencing a housing slowdown-induced sub-cycle during the fourth quarter of 2006 to the third quarter of 2004. Job growth is then expected to resume a modest pace of expansion of roughly an annual rate of +1.0% in the out-years of the forecast time frame. Output growth is forecasted to follow a similar path, averaging around +3.0% to +3.5% in late calendar 2005, and early 2006, with a dip as the housing situation unwinds during 2007, before resuming a more typical pace of growth beyond 2007. On an average annual basis and in comparison to the +4.1% annual average rate of output growth in the Vermont economy over the 1999-2004 period, the calendar year 2005-09 forecast period is expected to average roughly one full percentage point lower. The path of the macro variables is the result of the expected continued near-term strength in State real estate markets and construction activity, an "average" travel-tourism season despite the expected elevated level of energy prices, and an on-going stabilization-to-slow recovery for jobs in the manufacturing sector.

Economic Forecast -- Summary Data

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 as provided by Economy.com, a nationally recognized economic forecasting firm, for the upcoming five calendar year period as it was developed during the August 2005-October 2005 period. The Vermont statistics present the specific detail for the Vermont economic forecast that was developed over that same period and published in November of 2005. This forecast incorporates the estimated impacts on energy prices and other macroeconomic variables as a result of the highly disruptive impacts of Hurricane Katrina and Hurricane Rita as estimated approximately six weeks after those storms occurred.

Table 5

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

	Actual					Forecast				
	2000	2001	2002	2003	2004[1]	2005[1]	2006	2007	2008	2009
Real Output (% Change)										
U.S. Gross Domestic Product	3.7	0.8	1.6	2.7	4.2	3.5	3.8	2.8	3.2	3.3
New England Gross Domestic Product	6.4	1.0	0.0	2.6	4.9	3.7	2.8	2.7	3.1	3.0
Vermont Gross State Product	4.5	3.9	2.2	4.3	5.3	3.7	3.5	1.8	2.4	2.7
Non-Farm Employment (% Change)										
U.S.	2.2	0.0	-1.1	-0.3	1.1	1.7	2.0	0.9	1.0	1.4
New England	2.4	0.1	-1.6	-1.1	0.4	1.1	1.4	0.7	0.7	1.1
Vermont	2.4	1.1	-0.9	0.0	1.4	1.5	1.4	0.2	0.7	1.2
Personal Income (%Change) (Current Dollars)										
U.S.	8.0	3.5	1.8	3.2	5.9	6.1	6.0	4.4	4.4	4.7
New England	9.9	4.1	0.9	2.5	5.9	5.4	5.1	3.9	4.0	4.2
Vermont	7.9	5.1	3.7	3.9	6.2	5.8	3.8	2.4	4.2	4.4
Unemployment (%)										
U.S.	4.0	4.8	5.8	6.0	5.5	5.2	5.0	5.1	5.0	4.8
New England	2.8	3.6	4.8	5.4	4.8	4.6	4.4	4.6	4.5	4.3
Vermont	2.6	3.3	4.0	4.5	3.7	3.3	3.2	3.3	3.3	3.1

[1] 2004 variables are preliminary and subject to further revision, and 2005 values in this table reflect projected rates as of November 2005.
Sources: Economy.com (U.S.), New England Economic Partnership November 2005 Forecast (New England, Vermont)

Table 5 illustrates that the Vermont economy experienced a generally milder economic downturn over the 2001-03 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 August-September 2005 also has been at least on par with the U.S. average and has slightly exceeded the rate of labor market recovery for the New England region as a whole. For the remainder of calendar year 2005 and for calendar years 2006 and 2007, Vermont is expected to experience slightly lower rates growth in output, jobs, and income as compared to the U.S. economy due in part to the somewhat greater negative impact that higher energy prices are expected to have on the State's economy. The State is expected to fare somewhat better over the 2005-06 period relative to New England regional economic performance, followed by an expected dip in calendar year 2007 as the State's housing boom subsides. However, the State is expected to experience a pick up in its relative economic performance during calendar years 2008 and 2009 relative to the New England average. This calendar year 2008 and 2009 performance is still expected to continue to lag the U.S. economic performance.

Although the State's relative economic performance is expected to be mixed over the 2005 to 2009 period, the forecast expects that the State's unemployment rate will consistently be below both the U.S. and New England regional averages. This forecast is consistent with the favorable relative unemployment rate position the State has experienced for the last several years. Over the period, Vermont's unemployment rate has been among the lowest of any state in the county along with the State of New Hampshire—consistently tracking approximately 1½ percentage points below the U.S. average and between ¼ to slightly more than 1 full percentage point below the New England average over the period.

Regional Comparison

Data presented in Tables 6 through 8 include comparative labor market information for the State relative to the other New England states and the major metropolitan areas in the New England region.. These data show that during the current economic cycle the Burlington metropolitan area continues to be a strong performing metropolitan area compared to the other 20 metropolitan areas in the New England region. The tables show that 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 during the current business cycle. This cycle includes the year with the most recent labor market peak and trough surrounding the 2001-03 national economic recession and subsequent recovery-expansion in the New England region and the United States as a whole.

Table 6

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

	August 2005	July 2005	August 2004	Change From Last Year
Vermont	3.5%	3.6%	3.6%	-0.1%
Connecticut	5.4	5.1	4.8	0.6
Maine	5.0	4.9	4.7	0.3
Massachusetts	4.2	4.7	5.0	-0.8
New Hampshire	3.5	3.6	3.7	-0.2
New Jersey	4.2	4.1	4.8	-0.6
New York	4.7	5.1	5.6	-0.9
Rhode Island	5.2	5.1	5.1	0.1
United States	4.9	5.0	5.4	-0.5

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

Source: Vermont Department of Employment and Training.

Table 7
Comparison of Unemployment Rates in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Annual Average % 1999	Annual Average % 2000	Annual Average % 2001	Annual Average % 2002	Annual Average % 2003	Annual Average % 2004	Average % Jan. 2005 – Aug. 2005
Connecticut							
Bridgeport, Stamford, Norwalk	2.5	2.1	3.0	4.3	5.1	4.5	4.9
Danbury	2.2	1.7	2.5	3.5	4.1	3.8	4.1
Hartford-W. Hartford-E. Hartford	2.8	2.5	3.2	4.6	5.9	5.1	5.5
New Haven	2.6	2.4	3.0	4.1	5.3	4.8	5.3
Norwich-New London	2.9	2.4	2.7	3.8	4.7	4.4	4.7
Waterbury	3.4	3.2	4.6	6.4	7.7	6.2	6.7
Maine							
Bangor	3.5	3.2	3.6	3.8	4.2	4.7	4.8
Lewiston-Auburn	3.8	3.3	3.9	4.3	4.8	4.4	5.0
Portland, So. Portland, Biddeford	2.2	1.9	2.5	2.9	3.2	3.4	3.6
Massachusetts							
Barnstable Town	3.9	3.3	3.7	4.4	5.0	4.7	4.6
Boston, Cambridge, Quincy	3.0	2.4	3.6	5.3	5.6	4.9	4.6
Leominster, Fitchburg, Gardner	4.2	3.5	5.0	7.3	7.9	6.4	6.4
New Bedford	6.1	5.2	6.1	7.4	8.2	6.8	6.9
Pittsfield	4.1	3.3	3.8	4.7	5.2	4.5	4.5
Springfield	3.6	3.0	3.8	5.1	6.0	5.5	5.4
Worcester	3.2	2.8	3.9	5.7	6.4	5.3	5.0
New Hampshire							
Manchester	2.4	2.2	3.1	4.2.	4.3	3.6	3.6
Portsmouth	2.2	2.0	2.9	4.0	4.2	3.5	3.5
Rochester-Dover	2.4	2.4	3.1	4.7	4.5	3.4	3.6
Rhode Island							
Providence, Fall River, Warwick	4.2	4.0	4.6	5.3	5.7	5.4	5.3
Vermont							
Burlington-South Burlington	2.0	1.8	2.3	3.2	3.6	3.3	3.2

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

Table 8
Comparison of Nonfarm Payroll Job Growth in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Number of Nonfarm Jobs Calendar Year 2000 Annual Average (1,000s)	Number of Nonfarm Jobs Calendar Year 2004 Annual Average (1,000s)	Change in Number of Nonfarm Jobs Calendar Years 2000-2004	Percent Change in Nonfarm Jobs Calendar Years 2000-2004
Connecticut				
Bridgeport, Stamford, Norwalk	426.4	409.7	-16.7	-3.9%
Danbury	70.1	68.6	-1.5	-2.1%
Hartford-W. Hartford-E. Hartford	555.6	537.6	-18.0	-3.2%
New Haven	274.5	271.3	-3.2	-1.2%
Norwich-New London	128.1	134.0	6.0	4.7%
Waterbury	71.4	68.7	-2.7	-3.7%
Maine				
Bangor	62.2	65.5	3.4	5.4%
Lewiston-Auburn	47.7	48.0	0.3	0.6%
Portland, So. Portland, Biddeford	182.7	193.9	11.2	6.1%
Massachusetts				
Barnstable Town	95.2	101.1	5.9	6.1%
Boston, Cambridge, Quincy	2,535.8	2,398.9	-136.8	-5.4%
Leominster, Fitchburg, Gardner	54.1	51.7	-2.5	-4.6%
New Bedford	66.5	63.0	-3.5	-5.3%
Pittsfield	36.6	36.3	-0.3	-1.0%
Springfield	301.7	294.2	-7.5	-2.5%
Worcester	244.5	243.5	-1.0	-0.4%
New Hampshire				
Manchester	95.2	99.3	4.1	4.3%
Portsmouth	50.1	54.3	4.2	8.3%
Rochester-Dover	51.6	54.4	2.9	5.6%
Rhode Island				
Providence, Fall River, Warwick	576.2	581.3	5.1	0.9%
Vermont				
Burlington-South Burlington	113.0	113.3	0.4	0.3%

Note: Labor Market Areas are subject to sporadic revisions depending on the state and also are subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: Federal Reserve Bank of Boston.

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 North American Industry Classification System (NAICS). The earnings data cover the calendar year 2003-2004 period (calendar year 2004 being the latest year where complete annual average data are available). Employment data by industry are provided for the 2002-2004 calendar year period for Vermont and 2004 for the U.S. (2004 being the latest year where annual average data are available).

The full-time and part-time jobs data through calendar year 2004 show that manufacturing remains one of the State's most important sectors, representing an estimated 9.5% of total all non-farm employment in 2004 (versus 8.8% of employment for the U.S. in 2004) and an estimated 15.5 % of total earnings in 2004 versus 16.1% of total earnings in Vermont during calendar year 2003. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 12.2% of 2004 total employment, up from 11.6% of total employment in 2002, and also representing 12.0% of total earnings in 2004, and Retail Trade at 12.0% of 2004 total employment, down slightly from 12.2% of total employment in 2002. Retail Trade also represented 8.7% of total earnings in 2004 (a level equal to the 8.7% share of total earnings in 2003). Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on Construction, Manufacturing, Private Education Services, Health Care and Social Assistance, 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
2003-2004
($Thousands)

	2003		2004	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$106,057	0.8%	$120,416	0.8%
Non-Farm Industry:				
Construction	959,154	7.0	1,098,119	7.5
Mining	44,940	0.3	44,095	0.3
Manufacturing	2,217,132	16.1	2,263,314	15.5
Wholesale Trade	595,530	4.3	608,689	4.2
Retail Trade	1,198,881	8.7	1,270,424	8.8
Financial Activities	669,927	4.9	687,840	4.7
Real Estate and Rental and Leasing	214,747	1.6	248,441	1.7
Transportation, Warehousing and Utilities	510,494	3.7	557,112	3.8
Professional and Technical Services	946,792	6.9	1,008,945	6.9
Education Services	395,390	2.9	423,116	2.9
Health Care and Social Assistance	1,653,502	12.0	1,758,771	12.0
Arts, Entertainment, and Recreation	113,106	0.8	124,420	0.9
Accommodations and Food Services	578,382	4.2	607,616	4.2
Administrative and Waste Services	276,712	2.0	322,430	2.2
Other Private Services-Providing	843,988	6.1	880,056	6.0
Total Private Non-Farm Industries	$11,218,677	81.6%	$11,903,388	81.5%
Government and Government Enterprises	$2,418,283	17.6%	$2,584,302	17.7%
Total Farm and Non-Farm Earnings	$13,743,017	100.0%	$14,608,106	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
2002-2004

	2002		2003		2004		U.S. 2004	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	9,714	2.4%	9,541	2.3%	8,976	2.2%	2,969,000	1.2%
Non-Farm Industry:								
Construction	27,568	6.7	29,148	7.1	30,754	7.4	10,193,800	6.0
Mining	1,153	0.3	1,171	0.3	1,186	0.3	842,000	0.5
Manufacturing	43,663	10.7	40,304	9.8	39,869	9.5	14,878,100	8.8
Wholesale Trade	11,399	2.8	11,629	2.8	11,627	2.8	6,191,600	3.6
Retail Trade	49,875	12.2	49,477	12.0	50,382	12.0	18,774,900	11.0
Financial Activities	13,271	3.2	13,259	3.2	13,152	3.1	8,054,900	4.7
Transportation, Warehousing and Utilities	10,937	2.7	10,726	2.6	10,882	2.6	5,943,900	3.5
Real Estate and Rental and Leasing	11,258	2.8	11,504	2.8	12,160	2.9	6,289,900	3.7
Professional and Technical Services	23,476	5.7	23,699	5.8	24,374	5.8	10,801,100	6.4
Education Services	16,846	4.1	17,206	4.2	17,488	4.2	3,436,900	2.0
Health Care and Social Assistance	47,547	11.6	49,794	12.1	51,097	12.2	16,885,400	9.9
Arts, Entertainment, and Recreation	9,718	2.4	9,807	2.4	10,032	2.4	3,457,600	2.0
Accommodations and Food Services	31,830	7.8	31,643	7.7	32,104	7.7	11,480,100	6.8
Administrative and Waste Services	13,733	3.4	14,483	3.5	15,587	3.7	10,295,900	6.1
Other	33,851	8.3	33,683	8.2	33,862	8.1	15,940,400	9.4
Total Private Sector Non-Farm	346,125	84.5	347,533	84.5	354,556	84.7	143,466,500	84.3
Government	53,853	13.1	54,426	13.2	54,906	13.1	23,668,000	13.9
Total Employment	409,692	100.0%	411,500	100.0%	418,438	100.0%	170,103,500	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, education/higher education, professional services (including health care, business, and private sector higher education services), and trade employers. As of March 2005, the State's two largest private employers were IBM and Fletcher Allen Health Care. IBM is a global manufacturer of semiconductor and related devices with a total of more than 5,500 jobs, and has made significant progress in stabilizing its employment situation at its Essex Junction facility securing major long-term supply contracts for both private sector and governmental (e.g. the U.S. Department of Defense) customers and through the development of new products. Fletcher Allen Health Care is the State's second largest private employer, with a total of more than 5,500 workers as well, and has recently come through a challenging period that included the significant expansion and upgrade of its facilities. 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 the travel-tourism industry (Okemo, LLC and the Stratton Corporation). Ethan Allen, Inc. also continues to have a major employment presence in the State at the level of between more than 500 but less than 999 jobs. Proportionately stronger job growth at other major private sector employers has caused the company to fall out of the top 10 employer listing. The University of Vermont and State Agricultural College also 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 Labor in the State's Quarterly Census of Employment and Wages program and in its Current Employment Statistics Program 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 1988-2004 period. Table 11 indicates that on an average annual basis, total personal income in Vermont has increased by 5.4% per year from 1988 to 2004, as compared to the 5.1% average for the New England region and a 5.5% national average rate of growth for 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 2004, Vermont's per capita personal income had risen to $31,747, or 96.1% of the U.S. average of $33,041. Vermont's growth rate in per capita personal income was 5.4% in calendar 2004, slightly below the New England regional average (at 5.9%), but higher than the national average rate of per capita personal income growth rate (at 4.9% for calendar 2004). These same data show that Vermont's rate of per capita personal income growth in 2004 rated third highest among the six New England states.

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
1988-2004
($ 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
2004	$19,721	5.8	$573,379	6.2%	$9,702,525	6.0%
2003	18,644	3.4	539,988	2.2	9,156,108	3.2
2002	18,030	1.6	528,170	0.7	8,872,521	1.8
2001	17,741	5.1	524,402	4.1	8,716,992	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
1988-2004

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2004	$31,737	5.4%	$40,269	5.9%	$33,041	4.9%
2003	30,103	2.9	38,026	1.7	31,487	2.2
2002	29,245	1.0	37,379	0.1	30,814	0.8
2001	28,944	4.6	37,334	3.4	30,575	2.4
2000	27,680	7.0	36,118	9.0	29,845	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 352,500 on an average annual basis in 2004, of whom 339,850 are estimated to be employed and 12,650 were unemployed. Vermont's 3.6% unemployment rate so far in 2005 compares 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 data regarding recent comparative trends in labor force, employment, and unemployment rates for the Vermont, the New England economy, and the U.S. economies from 1990 to 2004 and for calendar 2005 to-date through the month of August (August being that latest month where comparable published data are available).

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 (%)
2005[1]	353	340	3.6%	4.8%	5.3%
2004	353	340	3.7	4.8	5.5
2003	352	336	4.5	5.4	6.0
2002	348	334	4.0	4.8	5.8
2001	341	330	3.3	3.7	4.8
2000	335	327	2.6	2.8	4.0
1999	335	326	2.9	3.3	4.2
1998	332	322	3.1	3.5	4.5
1997	329	316	4.0	4.4	4.9
1996	324	310	4.4	4.8	5.4
1995	319	305	4.3	5.4	5.6
1994	316	302	4.6	5.9	6.1
1993	315	298	5.3	6.8	6.9
1992	312	292	6.4	8.1	7.5
1991	309	288	6.6	8.0	6.9
1990	309	294	4.9	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 has progressed to a short-list of four alternatives that will now undergo detailed analysis under federal statute. This work is expected to be completed during the fall-winter of 2006.

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, DC 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"). During the July 1, 2004 to June 30, 2005 period, the BIA reached 653,511 emplanements. The $25.6 million facilities expansion plan continues at the BIA. As of October of 2005, there has been 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.

In 2005, the list of commerical air carriers serving the airport includes a total of 10 national and regional carieers serving Boston, New York (John F. Kennedy Airport), Newark, Philadelphia and Washington, DC (including service to both Ronald Reagan Washington National and Washington Dulles airports). In addition, carriers also serve Chicago, Cincinnati, Detroit, and Minneapolis. Jet Blue Airlines' role at the BIA grew to become the the most significant carrier, with 134,496 emplanements or 20.6% of the total during the July 1, 2004 to June 30, 2005 period. Other major carriers currently at the BIA include United Airlines, Northwest Airlines and U.S. Air.

As of mid-October of 2005, several carriers operating at the BIA have filed for bankruptcy protection. Neither the State nor BIA can predict what impact the financial difficulties of the individual carriers and the airline industry, in general, will have on the 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 and currently retail customers continue to receive service from vertically integrated electric utilities. 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 resorts.

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 a multi-faceted 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. VELCO has recently completed a substantial project in the far northern part of the State and has a major project underway in Chittenden County called the Northwest Reliability Project (NRP) as well as a project to strengthen transmission in the Route 100 corridor north of Waterbury. The NRP received a Certificate of Public Good under Act 248 on January 25, 2005. The project is currently moving forward towards construction.

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 ("Entergy") 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. In 2003 Entergy filed a request with the Vermont Public Service Board to substantially increase its energy output at the facility. This additional energy would be sold into the New England market. The Vermont Public Service Board issued conditional approval for the request in the Spring of 2004. Final Public Service Board approval of this request is still pending.

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

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. The State's 2004 financial report also received an unqualified opinion. Its 2005 fiscal year financial report is currently being audited and is expected to be issued by December 31, 2005.

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

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 which was not released until November 21, 2003, significantly beyond its March 31, 2003 federal and state reporting deadline. 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 timelier 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, which was being prepared during the period the 2003 CAFR was being audited, was issued in April 2005. Finally, the fiscal year 2005 CAFR is currently being audited and is expected to be issued by December 31, 2005.

All fiscal year 2005 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 motor vehicle 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 (Unclaimed 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, 2004 and 2003 as contained in each fiscal year's CAFR.

For 2004, the General Fund had a $154.7 million total fund balance as compared to a $99.8 million total fund balance in 2003, an increase of $54.9 million. The unreserved undesignated portion of this fund balance increased from $47.1 million in 2003 to $62 million in 2004. This increase occurred after the General Fund Budget Stabilization Reserve balance was increased from $23.6 million in 2003 to $44.5 million in 2004, the General Assembly's designated "Reservation for General Fund Surplus" was recreated and $15.6 million reserved in it, and the Agency of Human Services' "Reservation for Human Services Caseload Management" increased from $17.2 million in 2003 to $18.5 million in 2004. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance increased from $70.6 million at the end of fiscal year 2003 to $106.5 million at the end of fiscal year 2004 or a total increase of $35.8 million.

For fiscal year 2004, the Transportation Fund had a total fund balance of $21.4 million, an increase of $17 million compared to fiscal year 2003's balance. The unreserved undesignated portion of 2004's total fund balance was $10.7 million which represents an increase of $15.5 million compared to fiscal year 2003. The Budget Stabilization Reserve in the Transportation Fund increased slightly from $9.2 million in 2003 to $10.5 million in 2004. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance increased from $4.4 million at the end of fiscal year 2003 to $21.2 million at the end of fiscal year 2004 or a total increase of $16.8 million.

For fiscal year 2004, the Education Fund had a total fund balance of $41 million, an increase of $33.9 million compared to fiscal year 2003's balance. The unreserved undesignated portion of 2004's total fund balance was $18.2 million which represents an increase of $22.3 million compared to fiscal year 2003. The Budget Stabilization Reserve in the Education Fund increased from $11.1 million in fiscal year 2003 to $22.8 million in fiscal year 2004. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance increased from $7 million at the end of fiscal year 2003 to $41 million at the end of fiscal year 2004 or a total increase of $34 million

For fiscal year 2004, the Federal Revenue Fund reported a total fund balance of $57.9 million, which was an increase of $16.4 million over fiscal year 2003. The unreserved undesignated portion of this total fund balance increased from $30.4 million in 2003 to $45 million in 2004, an increase of $14.6 million. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

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

The following is a brief discussion of the principal General Fund revenue sources (amounts are unaudited for fiscal year 2005).

<u>Personal Income Tax</u>: 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 $500.5 million or 48.3% of net General Fund revenues in fiscal year 2005.

<u>Sales and Use Tax</u>: 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 2005, the sales and use tax portion of the tax totaled $207.2 million or 20.0% of net General Fund receipts

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. Meals and rooms tax revenues for fiscal year 2005 were $113.0 million or 10.9% of revenues available to the General Fund in fiscal year 2005.

Corporate Income Tax: From January 1, 1997 until January 1, 2006,, 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 tax year 2006 the tax is the greater of $250 or - first $10,000 – 6%; the next $15,000 – 7%; next $225,000 – 8.75%; excess over $250,000 – 8.9%. Beginning in 2007, the rates are unchanged through $25,000 and the rate on the excess over $25,000 will be 8.5%. 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 with tax year 2006 the income of affiliated corporations operating a unitary business will be computed using the combined reporting methodology. Also beginning with tax year 2006, the three-factor formula for apportioning income earned from a multi-state business was modified to weight the percentage of sales in the state at 50%, the percentage of property and payroll at 25% each (prior law weighted each factor as one-third). 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. Receipts from corporate income tax were $60.4 million or 5.8% of revenues available to the General Fund in fiscal year 2005.

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 $50.30 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 2005 telephone receipts and property taxes generated $10.5 million or 1.0% 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 2005 total receipts from the transfer tax were $45.2 million. After statutory transfers, net receipts totaled $14.8 million or 1.4% of revenues available to the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2005, liquor taxes generated $12.5 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 $5.3 million or 0.5% of net General Fund revenues in fiscal year 2005.

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 $18.9 million or 1.8% of net General Fund revenues in fiscal year 2005.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 was restructured for periods beginning in 2004. Until January 1, 2004 plants were assessed a tax of 3.5% of the value thereof less an adjustment for local taxes as appraised by the Commissioner of Taxes. Effective January 1, 2004 the tax is assessed on generation according to a rate schedule ranging from a $2.0 million minimum to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000. The tax raised $2.6 million in fiscal year 2005 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. The bank franchise tax revenues were $8.6 million, representing 0.8% of revenues available to the General Fund in fiscal year 2005.

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 $ $24.2 million, or 2.3% of revenues available to the General Fund in fiscal year 2005.

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 2005 (amounts for fiscal year 2005 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 $56.0 million in fiscal year 2005, representing 26.8% 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 2005, motor vehicle fees accounted for $56.1 million, representing 26.8% of net revenues and fees available to the Transportation Fund in that fiscal year.

Motor and Diesel Fuel Taxes: Effective August 1, 1997, pursuant to Act 60 property tax reform legislation, gasoline distributors are taxed at a rate of nineteen cents (plus one cent per gallon petroleum licensing fee) per gallon sold, a 4 cent per gallon increase above the previous rate. Beginning on July 1, 1999 and through June 30, 2004, 16.0% of total gasoline tax collections were allocated to the Education Fund. Effective July 1, 2004, 100% of the tax collected from gasoline distributors is dedicated to the Transportation Fund pursuant to Act 68 of the Acts of 2003. In fiscal year 2005, the motor fuel tax accounted for $65.5 million or 31.3% 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 2005, the diesel fuel tax accounted for $15.5 million or 7.4% 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 2005, these other taxes and revenues accounted for $15.9 million or 7.6% 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 as is 1/3 of the State's sales and use tax and motor vehicle purchase and use tax effective July 1, 2004 pursuant to Act 68 referenced above. 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. Total sales and use tax receipts for fiscal year 2005 totaled $103.6 million, or 11.7% of total Education Fund revenues in that fiscal year. Purchase and use tax receipts for fiscal 2005 were $28.0 million, corresponding to 3.2% of total Education Fund receipts in that fiscal year. The Education Fund also has earned minimal amounts interest income over the years. In fiscal year 2005, Lottery revenues totaled $20.4 million, representing 2.3% of net revenues available to the Education Fund.

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 have been approximately $1,116.8 million. The fiscal year 2006 Appropriations Act, as passed, anticipates $1,107.7 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 2005 were made in the areas of Human Services, $766.7 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	26.10
Fiscal year 2006	24.50	*

*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 2006, the Legislature appropriated $17.3 million from such Fund (the same as fiscal years 2001 through 2005 to healthcare services and $5.1 million to programs in the various departments for tobacco enforcement, prevention and education programs. Additionally, $4.7 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 2005 was $31.0 million. The balance of the Health Access Trust Fund was $5.4 million.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

The following information presented under the above heading is presented on a budgetary (or cash) basis.

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

The State ended fiscal year 2005 with General Fund revenues of $1,035.33 million. The General Fund experienced an 8.9% increase over the previous year results. Strong performances in personal income tax, corporate income tax and net sales and use tax contributed to a 5.52% increase over the previous forecast made earlier in fiscal year 2005. It is important to note that the majority of the increase came from two key sources; personal income tax and corporate income tax.

The General Fund operating surplus of $54.049 million was reduced by transfers to the Health Access Trust Fund ($21.096 million); the State Teachers' Retirement Fund ($4.0 million), the Department of Education for school construction ($2.043 million), the Vermont State Hospital (1.3 million), the Transportation Fund ($4.8 million) and other funds ($1.17). As a result, $19.64 million remained as a General Fund Surplus Reserve for use in fiscal year 2006.

Fiscal Year 2006 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, 2005, current law General Fund revenues in fiscal year 2006 were projected to be $1,014.5 million and on June 4, 2005, the General Assembly passed a fiscal year 2006 budget consistent with this revenue forecast.. On July 14, 2005, the Emergency Board met to consider the forecast and agreed to a General Fund revenue forecast of $1059.0 million for fiscal year 2006, which represented an increase over the estimates made when the budget was being prepared earlier in 2005. The increases in the estimates in July 2005 reflect an improved Vermont economy and strong and steady revenue growth since the spring of 2003. The budget as passed in Act 71 for Fiscal Year 2006 may be found at http://www.state.vt.us/fin/Quick_Finds/FY06_Appropriations_Act.htm.

