New Issue – Book Entry Only

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

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series A Bonds, the Series B Bonds and the Series D Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series A Bonds, the Series B Bonds and the Series D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series C Bonds is included in the gross income of the owners thereof for federal income tax purposes. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$25,000,000
STATE OF VERMONT
General Obligation Bonds
2012 Series A
(VERMONT CITIZEN BONDS)
(Negotiated)

$28,000,000
STATE OF VERMONT
General Obligation Bonds
2012 Series B
(Competitive)

$10,000,000
STATE OF VERMONT
General Obligation Bonds
2012 Series C (Federally Taxable)
(Competitive)

$69,060,000
STATE OF VERMONT
General Obligation Refunding Bonds
2012 Series D
(Negotiated)

Dated: Date of Delivery **Due: August 15, as shown on the inside cover hereof**

The 2012 Series A Bonds (the "Series A Bonds"), the 2012 Series B Bonds (the "Series B Bonds"), the 2012 Series C Bonds (the "Series C Bonds") and the 2012 Series D Bonds (the "Series D Bonds," and together with the Series A Bonds, the Series B Bonds and the Series C 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 (i) in the case of the Series A Bonds, $1,000 or any integral multiple thereof, and (ii) in the case of the Series B Bonds, the Series C Bonds and the Series D Bonds, $5,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing August 15, 2012. The Series A Bonds, the Series B Bonds and the Series D Bonds will be subject to redemption prior to maturity as more fully described herein. The Series C Bonds will not be subject to redemption prior to maturity.

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

The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Boston, Massachusetts, and to certain other conditions referred to herein and, with respect to the Series B Bonds and the Series C Bonds, in the applicable Notice of Sale. Certain legal matters will be passed upon for the Underwriters of the Series A Bonds and the Series D Bonds by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Public Resources Advisory Group 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 21, 2012.

Citigroup†

BofA Merrill Lynch* **Wells Fargo Securities***

Piper Jaffray & Co.‡

March 6, 2012 (with respect to the Series A Bonds and Series D Bonds)
March 7, 2012 (with respect to the Series B Bonds and Series C Bonds)

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† Representative of the Underwriters for the Series A Bonds and the Series D Bonds, as further described under "UNDERWRITING OF THE SERIES A BONDS AND THE SERIES D BONDS." Representative of a syndicate of underwriters for the Series B Bonds, as further described under "COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS."

* Underwriters for the Series A Bonds and the Series D Bonds only, as further described under "UNDERWRITING OF THE SERIES A BONDS AND THE SERIES D BONDS."

‡ Sole Underwriter for the Series C Bonds, as further described under "COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS."

$25,000,000
STATE OF VERMONT
General Obligation Bonds
2012 Series A (VERMONT CITIZEN BONDS)

Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP[†] 924258	Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP[†] 924258
2012	$6,300,000	1.00%	0.14%	WW2	2019	$3,150,000	3.00%	1.41	XA9
2016	2,600,000	0.60	100	WX0	2020	3,150,000	3.00	1.67	XB7
2017	3,150,000	2.00	0.81	WY8	2021	3,150,000	3.00	1.88	XC5
2018	3,150,000	2.00	1.14	WZ5	2022	350,000	3.00	2.03[C]	XD3

$28,000,000
STATE OF VERMONT
General Obligation Bonds
2012 Series B

Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP[†] 924258	Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP[†] 924258
2022	$2,800,000	3.00%	2.15%[c]	XV3	2027	$3,150,000	3.00%	100%	YA8
2023	3,150,000	3.50	2.49[c]	XW1	2028	3,150,000	3.00	3.05	YB6
2024	3,150,000	3.50	2.71[c]	XX9	2029	3,150,000	3.00	3.10	YC4
2025	3,150,000	3.50	2.92[c]	XY7	2030	3,150,000	3.00	3.15	YD2
2026	3,150,000	3.00	2.90[c]	XZ4					

[C] Priced at the stated yield to the August 15, 2021 redemption price of 100%. See "THE BONDS – Redemption Provisions" herein.

$10,000,000
STATE OF VERMONT
General Obligation Bonds
2012 Series C (Federally Taxable)

Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP† 924258
2013	$3,150,000	2.00%	0.39%	YE0
2014	3,150,000	2.00	0.54	YF7
2015	3,150,000	1.00	0.75	YG5
2016	550,000	1.00	0.95	YH3

$69,060,000
STATE OF VERMONT
General Obligation Refunding Bonds
2012 Series D

Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP† 924258
2014	$2,275,000	3.00%	0.35%	XR2
2015	4,345,000	3.00	0.50	XE1
2016	4,295,000	4.00	0.60	XF8
2016	2,250,000	0.60	100	XS0
2017	6,495,000	4.00	0.81	XG6
2018	6,480,000	4.00	1.14	XH4
2019	6,480,000	4.00	1.41	XJ0
2020	11,020,000	4.00	1.67	XK7
2021	$6,255,000	5.00	1.88%	XL5
2021	2,500,000	1.85	1.88	XT8
2022	3,425,000	5.00	2.03C	XM3
2022	7,500,000	2.00	2.03	XU5
2023	1,930,000	5.00	2.14C	XN1
2024	1,915,000	5.00	2.26C	XP6
2025	1,895,000	5.00	2.35C	XQ4

C Priced at the stated yield to the August 15, 2021 redemption price of 100%. See "THE BONDS – Redemption Provisions" herein.

STATE OF VERMONT

ELECTED OFFICERS

Name

PETER E. SHUMLIN, *Governor*

PHILIP B. SCOTT, Lieutenant *Governor*

ELIZABETH A. PEARCE, *Treasurer*

JAMES C. CONDOS, *Secretary of State*

THOMAS M. SALMON, *Auditor of Accounts*

WILLIAM H. SORRELL, *Attorney General*

BOND COUNSEL
Edwards Wildman Palmer LLP
Boston, Massachusetts

FINANCIAL ADVISOR
Public Resources Advisory Group
Media, Pennsylvania

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.

In connection with the offering of the Series A Bonds and the Series D Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series A Bonds and the Series D 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 Series A Bonds and the Series D Bonds to certain dealers and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The Underwriters of the Series A Bonds and the Series D Bonds have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement (excluding the information related solely to the Series B Bonds and Series C Bonds) in accordance with, and as part of, their respective 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.

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STATE OF VERMONT

$25,000,000 **General Obligation Bonds** **2012 Series A** **(VERMONT CITIZEN BONDS)** **(Negotiated)**	**$28,000,000** **General Obligation Bonds** **2012 Series B** **(Competitive)**
$10,000,000 **General Obligation Bonds** **2012 Series C (Federally Taxable)** **(Competitive)**	**$69,060,000** **General Obligation Refunding Bonds** **2012 Series D** **(Negotiated)**

INTRODUCTORY STATEMENT

This Official Statement of the State of Vermont (the "State") is provided for the purpose of presenting certain information relating to the State in connection with the sale of $25,000,000 aggregate principal amount of its General Obligation Bonds, 2012 Series A (Vermont Citizen Bonds) (the "Series A Bonds"), $28,000,000 aggregate principal amount of its General Obligation Bonds, 2012 Series B (the "Series B Bonds"), $10,000,000 aggregate principal amount of its General Obligation Bonds, 2012 Series C (Federally Taxable) (the "Series C Bonds") and $69,060,000 aggregate principal amount of its General Obligation Refunding Bonds, 2012 Series D (the "Series D Bonds," and together with the Series A Bonds, the Series B Bonds and the Series C Bonds, 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 August 15 in each of the years as set forth on the inside 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 inside 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 (i) $1,000 or any integral multiple thereof, with respect to the Series A Bonds, and (ii) $5,000 or any integral multiple thereof, with respect to the Series B Bonds, the Series C Bonds and the Series D Bonds, 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 People's United Bank (formerly Chittenden Trust Company), Burlington, Vermont, as Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing August 15, 2012, 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 Series A Bonds, Series B Bonds and Series C Bonds

The Series A Bonds, Series B Bonds and Series C 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 proceeds of the Series A Bonds, Series B Bonds and Series C Bonds are expected to be applied, provided that the State expects that under certain circumstances proceeds of such series of 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 Series A Bonds, Series B Bonds and Series C Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State heretofore or hereafter authorized by the General Assembly.

Series A Bonds

Act 43 of 2009		
Section 1	State Buildings	$2,100,000
Act 161 of 2010		
Section 1	State Buildings	1,000,101
Act 40 of 2011		
Section 2	State Buildings – Various Projects	11,600,000
Section 4	Human Services	2,874,899
Section 8	Education	7,425,000
		$25,000,000

Series B Bonds

Act 147 of 2006		
Section 10	Natural Resources	$99,422
Act 43 of 2009		
Section 1	State Buildings	500,758
Section 9	Natural Resources	25,000
Act 161 of 2010		
Section 2	Tax Department	45,000
Section 5	Commerce and Community Development	30,000
Section 12	Natural Resources – Various Projects	875,660
Section 14	Public Safety	66,194
Section 16	Agriculture, Food and Markets	1,484,000
Act 40 of 2011		
Section 2	State Buildings – Various Projects	4,929,623
Section 3	Administration – Vermont Center for Geographic Information	100,000
Section 4	Human Services – Various Projects	1,425,101
Section 6	Commerce and Community Development	450,000
Section 7	Building Community Grants	450,000
Section 10	University of Vermont – Major Maintenance	1,800,000
Section 11	Vermont State Colleges – Major Maintenance	1,800,000
Section 12	Natural Resources	8,410,000
Section 13	Military	400,000
Section 14	Public Safety – Various Projects	60,000
Section 17	Vermont Public Television	300,000

Section 18	Vermont Rural Fire Protection	100,000
Section 19	Vermont Veterans' Home	300,000
Section 20	Vermont Center for Crime Victim Services	50,000
Section 22	Vermont Housing and Conservation Board	4,000,000
Section 23	Vermont Interactive Television	299,242
		$28,000,000

Series C Bonds

Act 40 of 2011		
Section 3	Administration – Vermont Telecommunications Authority	$10,000,000
		$10,000,000

The Series D Bonds

The Series D Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, pursuant to Section 961 of the General Obligation Bond Law (the "Refunding Bond Act"). The Series D Bonds are being issued to provide funds to refund certain of the State's outstanding general obligation bonds as described under "PLAN OF REFUNDING."

The Refunding Bond Act authorizes the State Treasurer, with the approval of the Governor, to issue general obligation bonds to refund all or any portion of one or more issues of general obligation bonds at any time after the issuance of the bonds to be refunded. The Refunding Bond Act further authorizes the State Treasurer to contract with a bank or trust company to serve as escrow agent for the proceeds of the refunding bonds.

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

Security for the Bonds

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

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

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

Record Date

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

Redemption Provisions

The Series A Bonds, the Series B Bonds and the Series D Bonds maturing on and prior to August 15, 2021 will not be subject to redemption prior to maturity. The Series A Bonds, the Series B Bonds and the Series D Bonds maturing after August 15, 2021 will be subject to redemption prior to maturity, at the option of the State, on and after August 15, 2021, 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.

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

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Series A Bonds, Series B Bonds or Series D Bonds of a particular maturity and bearing interest at a particular interest rate are called for redemption, the applicable Series A Bonds, Series B Bonds or Series D 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

Notice of redemption of Series A Bonds, Series B Bonds or Series D Bonds, specifying the maturities, CUSIP numbers and dates of Series A Bonds, Series B Bonds or Series D 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 Series A Bonds, Series B Bonds or Series D 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 Series A Bonds, Series B Bonds or Series D Bonds or portions thereof 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 Series A Bond, Series B Bond or Series D Bond will not affect the redemption of any other Series A Bonds, Series B Bonds or Series D 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 Series A Bonds, Series B Bonds or Series D Bonds (or the portions thereof) called for redemption shall cease to accrue.

PLAN OF REFUNDING

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

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Refunded Bonds

Series	Maturity Date	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price
2004 Series B					
	03/01/2015	3.500%	$2,220,000	3/01/2014	100%
	03/01/2016	3.750	2,220,000	3/01/2014	100
	03/01/2017	4.000	2,220,000	3/01/2014	100
	03/01/2018	4.000	2,220,000	3/01/2014	100
	03/01/2019	4.000	2,220,000	3/01/2014	100
	03/01/2020	4.000	2,220,000	3/01/2014	100
	03/01/2021	4.000	2,220,000	3/01/2014	100
	03/01/2022	4.100	2,220,000	3/01/2014	100
	03/01/2023	4.125	2,220,000	3/01/2014	100
2005 Series A					
	03/01/2016	4.000%	$2,050,000	3/01/2015	100%
	03/01/2017	4.000	2,050,000	3/01/2015	100
	03/01/2018	4.000	2,050,000	3/01/2015	100
	03/01/2019	4.000	2,050,000	3/01/2015	100
	03/01/2020	4.000	2,050,000	3/01/2015	100
	03/01/2021	4.000	2,050,000	3/01/2015	100
	03/01/2022	4.000	2,050,000	3/01/2015	100
	03/01/2023	4.000	2,050,000	3/01/2015	100
2005 Series D					
	07/15/2016	4.000%	$2,250,000	7/15/2015	100%
	07/15/2020	4.500	2,250,000	7/15/2015	100
	07/15/2022	5.000	2,250,000	7/15/2015	100
	07/15/2023	5.000	2,250,000	7/15/2015	100
	07/15/2024	5.000	2,250,000	7/15/2015	100
	07/15/2025	5.000	2,250,000	7/15/2015	100
2007 Series A					
	07/15/2017	5.000%	$2,250,000	7/15/2016	100%
	07/15/2018	4.000	2,250,000	7/15/2016	100
	07/15/2019	4.000	2,250,000	7/15/2016	100
	07/15/2020	4.000	2,250,000	7/15/2016	100
	07/15/2021	4.000	2,250,000	7/15/2016	100
	07/15/2022	4.000	2,250,000	7/15/2016	100
2007 Series D					
	07/15/2020	4.375%	$2,300,000	7/15/2017	100%
	07/15/2021	4.375	2,300,000	7/15/2017	100
	07/15/2022	4.500	2,300,000	7/15/2017	100

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

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("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 series and 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 a Standard and Poor's rating of AA+. 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 series and 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 series and maturity to be redeemed, unless other arrangements are made between DTC and the State.

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 MATTERS") 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.

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STATE GOVERNMENT

Governmental Organization

The Constitution of Vermont provides for three branches of Government—the Legislative, the Executive and the Judicial. Vermont's statewide elected officers 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 statewide elected officers 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 (including the duties of the Chief Information Officer), the Department of Libraries and the Department of Buildings and General Services.

(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; and the Department of Motor Vehicles, which is responsible for the administration of motor vehicle registrations, driver's 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 ten 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. While not part of the Agency, the Natural Resources Board provides review and permitting for land use and development.

(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, Housing and Community Development, 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 and the Departments of Disabilities, Aging and Independent Living, Corrections, Health, Mental Health, Children and Families and Vermont Health Access.

(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 Lottery Commission; the Military Department; the Defender General; the Department of Public Safety; the Department of Public Service, the Public Service Board, and the Clean Energy Development Board.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, a Superior Court consisting of 14 units, one corresponding to each county, and a Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices and is the appellate court for the State. The Superior Court has five jurisdictional divisions: Civil, Criminal, Environmental, Family and Probate. There are 32 judges sitting in the Civil, Family and Criminal divisions of the Superior Court, including an Administrative Judge. The Family Division has five magistrates. The Environmental Division has two judges and exercises statewide jurisdiction within the Superior Court. All judges and magistrates are appointed by the Governor with the advice and consent of the Senate for six-year terms. At the end of each six-year term, the question of their continuance in office is submitted to the General Assembly in a process known as retention. The Judicial Bureau has two hearing officers appointed by the Administrative Judge. An elected Assistant Judge with appropriate training may also be assigned to act as a Hearing Officer in the Judicial Bureau or as a side judge in the Civil and Family divisions. The Probate Division has a probate judge in each of the 14 units of the Superior Court. The citizens of each county elect one probate judge to serve in the Probate Division for a term of four years.

There are 14 counties in the State. Their administration consists of two Assistant Judges elected from each county. Other county level officials include a State's Attorney and a Sheriff, each of whom is elected every four years. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executor 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 in terms of land and water area 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 last decennial Census on April 1, 2010 was 625,741, ranking the State 49th among the fifty states—unchanged from the 2000 and 1990 Censuses (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 as of April 1, 2010. The State's largest cities and towns as of the 2010 Census were the City of Burlington, population 42,417; the Town of Essex, population 19,957; the City of South Burlington, population 17,904; the Town of Colchester, population 17,067; the City of Rutland, population 16,495; and the Town of Bennington, population 15,764.

Demographic Trends

Mid-year estimates from the Census Bureau for 2011 show that Vermont's population grew by an estimated 471 persons between July 1, 2010 and July 1, 2011, representing a 0.1% rate of increase. That rate of increase was slower than both the 0.7% rate of increase in population for the nation as a whole over that same period, and the 0.3% rate of population increase in the New England region as a whole. Vermont had an estimated growth of 61,431 persons (rounded) between July 1, 1990 and July 1, 2011, or an average yearly rate of 0.5% per year, which was in line with the 0.5% rate of growth per year for the New England region as a whole. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 1.2% over the same 1990–2011 period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970–2011

	----------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]
2011	626	0.1%	14,492	0.3%	311,592	0.7%
2010	626	0.7	14,453	0.1	309,330	0.8
2009	622	0.1	14,430	0.5	307,007	0.9
2008	621	0.1	14,363	0.5	304,375	0.9
2007	621	0.1	14,298	0.3	301,580	1.0
2006	620	0.2	14,258	0.2	298,593	1.0
2005	619	0.3	14,227	0.1	295,753	0.9
2004	618	0.4	14,216	0.2	293,046	0.9
2003	617	0.4	14,192	0.4	290,326	0.9
2002	615	0.5	14,135	0.6	287,804	1.0
2001	612	0.5	14,052	0.7	285,082	1.0
2000	610	0.8	13,953	0.5	282,172	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	--

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 2011, 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 2010 (the latest year for which data for this statistic are available) the median age of the Vermont population was 41.5 years, 4.3 years older than the national average median age of 37.2 years. Among the various age groups, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 79.3% of the State's population versus 76.0% of the total population of the United States) in 2010. The State also had a concentration that was slightly higher than the New England regional average in the 18 years and older age category in 2010 (at 79.3% for Vermont versus 78.2% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 5.1% of the State's total population) relative to both the New England average (at 5.5% of the New England regional population) and U.S. average (at 6.5% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 14.6% of the State population) in 2010 was higher than that for the U.S. population as a whole (at 13.0% of the U.S. population overall) in 2010, and one-half of a percentage point higher than the New England average (at 14.1% of the total). In addition, the percentage of Vermont's population in 2010 aged 45-64 years (at 30.8% of the State's population) was significantly higher than both the percentage of the New England regional population (at 28.6% of the total) and the U.S. population overall (at 26.4% of the total) in 2010. Vermont had slightly more of its population in the 85 years and older category (at 2.0% of the State total) relative to the U.S. population (at 1.8% of the U.S. population) in 2010, but a slightly lower percentage than the New England region overall (at 2.2% of the New England regional population) in 2010.

The Vermont population in 2010 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 (2010 American Community Survey). Table 2 shows that a total of 91.0% 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 85.6% 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 8th 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 28.2% of U.S. residents aged 25 years and over with a four-year college degree by approximately five percentage points.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2010

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	91.0%	5th	85.6%
COLLEGE:			
Bachelor's Degree or More	33.6%	8th	28.2%

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 northeastern U.S. region.

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" the tax rolls 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 taxable 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 2010. The State experienced a significant increase in estimated fair market value between 2002 and 2008 largely due to strong price appreciation in residential and second home markets. Residential price appreciation, second home price appreciation, and valuations for some commercial properties first slowed and now have apparently declined slightly as the U.S. and State economic downturns unfolded.[1] With the U.S. and State economies measurably improved and in recovery since late calendar year 2009, further price declines are expected to remain modest until prices begin an expected increase in late calendar year 2012 (see Table 5 below).

The estimates from 1997–2010 include an estimate of the fair market value of property enrolled in the Current Use Program. The current use values have been estimated by, but have not been certified by, the Division of Property Valuation and Review of the Vermont Department of Taxes.

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[1] For example, housing price changes in Vermont as measured by the Federal Housing Finance Agency (FHFA) Home Price Index declined by 4.6% from the price peak in the first quarter of calendar year 2008 through the first quarter of calendar year 2011. This was the lowest price decline experienced among the six New England states and among the lowest among the 50 states.

Table 4
Equalized Property Values
1990–2010

Equalization Date As of April 1,	Fair Market Value
2010**	$85,079,153,500
2009**	86,705,197,176
2008**	84,799,241,954
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

* Beginning in 1993, the Fair Market Value and Assessed Value of all taxable property in the State was 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, $2,458.8 million in 2007, $2,726.6 million in 2008, $2,938.6 million in 2009, and $3,028.7 million in 2010.

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 various short-term and longer-term consensus revenue estimating processes 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 Moody's Analytics National Economic Forecast Assumptions" herein that is provided by Moody's Analytics 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 Legislative 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 economic forecasts and revenue estimates contained in this Official Statement were updated as of January 18, 2012 after the occurrence of Tropical Storm Irene but before complete information on the impacts of the storm were known. See "STATE ECONOMY – Economic Activity – *Impact of Tropical Storm Irene*" below. The full impact on such economic forecasts and revenue estimates as a result of Tropical Storm Irene is still being determined, and therefore such forecasts and estimates remain subject to change as decisions regarding recovery relief and funding are made and additional facts as to aggregate total damage and costs become known.

The U.S. Economic Situation: Recent developments show that the U.S. economy continues to be impacted by a number of growth-recovery restraining factors. These factors reflect the continuing adjustments of the economy to the remaining imbalances associated with the last recession and a number of unfortunate developments in calendar year 2011 that have combined to constrain the labor market recovery, further undermine the still fragile psyche of consumers and businesses, and revive collective fears about the threat to the global financial system posed by the still unfolding debt and economic crisis in Europe.

These factors and developments sapped the forward momentum of what had earlier in the 2011 calendar year looked to be a relatively healthy rate of U.S. recovery. In fact, at that time, it looked to many analysts that the U.S. economy had been poised to shift toward a full-fledged economic expansion. Over the period since early calendar year 2011, however, rising food and energy prices, the economic fallout from the Japanese earthquake and tsunami, and the erosion of consumer, business and investor confidence associated with the U.S. and European fiscal policy debates and the subsequent downgrade of the U.S. sovereign debt rating by Standard & Poor's and the downgrading of several European countries' debt has added to the above-referenced growth-recovery headwinds. While it remains likely that the U.S. economic recovery will continue given the clear improvement in the economy's fundamentals, it is equally clear that the near-term outlook for the economy has weakened and prospects for output growth and further progress in the job market recovery have diminished significantly since early in calendar year 2011.

Turning to those fundamentals, business balance sheets remain strong, households have significantly reduced their debt burdens, and the banking sector is much better capitalized and has returned to respectable levels of profitability In addition, the Federal Reserve has also responded aggressively to the economy's recent slowdown, taking the unusual step of publicly announcing their intent to leave interest rates at very low levels until mid-calendar year 2014. This was intended to boost confidence, and the larger than anticipated step was viewed as being indicative of a high level of commitment by the Fed to ensure the U.S. recovery will continue.

Even so, recent declines in confidence and the stock market's recent volatility were troubling and have acted to significantly reduce expectations for near-term activity. The January 2012 Administration-Legislative economic forecast consensus forecast for U.S. GDP for calendar years 2011 and 2012 were reduced significantly from the July 2011 consensus forecast. For the U.S. economy, key differences include: (1) U.S. GDP growth has been reduced by 1.6 percentage points in calendar year 2012 and by 0.7 percentage points in calendar year 2013, (2) the rate of payroll job increase has been reduced by one full percentage point in calendar year 2012 and by 1.1 percentage points in calendar year 2013, and (3) although interest rates are expected to be lower due to the expected weakening of output growth and job recovery, energy prices are expected to track significantly higher in both calendar years 2012 and 2013 than was expected in the consensus revenue forecast update presented and adopted last July, largely due to continued concerns as to whether supply can keep up with faster-growing but less energy efficient economies, as well as the continued unrest in the Middle East and its potential impact on oil supply. For calendar years 2014 and beyond, the adjustments to the consensus economic forecast were nearly all positive.

The Vermont Situation: The most recent data on the health and performance of the Vermont economy show that the State is generally following the U.S. economy's lead—but the pace of the recovery in Vermont has been more positive than the U.S. average. Since the Vermont economy bottomed in late 2007, the State's labor market has followed a "saw-toothed" pattern with exaggerated ups and downs that have centered on an overall restrained pace of recovery. So far, Vermont's labor markets have recovered about half of the payroll jobs lost during the 2007-09 recession (or roughly 8,000 of 14,100 payroll jobs lost peak to bottom) during the initial 26 months of the State's labor market recovery. That pace of recovery looks to be somewhat stronger than the State's labor market recovery in percentage terms from the harsh economic downturn in the early 1990s, when it took 60 months for State labor markets to recover all the payroll jobs lost during the downturn, and it looks to be a bit weaker than State's labor market recovery for the 2001 recession, when it took 42 months to recover the payroll jobs lost during that downturn.

On the sector-by-sector front, Vermont's best performance over the last year came in the Professional and Business Services sector, where it posted an increase of 10.3% in employment versus November 2010. The State also had a positive performance in the Manufacturing Sector, where it posted an increase of 1.3% over the prior year. The State's poorest performance was in Information. Information payroll jobs experienced a 4.7% year-over-year decline.

Housing prices overall in Vermont have held up relatively well compared to many other states in the country. Using Federal Housing Finance Agency data on a year-over-year basis for the period ended September 30, Arizona, Florida, California, Michigan and Nevada have all experienced house price declines in excess of 3.5% over the last year, with Nevada having the largest decline at 15.4%. Vermont's housing prices have declined 0.5% on a year-over-year basis, the lowest of the six New England states.

This comparatively stronger house price performance was reinforced by housing sales activity data from the Vermont Department of Taxes' Property Transfer Tax statistics.[1] Calendar year 2011 data show that cumulative average house prices have declined 9.6% from calendar 2007's cumulative average (as the peak year in this data series). Sales volume has apparently begun to recover; volume is currently at a level that was 18.8% under calendar 2007's sales volumes—but higher than sales volumes in each of calendar years 2008, 2009 and 2010. The increase in volume represents a significant turnaround in market activity. Even the vacation home market component, which has seen large declines in sales and prices over the period since early in calendar year 2006, has likewise recently begun to rebound, albeit at a very restrained pace. This is important since the second home market has been negatively impacted by the recent financial market meltdown—particularly in the Boston and New York financial sectors. However, while it is clear there has been some improvement in second home sales activity, sales volumes were still far less than what could be described as "normal." Sales volumes also were nowhere near the sales activity volumes that were experienced in the speculative period of the early- to mid-2000s.

