New Issue – Book Entry Only

Ratings: *Moody's: Aaa*
Fitch: AA+
S&P: AA+
(See "RATINGS" herein)

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, 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 and is not 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 EXEMPTION" herein.

$50,500,000
STATE OF VERMONT
General Obligation Bonds
2009 Series A

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

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

Interest on the Bonds will be payable semiannually on March 1 and September 1, commencing September 1, 2009. 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.

2009 Series A Bonds

Due March 1	Principal Amount	Interest Rate	Yield	CUSIP Number†	Due March 1	Principal Amount	Interest Rate	Yield	CUSIP Number†
2010	$2,525,000	2.00%	0.62%	924258 SJ6	2020	$2,525,000	5.000%	3.50%*	924258 SU1
2011	2,525,000	2.00	1.30	924258 SK3	2021	2,525,000	5.000	3.77*	924258 SV9
2012	2,525,000	3.00	1.59	924258 SL1	2022	2,525,000	5.000	3.88*	924258 SW7
2013	2,525,000	3.00	1.95	924258 SM9	2023	2,525,000	4.000	4.02	924258 SX5
2014	2,525,000	2.25	2.31	924258 SN7	2024	2,525,000	4.100	4.18	924258 SY3
2015	2,525,000	2.50	2.50	924258 SP2	2025	2,525,000	4.200	4.30	924258 SZ0
2016	2,525,000	4.00	2.67	924258 SQ0	2026	2,525,000	4.250	4.39	924258 TA4
2017	2,525,000	5.00	2.89	924258 SR8	2027	2,525,000	4.375	4.46	924258 TB2
2018	2,525,000	3.00	3.04	924258 SS6	2028	2,525,000	4.500	4.55	924258 TC0
2019	2,525,000	5.00	3.25	924258 ST4	2029	2,525,000	4.500	4.60	924258 TD8

The Bonds are offered when, as and if issued by the State and accepted by the Underwriters, 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 Underwriters by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about March 11, 2009.

Citi
Morgan Stanley

March 3, 2009

 The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the State does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

* Priced at the stated yield to the March 1, 2019 redemption price of 100%. See "THE BONDS – Optional Redemption" herein

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*

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

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

STATE OF VERMONT

$50,500,000
GENERAL OBLIGATION BONDS
2009 SERIES A

INTRODUCTORY STATEMENT

This Official Statement of the State of Vermont (the "State"), including the cover page and appendices, is provided for the purpose of presenting certain information relating to the State in connection with the sale of $50,500,000 aggregate principal amount of its General Obligation Bonds, 2009 Series A (the "Bonds").

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

Payment and Security for the Bonds

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

THE BONDS

Description of the Bonds

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

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $1,000 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 Institutional Trust People's United Bank (formerly Chittenden Trust Company), Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on March 1 and September 1, commencing September 1, 2009, 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.

Act 52 of 1989		
Section 8	Natural Resources – Various Projects	$9,426
Act 276 of 1990		
Section 10	Natural Resources – Various Projects	113,770
Act 93 of 1991		
Section 11	Natural Resources – Various Projects	202,148
Act 148 of 1998		
Section 13	Natural Resources – Various Projects	40,211
Act 148 of 2000		
Section 23	Agriculture, Food and Markets – Non-Point Source Pollution Grants	10,630
Act 61 of 2001		
Section 14	Criminal Justice and Fire Service Training Councils	118,177
Section 15	Agriculture, Food and Markets – Non-Point Source Pollution Grants	192,469
Act 149 of 2002		
Section 4	Commerce and Community Development – Historic Site Renovations	946
Section 8	Natural Resources – Dam Maintenance and Construction	35,082
Section 13	Agriculture, Food and Markets – Non-Point Source Pollution Grants	86,644
Act 63 of 2003		
Section 4	Commerce and Community Development – Various Projects	2,567
Section 8	Natural Resources – State-owned Dams	28,201
Section 10	Vermont Veterans Home – Various Projects	3,319
Act 121 of 2004		
Section 10	Natural Resources – Various Projects	39,768
Act 43 of 2005		
Section 9	Natural Resources – Green Mountain Club	27,788
Act 147 of 2006		
Section 10	Natural Resources – Various Projects	1,175,811
Act 52 of 2007		
Section 1	State Buildings – Various Projects	1,000,000
Section 11	Natural Resources – Water Pollution Grants	2,200,000
Act 200 of 2008		
Section 1	State Buildings – Various Projects	8,424,047
Section 2	Taxes – Digital Mapping Equipment	100,000
Section 4	Human Services – Various Projects	1,480,770
Section 5	Judiciary – Security Improvements	719,676
Section 6	Building Communities Grants	964,000
Section 7	Commerce and Community Development – Various Projects	460,000
Section 8	Education – Various Projects	3,979,903
Section 9	Austine School – Building Renovations	50,000
Section 10	University of Vermont – Building Projects	1,600,000
Section 11	Vermont State Colleges – Building Projects	1,600,000
Section 12	Natural Resources – Various Projects	5,791,577
Section 13	Military – Maintenance Projects	350,000
Section 14	Public Safety – Various Projects	115,000
Section 15	Fire Service Training – Various Projects	1,970,000
Section 16	Agriculture, Food and Markets – Various Projects	808,000
Section 17	Vermont Public Television – Technology Upgrade	500,000
Section 18	Vermont Interactive Television – Equipment Upgrade	250,070
Section 19	Vermont Rural Fire Protection – Dry Hydrant Program	100,000

Section 20	Vermont Veterans Home – HVAC Renovations	700,000
Section 21	Vermont Center for Crime Victim Services	50,000
Section 22	Transportation Funding – Program Development	5,200,000
Section 27	Transportation Fund – Capital Projects	10,000,000
		$50,500,000

Security for the Bonds

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

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

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

Record Date

The record date for each payment of interest is the fifteenth (15th) day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Optional Redemption

The Bonds maturing on and prior to March 1, 2019 will not be subject to redemption prior to maturity.

The Bonds maturing after March 1, 2019 will be subject to redemption prior to maturity, at the option of the State, on and after March 1, 2019, 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 and bearing interest at a particular interest rate 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 or in any customary manner as the State in its discretion may determine.

Notice of redemption of Bonds, specifying the maturities, CUSIP numbers 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 ("DTC"), New York, New York, 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, the world's largest depository, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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"). DTC has Standard and Poor's highest rating: AAA. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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. Beneficial Owners are, however, 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 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 or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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 MMI 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).

Redemption proceeds, distributions and dividend 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 redemption proceeds, distributions and dividend payments 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 or 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 to DTC.

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 EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action that 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 sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The State cannot and does not give any assurance that DTC will distribute to Participants, or that Participants or others will distribute to Beneficial Owners, payments of principal of, interest and premium, if any, on the Bonds, or any other notice or that they will do so on a timely basis or will serve or act in the manner described in this Official Statement. The State is not responsible or liable for the failure of DTC or any Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

STATE GOVERNMENT

Governmental Organization

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

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

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

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Human Resources, the Department of Information and Innovation, the Office of the Chief Information Officer, the Department of Libraries, the Department of Buildings and General Services, and for the next 18 months, the Vermont Federal Recovery Office.

(2) Agency of Transportation: The Agency of Transportation consists of four functional divisions that are responsible for the planning, design, construction, maintenance and operation of state highways, railroads, and airports, plus 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, the Office of the Chief Marketing Officer 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), Mental Health (DMH), Children and Families (DCF), the Office of

Health Access (OVHA), the Office of Health Care Reform Implementation, 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 Defender General; 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 five 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 two hearing officers appointed by the Administrative Judge. The Probate Court has 18 districts in the State, each with a Probate Judge elected by the electorate of their respective districts for terms of four years.

There are 14 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 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 2008 show that Vermont's population grew by an estimated 522 persons between 2007 and 2008, representing a 0.08% rate of increase. That rate of increase was slower than both the 0.9% rate of increase in population for the nation as a whole between 2007 and 2008, and the 0.3% rate of population increase experienced for the New England region. Vermont experienced a growth of an estimated 58,512 persons (rounded) between 1990 and 2008, representing an average annual rate of 0.6% per year. That represented a slightly faster annual rate of increase over the 1990-2008 timeframe than the 0.4% 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 1.1% per year over the same period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970-2008

	----------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]
2008	621	0.1%	14,304	0.3%	304,060	0.9%
2007	621	0.1	14,259	0.2	301,290	1.0
2006	620	0.2	14,233	0.1	299,398	1.0
2005	619	0.3	14,208	0.1	296,507	1.0
2004	618	0.4	14,202	0.2	293,638	1.0
2003	617	0.4	14,181	0.4	290,796	0.9
2002	615	0.5	14,126	0.6	288,126	1.0
2001	612	0.5	14,043	0.7	285,227	1.4
2000	610	0.8	13,953	0.5	281,422	1.2
1990	565	1.0	13,229	0.7	248,710	0.9
1980	513	1.4	12,372	0.4	227,225	1.1
1970	446	--	11,878	--	203,792	--

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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 2001 through 2008, 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 indicate that in 2007 the median age of the Vermont population was 40.6 years, 3.9 years older than the national average median age of 36.7 years. Among the various age groupings, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 78.8% of the State's population versus 75.5% of the total population of the United States) in 2007. The State also had a concentration that was slightly higher than the New England regional average in that over 18 years age group in 2006 (at 78.8% for Vermont versus 77.6% 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 5.8% of the New England regional population) and U.S. average (at 6.9% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 13.5% of the State population) in 2007 was slightly higher than that for the U.S. population as a whole (at 12.5% of the U.S. population overall) in 2007, and the same as the New England average (at 13.5% of the total). In addition, the percentage of Vermont's population in 2007 aged 45-64 years (at 29.9% of the State's population) was significantly higher than both the percentage of the New England regional population (at 27.5% of the total) and the U.S. population overall (at 25.4% of the total) in 2007. Vermont had an equal percentage of its population in the 85 years and older category (at 1.7% of the State total) relative to the U.S. population (at 1.7% of the U.S. population) in 2007, but a slightly lower percentage than the New England region overall (at 2.1% of the New England regional population) in 2007.

The Vermont population in 2007 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 (2007). Table 2 shows that a total of 90.3% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 5th among the 50 states, and more than five percentage points higher than the national average of 84.5% of the U.S. population aged 25 years and older. In addition, a total of 33.6% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont 7th 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 27.5% of U.S. residents aged 25 years and over with a four-year college degree by over six percentage points.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2007

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	90.3%	5th	84.5%
COLLEGE:			
Bachelor's Degree or More	33.6%	7th	27.5%

SOURCE: U.S. Department of Commerce, Bureau of the Census; American Community Survey.

Data from the 2000 Census (the latest data available) also indicate that Vermont's population remains primarily rural. A total of 61.8% 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 double the national average percentage of persons living outside of metropolitan areas (21.0%), and was over three 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	222,361	79.0%	59,061	21.0%
Northeast	45,226	80.6	8,368	19.4
New England	11,220	84.4	2,702	15.6
Vermont	232	38.2	376	61.8

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

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. These values are then used as one of the primary factors to determine each municipality's school 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 municipalities' 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 real estate sales or property appraisals and deriving the ratio representing the level of appraisal for each municipality. The resulting estimates of full property value 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.

Changes in the composition of the grand list under Act 60 also reduced the value of total taxable property for funding schools. This resulted primarily from the exemption of personal property such as machinery and equipment from the education property tax.

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 2007. The State experienced a significant increase in estimated fair market value between 2002 and 2007 in part due to strong price appreciation in residential and second home markets. The estimates from 1997 – 2007 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
1990–2007

Equalization Date As of April 1,	Fair Market Value
2007**	$79,214,611,562
2006**	72,513,809,335
2005**	64,306,356,880
2004**	56,756,181,626
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 estimated fair market value of property exempted due to enrollment in the Current Use Program was $744.8 million in 1997, $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, $1,205.0 million in 2003, $1,661.1 million in 2004, $1,853.7 million in 2005, $2,155.0 million in 2006 and $2,458.8 million in 2007.

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 Economy.com National Economic Forecast Assumptions" herein that is provided by Moody's Economy.com of West Chester, Pennsylvania, as adjusted by the consensus revenue forecasting process between Economic & Policy Resources, Inc. (the economist for the Administration) and the economist for the State's Joint Fiscal Office. 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, as adjusted during the consensus revenue forecasting process. For more information on the consensus revenue forecasting process, see "REVENUE ESTIMATES" herein.

The U.S. Economic Situation: The widespread weakness in housing has led to a full-fledged national—if not global—economic recession. What began as a selective downturn that was primarily concentrated in housing, credit, and housing-credit dependent sectors of the economy has now spread across nearly all sectors of the economy and now encompasses nearly all states and metro areas. During the last four months of calendar year 2008, the spreading economic weakness was particularly pronounced as the crisis in financial markets worsened. Despite unprecedented intervention using both monetary and fiscal policy tools, economic conditions and virtually all leading indicators of the U.S. economy continued to erode. Activity in money and credit markets remains constrained and abnormal. Consumer and business confidence, business investment spending, and consumer spending (which represents more than 2/3 of all economic activity) have all declined to recessionary levels.

The persistence of the on-going declines in these and nearly all of the economy's leading indicators indicates that the recession has not yet begun to approach a bottom. At 14 months old, the current recession has lasted longer than ten of the past twelve recessions dating back to the early 1930s. The last two U.S. economic recessions lasted only eight months (including March 2001 to November 2001 and July 1990 to March 1991[1]), and the shortest national economic downturn since the early 1930s lasted only six months (January 1980 to July 1980). The two longest national recessions lasted 16 months each (July 1981 to November 1982 and November 1973 to March 1975). With no bottom to the current recession likely in the near-term, the current downturn will establish a new post-1930s Depression record for length in May 2009 when the current recession reaches its 17th month. In contrast, the Great Depression lasted a total of 43 months (August 1929 to March 1933).

Perhaps nowhere is the worsening of the U.S. recession more evident than in national labor markets. The December job market report showed that the U.S. economy lost another 524,000 jobs—following on the revised 584,000 payroll job loss total for the month of November. Job losses were broad-based, with the drop in manufacturing particularly pronounced. Moreover, nearly all of the country's 50 states and a clear majority of the nation's metro areas are in recession. For all of calendar year 2008, nonfarm payroll jobs shrank by a total of 2.6 million jobs—the worst payroll job change performance since 1945—the year when World War II ended. This performance pushed the national unemployment rate up to 7.2%, a 16-year high. A total of 1.9 million payroll jobs were lost over the final four months of calendar year 2008, indicating that just under 75% or three of every four payroll jobs lost during calendar year 2008 were lost during the September to December time frame.

In many ways, calendar year 2009's economic performance is likely to be the worst since the 1930s. The U.S. economy will continue to struggle as housing markets, money and credit markets, and the household sector go through what has turned out to be an especially disruptive "de-leveraging" process, in which proceeds from the sales of assets are used to pay down debt. The direct and indirect impacts of the de-leveraging process have been very disruptive to credit flows, business investment activity, asset valuations (particularly residential and commercial real estate asset values), and consumer spending. This is true despite the unprecedented level of support from monetary policy. Conditions in money and credit markets remain far from normal. Credit flows such as those for inter-bank lending, and loans for homes, cars and other big-ticket items remain at very low levels, which continue to constrict economic activity. Until money and credit markets return to a more normal level of functioning and consumers have both the capacity and the will to spend before jobs and income rise once again, the U.S. economy will continue to

[1] In terms of the Vermont economy, the downturn in the early 1990s, which actually began in 1989:Q2 and lasted until 1991:Q2, was a much deeper and longer downturn for the State than for the U.S.

require significant levels of federal intervention. This federal intervention has so far included the adoption of a near zero-interest rate policy for overnight inter-bank lending, massive liquidity injections by the Federal Reserve that have begun to help unclog money markets and two major federal stimulus packages. According to most mainstream economic analysts, both federal stimulus packages are needed in order to prevent U.S. economic conditions from deteriorating further (see "The Moody's Economy.com National Economic Forecast Assumptions" below).

On February 17, 2009, President Obama signed the second federal stimulus package, known as the American Recovery and Reinvestment Act (the "ARRA"), into law. The legislation is a record $787 billion package of federal spending on infrastructure, renewable energy projects, health care, aid to state governments, and income maintenance programs such as food stamps and unemployment benefits. The package also includes a $400 per worker tax credit for individuals ($800 for couples) and an assortment of other tax incentives.

A package of this scale and timing is an important component of a comprehensive set of steps that have been and will likely continue to be taken by the President, Congress and the Federal Reserve to offset the economic damage already done by the still unfolding housing and subprime mortgage crisis. To date, roughly three million homeowners have lost homes in various forms of foreclosure and short sales. Considering the continued decline in home prices and rising levels of unemployment throughout the country, foreclosures are likely to continue to accelerate during calendar year 2009, potentially increasing pressures on money and credit markets and thereby adding to the severity of the current recession.

Even though the unprecedented monetary and fiscal stimuli may bring the U.S. recession to an end later in this calendar year, the economy's performance in calendar years 2009 and 2010 may also depend on several other factors. First are prospects for a 2009 or 2010 recovery from the now deepening global economic recession. Real U.S. exports, a strong source of aggregate demand for much of calendar year 2008, are expected to be flat in calendar year 2009 and could perform much worse if global markets do not begin their recovery by late 2009. Central banks around the world are working to address their slumping economies, and large stimulus packages are under consideration in countries from Western Europe to China.

Second is the continuation of low prices for oil and other commodities. Just as the increase in energy prices over the first half of calendar year 2008 was a heavy burden on businesses and households, the recent declines in oil, gasoline, and other commodities will provide a considerable positive stimulus to the economy if they continue to remain comparatively low. This will be needed to offset at least a part of the decline in jobs and income to be experienced over the period. If oil, gas or other commodities prices increase substantially, this would represent an especially heavy burden for the U.S. economy over the next one to two years.

Third, the continuation of low interest rates is essential if the U.S. economy is to begin to recover by early in calendar year 2010. Global investors still regard the U.S. financial system as the world's safe haven despite the large prospective borrowing needs needed to address the current economic downturn. If this global perception were to change, any weakening in the value of the U.S. dollar and rising interest rates could slow a prospective U.S. economic turnaround.

The Vermont Situation: Even though Vermont has so far avoided many of the most draconian effects associated with the housing crisis and credit crunch, the State has not been able to avoid many of the negative economic impacts experienced elsewhere. Over the past six months, the scale of layoff activity in the State has escalated, increasing both in terms of the number of jobs lost and the number of Vermont sectors that have recently been involved in layoff activity. In particular, increasing levels of job reductions have occurred in auto-dependent businesses (Lydall in the Northeast Kingdom and NSK in Bennington), the media (both print and television), resource processing companies, and at well-known companies such as IBM (which announced a layoff of less than 10% of its Essex Junction work force on January 27, 2009), Resolution Inc., and Vermont Teddy Bear (all in northwest Vermont). Also contributing to the State's mounting job losses are firms in the resource processing, retail, real estate, finance and construction sectors. The current level of employment reduction activity is a reflection of the challenge the "de-leveraging" process, with its attendant constraints on lending, presents for many small companies and credit-dependent sectors of the Vermont economy trying to grow their businesses.

One of the hardest hit parts of the Vermont economy is the construction sector, where the latest F.W. Dodge data through the month of November 2008 show a 40.5% decline in activity since its early calendar year 2006 peak. Among the sub-components of the industry, declines range from a 57.3% drop in residential construction spending since the sector's March 2006 peak, to a decline of 31.0% in the nonresidential building construction sector since its May 2006 peak, and a 49.4% decline in non-building construction since its June 2006 peak. Overall, total construction sector spending in Vermont has declined by $523.8 million since early calendar year 2006.

In addition, construction activity currently has not demonstrated any behavior that looks like a "bottoming." The slowdown in the pace of expenditure descent last Fall and the small apparent turnaround at that point turned out to be a temporary and small upward blip in the overall declining trend based on one-time activity in the multi-unit sub-category—as is often the case in the midst of construction sector downturns. Expenditure activity soon after that temporary upward tick began to once again decline—the second false start in this indicator dating back to late in calendar year 2007 and the third one overall since the current construction slide began back in calendar year 2006.

Related to the decline in construction spending is the recent performance by housing prices in Vermont—which, because of the relatively better condition of credit quality in the State, have held up well versus some of the states in New England and other State counterparts where sub-prime lending was much more pervasive. Data from Equifax and Moody's Economy.com as published in the November 2008 New England Economic Partnership forecast for Vermont show that the State is among the lowest in the country (and the lowest in New England) in terms of mortgage delinquencies—the first step in the foreclosure process. As the State has managed to avoid the self-reinforcing negative spiral of "delinquency/foreclosure-forced liquidation sale/decline in housing prices," the impact of forced liquidation sales from foreclosure actions, which typically carry hefty price discounts, so far has been minimal.

This relative housing price strength is substantiated by third quarter statistics on housing prices from the Office of Federal Housing and Enterprise Oversight (OFHEO), which show that housing prices have peaked and have begun to decline slightly in Vermont. The index—now known as the FHFA index—shows Vermont housing prices have declined by a total 1.3% off their calendar year 2008:Q1 peak—similar to the decline in the state of Maine (at -1.2%) and well below the level of decline in virtually all of the other New England states. Among the northeastern states, there is not a single state where prices have not begun to decline. Housing price declines are particularly deep in Rhode Island (-10.9%) and Massachusetts (-8.8%). However, the declines off-peak in the northeast and in the states of Vermont and Maine are far less than the more than double-digit rates of housing price decline in hard-hit states, such as California (-25.3%), Nevada (-24.4%), Florida (-19.2%) and Michigan (-12.6%).

With respect to Vermont payroll jobs, the above job 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 December 2008 (the latest month where comparative data are available). The data show that Vermont ranks in the middle of the pack in both the 50 states and New England states in year-over-year job growth in the two major job change aggregates, including total payroll job growth and total private sector payroll job growth, ranking 30th nationally in both categories. Regarding the NAICS[1] super-sectors, Vermont ranks 5th in the New England region in year-over-year job change in Manufacturing (28th nationally), 2nd in New England in Information (27th nationally), and 3rd in New England in Financial Services (31st nationally) through the month of December. The State also ranks 6th among the New England states in the year-over-year job change in Construction (43rd nationally), 3rd in Trade, Transportation, and Utilities (35th nationally) and 4th in year-over-year job change in Government (39th nationally). The State ranks high regionally and in the U.S. in year-over-year job growth in Professional and Business Services (2nd in New England and 9th nationally) and Leisure and Hospitality (1st in New England and 11th nationally). Vermont ranks 2nd in New England in year-over-year job change in the Information sector and 27th nationally. New England states overall rank in the top ten in several major NAICS sectors including Manufacturing (Maine, 8th), Financial Activities (New Hampshire, 8th) and Professional and Business Services (Vermont, 9th). Most of the New England states are ranked in the upper two-thirds of the 50 states. All of the New England states show significant job losses in the two payroll job aggregates—Total Payroll Jobs and Total Private Sector payroll job change—over the past year, but they remain at a level that is somewhat below the rate of job losses experienced by most other states around the country as the recession has unfolded.

The next release of data describing Vermont's year-over-year comparative job change performance and rank among the 50 states and the six New England states is expected on or about March 11, 2009. For this next

[1] NAICS refers to North American Industry Classification System.

release, the U.S. Bureau of Labor Statistics has changed the methodology used to compute monthly state payroll job data and eliminated the ability for any state to make any adjustments to raw survey data, including sample size or other smoothing adjustments. The State expects this methodological change will generally result in lower payroll job count numbers for the affected periods. The State cannot predict how this change will affect the assessment of Vermont labor markets both in absolute terms and relative to the other 50 states until the data are released in March 2009.

Vermont Financial Sector: The financial/banking sector has been one of the hardest hit sectors in the economy during the current recession. Banks throughout the country and around the world have had to cope with increasingly large losses. As a result, many lenders have tightened lending standards significantly in order to reduce their exposure to even further losses. This credit constriction has had the effect of significantly reducing the number and amount of loans made for home sales and for vehicle purchases or leases. It also has curtailed development activity as businesses have found it increasingly difficult to borrow funds in order to expand their operations.

While Vermont's banking sector is not immune to national and global downturns, data from the Federal Deposit Insurance Corporation (FDIC) indicates that through the third quarter of calendar year 2008 (the latest quarter where comparable state data are available) the Vermont banking sector remains sound. In addition, the State's financial institutions have so far been able to avoid the erosion in credit quality and financial sector capitalization that has negatively impacted many other states in this downturn.

For example, the State ranks first among the New England states in terms of return on assets (at 0.66%), and the State's institutions have had the smallest decline in return on assets over the past year. As of the third quarter of 2008, Vermont's financial sector also has the highest net interest margin among the New England states at 4.28%, while it experienced only a 0.01 percentage point increase in net loan losses as a percent of assets for the year ended with the third quarter of calendar 2008.

Some suggest that the State's strict land use and development law (Act 250) and what appears to be more prudent lending by many of the State's financial institutions has enabled the State to avoid the type of foreclosure problems that have curtailed credit availability elsewhere. The State's relatively stronger banking system may leave Vermont more favorably positioned to recover once the overall economy experiences a turnaround later in calendar 2009 or early in calendar year 2010.

The Moody's Economy.com National Economic Forecast Assumptions: The economic outlook for the 2009–12 period is based on a national outlook assembled by Moody's Economy.com, a respected national economic forecasting firm, as adjusted by the Administration and Joint Fiscal Office economists as part of the consensus revenue forecasting process. The adjusted December 2008 Moody's Economy.com national forecast scenario, which formed the national basis for the Vermont economic forecast update, expects the housing- and financial market-induced recession in the U.S. economy to continue through most of calendar year 2009. The top-line GDP growth rate numbers, after posting a 1.2% rate of inflation-adjusted growth in calendar year 2008, are expected to post a decline of 1.5% for calendar year 2009. This is expected to be followed by a 2.1% GDP growth rate as the recovery gets underway in calendar year 2010. For calendar years 2011 and 2012, the inflation-adjusted GDP growth rate is expected to increase to 4.8% and 5.1%, respectively.

The Moody's Economy.com national outlook for U.S. labor markets calls for only job losses in 2009, and slow job growth over the 2010–12 forecast period. After posting a 0.2% year-over-year job loss performance in calendar 2008, the year-over-year job loss rate is expected to accelerate to 2.2% in calendar year 2009 and turnaround in calendar year 2010 to a 0.4% payroll job addition. Expected job growth rates for calendar years 2011 and 2012 are 2.5% and 3.1%, respectively. The national rate of unemployment is forecasted to rise to 8.0% in 2009 and 8.7% in 2010 from its current position of 7.2% as of December 2008. This is expected to be followed by a decline in the U.S. unemployment rate to 7.4% in calendar year 2011 and 5.9% in calendar year 2012.

Regarding inflation, consumer prices, as measured by the Consumer Price Index, are expected to continue to be flat after posting a greater than 5.0% high water inflation rate during the end of calendar year 2007 and over the first half of calendar year 2008. Consumer prices have remained flat or declined from August 2008 through November 2008. A large part of this price decline is due to falling commodity prices, the most important being oil, but also copper and other basic raw metals. The increases in consumer prices are expected to average between 0.9% (for calendar year 2009) and 2.7% (for calendar year 2010) through the calendar 2009–12 forecast period, aided by the leveling in global commodity prices including oil prices. The Moody's Economy.com forecast includes a relatively modest outlook for global oil prices—the price of the benchmark West Texas Intermediate Crude Oil price per barrel is expected to rise slightly from its current price of approximately $45 per barrel to an average of $53.40 per barrel for calendar year 2009 and $77.50 per barrel for calendar year 2010. Crude oil prices for calendar year 2011 and 2012 are expected to be $85.40 and $82.40 per barrel, respectively.

Regarding interest rates, the Moody's Economy.com baseline forecast expects that monetary policy will continue to be supportive of a near zero-interest level for inter-bank lending. The series of interest rate cuts and the expansion of the Federal Reserve's credit facilities through expanded balance sheet-based lending are designed to help address the current lack of trust and confidence in money and credit markets. The Federal Reserve is also moving into an area of policy whereby it will purchase securities and extend loans to financial institutions. The Federal Reserve also has indicated that it will soon purchase debt issued by Fannie Mae and Freddie Mac and the mortgage securities that each now insure. As a result, most long-term Treasury yields and mortgage rates have declined substantially, and mortgage re-financings have increased. Although many subprime borrowers will not receive much relief from these measures, this represents a good first installment at slowing the rate of home foreclosures.

The key risks to the Moody's Economy.com five-year outlook include the continuing housing market and financial market crises. This recession is unique in that it is global in nature, with most of the world's economies simultaneously either in a slowdown or outright recession. The United States is expected to remain in a prolonged recession until at least the fourth quarter of calendar year 2009 with only a historically slow, halting recovery through much of calendar year 2010 and into calendar year 2011.

The Vermont Economic Outlook: The Vermont near-term economic outlook similarly expects that the Vermont economy will remain in recession through the rest of calendar year 2009 and into calendar year 2010. Payroll job growth is expected to be negative through mid-calendar year 2010 and remain under 1.0% over the next five years. On a quarter-to-quarter basis, job losses are expected to continue through the third quarter of calendar year 2010. The State's unemployment rate is expected to breach 7.0%—perhaps rising as high as 7.5% for one or more quarters by mid-calendar year 2010 before the labor market recession has run its entire course.

The recession that is underway in the Vermont economy is currently or will soon be accompanied by a recession in all five of the other New England states. The recession, or upcoming recession, in each New England state, like Vermont, will either be the most significant (in Rhode Island) or the second most significant (in the other five New England states) of the post-World War II period. Recovery in the other New England states from their respective recessions will not likely begin until late in calendar year 2009 (housing) or early 2010 (jobs/employment). The housing sector and rates of unemployment in the other New England states will experience recessionary impacts the likes of which have not been experienced in any of the New England state since the late 1980s-early 1990s downturn—or for nearly 20 years.

More specifically for Vermont, payroll employment is expected to decline in calendar year 2009 and remain relatively flat in calendar year 2010. Payroll employment is then expected to return to increase by 1.6% in calendar years 2011 and 2012. Inflation-adjusted output growth is forecasted to decline 0.8% in 2009. Following calendar year 2009, inflation-adjusted output growth is expected to average just under 3.5% from calendar year 2010 through 2012. This represents an output growth rate that is three-quarters of the 4.6% rate of output growth experienced during the calendar year 1995–2001 period.

On a sector-by-sector basis, the highest rates of job growth over the 2009–12 forecast period are expected in Leisure and Hospitality, Professional & Business Services and Education & Health Services, following a familiar pattern with the last several State forecasts. Wholesale trade is expected to experience the most restrained job change performance, falling at a 0.8% decline per year over the 2009–2012 forecast period.

Over the five-year forecast period, ten of 12 of the State's major NAICS categories are expected to recover and add jobs, representing a significant improvement from the 2001–06 period where four of 12 major NAICS categories lost jobs. Seven of 12 NAICS super sectors are expected to have significantly more positive job adding performances over the next five years relative to the job addition record of the 2001–06 timeframe. Reflecting the housing market correction, this forecast update predicts that Construction will decline in 2009, but recover in 2010-2012. In the post-calendar 2008 timeframe, Construction is expected to recover somewhat, but the 0.5% to 1.5% annual rates of increase over that period are only about 80% of the calendar year 2001–06 annual average. In Government, sluggishness in the out-years of the forecast means that this sector overall is expected to lose jobs over the forecast period following the average annual payroll job gains of 1.3% per year over the calendar 2001–06 time period and 2.0% per year over the calendar 1995–2001 time period. All of the State's major private sector NAICS categories, with the exception of Manufacturing and Wholesale Trade, are expected to be in expansion mode by the end of calendar year 2012.

Although the State's relative economic performance is expected to be somewhat mixed over the calendar 2009 to 2012 period, the revised forecast includes the continuation of tight labor market conditions throughout the State. The State's annual average unemployment rate is expected to continue to rise to 6.6% in 2009 and 7.2% in 2010 on an annual average basis. Following that peak, the State's unemployment rate is expected to decline by 0.9 percentage points in calendar year 2011 and another 1.2 percentage points in 2012 to a rate of 5.1%. That track, should this forecast be realized, would result in a Vermont unemployment rate that would be more than 1.5 percentage points below the U.S. unemployment rate and more than a percentage point below the New England average unemployment rate.

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 Moody's Economy.com for the upcoming five calendar year period as it was developed in December 2008—just as the financial crisis was beginning to moderate. The Vermont statistics present the specific detail for the Vermont economic forecast that was developed over that same period and published with the January 2009 consensus revenue forecast update. This forecast incorporates the estimated impacts of the housing market slow down, the still developing situation in the money and credit markets as of January 2009 and other macroeconomic variables.

Table 5

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

	Actual					Forecast				
	2003	2004	2005	2006	2007[1]	2008[1]	2009	2010	2011	2012
Real Output (% Change)										
U.S. Gross Domestic Product	2.5	3.6	3.1	2.9	2.0	1.2	(1.5)	2.1	4.8	5.1
New England Gross Domestic Product	1.9	3.0	1.8	2.8	2.1	1.0	0.4	3.1	4.2	2.7
Vermont Gross State Product	3.7	3.4	2.0	1.2	1.5	1.2	(0.8)	1.8	3.9	4.5
Non-Farm Employment (% Change)										
U.S.	(0.3)	1.1	1.7	1.8	1.1	(0.2)	(2.2)	0.4	2.5	3.1
New England	(0.9)	0.2	0.6	0.9	0.8	0.0	(2.1)	(1.2)	0.9	2.1
Vermont	0.0	1.3	0.9	0.7	0.0	(0.2)	(1.3)	0.2	1.6	1.6
Personal Income (% Change) (Current Dollars)										
U.S.	3.2	6.2	5.6	7.1	6.1	3.8	2.0	3.6	4.5	5.0
New England	2.0	5.7	4.2	7.0	6.2	3.5	1.5	2.7	3.9	4.3
Vermont	3.7	5.7	2.5	7.6	6.6	6.9	1.3	2.5	3.6	4.5
Unemployment (%)										
U.S.	6.0	5.5	5.1	4.6	4.6	5.7	8.0	8.7	7.4	5.9
New England	5.4	4.9	4.7	4.5	4.4	5.3	7.2	8.3	7.6	6.2
Vermont	4.5	3.7	3.5	3.7	3.9	4.9	6.6	7.2	6.3	5.1

[1] Some 2007 values are preliminary and subject to further revision, and 2008 values in this table reflect projected rates as of January 2009.
Sources: Moody's Economy.com (U.S., VT) December Control Forecast, New England Economic Partnership November 2008 Forecast (New England) as adjusted by the consensus revenue forecasting process.

Table 5 is consistent with the labor market and personal income recovery-growth experience of the early 2000s where the Vermont economy experienced a generally milder economic downturn over the 2002–03 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 following calendar year 2004 was slightly below the U.S. average over the calendar year 2005 through 2007 period, although Vermont's rate of nonfarm payroll job recovery was faster than the New England average in calendar year 2005. For calendar year 2008, Vermont is expected to experience slightly lower rates of growth in output, jobs, and income as compared to the U.S. economy when the final numbers are published, due in part to the housing market recession and its proportionately greater impact in Vermont due to second home development and the somewhat greater negative impact that higher energy prices have had on the State's economy. The State is expected to lag somewhat over the rest of calendar year 2009 through 2012 forecast period, in the aggregate, although the State is expected to regain some of that lost output, job, and income growth momentum during calendar year 2010.

Although the State's relative economic performance is expected to be mixed over the 2009 to 2012 period, the forecast expects that the State's unemployment rate will be below both the U.S. and New England regional averages throughout that period. This forecast is consistent with the favorable relative unemployment rate position the State has experienced for the last several years despite a reduced supply of labor that has recently constrained job growth across the State.

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 and previous economic cycles 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 change performances, in the region during the most recent business cycle (November 2001 through December 2007) plus one year of the current recession (January 2008 through December 2008). This previous cycle includes the year with the most recent labor market peak and trough surrounding the early-2000s national economic recession and subsequent recovery-expansion in the New England region and the United States as a whole that ended in December 2007.

Table 6
Total Unemployment Rate Comparison of Vermont, Seven Northeastern States and the U.S.

	December 2008	November 2008	December 2007	Change From Last Year
Vermont	6.4%	5.7%	3.9%	2.5%
Connecticut	7.1	6.6	4.8	2.3
Maine	7.0	6.3	4.9	2.1
Massachusetts	6.9	5.9	4.3	2.6
New Hampshire	4.6	4.3	3.4	1.2
New Jersey	7.1	6.1	4.2	2.9
New York	7.0	6.0	4.6	2.4
Rhode Island	10.0	9.3	5.2	4.8
United States	7.2	6.8	4.9	2.3

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

Source: U.S. Department of Labor, Bureau of Labor Statistics

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

City	Annual Average % 2001	Annual Average % 2002	Annual Average % 2003	Annual Average % 2004	Annual Average % 2005	Annual Average % 2006	Annual Average % 2007	Annual Average % 2008
Connecticut								
Bridgeport, Stamford, Norwalk	2.9	4.1	5.2	4.6	4.6	3.9	4.1	5.3
Danbury	2.4	3.3	4.2	3.9	3.8	3.3	3.6	4.6
Hartford-W. Hartford-E. Hartford	3.1	4.3	5.8	5.3	5.1	4.4	4.7	5.9
New Haven	3.0	4.1	5.4	5.0	5.0	4.5	4.8	6.0
Norwich-New London	2.8	3.8	4.8	4.6	4.5	4.2	4.3	5.7
Waterbury	4.1	5.8	7.2	6.4	6.3	5.5	5.9	7.7
Maine								
Bangor	3.6	4.1	4.6	4.8	4.7	4.5	4.8	5.3
Lewiston-Auburn	3.7	4.3	5.0	4.5	4.9	4.6	4.7	5.6
Portland, So. Portland, Biddeford	2.8	3.3	3.6	3.5	3.7	3.4	3.6	4.2
Massachusetts								
Barnstable Town	3.6	4.5	5.0	4.9	4.6	5.0	4.7	5.6
Boston, Cambridge, Quincy	3.4	5.2	5.7	5.1	4.6	4.6	4.1	4.7
Leominster, Fitchburg, Gardner	4.2	6.4	7.0	6.6	6.3	6.3	5.7	6.5
New Bedford	5.3	6.7	7.6	7.1	6.7	6.8	6.4	7.6
Pittsfield	3.5	4.5	5.1	4.7	4.4	4.5	4.3	4.9
Springfield	3.6	5.0	6.0	5.7	5.3	5.5	5.1	5.8
Worcester	3.5	5.3	6.0	5.4	5.0	5.2	4.8	5.5
New Hampshire								
Manchester	3.1	4.2	4.3	3.7	3.5	3.5	3.5	4.0
Portsmouth	3.1	4.1	4.2	3.6	3.5	3.2	3.3	3.6
Rochester-Dover	3.2	4.5	4.4	3.6	3.5	3.2	3.4	4.0
Rhode Island								
Providence, Fall River, Warwick	4.6	5.3	5.6	5.5	5.2	5.4	5.2	7.6
Vermont								
Burlington-South Burlington	2.7	3.6	4.1	3.3	3.2	3.3	3.6	3.9

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 (000s)	Number of Nonfarm Jobs Calendar Year 2008 Annual Average (000s)	Change in Number of Nonfarm Jobs Calendar Years 2000–2008 (000s)	Percent Change in Nonfarm Jobs Calendar Years 2000–2008
Connecticut				
Bridgeport, Stamford, Norwalk	425.8	423.8	(2.0)	(0.5%)
Danbury	70.0	70.6	0.6	0.8
Hartford-W. Hartford-E. Hartford	555.2	562.4	7.2	1.3
New Haven	274.5	276.7	2.2	0.8
Norwich-New London	128.1	136.5	8.4	6.1
Waterbury	71.4	68.6	(2.8)	(4.1)
Maine				
Bangor	62.0	65.9	3.9	5.9
Portland, So. Portland, Biddeford	182.3	195.3	13.0	6.6
Massachusetts				
Barnstable Town	95.0	100.2	5.2	5.2
Boston, Cambridge, Quincy	2,530.3	2,496.4	(33.9)	(1.4)
New Bedford	66.5	65.9	(0.6)	(1.0)
Springfield	301.3	296.4	(4.9)	(1.7)
Worcester	244.2	246.8	2.6	1.0
New Hampshire				
Manchester	95.0	101.4	6.4	6.3
Portsmouth	49.9	56.7	6.8	12.0
Rochester-Dover	51.5	57.6	6.1	10.6
Rhode Island				
Providence, Fall River, Warwick	575.3	570.1	(5.2)	(0.9)
Vermont				
Burlington-South Burlington	112.7	113.7	1.0	0.9

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 2006–07 period (calendar year 2007 being the latest year where complete annual average data are available). Employment data by industry are provided for the 2005–07 calendar year period for Vermont and 2007 for the U.S. (2007 being the latest year where annual average data are available from the Bureau of Economic Analysis of the U.S. Department of Commerce).

The full-time and part-time jobs data through calendar year 2007 show that manufacturing remains one of the State's most important sectors, representing an estimated 11.8% of total all non-farm employment in 2007 (versus 10.2% of employment for the U.S. in 2007) and an estimated 15.8% of total earnings in 2007, up slightly from 15.2% of total earnings in Vermont during calendar year 2006. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 14.6% of 2007 total employment, up significantly from 12.2% of total employment in 2006, and 14.0% of total earnings in 2007, Retail Trade at 13.7% of 2007 total employment, up from 11.8% of total employment in 2006, Private Educational Services at 3.1% of total employment versus the U.S. average of 2.1%, and Accommodations and Food Services at 7.4% of total employment versus 6.7% of employment for the U.S. as a whole. 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. The State has a relatively high reliance on Retail Trade, Arts, Entertainment and Recreation, and Accommodations and Food Services, which reflects the importance of travel and tourism to the State's economy. At the same time, the State has a slightly lower reliance 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
2006–2007
($Thousands)

	2006		2007	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$80,591	0.5%	$194,521	1.1%
Non-Farm Industry:				
Construction	1,185,291	7.5	1,144,788	6.7
Forestry, Fishing and Other Related Activities	72,640	0.5	74,513	0.4
Mining	49,898	0.3	52,252	0.3
Manufacturing	2,398,473	15.2	2,449,480	14.4
Wholesale Trade	641,151	4.1	649,885	3.8
Retail Trade	1,331,669	8.4	1,357,712	8.0
Information	335,790	2.1	343,820	2.0
Financial Activities	741,341	4.7	802,667	4.7
Real Estate and Rental and Leasing	217,399	1.4	216,019	1.3
Transportation, Warehousing and Utilities	587,231	3.7	618,371	3.6
Management of Companies and Enterprises	23,551	0.1	25,406	0.1
Professional and Technical Services	1,233,726	7.8	1,249,865	7.3
Education Services	464,378	2.9	490,791	2.9
Health Care and Social Assistance	1,994,419	12.6	2,126,583	12.5
Arts, Entertainment, and Recreation	136,245	0.9	142,536	0.8
Accommodations and Food Services	648,026	4.1	668,780	3.9
Administrative and Waste Services	342,524	2.2	370,701	2.2
Other Private Services-Providing	457,246	2.9	475,756	2.8
Total Private Non-Farm Industries	12,860,998	81.4%	13,878,296	81.4%
Government and Government Enterprises	2,861,473	18.1%	2,981,181	17.5%
Total Farm and Non-Farm Earnings	$15,803,062	100.0%	$17,053,998	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 Employment by Industry
2005–2007

	2005		2006		2007		U.S. 2007	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	8,722	2.1%	8,601	2.0%	8,425	2.0%	2,849,000	1.6%
Non-Farm Industry:								
Construction	32,351	7.6	35,830	8.3	33,291	7.8	11,629,000	6.4
Forestry, Fishing, and Other Related Activities	3,389	0.8	3,744	0.9	3,538	0.8	1,014,400	0.6
Mining	972	0.2	947	0.2	1,062	0.2	984,900	0.5
Manufacturing	40,151	9.5	39,392	9.1	38,921	9.1	14,508,000	8.0
Wholesale Trade	11,567	2.7	11,916	2.7	11,670	2.7	6,656,800	3.7
Retail Trade	50,563	11.9	51,245	11.8	50,044	11.7	19,273,000	10.7
Information	7,730	1.8	7,685	1.8	7,210	1.7	3,539,000	2.0
Financial Activities	13,100	3.1	13,418	3.1	13,020	3.0	8,428,700	4.7
Transportation, Warehousing & Utilities	11,202	2.6	11,367	2.6	11,198	2.6	6,464,200	3.6
Management of Companies and Enterprises	12,619	3.0	13,601	3.1	14,069	3.3	8,139,400	4.5
Real Estate and Rental and Leasing	495	0.1	501	0.1	480	0.1	1,961,200	1.1
Professional and Technical Services	25,615	6.0	26,086	6.0	24,917	5.8	11,855,300	6.6
Education Services	17,284	4.1	17,603	4.1	17,497	4.1	3,825,000	2.1
Health Care and Social Assistance	52,242	12.3	53,029	12.2	54,053	12.6	18,183,900	10.0
Arts, Entertainment, and Recreation	10,397	2.5	10,847	2.5	10,323	2.4	3,737,900	2.1
Accommodations and Food Services	31,956	7.5	32,270	7.4	31,592	7.4	12,239,000	6.8
Administrative and Waste Services	16,140	3.8	15,989	3.7	16,004	3.7	11,259,300	6.2
Other Services, except public administration	21,615	5.1	24,170	5.6	23,767	5.6	10,136,700	5.6
Total Private Sector Non-Farm	359,388	84.8%	369,640	85.1%	362,656	84.9%	153,835,800	85.0%
Government	55,527	13.1%	55,902	12.9%	56,264	13.2%	24,257,000	13.4%
Total Employment	423,637	100.0%	434,143	100.0%	427,345	100.0%	180,941,800	100.0%

Notes: Includes total jobs and proprietors. Totals may not add due to rounding.

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

Largest Private Employers

The Vermont economy reflects a diverse mix of manufacturing, tourist-based, education/higher education, professional services (including health care, business, and private sector higher education services), trade, and other employers. In 2008, the State's two largest private sector employers were IBM and Fletcher Allen Health Care. IBM is a global manufacturer of semiconductor and related devices with a total of roughly 5,000 jobs according to various published sources. The firm has generally been successful in 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. This has led to a stabilizing in their employment numbers over the last three years, with the addition of small numbers of workers from time to time and the periodic reduction of some others based on the firm's constantly evolving fabrication operations. One of the largest markets for the IBM Essex plant's production is the consumer electronics market, however, an industry where worldwide activity has been significantly curtailed in the current decline in consumer spending. Fletcher Allen Health Care is reported to have approximately 6,700 employees, and is now operating in significantly expanded and upgraded facilities. Other major private sector employers in the State include several companies reportedly with roughly 1,000 employees in the State. These employers reflect a mix of retail (Martin's Food Stores d.b.a. Hannaford's, Price Chopper Stores), financial institutions (Chittenden Bank, a division of Peoples United Bank), manufacturers (General Electric Company), health care including services providers (Central Vermont Medical Center, Inc., Rutland Regional Medical Center) and medical software providers (GE Health Care), higher education (Middlebury College), and the travel-tourism industry (Killington LTD and the Stratton Corporation). Ethan Allen, Inc., a manufacturer of quality furniture products and a provider of interior design services, also continues to have a major employment presence in the State, consolidating its domestic operations in Vermont. Other notable employers in the State include Central Vermont Public Service Company (the State's largest investor owned utility), Verizon New England, Inc. (which land line operations were recently acquired by Fairpoint Communications, Inc.), TD Banknorth NA, B.F. Goodrich Aerospace of Vergennes, and several of the State's major resorts (Mt. Mansfield Company Inc. in Stowe, Smugglers Notch Management Company, LTD in Jeffersonville, and Mount Snow, LTD in West Dover). The University of Vermont and State Agricultural College also is a major employer in the State with a total of over 3,000 employees according to press reports. However, the University of Vermont is classified as a public sector employer and is not considered to be a part of the private sector employment mix of the State economy for any of the major employment-job count surveys conducted by the Vermont Department of Labor.