Through September 2005 the General Fund experienced an 11.3 % year-over-year revenue increase and a 6.5% increase over current estimate. This follows strong revenue receipts in the General Fund during the final quarter of fiscal year 2005. During the first three months of fiscal 2006, General Fund receipts have been supported by stronger than expected results in corporate income tax receipts, net sales and use tax, property transfer tax and a strong performance in other tax, principally Estate Tax. These results more than offset the slight 1.5% below estimate receipts in Personal Income tax. On September 15, 2005 the joint fiscal board authorized a one time transfer of $5.0 million of the General Fund Reserve from fiscal year 2005 to the Transportation Fund for additional federal highway act match.

The Transportation Fund revenues were budgeted at $222.79 million. On July 14, 2005, the Emergency Board agreed to reduce the fiscal year 2006 Transportation Fund revenue forecast by $5.1 million. This revenue shortfall is expected to be eliminated as part of the Budget Adjustment Bill during the next legislative session beginning in January, 2006, The Transportation Fund during the July to September period has posted a slight negative 1.3% year-over-year revenue performance. Revenue receipts trailed expectations in motor vehicle fees, due to a $1.273 million receipt which was not posted until October. Allowing for the un-posted deposit, the transportation fund would have been slightly above target year-to-date.

The Education Fund Revenues were budgeted at $137.8 million for fiscal year 2006. On July 14, 2005, the Emergency Board agreed to increase the fiscal year 2006 revenue forecast to $156.4 million. In fiscal year 2006, the Education Fund has experienced higher than expected revenue growth, in all funding components; lottery, sales & use tax, motor vehicle purchase and use tax and net interest. The increase in housing prices continues again this year and drives the increase in sales & use tax.

Fiscal Year 2006 General Fund Results to Date

	July 1, 2005 – September 30, 2005 (Unaudited) Revenue Estimate[1]	Revenue Collections
Personal Income Tax	$127,500,400	$125,564,400
Sales and Use Tax	53,028,400	53,663,700
Corporate Income Tax	11,742,000	15,997,500
Meals and Rooms Tax	30,507,400	30,502,000
Property Transfer	4,029,000	4,239,800
Other Revenues	28,867,300	42,325,800
Total	$255,674,500	$272,293,200

[1] Official Revenue Estimates as of July 14, 2005.

Fiscal Year 2006 Transportation Fund Results to Date

	July 1, 2005 – September 30, 2005 (Unaudited) Revenue Estimate[1]	Revenue Collections
Gasoline Tax	$17.000,900	$18,007,600
Diesel Tax	3,523,400	3,981,100
Purchase and Use Tax	15,059,000	15,293,100
Motor Vehicle Fees	14,761,200	12,457,000
Other Revenues	4,112,500	3,867,700
Total	$54,457,000	$53,606,500
Total Adjusted for MvFees	$54,457,000	$54,879,500

[1] Official Revenue Estimates as of July 14, 2005.

Fiscal Year 2006 Education Fund Results to Date*

	July 1, 2005 – September 30, 2005 (Unaudited) Revenue Estimate[1]	Revenue Collections
Sales and Use Tax	$26,514,200	$26,831,400
Lottery	3,976,500	4,600,200
Motor Vehicle Purchase & Use Tax	7,529,500	7,646,800
Other Revenues	0	118,900
Total	$38,020,300	$39,197,400

* 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 14, 2005.

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 ended fiscal year 2004 fully funded at the statutory maximum.

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).

As of June 30, 2005, the General Fund Budget Stablization Reserve was $45.77 million with an additional $19.64 million in General Fund Surplus Reserve. On June 30, 2005 the Human Services Caseload Reserve totaled $18.54 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2005 was $11.10 million. The Education Fund Budget Stabilization Reserve was $22.90 million as of June 30, 2005. For fiscal year 2005, the State fully funded the Budget Stabilization Reserves for the General Fund, Transportation Fund and Education Fund 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 2005, and as passed for fiscal year 2006 for the primary operating funds of the State, the General Fund, the Transportation Fund, and the Education Fund. All fiscal year 2005 information is unaudited.

General Fund Operating Statement[*]

Fiscal Years 2002 – 2006

($ in Millions)

	Actual FY2002	Actual FY2003	Actual FY2004	Actual FY2005	As Passed FY2006
Sources					
Current law revenues	$832.69	$863.21	$921.65	$1,035.33	$1,014.47
2003 H.480 (Act 68) sales tax implementation	0.00	0.00	28.90	0.00	0.00
Direct applications & reversions	20.27	16.23	15.96	18.61	7.78
Additional Property Transfer Tax	0.00	2.66	5.88	13.77	9.69
Tax refund reserve	4.05	0.00	0.00	0.00	0.94
Tax refunds paid out	0.00	0.00	0.00	0.00	0.00
Current year sources	857.01	882.10	972.39	1067.71	1032.88
For appropriations from prior year surplus reserve	0.00	0.00	0.00	0.00	0.00
Prior year unallocated operating surplus	0.00	0.00	0.00	15.63	0.00
Total sources	857.01	882.10	972.39	1083.34	1032.88
Uses					
Base appropriations	862.92	881.82	907.25	984.14	1026.06
Pay Act	0.00	5.89	0.52	5.74	4.02
One-time appropriations	9.22	2.01	26.13	36.11	0.00
Additional GF transfer to Ed Fund due to Act 68 2003	0.00	0.00	28.90	0.00	0.00
One-time appropriations from prior year surplus reserve	0.00	0.00	8.41	12.22	0.00
Contingent one-time appropriations from same yr surplus	0.00	0.00	0.00	0.00	0.00
School construction appropriation from prior yr surplus reserve	0.00	0.00	0.00	0.00	0.00
Same year reversion: Human Services caseload reserve	0.00	(1.76)	1.70	0.00	0.00
Enhanced Federal Financial Participation	0.00	0.00	(7.50)	0.00	0.00
Federal Flexible Funding Replacement			(50.00)		
Total uses	872.14	887.96	915.41	1038.21	1030.08
Operating surplus (deficit)	(15.13)	(5.86)	56.98	45.13	2.80
Transfers of surplus (to) / from other funds					
Transportation Fund	(13.85)	6.45	(4.47)	(4.77)	0.00
Tobacco Settlement	0.00	9.20	0.00	0.00	0.00
General Bond Fund	0.00	0.16	(1.71)	1.71	0.00
Internal Service Funds	0.00	0.00	(10.01)	(3.72)	0.00
Health Access Trust Fund	0.00	0.00	(2.00)	(14.29)	0.00
Other Funds	0.00	0.00	(0.93)	(3.14)	0.00
Education Fund	(5.60)	0.00	0.00	0.00	0.00
Total transfers (to) / from other funds	(19.45)	15.81	(19.12)	(24.21)	0.00

[*] Results may not add due to rounding.

Transfers of surplus (to)/from Reserves					
Budget Stabilization Reserve	34.58	(15.12)	(20.93)	(1.28)	(4.11)
Human Services Caseload Reserve	0.00	0.81	(1.30)	0.00	1.30
Reserved for transfer to the Education Fund	0.00	0.00	0.00	0.00	0.00
Reserved for transfer to Debt Service	0.00	0.00	0.00	0.00	0.00
Reserved in GF Surplus Reserve	0.00	4.34	(15.63)	(19.64)	0.00
Total reserved in the GF	34.58	(9.97)	(37.86)	(20.92)	(2.81)
Total transfer of surplus	15.13	5.84	(56.98)	(45.13)	(2.81)
Unallocated operating surplus	0.00	0.00	0.00	0.00	0.00
GF Reserves (cumulative)					
Budget Stabilization Reserve	8.44	23.56	44.49	45.77	49.88
Human Services Caseload Reserve	18.05	17.24	18.54	18.54	17.24
Reserved for transfer to Debt Service	0.00	0.00	0.00	0.00	0.00
Reserved in GF Surplus Reserve	4.34	0.00	15.63	19.64	0.00
Reserved for school construction	0.00	0.00	0.00	0.00	0.00
Total GF reserve balances	$30.83	$40.80	$78.66	$83.95	$67.12

Transportation Fund Operating Statement[*]

Fiscal Years 2002 – 2006

($ in Millions)

	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	As Passed FY 2006
Sources					
Current law revenues	$197.94	$205.34	$214.57	$209.13	$222.79
Federal reimbursements	8.41	8.59	3.91	0.00	0.00
Refund of Prior Year	0.00 0	0.00	0.00	1.53	
Direct applications & transfers in	1.26	0.05	5.64	7.37	3.10
Current Year Sources	207.61	213.98	224.12	218.03	225.89
For approp from General Fund Transfer	13.85	0.00	0.00	0.00	0.00
For approp from RMMTC Reserve	1.17	0.00	0.00	0.00	0.00
Prior year unallocated operating surplus	0.00	5.65	0.00	0.00	0.00
Total Sources	222.63	219.63	224.44	218.03	225.89
Uses					
Base appropriations	211.20	211.20	221.03	220.54	219.11
Budget Adjustments	0.00	0.00	0.93	0.75	0.00
Excess Receipts	0.00	0.00	0.27	0.02	0.00
Pay Act	2.45	3.34	0.00	1.46	1.25
Rescission	(1.91)	(3.79)	0.00	0.00	0.00
Contingent one-time approp from prior year	1.17	0.00	0.00	2.60	0.00
Total Uses	212.91	210.75	222.24	225.37	220.36
Operating Surplus (deficit)	9.72	8.88	1.89	(7.34)	5.53
Allocation of Surplus					
Transfers of surplus (to) / from other funds:					
General Fund	0.00	(6.45)	4.77	4.77	0.00
Downtown Fund	(0.70)	(0.80)	(0.80)	(0.80)	(0.80)
Central Garage Fund	(1.98)	(1.99)	(2.11)	2.60	4.00
FMS Development Fund	0.00	0.00	(1.56)	1.25	0.00
Art Acquisition Fund	(0.01)	0.00	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	(3.06)	(9.61)	(0.06)	7.45	(5.17)
Reserved in TF (designated):					
Bond Insurance Premium Reserve	0.00	0.00	(0.13)	0.13	0.00
Transportation FMS Development Fund	0.00	0.00	(0.31)	0.31	0.00
Budget Stabilization Reserve	(1.01)	0.73	(1.38)	(0.56)	0.18
Total Reserved in the TF (designated)	(1.01)	0.73	(1.82)	(0.12)	0.18
Total Allocated	(4.07)	(8.88)	(1.89)	7.33	(4.99)
Unallocated Operating Surplus / (deficit)	5.65	0.00	0.00	0.00	0.54
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	$0.00	$0.00	$0.13	$0.00	$0.00
Transportation FMS Development Fund	0.00	0.00	0.31	0.00	0.00
Budget Stabilization Reserve	9.89	9.16	10.54	11.10	10.91
Rutland MMTC Reserve	0.00	0.00	0.00	0.00	0.00
Total TF Reserve Balances	$9.89	$9.16	$10.98	$11.10	$10.91

[*] Results may not add due to rounding.

Education Fund Operating Statement*

Fiscal Years 2002 – 2006
($ in Millions)

	Actual FY 2002	Actual FY 2003	Actual FY 2004	Actual FY 2005	As Passed FY 2006
Sources					
Current law revenues	$69.80	$70.66	$79.41	$29.87	$32.23
Current Law - Sales Tax Change (after FY04)	0.00	0.00	0.00	103.6	105.57
Lottery Revenue	16.59	15.53	20.30	20.38	19.10
Statewide Property Tax	424.15	453.96	487.54	385.82	413.44
Local Share Property Tax Receipts	197.39	231.88	252.13	346.56	396.91
General Fund Appropriations	246.36	245.68	268.40	249.3	259.30
Medicaid Reimbursement	8.26	8.28	8.63	9.62	8.20
Direct Applications/Reversions	9.55	4.73	0.00		
Interest on Fund Balance	0.17	(0.31)	(0.32)	(0.51)	(0.10)
Prior year unallocated operating surplus	0.00	0.00	0.00		
Total Sources	972.27	1,030.41	1,116.09	1,144.64	1,234.65
Uses					
Base appropriations	809.71	825.00	859.69	1154.75	1,239.72
Local Share Payments	174.94	205.58	225.87		
School Construction Assistance	0.00	3.19	2.13	0.46	0.45
Total Uses	984.65	1,033.77	1,087.69	1,155.21	1,240.17
Operating Surplus (deficit)	(12.38)	(3.36)	28.40	(10.57)	(5.52)
Allocation of Surplus					
Transfer of surplus (to) / from other funds					
General Fund	5.60	0.00	0.00	0.00	0.00
Total Transfers (to) / from other Funds	5.60	0.00	0.00	0.00	0.00
Reserved in the Education Fund (designated)	0.00	0.00	(1.87)	0.12	1.75
Budget Stabilization Reserve	6.40	3.36	(11.68)	(0.14)	(3.42)
Total Reserved in the Education Fund	6.40	3.36	(13.55)	(0.02)	(1.67)
Total Allocated	12.00	3.36	(13.55)	(0.02)	(1.67)
Unallocated Operating Surplus	0.00	0.00	14.85	4.26	(2.93)
Education Fund Reserves (cumulative)	14.44	11.08	22.76	22.90	26.32
Total EF Reserve Balances	$14.44	$11.08	$22.76	$22.90	$23.38

* 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 2006 and 2007 was completed in July, 2005 and was approved by the Emergency Board on July 14, 2005 (the "July 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 July 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 July Forecast will be updated on or before January 15, 2006 as part of the normal, statutory forecasting cycle.

The following discussion describes the level of revenues estimated, under the July Forecast, to be deposited in the General Fund in fiscal years 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 July Forecast is a current law forecast as of July 14, 2005, and includes all tax or revenue changes as passed by the 2005 Vermont General Assembly.

Personal Income Tax: The July Forecast for the personal income tax for fiscal years 2006 and 2007 reflects a consensus assessment of: (1) recent trends in actual receipts by major personal income tax sub-component including the after-effects of the second strongest level of receipts during the spring final return payment period in the State's history, (2) the most recent consensus forecast for job and wage growth in the State over the period (See "STATE ECONOMY–Economic Activity–The Vermont Outlook"), (3) continued strong real estate sales activity during all of fiscal 2006 and most of fiscal year 2007—and the attendant realization of strong taxable real estate capital gains, and (4) the continuation of still 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 July Forecast includes revenue receipts of $517.1 million in fiscal year 2006 and $528.0 million in fiscal year 2007, reflecting 3.3% and a 2.1% annual growth rate, respectively. Relative to the January 2005 consensus forecast, this revised forecast represents an increase of 5.3% and 3.5% for fiscal 2006 and 2007, respectively.

Sales and Use Tax: The July Forecast for the sales and use tax for fiscal 2006 and fiscal 2007 reflects recent collections activity in this tax during fiscal year 2005, and the expected impact on disposable personal income of rising energy prices. The July Forecast also includes the State's current best estimates for the fiscal year 2006 (an estimated $1.4 million increase) and fiscal year 2007 (an estimated $8.6 million increase) revenue impact associated with the implementation of 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. The State expects a compliance rate of 10% for internet sales under this initiative. The revised forecast represent an increase of 2.1% for fiscal year 2006 and 3.9% for fiscal year 2007 relative to the January 2005 consensus forecast.

Corporate Income Tax: The July Forecast reflects recent trends in corporate tax collections during fiscal 2003-2005, and the expected erosion in the recent very favorable corporate profits environment. The forecast for fiscal 2006 and 2007 is therefore still positive, but not positive as the previous two fiscal years with strong corporate profits and increases in productivity. The July Forecast also reflects all revenue restraining effects of increased claims for State tax credits under the incentives program of the Vermont Economic Progress Council. The July Forecast also includes the State's best estimates regarding the January 1, 2006 implementation of the recently passed unitary tax reform legislation and accompanying tax rate reductions that were enacted during the 2004 session of the

Vermont General Assembly. This legislation reduced corporate tax rates and made changes in the way corporations calculated their taxable income.

For fiscal 2006, the $53.2 million July Forecast includes a decline of 11.5% versus fiscal year 2005 actual receipts. The July Forecast for fiscal 2007 totals $50.1 million, a further decline of 5.8% versus the forecast for fiscal year 2006. Relative to the January 2005 consensus forecast, the July Forecast corresponds to an increase of 16.7% for fiscal year 2006 and 4.4% for fiscal year 2007. The fiscal year 2006-07 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 expansion in the U.S. and State economies, a reasonably strong finish to the winter ski season for 2005-06, and a good summer tourism season despite rising energy-gasoline prices resulted in a slightly better than expected fiscal year 2005 performance. The July Forecast calls for a continued modest level of activity growth in the State's visitor activity for the fiscal 2006 and 2007 period, even though a favorable gasoline price environment is not expected over the period. To date it does not appear that the post-gulf hurricane spike in energy prices has not adversely impacted travel and tourism activity around the State. Weather conditions can have a significant impact on both summer and winter tourism activity and therefore the level of the State's meals and rooms tax collections.

Currently this tax source is experiencing longer term growth rates in receipts of between 3.0% to 4.0% per year. The July Forecast for fiscal 2006 for the meals and rooms tax totals $116.3 million, representing an increase at the lower end of this range at 3.0% versus fiscal 2005 and including full consideration of Act 68 Education Fund transfers. The July Forecast for fiscal year 2007 totals $119.4 million, an increase of 2.7% versus forecasted receipts for fiscal year 2006—a level slightly below the longer-term trend growth rate. The strong growth rate for meals and rooms tax receipts during fiscal year 2005 included 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. Relative to the January 2005 consensus forecast, the July Forecast represents a decline of 0.8%. For fiscal year 2007, the July Forecast expects a decline of 1.6% relative to the January 2005 consensus forecast.

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 inheritance and estate tax, fines assessed by regulatory authorities and the judicial system, and other similar levies and revenue assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont. The July Forecast consensus for these revenue sources reflect historical collections patterns, the expected positive impact in the inheritance and estate tax resulting from real estate capital gains, and 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. The July 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. As has been the case since July 1, 1998, the July Forecast does not include any revenues from lottery profits/sales. The following table compares actual and projected General Fund revenue collections on a fiscal year basis for fiscal year 2003 through fiscal year 2005 and the July Forecast for fiscal year 2006.

Sources (Available to the General Fund)	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Percentage Change '05-'06
Personal Income Taxes	$411,343,166	$429,816,793	$500,464,073	$517,100,000	3.3%
Sales & Use Taxes	218,629,263	255,828,735	207,202,785	215,500,000	4.0
Corporate Taxes	28,623,127	45,136,446	60,375,604	53,200,000	-11.9
Meals & Rooms Taxes	83,148,169	88,384,230	112,956,381	116,300,000	3.0
Other Taxes	104,831,119	109,915,009	130,118,135	131,400,000	1.0
Total Taxes	846,574,844	929,081,213	1,011,116,978	1,033,500,000	2.2
Other Revenues	19,514,835	21,477,862	24,215,748	25,500,000	5.3
Total General Fund	$866,089,679	$950,559,075	$1,035,332,725	$1,059,000,000	2.3%

Source: Vermont Department of Finance and Management. Fiscal year 2005 information is unaudited and fiscal 2006 data are projected as part of the July Forecast. Totals may not add due to rounding.

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The following table reflects General Fund revenue history from fiscal year 2003 through fiscal year 2005 and projected and forecasted revenue amounts for fiscal year 2006 and fiscal year 2007:

General Fund Revenues (Net)
($ in Millions)

COMPONENT	Actual 2003	Percent Change	Actual 2004	Percent Change	Actual[1] 2005	Percent Change	Forecast[2] 2006	Percent Change	Forecast[2] 2007	Percent Change
TAXES:										
Personal Income	$411.3	0.9%	$429.8	4.5%	$500.5	16.4%	$517.1	3.3%	$528.0	2.1%
Sales & Use	218.6	1.8	255.8	17.0	207.2	-19.0	215.5	4.0	226.4	5.0
Corporate	28.6	10.5	45.1	57.7	60.4	33.8	53.2	-11.9	50.1	-5.8
Rooms & Meals	83.1	2.6	88.4	6.3	113.0	27.8	116.3	3.0	119.4	2.7
Liquor	11.2	5.7	11.7	4.5	12.5	7.1	12.8	2.2	13.3	3.9
Insurance	42.5	21.7	47.0	10.7	50.3	7.0	52.4	4.1	54.2	3.4
Telephone Receipts	0.2	-3.7	0.3	50.9	0.4	43.2	0.3	-18.6	0.3	0.0
Telephone Property	9.9	-2.6	10.1	1.6	10.2	0.5	10.3	1.5	10.4	1.0
Beverage	5.1	1.3	5.2	2.9	5.3	2.0	5.4	1.8	5.5	1.9
Electrical Energy	2.6	-8.3	2.8	7.4	2.6	-6.0	2.6	0.0	2.6	0.0
Estate	15.6	17.8	14.7	-5.7	18.9	28.2	16.8	-10.9	14.5	-13.7
Property Transfer	12.5	25.4	11.1	-11.0	14.8	33.1	14.1	-4.2	13.4	-5.3
Bank Franchise	2.6	18.4	2.7	3.2	8.6	216.6	9.9	15.3	10.2	3.0
Other Taxes	2.7	36.3	4.4	59.8	6.6	52.1	6.7	1.3	5.5	-17.9
TOTAL TAXES:	$846.6	3.1%	$929.1	9.7%	$1,011.1	8.8%	$1,033.5	2.2%	$1,053.8	2.0%
OTHER REVENUES:										
Business Licenses	$2.7	5.9%	$2.7	0.6%	$2.8	2.9%	$2.9	3.3%	$3.0	3.5%
Fees	8.2	-5.5	8.9	8.5	12.5	40.8	12.9	3.5	13.3	3.1
Services	2.0	60.1	1.6	-18.8	2.0	22.9	2.0	1.0	2.1	5.0
Fines, Forfeits	3.5	36.2	7.4	114.1	4.4	-40.2	4.5	1.6	4.6	2.2
Interest, Premiums	1.5	-51.5	0.4	-73.4	2.3	438.3	2.5	8.9	3.7	48.0
Special Assessments	0.1	180.5	0.0	-73.0	0.0	-74.7	0.0	NM	0.0	NM
Other	1.6	141.4	0.5	-71.4	0.4	-9.9	0.7	1.3	0.8	7.1
TOTAL OTHER	$19.5	4.6%	$21.5	10.1%	$24.2	12.7	$25.5	5.3	27.3	6.9
TOTAL GENERAL FUND	$866.1	3.2%	$950.6	9.8%	$1,035.8	9.0%	$1,059.0	2.3%	$1,081.0	2.1%

NM means Not meaningful.

1 Figures for fiscal 2005 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 July 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 Disabilities, 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 Families: 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 2004, 2005 and fiscal year 2006 are as follows:

	Fiscal 2004 Appropriations	Fiscal 2005 Appropriations	Current Law Fiscal 2006 Appropriations
General Fund	$303,216,957	$408,050,560	$419,780,729
Federal Funds	738,937,432	721,398,471	$714,100,576
Tobacco Settlement	23,057,490	25,359,288	$25,441,034
Special Funds	223,524,694	286,729,368	$295,710,140
Other Funds	15,285,826	30,920,953	$31,061,657
Total	$1,304,022,399	$1,472,458,640	$1,486,094,136

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 Children's 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 – The *Global Commitment to Health* demonstration is designed to provide Vermont with the flexibility necessary to administer the State's publicly supported health care programs in a member-centered and fiscally sustainable manner. The State's intention was to adopt a health care financing and delivery model which better addresses the complex and varying needs of its beneficiaries and which can be modified quickly in response to changing demographic and economic circumstances. Vermont believes it can provide better health care through the *Global Commitment to Health* than it can under the existing constraints of the federal Medicaid program. Specifically, Vermont has entered into a Medicaid Demonstration Waiver that will capitate the federal spending for Medicaid services in Vermont for five years, based on a mutually agreed upon base year and trend rate. This capitated arrangement will apply to all Medicaid service in Vermont, with the exception of the Long-term Care

Services for Elders and People with Physical Disabilities (which will be managed under a new separate Medicaid Demonstration Waiver), DSH Payments and the SCHIP program. Vermont will be financially at risk for managing costs within the capitated amount, and will benefit from any savings accrued due to program efficiencies that are achieved. Under this Demonstration, the Vermont Agency of Human Services (AHS) has contracted with the Office of Vermont Health Access (OVHA), which will serve as a publicly sponsored managed care organization (MCO) and adhere to all federal MCO regulations.

The currently projected Medicaid deficit for fiscal year 2006 is about $5 million. This is expected to be addressed in the 2006 session of the Legislature. Prior to the 2005 Legislative session, the fiscal year 2007 Medicaid General Fund shortfall was projected to be about $80 million. Actions proposed by the administration and subsequently enacted by the Legislature reduced the projected fiscal year 2007 deficit to approximately $60 million. The savings under the *Global Commitment to Health* demonstration are expected to reduce projected costs by a total of about $150 million over five years of which a smaller amount is expected to occur in the initial years, but fiscal year 2007 should realize at least $20 million in savings, leaving an additional projected $40 million General Fund shortfall still to be addressed.