Looking at developments at Vermont's major companies, the news from key employers includes Dealer Dot Com, Inc. ("Dealer.com"), which followed through on its expansion project and added a total of 100 workers to its labor force in the greater Burlington area. In addition, E-Corp—an English language training company that trains business clients—also recently announced a plan to locate its U.S. office in northwest Vermont, likewise bringing in more than 100 new positions into the area. Within the State's manufacturing sector, in the fall of 2011, Green Mountain Coffee Roasters announced plans to continue to expand its workforce in Vermont, adding 50 new employees in the Burlington area while at the same time wrapping up a 75,000 square foot expansion of its facilities in the Waterbury area. In July 2011, the Green Mountain Coffee Roasters also announced it was recently approved by the Vermont Economic Progress Council for State employment growth incentives that are expected to result in nearly $250 million in new private, capital investment to expand its work force by another roughly 500 workers over the next 18 months in three communities just outside the City of Burlington (including the Towns of Essex and Williston and the City of South Burlington).

For Green Mountain Coffee Roasters, the K-cup business continues to grow through strategic acquisitions in addition to their announcement earlier this year of an agreement to manufacture Dunkin' Donuts coffee in the increasingly well-known and accepted K-cup format. Other notable company announcements include the move by Swan Valley Cheese of St. Albans into the old VT Fastener building complex in Franklin County, the expansion of the specialty food manufacturer Bariatrix in the Town of Georgia, and the expansion of Vermont–based food manufacturer Vermont Smoke and Cure, which will shortly occupy part of the now closed Saputo Cheese manufacturing plant in the Town of Hinesburg.

In addition, IBM, a major employer in the greater Burlington area, continues to add small numbers of workers as needed, following their strategy of expanding their fabrication operations through strategic business relationships and federal contracts. Earlier in calendar year 2011, IBM renamed its Essex Junction campus the Champlain Valley Technology and Innovation Park. In the Spring of 2011, the new Essex Junction campus secured the relocation of General Dynamics Technology Center from its Lake Street location in downtown Burlington. Together with ASK IntTag, a manufacturer of secure identification cards, the renamed campus near IBM is now home to 450 Vermont technology workers.

[1] This data source is analogous to the National Association of Realtors house sales-price tracking concept.

The Moody's Analytics National Economic Forecast Assumptions: The economic outlook for the calendar year 2011–15 period is based on a national outlook assembled by Moody's Analytics, a respected national economic forecasting firm. Frequently, there are fine-tuning adjustments made to this outlook by Administration and Joint Fiscal Office economists as part of the consensus revenue forecasting process and these statistics reflect this underlying Moody's Analytics national economic forecast as adjusted during the consensus revenue forecasting process. The adjusted November 2011 Moody's Analytics national forecast scenario, which formed the national basis for the State's January 2012 consensus revenue forecast, includes a restrained pace of recovery and eventually expansion. The adjusted forecast then calls for a moderate, but still historically restrained pace of output growth for the U.S. economy during calendar years 2012–13, topping out at just over a 3.4% rate of growth during calendar year 2013. The top-line Gross Domestic Product (GDP) growth rate numbers across the calendar year 2011–15 forecast period include 2.6% for calendar year 2012, 3.4% for calendar year 2013, and a more typical 4.1% rate of growth for calendar year 2013.

The Moody's Analytics national outlook for U.S. labor markets calls for an annual average increase in payroll jobs of 1.0% in calendar year 2012 and a continued high U.S. unemployment rate that is expected to average 8.8%. The national forecast also expects only a modest rate of payroll job additions in calendar year 2013 of 1.5%, rising to 3.0% for calendar year 2013 as the U.S economy builds some momentum. The national rate of unemployment is expected to remain relatively high throughout the calendar year 2012–15 timeframe, remaining above the level of 7.0% through calendar year 2014 but down significantly from the 9.6% average registered in calendar year 2010.

Consumer prices, as measured by the Consumer Price Index (CPI), are expected in this forecast to increase by 2.1% in calendar year 2012. Calendar year 2013 and beyond are expected to register restrained but increasing inflation rates of between 2.4% to 2.9% over the calendar year 2012–14 period. As a result, the Moody's Analytics forecast for monetary policy is for the continuation of a generally accommodative monetary policy posture with the prospect of gradual tightening after calendar year 2013 as private sector demand is expected to begin to strengthen. After calendar year 2013, the Federal Reserve is expected to tighten policy, with the first Federal Funds rate above 4.0% not expected until after calendar year 2015. The Moody's Analytics forecast includes an outlook for global oil prices that fluctuates in the low $100s per barrel range. The price of the benchmark West Texas Intermediate Crude Oil price per barrel is expected to average roughly $100 per barrel in calendar year 2011 and then fluctuate between $102 per barrel to roughly $109 per barrel through calendar year 2015. The West Texas Intermediate Crude Oil price is an important benchmark price for a key commodity that is expected to have a significant cost-push effect on the general inflation rate.

The key risks to the Moody's Analytics five-year outlook include uncertainty regarding fiscal policy (particularly in the aftermath of the federal debt ceiling debate), issues surrounding the direct and indirect impacts of the continuing housing market weakness, and the still unfolding sovereign debt crisis in Europe—with its potential effect on the still fragile global financial system. In addition, this past recession was unique in that it was a synchronized global downturn and involved an unprecedented level of financial de-leveraging, which still has not completely run its course, particularly in the public sector. Because of these risks, the likelihood of a further slowdown in the pace of the national and global recovery or even a double-dip recession remains uncomfortably high for this point in the recovery cycle. Despite this unusually high threat of recession, the Moody's Analytics forecast as adjusted expects the U.S economy will weather its recent slowdown and will continue to recover along its restrained recovery path through calendar year 2014.

The Vermont Economic Outlook: The consensus forecast-adjusted Vermont near-term economic outlook similarly expects that the Vermont economy will mirror the U.S. economy throughout the calendar year 2011-15 forecast period. Looking at the major macro variables, the State can expect to proceed along a similarly profiled, but somewhat restrained recovery/expansion path for real output (as measured by Gross State Product or GSP) and for inflation-adjusted or real personal income. The somewhat restrained recovery in Vermont is also a reflection of the fact that the Vermont economy did not decline as much as its U.S. and New England regional economic counterparts. On an annual basis, the consensus forecast-adjusted forecast for the State expects a 2.8% increase in output in calendar year 2012, following the calendar year 2011 estimated output growth rate of 2.3%. The calendar year 2012 output increase is then expected to be followed by a more sturdy 3.5% increase for calendar year 2013 and a 3.6% increase for calendar year 2014. Nominal dollar personal income is expected to post a similar performance following a 4.0% increase in calendar year 2011. For calendar year 2012, nominal dollar personal income is expected to increase by 5.0%, followed by increases of 5.3% in calendar year 2013 and 5.1% in calendar year 2014 following. The State's unemployment rate is expected to post consistently better performances (as it has historically) over nearly all of the calendar year 2011–15 forecast timeline. The State FHFA Housing Price Index is expected to post consistently better performances (as it has historically) over nearly all of the calendar year 2011–15 forecast timeline, with the exception of the last two years of the forecast period during which time housing price increases are expected to be somewhat below the rate of recovery in the U.S. economy, as would be expected as housing prices did not fall nearly as far in Vermont during the housing market decline.

According to the November 2011 NEEP forecast, the sector by sector breakdown includes an expectation that all 11 major job categories in the State will be adding jobs over the calendar year 2011-15 period. Among the sectors contributing to Vermont's economic and labor market turnaround over this period include: the Leisure and Hospitality sector (at 3.9% per year), the Professional and Business Services sector (at 3.0% per year), the Manufacturing Sector (at 2.5% per year), the Education and Health Services Sector (at 2.3% per year), and the High Tech sector (at 2.4% per year). Those five sectors are the categories that are expected to increase at a rate equal to or greater than 2.0% per annum. Unlike all recent consensus economic forecasts, the Construction sector this time is expected to turn slightly positive, reflecting some of the spending related to the long-term recovery from the impacts of Tropical Storm Irene (after a long string of negative forecasts). For the calendar year 2011-15 period, the Construction sector is expected to add jobs at the rate of 0.4% per year. Even the Governmental sector—as it struggles with its own version of the financial de-leveraging process—is forecasted to add payroll jobs at the rate of 0.1% per year over the calendar year 2011-15 time frame.

Although the State's relative economic performance is expected to be somewhat mixed over the calendar year 2012–15 period, the revised consensus forecast update includes the continuation of tight labor market conditions throughout the State and continued modest price declines in the Vermont housing market. Following the State's expected annual average unemployment rate of 5.5% in calendar year 2011, the adjusted forecast calls for a 5.4% annual average unemployment rate for calendar year 2012. For calendar year 2013, the State's unemployment rate is expected to decline by 0.3 percentage points to 5.1%, with further declines expected to under 5.0% in calendar year 2014 and beyond. That track, should this forecast be realized, would result in a Vermont unemployment rate that would be between 2.5 to 3.5 percentage points below the U.S. unemployment rate and more than 2.0 percentage points below the New England average unemployment rate.

Turning to the State's housing market recovery, any improvement in sales and construction activity in the Vermont housing market is forecasted to be very gradual, with a bottoming no later than the second half of calendar year 2012. Prices will then start to show more consistent, positive changes and activity will increase. This forecast update, as previous forecasts have done, also calls for Vermont to experience significantly less severe housing price declines relative to the other five New England states and relative to many other parts of the nation. This is again primarily due to more prudent lending practices overall, which have led to much lower foreclosure rates. This has proven to be a key to Vermont's relatively healthier housing market environment because foreclosures typically lead to forced liquidation sales—including their significant price discounts—which can snowball and lead to and/or reinforce house price declines that make it so difficult for housing markets to build the confidence among buyers and sellers needed for a genuine and lasting recovery. That negative foreclosure-force liquidation sale dynamic does not so far appear to be significantly impacting Vermont's housing markets.

Impact of Tropical Storm Irene: Near-term economic prospects and the pace of economic recovery in Vermont will also likely be impacted by the effects of Tropical Storm Irene, which battered the State at the end of August 2011. Heavy rains and record flooding took the lives of three State residents, closed and/or destroyed 260 roads and 30 bridges (totaling more than 500 miles), and closed over 350 schools. The storm also left many communities isolated—most with their main streets literally flooded out—and caused roughly 50,000 State residents to be without electric power for days. The widespread flooding across the State from this storm was the second greatest natural disaster in the 20th and 21st centuries (November 1927 Flood) for Vermont.

As of the date of this Official Statement, even though significant parts of the State were hit extremely hard by the storm, the effect of the lost commerce does not appear to be as widespread or severe as was initially feared. Most of the State's revenue and macro indicators have held up well with very little evidence of adverse impacts and some evidence that the rapid pace of recovery, and repairs to the State's infrastructure may have even provided a small, positive boost to the economy. On the upside, an enormous amount of recovery and repairs have already been undertaken and completed, with nearly all of the State bridges and virtually all of the closed miles of State road re-opened as of January 1, 2012. Repairs and restoration were completed as part of an unprecedented cooperative effort between multiple agencies of the State, recovery crews from National Guard units from multiple neighboring states and from large crews from neighboring state agencies of transportation. Estimates of the number of involved parties include: 700 workers from the Vermont Agency of Transportation, 349 workers from the Maine Department of Transportation, 20 from the New Hampshire Department of Transportation, 667 workers from the National Guard units of six states, and a total of 1,860 workers from 185 private contractors.

The official federal disaster declaration qualified the State government, municipalities and citizens for emergency relief through the Federal Emergency Management Agency (FEMA), the Federal Highway Administration (FHWA), and the National Resources Conservation Service (NRCS). In addition, the State had property coverage in force with adequate limits to cover the real property losses suffered at its Waterbury State Office Complex and elsewhere from the storm. On September 8, 2011, an Irene Recovery Officer was appointed by the Governor to spearhead recovery efforts. An Irene financial workgroup, including representatives from agencies and departments that sustained Irene damage, was convened on September 22, 2011 under the leadership of the Commissioner of Finance & Management.

The State's current estimate of tropical storm-related damage and recovery is approximately $521 million, but could go as high as $590 million. The $521 million estimate includes (i) approximately $202 million for State transportation infrastructure; (ii) approximately $150 million for town roads, bridges and public facilities; (iii) approximately $63 million for stabilization of the Waterbury State Office Complex; (iv) approximately $50 million for the upgrade and/or replacement of the Waterbury State Office Complex; and (v) approximately $56 million for other State and individual public assistance. The State is expected to qualify for FEMA eligible match at 90% and FHWA eligible match at 100% for emergency repairs. Funding estimates for the $521 million include federal participation ($370 million) and insurance ($58 million), with the remaining amounts being funded by the State ($88 million) and municipal governments ($5 million). Expenditures will occur over a period of years as repair and recovery work progresses, and all estimates are subject to change as the actual cost of repairs and recovery will not be known for several years.

The estimated total State share of $88 million, which includes State match for federal funds, insurance deductible and other costs not eligible for federal participation is currently expected to be funded over a period of years through a combination of general funds (16%), transportation funds (23%), education funds (5%) and capital funds (56%). On September 13, 2011, under the statutory authority established in 32 V.S.A. §133, the Vermont Emergency Board held a special meeting to transfer to the Vermont Emergency Relief and Assistance Fund (ERAF), $5.0 million for Irene-related federal match requirements and $0.8 million for Irene-related small business loans through the Vermont Economic development Authority (VEDA). The funds were transferred from unexpended fiscal year 2012 General Fund appropriations to the Department of Corrections (DOC) Correctional Services. These amounts were directed to be repaid to DOC as part of the fiscal year 2012 Budget Adjustment Recommendations. The fiscal year 2012 Budget Adjustment Recommendations includes $19.72 million in Irene-related General Fund Transfers consisting of (i) $15.0 million additional funds to ERAF ($5.8 million of which will be used to repay DOC for the previously transferred amounts described above); (ii) $1.75 million to the Petroleum Clean Up fund for oil tank spill clean-up; and (iii) $2.97 million to the Facilities Operations Fund to cover the loss of ten (10) months of fee-for-space ("rent") normally paid by agencies and departments, due to the closure of the Waterbury State Office Complex and Vermont State Hospital. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2012 Recommended Budget Adjustment."

Despite the impressive recovery effort, the longer-term impacts are yet to be fully defined, and while the recent favorable resolution of the various federal disaster funding uncertainties has put some limits on the downside of the cost estimates for the storm, Vermont funding demands for restoring all of the damage caused by the storm remains significant. The near-term and long-term economic and State revenue performance implications of the disaster as of the January 2012 consensus revenue forecast do not appear significant in either direction. The State will be closely monitoring the performance of revenues as the second half of fiscal year 2012 progresses. Any apparent negative or positive impacts on State revenues will be systematically and fully considered and then incorporated into the next consensus revenue forecast update, which is scheduled for July 2012.

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 Analytics for the upcoming five calendar year period as it was developed in September-November 2011 and was subsequently adjusted as needed for the January 2012 consensus revenue forecast process as discussed below. The Vermont statistics present the specific detail for the Vermont economic forecast, and incorporate the estimated impacts of weak levels of construction activity, continued sluggish sales activity in housing market, only slow improvement in State labor market conditions, and other macroeconomic variables.

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Table 5
Calendar Year Forecast Comparison: United States, New England and Vermont

	Actual					Forecast			
	2007	2008	2009	2010	2011[1]	2012[1]	2013	2014	2015
Real Output (% Change)									
U.S. Gross Domestic Product	1.9	(0.3)	(3.5)	3.0	1.8	2.9	3.4	4.1	3.7
New England Gross Regional Product	3.0	(0.7)	(1.8)	3.1	1.8	1.6	2.2	2.6	2.8
Vermont Gross State Product	(0.7)	0.4	(2.3)	3.2	2.3	2.8	3.5	3.6	3.3
Non-Farm Employment (% Change)									
U.S.	1.1	(0.6)	(4.4)	(0.7)	1.0	1.0	1.5	3.0	3.0
New England	0.9	0.0	(3.6)	(0.3)	0.9	0.0	0.7	1.6	1.8
Vermont	0.2	(0.4)	(3.2)	0.1	1.8	1.3	1.9	2.5	2.4
Personal Income (% Change) (Current Dollars)									
U.S.	5.7	4.6	(4.3)	3.7	4.7	5.2	5.4	6.0	5.3
New England	5.9	2.9	(2.0)	2.8	4.2	4.3	4.7	4.9	4.2
Vermont	5.5	3.7	(1.3)	3.4	4.0	5.0	5.3	5.1	4.1
Unemployment (%)									
U.S.	4.6	5.8	9.3	9.6	9.0	8.8	8.4	7.0	5.9
New England	4.5	5.4	8.2	8.5	8.0	8.3	8.3	7.4	6.8
Vermont	3.9	4.5	6.9	6.2	5.5	5.4	5.1	4.4	4.2
FHFA Home Prices [2] (% Change) (Current Dollars)									
New England	(1.0)	(3.7)	(4.2)	(2.3)	(3.1)	(0.9)	2.2	3.8	4.5
Vermont	2.8	0.1	(1.5)	(0.8)	(0.5)	0.5	1.2	1.6	2.3

[1] Some 2011 values are preliminary and subject to further revision, and 2012 values in this table reflect projected rates as of January 2012.
[2] FHFA means Federal Housing Finance Agency.

Sources: Moody's Analytics (U.S., VT) September-November 2011 Control Forecast as adjusted, New England Economic Partnership November 2011 Forecast (New England).

The data portrayed in Table 5 is consistent with the labor market and personal income growth experience of the State during the early 2000s, where the Vermont economy underwent a generally milder economic downturn during the period relative to both the nation and the New England region as a whole. The State's rate of job recovery and income recovery/growth performance following the 2001 downturn was slightly below the U.S. average, which continued during the mid-2000s and into the later stages of the economic upturn during that period. However, despite peaking earlier in its labor markets than the U.S. and New England economies leading into what has been called the "Great Recession," the State's non-farm payroll jobs fell at a slower pace and declined less deeply than either New England or the U.S. as a whole during the most recent deep and prolonged period of economic recession. For calendar year 2012, Vermont is forecast to see inflation-adjusted output and Personal Income rebound on par with the U.S. as a whole and payroll jobs are expected to rebound slightly faster than the average for the U.S. and New England regions in calendar year 2012 and post a mixed performance thereafter.

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. Table 6 shows the most current monthly unemployment rate data for Vermont, seven northeastern states, and the U.S. Tables 7 and 8 set forth the latest annual unemployment and payroll job change data available for the various New England metro areas. 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 the latest recession (January 2008 to June 2009). This previous cycle includes the year with the most recent labor market peak and trough surrounding the early-2000s national economic recession and subsequent expansion up-cycle in the New England region and the United States as a whole that ended in December 2007. Data for calendar years 2010 and 2011, where relevant and available, are also included to present data related to the most recent period of economic recovery.

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

	November 2011	October 2011	November 2010	Change From Last Year
Vermont	5.3%	5.6%	5.8%	(0.5)
Connecticut	8.4	8.7	9.1	(0.7)
Maine	7.0	7.3	7.5	(0.5)
Massachusetts	7.0	7.3	8.3	(1.3)
New Hampshire	5.2	5.3	5.7	(0.5)
New Jersey	9.1	9.1	9.2	(0.1)
New York	8.0	7.9	8.3	(0.3)
Rhode Island	10.5	10.4	11.5	(1.0)
United States	8.6	9.0	9.8	(1.2)

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

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

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

City	Annual Average % 2004	Annual Average % 2005	Annual Average % 2006	Annual Average % 2007	Annual Average % 2008	Annual Average % 2009	Annual Average % 2010
Connecticut							
Bridgeport, Stamford, Norwalk	4.6	4.5	4.0	4.1	5.2	7.8	8.5
Danbury	3.8	3.8	3.4	3.5	4.5	7.3	7.7
Hartford-W. Hartford-E. Hartford	5.2	5.1	4.6	4.7	5.7	8.3	9.2
New Haven	4.9	5.0	4.6	4.8	5.8	8.2	9.3
Norwich-New London	4.5	4.5	4.2	4.3	5.5	7.9	8.8
Waterbury	6.3	6.3	5.7	6.0	7.5	11.1	12.1
Maine							
Bangor	4.7	4.7	4.7	4.5	5.2	7.4	7.6
Lewiston-Auburn	4.5	4.9	4.7	4.6	5.4	8.5	8.1
Portland, So. Portland, Biddeford	3.5	3.7	3.5	3.5	4.2	6.7	6.5
Massachusetts							
Barnstable Town	4.9	4.7	4.8	4.6	5.6	8.5	8.9
Boston, Cambridge, Quincy	5.0	4.5	4.4	4.1	4.8	7.8	7.7
Leominster, Fitchburg, Gardner	6.5	6.4	6.1	5.7	6.7	10.7	11.0
New Bedford	7.0	6.8	6.5	6.3	7.7	11.8	12.2
Pittsfield	4.7	4.4	4.2	4.2	5.0	8.1	8.4
Springfield	5.6	5.3	5.3	5.0	5.9	8.9	9.4
Worcester	5.4	5.0	4.9	4.8	5.6	9.0	9.1
New Hampshire							
Manchester	3.7	3.6	3.6	3.5	3.8	6.4	6.2
Portsmouth	3.6	3.5	3.3	3.2	3.5	5.6	5.3
Rochester-Dover	3.5	3.5	3.4	3.4	3.8	6.5	6.2
Rhode Island							
Providence, Fall River, Warwick	5.5	5.3	5.3	5.4	7.6	11.4	11.7
Vermont							
Burlington-South Burlington	3.3	3.2	3.4	3.4	3.9	6.0	5.2

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

Table 8

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

City	Number of Nonfarm Jobs Calendar Year 2000 Annual Average (000s)	Number of Nonfarm Jobs Calendar Year 2010 Annual Average (000s)	Change in Number of Nonfarm Jobs Calendar Years 2000–2010 (000s)	Percent Change in Nonfarm Jobs Calendar Years 2000–2010
Connecticut				
Bridgeport, Stamford, Norwalk	426.4	396.5	(29.3)	(6.9)%
Danbury	70.1	64.9	(5.1)	(7.3)
Hartford-W. Hartford-E. Hartford	556.7	532.3	(22.9)	(4.1)
New Haven	274.5	264.4	(10.1)	(3.7)
Norwich-New London	128.1	129.5	1.4	(1.1)
Waterbury	71.4	62.0	(9.4)	(13.1)
Maine				
Bangor	62.2	63.3	1.3	2.1
Portland, So. Portland, Biddeford	182.7	188.3	6.0	3.3
Massachusetts				
Barnstable Town	95.2	97.1	2.1	2.2
Boston, Cambridge, Quincy	2,538.8	2,425.8	(104.4)	(4.1)
New Bedford	67.9	64.2	(2.3)	(3.4)
Springfield	301.8	285.8	(15.5)	(5.1)
Worcester	245.1	239.4	(4.8)	(2.0)
New Hampshire				
Manchester	95.2	96.7	1.7	1.7
Portsmouth	50.8	54.4	4.5	9.0
Rochester-Dover	51.6	55.4	3.9	7.6
Rhode Island				
Providence, Fall River, Warwick	576.2	540.7	(34.6)	(6.0)
Vermont				
Burlington-South Burlington	113.0	111.8	(0.9)	(0.8)

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 2009-2010 period (calendar year 2010 being the latest year where complete annual average data are available). Employment data by industry are provided for the 2008-2010 calendar year period for Vermont and 2010 for the U.S. (2010 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 2010 show that manufacturing remains one of the State's most important sectors, representing an estimated 8.2% of total all non-farm employment in 2010 (versus 7.0% of employment for the U.S. in 2010) and an estimated 13.8% of total earnings in 2010, up from 12.2% of total earnings during calendar year 2009. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 13.2% of 2010 total employment (down from 13.3% of total employment in 2009) and 14.7% of total earnings in 2010, Retail Trade at 11.2% of 2010 total employment (down a tenth of a percentage point in share from an 11.3% share in 2009) and 8.1% of total earnings in 2010, Private Educational Services at 4.0% of total employment versus the U.S. average of 2.3% in 2010, and Accommodations and Food Services at 7.5% of total employment versus 6.9% of employment for the U.S. as a whole in 2010. 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's relatively high reliance on Retail Trade, Arts, Entertainment and Recreation, and Accommodations and Food Services 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, Management of Companies and Enterprises, Mining, Administrative and Waste Services, and the Wholesale Trade sector for its employment and earnings.

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Table 9
Total Earnings by Industry
2009–2010
($Thousands)

	2009		2010	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$74,875	0.4%	$82,685	0.5%
Non-Farm Industry:				
Construction	1,019,970	5.9	747,926	4.9
Forestry, Fishing and Other Related Activities	72,819	0.4	27,480	0.2
Mining	45,681	0.3	41,670	0.3
Utilities	232,400	1.4	32,308	1.5
Manufacturing	2,092,127	12.2	2,088,334	13.8
Wholesale Trade	655,350	3.8	596,702	3.9
Retail Trade	1,363,136	7.9	1,219,656	8.1
Information	321,119	1.9	296,865	2.0
Financial Activities	765,080	4.5	703,829	4.7
Real Estate and Rental and Leasing	172,610	1.0	121,858	.8
Transportation and Warehousing	398,290	2.3	324,204	2.1
Management of Companies and Enterprises	50,007	0.3	85,298	0.6
Professional, Scientific and Technical Services	1,290,335	7.5	1,031,893	6.8
Education Services	545,284	3.2	504,913	3.3
Health Care and Social Assistance	2,478,985	14.4	2,229,172	14.7
Arts, Entertainment, and Recreation	147,386	0.9	113,276	0.7
Accommodations and Food Services	688,569	4.0	678,204	4.5
Administrative and Waste Services	394,418	2.3	307,985	2.0
Other Private Services-Providing	655,846	3.8	397,945	2.6
Total Private Non-Farm Industries	$13,389,412	78.0%	$11,749,518	77.7%
Government and Government Enterprises	$3,178,857	19.1%	$3,291,801	21.8%
Total Farm and Non-Farm Earnings	$16,643,144	100.0%	$15,124,004	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
2008–2010

	2008		2009		2010		U.S. 2010	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	8,716	2.0%	8,667	2.0%	8,592	2.0%	2,659,000	1.5%
Non-Farm Industry:								
Construction	32,462	7.6	28,812	6.9	28,452	6.8	8,914,200	5.1
Forestry, Fishing, and Other Related Activities	3,481	0.8	3,475	0.8	3,419	0.8	835,800	0.5
Mining	1,304	0.3	1,198	0.3	1,116	0.2	1,185500	0.7
Manufacturing	38,572	9.0	34,158	8.2	34,406	8.2	12,203,900	7.0
Wholesale Trade	11,631	2.7	10,978	2.6	10,813	2.6	6,046,400	3.5
Retail Trade	49,928	11.7	47,044	11.3	47,154	11.2	17,763,800	10.2
Information	7,239	1.7	7,050	1.7	6,688	1.6	3,214,700	1.9
Financial Activities	13,624	3.2	14,229	3.4	14,444	3.4	9,648,300	5.6
Transportation, Warehousing & Utilities	9,425	2.2	8,751	2.1	8,809	2.1	5,503,400	3.2
Management of Companies and Enterprises	15,442	3.6	13,992	3.4	1,137	0.3	2,039,000	1.2
Real Estate and Rental and Leasing	388	0.1	470	0.1	13,798	3.3	7,459,200	4.3
Professional and Technical Services	26,554	6.2	25,222	6.1	26,026	6.2	11,726,700	6.7
Education Services	17,614	4.1	17,041	4.1	16,882	4.0	4,072,600	2.3
Health Care and Social Assistance	55,075	12.9	55,510	13.3	55,365	13.2	19,060,300	11.0
Arts, Entertainment, and Recreation	10,937	2.6	10,861	2.6	10,789	2.6	3,777,100	2.2
Accommodations and Food Services	31,502	7.4	30,594	7.3	31,489	7.5	12,047,100	6.9
Administrative and Waste Services	16,748	3.9	15,517	3.7	16,692	4.0	10,477,800	6.0
Other Services, except public administration	25,634	6.0	24,269	5.8	24,251	5.8	9,858,700	5.7
Total Private Sector Non-Farm	369,416	86.4%	351,109	84.2%	353,633	84.3	146,413,400	84.3%
Government	56,785	13.3%	57,045	13.7%	57,371	13.7	24,680,000	14.2%
Total Employment	434,917	100.0%	416,821	100.0%	419,596	100%	173,752,400	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 calendar year 2010, 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 periodic addition of small numbers of new workers and the periodic reduction of some others based on the firm's staffing needs for its fabrication operations. One of the largest markets for the IBM Essex plant's production remains the consumer electronics market, which continues to be a growing part of household spending. IBM's strategy to capture increased market share in the consumer electronics market has underpinned growth in demand for IBM's Microelectronics Division. Fletcher Allen Health Care is reported to have approximately 5,000 employees (including per diem and part-time 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 (People's United Bank), manufacturers (General Electric Company), health care including services providers (Central Vermont Medical Center, Inc., Rutland Regional Medical Center), medical software providers (GE Health Care), higher education (Middlebury College), manufacturers (Green Mountain Coffee Roasters), and the travel-tourism industry (Killington LTD and the Stratton Corporation). Other notable employers in the State include Central Vermont Public Service Company (the State's largest investor-owned utility), FairPoint Communications, Inc. (which acquired the land line operations of Verizon New England, Inc., which has begun to emerge from bankruptcy), TD Banknorth NA, B.F. Goodrich Aerospace of Vergennes, and several of the State's major resorts (Mt. Mansfield Company Inc. in Stowe, Jay Peak in Jay, 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 1990–2010 period. On an average annual basis, total personal income in Vermont has increased by 4.8% per year from 1990 to 2010, compared to 4.5% for the New England region and a 4.8% 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 $17,869 or 92.3% of the U.S. average of $19,354. By calendar 2010, Vermont's per capita personal income had risen to $40,098, or 100.3% of the U.S. average of $39,945. Vermont's per capita personal income increased by 4.1% in calendar 2010, performing better than the New England regional average increase of 2.1%, and significantly better than the national average improvement of 0.5% for calendar 2010. These same data show that Vermont's change in per capita personal income for calendar year 2010 ranked 2nd among the six New England states, with only the state of Rhode Island increasing more over the same period.

Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
Calendar Years 1990–2010
($ 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
2010	$25,100	5.0%	$708,258	2.3%	$12,357,113	2.8%
2009	23,939	(0.4)	692,541	(1.5)	12,015,535	(1.7)
2008	24,034	2.7	702,966	2.6	12,225,589	2.9
2007	23,413	4.8	684,836	5.4	11,879,836	5.5
2006	22,340	8.0	649,754	7.9	11,256,516	7.4
2005	20,694	2.3	602,313	3.8	10,476,669	5.5
2004	20,231	5.8	580,052	5.5	9,928,790	6.0
2003	19,126	3.6	550,071	2.2	9,369,072	3.5
2002	18,458	2.3	538,406	0.9	9,054,781	2.0
2001	18,047	5.0	533,483	4.5	8,878,830	3.8
2000	17,189	8.2	510,702	9.9	8,554,866	8.2
1999	15,884	6.2	464,677	5.3	7,906,131	5.1
1998	14,963	8.1	441,242	7.5	7,519,327	7.5
1997	13,837	5.4	410,458	6.2	6,994,388	6.2
1996	13,124	5.8	386,599	6.1	6,584,404	6.3
1995	12,403	4.9	364,408	5.4	6,194,245	5.6
1994	11,826	5.3	345,678	4.6	5,866,796	5.5
1993	11,235	3.6	330,333	3.4	5,558,374	4.2
1992	10,849	6.8	319,527	5.5	5,335,268	6.4
1991	10,161	2.0	302,930	1.9	5,013,484	3.8
1990	9,965	--	297,157	--	4,831,282	--

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 1990–2010

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2010	$40,098	4.1%	$48,989	2.1%	$39,945	0.5%
2009	38,503	(1.9)	47,994	(1.9)	39,138	(2.6)
2008	38,700	2.2	48,944	2.2	40,166	2.0
2007	37,735	5.1	47,897	5.1	39,392	4.5
2006	36,033	7.6	45,569	7.6	37,698	6.4
2005	33,441	3.8	42,335	3.8	35,424	4.6
2004	32,729	5.3	40,801	5.3	33,881	5.0
2003	31,020	1.8	38,758	1.8	32,271	2.6
2002	30,016	0.3	38,089	0.3	31,462	1.0
2001	29,481	3.7	37,965	3.7	31,145	2.7
2000	28,183	9.0	36,601	9.0	30,318	7.0
1999	26,268	4.5	33,581	4.5	28,333	3.9
1998	24,921	6.8	32,128	6.8	27,258	6.3
1997	23,168	5.5	30,087	5.5	25,654	5.0
1996	22,106	5.4	28,521	5.4	24,442	5.1
1995	21,057	4.8	27,048	4.8	23,262	4.3
1994	20,255	4.2	25,804	4.2	22,297	4.3
1993	19,446	2.9	24,773	2.9	21,385	2.8
1992	18,941	5.3	24,077	5.3	20,799	5.0
1991	17,869	1.8	22,867	1.8	19,818	2.4
1990	17,869	--	22,462	--	19,354	--

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

Employment Statistics

Vermont had a labor force of 362,000 (rounded) on an annual average basis in 2011, with approximately 342,000 estimated as being employed and approximately 20,000 estimated as being unemployed in that year. Vermont's 5.6% unemployment rate in calendar year 2011 compares favorably with the 9.0% annual average unemployment rate for the nation overall and the 7.3% annual average unemployment rate for the New England region for that year. For calendar year 2011, through the month of November, the Vermont unemployment rate remains significantly below both the New England and national unemployment rates. The following table sets forth data showing 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 through November of calendar year 2011.

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 (%)
2011*	362	342	5.6%	7.3%	9.0%
2010	360	336	6.2	9.0	9.9
2009	360	335	6.9	8.3	9.3
2008	357	341	4.5	5.4	5.8
2007	355	341	3.9	4.5	4.6
2006	356	342	3.7	4.5	4.6
2005	349	337	3.5	4.7	5.1
2004	347	334	3.7	4.9	5.5
2003	347	331	4.5	5.4	6.0
2002	346	332	4.0	4.8	5.8
2001	341	330	3.3	3.7	4.9
2000	336	327	2.7	2.8	4.0
1999	335	326	2.9	3.2	4.2
1998	332	322	3.1	3.5	4.5
1997	329	316	4.0	4.4	5.0
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

* Average through November 2011.
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 2,387 miles of toll-free State highways, and approximately 11,415 miles of supporting roads with several major road construction projects in progress. One such project is the Bennington By-Pass, which in its entirety, 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. The first completed section of the Bennington By-Pass, the Western Segment, was opened in October 2004. Construction began on the second part of the project, 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 Southern Segment. Construction of new sections of the Chittenden County Circumferential Highway (the "Circ") 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 nearing completion with the release of the Circ-Williston Final Environmental Impact Statement ("FEIS"). The FEIS was completed in July 2010 with a Record of Decision on a preferred alternative issued in May 2011. The FEIS 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. As of this writing, the process has still not been resolved and it is expected that even if a 404 Permit is secured, construction will be delayed further due to expected litigation by the opposing parties.

Recognizing the protracted delays in the Circ project and the fact that the Circ Highway as originally envisioned would not be built, on May 20, 2011, the Governor announced the initiation of a new, inclusive public process designed to advance a set of congestion relief projects within the communities adversely impacted by the long delays of the construction of the Circ. The so-called Circ Alternatives Task Force was established to identify and self-select a series of acceptable projects, and identify and undertake planning activities that would aid in meeting the original purpose of the Circ Highway.[1] The task force met throughout the summer and fall of 2011 and has identified a number of short-term congestion relief projects that are expected to be incorporated into the State Transportation Improvement Program and has agreed to undertake a number of planning initiatives. Later in calendar year 2012, the task force is expected to convene again to discuss and develop a list of intermediate and long-term projects that could be undertaken to address regional needs consistent with the original purpose of the Circ over an intermediate and long-term time frame.

Rail. The State owns 453 rail corridor miles out of a total of 749 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 and Washington County Railroad are servicing freight customers. Other private rail operators that provide freight service in Vermont are New England Central Railroad, St. Lawrence & Atlantic Railroad and Guilford Rail Systems. State-supported Amtrak service includes two passenger trains, the "Vermonter," which operates from Washington, D.C. to St. Albans, Vermont and the "Ethan Allen Express" with service from New York City to Rutland, Vermont. In 2010, the State received a $51 million grant under the American Recovery and Reinvestment Act of 2009 ("ARRA") to improve passenger rail speeds between St. Albans, Vermont and Springfield, Massachusetts. These grant funds are expected to be used for track and bridge improvements in order to reduce travel times between Vermont and major destinations such as New York City and Washington, D.C. Also in 2011, VTrans again submitted an application for additional federal funds to upgrade the "Western Corridor" between Rutland and Burlington and extend the Ethan Allen Express through Middlebury to Union Station in downtown Burlington.

Transit. Vermont Transit, a Greyhound subsidiary, operates bus routes in many of the major communities. There are 12 public transit providers, which provide an estimated 4.5 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 2010, enplanements at BIA totaled 651,277, a decline of 8.1% from calendar year 2009's 708,341 enplanements total, reflecting the impact of the 2007-09 recession. For calendar year 2011, through September, passenger enplanements totaled 485,213, down 0.5% as compared to the passenger enplanements total for the same period in 2010 of 487,407. Enplanements in calendar year 2011 were adversely impacted by the on-going economic weakness and reductions in service by a regional carrier, Air Tran. In 2010, enplanements were adversely impacted by the economic sluggishness and by the final stage of a runway rehabilitation project at the BIA that has temporarily reduced the overnight hours of operation at the airport from April 2010 through mid-October 2010.

As of December 2011, the list of commercial air carriers serving BIA includes a total of six national and regional carriers serving New York (John F. Kennedy and LaGuardia Airports), Newark, Philadelphia, two of three Washington, D.C. area airports, and Orlando, Florida. In addition, carriers also provide non-stop service to Chicago, Cleveland and Detroit. Jet Blue Airlines continues to be the most significant carrier, with approximately 25% of total enplanements during calendar 2011. Other major carriers currently at BIA include United-Continental Airlines, Delta Airlines and U.S. Airways. In 2011, seasonal service to Billy Bishop Toronto City Airport was initiated by Porter Airlines. This new seasonal service was designed to fill the need for seasonal travel to Vermont ski areas for Ontario-based Canadian customers.

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

[1] These goals, broadly stated, include increased mobility, congestion relief, improvement of safety and livability, and the facilitation of economic development in northwestern Vermont.

baggage handling and terminal-waiting facilities. In calendar year 2009, BIA was awarded a total of $12.75 million of federal grants for two of its runway improvement and reconstruction projects. The grant money was awarded from the Federal Aviation Administration's Airport Improvement Program and from ARRA. In calendar year 2010, the BIA received approval from Burlington City voters for a $21.5 million expansion of its existing three-story, 2,100 space parking garage to provide 600 additional parking spaces. Construction on the facility has been completed and the facility is now open.

In addition, in May 2010, Heritage Aviation, one of the airport's Fixed Base Operators (FBO), opened its 79,000 square foot FBO terminal and maintenance facility, which involved the conversion of a 56-year old Air National guard station into a state-of-the-art modern facility. Heritage Aviation now provides 24-hour service, 7 days per week to private aircraft. The BIA has plans to invest another $150 million over the next 20 years for general aviation, cargo and new facilities upgrades including an Aviation Tech Center on the airport for which funding has already been partially secured.

Utilities

In recent years, there have been a number of 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 ("VPSB"), the State utility regulatory body that grants certificates of public good for utility projects. 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 the State's supply needs over the next ten years, there have been a number of notable recent developments. First, Entergy Nuclear Vermont Yankee LLC (Entergy) on January 19, 2012 succeeded in challenging provisions of Vermont law that required legislative approval before Entergy could obtain VPSB approval to operate the Vermont Yankee nuclear facility in Vernon beyond March 2012. With the federal 20-year licensing extension from the Nuclear Regulatory Commission already received in March 2011, this decision may clear the way for continued operation of the State's only nuclear generation facility located in Vernon beyond March 2012. In the decision, a federal judge found that federal law precludes the State from regulating a nuclear power plant due to safety concerns. In addition, the federal judge agreed that the interstate commerce clause precluded the State from conditioning Vermont Yankee's continued operation on "below wholesale market" power prices. The judge also voided a provision of State law that required legislative approval for Entergy to store radioactive waste on the Vernon site after March 2012. The State has appealed the decision while agreeing that the plant may continue to operate pending resolution of current VPSB proceedings. Entergy has re-fueled the plant to operate beyond March 2012.

Regardless of the outcome of the relicensing of the plant, the State's major utilities have in place long-term power purchase agreements that will enable the State to have adequate energy supplies over the long-term. For example in May 2011, Green Mountain Power Corporation (GMP) announced its plans to purchase initially 60 megawatts of power (decreasing to 40 megawatts later on in the contract) over a 23 year period from NextEra Energy Resources, LLC—the owner of the Seabrook, New Hampshire nuclear power plant.[2] In addition, in August 2010, the State's two major investor-owned utilities, GMP and Central Vermont Public Service Corporation (CVPS), reached agreement with Hydro-Quebec to purchase 225 megawatts of power over the 2012-2030 time period at what are reported to be advantageous prices beginning at $0.06 per kilowatt hour in 2012. Further, both investor-owned utilities also have announced major power supply agreements with other renewable energy projects, including a total of 55% of the output from the 99 megawatt Granite Reliable Wind generation project in Coos County, New Hampshire over the next 20 years. In May 2010, GMP also announced it had filed an application with State regulators to construct a 63 megawatt wind generation project in Lowell, Vermont to complement its power supply contract purchases with additional generation resources of its own. Negotiations with other potential sources and potential projects are on-going as each utility continues to explore additional long-term purchases. These announced and potential additional power supply purchases, along with the recently completed transmission system upgrades by the Vermont Electric Power Company (VELCO) and a nearly $69 million ARRA grant to implement so-called SmartGrid technology throughout the State's transmission system by the end of calendar year 2012, have

[2] The power purchase agreement subsequently received approval from the Vermont Public Service Board in November 2011.

positioned the State's electrical system well for meeting the future needs of the State's residents and businesses over the next decade.

On September 2, 2011, GMP and CVPS filed a petition with the VPSB for the planned acquisition of CVPS by GazMétro Limited Partnership (GazMétro) and the merger of GMP and CVPS into one utility. GazMétro, GMP and CVPS announced in July 2011 the acquisition and the agreement to merge, which is expected to provide significant benefits for customers, community, employees and shareholders, including a commitment to $144 million in customer savings over 10 years, a public ownership interest in VELCO (the State's transmission utility), and the establishment of the headquarters for Operations and Energy Innovation in Rutland. In total, the proposed merger includes an estimated benefit of $144 million in cumulative rate payor savings over the first ten (10) years following the merger. As part of the merger, an estimated $1.0 million in annual dividends from a 30% block of VELCO stock would be put into a public trust to fund a low-income rate program. The proposal also indicates there will be no layoffs, other than some executive officer positions due to the consolidation, nor mandatory relocation of employees. Additional benefits for the Rutland region include the establishment of a new downtown facility, $200,000 for regional economic development (including $100,000 for an "Open for Business Fund," and $100,000 for a "Green Growth" Fund at the Rutland Economic Development Corporation) and support for the City's downtown, and a new "Solar City" program in Rutland. On January 20, 2012, the City of Rutland and GMP signed a memorandum of understanding ("MOU") to ensure a strong relationship and significant benefits for the City of Rutland in the years ahead. The MOU settles the City's intervention in the State's review of the sale and merger proposal, and explicitly states the City's support for the merger. The proposed sale and merger is currently pending before and must be approved by the VPSB.

Natural gas is an important source of energy, both environmentally and economically, 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 42,000 customers in Chittenden and Franklin Counties. Its customer base continues to increase by about 3% per year. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline segments constructed each year. The company also has started an effort to expand its natural gas pipeline from northwest Vermont to Rutland County. Plans are currently under development and the final plan will require approval from the Vermont Public Service Board.

Vermont currently has a robust and 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. FairPoint currently offers local telephone service to approximately 85% of Vermont consumers, while nine other independent local telephone companies serve the areas of the State not served by FairPoint. The independent telephone companies have deployed broadband to virtually all of their service territories. In addition, Level 3 and several other carriers have extensive fiber optic networks that reach most regions of the State. On October 26, 2009, FairPoint voluntarily filed for Chapter 11 bankruptcy protection after reportedly reaching agreement with key lenders to lower its debt from $2.7 billion to $1.0 billion. The FairPoint restructuring plan included other major cost cutting initiatives and concessions from its employees. During the proceedings, the company indicated its continuing commitment to aggressive broadband deployments in the State. The proposed restructuring plan was approved by the U.S. Bankruptcy Court in the Southern District of New York and by state regulators in Vermont, Maine, and New Hampshire. In January 2011, the company emerged from bankruptcy.

Broadband services are currently available to approximately 90% of the residents of the State. There are a number of public and incumbent carrier commitments to continue to expand coverage. Among the many programs is the Wireless Open World (WOW) program—a $116 million grant and loan program that involves the Rural Utilities Service (RUS) and Broadband Initiatives Program (BIP). The WOW program concentrates on funding for "last mile" projects and the necessary mid-mile infrastructure to support it. Projects must be substantially complete (with two thirds of the dollars spent) within three years as of August 2010. As of late calendar year 2010, broadband access was being facilitated by more than $165 million in ARRA capital funding grants and loans. Those ARRA funds dramatically changed the investment environment affecting broadband and mobile development in Vermont. The Vermont Telecommunications Authority ("VTA") is working closely with the State's telephone, broadband and electric utilities to ensure the development of tower infrastructure and fiber optic connection that will connect to all schools, libraries, medical facilities, State offices, electric substations, and provide backhaul facilities for communication companies, thereby enabling the State to meet its Act 79 mandate.[3] For fiscal years 2009 through 2011, the Vermont Legislature provided a total of $7.65 million in direct appropriations for broadband and cellular related projects to enhance and expand high speed internet access to all State residents. In addition, the General Assembly in 2007 also authorized the provision of the State's moral obligation for up $40 million in bonds to supplement direct State appropriations and ARRA capital grants and loans to order to achieve this goal. Act 40 of 2011 includes an appropriation of up to $10,000,000 for the VTA for the purposes described above, which amount is expected to be funded with proceeds of the Series C Bonds. See "STATE INDEBTEDNESS – Reserve Fund Commitments – *Vermont Telecommunications Authority*."

Wireless (Cellular and PCS) telephone service in Vermont is provided by AT&T, Verizon Wireless, U.S. Cellular, T-Mobile and Sprint PCS. Vermont's wireless telephone service companies have been expanding their network and investing statewide, as well as launching wireless broadband "3G" multimedia and internet services. In 2009, AT&T, Verizon, Sprint and T-mobile deployed numerous "new coverage" sites in many regions of the state. In addition, Vermont has deployed a state-of-the-art, statewide enhanced "9-1-1" emergency telephone system utilizing Voice over Internet ("VoIP") technology.

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 has historically updated the 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 and spending controls ("appropriations") are set up in the State's financial management system before 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 by the Governor.

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. The Department of Finance and Management works with departments across State government to assess and strengthen internal controls. 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. The majority of these

[3] 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.

efforts are directed by a designated internal controls unit within the Department of Finance and Management. Tools developed to assist in this effort include annual internal control self assessments, 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 2011 Comprehensive Annual Financial Report (CAFR) was completed on December 23, 2011. The audited basic financial statements of the State for fiscal year 2011, 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 2011 CAFR (pages 14 through 161) at Finance & Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its CAFR for the fiscal year ended June 30, 2010. This was the third consecutive year that the State has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The State submitted its fiscal year 2011 CAFR to the GFOA to determine its eligibility for another certificate.

KPMG LLP 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.

(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 2011 audited financial statements attached hereto as Appendix A for further explanation of these criteria.)

In fiscal year 2011, the State implemented GASB Statement No. 54 – "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement 54. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

- **Nonspendable** fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

- **Restricted** fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- **Committed** fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law by the legislature specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.

- **Assigned** fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

- **Unassigned** fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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."

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects, 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 general obligation bonds and notes issued for transportation capital projects (which include the State Transportation and Highway bonds and notes). 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. Within the Transportation Fund there exists a sub-fund, the Transportation Infrastructure Bond Fund (the "TIB Fund"), to which assessments on gasoline and diesel fuel are credited as dedicated revenues. Under State law, these revenues are used first for debt service requirements on the State's special obligation transportation infrastructure bonds, any associated reserve or sinking funds and any associated costs of such bonds. To the extent additional TIB Fund resources are available for such purposes, these revenues are used for pay-as-you-go capital projects or other authorized purposes. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. 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. In accordance with 16 V.S.A. 4025(a) as amended, the sources of revenue in this fund 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 the Global Commitment to Health Medicaid section 1115 waiver, transportation or fish and wildlife purposes. Grants of these types are recorded in the State's Global Commitment Fund, Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within the Federal Revenue Fund are for various health, education and welfare programs, the State counterpart of which is reflected in the General and Special Funds.

Special Fund (Major Fund): These funds account for proceeds of specific revenues not otherwise categorized that are limited 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 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal government. The original waiver agreement was amended on January 1, 2011 and will expire on December 31, 2013. This agreement caps Federal expenditures for Medicaid services, 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.

<u>Capital Project Funds (Non-major Funds)</u>: 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.

<u>Debt Service Funds (Non-major Funds)</u>: These funds account for and report financial resources that are used to pay debt principal and interest. Separate debt service funds are maintained for general obligation bonds and special obligation transportation infrastructure bonds. Appropriated General, Transportation and Special Fund resources are transferred to the General Obligation Bonds Debt Service Fund for debt service payments on general obligation bonds. Appropriated TIB Fund resources are transferred to the Transportation Infrastructure Bonds Debt Service Fund for debt service payments on special obligation transportation infrastructure bonds.

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 (6 funds) categories as described above.

Internal Service Funds: There are 22 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 (defined benefit) System, 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 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 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, 2011 and 2010 as contained in each fiscal year's CAFR. Fiscal year 2010 fund balances for some funds have been restated (as indicated below) to account for the implementation of GASB Statement 54. (See Notes 1 and 17 in the State's fiscal year 2011 audited financial statements attached hereto as Appendix A for further explanation of the accounting changes.)

For fiscal year 2011, the General Fund had a $214.4 million total fund balance as compared to a $140.2 million total fund balance in fiscal year 2010 (restated), an increase of $74.1million. The unassigned portion of this fund balance, which includes the statutory budget stablilization reserve, increased from $129.8 million in 2010 to

$146.6 million in 2011. This increase occurred after the nonspendable portion of fund balance decreased from $3.1 million in 2010 to $2.2 million in 2011, the committed portion of fund balance increased from $1.5 million in 2010 to $60.2 million in 2011, and the assigned portion of fund balance decreased from $5.7 million in 2010 to $5.4 million in 2011.

For fiscal year 2011, the Transportation Fund had a committed and total fund balance of $20.3 million, an increase of $1.2 million compared to the fiscal year 2010 balance. This committed fund balance includes the statutory budget stabilization reserve. Both fiscal years 2011 and 2010 had no fund balance in the Education Fund categorized as nonspendable, restricted, assigned or unassigned.

For fiscal year 2011, the Education Fund had a committed and total fund balance of $48.7 million, an increase of $2.3 million compared to the fiscal year 2010 balance. This committed fund balance includes the statutory budget stabilization reserve. Both fiscal years 2011 and 2010 had no fund balance in the Education Fund categorized as nonspendable, restricted, assigned or unassigned.

As of June 30, 2011, the budget stabilization reserves in the the General, Transportation, and Education Funds were funded at their respective maximum statutory levels.

For fiscal year 2011, the Global Commitment Fund had a total fund balance of $108.1 million. Net transfers in of $317.5 million and federal grant revenue of $783.4 million together exceeded expenditures of $994.9 million by $106.0 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 2011, the Federal Revenue Fund reported a total fund balance of $321.4 million, which was an increase of $19.1 million compared to the fiscal year 2010 balance (restated) of $302.3 million. The entire fund balance is restricted by agreements with the grantors. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

The principal sources of State General Fund revenues are the Personal Income Tax, the Corporate Income Tax, a general State Sales Tax, and a Meals and Rooms Tax. These four tax sources accounted for 85.2% of the General Fund revenue in fiscal year 2011.

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

<u>Personal Income Tax</u>: From January 1, 1994 through December 31, 1999, Vermont Personal Income Tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont Personal Income Tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont Personal Income Tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cut effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure of calculating Vermont income tax based on federal taxable income for tax years 2001 and 2002 was made permanent 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 $553.3 million (adjusted) or 48.0% of net General Fund revenues in fiscal year 2011.

<u>Sales and Use Tax</u>: The 2003 Vermont General Assembly increased the general Vermont Sales and Use Tax rate from 5% to 6% effective October 1, 2003. Major exemptions to the State's general Sales and Use Tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to, in part, fund Act 60 (the State's education finance reform legislation). The telecommunications sales tax rate was increased to the general sales tax rate of 6% effective October 1, 2003. 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. In fiscal year 2011, the Sales and Use Tax totaled $217.1 million or 18.9% of net General Fund receipts.

Meals and Rooms Tax: A 9% tax is imposed on taxable meals and the rent for 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 2011, Meals and Rooms Tax revenues amounted to $122.6 million or 10.6% 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 2011, receipts from the Corporate Income Tax were $89.7 million (adjusted) or 7.8% of the revenues available to the General Fund. The receipts for fiscal year 2011 reflects the consensus manual adjustment made to account for the over-reporting of nonresident withholding payments described in the Personal Income Tax section above.

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 2011, insurance taxes accounted for $55.0 million or 4.8% 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 2011, telephone receipts and property taxes generated $11.4 million or 1.0% of net General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax are retained by the General Fund, and the remainder deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. In recent years, the General Assembly has often modified this formula to the benefit of the General Fund. In fiscal year 2011, receipts from the transfer tax totaled $25.4 million. After statutory transfers, net receipts totaling $8.4 million or 0.7% 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 2011, liquor taxes generated $15.4 million or 1.3% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $5.8 million or 0.5% of net General Fund revenues in fiscal year 2011.

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. Effective for tax year 2009 and beyond, the Estate Tax exclusion for the State is maintained at $2.0 million. The estate tax accounted for $21.0 million or 1.8% of net General Fund revenues in fiscal year 2011.

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 $2.9 million or 0.3% of net General Fund revenues in fiscal year 2011.

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 $15.4 million, which represented 1.3% of revenues available to the General Fund in fiscal year 2011.