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 1990-2007 period. On an average annual basis, total personal income in Vermont has increased by 5.0% per year from 1990 to 2007, as compared to the 4.8% average for the New England region and a 5.2% 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 1990 was $17,876 or 91.8% of the U.S. average of $19,477. By calendar 2007, Vermont's per capita personal income had risen to $37,446, or 97.1% of the U.S. average of $38,564. Vermont's growth rate in per capita personal income was 6.6% in calendar 2007, slightly more than the New England regional average (at 6.1% in calendar 2007), and the national average rate of per capita personal income growth rate (at 5.0% for calendar 2007). These same data show that Vermont's rate of per capita personal income growth in 2007 ranked 2nd highest among the six New England states.

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
Calendar Years 1990–2007
($ 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
2007	$23,264	6.6%	$674,065	6.2%	$11,631,571	6.0%
2006	21,816	7.6	634,480	7.0	10,977,312	7.1
2005	20,275	2.5	593,017	4.2	10,252,849	5.6
2004	19,776	5.7	569,244	5.7	9,711,363	6.1
2003	18,711	3.7	538,413	2.0	9,150,320	3.1
2002	18,051	1.7	528,030	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

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
Calendar Years 1990–2007

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2007	$37,446	6.6%	$47,256	6.1%	$38,564	5.0%
2006	35,142	7.4	44,558	6.8	36,744	6.0
2005	32,716	2.4	41,711	4.1	34,650	4.6
2004	31,959	5.4	40,058	5.6	33,123	5.1
2003	30,321	3.3	37,950	1.6	31,504	2.2
2002	29,339	1.2	37,364	0.1	30,821	0.8
2001	28,979	4.7	37,117	3.3	30,574	2.4
2000	27,678	6.9	36,116	9.0	29,843	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

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

Employment Statistics

Vermont had a labor force of 353,700 (rounded) on an annual average basis in 2008, of whom 336,200 are estimated to be employed and 17,500 were unemployed. Vermont's 4.9% unemployment rate in calendar year 2008 compares favorably with the 5.8% unemployment rate for the nation overall and the 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 Vermont, the New England region, and the U.S. economy as a whole from calendar year 1990 to 2008.

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 (%)
2008	354	336	4.9%	5.4%	5.8%
2007	361	346	4.1	4.7	4.6
2006	361	348	3.6	4.6	4.6
2005	356	344	3.5	4.7	5.1
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 Labor (Vermont); Federal Reserve Bank of Boston (New England and the United States).

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. Construction began on the second part of the project known as the Northern Segment in July 2007 and is expected to continue through calendar year 2012. No construction schedule has been developed for the third and final segment. 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 ("VTrans") to complete an updated environmental impact assessment that met the current requirements of the National Environmental Policy Act. This assessment is currently underway, has progressed to the point where the Federal Highway Administration and VTrans have issued a Draft Environmental Impact Statement (DEIS).

Based on comments and feedback on the DEIS, VTrans selected the "CIRC A/B" alternative because it "corrects or counteracts the transportation problems in the project area without creating new transportation problems," and because it "improves mobility for automobiles, trucks, buses, pedestrians, bicycles and emergency responders." This recommendation is expected to be part of a final Environmental Impact Statement (EIS) for the project during calendar year 2009. The EIS will be incorporated into the 404 Permit Process of the U.S. Army Corps of Engineers, which also involves participation by the U.S. Environmental Protection Agency and the U.S. Fish and Wildlife Service. This will be followed by a request by VTrans for a Least Environmentally Damaging Practicable Alternative (LEDPA) from the 404 Permit Process and a request for a Record of Decision from the U.S. Federal Highway Administration—the last step in the process except for any potential legal appeals.

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 ten State-owned airports and two that are municipally owned, including Burlington International Airport ("BIA"). During calendar year 2008, enplanements at BIA totaled 759,021, an increase of 7.3% from the previous record of 707,395 enplanements in calendar year 2007. A $25.6 million facilities expansion plan was completed at the BIA in several stages between calendar years 2003 and 2006. Facility upgrades included a significant addition to the airport's parking garage, the completion of a second skywalk between the parking garage and the terminal, additional gates, and expanded baggage handling and terminal-waiting facilities.

In calendar year 2008, the list of commerical air carriers serving the airport includes a total of six national and regional carriers serving Boston, New York (John F. Kennedy and LaGuardia Airports), Newark, Philadelphia and all three Washington, D.C. area airports. In addition, carriers also serve Chicago, Cincinnati, Detroit and Minneapolis. Jet Blue Airlines continues to be the most significant carrier, with approximately 25% of total enplanements during calendar 2008. Other major carriers currently at BIA include Northwest Airlines, Continental Airlines, Air Tran Airways, Delta Airlines and U.S. Air. United Airlines recently announced that is reducing service at BIA to smaller regional jet service. Despite that announcement, airport personnel predict another record year for enplanements in calendar year 2009, primarily due to increased Canadian traffic and improved service.

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 suspended movement toward retail choice. 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 large manufacturers and ski resorts.

In terms of supply and looking ahead over the next ten years, there are a number of challenges facing the State as its current energy supply contracts begin to expire. First, Entergy Nuclear of Mississippi (Entergy) is seeking an extension of its license at the Vermont Yankee nuclear facility in Vernon. To date, public hearings before the Vermont Public Service Board are ongoing and a definitive vote by the Vermont General Assembly on the Vermont Yankee re-licensing question is not expected until after technical hearings on the re-licensing issue are concluded. The company did move forward and received regulatory approval for additional on-site fuel storage and for an increase in energy output at the facility (see below). Outside of the Vermont Yankee power plant, it should also be noted that committed supply from the State utilities' current energy supply contracts with Hydro Quebec will decline significantly during the 2012 to 2016 period and beyond. In November 2008, the State's two major publicly held utility companies issued a request for proposals for energy supply to supplement and/or potentially replace the current and any prospective power supply contracts with the Vermont Yankee nuclear facility and with Hydro Quebec. As of January 2009, the two utilities report they have received several dozen proposals from a wide variety of sources in response to this solicitation.

With respect to the transmission-reliability issue, the Vermont Electric Power Company (VELCO) has completed a substantial part of a multi-faceted initiative to substantially upgrade the State's transmission system. This effort is part of a larger region-wide initiative to improve the capacity and reliability of the electric transmission system of the entire New England region. As of December 2008, VELCO has completed a project to strengthen transmission in the Route 100 corridor north of Waterbury and all parts of the Northwest Reliability Project (NRP) except for those components impacted by on-going litigation. A joint utility filing proposing an upgrade of the 345 kV transmission line between the Vermont Yankee plant and the Coolidge substation in Cavendish, Vermont is expected shortly after the Certificate of Public Good (CPG) is issued.

In 2007, Northern New England Energy Corporation acquired Green Mountain Power Corporation, the State's second largest investor-owned utility serving 90,000 Vermont customers with operating revenues of $241.3 million in calendar year 2007.

Natural gas is an important source of energy in northwestern sections of Vermont that receive natural gas service through Vermont Gas Systems, Inc. (VGS) supplied from a connection at Highgate Springs to the Trans Canada Pipeline. VGS serves approximately 35,000 customers in Chittenden and Franklin Counties. Its customer base and gas sales continue to increase by about 3% to 4% per year. 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. In early 2008, Verizon sold its land-line business in Maine, New Hampshire and Vermont to FairPoint Communications, Inc. ("FairPoint") of Charlotte, North Carolina. Under the sale, FairPoint acquired 1.5 million access lines, 180,000 DSL lines, and 600,000 long-distance customers as of September 30, 2006 in the three northern New England states. FairPoint 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 FairPoint, and an extensive fiber optic network reaches all regions of the State. As of September 2008, FairPoint indicates it provides 100% broadband coverage in 51 Vermont municipalities.

Access to broadband services now covers nearly 87 percent of the State and is increasingly available in both urban and rural markets either from incumbent and competitive telephone companies, or from cable companies. To date, the mission of the Vermont Telecommunications Authority (VTA) is the pursuit of affordable broadband services for all residences and businesses in the state by the end of calendar year 2010. In order to achieve this goal, the State can provide the VTA with its moral obligation pledge with respect to up to $40 million in bonds. See "STATE INDEBTEDNESS – Reserve Fund Commitments – Vermont Telecommunications Authority." VTA is currently soliciting bids for a construction of a fiber-optic network (or equivalent services) and proposals from qualified equipment suppliers to provide tower infrastructure and residential wind turbines to develop and implement solutions necessary to meet its Act 79 mandate.[1] In December 2008, VTA awarded $180,000 in Broadband Grants to three recipients for 2008/2009 in Montpelier. The goal of this program is to create projects to test viable models for providing high speed Internet access to all State residents.

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. As of January 2009, Verizon Wireless has activated two new cell sites increasing wireless voice and data coverage and capacity to the town of Killington, the area surrounding Route 100 and Route 4. In December 2008, AT&T Inc.'s AT&T Mobility also completed its purchase of the cell-phone provider Unicel. It is expected by the end of calendar year 2009 that the expansion and enhancement of the wireless service will take its place in Vermont. By the end of February 2009, Unicel's ten retail stores will be changed to AT&T stores. 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.

[1] Act 79 established the VTA to facilitate the establishment and delivery of mobile phone and internet access infrastructure and services for residents and businesses throughout Vermont. The VTA is focused on un-served and underserved areas and an overall long term goal of broadband and mobile phone infrastructure throughout the State.

STATE FUNDS AND REVENUES

Budget Process

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 State expenditures 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.

The budget process commences in July of each year when the Emergency Board determines estimates of available revenues based on a forecast for the next fiscal year. The Department of Finance and Management makes provisional allocations to the various budgetary entities ("Departments"), and an assessment of funding required to continue operations at the prior year's levels. Negotiation of revised or incremental funding levels, reflecting Departments' initiatives and priorities and directives from the Governor, while remaining within the projected revenue parameters, takes place through meetings between Departments and the Agency of Administration. Budget documents are submitted electronically, presenting appropriations and expenditures for the current and immediately prior fiscal years and the budget request for the subsequent fiscal year. The Emergency Board issues an updated revenue forecast in January of each year, which may result in revised funding and programmatic recommendations, which are then presented by the Governor to the Legislature no later than the third Tuesday of every annual legislative session, as required by law. After extensive testimony, the Legislature passes an appropriations act, which must be approved by the Governor before spending controls ("appropriations") are set up in the VISION financial management system and expenditures can be made. In practice, annual budgets have been recommended by the Governor and annual appropriations have been approved by the Legislature and signed into law.

Budgets are prepared and appropriated on a cash basis, usually at the program level. The Governor may amend appropriations within certain statutory limits. 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).

Internal Control System

Managers across state government are responsible for seeking opportunities to improve their business processes and program results. The State of Vermont recognizes that appropriate internal controls must be in place to achieve these outcomes and minimize operational risks. In fiscal year 2005, the Department of Finance and Management began an initiative to assess and strengthen internal controls throughout State government. An internal control system is designed to provide reasonable assurance regarding the achievement of objectives for effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. This initiative resulted in the creation of a designated internal controls unit within the Department of Finance and Management. Efforts to date include issuance of additional fiscal policies and procedures, an internal controls standards guide and associated best business practices, quarterly newsletters, and performance of operational reviews in agencies and departments.

The State of Vermont manages statewide accounting operations centrally through an Oracle-based enterprise-wide financial management system (VISION). Enterprise software improves the State's business processes by providing expanded functionality and by incorporating "best practices" and standardized procedures.

Comprehensive Annual Financial Report

The audit of the State's fiscal year 2008 Comprehensive Annual Financial Report (CAFR) was completed on December 23, 2008. The audited basic financial statements of the State for fiscal year 2008, together with KPMG LLP's unqualified opinion on these statements, are included as Appendix A to this Official Statement and as part of the State's fiscal year 2008 CAFR (pages 12 through 144) at Finance & Management's website http://finance.vermont.gov/reports_and_publications/cafr.

KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report referenced in this Official Statement, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Official Statement.

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 the 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 the 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 (the amount by which assets exceed liabilities) are reported on the Statement of Net Assets in three components:

(1) Invested in capital assets, net of related debt – total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that is related to the acquisition or construction of those assets;

(2) Restricted – for amounts when constraints placed on the net assets are either externally imposed, or are imposed by constitutional provisions or enabling legislation. The amount of net assets restricted by enabling legislation for the State as of June 30, 2008 is $98,430,952.

(3) Unrestricted – the total net assets which do not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

Fund Structure

The State's financial statements are structured into three fund types: governmental, proprietary and fiduciary. The funds in the governmental and proprietary fund types are further classified as "major" or "non-major" depending upon their size in relation to the other funds and importance to the financial statement users, as required by Governmental Accounting Standards Board Statement No 34. (See Note 1 in the State's fiscal year 2008 audited financial statements attached hereto as Appendix A for further explanation of these criteria.) 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.

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 (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)) were 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 otherwise categorized that are legally restricted to expenditures for specific purposes. These purposes cover the entire spectrum of State government.

Global Commitment (to health) Fund (Major Fund): This is a major special revenue fund created in accordance with Section 16c of 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal government. This agreement caps Federal expenditures for Medicaid services for five years but gives Vermont great latitude in promoting universal access to health care, cost containment and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies.

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 that 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 Funds: 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 (5 funds) categories as described above.

Internal Service Funds: There are 23 funds of this non-major 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 the following:

Pension and Other Employee Benefit 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, the State's Single Deposit Investment Account, the State Employees' Postemployment Benefit Trust Fund and the Vermont Municipal Employees' Health Benefit Fund. See "PENSION PLANS."

Investment Trust Fund: Under the authority granted in 3 V.S.A. 523, beginning in fiscal year 2008, the State Treasurer created and began accepting deposits into the Vermont Pension Investment Committee (VPIC) Investment Pool, an external investment pool. The investment trust fund is used to account for the investments of the external participants in the Pool.

Private Purpose Trust Funds: The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The State Treasurer administers procedures for returning this property to its rightful owner if he/she can be located. In addition to monetary assets, from time to time the State Treasurer may have custody of tangible property that has not been valued and therefore is not reported in the financial statements. Each year, the fund retains the greater of $100,000 or 50 percent of the amount received during the previous year, and the balance is transferred to the General Fund. Amounts for which the eligibility period for being claimed has expired are transferred to the Higher Education Endowment Fund (a permanent fund).

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 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, 2008 and 2007 as contained in each fiscal year's CAFR.

For fiscal year 2008, the General Fund had a $155.7 million total fund balance as compared to a $163.0 million total fund balance in fiscal year 2007, a decrease of $7.3 million. The unreserved undesignated portion of this fund balance decreased from $68.1 million in 2007 to $54.5 million in 2008. This decrease occurred after the General Fund Budget Stabilization Reserve balance was increased from $55.2 million in 2007 to $57.8 million in

2008, the Reserve for General Fund Surplus (32 V.S.A. 308c) was increased from $23,413 in 2007 to $18.98 million in 2008, and the Reserve for Human Services Caseload Management increased from $17.0 million in 2007 to $17.2 million in 2008. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $123.3 million at the end of fiscal year 2007 to $112.3 million at the end of fiscal year 2008 for a total decrease of $11.0 million.

For fiscal year 2008, the Transportation Fund had a total fund balance of $13.6 million, a decrease of $6.7 million compared to the fiscal year 2007 balance. The unreserved, undesignated portion of the 2008 total fund balance was $1.4 million, which represents a decrease of $5.1 million compared to fiscal year 2007. The Budget Stabilization Reserve in the Transportation Fund ended fiscal year 2008 with a $11.2 million balance, an increase of $528,000 from the fiscal year 2007 balance. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $17.1 million at the end of fiscal year 2007 to $12.6 million at the end of fiscal year 2008 for a total decrease of $4.5 million.

For fiscal year 2008, the Education Fund had a total fund balance of $40.3 million, a decrease of $7.7 million compared to the fiscal year 2007 balance. The unreserved, undesignated portion of the 2008 total fund balance was $10.9 million, which represents a decrease of $8.8 million compared to fiscal year 2007. However, the Budget Stabilization Reserve in the Education Fund increased from $28.2 million in fiscal year 2007 to $29.4 million in fiscal year 2008. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $48.0 million at the end of fiscal year 2007 to $40.3 million at the end of fiscal year 2008 for a total decrease of $7.7 million.

In summary, as of June 30, 2008, the budget stabilization reserves in the the General, Transportation, and Education Funds were fully funded.

For fiscal year 2008, the Global Commitment Fund had a total fund deficit of $36.1 million, a decrease of $5.0 million compared to the fiscal year 2007 balance. This was the result of total expenditures of $783.5 million funded by net transfers in of $778.5 million. The Global Commitment Fund has no legislatively mandated budget stabilization reserve. See "MAJOR GOVERNMENTAL PROGRAMS AND SERVICES – Medicaid and State Health Insurance Initiatives – Medicaid."

For fiscal year 2008, the Federal Revenue Fund reported a total fund balance of $69.8 million, which was an increase of $8.8 million over fiscal year 2007. The unreserved, undesignated portion of this total fund balance increased from $47.8 million in 2007 to $58.1 million in 2008, an increase of $10.3 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, and a meals and rooms tax. These four tax sources accounted for 87.0% of the General Fund revenue in fiscal year 2008.

The following is a brief discussion of the principal General Fund revenue sources.

Personal Income Tax: From January 1, 1994 through December 31, 1999, Vermont Personal Income Tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont Personal Income Tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont Personal Income Tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cut effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure of calculating Vermont income tax based on federal taxable income for tax years 2001 and 2002 was made permanent by the development and implementation of standardized Vermont tax tables utilizing the same revenue base maintenance approach devised under the 2001 to 2002 temporary change. The Personal Income Tax accounted for $622.3 million or 51.9% of net General Fund revenues in fiscal year 2008.

Sales and Use Tax: The 2003 Vermont General Assembly increased the general Vermont Sales and Use Tax rate from 5% to 6% effective October 1, 2003. Major exemptions to the State's general Sales and Use Tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to, in part, fund Act 60 (the State's education finance reform legislation). The telecommunications sales tax rate was increased to the general sales tax rate of 6% effective October 1, 2003. Effective July 1, 2004, the statutory structure of these taxes changed 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. Effective January 1, 2007, the State also became a participant in the multi-state Streamlined Sales Tax Agreement (SSTA). The SSTA is a multi-state effort to simplify and streamline state sales and use taxes in order to facilitate the collection of such taxes from out-of-state vendors such as mail order and internet retailers. The Douglas Administration and Legislative Joint Fiscal Office have completed a second round of consensus revenue estimates for this initiative based on the first six months of actual experience. Based on the conforming changes to the State's Sales and Use Tax statute that were necessary to become a participant in this initiative, it is expected that the SSTA will result in additional sales and use tax revenue of $9.4 million and $9.6 million for fiscal years 2008 and 2009, respectively. In fiscal year 2008, the Sales and Use Tax totaled $225.6 million or 18.8% 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. In fiscal year 2008, Meals and Rooms Tax revenues amounted to $121.1 million or 10.1% of revenues available to the General Fund.

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 was 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% and 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. In fiscal year 2008, receipts from the Corporate Income Tax were $74.6 million or 6.2% of the revenues available to the General Fund.

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 rates 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. In fiscal year 2008, insurance taxes accounted for $54.8 million or 4.6% of net General Fund revenues.

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. In fiscal year 2008, telephone receipts and property taxes generated $9.5 million or 0.8% 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 2008, receipts from the transfer tax totaled $40.0 million. After statutory transfers, net receipts totaling $10.7 million or 0.9% of revenues available were retained by the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2008, liquor taxes generated $14.2 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 $5.6 million or 0.5% of net General Fund revenues in fiscal year 2008.

Estate Tax: Transfers of estates are taxed in an amount equal to the federal credit for State death taxes as computed from the Internal Revenue Code in effect on January 1, 2001. The estate tax accounted for $15.7 million or 1.3% of net General Fund revenues in fiscal year 2008.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 was restructured for periods beginning in 2004. Until January 1, 2004 plants were assessed a tax of 3.5% of the value thereof less an adjustment for local taxes as appraised by the Commissioner of Taxes. Effective January 1, 2004 the tax is assessed on generation according to a rate schedule ranging from a $2.0 million minimum to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000. The tax raised $2.7 million or 0.2% of net General Fund revenues in fiscal year 2008.

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 have been dedicated to the General Fund. The bank franchise tax revenues were $10.2 million, which represented 0.8% of revenues available to the General Fund in fiscal year 2008.

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 were $32.9 million or 2.7% of revenues available to the General Fund in fiscal year 2008.

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 2008.

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. During the 2006 session, the Vermont General Assembly changed the statutory cap on taxes paid to $1,680 effective July 1, 2007. After the statutory transfer of receipts to the Education Fund, revenues totaling $52.7 million representing 23.6% of net revenues available to the Transportation Fund were received in fiscal year 2008.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers with the amount 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 2006 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2007. In fiscal year

2008, motor vehicle fees accounted for $67.5 million, representing 30.3% of net revenues and fees available to the Transportation Fund.

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 19 cents (plus one cent per gallon petroleum licensing fee) per gallon sold, a four 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 2008, the motor fuel tax accounted for $62.6 million or 28.1% of net revenues available to the Transportation Fund.

Since 2000, diesel tax has been imposed at the distributor level at 25 cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. In fiscal year 2008, the diesel fuel tax accounted for $16.6 million or 7.4% of net revenues available to the Transportation Fund.

Other Taxes-Fees: These categories include all remaining sources of revenue for the Transportation Fund except Federal receipts. 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. During the 2006 session, the Vermont General Assembly passed legislation that changed the level of several fees in this category effective July 1, 2007. In fiscal year 2008, these other sources of revenues accounted for $23.6 million or 10.6% of net revenues available to the Transportation Fund.

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 eleven years.

Prior to Act 60, each school district funded educational expenditures within that district and set tax rates and collected school taxes from the population of the district. School tax rates were determined by each school district and ranged from as little as $0.125 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. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues. 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. 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.

In 2003, the Legislature passed Act 68, which modified the statewide property tax system by classifying property as either homestead or nonresidential and taxing those classes differently. Homestead property was assessed at the rate of $1.10 per $100 of assessed value multiplied by the district spending adjustment, while all other property was assessed at $1.59 per $100 and was not subject to the district spending adjustment. These rates have been adjusted annually based upon the Education Fund balance. For fiscal year 2008, the homestead and non-residential rates were $0.87 and $1.36, respectively.

In addition to business property tax relief provided to industrial and commercial owners, Act 60 and Act 68 each provided that any household with income of less than $75,000 would not pay more than 2%, adjusted for district spending, of that income for the statewide school taxes. The household income amount was raised to $85,000 for fiscal year 2007 and to $90,000 for fiscal year 2008 and after. If a household's income is over the specified amount, the taxes on the first $200,000 of equalized homestead value are used in the calculation of the adjustment. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total applicable tax (municipal and school) exceeds between 2.0% and 5.0% of their income based on a sliding scale. The applicable percentage for the lowest income category was reduced from 3.5% to 2.0% for claims filed in fiscal year

2007 and after. The maximum adjustment amount for claims filed in fiscal year 2007 was $10,000, reduced to $8,000 for claims filed in fiscal year 2008 and after.

In 2006, the Legislature passed Act 185, which significantly altered the way property tax adjustments are paid. It combines the former payments to individual taxpayers into one adjustment amount paid to the applicable municipality to be credited on individual taxpayers' 2007–08 property tax bills. For fiscal year 2008, that amount was paid to the municipality in which the homestead is located on or around July 1, 2007 for timely filed homestead declarations. A second payment to the municipalities occurred on or around September 15, 2007 for late filed declarations. For fiscal year 2009, municipalities were notified of any property tax adjustment that was to be credited to a taxpayer's bill, but only the municipal tax portion of the adjustment was paid to the municipalities.

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 districts in three payments while the towns pay net amounts due the State in two equal payments. Municipalities retain a percentage of the total education tax collected upon timely remittance of net payments. Beginning in fiscal year 2009, the percentage was increased from 0.125% to 0.225%.

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 one-third 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 30% of Medicaid reimbursement revenues for qualified medical services provided to students in grades K-12 to the Education Fund consistent with Title 16 VSA, Section 2959a and recent changes in federal law governing those reimbursements. The statewide education tax contributed $798.91 million or 64.01% of total Education Fund revenues. Sales and Use Tax receipts for fiscal year 2008 totaled $112.8 million, or 9.04% of total Education Fund revenues. Purchase and Use Tax receipts for fiscal 2008 were $26.35 million, corresponding to 2.11% of total Education Fund revenues. The Education Fund also has earned minimal amounts interest income over the years. In fiscal year 2008, the State lottery transferred $22.71 million to the Education Fund.

Federal Receipts

In fiscal year 2008, the State's special revenue funds received approximately $1.318 billion in total from the federal government on a GAAP basis, an increase of $74 million or 5.9% over fiscal year 2007. These revenues represent 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 2009 Appropriations Act, as passed, anticipates approximately $1.3 billion in federal receipts without regard to any amounts expected to be received under the recently enacted ARRA.

Federal grants normally are restricted as to use depending on the particular program being funded, and normally require matching resources by the State. The largest categories of federal grants and reimbursements in fiscal year 2008 were made in the areas of Human Services, $862.3 million; Transportation, $167.4 million; Education, $107 million; Employment and Training, $18.5 million and Natural Resources, $27.1 million.

Tobacco Litigation Settlement Fund

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

	Master Settlement[1]	Expected[2]	Actual[3]
Fiscal year 2001	$28.47	$28.47	$24.68
Fiscal year 2002	34.18	34.18	30.92
Fiscal year 2003	34.51	34.51	30.55
Fiscal year 2004	28.80	28.80	25.82
Fiscal year 2005	28.80	26.10	26.20
Fiscal year 2006	28.80	24.50	24.06
Fiscal year 2007	28.80	22.60	24.99
Fiscal year 2008	29.37	39.50	39.91
Fiscal year 2009	29.37	39.91[4]	*

[1] At time of initial settlement; amounts subject to adjustments.
[2] Determined during third quarter of each fiscal year. Beginning in fiscal year 2008, amount includes strategic payments expected.
[3] Revised and without accounting for Tobacco Litigation Settlement Fund Account performance due to interest income or expense.
[4] Expected payments include $27.78 million in Master Settlement payments, less $2.3 million of estimated Master Settlement payments to be withheld and certain other adjustments. The State also expects to receive approximately $14.42 million in Strategic Contribution Payments (as defined in the Master Settlement Agreement), although the State also expects a currently unknown portion of the Strategic Contribution Payments may be withheld.
* Not available.

Pursuant to the Master Settlement Agreement, in addition to regular Master Settlement payments, beginning in fiscal year 2008, Vermont is to receive up to approximately $14.4 million in Strategic Contribution Payments (as defined in the Master Settlement Agreement) per year for ten years. Both the regular Master Settlement payments and the Strategic Contribution Payments are subject to withholding adjustments based on inflation, the effect of any decreases in the sale of tobacco products to the base year among participating manufacturers and certain other adjustments. Various aspects of the Master Settlement Agreement remain in litigation or arbitration in venues across the country.

In fiscal year 2000, the Vermont Legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the Master Settlement Agreement are deposited into the Tobacco Litigation Settlement Fund. The State of Vermont targets these revenues specifically for tobacco enforcement, prevention and education programs, substance abuse and youth protection programs in the Agency of Human Services. These funds are also used to support Medicaid and other health-related spending but are not used as a supplemental revenue source to fund other core governmental operations. Any unexpended receipts at the end of each fiscal year are earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. The balance in the Tobacco Investment Trust Fund at the end of fiscal year 2008 was $30.9 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 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 $45.13 million was reduced by transfers to the Transportation Fund ($4.8 million), Health Access Trust Fund ($14.3 million), various Internal Service Funds ($3.7 million) and other funds ($1.4 million). After a transfer to the Budget Stabilization Reserve of $1.3 million, $19.6 million remained as a General Fund Surplus Reserve for use in fiscal year 2006.

The State ended fiscal year 2005 with an operating deficit of $7.3 million in the Transportation Fund. The shortfall was covered by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with a Budget Stabilization Reserve of $11.1 million, the maximum allowed by statute.

The State ended fiscal year 2005 with Education Fund revenues of $153.9 million and an operating loss of $10.58 million. The shortfall was covered by a transfer from the unallocated/unreserved balance. The Education Fund Budget Stabilization Reserve was $22.9 million, the maximum allowed by statute.

Fiscal Year 2006

The State ended fiscal year 2006 with General Fund revenues of $1,111.91 million. The year-over-year growth was 7.4%. Compared to target, the year end revenues were 3.9% above the January revenue forecast of $1,070.4 million and 5.0% above the previous July forecast of $1,059.0 million. Both Personal Income Tax and Corporate Income Tax receipts were unexpectedly strong resulting in the majority of the increase. The Meals and Rooms Tax was the most significant under-performing revenue component due to a mild winter, an extremely wet spring, and high gasoline prices, which negatively impacted tourism related income.

The General Fund Operating Surplus of $43.4 million was reduced by transfers to the Transportation Fund ($10.0 million), various Internal Service Funds ($2.0 million) and other funds ($1.9 million).

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 to $217.3 million. On January 11, 2006, the Emergency Board agreed to reduce the fiscal year 2006 Transportation Fund revenue forecast again to $215.6 million, a downward revision of $1.7 million (or 0.8%). Actual revenues for the fiscal year ending June 30, 2006 were $209.9 million. The operating shortfall for fiscal year 2006 of $3.92 million was covered by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with a Budget Stabilization Reserve of $11.04 million, the maximum allowed by statute.

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. The January 11, 2006 revenue forecast downgraded the Education Fund Revenues by $0.9 million, or 0.6% of the July 5, 2005 consensus forecast, to $155.5 million. In fiscal year 2006, the Education Fund experienced strong revenue growth in all funding components: lottery, Sales and 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 and Use Tax. The Education Fund ended the fiscal year with an operating surplus of $1.4 million with $24.32 million in the Budget Stabilization Reserve, 90.8% of the statutory maximum.

Fiscal Year 2007

The State ended fiscal year 2007 with General Fund revenues of $1,151.4 million and an operating surplus of $31.7 million. The year-over-year growth was 3.5%. Compared to target, year end revenues were 2.4% above the January 2007 revenue forecast of $1,124.1 million and 2.6% above the July 2006 forecast of $1,122.7 million. Both Personal Income Tax and Corporate Income Tax receipts were unexpectedly strong and account for the majority of the increase. The Sales and Use Tax was the most significant under-performing tax missing forecast by 3.38% or $3.87 million. The operating surplus was reduced by transfers to the Transportation Fund ($8.0 million) and other funds ($1.1 million). The General Fund ended the fiscal year with $55.22 million in Budget Stabilization Reserves, 100% of statutory maximum.

The State ended fiscal year 2007 with Transportation Fund revenues of $219.9 million and an operating shortfall of $3.1 million, which was covered by reverting available appropriations at year-end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with $10.67 million in Budget Stabilization Reserves, 100% of statutory maximum.

The State ended fiscal year 2007 with Education Fund revenues of $163.3 million and an operating surplus of $19.9 million. The Education Fund Budget Stabilization was at 100% of statutory maximum with a $28.3 million balance.

Fiscal Year 2008

The State ended fiscal year 2008 with General Fund revenues of $1,199.8 million and an operating surplus of $30.1 million. Year-over-year growth was 4.2%. Compared to target, the revenues were 0.9% over the April 2008 revised revenue forecast of $1,189.7 million, and 2.5% above the July 2007 revenue forecast of $1,170.2 million. The majority of the higher than projected General Fund revenues was attributable to the Personal Income Tax, which completed the fiscal year ahead of the April 2008 revised revenue forecast by $12.6 million or 2.1%. The most significant under-performing tax was the Sales and Use Tax that ended the fiscal year at $225.6 million, which was 1.9% below the April 2008 revised revenue forecast. However, the Sales and Use Tax revenues were 1.4% higher than fiscal year 2007. The operating surplus was reduced by net transfers to various other funds ($7.57 million). The General Fund's operating results allowed for $2.6 million to be added to the Budget Stabilization Reserve, bringing the balance to $57.8 million (100% of the 5% statutory maximum), and an additional $18.975 million to be put in the General Fund Surplus Reserve.

The State Transportation Fund ended fiscal year 2008 with revenues of $223.1 million and an operating surplus of $2.15 million. Year-over-year growth was 1.4%. Compared to target, the revenues were 1.4% below the April 2008 revenue forecast of $226.2 million. The four major components of the Transportation Fund's revenues were below their respective targets for the fiscal year. The gasoline tax ended the year at $62.6 million, which was 0.18% below the revenue target. The diesel tax ended the year at $16.6 million, which was 2.99% below the revenue target. The motor vehicle Purchase and Use Tax ended the year at $52.7 million, which was 2.42% below the revenue target. The Transportation Fund's operating results allowed for $528,000 to be added to the Budget Stabilization Reserve, bringing the balance to $11.2 million (100% of the 5% statutory maximum), and an additional $624,000 to be added to the Transportation Surplus Reserve.

The State Education Fund ended fiscal year 2008 with revenues of $160.5 million and an operating shortfall of $3.1 million. Compared to target, the revenues were 1.1% below the April 2008 revenue forecast of $162.3 million. In order for the Education Fund to maintain a fully funded Budget Stabilization Reserve (100% of the 5% statutory maximum), $1.1 million was allocated to the Budget Stabilization Reserve from the unreserved and undesignated Education Fund balance, leaving an unreserved and undesignated Education Fund balance of $5.82 million.

Fiscal Year 2009 General, Transportation and Education Funds to Date

The deteriorating economic climate over the past year, and especially over the last five months since September 2008, has resulted in a series of revenue forecast downgrades as part of the consensus revenue forecasting process. Since the January 2008 consensus forecast, a total of four downward revisions in the General Fund have reduced expected receipts for fiscal years 2009 and 2010 by $80.8 million (or 6.8% of the $1,184.8 million January 2008 consensus forecast) and $152.5 million (or 12.5% of the $1,224.5 million January 2008 consensus forecast), respectively. Similarly, the four downward revisions in the consensus forecast for the Transportation Fund have reduced expected receipts in fiscal years 2009 and 2010 by $21.4 million (or 9.4%) and $22.5 million (or 7.2%) of their respective January 2008 consensus forecast totals. For the Education Fund, these downward revisions have reduced revenue expectations for fiscal years 2009 and 2010 by $18.5 million (or 11.1%) and $23.8 million (or 13.7%) of their respective January 2008 consensus forecast totals.

Even though the State has repeatedly reduced its revenue expectations for fiscal year 2009 and fiscal year 2010 over the past year, the accelerating and broad-based nature of the current economic downturn since September 2008 has made accurately forecasting future receipts problematic, even for time periods as short as one to three months. As a result, the State has moved to a quarterly examination and forecasting cycle for General Fund, Transportation Fund and Education Fund revenues. This more frequent forecasting cycle is expected to remain in place at least until the national and State economic recessions reach bottom and begin their respective economic turnarounds.

Following the increasing pace of national job losses and declines in consumption and retail sales activity, aggregate January 2009 revenues in the State's three major funds significantly underperformed from targets and were down $17.0 million or 10.3% versus the consensus monthly cash flow target. On a year-to-date basis, the State's General Fund, Transportation Fund and Education Fund were approximately $16.98 million or 1.9% below their year-to-date consensus cash flow target, with year-to-date receipts totaling $879.4 million.

The following tables present revenue results for components of each major fund, as compared to January 2009 monthly cash flow targets and fiscal year 2009 year-to-date targets.

Fiscal Year 2009 General Fund Results to Date

	January 2009			FY 2009 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Personal Income Tax	$80,637,612	$72,967,489	(9.5%)	$368,160,806	$360,490,683	(2.1%)
Sales and Use Tax	27,376,528	25,332,948	(7.5)	136,526,250	134,482,670	(1.5)
Corporate Income Tax	3,222,837	2,080,610	(35.4)	25,763,853	24,621,626	(4.4)
Meals and Rooms Tax	10,841,900	10,148,705	(6.4)	73,125,378	72,432,183	(0.9)
Property Transfer	600,851	598,978	(0.3)	6,211,717	6,209,844	0.0
Other Revenues	10,573,877	8,074,740	(23.6)	79,115,727	76,668,590	(3.1)
Total	$133,253,605	$119,203,470	(10.5)	$688,903,731	$674,905,596	(2.0)

[1] Official Revenue Estimates as of January 13, 2009.
Note: Un-audited.

Fiscal Year 2009 Transportation Fund Results to Date

	January 2009			FY 2009 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Gasoline Tax	$5,141,940	$5,110,573	(0.6%)	$36,347,164	$36,315,797	(0.1%)
Diesel Tax	1,345,404	935,710	(30.5)	9,347,815	8,938,121	(4.4)
Purchase and Use Tax	3,216,650	2,712,798	(15.7)	25,506,948	25,003,096	(2.0)
Motor Vehicle Fees	4,246,972	4,033,179	(5.0)	34,434,554	34,220,761	(0.6)
Other Fee Revenues	1,547,008	1,114,727	(27.9)	10,100,997	9,668,716	(4.3)
Total	$15,497,974	$13,906,987	(10.3)	$115,737,478	$114,146,491	(1.4)

[1] Official Revenue Estimates as of January 13, 2009.
Note: Un-audited.

Fiscal Year 2009 Education Fund Results to Date*

	January 2009			FY 2009 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Sales and Use Tax	$13,688,264	$12,666,284	(7.5%)	$68,262,306	$67,240,326	(1.5%)
Lottery	1,956,934	1,366,443	(30.2)	10,954,797	10,364,306	(5.4)
Motor Vehicle Purchase & Use Tax	1,608,325	1,356,399	(15.7)	12,753,474	12,501,548	(2.0)
Other Revenues[3]	(447,204)	22,919	NM	(246,422)	223,701	NM
Total	$16,806,320	$15,412,045	(8.3)	$91,724,156	$90,329,881	(1.5)

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of January 13, 2009.
[3] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as negative revenue.
Note: Totals may not add due to rounding. All figures are unaudited. NM means not meaningful.

The State continues to monitor its revenues on a monthly basis. Should the trend of revenue underperformance continue through February 2009, the State expects to take action in advance of its April quarterly revenue forecast meeting to make necessary adjustments. Further revenue forecast downgrades are possible until the still fast-deteriorating national economic environment stabilizes.

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.

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 maximum statutory levels on June 30, 2005.

As of June 30, 2006, the General Fund Budget Stabilization Reserve was $51.81 million with an additional $21.14 million in the General Fund Surplus Reserve. On June 30, 2006, the Human Services Caseload Reserve totaled $8.45 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2006 was $11.04 million. The Education Fund Budget Stabilization Reserve was $24.32 million as of June 30, 2006. For fiscal year 2006, the State fully funded the Budget Stabilization Reserves for the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve at June 30, 2006 was 129.7% of the minimum and 90.8% of the maximum amounts allowed by State statute.

As of June 30, 2007, the General Fund Budget Stabilization Reserve was $55.22 million with an additional $10.69 million in General Fund Surplus Reserve. On June 30, 2007, the Human Services Caseload Reserve totaled $16.98 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2007 was $10.67 million. The Education Fund Budget Stabilization Reserve was $28.25 million as of June 30, 2007. For fiscal year 2007, the

State fully funded the Budget Stabilization Reserves for the General Fund, the Transportation Fund and Education Fund at their respective maximum statutory levels on June 30, 2007.

As of June 30, 2008, the General Fund Budget Stabilization Reserve was $57.84 million with an additional $18.98 million in General Fund Surplus Reserve. On June 30, 2008, the Human Services Caseload Reserve totaled $17.24 million. The Transportation Fund Budget Stablilization Reserve as of June 30, 2008 was $11.2 million with an additional $0.63 million in the Transportation Fund Surplus Reserve. The Education Fund Budget Stabilization Reserve was $29.39 million as of June 30, 2008. For fiscal year 2008, the State fully funded the Budget Stabilization Reserves for the General Fund, Transportation Fund and Education Fund at their respective maximum statutory levels on June 30, 2008.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2005 through 2008, as recommended in April 2008 for fiscal year 2009, and as revised for the current consensus revenue forecast and the August 2008 and December 2008 appropriation rescissions, for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2005 – 2009
($ in Millions)

	Actual FY2005	Actual FY2006	Actual FY2007	Actual FY2008	As Passed FY2009[2]	Current Law FY2009[3]
Sources						
Current Law Revenues	$1,035.33	$1,111.91	$1,151.36	$1,199.74	$1,155.20	$1,104.00
VEDA Debt Forgiveness	0.00	0.00	0.00	0.00	(0.26)	(0.26)
Direct Applications & Reversions	18.61	14.79	25.69	16.64	29.25	35.29
Other Bills Revenue	0.00	0.00	0.00	0.00	9.55	1.56
Additional Property Transfer Tax	13.77	10.33	8.29	3.15	3.82	2.09
Liquidate Debt Service/Bond Prem. Reserve[4]	0.00	0.10	0.00	0.00	0.00	0.00
Current Year Sources	1,067.71	1,137.13	1,185.34	1,214.53	1,197.56	1,142.68
For Appropriations Prior Year Surplus Reserve	15.63	19.64	21.84	10.87	18.98	19.13
Total Sources	1,083.34	1,156.77	1,207.18	1,230.39	1,216.53	1,161.81
Uses						
Base appropriations	984.71	1,052.17	1,121.08	1,174.78	1209.80	1,210.39
Pay Act	5.74	7.43	3.80	0.00	0.00	0.00
Contingent Base Appropriations	0.00	0.00	0.00	0.00	0.00	(27.31)
One-time Appropriations	35.54	16.27	8.90	6.14	0.00	20.21
Additional GF to Ed Fund - Act 68 2003	0.00	0.00	0.00	0.00	0.00	0.00
One-time Appropriations P/Y Surplus Reserve	0.00	11.78	14.76	12.46	1.03	1.03
Contingent One-time Appropriations from Same Year Surplus	12.22	24.72	23.71	6.79	0.00	2.30
Other Bills	0.00	1.06	3.20	0.10	0.32	0.32
Human Services Caseload Reserve	0.00	0.00	0.00	0.00	0.00	0.00
Enhanced Federal Financial Participation	0.00	0.00	0.00	0.00	0.00	0.00
Federal Flexible Funding Replacement	0.00	0.00	0.00	0.00	0.00	0.00
Total Uses	1,038.21	1,113.43	1,175.45	1,200.27	1,211.14	1,206.94
Operating Surplus (deficit)	45.13	43.34	31.73	30.12	5.39	(45.13)
Transfers of Surplus (to) / from Other Funds						
Transportation Fund	(4.77)	(10.02)	(8.00)	0.00	0.00	0.00
Tobacco Settlement	0.00	0.00	0.00	0.00	0.65	3.65
General Bond Fund	1.71	(0.70)	(0.18)	0.00	0.00	0.00
Internal Service Funds	(3.72)	(2.00)	(4.45)	(0.45)	(0.40)	(1.76)
Health Access Trust Fund	(14.29)	0.00	0.00	0.00	0.00	0.00
Other Funds	(3.14)	(13.53)	(5.00)	(6.86)	(4.87)	(0.68)
Human Service Caseload Reserve	0.00	12.30	8.53	(0.26)	0.96	0.96
Total Transfers (to) / from Other Funds	(24.21)	(13.95)	(9.10)	(7.57)	(3.66)	2.17
Transfers of Surplus (to)/from Reserves						
Budget Stabilization Reserve	(1.28)	(6.04)	(3.41)	(2.62)	(1.83)	(2.17)
Human Services Caseload Reserve	0.00	(2.21)	(8.53)	0.00	0.00	0.00
Reserved for transfer to Education Fund	0.00	0.00	0.00	0.00	0.00	0.00
Reserved for transfer to Debt Service4	0.00	0.00	0.00	0.00	0.00	0.00
Reserved in GF Surplus Reserve	(19.64)	(21.14)	(10.69)	(19.93)	0.10	0.00
Total Reserved in the GF	(20.92)	(29.39)	(22.63)	(22.55)	(1.73)	(2.17)
Total Transfer of Surplus	(45.13)	(43.34)	(31.73)	(30.12)	(5.39)	0.00
Unallocated Operating Surplus/ (Deficit)	0.00	0.00	0.00	0.00	0.00	(45.13)
GF Reserves (cumulative)						
Budget Stabilization Reserve	45.77	51.81	55.22	57.84	59.67	60.01
Human Services Caseload Reserve	18.54	8.45	16.98	17.24	16.29	16.29
Reserved for Bond Premium/Debt Service4	0.00	0.70	0.18	0.95	0.80	0.80
Reserved in GF Surplus Reserve	19.64	21.14	10.69	18.98	(0.10)	0.00
Total GF Reserve Balances	$83.95	$82.10	$83.07	$95.01	$76.65	$77.10

[1] Results may not add due to rounding.
[2] Based on April 2008 revenue forecast and appropriations effective July 1, 2008.
[3] Reflects the FY 2009 General Fund, as passed, revised for the current consensus revenue forecast and transfers in from other funds adopted by the Vermont Emergency Board through January 13, 2009, and adjusted for appropriation rescissions approved by the Legislature's Joint Fiscal Committee on August 27, 2008 and December 19, 2008. The Governor proposed his FY 2009 budget adjustment recommendations on January 22, 2009, which, if adopted, would eliminate the deficit shown above. The Budget Adjustment Bill is currently under consideration by the Legislature. See "Fiscal Year 2009 Rescissions" below.
[4] Per 32 V.S.A. 954 (a), bond premium received from issuance of debt is to be used as part of the first interest or principal payment to bondholders.

Transportation Fund Operating Statement[1]
Budgetary Based
Fiscal Years 2005 – 2009
($ in Millions)

	Actual FY 2005	Actual FY 2006	Actual FY 2007	Actual FY 2008	As Passed FY 2009[2]	Current Law FY 2009[3]
Sources						
Current Law Revenues	$209.13	$209.82	$219.97	$223.08	$224.46	$206.50
Federal Reimbursements	0.00	0.00	0.00	0.00	0.00	0.00
Refund of Prior Year	1.53	0.00	0.00	0.00	0.00	0.00
Direct Applications & Transfers In	7.37	0.54	0.88	4.80	0.00	0.23
Current Year Sources	218.03	210.36	220.85	227.88	224.46	206.73
For Approp from General Fund Transfer	0.00	0.00	0.00	0.00	0.00	0.00
For Approp from RMMTC Reserve	0.00	0.00	0.00	0.00	0.00	0.00
Prior Year Unallocated Operating Surplus	0.00	0.00	0.00	3.22	0.60	0.62
Total Sources	218.03	210.36	220.85	231.10	225.06	207.35
Uses						
Base Appropriations	220.54	218.83	229.25	227.76	221.42	214.74
Budget Adjustments	0.75	0.00	(7.67)	0.00	0.00	0.00
Excess Receipts	0.02	0.00	0.00	0.00	0.00	0.00
Pay Act	1.46	1.25	2.41	1.19	1.21	1.21
Rescission	0.00	(5.80)	0.00	0.00	0.00	0.00
Contingent One-time Approp from Prior Year	2.60	0.00	0.00	0.00	0.00	0.00
Total Uses	225.37	214.28	223.99	228.95	222.63	215.95
Operating Surplus (deficit)	(7.34)	(3.92)	(3.14)	2.15	2.43	(8.60)
Allocation of Surplus						
Transfers of Surplus (to) / from Other Funds:						
General Fund	4.77	10.02	8.00	0.00	0.00	0.00
Downtown Fund	(0.80)	(0.80)	(0.80)	(0.73)	(0.40)	(0.40)
Central Garage Fund	2.60	(5.00)	(0.85)	(0.10)	(1.38)	(1.38)
FMS Development Fund	1.25	0.00	0.00	0.00	0.00	0.00
Art Acquisition Fund	0.00	0.00	0.00	0.00	0.00	0.37
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	7.45	3.85	5.98	(1.00)	(2.15)	(1.78)
Reserved in TF (designated):						
Bond Insurance Premium Reserve	0.13	0.00	0.00	0.00	0.00	0.00
Transportation FMS Development Fund	0.31	0.00	0.00	0.00	0.00	0.00
Budget Stabilization Reserve	(0.56)	0.05	0.37	(0.53)	(0.25)	(0.09)
Total Reserved in the TF (designated)	(0.12)	0.05	0.37	(0.53)	(0.25)	(0.09)
Total Allocated	7.33	3.90	6.35	(1.53)	(2.40)	(1.87)
Unallocated Operating Surplus / (deficit)	0.00	0.00	3.22	0.62	0.03	(10.47)
TF Reserves (cumulative)						
Bond Insurance Premium Reserve	$0.00	0.00	0.00	$0.00	$0.00	0.00
Transportation FMS Development Fund	0.00	0.00	0.00	0.00	0.00	0.00
Budget Stabilization Reserve	11.10	11.04	10.67	11.20	11.45	11.29
Rutland MMTC Reserve	0.00	0.00	0.00	0.00	0.00	0.00
Total TF Reserve Balances	$11.10	$11.04	$10.67	$11.20	$11.45	$11.29

[1] Results may not add due to rounding.
[2] Based on April 2008 revenue forecast and appropriations effective July 1, 2008.
[3] Reflects the FY 2009 Transportation Fund, as passed, revised for the current consensus revenue forecast and transfers in from other funds adopted by the Vermont Emergency Board through January 13, 2009, and adjusted for appropriation rescissions approved by the Legislature's Joint Fiscal Committee on August 27, 2008 and December 19, 2008. The Governor proposed his FY 2009 budget adjustment recommendations on January 22, 2009, which, if adopted, would eliminate the deficit shown above. The Budget Adjustment Bill is currently under consideration by the Legislature. See "Fiscal Year 2009 Rescissions" below.