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 2004 Appropriations	Fiscal 2005 Appropriations	Current Law Fiscal 2006 Appropriations
State Aid to Local School Districts	$591,193,189	$906,562,829	$966,000,000
Special Education Aid to Local Districts	102,358,864	105,256,030	116,120,000
Vermont State Teachers' Retirement System Contributions	20,446,282	20,446,282	24,446,282
Town Highway Grants	37,415,413	41,168,920	37,638,054
Total	$751,413,748	$1,073,434,061	$1,144,204,336

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

	Fiscal 2004 Appropriations	Fiscal 2005 Appropriations	Current Law Fiscal 2006 Appropriations
Homestead Property Tax Assistance	$107,969,706	$104,511,600	$118,966,276
Land Use Reimbursement	5,700,000	6,199,670	6,898,455
Total	$113,669,706	$110,711,270	$125,864,731

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 2004 Appropriations	Fiscal 2005 Appropriations	Current Law Fiscal 2006 Appropriations
University of Vermont	$36,927,057	$37,942,512	$39,276,166
Vermont State Colleges (1)	22,864,231	23,283,734	24,341,736
Vermont Student Assistance Corporation	16,683,804	17,142,609	17,771,050
Total	$76,475,092	$78,368,855	$81,388,952

(1) Includes Vermont Interactive TV

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 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004[1]	Fiscal 2005[2]	Fiscal 2006[2]
General Government	$44,452,433	$47,068,232	$41,064,042	$42,222,002	$46,270,520	$47,118,898
Protection to Persons and Property	47,042,350	49,844,089	61,548,160	65,608,963	72,333,692	78,248,797
Human Services	309,340,629	320,808,480	325,587,454	304,140,498	409,863,121	421,074,741
Education	337,418,757	351,296,278	355,453,763	379,192,238	361,906,234	378,805,071
Employment & Training	411,063	781,260	653,367	1,107,259	1,103,541	1,395.248
Natural Resources	11,927,832	12,458,771	16,111,498	15,909,804	19,771,447	21,840,505
Transportation	---	---	---	---		
Commerce and Community Development	12,125,613	12,197,467	12,716,688	14,006,433	14,792,388	14,605,531
Other – One-Time[3]	50,322,229	13,727,088	7,794,260	27,865,690	49,567,862	27,884,782
Debt Service	68,142,447	63,959,160	68,786,318	65,362,579	62,587,361	62,968,427
Total Appropriations	$881,183,354	$872,140,825	$889,715,550	$915,415,466	$956,266,918	$1,053,942,000

1 Final, but unaudited.
2 As passed.
3 One-time appropriations in fiscal years 2001 through 2006.
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 2000 through fiscal year 2004 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,				
	2000	2001	2002*	2003*	2004*
REVENUES:					
Earnings of Departments:					
Fees	$ 34,442,295	$ 36,193,167	$ 36,708,774	$ 47,770,289	$ 46,613,828
Rents and Leases	205,403	182,595	1,727,405	912,556	3,524,664
Sales of Service	17,276,552	10,861,467	13,886,288	13,119,135	10,686,898
Federal Funds	847,344,627	849,190,708	964,141,863	1,036,188,776	1,195,394,472
Fines, Forfeits and Penalties	10,489,734	9,449,787	14,209,581	15,150,570	22,136,295
Interest	11,548,738	12,813,248	6,883,583	5,561,830	4,579,721
Business Licenses	15,648,026	19,720,980	8,468,457	8,998,922	12,878,371
Non-Business Licenses	51,836,110	50,316,187	57,658,175	62,828,447	65,535,249
Special Assessments	9,329,929	12,797,215	21,629,014	22,454,287	25,865,976
Taxes	1,529,512,66	1,590,021,85	1,600,725,75	1,615,244,889	1,831,301,567
Other	39,170,217	43,052,988	78,526,877	85,137,810	77,710,776
Total Revenues	2,566,804,29	2,634,600,38	2,804,565,77	2,913,367,511	3,296,227,817
EXPENDITURES:					
General Government	72,377,387	91,208,675	81,922,934	65,774,389	72,544,440
Protection to Persons and Property	134,520,793	141,541,764	175,976,394	186,419,718	205,591,904
Human Services	910,137,339	910,389,884	1,065,880,25	1,202,966,613	1,299,899,192
Employment and Training	27,631,323	25,999,908	26,285,028	27,904,668	26,193,011
Education	893,172,183	894,781,354	1,035,570,62	1,090,652,345	1,132,649,530
Natural Resources	88,148,291	86,780,546	90,056,115	87,357,285	83,100,141
Commerce and Community Development	30,920,684	34,941,291	36,899,379	33,843,415	30,662,190
Transportation	267,400,585	294,277,972	311,133,424	284,978,573	289,728,406
Public Services Enterprises	1,272,134	1,257,308	2,001,936	1,897,774	1,898,161
Debt Service	74,855,283	73,895,944	69,214,647	73,213,994	70,833,946
Other	4,971,000	12,132,666	0	0	0
Total Expenditures	2,505,407,00	2,567,207,31	2,894,940,74	3,055,008,774	3,213,100,921
Excess of Revenues Over (Under) Expenditures	61,397,295	67,393,068	(90,374,970)	(141,641,2632)	83,126,896
OTHER FINANCING SOURCES (USES):					
Bond and Note Proceeds	37,000,000	-	51,000,000	67,355,000	188,754,448
Lottery Transfers In	19,426,594	16,950,084	16,679,154	16,222,604	19,620,527
Net Operating Transfers In (Out)	(76,642,494)	(81,179,859)	4,732,503	19,067,442	44,187
Other Sources (Uses)	1,018,351	66,590	123,348	(49,113,424)	(144,233,193)
Total Other Financing Sources (Uses)	(19,197,549)	(64,163,185)	72,535,005	53,531,622	64,185,969
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	42,199,746	3,229,883	(17,839,965)	(88,109,641)	147,312,865
Fund Balance, July 1 (as restated)	280,311,714	321,926,077	357,577,512	339,461,551	251,351,910
Fund Balance, June 30	$ 322,511,460	$ 325,155,960	$ 339,737,547	$ 251,351,910	$ 398,664,775

* Fiscal year 2002's, 2003's and 2004'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 therefore 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 therefore 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, 2005, 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 E Bonds.

State of Vermont
Debt Statement
As of June 30, 2005
($ in thousands)

General Obligation Bonds[(1)]:	
General Fund	$412,900
Transportation Fund	13,656
Special Fund	13,710
Contingent Liabilities:	
VEDA Mortgage Insurance Program	8,475
VEDA Financial Access Program	868
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	475,355
Vermont Housing Finance Agency	97,485
VEDA Indebtedness	70,000
Gross Direct and Contingent Debt	$1,092,449
Less:	
Contingent Liabilities	(9,343)
Reserve Fund Commitments	(642,840)
Net Tax-Supported Debt	$440,266

[1] Does not include (i) general obligation bonds which were refunded, (ii) the accretion in the value of capital appreciation bonds and (iii) the present value of outstanding capitalized leases in the amount of $859,606.

Selected Debt Statistics[1]

	2001	2002	2003	2004[2]	2005[2]	Projected 2006[2]
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[3]	$454,888	$460,495	$448,248	$444,683	$440,266	$439,994
Population[4]	612,964	616,500	619,343	621,394	623,086	624,776
Debt Per Capita	$742	$747	$724	$716	$707	$704
Personal Income ($ in millions by fiscal year)	$17,376	$18,046	$18,684	$19,689	$20,933	$21,999
Debt as a Percent of Personal Income	2.6%	2.6%	2.4%	2.3%	2.1%	2.0%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[3]	$74,894	$69,199	$72,504	$70,736	$67,450	$67,231
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,236,987	$1,048,164	$1,073,709	$1,167,512	$1,246,845	$1,278,649
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	6.1%	6.6%	6.8%	6.1%	5.4%	5.3%

Percentage Of Debt To Be Retired (as of June 30, 2005)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	72.1%	47.0%	55.0%	48.0%
10 years	93.4	79.9	88.6	80.6
15 years	100.0	94.5	96.5	94.7
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 2005 information is unaudited.

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[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. Statistics reflect certain revised data for 2001 through 2005.
[2] Population and personal income are projected in 2005 and 2006, and personal income data for 2004 is subject to revision.
[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, all of which were issued in fiscal year 2005. For fiscal year 2006, the Committee voted to recommend a maximum of $45 million and the General Assembly authorized $45 million of additional general obligation bonds. Of this $45 million authorization, $30 million of bonds are being offered hereby, and $15 million of bonds are expected to be offered in December 2005. At its meeting in September 2005, the Committee voted to recommend a maximum of $45 million of general obligation bonds for fiscal year 2007.

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
2007	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, 2005, 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, 2005

GENERAL FUND[1]

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2006	42,039,053	20,662,478	62,701,531	370,860,689
2007	40,412,527	19,815,739	60,228,266	330,448,162
2008	38,674,332	18,528,017	57,202,349	291,773,830
2009	37,874,793	17,174,271	55,049,064	253,899,037
2010	34,873,738	15,644,450	50,518,188	219,025,299
2011	32,237,137	14,366,299	46,603,436	186,788,162
2012	30,787,141	9,988,293	40,775,434	156,001,021
2013	26,941,318	7,818,778	34,760,096	129,059,703
2014	26,808,060	6,892,659	33,700,719	102,251,643
2015	19,459,245	4,332,431	23,791,676	82,792,398
2016	16,354,245	3,469,151	19,823,396	66,438,153
2017	13,474,245	2,781,141	16,255,386	52,963,908
2018	11,188,008	2,323,191	13,511,199	41,775,900
2019	10,322,180	1,701,168	12,023,348	31,453,720
2020	8,577,180	1,285,389	9,862,569	22,876,540
2021	8,672,180	900,702	9,572,882	14,204,360
2022	5,992,180	542,264	6,534,444	8,212,180
2023	4,112,180	331,065	4,443,245	4,100,000
2024	2,050,000	164,000	2,214,000	2,050,000
2025	2,050,000	82,000	2,132,000	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
2006	1,528,036	618,250	2,146,286	12,128,158
2007	1,534,631	551,504	2,086,135	10,593,527
2008	1,505,224	489,672	1,994,896	9,088,303
2009	1,494,275	417,885	1,912,160	7,594,028
2010	1,448,483	346,812	1,795,295	6,145,545
2011	1,450,915	277,384	1,728,299	4,694,630
2012	1,435,576	206,439	1,642,015	3,259,054
2013	653,637	136,160	789,797	2,605,417
2014	652,060	107,574	759,634	1,953,357
2015	390,755	81,294	472,049	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
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 State Treasurer may with the approval of the Governor borrow from any fund including restricted funds to defray State Government expenses. Such borrowing may be made twice per year: first from fifteen days preceding to fifteen days following the State's fiscal year end of June 30, and second from December 10 to January 10 of the subsequent calendar year.

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 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. In fiscal year 2005, the State obtained a bank line of credit in the amount of $20 million for systemic cash flow needs. No borrowings were made under this line of credit. The State anticipates obtaining a line of credit of up to $30 million in fiscal year 2006 but further anticipates no outstanding short-term borrowings at fiscal year end.

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

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

Total Authorized Unissued Debt

The State has issued all of the bonds authorized to be issued pursuant to Acts adopted prior to fiscal year 2005.

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 Secretary 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, 2005, the Authority had mortgage insurance contracts outstanding of $8,475,247.

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, 2005 was $868,081.

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 45 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2005 was $475,355,000. 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, 2005, the Agency's total outstanding indebtedness was $615,216,124.

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, 2005, the principal amount of outstanding debt covered by this moral obligation was $97,485,000. As of June 30, 2005, the debt service reserve fund requirement for this debt was $7,955,310, and the value of the debt service reserve fund was $8,292,827. 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 $70 million. This debt service reserve pledge is based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. The amount of commercial paper outstanding under this program at June 30, 2005 was $53.7 million.

PENSION PLANS

The State maintains three statutory pension plans: the Vermont State Teachers' Retirement System, with 10,744 active, 2,932 inactive, 613 terminated, vested and 4,563 retired members as of June 30, 2005; the Vermont State Employees' Retirement System, which includes general State employees and State Police, with 8,068 active, 1,220 inactive, 864 terminated, vested and 4,012 retired members as of June 30, 2005; and the Vermont Municipal Employees' Retirement System, with 5,825 active, 2,059 inactive, 496 terminated, vested and 1,171 retired members as of June 30, 2005. 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							
	6/30/00	$ 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
	6/30/05	1,148,908	1,174,796	25,888	97.8	349,225	7.4
Vermont State Teachers' Retirement System							
	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
	6/30/05	1,354,006	1,492,150	138,144	90.7	486,872	28.4
Vermont Municipal Employees' Retirement System							
	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)
	6/30/05	259,037	251,239	(7,798)	103.1	138,218	(5.6)

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 1995 through fiscal year 2005, 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
2005	$1,333,504,630	$21,158,452	$24,446,282	$115,030,906	$73,154,820
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

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
2005	$1,120,222,483	$15,112,105	$36,493,435	$90,428,057	$63,516,893
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

1 Source: June 30, 1994 – 1996, Annual Actuarial Valuation Reports. Beginning June 30, 1997, Comprehensive Annual Financial Reports, except that the fiscal year 2005 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
2005	$258,461,801	$7,404,119	$8,058,810	$18,160,927	$8,350,089
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

1 Source: June 30, 1994 - 1996, Annual Actuarial Valuation Reports. Beginning June 30, 1997, Comprehensive Annual Financial Reports, except that the fiscal year 2005 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 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 and 2005 as a result of a revenue surplus received by the State. The 2003, 2004 and 2005 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 Legislature increased the fiscal year 2006 appropriation for the Vermont State Teachers' Retirement System by $4.0 million to approximately $24.5 million.

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 $56.6 million, which includes $13.0 million to reduce the system's unfunded actuarial accrued liability.

The 2005 General Assembly created the Commission on Funding the State Teachers' Retirement System ("Commission") to make recommendations to ensure an adequate, sustainable, and actuarially sound retirement benefit plan. The Commission is currently examining the Vermont State Teachers' Retirement Systems' sources and applications of funds, benefit provisions, and actuarial methods and assumptions, in an effort to close the gap between actuarially recommended contribution amounts and amounts being contributed by the State. The Commission filed an Executive Summary of its report and recommendations with the General Assembly and the Governor on November 15, 2005. The Commission expects to submit its full report by the end of November, 2005. The key recommendations include the following: (i) make no changes in benefits at this time, (ii) adopt a different actuarial methodology that is consistent with most other public retirement plans, (iii) re-amortize the unfunded actuarial liability over 30 years, (iv) increase the assumed rate of investment return by .25%, and (v) fully fund both normal and unfunded accrued liability costs beginning in fiscal year 2007.

If enacted, these recommendations are estimated by the Commission to reduce the actuary's formal recommendation for fiscal year 2007 appropriation by $21 million (from $59.2 million to $38.2 million) and to reduce the gap between the recommendation and the fiscal year 2006 appropriation of $24.4 million. The recommendations would also cause the funded ratio to decline. There can be no assurance whether or to what extent the General Assembly and Governor will accept these recommendations.

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 have been 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 have been 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 have been close to $25 million.

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Over 800 eligible employees had a one-time, irrevocable option of transferring the actuarial value of their accrued benefit from the defined benefit to the defined contribution plan on January 1, 1999. The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees elected to transfer to the defined contribution plan, representing approximately 45% of the eligible population. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan as a result of the election on January 4, 1999. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2005, plan assets totaled $32.6 million and there were 591 participants.

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

Sixty-one municipalities chose to offer the defined contribution plan to their employees in 2000. Eighty-one employees elected the defined contribution plan and transferred the actuarial value of their accrued benefits totaling $3.3 million on July 1, 2001. Employers that did not offer the defined contribution plan to their employees by December 31, 1999 have an opportunity to do so by December 31 of any subsequent year, with transfer effective the following July 1. An additional 20 municipalities chose to offer the plan prior to December 31 of 2000 and $656,125 was transferred on behalf of 262 employees who chose the plan. At June 30, 2005, 95 municipalities had offered the plan with 516 participants and a total market value of $9.0 million.

LABOR RELATIONS

As of June 30, 2005, there were 8,136 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, 2005 and expires on June 30, 2007, provides cost of living adjustments for most of the State's classified employees of 2.0% effective July 10, 2005 and 2.0% effective July 9, 2006 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 Edwards Angell 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 November 15, 2005, the Bonds were awarded to Merrill Lynch & Co. (the "Underwriter"). The Underwriter has supplied the information as to the public offering yield or prices of the Bonds set forth on the cover hereof. The Underwriter has informed the State that if all of the Bonds are resold to the public at those yields or prices, they anticipate the total Underwriter's compensation to be $42,075. The Underwriter may change the public offering yields or prices from time to time.

RATINGS

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

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Edwards Angell 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. The State's fiscal year 2004 annual report was sent to the NRMSIRs on April 12, 2005.

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, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, 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 2005 and projections and forward looking statements related to fiscal year 2006 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 2005, 2006 and 2007 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: November 22, 2005

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STATE OF VERMONT ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

The information in this Appendix A includes pages 10 through 107 of the State of Vermont Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2004. The entire CAFR is available from the State's website at http://www.state.vt.us/sao/audits/auditlist.htm.

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RANDOLPH D. BROCK
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

Independent Auditor's Report

Speaker of the House of Representatives Gaye Symington
President Pro-Tempore of the Senate Peter F. Welch
Governor James H. Douglas
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, 2004, 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	**95.2%**	**79.4%**
Aggregate Discretely Presented Component Units	**100%**	**100%**
Aggregate Remaining Funds	**4.2%**	**0.8%**

The financial statements of those entities and funds 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 on 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

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email: auditor@sao.state.vt.us • website: www.state.vt.us/sao

Fund (a discretely presented component unit) were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 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 June 30, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 12 through 25, 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 and the other auditors 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 introductory and statistical sections, and the combining and individual fund statements and schedules as 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. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit by us and the other auditors of the basic financial statements and, accordingly, we express no opinion on them.

Randolph D. Brock

State Auditor
March 31, 2005

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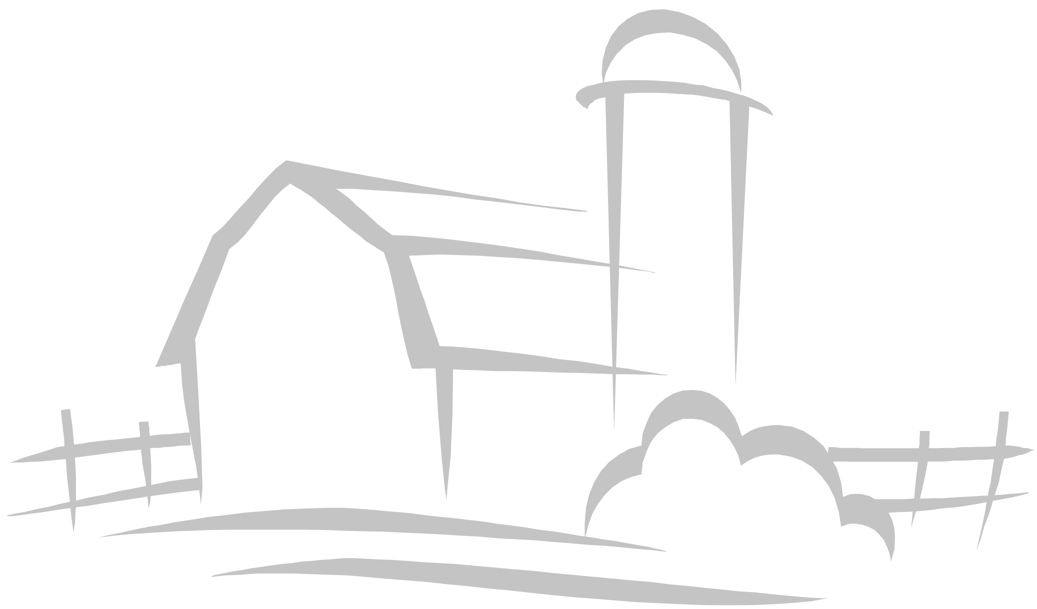


Vermont

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Unaudited)

We are pleased to present this analysis and discussion of the State of Vermont's financial performance for the fiscal year ending June 30, 2004. This MD&A section is meant to present an easily readable overview and highlights occurring within Vermont during fiscal year 2004. Please read this in conjunction with the transmittal letter found at the front of this report and the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Government-Wide Primary Government - Net assets (assets minus liabilities) of Vermont's primary government at June 30, 2004 totaled $1.298 billion, an increase of $179 million (16%) as compared to fiscal year 2003's restated net asset balance of $1.119 billion.

The governmental activities total fiscal year 2004 net asset balance of $1.056 billion represents an increase of $205 million (24.1%) over restated fiscal year 2003's balance. This increase of $205 million is attributed primarily to an increase of $436.8 million in governmental revenues more than offsetting an increase in governmental expenditures of $234.0 million. This increase resulted in a $71.5 million increase in "Invested in Capital Assets," an increase in the budget stabilization reserve of $34 million, a decrease in the "restricted for capital projects" of $3 million and a decrease in the "unrestricted net asset" balance of $102.3 million. 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 2004 net asset balance declined $26 million (9.7%) due primarily to expenses exceeding charges for services by $20.5 million, investment earnings declining $3.5 million from 2003 and "transfers to other funds" increasing by $3.4 million as compared to 2003's activity.

Discretely Presented Component Units - reported net assets of $803.8 million, an increase of $65 million over fiscal year 2003's restated total of $738.8 million. The greatest contributor to this increase was $53.2 million in unrestricted investment earnings which represented an increase of $26 million over 2003.

Fund Level - Governmental Funds – Fund Balances – As of the close of fiscal year 2004, the State's governmental funds reported a combined ending fund balance of $398.7 million, an increase of $147.3 million over a 2003 balance of $251.4 million. Of this total amount, $244.1 million represents "unreserved fund balances", with $36.4 million categorized as "designated for specific purposes in the capital projects funds" and $207.7 million categorized as "unreserved and undesignated." This $207.7 million is the amount available for appropriation in the following year and represents 6.47% of FY2004 governmental expenditures. In comparison, fiscal year 2003's "unreserved and undesignated" amount was $114.8 million which represented 3.75% of the total governmental fund expenditures for that year.

Long-term Liabilities
Vermont's primary government's total long-term liabilities increased by $22 million during fiscal year 2004. Governmental activities increased by $25.3 million while a decrease of $3.2 million in business-type activities was the result of reclassifying lottery claims included in "claims and judgements" in 2003 to "lottery prize awards payable" in 2004. See Note 18 – 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) and 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,** including **component units' 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 additional detail for both of the above type financial statements and are considered an integral part of the financial statements.

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 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 government's 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 reasons for the changes in net assets during the reported fiscal year. All changes in financial activities are recognized as soon as the underlying events 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, which is separate and distinct from the activities of the discretely presented component units.

Primary Government

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, human services, and public transportation. Taxes, grants, fees, licenses and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – The 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
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." 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 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 immediately follow 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 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 immediately follow 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 2004

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 $1.298 billion at the end of 2004, compared to a restated balance of $1.119 billion at the end of the previous year, a 16% increase.

The largest portion of the primary government's net assets (77.1%) 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 (19.08%) 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 2004, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following financial statement information is derived from the State's government-wide June 30, 2004 and 2003 financial statements. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these statements.

TABLE 1
NET ASSETS
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current assets	$ 677.4	$ 519.5	$ 252.8	$ 282.7	$ 930.2	$ 802.2
Other assets	223.1	203.5	5.7	1.6	228.8	205.1
Capital assets	1,146.0	1,088.4	0.5	0.5	1,146.5	1,088.9
Total assets	2,046.5	1,811.4	259.0	284.8	2,305.5	2,096.2
Long-term liabilities	623.8	596.6	4.5	1.0	628.3	597.6
Other liabilities	367.1	366.0	11.9	15.1	379.0	381.1
Total liabilities	990.9	962.6	16.4	16.1	1,007.3	978.7
Net assets:						
Invested in capital assets, net of related debt	1,001.3	929.8	0.5	0.5	1,001.8	930.3
Restricted	121.4	90.2	238.6	265.0	360.0	355.2
Unrestricted (deficit)	(67.1)	(169.4)	3.5	3.1	(63.6)	(166.3)
Total net assets	$ 1,055.6	$ 850.6	$ 242.6	$ 268.6	$ 1,298.2	$ 1,119.2

Changes in Net Assets

Vermont's primary government's total net assets increased $179 million (15.99%) during fiscal year 2004. Taxes provided 52.07% of the government's total revenue while 34.18% came from operating and capital grants and contributions (including federal aid). Charges for programs and general revenues other than taxes provided the remaining 13.75% of the total revenues. The primary government's expenses cover a range of services. The largest expenses were incurred in the areas of education (34.21%), human services (38.69%), and transportation (7.49%).

In 2004, governmental activities' expenses exceeded associated program revenues by $1.69 billion, resulting in the use of approximately $1.69 billion of $1.9 billion in general revenues and transfers (mostly taxes) to cover the shortfall.

During fiscal year 2004, business-type activities' expenses ($210.8 million) exceeded related program revenues ($190.3 million) by $20.5 million. Investment earnings of $14.5 million partially offset the program revenue shortfall. However, this loss of $6 million and transfers out of $20 million resulted in a negative change in net assets of $26 million.

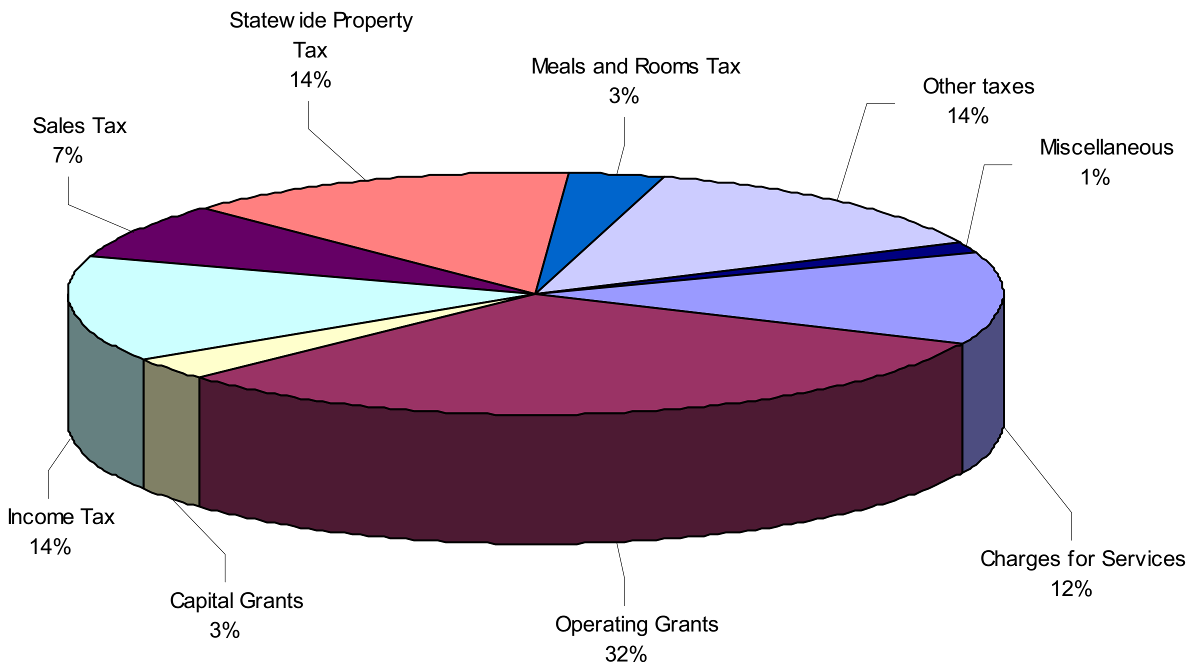
The following table entitled "Changes In Net Assets" presents a comparison of activity for the fiscal years ended June 30, 2004 and 2003 and contains primary government data only.

TABLE 2
CHANGES IN NET ASSETS
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues:						
Charges for services	$ 245.7	$ 211.6	$ 190.3	$ 180.2	$ 436.0	$ 391.8
Operating grants and contributions	1,096.8	935.2	-	-	1,096.8	935.2
Capital grants and contributions	113.0	116.0	-	-	113.0	116.0
General Revenues						
Income taxes	496.3	404.9	-	-	496.3	404.9
Sales taxes	264.3	205.2	-	-	264.3	205.2
Statewide property tax	487.5	453.9	-	-	487.5	453.9
Meals and rooms tax	109.9	95.4	-	-	109.9	95.4
Other taxes	484.6	437.7	-	-	484.6	437.7
Miscellaneous	36.1	37.5	14.5	18.0	50.6	55.5
Total Revenues	3,334.2	2,897.4	204.8	198.2	3,539.0	3,095.6
Expenses						
General government	98.4	51.6	-	-	98.4	51.6
Protection to persons and property	196.0	186.8	-	-	196.0	186.8
Human services	1,299.9	1,186.0	-	-	1,299.9	1,186.0
Employment and training	26.3	27.9	-	-	26.3	27.9
General education	1,149.5	1,097.0	-	-	1,149.5	1,097.0
Natural resources	72.9	69.5	-	-	72.9	69.5
Commerce and community development	29.9	33.8	-	-	29.9	33.8
Transportation	251.8	234.4	-	-	251.8	234.4
Public service enterprises	1.9	1.9	-	-	1.9	1.9
Interest on long-term debt	22.6	26.3	-	-	22.6	26.3
Business-type expenses	-	-	210.8	231.3	210.8	231.3
Total Expenses	3,149.2	2,915.2	210.8	231.3	3,360.0	3,146.5
Increase (decrease) in net assets before transfers	185.0	(17.8)	(6.0)	(33.1)	179.0	(50.9)
Transfers	20.0	16.6	(20.0)	(16.6)	-	-
Gain (loss) - extraordinary items	-	(7.5)	-	-	-	(7.5)
Change in net assets	205.0	(8.7)	(26.0)	(49.7)	179.0	(58.4)
Net assets, beginning of year (as restated)	850.6	859.3	268.6	318.3	1,119.2	1,177.6
Net assets, end of year	$ 1,055.6	$ 850.6	$ 242.6	$ 268.6	$ 1,298.2	$ 1,119.2

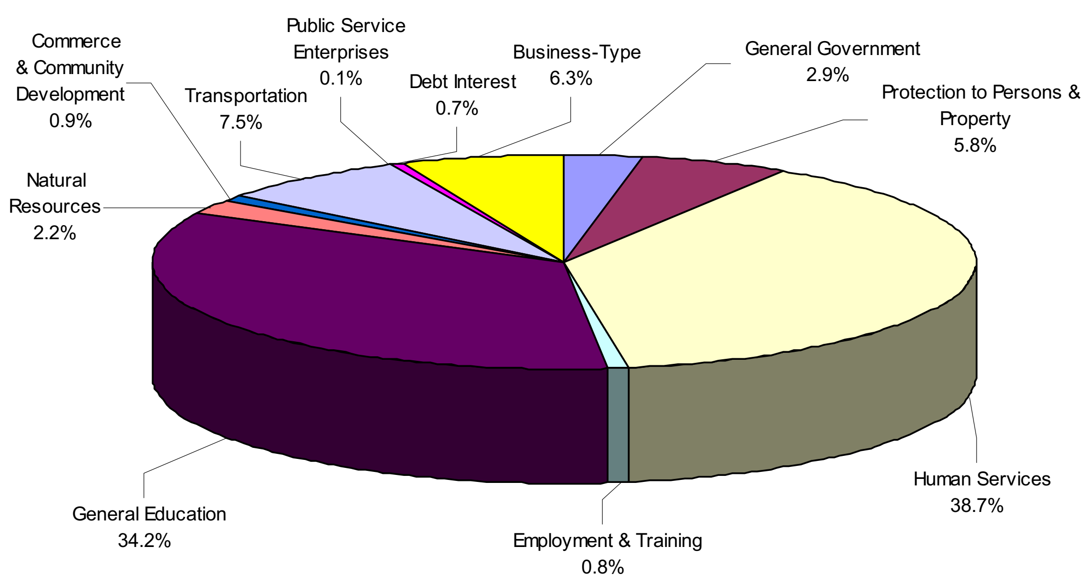
The following graphs illustrate the Primary Government of revenues and expenditures for Fiscal Year 2004 from the table titled “Changes In Net Assets”. Also included is a comparison of revenues and expenditures for fiscal years 2004 and 2003. As indicated above, the activity for fiscal years ended June 30, 2004 and 2003 contains primary government data only.