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 $31.3 million or 2.7% of revenues available to the General Fund in fiscal year 2011.

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 2011.

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. The 2009 Vermont General Assembly also made minor changes to this tax. After the statutory transfer of receipts to the Education Fund, revenues totaling $51.4 million representing 23.6% of net revenues available to the Transportation Fund were received in fiscal year 2011.

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 2009, the Vermont General Assembly increased certain fees. In fiscal year 2011, motor vehicle fees accounted for $72.3 million, representing 33.2% 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 2009, the Vermont General Assembly imposed a 2% assessment on the retail price of gasoline. Revenue from the assessment (along with a 3 cent-per-gallon assessment on diesel fuel that is collected at the wholesale level) is segregated from all other Transportation Fund revenue in a special fund, the TIB Fund, which is dedicated to the payment of the debt service on transportation infrastructure revenue bonds. See "STATE

INDEBTEDNESS – Transportation Infrastructure Bonds" herein. In fiscal year 2011, the motor fuel tax accounted for $60.6 million or 27.9% 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 2011, the diesel fuel tax accounted for $15.4 million or 7.1% 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. The 2009 Vermont General Assembly also changed other fees, effective July 1, 2009. In fiscal year 2011, these other sources of revenues accounted for $17.9 million or 8.2% of net revenues available to the Transportation Fund.

Education Fund; 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 since 1997.

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 2011, the homestead and non-residential rates were $0.86 and $1.35, 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 may be eligible for calculation of an adjustment not based on income. 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' property tax bills. For fiscal year 2008, that amount was paid to the municipality in which the homestead was 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 years 2009 and 2010, 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. Beginning in fiscal year 2010, property tax adjustments resolved after September 15 are paid directly to the claimant by the tax department, rather than through notification of the municipality in which the homestead is located.

In 2010, the Legislature passed Act 160, which retroactively changed the calculation of property tax adjustments for claims filed beginning January 1, 2010 and thereafter. Homeowners with interest and dividend income above $10,000 have the excess amount over that threshold counted twice in calculating the adjustment. In addition, for claimants with household income between $47,000-90,000, the adjustment is limited to only the first $500,000 of equalized housesite value, and the additional adjustment of $10 per acre, up to five acres, which was added by statute in 2003, was eliminated. Act 160 made additional changes to the definition of "household income" for claims filed in 2011 and 2012, which eliminates all but the following adjustments: total income to certain business expenses of reservists, one-half of self-employment tax paid, alimony paid, and deductions for tuition and fees.

In 2011, the Legislature passed Act 45, which allowed the amounts paid by self-employed people for health insurance premiums to be excluded from the calculation of household income for property tax adjustment claims filed beginning in 2012.

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, in past years the State has allocated 30% of Medicaid reimbursement revenues for qualified medical services provided to students in grades K-12 to the Education Fund consistent with Title 16 V.S.A. Section 2959a and recent changes in federal law governing those reimbursements. In fiscal years 2009 and 2010, the Legislature redirected the reimbursement revenues to the General Fund. In fiscal year 2010, property taxes contributed $909.4 million, or 69.5% of total Education Fund revenues; Sales and Use Taxes contributed $103.7 million, or 7.9% of total Education Fund revenues; and Purchase and Use Tax revenues accounted for $23.2 million, or 1.8% of total Education Fund revenues. In fiscal year 2010, the State lottery transferred $21.6 million to the Education Fund. In fiscal year 2011, the statewide education property tax contributed $917.2 million, or 70.0% of total Education Fund revenues. Sales and Use Tax receipts for fiscal year 2011 totaled $108.5 million, or 8.3% of total Education Fund revenues. Purchase and Use Tax receipts for fiscal year 2011 were $25.7 million, corresponding to 1.9% of total Education Fund revenues. In fiscal year 2011, the State lottery transferred $21.4 million to the Education Fund. The Education Fund also has earned minimal interest income over the years.

Federal Receipts

In fiscal year 2011, the State's special revenue funds received approximately $2.008 billion in total from the federal government on a GAAP basis, an increase of $81.3 million or 4.2% over fiscal year 2010. 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.

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 receipts in fiscal year 2011 were made in the areas of Human Services, $1.342 billion; Transportation, $314.3 million; Education, $148.2 million; Protection to Persons and Property, $63.3 million; and Natural Resources, $53.7 million.

The fiscal year 2012 Appropriations Act, as passed, anticipates approximately $1.672 billion in federal receipts, of which $77.7 million is expected to be received under ARRA. Federal receipts in fiscal year 2012 through December 2011 were $822.0 million, of which $45.6 million was from ARRA.

Tobacco Litigation Settlement Fund

Under the Master Settlement Agreement (the "MSA") with tobacco companies, Vermont is entitled to annual payments in perpetuity. The amount of payment due is calculated annually, applying adjustments specified in the MSA, based on factors including that year's volume of tobacco sales and inflation. The table below lists Vermont's base payment as set forth in the MSA, the projected payment based on annual adjustments (for tobacco sales, inflation, etc.), and the actual receipts of settlement funds (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	40.65
Fiscal year 2010	29.37	36.00	36.21
Fiscal year 2011	29.37	33.00	33.85
Fiscal year 2012	29.37	31.00	*

[1] Base payment amount as established in the MSA at time of initial settlement; amounts subject to annual adjustments.
[2] Determined during third quarter of each fiscal year. Beginning in fiscal year 2008, amount includes payments expected as Vermont's share of the Strategic Contribution Payments.
[3] Revised and without accounting for Tobacco Litigation Settlement Fund Account performance due to interest income or expense.
* Not available.

Pursuant to the MSA, in addition to regular MSA annual payments, beginning in fiscal year 2008, Vermont is to receive approximately $10-14 million in Strategic Contribution Payments (as defined in the MSA) per year for ten years. Both the regular MSA 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 MSA 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 MSA 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 2011 was $17.22 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 2008

The State ended fiscal year 2008 with General Fund revenues of $1,199.74 million and an operating surplus of $30.12 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 $2.62 million to be added to the Budget Stabilization Reserve, bringing the balance to $57.84 million (100% of the 5% statutory maximum), and an additional $18.98 million to be put in the General Fund Surplus Reserve.

The State Transportation Fund ended fiscal year 2008 with revenues of $223.08 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 $0.53 million to be added to the Budget Stabilization Reserve, bringing the balance to $11.20 million (100% of the 5% statutory maximum), and an additional $0.62 million 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 (after transfers from other funds) of $7.84 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, bringing the balance to $29.39 million and leaving an unreserved and undesignated Education Fund balance of $5.83 million.

Fiscal Year 2009

The State ended fiscal year 2009 with General Fund revenues of $1,103.98 million and an operating surplus of $22.11 million. Year-over-year revenues decreased by 8.0% from $1,199.74 million in fiscal year 2008. The fiscal year 2009 official General Fund revenue forecast approved by the Emergency Board on April 15, 2008, which was the basis for the fiscal year 2009 General Fund Budget As Passed, was reduced four times during the fiscal year, with the final General Fund revenue forecast reduction approved by the Emergency Board on April 24, 2009. The General Fund revenue forecast was reduced by 0.99% in July 2008, 2.57% in November 2009, 0.93% in January 2009, and 1.32% in April 2009. As fiscal year 2009 came to a close, the revenue had essentially recouped the April 2009 revised revenue downgrade. The majority of the higher than projected General Fund revenues, compared against the April 24, 2009 forecast, was attributable to the "Other Tax" category, specifically Inheritance & Estate Tax which completed the fiscal year $14.10 million ahead of the April 2009 revised revenue forecast. Personal Income Tax, Sales & Use Tax, Meals & Rooms Tax, and Property Transfer Tax cumulatively fell slightly below the final target by $2.31 million or 0.27%, while Corporate Income Tax exceeded target by $4.98 million or 8.1%. The General Fund's operating results allowed for $2.17 million to be added to the Budget Stabilization Reserve, bringing the balance to $60.01 million (100% of the 5% statutory maximum), with an additional $14.84 million reserved for fiscal year 2010 appropriations.

The State Transportation Fund ended fiscal year 2009 with revenues of $203.69 million and an operating shortfall of $0.68 million. Year-over-year revenues decreased by 8.7% from $223.08 million in fiscal year 2008. As with the General Fund, the official Transportation Fund revenue target approved by the Emergency Board on April 15, 2008, which was the basis for the Transportation Fund Budget As Passed, was reduced four times during the fiscal year, with the final Transportation Fund revenue forecast reduction approved by the Emergency Board on April 24, 2009. The Transportation Fund revenue forecast was reduced by 3.53% in July 2008, 2.36% in November 2008, 2.09% in January 2009 and 1.89% in April 2009. Compared to the final April 2009 target, the revenues were slightly above the April 2009 revised revenue forecast of $202.60 million. Cumulatively, three of the five components of the Transportation Fund revenues were at or above their respective targets for the fiscal year by $1.44 million or 0.91%. The fourth component, motor vehicle Purchase & Use Tax fell below target by $0.38 million or 0.85%. The gasoline tax ended the year at $60.64 million, which was 0.40% above the revenue target. The diesel tax ended the year at $15.50 million, which was 4.04% above the revenue target. The motor vehicle fees ended the year at $65.51 million, which was 0.02% above the revenue target. The other revenue component ended the year at $18.09 million, which was 3.34% above target. The Transportation Fund's operating results allowed for $91,091 to be added to the Budget Stabilization Reserve, bringing the balance to $11.29 million (100% of the 5%

statutory maximum), and $0.67 million to be set aside as a bond reserve for the first transportation bond payment of fiscal year 2010.

The State Education Fund ended fiscal year 2009 with revenues of $150.29 million and an operating surplus (after transfers from other funds) of $0.93 million. Year-over-year revenues decreased by 6.4% from $160.5 million in fiscal year 2008. Compared to the final target, the revenues were 0.65% above the April 2009 revised revenue forecast of $149.26 million. The Education Fund Budget Stabilization Reserve ended the fiscal year at the statutory maximum of 5% (statutory minimum 3.5%) after allocating $1.69 million to the Budget Stabilization Reserve from the unreserved and undesignated Education Fund balance, bringing the balance to $31.08 million and leaving an unreserved and undesignated Education Fund balance of $6.64 million.

Fiscal Year 2010

The State ended fiscal year 2010 with General Fund revenues of $1,038.34 million and an operating surplus of $2.46 million, which, along with the addition of net transfers in from other funds, was reserved for subsequent year appropriations. Year-over-year revenues decreased by $65.64 million, or 5.9% from fiscal year 2009 revenues of $1,103.98 million. The fiscal year 2010 General Fund consensus revenue forecast initially approved by the Emergency Board in January 2009 was subsequently revised downward by the Emergency Board in April and July 2009, and then increased slightly at their November 2009 and January 2010 meetings. The revenue reductions were addressed by a rescission, a labor savings reduction plan, and an alternate savings plan. Compared to target, the revenues were 1.3% above the July 2009 revised revenue forecast of $1,024.6 million, and 0.7% above the January 2010 revenue forecast of $1,030.90 million. The higher than projected General Fund revenues were attributable to higher than expected Corporate Income Tax receipts ($11.7 million above target), Sales & Use Tax receipts ($1.0 million above target), and Meals & Rooms Tax receipts ($1.6 million above target), which were partially offset by a continued downturn in Personal Income Tax receipts ($6.0 million below target) and Estate Tax receipts ($2.6 million below target). The final revenue results allowed the State to fund $6.11 million in contingent one-time appropriations and $6.89 million in revenue enhancement and to reserve the remaining $15.20 million for fiscal year 2011 spending. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $57.31 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2010 with revenues of $213.34 million and an operating surplus of $4.57 million. Year-over-year revenues increased by 4.7% or $9.65 million from fiscal year 2009 revenues of $203.69 million. The Transportation Fund consensus revenue forecast experienced less volatility than the General Fund, increasing 0.5% from the beginning of fiscal year 2010 to the final results. The total fiscal year increase in revenues of $1.1 million above the January 2010 consensus revenue forecast was primarily due to an increase of $1.78 million in motor vehicle Purchase & Use Tax, enhanced by a small increase in gas/diesel fuel assessment fees ($0.1 million above target), and partially offset by some reductions including gasoline tax ($0.2 million below target), motor vehicle fees ($0.3 million below target), and other fees ($0.8 million below target). The Transportation Fund results allowed for a fully funded Transportation Fund Budget Stabilization Fund of $10.28 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2010 with consensus revenues of $148.62 million and an operating surplus (after transfers from other funds) of $1.29 million. Year-over-year revenues decreased by 1.1% from the fiscal year 2009 revenues. The Education Fund Budget Stabilization Reserve ended the fiscal year at the statutory maximum of 5% ($29.85 million), leaving an unreserved and undesignated Education Fund balance of $5.65 million. Statute allows the Education Fund Budget Stabilization reserve to be at a minimum of 3.5% and a maximum of 5% of prior year appropriations.

Fiscal Year 2011

The State ended fiscal year 2011 with General Fund revenues of $1,156.69 million and an operating surplus of $65.57 million, which, along with the addition of net transfers in from other funds, was reserved for subsequent year appropriations. Year-over-year revenues increased by $118.35 million, or 11.4% from fiscal year 2010 revenues of $1,038.34 million. The fiscal year 2011 General Fund consensus revenue forecast initially approved by the Emergency Board in January 2010 was subsequently revised upward by the Emergency Board in both July 2010 and January 2011. The higher than projected General Fund revenues were attributable to above target receipts in all major categories reported: Personal Income Tax receipts ($18.97 million above target); Corporate Income Tax receipts ($9.06 million above target); Estate Tax receipts ($3.88 million above target); Sales & Use Tax receipts ($2.02 million above target); Insurance Tax receipts ($0.59 million above target); Real Property Transfer Tax receipts ($0.56 million above target); and Other Tax receipts ($1.79 million above target). The final revenue results allowed the State to fund $10.60 million in contingent one-time appropriations and $8.12 million in revenue enhancement, to reserve $3.88 million for potential federal reductions and to reserve the remaining $60.10 million in the Human Services Caseload Reserve. Of the amount in the Human Services Caseload Reserve, $29.54 million was reserved for fiscal year 2012 appropriations and the remaining is reserved against growth in caseload and utilization as well as potential federal reductions in human services. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $54.37 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2011 with revenues of $218.52 million and an operating surplus of $3.22 million. Year-over-year revenues increased by 2.0%, or $4.28 million from fiscal year 2010 revenues of $213.34 million. Transportation Fund receipts for fiscal year 2011 were slightly below the target of $217.80 million by 0.10%, primarily due to: Gasoline Tax receipts ($0.76 million below target); Motor Vehicle Fees ($0.78 million below target); and Other Fees ($0.11 million below target), partially offset by higher than expected receipts in motor vehicle Purchase & Use Tax ($1.43 million above target). The Transportation Fund results, coupled with net transfers in to the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $10.44 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2011 with consensus revenues of $155.69 million and an operating surplus (after transfers from other funds) of $5.38 million. Year-over-year revenues increased by 4.9% from the fiscal year 2010 revenues. The Education Fund Budget Stabilization Reserve ended the fiscal year at the statutory maximum of 5% ($30.29 million), leaving an unreserved and undesignated Education Fund balance of $3.43 million. Statute allows the Education Fund Budget Stabilization reserve to be at a minimum of 3.5% and a maximum of 5% of prior year appropriations.

Fiscal Year 2012 General, Transportation and Education Funds to Date

The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 18, 2012, the Emergency Board met to consider the forecast and agreed to a General Fund consensus revenue forecast of $1,189.4 million for fiscal year 2012 and $1,257.9 million for fiscal year 2013. The fiscal year 2012 consensus revenue forecast represents a $36.6 million increase over fiscal year 2011 actual receipts. The fiscal year 2013 consensus revenue forecast represents a $68.5 million increase over forecasted receipts for fiscal year 2012. The January 2012 consensus forecast for the General Fund for fiscal years 2012 and 2013 represent small, downward revisions of $1.8 million and $9.3 million for fiscal years 2012 and 2013, respectively, relative to the consensus forecast of July 15, 2011. The latest consensus revenue forecasts for fiscal year 2012 and 2013 reflect the latest Legislative and Administration forecast consensus on the national and State economic outlook and technical re-specifications of the forecasting models for a lower than previously expected performance of the economy relative to last July's expectations.

On January 18, 2012, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $225.2 million for fiscal year 2012 and $231.1 million for fiscal year 2013. Those forecasts represented a $0.3 million decline for fiscal year 2012 versus the previous consensus forecast established on July 15, 2011. For fiscal year 2013, the January 2012 consensus forecast represented a $0.8 million downgrade from the previous July 15, 2011 consensus forecast. Like the General Fund, this revised forecast was based on an updated national and State economic forecast and technical adjustments based on model re-specifications for a lower than previously expected performance for the economy over the period and significantly higher energy prices.

On January 18, 2012, the Emergency Board agreed to an Education Fund consensus revenue forecast of $162.3 million for fiscal year 2012 and $168.6 million for fiscal year 2013. This forecast represented a $0.3 million downgrade for fiscal year 2012 and a $0.8 million downgrade for fiscal year 2013 versus the previous consensus forecast established on July 15, 2011. This technical forecast downgrade was also based on the latest national and State economic outlook and technical re-specifications of the forecasting models for these revenue sources.

The following tables present revenue results for the components of each major fund, as compared to January 2012 monthly cash flow targets and fiscal year 2012 year-to-date consensus cash flow targets, which reflect the January 2012 consensus revenue forecast for the remaining half of fiscal year 2012. The tables show that, although there may be significant differences among individual components, all three major funds in aggregate tracked slightly below expectations (0.7% below target for the General Fund; 0.5% below target for the Transportation Fund; and 0.3% below target for the Education Fund) through January of fiscal year 2012. At this point, the differences between actual revenues and targets are minor, and reflect, among other things, a slower than anticipated beginning to the 2011-2012 winter tourism season and faster than expected tax refund activity reflecting the increase in electronic filing by personal income tax filers.

Fiscal Year 2012 General Fund Results to Date

	January 2012			Fiscal Year 2012 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Personal Income Tax	$83,433.7	$80,447.3	(3.6)%	$367,330.4	$364,344.0	(0.8)%
Sales and Use Tax	27,903.3	26,967.6	(3.4)	141,278.5	140,342.8	(0.7)
Corporate Income Tax	(734.9)	864.5	217.6	37,251.6	38,851.1	4.3
Meals and Rooms Tax	11,565.3	11,026.9	(4.7)	76,974.9	76,436.6	(0.7)
Property Transfer	756.6	449.8	(40.5)	4,950.5	4,643.8	(6.2)
Other Revenues	10,913.2	9,415.6	(13.7)	75,166.5	73,668.6	(2.0)
Total	$133,837.2	$129,171.7	(3.5)%	$702,952.4	$698,286.9	(0.7)%

[1] Official Revenue Estimates as of January 18, 2012.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in thousands.

Fiscal Year 2012 Transportation Fund Results to Date

	January 2012			Fiscal Year 2012 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Gasoline Tax[2]	$5,139.8	$4,892.4	(4.8)%	$36,284.0	$36,036.6	(0.7)%
Diesel Tax[2]	1,349.8	1,289.1	(4.5)	9,154.5	9,093.9	(0.7)
Purchase and Use Tax	3,725.1	3,851.5	3.4	29,836.0	29,962.5	0.4
Motor Vehicle Fees	4,969.6	4,562.9	(8.2)	38,635.4	38,228.8	(1.1)
Other Fee Revenues	1,424.4	1,443.8	1.4	10,286.3	10,305.6	0.2
Total[2]	$16,608.7	$16,039.7	(3.4)%	$124,196.3	$123,627.4	(0.5)%

[1] Official Revenue Estimates as of January 18, 2012.
[2] Excludes Transportation Infrastructure Bond revenues.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in thousands.

Fiscal Year 2012 Education Fund Results to Date*

	January 2012			Fiscal Year 2012 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Sales and Use Tax	$13,951.6	$13,483.6	(3.4)%	$70,638.4	$70,170.3	(0.7)%
Lottery	1,979.4	2,138.2	8.0	11,378.6	11,537.4	1.4
Motor Vehicle						
Purchase & Use Tax	1,862.6	1,925.8	3.4	14,918.0	14,981.2	0.4
Other Revenues[2]	24.6	(2.5)	NM	45.6	18.6	NM
Total	$17,818.2	$17,545.1	(1.5)%	$96,980.6	$96,707.5	(0.3)%

* 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 18, 2012.
[2] 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. All dollars are in thousands.
NM means Not Meaningful.

As of the date of this Official Statement, preliminary revenue results for the month of February 2012 indicate that, for the combined funds, revenues were approximately $10.0 million below the February 2012 monthly cash flow targets and approximately $15.5 million below fiscal year 2012 year-to-date consensus cash flow targets.

The preliminary results for the General Fund through February are $16.5 million below target, while the Transportation Fund was $1.1 million above target, and the Education Fund (excluding property taxes) was within $0.1 million of its target. In the General Fund, the preliminary results indicate that the Personal Income Tax component of the General Fund underperformed during February 2012, primarily due to increased refund processing activity and lower than expected withholding tax collections as compared to the monthly cash flow target. Final revenue results for the month of February 2012 are expected to be released on or about March 15, 2012. The State will continue to closely monitor the revenue performance of the Personal Income Tax and other major sources as the State's economic-labor market recovery continues and the Spring 2012 Personal Income Tax filing season unfold.

The State continues to monitor its revenues on a monthly basis, with the most recent update of the consensus revenue forecast occurring on January 18, 2012. The State no longer updates revenue forecasts quarterly, instead revising their picture of State revenues semiannually in January and June of the fiscal year. The next scheduled consensus revenue forecast will occur on or around July 15, 2012.

The revenue results through January 2012 presented above do not fully reflect the impact of Tropical Storm Irene. The full impact on revenues as a result of Tropical Storm Irene is expected to be small, but the actual impact is not known at this time. See "STATE ECONOMY – Economic Activity – *Impact of Tropical Storm Irene*."

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, 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 Stabilization 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.

As of June 30, 2009, the General Fund Budget Stabilization Reserve was $60.01 million with an additional $14.84 million set aside in the General Fund Revenue Shortfall Reserve established in 32 V.S.A. §308(d). Other General Fund reserves included: $16.29 million in the Human Services Caseload Reserve and $1.18 million in the Bond Issuance Premium Reserve. The Transportation Fund Budget Stabilization Reserve as of June 30, 2009 was $11.29 million with an additional $0.67 million in the Bond Premium Reserve. The Education Budget Stabilization Reserve was $31.08 million as of June 30, 2009. For fiscal year 2009, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2009.

As of June 30, 2010, the General Fund Budget Stabilization Reserve was $57.31 million. Other General Fund reserves included: $0.07 million in the Human Services Caseload Reserve and $1.46 million in the Bond Issuance Premium Reserve. The Transportation Fund Budget Stabilization Reserve as of June 30, 2010 was $10.28 million. The Education Budget Stabilization Reserve was $29.85 million as of June 30, 2010 with an additional $5.65 million in Unreserved and Undesignated Fund Balance. For fiscal year 2010, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2010.

As of June 30, 2011, the General Fund Budget Stabilization Reserve was $54.37 million. Other General Fund reserves included: $60.17 million in the Human Services Caseload Reserve and $3.88 million in the Revenue

Shortfall Reserve. The Transportation Fund Budget Stabilization Reserve as of June 30, 2011 was $10.44 million. The Education Budget Stabilization Reserve was $30.29 million as of June 30, 2011 with an additional $3.43 million in Unreserved and Undesignated Fund Balance. For fiscal year 2011, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2011.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2008 through 2011, and as passed for fiscal year 2012 for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

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General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2008 – 2012
($ in Millions)

	Actual FY2008	Actual FY2009	Actual FY2010	Actual FY2011	As Passed FY2012[2]
Sources					
Current Law Revenues	$1,199.74	$1,103.98	$1,038.34	$1,156.69	$1,191.20
VEDA Debt Forgiveness	-	-	-	(0.38)	(0.20)
Direct Applications, Transfers in & Reversions	16.64	39.06	20.47	40.74	20.18
Other Bills and Tax Changes	-	4.93	9.81	8.12	3.32
Additional Property Transfer Tax	3.15	1.30	6.45	7.48	6.44
For Appropriations Prior Year Surplus Reserve	10.87	19.13	14.84	15.20	-
Total Sources	**1,230.40**	**1,168.40**	**1,089.91**	**1,227.85**	**1,220.94**
Uses					
Base appropriations	1,174.78	1,182.58	1,065.50	1,096.12	1,234.49
Contingent Base Appropriations	-	-	-	-	-
One-time Appropriations	6.14	(42.65)	-	37.06	0.05
Additional GF to Ed Fund - Act 68 2003	-	-	-	-	-
One-time Appropriations P/Y Surplus Reserve	12.46	2.23	13.28	18.25	-
Contingent One-time Appropriations from Same Year Surplus	6.79	2.30	6.11	10.60	-
Other Bills	0.10	1.82	2.56	0.25	1.41
Enhanced Federal Financial Participation	-	-	-	-	-
Federal Flexible Funding Replacement	-	-	-	-	-
Total Uses	**1,200.27**	**1,146.28**	**1,087.45**	**1,162.28**	**1,234.95**
Operating Surplus (deficit)	**30.12**	**22.11**	**2.46**	**65.57**	**(14.01)**
Transfers (to) / from Other Funds					
Transportation Fund	-	-	1.71	-	3.99
Tobacco Settlement	-	-	-	-	-
General Bond Fund	-	-	-	-	-
Internal Service Funds	(0.45)	(3.12)	(0.77)	(0.30)	-
Education Fund	-	(0.67)	(6.89)	(0.90)	(0.90)
Other Funds	(6.86)	(1.09)	3.27	(4.79)	(4.79)
Human Service Caseload Reserve	(0.26)	-	-	-	-
Total Transfers (to) / from Other Funds	(7.57)	(4.88)	(2.68)	(5.99)	(1.70)
Transfers (to) / from Reserves					
Budget Stabilization Reserve	(2.62)	(2.17)	2.70	2.94	(3.74)
Human Services Caseload Reserve	-	0.96	(16.22)	(60.10)	28.16
Reserved for transfer to Education Fund	-	-	-	-	-
Reserved for transfer to Debt Service[3]	-	(1.18)	(1.46)	1.46	-
Reserved in GF Surplus/Revenue Shortfall Reserve	(19.93)	(14.84)	15.20	(3.88)	(7.71)
Total Reserved in the GF	(22.55)	(17.23)	0.22	(59.58)	16.71
Total Transfers (to) / from Surplus	**(30.12)**	**(22.11)**	**(2.46)**	**(65.57)**	**15.01**
Unallocated Operating Surplus/ (Deficit)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GF Reserves (cumulative)					
Budget Stabilization Reserve	57.84	60.01	57.31	54.37	58.11
Human Services Caseload Reserve	17.24	16.29	0.07	60.17	32.01
Reserved for Bond Premium/Debt Service[3]	0.95	1.18	1.46	-	-
Reserved in GF Surplus/Revenue Shortfall Reserve	18.98	14.84	15.20	3.88	11.59
Total GF Reserve Balances	**$95.01**	**$92.32**	**$74.04**	**$118.42**	**$101.71**

1 Results may not add due to rounding.

2 Reflects the FY 2012 General Fund budget, as passed. Does not reflect the revised consensus revenue forecast adopted by the Vermont Emergency Board through January 18, 2012 or the Governor's proposed FY 2012 budget adjustment recommendations, which were presented on January 12, 2012. The Budget Adjustment Bill is currently under consideration by the Legislature. See "Fiscal Year 2012 Recommended Budget Adjustment" below.