Education Fund Operating Statement[1]
Budgetary Based
Fiscal Years 2005 – 2009
($ in Millions)

	Actual FY 2005	Actual FY 2006	Actual FY 2007	Actual FY 2008	As Passed FY 2009[2]
Sources					
Current law revenues	$29.87	$28.87	$28.79	$28.29	$24.64
Sales Tax	103.60	108.46	111.24	112.80	107.30
Lottery Revenue	20.38	22.88	23.30	22.71	20.70
Homestead Property Tax	346.56	394.40	422.53	321.43	341.78
Non-Residential Property Tax	385.82	418.08	455.06	477.48	535.19
General Fund Appropriations	249.30	259.30	282.38	280.20	291.13
Medicaid Reimbursement	9.62	7.29	5.63	6.45	5.30
Interest on Fund Balance	(0.51)	(0.68)	(1.28)	(1.31)	(1.80)
Total Sources	1,144.63	1,238.60	1,327.64	1,248.05	1,324.24
Uses					
Base appropriations	1,155.28	1,241.69	1,308.70	1,254.32	1,323.64
School Construction Assistance	1.39	0.45	0.38	.22	.22
Total Uses	1,156.67	1,242.14	1,309.08	1,254.54	1,323.86
Revenue Surplus/(Deficit)	(12.04)	(3.55)	18.56	(6.49)	0.38
Appropriation Surplus/(Deficit)	1.47	4.93	1.42	3.39	0.00
Operating Surplus (deficit)	(10.58)	1.38	19.98	(3.11)	0.38
Transfer Out	0.00	(0.93)	0.00	(4.70)	0.00
Net Surplus/(Deficit)	(10.58)	0.45	19.98	(7.81)	0.38
Education Fund Balance: Start of Fiscal Year					
Budget Stabilization Reserve	$22.76	$22.90	$24.32	$28.25	$29.39
Cumulative Prior Year Appropriation Surplus/(Deficit)	1.87	1.75	5.03	4.98	6.31
Prior Year Unallocated/Unreserved	14.85	4.25	0.00	16.10	5.82
Total	$39.48	$28.90	$29.36	$49.33	$41.53
Operating Surplus/(Deficit) Allocation					
Transfer to/(from) the Stabilization Reserve	$0.14	$1.42	$3.92	$1.14	$(4.26)
Transfer to/(from) Continuing Appropriations	(0.12)	3.28	(0.05)	1.33	(3.59)
Transfer to/(from) Unallocated/Unreserved	(10.60)	(4.25)	16.10	(10.28)	8.23
Education Fund Balance: End of Fiscal Year	$28.90	$29.36	$49.33	$41.53	$41.91

[1] Results may not add due to rounding.
[2] Based on April 2008 revenue forecast and appropriations effective July 1, 2008. Subsequent appropriation rescissions in August 2008 and December 2008 did not impact the Education Fund. See "Fiscal Year 2009 Rescissions" below.

Fiscal Year 2009 Rescissions

In response to the July 2008 and November 2008 downgrades in the fiscal year 2009 consensus revenue forecast and in accordance with State law (32 V.S.A §704 (b)(1)), the Secretary of Administration submitted two rescission plans to the Joint Fiscal Committee, which began the effort to eliminate the estimated fiscal year 2009 budget gaps in both the General Fund and Transportation Fund.

The first rescission plan was submitted to the Joint Fiscal Committee in response to the $23.45 million consensus revenue forecast reduction that was adopted by the Emergency Board in July 2008. The first rescission plan addressed the budget gap in full using a combination of appropriations reductions of $11.42 million and revenue enhancements and/or fund transfers totaling $12.03 million. On August 27, 2008, the Joint Fiscal Committee approved the rescission plan appropriation reductions, and the Emergency Board subsequently approved the fund transfers. The second rescission plan was submitted to the Joint Fiscal Committee in response to the $29.4 million consensus revenue forecast reduction adopted by the Emergency Board on November 18, 2008. On December 19, 2008, the Joint Fiscal Committee approved $15.89 million of the appropriation reductions submitted. With the Legislature due to convene 19 days later in January 2009, the Joint Fiscal Committee chose at that time to have the remaining budget gap addressed by the full Legislature as part of the annual budget adjustment process. Subsequently, the fiscal year 2009 consensus revenue forecast was further reduced by $10.4 million at the Emergency Board meeting on January 13, 2009. An estimated $45.3 million budget gap remained after the cumulative impact of the second rescission appropriation reductions, the January 2009 revenue downgrade and upward budget pressures primarily in Human Services.

The fiscal year 2009 Transportation Fund consensus revenue forecast was also reduced in July 2008, November 2008 and January 2009. Rescissions to the appropriations of $4.02 million and $3.66 million were approved by the Joint Fiscal Committee on August 27, 2008 and December 19, 2008, respectively. An estimated $10.5 million Transportation Fund budget gap remained after the cumulative impact of the rescission plans' appropriation reductions, the January 2009 revenue downgrade and upward budget pressures.

On January 22, 2009, the Governor presented his fiscal year 2009 Budget Adjustment recommendations to the General Assembly. The General Fund budget adjustment recommendations included an assumption of receipt of $61.0 million in federal recovery assistance due to a projected reduction in the federal match rate required for Medicaid under the ARRA. The ARRA includes, for all states, additional funding for Medicaid reimbursement, but requires that certain Medicaid premiums were not increased since July 1, 2008. Vermont had previously adopted a premium increase for certain Vermonters receiving subsidized healthcare, effective July 3, 2008. The portion of the premium increase now expected to be repealed was estimated to increase revenues by $56,969 and $523,571 for fiscal years 2009 and 2010, respectively. The Legislature is currently expected to repeal a portion of the July 2008 premium increase in order to permit the State to obtain $37.75 million in federal funds currently due to the State under the ARRA, and to permit the receipt of additional funding for Medicaid reimbursement under the ARRA in the future. The Legislature is expected to effect the repeal as part of the Budget Adjustment Act expected to be passed on or around March 17, 2009.

The General Fund is projected to end fiscal year 2009 with a fully funded Budget Stabilization Reserve (5%) and a surplus of approximately $12.0 million to be used to support budget needs in fiscal year 2010. The fiscal year 2009 Transportation Fund budget adjustment recommendations included revenue enhancements from proposed new and increased fees, and additional appropriation reductions to balance the budget while maintaining a fully funded Budget Stabilization Reserve (5%).

The majority (89%) of the Education Fund revenues come from sources that are not subject to the consensus revenue forecast process, leaving 11% of the Education Fund receipts subject to re-forecast by the Emergency Board. The Education Fund consensus revenue forecast was reduced a total of $3.8 million in July 2008, November 2008 and January 2009. The Education Fund was able to absorb this 0.3% reduction in overall revenue while maintaining the maximum Budget Stabilization Reserve at 5%.

Fiscal Year 2010 Budget Proposal

In accordance with State law, the Governor has submitted a fiscal year 2010 balanced budget proposal to the Vermont General Assembly for consideration. If adopted and passed by the General Assembly, the Governor's proposed fiscal year 2010 budget would balance the General Fund, Transportation Fund and Education Fund relative to the January 13, 2009 revised revenue forecast through broad-based spending reductions and would preserve budget stabilization reserves for all three funds, drawing only on the General Fund Human Services Caseload Reserve and other General Fund surplus reserves, as noted below. The Governor's proposal projects a $201.2 million budget gap in the General Fund, which it would address through: (1) imposition of a 4% across the board reduction in nearly all human services grants and other changes in or reductions to human services programs ($33.93 million); (2) State workforce reductions ($17.15 million); (3) use of the Education Fund to support the annual contribution to the teachers' retirement fund (rather than funding this contribution with General Fund revenues) ($40.03 million); (4) a General Fund assessment against Special Funds ($3.32 million); (5) use of additional moneys received from the ARRA as a result of the projected reduction in the federal match rate required for Medicaid ($90.48 million); and (6) use of the General Fund Human Services Caseload Reserve ($16.29 million).

The budget proposal includes recommendations for $1.1 billion in General Fund spending, $220.8 million in Transportation Fund spending and $1.33 billion in Education Fund spending. This budgetary proposal represents a 4.87% decrease in General Fund spending, a 5.48% increase in Transportation Fund spending and a 0.26% increase in Education Fund spending over the fiscal year 2009 appropriated amounts, as adjusted by the Governor's fiscal year 2009 Budget Adjustment recommendations. The Governor's proposal projects total General Fund reserve balances decreasing from a projected $88.82 million for fiscal year 2009 to approximately $58.09 million for fiscal year 2010 due to the projected use of General Fund surplus reserves, including the balance of the Human Services Caseload Reserve.

Despite the widespread decline in State revenues, the Governor has resisted calls to draw down the State's budget stabilization reserves. These reserves are intended for use when the State experiences unanticipated and unavoidable deficits near the end of the fiscal year. Furthermore, using these funds would leave the State no reserve to fall back on if the bottom of the economic downturn has yet to be seen. Thus, the Governor's fiscal year 2010 budget proposal assumes full funding of the Budget Stabilization Reserves for the General Fund, Transportation Fund and Education Fund at their respective 5% maximum statutory levels for fiscal year 2010.

The Governor's budgetary projections are preliminary and subject to change. The Governor's fiscal year 2010 budget proposals are now under consideration by the General Assembly. There can be no assurance that the General Assembly will pass the Governor's proposed budget in substantially the form presented. The proposed budget may be found at:
http://finance.vermont.gov/sites/finance/files/pdf/state%20budget/ExecutiveBudgetRecommendSumFY2010.pdf.

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 2009 and 2010 was completed in January 2009 and was approved by the Emergency Board on January 13, 2009 (the "January Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, and an overall forecasted level of receipts for the General Fund and Transportation Fund, and major receipts sources other than property tax receipts in the Education Fund. The January Forecast incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the State's participation in the New England Economic Partnership (N.E.E.P.). The N.E.E.P. organization is a regional economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. It is expected the January Forecast will be updated on or around April 25, 2009 as part of an updated quarterly forecasting cycle that has been employed by the State since the beginning of calendar year 2008.

The following discussion describes the level of revenues estimated, under the January Forecast, that are available for General Fund appropriations in fiscal years 2009 and 2010. Such estimates reflect both the anticipated increase or decrease in collections of the taxes of each category and the allocation of such collections between the General Fund and the Education Fund pursuant to Act 68. The January Forecast is a current law forecast as of January 13, 2009, and includes all revenue changes as passed by the 2008 Vermont General Assembly. The January Forecast did not include any potential impacts, both positive and negative, on Vermont General Fund revenues that may result from possible federal changes contained in the ARRA.

Personal Income Tax: The January Forecast for the Personal Income Tax for fiscal years 2009 and 2010 reflects a consensus assessment of: (1) weakening Personal Income Tax revenues due to labor market weakness and rising unemployment in response to the recession, (2) reduced capital gains income resulting from recent equity market declines, (3) declining real estate asset prices associated with the national, New England regional, and State housing market downturns, which adversely impact capital gains realizations and the associated income tax collections on those gains, and (4) an expected slowdown in the level of business profits growth for taxpayers that pay their business tax liability through their personal income tax filing (e.g. proprietors, Subchapter S corporations, certain partnerships and similar entities). The January Forecast includes revenue receipts of $551.9 million for fiscal 2009 and $535.7 million for fiscal 2010, reflecting an 11.3% and a 2.9% annual decline, respectively, as compared to actual fiscal year 2008 receipts. Relative to the July 2008 consensus forecast, this revised forecast represents a decline of 4.9 and 7.5 percentage points in the year-over-year growth rate for fiscal years 2009 and 2010, respectively. Taken together, Personal Income Tax collections are expected to decline by nearly 15% over the two fiscal year 2009-10 period according to the January Forecast.

Sales and Use Tax: The January Forecast for the Sales and Use Tax for fiscal 2009 and fiscal 2010 reflects an assessment of recent collections activity and trends in this source, and the expected impact on disposable personal income of the current recession and continued volatility in energy prices. The forecast expects that Vermont consumers, like their national counterparts, will tighten their spending and continue to reduce their debt loads as income growth weakens and job losses increase. This weak environment will be partially off-set by expected tourism-related activity, which recently has been relatively strong due in part to increased levels of Canadian visitor activity in the State. The January Forecast for fiscal 2009 includes a 4.9% year-over-year decline to $214.5 million, with only a slight 0.1% increase in Sales and Use Tax revenues for fiscal year 2010 to $214.8 million, as compared to actual fiscal year 2008 receipts. The revised forecast represents a decline of 2.7 percentage points in the year-over-year revenue growth rate for fiscal 2009 and a 3.2 percentage point decline in the year-over-year revenue growth rate for fiscal 2010 relative to the July 2008 consensus forecast for those years.

Corporate Income Tax: The January Forecast for the Corporate Income Tax was developed against a backdrop of significant declines in Corporate Income Tax revenues over the first half of fiscal year 2009 and an outlook for a cyclically subdued performance for the rest of fiscal year 2009 and fiscal year 2010. Increasingly scarce and more expensive credit and weakening sales are expected to adversely impact profitability over the period. In addition, the global recession will also reduce demand for Vermont's export-oriented firms. The forecast for fiscal 2009 and fiscal 2010 includes annual declines in overall Corporate Income Tax in the State of 29.9% and 20.6%, respectively, on a year-over-year basis, as compared to actual fiscal year 2008 receipts. The January Forecast includes: (1) all of the revenue impacts related to the January 1, 2006 implementation of the unitary tax reform legislation, and accompanying tax rate reductions that were enacted during the 2004 session of the Vermont General Assembly, and (2) the revenue restraining effects of claims for State tax credits under the incentives programs of the Vermont Economic Progress Council.

For fiscal 2009, the January Forecast for Corporate Income Tax revenues totals $52.3 million. Fiscal 2010 receipts are forecasted to be $41.6 million. Relative to the July 2008 consensus forecast, the January Forecast corresponds to a 9.8 percentage point decrease in the expected year-over-year revenue change for fiscal 2009, and a similar 8.2 percentage point decrease in the year-over-year change in Corporate Income Tax revenues for fiscal 2010. The fiscal year 2009–10 forecast numbers also reflect the allocation change in Act 68 where 100% of Corporate Income 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 January Forecast reflects a combination of the continuation of the U.S., New England and Vermont economic recessions, a good early start to the State's 2008-09 ski season, and favorable levels of Canadian visitor traffic. So far in fiscal year 2009, Meals and Rooms Tax revenues have been strong, but the recession and the impact of the household de-leveraging process continue to present challenges for this discretionary spending item. Winter weather conditions so far have been favorable to the industry, with early winter snows in Vermont's key customer metropolitan areas such as Boston and New York City resulting in excellent conditions and positive early season activity levels at many Vermont ski areas. More specifically, the January Forecast expects a total of $120.3 million in Meals and Rooms Tax revenues for fiscal year 2009, representing a decline of only 0.7% from fiscal year 2008 receipts. The January Forecast for fiscal 2010 calls for a total of $121.3 million, an increase of 0.8% versus forecasted receipts for fiscal 2009. Relative to the July 2008 consensus forecast, the January Forecast represents a 0.6 percentage point decline in the year-over-year revenue growth rate. For fiscal 2010, the January Forecast represents a decline of 2.7 percentage points in the year-over-year growth rate relative to the July 2008 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), the inheritance and estate tax, taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, 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 January Forecast consensus for these revenue sources reflect historical collections patterns, the federal changes in the inheritance and estate tax, the continuing positive benefits 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 January Forecast fully reflects the allocation changes to affected tax sources as prescribed by Act 68. As has been the case since July 1, 1998, the January Forecast does not include any revenues from lottery profits or sales. The following table compares actual General Fund revenue collections for fiscal 2006 through fiscal 2008, and the projected General Fund revenue collections for fiscal 2009 per the January Forecast.

Sources (Available to the General Fund)	Actual Fiscal 2006	Actual Fiscal 2007	Actual Fiscal 2008	Forecast Fiscal 2009	Percentage Change '08–'09
Personal Income Taxes	$ 542,012,240	$ 581,188,879	$622,331,699	$551,900,000	(11.3%)
Sales and Use Taxes	216,922,395	222,490,082	225,600,412	214,533,333	(4.9)
Corporate Taxes	75,928,780	72,843,020	74,619,511	52,300,000	(29.9)
Meals and Rooms Taxes	111,766,588	114,892,087	121,099,755	120,300,000	(0.7)
Other Taxes	141,086,760	132,295,483	126,647,248	129,316,240	2.1
Total Taxes	1,087,716,763	1,123,709,551	1,170,298,624	1,068,349,573	(8.7)
Other Revenues	24,194,570	27,661,918	29,472,835	35,700,000	21.1
Total General Fund	$1,111,911,333	$1,151,371,469	$1,199,771,460	$1,104,049,573	(8.0%)

Source: Vermont Department of Finance and Management. Fiscal 2009 data are projected as part of the January 2009 Forecast. Totals may not add due to rounding.

The following table reflects budgetary-based General Fund revenue history from fiscal 2006 through fiscal 2008 and forecasted revenues for fiscal 2009 and fiscal 2010:

General Fund Revenues (Net)
Budgetary Based
($ in Millions)

COMPONENT	Actual 2006	Percent Change	Actual 2007	Percent Change	Actual 2008	Percent Change	Forecast[1] 2009	Percent Change	Forecast[1] 2010	Percent Change
TAXES:										
Personal Income	$ 542.0	8.3%	$ 581.2	7.2%	$ 622.3	7.1%	$551.9	(11.3%)	$535.7	(2.9%)
Sales and Use	216.9	4.7	222.5	2.6	225.6	1.4	214.5	(4.9)	214.8	0.1
Corporate	75.9	25.8	72.8	-4.1	74.6	2.4	52.3	(29.9)	41.6	(20.5)
Meals and Rooms	111.8	(1.1)	114.9	2.8	121.1	5.4	120.3	(0.7)	121.3	0.8
Liquor	13.2	5.1	13.7	4.0	14.2	3.7	14.9	5.0	15.4	3.4
Insurance	52.5	4.2	52.9	0.8	54.8	3.8	57.0	3.9	58.6	2.8
Telephone Receipts	0.6	63.4	0.5	(10.9)	0.4	(31.2)	0.2	(45.9)	0.2	0.0
Telephone Property	9.8	(3.7)	9.4	(3.6)	9.1	(3.1)	8.9	(2.5)	8.8	(1.1)
Beverage	5.4	2.8	5.5	2.8	5.6	1.9	5.6	0.2	5.7	1.2
Electrical Energy	2.6	0.0	2.6	1.2	2.7	3.3	2.8	3.0	2.8	1.1
Estate	26.2	39.0	17.8	(32.1)	15.7	(11.9)	11.3	(28.0)	12.8	13.3
Property Transfer	13.5	(8.9)	12.8	(4.5)	10.7	(16.3)	8.9	(17.3)	8.7	(2.6)
Bank Franchise	10.2	18.3	10.5	3.6	10.2	(3.4)	16.6	63.3	10.7	(35.5)
Other Taxes	7.2	9.1	6.5	(10.2)	3.2	(51.1)	3.1	(2.2)	3.0	(3.2)
TOTAL TAXES:	$1,087.7	7.6%	$1,123.7	3.3%	$1170.3	4.1%	$1,068.3	(8.7%)	$1,040.1	(2.6%)
OTHER REVENUES:										
Business Licenses	$2.8	(0.5%)	$2.8	(1.0%)	$2.7	(1.0%)	$2.9	6.0%	$2.8	(3.4%)
Fees	13.2	6.1	14.2	7.4	14.7	3.6	19.5	32.5	20.1	3.1
Services	1.3	(35.3)	1.5	17.1	1.7	15.9	1.8	3.6	1.9	5.6
Fines, Forfeits	3.2	(26.7)	3.2	(2.1)	4.4	38.6	8.0	81.6	3.8	(52.5)
Interest, Premiums	3.4	60.7	4.9	44.1	5.3	7.2	2.9	(44.8)	2.8	(3.4)
Special Assessments	0.0	NM	0.0	NM	0.0	NM	0.0	NM	0.0	NM
Other	0.2	(40.9)	0.6	200.0	0.6	(44.1)	0.6	(3.7)	0.5	(16.7)
TOTAL OTHER	$24.2	(0.1%)	$27.7	14.5%	$29.5	6.5%	$35.7	21.1%	$31.9	(10.6%)
TOTAL GENERAL FUND	$1,111.9	7.4%	$1,151.4	3.6%	$1,199.8	4.2%	$1,104.0	(8.0%)	$1,072.0	(2.9%)

NM means Not Meaningful.
[1] Based on January Forecast.
Source: Vermont Department of Finance and Management

MAJOR GOVERNMENTAL 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: This 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, this Department 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 64 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: This Department 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). Previously, the Department also oversaw provision of services to adults with mental illness, children and adolescents experiencing a severe emotional disturbance and their families. As of July 1, 2007 the Department reorganized, creating a separate Department of Mental Health. This change was organizational and administrative only with no changes to programs or services.

Department of Mental Health: This Department oversees provision of services to adults with mental illness, children and adolescents experiencing a severe emotional disturbance and their families. As of July 1, 2007, the Department was separated from the Department of Health. This change was organizational and administrative only with no changes to programs or services.

Department for Children and Families: This Department 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. The Department 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: This Office promotes the well-being of families and individuals through the provision of health care coverage. The Office 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 years 2007, 2008 and 2009 are as follows:

	Fiscal 2007 Appropriations	Fiscal 2008 Appropriations	As Passed Fiscal 2009 Appropriations	Current Law Fiscal 2009 Appropriations[1]
General Fund	$ 474,419,035	$ 511,720,886	$ 505,681,547	$ 507,135,087
Federal Funds	839,171,153	854,788,569	932,864,864	900,197,536
Tobacco Settlement	25,643,048	35,546,820	45,410,381	45,410,381
Special Funds	220,749,746	240,290,860	241,522,735	235,832,749
Other Funds	10,000	10,000	10,000	10,000
Total	$1,559,992,981	$1,642,357,115	$1,725,489,527	$1,688,585,753

[1] Reflects the August 2008 and December 2008 budget rescissions. Additional adjustment have been submitted as part of the fiscal year 2009 budget adjustment process currently under consideration by the Legislature.

Medicaid and State Health Insurance Initiatives

Medicaid: Vermont has two major Medicaid demonstration waivers. The *Global Commitment to Health* demonstration waiver became effective October 1, 2006. Global Commitment was 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 Global Commitment to Health Medicaid demonstration waiver capitates the federal spending for Medicaid services in Vermont at $4.7 billion for five years, based on a mutually agreed upon base year and actuarially determined trend rate. This capitated arrangement applies to all Medicaid service in Vermont, with the exception of the Long-term Care Services for Elders and People with Physical Disabilities (which is managed under a separate Medicaid demonstration waiver), DSH Payments and the State Children's Health Insurance Program (SCHIP) program. Vermont is 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) contracts with the Office of Vermont Health Access (OVHA) as a publicly sponsored managed care organization (MCO) and which adheres to all federal MCO regulations.

The Global Commitment to Health waiver encompasses the traditional mandatory and optional Medicaid populations. The Choices for Care waiver provides long-term care services for the elderly and disabled in both nursing home and home and community based settings. In addition Vermont provides some traditional acute care Medicaid services outside the demonstration waiver to the Choices for Care population. There remains a relatively small continuing non-Medicaid pharmacy program, and the Medicare Part D "clawback" under which the states all subsidize the federal government.

State Health Insurance Initiative: During the 2006 legislative session the State passed the 2006 Health Care Affordability Act to control the rising costs of health care by managing chronic care and making health care affordable and accessible for all Vermonters. This legislation created an employer-sponsored insurance (ESI) initiative under which Medicaid funding may be used to pay part of the cost of ESI for individuals with incomes under 200% of the federal poverty level. In addition, the legislation established a comprehensive, affordable commercial insurance program called Catamount Health that has a premium assistance program for people with low incomes. Financing comes from individuals (sliding scale premiums), employers with uninsured employees and tobacco taxes. The State's fiscal obligation is protected through enrollment caps. Employer contributions began in the second quarter of calendar 2007 and enrollment and coverage began October 1, 2007.

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 $291.1 million in fiscal year 2009. Additionally, the State expects to contribute $37.1 million to the Teachers' Retirement System. Total Education Fund expenditures are $1.3 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 tax burdens. Additionally, $9.9 million is distributed to towns to reimburse taxes reduced for land conservation and management programs. More than $49 million from all fund sources is spent each year through the Agency of Transportation on town highway programs.

	Fiscal 2007 Appropriations	Fiscal 2008 Appropriations	As Passed Fiscal 2009 Appropriations
State Aid to Local School Districts	$1,017,888,625	$1,058,295,808	$1,115,355,604
Special Education Aid to Local Districts	125,050,000	133,564,159	142,457,975
Vermont State Teachers' Retirement System Contributions	38,446,729	40,749,097	37,077,050
Town Highway Grants	42,240,841	40,480,378	37,603,136
Total	$1,223,626,195	$1,273,089,442	$1,332,493,765

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

	Fiscal 2007 Appropriations	Fiscal 2008 Appropriations	As Passed Fiscal 2009 Appropriations
Property Tax Assistance	$115,350,000[1]	$11,206,140[2]	$12,921,868
Land Use Reimbursement	8,113,944	8,861,267	9,850,000
Total	$123,463,944	$20,067,407	$22,771,868

[1] The total spending authority reflected is $2,100,000 greater than the appropriation as amended by Act 65 Section 359 (2007). This accounts for an excess receipt request that was approved on June 14, 2007 to allow payment of property assistance obligations.

[2] In fiscal year 2008, the State Auditor's Office determined that the Education Fund's portion of homeowner property assistance was a revenue offset and not an expenditure. This reduced future appropriations.

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 2007 Appropriations	Fiscal 2008 Appropriations	As Passed Fiscal 2009 Appropriations	Current Law Fiscal 2009 Appropriations[1]
University of Vermont	$40,847,401	$42,277,344	$42,277,482	$40,746,629
Vermont State Colleges[2]	25,211,405	26,074,345	26,095,799	24,992,870
Vermont Student Assistance Corporation	18,481,892	19,128,758	19,153,758	18,387,607
Total	$84,540,698	$87,480,447	$87,527,039	$84,127,106

[1] Reflects the August 2008 and December 2008 budget rescissions. Additional adjustment have been submitted as part of the fiscal year 2009 budget adjustment process currently under consideration by the Legislature.

[2] Includes Vermont Interactive TV.

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2005 to fiscal year 2009.

General Fund Appropriations by Major Function

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	As Passed Fiscal 2009[1]	Current Law Fiscal 2009[2]
General Government	$ 46,270,520	$ 47,809,578	$ 56,402,147	$66,273,342	$70,712,700	$68,503,549
Protection to Persons and Property	72,333,692	77,120,857	79,231,276	84,433,014	90,404,831	86,624,331
Human Services	409,863,121	436,101,964	483,628,014	498,139,715	521,931,597	507,552,278
Education	361,906,234	375,646,602	388,366,110	412,643,803	422,485,235	417,254,539
Labor	1,103,541	1,385,839	2,303,684	2,352,976	2,307,673	2,056,346
Natural Resources	19,771,447	21,932,793	25,231,174	25,553,103	25,992,693	22,858,855
Transportation	---	---	---	---	---	---
Commerce and Community Development	14,792,388	14,522,988	15,475,541	15,842,695	15,825,209	14,309,680
Other – One-time[3]	49,567,862	76,184,413	44,796,402	30,827,442	512[4]	533,094[4]
Debt Service	62,587,361	62,723,384	64,547,179	64,205,317	67,048,726	67,048,726
Total Appropriations	$1,038,196,166	$1,113,428,418	$1,159,981,527	$1,200,271,407	$1,216,708,664	$1,186,741,398

1 As appropriated in the 2008 legislative session.
2 Reflects the August 2008 and December 2008 budget rescissions. Additional adjustment have been submitted as part of the fiscal year 2009 budget adjustment process currently under consideration by the Legislature.
3 Includes one-time appropriations.
4 Amount is net of reductions mandated in appropriations act.

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 2004 through fiscal year 2008 presented on a GAAP basis.

STATE OF VERMONT
All Governmental Fund Types
Comparative Statement of Revenues, Expenditures and
Changes in Fund Balances
(modified accrual basis of accounting)
($ in thousands)

	Fiscal Year				
	2004	**2005**	**2006**	**2007**	**2008**
REVENUES:					
Taxes	$ 1,831,302	$ 2,160,131	$ 2,337,341	$ 2,460,571	$ 2,409,100
Fees	46,614	58,291	52,813	70,221	61,444
Sales of services, rents and leases	14,211	13,251	13,455	13,724	17,697
Federal grants	1,195,394	1,149,687	1,195,619	1,243,958	1,317,932
Fines, forfeits and penalties	22,136	19,383	19,172	19,315	21,972
Investment income	4,580	7,906	11,469	17,317	11,994
Licenses	78,414	79,897	82,772	92,593	96,079
Special assessments	25,866	25,154	27,320	29,062	44,802
Other revenues	77,711	69,137	58,328	71,338	80,022
Total revenues	**3,296,228**	**3,582,837**	**3,798,289**	**4,018,099**	**4,061,042**
EXPENDITURES:					
General government	59,421	69,638	63,455	66,605	85,545
Protection to persons and property	200,556	222,239	227,085	247,732	250,028
Human services	1,298,524	1,397,574	1,433,190	1,521,057	1,637,940
Employment and training	26,193	20,946	21,090	24,488	27,056
General education	1,119,928	1,414,259	1,513,712	1,609,653	1,533,340
Natural resources	76,195	82,298	93,673	97,456	97,321
Commerce and community development	28,628	35,026	30,843	30,608	35,465
Transportation	289,728	310,061	321,421	379,347	369,815
Public service enterprises	1,898	1,650	1,994	1,890	4,502
Capital outlay	41,196	52,774	43,063	37,035	37,208
Debt service	70,834	67,353	67,231	69,130	68,698
Total expenditures	**3,213,101**	**3,673,818**	**3,816,757**	**4,085,001**	**4,146,918**
Excess of revenues over (under) expenditures	**83,127**	**(90,981)**	**(18,468)**	**(66,902)**	**(85,876)**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	188,754	64,267	45,000	44,500	75,195
Transfers from Lottery	19,621	20,444	23,014	23,573	22,567
Net operating transfers in (out)	44	10,572	(1,825)	1,117	5,569
Other sources (uses)	(144,233)	(22,338)	744	305	(28,577)
Total other financing sources (uses)	**64,186**	**72,945**	**66,933**	**69,495**	**74,754**
Net change in fund balances	**147,313**	**(18,036)**	**48,465**	**2,593**	**(11,122)**
Fund Balance, July 1	251,352	398,665	380,629	429,094	431,687
Fund Balance, June 30	**$ 398,665**	**$ 380,629**	**$ 429,094**	**$ 431,687**	**$ 420,565**

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 Institutions 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 that have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

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

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

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

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

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

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations 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, 2008, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

State of Vermont
Debt Statement
As of June 30, 2008
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$421,374
Transportation Fund	9,088
Special Fund	8,120
Contingent Liabilities:	
VEDA Mortgage Insurance Program	8,288
VEDA Financial Access Program	882
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	487,715
Vermont Housing Finance Agency	155,000
VEDA Indebtedness	70,000
Vermont Telecom Authority	40,000
Univ. of Vermont/ State Colleges	100,000
Gross Direct and Contingent Debt	$1,300,467
Less:	
Contingent Liabilities	(9,170)
Reserve Fund Commitments	(852,715)
Net Tax-Supported Debt	$438,582

1 Does not include (i) the Bonds offered hereby, (ii) general obligation bonds that were refunded, (iii) $11,451,518, which is the accreted value of capital appreciation bonds, less the original principal amount of such bonds, and (iv) the present value of outstanding capitalized leases in the amount of $384,017. In addition, the State entered into an approximately $4.7 million capitalized lease to fund an energy services contract in fiscal year 2009. Payments due under this lease are budgeted to be funded from energy savings realized under the related contract, which savings are guaranteed by the contractor.

Selected Debt Statistics[1]

	2005	2006	2007	2008	Projected 2009
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[2]	$440,266	$439,994	$438,397	$438,582	$440,633
Population[3]	619,282	620,196	620,748	621,270	622,977
Debt Per Capita	$711	$709	$706	$706	$707
Personal Income ($ in millions by fiscal year)[4]	$20,051	$21,068	$22,518	$23,785	$24,334
Debt as a Percent of Personal Income	2.2%	2.1%	1.9%	1.9%	1.8%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[2]	$67,450	$67,231	$69,130	$69,419	$71,459
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,244,456	$1,321,836	$1,371,311	$1,422,829	$1,310,550
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	5.4%	5.1%	5.0%	4.9%	5.5%

Percentage Of Debt To Be Retired (as of June 30, 2008)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	75.4%	46.8%	71.3%	47.9%
10 years	100.0	75.6	91.3	76.3
15 years	100.0	92.6	100.0	92.9
20 years	100.0	100.0	100.0	100.0

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

[1] General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis. Statistics reflect certain revised data for 2005 through 2007 and projected data for 2008 and 2009.
[2] Excludes general obligation bonds that were refunded.
[3] Reflects latest population data available from the U.S. Census Bureau for Vermont for July 1 of the indicated year. Population for 2009 is projected.
[4] Personal income is on a fiscal year basis and is projected in 2008 and 2009. Fiscal 2007 personal income data is subject to revision.
[5] Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments. Projected fiscal year 2009 revenues are based on the January 2009 Forecast.
[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 each of fiscal years 2006 and 2007, the Committee voted to recommend a maximum of $45 million and the General Assembly authorized $45 million of additional general obligation bonds. Of the fiscal year 2007 authorization, $44.5 million has been issued and $0.5 million remains available for issuance in subsequent fiscal years. For fiscal year 2008, the Committee voted to recommend a maximum of $49.2 million and the General Assembly authorized $49.2 million of additional general obligation bonds. Of the fiscal year 2008 authorization, $46 million has been issued and $3.2 million remains available for issuance in subsequent fiscal years. At its meeting in September 2007, the Committee voted to recommend a maximum of $54.65 million of general obligation bonds for fiscal year 2009. Subsequently, the General Assembly authorized $54.65 million of general obligation bonds and $10 million of additional general obligation bonds to fund transportation capital projects subject to this additional $10 million amount not exceeding the Committee's amended recommendation for fiscal year 2009 to be provided in September 2008. On October 1, 2008, the Committee Chair furnished its amended recommendation to the Governor and the General Assembly for a maximum of $64.65 million of general obligation bonds for fiscal year 2009; this amended recommendation combined with the General Assembly authorization above provides authorized debt for fiscal year 2009 of $64.65 million. At its September 2008 meeting, the Committee voted to recommend a maximum of $69.955 million of general obligation bonds for fiscal year 2010. The General Assembly has not yet taken any action with respect to the fiscal year 2010 recommendation.

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***
2008	49.2***
2009	64.65
2010	69.955****

* 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.

*** In fiscal year 2007, $0.5 million of the $45 million of general obligation bonds authorized by the Legislature were not issued. In fiscal year 2008, $3.2 million of the $49.2 million of general obligation bonds authorized by the Legislature were not issued. These unissued amounts remain authorized and may be issued in subsequent fiscal years.

**** 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, 2008, 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, 2008

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2009	$44,864,793	$22,183,933	$67,048,726	$376,509,037
2010	41,863,738	20,177,937	62,041,674	334,645,299
2011	39,177,137	18,704,443	57,881,581	295,468,162
2012	37,647,141	14,163,299	51,810,439	257,821,021
2013	33,711,318	11,843,285	45,554,603	224,109,703
2014	33,523,060	10,704,645	44,227,705	190,586,643
2015	26,209,245	7,985,776	34,195,021	164,377,398
2016	23,104,245	6,863,271	29,967,516	141,273,154
2017	20,224,245	5,915,641	26,139,886	121,048,909
2018	18,023,008	5,055,003	23,078,011	103,025,900
2019	17,122,180	4,265,231	21,387,411	85,903,720
2020	15,377,180	3,563,389	18,940,569	70,526,540
2021	15,472,180	2,844,514	18,316,694	55,054,360
2022	12,792,180	2,229,577	15,021,757	42,262,180
2023	10,912,180	1,713,815	12,625,995	31,350,000
2024	8,850,000	1,238,188	10,088,188	22,500,000
2025	8,850,000	845,063	9,695,063	13,650,000
2026	6,800,000	453,375	7,253,375	6,850,000
2027	4,550,000	201,375	4,751,375	2,300,000
2028	2,300,000	51,750	2,351,750	0

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2009	$1,494,275	$420,374	$1,914,650	$7,594,028
2010	1,448,483	349,534	1,798,017	6,145,545
2011	1,450,915	280,069	1,730,984	4,694,630
2012	1,435,576	209,793	1,645,369	3,259,054
2013	653,637	140,150	793,787	2,605,417
2014	652,060	112,063	764,123	1,953,357
2015	390,755	81,294	472,049	1,562,602
2016	290,755	65,209	355,964	1,271,846
2017	290,755	52,729	343,484	981,091
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
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 (or earlier if December 10 shall occur on a Friday or Saturday) 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 had no line of credit or short-term borrowings in fiscal year 2006, fiscal year 2007 or fiscal year 2008. The State has the ability to obtain a line of credit for fiscal year 2009 but currently anticipates no short-term borrowings for the fiscal year. To date, the State has not engaged in any short-term borrowing for fiscal year 2009.

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

	2003	2004	2005	2006	2007	2008
Maximum Outstanding During Fiscal Year	$75	$48	None	None	None	None
Outstanding at Fiscal Year End	None	None	None	None	None	None

Total Authorized Unissued Debt

Subsequent to the issuance of the Bonds, the total amount of authorized unissued debt of the State will be $17.85 million.

Notwithstanding any provision of law, the State Treasurer is authorized to transfer unspent proceeds derived from the sale of State bonds or notes previously issued for additional projects authorized by the General Assembly; and the State Treasurer is further authorized to issue bonds or notes of the State to replenish such transferred funds for application to the original capital projects. Under Section 954 of Title 32, the State Treasurer shall provide the Secretary of Administration with notification of any such transfers and shall provide the Chairpersons of the House and Senate Committees on Institutions with an annual report on all such transfers during the preceding fiscal year.

Contingent Liabilities

Vermont Economic Development Authority. In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed the Vermont Economic Development Authority in 1993 ("VEDA" or the "Authority") transferring to it the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority and the Vermont Industrial Aid Board. Each of the original entities was delegated a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a twelve-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Secretary of Agriculture, Food and Markets, 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, 2008, the Authority had mortgage insurance contracts outstanding of $8,288,506. The State maintains a dedicated indemnification fund that is funded with annual payments from the Authority to insure against losses in the mortgage insurance program. The balance of this indemnification fund at June 30, 2008 was $1,245,262. At June 30, 2008, a loss on a loan subject to this mortgage insurance program was determined by the Authority to be probable, although the specific amount of loss could not be determined. Subsequent to year end, the Authority paid the claim in the amount of $825,000, which payment was funded by the mortgage insurance indemnification fund. The State is obligated to pay any actual losses incurred by the Authority in excess of the then available indemnification fund balance from any other available funds of the State or, if necessary, from the proceeds of bonds or notes of the State, which are authorized to be issued in an amount not to exceed $35 million for the purposes of this program and the one described in the following paragraph. The State has no current expectation of issuing bonds or notes pursuant to this authorization.

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, 2008 was $881,847.

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. As of June 30, 2008, the Bond Bank has issued 49 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2008 was $487,715,000. 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 nine commissioners, including ex-officio the Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, the Executive Director of the Vermont Housing and Conservation Board, or their designees, and five 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 to fulfill its corporate purposes. As of June 30, 2008, the Agency's total outstanding indebtedness was $828,973,611.

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 $155,000,000 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, 2008, the principal amount of outstanding debt covered by this moral obligation was $89,610,000. As of June 30, 2008, the debt service reserve fund requirement for this debt was $7,940,741, and the value of the debt service reserve fund was $8,527,385. 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 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 $20 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, 2008 was $65 million.

Vermont Telecommunications Authority: In fiscal year 2007, the Vermont Legislature created the Vermont Telecommunications Authority ("VTA") to facilitate broadband and related access to an increased number of Vermonters. While any debt of the VTA will not represent direct indebtedness of the State, the legislation permits the use of contingent debt in the amount of up to $40 million, employing a moral obligation pledge from the State. The State's role through VTA comprises a minority portion of this overall communications initiative, which is intended to include both public and private funding sources. No VTA debt has been issued to date; any debt issued by the VTA is expected to be based on project revenues and is expected to be self-supporting.

University of Vermont/ State Colleges: Pursuant to recent legislation, Act 200 of 2008, the University of Vermont and State Agricultural College ("UVM") and the Vermont State Colleges ("VSC") are now each permitted to create and establish, by resolution, one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes. The debt service reserve fund requirement shall be an amount not to exceed the "maximum debt service" on the bonds or notes to be secured by such debt service reserve fund. Up to $66,000,000 principal amount of UVM debt and up to $34,000,000 principal amount of VSC debt 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 this debt. For each institution, if the reserve fund requirement for this debt has less than the required amount, the chair of the board of trustees will notify the governor, the president of the senate, and the speaker of the house of the deficiency. To date, it has not been necessary for the State to appropriate money to maintain the debt service reserve fund requirement for any of the institutions.

VSAC: The Vermont student assistance corporation ("VSAC") was created by the State in 1965 for the purpose of providing opportunities for Vermont residents to attend college or other postsecondary education institutions by awarding grants, guaranteeing, making, financing and servicing loans of funds to students who qualify and to provide career, educational and financial aid counseling and information services to the same. With the approval of the governor, VSAC is empowered to borrow money and issue notes and bonds to fulfill its corporate purposes. As of June 30, 2008, VSAC's total outstanding indebtedness was $2,065,965,000, none of which is or will be secured by a debt service reserve fund pledge or any pledged equity fund arrangement that would be permitted under the proposed legislation described below.

Under proposed legislation, VSAC would be permitted to create and establish, by resolution, (i) one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes, and/or (ii) one or more pledged equity funds to provide pledged equity or over-collateralization of any trust estate of VSAC to the issuer of a liquidity or credit facility, bond insurance or other credit enhancement obtained by VSAC. In the case of a debt service reserve fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular debt issue, which amount must be established by resolution of the corporation prior to the issuance of such bonds or notes. In the case of a pledged equity fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular credit enhancement, which amount must be established by resolution of the corporation prior to entering into any credit enhancement agreement related to such pledged equity fund. The proposed legislation would establish a combined debt service reserve fund and equity fund pledge from the State in an amount of $50 million. The debt service reserve fund pledge would be based on a similar structure utilized by the Vermont Municipal Bond Bank, the Vermont Housing Finance Agency and the University of Vermont/Vermont State Colleges, as discussed above, and would be limited to $50 million of VSAC bonds, adjusted downward for any amount used for pledged equity funds. The pledged equity fund amount would be limited to $50 million of equity commitment, adjusted downward for any bonds issued with the debt service reserve fund pledge described in the preceding sentence. The proposed legislation was presented to the General Assembly in February 2009, was passed by the House and is pending Senate action.

Transportation Revenue Bonds. Legislation is also under consideration by committees at the General Assembly that would create authority for the State to issue transportation revenue bonds. Debt service for transportation revenue bonds would derive from one or more new revenue sources, making any such bonds self-supporting (i.e., not supported from current transportation fund or general fund revenues). However, proposed drafts of this legislation allow the State to add its general obligation to secure the repayment of the bonds.

PENSION PLANS

The State maintains three statutory pension plans: the Vermont State Teachers' Retirement System, with 10,685 active, 2,929 inactive, 705 terminated, vested and 5,555 retired members as of June 30, 2008; the Vermont State Employees' Retirement System, which includes general State employees and State Police, with 8,442 active, 900 inactive, 789 terminated, vested and 4,555 retired members as of June 30, 2008; and the Vermont Municipal Employees' Retirement System, with 6,419 active, 2,035 inactive, 486 terminated, vested and 1,447 retired members as of June 30, 2008. Each retirement system is serviced by an independent actuarial firm.

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

	Actuarial Valuation Date (June 30)	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							
	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
	2005	1,148,908	1,174,796	25,888	97.8	349,225	7.4
	2006*	1,223,323	1,232,367	9,044	99.3	369,310	2.4
	2007*	1,318,687	1,307,643	(11,044)	100.8	386,917	(2.9)
	2008*	1,377,101	1,464,202	87,100	94.1	404,938	21.5
Vermont State Teachers' Retirement System							
	2001	$1,116,846	$1,254,341	$137,496	89.0%	$403,258	34.1%
	2002	1,169,294	1,307,202	137,908	89.5	418,904	32.9
	2003	1,218,001	1,358,822	140,821	89.6	437,239	32.2
	2004	1,284,833	1,424,662	139,829	90.2	453,517	30.8
	2005	1,354,006	1,492,150	138,144	90.7	486,872	28.4
	2006*	1,427,393	1,686,502	259,108	84.6	499,044	51.9
	2007*	1,541,860	1,816,650	274,790	84.9	515,573	53.3
	2008*	1,605,462	1,984,967	379,505	80.9	535,807	70.8
Vermont Municipal Employees' Retirement System							
	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)
	2005	259,076	248,140	(10,936)	104.4	146,190	(7.5)
	2006	288,347	276,552	(11,795)	104.3	148,815	(7.9)
	2007	325,774	306,643	(19,131)	106.2	162,321	(11.8)
	2008	348,740	343,685	(5,055)	101.5	175,894	(2.9)

Source: Annual Actuarial Valuation Reports

* The System's funding method was changed from Entry Age Normal with Frozen Initial Liability to Entry Age Normal effective with the 2006 actuarial valuation.

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 1998 through fiscal year 2008, 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
2008	$1,501,320,179	$22,918,798	$39,549,097	($110,019,634)	$99,929,342
2007	1,647,057,577	22,533,479	37,341,609	244,425,689	90,158,642
2006	1,430,822,223	21,884,140	24,446,282	130,835,585	81,056,808
2005	1,333,532,418	21,158,452	24,446,282	115,058,694	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

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
2008	$1,282,493,872	$18,614,102	$39,179,823	($84,156,254)	$83,731,903
2007	1,392,327,467	15,456,691	39,297,002	192,625,279	74,873,698
2006	1,219,616,872	14,561,467	36,866,451	115,146,415	68,376,126
2005	1,120,247,149	15,112,105	36,493,435	90,452,723	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

1 Source: Annual Actuarial Valuation Report and Comprehensive Annual Financial Reports.
2 Net Investment Income is presented in accordance with GASB 25.
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
2008	$327,060,102	$9,906,709	$9,250,816	($19,472,654)	$11,338,558
2007	347,810,364	9,769,882	8,535,396	46,633,781	10,633,672
2006	293,298,875	8,744,718	7,926,436	27,697,371	9,765,131
2005	258,466,735	7,404,119	8,058,810	18,165,860	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

1 Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.
2 Net Investment Income is presented in accordance with GASB 25.
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 ("VSRS") and the Vermont State Teachers' Retirement System ("STRS"), covering substantially all State employees and teachers, respectively. 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. The STRS system unfunded liabilities are amortized over a 30-year period beginning July 1, 2006, as discussed below. The amortization of the VSRS unfunded liability is split, with the cost-of-living ("COLA") benefit being amortized over 30 years from June 30, 2008, and the remaining unfunded liability being amortized over 30 years from June 30, 1988.