Revenues - Primary Government
Fiscal Year 2004

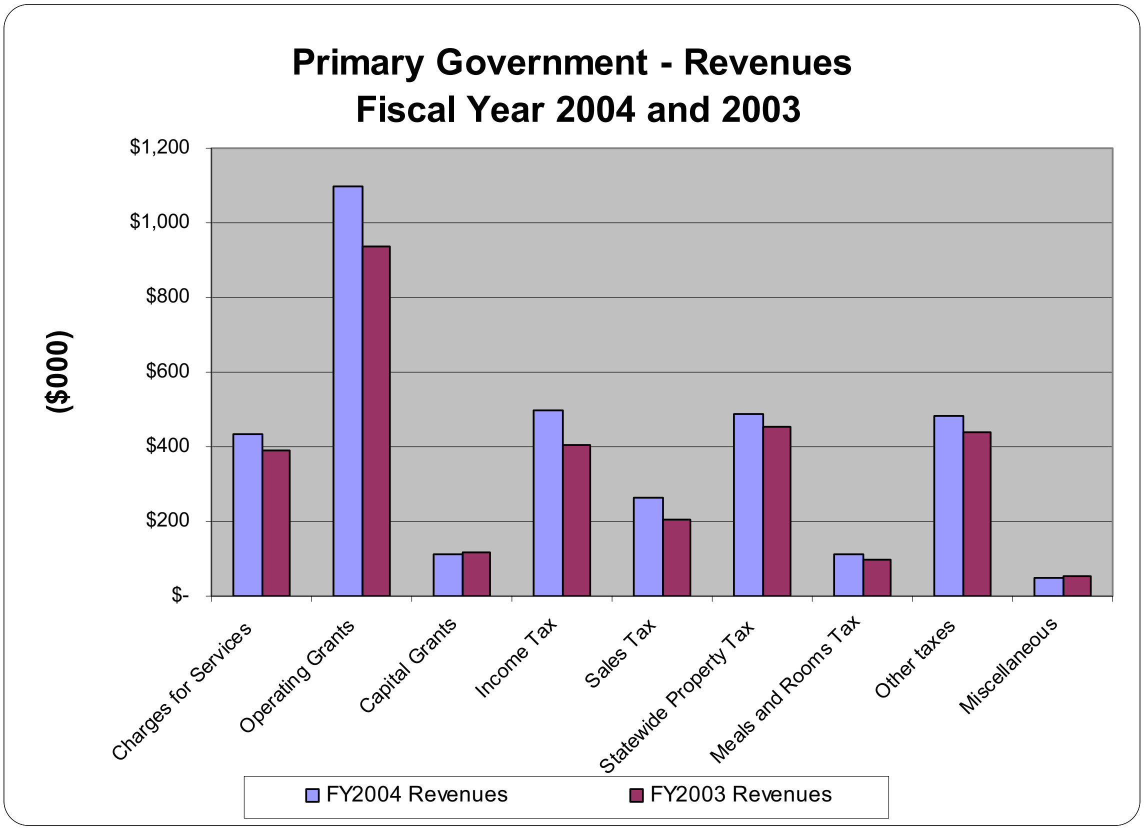


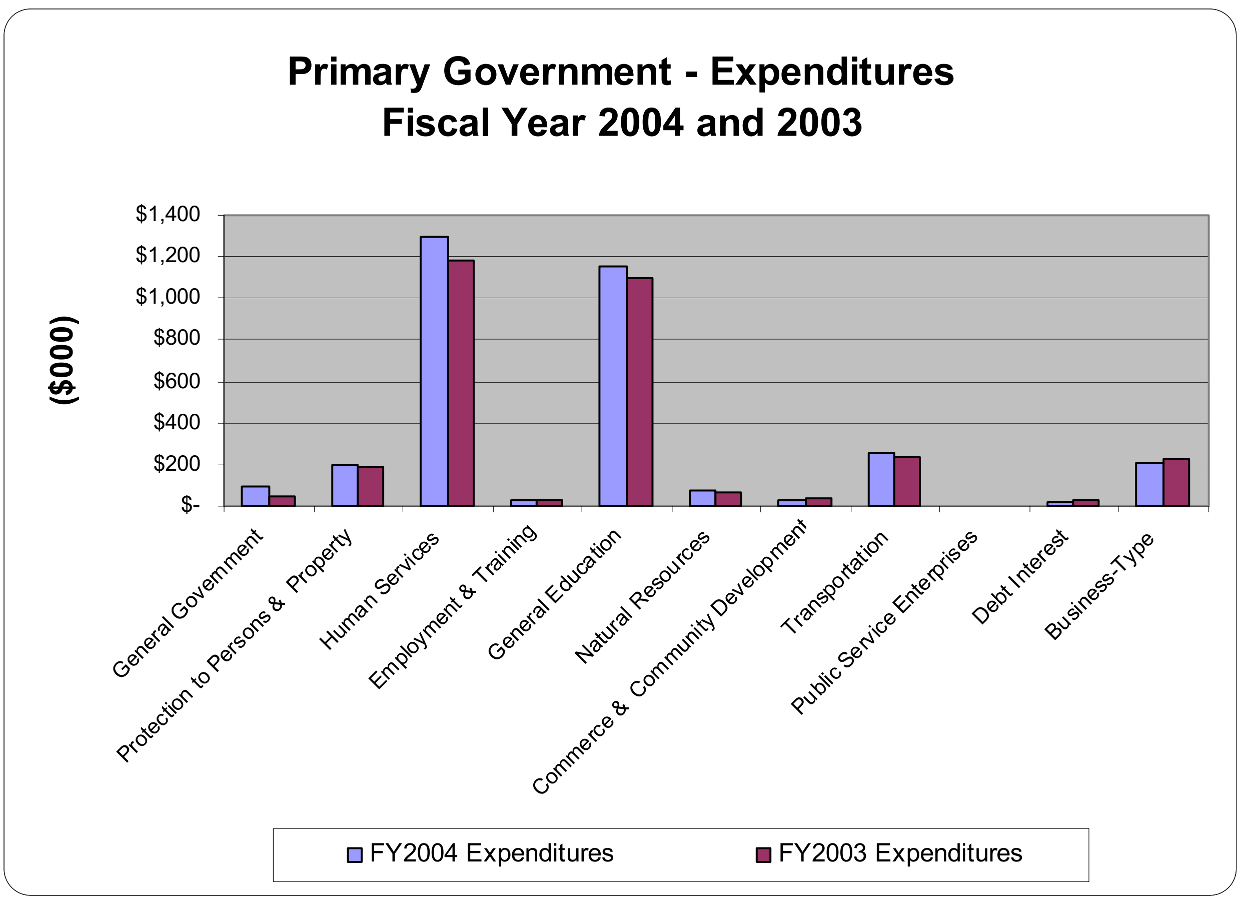
Percentages may not add, due to rounding.

Expenditures - Primary Government
Fiscal Year 2004



Percentages may not add, due to rounding.


Primary Government - Revenues
Fiscal Year 2004 and 2003
($000)
$1,200
$1,000
$800
$600
$400
$200
$-
Charges for Services
Operating Grants
Capital Grants
Income Tax
Sales Tax
Statewide Property Tax
Meals and Rooms Tax
Other taxes
Miscellaneous
FY2004 Revenues
FY2003 Revenues


Primary Government - Expenditures
Fiscal Year 2004 and 2003
($000)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$-
General Government
Protection to Persons & Property
Human Services
Employment & Training
General Education
Natural Resources
Commerce & Community Development
Transportation
Public Service Enterprises
Debt Interest
Business-Type
FY2004 Expenditures
FY2003 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 2004, the State's governmental funds reported combined ending fund balances of $398.7 million. The unreserved portion of this fund balance is $244.1 million or 61.22%, which is available for spending in the coming year. The remainder of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior fiscal year ($23.3 million); 2) for human caseload management ($18.5 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 ($77.8 million), or 5) for a variety of other restricted purposes ($11.9 million).

General Fund

The general fund is the chief operating fund of the State. At the end of fiscal year 2004, the unreserved fund balance of the general fund was $62 million which is a $14.9 million (31.69%) increase compared to the $47.1 million balance at the end of fiscal year 2003. The total fund balance at June 30, 2004 was $154.7 million, an increase of $55 million or 55.11% compared to the balance of $99.8 million at June 30, 2003. Of this total fund balance, 92.7 million is reserved for various purposes including $44.5 million in the budget stabilization fund and $18.5 million for human caseload management.

This increase in fund balance measurement can be attributed to an increase of $146.5 million in total revenues, led by a $64.9 million (17.56%) increase in personal income tax revenue. This increase in revenues was accompanied by a $27.4 million (4.66%) decrease in general fund expenditures overall. Reduced human services function expenditures totaling $36.7 million was the big contributor to 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 ($62 million) represents 11.05% of its total fund expenditures ($560.8 million), up from 8% in 2003 while its total fund balance ($154.7 million) represents 27.59% of its total expenditures ($560.8 million) up from 16.96% in 2003, both measured on a GAAP basis.

Transportation Fund

The transportation fund experienced a $24.7 million increase in total revenues from FY2003 to FY2004. Federal grant revenue increased $16.3 million. Other revenue categories that realized increased revenue include purchase and use tax ($3.4 million) and non-business licenses ($2.4 million.)

Total expenditures increased $4.4 million from FY2003 to FY2004 with an increase of $3.9 million in the area of transportation function expenditures constituting the largest part of the increase.

Finally, transfers in to the transportation fund primarily from the general fund increased $3.1 million while transfers out of the transportation fund to the general fund decreased $5.4 million resulting in an $8.6 million decrease in net "other financing uses" in the transportation fund. All of the above activity resulted in a net increase of $17 million in the fund balance from FY2003 to FY2004.

Education Fund
The education fund experienced an increase in the unreserved portion of its fund balance amounting to $22.3 million as well as an increase in its total fund balance of $33.9 million. It also increased its budget stabilization reserve from $11.1 million at the end of FY2003 to $22.8 million at the end of FY2004.

The education fund's fiscal year 2004 revenues were up $53.1 million due mostly to increases in both statewide and local property tax revenue totaling $33.6 million and the assignment of a portion of the Sales and Use Tax revenue totaling $10.1 million. Its educational expenditures also were up by $36.5 million as the result of increased appropriations. All of these factors resulted in a reduction in operating loss of $16.7 million as compared to fiscal year 2003. Net "transfers in" from other funding sources increased by $27.5 million during fiscal year 2004.

The financial activity resulted in an overall increase in the education fund's fund balance of $33.9 million at June 30, 2004 as compared to 2003. The budget stabilization reserve increased by $11.7 million while the unreserved portion of its fund balance increased by $22.3 million. These increases have resulted in the unreserved undesignated component of the fund balance being reported at $18.2 million. This component of the fund balance represents assets that have not been designated for specific purposes by the legislature.

Special Fund
During fiscal year 2004, net revenue increased by $14.6 million, primarily attributable to an increase in hospital assessment tax and nursing home assessment tax of $12 million.

The special fund's total expenditures increased by $31.1 million (8.99%) with the human services functional expenditures accounting for $25.8 million of this increase, which included a $18.6 million increase in the State's share of Medicaid (Vermont Health Access Trust Fund). Protection to persons and property function expenditures increased $4.6 million.

The financial activity resulted in an overall increase of the special fund's fund balance of $25.8 million at June 30, 2004 as compared to 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 2004, total revenue increased $143.4 million due primarily to an increase of $142.5 million in Federal grant revenue. Total expenditures were up $113.5 million with human services and education expenditures accounting for $108.8 million and $12 million, respectively. General government, Employment and Training, Natural Resources, and Commerce and Community Development also reported decreased expenditures in 2004 as compared to 2003. Net "Transfers Out" increased by $13.5 million (from $20 million to $33.5 million) in FY2004. The effect of the above changes on the fund balance is an increase of $16.4 million from FY2003 to FY2004.

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 98.4% of the total net assets reported by the enterprise funds. However, the Unemployment Compensation Trust Fund's total net assets decreased by $26.4 million from $265 million at June 30, 2003 to $238.5 million at June 30, 2004. This decrease was the result of operating expenditures ($99.5 million) being $41 million more than the revenue received ($58.5 million.) This operating deficit was moderated somewhat by the

receipt of $14.6 million in investment income.

Internal Service Funds
The internal service funds' total net assets at June 30, 2004 were $22 million, up $6.7 million from $15.3 million at June 30, 2003. The Facilities Operations Fund total net assets deficit balance declined $7.7 million from a $8.7 million loss at June 30, 2003 to a $1 million loss at June 30, 2004 while the remaining funds had both positive and negative contributions.

Operating Revenue increased $4.3 million to $156.7 million during fiscal year 2004. The major contributor to this increase was the Facilities Operations Fund which increased $4.4 million from FY2003 to FY2004.

Fiscal year 2004's operating expenses totaled $157.8 million which was an increase of $1.3 million over fiscal year 2003's operating expenses. The Medical Insurance Fund, the Property Management Fund and the Facilities Operations Funds reported increased expenses of $1.6 million, $1 million and $1.9 million, respectively, while the Workers Compensation Fund and the Communications and Information Technology Fund reported a reduction in total expenditures of $2.7 and $1.3 million, respectively. The remaining funds reported both increases and decreases in total expenditures.

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

During the year, actual budgetary-based revenues received exceeded the original and final budgetary estimates by $42.6 million and $26.7 million respectively with actual tax revenue received exceeding the final budgeted tax revenue estimate by $31.8 million. The deficit ($5.1 million) remaining after the difference in tax revenue received can be attributed almost entirely to a shortfall of $5.1 million in interest and premium revenue received versus budgeted. The excess of total budgetary based actual revenue amounts received over total final budgetary revenue estimates was not only able to fund these additional appropriations but was also able to contribute to the increase in the budgetary based fund balance as well.

The surplus was used to fund one-time appropriations in fiscal year 2004 for various programs within State government. In addition, a significant portion was transferred to the Human Service Caseload Reserve in the General Fund, the Transportation Fund, the General Bond Fund, the Health Access Trust Fund (a component of the Special Fund), and to alleviate pending cash deficits in Internal Service Funds. A portion of this surplus was reserved for fiscal year 2005 appropriations.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
At June 30, 2004, the State's primary government reported a combined capital asset figure for its governmental and business-type activities of $1.974 billion which included a "construction in progress" amount of $392.6 million. Accumulated depreciation totaled $827.5 million, which left a net book value of $1.15 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 2004 were $202.3 million, with $99.6 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 $59 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 $4.7 million during fiscal year 2004. This decrease can be accounted for by the issuance of $179.7 million worth of general obligation bonds and accretion of $3 million in principal on the State's capital appreciation bonds offset by the redemption of $50.5 million and the defeasance of $136.9 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 March 2005 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 is continuing on a modest pace of recovery-expansion forecasted to last over the period 2004 - 2008. By most measures and economic indicators the U.S. economy may have finally crossed over from recovery to economic expansion as of January 2005. Volatile energy prices, moderating spending growth, rising personal tax bills, interest rates, and Federal Reserve credit tightening moves are expected to continue throughout 2005 and 2006. This will likely lead to higher inflation and interest rates, and hence moderate the rate of growth.

Vermont's economic outlook for the period 2004 – 2008 is expected to continue to improve but remain uneven and be only one-half to two-thirds of the historic rates of recovery Vermont has experienced in the past. This expected improvement is primarily due to the continued strength of Vermont's real estate markets and associated construction activity, an expected bottoming and possible increase in the number 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.

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, 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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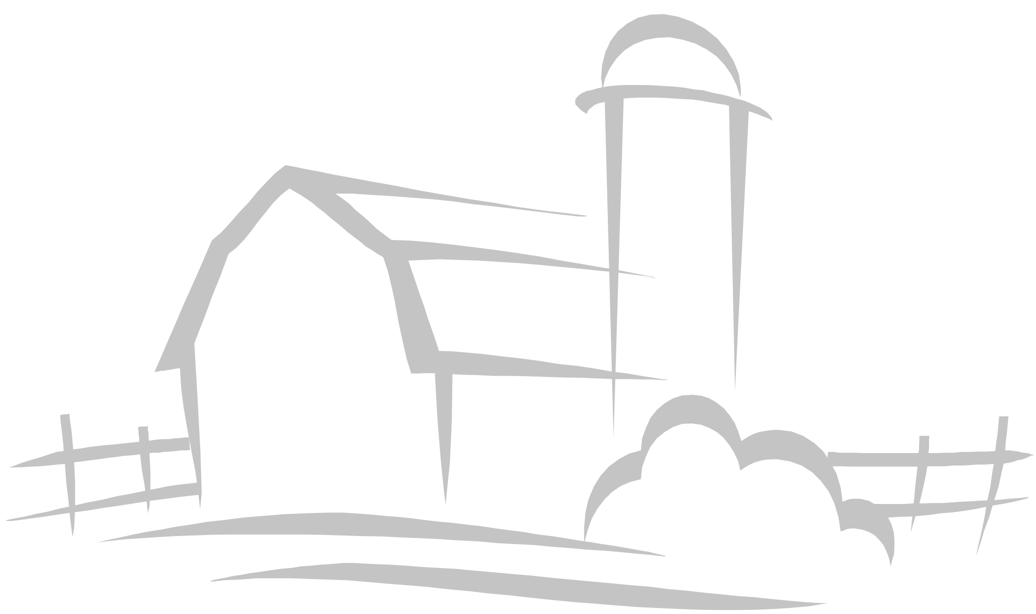
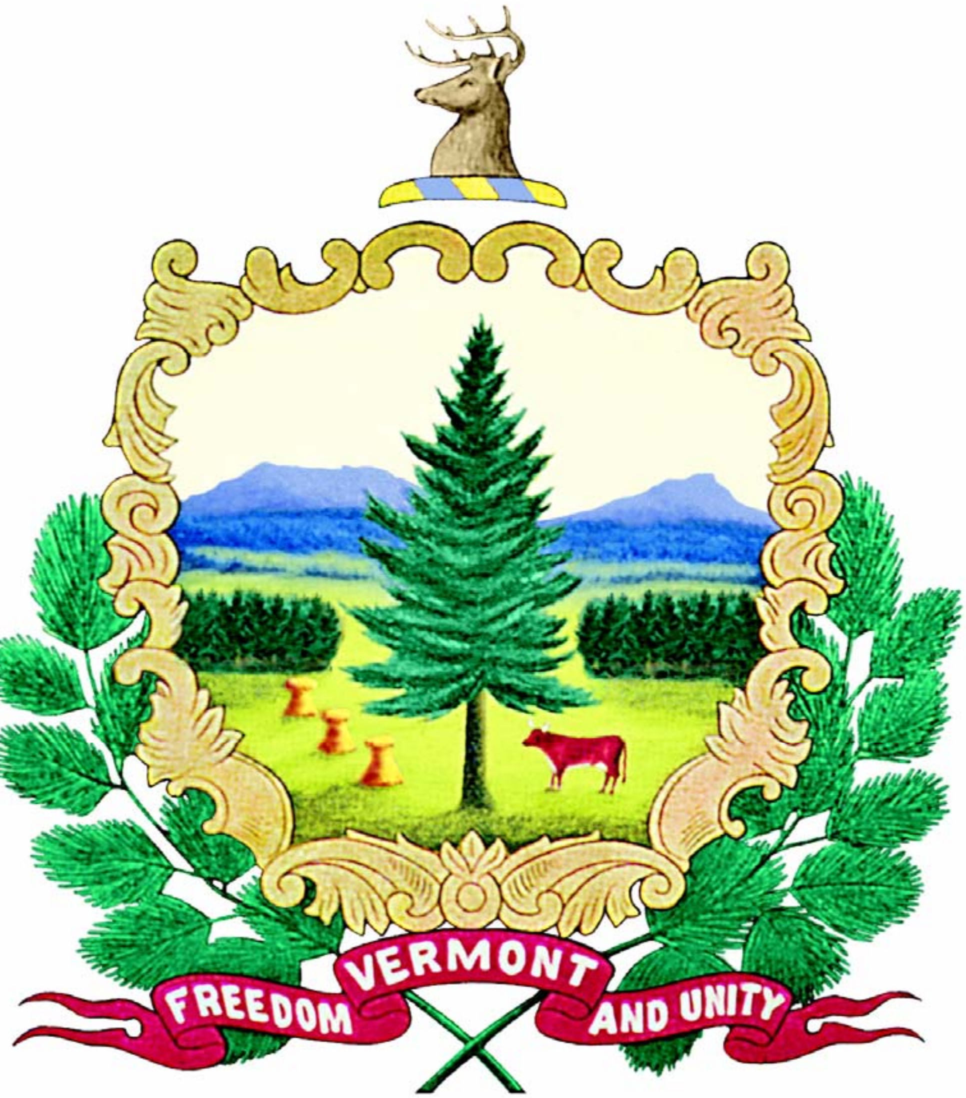


Vermont



BASIC FINANCIAL STATEMENTS

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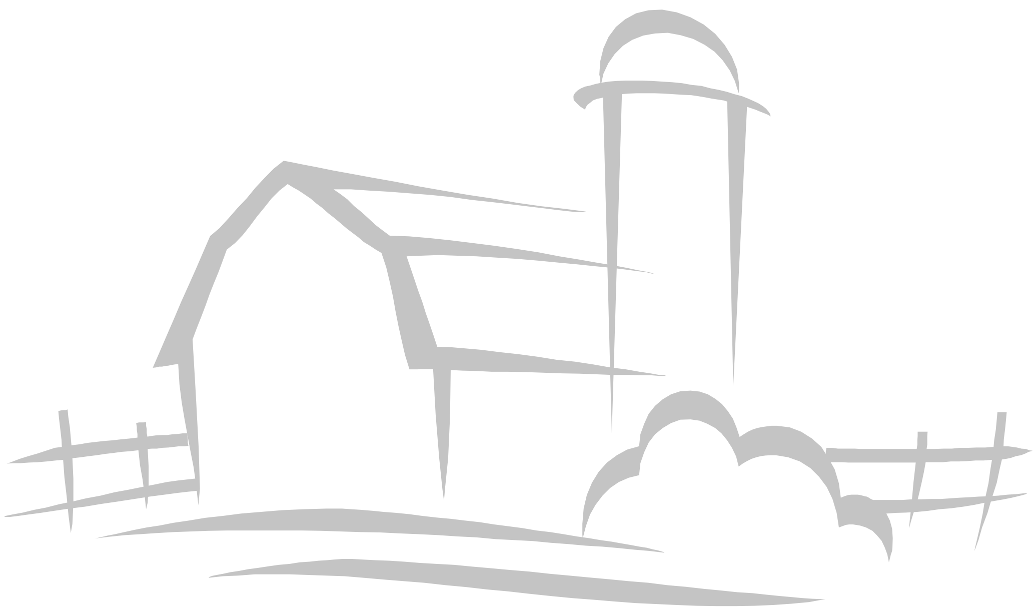

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 334,996,677	$ 237,476,582	$ 572,473,259	$ 409,765,599
Taxes receivable	132,272,329	7,669,861	139,942,190	-
Loans and notes receivable-current	4,759,718	1,461,669	6,221,387	158,226,914
Federal grants receivable	139,633,540	128,149	139,761,689	15,278,920
Other receivables	37,669,604	1,580,111	39,249,715	80,130,854
Investments	13,482,156	-	13,482,156	106,471,759
Inventories	2,401,133	5,343,984	7,745,117	2,367,414
Internal balances	984,301	(984,301)	-	-
Receivable from primary government	-	-	-	10,098
Receivable from component units	10,275,818	-	10,275,818	-
Other current assets	885,512	91,478	976,990	13,755,138
Total current assets	677,360,788	252,767,533	930,128,321	786,006,696
Noncurrent assets:				
Cash and cash equivalents	-	947,048	947,048	10,650,345
Taxes receivable	41,579,912	-	41,579,912	-
Other receivables	10,640,973	43,127	10,684,100	-
Notes and loans receivable	136,556,469	872,111	137,428,580	1,708,333,695
Investments	24,901,256	3,835,239	28,736,495	385,840,563
Other noncurrent assets	9,459,018	-	9,459,018	28,313,450
Capital assets:				
Land	66,976,011	-	66,976,011	20,289,244
Construction in progress	392,642,653	-	392,642,653	20,302,336
Works of art	111,521		111,521	-
Capital assets being depreciated:				
Infrastructure	1,095,723,685	-	1,095,723,685	17,031,621
Property, plant and equipment	417,349,671	1,234,380	418,584,051	524,736,625
Less accumulated depreciation	(826,772,264)	(739,762)	(827,512,026)	(277,558,795)
Total capital assets, net of depreciation	1,146,031,277	494,618	1,146,525,895	304,801,031
Total noncurrent assets	1,369,168,905	6,192,143	1,375,361,048	2,437,939,084
Total assets	2,046,529,693	258,959,676	2,305,489,369	3,223,945,780

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	210,989,623	10,217,774	221,207,397	68,781,740
Income tax refunds payable	56,468,069	-	56,468,069	-
Payable to primary government	-	-	-	10,275,818
Payable to component units	10,098	-	10,098	-
Accrued interest payable	7,751,878	-	7,751,878	3,332,929
Bonds, notes and leases payable	49,385,000	-	49,385,000	135,499,713
Compensated absences	16,167,178	181,122	16,348,300	-
Claims and judgments	10,266,283	-	10,266,283	-
Current portion of other long-term liabilities	958,131	-	958,131	3,033,757
Deferred revenue	15,138,264	1,513,553	16,651,817	22,147,959
Total current liabilities	367,134,524	11,912,449	379,046,973	243,071,916
Long-term liabilities:				
Lottery prize awards payable	-	4,350,870	4,350,870	-
Bonds, notes and leases payable	419,738,782	-	419,738,782	2,149,833,030
Compensated absences	11,933,465	124,252	12,057,717	-
Claims and judgments	22,221,141	-	22,221,141	-
Other long-term liabilities	169,859,426	-	169,859,426	27,204,871
Total long-term liabilities	623,752,814	4,475,122	628,227,936	2,177,037,901
Total liabilities	990,887,338	16,387,571	1,007,274,909	2,420,109,817
NET ASSETS				
Invested in capital assets, net of related debt	1,001,388,886	494,618	1,001,883,504	151,213,394
Restricted for:				
Unemployment compensation	-	238,547,672	238,547,672	-
Component unit net assets	-	-	-	446,997,871
Funds held in permanent investments:				
Expendable	1,790,948	-	1,790,948	-
Nonexpendable	7,416,453	-	7,416,453	-
Budget stabilization	77,789,126	-	77,789,126	-
Capital projects	34,355,901	-	34,355,901	-
Unrestricted	(67,098,959)	3,529,815	(63,569,144)	205,624,698
Total net assets	$ 1,055,642,355	$ 242,572,105	$ 1,298,214,460	$ 803,835,963