3 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. Prior to FY 2011, such amounts were reserved in the General Fund for use to make such interest or principal payments. Beginning in FY 2011, bond issue premium will not longer be reserved in the General Fund, but will be directly deposited in the applicable debt service fund to pay debt service, in accordance 32 VSA Sec 954(a), as amended by Section F.101 of Act 63 of 2011.

Transportation Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2008 – 2012
($ in Millions)

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	As Passed FY 2012[2]
Sources					
Current Law Revenues	$223.08	$203.69	$213.34	$218.52	$225.50
Other Sources	-	-	0.03	0.03	-
Bond Premium	-	0.67	-	-	-
Direct Applications & Reversions	4.80	-	-	-	-
Prior Year Unallocated Operating Surplus	3.22	0.62	-	-	0.90
Total Sources	**231.10**	**204.99**	**213.37**	**218.55**	**226.40**
Uses					
Base Appropriations	228.95	205.67	208.77	213.26	220.28
Excess Receipts	-	-	0.03	-	-
One-time Appropriations	-	-	-	2.07	-
Total Uses	**228.95**	**205.67**	**208.80**	**215.33**	**220.28**
Operating Surplus (deficit)	**2.15**	**(0.68)**	**4.57**	**3.22**	**6.12**
Transfers (to) / from Other Funds:					
General Fund	-	-	(1.71)	-	(3.99)
Downtown Fund	(0.73)	(0.40)	(0.40)	(0.40)	(0.40)
Central Garage Fund	0.10	1.48	(1.12)	(1.12)	(1.12)
Other Funds	-	0.73	(2.65)	(0.28)	-
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	(1.00)	1.44	(6.25)	(2.17)	(5.88)
Transfers (to) / from Reserves:					
Bond Insurance Premium Reserve	-	(0.67)	0.67	-	-
Budget Stabilization Reserve	(0.53)	(0.09)	1.01	(0.15)	(0.33)
Total Transfers (to) / from Reserves	(0.53)	(0.76)	1.69	(0.15)	(0.33)
Total Transfers (to) / From	**(1.53)**	**0.68**	**(4.57)**	**(2.32)**	**(6.21)**
Unallocated Operating Surplus / (deficit)	**0.62**	**0.00**	**0.00**	**0.90**	**(0.08)**
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	-	0.67	-	-	-
Budget Stabilization Reserve	11.20	11.29	10.28	10.44	10.77
Total TF Reserve Balances	**$11.20**	**$11.96**	**$10.28**	**$10.44**	**$10.77**

[1] Results may not add due to rounding.
[2] Reflects the FY 2012 Transportation Fund budget, as passed. Does not reflect the revised consensus revenue forecast adopted by the Vermont Emergency Board through January 18, 2012. The Governor's proposed FY 2012 budget adjustment recommendations do not impact the Transportation Fund. See "Fiscal Year 2012 Recommended Budget Adjustment" below.

Education Fund Operating Statement[1]
Budgetary Based
Fiscal Years 2008 – 2012
($ in Millions)

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	As Passed FY 2012[2]
Sources					
Net Homestead Education Tax	$ 321.43	$ 352.71	$ 359.30	$ 366.20	$ 366.64
Non-Homestead Education Tax	477.48	524.10	550.05	551.03	546.40
General Fund Appropriation to Education Fund	280.20	291.13	247.69	234.74	276.24
Sales & Use Tax	112.80	107.10	103.71	108.54	112.90
Purchase & Use Tax	26.35	21.98	23.24	25.68	27.80
Vermont Yankee Education Tax	1.95	2.03	2.10	2.14	1.10
Fund Interest	(1.31)	0.26	0.10	0.05	-
Net Continuing Appropriations[3]	3.39	2.08	7.00	-	-
Total Sources	**1,222.29**	**1,301.39**	**1,293.19**	**1,288.38**	**1,331.08**
Uses					
Education Payment	1,058.30	1,112.29	1,098.87	1,096.62	1,130.90
Special Education	133.56	142.56	142.46	136.63	148.59
State-Placed Students	14.75	16.37	15.60	13.98	15.00
Transportation	14.45	15.00	15.54	15.78	16.30
Technical Education	11.63	12.47	12.80	12.77	12.90
Small Schools	6.10	6.57	6.98	7.05	7.10
EEE Block Grant	5.20	5.52	5.70	5.53	5.78
Capital Debt	0.22	0.22	0.19	0.15	0.18
Adult Education & Literacy	1.80	2.25	4.80	5.02	5.80
Early Education Initiative	-	-	1.13	1.12	-
Renter Rebate (EF share only: 70%)	5.35	5.57	5.93	5.80	5.80
Reappraisal, Listing Payment, & Accounting Fees	3.23	3.25	3.47	3.97	4.37
Total Uses	**1,254.59**	**1,322.07**	**1,313.47**	**1,304.42**	**1,352.72**
Operating Surplus/(Deficit)	**(32.30)**	**(20.68)**	**(20.28)**	**(16.04)**	**(21.64)**
Transfers (to) / from Other Funds					
Lottery Transfer	22.71	20.95	21.57	21.42	21.90
Medicaid Transfer	6.45	-	-	-	7.60
Other Transfers Out	(4.70)	-	-	-	-
Sales Tax Holiday: Hold Harmless Funding [GF]	-	0.66	-	-	-
Total Transfers (to) / from Other Funds	**24.46**	**21.61**	**21.57**	**21.42**	**29.50**
Transfers (to) / from Reserves					
Budget Stabilization Reserve	1.14	1.69	(1.23)	0.44	(0.90)
Unreserved/Unallocated	(10.28)	0.81	0.98	(1.56)	10.31
Total Transfers (to) / from Reserves	**(9.14)**	**2.50**	**(0.25)**	**(1.12)**	**9.41**
Unallocated Operating Surplus / Deficit	**(16.98)**	**3.43**	**1.04**	**4.26**	**17.27**
EF Reserves					
Budget Stabilization Reserve	29.39	31.08	29.85	30.29	29.39
Cumulative Prior Year Appropriation Surplus/(Deficit)	6.31	4.74	8.24	15.40	2.30
Prior Year Unallocated/Unreserved	5.83	6.64	5.65	3.43	13.24
Total EF Reserve Balance	**$ 41.53**	**$ 42.46**	**$ 43.74**	**$ 49.12**	**$ 44.93**

[1] Results may not add due to rounding.
[2] Reflects the FY 2012 Education Fund budget, as passed. Does not reflect the revised consensus revenue forecast adopted by the Vermont Emergency Board through January 18, 2012 or the Governor's proposed FY 2012 budget adjustment recommendations, which were presented on January 12, 2012. The Budget Adjustment Bill is currently under consideration by the Legislature. See "Fiscal Year 2012 Recommended Budget Adjustment" below.
[3] Appropriation Surplus minus Prior Year Reversions.

Fiscal Year 2012 Budget

The General Fund consensus revenue forecast upon which the fiscal year 2012 General Fund budget was based was $1,183.90 million. The fiscal year 2012 budget, as passed, provides for total appropriations of $1,235.95 million and projects a fully funded budget stabilization reserve of $57.58 million. In July 2011, the Emergency Board increased the fiscal year 2012 consensus revenue forecast to $1,191.20 million, an increase of 0.6%, or $7.3 million. The budget assumed the use of $29.50 million of the FY 2011 balance in the Human Services Caseload Reserve to cover increases in costs and utilization in various human services areas.

The fiscal year 2012 Transportation Fund budget was based on a Transportation Fund consensus revenue forecast of $226.50 million. The fiscal year 2012 budget, as passed, provides for total appropriations of $220.28 million and a fully funded Transportation Fund Budget Stabilization Fund Reserve of $10.77 million. In July 2011, the Emergency Board approved a decrease of $1.00 million or 0.44% to the Transportation Fund consensus revenue forecast.

The January 2011 Education Fund consensus revenue forecast for fiscal year 2012 was $160.80 million. The fiscal year 2012 budget, as passed, provides for a current year operating deficit of $4.0 million, to be covered by allocating all of the previously unallocated surplus and reducing the Education Fund Budget Stabilization Reserve to $30.70 million (5.2% of the prior year net appropriations). In July 2011, the Emergency Board approved a $1.8 million increase in the Education Fund consensus revenue forecast to $162.60 million.

Fiscal Year 2012 Recommended Budget Adjustment

The Administration provided the fiscal year 2012 Governor's Budget Adjustment Recommendations to the House Committee on Appropriation on December 12, 2011; formal submission to the full General Assembly occurred with the Governor's fiscal year 2013 Budget Address on January 12, 2012. Appropriation changes have been recommended for the General Fund (net reduction of approximately $0.32 million) and the Education Fund (net reduction of approximately $0.013 million), with no change recommended for the Transportation Fund. The General Fund reduction of $0.32 million was net of $5.15 million in increased appropriations due to Tropical Storm Irene, offset by General Fund reductions, the largest of which is related to the closure of the Vermont State Hospital (net reduction of $10.55 million). In addition to the appropriation adjustments, the Governor's fiscal year 2012 Budget Adjustment Recommendations included General Fund transfers to other special funds for both non-Irene related needs ($6.12 million) and Irene related needs ($19.72 million). These needs were funded from a combination of funds unreserved from the June 30, 2011 balance in the Human Services Caseload Reserve and increases in revenue items not part of the current law revenue. The fiscal year 2012 Budget Adjustment Recommendations for the General Fund are summarized in the table below.

FY 2012 General Fund Governor's Budget Adjustment Recommendations Summary
($ in millions)

Budget Adjustment Category	Non-Irene Related	Irene Related	Total
General Fund Uses:			
General Fund Appropriation Changes	($5.47)	$5.15	($0.32)
General Fund Transfers to Special Funds	6.12	19.72	25.84
Total Budget Adjustment Needs	$0.65	$24.87	$25.52
General Fund Sources:			
Increases in Other Revenue Items			$18.24
Use of Prior Year Reserve Balances			7.28
Total Net Funding Sources			$25.52

The fiscal year 2012 Budget Adjustment Recommendations project the General Fund and Transportation Fund budget stabilization reserves to be at the full 5% statutory level. The fiscal year 2012 Education Fund budget stabilization reserve, statutorily required to be between 3.5% and 5%, is projected to be at the maximum of 5.0%.

The Governor's budget adjustment recommendations are preliminary and subject to change and 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. In particular, the Governor's proposed budget was submitted prior to the January 18, 2012 Vermont Emergency Board meeting at which the consensus revenue forecast was downgraded slightly. The General Assembly will determine the necessary changes required to balance the fiscal year 2012 Budget Adjustment Recommendations to accommodate the downgrade to the General Fund ($1.80 million), Transportation Fund ($0.30 million) and Education Fund ($0.30 million) in the revised fiscal year 2012 consensus revenue forecast.

As of the date of this Official Statement, the State House of Representatives and the State Senate have each passed their own versions of the bill, which versions do not differ materially from the Governor's proposal apart from addressing the subsequent revenue downgrades. These versions are now being considered by the Conference Committee, and it is currently expected that a final bill will be presented to the Governor for signature by the end of February.

Fiscal Year 2013 Budget Proposal

In accordance with State law, the Governor presented the fiscal year 2013 Executive Budget Recommendations to the General Assembly on January 12, 2012; the General Assembly is now considering the recommendations. The Governor's fiscal year 2013 budget, as proposed, would balance the General Fund, Transportation Fund and Education Fund relative to the July 2011 revenue forecast, would fully fund the General Fund budget stabilization reserve at the statutorily required 5.00% level, and recommends an increase in such statutorily required General Fund budget stabilization reserve level to 5.25%. The proposed budget preserves the Transportation Fund budget stabilization reserve at the full 5%, and funds the Education Fund budget stabilization reserve at 4.87%, which is within the statutorily required range of 3.5 – 5.0%. The Governor's proposal projects an approximate $50.55 million budget gap in the General Fund. The Governor's budget recommendations address the gap through (1) a combination of base adjustments ($30.36 million) and one-time carry forwards ($19.98 million) in human services programs, and (2) increased reversions and transfers from other funds ($0.22 million).

Subsequent to the presentation of the fiscal year 2013 budget, on January 18, 2012, the State's Emergency Board revised the fiscal year 2013 and fiscal year 2014 consensus revenue forecasts downward. Accordingly, the General Assembly will consider the necessary changes required to balance the fiscal year 2013 budget to accommodate the downgrades to the General Fund ($9.30 million), Transportation Fund ($0.80 million) and Education Fund ($0.80 million) in the revised fiscal year 2013 consensus revenue forecast.

Despite the downgrade to the fiscal year 2013 General Fund consensus revenue forecast, fiscal year 2014 General Fund revenue is forecast to increase to $1,341.10 million or 5.28% above fiscal year 2013. The fiscal year 2013 Executive Budget Recommendations proposed an increase of 0.25% to the General Fund budget stabilization reserve including the recommended language to increase the statutory level from 5% to 5.25%. The fiscal year 2013 Executive Budget Recommendations project full funding of the Transportation Fund budget stabilization reserve at the 5.0% statutory level. The fiscal year 2013 Education Fund budget stabilization reserve is projected to be funded at 4.87%, within the statutory range of 3.5% to 5.0%.

The Governor's budgetary projections are preliminary and subject to change. 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/FY%202013%20ExecBudgetRecommendSumm_web.pdf.

State Dependence on Federal Funds

The State's fiscal year 2013 Executive Budget Recommendations, for all funding sources, is $5,107.29 million, of which $1,785.93 million (34.97%) is assumed to come from federal funds. Of the remaining $3,321.36 million in State funds, $1,301.26 million represents General Fund revenues. The State's major reserve funds are currently fully funded, its revenues are expected to continue to show slow but steady growth, and over the last four years the State has shown a commitment to efficiently and effectively deal with any reduction in federal revenues by covering the shortfall with other funds or enacting rescissions.

With respect to federal aid in the area of healthcare, Vermont's Medicaid and Long Term Care are not covered by the traditional federal programs; they are covered under Section 1115 demonstration waivers. In each case, these waivers represent written agreements with the federal Centers for Medicare and Medicaid Services (CMS), which run through September 2015. Accordingly, it is not clear how, if at all, any federal Medicaid reductions would impact the State's Medicaid Global Commitment waiver and/or Choices for Care long term care waiver.

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, Education, and health care funds, and revenues from the gross receipts tax, for the current and next succeeding fiscal year. Federal funds are estimated for the current fiscal year. 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 2012 and 2013 was completed in January 2012 and was approved by the Emergency Board on January 18, 2012 (the "January Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, an overall forecasted level of receipts for the General Fund and Transportation Fund, several major receipts sources other than property tax receipts in the Education Fund and the major gross receipts tax categories. 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 (NEEP). The NEEP 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.

The following discussion describes the level of revenues estimated, under the January Forecast, that are available for General Fund appropriations in fiscal years 2012 and 2013. Such estimates reflect anticipated increases or decreases in collections of each major revenue source in each revenue aggregate 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 18, 2012, and includes all revenue changes as passed by the 2012 Vermont General Assembly.

The revenue estimates contained in this Official Statement were prepared approximately five months after the occurrence of Tropical Storm Irene. The full impact on such revenue estimates as a result of Tropical Storm Irene is not known at this time. Experience to-date, however, indicates that the effect on State revenues has been relatively minor through the month of December 2011. The State continues to monitor revenues monthly, with special consideration given to developments that could be tied to Tropical Storm Irene's effects. The consensus revenue estimates will be updated in July 2012, at which time additional analysis may result in further adjustments to the consensus revenue forecast for Tropical Storm Irene's effects as additional facts as to aggregate total damage and costs become known. See "STATE ECONOMY – Economic Activity – *Impact of Tropical Storm Irene*."

<u>Personal Income Tax</u>: The January Forecast for the Personal Income Tax for fiscal years 2012 and 2013 reflects a consensus assessment for a historically slow-paced economic and labor market recovery over the initial part of the two-year forecast period, with a strengthening in the pace of recovery during the later stages of the two-year time frame. Over the forecast time horizon, Personal Income Tax receipts are expected to show moderate improvement through fiscal year 2013 due to: (1) the continuation of the State's labor market recovery and gradually falling rates of unemployment, (2) reduced capital gains income resulting from equity market declines and continued weakness in real estate asset prices associated with the national, New England regional and State real estate market downturns and continued weak construction activity, and (3) an expected slowdown in the level of business profits

growth for taxpayers that pay their business tax liability through their Personal Income Tax filings. The January Forecast includes revenue receipts of $594.6 million for fiscal 2012, reflecting a 7.5% increase as compared to actual fiscal 2011 receipts, and $642.1 million for fiscal 2013, reflecting an 8.0% annual increase as compared to forecasted fiscal 2012 receipts. This represents a restrained recovery following the two-year, 20.0% decline in receipts during the fiscal year 2008–10 time period. For fiscal year 2013, Personal Income Tax receipts are expected to reach levels not experienced since the beginning of the recession in fiscal year 2008, and round out fiscal year 2013 at the level of 3.2% above the last cyclical revenue peak in Personal Income Tax in fiscal 2008. Relative to the July 2011 consensus revenue forecast, the January Forecast represents a 0.2 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2012. For fiscal 2013, the January Forecast represents a 1.1 percentage point decrease in the year-over-year growth rate relative to the July 2011 consensus revenue forecast.

Sales and Use Tax: The January Forecast for the Sales and Use Tax for fiscal 2012 and fiscal 2013 reflects the consensus assessment of recent collections activity and trends in this source, and the near-term outlook for economic conditions over the fiscal year 2012 and 2013 time frame. The forecast expects that Vermont consumers and many of the State's domestic visitors will continue to be careful with their expenditures as the national and State labor market recovery continues to struggle through fiscal year 2012 and into the early part of fiscal year 2013. This weakness will at least be partially off-set by continued strong levels of Canadian visitor activity in the State and improving national and State labor market conditions, which is helping to lift disposable income. The January Forecast for fiscal 2012 includes a 4.4% year-over-year increase to $226.5 million, and a 3.8% increase in Sales and Use Tax revenues for fiscal year 2013, as compared to forecasted fiscal year 2012 receipts. The revised consensus forecast for fiscal year 2013 still projects total revenue collections that are 4.2% above the previous cyclical peak for Sales and Use Tax collections experienced in fiscal year 2008. Relative to the July 2011 consensus revenue forecast, the January Forecast represents a 0.5 percentage point increase in the year-over-year revenue growth rate for fiscal year 2012. For fiscal 2013, the January Forecast represents a 0.4% decrease in the year-over-year growth rate relative to the July 2011 consensus revenue forecast.

Corporate Income Tax: The January Forecast for the fiscal year 2012 Corporate Income Tax was developed against a backdrop of a one-time spike in Corporate Income Tax revenues over fiscal year 2011 and an outlook for an underlying decline in the rate of increase in corporate profits to a more restrained, but steady improvement in profitability going forward. For fiscal 2013, corporate profits are expected to generally be improved, constrained mostly by rising personnel costs due to the labor market recovery. Overall, the Corporate Tax component is expected to experience comparatively modest rebound following the unusual and un-sustained bump in receipts in fiscal year 2011, especially considering the depth of the recessionary period. The January forecast for fiscal 2012 is for a correcting decline in receipts of 13.8% year-to-year and fiscal 2013 includes a return to a tempered year-over-year growth in overall Corporate Income Tax of 4.8%. For fiscal 2012, the January Forecast for Corporate Income Tax revenues totals $77.3 million. Fiscal 2013 receipts are forecasted to be $81.0 million. Relative to the July 2011 consensus revenue forecast, the January Forecast represents a 0.7 percentage point increase in the year-over-year rate of revenue decline for fiscal year 2012. For fiscal 2013, the January Forecast represents a 0.1 percentage point decrease in the year-over-year growth rate relative to the July 2011 consensus revenue forecast.

Meals and Rooms Tax: The January Forecast reflects the continuation of the modest, but uneven turnaround in the U.S., New England and Vermont economies during fiscal years 2012 and 2013, and continued favorable levels of Canadian visitor traffic coupled with moderate improvements in domestic tourism. The January Forecast includes a total of $126.7 million in Meals and Rooms Tax revenues for fiscal year 2012, representing a 3.3% increase on a year-over-year basis from fiscal year 2011. The January Forecast for fiscal year 2013 calls for a total of $131.5 million in Meals and Rooms Tax revenues, corresponding to an increase of 3.8% versus forecasted receipts for fiscal 2012. Relative to the July 2011 consensus revenue forecast, the January Forecast represents no change in the year-over-year revenue growth rate for fiscal year 2012. For fiscal 2013, the January Forecast represents a 0.2 percentage point increase in the year-over-year growth rate relative to the June 2011 consensus revenue 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, as adjusted for federal and State tax and fee changes. The January Forecast consensus for these revenue sources reflects historical collections patterns, federal and State changes in the inheritance and estate tax, the continuing evolution of changes in State real estate markets and the associated changes in real estate capital gains realizations, 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 2010 and fiscal 2011, and the projected General Fund revenue collections for fiscal 2012 and 2013 per the January Forecast.

Sources (Available to the General Fund)	Actual Fiscal 2010	Actual Fiscal 2011[1]	Forecast Fiscal 2012	Forecast Fiscal 2013	Percentage Change 2011–2012
Personal Income Taxes[2]	$497,957,576	$553,265,451	$594,600,000	$642,100,000	7.5%
Sales and Use Taxes	207,427,646	217,082,665	226,533,333	235,133,333	4.4
Corporate Taxes[2]	62,825,489	89,652,888	77,300,000	81,000,000	(13.8)
Meals and Rooms Taxes	117,965,475	122,628,019	126,700,000	131,500,000	3.3
Other Taxes	120,525,825	138,929,664	132,840,740	135,019,880	(4.4)
Total Taxes	1,006,702,011	1,121,558,687	1,157,974,073	1,224,753,213	3.2
Other Revenues	31,668,680	31,284,574	31,400,000	33,100,000	0.4
Total General Fund	$1,038,370,691	$1,152,843,261	$1,189,374,073	1,257,853,213	3.2%

[1] Fiscal year 2011 data are actual, unaudited receipts totals.

[2] Personal Income Tax and Corporate Income Tax receipts for fiscal year 2010 have been adjusted to account for a change in the way non-resident withholding payments are now allocated into payments for individuals, c-corporations, and other pass through entities under the State's Enterprise Tax Management (ETM) system. Prior to implementation of the ETM system, such tax payments were manually allocated between Personal Income Tax receipts and Corporate Income Tax receipts in three different sub-accounts. The ETM system, which is an internal revenue accounting system at the Vermont Department of Taxes that provides input into the State's VISION Accounting System, is an automatic accounting system that has substantially improved processing efficiency. The elimination of the manual allocation, however, resulted in all non-resident withholding payments being deposited into one Corporate Income Tax account on a temporary basis. This resulted in the temporary over-reporting of Corporate Tax receipts and an under-reporting of Personal Income Tax receipts for fiscal year 2010 and the initial months of fiscal year 2011. Going forward, an on-going adjustment process will effectively address the under- and over-reporting issue. The total revenue collections reported for the General Fund for fiscal year 2010 were not affected by the adjustments between the two categories. Because of these adjustments, however, the amounts presented in the table for Personal Income Tax and Corporate Income Tax receipts for fiscal year 2010 are different from the historical monthly and annual year-to-date revenue reports (the "Schedule 2 Revenue Reports") for fiscal year 2010 published by the Vermont Agency of Administration.

Source: Vermont Department of Finance and Management. Fiscal totals may not add due to rounding.

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The following table reflects budgetary-based General Fund revenue history from fiscal 2009 through fiscal 2011 and forecasted revenues for fiscal 2012 and fiscal 2013:

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

COMPONENT	Actual 2009	Percent Change	Actual 2010	Percent Change	Actual 2011[1]	Percent Change	Forecast 2012[2]	Percent Change	Forecast 2013[2]	Percent Change
TAXES:										
Personal Income [3]	$530.3	(14.8%)	$498.0	(6.1%)	$553.3	11.1%	$594.6	7.5%	$642.1	8.0%
Sales and Use	214.1	(5.1)	207.4	(3.1)	217.1	4.7	226.5	4.4	235.1	3.8
Corporate [3]	66.2	(11.3)	62.8	(5.1)	89.7	42.7	77.3	(13.8)	81.0	4.8
Meals and Rooms	117.1	(3.3)	118.0	0.8	122.6	4.0	126.7	3.3	131.5	3.8
Liquor	15.0	6.0	14.9	(1.0)	15.4	3.1	16.5	7.5	16.8	1.8
Insurance	53.7	(2.1)	53.3	(0.9)	55.0	3.3	56.0	1.8	57.2	2.1
Total Telephone Tax	9.1	(3.8)	7.9	(13.9)	11.4	44.4	9.3	(18.1)	9.2	(1.1)
Beverage	5.6	0.3	5.7	0.4	2.9	0.8	5.9	2.0	6.0	1.7
Electrical Energy	2.8	4.0	2.9	2.5	5.8	2.2	2.9	(1.4)	0.0	(100.0)
Estate	23.4	49.1	14.2	(35.2)	21.0	48.3	19.5	(7.1)	21.9	12.3
Property Transfer	8.5	(21.1)	7.8	(8.2)	8.4	7.7	8.4	0.8	9.1	8.0
Bank Franchise	20.6	102.5	10.4	(49.7)	15.4	49.0	10.8	(30.0)	11.0	1.9
Other Taxes	2.8	(12.7)	3.7	32.1	3.7	1.7	3.5	(5.9)	3.8	8.6
TOTAL TAXES:	$1,067.7	(8.8)	$1,006.5	(5.7)	$1,121.6	11.4	$1,158.0	3.2%	$1,224.8	5.8
OTHER REVENUES:										
Business Licenses	$3.0	9.4%	$3.0	(0.2%)	$3.0	(0.6%)	$3.1	4.6%	$3.2	3.2%
Fees	19.1	29.5	19.2	0.9	20.5	6.4	20.1	(1.8)	20.8	3.5
Services	1.5	(11.0)	1.2	(19.9)	1.1	(8.7)	1.5	32.5	1.4	(6.7)
Fines, Forfeits	9.2	122.0	9.8	122.0	5.7	(22.2)	5.8	1.4	6.0	3.4
Interest, Premiums	5.3	7.2	0.5	(54.7)	0.3	(51.7)	0.4	56.7	1.1	175.0
Special Assessments	0.0	NM	0.0	NM	0.0	NM	0.0	NM	0.0	NM
Other	0.6	(44.1)	0.3	57.4	0.7	115.7	0.5	(33.0)	0.6	20.0
TOTAL OTHER	$29.5	6.5%	$31.7	(8.8%)	$31.3	(1.3%)	$31.4	0.4%	$33.1	5.4%
TOTAL GENERAL FUND	$1,199.8	4.2%	$1,038.4	(5.8%)	$1,152.8	11.0%	$1,189.4	3.2%	$1,257.9	5.8%

NM means Not Meaningful.

1 2011 data are actual, unaudited receipts totals.