There is also a Vermont Municipal Employees' Retirement System that was established effective July 1, 1975. Effective July 1, 1987, 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.

State statute provides that at least once in each five-year period, the State's actuary is to make an investigation into the mortality, service, and comprehensive experience of the members and beneficiaries of the system and make recommendations for certain modifications of the actuarial assumptions, as needed. The most recent study was completed for the VSRS system for the period covering July 1, 2001 through June 30, 2006. As a result of this experience study performed by Buck Consultants and recent changes by the System's Board of Trustees, changes in the actuarial assumptions were made in the valuation report for the period ending June 30, 2007. The assumed rate of return was raised from 8.00% per year to 8.25% per year, the liability for inactive members was raised from 150% to 250% of employee contributions with interest, and various decrement tables were updated to more closely match the anticipated future experience of the system. This report may be found at http://www.vermonttreasurer.gov/documents/retireState/reports/stateExperienceStudy2006.pdf.

In the case of STRS, there was a pattern of underfunding of the State contributions paid into the fund, which was addressed with full funding of the recommendation in the fiscal year 2007, 2008 and 2009 budgets. The 2005 General Assembly created the Commission on Funding the State Teachers' Retirement System ("Commission") to address underfunding and to make recommendations to ensure an adequate, sustainable, and actuarially sound retirement benefit plan. The Commission published its recommendations in December 2005 for consideration by the Legislature in the session beginning in 2006. One of the recommendations focused on the actuarial method. The actuarial method for both the STRS and the VSRS plans are set by State statute. While the Commission focused on the issues related to STRS, the recommended actuarial change was enacted into law and applied to both VSRS and STRS.

Through fiscal year 2005 the method used was the entry age normal ("EAN") with frozen initial liability ("FIL"). The Legislature has enacted a statutory change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006, which effectively restated the starting balance. Under the previous method, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 fell to normal cost instead of being added to the unfunded liability as in more conventional funding methods.

In the case of STRS, where there had been substantial underfunding of the annual actuarially required contribution ("ARC"), the EAN-FIL method had the effect of creating an improving funding ratio although the total required contribution (sum of the amortized unfunded actuarial accrued liability and normal) rapidly escalated. The unfunded actuarial accrued liability is amortized in a deterministic manner under the FIL method, making it easy for the ratio to rise from one year to the next even in the presence of substantial underfunding. The shift to the EAN method therefore has had the effect of increasing the actuarially unfunded liability and reducing the normal contribution. The State therefore believes that the EAN method is a more accurate indicator of actuarial funding progress and it is, in fact, the predominant method used by public retirement systems.

Two additional material changes, based on the Commission's recommendations, impact the STRS valuations starting with fiscal year 2006. The actuarial assumed rate of return for investments was raised by 25 basis points to 8.25%. This reflected the expected beneficial effects of the Vermont Pension Investment Committee's unified pension fund investment process and was recommended by the Commission and adopted by the STRS Board of Trustees and is consistent with the recent change adopted by VSRS on the basis of the experience study. In addition to the recommendation to remove the FIL portion of the method and to revise the rate of return assumption, the Commission also recommended, and the Legislature adopted, a change in the amortization of the unfunded liability. The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2006 for STRS.

Effective July 1, 2008, the contribution rate for Group F employees (the largest VSRS employee group) was raised through legislation enacted in fiscal year 2008 from 3.35% to 5.1% of payroll through June 30, 2019, and 4.85% thereafter, due to increases in the COLA benefit and other benefit changes. These changes were enacted for new Group F employees starting employment on or after July 31, 2008. There were also changes to the normal retirement age, an increase in the maximum pension benefit from 50% to 60% of Average Final Compensation, and a revised early retirement penalty rewarding length of service. In addition to raising the member contribution level as described above, the majority of the net cost for providing full COLA benefits was derived from a change in medical insurance subsidies for new hires. See also “Other Post-Employment Benefits” below.

At the time of completion of the fiscal year 2009 budget, the ARC for STRS was $37.1 million for fiscal year 2009. The Legislature passed a base appropriation of $32.6 million to be supplemented by one-time legal settlements of $3.3 million and an estimated $1.2 million of Medicare D reimbursement funds for full total funding of $37.1 million. For the VSRS, the fiscal year 2009 ARC was $25.3 million. The Legislature passed a base appropriation sufficient to fund $23.0 million of the ARC, or $2.3 million less than the ARC. True-up ARC calculations are done each year in actuarial reports delivered at the end of October; the ARC at this time may increase or decrease relative to the ARC used for appropriation. Appropriations, however, remain based on the ARC in each prior fiscal year.

Based on the STRS actuarial report released in October 2008, the projected ARCs for the STRS are $41.5 million and $43.5 million for the fiscal years ending June 30, 2010 and June 30, 2011, respectively. Based on the October 2008 VSRS actuarial report, the projected ARCs for the VSRS are $32.0 million and $33.5 million for the fiscal years ending June 30, 2010 and June 30, 2011, respectively.

The above fiscal year 2010 and 2011 projected ARCs were based on the actuarial value of assets using June 30, 2008 market values. The actuarial value of assets is determined using a “smoothing” method based on the market values of assets over the previous five years to offset the effects of volatility of market values in any single year. Since June 30, 2008, the market values of STRS and VSRS investment assets have significantly declined and as of December 31, 2008 were estimated by the State to be $1,109,450,943 and $953,848,884, respectively. If the December 31, 2008 market values of assets had existed at June 30, 2008, the estimated fiscal year 2010 and 2011 ARCs for the STRS would become $57.2 million and $59.9 million, respectively, and for the VSRS would become $61.0 million and $64.0 million, respectively; much of the VSRS increases are due to a relatively short remaining amortization period for the VSRS unfunded liability. Making this same assets value change, the estimated STRS and VSRS funded ratios would have been 67.1% and 78.2% at June 30, 2008, respectively. The actual ARCs for fiscal years 2010 and 2011 will be based upon various factors, including the market values of assets at the applicable June 30, which is the relevant date for the actuarial valuations and resulting ARCs. The information provided above based upon the December 31, 2008 market values is illustrative only of the potential impact of significantly decreasing market values and should not be relied upon as a projection of the actual ARCs for such fiscal years. The actual funding ratios will also vary based upon many factors, including, in part, the actual contributions made by the State.

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. 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, 2008, the Vermont State Defined Contribution Plan’s net assets totaled $39,161,121 and there were 585 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. As of June 30, 2008, the Municipal Employees’ Defined Contribution Plan’s net assets totaled $13,275,745 and there were 594 participants.

Other Post-Employment Benefits

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 are 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.

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2008. This is the fourth annual OPEB valuation for each system. Both the VSRS and STRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. The Vermont Municipal Employees' Retirement System ("VMERS"), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

For VSRS, assuming no additional prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2008 is $754.7 million with an unfunded actuarial liability of $751.0 million. Certain actuarial assumption changes were made compared to previous studies. The changes included a modification of the method of determining the implicit subsidy, the healthcare cost trend and the discount rate (an increase from 3.75% to 4.0%). To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $58.7 million for fiscal year 2009 and projected to increase to $167.0 million in fiscal year 2039. If, however, prefunding is assumed, the actuarial accrued liability is reduced to $427.2 million with an unfunded actuarial liability of $423.5 million, and the ARC is calculated to commence at $36.7 million for fiscal year 2009, projected to increase to $127.0 million for fiscal year 2038. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2039 on a prefunding basis is $41.5 million.

An OPEB valuation was also completed for STRS. An experience study was completed for the STRS retirement system. Demographic assumptions in the June 30, 2008 OPEB valuation were changed to be consistent with those used to value the system's pension benefits. In addition, the discount rate was increased to 4% and modifications were made to the method of determining the implicit subsidy and the healthcare cost trend as was the case in the VSRS OPEB valuation. For STRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2008 is $863.6 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $59.1 million for fiscal year 2009 and projected to increase to $322.0 million in fiscal year 2039. If, however, prefunding is assumed, the actuarial accrued liability and the unfunded actuarial liability is reduced to $424.2 million, and the ARC is calculated to commence at $32.3 million for fiscal year 2009, projected to increase to $149.3 million for fiscal year 2038. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2039 on a prefunding basis is $64.9 million.

The difference between the value of prefunded and pay-as-you-go OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension, liquid investments over the long term, estimated at 4.0%. In the event of prefunding, the discount rate would increase to a return on long-term investments consistent with the respective pension funds, estimated at 8.25% for both systems. In order to treat its OPEB liabilities as prefunded, the State would have to enact legislation providing for the deposit of annual contributions in an irrevocable trust, in the manner similar to the pension funds. An OPEB trust has been established for VSERS although funding to date is limited to the deposit of Medicare-D subsidies received for State employees' health programs. An OPEB trust has not been created for VSTRS and no prefunding has been made.

The funding is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
VSERS:						
2008	$3,664	$754,690	$751,027	0.5%	$404,938	185.5%
VSTRS						
2008	$0	$863,555	$863,555	0.0%	$535,807	161.2%

Note: Determined on a pay-as-you go basis. Assumed rate of return revised from 3.75% to 4.0% in 2008 valuation.

The State has not yet made decisions on when or how it will fund the full ARC, although it has taken several steps. In fiscal year 2007, an irrevocable trust was established to be administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree post-employment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute. All funds remitted to the State as a subsidy on behalf of the members of the VSRS for employer-sponsored qualified prescription drug plans pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 are and will continue to be deposited into this fund, as well as any appropriations by the Legislature to fund retiree post-employment benefits for members of the VSRS. As of June 30, 2008, the fund had assets of $3.7 million.

The State Treasurer, as authorized by the Legislature, contracted with an independent expert to review, evaluate, and make recommendations on pension and retiree health plan provisions and design, as well as benefits. Based on legislation enacted during fiscal Year 2008, Group F employees hired after July 1, 2008, will receive a tiered retiree health care reimbursement, based on completed years of service. As part of the enacted legislation, Group F employees hired after July 1, 2008, also have the ability to recapture (access) subsidized health insurance at 80% upon initiation of retirement benefits in a manner comparable to regular retirements even if the employee is terminated prior to his or her early retirement date, providing the member has twenty years of service upon termination of employment. The combined effects of the Group F changes to pension (see "Pension Plans" above) and health benefits result in savings totaling approximately $265 million if the State continues to fund retiree medical benefits on a pay-as-you-go basis, and an estimated $308 million if the State moves to pre-funding its retiree medical insurance. The present value of these projected savings is $46 million and $70 million respectively. The State continues to review pension and health benefits in an effort to provide fair and sustainable benefits.

LABOR RELATIONS

As of June 30, 2008, there were 8,383 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 in certified bargaining units are represented by the Vermont State Employees' Association (VSEA). The State's current contract with VSEA, which began on July 1, 2008 and expires on June 30, 2010, provides cost of living adjustments for most of the State's classified employees of 1.8% effective July 6, 2008 in addition to traditional longevity-based salary increases (steps), which represent an average cost of 1.7% per year, for each of the two fiscal years of the contract. The contract also contains a livable wage provision that 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. No employees have been in this category in the past two years.

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 EXEMPTION

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 and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. The foregoing opinions reflect the enactment of the American Recovery and Reinvestment Act of 2009, which includes provisions that modify the treatment under the alternative minimum tax of interest on certain bonds of state and local government entities. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

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 covenants.

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 expresses no opinion regarding any 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 the 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.

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

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 pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or 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. The nature and extent of these 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.

RATINGS

The State has received ratings of "AA+," "Aaa" 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 Citigroup Global Markets Inc., on behalf of the underwriters listed on the cover page hereof (collectively, the "Underwriters"), at an aggregate purchase price of $52,350,421.00 and the Underwriters will receive a fee from the State in an amount equal to $277,219.50. The Contract of Purchase provides that the Underwriters will purchase all of the Bonds if any are purchased. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower (or yields higher) than the public offering prices (or yields) stated on the cover page hereof. The public offering prices (or yields) set forth on the cover page hereof may be changed from time to time after the initial offering by the Underwriters.

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. Certain legal matters will be passed upon for the Underwriters by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

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

The Governor's and Treasurer's Certificate

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

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, (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. 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. The State's fiscal year 2005 annual report was sent to the NRMSIRs on January 19, 2006. The State's fiscal year 2006 annual report was sent to the NRMSIRs on February 21, 2007. The State's fiscal year 2007 annual report was sent to the NRMSIRs on March 6, 2008.

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 projections and forward looking statements related to fiscal year 2009 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 2009 and 2010 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: March 3, 2009

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APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The information in this Appendix A includes pages 12 through 144 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2008. The entire CAFR is available from Finance & Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

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KPMG LLP
P.O. Box 564
Burlington, VT 05402

Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

To the Speaker of the House of Representatives,
President Pro-Tempore of the Senate
and the Governor of the State of 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 (the "State"), as of and for the year ended June 30, 2008, 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's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units identified in Note 1A. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, or the Tri-State Lotto Commission. The discretely presented component units identified in Note 1A represent 72% of the total assets and 43% of the total revenues of the aggregate discretely presented component units. The Vermont Lottery Commission represents 100% of the total assets and revenues of the Vermont Lottery Commission Fund and 3% of the total assets and 45% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 76% of total assets and 2% of total revenues of the Federal Revenue Fund, the Vermont Energy Efficiency Utility Fund and the Vermont Universal Service Fund represent 9% of total assets and 8% of total revenues of the Special Fund and collectively represent 9% of total assets and 1% of total revenues of the governmental activities. The Tri-State Lotto Commission represents 100% of the information disclosed in Note 13. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and, our opinions, insofar as they relate to the amounts and disclosures included for those discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, or the Tri-State Lotto Commission, are 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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

KPMG

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, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in note 1 and note 5, the State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 50 *Pension Disclosures* as of July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 2008 on our consideration of the State's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and other Required Supplementary Information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis and other 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 section, supplementary information, and statistical section, 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 supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 23, 2008

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2008. This Management, Discussion & Analysis (MD&A) section is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide an easily readable overview of the State's financial activities, identify any material changes from the original budget, and highlight financial matters that occurred during fiscal year 2008. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Vermont reported net assets of $1.424 billion, comprised of $2.613 billion in total assets offset by $1.190 billion in total liabilities at June 30, 2008 (Table 1).

The primary government's net assets have decreased by $52.4 million as a result of this year's operations. The net assets for governmental activities decreased $26.6 million and net assets for business activities decreased by $25.9 million (Table 2).

The State's governmental funds reported combined ending fund balances of $420.6 million. Of this amount, $244.2 million is available for spending at the State's discretion (unreserved fund balance).

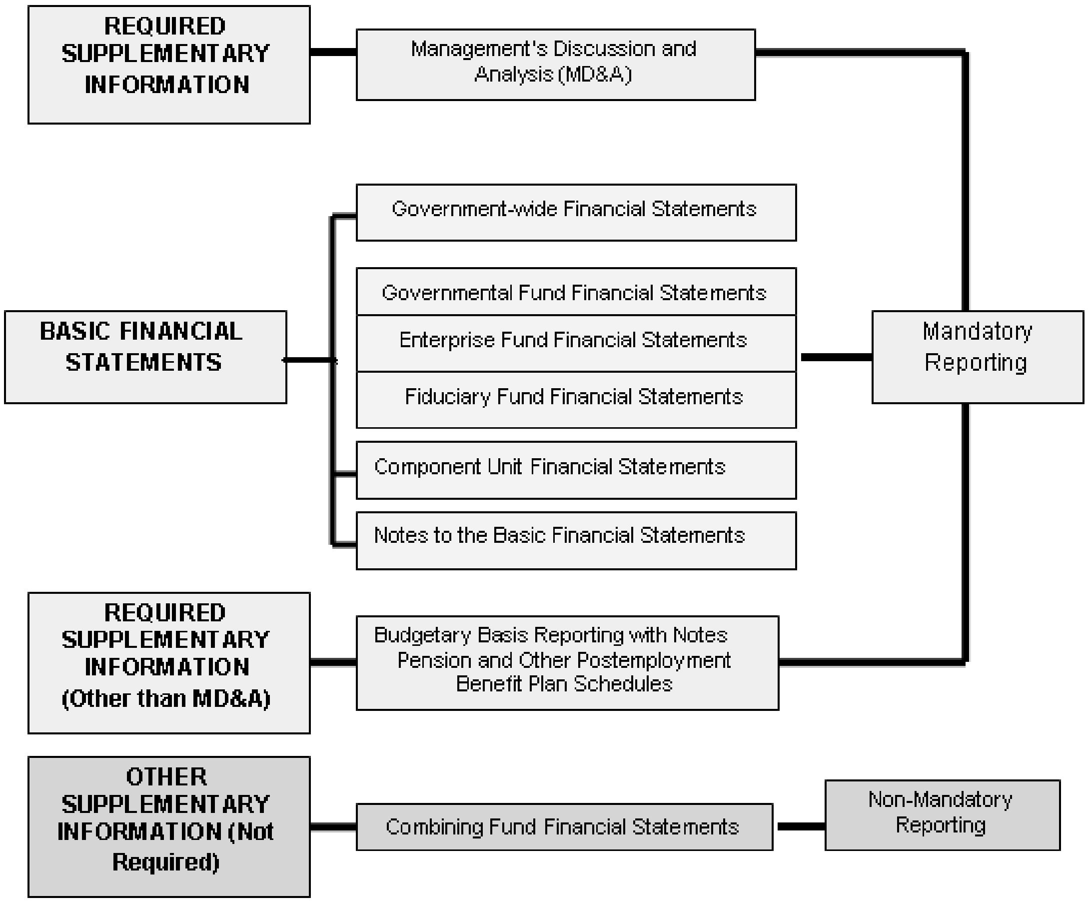
The State's General Fund reported an operating deficit this year of $7.3 million which decreased the accumulated fund balance to $155.7 million, of which $101.1 million is reserved for specific purposes.

The State's debt outstanding for General Obligation Bonds decreased $2.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements and supplementary information. The financial section contains the Independent Auditor's Report, this discussion and analysis section, the basic financial statements (BFS) with required supplementary information (RSI), other supplementary information, and a statistical section. Additional information regarding the above sections may be found below as well as in the notes to the financial statements.

The layout and relationship of the financial statements and supplementary information is visually illustrated as follows.



Basic Financial Statements

Vermont's basic financial statements (BFS) consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component units' financial statements, and 4) notes to the financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this analysis. Notes to the financial statements provide explanations and/or additional detail for all of the above type financial statements and are considered an integral part of the financial statements.

1) Government-Wide Financial Statements

Vermont's government-wide financial statements, which follow this MD&A section, are designed to present a broad view of the State's operations and financial position in a manner similar to the accounting principles used by most private-sector business. All of the State's activities except its fiduciary funds' activities are reported in the government-wide statements. Fiduciary activities are not included because the resources of these funds are not available to support the State's own programs.

The government-wide statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. The State prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid. The government-wide financial statements present two statements:

> The *Statement of Net Assets* presents both the primary governments' and its component units' assets and liabilities, with the difference between the assets and liabilities reported as "net assets". Over time, increases or decreases in the primary government's net assets may serve as an indicator as to whether the financial position of the State is improving or deteriorating.
>
> The *Statement of Activities* presents the reported year's financial activity and hence, the reason(s) for the changes in net assets included on the Statement of Net Assets. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between the State's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

Both of the above financial statements segregate Vermont's financial activity into the following three different categories. The governmental activities and business-type activities are combined to report on what is termed *primary government activities* which are separate and distinct from the *component units' activities* of the discretely presented component units. For more information regarding discretely presented component units, please see Note 1 to the financial statements.

Primary Government Activities

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

Business-Type Activities – These business-type activities of the State include the operations of Vermont's enterprise activities. For financial reporting purposes, 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. Activities reported as non-major include the federal surplus property program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. Both major and non-major activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

Component Units' Activities

Discretely Presented Component Units – These are legally separate (incorporated) entities for which the elected officials of the primary government have financial accountability. The State's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of three major and ten 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.

2) 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. Similar to other state and local governments, Vermont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on the State's activities in more detail than the government-wide statements. All of the funds of the State have been divided into three categories for reporting purposes: governmental, proprietary, and fiduciary. In turn, the governmental and proprietary funds are divided into major and non-major categories as required by the Governmental Accounting Standards Board. 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 and other postemployment benefit trusts, investment trusts, private purpose trusts and agency funds) with combining schedules or statements for the individual pension, other postemployment benefit, and agency funds presented in the supplementary information section. It is important to note that these fund categories use different accounting methods and should be interpreted differently as described below.

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 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 eighteen governmental funds of which six are classified as "major" governmental funds. These major funds are the General Fund, Transportation Fund, Education Fund, Special Fund, Federal Revenue Fund and Global Commitment Fund. Each major fund is presented in a separate column in the Governmental Funds' *Balance Sheet* and in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*. The "non-major" governmental funds include the Fish and Wildlife Fund, two capital projects funds, and nine permanent funds and are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the other 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. These funds 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 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. Enterprise funds account for services provided to the general public, government, and non-State government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

The State reports eight 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 five enterprise funds are reported as "non-major funds" and are consolidated into one column on the proprietary fund statements.

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 the activities in these funds primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

The State reports twenty-two 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 other supplementary information section.

Fiduciary Funds
The fiduciary funds are used to account for resources held by the State for the benefit of parties outside of State government. Fiduciary funds are excluded from the government-wide financial statements because the State cannot use these assets to finance its operations. The fiduciary funds use the accrual basis of accounting.

The State's fiduciary funds are divided into the following four basic categories: Pension and Other Postemployment Benefit Trust Funds (includes three separate defined benefit pension plans, three separate defined contribution pension plans, one defined benefit other postemployment benefit plan, and one defined contribution other postemployment benefit plan); Investment Trust Fund (which reports only the external portion of the Vermont Pension Investment Committee investment pool); Private Purpose Trust Fund (which reports only the Unclaimed Property Fund); and Agency Funds (eleven agency funds which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals). These funds financial reports include a *Statement of Fiduciary Net Assets;* and a *Statement of Changes in Fiduciary Net Assets*.

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

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net assets and activities of three major component units in individual columns and ten non-major component units in a single column on the statements. The component units' financial statements can be found immediately after the fiduciary funds. Combining individual non-major component units' financial statements can be found in the supplementary information of this report.

4) 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:

The Schedule of Funding Progress for the three defined benefit pension trust funds and the Schedule of Employer Contributions for the past six years are included in the required supplementary information section. Also, this section includes the Schedule of Funding Progress for the other postemployment benefit plans.

Schedules for the General Fund and budgetary basis special revenue funds related to the five major Special Revenue Funds 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. See Note 1, Section E for additional information regarding the budgetary process, including the 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. The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

Non-major governmental funds
Non-major proprietary (enterprise) funds
Internal service funds
Fiduciary funds including individual pension and other postemployment benefit trust funds and individual agency funds
Non-major component units

Statistical Section
A statistical section containing selected financial, debt capacity, operating, economic and demographic information is presented immediately following the combining financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
The State's (governmental and business-type activities) combined net assets total $1.424 billion at the end of 2008, as shown in Table 1. Approximately 87.6 percent of these combined net assets consist of the State's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This $1.247 billion in capital assets represent resources used to provide services to citizens, and therefore 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 (20.1 percent) 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 remaining balance of unrestricted net assets is a deficit of $109.1

million. This deficit balance increased by $85.4 million from the previous year's unrestricted net asset deficit.

The governmental activities' negative unrestricted net assets balance is mainly the result of two actions: 1) 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 2) the statutorily mandated restricting of net assets for the budget stabilization reserves.

The business type-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 2008, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following primary government condensed financial statement information is derived from the State's June 30, 2008 and 2007 government-wide Statement of Net Assets. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 1
State of Vermont's Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current assets……………	$ 808.1	$ 779.0	$ 183.3	$ 209.5	$ 991.5	$ 988.5
Other assets………………	213.4	212.1	5.0	4.9	218.4	217.0
Capital assets…………….	1,402.8	1,327.6	0.6	0.4	1,403.4	1,328.0
Total assets……………	**2,424.3**	**2,318.7**	**189.0**	**214.9**	**2,613.3**	**2,533.5**
Long-term liabilities………	762.4	668.0	4.9	4.6	767.2	672.6
Other liabilities……………	411.4	373.6	11.0	11.3	422.4	384.8
Total liabilities………	**1,173.8**	**1,041.5**	**15.9**	**15.9**	**1,189.6**	**1,057.4**
Net assets:						
Invested in capital assets, net of related debt……..	1,245.9	1,161.2	0.6	0.4	1,246.5	1,161.6
Restricted…………………	117.1	143.4	169.2	194.8	286.3	338.2
Unrestricted (deficit)……..	(112.4)	(27.4)	3.3	3.7	(109.1)	(23.7)
Total net assets………	**$ 1,250.6**	**$ 1,277.1**	**$ 173.1**	**$ 199.0**	**$ 1,423.7**	**$ 1,476.1**

Totals may not add due to rounding.

In 2008, governmental activities' revenues performed short of expenses by $50.5 million and received transfers of $23.9 million from business activities, resulting in the 2.08 percent decrease in net assets. The decrease in statewide education tax was the result of a decrease in the tax rate and a $4.5 increase in income sensitivity adjustments to the assessed taxes. Business-type activities had an overall decrease in net assets of 13.02 percent, resulting from an operating shortfall of $2.0 million and by transfers out of $23.9 million to governmental activities, primarily from the Lottery ($22.6 million) to support education.

The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2008 and 2007, and contains primary government data only.

TABLE 2
State of Vermont's Changes in Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007[1]	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	$ 273.5	$ 299.6	$ 216.3	$ 222.0	$ 489.8	$ 521.6
Operating grants and contributions	1,182.6	1,083.8	-	-	1,182.6	1,083.8
Capital grants and contributions	151.7	167.2	-	-	151.7	167.2
General revenues:						
Income taxes	698.3	679.9	-	-	698.3	679.9
Sales and use taxes	336.2	332.3	-	-	336.2	332.3
Statewide education tax:						
Gross tax assessed	916.9	992.2	-	-	916.9	992.2
Income sensitivity adjustment	(118.0)	(113.5)	-	-	(118.0)	(113.5)
Meals and rooms tax	119.8	116.9	-	-	119.8	116.9
Other taxes	461.6	477.0	-	-	461.6	477.0
Miscellaneous	50.5	39.7	8.8	9.3	59.3	49.0
Total revenues	**4,073.1**	**4,075.2**	**225.0**	**231.3**	**4,298.1**	**4,192.9**
Expenses						
General government	101.5	114.7	-	-	101.5	114.7
Protection to persons and property	259.7	255.6	-	-	259.7	255.6
Human services	1,652.7	1,519.0	-	-	1,652.7	1,519.0
Labor	28.0	24.7	-	-	28.0	24.7
General education	1,614.4	1,622.4	-	-	1,614.4	1,508.9
Natural resources	95.7	85.9	-	-	95.7	85.9
Commerce and community development	37.0	31.9	-	-	37.0	31.9
Transportation	310.7	307.9	-	-	310.7	307.9
Public service enterprises	4.5	1.9	-	-	4.5	1.9
Interest on long-term debt	19.4	20.1	-	-	19.4	20.1
Unemployment compensation	-	-	99.0	94.4	99.0	94.4
Lottery commission	-	-	79.6	81.2	79.6	81.2
Liquor control	-	-	45.3	43.2	45.3	43.2
Other business-type expenses	-	-	3.1	2.9	3.1	2.9
Total expenses	**4,123.6**	**3,984.2**	**227.0**	**221.7**	**4,350.6**	**4,092.3**
Increase (decrease) in net assets before transfers	(50.5)	91.0	(2.0)	9.5	(52.4)	100.5
Transfers net in (out)	23.9	24.2	(23.9)	(24.2)	-	-
Change in net assets	**(26.6)**	**115.2**	**(25.9)**	**(14.7)**	**(52.4)**	**100.5**
Net assets, beginning of year	1,277.1	1,161.9	199.0	213.7	1,476.1	1,375.6
Net assets, end of year	**$ 1,250.6**	**$ 1,277.1**	**$ 173.1**	**$ 199.0**	**$ 1,423.7**	**$ 1,476.1**

[1]The $113.5 million in homestead property tax assistance paid to taxpayers in fiscal year 2007 has been reclassified from general education expenses to a reduction in statewide education tax revenue. Beginning with fiscal year 2008, this is an income sensitivity adjustment to the taxpayers' statewide property tax assessment rather than a grant payment to taxpayers.

Totals may not add due to rounding.

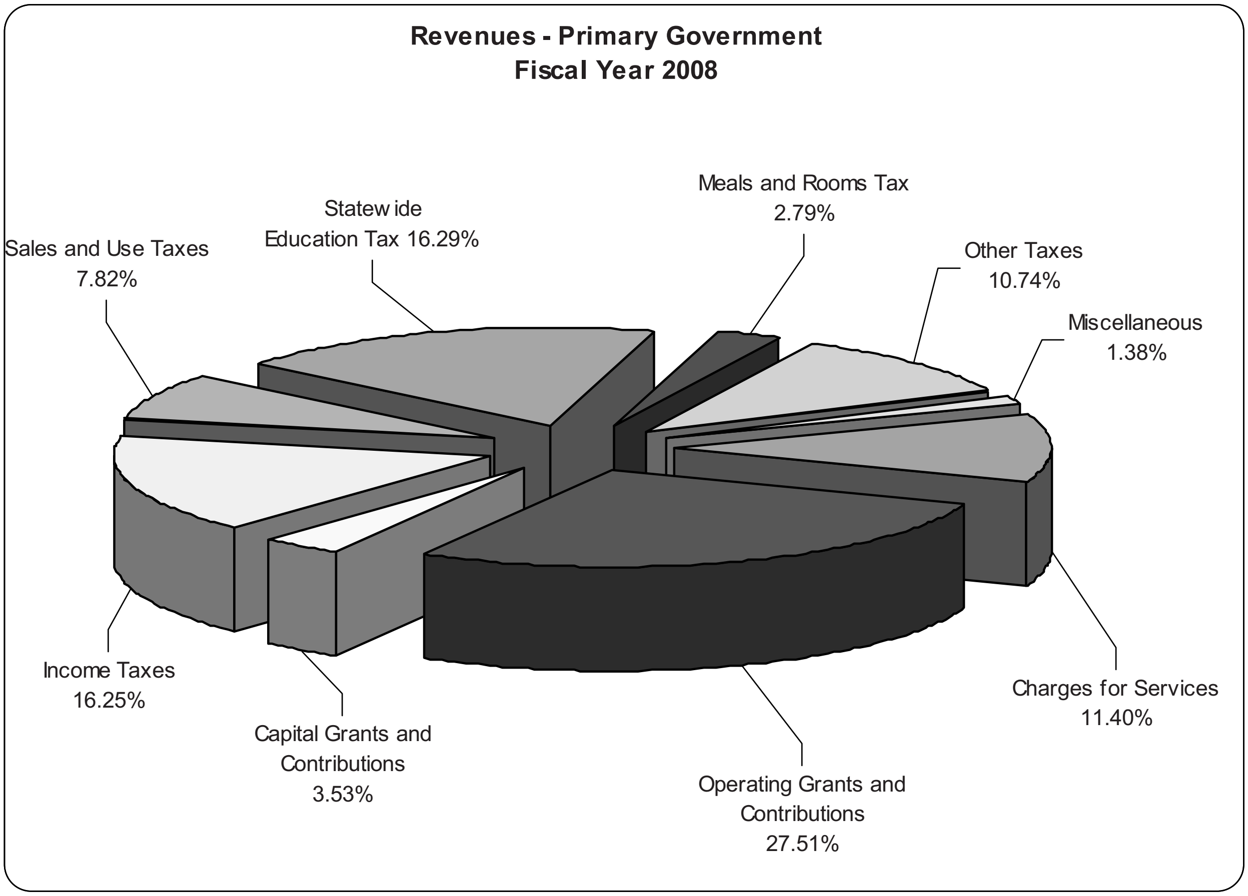
The State implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45) in fiscal year 2008. GASB No. 45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expense/ expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Postemployment benefits are part of an exchange of current salaries and benefits for employee services rendered. Prior to GASB No. 45, most OPEB Plans were reported on a pay-as-you-go basis and a government's financial statements did not report the financial effects of these postemployment benefits until paid.

GASB No. 45 requires the financial reports of governments to provide a systematic, accrual-basis measurement of an annual OPEB cost. The following schedule displays the effect of the GASB No. 45 expenses as they appear in the Statement of Activities for fiscal year 2008 and a comparison to fiscal year 2007.

(In thousands)

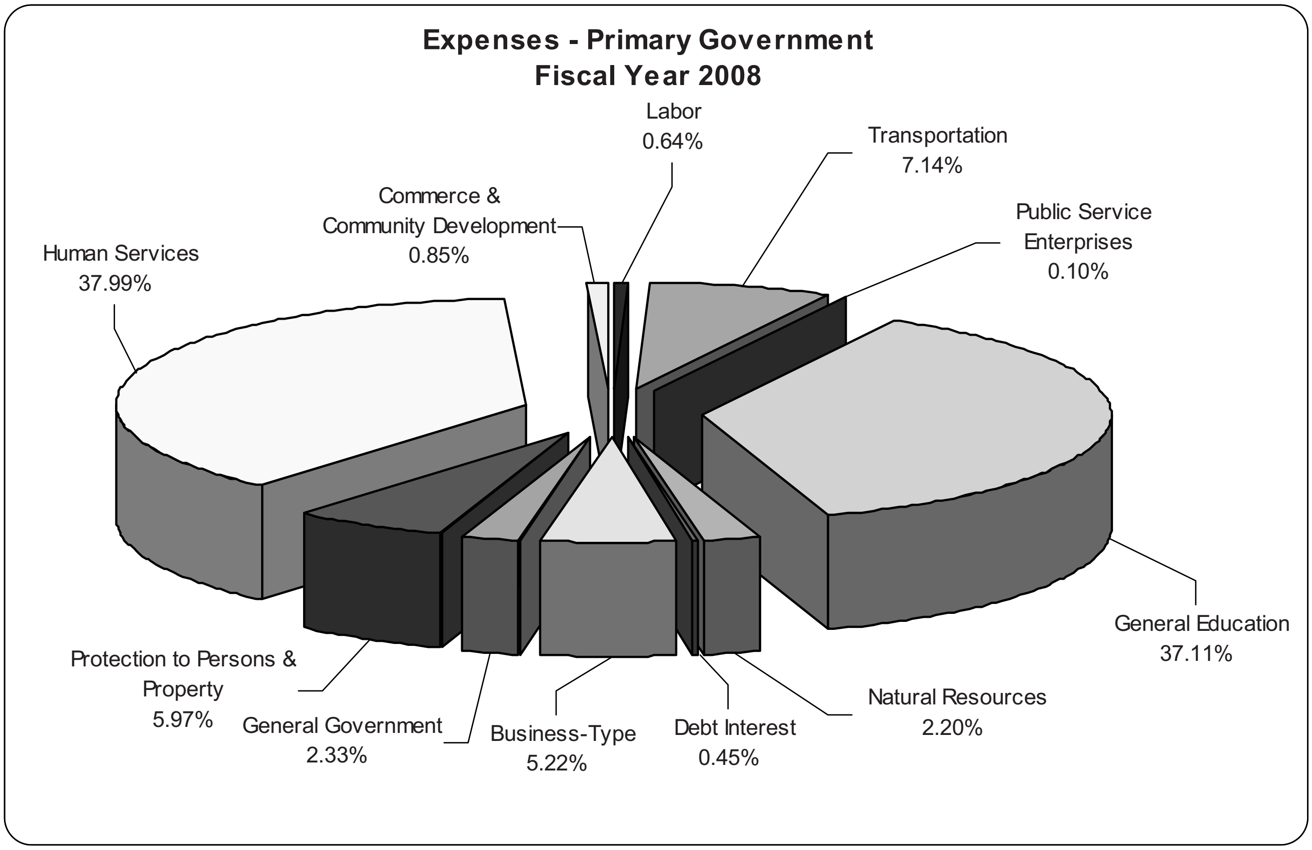
	2008			2007
	Expenses per Statement of Activities	GASB 45 Expenses	Expenses excluding GASB 45	Expenses per Statement of Activities
Expenses				
General government........................	$ 101,536.0	$ 3,051.1	$ 98,484.9	$ 114,687.7
Protection to persons and property.....	259,691.4	6,729.0	252,962.4	255,620.5
Human services.............................	1,652,680.3	11,472.3	1,641,208.0	1,518,969.5
Labor..	28,020.2	898.5	27,121.7	24,739.7
General education..........................	1,614,446.8	60,932.8	1,553,514.0	1,622,441.4
Natural resources...........................	95,657.2	2,303.3	93,353.9	85,900.7
Commerce and community development..............................	36,953.8	385.0	36,568.8	31,946.8
Transportation................................	310,701.5	3,956.6	306,744.9	307,899.3
Public service enterprises................	4,502.6	0.8	4,501.8	1,890.0
Total expenses.............................	**$ 4,123,550.3**	**$ 89,729.4**	**$ 4,014,460.4**	**$ 3,984,167.8**

The following graph illustrates the revenues of Vermont's primary government for fiscal year 2008. Approximately 31.92 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 32.99 percent of total revenues are generated by the statewide education and income taxes.



Percentages may not equal 100%, due to rounding.

The following graph illustrates the percentages of total primary government expenses. The largest portion of expenses is for human services (39.05 percent of total expenses) which provides for Vermont's low-income, elderly care services and persons in state custody in the form of grants for selected services such as food stamps, health care, housing and child protective services. The second most significant expense is for general education (35.36 percent of total expenses), which provides for Vermont's support to secondary and higher education.



Percentages may not equal 100%, due to rounding.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

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

Governmental Funds
The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2008, the unreserved fund balance is 58.06 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance has been reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, for debt service, for the human services caseload reserve, for budget stabilization purposes, and for a variety of other purposes.

At the end of fiscal year 2008, the State's governmental funds reported combined fund balances of $420.6 million, a decrease of $11.1 million in comparison with the prior fiscal year. This decrease is primarily attributable to declines in statewide education tax and other tax revenues offset by declines in expenses for general education.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2008, the General Fund's total fund balance was $155.7 million and the unreserved portion of this fund balance was $54.5 million. Its remaining fund balance was made up of reservations totaling $101.1 million. The most significant reservations are: $57.8 million for budget stabilization, $17.2 million for the human services caseload reserve and $18.98 million for fiscal year 2008 general fund surplus. During 2008, total expenditures and other financing uses surpassed revenues and other financing sources by $7.3 million.

The Special Fund's total fund balance at the end of fiscal year 2008 was $116.6 million, an increase of 1.16 percent in comparison with 2007. The Special Fund's total fund balance is comprised of $106.7 million as unreserved, and $9.9 million in reserved for encumbrances. Special Fund revenues increased $26.4 million and expenditures increased $49.6 million compared to 2007 resulting in a decrease in "excess of revenues over expenditures" of $23.2 million from last fiscal year. Fiscal year 2008 transfers out to other funds exceed transfers in from other funds by $129.5 million. The Special Fund transferred $184.3 million to the Global Commitment Fund for a portion of the State's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver.

The Federal Revenue Fund accounts for the federal share of all federal grants except those federal grants that are awarded to the Agency of Transportation (which are included in the Transportation Fund) and the Department of Fish and Wildlife (which are included in the Fish and Wildlife Fund, a non-major governmental fund). The Federal Revenue Fund's federal grant revenues for fiscal year 2008 were $1.1 billion, a 6.99 percent increase over fiscal year 2007's federal grant revenues. The Agency of Human Services' received 81.31 percent of the total federal grants revenue and transferred $498.7 million to the Global Commitment Fund for the payment of the Federal share of Medicaid expenditures under the Global Commitment to Health Medicaid waiver. The Federal Revenue Fund's total fund balance at the end of fiscal year 2008 ($69.8 million) was an increased of $8.8 million over the total fund balance at the end of fiscal year 2007.

The fiscal year 2008 ending total fund balance for the Global Commitment Fund was a deficit balance $36.1 million. Expenditures of $783.5 million exceed net transfers in by $5 million, resulting in a $5 million increase in the deficit balance from the fiscal year 2007 ending total fund balance. This deficit is the mostly the result of Medicaid costs incurred under a previous Medicaid waiver agreement being paid with the resources transferred to the fund under the current agreement. The State plans to eliminate this deficit thorough amendment to the current Medicaid waiver agreement's Terms and Conditions to allow these costs to be incorporated into future capitation rates which determine the amount to be transferred to the fund.

The Education Fund at June 30, 2008, had a total fund balance of $40.3 million, which represents a $7.7 million decrease over fiscal year 2007's ending balance. Prior to fiscal year 2008, the State appropriated for expenditures to provide property tax relief to taxpayers based on taxpayer income levels and property taxes. Beginning with fiscal year 2008, the State paid income sensitivity adjustments to the municipalities, and the municipalities adjust the taxpayers' statewide education property tax assessments. The Education Fund's statewide education tax revenue was reduced from the gross assessment of $798.9 million for the $118 million that was paid to municipalities for income sensitivity adjustments. The Education Fund's reserve for budget stabilization increased $1.1 million to $29.4 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $13.6 million at June 30, 2008, a decrease of $6.7 million from the fiscal year 2007 ending total fund balance. This decrease was the result of expenditures exceeding revenues by $4.5 million and transfer out exceeding transfers in by $2.2 million. The Transportation Fund's reservation for budget stabilization increased from $10.7 million to $11.2 million, the maximum allowed by statute.

See Note 1, Section E for more information regarding these funds.

Proprietary Funds
The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund is the largest of the enterprise funds accounting for 97.75 percent of the $173.1 million total net assets reported by the enterprise funds. However, the Unemployment Compensation Trust Fund's total net assets decreased by $25.6 million from $194.8 million at June 30, 2007, to $169.2 million at June 30, 2008. This decrease was the result of unemployment benefit distributions exceeding unemployment tax assessments and other income.

The State's *internal service funds'* total net assets at June 30, 2008 were $12.2 million, a $5.1 million decrease from June 30, 2007. This decrease is primarily due to operating losses totaling $5.8 million partially offset by net transfers in from other funds of $0.7 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside the government. The *pension and other postemployment benefit trust funds'* net assets decreased by 7.73 percent to $3.26 billion at June 30, 2008. For more information regarding the State's retirement and other postemployment benefit plans, see Note 5 to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2008 is $6.9 million, and total liabilities balance is $5.5 million, including the escheat property claims liability estimated at $5.5 million, resulting in ending net assets of $1.416 million. The State's Vermont Pension Investment Committee (VPIC) accepted the City of Burlington into the VPIC investment pool effective November 1, 2007. This changed the investment pool from an internal investment pool to an external investment pool, and which required the State to add the reporting of an Investment Trust Fund in the Fiduciary Funds financial statements. The Investment Trust Fund's total net assets at June 30, 2008, were $117.7 million. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The General Fund ended fiscal year 2008 with a surplus of revenues over expenditures on a budget basis. In July 2007, the State adopted its original revenue estimate of $1,170.2 million and the original expenditure budget was $889.3 million. The revenue estimate was increased by $15.8 million in January 2008, and an additional $3.7 million in April 2008. This 2008 legislative session anticipated a general fund surplus and in Act 192 section 5.803 of the 2008 legislative session, stipulated that the surplus be used for certain additional appropriations, transfers and reserves. This included the transfer of $2.6 million to the budget stabilization reserve bringing the reserve to the statutory maximum of $57.8 million, $18.98 million to be added to the general fund surplus reserve, and an additional $2.3 million to be added to the final fiscal year appropriations for economic recovery and opportunity initiatives. During the year, actual budgetary-based revenues exceeded the final budgetary estimates by $10.1 million, with actual tax revenue exceeding the final tax revenue estimate by $9.6 million. Expenditures were $21 million less than the final budgeted amount.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2008, was $1.403 billion, a total increase of 5.68 percent (Table 3). 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.

Many component unit, municipal and non-profit capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other organizations. Therefore, these capital assets are recorded on the financial statements of these owning organizations and are not listed on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2008, the State had $226.3 million of general obligation bonds outstanding related to capital assets of these other organizations.

TABLE 3
Capital Assets at Fiscal Year End
(Net of depreciation, amounts in thousands)

	Governmental Activities		Business Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land and Land Improvements…	$ 72,940	$ 71,236	$ -	$ -	$ 72,940	$ 71,236
Construction in Progress………	304,866	294,136	-	-	304,866	294,136
Works of Art………………………	136	136	-	-	136	136
Buildings and Improvements…..	205,690	205,957	31	37	205,721	205,994
Machinery and Equipment…….	48,213	48,964	553	375	48,766	49,339
Infrastructure……………………	771,002	707,202	-	-	771,002	707,202
Totals…………………………	**$ 1,402,848**	**$ 1,327,631**	**$ 584**	**$ 412**	**$ 1,403,432**	**$1,328,043**

Totals may not add due to rounding.

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. 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 proceeding 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.

During fiscal year 2008, the State of Vermont's outstanding general obligation bond debt decreased by approximately $2.8 million. This decrease can be accounted for by the issuance of $75.2 million of general obligation bonds and accretion of $1.8 million in principal on the State's capital appreciation bonds offset by the redemption of $51.4 million. There was $28.4 million in defeasance 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 general obligation bond ratings are as follows: Aaa by Moody's Investor Service (since February 2007), AA+ by Standard & Poor's Ratings Services (since September 2000), and AA+ by Fitch Ratings (since October 1999).

ECONOMIC FACTORS AFFECTING THE STATE

Capital Debt Affordability
Annually the Capital Debt Affordability Advisory Committee (CDAAC) completes a review of the size and affordability of the State tax-supported general obligation debt. By October 1, the CDAAC submits to the Governor and to the General Assembly an estimate of the maximum amount of new long-term general obligation

debt that prudently may be authorized for the next fiscal year. In September 2008, the CDAAC issued its recommendation proposing that the maximum amount of long-term general obligation debt authorized for the State in fiscal year 2009 be adjusted to $64.65 million and the maximum amount of long-term general obligation debt authorization for the State in fiscal year 2010 be $69.96 million.

Budgetary General Fund Fiscal Year 2009 and Economic Conditions
Budgetary General Fund revenues for the first five months of fiscal year 2009 were $455.85 million, $939 thousand higher than during the same period for fiscal year 2008. Personal income tax receipts are up $9.378 million (4.17%) compared to fiscal year 2008. Corporate income tax and sales & use tax receipts have both declined over the same five month period compared to fiscal year 2008. Corporate income tax receipts declined by $10.22 million (43.53%) and sales & use tax receipts declined by $5.367 million (5.64%), both due to the unfavorable economic conditions. Vermont's General Fund budget is based on a Consensus Revenue Forecast as adopted by the Emergency Board (32 V.S.A. 305a). Normally the State's Consensus Revenue Forecast is updated two times per year in January and July. However, with the downturn in the national and regional economy, the Emergency Board scheduled interim reviews of the Consensus Revenue Forecast for April and November. The original fiscal year 2009 General Fund revenue forecast adopted in January 2008 ($1,184.8 million) was reduced in April, and July, and most recently in November ($1,114.4 million, -5.9%). Fiscal year 2009 General Fund appropriations were reduced following both the April and July revenue reductions. An additional General Fund appropriation reduction plan based on the November revenue downgrade is planned for implementation in December 2008.

The "Rainy Day Fund"
At June 30, 2008, the General Fund Budget Stabilization Reserve, sometimes called the *rainy day fund*, was fully funded at $57.84 million, in accordance with 32 V.S.A. 308. At this point, the General Assembly has not chosen to draw on the Budget Stabilization Reserve to cover an anticipated fiscal year 2009 budgetary General Fund deficit.