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activites:				
General government	$ 98,474,432	$ 44,679,001	$ 2,043,303	$ -
Protection to persons & property	196,013,649	81,275,686	52,475,240	-
Human services	1,299,865,739	22,778,569	856,040,958	-
Employment & training	26,290,402	2,769,626	22,350,918	-
General education	1,149,533,015	2,917,617	102,709,514	-
Natural resources	72,892,394	20,829,414	18,982,416	7,167,976
Commerce & community development	29,862,767	139,562	9,530,158	-
Transportation	251,788,690	68,373,760	32,656,091	105,839,119
Public service enterprises	1,898,161	1,935,257	-	-
Interest on long-term debt	22,590,740	-	-	-
Total governmental activites	3,149,209,989	245,698,492	1,096,788,598	113,007,095
Business-type activites:				
Vermont Lottery Commission	72,319,680	92,389,082	-	-
Liquor Control	36,236,080	36,665,547	-	-
Unemployment Compensation	99,549,897	58,540,541	-	-
Other	2,726,827	2,603,675	-	-
Total business-type activities	210,832,484	190,198,845	0	0
Total primary government	$ 3,360,042,473	$ 435,897,337	$ 1,096,788,598	113,007,095
Component Units:				
University of Vermont	$ 406,661,000	$ 201,196,000	$ 190,164,000	$ 6,602,000
Vermont State Colleges	118,800,228	69,421,442	46,485,878	3,255,101
Vermont Student Assistance Corporation	94,333,000	59,562,000	54,694,000	-
Other	61,499,406	37,404,981	11,570,386	-
Total component units	$ 681,293,634	$ 367,584,423	$ 302,914,264	$ 9,857,101

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
Additions to non-expendable endowments
Miscellaneous
Transfers
Total general revenues and transfers

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	
$ (51,752,128)	$ -	$ (51,752,128)	$ -
(62,262,723)	-	(62,262,723)	-
(421,046,212)	-	(421,046,212)	-
(1,169,858)	-	(1,169,858)	-
(1,043,905,884)	-	(1,043,905,884)	-
(25,912,588)	-	(25,912,588)	-
(20,193,047)	-	(20,193,047)	-
(44,919,720)	-	(44,919,720)	-
37,096	-	37,096	-
(22,590,740)	-	(22,590,740)	-
(1,693,715,804)	0	(1,693,715,804)	0
-	20,069,402	20,069,402	-
-	429,467	429,467	-
-	(41,009,356)	(41,009,356)	-
-	(123,152)	(123,152)	-
0	(20,633,639)	(20,633,639)	0
(1,693,715,804)	(20,633,639)	(1,714,349,443)	0
-	-	-	(8,699,000)
-	-	-	362,193
-	-	-	19,923,000
-	-	-	(12,524,039)
0	0	0	(937,846)
496,301,917	-	496,301,917	-
264,336,818	-	264,336,818	-
109,914,847	-	109,914,847	-
86,363,011	-	86,363,011	-
68,654,068	-	68,654,068	-
487,535,603	-	487,535,603	-
329,543,672	-	329,543,672	12,604,000
1,842,649,936	0	1,842,649,936	12,604,000
3,130,140	14,502,200	17,632,340	53,154,281
25,819,716	-	25,819,716	-
-	-	-	116,197
7,194,789	15,899	7,210,688	89,043
19,957,578	(19,957,578)	-	-
1,898,752,159	(5,439,479)	1,893,312,680	65,963,521
205,036,355	(26,073,118)	178,963,237	65,025,675
850,606,000	268,645,223	1,119,251,223	738,810,288
$ 1,055,642,355	$ 242,572,105	$ 1,298,214,460	$ 803,835,963

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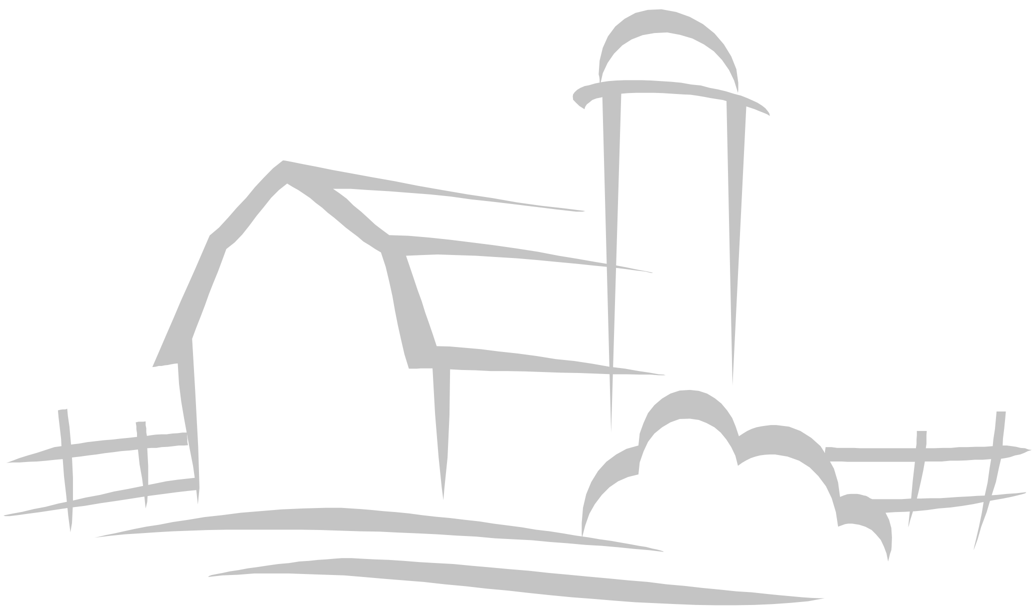
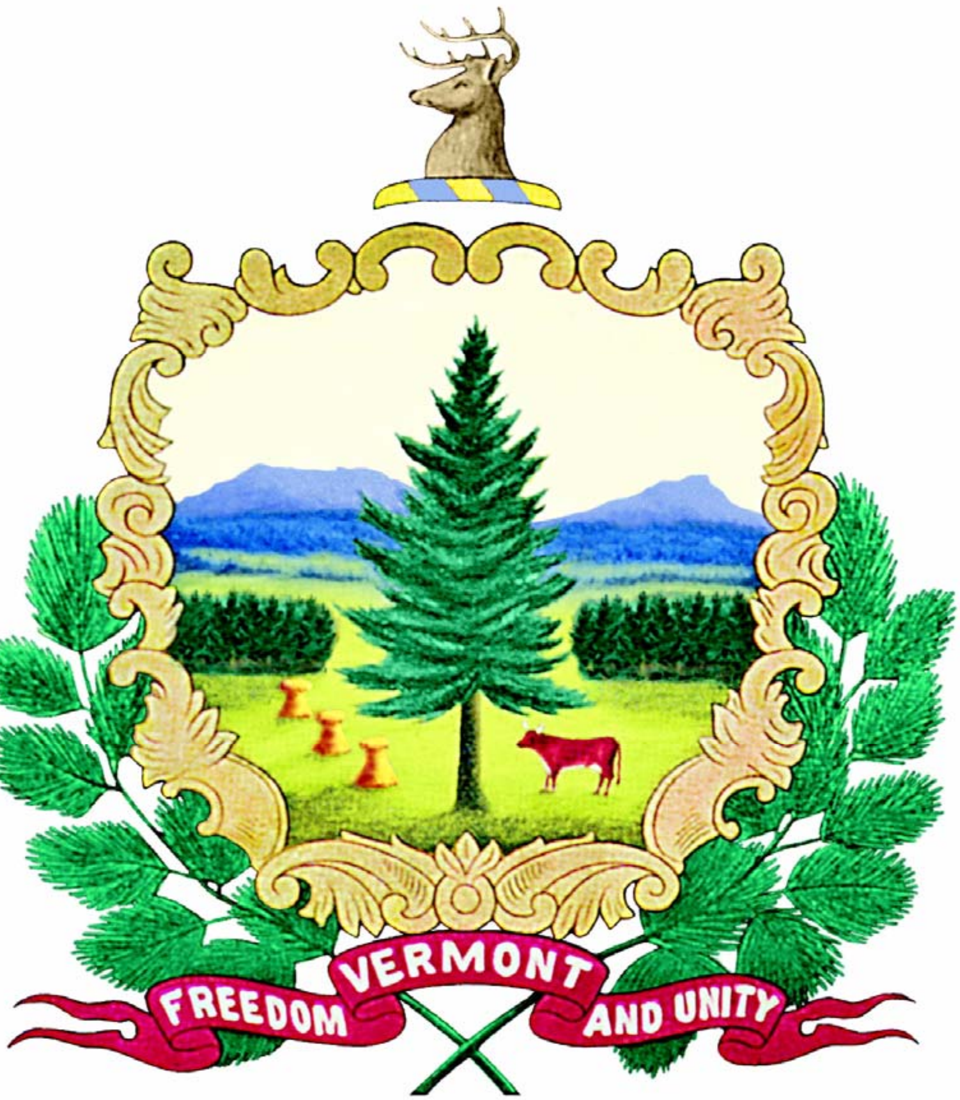


Vermont



GOVERMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund	Transportation Fund	Education Fund
ASSETS:			
Cash and cash equivalents	$ 78,070,095	$ 13,433,971	$ 39,567,648
Investments	-	-	-
Receivables:			
Taxes receivable (net)	147,440,031	9,168,534	13,750,194
Notes and loans receivable	7,865,837	808,279	-
Other receivables (net)	2,839,491	6,063,117	-
Intergovernmental receivable - federal government	-	17,860,665	-
Due from other funds	596,167	476,257	14,452
Due from component units	1,984,433	1,730,673	-
Interfund receivable	20,974,628	-	-
Advances to other funds	323,700	-	-
Advances to component units	1,954,533	-	-
Restricted cash	-	2,013,202	-
Total assets	**$ 262,048,915**	**$ 51,554,698**	**$ 53,332,294**
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 10,417,424	$ 15,709,249	$ 9,270,204
Accrued liabilities	10,017,439	5,129,126	-
Retainage payable	460,989	3,226,728	-
Accrued interest payable	109,738	8,398	-
Due to other funds	5,013,099	976,731	1,700
Due to component units	-	10,098	-
Tax refunds payable	784,912	-	-
Deferred revenue	80,519,518	5,051,056	3,089,081
Total liabilities	**107,323,119**	**30,111,386**	**12,360,985**
FUND BALANCES:			
Reserved for:			
Encumbrances	2,301,223	64,315	-
Budget stabilization	44,485,778	10,540,811	22,762,537
Debt service	1,746,819	130,717	-
Advances and notes receivable	10,044,070	-	-
General fund surplus	15,630,000	-	
Human caseload management	18,543,422	-	-
Endowments	-	-	-
Unreserved:			
Designated for specific purposes	-	-	-
Undesignated	61,974,484	10,707,469	18,208,772
Total fund balances	**154,725,796**	**21,443,312**	**40,971,309**
Total liabilities and fund balances	**$ 262,048,915**	**$ 51,554,698**	**$ 53,332,294**

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

Special Fund	Federal Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 77,325,440	$ 31,573,945	$ 50,254,276	$ 290,225,375
29,249,908	-	9,133,504	38,383,412
3,398,866	-	94,616	173,852,241
190,000	132,452,071	-	141,316,187
17,283,876	14,191,008	418,236	40,795,728
-	121,505,955	266,920	139,633,540
1,747,673	1,859,578	9,836	4,703,963
-	4,606,179	-	8,321,285
-	-	-	20,974,628
-	-	-	323,700
-	-	-	1,954,533
3,001,000	-	-	5,014,202
$ 132,196,763	**$ 306,188,736**	**$ 60,177,388**	**$ 865,498,794**
$ 49,256,797	$ 89,869,267	$ 3,609,475	$ 178,132,416
3,298,554	5,368,485	471,141	24,284,745
1,100	4,521	981,179	4,674,517
-	-	-	118,136
1,225,877	1,058,554	35,367	8,311,328
-	-	-	10,098
-	-	-	784,912
9,916,791	151,938,334	3,087	250,517,867
63,699,119	**248,239,161**	**5,100,249**	**466,834,019**
2,525,122	12,972,150	5,405,697	23,268,507
-	-	-	77,789,126
-	-	-	1,877,536
-	-	-	10,044,070
-	-	-	15,630,000
-	-	-	18,543,422
-		7,416,453	7,416,453
-	-	36,362,811	36,362,811
65,972,522	44,977,425	5,892,178	207,732,850
68,497,644	**57,949,575**	**55,077,139**	**398,664,775**
$ 132,196,763	**$ 306,188,736**	**$ 60,177,388**	**$ 865,498,794**

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2004

Total fund balances from previous page		**$ 398,664,775**
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	66,949,855	
Construction in progress	392,642,653	
Depreciable capital assets and infrastructure, net of $800,798,043 of accumulated depreciation	659,192,564	
Capital assets, net of accumulated depreciation		1,118,785,072
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		21,923,552
Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:		
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds		236,821,323
Deferred charge for unamortized bond issuance costs		1,168,269
Deferred for unamoritized loss on sale of refunding bonds		8,290,749
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:		
Bonded debt	(469,123,782)	
Accrued interest payable on bonds	(7,633,742)	
Compensated absences (net of internal service funds' liability)	(26,753,147)	
Tax refunds payable	(55,683,157)	
Other long-term liabilities	(170,817,557)	
Long-term liabilities		(730,011,385)
Net assets of governmental activities		**$ 1,055,642,355**

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

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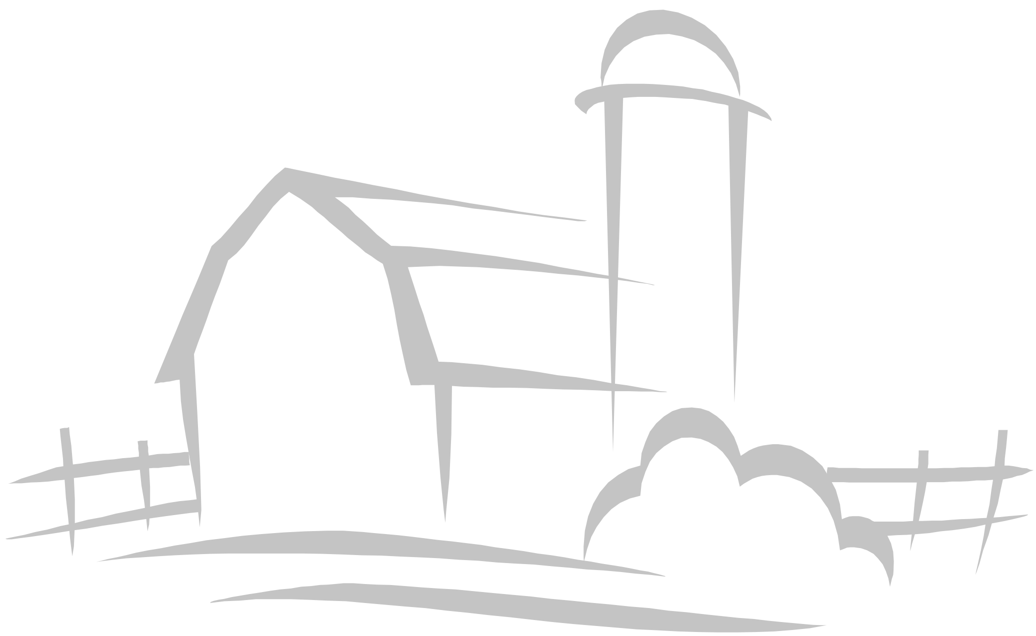


Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	Transportation Fund	Education Fund
REVENUES:			
Taxes:			
Personal income tax	$ 434,394,509	$ -	$ -
Corporate income tax	46,739,747	-	10,288,726
Sales and use tax	254,106,531	-	10,083,771
Meals and rooms	90,735,193	-	18,332,694
Motor fuel tax	-	56,037,443	9,889,376
Purchase and use tax	-	72,022,408	14,340,603
Statewide property tax	-	-	487,535,603
Other taxes	119,919,948	17,963,273	58,840,836
Earnings of departments:			
Fees	8,863,792	3,676,595	2,490,600
Rents and leases	-	710,364	-
Sales of service	1,894,158	66,119	-
Federal grants	-	138,495,210	-
Fines, forfeits and penalties	7,418,283	9,262,770	-
Investment income	573,468	66,836	89,996
Licenses:			
Business	2,726,098	648,786	-
Non-business	118,799	56,952,573	-
Special assessments	40,112		-
Other revenues	446,405	582,878	214,660
Total revenues	**967,977,043**	**356,485,255**	**612,106,865**
EXPENDITURES:			
General government	37,236,726	11,090,230	-
Protection to persons and property	69,148,341	28,688,998	-
Human services	233,960,649	2,021,719	-
Employment & training	1,130,937	-	-
General education	121,774,603	4,860,452	874,787,183
Natural resources	15,990,746	1,162,056	-
Commerce and community development	15,509,814	-	-
Transportation	-	288,448,379	-
Public service enterprises	-	-	-
Debt service	66,043,674	2,407,287	-
Total expenditures	**560,795,490**	**338,679,121**	**874,787,183**
Excess of revenues over (under) expenditures	**407,181,553**	**17,806,134**	**(262,680,318)**
Other Financing Sources (Uses):			
Proceeds from the sale of bonds	-	-	-
Proceeds from the sale of refunding bonds	146,075,459	-	-
Premium on sale of bonds	1,708,033	130,717	-
Payment to bond escrow agent	(146,071,943)	-	-
Transfers in	14,651,287	4,773,000	296,609,409
Transfers out	(368,571,268)	(5,724,642)	-
Total other financing sources (uses)	**(352,208,432)**	**(820,925)**	**296,609,409**
Net change in fund balances	**54,973,121**	**16,985,209**	**33,929,091**
Fund balances, July 1	**99,752,675**	**4,458,103**	**7,042,218**
Fund balances, June 30	**$ 154,725,796**	**$ 21,443,312**	**$ 40,971,309**

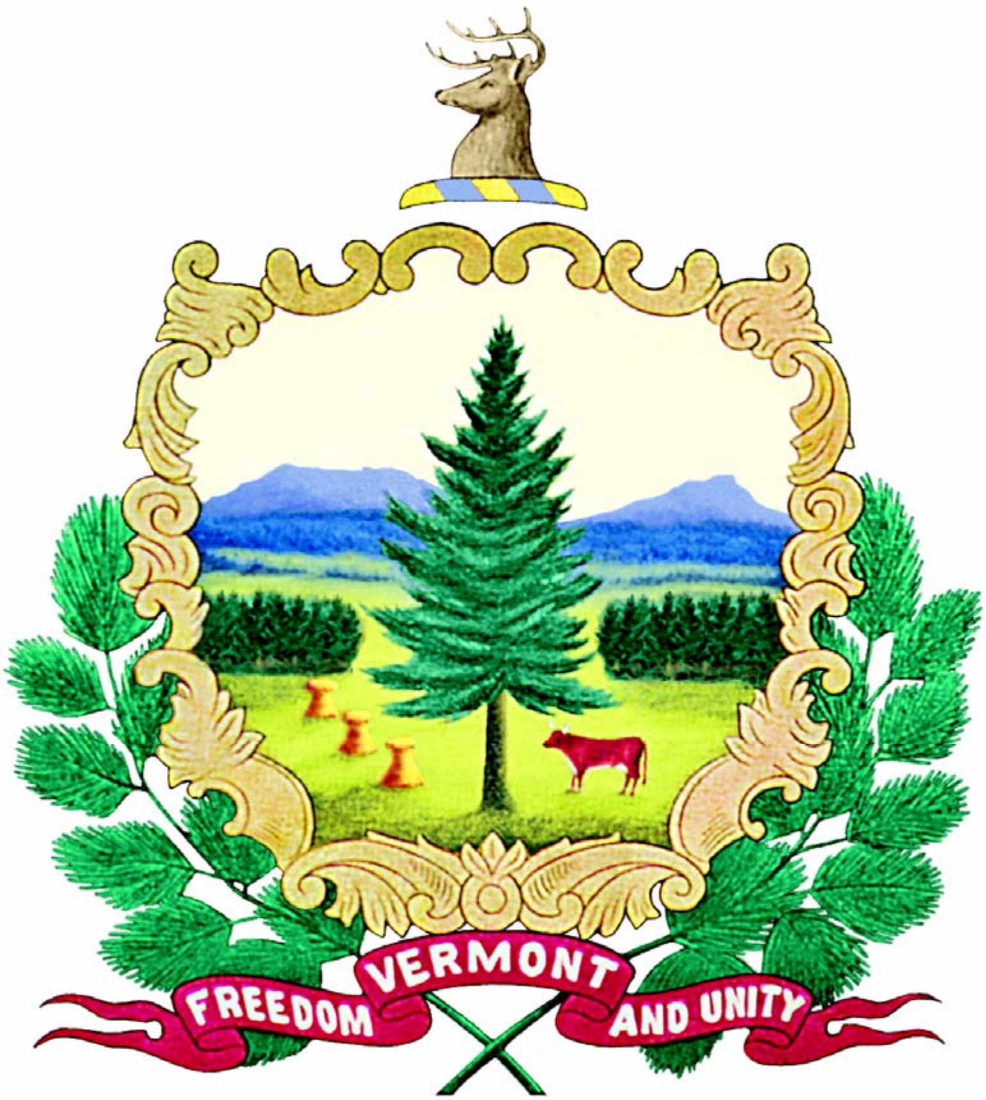
The accompanying notes are an integral part of the financial statements.

Special Fund	Federal Revenue Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 434,394,509
-	-	-	57,028,473
-	-	-	264,190,302
-	-	-	109,067,887
1,692,775	-	1,026,081	68,645,675
-	-	-	86,363,011
-	-	-	487,535,603
127,352,050	-	-	324,076,107
31,333,816	-	249,025	46,613,828
2,774,519	-	39,781	3,524,664
8,726,621	-	-	10,686,898
-	1,052,398,290	4,500,972	1,195,394,472
5,431,670	-	23,572	22,136,295
2,678,928	546,414	624,079	4,579,721
9,501,962	-	1,525	12,878,371
2,412,896	-	6,050,981	65,535,249
25,823,928	-	1,936	25,865,976
71,670,979	4,022,010	773,844	77,710,776
289,400,144	**1,056,966,714**	**13,291,796**	**3,296,227,817**
8,899,756	2,194,041	13,123,687	72,544,440
63,293,277	39,425,603	5,035,685	205,591,904
254,496,962	808,044,843	1,375,019	1,299,899,192
2,311,279	22,750,795	-	26,193,011
15,446,472	102,547,713	13,233,107	1,132,649,530
23,132,147	22,730,646	20,084,546	83,100,141
4,707,768	9,403,614	1,040,994	30,662,190
286,937	-	993,090	289,728,406
1,898,161	-	-	1,898,161
2,382,985	-	-	70,833,946
376,855,744	**1,007,097,255**	**54,886,128**	**3,213,100,921**
(87,455,600)	**49,869,459**	**(41,594,332)**	**83,126,896**
-	-	42,200,000	42,200,000
478,989	-	-	146,554,448
-	-	-	1,838,750
-	-	-	(146,071,943)
119,357,521	2,041,912	876,575	438,309,704
(6,559,544)	(35,557,144)	(2,232,392)	(418,644,990)
113,276,966	**(33,515,232)**	**40,844,183**	**64,185,969**
25,821,366	**16,354,227**	**(750,149)**	**147,312,865**
42,676,278	**41,595,348**	**55,827,288**	**251,351,910**
$ 68,497,644	**$ 57,949,575**	**$ 55,077,139**	**$ 398,664,775**

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, 2004

Total net change in fund balances from the previous page	$ 147,312,865
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 and expensed net book value of disposed capital assets	107,529,166
Depreciation expense	(53,816,834)
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	50,495,000
Payment to refunding bond escrow agent	146,071,943
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	(42,200,000)
Refunding bonds issued	(137,457,000)
Bond premium is amortized over the life of the bonds in the statement of activities	(9,978,067)
Refunding bonds gain amortized over the life of the refunded bonds	(1,810,407)
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	692,369
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds	12,672,330
Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities	(4,980,442)
Some expenses reported in the statement of activities do not require the use of current financial resources and, thererfore, are not reported as expenditures in the governmental funds.	
Net decrease in accrued interest payable	1,636,390
Accreted interest on capital appreciation bonds	(3,035,908)
Increase in compensated absences	(2,524,312)
Increase in employer pension related costs	(18,203,605)
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	6,755,206
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	5,877,661
Total changes in net assets of governmental activities as reported on the statement of activities	$ 205,036,355

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



PROPRIETARY FUND FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-type Activities - Enterprise Funds		
ASSETS	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**
Current Assets:			
Cash and cash equivalents	$ 232,098,142	$ 2,786,430	$ 1,233,023
Receivables:			
Taxes receivable (net of allowance for uncollectibles)	7,669,861	-	-
Accrued interest receivable	-	-	-
Accounts receivable (net of allowance for uncollectibles)	120,446	185,800	1,056,015
Loans receivable	-	-	-
Due from other funds	-	-	-
Intergovernmental receivable - federal	128,149	-	-
Inventories, at cost	-	3,878,957	686,929
Prepaid expenses	-		-
Total current assets	**240,016,598**	**6,851,187**	**2,975,967**
Restricted and Noncurrent Assets:			
Cash-subscription reserve fund	-	-	-
Investments	-	-	3,835,239
Loans receivable	-	-	-
Accounts receivable - subscriptions	-	-	-
Imprest cash and change fund - advances	-	5,700	300,000
Total restricted & noncurrent assets	**0**	**5,700**	**4,135,239**
Capital Assets:			
Land	-	-	-
Construction in Process	-	-	-
Machinery, equipment and buildings	-	905,909	298,182
Less accumulated depreciation	-	(501,951)	(213,396)
Total capital assets, net of depreciation	**0**	**403,958**	**84,786**
Total assets	**240,016,598**	**7,260,845**	**7,195,992**
LIABILITIES			
Current Liabilities:			
Accounts payable	1,448,194	6,629,453	1,075,756
Accrued salaries and benefits	-	341,950	116,139
Claims payable	-	-	-
Due to lottery winners	-	-	463,431
Due to agents	-	204,986	-
Due to other funds	20,732	342,907	14,452
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	1,391,803
Deferred revenue	-	-	177,510
Total current liabilities	**1,468,926**	**7,519,296**	**3,239,091**
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	2,959,067
Advances from other funds	-	5,700	300,000
Total liabilities payable from restricted assets	**0**	**5,700**	**3,259,067**
Total liabilities	**1,468,926**	**7,524,996**	**6,498,158**
NET ASSETS			
Invested in capital assets	-	403,958	84,786
Restricted for unemployment compensation benefits	238,547,672	-	-
Unrestricted	-	(668,109)	613,048
Total net assets	**$ 238,547,672**	**$ (264,151)**	**$ 697,834**

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
$ 1,358,987	$ 237,476,582	$ 39,742,000
-	7,669,861	-
59,495	59,495	-
158,355	1,520,616	11,620,789
1,461,669	1,461,669	-
21,073	21,073	626,058
-	128,149	-
778,098	5,343,984	2,401,133
91,478	91,478	885,512
3,929,155	**253,772,907**	**55,275,492**
638,448	638,448	-
-	3,835,239	-
872,111	872,111	-
43,127	43,127	-
2,900	308,600	15,100
1,556,586	**5,697,525**	**15,100**
-	-	26,156
-		-
30,289	1,234,380	53,194,270
(24,415)	(739,762)	(25,974,221)
5,874	**494,618**	**27,246,205**
5,491,615	**259,965,050**	**82,536,797**
154,069	9,307,472	3,671,600
89,170	547,259	2,453,215
-	-	32,487,424
-	463,431	-
-	204,986	-
-	378,091	684,319
395,457	395,457	19,783,093
-	1,391,803	-
697,595	875,105	1,441,720
1,336,291	**13,563,604**	**60,521,371**
638,448	638,448	-
-	2,959,067	-
2,900	308,600	15,100
641,348	**3,906,115**	**15,100**
1,977,639	**17,469,719**	**60,536,471**
5,874	494,618	27,246,205
-	238,547,672	-
3,508,102	3,453,041	(5,245,879)
$ 3,513,976	**$ 242,495,331**	**$ 22,000,326**