2 Based on January Forecast.

3 For fiscal year 2011, Personal Income Tax and Corporate Income Tax receipts have been adjusted in connection with the conversion to a new computer system at the Vermont Department of Taxes, as described in footnote 2 of the immediately preceding table.

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, the Community on National and Community Service (CNCS) 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).

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.

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.

Department of Vermont Health Access: This Department promotes the well-being of families and individuals through the provision of health care coverage. The Department is 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 2010, 2011 and 2012 are as follows:

	Fiscal 2010 Appropriations	Fiscal 2011 Appropriations	Current Law Fiscal 2012 Appropriations
General Fund	$430,932,386	$477,349,772	$551,623,438
Federal Funds[1]	1,140,545,736	1,167,074,619	1,051,853,895
Tobacco Settlement	40,184,340	40,184,340	40,611,537
Special Funds[2]	232,861,456	256,070,649	315,851,539
Other Funds	10,000	10,000	10,000
Total	$1,844,533,918	$1,940,689,380	$1,959,950,409

[1] Federal Funds includes ARRA funds.
[2] Special Funds includes State Health Care Resources Fund, Catamount Fund, and other AHS special funds.

Medicaid and State Health Insurance Initiatives

Medicaid: Vermont has two major Medicaid demonstration waivers. The Global Commitment to Health ("Global Commitment") demonstration waiver became effective October 1, 2006 and was recently renewed to extend an additional 3.25 years to December 31, 2013. 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. Under the waiver agreement, the negotiated aggregate spending limit was $4.7 billion for the first five years (through September 30, 2010) and is $4.26 billion for the additional 3.25 years, producing an aggregate spending limit of $8.96 billion over the 8.25 years of the waiver through calendar year 2013. The aggregate spending limit is based upon actuarially-certified Per Member Per Month (PMPM) rate ranges, which are approved by the Centers for Medicare and Medicaid Services (CMS), but access to federal matching funds are based on actual program expenditures. This aggregate spending limit 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 authorized amount, and will benefit from any savings accrued due to program efficiencies that are achieved. Under this demonstration waiver, the Vermont Agency of Human Services (AHS) contracts with the Department of Vermont Health Access (DVHA) as a publicly sponsored managed care entity. The Global Commitment demonstration waiver encompasses the traditional mandatory and optional Medicaid populations. The Choices for Care waiver, renewed for a five-year period beginning October 1, 2010, provides long-term care services for the elderly and disabled in both nursing home and home- and community-based settings and traditional acute care Medicaid services outside the Global Commitment 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 Private Insurance Coverage Initiatives: In 2006, Vermont 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 300% of the federal poverty level. In addition, the State established a comprehensive, affordable commercial insurance program called Catamount Health that has a premium assistance program for individuals with incomes under 300% of the federal poverty level. Financing comes from individuals (sliding scale premiums), employers with uninsured employees and tobacco taxes. The State's fiscal obligation is protected through the ability of the Joint Fiscal Committee to impose enrollment caps. Employer contributions began in the second quarter of calendar 2007 and enrollment and coverage began October 1, 2007.

Federal Health Care Reform: Federal health care reform enacted in the Patient Protection and Affordable Care Act (ACA) will have an impact on Vermont's Medicaid program and Global Commitment waiver, which expires December 31, 2013. The State currently covers many individuals through Medicaid, Catamount Health, and Medicaid-expansion programs under Global Commitment, who could be covered through the health benefit exchange in 2014. The State is in the process of analyzing the policy options and financial impacts, but since the major components of the legislation will not take effect until 2014, the future fiscal and administrative impact on the

State is not known at this time. The State does not expect the legislation to have any significant State fiscal impact in fiscal years 2012 or 2013. The State received a $1.0 million planning grant to develop a State health benefit exchange and is in the process of applying for the second round of implementation funding. Act 48 of 2011 created the health benefit exchange as a division of the Department of Vermont Health Access to build on existing State infrastructure and avoid duplication of expense.

State Health Reform Initiatives: In 2011, the State passed legislation (Act 48 of 2011) that created the Green Mountain Care board to establish mechanisms for controlling health care expenditures in Vermont and create innovative payment and delivery system reform to improve health outcomes. The Board was appointed and began work on October 1, 2011. Act 48 also created Green Mountain Care, a unified health care system based on Vermont residency, and established a planning process to look comprehensively at various aspects of program design and administrative simplification, as well as the costs and appropriate financing for such a system. The Administration is required to submit a financing proposal to the legislature in 2013. The Act requires that the Green Mountain Care board ensure that certain triggers are met before the program would begin, including that the State receives a waiver from the ACA. Under current federal law, ACA waivers are not available until 2017.

Aid to Municipalities

Significant portions of Vermont's budget are used to support the cities, towns and school districts. In fiscal year 2011, the General Fund transfer to the Education Fund for support of K-12 schools was $234.7 million, including contingent funding. Additionally, the State contributed $48.2 million to the State Teachers' Retirement System. Total Education Fund appropriated expenditures were $1.3 billion in fiscal year 2011 and is expected to be the same amount in fiscal year 2012. Department of Education administration was 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, $11.7 million was distributed to towns to reimburse taxes reduced for land conservation and management programs. In fiscal year 2012, the General Fund transfer to the Education Fund is expected to be $276.2 million; the State expects to contribute $53.0 million to the State Teachers Retirement System and $0.4 million will be spent from the Education Fund to pay State financial system charges.

In fiscal year 2011, $60.7 million was appropriated to town highway programs, funded with $41.7 million in State funds, $14.3 million in federal funds, $0.8 million in local funds, and $4.0 million in ARRA funds. As the available ARRA funds decline, the town highway appropriations are expected to decline accordingly. For fiscal year 2012, $58.4 million was appropriated to town highway programs, funded with $42.1 million in State funds, $15.3 million in federal funds, $0.9 million in local funds and no ARRA funds.

	Fiscal 2010 Appropriations	Fiscal 2011 Appropriations	As Passed Fiscal 2012 Appropriations
State Aid to Local School Districts	$1,098,874,964	$1,099,500,000	$1,126,130,000
Special Education Aid to Local Districts	142,457,975	142,457,975	148,587,440
Vermont State Teachers' Retirement System Contributions	41,503,002	48,233,006	52,991,932
Town Highway Grants	38,302,718	41,700,980	42,126,484
Total	$1,321,138,659	$1,331,891,961	$1,369,835,856

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

	Fiscal 2010 Appropriations	Fiscal 2011 Appropriations	As Passed Fiscal 2012 Appropriations
Property Tax Assistance	$13,725,647	$16,720,000	$15,190,000
Land Use Reimbursement	10,807,403	11,700,000	12,400,000
Total	$24,533,050	$28,420,000	$27,590,000

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 2010 Appropriations	Fiscal 2011 Appropriations	As Passed Fiscal 2012 Appropriations
University of Vermont	$40,746,630	$40,746,634	$40,746,633
Vermont State Colleges[1]	25,009,429	25,009,429	25,009,429
Vermont Student Assistance Corporation	18,363,607	18,363,607	18,363,607
Total	$84,119,666	$84,119,670	$84,119,670

1 Includes Vermont Interactive TV.

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2008 to fiscal year 2012.

General Fund Appropriations by Major Function

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	As Passed Fiscal 2012[1]
General Government	$66,273,342	$68,032,034	$65,750,684	$68,285,089	$70,286,567
Protection to Persons and Property	84,433,014	88,707,248	79,277,696	100,117,759	105,736,367
Human Services	498,139,715	458,065,396	431,347,904	458,108,397	552,053,592
Education	412,643,803	417,307,954	381,386,025	370,695,566	417,891,254
Labor	2,352,976	2,049,105	2,491,370	2,381,019	2,400,316
Natural Resources	25,553,103	22,471,787	21,078,628	18,925,044	19,453,909
Transportation	---	---	---	---	---
Commerce and Community Development	15,842,695	14,222,963	13,670,469	12,886,095	13,189,010
Other – One-time[2]	30,827,442	8,373,557	27,207,995	65,077,091	(9,637,407)
Debt Service	64,205,317	67,048,726	65,241,180	65,804,622	64,575,793
Total Appropriations	$1,200,271,407	$1,146,278,770	$1,087,451,951	$1,162,280,682	$1,235,949,401

1 The fiscal year figures for 2012 are presented as appropriated in the 2011 legislative session.
2 Includes one-time appropriations. Does not reflect proposed Fiscal Year 2012 Budget Adjustment Recommendations. See "Fiscal Year 2012 Recommended Budget Adjustment" above.

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 2007 through fiscal year 2011 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				
	2007	**2008**	**2009**	**2010**	**2011**
REVENUES:					
Taxes	$ 2,460,571	$ 2,409,100	$ 2,372,150	$ 2,370,547	$ 2,539,487
Fees	70,221	61,444	82,561	85,052	105,503
Sales of services, rents and leases	13,724	17,697	23,723	21,002	18,218
Federal grants	1,243,958	1,317,932	1,426,347	1,926,853	2,008,105
Fines, forfeits and penalties	19,315	21,972	27,089	21,446	17,730
Investment income	17,317	11,994	4,056	5,553	6,337
Licenses	92,593	96,079	94,517	102,449	103,479
Special assessments	29,062	44,802	59,196	65,675	60,474
Other revenues	71,338	80,022	86,115	79,185	90,179
Total revenues	**4,018,099**	**4,061,042**	**4,175,754**	**4,677,762**	**4,949,512**
EXPENDITURES:					
General government	66,605	85,545	96,344	139,166	140,015
Protection to persons and property	247,732	250,028	265,402	265,367	302,765
Human services	1,521,057	1,637,940	1,717,878	1,857,823	1,956,180
Employment and training	24,488	27,056	13,565	19,780	19,552
General education	1,609,653	1,533,340	1,583,191	1,623,796	1,618,734
Natural resources	97,456	97,321	111,567	95,142	100,830
Commerce and community development	30,608	35,465	19,941	70,515	35,435
Transportation	379,347	369,815	379,344	448,047	536,660
Public service enterprises	1,890	4,502	3,893	2,732	0
Capital outlay	37,035	37,208	56,289	73,584	78,421
Debt service	69,130	68,698	71,459	70,747	71,912
Total expenditures	**4,085,001**	**4,146,918**	**4,318,873**	**4,666,699**	**4,860,504**
Excess of revenues over (under) expenditures	**(66,902)**	**(85,876)**	**(143,119)**	**11,063**	**89,008**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	44,500	75,195	50,500	114,533	89,400
Transfers from Lottery	23,573	22,567	20,949	21,581	21,436
Net operating transfers in (out)	1,117	5,569	5,139	6,332	4,123
Other sources (uses)	305	(28,577)	1,850	(40,996)	1,602
Total other financing sources (uses)	**69,495**	**74,754**	**78,438**	**101,450**	**116,561**
Net change in fund balances	**2,593**	**(11,122)**	**(64,681)**	**112,513**	**205,569**
Fund Balance, July 1, restated[1]	429,094	431,687	420,565	355,884	663,564
Fund Balance, June 30	**$ 431,687**	**$ 420,565**	**$ 355,884**	**$ 468,397**	**$ 869,133**

[1] The July 1, 2010 fund balance was restated for a change in accounting principles. (See Appendix A, 2011 financial statement audit, Note 17.)

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 has also borrowed money to finance qualifying transportation capital projects by issuing transportation infrastructure bonds, the payment of which is <u>not</u> secured by the full faith and credit of the State. See "Transportation Infrastructure Bonds" hereinafter. The State 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, 2011, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

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State of Vermont
Debt Statement
As of June 30, 2011
($ in thousands)

General Obligation Bonds*(1):	
General Fund	$471,388
Transportation Fund	17,375
Special Fund	2,985
Contingent Liabilities:	
VEDA Mortgage Insurance Program	9,000
VEDA Financial Access Program	1,000
VEDA Tech/Small Business Loan Program	1,000
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	527,335
Vermont Housing Finance Agency	155,000
VEDA	100,000
Vermont Student Assistance Corporation	50,000
Vermont Telecom Authority	40,000
Univ. of Vermont/ State Colleges	100,000
Gross Direct and Contingent Debt	**$1,475,083**
Less:	
Contingent Liabilities	(11,000)
Reserve Fund Commitments	(972,335)
Net Tax-Supported Debt (1):	**$491,748**

* Includes original principal amounts of Capital Appreciation Bonds.

1 Does not include (i) the Bonds offered hereby, (ii) general obligation bonds that were refunded, (iii) $4,127,513, 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 $4,340,005.

Selected Debt Statistics[1]

	2008	2009	2010	2011	Projected 2012
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[2]	$438,582	$440,633	$464,341	$491,748	$503,528
Population[3]	623,925	624,797	625,934	627,432	629,377
Debt Per Capita	$703	$705	$742	$784	$800
Personal Income ($ in millions by fiscal year)[4]	$24,194	$24,409	$24,610	$25,661	$26,411
Debt as a Percent of Personal Income	1.8%	1.8%	1.9%	1.9%	1.9%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[2]	$69,419	$71,459	$70,747	$70,309	$69,987
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,422,829	$1,307,670	$1,251,068	$1,375,000	$1,416,700
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	4.9%	5.5%	5.7%	5.1%	4.9%

Percentage Of Debt To Be Retired (as of June 30, 2011)	Special Fund [6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	89.3%	41.9%	56.0%	42.7%
10 years	100.0	69.7	86.2	70.5
15 years	100.0	90.1	95.5	90.3
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 and estimated data for 2008 through 2011 and projected data for 2012.

[2] Excludes general obligation bonds that were refunded; assumes issuance in fiscal year 2012 of total authorized amount of $76.58 million plus all previously authorized but unissued debt of $12.13 million.

[3] Reflects the Legislative Joint Fiscal Office-Administration consensus estimate and forecast of the State's residential population as of the end of the second calendar quarter of the year indicated.

[4] Personal income is on a fiscal year basis and is projected for fiscal year 2012 using the January 2012 consensus revenue forecast. Fiscal year 2010 and 2011 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 2012 revenues are based on the January 2012 Forecast.

[6] See "Debt Service Requirements" herein for a description of Special Fund bonds.

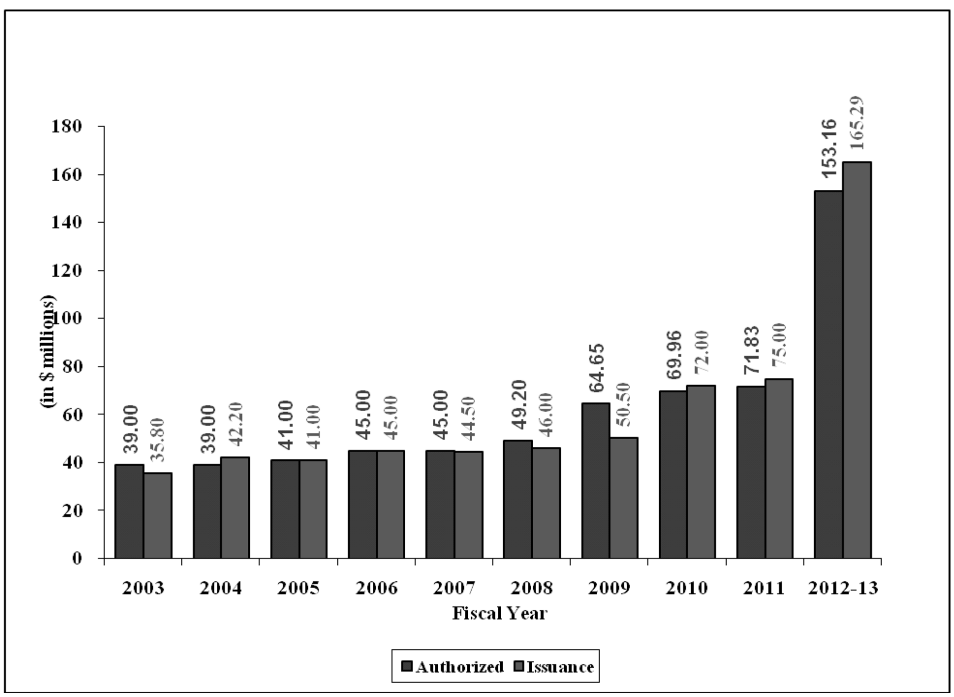
Capital Debt Affordability Advisory Committee

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.

While historically the Committee's report provided a recommendation for the amount of new long-term general obligation debt that may be authorized by the State for the following fiscal year, starting with fiscal year 2012, the Committee submitted both a one-year authorization as well as an alternative two-year debt authorization to the General Assembly. The two-year authorization was developed in an effort to more closely align with the State's biennial legislative session, and was driven by near-term considerations such as (i) historically low interest rates and (ii) the need to get certain large-scale capital projects underway, as well as long-term considerations such as the desire for (a) increased coordination between construction and the debt authorization process and (b) the ability to pursue large-scale projects on a multi-year debt authorization basis.

The following table sets forth, as of the dates indicated, the total amount of new debt authorized and issued by the State from fiscal year 2003 through fiscal year 2011, as well as projected amounts for fiscal years 2012 and 2013. In fiscal year 2011, $75 million of new money debt was issued, representing all of the $71.83 million authorized for that year plus $3.17 million of authorized but unissued debt remaining from prior years. At its September 2010 meeting, the Committee voted for $76.58 million of general obligation bonds for fiscal year 2012, as well as an alternative two-year debt authorization of $153.16 million of general obligation bonds for fiscal years 2012 and 2013 (representing $76.58 million in each of fiscal years 2012 and 2013). Consistent with the two-year debt authorization, the General Assembly authorized the State to sell $153.61 million of general obligation bonds for the purposes of funding appropriations for both fiscal years 2012 and 2013. At its September 2011 meeting, the Committee recommended that the State maintain its current authorization for fiscal years 2012 and 2013, and indicated its plan to provide an alternative two-year recommendation in its September 2012 report, which would correspond to fiscal years 2014 and 2015.

Total New Debt Authorization and Bonds Issued by Fiscal Year



Note: Annual issuances do not include refunding bonds. Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances.

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, 2011, 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, 2011

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2012	$49,522,717	$21,876,112	$71,398,829	$442,225,075
2013	44,829,955	18,499,266	63,329,221	397,395,120
2014	44,665,120	17,024,899	61,690,019	352,730,000
2015	37,115,000	14,017,419	51,132,419	315,615,000
2016	33,855,000	12,656,081	46,511,081	281,760,000
2017	30,680,000	11,380,194	42,060,194	251,080,000
2018	28,055,000	10,143,810	38,198,810	223,025,000
2019	27,080,000	9,085,346	36,165,346	195,945,000
2020	25,285,000	8,069,001	33,354,001	170,660,000
2021	25,360,000	6,988,914	32,348,914	145,300,000
2022	22,655,000	5,998,964	28,653,964	122,645,000
2023	20,945,000	5,098,981	26,043,981	101,700,000
2024	18,725,000	4,224,469	22,949,469	82,975,000
2025	18,725,000	3,425,381	22,150,381	64,250,000
2026	16,675,000	2,619,769	19,294,769	47,575,000
2027	14,425,000	1,937,731	16,362,731	33,150,000
2028	12,175,000	1,337,625	13,512,625	20,975,000
2029	9,875,000	823,800	10,698,800	11,100,000
2030	7,350,000	355,163	7,705,163	3,750,000
2031	3,750,000	88,125	3,838,125	0

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2012	$2,695,576	$676,248	$3,371,824	$14,679,054
2013	1,913,637	568,805	2,482,442	12,765,417
2014	1,912,060	502,918	2,414,978	10,853,357
2015	1,650,755	443,799	2,094,554	9,202,602
2016	1,550,755	396,214	1,946,969	7,651,846
2017	1,550,755	333,334	1,884,089	6,101,091
2018	1,451,992	257,460	1,709,452	4,649,100
2019	1,417,820	211,724	1,629,544	3,231,280
2020	417,820	142,411	560,231	2,813,460
2021	417,820	123,098	540,918	2,395,640
2022	417,820	103,786	521,606	1,977,820
2023	417,820	84,315	502,135	1,560,000
2024	260,000	67,405	327,405	1,300,000
2025	260,000	56,745	316,745	1,040,000
2026	260,000	45,825	305,825	780,000
2027	260,000	34,775	294,775	520,000
2028	260,000	23,400	283,400	260,000
2029	260,000	11,700	271,700	0

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
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 State has not had any revenue anticipation borrowings outstanding at any date during each of the five most recent fiscal years. Since 1998, the State has met its short term borrowing needs using revenue anticipation notes only, which notes have been paid in full and on time. The State had no line of credit or short-term borrowings in fiscal year 2006 through 2011. The State has the ability to obtain a line of credit for fiscal year 2012 but currently anticipates no short-term borrowings for the fiscal year.

Total Authorized Unissued Debt

Subsequent to the issuance of the Bonds, the total amount of authorized unissued debt of the State will be $5.90 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 Aid Board. Each of the original entities was delegated a particular segment of commercial 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 $9 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, 2011, the Authority had mortgage insurance contracts outstanding of $2,484,000. 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, 2011 was approximately $369,300. 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 $10 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 $1 million at any time. The State's contingent liability at June 30, 2011 was $809,748.

In fiscal year 2009, new insurance capacity of $1 million was authorized for the Authority's own small business and technology loan programs. As of June 30, 2011, $2,174,441 of these loans were outstanding, of which $1,000,000 is covered by insurance.

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, 2011, the Bond Bank has issued 55 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2011 was $527,335,000. 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. For additional information about the Bond Bank, see its most recent disclosure document, which can be found on the Electronic Municipal Market Access ("EMMA") system at http://emma.msrb.org.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency ("VHFA") 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 VHFA 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 VHFA is empowered to issue notes and bonds to fulfill its corporate purposes. As of June 30, 2011, the VHFA's total outstanding indebtedness was $700,534,931.

The VHFA's act requires the creation of debt service reserve funds for each issue of bonds or notes based on the VHFA's resolutions and in an amount not to exceed the "maximum debt service." Of the debt that the VHFA 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 VHFA 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, 2011, the principal amount of outstanding debt covered by this moral obligation was $75,565,000. As of June 30, 2011, the debt service reserve fund requirement for this debt was $7,913,299, and the value of the debt service reserve fund was $8,312,385. Since the VHFA's creation, it has not been necessary for the State to appropriate money to maintain this debt service reserve fund requirement. For additional information about the VHFA, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

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 reserve fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $100 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, 2011 was $104.0 million. For additional information about the Authority, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

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 Act 200 of 2008, the University of Vermont and State Agricultural College ("UVM") and the Vermont State Colleges ("VSC") are 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. For additional information about UVM and VSC, see their most recent disclosure documents, which can be found on the Electronic Municipal Market Access ("EMMA") system at http://emma.msrb.org.

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, 2011, VSAC's total outstanding indebtedness was $1,964,862,000, of which $50 million is secured by a debt service reserve fund pledge that is permitted under the legislation enacted into law as 16 V.S.A. § 2867 on March 31, 2009 (the "VSAC Moral Obligation Statute"), described below.

Under the VSAC Moral Obligation Statute, VSAC is 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. Both uses of the VSAC Moral Obligation Statute require the consent of the Governor and the Treasurer of the State.

The VSAC Moral Obligation Statute establishes a combined debt service reserve fund and equity fund pledge from the State in an amount not to exceed $50 million. The debt service reserve fund pledge is 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 is limited to $50 million of VSAC bonds, adjusted downward for any amount used for pledged equity funds. The pledged equity fund amount is 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. For additional information about VSAC, see its most recent disclosure document, which can be found on the Electronic Municipal Market Access ("EMMA") system at http://emma.msrb.org.

Transportation Infrastructure Bonds

In 2009, the General Assembly enacted 19 V.S.A. §11f (the "TIB Act"), which provided for the establishment of the Transportation Infrastructure Bond Fund (the "TIB Fund"). Under the TIB Act, the State Treasurer is authorized to issue transportation infrastructure bonds ("TIBs") from time to time in amounts authorized by the General Assembly in its annual transportation bill. The TIB Act provides that the TIB Fund shall be credited with certain funds raised from motor fuel (gas and diesel) assessments levied on distributors. Principal and interest on the TIBs and associated costs will be paid from the

TIB Fund (i.e., not supported from current transportation fund or general fund revenues). However, the State is permitted to add its general obligation to secure the repayment of the TIBs if necessary to market the TIBs in the best interest of the State. After payment of the related bond costs, any remaining money in the TIB Fund may be used to fund qualifying transportation capital projects. In August 2010, the State issued its first series of TIBs, its Special Obligation Transportation Infrastructure Bonds, 2010 Series A (the "2010A TIBs"), in the aggregate principal amount of $14,400,000, of which $13,835,000 is outstanding as of the date of this Official Statement. The 2010A TIBs are not general obligations of the State and are not secured by the full faith and credit of the State.

PENSION PLANS

Defined Benefit Retirement Plans

Overview

The State maintains three defined benefit pension plans with approximately the following membership as of June 30, 2011: the Vermont State Teachers' Retirement System ("STRS"), with 10,123 active, 2,675 inactive, 647 terminated, vested and 7,005 retired members; the Vermont State Employees' Retirement System ("VSRS"), which includes general State employees and State Police, with 7,768 active, 849 inactive, 774 terminated, vested and 5,375 retired members; and the Vermont Municipal Employees' Retirement System ("VMERS"), with 6,475 active, 1,821 inactive, 645 terminated, vested and 1,779 retired members. Each retirement system is serviced by an independent actuarial firm.

The State appropriates funding for pension costs associated with its two major retirement plans, VSRS and 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. Both the VSRS and STRS system unfunded liabilities are amortized over a 30-year period ending in 2038. See "Actuarial Valuation" below.

The STRS appropriation is made from general fund appropriations to the pension fund. In the case of VSRS, the various State cost centers/funds are assessed an employer contribution based on the payroll associated with the cost center/fund. VSRS funding requirements are then calculated as a percentage of the State payroll and are remitted to the pension fund as an employer contribution with each bi-weekly payroll. As actual payroll for the year may vary from estimated totals and from pay period to pay period, a reconciliation is completed by the State each year, and an adjustment to the subsequent appropriation calculation is made to assure that all funds required to meet the projected ARC are remitted to the pension fund.

The State's other statutory pension plan, VMERS, was established effective July 1, 1975. Effective July 1, 1987, and thereafter, all payments to the VMERS' pension accumulation fund are supported entirely by employer (municipal) and employee contributions; the State is not required to make any contributions to VMERS. Employers make quarterly payments into the pension accumulation funds, which payments are percentages of annual earnable compensation of each membership group and consist of a "normal" and "unfunded accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

The following tables set forth the total market value of net 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 defined benefit plans for STRS, VSRS and VMERS for fiscal year 2001 through fiscal year 2011, inclusive.

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

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2011	$1,520,766,932	$32,062,253	$47,134,361	$261,886,311	$128,907,920
2010	1,305,250,050	25,315,397	40,545,321	214,806,420	116,217,934
2009	1,145,066,114	20,937,686	35,960,934	(307,382,558)	109,524,146
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

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

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2011[3]	$1,380,606,734	$22,269,041	$62,535,626	$238,386,383	$113,087,703
2010[3]	1,169,844,902	22,840,354	55,517,534	$182,593,261	101,240,378
2009[3]	1,020,446,564	22,148,754	45,027,364	(242,976,382)	91,038,887
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

[1] Source: Annual Actuarial Valuation Report and Comprehensive Annual Financial Reports.