These factors will likely have an impact on the State's financial position and budget in future fiscal years.

REQUESTS FOR INFORMATION

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

State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
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.

BASIC FINANCIAL STATEMENTS

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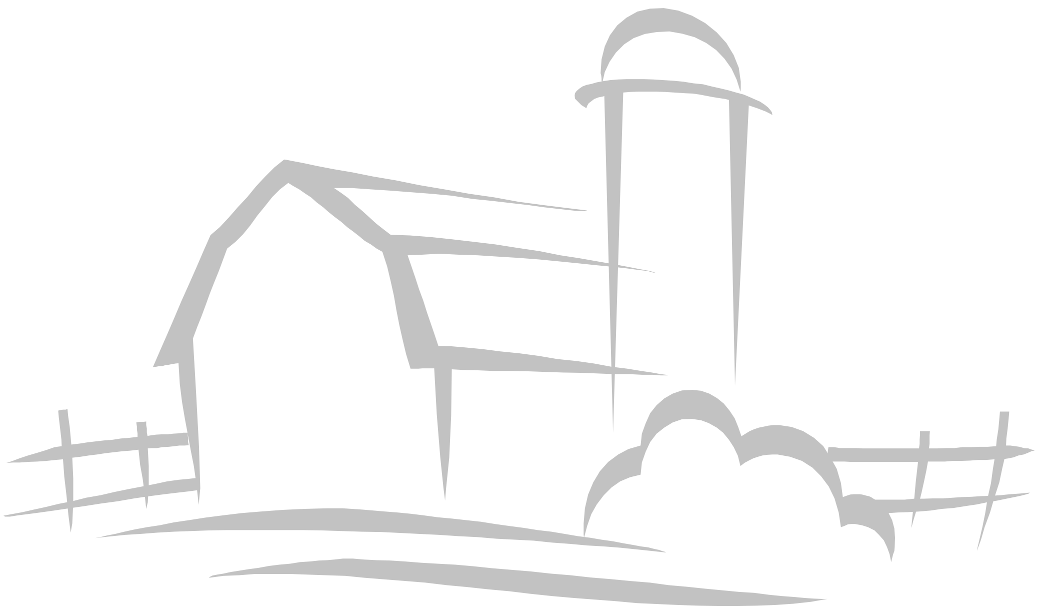

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 398,550,861	$ 165,273,601	$ 563,824,462	$ 122,246,318
Taxes receivable (net)	92,127,526	11,365,480	103,493,006	-
Loans and notes receivable (net)	169,625,607	1,009,470	170,635,077	193,538,855
Federal grants receivable	88,794,218	66,756	88,860,974	18,029,553
Other receivables (net)	13,011,131	2,508,314	15,519,445	131,644,354
Investments	37,401,064	-	37,401,064	142,727,728
Inventories	2,672,771	4,993,652	7,666,423	235,025
Internal balances	2,009,880	(2,009,880)	-	-
Receivable from primary government	-	-	-	368,354
Receivable from component units	2,707,271	-	2,707,271	-
Other current assets	1,235,525	133,266	1,368,791	14,379,342
Total current assets	808,135,854	183,340,659	991,476,513	623,169,529
Noncurrent assets:				
Cash and cash equivalents	-	917,189	917,189	78,416,671
Taxes receivable	127,487,543	-	127,487,543	-
Other receivables	36,903,476	38,040	36,941,516	-
Loans and notes receivable	806,499	1,748,600	2,555,099	2,537,747,917
Investments	39,669,664	2,345,849	42,015,513	455,947,771
Other noncurrent assets	8,492,156	-	8,492,156	22,005,426
Capital assets:				
Land	72,939,991	-	72,939,991	29,500,456
Construction in progress	304,865,733	-	304,865,733	12,345,576
Works of art	136,003	-	136,003	-
Capital assets being depreciated:				
Infrastructure	1,356,179,525	-	1,356,179,525	21,093,971
Property, plant and equipment	501,606,367	1,451,876	503,058,243	933,144,243
Less accumulated depreciation	(832,880,080)	(868,147)	(833,748,227)	(368,098,099)
Total capital assets, net of depreciation	1,402,847,539	583,729	1,403,431,268	627,986,147
Total noncurrent assets	1,616,206,877	5,633,407	1,621,840,284	3,722,103,932
Total assets	2,424,342,731	188,974,066	2,613,316,797	4,345,273,461

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	226,625,251	9,266,931	235,892,182	91,576,223
Income tax refunds payable	70,541,287	-	70,541,287	-
Payable to primary government	-	-	-	2,707,271
Payable to component units	368,354	-	368,354	-
Intergovernmental payable - due to federal government	8,124,107		8,124,107	-
Accrued interest payable	7,866,086	-	7,866,086	4,443,832
Current portion of long-term liabilities	88,229,346	704,708	88,934,054	130,223,796
Deferred revenue	9,630,537	1,018,034	10,648,571	30,834,906
Total current liabilities	411,384,968	10,989,673	422,374,641	259,786,028
Long-term liabilities:				
Lottery prize awards payable	-	4,727,679	4,727,679	-
Bonds, notes and leases payable	401,270,486	-	401,270,486	3,045,003,632
Compensated absences	11,213,793	139,371	11,353,164	-
Claims and judgments	24,398,753	-	24,398,753	-
Other long-term liabilities	325,490,261	-	325,490,261	82,481,932
Total long-term liabilities	762,373,293	4,867,050	767,240,343	3,127,485,564
Total liabilities	1,173,758,261	15,856,723	1,189,614,984	3,387,271,592
NET ASSETS				
Invested in capital assets, net of related debt	1,245,907,690	583,729	1,246,491,419	171,918,414
Restricted for:				
Unemployment compensation	-	169,205,810	169,205,810	-
Component unit net assets	-	-	-	605,213,884
Funds held in permanent investments:				
Expendable	11,269,155	-	11,269,155	-
Nonexpendable	7,416,453	-	7,416,453	-
Budget stabilization	98,430,952	-	98,430,952	-
Unrestricted	(112,439,780)	3,327,804	(109,111,976)	180,869,571
Total net assets	$ 1,250,584,470	$ 173,117,343	$ 1,423,701,813	$ 958,001,869

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental activities:				
General government	$ 101,536,003	$ 20,973,026	$ 3,042,940	$ -
Protection to persons & property	259,691,386	112,100,404	44,538,513	-
Human services	1,652,680,329	15,682,861	936,480,352	-
Labor	28,020,157	7,215,385	20,875,096	-
General education	1,614,446,803	1,891,730	110,156,924	-
Natural resources	95,657,166	25,513,793	22,204,932	8,582,528
Commerce & community development	36,953,754	509,618	10,875,195	-
Transportation	310,701,544	86,370,146	34,430,598	143,152,685
Public service enterprises	4,502,606	3,240,411	-	-
Interest on long-term debt	19,360,558	-	-	-
Total governmental activities	4,123,550,306	273,497,374	1,182,604,550	151,735,213
Business-type activities:				
Vermont Lottery Commission	79,595,887	102,000,627	-	-
Liquor Control	45,311,653	45,926,628	-	-
Unemployment Compensation	98,955,469	65,327,271	-	-
Other	3,139,932	3,027,266	-	-
Total business-type activities	227,002,941	216,281,792	-	-
Total primary government	$ 4,350,553,247	$ 489,779,166	$ 1,182,604,550	151,735,213
Total component units	$ 979,578,671	$ 537,193,654	$ 344,597,739	$ 14,506,269

General Revenues:
Taxes:
Personal and corporate income
Sales and use
Meals and rooms
Puchase and use
Motor fuel
Statewide education
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 (Note 17)

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	
$ (77,520,037)	$ -	$ (77,520,037)	$ -
(103,052,469)	-	(103,052,469)	-
(700,517,116)	-	(700,517,116)	-
70,324	-	70,324	-
(1,502,398,149)	-	(1,502,398,149)	-
(39,355,913)	-	(39,355,913)	-
(25,568,941)	-	(25,568,941)	-
(46,748,115)	-	(46,748,115)	-
(1,262,195)	-	(1,262,195)	-
(19,360,558)	-	(19,360,558)	-
(2,515,713,169)	-	(2,515,713,169)	-
-	22,404,740	22,404,740	-
-	614,975	614,975	-
-	(33,628,198)	(33,628,198)	-
-	(112,666)	(112,666)	-
-	(10,721,149)	(10,721,149)	-
(2,515,713,169)	(10,721,149)	(2,526,434,318)	-
-	-	-	(83,281,009)
698,304,586	-	698,304,586	-
336,164,340	-	336,164,340	-
119,758,150	-	119,758,150	-
79,084,039	-	79,084,039	-
65,080,036	-	65,080,036	-
798,904,652	-	798,904,652	-
317,438,225	-	317,438,225	15,483,258
2,414,734,028	-	2,414,734,028	15,483,258
8,731,712	8,740,362	17,472,074	19,392,520
38,236,100	-	38,236,100	-
-	-	-	879,118
3,555,121	10,529	3,565,650	1,169,140
23,899,609	(23,899,609)	-	-
2,489,156,570	(15,148,718)	2,474,007,852	36,924,036
(26,556,599)	(25,869,867)	(52,426,466)	(46,356,973)
1,277,141,069	198,987,210	1,476,128,279	1,004,358,842
$ 1,250,584,470	$ 173,117,343	$ 1,423,701,813	$ 958,001,869

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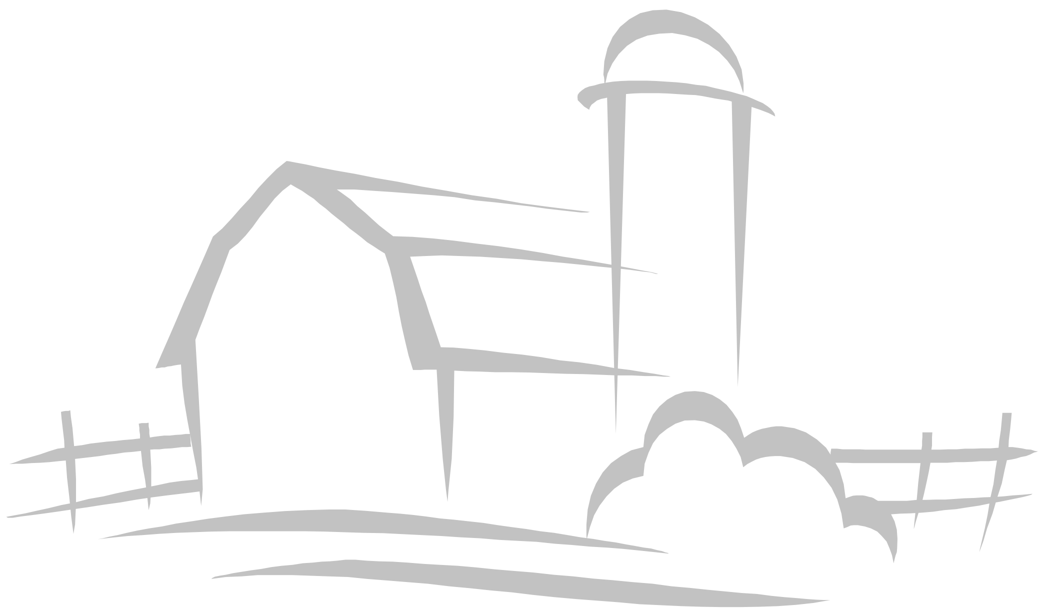

Vermont

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS:				
Cash and cash equivalents..	$ 81,643,676	$ 11,697,916	$ 41,738,039	$ 82,136,958
Investments..	-	-	-	44,001,504
Receivables:				
Taxes receivable (net)...	194,304,667	7,994,826	13,756,575	3,479,572
Accrued interest receivable................................	72,211	1,190	-	18,776
Notes and loans receivable................................	1,475,174	433,779	-	190,000
Other receivables (net)..	5,113,031	9,833,928	-	12,791,311
Intergovernmental receivable - federal government (net)..	152,269	22,967,974	-	-
Due from other funds...	3,639,580	544,994	-	758,337
Due from component units...	2,675,808	-	-	31,463
Interfund receivable..	37,470,933	-	-	-
Advances to other funds...	324,300	-	-	-
Total assets..	**$ 326,871,649**	**$ 53,474,607**	**$ 55,494,614**	**$ 143,407,921**
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable...	$ 22,180,763	$ 21,743,670	$ 12,711,059	$ 14,691,511
Accrued liabilities...	16,144,128	7,218,899	-	4,054,645
Retainage payable..	25,324	406,540	-	1,023,013
Due to other funds...	230,593	19,181	73,845	256,996
Due to component units...	-	-	-	368,354
Intergovernmental payable - federal government..........	-	-	-	-
Tax refunds payable...	3,175,148	-	-	106,755
Deferred revenue...	129,392,769	10,472,889	2,407,220	6,324,591
Total liabilities...	**171,148,725**	**39,861,179**	**15,192,124**	**26,825,865**
FUND BALANCES (DEFICITS):				
Reserved for:				
Encumbrances..	4,454,203	436,469	-	9,864,245
Budget stabilization...	57,839,077	11,199,306	29,392,569	-
Debt service..	803,498	-	-	-
Advances and notes receivable............................	1,799,474	-	-	-
General and transportation fund surplus................	18,975,000	624,787	-	-
Human caseload management...........................	17,243,422	-	-	-
Endowments..	-	-	-	-
Downtown housing tax credit.............................	150,000	-	-	-
Unreserved:				
General Fund..	54,458,250	-	-	-
Special revenue funds (deficit)............................	-	1,352,866	10,909,921	106,717,811
Capital projects funds......................................	-	-	-	-
Permanent funds..	-	-	-	-
Total fund balances (deficit).............................	**155,722,924**	**13,613,428**	**40,302,490**	**116,582,056**
Total liabilities and fund balances...................	**$ 326,871,649**	**$ 53,474,607**	**$ 55,494,614**	**$ 143,407,921**

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

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ 48,324,741	$ 42,280,614	$ 42,039,429	$ -	$ 349,861,373
11,400,000	-	21,669,224	-	77,070,728
-	-	79,429	-	219,615,069
22,414	-	4,583	-	119,174
168,333,153	-	-	-	170,432,106
2,136,479	16,723,693	455,276	-	47,053,718
65,400,686	-	273,289	-	88,794,218
462,012	118,370	7,037	(2,491,580)	3,038,750
-	-	-	-	2,707,271
-	-	-	-	37,470,933
-	-	-	-	324,300
$ 296,079,485	**$ 59,122,677**	**$ 64,528,267**	**$ (2,491,580)**	**$ 996,487,640**
$ 33,234,853	$ 80,090,082	$ 2,837,424	$ -	$ 187,489,362
6,574,139	2,919,987	650,329	-	37,562,127
43,762	808,404	345,680	-	2,652,723
1,834,685	264,977	10,250	(2,491,580)	198,947
-	-	-	-	368,354
8,124,107	-	-	-	8,124,107
-	-	-	-	3,281,903
176,511,860	11,130,282	5,090	-	336,244,701
226,323,406	**95,213,732**	**3,848,773**	**(2,491,580)**	**575,922,224**
11,683,460	807,354	3,651,368	-	30,897,099
-	-	-	-	98,430,952
-	-	-	-	803,498
-	-	-	-	1,799,474
-	-	-	-	19,599,787
-	-	-	-	17,243,422
-	-	7,416,453	-	7,416,453
-	-	-	-	150,000
-	-	-	-	54,458,250
58,072,619	(36,898,409)	5,725,977	-	145,880,785
-	-	32,616,541	-	32,616,541
-	-	11,269,155	-	11,269,155
69,756,079	**(36,091,055)**	**60,679,494**	**-**	**420,565,416**
$ 296,079,485	**$ 59,122,677**	**$ 64,528,267**	**$ (2,491,580)**	**$ 996,487,640**

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2008

Total fund balances from previous page		**$ 420,565,416**
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	72,913,835	
Construction in progress	301,262,192	
Depreciable capital assets and infrastructure, net of $795,124,713 of accumulated depreciation	996,618,688	
Capital assets, net of accumulated depreciation		1,370,794,715
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		12,146,290
Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:		
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds		326,755,858
Deferred charge for unamortized bond issuance costs		2,150,127
Deferred for unamortized loss on sale of refunding bonds		6,342,029
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:		
Bonded and capital lease debt	(454,854,110)	
Accrued interest payable on bonds	(7,866,086)	
Compensated absences (net of internal service funds' liability)	(31,354,203)	
Tax refunds payable	(67,259,384)	
Other long-term liabilities	(326,836,182)	
Long-term liabilities		(888,169,965)
Net assets of governmental activities		**$ 1,250,584,470**

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

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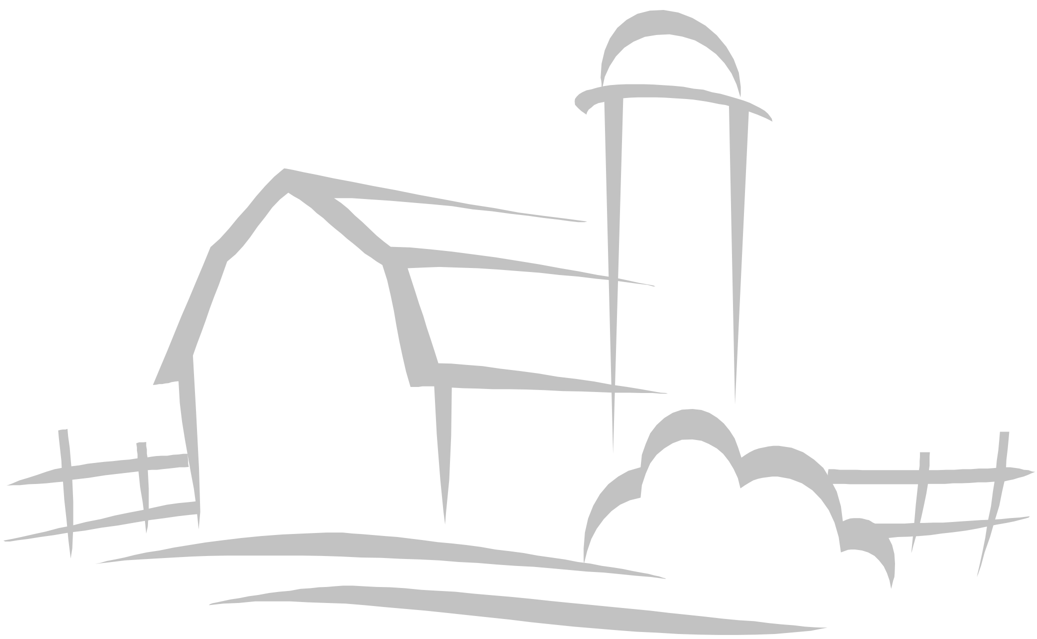

Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES:				
Taxes:				
Personal income tax	$ 620,824,418	$ -	$ -	$ 687,724
Corporate income tax	71,264,721	-	-	-
Sales and use tax	223,562,992	-	113,049,701	-
Meals and rooms	120,326,831	-	-	-
Motor fuel tax	-	62,206,145	-	1,902,747
Purchase and use tax	-	52,723,463	26,360,576	-
Statewide education tax	-	-	798,904,652	-
Other taxes	129,486,171	19,276,963	1,945,534	165,605,440
Earnings of departments:				
Fees	14,730,309	5,187,240	-	41,342,819
Rents and leases	-	999,617	-	2,812,842
Sales of services	1,870,659	143,665	-	11,823,072
Federal grants	-	179,017,617	-	-
Fines, forfeits and penalties	4,448,280	7,483,568	-	10,018,265
Investment income	4,967,506	409,012	92,929	3,724,928
Licenses:				
Business	2,756,280	758,246	-	12,108,664
Non-business	91,229	71,752,643	-	2,444,699
Special assessments	-	-	-	44,802,264
Other revenues	1,748,259	2,423,227	-	69,349,012
Total revenues	**1,196,077,655**	**402,381,406**	**940,353,392**	**366,622,476**
EXPENDITURES:				
General government	69,737,590	41,604	-	12,928,964
Protection to persons and property	86,273,025	36,034,452	-	83,236,322
Human services	402,109,683	-	-	69,219,718
Labor	3,064,262	-	-	6,026,462
General education	142,781,544	254,966	1,252,529,110	21,154,252
Natural resources	26,845,590	-	-	28,650,288
Commerce and community development	17,715,916	-	-	6,674,026
Transportation	170,221	368,582,974	-	1,061,638
Public service enterprises	-	-	-	4,501,715
Debt service	64,205,317	1,996,862	-	2,495,850
Total expenditures	**812,903,148**	**406,910,858**	**1,252,529,110**	**235,949,235**
Excess of revenues over (under) expenditures	**383,174,507**	**(4,529,452)**	**(312,175,718)**	**130,673,241**
Other Financing Sources (Uses):				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	798,046	-	-	-
Proceeds from the sale of refunding bonds	29,011,368	-	-	183,632
Payment to bond escrow agent	(29,375,437)			-
Transfers in	21,436,978	1,292,580	309,218,173	73,553,416
Transfers out	(412,352,330)	(3,510,512)	(4,700,000)	(203,068,936)
Total other financing sources (uses)	**(390,481,375)**	**(2,217,932)**	**304,518,173**	**(129,331,888)**
Net change in fund balances	**(7,306,868)**	**(6,747,384)**	**(7,657,545)**	**1,341,353**
Fund balances, July 1 (deficit)	**163,029,792**	**20,360,812**	**47,960,035**	**115,240,703**
Fund balances, June 30 (deficit)	**$ 155,722,924**	**$ 13,613,428**	**$ 40,302,490**	**$ 116,582,056**

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

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 621,512,142
-	-	-	-	71,264,721
-	-	-	-	336,612,693
-	-	-	-	120,326,831
-	-	972,009	-	65,080,901
-	-	-	-	79,084,039
-	-	-	-	798,904,652
-	-	-	-	316,314,108
			-	
-	-	183,920	-	61,444,288
-	-	47,283	-	3,859,742
-	-	-	-	13,837,396
1,132,027,191	-	6,887,374	-	1,317,932,182
-	-	21,509	-	21,971,622
2,148,819	-	650,427	-	11,993,621
			-	
-	-	1,310	-	15,624,500
-	-	6,165,998	-	80,454,569
-	-	-	-	44,802,264
5,702,960	-	798,024	-	80,021,482
1,139,878,970	**-**	**15,727,854**	**-**	**4,061,041,753**
2,662,165	175,000	8,565,536	-	94,110,859
43,130,707	1,353,675	3,167,257	-	253,195,438
390,032,994	776,567,716	2,580,687	-	1,640,510,798
17,965,580	-	-	-	27,056,304
110,391,122	5,420,658	14,777,124	-	1,547,308,776
25,936,245	-	22,886,066	-	104,318,189
11,074,598	-	1,835,984	-	37,300,524
-	-	101,893	-	369,916,726
-	-	-	-	4,501,715
-	-	-	-	68,698,029
601,193,411	**783,517,049**	**53,914,547**	**-**	**4,146,917,358**
538,685,559	**(783,517,049)**	**(38,186,693)**	**-**	**(85,875,605)**
-	-	46,000,000	-	46,000,000
-	-	-	-	798,046
-	-	-	-	29,195,000
-	-	-	-	(29,375,437)
5,245,533	801,513,791	479,754	(1,181,533,543)	31,206,682
(535,143,302)	(23,042,508)	(2,785,955)	1,181,533,543	(3,070,000)
(529,897,769)	**778,471,283**	**43,693,799**	**-**	**74,754,291**
8,787,790	**(5,045,766)**	**5,507,106**	**-**	**(11,121,314)**
60,968,289	**(31,045,289)**	**55,172,388**	**-**	**431,686,730**
$ 69,756,079	**$ (36,091,055)**	**$ 60,679,494**	**$ -**	**$ 420,565,416**

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, 2008

Total net change in fund balances from the previous page	$ (11,121,314)
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	142,775,092
Depreciation expense	(66,995,782)
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal repayment	51,355,000
Payment to refunding bond escrow agent	29,375,437
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	(46,000,000)
Refunding bonds issued	(29,195,000)
Bond premium is amortized over the life of the bonds in the statement of activities	554,448
Refunding bonds gain amortized over the life of the refunded bonds	(1,189,971)
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	256,586
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds	10,635,293
Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities	(3,772,420)
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	(410,080)
Accreted interest on capital appreciation bonds	(1,769,972)
Increase in compensated absences	(1,174,787)
Increase in employer pension related costs	(8,861,739)
Increase in employer other postemployment benefits related costs	(89,729,537)
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	(5,056,025)
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	3,768,172
Total changes in net assets of governmental activities as reported on the statement of activities	$ (26,556,599)

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
ASSETS	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**
Current Assets:			
Cash and cash equivalents	$ 160,674,172	$ 1,940,790	$ 2,250,688
Receivables:			
Taxes receivable (net of allowance for uncollectibles)	11,365,480	-	-
Accrued interest receivable	-	-	-
Accounts receivable (net of allowance for uncollectibles)	406,817	160,586	1,629,558
Loans receivable	-	-	-
Due from other funds	-	15,981	26,682
Intergovernmental receivable - federal	66,756	-	-
Inventories, at cost	-	4,287,919	351,925
Prepaid expenses	-	-	-
Total current assets	**172,513,225**	**6,405,276**	**4,258,853**
Restricted and Noncurrent Assets:			
Cash-subscription reserve fund	-	-	-
Investments	-	-	2,345,849
Loans receivable	-	-	-
Accounts receivable - subscriptions	-	-	-
Imprest cash and change fund - advances	-	6,300	300,000
Capital Assets:			
Land	-	-	-
Construction in progress	-	-	-
Capital assets being depreciated:			
Machinery, equipment and buildings	-	1,152,494	277,742
Less accumulated depreciation	-	(637,376)	(210,540)
Total capital assets, net of depreciation	**-**	**515,118**	**67,202**
Total restricted & noncurrent assets	-	521,418	2,713,051
Total assets	**172,513,225**	**6,926,694**	**6,971,904**
LIABILITIES			
Current Liabilities:			
Accounts payable	1,601,462	4,686,830	524,556
Accrued salaries and benefits	-	469,499	159,079
Claims payable	-	-	-
Due to lottery winners	-	-	487,209
Due to agents	-	247,881	-
Due to other funds	41,504	334,456	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	3,040,848
Deferred revenue	-	-	182,445
Other liabilities	1,664,449	-	-
Total current liabilities	**3,307,415**	**5,738,666**	**4,394,137**
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	1,686,831
Advances from other funds	-	6,300	300,000
Total liabilities payable from restricted assets	**-**	**6,300**	**1,986,831**
Total liabilities	**3,307,415**	**5,744,966**	**6,380,968**
NET ASSETS			
Invested in capital assets	-	515,118	67,202
Restricted for unemployment compensation benefits	169,205,810	-	-
Unrestricted (deficit)	-	666,610	523,734
Total net assets	**$ 169,205,810**	**$ 1,181,728**	**$ 590,936**

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

Business-type Activities - Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	**Eliminations**	**Total Enterprise Funds**	**Total Internal Service Funds**
$ 407,951	$ -	$ 165,273,601	$ 48,674,388
-	-	11,365,480	-
39,307	-	39,307	39,880
272,046	-	2,469,007	10,929,864
1,009,470	-	1,009,470	-
61,219	(41,504)	62,378	-
-	-	66,756	-
353,808	-	4,993,652	2,672,771
133,266	-	133,266	1,235,525
2,277,067	**(41,504)**	**185,412,917**	**63,552,428**
607,989	-	607,989	-
-	-	2,345,849	-
1,748,600	-	1,748,600	-
38,040	-	38,040	-
2,900	-	309,200	15,100
-	-	-	26,156
-	-	-	3,603,541
21,640	-	1,451,876	66,178,494
(20,231)	-	(868,147)	(37,755,367)
1,409	**-**	**583,729**	**32,052,824**
2,398,938	-	5,633,407	32,067,924
4,676,005	**(41,504)**	**191,046,324**	**95,620,352**
151,184	-	6,964,032	5,308,314
118,861	-	747,439	3,488,969
-	-	-	35,832,296
-	-	487,209	-
-	-	247,881	-
-	(41,504)	334,456	2,729,452
1,436,749	-	1,436,749	35,950,090
-	-	3,040,848	-
227,600	-	410,045	141,694
-	-	1,664,449	-
1,934,394	**(41,504)**	**15,333,108**	**83,450,815**
607,989	-	607,989	-
-	-	1,686,831	-
2,900	-	309,200	15,100
610,889	**-**	**2,604,020**	**15,100**
2,545,283	**(41,504)**	**17,937,128**	**83,465,915**
1,409	-	583,729	32,052,824
-	-	169,205,810	-
2,129,313	-	3,319,657	(19,898,387)
$ 2,130,722	**$ -**	**$ 173,109,196**	**$ 12,154,437**

Adjustment to reflect the consolidation of internal service activities related to enterprise funds	8,147
Net Assets - Business-type Activities........................	$ 173,117,343

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Operating Revenues			
Charges for sales and services	$ 65,327,271	$ 42,746,145	$ -
Ticket sales	-	-	101,985,237
Rental income	-	-	-
License fees	-	1,085,565	-
Federal donated property	-	-	-
Advertising revenue	-	-	-
Other operating revenues	-	2,094,918	15,390
Total operating revenues	**65,327,271**	**45,926,628**	**102,000,627**
Operating Expenses			
Cost of sales and services	-	35,173,958	-
Claims expense	98,853,537	-	-
Lottery ticket prizes	-	-	64,759,920
Agents commissions and fees	-	-	5,969,099
Tri-State (megabucks) and MUSL (powerball) expenses	-	-	2,425,926
Lottery tickets	-	-	1,270,445
Salaries and benefits	-	-	1,285,947
Insurance premium expense	-	-	-
Transportation	-	-	233,816
Contractual services	-	-	-
Repairs and maintenance	-	-	-
Warehouse expense	-	1,138,911	-
Depreciation	-	165,856	23,812
Rental expense	-	-	57,487
Utilities and property management	-	-	-
Non-capital equipment purchased	-	-	-
Stores and agencies expense	-	5,359,323	-
Promotions and advertising	-	-	459,324
Administrative expenses	-	1,679,714	2,095,152
Inspection and enforcement expense	-	1,780,548	-
Supplies and parts	-	-	13,168
Distribution and postage	-	-	-
Travel	-	-	-
Loss on bad debts	101,932	-	-
Other operating expenses	-	3,490	1,004,046
Total operating expenses	**98,955,469**	**45,301,800**	**79,598,142**
Operating income (loss)	**(33,628,198)**	**624,828**	**22,402,485**
Non-Operating Revenues (Expenses)			
Gain (loss) on disposal of capital assets	-	10,529	-
Investment income (expense)	8,404,302	-	325,053
Total non-operating revenues (expenses)	**8,404,302**	**10,529**	**325,053**
Income (loss) before contributions and transfers	**(25,223,896)**	**635,357**	**22,727,538**
Capital contributions from (to) other funds	-	-	-
Transfer in	-	-	-
Transfer out	(402,382)	(836,519)	(22,717,382)
Changes in net assets	**(25,626,278)**	**(201,162)**	**10,156**
Total net assets, July 1	**194,832,088**	**1,382,890**	**580,780**
Total net assets, June 30	**$ 169,205,810**	**$ 1,181,728**	**$ 590,936**

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

Business-type Activities - Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
$ 1,631,463	$ -	$ 109,704,879	$ 205,392,248
-	-	101,985,237	-
-	-	-	12,475,743
-	-	1,085,565	-
614,582	-	614,582	-
608,726	-	608,726	-
172,495	-	2,282,803	2,692,700
3,027,266	**-**	**216,281,792**	**220,560,691**
1,159,042	-	36,333,000	26,748,926
-	-	98,853,537	111,953,086
-	-	64,759,920	-
-	-	5,969,099	-
-	-	2,425,926	-
-	-	1,270,445	-
945,799	-	2,231,746	30,256,806
-	-	-	6,168,864
55,848	-	289,664	-
16	-	16	4,092,374
1,183	-	1,183	3,239,356
-	-	1,138,911	-
1,780	-	191,448	7,734,632
37,066	-	94,553	2,254,653
10,341	-	10,341	11,293,905
32	-	32	3,460,859
-	-	5,359,323	-
404,010	-	863,334	-
215,286	-	3,990,152	8,822,655
-	-	1,780,548	-
21,654	-	34,822	9,563,000
225,062	-	225,062	-
12,954	-	12,954	249,977
4,350	-	106,282	-
40,623	-	1,048,159	570,250
3,135,046	**-**	**226,990,457**	**226,409,343**
(107,780)	**-**	**(10,708,665)**	**(5,848,652)**
-	-	10,529	12,027
11,007	-	8,740,362	1,455,155
11,007	**-**	**8,750,891**	**1,467,182**
(96,773)	**-**	**(1,957,774)**	**(4,381,470)**
-	-	-	6,940
402,382	(402,382)	-	3,070,000
(345,708)	402,382	(23,899,609)	(3,763,979)
(40,099)	**-**	**(25,857,383)**	**(5,068,509)**
2,170,821	**-**	**198,966,579**	**17,222,946**
$ 2,130,722	**$ -**	**$ 173,109,196**	**$ 12,154,437**

Total change in net assets reported above................	(25,857,383)
Consolidation adjustment of internal service activities related to enterprise funds......................	(12,484)
Change in net assets - business-type activities..........	$ (25,869,867)

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers	$ 57,819,361	$ 58,449,332	$ 101,874,682
Cash paid to suppliers for goods and services	-	(41,497,175)	-
Cash paid to employees for services	-	(3,624,002)	(1,264,060)
Cash paid for prizes and commissions	-	-	(70,459,082)
Cash paid to claimants	(90,913,154)	-	-
Liquor taxes and licenses paid	-	(14,630,823)	-
Cash paid for fees, operations and other	-	-	(7,665,577)
Other operating revenues (expenses)	(8,941)	2,091,428	15,390
Net cash provided (used) by operating activities	**(33,102,734)**	**788,760**	**22,501,353**
Cash Flows from Noncapital Financing Activities:			
Operating transfers in (out)	(392,309)	(836,519)	(22,856,438)
Interfund loans and advances	-	-	-
Net cash provided (used) by noncapital financing activities	**(392,309)**	**(836,519)**	**(22,856,438)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(363,350)	-
Proceeds from sale of capital assets	-	10,881	-
Net cash provided (used) by capital and related financing activities	**-**	**(352,469)**	**-**
Cash Flows From Investing Activities:			
Interest and dividends on investments	8,404,302	-	397,199
Proceeds from sales/maturities of investments	-	-	245,072
Interest & penalties received (paid)	-	-	-
Excess cash transferred	-	-	-
Net cash provided (used) by investing activities	**8,404,302**	**-**	**642,271**
Net increase (decrease) in cash and cash equivalents	**(25,090,741)**	**(400,228)**	**287,186**
Cash and cash equivalents at July 1	**185,764,913**	**2,347,318**	**2,263,502**
Cash and cash equivalents at June 30 (see note below)	**$ 160,674,172**	**$ 1,947,090**	**$ 2,550,688**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$ (33,628,198)	$ 624,828	$ 22,402,485
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	165,856	23,812
(Increase) decrease in accounts/taxes receivable	463,250	(20,885)	(136,701)
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	(15,981)	(3,169)
(Increase) decrease in inventory	-	64,271	37,568
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in intergovernmental receivable - federal	42,062	-	-
Increase (decrease) in accounts payable	-	(80,109)	(103,045)
Increase (decrease) in accrued salaries and benefits	-	82,873	21,887
Increase (decrease) in claims payable	197,070	-	-
Increase (decrease) in due to lottery winners	-	-	(388,756)
Increase (decrease) in due to agents	-	(91,509)	-
Increase (decrease) in future and unclaimed prizes payable	-	-	621,125
Increase (decrease) in due to other funds	-	59,416	-
Increase (decrease) in deferred revenue	-	-	26,147
Increase (decrease) in other liabilities	(176,918)	-	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	**525,464**	**163,932**	**98,868**
Net cash provided (used) by operating activities	**$ (33,102,734)**	**$ 788,760**	**$ 22,501,353**

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 these financial statements.

Business-type Activities - Enterprise Funds: Non-major Enterprise Funds	Business-type Activities - Enterprise Funds: Total Enterprise Funds	Governmental Activities: Total Internal Service Funds
$ 3,358,451	$ 221,501,826	$ 221,510,317
(3,247,007)	(44,744,182)	(73,419,389)
(924,839)	(5,812,901)	(29,916,815)
-	(70,459,082)	-
-	(90,913,154)	(109,830,080)
-	(14,630,823)	-
-	(7,665,577)	-
56,113	2,153,990	2,122,450
(757,282)	**(10,569,903)**	**10,466,483**
(1,290)	(24,086,556)	(693,979)
233,356	233,356	1,037,420
232,066	**(23,853,200)**	**343,441**
-	(363,350)	(8,041,572)
-	10,881	671,684
-	**(352,469)**	**(7,369,888)**
11,008	8,812,509	1,581,534
-	245,072	-
392,309	392,309	-
(344,418)	(344,418)	-
58,899	**9,105,472**	**1,581,534**
(466,317)	**(25,670,100)**	**5,021,570**
1,485,157	**191,860,890**	**43,667,918**
$ 1,018,840	**$ 166,190,790**	**$ 48,689,488**
$ (107,780)	$ (10,708,665)	$ (5,848,652)
1,780	191,448	7,734,632
11,895	317,559	3,998,935
(522,006)	(522,006)	-
(24,632)	(24,632)	-
(18,000)	(37,150)	(356,609)
45,732	147,571	183,585
(25,967)	(25,967)	(270,916)
-	42,062	-
(7,387)	(190,541)	(330,096)
20,960	125,720	339,992
-	197,070	2,123,006
-	(388,756)	-
-	(91,509)	-
-	621,125	-
-	59,416	2,939,930
(112,039)	(85,892)	(47,324)
-	(176,918)	-
(19,838)	(19,838)	-
(649,502)	**138,762**	**16,315,135**
$ (757,282)	**$ (10,569,903)**	**$ 10,466,483**

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 15,141,694	$ -	$ 4,317,256	$ 4,904,565
Investments at fair value	3,228,223,497	117,750,454	1,773,103	-
Receivables:				
Taxes	-	-	-	2,189,808
Contributions - current	8,687,492	-	-	-
Contributions - non-current	11,051,031	-	-	-
Interest and dividends	1,172,565	-	-	-
Investments sold	4,112,227	-	-	-
Other	264,169	-	-	422,431
Due from other funds	152,269	-	263	23,165
Prepaid expenses	2,744,451	-	-	-
Other assets	-	22,211	837,540	-
Capital assets:				
Construction in progress	2,407,498	-	-	-
Capital assets being depreciated:				
Equipment	183,814	-	-	-
Less accumulated depreciation	(71,994)	-	-	-
Total capital assets, net of depreciation	2,519,318	-	-	-
Total assets	**3,274,068,713**	**117,772,665**	**6,928,162**	**7,539,969**
LIABILITIES				
Liabilities:				
Accounts payable	2,624,933	104,235	25,562	-
Accrued liabilities	-	-	15,160	-
Claims payable	-	-	5,457,396	-
Due to other funds	-	-	13,970	-
Retainage	220,533	-	-	-
Interfund loans payable	-	-	-	84,094
Due to depositories	-	-	-	49,418
Intergovernmental payable - other governments	-	-	-	3,094,799
Amounts held in custody for others	-	-	-	3,094,795
Payable for investments purchased	11,027,296	-	-	-
Other liabilities	-	-	-	1,216,863
Total liabilities	**13,872,762**	**104,235**	**5,512,088**	**$ 7,539,969**
NET ASSETS HELD IN TRUST FOR:				
Employees' pension benefits	$ 3,247,885,108	$ -	$ -	
Employees' other postemployment benefits	12,310,843	-	-	
Pool participants	-	117,668,430	-	
Individuals, organizations and other governments	-	-	1,416,074	
Net assets held in trust for benefits & other purposes	**$ 3,260,195,951**	**$ 117,668,430**	**$ 1,416,074**	

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

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions:			
Employer - pension benefit	$ 49,695,432	$ -	$ -
Employer - healthcare benefit	42,313,769	-	-
Plan member	52,757,383	-	-
Transfers from non-state systems	248,120	-	-
Medicare part D drug subsidy	1,406,469	-	-
Total contributions	146,421,173	-	-
Investment Income:			
Net appreciation (depreciation) in fair value of investments	74,679,550	-	-
Loss from investment pool	(325,315,187)	(12,429,447)	-
Dividends	14,696,449	-	-
Interest income	29,455,616	-	154,539
Securities lending income	5,470,999	22,211	-
Other income	1,157,229	-	-
Less Investment Expenses:			
Investment managers and consultants	(12,080,451)	(98,674)	-
Securities lending expenses	(1,367,169)	(5,561)	-
Net investment income (loss)	(213,302,964)	(12,511,471)	154,539
Pool participant deposits	-	130,179,901	
Escheat property remittances	-	-	4,746,138
Total additions	**(213,302,964)**	**117,668,430**	**4,900,677**
DEDUCTIONS			
Retirement benefits	166,690,118	-	-
Other post employment benefits	32,114,682	-	-
Refunds of contributions	3,838,256	-	-
Death claims	941,658	-	-
Depreciation	71,994	-	
Operating expenses	2,750,764	-	595,443
Transfers out	-	-	3,543,094
Total deductions	**206,407,472**	**-**	**4,138,537**
Change in net assets held in trust for:			
Employees' pension benefits	(283,389,232)	-	-
Employees' other postemployment benefits	10,099,969	-	-
Pool participants	-	117,668,430	-
Individual, organizations and other governments	-	-	762,140
Net Assets, July 1	**3,533,485,214**	**-**	**653,934**
Net Assets, June 30	**$ 3,260,195,951**	**$ 117,668,430**	**$ 1,416,074**

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

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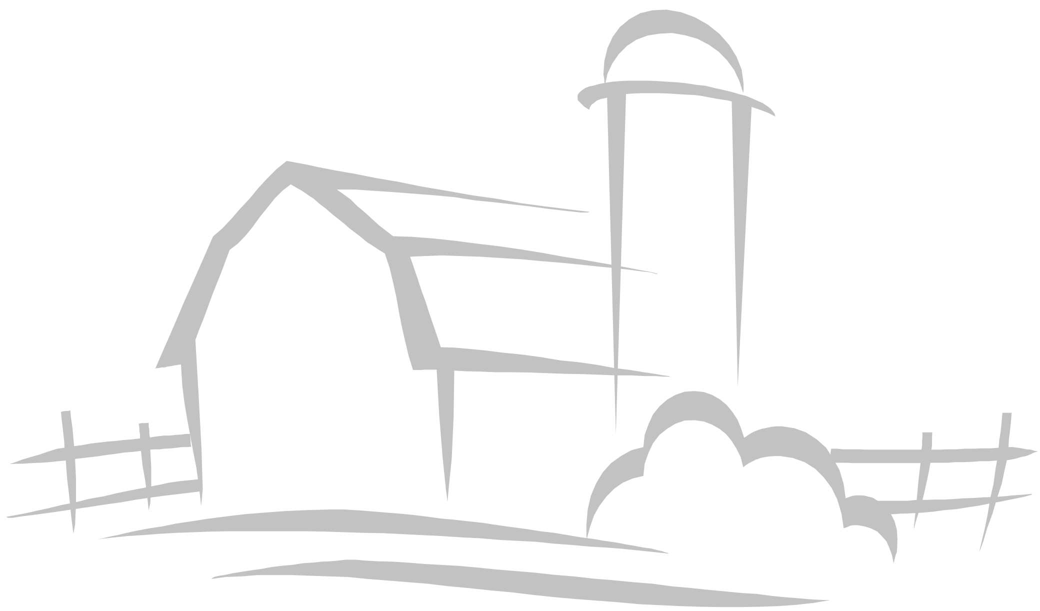

Vermont

Component Units Financial Statements

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2008

ASSETS	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Non-major Component Units	Total Component Units
Current Assets:					
Cash and cash equivalents	$ 90,587,000	$ 4,589,000	$ 2,211,713	$ 24,858,605	$ 122,246,318
Investments	2,762,000	112,117,000	16,158,667	11,690,061	142,727,728
Accounts receivable (net)	-	45,654,000	7,894,377	1,947,245	55,495,622
Accrued interest receivable - loans	55,255,000	-	-	16,723,348	71,978,348
Accrued interest receivable - investments	215,000	-	-	-	215,000
Loans and notes receivable - current portion	142,177,000	3,495,000	-	47,866,855	193,538,855
Other receivables	869,000	3,024,000	-	62,384	3,955,384
Due from federal government	440,000	-	-	17,589,553	18,029,553
Due from primary government	-	-	-	368,354	368,354
Inventories (at cost)	-	-	128,285	106,740	235,025
Other current assets	1,634,000	10,822,000	1,047,703	875,639	14,379,342
Total current assets	**293,939,000**	**179,701,000**	**27,440,745**	**122,088,784**	**623,169,529**
Restricted and Non-Current Assets:					
Cash and cash equivalents	-	3,535,000	72,306,063	2,575,608	78,416,671
Investments	-	362,183,000	31,699,590	62,065,181	455,947,771
Deferred bond issue costs	9,277,000	-	-	5,883,049	15,160,049
Loans and notes receivable (net)	1,906,343,000	33,575,000	5,146,931	592,682,986	2,537,747,917
Other assets	-	6,075,000	765,060	5,317	6,845,377
Total restricted and noncurrent assets	**1,915,620,000**	**405,368,000**	**109,917,644**	**663,212,141**	**3,094,117,785**
Capital Assets:					
Land	3,150,000	20,499,000	5,287,848	563,608	29,500,456
Construction in process	-	5,727,000	6,527,903	90,673	12,345,576
Building and leasehold improvements	16,711,000	591,425,000	138,164,245	19,329,338	765,629,583
Equipment, furniture and fixtures	9,742,000	142,089,000	12,139,139	3,544,521	167,514,660
Infrastructure	-	-	21,093,971	-	21,093,971
Accumulated depreciation	(7,316,000)	(256,407,000)	(91,828,974)	(12,546,125)	(368,098,099)
Total capital assets, net of depreciation	**22,287,000**	**503,333,000**	**91,384,132**	**10,982,015**	**627,986,147**
Total assets	**2,231,846,000**	**1,088,402,000**	**228,742,521**	**796,282,940**	**4,345,273,461**
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities	6,809,000	52,541,000	14,665,629	2,982,709	76,998,338
Accrued interest payable	-	-	-	173,364	173,364
Bond interest payable	2,506,000	-	-	1,764,468	4,270,468
Deferred revenue	6,331,000	16,611,000	7,727,749	165,157	30,834,906
Current portion of long-term liabilities	1,670,000	7,159,000	2,544,738	118,850,058	130,223,796
Due to primary government	-	-	-	2,707,271	2,707,271
Escrowed cash deposits	-	-	-	167,000	167,000
Other current liabilities	-	-	-	14,410,885	14,410,885
Total current liabilities	**17,316,000**	**76,311,000**	**24,938,116**	**141,220,912**	**259,786,028**
Restricted and Non-Current Liabilities:					
Bonds, notes and leases payable	2,064,295,000	412,877,000	117,967,271	449,864,361	3,045,003,632
Accounts payable and accrued liabilities	-	15,383,000	568,809	-	15,951,809
Accrued arbitrage rebate	25,390,000	-	-	1,177,386	26,567,386
Other liabilities	-	26,292,000	13,639,773	30,964	39,962,737
Total liabilities payable from restricted assets	**2,089,685,000**	**454,552,000**	**132,175,853**	**451,072,711**	**3,127,485,564**
Total liabilities	**2,107,001,000**	**530,863,000**	**157,113,969**	**592,293,623**	**3,387,271,592**
NET ASSETS					
Invested in capital assets, net of related debt	2,475,000	115,623,000	46,201,088	7,619,326	171,918,414
Restricted	62,302,000	356,834,000	16,606,171	169,471,713	605,213,884
Unrestricted	60,068,000	85,082,000	8,821,293	26,898,278	180,869,571
Total net assets	**$ 124,845,000**	**$ 557,539,000**	**$ 71,628,552**	**$ 203,989,317**	**$ 958,001,869**

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Non-major Component Units	Total Component Units
Expenses:					
Salaries and benefits	$ 25,895,000	$ 341,589,000	$ 100,836,226	$ 16,888,210	$ 485,208,436
Other expenses	45,291,000	165,313,000	41,498,632	23,364,375	275,467,007
Scholarships, grants and fellowships	26,345,000	12,551,000	4,775,192	-	43,671,192
Depreciation	1,467,000	26,094,000	5,594,586	750,096	33,905,682
Interest on debt	100,478,000	14,414,000	1,909,835	24,524,519	141,326,354
Total expenses	199,476,000	559,961,000	154,614,471	65,527,200	979,578,671
Program Revenues:					
Charges for services	106,106,000	290,105,000	95,771,945	45,210,709	537,193,654
Operating grants and contributions	71,709,000	207,330,000	53,296,096	12,262,643	344,597,739
Captial grants and contributions	-	10,112,000	2,737,097	1,657,172	14,506,269
Total program revenues	177,815,000	507,547,000	151,805,138	59,130,524	896,297,662
Net revenue (expense)	(21,661,000)	(52,414,000)	(2,809,333)	(6,396,676)	(83,281,009)
General Revenues:					
Property transfer tax	-	-	-	15,483,258	15,483,258
Investment income	7,676,000	4,154,000	231,571	7,330,949	19,392,520
Additions to non-expendable endowments	-	-	879,118	-	879,118
Miscellaneous	-	-	-	1,169,140	1,169,140
Total general revenues	7,676,000	4,154,000	1,110,689	23,983,347	36,924,036
Changes in net assets	(13,985,000)	(48,260,000)	(1,698,644)	17,586,671	(46,356,973)
Net assets - beginning, restated (Note 17)	138,830,000	605,799,000	73,327,196	186,402,646	1,004,358,842
Net assets - ending	$ 124,845,000	$ 557,539,000	$ 71,628,552	$ 203,989,317	$ 958,001,869

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

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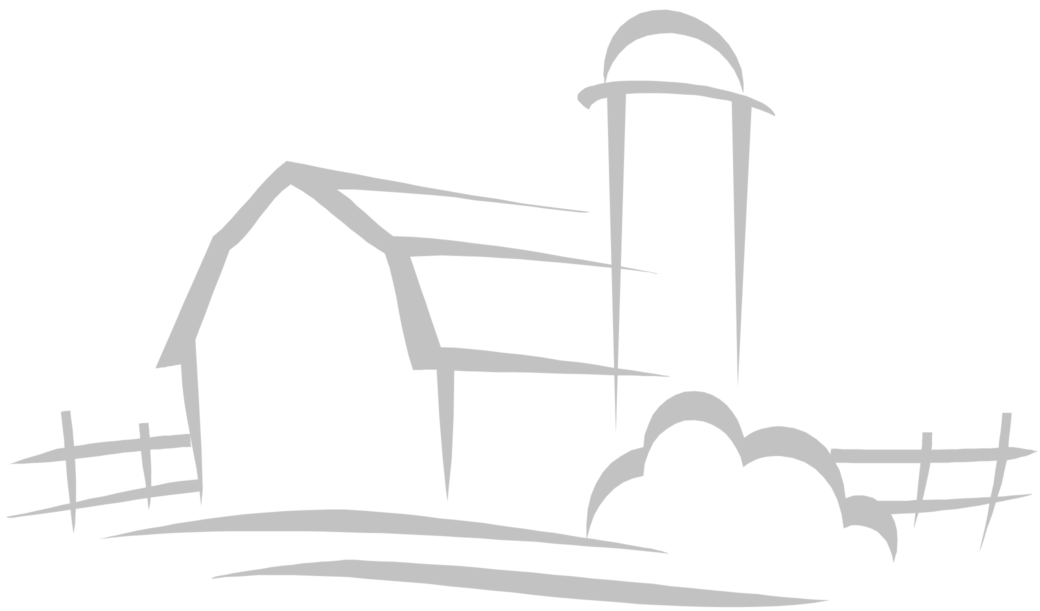

Vermont

State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2008

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Vermont (State) 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. 45 – "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," and Statement No. 50 – "Pension Disclosures – An Amendment of GASB Statements No. 25 and 27." As a result, the State has made changes in its measurement, recognition, and display of postemployment benefits (OPEB) expenses and related liabilities, and note disclosures and Required Supplementary Information (RSI) associated with OPEB and pension obligations. See note 5 for more detailed information.