Adjustment to reflect the consolidation of internal service activities related to enterprise funds	76,774
Net Assets - Business-type Activities.................	$ 242,572,105

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Operating Revenues			
Charges for sales and services	$ 40,190,153	$ 35,278,985	$ -
Ticket sales	-	-	92,380,975
Rental income	-	-	-
License fees	-	228,777	8,107
Federal donated property	-	-	-
Advertising revenue	-	-	-
Other operating revenues	18,350,388	1,157,785	-
Total operating revenues	**58,540,541**	**36,665,547**	**92,389,082**
Operating Expenses			
Cost of sales and services	93,216,498	28,722,753	-
Lottery ticket prizes	-	-	58,074,327
Agents commissions and fees	-	-	5,394,848
Megabucks expenses	-	-	2,505,744
Lottery tickets	-	-	613,330
Salaries and wages	-	-	1,068,069
Insurance premium expense	-	-	-
Transportation	-	-	161,564
Warehouse expense	-	899,355	-
Depreciation	-	141,785	33,783
Rentals	-	-	61,084
Utilities	-	-	-
Stores and agencies expense	-	3,795,373	-
Promotions and advertising	-	-	-
Administration	-	1,255,191	3,448,495
Inspection and enforcement expense	-	1,410,856	-
Supplies	-	-	31,896
Distribution and postage	-	-	-
Travel	-	-	-
Loss on bad debts	-	-	3,650
Other operating expenses	6,333,399	5,778	919,708
Total operating expenses	**99,549,897**	**36,231,091**	**72,316,498**
Operating income (loss)	**(41,009,356)**	**434,456**	**20,072,584**
Non-Operating Revenues (Expenses)			
Gain (loss) on disposal of capital assets	-	15,647	-
Other	252	-	-
Investment income (expense)	14,636,730	656	(151,754)
Total non-operating revenues (expenses)	**14,636,982**	**16,303**	**(151,754)**
Income (loss) before contributions and transfers	**(26,372,374)**	**450,759**	**19,920,830**
Capital contributions from other funds	-	-	-
Transfer in	233,179	-	-
Transfer out	(302,503)	(337,051)	(19,620,527)
Changes in net assets	**(26,441,698)**	**113,708**	**300,303**
Total net assets July 1	**264,989,370**	**(377,859)**	**397,531**
Total net assets June 30	**$ 238,547,672**	**$ (264,151)**	**$ 697,834**

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
$ 1,665,480		$ 77,134,618	$ 143,821,338
-		92,380,975	-
-		0	10,186,940
-		236,884	-
232,549		232,549	-
534,284		534,284	-
171,362		19,679,535	2,663,046
2,603,675		**190,198,845**	**156,671,324**
869,269		122,808,520	102,165,373
-		58,074,327	-
-		5,394,848	-
-		2,505,744	-
-		613,330	-
896,947		1,965,016	21,844,051
-		0	5,024,784
39,837		201,401	28,600
-		899,355	-
2,660		178,228	5,014,816
33,913		94,997	2,079,933
1,915		1,915	346,508
-		3,795,373	-
302,965		302,965	-
208,467		4,912,153	7,104,073
-		1,410,856	-
23,129		55,025	2,000,001
198,924		198,924	36,339
13,989		13,989	-
15,771		19,421	-
110,907		7,369,792	12,149,555
2,718,693		**210,816,179**	**157,794,033**
(115,018)		**(20,617,334)**	**(1,122,709)**
-		15,647	(527,504)
-		252	(116,695)
16,568		14,502,200	320,321
16,568		**14,518,099**	**(323,878)**
(98,450)		**(6,099,235)**	**(1,446,587)**
-		0	55,104
302,503		535,682	10,513,369
(233,179)		(20,493,260)	(2,382,985)
(29,126)		**(26,056,813)**	**6,738,901**
3,543,102		**268,552,144**	**15,261,425**
$ 3,513,976		**$ 242,495,331**	**$ 22,000,326**

Total change in net assets reported above	(26,056,813)
Consolidation adjustment of internal service activities related to Enterprise Funds	(16,305)
Change in Net Assets - Business-type Activities	$ (26,073,118)

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers	$ 46,694,333	$ 47,770,108	$ 91,737,077
Cash paid to suppliers for goods and services	-	(32,573,802)	-
Loans received (made)	-	-	-
Cash paid to employees for services	-	(2,900,326)	(1,062,274)
Cash paid for prizes and commissions	-	-	(62,302,910)
Cash paid to claimants	(88,984,195)	-	-
Liquor taxes and licenses paid	-	(12,217,762)	-
Cash paid for fees, operations and other	-	-	(7,654,301)
Other operating revenues (expenses)	437,438	1,152,007	8,107
Net cash provided (used) by operating activities	**(41,852,424)**	**1,230,225**	**20,725,699**
Cash Flows from Noncapital Financing Activities:			
Operating transfers in (out)	-	(337,051)	(20,122,128)
Other	-	-	-
Interfund loans and advances	-	-	-
Net cash provided (used) by noncapital financing activities	**0**	**(337,051)**	**(20,122,128)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(100,737)	(38,903)
Proceeds from sale of capital assets	-	16,211	-
Net cash provided (used) by capital and related financing activities	**0**	**(84,526)**	**(38,903)**
Cash Flows From Investing Activities:			
Interest and dividends on investments	14,636,982	656	50,630
Proceeds from sales/maturities of investments	-	-	334,000
Interest & penalties received (paid)	(310,646)	-	-
Excess cash transferred	233,179	-	-
Net cash provided (used) by investing activities	**14,559,515**	**656**	**384,630**
Net increase (decrease) in cash and cash equivalents	**(27,292,909)**	**809,304**	**949,298**
Cash and cash equivalents at July 1,	**259,391,051**	**1,982,826**	**583,725**
Cash and cash equivalents at June 30 (see note below)	**$ 232,098,142**	**$ 2,792,130**	**$ 1,533,023**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$ (41,009,356)	$ 434,456	$ 20,072,584
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	141,785	33,783
(Increase) decrease in accounts/taxes receivable	685,529	44,584	(547,763)
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	(539,731)	(248,850)
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in intergovernmental receivable - federal	590,196	-	-
Increase (decrease) in accounts payable	(1,944,835)	1,022,392	828,232
Increase (decrease) in accrued salaries and benefits	-	37,195	5,795
Increase (decrease) in claims payable	-	-	-
Increase (decrease) in due to lottery winners	-	-	165,965
Increase (decrease) in due to agents	-	32,759	-
Increase (decrease) in future and unclaimed prizes payable	-	-	512,088
Increase (decrease) in deferred income	-	-	(96,135)
Increase (decrease) in due to other funds	-	56,785	-
Increase (decrease) in other liabilities	(173,958)	-	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	**(843,068)**	**795,769**	**653,115**
Net cash provided (used) by operating activities	**$ (41,852,424)**	**$ 1,230,225**	**$ 20,725,699**

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
$ 3,632,485	$ 189,834,003	$ 156,201,480
(2,670,675)	(35,244,477)	(53,348,972)
(18,626)	(18,626)	-
(823,165)	(4,785,765)	(24,054,174)
-	(62,302,910)	(75,389,729)
-	(88,984,195)	-
-	(12,217,762)	-
-	(7,654,301)	-
(7,980)	1,589,572	(78,785)
112,039	**(19,784,461)**	**3,329,820**
104,138	(20,355,041)	8,130,384
-	0	-
(133,703)	(133,703)	(4,512,379)
(29,565)	**(20,488,744)**	**3,618,005**
-	(139,640)	(8,091,561)
-	16,211	360,219
0	**(123,429)**	**(7,731,342)**
16,227	14,704,495	215,727
-	334,000	-
310,646	0	-
(233,179)	0	-
93,694	**15,038,495**	**215,727**
176,168	**(25,358,139)**	**(567,790)**
1,824,167	**263,781,769**	**40,309,790**
$ 2,000,335	**$ 238,423,630**	**$ 39,742,000**
$ (115,018)	$ (20,617,334)	$ (1,122,709)
2,660	178,228	5,014,816
(29,038)	153,312	229,191
143,363	143,363	-
10,490	10,490	-
-	0	(548,011)
223,097	(565,484)	601,982
31,977	31,977	35,977
-	590,196	-
105,764	11,553	(1,144,565)
15,640	58,630	376,726
-	0	(916,991)
-	165,965	-
-	32,759	-
-	512,088	-
(248,485)	(344,620)	127,985
-	56,785	675,419
-	(173,958)	-
(28,411)	(28,411)	-
227,057	**832,873**	**4,452,529**
$ 112,039	**$ (19,784,461)**	**$ 3,329,820**

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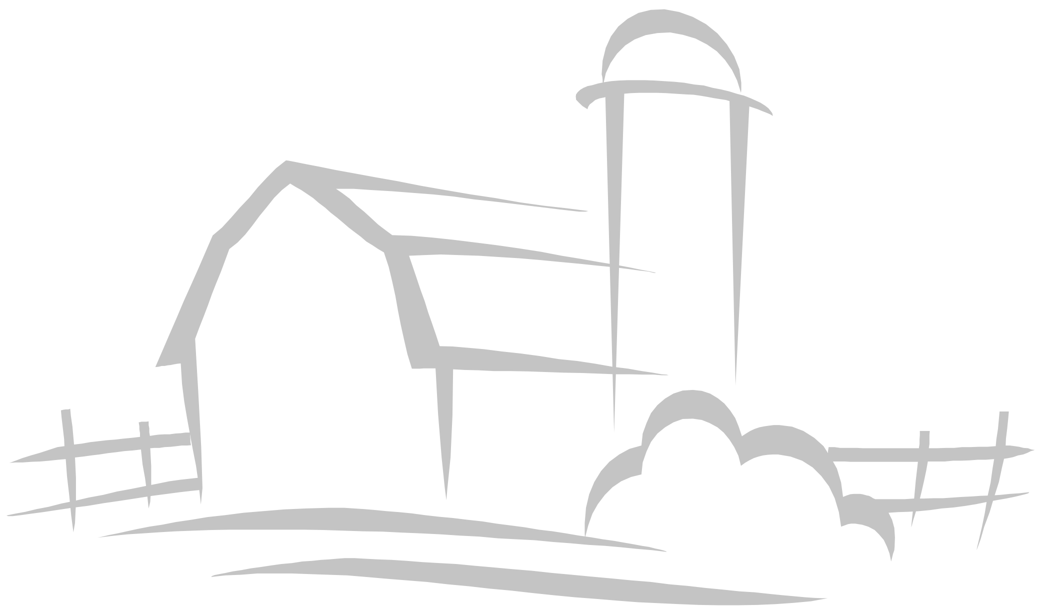

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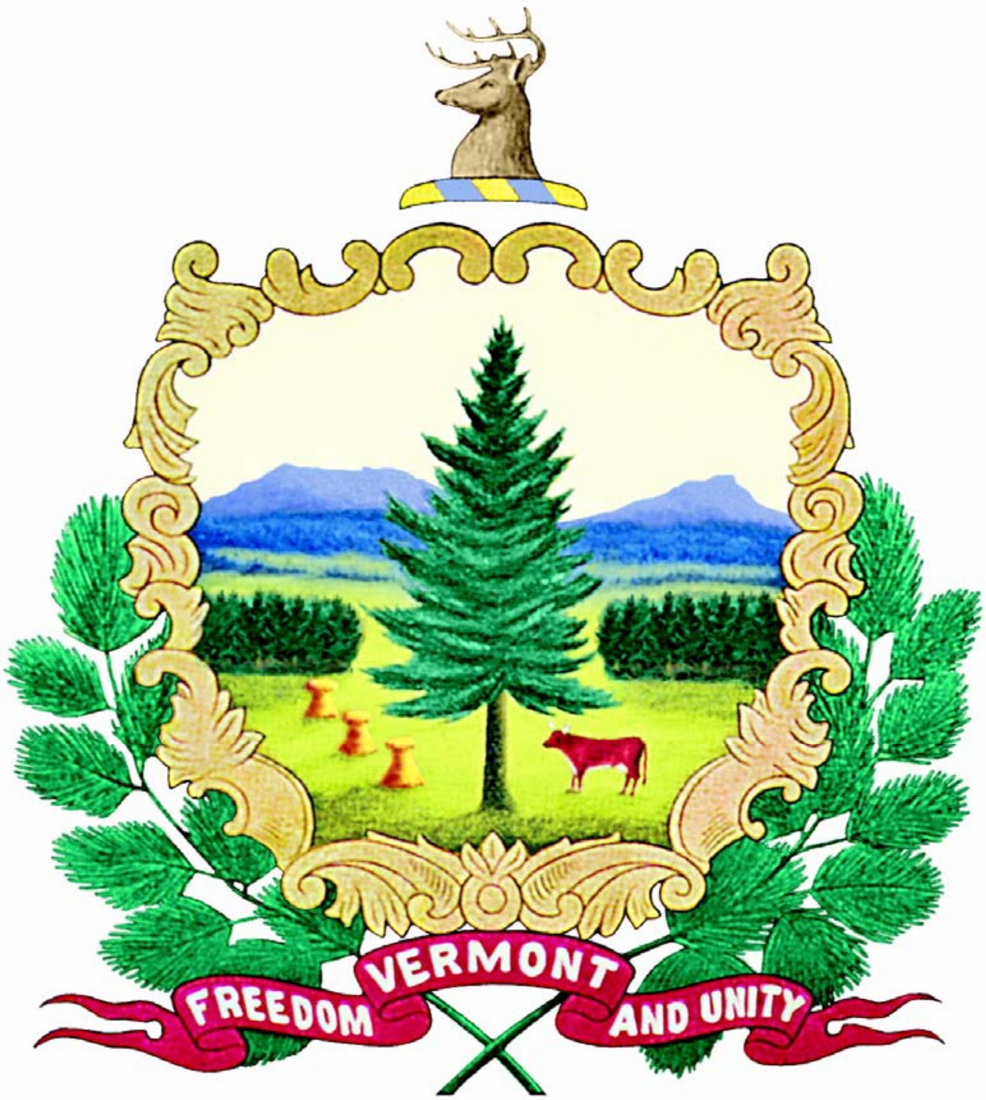

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Pension Trust Funds	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS			
Cash and cash equivalents	$ 85,598,541	$ 9,615,706	$ 5,298,409
Investments at fair value	2,560,104,705	-	-
Receivables:			
Taxes	-	-	1,561,093
Contributions	5,683,895	-	-
Investment principal and interest	13,640,402	-	-
Investments sold	224,108,081	94,470	-
Other	9,935,779	-	396,308
Due from other funds	4,000,000	-	562,972
Prepaid expenses	1,662,231	-	-
Total assets	**2,904,733,634**	**9,710,176**	**7,818,782**
LIABILITIES			
Liabilities:			
Accounts payable	2,227,803	12,369	-
Accrued liabilities	57,630	9,793	-
Claims payable	-	8,815,311	-
Due to other funds	-	10,716	529,612
Interfund loans payable	-	-	796,078
Due to depositories	-	-	83,142
Intergovernmental payable - other governments	-	-	2,423,076
Amounts held in custody for others	-	-	3,261,038
Payable for investments purchased	242,427,713	-	-
Other liabilities	-	-	725,836
Total liabilities	**244,713,146**	**8,848,189**	**$ 7,818,782**
Net assets held in trust for benefits & other purposes	**$ 2,660,020,488**	**$ 861,987**	
RECONCILIATION OF NET ASSETS HELD IN TRUST:			
Employees' pension benefits	$ 2,660,020,488	$ -	
Other purposes	-	861,987	
Net assets held in trust for benefits & other purposes	**$ 2,660,020,488**	**$ 861,987**	

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, 2004

	Pension Trust Funds	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS		
Contributions:		
Employer	$ 60,160,215	$ -
Plan member	42,409,184	-
Transfers from non-state systems	2,195,732	-
Total contributions	104,765,131	0
Investment Income:		
Net appreciation in fair value of investments	282,266,417	-
Dividends	25,132,474	-
Interest income	39,110,345	106,222
Securities lending income	1,704,651	-
Other income	769,642	-
Less Investment Expenses:		
Investment managers and consultants	(9,481,225)	-
Securities lending expenses	(1,327,936)	-
Net investment income	338,174,368	106,222
Escheat property remittances	-	9,668,524
Total additions	**442,939,499**	**9,774,746**
DEDUCTIONS		
Retirement benefits	114,435,183	-
Refunds of contributions	2,515,926	-
Death claims	478,080	-
Operating expenses	19,346,129	1,365,470
Transfers out	-	7,837,520
Total deductions	**136,775,318**	**9,202,990**
Change in net assets	**306,164,181**	**571,756**
Net assets held in trust for benefits & other purposes:		
beginning of fiscal year	**2,353,856,307**	**290,231**
end of fiscal year	**$ 2,660,020,488**	**$ 861,987**

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

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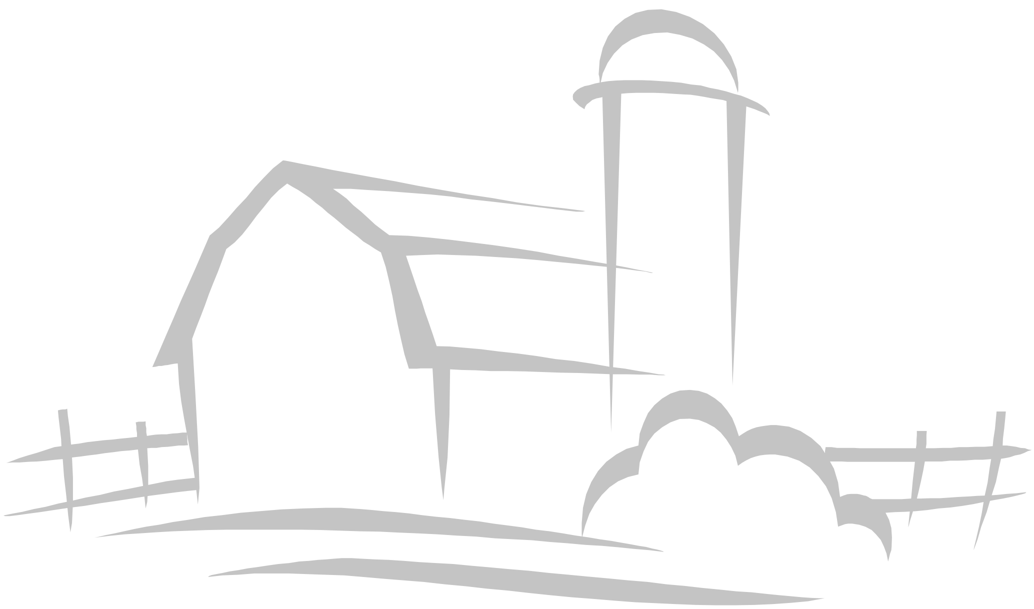

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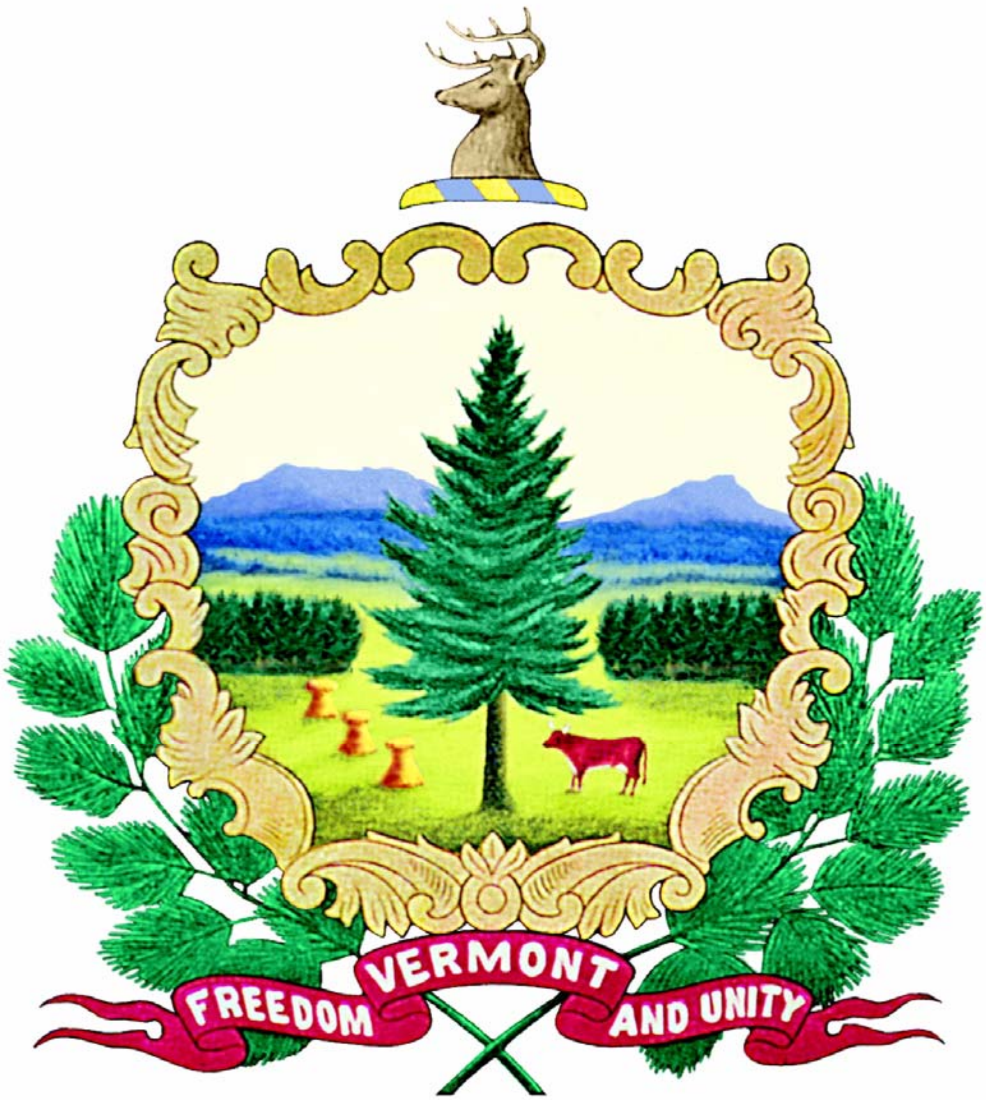

Component Unit Financial Statements

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2004

ASSETS	Vermont Student Assistance Corporation 06/30/2004	University of Vermont and State Agricultural College 06/30/2004	Vermont State Colleges 06/30/2004	Total Nonmajor Component Units	Total Component Units
Current Assets:					
Cash and cash equivalents	$ 341,276,000	$ 29,520,000	$ 9,783,463	$ 29,186,136	$ 409,765,599
Investments	95,000	79,268,000	15,475,542	11,633,217	106,471,759
Accounts receivable (net)	-	23,155,000	7,807,582	102,313	31,064,895
Accrued interest receivable - loans	33,941,000	-	-	10,417,063	44,358,063
Accrued interest receivable - investments	218,000	-	-	-	218,000
Loans and notes receivable - current portion	104,380,000	3,107,000	-	50,739,914	158,226,914
Other receivables	1,073,000	3,381,000	-	35,896	4,489,896
Due from federal government	446,000	-	-	14,832,920	15,278,920
Due from primary government	-	-	-	10,098	10,098
Inventories (at cost)	-	2,146,000	112,664	108,750	2,367,414
Prepaid expenses	-	11,061,000	-	8,934	11,069,934
Other current assets	1,389,000	-	994,882	301,322	2,685,204
Total current assets	**482,818,000**	**151,638,000**	**34,174,133**	**117,376,563**	**786,006,696**
Restricted and Non-Current Assets:					
Cash	-	7,086,000	763,557	2,800,788	10,650,345
Investments	-	302,664,000	25,124,829	58,051,734	385,840,563
Deferred bond issue costs	7,393,000	-	-	5,381,452	12,774,452
Loans and notes receivable (net)	1,171,854,000	29,025,000	4,940,434	502,514,261	1,708,333,695
Other assets	-	15,534,000	-	4,998	15,538,998
Total restricted and noncurrent assets	**1,179,247,000**	**354,309,000**	**30,828,820**	**568,753,233**	**2,133,138,053**
Capital Assets:					
Land	3,150,000	13,660,000	3,306,683	172,561	20,289,244
Construction in process	725,000	12,325,000	7,240,179	12,157	20,302,336
Building and leasehold improvements	721,000	310,539,000	92,419,889	11,932,272	415,612,161
Equipment, furniture and fixtures	6,158,000	94,719,000	5,724,560	2,522,904	109,124,464
Infrastructure	-	-	17,031,621	-	17,031,621
Accumulated depreciation	(4,430,000)	(190,323,000)	(72,277,216)	(10,528,579)	(277,558,795)
Total capital assets, net of depreciation	**6,324,000**	**240,920,000**	**53,445,716**	**4,111,315**	**304,801,031**
Total assets	**1,668,389,000**	**746,867,000**	**118,448,669**	**690,241,111**	**3,223,945,780**
LIABILITIES					
Current Liabilities:					
Accounts payable	3,117,000	12,414,000	8,287,659	770,335	24,588,994
Accrued salaries and benefits	-	24,837,000	-	1,159,137	25,996,137
Accrued interest payable	-	-	-	323,764	323,764
Bond interest payable	1,307,000	-	-	1,702,165	3,009,165
Deferred revenue	3,297,000	12,870,000	5,540,596	440,363	22,147,959
Accrued arbitrage rebate	2,560,000	-	-	473,757	3,033,757
Current portion - bonds, notes and leases payable	30,400,000	3,707,000	1,141,705	100,251,008	135,499,713
Due to primary government	-	-	-	8,321,285	8,321,285
Escrowed cash deposits	-	-	-	131,891	131,891
Other current liabilities	-	5,828,000	-	12,236,718	18,064,718
Total current liabilities	**40,681,000**	**59,656,000**	**14,969,960**	**125,810,423**	**241,117,383**
Restricted and Non-Current Liabilities:					
Bonds, notes and leases payable	1,519,994,000	176,648,000	39,599,023	413,592,007	2,149,833,030
Accounts payable and accrued liabilities	-	-	1,207,647	-	1,207,647
Accrued arbitrage rebate	6,044,000	-	-	688,841	6,732,841
Other liabilities	-	13,017,000	6,216,738	30,645	19,264,383
Advances from primary government	-	-	-	1,954,533	1,954,533
Total liabilities payable from restricted assets	**1,526,038,000**	**189,665,000**	**47,023,408**	**416,266,026**	**2,178,992,434**
Total liabilities	**1,566,719,000**	**249,321,000**	**61,993,368**	**542,076,449**	**2,420,109,817**
NET ASSETS					
Invested in capital assets, (net of related debt)	2,449,000	114,895,000	29,869,476	3,999,918	151,213,394
Restricted	48,405,000	286,780,000	9,544,030	102,268,841	446,997,871
Unrestricted - designated	-	-	-	30,000	30,000
Unrestricted	50,816,000	95,871,000	17,041,795	41,865,903	205,594,698
Total net assets	**$ 101,670,000**	**$ 497,546,000**	**$ 56,455,301**	**$ 148,164,662**	**$ 803,835,963**

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, 2004

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	$ 94,333,000	$ 59,562,000	$ 54,694,000	$ -	$ 19,923,000
University of Vermont	406,661,000	201,196,000	190,164,000	6,602,000	(8,699,000)
Vermont State Colleges	118,800,228	69,421,442	46,485,878	3,255,101	362,193
Total nonmajor component units	61,499,406	37,404,981	11,570,386	-	(12,524,039)
Total component units	$ 681,293,634	$ 367,584,423	$ 302,914,264	$ 9,857,101	(937,846)

General Revenues:	
Property transfer tax	12,604,000
Investment income	53,154,281
Additions to non-expendable endowments	116,197
Miscellaneous	89,043
Total general revenues	65,963,521
Changes in net assets	65,025,675
Net assets - beginning, restated	738,810,288
Net assets - ending	$ 803,835,963

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

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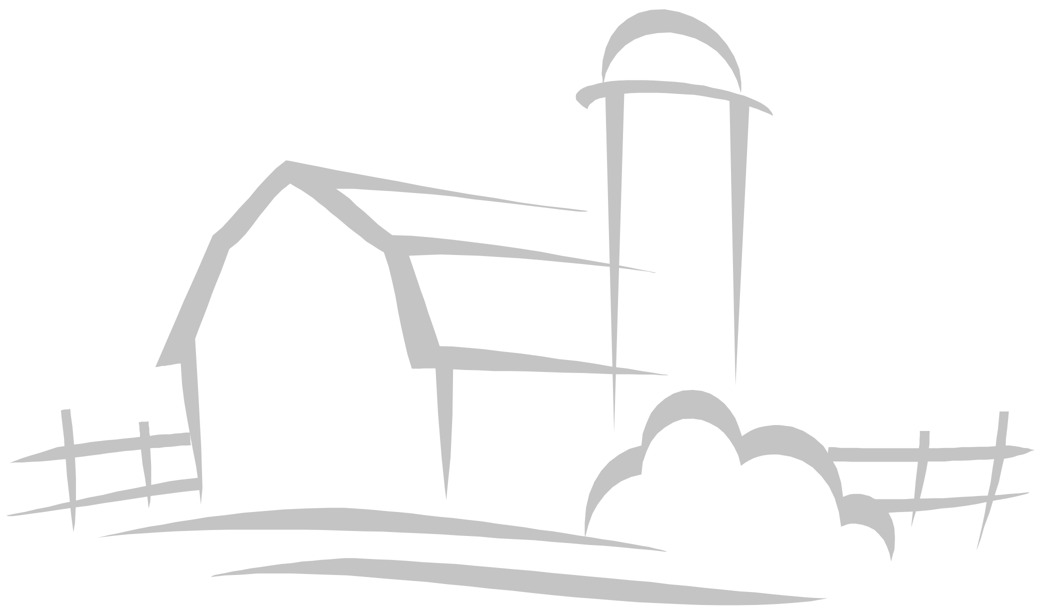

Vermont

State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2004

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 Statement No. 39 – "Determining Whether Certain Organizations Are Component Units" – an amendment to GASB Statement No. 14.