[2] Net Investment Income is presented in accordance with GASB 25.

[3] Historically, health care contributions and pay-as-you-go payments for VSRS and STRS were included in the pension funds, subordinate to pension benefits, in a sub-trust. In 2009, such health care contributions and payments for VSRS were paid out of a separate trust. Such contributions and payments are included in the above total for comparative purposes. Net Investment Income does not include investment income associated with the separate trust. Interest earnings on the separate trust, which includes the health care contributions and pay-as-you-go payments previously described, as well as OPEB prefunded amounts, were $86,454 in fiscal year 2009, $480,064 in fiscal year 2010 and $802,020 in fiscal year 2011.

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

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2011	$406,901,556	$11,702,728	$11,117,363	$66,957,781	$15,031,192
2010	331,888,451	10,711,600	10,592,919	47,598,096	13,390,141
2009	276,172,429	9,557,973	8,008,862	(56,937,342)	12,839,085
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	195,169,272	4,066,523	4,571,993	(506,729)	9,215,493

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 VMERS during fiscal year 2003 and transferred in existing assets totaling over $6.0 million to cover partial liability for past service.

Actuarial Valuation

Overview. Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. These reports are delivered in late October of each year, and contain an actuarial valuation of the system as of the end of the most recent fiscal year, as well as recommendations for the ARC (defined below) for the current fiscal year and the next two fiscal years. These reports also include, for each system, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions, a summary of member data, the current amortization schedule for the unfunded actuarial accrued liability ("UAAL") and projected benefit payouts and contributions over the next ten years. The actuarial reports for the fiscal year ending June 30, 2011 (the most recently completed actuarial reports) are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/reports/VSERS%202011valuation%20report.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/VSTRS%202011valuation%20report.pdf

An actuarial valuation calculates the actuarial accrued liability in each of the systems, which represents the present value of benefits the system will pay to its retired members and active members upon retirement based on certain demographic and economic assumptions. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the UAAL of the system. The actuarial valuation will express the percentage that a system is funded through a "funded ratio," which represents the actuarial value of assets of the system divided by the actuarial accrued liability of such system. The actuarial valuation will also state an actuarially recommended contribution ("ARC"), which is a recommended amount that the State and other sponsoring employers contribute to the applicable system. The ARC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL. Both the VSRS and STRS system unfunded liabilities are amortized over a 30-year period ending in 2038.

Description of Certain Actuarial Assumptions. To calculate the actuarial value of assets and actuarial accrued liability of each system, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a system differs from these assumptions, the UAAL of such system may increase or decrease to the extent of any such variance. With respect to expected rate of return of assets, for example, the actual rate of return for each system depends on the performance of its investment portfolio. The value of the securities in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the system's UAAL. This could have a resulting impact on the ARC, which may increase the amount of the State's contribution to the system.

As a result of the recommendations set forth in the most recent experience studies conducted by Buck Consultants on each system for the period covering July 1, 2005 through June 30, 2010, commencing with the actuarial valuation for fiscal year 2011, each system adopted a new method of developing interest rate assumptions called "select-and-ultimate." Under this method, differences between near-term and long-term expectations of rates of return on assets may be incorporated in the expected rate of return by setting it on a select-and-ultimate basis. A select-and-ultimate return assumption posits different rates for an initial number of years (called a select period) before stabilizing at an ultimate rate. A select-and-ultimate rate structure can be used to reflect expectations of unusually strong or weak returns in near-term years followed by a trending to a long-term equilibrium. In this sense, it is a more elaborate and complete specification of future return assumptions than is a single rate used in all future years. Each system adopted a uniform interest rate assumption based on the application of the following select-and-ultimate interest rate set:

	Expected Rate of Return
Year 1:	6.25%
Year 2:	6.75
Year 3:	7.00
Year 4:	7.50
Year 5:	7.75
Years 6 through 8:	8.25
Years 9 through 16:	8.50
Year 17 and later:	9.00

Over a 20 year period, the 50^{th} percentile rate of return forecast for such a portfolio is approximately 7.9%. Since the cash flows associated with each system vary, however, for computational or administrative ease, it is preferable to set the assumed interest rate equal to the single rate that produces the same result as the select-and-ultimate rate set. Accordingly, currently, the expected rate of return for VSRS is 8.1% and the expected rate of return for STRS is 7.9%. For fiscal year 2011, the actuarial rate of return of the assets of VSRS was 9.3% and the actuarial rate of return of the assets of STRS was 9.3%.

In addition to the above-described assumptions, the actuarial valuations of each system use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the systems. The actuarial method for both the STRS and the VSRS plans are set by State statute. Through fiscal year 2005 the method used was the entry age normal ("EAN") with frozen initial liability ("FIL"). Under this 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. The Legislature 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. As such, the shift to the EAN method has had the effect of increasing the actuarially unfunded liability and reducing the normal contribution. The State believes that the EAN method is a more accurate indicator of actuarial funding progress and it is now, in fact, the predominant method used by public retirement systems throughout the United States.

An additional actuarial method used in arriving at the actuarial valuation is so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the State uses a 20% "corridor" in order to prevent the smoothed value to stray too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding.

The following chart presents, for each system, the actuarial value of assets, the market value of net assets, the actuarial value of assets as a percent of market value of assets, the investment rate of return based on the actuarial value of assets, and the investment rate of return based on market value assets over the past ten years.

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	Fiscal Year	Actuarial Value (AV) of Assets	Market Value (MV) of Net Assets	AV as % of MV	Investment Rate of Return (AV)	Investment Rate of Return (MV)[1]
STRS						
	2011	$1,486,698,448	$1,520,766,932	97.8%	9.3%	20.5%
	2010	1,410,368,434	1,305,250,049	108.1	6.8	18.0
	2009	1,374,079,337	1,145,066,114	120.0	(11.2)	(19.8)
	2008	1,605,461,728	1,501,320,179	106.9	6.9	(6.6)
	2007	1,541,859,000	1,647,057,577	93.6	10.5	17.4
	2006	1,427,393,070	1,430,282,999	99.8	8.4	10.4
	2005	1,354,006,143	1,333,532,418	101.5	8.1	9.7
	2004	1,284,832,664	1,245,650,105	103.1	7.7	15.7
	2003	1,218,000,794	1,099,109,824	110.8	6.3	5.6
	2002	1,169,294,000	1,065,978,943	109.7	6.7	(4.7)
	2001	1,116,846,000	1,138,548,007	98.1	10.3	(1.6)
	2000	1,037,465,880	1,190,498,179	87.1	13.3	8.6
VSRS						
	2011	$1,348,762,790	$1,380,606,734	97.7%	9.3%	21.2%
	2010	1,265,404,195	1,169,844,902	108.2	6.7	17.9
	2009	1,217,637,578	1,014,697,982	120.0	(9.6)	(18.7)
	2008	1,377,101,471	1,282,493,872	107.4	6.9	(5.9)
	2007	1,318,686,844	1,392,327,467	94.7	9.9	16.5
	2006	1,223,322,954	1,219,616,872	100.3	8.3	10.6
	2005	1,148,907,597	1,120,247,149	102.6	7.8	8.9
	2004	1,081,358,637	1,040,927,987	103.9	7.4	15.7
	2003	1,025,469,088	917,711,810	111.7	5.6	4.6
	2002	990,450,000	892,221,769	111.0	6.1	(5.1)
	2001	954,821,000	962,944,449	99.2	8.7	(7.0)
	2000	895,150,880	1,058,889,568	84.5	14.3	12.2

[1] Investment returns based on market value of net assets are gross of fees.

For VSRS, the market value of net assets as of January 31, 2012 was estimated to be approximately $1,363.6 million and the market rate of return for the current fiscal year through December 31, 2011 was (2.9)%,. For STRS, the market value of net assets as of January 31, 2012 was estimated to be approximately $1,507.6 million and the market rate of return for the current fiscal year through December 31, 2011 was (3.1)%. For a further discussion of the various actuarial methods and significant assumptions used to determine the annual required contribution at the State level for VSRS and STRS, see the 2011 actuarial reports referenced above and Note 5 to the State's fiscal year 2011 CAFR included as Appendix A to this Official Statement.

Recent Actuarial Assumption Changes. Recently, there has been significant discussion on the national level relative to the appropriate interest rate assumptions used by public pension plans. The Vermont retirement systems, in concert with their investment and actuarial consultants, believe that the interest rate assumptions should be viewed as part of an interrelated set of actuarial assumptions and thus evaluated in a comprehensive, formal experience study rather than in isolation. The trustees for each system, therefore, opted to accelerate the existing schedule for conducting experience studies (State law 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 each system and make recommendations for certain modifications of the actuarial assumptions, as needed) and completed such studies for each of the systems this past fiscal year (one year earlier than required under State law). Accordingly, the most recent studies were completed for the VSRS and STRS systems by Buck Consultants for the period covering July 1, 2005 through June 30, 2010. These reports are incorporated herein by reference and available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/reports/VSERSExperienceStudy2010-Final.pdf.

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/2010_experience_study-VSTRS.pdf.

As a result of the recommendations set forth in each of these experience studies, changes in the actuarial assumptions were made in the valuation reports for the period ending June 30, 2011. In particular, the method for developing the assumed rate of return for each system was changed to the "select-and-ultimate" method (see "Actuarial Valuation – *Description of Certain Actuarial Assumptions*" above) and various decrement tables for each system were updated to more closely match the anticipated future experience of such system.

In addition, the amortization periods for all three systems were reset, effective July 1, 2008, for a new period of 30 years. This was done in order to bring the amortization periods for all three systems into uniformity, minimize volatility and lengthen the period over which to absorb actuarial gains and losses. The amortization schedules for each system had diverged from each other as a result of several factors. In particular, as part of a comprehensive review of the funding of the State Teachers' Retirement System in 2005 and 2006, the 30-year period for amortizing the unfunded actuarial accrued liability for STRS had been restarted, effective July 1, 2006. Meanwhile, the amortization period for both VSRS and VMERS, set by statute, had not been changed since 1988 when a 30-year amortization period was set with an ending year of 2018. Furthermore, for VSRS, benefit changes made for employees hired after July 1, 2008, described under the heading "Pension and Health Benefits" below, were amortized over thirty (30) years while the other liabilities remained unchanged. The result was a bifurcated amortization period within the VSRS system itself, as well as varying schedules among systems.

Pension and Health Benefits

Overview. Substantially all State employees and teachers participate in one of the two systems, with five years of employment required before retirement benefits become vested. Retirement benefits are calculated based on a percentage of final average compensation ("AFC"), which is calculated as the average annual compensation during a prescribed period of time based on the particular category of membership an employee falls within. For example, the AFC for Group F employees (the largest VSRS employee group) is calculated as the average annual compensation during the highest three consecutive years. Participants also are offered an early retirement benefit after a prescribed number of years service, if age requirements for those retirement benefits are met. For a summary of the benefit provisions for each of the VSRS and STRS systems, see the most recent actuarial reports referenced above.

Recent Legislative Changes Affecting Benefits Levels. The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under VSRS and STRS. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the system, which also has the effect of increasing the ARC for the State for such system. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the system, which also has the effect of limiting the growth of the ARC for the State for such system in future plan years.

Under legislation enacted in fiscal year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the average final compensation (AFC). Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to a "Rule of 87." The "Rule of 87" refers to the sum of the employee's age and years of service. Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6% per year to one determined on a service-based schedule. The remaining significant provision of the same legislation makes changes to retiree cost of living (COLA) adjustments. The annual COLA applicable to the benefits of Group F members retiring after July 1, 2008 increased 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 were 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.

In an effort to partially offset the increased benefits described above, under legislation enacted in fiscal years 2008 and 2011, contribution rates for State employees in the VSRS system have been increased. Effective July 1, 2008, the contribution rate for Group F employees was raised, through legislation enacted in fiscal year 2008, from 3.35% to 5.1% through June 30, 2019, and 4.85% thereafter, due to the increases in the cost of living benefit for all Group F employees described above. Subsequently, legislation was enacted in fiscal year 2011, effective July 1, 2011, that again raised the contribution rate for Group F employees, as well as all other State employees. In particular, the rate for Group F employees was increased from 5.10% to 6.40% through June 30, 2016, and will be 4.85% thereafter. In addition, the rate for Group A and D employees was increased from 5.10% to 6.40% through

June 30, 2016, and the rate for Group C employees was increased from 6.98% to 8.28% through June 30, 2016. These rate increases netted a savings of approximately $5.3 million.

Following negotiations with the Vermont National Education Association ("VNEA"), significant benefit changes and cost reductions to the STRS system were adopted by the Legislature in 2010 (see Act 74 of 2010 and Act 139 of 2010) (the "VNEA Benefits Legislation"). Annual savings were estimated at that time to approximate more than $15 million per year. For STRS employees more than five years from normal retirement eligibility (less than 25 years of service or less than 57 years old), normal retirement will be 65 or "rule of 90" (combination of years of service and age), instead of 62 years old or with 30 years of service at any age. Early retirement will stay at 55, but the benefit reduction will be based on an actuarial calculation rather than a set percentage as previously calculated. In addition, employees more than five years from normal retirement eligibility will be eligible for a maximum benefit of 60% of AFC, instead of the current 50% of AFC, with a higher (2% instead of 1.67%) multiplier upon completion of 20 years of service. The employee contribution rate will increase from 3.54% to 5.0% for all employees. The legislation also prohibits extraordinary increases in AFC (limit of 10% per year during AFC determination period) being used to determine retirement benefit levels.

The VNEA Benefits Legislation also creates a tiered medical premium co-payment structure. For new hires and those with less than ten years of service the following premium structure applies: no subsidized coverage for retirees with one to 14 years of service, 60% premium single coverage at 15 years, 70% single premium coverage at 20 years, and 80% premium single or spousal coverage at 25 years of service. For current actives as of July 1, 2010 with more than ten years of service, the current 80% single premium coverage continues with the availability of spousal coverage at the same percentage with retirement with 25 years of service.

In fiscal year 2010, the State offered a retirement incentive program. It did not incorporate any enhancements to the retirement benefits or years of service but did offer a cash pay-out, to be paid over two years, using non-pension funds, to encourage those already eligible for normal retirement to retire. Incentives were calculated based on years of creditable service and capped at $15,000. This program resulted in 242 retirements. The retirement incentive legislation stipulates that the State may only refill up to two-thirds of the positions, leaving at least one-third vacant. The State is still evaluating the overall financial impact of this program.

Funded Status and Funding Progress

The amount that the State actually contributes to each system is subject to the Governor's budget request and annual appropriations by the Legislature. In adopting the budget, the Legislature is not required to follow the recommendations of the actuaries or the Governor in determining the appropriation for the State's contribution to each system. Budgeted appropriations to fund the ARC for VSRS and STRS are determined based on the actuarial reports that are completed and delivered for each system in October of the prior fiscal year. When the next actuarial report is delivered the following October, a "true-up" adjustment to the ARC calculation for the current fiscal year is made (based on actual experience over the prior fiscal year), which may increase or decrease the ARC relative to the ARC used for appropriation in that fiscal year.[1] Appropriations, however, are not adjusted to reflect the revised ARC calculation, but rather remain based on the projected ARC calculated in the prior fiscal year's October report.

For the VSRS, the fiscal year 2012 ARC was $36.6 million, based on the actuarial report for the year ended June 30, 2010. A small portion is typically paid by member towns, estimated at $0.5 million, leaving a State portion of $36.1 million. The Legislature passed a base appropriation sufficient to fully fund the fiscal year 2012 ARC. For fiscal year 2013, the VSRS ARC was $37.1 million, based on the actuarial report for the year ended June 30, 2011. Based on an estimate of $0.6 million of contributions by town participants, the actuarial recommendation was reduced to $36.4 million. The Governor's recommended budget for fiscal year 2013 fully funds the fiscal year 2013 ARC. The fiscal year 2013 ARC reflects the results of the previously discussed experience study, including the lowering of the assumed rate of return, using the select-and-ultimate method, and other demographic changes. Had

[1] In particular, with respect to VSRS, since VSRS ARC contributions are made through assessment of employer payroll cost centers, there can be variances between projected and actual contributions. The difference between actual contributions and projected contributions factors into the "true-up" adjustment to the ARC calculation for the current fiscal year. Due to staff reductions and downward adjustments in compensation, actual payroll contributions have been less than projected in recent years, resulting in upward adjustments to the current year VSRS ARC in each subsequent October actuarial report.

the assumed rate of return remained at the prior level of 8.25%, the fiscal year 2013 ARC would have been $33.8 million.

For the STRS, the fiscal year 2012 ARC was $51.2 million, based on the actuarial report for the year ended June 30, 2010. A legislative change to increase employee contributions subsequently reduced the fiscal year 2012 ARC by $5 million to equal $46.2 million. The Legislature passed a base appropriation of $51.7 million, to be supplemented by an estimated $1.3 million of Medicare Part D reimbursement funds, for total funding of $53.0 million. This amount included an additional $1.75 million to be deposited in a sub-fund of the pension fund and used toward the payment of health care expenses. For fiscal year 2013, the STRS ARC was $60.1 million, based on the actuarial report for the year ended June 30, 2011. The Governor's fiscal year 2013 budget recommendation is to make an appropriation of $63.6 million, to be supplemented by an estimated $1.3 million of Medicare Part D reimbursement funds, for total funding of $64.9 million. This amount includes an additional $4.75 million to be deposited in a sub-fund of the pension fund and used toward the payment of health care expenses. As was the case for STRS, the fiscal year 2013 ARC for STRS reflects the results of the previously discussed experience study, including the lowering of the assumed rate of return using the select-and-ultimate method. Had the assumed rate of return remained at the prior level of 8.25%, the fiscal year 2013 ARC would have been $54.9 million.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans from 2001 through 2011, based on the annual actuarial valuation report for each respective year.

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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
	2009*	1,217,638	1,544,144	326,506	78.9	404,516	80.7
	2010*	1,265,404	1,559,324	293,920	81.2	393,829	74.6
	2011*	1,348,763	1,695,301	346,538	79.6	398,264	87.0
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
	2009*	1,374,079	2,101,838	727,759	65.4	561,588	129.6
	2010*	1,410,368	2,122,191	711,823	66.5	562,150	126.6
	2011*	1,486,698	2,331,806	845,108	63.8	547,748	154.3
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)
	2009	331,407	366,973	35,566	90.3	191,521	18.6
	2010	376,153	409,022	32,869	92.0	202,405	16.2
	2011	402,550	436,229	33,679	92.3	205,589	16.4

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.

Defined Contribution Retirement Plans

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, 2011, the VSRS Defined Contribution Plan's net assets totaled $45.1 million and there were 643 participants.

The Legislature granted authority to VMERS's Board of Trustees to establish a defined contribution plan that may be offered in lieu of the defined benefit plan currently available under VMERS. 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, 2011, the VMERS Defined Contribution Plan's net assets totaled $16.0 million and there were 566 participants.

Other Post-Employment Benefits

Beginning in fiscal year 2008, pursuant to rules adopted by the Governmental Accounting Standards Board covering non-pension post-employment benefits, primarily health insurance (GASB Statement Nos. 43 and 45), public sector entities, such as the State, are required 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 results 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, 2011. 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. Since the VSRS has accumulated some assets, a third blended calculation is also included. 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.

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. The discount rate for the STRS is estimated at 4.0%, while the discount rate for VSRS is a "blended rate" of 4.25%, reflecting some level of prefunding from Medicare D receipts. In the event of prefunding, the discount rate would increase to a return on long-term investments consistent with the respective pension funds, currently estimated at 8.1% for VSRS and 7.9% for STRS. 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. As further described below, an OPEB trust has been established for VSRS 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 STRS and no prefunding has been made.

For VSRS, assuming no additional prefunding beyond the Medicare D receipts, the actuarial accrued liability for OPEB obligations earned through June 30, 2011 is $1,009.8 million with a UAAL of $998.6 million. This represents a net increase of $81.3 million over the UAAL as of June 30, 2010 of $917.3 million. The increase in liability is primarily attributable to the following factors:

- Expected increases due to the passage of time;
- Demographic experience different than expected;
- Updates to demographic assumptions as recommended by the experience study; and
- Refinements to the way the impact of health care reform is estimated.

Increases in net liabilities due to these factors were somewhat mitigated by increases in per capita healthcare costs that were smaller than anticipated, and a return on assets better than expected. Based on the actuarial report for the year ended June 30, 2011, the VSRS OPEB ARCs for fiscal years 2012 and 2013, each calculated assuming no additional prefunding and an assumed discount rate of 4.25%, are $69.9 million and $73.4 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for VSRS OPEB obligations earned through June 30, 2011 is reduced to $605.1 million with a UAAL of $593.9 million, and the OPEB ARC for fiscal year 2012 is calculated to be $47.2 million. In fiscal year 2011, the State funded actual health care pay-as-you-go payments for VSRS in the amount of $24.9 million. Under the current year budget, the State expects fiscal year 2012 health care pay-as-you-go payments for VSRS to be approximately $28.0 million.

For STRS, assuming no prefunding, the actuarial accrued liability and the UAAL for OPEB obligations earned through June 30, 2011 is $780.0 million. This represents a net increase of $76.2 million over the UAAL as of June 30, 2010 of $703.8 million. The increase in liability is primarily attributable to the following factors:

- Expected increases due to the passage of time:
- First time inclusion of the retirements that occur on the day after the valuation; and
- Updates to demographic assumptions as recommended by the experience study.

Increases due to these factors were mitigated by an actuarial gain due to increases in plan premiums that were smaller than expected. Based on the actuarial report for the year ended June 30, 2011, the STRS OPEB ARCs for fiscal years 2012 and 2013, each calculated on the pay-as-you-go basis at an assumed discount rate of 4.00%, are $43.4 million and $45.3 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability and UAAL for STRS OPEB obligations earned through June 30, 2011 is reduced to $436.8 million, and the OPEB ARC for fiscal year 2012 is calculated to be $29.4 million. In fiscal year 2011, the State funded actual health care pay-as-you-go payments for STRS in the amount of $18.7 million. Under the current year budget, the State expects fiscal year 2012 health care pay-as-you-go payments for STRS to be approximately $21.0 million.

The State has not yet made decisions on when or how it will fund the full OPEB 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. In addition, the 2009 Legislature expanded this fund to also include amounts contributed or otherwise made available by members of the VSRS or their beneficiaries for the purpose of meeting current or future post-employment benefits costs. Since 2009, the State has been depositing money into this fund. In fiscal year 2011, healthcare pay-as-you-go payments for VSRS were paid out of this fund. As of June 30, 2011, the fund had assets of $11.2 million.

In the case of VSRS, current year heath care expenses are expressly funded, separate from the pension actuarial contribution. In the case of STRS, the health care expenses are paid through a sub-fund of the pension fund but are not explicitly budgeted or funded, are treated as an amortized actuarial loss, and are therefore not included in the net OPEB Obligation ("NOO") calculation, but rather are reflected as part of the Net Pension Obligation ("NPO"). The ARC for fiscal year 2012 and fiscal year 2013 included some incremental budget increases to begin to address this. See Note 5 to the State's fiscal year 2011 CAFR, included as Appendix A to this Official Statement, for additional information on the funded status and the development of the NPO and NOO.

The funding status as of June 30, 2011 is as follows (dollars in thousands):

Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**UAAL**	**Funded Ratio**	**Covered Payroll**	**UAAL as a Percentage of Covered Payroll**
VSRS:						
2011	$11,216	$1,009,782	$998,576	1.1%	$420,321	237.6%
STRS						
2011	$0	$780,032	$780,032	0.0%	$547,748	142.4%

Note: The VSRS reflects a "blended rate" reflecting some level of prefunding from Medicare D receipts, resulting in an assumed discount of 4.25% instead of the pay-as-you-go liability calculated at 4% for STRS.

LABOR RELATIONS

As of June 30, 2011, there were 7,742 employees (approximately 7,665 full time equivalent positions) in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary employees. Therefore, they are not included in the number of employees.

Most of the State's classified employees in certified bargaining units are represented by the Vermont State Employees' Association (VSEA). The 270 +/- member Vermont State Police bargaining unit is represented by the Vermont Troopers' Association (VTA). The State's current contract with its unionized VSEA employees, which began on July 1, 2010 and expires on June 30, 2012, provides for a 3% across the board pay decrease for the duration of the contract, as well as a "freeze" of the traditional longevity-based salary increases (steps) for the duration of the contract. The successor agreements, which are subject to union ratification and funding approval by the Legislature, provide for a restoration of the 3% pay decrease, plus an additional across the board pay increase of 2%, and the resumption of step increases effective July 1, 2012. In July 2013, an additional 2% across the board salary increase would be granted. The VTA bargaining unit has negotiated a new two-year agreement, beginning July 1, 2011 and expiring June 30, 2013, which provides for no across the board pay increase and a continuation of the "freeze" of the traditional longevity-based salary increases (steps) for fiscal year 2012, but also restores some benefits that were suspended for fiscal year 2011. The VTA contract provides for implementation of a new State Police Pay Plan in fiscal year 2013.

LITIGATION

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

TAX MATTERS

In the opinion of Edwards Wildman Palmer 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 Series A Bonds, the Series B Bonds and the Series D Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. **Interest on the Series C Bonds is included in the gross income of the owners of the Series C Bonds for federal income tax purposes.** 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 Tax-Exempt Bonds. Failure to comply with these requirements may result in interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Tax-Exempt Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

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. Complete copies of the proposed forms of opinion of Bond Counsel are set forth in Appendix C hereto.

To the extent the issue price of any series and 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 (with respect to the Tax-Exempt Bonds) 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 series and maturity of the Bonds is the first price at which a substantial amount of such series and 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 series and 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 that are Tax-Exempt 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 Tax-Exempt Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Tax-Exempt Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Tax-Exempt Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any 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 market value and marketability of, or the tax status of interest on, the Tax-Exempt Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Medicare Tax on Unearned Income. The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) requires certain U.S. holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, interest and gains from the sale or other disposition of the Series C Bonds for taxable years beginning after December 31, 2012. U.S. holders that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Series C Bonds.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and interest on the Bonds 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, deduction or exclusion. 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

Public Resources Advisory Group, Media, Pennsylvania ("PRAG"), serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, PRAG has read and participated in the preparation of certain portions of this Official Statement. PRAG 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. PRAG is not obligated to undertake to make an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

UNDERWRITING OF THE SERIES A BONDS AND THE SERIES D BONDS

The Series A Bonds and the Series D Bonds are being purchased for re-offering by the underwriters named on the cover page of this Official Statement (the "Series A/D Underwriters"), at an aggregate purchase price of $105,854,998.65 and the Series A/D Underwriters will receive a fee from the State in an amount equal to $317,547.43. Pursuant to the Contract of Purchase, the Series A/D Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Series A Bonds and the Series D Bonds if any are purchased. The Series A/D Underwriters may offer and sell the Series A Bonds and the Series D Bonds to certain dealers and others (including dealers depositing Series A Bonds and Series D Bonds into investment trusts) at prices lower (or yields higher) than the public offering prices (or yields) stated on the inside cover pages hereof. The public offering prices (or yields) set forth on the inside cover pages hereof may be changed from time to time after the initial offering by the Series A/D Underwriters.

The following language has been provided by the underwriter named therein. The State takes no responsibility as to the accuracy or completeness thereof.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., one of the underwriters of the Series A Bonds, the Series B Bonds (as described under "COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS") and the Series D Bonds, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with the Series A Bonds, the Series B Bonds and the Series D Bonds.