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, 2008.

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; and

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 have not been included in this report.

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

COMPONENT UNITS

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State 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, some of whom report blended component units in their respective financial statements (See the Vermont Municipal Bond Bank). Each 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 "Discretely Presented Component Units" contained in 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 Vermont Legislature to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. For further information, contact their administrative offices at the Champlain Mill, P.O. Box 2000, Winooski, Vermont 05404-2601.

*University Of Vermont (UVM)** - The University of Vermont's financial report includes both the university and the State Agricultural College. Additional information may be obtained by contacting the university's administrative offices 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, Stanley Hall, Park Street, P.O. Box 359, Waterbury, Vermont 05676.

Non-major Component Units

*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), the Drinking Water State Revolving Loan Fund – Private Loans, and the Brownsfield Revitalization Fund. These three 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, Suite 5, Montpelier, Vermont 05602.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this 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 State Street, Montpelier, Vermont 05602.

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 Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose 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 was created by the Vermont Legislature for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. The fund has a June 30 year-end and issues its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 58 East State Street, Montpelier, Vermont 05601-0564.

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 58 East State Street, Montpelier, Vermont 05601-0564.

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, Suite 2, Waterbury, Vermont 05676.

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 Vermont Veterans' Home. The Vermont Veterans' 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 109 State Street, 4th Floor, Montpelier, Vermont 05609-6200.

Vermont Film Corporation – The Vermont Film Corporation is a non-profit public corporation, created pursuant to 10 V.S.A. 644-650, for the purpose of promoting the state as a location for commercial film and television production, and to facilitate the participation of local individuals and companies in such productions. Additional information may be obtained by contacting the corporation at 10 Baldwin St., Drawer 33, Montpelier, Vermont 05633-2001.

Vermont Telecommunications Authority – The Vermont Telecommunications Authority was created in June 2007 pursuant to 30 V.S.A. 8061, for the purposes of ensuring that all regions of the state have access to affordable broadband and mobile telecommunications services by the year 2010 and promoting and facilitating ongoing upgrades in statewide telecommunications infrastructure in the most efficient and economically feasible manner. Additional information may be obtained by contacting the corporation at One National Life Drive, Montpelier, Vermont 05620-3205.

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. The VTA is not currently an operating organization. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

* - Indicates entity was audited by KPMG LLP.

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 Tri-State Lotto Commission (31 V.S.A. 673) is classified as a joint venture. The financial activities' of this organization is not included in the State's financial statements; however, see Note 13 for additional information regarding the organization.

JOINTLY-GOVERNED ORGANIZATIONS

The following organizations are classified as jointly-governed organizations, because they represent units over which control is exercised jointly by the State along with various other governmental agencies. There is no specific ongoing financial benefit or burden for the State associated with these organizations, which distinguishes these arrangements from those classified as joint ventures. The financial activities of these organizations are not included in the State's financial statements.

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)

RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government appoints a voting majority of the board members, but does not have either (a) the ability to impose its will on the organization or (b) a relationship of financial benefit or burden with the organization. The following entities have been classified as related organizations, and thus 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
Connecticut River Atlantic Salmon Commission (10 V.S.A. 4654)
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

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

The State of 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 (the amount by which assets exceed liabilities) are reported on the Statement of Net Assets in three components:

(1) Invested in capital assets, net of related debt – total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that is related to the acquisition or construction of those assets;

(2) Restricted – for amounts when constraints placed on the net assets are either externally imposed, or are imposed by constitutional provisions or enabling legislation. The amount of governmental activities net assets restricted by enabling legislation for the State as of June 30, 2008, is $98,430,952.

(3) Unrestricted – the total net assets which do not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

C. Fund Financial Statements

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

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

In addition to the above major fund criteria, any other governmental or enterprise fund that 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. Statewide education property taxes are recognized as revenues in the year for which the taxes are levied. This property tax is levied by the State on July 1, is included in the property tax bills levied by municipalities. and is collected by municipalities. The municipalities, by December 1 and June 1, must make payment to the State Treasurer in the amount specified by the Commissioner of Taxes.

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. Major revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. See special consideration for personal income tax revenue recognition under the "Receivables" section of this footnote.

Expenditures generally are recorded when a liability is due and payable, with the following exceptions:

a. Employees' vested annual, personal, and compensatory leave time are recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in the accrual-basis financial statements and does not include any accruals for the State's share of any payroll taxes that will be due when the expenditures are actually paid. See the "Compensated Absences" section of this footnote for additional information.
b. Interest on general long-term debt is recognized when due to be paid.
c. 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 enterprise 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 operations. Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

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 defined as 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 Vermont Legislature 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 primary 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 transportation projects.

Education Fund – This fund is a major special revenue fund. It was established by the Vermont Legislature to equalize statewide education funding requirements. Sources of funding and allowable expenditures are codified in 16 V.S.A. 4025. These allowable expenditures include payments to school districts and supervisory unions for the support of education, the costs of short-term borrowing, and statewide education tax income sensitivity adjustments. Funding includes the statewide education tax, allocations of other taxes, State lottery profits, Medicaid reimbursements, and appropriated transfers from the General Fund.

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 range 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.

Global Commitment (to health) Fund – This fund is a major special revenue fund created in accordance with Section16c of 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal Government. This agreement caps Federal expenditures in Medicaid services for five years but gives Vermont great latitude in promoting universal access to health care, cost containment, and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies. As part of the agreement, the Agency of Human Resources (AHS) has contracted with the Office of Vermont Health Access, which will serve as a publicly sponsored managed care organization, and adhere to all Federal managed care organization regulations.

General, Special and Federal Revenue Funds are used to fund payments of actuarially certified premiums from the Agency of Human Services to the managed care organization within the Office of Vermont Health Access for the purpose of providing services under the global commitment to health care waiver approved by the Federal Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. These payments are reported as transfers out of the General, Special and Federal Revenue Funds and as transfers in to the Global Commitment Fund.

These funds will be expended as appropriated by the general assembly, authorized by the Director of the Office of Vermont Health Access, and approved by the Commissioner of Finance and Management consistent with agreements between the managed care organization within the Office of Vermont Health Access and departments delivering eligible services under the waiver.

Non-major governmental funds column includes the balances and activities of the following:

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. Principal 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, and 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, and monument preservation.

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 eight 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. Three of these enterprise funds, reporting the activities of the State's unemployment compensation program, the liquor control board, and the State's lottery program, are reported as "major funds" while the remaining five are reported as non-major funds.

Unemployment Compensation Trust Fund – accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed (21 V.S.A. Chapter 17).

Liquor Control Fund – accounts for the operations of the Liquor Control Board which purchases, distributes, and sells distilled spirits through its agency stores (7 V.S.A. Chapter 40).

Vermont Lottery Commission – accounts for the operations of the Vermont Lottery (31 V.S.A. Chapter 14). The net profits of the Vermont Lottery Commission used to support public education and are transferred monthly to the Education Fund.

Internal Service Funds – These twenty-two separate 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. Activities accounted for in the State's internal service funds include risk management; employee group insurance programs; equipment acquisition and maintenance; rental and maintenance of facilities; financial, human resource, audit, and information technology services; postage, copying and supply procurement services; and State vehicle fleet management. 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, or other governmental units. These funds include the following:

Pension and Other Postemployment Benefit 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, the State's Single Deposit Investment Account, and the State Employees' Postemployment Benefit Trust Fund and the Vermont Municipal Employees' Health Benefit Fund.

Investment Trust Fund – Under the authority granted in 3 V.S.A. 523, beginning in Fiscal Year 2008, the State Treasurer created and began accepting deposits into the Vermont Pension Investment Committee (VPIC) Investment Pool, an external investment pool. The investment trust fund is used to account for the investments of the external participants in the Pool.

Private Purpose Trust Fund – The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The State Treasurer administers procedures for returning this property to its rightful owner if he/she can be located. In addition to monetary assets, from time to time the State Treasurer may have custody of tangible property that has not been valued and therefore is not reported in the financial statements. Each year, the fund retains the greater of $100,000 or fifty percent of the amount received during the previous year, and the balance after deduction for operating expense is transferred to the General Fund. Amounts for which the eligibility period for being claimed has expired are transferred to the Vermont Higher Education Endowment Fund (a permanent fund).

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.

CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer, except for the Pension Trust Funds, Investment Trust Fund, 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 based on average daily balances 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 three months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

INVESTMENTS

Investments are stated at fair value. Fair values of investments are based on quoted market prices. Additional information regarding types of investments and basis of valuation, see Note 2.

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 drinking water and clean water special environmental loans. Other receivables include primarily fees, fines, and expenditure reimbursements due to the Medicaid program from drug companies and third party insurance companies. 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 60 days after year-end. Amounts estimated to be collected after the 60-day revenue recognition period is recorded as deferred revenues. Federal receivables are amounts due from the federal government to reimburse the State's 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 Vermont Economic Development Authority notes purchased by the State. See Note 12 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

The "Investments Sold" receivable balance on the Statement of Fiduciary Net Assets represent monies due to the respective retirement funds for investments sold or matured prior to the statement date, but for which the receipts were received subsequent to year-end.

INVENTORIES

Inventories of materials and supplies in governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are valued at the lower of cost or market, except inventories reported in the Federal Surplus Property Fund (an enterprise fund) are reported at the federal acquisition cost. Cost valuation methods used in the various funds are as follows: weighted average method – Liquor Control enterprise fund, Vermont Life Magazine enterprise fund, Highway Garage internal service fund, and Offender Work Programs internal service fund; specific identification method – Vermont Lottery Commission enterprise fund, Federal Surplus Property enterprise fund, and State Surplus Property internal service fund; and first-in, first-out method – Postage internal service fund.

PREPAID EXPENSES

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

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 actual or estimated historical cost or, if donated, at the estimated fair market value on the date donated to the State. Interest incurred on debt issued for construction of governmental activities capital assets is not capitalized. The majority of the historic artifacts and collections that are maintained by the various State agencies and departments are not included in the capital asset reporting. The items not reported are protected and preserved, held for public exhibition and educational purposes and the proceeds from any sales of such items are used to acquire new items for the collection.

Vermont defines a Capital Asset as a physical resource that costs at least $5,000 and provides a future economic benefit for more than 1 year. 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 opposed to State employees, cost at least $50,000 and provide future economic benefit for more than 1 year. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most 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, equipment is 3 to 24 years and infrastructure assets are 6 to 80 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 historical 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. Interest is capitalized, if material.

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.

ACCOUNTS PAYABLE

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred prior to year-end, 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 year-end, which were paid subsequent to year-end.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of the statement date. 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 PAYABLE

Tax refunds payable primarily represent amounts owed by the State to taxpayers because of overpayment of their 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, 2008 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2008. The amount reported as tax refunds payable at June 30, 2008 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2008 tax liability as well as overpayments for calendar year 2007 and prior years’ tax liabilities that have not been paid out as of June 30, 2008.

ARBITRAGE REBATE OBLIGATIONS

In accordance with Section 148(f) of the U.S. Internal Revenue Code, the State must rebate to the U.S. Government the excess of interest earned from the investment of certain debt proceeds over the yield rate of the applicable debt. Arbitrage rebate, if any, is due and payable on each five-year anniversary of the respective debt issue. As of June 30, 2008, the primary government had no outstanding arbitrage rebate obligation. The arbitrage rebate liabilities reported by the discretely-presented component units are included in “Other Long-term Liabilities” in the government-wide statement of activities.

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 classified as either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation such as “reserved of advances and notes receivable;” (2) funds legally separated for a specific use such as “reserved for encumbrances;” or (3) funds segregated by legal restrictions such as “reserved for endowments” that includes the non-expendable portion of the permanent funds. 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 10 for a more complete disclosure of these reserves as it pertains to the current fiscal year.

Reserved 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 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 reserve for debt service also includes the premium on the 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.

Reserved 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.

Reserved for General and Transportation Surplus – These reserves were established pursuant to 32 V.S.A. 308c. After satisfying the requirements of the budget stabilization reserves in the General and Transportation Funds, and after other reserve requirements have been met, any remaining unreserved and undesignated end of fiscal year surplus’ in these funds are required to be reserved in the General and Transportation Funds’ surplus reserve. Monies from these reserves are to be available for appropriation by the general assembly.

Reserved for Downtown Housing Tax Credit – Act 192 Section 5.803 of the 2008 legislative session required that to the extent that budgetary basis general fund unreserved and undesignated fund balance remained after other specific reserves, monies are to be reserved for use in fiscal year 2009 to offset a downtown housing development tax credit.

COMPENSATED ABSENCES

Compensated absences liabilities include amounts for accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees 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 as of year-end. Additional information including changes in balances may be found in Note 16 – Changes in Long-term Liabilities.

Employees earn sick leave credits based on the number of years employed with a maximum accrual rate of 21 days per fiscal year. Sick leave may only be liquidated if and when sickness or injury is incurred. Additionally, if employment is terminated, any sick leave that the individual may have accrued is forfeited without any payout; therefore, it is not an accruable liability to the State. There is no limit on the amount of sick leave an employee may accumulate.

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

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

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

INTERFUND TRANSACTIONS

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

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

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

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 Financing Sources (Uses)" in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

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

A. Primary Government – Excluding Pension and Investment Trust Funds

Deposits and investments for the primary government are governed by State statutes. When depositing public monies, the State Treasurer must act in accordance with 32 V.S.A. 431. Although the statute provides requirements for the collateralization of deposits, it does not establish limits. These limits are set by published formal guidelines issued by the State Treasurer. The State has an investment policy with an overriding goal of providing optimum coverage of risk exposure and maintaining liquidity necessary for future cash needs while maximizing the return on investments. Two sections of state statute govern the investment of the State's operating and restricted cash (i.e., non-pension funds).

When investing public monies, the State Treasurer must act in accordance with 32 V.S.A. 433. Types of investments allowed include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations or other approved money market instruments; certificates of deposit issued by banks and savings and loan associations approved by the State Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. Also, the State Treasurer's Office issues additional formal guidance that is reviewed periodically, to assure that the three investment objectives -- safety, liquidity, and yield -- are met.

The statutory investment guidelines for certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. These include the nonexpendable fund balances of the Permanent Trust Funds (including the Higher Education Trust Fund), the Fish and Wildlife Trust Fund (reported in the Fish & Wildlife Fund), Tobacco Trust and Agency of Natural Resources Land and Facilities Trust Funds (reported in the Special Fund), and the Vermont State Postemployment Benefits Trust Fund.

The State Treasurer may invest funds in accordance with the standard of care established by the prudent investor rule and apply the same investment objectives and policies adopted by the Vermont State Employees' Retirement System, where appropriate, to the investment of funds in the Trust Investment Account.

Deposits - Custodial Credit Risk
The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository (FDIC) insurance and are uncollateralized or collateralized with securities held by the pledging financial institution or by the pledging financial institution's trust department or agent but not in the depositor – government's name. Although State statute does not require deposits to be collateralized, the Treasurer requires the State's cash deposits held in its primary bank to be collateralized with either United States Treasury securities or Vermont municipal securities or other approved money market instruments. Certificates of deposit are collateralized, in whole or in part, on the basis of agreements with the bank, a protocol requiring periodic due diligence and review of bank capitalization and assets. Bank deposits in excess of the FDIC amounts and collateral agreements are uninsured and uncollateralized. The bank collateral for the State's deposit balances is held by the banks' trust department for the benefit of the State. Bank balances of deposits for the primary government, excluding pension and investment trust funds, as of June 30, 2008 (including $50 million certificates of deposits) were $101,650,310. Of these, $6,466,045 (including $3.45 million certificates of deposits) was exposed to custodial credit risk as uninsured and uncollateralized.

Investments
Investments are stated at market value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at market value when published market prices and quotations are available, or at amortized cost, which approximates fair value. Management at the State Treasurer's Office is responsible for the fair value measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the Office believes that reported fair values at the balance sheet date are reasonable.

(a) Interest Rate Risk – Investments

Interest rate risk is the extent that changes in market interest rates of debt investments will adversely affect the fair market value of an investment. The State's primary government portfolio includes daily operating cash in the form of short-term cash equivalents and money market instruments The State Treasurer's Office minimizes the risk of the market value of securities falling due to changes in interest rates by holding this portion of the portfolio in securities with a maturity of one year or less. In addition, money market funds are also utilized and are operated on the basis of SEC Rule 2a-7, purchasing the highest rated debt which matures in under 13 months while maintaining an a weighted average maturity of less than 90 days. Manager guidelines for assets of the Trust Investment Account limit effective duration to +/- 30 percent of the Lehman Aggregate Bond Index. The calculation of the duration of mortgage backed securities involves assumptions as to the expected future prepayment rate for the security. The managers are required to calculate duration at the time of initial purchase and on a routine basis to maintain compliance with these guidelines. The primary government's investments,

Primary Government Investments - Excluding Pension and Investment Trust Funds
(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to <6**	**6 to 10**	**More Than 10**
Debt Investments					
US Agencies/Treasuries............	$ 61,332	$ 20,275	$ 794	$ 833	$ 39,430
Money Market Mutual Fund..........	332,959	332,959	-	-	-
Other....................................	544	100	254	122	68
Total Debt Investments...........	394,835	$ 353,334	$ 1,048	$ 955	$ 39,498
Other Investments					
Mutual Funds..........................	2,530				
Equity Securities......................	15,438				
US Unemployment Trust Pool......	160,643				
Total...............................	**$ 573,446**				

The above includes instruments that are classified as cash and short-term investments for balance sheet purposes.

The following is a reconciliation of the investment types to the financial statement presentation (*in Thousands*).

Primary Government - Excluding Pension and Investment Trust Funds

Investments per maturity schedule……………..	$	573,446
Included in cash & cash equivalents:		
US Agencies/Treasuries…………………………….		(19,961)
Money market mutual fund…………………………		(330,636)
Certificates of deposit……………………………..		22,200
US Treasury trust pool………………………………		(160,643)
Financial statement investments total………….	**$**	**84,406**

Governmental activities total………………………….	$	77,071
Business activities total……………………………….		2,346
Fiduciary - OPEB trust………………………………		3,216
Fiduciary - private purpose trust fund……………….		1,773
Total…………………………………………………….	**$**	**84,406**

(b) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the monetary magnitude of the State's investment in a single issuer. While State statute does not establish ceilings, formal investment guidelines for operating funds limit the amount invested to 10% in any one issuer of commercial paper, corporate securities, or bankers' acceptances. There are no limitations for U.S. Government and Federal Agencies. Money market funds utilized by the State Treasurer's Office are highly rated and incorporate the requisite diversification. As of June 30, 2008, no single issuer exceeded 5% for the primary government portfolios.

(c) Custodial Credit Risk

For investments, custodial credit risk is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The State has no formal policy on custodial credit risk but maintains contractual relationships with custodian banks that provide coverage and define the procedures. As of June 30, 2008 all securities were registered in the name of the State at its custodian bank. Investments in open-end mutual funds are not exposed to custodial risk because their existence is not evidenced by specific securities.

(d) Credit Risk

Credit risk is the possibility that the issuer or other counterparty to an investment may default on their obligations. In non-pension funds this risk has been mitigated by implementing statutory guidelines on credit quality and further restricted by formal investment guidelines and the use of low-risk money market instruments. The credit risk associated with the State's debt securities, money market funds, bond mutual funds, and other pools of fixed income securities, exclusive of pension and investment trust funds' investments, as of June 30, 2008, is presented as follows, using the Moody's rating scale.

Primary Government Rated Debt Investments
Excluding Pension and Investment Trust Funds
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Unrated
US Agencies/Treasuries	$ 61,332	$ -	$ 61,332
Money Market Mutual Fund	332,959	332,859	100
Bond Mutual Fund	2,530	-	2,530
Other	544	-	544

(d) Foreign Currency Risk
Foreign currency risk is the extent to which changes in exchange rates affect the value of an investment. Operating funds are restricted, through statute and formal guidelines, to specific money market instruments and money market funds investing in domestic instruments. The Trust Investment Account guidelines permit investment in foreign equities, although these are limited by as a percentage of the portfolio. Although managers are afforded flexibility in number of issues held and their geographic or industry distribution, providing they are within established percentage ranges in relative to single holding limitations and a its weighting within an appropriate index.

In the Trust Investment Account portfolio, total exposure to foreign currency risk at June 30, 2008, valued in US dollars is $832,386. This is made up of $182,600 Canadian Dollar, $524,206 Euro Currency, and $125,580 Mexican Peso.

B. <u>Primary Government – Pension Trust Funds and the Vermont Municipal Employees Health Benefit Fund</u>

The State has three defined benefit plans (Vermont State Retirement, State Teachers, and Vermont Municipal Employees), three defined contribution plans (Vermont State Retirement, and Vermont Municipal Employees, and Single Deposit Investment Account), and two other post employment benefit funds.

By statute, the assets of the three defined benefit plans are invested on behalf of each plan's Trustees through the Vermont Pension Investment Committee (VPIC), which was created by the Vermont Legislature effective July 1, 2005. The majority of these assets have been pooled for investment purposes. On November 1, 2007, the City of Burlington, Vermont pooled its investments with the majority of the assets of the state, teachers and municipal defined benefit plans pursuant to a change in state statute permitting Vermont municipalities to pool their funds with the VPIC creating an external investment pool. An "external investment pool" as defined by GASB 31 commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio and one of the participants, the City of Burlington, is not part of the state's reporting entity. Each of the participating funds has an equity position in the external pool and individual investment securities are not specifically identified to any of the participating funds. As a result, the "pooled investment" is a net equity position, incorporating the results of the underlying securities, receivables and liabilities. Earnings in each pooled investment are allocated based on the month-end balances of each of the respective systems. .

The three defined benefit plans and the City of Burlington's assets managed by VPIC are externally managed in the pool established July 1, 2005 with a startup share price of $1,000. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction.

The pool's net assets and statement of changes in net assets are as follows.

Vermont Pension Investment Committee
Investment Pool
Statement of Net Assets
June 30, 2008
(in thousands)

Assets:		
Cash and short term investments	$	178,537
Receivables:		
Interest and dividends		16,367
Investments sold		761,466
Other		1,161
Total receivables		**778,994**
Investments at Fair value:		
Fixed income		868,029
Equities		1,326,222
Mutual funds		503,750
Real estate and venture capital		178,778
Total investments		**2,876,779**
Total assets		**3,834,310**
Liabilities:		
Payable for investments purchased		(643,015)
Total liabilities		**(643,015)**
Net assets held in trust for investment pool participants	**$**	**3,191,295**

Vermont Pension Investment Committee
Investment Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2008
(in thousands)

Additions :		
Investment Income:		
Net appreciation (depreciation) in		
fair value of investments		(425,775)
Dividends		39,649
Interest income		48,213
Securities lending income		134
Other income		247
Total investment income (loss)		**(337,532)**
Deposits from pool participants		3,530,563
Total additions		**3,193,031**
Deductions:		
Operating expenses		1,736
Total deductions		**1,736**
Change in net assets		**3,191,295**
Net assets held in trust for pool participants:		
July 1		**0**
June 30	**$**	**3,191,295**
Vermont State Retirement System	$	1,272,647
State Teacher's Retirement System		1,488,625
Vermont Municipal Employees' Retirement System		312,273
City of Burlington		117,750
June 30	$	3,191,295

Each defined benefit plan managed by the state has its own asset allocation as determined by the VPIC and deemed adopted by each system's board in the absence of board action to the contrary. As of May 31, 2006, the VPIC adopted a set of investment policies and guidelines common to all three defined benefit plans. These are used by VPIC with the objective of maximizing returns within acceptable risk parameters.

The State's Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, is invested in two intermediate term bond portfolios managed by two different investment managers. The portfolios are measured against the Lehman Intermediate Term Bond index with an investment objective of exceeding this index over rolling three year periods. The investment policy governing the SDIA portfolios includes a minimum average credit quality of double-A, no bonds rated below investment grade, and limitations on asset-backed, mortgage-backed, collateralized Mortgage Obligations, corporate bonds, and single issuers of non-treasury/ government agency backed bonds. The bonds are "wrapped" by an insurance policy guaranteeing the book principal value of investment to SDIA Account participants. This insurance wrapper requires monthly adjustments of participant crediting rates based on the changing market value of the portfolio. The insurance provider is rated Aa3 by Moody's and AA+ Standard & Poor's.

The Vermont State Retirement's defined contribution plan's trustee is the State Treasurer. The Vermont Municipal Employees' Retirement System Board of Trustees is the trustee for the Vermont Municipal Employees' defined contribution plan. Both plans are administered by Fidelity Investments Institutional Operations Company. Investment choices are made by participants from a range of funds approved by the trustees' for the plans. Investment options are Fidelity and non-Fidelity mutual funds including large and small market capitalization equities (actively managed and indexed), international equities, fixed income securities, balanced funds, target retirement date age based funds, and a stable value fund. Funds included in the plans were selected based on consideration of fund performance for one and multi-year periods, performance ranked against peer group funds in asset class, management fee expense ratios, fund asset class and investment objectives, historical annual returns, Morningstar ratings, performance in various stages of the capital market cycle, and consultant recommendations as to the optimal number of funds and appropriate asset classes. Fidelity provides quarterly investment reports and analysis that are reviewed by Treasury staff, the State Treasurer and Vermont Municipal Employees' Retirement's Board.

The state has two other post benefit employment funds, the Vermont State Post Employment Benefits Trust Fund (State OPEB) and the Vermont Municipal Employees health benefit Fund (Muni OPEB). These are described in Note 5. The "State OPEB" is invested in the Trust Investment Account utilized as an investment vehicle many of the state's primary funds, exclusive of pension funds, and is included in the cash and investment disclosures for the primary government. The "Muni OPEB" is invested under the authority of the Municipal Retirement Board of Trustees and utilizes an outside administrator, which invests in mutual funds. Disclosures related to these OPEB plans' cash and investments are included below.

Deposits - Custodial Credit Risk
The pension trust funds' cash deposits, outside of the pension trust funds' custodian bank, totaled $11,959,724, none of which was exposed to custodial credit risk. In addition, there is $156,080,095 in overnight cash vehicles at the custodial bank, also not exposed to custodial risk because their existence is not evidenced by specific securities.

Investments
Custodial credit risk for investments is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The VPIC manages exposure to custodial credit risk by requiring all relevant investment managers to hold investments in separate accounts with VPIC's custodian. VPIC guidelines specify the custodial requirements for these accounts and the duties of the managers and the custodian. As of June 30, 2008, all securities were registered in the name of the State at its custodian bank. Investments in pools, open-end mutual funds, and other investments not evidenced by specific securities are not subject to custodial credit risk.

Investments are stated at market value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at market value when published market prices and quotations are available, or at amortized cost, which approximates fair value. Real estate (including timber investments) is carried at the net asset value of each retirement system's real estate fund investment(s), which net asset value is further based on the fair market value of the real properties. Properties' fair market values in each of the retirement systems' fund investments are established quarterly by real estate fund manager appraisals and are validated at least yearly by third-party property appraisals. Nonmarketable securities include alternative investments such as private equity and venture capital, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Such valuations generally consider variables such as the high, medium, and low values for portfolio investments; the investments' exit timetables, and the status of any proceedings leading to a liquidity event; the financial performance of investments, including comparison of comparable companies' earning multiples; cash flow analysis; and recent sales prices of investments. Management at the State Treasurer's Office is responsible for the fair value measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the State Treasurer's Office believes that reported fair values at the balance sheet date are reasonable.
(a) Interest Rate Risk – Investments

As pension trust funds have a different investment term horizon based on a long average liability term, the VPIC manages exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities with core, core plus and Global Fixed Income investment managers, requiring that the duration be within a specified percentage of the duration band of the appropriate benchmark index. In the case of domestic Core Fixed Income managers the average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the appropriate passive benchmark's duration by more than +/- 25 percent. The Core Plus portfolio restriction is +/- two years around the passive benchmark duration. With respect to Global Fixed Income portfolios, current portfolio durations are restricted to a range of one to ten years. High yield fixed income portfolios prices and yields are not as directly correlated with the general level of interest rates and are duration monitored but not duration restricted. The calculation of the duration of mortgage backed securities involves assumptions as to the expected future prepayment rate for the security. The managers are required to calculate duration at the time of initial purchase and on a routine basis to maintain compliance with these guidelines. Fixed income managers are required to report portfolio characteristics quarterly inclusive of portfolio duration as a measure of portfolio interest rate sensitivity. Pension and Investment Trust Funds' Investments are as follows.

Pension and Investment Trust Funds' Investments
(Expressed in Thousands)

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to < 6**	**6 to 10**	**More Than 10**
Debt Investments					
US Agencies/Treasuries	$ 496,386	$ 10,612	$ 42,145	$ 12,226	$ 431,403
Corporate Debt	619,536	21,106	244,111	222,405	131,914
Commercial Paper	19,588	19,588	-	-	-
Municipals	2,902	-	-	-	2,902
Asset Backed Securities	42,426	2	8,825	1,183	32,416
Mortgage Backed Securities	198,030	-	-	1,502	196,528
Sovereign Debt	87,564	4,733	31,954	37,219	13,658
Other	182	-	182	-	-
Total Debt Investments	1,466,614	$ 56,041	$327,217	$ 274,535	$ 808,821
Other Investments					
Mutual Funds	560,157				
Equity Securities	1,326,789				
Real Estate - Venture Capital	187,388				
Fixed Income - Derivatives	6,997				
Fixed Income - Short Positions	(489,870)				
Total	**$ 3,058,075**				

The above includes $29,834,049 in instruments that are classified as cash and short-term investments for balance sheet purposes.

(b) Concentration of Credit Risk
Formal guidelines for pension funds state that no more than 5% of the market value of a portfolio's domestic fixed income assets may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies. As of June 30, 2008, no issuer exceeded 5%.

(c) Credit Risk of Debt Investments
Detailed pension guidelines by asset class and supplemental requirements by investment manager are used to set risk parameters and are stated in written contracts. These guidelines are reviewed and adopted by VPIC.

Treasury staff and independent investment consultants are utilized to assure compliance. The credit risks associated with the Pension and Investment Trust Funds' securities are as follows.

Pension and Investment Trust Funds' Rated Debt Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
US Government Agencies/Treasuries	$496,386	$ -	$ -	$ -
Corporate Debt	619,536	19,907	59,396	118,504
Money Market Mutual Fund	-	-	-	-
Commercial Paper	19,588	-	-	-
Bond Mutual Fund	-	-	-	-
Municipals	2,902	-	963	1,269
Asset Backed Securities	42,426	30,436	2,966	1,871
Collateralized Mortgage Obligations	198,030	116,238	8,410	462
Sovereign Debt	87,564	45,097	16,955	6,068
Other	182	182	-	-

continued below

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated	Short Term A1
US Government Agencies/Treasuries	$ -	$ -	$ -	$496,386	$ -
Corporate Debt	172,925	68,566	151,133	29,105	-
Money Market Mutual Fund	-	-	-	-	-
Commercial Paper	-	-	-	-	19,588
Bond Mutual Fund	-	-	-	-	-
Municipals	603	-	-	67	-
Asset Backed Securities	4,133	463	-	2,557	-
Collateralized Mortgage Obligations	341	-	-	72,579	-
Sovereign Debt	5,618	9,385	-	4,441	-
Other	-	-	-	-	-

(e) Foreign Currency Risk

Unless VPIC stipulates specific exceptions to the guidelines, the global bond portfolio may hold no more than 30% of its assets, at market value, or 120% of each country's benchmark weight (whichever is greater) in the debt securities of any single foreign government or non-U.S. government entity. For the purposes of this calculation, all countries within the European Single Currency shall count as one country. Single non-government debt security limitations are also set for the global bond portfolio. In the case of equities, the investment manager is afforded flexibility in the number of issues held and their geographic or industry distribution, provided that equity holdings are within the lesser of established percentage ranges in relative to single holding limitations and a stock's weighting in the style benchmark against which the manager is measured. Most foreign currency exposure is in the pension and investment trust funds' portfolios. The value in US dollars by foreign currency denomination and type of investment is as follows.

Pension and Investment Trust Funds
Foreign Currency Risk - International Securities at Fair Value

Currency	Total	Short Term	Debt [1]	Equity
Australian Dollar	$ 43,872,127	$ 850	$ 7,151,924	$ 36,719,353
Brazilian Real	2,319,327	172	2,319,155	-
Canadian Dollar	7,312,163	62,231	2,055,810	5,194,122
Colombian Peso	1,675,229	-	1,675,229	-
Danish Krone	710,106	222	-	709,884
Euro Currency	192,019,887	484,026	27,548,646	163,987,215
Hong Kong Dollar	7,109,896	346,250	-	6,763,646
Iceland Krona	1,959,227	-	1,959,227	-
Indonesian Rupiah	1,602,974	206	1,544,040	58,728
Israeli Shekel	55,093	55,093	-	-
Japanese Yen	117,572,381	1,394,737	28,736,421	87,441,223
Mexican Peso	8,456,211	368,909	6,272,551	1,814,751
New Russian Ruble	778,323	-	778,323	-
New Zealand Dollar	4,850,428	120,794	2,770,808	1,958,826
Norwegian Krone	1,048,095	1,849	789,789	256,457
Polish Zloty	3,806,944	1,578	3,805,366	-
Pound Sterling	76,203,869	491,437	13,157,943	62,554,489
Singapore Dollar	9,413,804	12,539	4,279,261	5,122,004
South African Rand	5,042,470	-	2,519,268	2,523,202
Swedish Krona	4,241,013	89,468	2,535,270	1,616,275
Swiss Franc	13,780,922	21,667	-	13,759,255
Thailand Baht	67,396	67,396	-	-
Total	**$ 503,897,885**	**$ 3,519,424**	**$ 109,899,031**	**$ 390,479,430**

[1] Corporate and Sovereign

Formal investment policy guidelines adopted by the VPIC state that international equity managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility and facilitate securities transaction settlements rather than leverage portfolio risk exposure. In global fixed income accounts, opportunistic currency positioning may be utilized to hedge and cross-hedge the portfolio's currency risk exposure or in the settlement of securities transactions. The managers may vary the total portfolio exposure to currency from fully unhedged to fully hedged. The global fixed income managers are permitted to hedge all, some, or none of the portfolio's currency exposure. They are permitted to cross-hedge currency positions, but may not net short any currency, or net long more than 100% of the portfolio. VPIC has funds allocated to a global allocation asset manager in the form of shares of a commingled trust. The manager for this trust may enter into long and/or short positions in currencies of the countries represented in established indices. The strategy is permitted to cross-hedge currency exposure and will actively manage its currency exposure. This active management may go beyond fully-hedged or unhedged currency exposure, and is provided for by a specific exemption to the VPIC general guidelines.

Fixed Income Short Positions

A short-sale of a security occurs when an investment manager places a sale order for an account without actually holding the underlying security for delivery. In some situations, short sales are entered into in anticipation of a decline in the fair value of a security; in other cases short sales are entered into as a hedge against potential losses from securities owned (held long) in an account. Short sales incur the risk of loss when the price of a security underlying the short sale increases and the fund is subject to a higher cost to purchase the security in order to cover the position. Short positions in the VPIC portfolio at June 30, 2008, are predominately related to hedging against losses in long securities positions and to managing the effective duration of an investment portfolio; as a result, while a short position may in and of itself expose the account to risk of loss, such potential losses are at least partially if not fully offset by securities held long. The use of short-sales in certain cases is provided for by written investment guidelines and incorporated in specific manager contracts.

Securities Lending Transactions

State statutes and boards of trustees' policies permit the Office of the Vermont State Treasurer to use investments of the three defined benefit 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. Pursuant to a Securities Lending Authorization Agreement, State Street Bank and Trust Company (State Street) was authorized to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street loaned, on behalf of Vermont, certain securities held by State Street as custodian, and received United States and foreign currency cash, securities issued or guaranteed by the United States government. Since State Street, acting on behalf of the State, did not have the ability to pledge or sell collateral securities absent a borrower default, securities lending is not recorded as an asset with a corresponding liability on the financial statements. Borrowers were required to deliver collateral for each loan equal to not less than one hundred and two percent (102%) of the market value of the loaned security.

The State did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. There were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2008, such investment pool had a weighted average maturity of 41.84 days and an average expected maturity of 395.61 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2008, Vermont had no credit risk exposure to borrowers. The collateral held and the market values of securities on loan for Vermont as of June 30, 2008, were $454,240,281 and $437,835,702 respectively.

Authority to enter into securities lending transactions for the three retirement plans is as follows:
3 V.S.A. 471(m) Vermont State Employees' Retirement Fund
16 V.S.A. 1942(q) Vermont Teachers' Retirement Fund
24 V.S.A. 5062(o) Vermont Municipal Employees' Retirement Fund

Derivative Financial Instruments
Certain investment managers for the VPIC invest in derivative financial investments as authorized by the VPIC policy. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. At June 30, 2008, VPIC investments had four types of derivative financial instruments: futures, currency forwards, options, and swaps. All of the derivatives reported at June 30, 2008, are at fair market value. The futures and options are traded on exchanges and are marked-to-market daily using the prices as reported by Reuters (primary source). Currency forwards are traded over the counter using prices from WM Co. and Reuters. Interest rate swaps and credit default swaps are traded over the counter and are based on prices from the investment manager as provided by Pricing Direct Inc. (primary source). Swaptions are traded over the counter and are provided by the investment manager using Pricing Direct Inc. and Bloomberg as pricing sources.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At June 30, 2008, the VPIC's investments had the following futures balances:

	Market Value of Contract
Long positions equity futures	$ 3,500
Long-term debt securities futures	657,382
Short-term debt securities futures	(29,614)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency related transactions. At June 30, 2008, the VPIC's investments included the following currency forwards balances:

Currency forwards - pending foreign exchange purchases	$167,090
Currency forwards - pending foreign exchange sales	(495,556)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the VPIC receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the VPIC pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At June 30, 2008, the VPIC investments had the following option balances:

Purchased call options	$11,713,558
Purchased put options	1,533,668
Written call options	(7,069,745)
Written put options	(550,318)

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2008 the VPIC had three different types of swap arrangements; interest rate swaps, credit default swaps and total return swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert long term variable interest investments into fixed interest rate investments. Credit default swaps are used to manage credit exposure without buying securities outright. In a total return swap, one party makes payments based upon the total return of a reference asset such as an index or basket of assets, and the other party pays a fixed or floating rate of interest plus any negative total returns on the reference asset. Total return swaps are used as substitutes for physical assets and to obtain exposure in markets where physical securities are not available. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. At June 30, 2008, the VPIC's investments had the following swap market value balances:

Interest Rate Swaps (142 positions)	$(5,692,431)
Credit Default Swaps (288 positions)	6,574,659
Total Return Swaps (4 positions)	487,465

The above interest rate, credit default and total return bond swaps involved the following counterparties in one or more swap agreements:

Bank of America NA	Goldman, Sachs International
BNP Paribas	JP Morgan Chase Bank NA
Barclay's Bank	Lehman Brothers Special Financing Inc.
Citibank N.A.	Merrill Lynch Capital Services
Commonwealth Bank of Australia	Merrill Lynch International
Credit Suisse International	Morgan Stanley Capital Services
Deutsche Bank AG	Royal Bank of Scotland PLC
Goldman, Sachs Capital Markets LP	UBS AG

Asset-Backed Securities

The defined benefit pension trust funds hold mortgage-backed securities including collateralized mortgage obligations (CMOs) at fair value. Mortgage-backed securities represent a direct interest in a pool of mortgage loans. CMOs are bonds that are collateralized by whole loan mortgages, mortgages pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and pre-payments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment tranches in accordance with the payment order established for the CMO instrument. Cash flows associated with these tranches may demonstrate varying degrees of sensitivity to interest rate fluctuations. A reduction in interest rates may cause some of the tranches to experience a reduction in fair value as prepayments reduce the interest payments, causing a decline in total cash flows. In a rising interest rate environment, an increase in interest payment and cash flows may cause an increase in fair value.

Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk. Agency fixed and floating rate pass-throughs, U.S. Treasury securities and cash equivalents can be held without limitation. Securities designed to provide more precisely targeted maturities (Sequential Collateralized Mortgage Obligations) and those that create tranches, or Planned Amortization Classes (PAC I and PAC II), with cash flows that are protected from prepayment changes within certain limits, may also be purchased without limitation. Policy restrictions and portfolio percentage limitations are established for the purchase of more interest rate sensitive instruments and certain interest rate and price stress tests are required.

Asset-backed securities are collateralized by a loan, lease, or receivable other than real estate. Payments are collected by a servicer though a "pass-through" arrangement. As monthly payments of principal and interest are made, the pass-through security holder is entitled to a pro rata portion of the payments received. Risk of pre-payment varies with the underling assets. Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk.

Note 3: INTERFUND BALANCES

A. Due From/To Other Funds

Due from/to other funds result mainly from the time lag between the date that interfund goods and services are received or reimbursable costs are incurred, and the date the payment between the funds are made. The balances of due from/to other funds at June 30, 2008, are as follows.

	Due To Other Funds				
	Governmental Funds				
Due From Other Funds	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**	**Federal Revenue Fund**
General Fund	$ -	$ 13,591	$ -	$ 17,598	$ 1,406,060
Transportation Fund	14,065	-	-	660	-
Special Fund	11,139	5,590	-	-	414,801
Federal Revenue Fund	43,779	-	-	219,486	-
Global Commitment Fund	-	-	50,332	12,215	-
Non-major Governmental Funds	-	-	-	7,037	-
Liquor Control Fund	-	-	-	-	-
Vermont Lottery Commission	-	-	23,513	-	-
Non-major Enterprise Funds	-	-	-	-	-
Fiduciary Funds	161,610	-	-	-	13,824
Total	**$ 230,593**	**$ 19,181**	**$ 73,845**	**$ 256,996**	**$ 1,834,685**

continues below

	Governmental Funds		Enterprise Funds	
Due From Other Funds	**Global Commitment Fund**	**Non-major Governmental Funds**	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**
General Fund	$ 65,429	$ 8,982	$ -	$ 334,456
Transportation Fund	-	154	-	-
Special Fund	130,780	1,114	-	-
Federal Revenue Fund	68,768	-	-	-
Global Commitment Fund	-	-	-	-
Non-major Governmental Funds	-	-	-	-
Liquor Control Fund	-	-	-	-
Vermont Lottery Commission	-	-	-	-
Non-major Enterprise Funds	-	-	41,504	-
Fiduciary Funds	-	-	-	-
Total	**$ 264,977**	**$ 10,250**	**$ 41,504**	**$ 334,456**

continues below

Due From Other Funds	**Internal Service Funds**	**Fiduciary Funds**	**Total**
General Fund	$ 1,779,494	$ 13,970	**3,639,580**
Transportation Fund	530,115	-	**544,994**
Special Fund	194,913	-	**758,337**
Federal Revenue Fund	129,979	-	**462,012**
Global Commitment Fund	55,823	-	**118,370**
Non-major Governmental Funds	-	-	**7,037**
Liquor Control Fund	15,981	-	**15,981**
Vermont Lottery Commission	3,169	-	**26,682**
Non-major Enterprise Funds	19,715	-	**61,219**
Fiduciary Funds	263	-	**175,697**
Total	**$ 2,729,452**	**$ 13,970**	**$ 5,809,909**

B. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursement needs. The General Fund advances to other funds at June 30, 2008, are summarized below.

Proprietary Funds	
Vermont Lottery Fund	$ 300,000
Liquor Control Fund	6,300
Non-major Proprietary Funds	2,900
Internal Service Funds	15,100
Total	**$ 324,300**

C. Interfund Receivables/Payables

The primary government cash in most funds is pooled in the State Treasurer's accounts. When a fund has a deficit cash balance, this amount is reclassified to a liability account - interfund payable. The General Fund reports the corresponding interfund receivable for the cash borrowed from the pool. The following funds at June 30, 2008, reported interfund payables. It is expected that certain amounts due the General Fund from the Internal Service Funds will not be repaid within one year. It is expected that these interfund payables will be reduced in future years through changes to billing rates and management of operations.