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, 2004.

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 accounting principles generally accepted in the United States of America, 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 and State Agricultural College (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 at 348 Waterman Building, Burlington, Vermont 05405.

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 VEDA 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 was 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 the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

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. Its 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.

In fiscal year 2004, Vermont implemented the requirements of GASB Statement No. 39 Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14. This statement provides additional guidance for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government and to clarify reporting requirements for them. Additionally, the State required its component units reported under GASB Statement No. 14 to review any of their associated organizations for inclusion in their financial statements. The results of their review can be seen in their individually audited financial statements.

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 discretely presented 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. Principal revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes.

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 accounting principles generally accepted in the United States of America 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 a major special revenue fund. It 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 is a major special revenue fund. It 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.

Special Fund – This fund is a major special revenue fund. It 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.

Federal Revenue Fund – This fund is a major special 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.

Fish and Wildlife Fund – This fund is a non-major special revenue fund. The 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.

Capital Projects Funds – These funds, consisting of the General Bond Fund and the Transportation Bond Fund, are non major governmental funds, 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 are non-major governmental funds that 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.

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. 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, federal grants receivable, and notes receivable from component units. Revenues accrued in the governmental funds financial statements consist primarily of accrued taxes, 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 are recorded as deferred revenues. Federal receivables are amounts due from the federal government to reimburse the State for expenditures incurred pursuant to federally funded programs. Federal grant revenues are accrued when the qualifying expenditure is incurred. 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 and Limited 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, 2004, but for which the receipts were received subsequent to June 30, 2004.

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, 2004, which were paid subsequent to June 30, 2004.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of June 30, 2004. 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 2003 calendar year and first and second quarter 2004 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, 2004 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2004. The amount reported as tax refunds payable at June 30, 2004 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2004 tax liability as well as overpayments for calendar year 2003 and prior years’ tax liabilities that have not been paid out as of June 30, 2004.

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.

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, 2004 is $38,786. Also reported as reserve for debt service is the premium on sale of bonds for general obligation bonds sold during the fiscal year. This portion of the reserve will be appropriated in the following fiscal year to be used on the first payment of principal or interest due on the bonds.

Reserve For Human Caseload Management- – The General Fund 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, 2004. Additional information including changes in balances may be found in Note 18 – 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.

TRANSFERS – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. 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 government-wide, proprietary and fiduciary funds’ statements, 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 accounting principles generally accepted in the United States of America 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.

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, 2004
Primary Government and Component Units

Cash and Cash Equivalents	$	1,077,722,212
Investments		3,094,635,678
Restricted Cash		16,626,695
Total	**$**	**4,188,984,585**
Deposits, Investments, and Reconciling Items		
Carrying Value of Deposits	$	605,415,445
Carrying Value of Investments		3,350,018,305
Cash on Hand		584,755
U.S. Treasury - Unemployment Account		232,966,080
Total	**$**	**4,188,984,585**

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 the State's 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 custodial 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 $232,966,080 at June 30, 2004 is on deposit with the U.S. Treasury and is not categorized.

At June 30, 2004, the State's deposits, listed by custodial credit risk category, are shown in the following schedule:

	Categories			Bank	Reported
	1	2	3	Balance	Amount
Primary Government	$ 4,960,822	$ 54,531,958	$ 144,859,520	$ 204,352,300	$ 184,999,501
Component Units	2,217,113	16,899,998	376,322,731	395,439,842	420,415,944
Total	**$ 7,177,935**	**$ $ 71,431,956**	**$ 521,182,251**	**$ 599,792,142**	**$ 605,415,445**

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 custodial 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, 2004 the State's investments, categorized by the custodial credit risk categories listed above, are shown in the following schedule:

INVESTMENTS

	Categories			Carrying
	1	2	3	Amount
Primary Government				
Stocks	$ 1,387,852,133	$ -	$ -	$ 1,387,852,133
U.S. Government Securities	532,656,260	-	-	532,656,260
Corporate Bonds and Notes	535,421,517	-	-	535,421,517
Other Investments		-	34,955,555	34,955,555
Subtotals	2,455,929,910	-	34,955,555	2,490,885,465
Not Categorized:				
Real Estate/Venture Capital	-	-	-	196,010,970
Mutual Funds	-	-	-	170,047,390
Lottery Annuity	-	-	-	760,089
Mortgages	-	-	-	2,069
Totals - Primary Government	$ 2,455,929,910	$ -	$ 34,955,555	$ 2,857,705,983
Component Units				
Stocks	$ 51,489,788	$ -	$ -	$ 51,489,788
U.S. Government Obligations	76,955,987	9,412,000	-	86,367,987
Corporate Bonds	12,950,655	2,486,000	-	15,436,655
Other	8,574,465	237,303,427	85,885,000	331,762,892
Subtotals	149,970,895	249,201,427	85,885,000	485,057,322
Not Categorized:				
Partnerships	-	-	-	6,950,000
Other	-	-	-	305,000
Total Component Units	$ 149,970,895	$ 249,201,427	$ 85,885,000	492,312,322
Total - Reporting Entity				**$ 3,350,018,305**

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 52 days at June 30, 2004. 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, 2004, the collateral held and the market value of the securities on loan for Vermont was $149,501,330 and $145,430,016, 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: INTERFUND BALANCES

A. Due From/To Other Funds

Due from/to other funds represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2004, are as follows.

	Due To Other Funds					
	Governmental Funds					
Due From Other Funds	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**	**Federal Revenue Fund**	**Nonmajor Governmental Funds**
General Fund	$ -	$ 13,894	$ -	$ 62,917	$ 56,067	$ 774
Transportation Fund	8,078	-	-	3,693	60,910	705
Education Fund	-	-	-	-	-	-
Special Fund	662,928	26,835	1,700	-	939,295	3,547
Federal Revenue Fund	140,405	569,742	-	1,149,431	-	-
Nonmajor Governmental Funds	-	-	-	9,836	-	-
Nonmajor Enterprise Funds	-	-	-	-	-	341
Internal Service Funds	20,000	-	-	-	-	30,000
Fiduciary Funds	4,181,688	366,260	-	-	2,282	-
Total	**$ 5,013,099**	**$ 976,731**	**$ 1,700**	**$ 1,225,877**	**$ 1,058,554**	**$ 35,367**

continues below

	Due To Other Funds					
	Enterprise Funds					
Due From Other Funds	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
General Fund	$ -	$ 342,907	$ -	$ -	$ 119,608	**$ 596,167**
Transportation Fund	-	-	-	-	402,871	**476,257**
Education Fund	-	-	14,452	-	-	**14,452**
Special Fund	-	-	-	108,346	5,022	**1,747,673**
Federal Revenue Fund	-	-	-	-	-	**1,859,578**
Nonmajor Governmental Funds	-	-	-	-	-	**9,836**
Nonmajor Enterprise Funds	20,732	-	-	-	-	**21,073**
Internal Service	-	-	-	575,973	85	**626,058**
Fiduciary Funds	-	-	-	-	497,366	**5,047,596**
Total	**$ 20,732**	**$ 342,907**	**$ 14,452**	**$ 684,319**	**$ 1,024,952**	**$ 10,398,690**

B. Advances To/From Other Funds

The General Fund has made cash advances to some proprietary funds for imprest petty cash disbursement needs. The General Fund advances to other funds at June 30, 2004, are summarized below.

Proprietary Funds	
Vermont Lottery Fund	$ 300,000
Liquor Control Fund	5,700
Nonmajor Proprietary Funds	2,900
Internal Service Funds	15,100
Total	**$ 323,700**

C. Interfund Receivables/Payables

Interfund receivables/payables represent amounts owed to the General Fund by the following funds at June 30, 2004, to eliminate negative cash balances in the State Treasurer's pooled cash.

Proprietary Funds	
Nonmajor Proprietary Funds	$ 395,457
Internal Service Funds	19,783,093
Fiduciary Funds	
Agency Funds	796,078
Total	**$ 20,974,628**

D. Inter - Primary Government/Component Unit Balances

Advances to Component Units/Advances from Primary Government

The General Fund advances to component units consists of $1,954,533 in advances to the Vermont Economic Development Authority.

Due from Component Units/Due to Primary Government

Due from component units consist of the amounts owed to the primary government for programs admistered by component units in accordance with memorandums of understanding with State departments and for the elimination of negative balances in the State Treasurer's pooled cash.

	Due to Component Units	Due to Primary Government		
	Transportation Fund	Vermont Housing & Conservation Trust Fund	Vermont Economic Development Authority	Total
Due from Component Units				
General Fund	$ -	$ 1,984,433	$ -	**$ 1,984,433**
Transportation Fund	-	-	1,730,673	**1,730,673**
Federal Revenue Fund	-	-	4,606,179	**4,606,179**
Due from Primary Government				
Vermont Transportation Authority	10,098	-	-	**10,098**
Total	**$ 10,098**	**$ 1,984,433**	**$ 6,336,852**	**$ 8,331,383**

E. Interfund Transfers

Transfers between funds occur when one fund collects revenues and transfers the assets to another for expenditure or when one fund provides working capital to another fund. All transfers are legally authorized by the Legislature through either statute or Appropriation Acts. Interfund transfers for the fiscal year ending June 30, 2004, are as follows.

	Transfer Out				
	Governmental Funds				
Transfers In	**General Fund**	**Transportation Fund**	**Special Fund**	**Federal Revenue Fund**	**Nonmajor Governmental Funds**
General Fund	$ -	$ -	$ 6,466,093	$ 10,570	$ 53
Transportation Fund	4,773,000	-	-	-	-
Education Fund	268,400,000	-	-	8,628,882	-
Special Fund	86,510,461	3,268,028	-	26,917,692	238,355
Federal Revenue Fund	-	-	47,928	-	1,993,984
Nonmajor Governmental Funds	482,000	349,052	45,523	-	-
Unemployment Compensation Trust Fund	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	-	-	-
Internal Service Funds	8,405,807	2,107,562	-	-	-
Total	**$ 368,571,268**	**$ 5,724,642**	**$ 6,559,544**	**$ 35,557,144**	**$ 2,232,392**

continues below

	Transfer Out				
	Enterprise Funds				
Transfers In	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**	**Nonmajor Enterprise Funds**	**Internal Service Funds**
General Fund	$ -	$ 337,051	$ -	$ -	$ -
Transportation Fund	-	-	-	-	-
Education Fund	-	-	19,580,527	-	-
Special Fund	-	-	40,000	-	2,382,985
Federal Revenue Fund	-	-	-	-	-
Nonmajor Governmental Funds	-	-	-	-	-
Unemployment Compensation Trust Fund	-	-	-	233,179	-
Nonmajor Enterprise Funds	302,503	-	-	-	-
Internal Service Funds	-	-	-	-	-
Total	**$ 302,503**	**$ 337,051**	**$ 19,620,527**	**$ 233,179**	**$ 2,382,985**

continues below

	Transfer Out	
Transfers In	**Fiduciary Funds**	**Total**
General Fund	$ 7,837,520	**$ 14,651,287**
Transportation Fund	-	**4,773,000**
Education Fund	-	**296,609,409**
Special Fund	-	**119,357,521**
Federal Revenue Fund	-	**2,041,912**
Nonmajor Governmental Funds	-	**876,575**
Unemployment Compensation Trust Fund	-	**233,179**
Nonmajor Enterprise Funds	-	**302,503**
Internal Service Funds	-	**10,513,369**
Total	**$ 7,837,520**	**$ 449,358,755**

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education and transfers from the Federal Revenue Fund for local school reimbursement of medicaid eligible costs.

The Special Fund received transfers from the General Fund for the State share of medicaid payments, and from the Federal Revenue Fund for the low income home energy assistance program and education medicaid reimbursements.

Note 4: Capital Assets:

Capital Assets activities for the fiscal year ended June 30, 2004 were as follows:

Primary Government

Governmental Activities	(Restated) Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 66,560,594	$ 415,417	$ -	$ -	$ 66,976,011
Construction in process	379,792,940	99,601,752	(85,795,001)	(957,038)	392,642,653
Works of Art	111,521	-	-	-	111,521
Total capital assets, not being depreciated	446,465,055	100,017,169	(85,795,001)	(957,038)	459,730,185
Capital assets, being depreciated:					
Buildings and improvements	254,680,544	45,656,439	(19,250)	(389,911)	299,927,822
Machinery and equipment	108,400,187	14,994,176	(7,795,887)	1,823,373	117,421,849
Infrastructure	1,055,288,493	41,526,262	-	(1,091,070)	1,095,723,685
Total capital assets, being depreciated	1,418,369,224	102,176,877	(7,815,137)	342,392	1,513,073,356
Less accumulated depreciation for:					
Buildings and improvements	(110,620,942)	(7,340,377)	-	56,407	(117,904,912)
Machinery and equipment	(58,796,958)	(13,601,239)	6,704,948	(225,634)	(65,918,883)
Infrastructure	(605,224,865)	(37,890,034)	-	166,430	(642,948,469)
Total accumulated depreciation	(774,642,765)	(58,831,650)	6,704,948	(2,797)	(826,772,264)
Total capital assets, being depreciated, net	643,726,459	43,345,227	(1,110,189)	339,595	686,301,092
Governmental activities capital assets, net	$ 1,090,191,514	$ 143,362,396	$ (86,905,190)	$ (617,443)	$ 1,146,031,277

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	1,142,379	139,640	(40,604)	(48,884)	1,192,531
Total capital assets, being depreciated	1,184,229	139,640	(40,604)	(48,884)	1,234,381
Less accumulated depreciation for:					
Buildings and improvements	(21,847)	(5,231)	-	-	(27,078)
Machinery and equipment	(628,612)	(172,997)	40,040	48,884	(712,685)
Total accumulated depreciation	(650,459)	(178,228)	40,040	48,884	(739,763)
Total capital assets, being depreciated, net	533,770	(38,588)	(564)	-	494,618
Business-type activities capital assets, net	$ 533,770	$ (38,588)	$ (564)	$ -	$ 494,618

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

Governmental Activities:	
General Government	$ 10,461,332
Protection to Persons and Property	2,725,648
Human Services	953,195
Employment & Training	131,591
General Education	21,278
Natural Resources	1,156,213
Commerce and Community Development	53,422
Transportation	38,314,155
Depreciation on Capital Assets held by the Internal Service Funds	5,014,816
Total	$ 58,831,650

Business-type Activities:	
Liquor Control	$ 141,785
Lottery Commission	33,783
Federal Surplus Property	2,660
Total	$ 178,228

Discretely Presented Component Units

	Beginning Balance	Additions	Deletions	Adjustments and Reclass-ifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 17,810,928	$ 3,358,000	$ (1,214,000)	$ 334,316	$ 20,289,244
Construction in process	652,886	21,900,080	-	(2,975,630)	19,577,336
Total capital assets, not being depreciated	18,463,814	25,258,080	(1,214,000)	(2,641,314)	39,866,580
Capital assets, being depreciated:					
Buildings and improvements	401,635,243	16,867,624	(2,102,000)	(279,016)	416,121,851
Machinery and equipment	100,563,276	9,717,289	(87,768)	(853,023)	109,339,774
Infrastructure	16,213,062	669,174	-	149,385	17,031,621
Total capital assets, being depreciated	518,411,581	27,254,087	(2,189,768)	(982,654)	542,493,246
Less accumulated depreciation	(260,727,276)	(17,160,973)	66,103	263,351	(277,558,795)
Total capital assets, being depreciated, net	257,684,305	10,093,114	(2,123,665)	(719,303)	264,934,451
Component unit capital assets, net	$ 276,148,119	$ 35,351,194	$ (3,337,665)	$ (3,360,617)	$ 304,801,031

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:

- 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),
- state police, law enforcement positions and airport firefighters hired after July 1, 2000 (Group C) with a contribution rate of 6.28% of payroll,
- judges (Group D) with a contribution rate of 5.1% of payroll,
- terminated vested members of the non-contributory system (Group E), and
- 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:

- 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),
- terminated vested members of the non-contributory system (Group B), and
- 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 14 years remaining (the liability will be fully amortized in fiscal year 2018).

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

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial evaluations.

Defined Contribution Retirement Plans

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

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. There were 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, 2004, plan member contributions were $592,028 and State employer contributions were $1,454,751, while members transferred $707,812 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2004, the Vermont State Defined Contribution Plan’s net assets totaled $31,300,521 and there were 577 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, 2004, plan participants and the municipalities each contributed $505,279 and $498,750 respectively, while members transferred $229,927 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2004, the Municipal Employees’ Defined Contribution Plan’s net assets totaled $7,649,735 and there were 479 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 State Treasurer, 133 State Street, Montpelier, Vermont 05633-6901.

B. Plan Membership

At June 30, 2004, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees:			
Vested	5,321	7,745	2,590
Non-vested	2,758	2,570	3,043
Total active employees	8,079	10,315	5,633
Retirees and beneficiaries of deceased retirees currently receiving benefits	3,833	4,386	1,099
Terminated employees entitled to benefits but not yet receiving them (vested)	819	3,084	210
Inactive members	968	560	2,438
Total participants	13,699	18,345	9,380

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	06/30/04	06/30/04	07/01/04
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	14 years	14 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%	1.5%-1.8%
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% Groups 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
1995	$ 29,245,040	69.70%	$27,451,926	65.86%	$ 3,045,585	100.00%
1996	24,221,934	88.52%	28,711,597	39.98%	3,365,821	100.00%
1997	24,098,495	99.48%	30,721,768	58.85%	3,541,692	100.00%
1998	22,597,786	103.67%	26,927,205	67.24%	3,665,833	100.00%
1999	23,268,197	98.66%	20,723,874	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	92.32%	4,984,484	100.00%
2003	24,715,309	98.70%	28,279,810	72.30%	5,854,111	100.00%
2004	29,023,431	91.81%	41,658,946	58.68%	6,616,630	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						
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	71,442	91.8%	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%
2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
STRS						
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	137,495	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%
2004	1,284,833	1,424,662	139,829	90.2%	453,517	30.8%
MERS						
1995	70,082	67,039	(3,043)	104.5%	79,056	-3.8%
1996	81,396	73,401	(7,995)	110.9%	68,700	-11.6%
1997	96,196	85,686	(10,510)	112.3%	70,800	-14.8%
1998	113,678	102,005	(11,673)	111.4%	87,328	-13.4%
1999	137,454	114,481	(22,973)	120.1%	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%
2004	232,890	225,092	(7,798)	103.5%	135,351	-5.8%

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 StateTeachers' Retirement System at June 30, 2004 were as follows:

	VSRS	STRS
Annual Required Contribution (ARC)	$29,023,431	$41,658,946
Interest on NPO	3,078,035	7,587,412
Adjustment to ARC	(3,375,039)	(8,677,279)
Annual Pension Cost (APC)	28,726,427	40,569,079
Employer Contribution Made	(26,645,619)	(24,446,282)
Increase (Decrease) in NPO	2,080,808	16,122,797
NPO - Beginning of Year	38,475,440	94,842,655
NPO - End of Year	$40,556,248	$110,965,452
Percentage of APC contributed	92.76%	60.26%

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 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, 2004, there were 1,530 STRS members and 1,199 VSRS members, with net assets of $99.8 million 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, 2004 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	$ 47,773,000	$ -	$ -	$ -
Grants and Scholarships	632,000	-	-	-
Project Commitments	-	-	-	20,247,041
Restricted- Nonexpendable	-	57,200,000	8,576,009	-
Restricted- Expendable	-	229,580,000	968,021	6,327,344
Loans Receivable (1)	-	-	-	75,694,456
Total Component Units Restricted Net Assets	$ 48,405,000	$ 286,780,000	$ 9,544,030	$ 102,268,841

(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 at June 30, 2004:

Fiscal Year	Non Cancelable Leases	Cancelable Leases	Primary Government Totals	Vermont State Colleges	Vermont Student Assistance Corporation	Non-major Component Units	Total Reporting Entity
2005	$ 7,798,550	$16,868	$ 7,815,418	$2,054,461	$629,000	$108,260	$10,607,139
2006	6,132,874	13,268	6,146,142	1,883,783	181,000	108,260	8,319,185
2007	4,478,298	4,920	4,483,218	1,327,177	-	81,360	5,891,755
2008	3,615,605	3,052	3,618,657	904,982	-	81,360	4,604,999
2009	2,781,244	2,750	2,783,994	169,914	-	8,063	2,961,971
2010 to 2015	1,327,033	3,400	1,330,433	258,722	-	-	1,589,155
Totals	$26,133,604	$44,258	$26,177,862	$6,599,039	$810,000	$387,303	$33,974,204

Capital Leases

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2004 are as follows:

Fiscal Year	Vermont State Colleges	Total Reporting Entity
2005	$66,705	$66,705
2006	55,372	55,372
2007	26,505	26,505
Total Minimum Lease Payments	148,582	148,582
Less: interest	(7,000)	(7,000)
Present value of minimum lease payments	$141,582	$141,582

The State of Vermont, acting through its Agency of Transportation (AOT) entered into a capital lease with Main Street Landing 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 PAYABLE:

General obligation bonds 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 bonds principal payable during fiscal year 2004 are summarized as follows:

		General Obligation Bonds
Balance, July 1, 2003		$ 473,785,874
Additions:		
Issuances	179,657,000	
Accretions	3,035,908	
Total		182,692,908
Deductions:		
Redemptions	50,495,000	
Defeased	136,860,000	
Total		(187,355,000)
Balance, June 30, 2004		$ 469,123,782

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 and have an accreted value of $14,983,137 at June 30, 2004.

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 $8,033,632 at June 30, 2004.

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 $22,820,014 at June 30, 2004.

Future general obligation debt service requirements at June 30, 2004 are as follows:

Fiscal Year	Current Interest Bonds Principal	Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2005	$ 41,985,000	$ 18,064,595	$ 7,400,000	$ 67,449,595
2006	39,852,000	16,547,679	7,410,000	63,809,679
2007	38,845,000	15,029,878	7,495,000	61,369,878
2008	37,355,000	13,455,736	7,500,000	58,310,736
2009	36,845,000	11,794,167	7,495,000	56,134,167
2010-2014	144,970,000	36,824,711	21,070,000	202,864,711
2015-2019	63,555,000	11,276,489	-	74,831,489
2010-2023	19,880,000	1,479,495	-	21,359,495
Totals	$ 423,287,000	$124,472,750	$ 58,370,000	$ 606,129,750

At June 30, 2004, there remains $41,000,868 of authorized but unissued general obligation bonds.

See following page for a schedule of general obligation bonds outstanding at June 30, 2004.

Note 9: BOND REFUNDINGS:

A. Bonds Defeased Through Refunding

As authorized by Vermont statutes, the State advance refunded certain general obligation bonds through the issuance of $137,457,000 of general obligation refunding bonds during fiscal year 2004. Net proceeds totaling $146,071,943 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, totaling $136,860,000, are considered to be defeased, of which $89,720,000 remain outstanding as of June 30, 2004. 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 $7,095,722 over the next 14 years (to February 1, 2018). Further, the State will experience an economic loss (the difference between the present values of the debt service payments to the refunded and refunding bonds) of $5,966,555.

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, 2004, $28,080,000 of these defeased bonds remains outstanding.

General Obligation Bonds outstanding at June 30, 2004 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 Sources of Payments General Fund	Transportation Fund	Special Fund	Maturity Value of Bonds Outstanding Total
General Obligation Current Interest Bonds:								
8/1/1992	8/1/2008	3.0 to 5.75	$ 71,280,000		$ 13,795,000	$ 310,000	$	$ 14,105,000
10/15/1993	4/15/2008	3.7 to 6.6	85,000,000		3,800,500	199,500		4,000,000
11/15/1994	1/15/2014	5.6 to 7.0	70,000,000		3,440,600	69,400		3,510,000
12/1/1995	1/15/2015	4.875 to 5.125	60,000,000		9,480,000			9,480,000
11/20/1996	1/15/2016	5.0 to 5.125	38,000,000		8,000,000			8,000,000
12/12/1996	1/15/2016	3.7 to 5.6	15,000,000		3,160,000			3,160,000
10/29/1997	1/15/2017	4.5 to 5.0	28,500,000		12,611,132	888,868		13,500,000
12/3/1997	1/15/2017	3.9 to 5.2	14,990,000		5,520,000			5,520,000
3/15/1998	1/15/2014	4.25 to 5.0	64,575,000		34,406,881	2,038,119	9,535,000	45,980,000
5/1/1998	1/15/2017	4.5 to 5.0	7,755,000				2,800,000	2,800,000
11/23/1998	1/15/2018	4.5 to 4.75	26,630,000		15,028,986	376,014		15,405,000
11/1/1999	2/1/2019	4.5 to 6.5	32,000,000		11,790,000			11,790,000
12/16/1999	2/1/2010	4.55 to 5.05	5,000,000		3,000,000			3,000,000
11/14/2001	8/1/2020	3.25 to 4.75	46,000,000		36,260,000			36,260,000
12/27/2001	8/1/2011	4.0 to 4.375	5,000,000		4,000,000			4,000,000
12/11/2002	8/1/2019	3.0 to 5.0	30,800,000		28,030,000			28,030,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		29,494,000	1,596,000		31,090,000
2/4/2003	8/1/2007	2.0 to 2.2	5,000,000		4,000,000			4,000,000
2/11/2004	2/1/2018	1.1 to 5.0	137,457,000		128,580,531	5,871,469	3,005,000	137,457,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		39,200,000	3,000,000		42,200,000
Total General Obligation Current Interest Bonds					**393,597,630**	**14,349,370**	**15,340,000**	**423,287,000**
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	48,935,000	28,780,000			28,780,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	10,280,000			10,280,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	19,310,000			19,310,000
Total Maturity Value					**58,370,000**			**58,370,000**
Less: Unaccreted Interest					12,533,218			12,533,218
Total General Obligation Capital Appreciation Bonds					**45,836,782**			**45,836,782**
Total General Obligation Bonds					**$ 439,434,412**	**$ 14,349,370**	**$ 15,340,000**	**$ 469,123,782**

Note 10: RESTATEMENT OF NET ASSETS

The Governmental Activities' June 30, 2003 net assets balance has been restated to correct an error in the prior year capital assets. The Agency of Transportation had included, net of depreciation, $92,440,424 of construction in progress and infrastructure assets owned by municipalities of the State. The net asset balance has been restated to remove these assets. The Agency of Transportation also identified, net of depreciation, $94,229,132 of construction in progress and infrastructure asset costs on projects that previously had not been classified as capital projects. The net asset balance has been restated to add these assets.

The Vermont State Colleges' June 30, 2003 net assets balance has been restated to correct an error in a prior year, in which the Federal Perkins refundable advance had been included with net assets for one of the Colleges. This correction resulted in a decrease of $1,544,745 in the component unit's beginning net assets balance.

	Governmental Activities		Vermont State Colleges
Balance June 30, 2003		$ 848,817,292	$ 55,217,264
Removal of municipal capital assets	($92,440,424)		
Add capitalization of projects	94,229,132	1,788,708	
Removal of Perkins refundable advance			(1,544,745)
Balance June 30, 2003, restated		$ 850,606,000	$ 53,672,519

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, 2004 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	$ -	$ -	$ -	$ 21,073	$ 21,073
Total other current assets	2,975,967	6,851,187	240,016,598	3,908,082	253,751,834
Total capital assets (net)	84,786	403,958	-	5,874	494,618
Total noncurrent & restricted assets	4,135,239	5,700	-	1,556,586	5,697,525
Total Assets	7,195,992	7,260,845	240,016,598	5,491,615	259,965,050
Due to other funds	14,452	342,907	20,732	-	378,091
Total other current liablilities	3,224,639	7,176,389	1,448,194	1,336,291	13,185,513
Total liabilites payable for restricted assets	3,259,067	5,700	-	641,348	3,906,115
Total Liabilities	6,498,158	7,524,996	1,468,926	1,977,639	17,469,719
Invested in capital assets	84,786	403,958	-	5,874	494,618
Restricted	-	-	238,547,672	-	238,547,672
Unrestricted	613,048	(668,109)	-	3,508,102	3,453,041
Total Net Assets	$ 697,834	$ (264,151)	$ 238,547,672	$ 3,513,976	$ 242,495,331
Condensed Statement of Revenues, Expenses and Changes In Net Assets					
Charges for sales/service	$ 92,380,975	$ 35,278,985	$ 40,190,153	$ 1,665,480	$ 169,515,593
Other operating revenues	8,107	1,386,562	18,350,388	938,195	20,683,252
Total Operating Revenues	92,389,082	36,665,547	58,540,541	2,603,675	190,198,845
Depreciation expense	33,783	141,785	-	2,660	178,228
Other operating expenses	72,282,715	36,089,306	99,549,897	2,716,033	210,637,951
Total Operating Expenses	72,316,498	36,231,091	99,549,897	2,718,693	210,816,179
Operating Income (Loss)	20,072,584	434,456	(41,009,356)	(115,018)	(20,617,334)
Non-operating revenues/(expenses)	(151,754)	16,303	14,636,982	16,568	14,518,099
Transfers in (out) - net	(19,620,527)	(337,051)	(69,324)	69,324	(19,957,578)
Changes in Net Assets	300,303	113,708	(26,441,698)	(29,126)	(26,056,813)
Beginning Net Assets	397,531	(377,859)	264,989,370	3,543,102	268,552,144
Ending Net Assets	$ 697,834	$ (264,151)	$ 238,547,672	$ 3,513,976	$ 242,495,331
Condensed Statement Of Cash Flows					
Net Cash Provided (Used) By:					
Operating activities	$ 20,725,699	$ 1,230,225	$ (41,852,424)	$ 112,039	$ (19,784,461)
Noncapital financing activities	(20,122,128)	(337,051)	-	(29,565)	(20,488,744)
Capital and related financing activites	(38,903)	(84,526)	-	-	(123,429)
Investing activities	384,630	656	14,559,515	93,694	15,038,495
Net increase (decrease) in cash and cash equivalents	949,298	809,304	(27,292,909)	176,168	(25,358,139)
Cash and cash equivalent - July 1	583,725	1,982,826	259,391,051	1,824,167	263,781,769
Cash and cash equivalent - June 30	$ 1,533,023	$ 2,792,130	$ 232,098,142	$ 2,000,335	$ 238,423,630

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 loans made by financial institutions 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 loans is also possible under the act that created the Authority. As of June 30, 2004, the Authority had mortgage insurance contracts totaling $10,614,367. 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, 2004 was $958,331. The State's net cash contribution since inception is $298,484.

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.

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.

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.

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, 2004 was $10,540,811, the General Fund's Budget Stabilization Reserve was $44,485,778 at June 30, 2004, and the Education Fund's Budget Stabilization Reserve at June 30, 2004, was $22,762,537.

Note 15: JOINT VENTURE

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission which is an interstate body, both corporate and politic, serving as a common agency of the party states and representing them both collectively and individually in the exercise of its powers and duties. The commission is composed of one member from each of the party states. Each state's lottery commission appoints one of its members to this position. The three-member commission annually elects a chairperson from among its members. The commission is empowered to operate and administer Tri-State Lotto and to promulgate rules and regulations governing the establishment and operation of the lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the commission. Fifty percent of the gross sales from each state are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

At June 26, 2004, the commission had total assets of $203,347,022 and total liabilities of $183,895,636. For the fiscal year ended June 26, 2004, the commission had operating revenues of $70,304,661; interest income of $86,909; commissions, fees, and bonus expenses of $8,620,552; prize awards of $34,958,856; provision for prize contingencies for $900,000; and other operating expenses of $3,961,412. During the fiscal year, the commission made operating transfers to member states of $22,850,750; which includes $1,896,406 transferred to Vermont.

Note 16: RISK MANAGEMENT

A. Workers' Compensation and Liability Risk Management

The Risk Management Division of the Department of Buildings and General Services administers all risk management for state government with the exception of the health and life insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The Risk Management Division sets aside assets and pays claims utilizing the following three Internal Service Funds for which settlements have not exceeded insurance coverage for the last three years:

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 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
FY 2004	15,488,977	4,778,463	5,796,437	14,471,003
State Liability Insurance Fund				
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
FY 2004	6,709,592	2,191,792	1,151,246	7,750,138
Medical Insurance Fund				
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
FY 2004	10,859,261	62,775,246	63,738,506	9,896,001
Dental Insurance Fund				
FY 2002	325,889	4,363,223	4,340,822	348,290
FY 2003	348,290	4,529,471	4,531,176	346,585
FY 2004	346,585	4,723,147	4,699,450	370,282

Medical Insurance Fund - The FY2004 Current FY Claims Payments column includes $4,090 credited as a claims refund of expenditure from the carrier.

NOTE 17: DEFICIT NET ASSETS

The following individual funds had deficit total net assets or deficit unrestricted net assets at June 30, 2004:

Business-type Proprietary Funds

Liquor Control Fund: had a deficit unrestricted net asset balance of $668,109 and a deficit total net asset balance of $264,151 at June 30, 2004. It had a net income before contributions and transfers of $450,759. Legislative transfer of $337,051 to the General Fund reduced its total net asset change (net income) to $113,708 at June 30, 2004. The June 30, 2003 total deficit of $377,859 was partially covered by the net income, leaving a deficit of $264,151.

This department has raised prices twice. The first increase was 1.5% in February 2004. The second price increase was 2% in November 2004. Sales are on the increase 8% for the first half of the 2005 fiscal year. There is a warehousing/distribution analysis study in the works by the Legislature that may highlight ways to be more cost effective. Management plans to have a positive fund balance by June 2005.

Federal Surplus Property: had a deficit unrestricted net asset balance of $331,695 and a deficit total net asset balance of $325,821 at June 30, 2004. The increase in the deficit in FY 2004 is not as large as the previous year due to lower operating costs. The fund deficit will be further reduced in future years through increased marketing of items available for sale at prices that will result in the fund breaking even.

Internal Service Funds

Financial & HR Information Fund: had a deficit unrestricted and a deficit total net asset balance of $608,834 at June 30, 2004. The fund began its second year of operation with a deficit unrestricted net asset balance of $559,697 and experienced an operating loss of $49,137 in its second year of operation. This deficit will be extinguished over the next several years primarily through rate increases and cost reduction measures.

Communications & Information Technology: had a deficit unrestricted net asset balance of $1,511,638 and a deficit total net asset balance of $597,963 at June 30, 2004. The fund deficit was reduced in FY 2004 from FY 2003 due to a net operating profit being generated in FY 2004. It is the plan of the department to eliminate this fund deficit over the next three to five years through normal operations and adjustments to rates charged to customers.

GOVNET Fund: had a deficit unrestricted net asset balance of $640,568 and a deficit total net asset balance of $321,528 at June 30, 2004. The fund deficit was reduced in FY 2004 from FY 2003 due to net income in FY 2004. The deficit is the result of inadequate billing on the part of GovNet for customer connections and devices. Proper billing in FY 2006 should reduce this deficit from normal operations over the next three to five years.

Copy Center Fund: had a deficit unrestricted net asset balance of $2,916,403 and a deficit total net asset balance of $532,478 at June 30, 2004. The fund deficit at the end of FY 2004 was largely due to losses on disposal of fixed assets. Depreciation schedules for copiers were 5 years even though copiers are replaced on a three-year cycle. The depreciation schedules have been adjusted for new copiers added in FY 2005. The remainder of the deficit is the result of holding copy rates flat for three fiscal years. The deficit will be eliminated through normal operations as copy rates are being adjusted in FY 2006.

Postage Fund: had a deficit unrestricted net asset balance of $432,017 and a deficit total net asset balance of $148,652 at June 30, 2004. A large part of the fund deficit is the result of a one-time loss on the disposal of fixed assets not fully depreciated. In addition, postal rates have been held flat for several fiscal years. Costs and the associated amounts billed to users have been dropping as the postal center has become more efficient with pre-sorting and bar coding. In the past, 100% of these cost savings have been passed on to customers. Beginning in FY 2006, rates will be adjusted so that a lesser share of the savings is passed on. The deficit will be eliminated over the next three to five fiscal years through normal operations.

Facilities Operations Fund: had a deficit unrestricted net asset balance of $1,444,983 and a deficit total net asset balance of $1,017,727 at June 30, 2004. A transfer of $8.4 million into the fund in FY 2004 reduced the outstanding deficit. The remaining deficit along with a current year loss resulted in the current deficit. Management plans to extinguish the deficit through normal operations over the next three to five fiscal years through aggressive management and requests to increase billings in future years.

Property Management Fund: had a deficit unrestricted net asset balance of $6,103,864 and a deficit total net asset balance of $6,089,484 at June 30, 2004. It had operating income of $464,068 for fiscal year 2004 but transferred $2,382,985 to the Special Fund for payment of bond principal and interest during fiscal year 2004 resulting in an increase in its total net asset deficit fund balance of $1.9 million. The fund deficit is a structural one resulting from a mismatch between twenty-year life bonds being used as a funding source for the purchase of fifty-year life buildings. Tenants' annual rents cover 100% of the interest costs plus 2% of the bond principal even though the bonds will be extinguished in twenty years. As a result, the 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 the last building is amortized in fiscal year 2049.

Risk Management All-Other Plan: had a deficit unrestricted net asset balance of $208,397 and a deficit total net asset balance of $207,338 at June 30, 2004. This fund's deficit balance is due to lower sales caused by a reduction in premiums billed by Risk Management. The program rates are set to recover program costs. Through aggressive management, the deficit will be eliminated over the next three to five fiscal years through normal operations and rates charged to departments.

Worker's Compensation Plan: had a deficit unrestricted net asset balance of $5,032,090 and a deficit total net asset balance of $5,016,199 at June 30, 2004. Fund deficit improved by $2.2 million due to a positive net income. The positive net income this year is mainly due to a change in actuarial estimates for the unfunded ultimate loss liability. The fund deficit is an actuarially derived figure. The General Assembly is currently looking how best to address the unfunded liability.

Note 18: CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2004, the following changes occurred in long-term liabilities:

PRIMARY GOVERNMENT

	July 1, 2003	Additions	Reductions	June 30, 2004	Amounts due within one year
Governmental activities:					
Bonds payable (1)	$ 473,785,874	$182,692,908	$187,355,000	$ 469,123,782	$ 49,385,000
Compensated absences	25,431,970	30,712,639	28,043,966	28,100,643	16,167,178
Claims and judgements	33,404,415	74,468,648	75,385,639	32,487,424	10,266,283
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligation	133,318,095	18,203,605	-	151,521,700	-
Other liabilities	2,317,790	10,936,198	958,131	12,295,857	958,131
Total governmental activities long-term liabilities	$ 675,258,144	$317,013,998	$291,742,736	$ 700,529,406	$ 76,776,592
Business-type activities:					
Compensated absences	$ 281,199	292,611	$ 268,436	$ 305,374	$ 181,122
Claims and judgements	3,256,533	-	3,256,533	-	-
Total business-type activities long-term liabilities	$ 3,537,732	$ 292,611	$ 3,524,969	$ 305,374	$ 181,122
Fiduciary:					
Compensated absences	$ 4,685	8,571	$ 8,434	$ 4,822	$ 3,048
Total fiduciary long-term liabilities	$ 4,685	$ 8,571	$ 8,434	$ 4,822	$ 3,048
COMPONENT UNITS					
Bonds and notes payable	$ 2,007,946,999	$501,134,018	$223,889,856	$ 2,285,191,161	$135,433,008
Capital leases payable	81,721	94,199	34,338	141,582	66,705
Accrued arbitrage rebate	14,058,515	764,166	5,056,083	9,766,598	3,033,757
Other liabilities	22,817,523	4,372,801	890,294	26,300,030	5,828,000
Total component units long-term liabilities	$ 2,044,904,758	$506,365,184	$229,870,571	$ 2,321,399,371	$144,361,470

(1) Governmental activities bonds payable additions include $3,035,908 of accretions on capital appreciation bonds.

Note 19: SUBSEQUENT EVENTS

Debt Issuance

The State issued $26,000,000 of 2005 Series A General Obligation Bonds dated March 2, 2005. Interest rates on these bonds vary from 3.0% to 4.0%. Payments to the bondholders are scheduled to commence March 1, 2006 and terminate March 1, 2025. The proceeds from this issuance will be used to fund capital improvements of the State authorized by the Legislature in Act 121 of 2004.

SUPPLEMENTARY INFORMATION

Required Supplementary Information
(Unaudited)

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
Revenues:				
Taxes	$ 880,948,000	$ 897,286,400	$ 929,080,648	$ 31,794,248
Licenses	2,500,000	2,400,000	2,850,717	450,717
Fines, Forfeits and Penalties	6,300,000	7,200,000	7,400,301	200,301
Earnings of Departments	10,500,000	10,500,000	10,467,439	(32,561)
Interest and Premiums	6,500,000	5,600,000	393,617	(5,206,383)
Other	1,252,000	913,600	365,788	(547,812)
Total Revenues	**908,000,000**	**923,900,000**	**950,558,510**	**26,658,510**
Expenditures:				
General Government	50,148,302	58,454,921	37,173,083	21,281,838
Protection to Persons and Property	65,685,228	70,195,499	68,388,700	1,806,799
Human Services	296,954,282	308,915,506	232,951,646	75,963,860
Employment and Training	1,107,259	1,625,005	1,187,426	437,579
General Education	117,617,228	120,607,730	117,314,072	3,293,658
Natural Resources	15,772,804	18,873,723	15,709,231	3,164,492
Commerce and Community Development	14,334,433	16,958,767	15,253,529	1,705,238
Debt Service	65,902,206	66,222,212	66,077,580	144,632
Total Expenditures	**627,521,742**	**661,853,363**	**554,055,267**	**107,798,096**
Excess of Revenues over Expenditures	**280,478,258**	**262,046,637**	**396,503,243**	**134,456,606**
Other Financing Sources (Uses):				
Proceeds from Sale Refunding Bonds	-	146,075,459	146,075,459	-
Operating Transfers In	-	20,591,456	20,591,456	-
Payment to Escrow Agent	-	(146,071,943)	(146,071,943)	-
Premium on Sale of Bonds	-	1,708,033	1,708,033	-
Operating Transfers Out	(345,414,643)	(368,571,271)	(368,571,271)	-
Total Other Financing Sources (Uses)	**(345,414,643)**	**(346,268,266)**	**(346,268,266)**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(64,936,385)**	**(84,221,629)**	**50,234,977**	**134,456,606**
Fund Balance, July 1	**60,918,932**	**60,918,932**	**60,918,932**	**-**
Fund Balance, June 30	**$ (4,017,453)**	**$ (23,302,697)**	**$ 111,153,909**	**$ 134,456,606**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ 139,200,000	$ 143,353,000	$ 143,991,576	$ 638,576
Licenses	54,500,000	54,700,000	57,241,786	2,541,786
Fines, Forfeits and Penalties	-	-	9,218,077	9,218,077
Earnings of Departments	-	-	4,438,646	4,438,646
Federal	173,463,052	178,217,521	129,769,796	(48,447,725)
Interest and Premiums	-	-	916	916
Other	19,512,000	16,300,000	6,156,127	(10,143,873)
Total Revenues	**386,675,052**	**392,570,521**	**350,816,924**	**(41,753,597)**
Expenditures:				
General Government	10,089,826	10,548,746	10,224,188	324,558
Protection to Persons and Property	29,007,815	29,664,048	29,280,434	383,614
Human Services	2,021,702	2,509,497	2,509,497	-
General Education	5,033,171	5,278,683	5,025,094	253,589
Natural Resources	1,119,543	1,452,289	1,096,498	355,791
Transportation	337,124,236	353,444,296	287,420,919	66,023,377
Debt Service	2,407,287	2,407,287	2,407,287	-
Total Expenditures	**386,803,580**	**405,304,846**	**337,963,917**	**67,340,929**
Excess of Revenues over (Under) Expenditures	**(128,528)**	**(12,734,325)**	**12,853,007**	**25,587,332**
Other Financing Sources (Uses):				
Operating Transfers In	-	4,773,000	4,773,000	-
Operating Transfers Out	(3,646,924)	(5,724,642)	(5,724,642)	-
Premium on Sale of Bonds	-	130,717	130,717	-
Total Other Financing Sources (Uses)	**(3,646,924)**	**(820,925)**	**(820,925)**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(3,775,452)**	**(13,555,250)**	**12,032,082**	**25,587,332**
Fund Balance, July 1	**1,400,201**	**1,400,201**	**1,400,201**	**-**
Fund Balance, June 30	**$ (2,375,251)**	**$ (12,155,049)**	**$ 13,432,283**	**$ 25,587,332**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ 567,684,000	$ 588,328,600	$ 603,772,960	$ 15,444,360
Earnings of Departments	2,600,000	2,400,000	2,490,600	90,600
Interest and Premiums	-	-	(231,996)	(231,996)
Total Revenues	**570,284,000**	**590,728,600**	**606,031,564**	**15,302,964**
Expenditures:				
General Education	875,390,069	876,959,536	875,093,495	1,866,041
Total Expenditures	**875,390,069**	**876,959,536**	**875,093,495**	**1,866,041**
Excess of Revenues over (Under) Expenditures	**(305,106,069)**	**(286,230,936)**	**(269,061,931)**	**17,169,005**
Other Financing Sources (Uses):				
Operating Transfers In	296,609,409	297,325,670	297,325,670	-
Total Other Financing Sources (Uses)	**296,609,409**	**297,325,670**	**297,325,670**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**(8,496,660)**	**11,094,734**	**28,263,739**	**17,169,005**
Fund Balance, July 1	**11,214,692**	**11,214,692**	**11,214,692**	**-**
Fund Balance, June 30	**$ 2,718,032**	**$ 22,309,426**	**$ 39,478,431**	**$ 17,169,005**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes	$ -	$ -	$ 130,841,505	$ 130,841,505
Licenses	-	-	11,918,256	11,918,256
Fines, Forfeits and Penalties	-	-	5,343,134	5,343,134
Earnings of Departments	-	-	55,459,848	55,459,848
Interest and Premiums	-	-	3,468,737	3,468,737
Other	-	-	100,018,430	100,018,430
Special Fund Revenues	315,153,325	352,305,151	-	(352,305,151)
Total Revenues	**315,153,325**	**352,305,151**	**307,049,910**	**(45,255,241)**
Expenditures:				
General Government	8,256,651	17,526,199	11,386,143	6,140,056
Protection to Persons and Property	48,023,414	57,194,957	51,059,488	6,135,469
Human Services	269,126,020	286,530,125	260,050,302	26,479,823
Employment and Training	3,123,723	3,418,201	2,499,482	918,719
General Education	16,582,432	16,699,175	15,058,038	1,641,137
Natural Resources	28,732,543	30,515,534	27,617,947	2,897,587
Commerce and Community Development	6,123,035	8,597,323	4,978,767	3,618,556
Transportation	1	810,958	286,937	524,021
Public Service Enterprises	10,792	2,009,543	1,931,855	77,688
Debt Service	2,382,985	2,382,985	2,382,985	-
Total Expenditures	**382,361,596**	**425,685,000**	**377,251,944**	**48,433,056**
Excess of Revenues over (Under) Expenditures	**(67,208,271)**	**(73,379,849)**	**(70,202,034)**	**3,177,815**
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	-	478,989	478,989	-
Operating Transfers In	78,162,953	139,210,491	139,210,491	-
Operating Transfers Out	(45,189)	(23,238,468)	(23,238,468)	-
Total Other Financing Sources (Uses)	**78,117,764**	**116,451,012**	**116,451,012**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**10,909,493**	**43,071,163**	**46,248,978**	**3,177,815**
Fund Balance, July 1	**61,340,629**	**61,340,629**	**61,340,629**	**-**
Fund Balance, June 30	**$ 72,250,122**	**$ 104,411,792**	**$ 107,589,607**	**$ 3,177,815**

The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FEDERAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
Revenues:				
Federal	$ 894,797,734	$ 1,046,728,908	$ 992,201,611	$ (54,527,297)
Interest and Premiums	-	-	74,627	74,627
Other	-	-	4,041,725	4,041,725
Total Revenues	**894,797,734**	**1,046,728,908**	**996,317,963**	**(50,410,945)**
Expenditures:				
General Government	2,175,142	2,593,482	2,083,565	509,917
Protection to Persons and Property	41,758,841	55,531,842	38,578,959	16,952,883
Human Services	709,005,433	811,775,533	771,494,178	40,281,355
Employment and Training	25,063,952	25,154,624	23,769,703	1,384,921
General Education	93,891,391	105,835,359	104,032,132	1,803,227
Natural Resources	12,842,023	23,954,723	20,511,511	3,443,212
Commerce and Community Development	10,060,952	21,883,345	9,399,945	12,483,400
Total Expenditures	**894,797,734**	**1,046,728,908**	**969,869,993**	**76,858,915**
Excess of Revenues over Expenditures	**-**	**-**	**26,447,970**	**26,447,970**
Other Financing Sources (Uses):				
Operating Transfers In	-	47,928	47,928	-
Operating Transfers Out	-	(35,557,144)	(35,557,144)	-
Total Other Financing Sources (Uses)	**-**	**(35,509,216)**	**(35,509,216)**	**-**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**-**	**(35,509,216)**	**(9,061,246)**	**26,447,970**
Fund Balance, July 1	**26,378,268**	**26,378,268**	**26,378,268**	**-**
Fund Balance, June 30	**$ 26,378,268**	**$ (9,130,948)**	**$ 17,317,022**	**$ 26,447,970**

The accompanying notes are an integral part of the required supplementary information.

Notes to Required Supplementary Information - Budgetary Reporting
For the fiscal year ended June 30, 2004
(Unaudited)

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 fiscal year ended June 30, 2004.

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund
Fund Balance - Budgetary Basis	$ 111,153,909	$ 13,432,283	$ 39,478,431	$ 107,589,607	$ 17,317,022
Basis of accounting and reporting entity differences:					
To record cash on hand, restricted cash, market value of investments	-	2,013,202	-	225,671	4,058
To record taxes receivable	147,440,031	9,168,534	13,750,194	3,398,866	-
To record loans/notes receivable, due from other funds, and other receivables	2,073,272	6,537,915	14,452	15,531,325	13,872,415
To record due from federal government	-	17,860,665	-	-	119,909,006
To record accounts and retainage payable, accrued liabilities, deferred revenue	(100,315,116)	(29,119,592)	(12,270,068)	(59,515,094)	(113,624,837)
To record tax refunds payable	(784,912)	-	-	-	-
To record due to other funds	(5,013,099)	(976,731)	(1,700)	(1,225,877)	(1,058,554)
To record due to component units	-	(10,098)	-	-	-
To record effects of blended component units	-	2,537,134	-	3,525,000	21,263,349
To record removal of discretely presented component unit	171,711	-	-	(1,031,854)	267,116
Fund Balance - GAAP Basis	$ 154,725,796	$ 21,443,312	$ 40,971,309	$ 68,497,644	$ 57,949,575

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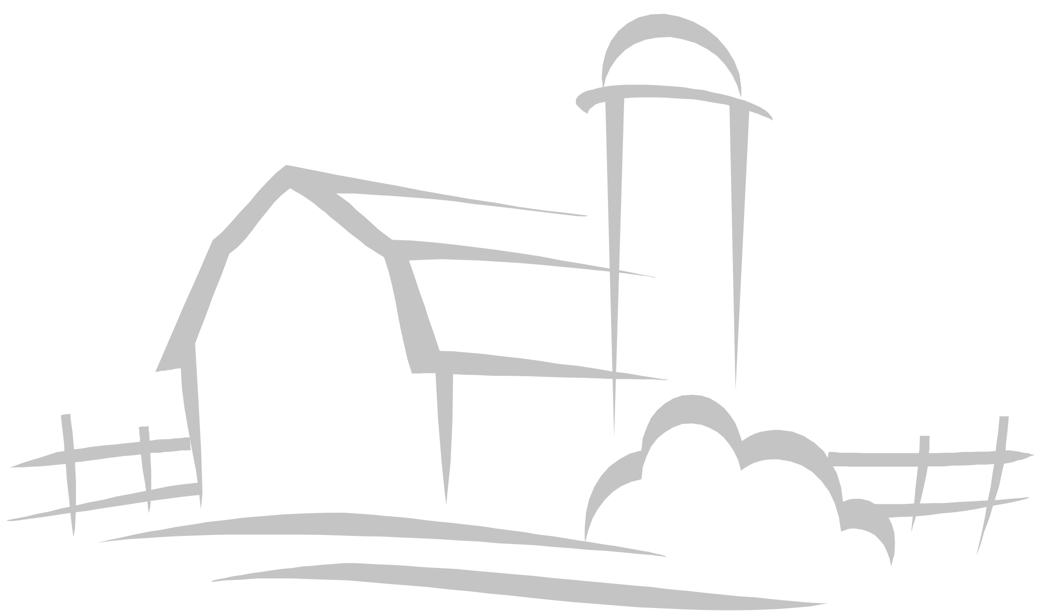

Vermont

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 $30,000,000 General Obligation Bonds, 2005 Series D (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, 2005 (to be filed no later than June 30, 2006), 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 November __, 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: $30,000,000 General Obligation Bonds, 2005 Series D

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

FORM OF BOND COUNSEL OPINION

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PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

(Date of Delivery)

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

$30,000,000
State of Vermont
General Obligation Bonds, 2005 Series D
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.

EDWARDS ANGELL PALMER & DODGE LLP

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