Proprietary Funds	
Non-major Enterprise Funds	$ 1,436,749
Internal Service Funds	35,950,090
Fiduciary Funds	
Agency Funds	84,094
Total	**$ 37,470,933**

D. Inter - Primary Government/Component Unit Balances

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

At June 30, 2008, these account balances are as follows:

	Due to Primary Government		
	Vermont Housing & Conservation Trust Fund	**Vermont Economic Development Authority**	**Total**
Due from Component Units			
General Fund	$ 2,675,808	$ -	**$ 2,675,808**
Special Fund	-	31,463	**31,463**
Total	**$ 2,675,808**	**$ 31,463**	**$ 2,707,271**

Due to component units consists of $368,354 due from the Special Fund to the Vermont Economic Development Authority associated with reserves for the insured loan programs.

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, 2008, are as follows.

	Transfers Out				
	Governmental Funds				
Transfers In	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**	**Federal Revenue Fund**
General Fund	$ -	$ -	$ 4,700,000	$ 9,747,225	$ 2,617,923
Transportation Fund	-	-	-	72,580	-
Education Fund	280,200,000	-	-	6,450,791	-
Special Fund	11,686,058	2,004,769	-	-	33,779,813
Federal Revenue Fund	-	-	-	2,509,585	-
Global Commitment Fund	118,516,272	-	-	184,251,953	498,745,566
Non-major Governmental Funds	-	385,743	-	36,802	-
Non-major Enterprise Funds	-	-	-	-	-
Internal Service Funds	1,950,000	1,120,000	-	-	-
Total	**$ 412,352,330**	**$ 3,510,512**	**$ 4,700,000**	**$ 203,068,936**	**$ 535,143,302**

continues below

	Transfers Out				
	Governmental Funds	Proprietary Funds			
Transfers In	**Global Commitment Fund**	**Non-major Governmental Funds**	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**
General Fund	$ -	$ 7	$ -	$ 836,519	$ -
Transportation Fund	-	-	-	-	-
Education Fund	-	-	-	-	22,567,382
Special Fund	23,042,508	50,000	-	-	150,000
Federal Revenue Fund	-	2,735,948	-	-	-
Global Commitment Fund	-	-	-	-	-
Non-major Governmental Funds	-	-	-	-	-
Non-major Enterprise Funds	-	-	402,382	-	-
Internal Service Funds	-	-	-	-	-
Total	**$ 23,042,508**	**$ 2,785,955**	**$ 402,382**	**$ 836,519**	**$ 22,717,382**

continues below

	Transfers Out			
Transfers In	**Non-major Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
General Fund	$ 1,290	$ 48,129	$ 3,485,885	**$ 21,436,978**
Transportation Fund	-	1,220,000	-	**1,292,580**
Education Fund	-	-	-	**309,218,173**
Special Fund	344,418	2,495,850	-	**73,553,416**
Federal Revenue Fund	-	-	-	**5,245,533**
Global Commitment Fund	-	-	-	**801,513,791**
Non-major Governmental Funds	-	-	57,209	**479,754**
Non-major Enterprise Funds	-	-	-	**402,382**
Internal Service Funds	-	-	-	**3,070,000**
Total	**$ 345,708**	**$ 3,763,979**	**$ 3,543,094**	**$1,216,212,607**

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 Special Fund for local school reimbursement of medicaid eligible costs.

The Special Fund received transfers from the General Fund for the Next Generation Initiative, from the Federal Revenue Fund for the low income home energy assistance program, and from the Global Commitment Fund for education medicaid reimbursements.

The Global Commitment Fund received transfers from the General, Special and Federal Revenue Funds for medicaid related services provided under the Vermont Global Commitment to Health medicaid waiver.

Note 4: CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2008, were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 71,235,760	$ 1,704,231	$ -	$ -	$ 72,939,991
Construction in process	294,136,082	139,686,497	(122,528,825)	(6,428,021)	304,865,733
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	365,507,845	141,390,728	(122,528,825)	(6,428,021)	377,941,727
Capital assets, being depreciated:					
Buildings and improvements	349,657,915	11,465,209	(399,492)	1,254,208	361,977,840
Machinery and equipment	135,329,600	14,510,206	(10,183,324)	(27,955)	139,628,527
Infrastructure	1,263,425,656	111,878,990	(19,125,121)	-	1,356,179,525
Total capital assets, being depreciated	1,748,413,171	137,854,405	(29,707,937)	1,226,253	1,857,785,892
Less accumulated depreciation for:					
Buildings and improvements	(143,701,337)	(12,772,934)	186,613	-	(156,287,658)
Machinery and equipment	(86,366,021)	(13,878,593)	8,829,220	116	(91,415,278)
Infrastructure	(556,223,378)	(48,078,887)	19,125,121	-	(585,177,144)
Total accumulated depreciation	(786,290,736)	(74,730,414)	28,140,954	116	(832,880,080)
Total capital assets, being depreciated, net	962,122,435	63,123,991	(1,566,983)	1,226,369	1,024,905,812
Governmental activities capital assets, net	$ 1,327,630,280	$ 204,514,719	$ (124,095,808)	$ (5,201,652)	$ 1,402,847,539

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, being depreciated:					
Buildings and improvements	$ 86,135	$ -	$ -	$ -	$ 86,135
Machinery and equipment	1,125,425	363,350	(123,034)	-	1,365,741
Total capital assets, being depreciated	1,211,560	363,350	(123,034)	-	1,451,876
Less accumulated depreciation for:					
Buildings and improvements	(49,419)	(5,454)	-	-	(54,873)
Machinery and equipment	(749,961)	(185,994)	122,681	-	(813,274)
Total accumulated depreciation	(799,380)	(191,448)	122,681	-	(868,147)
Total capital assets, being depreciated, net	412,180	171,902	(353)	-	583,729
Business-type activities capital assets, net	$ 412,180	$ 171,902	$ (353)	$ -	$ 583,729

Fiduciary Funds	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated:					
Construction in process	$ 1,529,753	$ 1,061,560	$ (183,814)	$ -	$ 2,407,499
Total capital assets, not being depreciated	1,529,753	1,061,560	(183,814)	-	2,407,499
Capital assets, being depreciated:					
Machinery and equipment	-	183,814	-	-	183,814
Total capital assets, being depreciated	-	183,814	-	-	183,814
Less accumulated depreciation for:					
Machinery and equipment	-	(71,994)	-	-	(71,994)
Total accumulated depreciation	-	(71,994)	-	-	(71,994)
Total capital assets, being depreciated, net	-	111,820	-	-	111,820
Fiduciary capital assets, net	$ 1,529,753	$ 1,173,380	$ (183,814)	$ -	$ 2,519,319

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

Governmental Activities:

General Government	$ 9,486,800
Protection to Persons and Property	6,147,577
Human Services	755,715
Labor	146,389
General Education	13,915
Natural Resources	1,579,330
Commerce & Community Development	122,166
Transportation	48,743,890
Depreciation on capital assets held by Internal Service Funds	7,734,632
Total	$ 74,730,414

Business-type Activities:

Liquor Control	$ 165,856
Lottery Commission	23,812
Vermont Life	1,780
Total	$ 191,448

Fiduciary Activities:

Pension Trust Funds	$ 71,994

Note 5: RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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 three defined contribution plans, and three other postemployment benefit plans. These systems are considered part of the State's reporting entity and are included in the accompanying fiduciary fund type financial statements as pension and other postemployment benefit trust funds. There are no separate stand-alone financial statements issued for these plans.

Summary of significant accounting policies — basis of accounting and valuation of investments
The financial statements for the pension and other postemployment benefit trust funds are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are due. The employers' contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. All investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2008. Securities without an establish market are reported at estimated fair value.

A. Defined Benefit Retirement Plans

Retirement Plan Descriptions

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 6.98% 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.

Effective July 1, 2008, the contribution rate for Group F employees was raised, through legislation enacted in fiscal year 2008, to 5.1% of payroll though June 30, 2019, and 4.85% of payroll thereafter, due to increases in the cost of living benefit for all Group F employees and other benefit changes. These additional changes were enacted for Group F members who are new to the membership of the Vermont State Retirement System on or after July 1, 2008 are outlined below:

- normal retirement date will be 87 (combination age and service) points or 65 years of age,
- maximum pension benefit will be increased from 50% to 60% of Average Final Compensation (AFC) using existing multipliers, and
- revised early retirement penalty that rewards length of service.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost-sharing, is a cost-sharing public employee defined benefit retirement system with a special funding situation. 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 consists 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 3.54% 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 Single Deposit Investment Account in section B - defined contribution plans). 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.

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. There are 437 municipalities participating in the defined benefit plan. 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 employer who meets the minimum hourly requirement is required to join the system.

Prior to July 1, 1987, the State was statutorily responsible for the employer contributions to the MERS. Effective July 1, 1987, and thereafter, all employer contributions to the MERS are supported entirely by employer (municipal) and employee contributions. Employers make quarterly contributions that are paid based on 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 valuations.

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 three defined contribution plans are available for inspection at the Retirement Division, Office of the State Treasurer, 109 State Street, Montpelier, Vermont 05609-6901.

The defined benefit plans’ financial statements are on the following pages.

Statement of Plan Net Assets
Defined Benefit Plans
June 30, 2008

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets:			
Cash and short term investments	$ 2,480,523	$ 3,162,383	$ 1,349,355
Receivables:			
Contributions - current	3,798,026	2,522,316	1,027,017
Contributions non-current	-	-	11,051,031
Interest and dividends	11,272	13,792	572,680
Due from other funds	149,073	-	29,889
Other	-	264,169	-
Investments at Fair value:			
Pooled investments	1,272,646,888	1,488,625,458	312,272,761
Fixed income	497	28	4,196
Equities	-	1,462	-
Real estate and venture capital	2,102,641	5,739,881	767,390
Prepaid expenses	1,424,823	1,284,417	-
Capital assets, net of depreciation	1,035,800	1,186,960	296,558
Total assets	**1,283,649,543**	**1,502,800,866**	**327,370,877**
Liabilities:			
Accounts payable	1,075,176	1,270,637	269,094
Retainage payable	80,495	98,357	41,681
Due to other funds	-	111,693	-
Total liabilities	**1,155,671**	**1,480,687**	**310,775**
Net assets held in trust for employees' pension benefits	**$ 1,282,493,872**	**$ 1,501,320,179**	**$ 327,060,102**

Statement of Changes in Plan Net Assets
Defined Benefit Plans
For the fiscal year ended June 30, 2008

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions :			
Contributions			
Employer - pension benefit	$ 22,811,627	$ 24,299,097	$ -
Employer - healthcare benefit	16,368,196	15,250,000	-
Plan member	18,614,102	22,918,798	9,906,709
Transfers from other pension trust funds	166,746	221,773	124,132
Transfers from non-state systems	3,238	-	-
Medicare part D drug subsidy	-	1,406,469	-
Total contributions	**57,963,909**	**64,096,137**	**10,030,841**
Investment Income:			
Net appreciation (depreciation) in fair value of investments	35,834,967	38,255,622	8,147,578
Income (loss) from pooled investments	(132,073,225)	(161,803,403)	(31,438,559)
Dividends	4,513,469	5,733,058	1,033,561
Interest income	10,237,214	11,073,277	3,426,899
Securities lending income	2,220,415	2,648,751	502,161
Other income	526,239	545,228	72,972
Total investment income (loss)	**(78,740,921)**	**(103,547,467)**	**(18,255,388)**
Less Investment Expenses:			
Investment managers and consultants	4,850,023	5,798,123	1,089,451
Securities lending expenses	565,310	674,044	127,815
Total investment expenses	**5,415,333**	**6,472,167**	**1,217,266**
Net investment income (loss)	**(84,156,254)**	**(110,019,634)**	**(19,472,654)**
Total additions	**(26,192,345)**	**(45,923,497)**	**(9,441,813)**
Deductions:			
Retirement benefits	64,060,488	82,157,642	9,064,725
Other post employment benefits	16,371,373	15,081,847	-
Refunds of contributions	1,414,144	1,280,715	1,143,397
Death claims	332,573	391,483	217,602
Transfers to other pension trust funds	298,748	151,182	289,215
Depreciation	26,638	30,957	14,399
Operating expenses	1,227,939	835,516	609,220
Total deductions	**83,731,903**	**99,929,342**	**11,338,558**
Change in net assets	**(109,924,248)**	**(145,852,839)**	**(20,780,371)**
Net assets held in trust for employees' pension benefits:			
July 1	**1,392,418,120**	**1,647,173,018**	**347,840,473**
June 30	**$ 1,282,493,872**	**$ 1,501,320,179**	**$ 327,060,102**

Plan Membership

At June 30, 2008, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees:			
Vested	5,753	7,902	3,424
Non-vested	2,689	2,783	2,995
Total active employees	8,442	10,685	6,419
Retirees and beneficiaries of deceased retirees currently receiving benefits	4,555	5,555	1,447
Terminated employees entitled to benefits but not yet receiving them (vested)	789	705	486
Inactive members	900	2,929	2,035
Total participants	14,686	19,874	10,387

Actuarial Valuation- Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.
The actuarial method for both the STRS and the VSRS plans is set by State statute. Through fiscal year 2005, the method used was entry age normal (EAN) with frozen initial liability (FIL). The Legislature enacted a statute change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006, which effectively restated the starting balance.

Under the previous method, set by State statute, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 falls to normal cost instead of being added to the unfunded liability as in more conventional funding methods. If funding levels approximate the actuarially required contribution (ARC), as in the case of the funding of VSRS, the effect of changing from EAN-FIL to EAN is attributable to variances between the actuarial assumptions and experience.

State statute provides that at least once in each five-year period, the State's actuary is to make an investigation into the mortality, service, and comprehensive experience of the members and beneficiaries of the system and make recommendations for certain modifications of the actuarial assumptions, as needed. These experience studies are conducted on a staggered basis for the three systems.

Such a study was completed for the VSRS for the period covering July 1, 2001 through June 30, 2006. Those changes were reflected in the June 30, 2007 valuation report. A change in application of an assumption related to joint survivorship for Group C members was included in the June 30, 2008 valuation.

During December 2007, an experience study was conducted for the STRS for the period covering July 1, 2002 through June 30, 2007. As a result of this experience study performed by Buck Consultants and recent changes adopted by the STRS's Board of Trustees, changes in the actuarial assumptions were made in the valuation report for the period ending June 30, 2008. The liability for inactive members was raised from 150% to 300% of employee contributions with interest, and various decrement tables were updated to more closely match the anticipated future experience of the system. In the June 30, 2008 STRS valuation, these changes resulted in an increase in an actuarial accrued liability by $45,302,660 while the normal cost declined by $8,885,999.

The changes to the VSRS benefit/system provisions are a result of statutory changes enacted by the Legislature in May 2008, after the completion of the fiscal year 2007 valuation. The annual-cost-of living adjustment (COLA) applicable to the benefits of Group F members retiring on or after July 1, 2008, will rise from 50% of the annual increase of the Consumer Price Index (CPI) to 100% of the annual increase in the CPI index, up to a ceiling of 5%, effective January 1, 2014. Only current Group F members who are actively contributing into the system on June 30, 2008, and retire on or after July 1, 2008, will be eligible for the enhanced COLA in 2014. Group F members who have terminated service or transferred to another group plan prior to June 30, 2008, will not be eligible for the new COLA unless they return to active group F service after July 1, 2008 and prior to retirement. The COLA changes result in an increase in the actuarial accrued liability of $56,379,626 and an increased normal cost of $3,514,150. Under the same legislation, the Group F member contribution was raised, as noted above, which led to an increase of $6,363,368 in expected employee contributions for fiscal year 2009. A change effective July 1, 2008, in the amount of service required for an ordinary in-service death benefit was lowered from 20 years to 10 years which led to insignificant changes in the normal cost and accrued liability and are reflected in the following table.

Investment experience accounted for $23,651,900 of the $36,410,925 in net actuarial losses for VSRS. Other significant factors increasing the actuarial loss for VSRS include non-reimbursed expenses, new members with prior service, and retirement, termination and disability experience. These were partially offset by COLA experience, mortality among retirees, and various other factors. Investment experience accounted for $26,035,387of the $56,901,270 net actuarial loss for STRS. Other significant factors increasing the actuarial loss were expenses other than investment expenses, termination experience, and new entrants with prior service. Retirement and COLA experience partially offset this as well as other factors.

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2007 and June 30, 2008, as follows.

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2007	$ (11,043,959)	$ 274,790,333
Normal cost	39,091,226	42,871,112
Contribution paid	(41,609,832)	(64,096,137)
Interest on unfunded liability, normal cost and contribution	631,506	23,615,496
Actuarial gains and losses/experience	36,410,925	56,901,270
Assumption changes	7,231,106	45,302,660
Changes to benefits/system provisions	56,389,496	120,335
Unfunded actuarial accrued liability, June 30, 2008	$ 87,100,468	$ 379,505,069

Actuarial Assumptions & Methods

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS, and by the participating employers for MERS (which is not funded by the State).

	VSRS	STRS	MERS
Valuation date	06/30/08	06/30/08	07/01/08
Actuarial cost method (1)	Entry Age Normal	Entry Age Normal	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period (2) All closed basis	10 years /30 years (3)	28 years	10 years
Asset valuation method	Preliminary Asset Value plus 20% difference between market and preliminary asset value	Preliminary Asset Value plus 20% difference between market and preliminary asset value	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return (4)	8.25%	8.25%	8.00%
Projected salary increases	4.67%-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% (5)	Group C - 5%	Group A - 2% Groups B, C & D - 3%

(1) Beginning with 6/30/06, the actuarial cost method was changed to the Entry Age Normal method for VSRS and STRS.

(2) The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective 7/1/06 for STRS.

(3) Recently negotiated benefits for Group F members including cost of living benefits changes and benefit changes affecting new hires after July 1, 2008 are amortized separately over a 30 year period.

(4) Beginning with 6/30/06, the funding interest rate has been raised from 8.00% per year to 8.25% per year for STRS. The VSRS rate was raised from 8.0% to 8.25% effective 6/30/07.

(5) The Group F cost of living adjustment will be increased to equal the full CPI, effective January 1, 2014 for employees who are actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008 will be eligible for the enhanced COLA.

Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation (NPO) to the Vermont State Retirement System and the State Teachers' Retirement System at June 30, 2008 were as follows:

	VSRS	STRS
Annual Required Contribution (ARC)……….	$42,375,068	$41,204,051
Interest on NPO…………………………………	3,342,307	13,958,082
Adjustment to ARC…………………………….	(4,269,499)	(9,005,231)
Annual Pension Cost (APC)…………………..	41,447,876	46,156,902
Employer Contribution Made………………….	(39,193,942)	(39,549,097)
Increase in NPO……………………………….	2,253,934	6,607,805
NPO - Beginning of Year………………………	40,512,811	169,188,878
NPO - End of Year………………………………	$42,766,745	$175,796,683
Percentage of ARC contributed………………	92.49%	95.98%

Schedule Of Employer Contributions

Year Ended 6/30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation Balance
VSRS			
2006	$ 37,782,274	97.58%	$40,555,260
2007	39,254,553	100.11%	40,512,811
2008	41,447,876	94.56%	42,766,745
STRS			
2006	55,484,063	44.06%	164,319,830
2007	43,365,458	86.11%	169,188,878
2008	46,156,902	85.68%	175,796,683

Funded Status and Funding Progress

The following is funded status information for the three defined benefit plans as the most recent valuation date, with amounts in thousands:

Actuarial Valuation Date	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						
6/30/2008	$1,377,101	$ 1,464,202	$ 87,101	94.1%	$ 404,938	21.5%
STRS						
6/30/2008	$1,605,462	$ 1,984,967	$ 379,505	80.9%	$ 535,807	70.8%
MERS						
7/1/2008	$ 348,740	$ 343,685	$ (5,055)	101.5%	$ 175,894	-2.9%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

B. Defined Contribution Retirement Plans

Vermont State Defined Contribution Plan

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 and other postemployment benefits trust funds.

At inception of the plan, the actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. Approximately 375 exempt employees representing 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 of 2.85%. 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, 2008, plan member contributions were $692,433 and State employer contributions were $1,959,169, while members transferred $292,049 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2008, the Vermont State Defined Contribution Plan's net assets totaled $39,161,121, and there were 585 participants.

Vermont Municipal Employees' Defined Contribution Plan

The Vermont Municipal Employees' Defined Contribution Plan (24 V.S.A. 5070) was implemented by the Vermont Municipal Employees' Retirement System's Board of Trustees on July 1, 2000, and is reported in the pension and other postemployment benefits trust funds. 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. There are 93 municipalities participating in the defined contribution plan, and 73 of those municipalities have participating employees. 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 July 1 of the following year.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Effective July 1, 2008, employers began contributing 5.125% while employee contribution percentages remain unchanged. Employees become vested in the plan after 12 months of service. For fiscal year ending June 30, 2008, plan participants and the municipalities contributed $625,341 and $625,539 respectively, while members transferred $179,327 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2008, the Municipal Employees' Defined Contribution Plan's net assets totaled $13,275,745, and there were 594 participants.

Single Deposit Investment Account

The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, was established according to the provisions of Public Act 41 of the 1981 Session. The Act authorized a new Group B noncontributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS). The SDIA is reported as a pension trust fund.

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:

- have both their accumulated employee contributions and accumulated interest returned to them; or
- have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- 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:

- have both their accumulated employee contributions and accumulated interest returned to them; or
- have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- 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, 2008, there were 2,213 members, with net assets of $84,574,089 in the Single Deposit Investment Account.

The following pages contain the financial statements for the defined contribution plans.

Statement of Plan Net Assets
Defined Contribution Plans
June 30, 2008

	Defined Contribution Plans		
	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund
Assets:			
Cash and short term investments	$ 284,111	$ 4,475,160	$ 66,231
Receivables:			
Contributions - current	155,998	-	17,318
Interest and dividends	-	574,821	-
Investments sold	-	4,112,227	-
Investments at Fair value:			
Fixed income	-	85,873,527	-
Equities	-	565,650	-
Mutual funds	38,732,811	-	13,222,481
Prepaid expenses	35,211	-	-
Total assets	**39,208,131**	**95,601,385**	**13,306,030**
Liabilities:			
Payable for investments purchased	-	11,027,296	-
Accounts payable	9,630	-	396
Due to other funds	37,380	-	29,889
Total liabilities	**47,010**	**11,027,296**	**30,285**
Net assets held in trust for employees' pension benefits	**$ 39,161,121**	**$ 84,574,089**	**$ 13,275,745**

Statement of Changes in Plan Net Assets
Defined Contribution Plans
For the fiscal year ended June 30, 2008

	Defined Contribution Plans		
	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund
Additions :			
Contributions			
Employer - pension benefit	$ 1,959,169	$ -	$ 625,539
Plan member	692,433	-	625,341
Transfers from other pension trust funds	187,975	-	38,519
Transfers from non-state systems	104,074	-	140,808
Total contributions	**2,943,651**	**-**	**1,430,207**
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(5,305,166)	(177,201)	(1,752,734)
Dividends	2,550,928	-	847,630
Interest income	10,273	4,552,492	2,596
Securities lending income	-	99,672	-
Other income	-	6,049	6,741
Total investment income (loss)	**(2,743,965)**	**4,481,012**	**(895,767)**
Less Investment Expenses:			
Investment managers and consultants	525	308,952	-
Total investment expenses	**525**	**308,952**	**-**
Net investment income (loss)	**(2,744,490)**	**4,172,060**	**(895,767)**
Total additions	**199,161**	**4,172,060**	**534,440**
Deductions:			
Retirement benefits	2,149,065	8,874,501	383,697
Other post employment benefits	252,083	-	-
Operating expenses	39,126	-	38,963
Total deductions	**2,440,274**	**8,874,501**	**422,660**
Change in net assets	**(2,241,113)**	**(4,702,441)**	**111,780**
Net assets held in trust for employees' pension benefits:			
July 1	**41,402,234**	**89,276,530**	**13,163,965**
June 30	**$ 39,161,121**	**$ 84,574,089**	**$ 13,275,745**

C. Other Post Employment Benefits

In addition to providing pension benefits, the State offers post employment medical insurance, dental insurance, and life insurance benefits to retirees of the VSRS and STRS.

Medical Insurance Plan Descriptions

Vermont State Retirement System
Retirees in the VSRS, meeting the following criteria, participate in a single employer medical insurance plan operated by the State as self-insured internal service fund. Employees retiring directly from active State service for any reason (disability, early, or normal), including the State Police, may carry whatever coverage is in effect at that time into retirement for themselves and their dependents. During the lifetime of the retiree, 20% of the cost of the premium will be paid by the retiree, except in the case of retirees selecting joint or survivorship options. 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 of the premium.

In addition, once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B as soon as possible. Medicare thus becomes the primary insurer with the State plan becoming secondary. The retiree's State insurance premium costs will then decrease in recognition of this change.

If an employee does not retire directly from State service, they are not eligible to participate in the State's medical insurance plan. Likewise, if the insurance is terminated at any time after retirement, coverage will not be able to be obtained again at a later date.

Based on legislation enacted during fiscal Year 2008, Group F employees hired after July 1, 2008, will receive a tiered retiree health care reimbursement, based on completed years of service. As part of the enacted legislation, Group F employees hired after July 1, 2008, also have the ability to recapture (access) subsidized health insurance at 80% upon initiation of retirement benefits in a manner comparable to regular retirements even if employee terminated prior to their early retirement date, providing the member has twenty years of service upon termination of employment.

The State Employees' Postemployment Benefit Pension Trust Fund (3 V.S.A. 479a) was established in fiscal year 2007 as an irrevocable trust fund for the purpose of accumulating and providing reserves to support retiree postemployment benefits for members of the VSRS. By definition this is an OPEB trust fund required to follow the reporting requirements of Governmental Accounting Standards Board Statement No. 43 (Financial Reporting for Postemployment Benefit Plans Other Than Pensions). During fiscal year 2008, the State contributed $1,444,757 to this fund. The fund has total assets of $3,663,517 at June 30, 2008. These assets are held in trust for postemployment benefits other than pension.

State Teachers Retirement System
Retirees in the STRS plan participate in multi-employer health coverage plans operated by the Vermont Education Health Initiative (VEHI) which is managed jointly by the Vermont School Boards Insurance Trust and the Vermont- National Education Association. VEHI partners with Blue Cross Blue Shield to provide health insurance to retired and active teachers. VEHI issues its own audited financial statements. These and plan information are available the VEHI Offices, 2 Prospect Street, Suite 5, Montpelier, VT 05602.

Members of the STRS have access to three medical benefit plans in retirement. The plans are identical to those offered to active teachers in public school systems in Vermont. Members may pick up medical coverage under one of the plans offered for themselves and all eligible dependents at the time of retirement, or anytime thereafter during one of the semi-annual open enrollment periods. If the member has a minimum of 10 years of creditable service at the time of retirement, STRS picks up 80% of the retiree's premium only, based on the cost of the "standard plan" as defined by statute. The retiree must pick up the full cost of the premium for all covered dependents. Once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the Teacher's medical plans become the secondary carrier. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes primary.

Medicare Part D - Prescription Drug Subsidy
Under the Medicare, Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), employer sponsors of retiree prescription drug plans can apply for a 28% subsidy for the qualified prescription drug costs of their retirees. To be eligible for the subsidy, the employer coverage must be actuarially equivalent to the new Medicare Part D coverage and the employer must provide notices of creditable prescription drug coverage to individuals entitled to Medicare Part D.

The State Teachers' Retirement System Board of Trustees agreed that they would continue to offer the same prescription drug coverage program during 2007 and 2008 that has been available to active and retired teachers for the past several years. The Retirement Division has received an attestation from its actuaries that the prescription drug program offered to retired teachers is equivalent, and in fact, better than the drug program offered through Medicare Part D. VSRS has also agreed to offer the same prescription drug coverage program during 2008 that has been available to active and retired state employees for the past several years. The Department of Human Resources has received an attestation from its actuaries that the prescription drug program offered to retired members is equivalent, and in fact, better than the drug program offered through Medicare Part D.

The systems will continue to evaluate the results of the Medicare Part D Program and its impact on the post-age 65 health care benefits marketplace and prescription drug pricing. The Vermont Teachers' Retirement Board of Trustees and the State will need to determine in future years whether it is in their best interest to continue to offer the same prescription drug program, or whether it should be modified or discontinued. If the determination is to continue to offer the same coverage, the estimated annual subsidy will fluctuate depending on the number of retirees and covered dependents that actually sign up for the Medicare Part D Program. If it is determined that the prescription coverage should either be modified or discontinued, then the savings will be realized by a decrease in medical premiums.

For the fiscal year ending June 30, 2008, the subsidy for the VSRS system was $1,444,757. The state has elected to place this revenue in a trust fund to fund future post employment health benefit liabilities. In the case of STRS, the subsidy for fiscal year 2008 was $1,406,469 and was deposited into the STRS's pension trust fund.

Plan Membership

At June 30, 2008, the VSRS and STRS plan members eligible for these OPEB plans were as follows.

	VSRS	STRS
Active employees	8,442	10,685
Terminated vested	-	705
Retired employees	3,373	3,804
Total participants	11,815	15,194

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. GASB Statement

45 was implemented in fiscal year 2008 prospectively with a zero net OPEB obligation beginning balance for both the VSRS and STRS OPEB defined benefit plans.

The following table shows the components of the State's annual OPEB cost for the year ended June 30, 2008, the amount actually contributed, and the changes in the State's net OPEB obligation.

	VSRS	STRS
Annual required contribution (ARC) and annual OPEB cost (AOC)...................	$ 47,284,903	$ 60,220,989
Contribution paid..	(17,776,355)	-
Increase in OPEB obligation....................	29,508,548	60,220,989
Net obligation at beginning of year...........	-	-
Net obligation at end of year...............	**$ 29,508,548**	**$ 60,220,989**

In the VSRS, medical benefit expenses are included in an administrative budget appropriated and transferred to system's pension fund which pays the health care premiums through an established sub-fund. Since these are expressly funded, separate from the pension actuarial contribution. In the STRS, the medical benefit expenses are also paid through a sub-fund of the pension fund but are not explicitly budgeted and are therefore not included in the net OPEB obligation calculation, but are reflected as part of the pension trust fund.

For the fiscal year ending June 30, 2008, State employer contributions to the VSRS OPEB and STRS OPEB plans were 37.59% and 0% of the annual required contribution, respectively.

Funded Status and Funding Progress

The funded status of the plans, with amounts in thousands of dollars, as of June 30, 2008, was as follows.

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						
2008	$3,664	$754,690	$751,027	0.5%	$404,938	185.5%
STRS						
2008	$0	$863,555	$863,555	0.0%	$535,807	161.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information immediately following these notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OPEB Actuarial Valuation- Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2008. This is the fourth annual OPEB valuation for each system. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

For VSRS, assuming no additional prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2008, is $754.7 million with an unfunded actuarial liability of $751.0 million.

The plan experienced a gain on the Accumulated Postretirement Benefit Obligation (APBO) of $3,954,360. The gain was determined as the expected APBO as of June 30, 2008, using the 2007 actuarial assumptions ($641,839,569) compared to the actual APBO using the same 2007 assumptions ($637,885,209). As of June 30, 2008, the actuarial assumptions were changed. The effect of the changes was an increase in the APBO from $637,885,209 to $754,026,556. The changes included a modification of the method of determining the implicit subsidy, the healthcare cost trend and the discount rate (an increase from 3.75% to 4.0%). The increase in the plan's accrued liability over the past year is also attributable to year-to-year increases in premiums in excess of those assumed in the prior valuation and a net increase in its participant population from 11,701 to 11,815.

To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $58.7 million for fiscal year 2009 and projected to increase to $167.0 million in fiscal year 2039.

For STRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2008, is $863.6 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $59.1 million for fiscal year 2009 and projected to increase to $322.0 million in fiscal year 2039.

As noted above, an experience study was completed for the STRS retirement system. Demographic assumptions in the June 30, 2008, OPEB valuation were changed to be consistent with those used to value the system's pension benefits. In addition, the discount rate was increased to 4%.

The following list contains the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS OPEB plans.

	VSRS	STRS
Valuation date	06/30/08	06/30/08
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percentage of payroll	Level percentage of payroll
Amortization period - closed basis	30 years starting in 2009	30 years starting in 2009
Actuarial assumptions		
Investment rate of return - pay-as-you-go [1]	4.00%	4.00%
Medical Care and State Share Inflation [2]	8% in 2009 7% in 2010 declining to 5% in 2013	7% in 2009 8% in 2010 declining to 5% in 2013
Coverage	80% of current active employees will elect retiree medical coverage	60% of current active employees will elect retiree medical coverage and 30% of terminated vested will elect coverage

[1] Beginning with the 6/30/08 valuation, the rate of return was increased from 3.75% to 4.0%.

[2] Reflect the 6/30/08 valuation assumptions, inflation assumptions have varied in previous valuations.

Dental Insurance

Two dental plans are available to retired state employees and retired teachers and their eligible dependents. The dental plan must be elected at the time of retirement. The retiree pays the full premium for all covered lives. A similar program is expected to be offered to retired municipal employees in the next fiscal year.

Vermont Municipal Employees Health Benefit Fund

The VMERS Retiree Health Savings Account (RHS) Plan established on July 1, 2007, is a tax-advantaged savings plan that assists retirees in paying for healthcare costs after retirement. Contributions to this defined contribution OPEB fund are deposited into the RHS Plan member accounts on a tax-free basis, accumulate interest on a tax-free basis, and are drawn out during retirement on a tax-free basis to reimburse health care expenses, including out-of-pocket expenses, deductibles and premiums. The VMERS is administered by the State, however the State has no associated health care benefit cost or liability.

The VMERS Board deposited an initial amount of $5.1 million into the RHS accounts on July 2, 2007. Additional employer contributions were collected during the course of the fiscal year to be deposited in member accounts at the beginning of fiscal year 2009. Future contributions and subsequent transfers to member accounts will be made as directed by the VMERS Board of Trustees. There is no guarantee that the RHS member accounts will receive any additional funding. While the Vermont Municipal Employees Health Benefit Fund is classified as a post employment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability. While classified as a post employment benefit fund, there is no accrued liability in excess of the assets of the fund, there is no annual required contribution and no unfunded actuarial accrued liability.

All VMERS defined benefit retirement plan members and retirees who have a minimum of 5 years of contributory service are eligible to participate in the RHS plan. The amount each member will receive is determined by the total number of contributory years of service in the system. Each year of service is equal to one share. The share value is determined based on the total eligible population, the total number of years of contributory service represented, and the amount of the distribution. The share value will change when future deposits are made. All eligible members receive the first five shares in their medical reimbursement account, which may be used for any medical expense, including premium reimbursement. The additional shares, representing service credit above five years, are deposited into the premium reimbursement account, which may only be used for medical, dental, vision or long-term health care premium reimbursements.

The money may be accessed by members only be accessed after separation from service and the achievement of retiree status from the VMERS plan. For members who were already receiving retirement benefits from the VMERS, the funds in their RHS account could be accessed after July 2, 2007, to reimbursement expenses incurred after July 1, 2007. Members still actively employed or in a vested and terminated status, may access the funds once they retire and begin receiving monthly pension payments. Funds in the RHS accounts are invested in the appropriate age-related Milestone Fund through a third party record keeper.

At June 30, 2008, there were 5,079 active and retired members participating the VMERS RHS plan. Total investments in member accounts at June 30, 2008, were $4,451,368. Total employer contributions were $9,250,816 and the assets of the fund were $8,647,326.

The financial statements for the OPEB Funds are as follows.

Statement of Plan Net Assets
Other Postemployment Benefit Funds
June 30, 2008

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Assets:		
Cash and short term investments..........	$ 294,790	$ 3,029,141
Receivables:		
Contributions - current......................	-	1,166,817
Due from other funds........................	152,269	-
Investments at Fair value:		
Fixed income..................................	2,284,004	-
Equities..	760,684	-
Mutual funds..................................	171,770	4,451,368
Total assets....................................	**3,663,517**	**8,647,326**
Liabilities:		
Total liabilities................................	**-**	**-**
Net assets held in trust other postemployment benefits......	**$ 3,663,517**	**$ 8,647,326**

Statement of Changes in Plan Net Assets
Other Postemployment Benefit Funds
For the fiscal year ended June 30, 2008

	Vermont State Postemployment Benefit Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Additions :		
Contributions		
Employer - healthcare benefit	$ 1,444,757	$ 9,250,816
Total contributions	**1,444,757**	**9,250,816**
Investment Income:		
Net appreciation (depreciation) in fair value of investments	(114,737)	(208,779)
Dividends	17,803	-
Interest income	104,820	48,045
Total investment income (loss)	**7,886**	**(160,734)**
Less Investment Expenses:		
Investment managers and consultants	-	33,377
Total investment expenses	**-**	**33,377**
Net investment income (loss)	**7,886**	**(194,111)**
Total additions	**1,452,643**	**9,056,705**
Deductions:		
Other post employment benefits	-	409,379
Total deductions	**-**	**409,379**
Change in net assets	**1,452,643**	**8,647,326**
Net assets held in trust for postemployment benefits:		
July 1	**2,210,874**	**-**
June 30	**$ 3,663,517**	**$ 8,647,326**

Note 6: ACCOUNTS RECEIVABLE

Accounts receivables at June 30, 2008 are summarized as follows:

	Governmental Funds		Internal	Total Governmental
Governmental activites:	**Major**	**Non-major**	**Service Funds**	**Activities**
Taxes:				
Personal and corporate income	$ 177,492,218	$ -	$ -	$ 177,492,218
Sales and use	58,819,186	-	-	58,819,186
Meals and rooms	23,807,767	-	-	23,807,767
Purchase and use	340,065	-	-	340,065
Motor Fuel	5,494,535	79,429	-	5,573,964
Other taxes	35,131,659	-	-	35,131,659
Subtotal	301,085,430	79,429	-	301,164,859
Allowance for uncollectibles	(81,549,790)	-	-	(81,549,790)
Taxes receivable, net	$ 219,535,640	$ 79,429	$ -	$ 219,615,069
		Current receivable		$ 92,127,526
		Non-current receivable		127,487,543
		Total taxes receivable, net		$ 219,615,069
Loans and notes:				
Loans and notes receivable	$ 170,715,606	$ -	$ -	$ 170,715,606
Allowance for uncollectibles	(283,500)	-	-	(283,500)
Loans and notes receivable, net	$ 170,432,106	$ -	$ -	$ 170,432,106
		Current receivable		$ 169,625,607
		Non-current receivable		806,499
		Total loans and notes receivable, net		$ 170,432,106
Federal grants	$ 88,520,929	$ 273,289	$ -	$ 88,794,218
Other:				
Other receivables	$ 74,675,658	$ 460,437	$ 11,290,292	$ 86,426,387
Allowance for uncollectibles	(27,962,625)	(578)	(320,548)	(28,283,751)
Other receivables, net	$ 46,713,033	$ 459,859	$ 10,969,744	58,142,636
Due from Fiduciary Funds				98,064
Less Internal Service Funds' receivables from Governmental Funds				(8,326,093)
Other receivables, net				$ 49,914,607
		Current receivable		$ 13,011,131
		Non-current receivable		36,903,476
		Total other receivables, net		$ 49,914,607

Business-type activities:	Enterprise Funds Major	Enterprise Funds Non-major	Total Business-type Activities
Taxes:			
Unemployment	$ 14,265,480	$ -	$ 14,265,480
Allowance for uncollectibles	(2,900,000)	-	(2,900,000)
Taxes receivable, net	$ 11,365,480	$ -	$ 11,365,480
Loans and notes receivable	$ -	$ 2,758,070	$ 2,758,070
Current receivable			$ 1,009,470
Non-current receivable			1,748,600
Total loans and notes receivable, net			$ 2,758,070
Federal grants	$ 66,756	$ -	$ 66,756
Other:			
Other accounts receivable	$ 2,248,534	$ 374,804	$ 2,623,338
Allowance for uncollectibles	(51,573)	(25,411)	(76,984)
Other accounts receivable, net	$ 2,196,961	$ 349,393	$ 2,546,354
Current receivable			$ 2,508,314
Non-current receivable			38,040
Total other receivables, net			$ 2,546,354

Note 7: LEASE COMMITMENTS

A. Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Total costs for such leases for the fiscal year ended June 30, 2008, were $8,817,842. 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. It should also be noted that the State is currently negotiating a small number of operating leases on which rent is being paid on a month-by-month basis and for which there is no signed agreement. These leases have not been included in the following table.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2008.

	Primary Government		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total
2009	$ 7,223,529	$ 6,477	$ 7,230,006
2010	5,169,600	3,652	5,173,252
2011	3,570,875	3,652	3,574,527
2012	2,927,937	1,201	2,929,138
2013	2,608,770	1,201	2,609,971
2014 to 2018	2,080,115	3,603	2,083,718
Totals	$ 23,580,826	$ 19,786	$23,600,612

B. Capital Leases

The State has entered into capital lease arrangements to acquire various items of machinery and equipment with a gross asset value totaling $1,006,078. The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2008, are as follows.

Fiscal Year	Primary Government
2009	$ 216,483
2010	154,151
2011	19,229
2012	10,104
2013	1,384
Total minimum lease payments	401,351
Less: interest	(17,334)
Present value of minimum lease payments	$ 384,017

The State of Vermont, acting through its Agency of Transportation 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.

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.

The changes in bonds principal payable for fiscal year 2008 are summarized in the following schedule.

		General Obligation Bonds
Balance, July 1, 2007		$ 457,255,121
Additions:		
Issuances	$ 75,195,000	
Accretions	1,769,972	
Total		76,964,972
Deductions:		
Redemptions	51,355,000	
Defeasances	28,395,000	
Total		(79,750,000)
Balance, June 30, 2008		$ 454,470,093

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 $9,456,567 at June 30, 2008.

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 $4,527,045 at June 30, 2008.

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 $11,126,481 at June 30, 2008.

Future general obligation debt service requirements at June 30, 2008, are as follows:

Fiscal	Current Interest Bonds		Capital Appreciation	
Year	Principal	Interest	Bonds	Total
2009	$ 45,885,000	$ 18,079,050	$ 7,495,000	$ 71,459,050
2010	43,265,000	15,929,406	7,145,000	66,339,406
2011	39,365,000	14,133,790	7,140,000	60,638,790
2012	38,550,000	12,496,759	3,035,000	54,081,759
2013	34,250,000	10,976,540	1,750,000	46,976,540
2014-2018	124,230,000	35,778,955	2,000,000	162,008,955
2019-2023	72,465,000	14,712,835	-	87,177,835
2024-2028	31,350,000	2,789,750	-	34,139,750
Totals	$ 429,360,000	$124,897,085	$ 28,565,000	$ 582,822,085

At June 30, 2008, there remains $58,350,869 of authorized but unissued general obligation bonds.

See following page for a schedule of general obligation bonds outstanding at June 30, 2008.

General Obligation Bonds outstanding at June 30, 2008 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:								
08/01/1992	08/01/2008	3.0 to 5.75	$ 71,280,000		$ 1,975,000	$ 15,000	$ -	$ 1,990,000
10/29/1997	01/15/2017	4.5 to 5.0	28,500,000		1,401,237	98,763	-	1,500,000
12/03/1997	01/15/2017	3.9 to 5.2	14,990,000		790,000	-	-	790,000
05/01/1998	01/15/2017	4.5 to 5.0	7,755,000		-	-	420,000	420,000
11/23/1998	01/15/2018	4.5 to 4.75	26,630,000		1,365,828	34,172	-	1,400,000
11/01/1999	02/01/2019	4.5 to 6.5	32,000,000		3,370,000	-	-	3,370,000
12/16/1999	02/01/2010	4.55 to 5.05	5,000,000		1,000,000	-	-	1,000,000
11/14/2001	08/01/2020	3.25 to 4.75	46,000,000		27,520,000	-	-	27,520,000
12/27/2001	08/01/2011	4.0 to 4.375	5,000,000		2,000,000	-	-	2,000,000
12/11/2002	08/01/2019	3.0 to 5.0	30,800,000		20,725,000	-	-	20,725,000
12/17/2002	08/01/2013	2.0 to 5.0	31,555,000		22,008,000	1,197,000	-	23,205,000
02/11/2004	02/01/2018	1.1 to 5.0	134,457,000		92,117,431	3,617,569	3,005,000	98,740,000
03/10/2004	03/01/2023	2.0 to 5.0	42,200,000		30,932,702	2,367,298	-	33,300,000
03/02/2005	03/01/2025	3.0 to 4.0	26,000,000		24,350,000	-	-	24,350,000
04/13/2005	03/01/2015	2.4 to 4.0	15,000,000		9,800,000	700,000	-	10,500,000
06/07/2005	03/01/2020	2.65 to 5.0	20,805,000		19,109,087	565,913	880,000	20,555,000
11/22/2005	07/15/2026	3.5 to 5.0	30,000,000		28,500,000	-	-	28,500,000
12/13/2005	07/15/2016	3.1 to 4.0	15,000,000		12,000,000	-	-	12,000,000
02/21/2007	07/15/2026	4.0 to 5.0	30,000,000		29,250,000	-	-	29,250,000
03/15/2007	07/15/2016	3.375 to 4.0	9,500,000		8,550,000	-	-	8,550,000
03/15/2007	07/15/2016	3.375 to 4.0	5,000,000		4,500,000	-	-	4,500,000
11/28/2007	07/15/2027	3.50 to 5.25	35,000,000		35,000,000	-	-	35,000,000
12/20/2007	07/15/2017	3.0 to 4.0	11,000,000		11,000,000	-	-	11,000,000
12/20/2007	07/15/2017	3.0 to 5.0	29,195,000		24,887,412	492,588	3,815,000	29,195,000
Total General Obligation Current Interest Bonds					**412,151,697**	**9,088,303**	**8,120,000**	**429,360,000**
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	$ 48,935,000	12,325,000	-	-	12,325,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	5,140,000	-	-	5,140,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	11,100,000	-	-	11,100,000
Total Maturity Value					**28,565,000**	-	-	**28,565,000**
Less: Unaccreted Interest					3,454,907	-	-	3,454,907
Total General Obligation Capital Appreciation Bonds					**25,110,093**	**-**	**-**	**25,110,093**
Total General Obligation Bonds					**$ 437,261,790**	**$ 9,088,303**	**$ 8,120,000**	**$ 454,470,093**

Note 9: BOND REFUNDINGS

During the 2008 fiscal year the State refunded on a current basis $26,995,000 of outstanding 1998 Series A general obligation bonds, and advance refunded $1,400,000 of outstanding 1998 Series C general obligation bonds, through the issuance of the 2007 Series F general obligation refunding bonds in the amount of $29,195,000. Total proceeds (inclusive of premium) on the refunding bond sale were $29,559,069. From these proceeds, $29,375,437 was used to purchase United States Treasury Securities—State and Local Government Series that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the total $28,395,000 of refunded bonds is considered to be defeased and the liabilities have been removed from the State's financial statements. As a result of this refunding, the State has taken advantage of lower interest rates; and has decreased its aggregate debt service payments by $1,626,672 over the ten years ending January 2018. The economic gain (the present value of the debt service savings) for the State through this transaction is $1,099,226, using a discount rate of 3.3%.

During fiscal years 2004 and 2005, the State 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 are utilized to make all debt service payments on the defeased bonds. Accordingly, these trust assets and the liability for the defeased bonds are not included in the State's financial statements.

The total amount of defeased bonds remaining outstanding at June 30, 2008, is $38,770,000.

Note 10: 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 Vermont Legislature. 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, 2008 was $11,199,306, the General Fund's Budget Stabilization Reserve was $57,839,077 at June 30, 2008, and the Education Fund's Budget Stabilization Reserve at June 30, 2008 was $29,392,569.

Note 11: CONTINGENT AND LIMITED LIABILITIES

A. Contingent Liabilities

Vermont Economic Development Authority:
In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority (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 the Agency of Commerce and 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, 2008, the State's contingent liability for the mortgage insurance contracts entered into by the Authority was $8,288,506. The full faith and credit of the State is pledged to support these activities of the Authority.

In fiscal year 2007, the Authority determined a loss on a mortgage insurance contract was probable, though the specific amount of loss is not determinable at this time. The Authority estimates the probable loss to range from a minimum of $300,000 to a maximum of $1,500,000. The Authority has recorded the $300,000 loss and a receivable from the State for $300,000. The Authority reported that the status of this loss at June 30, 2008 is unchanged. As the full faith and credit of the State supports this activity, the State has recorded a $300,000 payable to the Authority in the Governmental Funds.

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, 2008 was $881,847. The State's net cash contribution since inception is $387,494.

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 there from would not be material.

B. Limited Liabilities

Vermont Economic Development Authority:
The State has a limited liability for the Vermont Economic Development Authority. The Authority may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, the Authority must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve and State management believes that an appropriation will not be necessary in the future.

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. 24 V.S.A. Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and State management believes that an appropriation will not be necessary in the future.

Vermont Housing Finance Agency:
The State has a limited liability for the Vermont Housing Finance Agency (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and State management believes that an appropriation will not be necessary in the future.

Note 12: 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, any ultimate liability to the State resulting from these lawsuits that is not covered by various insurance policies, would not materially affect the State's overall financial condition.

Note 13: 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 30, 2008, the commission had total assets of $118,313,017, and total liabilities of $102,699,865, representing decreases of $17.14 million and $20.36 million respectively, compared to June 30, 2007. For the fiscal year ended June 30, 2008, the commission had operating revenues of $73,254,257, an increase of $3.96 million; interest income of $646,870, a decrease of $96,951; commissions, fees, and bonus expenses of $8,608,003, an increase of $379,321; prize awards of $37,209,421, an increase of $2.54 million; and other operating expenses of $3,874,261, an increase of $42,944; all activity as compared to the fiscal year ended June 30, 2007.

During fiscal year 2008, the commission made operating transfers to member states of $24,209,442 versus $23,314,872 during fiscal year 2007. This total included $2,978,630 transferred to Vermont during the fiscal year, an increase of $384,702 as compared to fiscal year 2007.

Additional information regarding the Tri-State Lotto Commission may be obtained by contacting the Vermont Lottery Commission, 1311 US Route 302-Berlin, Suite 100, Barre, Vermont 05641.

Note 14: RISK MANAGEMENT

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

The Financial Operations Division of the Department of Buildings and General Services oversees the Workers' Compensation and Risk Management programs, which administers all insurance programs 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 programs set aside assets and pay claims utilizing the following three Internal Service Funds:

Workers' Compensation Self Insurance Fund
State Liability Self Insurance Fund
Risk Management – All Other Fund (used for the purchase of commercial insurance)

The Workers' Compensation Fund covers all State employees who are injured on the job, 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. All claims are processed by Workers' Compensation 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. 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 personnel utilizing departmental exposure and experience factors.

The 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. The State's 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. The State is self-insured (SIR) 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 $750,000 ($1,000,000 total) in Vermont and $10,000,000 in excess of the $250,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by Risk Management personnel (prior to 2006, claims were processed by a third-party administrator), and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's liability exposure is reliable. 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 personnel utilizing departmental exposure and experience factors.

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, errors and omissions coverage for judges, and various other miscellaneous coverages. The State's liability exposure is limited to the amount of the various deductibles associated with the respective policies. Premium charges from the various insurers are either assessed directly against the entity requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Risk Management also assesses a surcharge of up to 5% of the premium to cover administrative costs. Entities eligible for coverage are the same as those listed above for the other funds.

There has been no significant reductions in insurance coverage from the prior year. Insurance settlements have never exceeded the coverage disclosed above.

In addition to the three internal service funds above, effective July 1, 2007, the General Assembly established the Sarcoidosis Benefit Trust Fund (a program in the Special Fund) to cover specific claims arising from an outbreak of Sarcoidosis at the impaired state office building in Bennington, Vermont (Act 53 of 2007). Claims are reviewed and processed under rules established that mirror the rules for the Workers' Compensation Fund claims. Funding was established as a special fund and not a proprietary fund as funding will only be available by the General Assembly as claims arise and funding needs are determined. The Fund is managed by the Workers' Compensation personnel. In fiscal year 2008, $384,688 was paid out for approved claims.

B. <u>Health Care, Dental Insurance, Life Insurance, Employee Assistance, and Long Term Disability Funds For State Employee Benefit Plans</u>

The Administrative Services Division of the Department of Human Resources 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, and 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 Fiscal Unit of the Administrative Services Division of the

Department of Human Resources. 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, 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, similar to an open-ended HMO. Members may opt out of the SelectCare network but must meet a deductible and coinsurance to do so. There is no lifetime coverage limit for care received in-network; however, there is a lifetime limit for care received out of network. 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 benefit 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 Unit of Administrative Services Division within the Department of Human Resources 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 Administrative Services Division 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 active employees of outside groups are eligible to participate.

A Flexible Spending Account (FSA) 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. The FSA Program administrator is paid a monthly fee based on the number of enrolled employees. No claims costs are incurred under this plan by the State. The State pays 100% of the fee for this plan.

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, 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 fee for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become disabled due to non-occupational injury or illness, and the disability is expected to be long term or permanent. 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 compensated absence leave per year. Those eligible employees who are not covered by a leave plan have a one-time 0.2% salary reduction in their next cost-of-living increase following eligibility.

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				
2006	$14,779,393	$ 8,390,960	$ 5,968,751	$ 17,201,602
2007	17,201,602	6,716,086	5,726,127	18,191,561
2008	18,191,561	6,291,342	5,861,002	18,621,901
State Liability Insurance Fund				
2006	6,989,804	1,036,594	2,053,797	5,972,601
2007	5,972,601	(162,879)	1,056,976	4,752,746
2008	4,752,746	2,587,585	1,563,479	5,776,852
Medical Insurance Fund				
2006	10,697,575	79,503,185	80,171,813	10,028,947
2007	10,028,947	90,495,260	90,034,981	10,489,226
2008	10,489,226	97,858,788	97,169,573	11,178,441
Dental Insurance Fund				
2006	387,554	5,033,480	5,135,178	285,856
2007	285,856	5,013,548	5,023,647	275,757
2008	275,757	5,206,269	5,226,924	255,102

Note 15: DEFICIT FUND BALANCES AND NET ASSETS

The following individual funds had deficit fund balances, deficit total net assets or deficit unrestricted net assets at June 30, 2008.

Business-type Proprietary Funds

Federal Surplus Property: ended fiscal year 2008 with both a deficit unrestricted net asset and total net asset balance of $715,070. These deficits are primarily the result of **(1)** the prices set not being high enough to offset the acquisition expenses incurred to obtain the inventory and **(2)** timing differences resulting from the expensing of the acquisition costs associated with items retrieved in a different year than the sale, if ever sold. As the activity of this program is dependent on final sales price received for goods sold and the program being very popular with municipalities, any continued deficit that cannot be recovered through normal business operations will result in a request for recapitalization of the program being made to the Legislature.

Vermont Life Magazine: ended fiscal year 2008 with a deficit unrestricted net asset balance of $438,736 and a deficit total net asset balance of $437,327. In fiscal year 2009, Vermont Life will be publishing an official Quadricentennial souvenir publication and producing/marketing other products to celebrate the Quadricentennial. Revenues from advertising and circulation from this Quadricentennial souvenir publication as well as sales of the Quadricentennial products, in addition to general improvement of operations to Vermont Life will be contributing factors to the elimination of the remaining deficit for fiscal year 2009.

Internal Service Funds

Highway Garage Fund: ended fiscal year 2008 with a deficit unrestricted net asset balance of $2,513,656. The Highway Garage Department has restructured its 5-year plan to eliminate the remaining deficit by increasing rental rates to eliminate 25% of the deficit per year over the remaining 4 years.

Communications and Information Technology: The Communications and Information Technology fund ended fiscal year 2008 with a total net asset deficit of $14,445. However, the unrestricted balance was in a deficit of $1,792,591. Over the next few years the Department of Information and Innovation will work to bring this figure down. However, since our business requires large investments in information technology capital assets, it is unlikely that the unrestricted deficit will be eliminated anytime soon.

Fleet Fund: ended fiscal year 2008 with a deficit unrestricted net asset balance of $5,415,425 and a deficit total net asset balance of $8,241. This unrestricted deficit is due to the perpetual investment in fleet vehicles funded through short term borrowings from the general fund. Fiscal year 2007 was the first full year with adjusted rental rates. As such, the program is currently collecting slightly more than is needed to operate the program. The deficit total net asset balance was reduced in fiscal year 2008 and is expected to be reduced in future periods.

Copy Center Fund: ended fiscal year 2008 with a deficit unrestricted net asset balance of $2,140,720 and a deficit total net asset balance of $1,403,683. The operating and fund deficits are the result of operations with the convenience copier program and print shop. The Department of Buildings and General Services is continuing to review the viability of these programs. The convenience copier program will most likely not be eliminated due to accounting rules for capital leases and their relationship to the State's debt statement. Print shop activities, despite a rate increase in fiscal year 2007, continued to see a decline in customer sales due to the increase use and availability of desk top publishing and on-line posting of documents. During fiscal year 2009, the program will be taking on the printing functions and staff from the Department of Information and Innovation. The result is the program hopes to break even in fiscal year 2009. The reduction in net assets in fiscal year 2008 was due to the return of fund equity to program by the Administration.

Postage Fund: ended fiscal year 2008 with both a deficit unrestricted net asset balance of $998,468 and a deficit total net asset balance of $980,486. The program received a rate increase in fiscal year 2007. The program is currently seeking another rate increase due to federal rates increasing in fiscal year 2008. In addition, fund equity was returned to the fund by the Administration resulting in the improvement in the fund deficit. Without the return of equity, the program just about broke even with a net operating loss of $22,926. An additional rate increase will return the program to the black and help pay off the current fund deficit.

Facilities Operations Fund: ended fiscal year 2008 with a deficit unrestricted net asset balance of $3,527,379 and a deficit total net asset balance of $2,866,689. The fund deficit began to grow in fiscal year 2007 due to several emergency situations involving indoor air quality issues and employee health concerns. As a result, more money is being spent to safeguard employees and correct the building problems than was planned. In fiscal year 2008, an evaluation team is inspecting all state buildings and determining corrective action that will prevent another situation as is being experienced in Bennington. This issue is a priority for the Legislature and the Administration and it is expected that funds will be made available to reverse this trend in deficit spending. A budget adjustment for fiscal year 2009 is being drafted.

Property Management Fund: had a deficit unrestricted net asset balance of $15,122,571 and a deficit total net asset balance of $15,120,142 as of June 30, 2008. This fund deficit is an expected deficit given the purchase of 3 office buildings whose acquisition costs were financed by 20-year bonds. The funding for the payoff of these bonds is being recovered over a 50 year period. This deficit is calculated to continue growing until the bonds are paid off at which time the deficit will start to decrease annually and will be eliminated at the end of the 50-year recovery period. A review of the funding scheme demonstrated that no savings would occur if the State attempted to recover the costs over a shorter period due to federal rules. Contributing to the deficit is a lack of a sufficient revenue stream to cover operating costs for the program. A request will be made for a supplemental general fund appropriation on an annual basis to cover this funding gap in the program. For fiscal year 2008, the program, given its size, almost finished the year at the breakeven point.

Risk Management All-Other Fund: ended fiscal year 2008 with a deficit unrestricted and a deficit total net asset balance of $410,186. The fund recovers the costs of the program from the policy holders through a surcharge on 3rd party insurance premiums. The program is intended to purchase insurance coverage on behalf of specific customers for specific reasons. The policyholders are responsible for the total costs including overhead charges for the programs they participate in. Any deficits in the program are due to timing differences between billing customers for the policies and paying the provider of the coverage. Specifically, the deficit is being driven by the Workers Compensation policy for AHS which pays an estimated premium cost and receives any overages back by way of a cash refund. This deficit is the result of an expected cash refund from the commercial carrier based on experience.

Workers' Compensation Fund: ended fiscal year 2008 with a deficit unrestricted and a deficit total net asset balance of $2,103,095. Rate increases have resulted in the fund recovering expenditures, both cash and actuarial, in fiscal year 2008 helping to reduce the negative net asset balance in fiscal year 2008 though the fund remains less than fully funded for future claims. The plan for the fund will be to increase rates in fiscal year 2009 and fiscal year 2010 in an attempt to eliminate these fund deficits.

Governmental Funds

Global Commitment Fund: ended fiscal year 2008 with a deficit unreserved fund balance of $36,898,409 and a deficit total fund balance of $36,091,055. This deficit is the result of Medicaid costs incurred under a previous Medicaid waiver agreement being paid with the resources transferred to the fund under the current agreement. The State plans to eliminate this deficit thorough amendment to the current Medicaid waiver agreement's Terms and Conditions to allow these costs to be incorporated into future capitation rates which determine the amount to be transferred to the fund.

Transportation Bond Fund: ended fiscal year 2008 with a deficit fund balance of $101,893. This deficit is the result of capital projects incurring liabilities prior to the sale of bonds. This deficit will be eliminated in fiscal year 2009 with the sale of bonds authorized in the 2008 Capital Appropriation Act.

Note 16: CHANGES IN LONG-TERM LIABILITIES

Governmental activities long-term liabilities are generally liquidated by payments from the governmental and internal service funds' programs. Bonds payable are liquidated by the general, transportation and special funds. Other liabilities includes the unamortized premium from the sale of bonds.

During the year ended June 30, 2008, the following changes occurred in the long-term liabilities.

PRIMARY GOVERNMENT

	July 1, 2007	Additions	Reductions	June 30, 2008	Amounts due within one year
Governmental activities:					
Bonds payable (1)	$ 457,255,121	$ 76,964,972	$ 79,750,000	$ 454,470,093	$ 53,380,000
Capital leases payable	600,290	148,245	364,518	384,017	203,624
Compensated absences	31,830,323	34,140,531	32,890,803	33,080,051	21,866,258
Claims and judgments	33,709,290	111,943,984	109,820,978	35,832,296	11,433,543
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligations	209,701,689	8,861,739	-	218,563,428	-
Net other postemployment obligations	-	89,729,537	-	89,729,537	-
Other liabilities	12,097,665	798,046	1,352,494	11,543,217	1,345,921
Total governmental activities long-term liabilities	$ 752,194,378	$322,587,054	$224,178,793	$ 850,602,639	$ 88,229,346

(1) Governmental activities bonds payable additions include $1,769,972 of accretions on capital appreciation bonds.

	July 1, 2007	Additions	Reductions	June 30, 2008	Amounts due within one year
Business-type activities:					
Compensated absences………………….	$ 323,158	$ 317,582	$ 283,870	$ 356,870	$ 217,499
Lottery prize awards payable…………….	4,982,519	64,759,920	64,527,551	5,214,888	487,209
Total business-type activities long-term liabilities…………………..	$ 5,305,677	$ 65,077,502	$ 64,811,421	$ 5,571,758	$ 704,708
Fiduciary:					
Compensated absences………………….	$ 4,474	$ 11,966	$ 5,856	$ 10,584	$ 9,432
Total fiduciary long-term liabilities…….	$ 4,474	$ 11,966	$ 5,856	$ 10,584	$ 9,432
COMPONENT UNITS					
Bonds and notes payable……………….	$3,006,278,059	$531,201,978	$363,984,317	$3,173,495,720	$128,539,536
Capital leases payable……………………	188,464	-	83,434	105,030	57,582
Accrued arbitrage rebate…………………	33,469,145	1,190,193	7,776,274	26,883,064	315,678
Net postemployment benefit obligation…	-	33,814,600	-	33,814,600	-
Other liabilities……………………………	23,118,986	5,133,180	4,841,220	23,410,946	1,311,000
Total component units long-term liabilities…………………..	$3,063,054,654	$571,339,951	$376,685,245	$3,257,709,360	$130,223,796

Note 17: RESTATEMENTS

Vermont Economic Development Authority

The Vermont Economic Development Authority (VEDA) follows the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when incurred. Since 1994, in accordance with the adoption of Governmental Accounting Standards Board (“GASB”) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities,* the Authority has applied all applicable GASB pronouncements and all Financial Accounting Standards Board (“FASB”) pronouncements to the extent the FASB pronouncements do not conflict with any GASB pronouncements. This method of adopting GASB 20 required VEDA to follow FASB pronouncements issued to date (if there was no conflict) as well as all GASB pronouncements.

In 2008, to be consistent with other component units of the State, the VEDA elected to make a change in accounting principle and begin to apply GASB pronouncements as well as any FASB pronouncements issued on or before November 30, 1989 to the extent these pronouncements do not conflict with GASB pronouncements. This is the alternative method of adoption of GASB 20.

Adopting the change in accounting principle primarily affected the measurement basis of VEDA’s investment in Vermont Capital Partners, LLP (“VCP”) and the interest rate swap. Under existing FASB pronouncements these investments were recorded at fair value. VCP is carried at cost because there is no ready market for the investment. The fair value of derivatives like VEDA’s interest rate swap, are not recorded in the financial statements under current GASB pronouncements.

The cumulative effect of adopting the accounting change is $1,084,700. The beginning net assets balance has been restated for this accounting change. The beginning net assets balance has increased from $35,453,469 to $36,538,169.

Note 18: 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, 2008 are as follows.

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Non-major component units
Restricted for:				
Endowments:				
Expendable	$ 81,000	$ 277,558,000	$ 3,243,688	$ -
Nonexpendable	2,820,000	79,276,000	13,362,483	-
Grants and scholarships	981,000	-	-	-
Bond resolution	58,410,000	-	-	-
Educational programs appropriation	10,000	-	-	-
Interest rate subsidies	-	-	-	1,973,636
Investment - Vermont Capital Partners, LP	-	-	-	400,000
Collateral for commercial paper program	-	-	-	20,000,000
Project and program commitments	-	-	-	26,917,951
Loans receivable[1]	-	-	-	120,180,126
Total Component Units - Restricted Net Assets	**$ 62,302,000**	**$ 356,834,000**	**$ 16,606,171**	**$169,471,713**

[1] Loans receivable for the Vermont Housing & Conservation Board include federally restricted funds.

Note 19: SUBSEQUENT EVENTS

Subsequent to June 30, 2008, there have been significant negative economic developments surrounding overall market liquidity, credit availability and collateral values. The results of these developments have led to broad declines in investment values. The State, including the pension, investment and other postemployment benefit trust funds, invest in various diversified types of securities. Some of these securities have been impacted significantly from these events.

Required Supplementary Information

(Unaudited)

State of Vermont
Required Supplementary Information
Defined Benefit Pension Plans
Schedule of Funding Progress
(dollar amounts in 1000's)
(Unaudited)

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[1]						
2008	$1,377,101	$ 1,464,202	$ 87,101	94.1%	$ 404,938	21.5%
2007	1,318,687	1,307,643	(11,044)	100.8%	386,917	-2.9%
2006	1,223,323	1,232,367	9,044	99.3%	369,310	2.4%
2005	1,148,908	1,174,796	25,888	97.8%	349,258	7.4%
2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
2003	1,025,469	1,052,004	26,535	97.5%	319,855	8.3%
STRS[1]						
2008	$1,605,462	$ 1,984,967	$ 379,505	80.9%	$ 535,807	70.8%
2007	1,541,860	1,816,650	274,790	84.9%	515,573	53.3%
2006	1,427,393	1,686,502	259,109	84.6%	499,044	51.9%
2005	1,354,006	1,492,150	138,144	90.7%	468,858	29.5%
2004	1,284,833	1,424,662	139,829	90.2%	453,517	30.8%
2003	1,218,001	1,358,822	140,821	89.6%	437,239	32.2%
MERS						
2008	$ 348,740	$ 343,685	$ (5,055)	101.5%	$ 175,894	-2.9%
2007	325,774	309,853	(15,921)	105.1%	162,321	-9.8%
2006	288,347	276,552	(11,795)	104.3%	148,815	-7.9%
2005	259,076	248,140	(10,936)	104.4%	146,190	-7.5%
2004	232,890	225,092	(7,798)	103.5%	135,351	-5.8%
2003	222,854	218,533	(4,321)	102.0%	126,216	-3.4%

[1] The funding method for VSRS and STRS was changed from "entry age normal with frozen initial liability" to "entry age normal" effective with the 2006 actuarial valuaton.

State of Vermont
Required Supplementary Information
Defined Benefit Pension Plans
Schedule Of Employer Contributions
(Unaudited)

Retirement System	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
Vermont State Retirement System	2008	$ 42,375,068	92.49%
	2007	40,189,812	97.78%
	2006	38,214,704	97.58%
	2005	36,019,056	101.32%
	2004	29,023,431	91.81%
	2003	24,715,309	98.70%
State Teachers' Retirement System	2008	$ 41,204,051	99.40%
	2007	38,929,729	98.89%
	2006	56,627,046	44.06%
	2005	47,714,318	51.23%
	2004	41,658,946	58.68%
	2003	28,279,810	72.30%
Vermont Municipal Employees' Retirement System	2008	$ 0	NA
	2007	8,546,496	100.00%
	2006	7,839,769	100.00%
	2005	7,359,628	100.00%
	2004	6,616,630	100.00%
	2003	5,854,111	100.00%

For fiscal year 2008, the Vermont Municipal Employees' Retirement System required no employer contributions for the defined benefit pension plan. Instead, employer contributions were directed to the OPEB defined contribution plan's Vermont Municipal Employee's Health Benefit Fund.

State of Vermont
Required Supplementary Information
Other Postemployment Benefit Plans
Schedule of Funding Progress

(dollar amounts in 1000's)
(Unaudited)

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)
State Employees' Postemployment Benefit Pension Trust Fund						
2008	$ 3,664	$ 754,690	$ 751,026	0.5%	$404,937	185.5%
2007	2,211	606,499	604,288	0.4%	386,917	156.2%
2006	-	552,152	552,152	0.0%	369,310	149.5%
State Teachers Retiree Medical Benefit Plan						
2008	-	863,555	863,555	0.0%	535,807	161.2%
2007	-	820,212	820,212	0.0%	515,573	159.1%
2006	-	952,526	952,526	0.0%	499,044	190.9%

Based on a discount rate of 3.75% for 2005 - 2007 and 4.00% for 2008.

State of Vermont
Required Supplementary Information
Other Postemployment Benefit Plans
Schedule Of Employer Contributions

(Unaudited)

OPEB Fund	Year Ended 6/30	Annual Required Contribution *	Percentage Contributed
State Employees' Postemployment Benefit Pension Trust Fund	2008	$ 47,284,903	37.59%
	2007	40,874,365	5.41%
Postemployment Benefits for State Teachers Retirement System	2008	$ 60,220,989	0.00%

* Determined on a pay-as-you-go-basis

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Taxes	$ 1,141,500,000	$ 1,160,700,000	$ 1,170,298,624	$ 9,598,624
Earnings of Departments	14,800,000	15,000,000	14,721,589	(278,411)
Other	13,900,000	14,000,000	14,743,844	743,844
Total revenues	**1,170,200,000**	**1,189,700,000**	**1,199,764,057**	**10,064,057**
Expenditures:				
General Government				
Agency of Administration	46,257,428	53,944,634	52,729,149	(1,215,484)
Executive Office	1,526,498	1,539,803	1,537,435	(2,368)
Legislative Council	9,713,705	11,108,459	10,235,249	(873,210)
Joint Fiscal Office	1,270,768	1,401,608	1,300,671	(100,937)
Sergeant at Arms	598,371	632,870	576,293	(56,577)
Lieutenant Governors Office	154,712	155,243	155,243	-
Auditor of Accounts	524,568	593,600	559,567	(34,033)
Office of Treasurer	1,130,214	1,142,581	1,031,826	(110,756)
State Labor Relations Board	204,348	216,556	192,665	(23,891)
VOSHA Review Board	20,192	24,528	21,628	(2,900)
Protection to Persons and Property				
Attorney General	5,735,281	6,988,448	6,983,448	(5,000)
Defender General	9,513,240	9,872,463	9,826,562	(45,901)
Judiciary	30,267,034	31,257,335	31,251,679	(5,656)
State's Attorneys & Sheriffs	11,783,756	12,140,701	11,343,966	(796,735)
Department of Public Safety	12,471,118	13,586,567	13,492,026	(94,542)
Military Department	3,413,909	3,877,402	3,799,205	(78,197)
Center Crime Victim Services	1,315,020	1,316,126	1,160,058	(156,068)
Criminal Justice Training Council	1,385,881	1,404,607	1,388,305	(16,302)
Agency of Agricultural, Food, and Markets	5,856,116	7,585,366	5,818,938	(1,766,428)
Banking, Insurance, Securities, and Health Care Administration	316,000	315,469	283,739	(31,730)
Secretary of State	588,801	599,902	587,882	(12,020)
Public Service Department	-	56,777	6,279	(50,498)
Vermont Racing Commission	1,000	1,000	522	(477)
Human Rights Commission	326,850	354,409	320,677	(33,732)
Human Services				
Agency of Human Services	494,249,094	524,914,870	518,258,402	(6,656,468)
Governor's Commission on Women	260,890	267,602	264,764	(2,838)
Human Services Board	50,063	54,978	54,978	-
Labor				
Department of Labor	2,358,195	3,339,717	2,991,392	(348,325)

Continued on next page ——>

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Expenditures:				
General Education				
Department of Education	15,086,668	17,656,232	17,014,258	(641,974)
Property Tax Assistance	-	-	-	-
Renter Rebates Tax Assistance	2,277,149	2,277,149	2,236,816	(40,333)
State Teachers' Retirement	39,549,097	39,549,097	39,549,097	-
Higher Education	83,883,621	83,858,621	83,858,615	(6)
Natural Resources				
Agency of Natural Resources	25,425,063	29,572,125	25,764,366	(3,807,759)
Natural Resources Board	1,057,827	1,319,993	1,192,325	(127,668)
Commerce and Community Development				
Agency of Commerce & Community Development	14,183,602	18,076,185	15,535,998	(2,540,187)
Cultural Development	1,681,902	1,690,552	1,690,552	-
Vermont Economic Development Authority	-	165,000	165,000	-
Transportation				
Agency of Transportation	-	1,516,809	171,810	(1,344,999)
Debt service				
Principal and Interest	64,929,281	64,205,317	64,205,317	-
Total expenditures	**889,367,262**	**948,580,700**	**927,556,703**	**(21,023,997)**
Excess of revenues over expenditures	**280,832,738**	**241,119,300**	**272,207,353**	**31,088,054**
Other Financing Sources (Uses):				
Transfers in	3,346,416	23,185,490	23,185,490	-
Transfers out	(288,281,051)	(293,843,460)	(293,843,460)	-
Proceeds from Refunding Bonds	-	29,011,368	29,011,368	-
Payment to Escrow Agent	-	(29,375,437)	(29,375,437)	-
Premium on sale of bonds	-	798,046	798,046	-
Total other financing sources (uses)	**(284,934,635)**	**(270,223,993)**	**(270,223,993)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(4,101,897)**	**(29,104,693)**	**1,983,360**	**31,088,054**
Fund balance, July 1	**121,500,500**	**121,500,500**	**121,500,500**	**-**
Fund balance, June 30	**$ 117,398,603**	**$ 92,395,807**	**$ 123,483,861**	**31,088,054**

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, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Taxes	$ 138,200,000	$ 133,800,000	$ 138,032,553	$ 4,232,553
Motor Vehicle Fees	70,600,000	68,300,000	67,541,444	(758,556)
Federal	204,264,381	205,618,613	176,254,008	(29,364,605)
Other	20,600,000	24,100,000	24,541,905	441,905
Total revenues	**433,664,381**	**431,818,613**	**406,369,910**	**(25,448,704)**
Expenditures:				
General Government				
Agency of Administration	-	51,072	41,604	(9,469)
Joint Fiscal Office	-	85	-	(85)
Sergeant at Arms	-	639	-	(639)
Protection to Persons and Property				
Department of Public Safety	34,879,736	36,015,339	36,015,132	(207)
General Education				
Department of Education	127,483	127,483	127,483	-
Transportation				
Agency of Transportation	406,164,252	416,216,696	370,604,872	(45,611,824)
Debt service				
Principal and Interest	1,994,895	1,996,862	1,996,862	-
Total expenditures	**443,166,366**	**454,408,176**	**408,785,952**	**(45,622,224)**
Excess of revenues over (under) expenditures	**(9,501,985)**	**(22,589,563)**	**(2,416,043)**	**20,173,521**
Other Financing Sources (Uses):				
Transfers in	-	1,292,580	1,292,580	-
Transfers out	(2,390,512)	(3,510,512)	(3,510,512)	-
Total other financing sources (uses)	**(2,390,512)**	**(2,217,932)**	**(2,217,932)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(11,892,497)**	**(24,807,495)**	**(4,633,975)**	**20,173,521**
Fund balance, July 1	**14,399,649**	**14,399,649**	**14,399,649**	**-**
Fund balance, June 30	**2,507,152**	**$ (10,407,846)**	**$ 9,765,674**	**$ 20,173,521**

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, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Taxes	$ 944,023,783	$ 940,204,652	$ 939,994,929	$ (209,723)
Interest & premiums	(1,500,000)	(1,500,000)	(1,305,755)	194,245
Total revenues	**942,523,783**	**938,704,652**	**938,689,175**	**(15,477)**
Expenditures:				
General education				
Department of Education	1,250,673,314	1,129,923,315	1,125,455,103	(4,468,212)
Property Tax Assistance	3,228,945	122,194,186	121,207,716	(986,470)
Renter Rebates	5,347,674	5,347,674	4,491,100	(856,574)
Total expenditures	**1,259,249,933**	**1,257,465,175**	**1,251,153,919**	**(6,311,256)**
Excess of revenues over (under) expenditures	**(316,726,150)**	**(318,760,523)**	**(312,464,745)**	**6,295,778**
Other Financing Sources (Uses):				
Transfers in	286,650,791	309,357,229	309,357,229	-
Transfers out	-	(4,700,000)	(4,700,000)	-
Total other financing sources (uses)	**286,650,791**	**304,657,229**	**304,657,229**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(30,075,359)**	**(14,103,294)**	**(7,807,516)**	**6,295,778**
Fund balance, July 1	**49,334,243**	**49,334,243**	**49,334,243**	**-**
Fund balance, June 30	**$ 19,258,884**	**$ 35,230,949**	**$ 41,526,727**	**$ 6,295,778**

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, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Special Fund Revenues	$ 243,447,795	$ 226,116,091	$ 201,988,809	$ (24,127,282)
Total revenues	**243,447,795**	**226,116,091**	**201,988,809**	**(24,127,282)**
Expenditures:				
General government				
Agency of Administration	17,152,045	22,309,632	14,227,897	(8,081,735)
Executive Office	183,477	273,477	186,815	(86,662)
Legislative Council	-	42,296	32,879	(9,417)
Auditor of Accounts	54,431	72,201	72,201	-
Sergeant At Arms	-	3,310	-	(3,310)
Treasurer's Office	1,542,265	1,997,606	1,972,134	(25,472)
State Labor Relations Board	5,870	9,453	9,355	(98)
VOSHA Review Board	-	5,188	-	(5,188)
Unorganized Tow ns & Gores	-	185,000	122,251	(62,749)
Protection to persons and property				
Attorney General	3,030,132	6,666,638	5,840,163	(826,475)
Defender General	632,731	706,793	699,371	(7,422)
Judiciary	4,278,982	4,684,202	3,518,347	(1,165,855)
State's Attorneys & Sheriffs	2,323,245	2,321,056	2,110,900	(210,156)
Department of Public Safety	11,810,286	12,884,412	12,192,546	(691,866)
Military Department	-	91,040	90,742	(298)
Center of Crime Victim's Services	5,652,450	5,702,450	4,917,614	(784,836)
Criminal Justice Training Council	638,025	922,582	709,801	(212,781)
Agency of Agriculture, Food & Markets	8,359,555	9,026,553	6,882,330	(2,144,223)
Banking, Insurance, Securities, and Health Care Administration	13,043,661	13,145,675	12,250,241	(895,434)
Secretary of State	4,167,464	4,917,281	4,888,712	(28,569)
Public Service Department	10,173,054	11,012,566	7,176,216	(3,836,350)
Public Service Board	2,826,024	2,754,762	2,529,994	(224,768)
Enhanced 911 Board	3,356,610	3,658,110	3,624,152	(33,958)
Department of Liquor Control	-	196,430	63,312	(133,118)
Human Rights Commission	-	43,377	-	(43,377)
Human services				
Agency of Human Services	84,447,256	93,130,188	83,108,371	(10,021,817)
Governor's Commission on Women	5,000	38,374	34,053	(4,321)
Human Services Board	280,024	280,024	238,655	(41,369)
Vermont Veterans Home	10,466,920.00	11,257,424.09	10,909,210	(348,214)
Labor				
Department of Labor	7,531,057	10,358,762	7,126,561	(3,232,201)
General education				
Department of Education	18,493,770	18,687,142	14,613,920	(4,073,222)
Higher Education	3,700,000	6,299,999	6,299,998	(1)

Continued on next page ——>

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Expenditures:				
Natural resources				
Agency of Natural Resources	28,640,037	32,707,655	29,281,854	(3,425,801)
Natural Resources Board	1,774,212	1,779,731	1,612,376	(167,355)
Commerce and community development				
Agency of Commerce & Community Development	7,455,779	10,421,756	6,702,363	(3,719,393)
Cultural Development	-	24,250	24,250	-
Transportation				
Agency of Transportation	100,000	1,201,845	1,068,624	(133,221)
Public service enterprises				
Public Service Department	13,402	3,517,402	3,457,722	(59,680)
Debt service				
Principal and Interest	2,495,850	2,495,850	2,495,850	-
Total Expenditures	**254,633,614**	**295,832,492**	**251,091,780**	**(44,740,712)**
Excess of revenues over (under) expenditures	**(11,185,819)**	**(69,716,401)**	**(49,102,971)**	**20,613,430**
Other Financing Sources (Uses):				
Proceeds on Sale of Refunding Bond	-	183,632	183,632	-
Transfers in	11,185,819	69,716,401	69,716,401	-
Transfers out	(7,935,939)	(20,064,940)	(20,064,940)	-
Total other financing sources (uses)	**3,249,880**	**49,651,461**	**49,835,093**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(7,935,939)**	**(20,064,940)**	**732,122**	**20,613,430**
Fund balance, July 1	**75,568,335**	**75,568,335**	**75,568,335**	**-**
Fund balance, June 30	**$ 67,632,396**	**$ 55,503,396**	**$ 76,300,457**	**$ 20,613,430**

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, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Federal	$ 1,103,963,594	$ 1,123,849,699	$ 1,110,888,614	$ (12,961,086)
Interest and premiums	-	573,398	573,398	-
Other	-	(645,048)	(210,344)	434,704
Total revenues	**1,103,963,594**	**1,123,778,049**	**1,111,251,668**	**(12,526,382)**
Expenditures:				
General Government				
Agency of Administration	860,814	2,351,519	2,310,860	(40,659)
Executive Office	1,615,321	1,615,321	1,173,811	(441,510)
Treasurer's Office	-	391,479	391,479	-
VOSHA Review Board	20,190	20,190	20,175	(15)
Protection to Persons and Property				
Attorney General	763,000	763,000	763,000	-
Judiciary	414,327	414,327	296,036	(118,291)
State's Attorneys & Sheriffs	25,000	25,000	9,437	(15,563)
Department of Public Safety	20,867,056	23,493,921	17,608,257	(5,885,664)
Military Department	13,766,057	18,990,445	18,454,328	(536,117)
Center of Crime Victim Services	4,021,120	4,021,120	3,361,352	(659,769)
Agency of Agriculture, Food & Markets	1,525,681	1,694,137	1,538,531	(155,607)
Banking, Insursance, Securities & Health Care	1,000,000	1,000,000	-	(1,000,000)
Secretary of State	2,000,000	2,000,000	686,554	(1,313,446)
Pubic Service Department	1,157,800	1,157,800	751,384	(406,416)
Human Rights Commission	170,739	170,739	154,093	(16,646)
Human Services				
Agency of Human Services	878,648,160	856,080,183	831,752,325	(24,327,858)
Human Services Board	11,993	11,993	11,993	-
Vermont Veteran's Home	5,046,500	5,046,500	5,046,500	-
Labor				
Department of Labor	20,634,028	20,747,666	18,498,379	(2,249,287)
General Education				
Department of Education	116,935,063	116,999,001	108,619,687	(8,379,314)
Natural Resources				
Agency of Natural Resources	13,659,970	26,642,945	22,330,124	(4,312,821)
Commerce and Community Development				
Agency of Commerce & Community Development	10,564,658	22,986,896	11,027,587	(11,959,309)
Total expenditures	**1,093,707,477**	**1,106,624,182**	**1,044,805,890**	**(61,818,293)**
Excess of revenues over expenditures	**10,256,117**	**17,153,867**	**66,445,778**	**49,291,911**
Other Financing Sources (Uses):				
Transfers in	-	2,509,585	2,509,585	-
Transfers out	(10,256,117)	(35,014,199)	(35,014,199)	-
Total other financing sources (uses)	**(10,256,117)**	**(32,504,615)**	**(32,504,615)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**-**	**(15,350,748)**	**33,941,163**	**49,291,911**
Fund balance, July 1	**(11,326,480)**	**(11,326,480)**	**(11,326,480)**	**-**
Fund balance, June 30	**$ (11,326,480)**	**$ (26,677,228)**	**$ 22,614,683**	**$ 49,291,911**

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GLOBAL COMMITMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Global Commitment Premiums	$ 871,278,097	$ 810,542,092	$ 813,181,727	$ 2,639,635
Total revenues	**871,278,097**	**810,542,092**	**813,181,727**	**2,639,635**
Expenditures:				
General Government				
Agency of Administration	105,000	175,000	175,000	-
Protection to Persons and Property				
Banking, Insurance, Securities, and Health Care Administration	1,404,997	1,404,997	1,340,728	(64,269)
Human Services				
Agency of Human Services	825,917,590	797,363,286	778,924,112	(18,439,175)
Vermont Veteran's Home	913,047	913,047	913,047	-
General Education				
Higher Education	4,411,563	4,411,563	4,411,559	(4)
Deparment of Education	1,052,999	1,052,999	1,002,730	(50,269)
Total expenditures	**833,805,196**	**805,320,892**	**786,767,175**	**(18,553,717)**
Excess of revenues over expenditures	**37,472,901**	**5,221,200**	**26,414,551**	**21,193,352**
Other Financing Sources (Uses):				
Transfers out	(26,281,566)	(23,042,508)	(23,042,508)	-
Total other financing sources (uses)	**(26,281,566)**	**(23,042,508)**	**(23,042,508)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**11,191,335**	**(17,821,308)**	**3,372,043**	**21,193,352**
Fund balance, July 1	**38,913,511**	**38,913,511**	**38,913,511**	**-**
Fund balance, June 30	**$ 50,104,846**	**$ 21,092,203**	**$ 42,285,554**	**$ 21,193,352**

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
STATE HEALTH CARE RESOURCES FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
State Health Care Resources Fund Revenues...........	$ 141,200,000	$ 140,400,000	$ 138,976,112	$ (1,423,888)
Total revenues..	**141,200,000**	**140,400,000**	**138,976,112**	**(1,423,888)**
Expenditures:				
Human services				
Agency of Human Services............................	157,186,147	148,325,411	148,325,411	-
Total expenditures....................................	**157,186,147**	**148,325,411**	**148,325,411**	**-**
Excess of revenues over (under) expenditures...	**(15,986,147)**	**(7,925,411)**	**(9,349,299)**	**(1,423,888)**
Fund balance, July 1..	**8,766,596**	**8,766,596**	**8,766,596**	**-**
Fund balance, June 30..	**$ (7,219,551)**	**$ 841,185**	**$ (582,703)**	**$ (1,423,888)**

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TOBACCO TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Tobacco Trust Funds Revenue...........................	$ 37,220,133	$ 37,220,324	$ 40,539,307	$ 3,318,983
Total revenues.......................................	**37,220,133**	**37,220,324**	**40,539,307**	**3,318,983**
Expenditures:				
General government				
Agency of Administration.............................	58,000	58,000	58,000	-
Protection to persons and property				
Attorney General.......................................	290,000	290,000	290,000	-
Judiciary...	40,000	40,000	40,000	-
Department of Liquor Control........................	289,645	289,836	289,836	-
Human services				
Agency of Human Services..........................	35,546,820	35,546,820	35,546,820	-
General education				
Department of Education.............................	995,668	995,668	942,472	(53,196)
Total expenditures..................................	**37,220,133**	**37,220,324**	**37,167,128**	**(53,196)**
Excess of revenues over expenditures............	**-**	**-**	**3,372,179**	**3,265,787**
Fund balance, July 1..	**30,935,145**	**30,935,145**	**30,935,145**	**-**
Fund balance, June 30.....................................	**$ 30,935,145**	**$ 30,935,145**	**$ 34,307,324**	**$ 3,265,787**

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
CATAMOUNT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Catamount Fund Revenues	$ 19,200,000	$ 22,500,000	$ 15,742,544	$ (6,757,456)
Total revenues	**19,200,000**	**22,500,000**	**15,742,544**	**(6,757,456)**
Expenditures:				
Human services				
Agency of Human Services	11,168,430	13,205,328	13,204,181	(1,147)
Employment & Training				
Department of Labor	394,072	394,072	258,466	(135,606)
Total expenditures	**11,562,502**	**13,599,400**	**13,462,648**	**(136,752)**
Excess of revenues over expenditures	**7,637,498**	**8,900,600**	**2,279,896**	**(6,620,704)**
Other Financing Sources (Uses):				
Transfers in	-	3,500,000	3,500,000	-
Total other financing sources (uses)	**-**	**3,500,000**	**3,500,000**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**7,637,498**	**12,400,600**	**5,779,896**	**(6,620,704)**
Fund balance, July 1	**4,644,780**	**4,644,780**	**4,644,780**	**-**
Fund balance, June 30	**$ 12,282,278**	**$ 17,045,380**	**$ 10,424,676**	**$ (6,620,704)**

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

Note to the Required Supplementary Information—Budgetary Reporting (unaudited)

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 Vermont Legislature 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 November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, 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 Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before 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 Vermont Legislature 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 or transfer appropriations within limits established by 32 V.S.A. Chapter 9. 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).

Budgetary Funds

Vermont's annual Appropriation Act, the State's legally adopted budget, does not present budgets using the same fund structure as what is used for reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). The GAAP basis Special Fund is represented in the Appropriation Act as program-level budgets for the Special, State Health Care Resources, Tobacco Trust and Catamount Funds. These funds are present separately in the accompanying schedules.

Revenue Estimates

By July 31 each year, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of state revenues in the General, Transportation, Education, Catamount, State Health Care Resources, and Global Commitment Funds. The Emergency Board then has 10 days to determine the original revenue estimates for the fiscal year. For the Special and Federal Revenue Funds, the original budget for revenues is based on the amount appropriated for expenditures. By January 15, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of state revenues and the Emergency Board determines any revision to the July revenue estimates.

Expenditure and Transfer Budgets

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Secretary of Administration (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of state government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of state funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts including federal receipts exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature.

Budget and GAAP Basis Reporting

The accompanying budgetary comparison schedules report the actual revenues, expenditures and other financing sources (uses) on a budget basis, which differs significantly from GAAP. These different accounting principles result in basis, perspective, and entity differences in the fund balance—budgetary basis. *Basis differences* arise because the basis of budgeting (cash basis) differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances—governmental funds. *Perspective differences* result because the Appropriation Act's program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State's financial reporting entity for GAAP purposes is excluded from the Appropriation Act. The following presents a reconciliation of the budgetary basis and GAAP basis fund balances for the funds reported in the accompanying schedules for the fiscal year ended June 30, 2008.

	General Fund	Transportation Fund	Education Fund	Federal Revenue Fund	Global Commitment Fund
Fund Balance - Budgetary Basis....	$ 123,483,861	$ 9,765,674	$ 41,526,727	$ 22,614,683	$ 42,285,554
Basis differences:					
Cash not in budget balances............	17,674	4,756	-	1,485	-
Escrow deposits not included in budget balances......................	-	153,284	-	-	-
Taxes receivable............................	194,304,668	7,994,826	13,756,575	-	-
Notes and loan receivable................	166,851	433,779	-	-	
Other receivables...........................	4,877,934	9,512,581	-	1,549,969	16,723,693
Interest receivable..........................	72,211	1,190	-	22,414	-
Due from other funds......................	3,640,166	544,994	-	462,012	118,370
Due from federal government............	-	22,967,974	-	64,829,356	-
Accounts payable..........................	(22,669,911)	(22,174,208)	(12,499,747)	(32,953,160)	(80,095,022)
Intergovernment Payables................	-	-	-	(8,124,107)	-
Accrued liablilities..........................	(16,144,128)	(7,218,899)	-	(6,574,139)	(2,919,987)
Retainage payable.........................	(25,324)	(406,540)	-	(43,762)	(808,404)
Deferred revenue............................	(128,747,020)	(10,472,889)	(2,407,220)	(14,982,771)	(11,130,282)
Tax refunds payable.......................	(3,175,148)	-	-	-	-
Due to other funds..........................	(78,910)	(19,181)	(73,845)	(1,834,685)	(264,977)
Entity differences:					
Blended non-budgeted funds............	-	2,526,087	-	42,854,832	-
Perspective differences:					
Component unit include in budgeted funds...........................	-	-	-	1,933,952	-
Fund Balance - GAAP Basis..........	$ 155,722,924	$ 13,613,428	$ 40,302,490	$ 69,756,079	$ (36,091,055)

	Budget Basis Funds				GAAP Basis
	Special Fund	State Health Care Resource Fund	Tobacco Trust Fund	Catamount Fund	Special Fund
Fund Balance - Budgetary Basis....	$ 76,300,457	$ (582,703)	$ 34,307,324	$ 10,424,676	$ -
Basis differences:					
Cash not in budget balances............	3,144,590	-	(1,676,326)	-	-
Taxes receivable............................	2,658,780	820,793	-	-	-
Other receivables...........................	6,946,911	2,035	-	1,192	-
Interest receivable..........................	17,108	-	-	-	-
Due from other funds......................	1,514,075	-	1,657	-	-
Due from component units...............	31,463	-	-	-	-
Accounts payable...........................	(10,242,597)	(190)	(92,179)	(18,929)	-
Accrued liablilities..........................	(3,976,020)	-	(38,728)	(39,898)	-
Retainage payable..........................	(1,023,013)	-	-	-	-
Deferred revenue............................	(5,814,765)	(318,634)	-	(1,192)	-
Tax refunds payable........................	(5,270)	(101,485)	-	-	-
Due to other funds..........................	(208,278)	-	-	(48,667)	-
Due to component units..................	(368,354)	-	-	-	-
Entity differences:					
Blended non-budgeted funds............	9,223,722	-	-	-	-
Perspective differences:					
Component unit include in budgeted funds...........................	(4,255,499)	-	-	-	-
Budgeted funds reclassified to GAAP basis major governmental fund........	(73,943,310)	180,184	(32,501,748)	(10,317,182)	116,582,056
Fund Balance - GAAP Basis..........	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$116,582,056**

FORM OF CONTINUING DISCLOSURE AGREEMENT

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 $50,500,000 General Obligation Bonds, 2009 Series A (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B. Effective July 1, 2009, the sole National Repository within the meaning of the Rule will be the Municipal Securities Rulemaking Board ("MSRB").

"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), 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 Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated March 3, 2009; 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. <u>Alternative Methods for Reporting</u>. 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. <u>Termination of Reporting Obligation</u>. 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. <u>Dissemination Agent</u>. 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. <u>Amendment; Waiver</u>. 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: March 11, 2009

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, 2009 Series A

Date of Issuance: March 11, 2009

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 March 11, 2009. 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 and Transmission Agent 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/rates/municontacts.html
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
http://www.MuniFILINGS.com
Email: nrmsir@dpcdata.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15^{th} Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
http://www.interactivedata-prd.com
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45^{th} Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
http://www.disclosuredirectory.standardandpoors.com
Email: nrmsir_repository@sandp.com

Transmission Agent

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

APPENDIX C

FORM OF BOND COUNSEL OPINION

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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

$50,500,000
State of Vermont
General Obligation Bonds, 2009 Series A
Dated Date of Delivery

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

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

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

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

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

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not 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

STATE OF VERMONT • GENERAL OBLIGATION BONDS, 2009 SERIES A

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