Wells Fargo Securities is the trade name for certain capital markets investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS

After competitive bidding on March 7, 2012, the Series B Bonds were awarded to Citigroup Global Markets Inc. (the "Series B Representative"), as representative of a syndicate of underwriters (the "Series B Underwriters"). The Series B Representative has supplied the information as to the public offering yield or prices of the Series B Bonds set forth on the inside cover pages hereof. The Series B Representative has informed the State that if all of the Series B Bonds are resold to the public at those yields or prices, they anticipate the total Series B Underwriters' compensation to be $210,000.00. The Series B Underwriters may change the public offering yields or prices from time to time.

After competitive bidding on March 7, 2012, the Series C Bonds were awarded to Piper Jaffray & Co. (the "Series C Underwriter"). The Series C Underwriter has supplied the information as to the public offering yield or prices of the Series C Bonds set forth on the inside cover pages hereof. The Series C Underwriter has informed the State that if all of the Series C Bonds are resold to the public at those yields or prices, they anticipate the total Series C Underwriter's compensation to be $5,902.50. The Series C Underwriter may change the public offering yields or prices from time to time.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date of delivery and payment, proceeds of the Series D Bonds will be used to purchase Government Obligations to be held in trust by the escrow agent to provide for payment of principal of and interest and premium on the Refunded Bonds through their respective maturity or redemption dates. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the State relating to (a) computation of anticipated receipts of principal and interest on the Government Obligations to pay the regularly scheduled debt service on the Refunded Bonds until the respective maturity dates or call dates and to redeem the Refunded Bonds on those respective call dates and (b) computation of yields on the Series D Bonds and the Government Obligations will be verified by The Arbitrage Group, Inc., independent arbitrage consultants. Such computations are based solely upon assumptions and information supplied by or on behalf of the State. The Arbitrage Group, Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

RATINGS

The State has received ratings of "AAA," "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.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, whose approving opinion will be delivered with the Bonds. Copies of the proposed forms of opinion are attached hereto as Appendix C. Certain legal matters will be passed upon for the Series A/D 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 a certificate of the 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 such 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. The Annual Report and events notices will be filed by the State with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Report or the events notices 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").

In the previous five years, the State has never failed to comply in all material respects with any previous undertakings with respect to the Rule.

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. Elizabeth A. Pearce, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, telephone: (802) 828-2301 or from Mr. Thomas F. Huestis, Senior Managing Director, Public Resources Advisory Group, 117 Gayley Street, Suite 200, Media, Pennsylvania 19063, Telephone: (610) 565-5990.

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 2012 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 2012 and 2013 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/ Peter E. Shumlin
Governor

By: /s/ Elizabeth A. Pearce
Treasurer

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APPENDIX A

STATE OF VERMONT’S ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The information in this Appendix A includes pages 14 through 161 of the State of Vermont’s Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended June 30, 2011. The entire CAFR is available from Finance & Management’s website at http://finance.vermont.gov/reports_and_publications/cafr.

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KPMG

KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

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, 2011, 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 certain 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, the Vermont Information Technology Leaders, Inc., or the Tri-State Lotto Commission. The discretely presented component units identified in note 1A represent 75% of the total assets and 40% of the total revenues of the aggregate discretely presented component units. The Vermont Lottery Commission represents 100% of the total assets and total revenues of the Vermont Lottery Commission Fund and 7% of the total assets and 29% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 70% of the total assets and 6% of the total revenues of the Federal Revenue Fund. The Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund and the Vermont Information Technology Leaders, Inc., represent 15% of the total assets and 11% of the total revenues of the Special Fund and collectively represent 9% of the total assets and 2% of the 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 included for the discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., and 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 such 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 significant estimates made by management, as well as evaluating the overall

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The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont
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financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont as of June 30, 2011, 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 to the financial statements, the State adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

The Management's Discussion and Analysis and 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 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 introduction and statistical sections and the other supplementary information 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 other supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introduction and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 23, 2011

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2011. 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 2011. 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

Government-wide

- Vermont reported net assets of $1.588 billion, comprised of $3.237 billion in total assets offset by $1.649 billion in total liabilities at June 30, 2011 (Table 1).

- The primary government's net assets have increased by $263.7 million as a result of this year's operations. The net assets for governmental activities increased $274.2 million and net assets for business activities decreased by $10.5 million (Table 2).

Fund level

- Beginning in FY 2011, the State implemented GASB Statement 54, which provides new fund balance classifications for governmental funds. The previous reserved and unreserved classifications have been replaced with nonspendable, restricted, and unrestricted (committed, assigned, and unassigned) balances. Additional information on the State's fund balances can be found in Note 1 in the notes to the basic financial statements.

- The State's governmental funds reported a combined ending fund balance of $869.1 million, an increase of 31.0 percent over last year. Of this amount, $391.0 million is available for spending at the State's discretion (committed, assigned, and unassigned fund balance).

- The State's General Fund reported an operating surplus this year of $74.1 million which increased the accumulated fund balance to $214.4 million, of which $2.2 million is nonspendable and $60.2 million is committed for specific purposes.

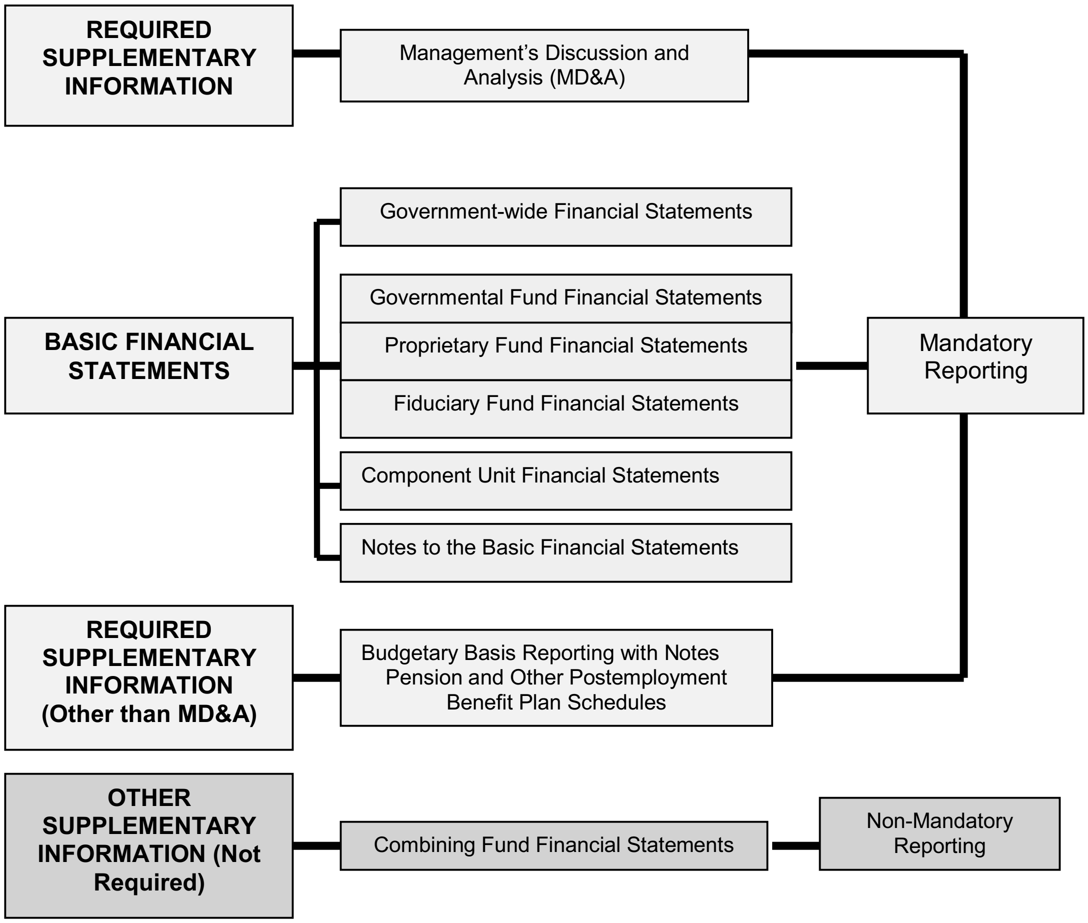
Long-term debt

- The State's debt outstanding for General and Special Obligation Bonds increased $36.8 million as compared to fiscal year 2010.

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 presented in the following diagram. Notice the relationships between the various elements of the CAFR, such as "mandatory versus non-mandatory" reporting, or "required versus not required" supplementary information. This diagram is designed to illustrate how the various elements of the state's financial activity fit together in this CAFR.



<u>Basic Financial Statements</u>

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 a snapshot of both the primary government's and its component units' assets and liabilities, as of the date of this report, 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 three categories: governmental activities, business-type activities, and discretely presented component unit activities. 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 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. The governmental 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 primary government has the ability to impose its will on the entity, receive a benefit from activities of the entity, or could receive a financial burden due to the activities of the entity. 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.

Blended Component Units – The State has one blended component unit, *Vermont Information Technology Leaders, Inc. (VITL)*, which provides services almost exclusively to the State. The financial position of VITL has been blended within the Statement of Net Assets and Statement of Activities in the governmental activities column and in the special funds.

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 Other 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 Other 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, Proprietary Funds, and Fiduciary Funds. Following is a brief overview of these three major categories of funds.

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 twenty 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, two debt service 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 and at the fund level. 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 nine enterprise funds of which three are reported as major funds in separate columns on the proprietary fund statements. These three are the Unemployment Compensation Fund, the Liquor Control Fund, and the Vermont Lottery Commission. The other six enterprise funds are reported as "non-major funds" and are consolidated into one column on the proprietary fund statements.

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 – Total Internal Service Funds" 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 of this report.

Fiduciary Funds
The fiduciary funds are used to 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. 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); an Investment Trust Fund (which reports only the external portion of the Vermont Pension Investment Committee investment pool); a Private Purpose Trust Fund (which reports only the Unclaimed Property Fund); and Agency Funds (ten 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 four 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 Other Supplementary Information section 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 and the Schedule of Employer Contributions for the other postemployment benefit plans.

Schedules for the General Fund and 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 section. 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 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 $1.588 billion at the end of 2011, as shown in Table 1. Approximately $1.609 billion 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 investment in capital assets, net of related debt, represents resources used to provide services to citizens, and therefore is 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 (30.9 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 $511.6 million.
The governmental activities' negative unrestricted net assets balance is mainly the result of three actions: 1) long-term debt issued by the State for municipal, non-profit or component unit capital purposes, $213.3 million outstanding at June 30, 2011, that does not result in a governmental activities' capital asset, 2) the amount of net assets that are restricted for various purposes, and 3) the net Pension and OPEB liabilities (See Note 5).

The business type-activities' negative unrestricted net asset balance is the result of an $11.2 million deficit in the Unemployment Compensation Trust Fund. Changes were made to the unemployment compensation insurance program effective January 1, 2010, to retire this deficit (See Note 15).

At the end of fiscal year 2011, the State reported positive total net asset balances in its governmental activities and discretely presented component units, and a negative net asset balance in its business-type activities.

The following primary government condensed financial statement information is derived from the State's June 30, 2011 and 2010 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	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current assets	$ 916.4	$ 729.0	$ 82.0	$ 49.0	$ 998.4	$ 778.0
Other assets	396.7	371.1	4.2	4.8	400.9	375.9
Capital assets	1,837.1	1,655.1	0.9	0.9	1,838.0	1,656.0
Total assets	3,150.2	2,755.2	87.1	54.7	3,237.3	2,809.9
LIABILITIES						
Long-term liabilities	1,143.7	1,012.5	79.5	34.6	1,223.2	1,047.1
Other liabilities	412.5	422.9	13.2	15.2	425.7	438.1
Total liabilities	1,556.2	1,435.4	92.7	49.8	1,648.9	1,485.2
NET ASSETS						
Invested in capital assets, net of related debt	1,607.9	1,456.9	0.9	0.9	1,608.8	1,457.8
Restricted	491.2	117.3	-	1.0	491.2	118.3
Unrestricted (deficit)	(505.1)	(254.4)	(6.5)	3.0	(511.6)	(251.4)
Total net assets	$ 1,594.0	$ 1,319.8	$ (5.6)	$ 4.9	$ 1,588.4	$ 1,324.7

In 2011, governmental activities' revenues exceeded expenses by $252.2 million and received transfers of $22.0 million from business activities, resulting in a 20.8 percent increase in net assets. Business-type activities had an overall decrease in net assets of 214.3 percent, resulting from an operating profit of $11.5 million and by transfers out of $22.0 million to governmental activities, primarily from the Lottery ($21.4 million) to support education.

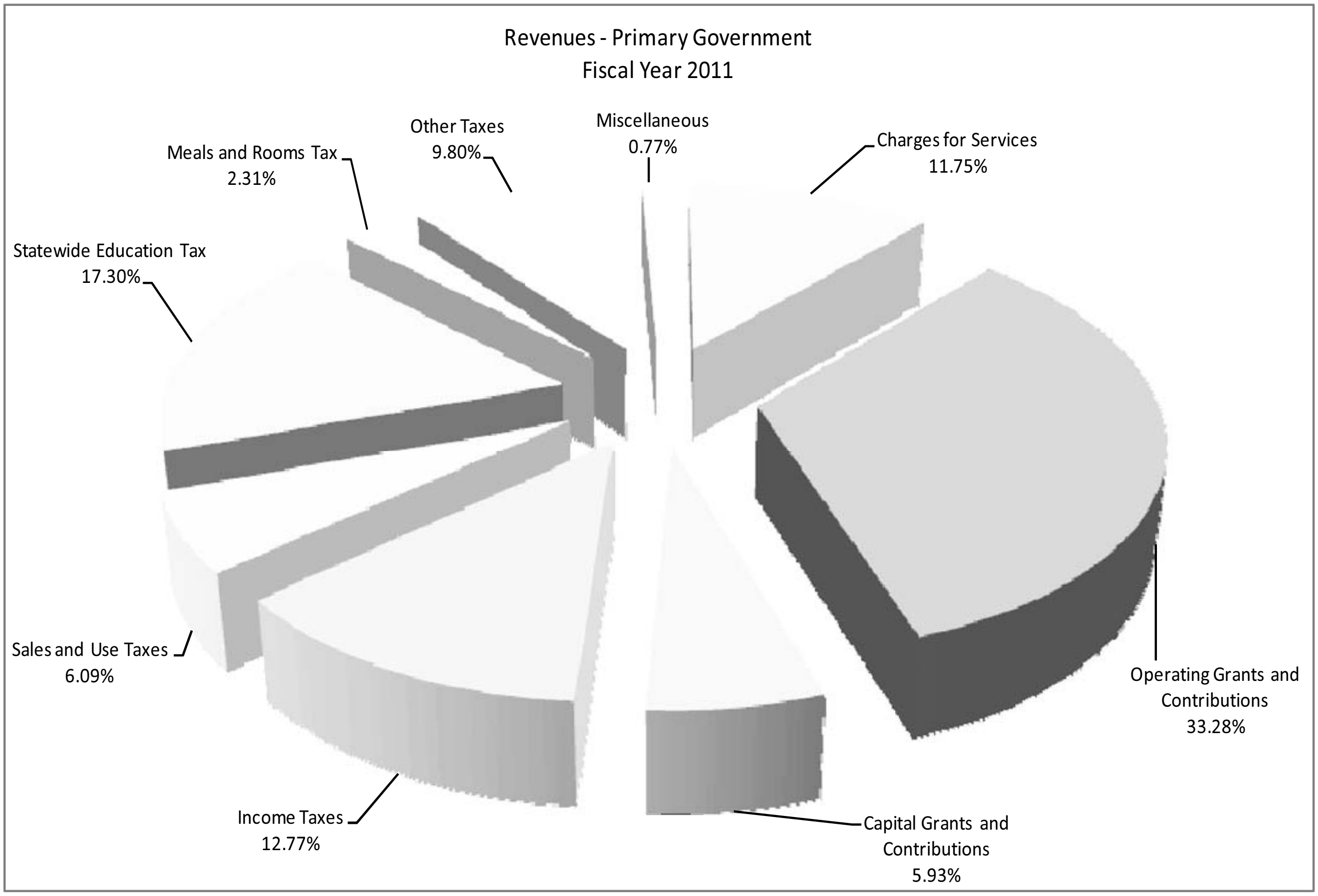
The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2011 and 2010, and contains primary government data only.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	357.0	327.9	266.5	234.0	623.5	561.9
Operating grants and contributions	1,703.9	1,669.6	62.5	128.6	1,766.4	1,798.2
Capital grants and contributions	314.6	232.2	-	-	314.6	232.2
General revenues						
Income taxes	677.9	563.2	-	-	677.9	563.2
Sales and use taxes	323.4	316.8	-	-	323.4	316.8
Statewide education tax						
Gross tax assessed	1,065.4	1,047.6	-	-	1,065.4	1,047.6
Income sensitivity adjustment	(147.5)	(137.9)	-	-	(147.5)	(137.9)
Meals and rooms tax	122.6	118.9	-	-	122.6	118.9
Other taxes	520.0	467.7	-	-	520.0	467.7
Miscellaneous	40.9	43.0	-	1.3	40.9	44.3
Total revenues	4,978.2	4,649.0	329.0	363.9	5,307.2	5,012.9
Expenses						
General government	161.2	169.3	-	-	161.2	169.3
Protection to persons and property	326.0	266.8	-	-	326.0	266.8
Human services	1,969.3	1,861.5	-	-	1,969.3	1,861.5
Labor	32.2	35.8	-	-	32.2	35.8
General educaton	1,670.5	1,688.3	-	-	1,670.5	1,688.3
Natural resources	106.9	73.0	-	-	106.9	73.0
Commerce and community	-	-	-	-		
development	48.2	71.8	-	-	48.2	71.8
Transportation	390.8	324.7	-	-	390.8	324.7
Public service enterprises	-	2.7	-	-	-	2.7
Interest on long-term debt	20.9	18.6	-	-	20.9	18.6
Unemployment compensation	-	-	190.7	293.7	190.7	293.7
Lottery commission	-	-	74.1	75.9	74.1	75.9
Liquor control	-	-	47.9	47.1	47.9	47.1
Other business type expenses	-	-	4.8	1.9	4.8	1.9
Total expenses	4,726.0	4,512.5	317.5	418.6	5,043.5	4,931.1
Increase (decrease) in net assets before transfers	252.2	136.5	11.5	(54.7)	263.7	81.8
Transfers net in (out)	22.0	23.4	(22.0)	(23.4)	-	-
Change in net assets	274.2	159.9	(10.5)	(78.1)	263.7	81.8
Net assets, beginning of year, as restated	1,319.8	1,159.9	4.9	83.0	1,324.7	1,242.9
Net assets, end of year	$ 1,594.0	$ 1,319.8	$ (5.6)	$ 4.9	$ 1,588.4	$ 1,324.7

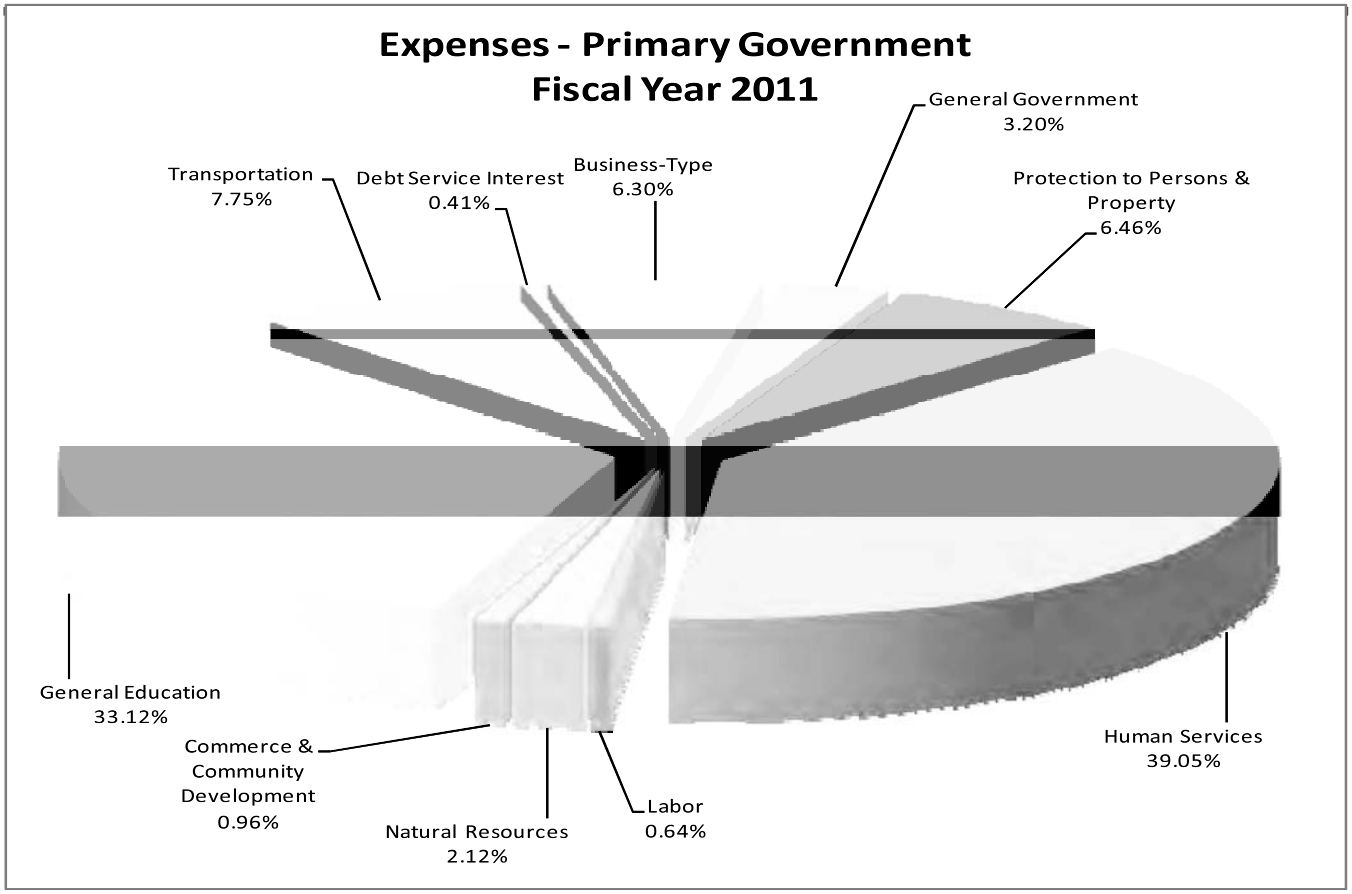
Totals may not add due to rounding.

The following graph illustrates the revenues of Vermont's primary government for fiscal year 2011. Approximately 39.21 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 30.07 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 for fiscal year 2011. The largest category of expense is for human services (39.05 percent of total expense) 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 category of expense is for general education (33.12 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, *unrestricted (unassigned, assigned, and committed) fund balances* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2011, the unrestricted fund balance is 44.99 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 is restricted or nonspendable to indicate that it is not available for new spending such as the principal of the State's Permanent Funds, and other items that are nonspendable, such as advances and prepaid items and long-term liabilities. At the end of fiscal year 2011, the State's governmental funds reported combined fund balances of $869.1 million, an increase of $205.6 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2011, the General Fund's total fund balance was $214.4 million and the unassigned portion of this fund balance was $146.6 million. Its remaining fund balance was made up of nonspendable amounts totaling $2.2 million, and committed and assigned amounts totaling $65.6 million. During 2011, total revenues and other financing sources exceeded total expenditures and other financing uses by $74.1 million.

The Special Fund's total fund balance at the end of fiscal year 2011 was $85.1 million, a decrease of 16.9 percent in comparison with 2010. The Special Fund's total fund balance is comprised of $5.2 million as restricted and $79.9 million as committed or assigned. Special Fund revenues increased $46.3 million and expenditures decreased $1.0 million compared to 2010 resulting in an increase in "excess of revenues over expenditures" of $47.4 million from last fiscal year. Fiscal year 2011 transfers out to other funds exceeded transfers in from other funds by $237.8 million. The Special Fund transferred $258.5 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 all federal grants except those federal grants that are awarded to the Agency of Transportation (which are included in the Transportation Fund), the Agency of Human Services (which are included in the Global Commitment 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 2011 were $902.6 billion, a 45.7 percent decrease over fiscal year 2010's federal grant revenues. The majority of this decrease is for federal grants for the payment of the Federal share of Medicaid expenditures under the Global Commitment to Health Medicaid waiver. That amount is now reported as revenue in the Global Commitment Fund. The Federal Revenue Fund's total fund balance at the end of fiscal year 2011 ($321.4 million) was an increase of $19.1 million as compared to the total fund balance at the end of fiscal year 2010.

The fiscal year 2011 ending total fund balance for the Global Commitment Fund was $108.0 million. Revenues and net transfers in of $1,100.9 million exceeded expenditures of $994.9 million by $106.0 million.

The Education Fund at June 30, 2011, had a total fund balance of $48.7 million, which represents a $2.3 million increase over fiscal year 2010's ending balance. Prior to fiscal year 2008, the State appropriated property tax relief payments directly to taxpayers based on taxpayer income levels and property taxes (income sensitivity). Beginning with fiscal year 2009, the State changed the methodology it used to implement income sensitivity as applied to property taxes. Now the State determines the amount each taxpayer is to receive based on their personal income tax return submissions and notifies each municipality of the amount each taxpayer is to have applied against their gross property tax bill. The municipality then applies this amount against the homeowner's gross property tax. The State pays the sensitivity amount to the municipality directly. The Education Fund's reserve for budget stabilization increased $0.4 million to $30.3 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $20.3 million at June 30, 2011, an increase of $1.2 million from the fiscal year 2010 ending total fund balance. This increase was primarily the result of revenue exceeding expenditures by $9.7 million offset by transfers to other funds of $8.5 million. The Transportation Fund's reservation for budget stabilization increased from $10.3 million to $10.4 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's total net asset balance declined from $1.0 million at June 30, 2010 to a negative $11.2 million at June 30, 2011, a decline of $12.2 million in one year. 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, 2011 were $9.4 million, a $9.1 million increase from June 30, 2010. This increase is primarily due to operating income totaling $8.4 million, net non-operating revenues of $0.5 million and net transfers in from other funds of $0.2 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 State government. The *pension and other postemployment benefit trust funds'* net assets increased by 17.36 percent to $3.47 billion at June 30, 2011. 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, 2011 is $9.2 million, and total liabilities balance is $7.9 million, including the escheat property claims liability estimated at $7.88 million, resulting in ending net assets of $1.3 million. The Investment Trust Fund's total net assets at June 30, 2011, were $122.9 million. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The State ended fiscal year 2011 with General Fund revenues of $1.167 billion, expenditures of $886.5 million, and net transfers to other funds of $200.6 million (non-GAAP budgetary basis). This was a $129.4 million increase in revenues over the previous year. The fiscal year 2011 General Fund consensus revenue forecast initially approved by the Emergency Board in July, 2010 was subsequently revised upward by the Emergency Board at their January 2011 meeting. Compared to target, the revenues were 7.1 percent above the July, 2010 revised revenue forecast of $1,090.4 million, and 4.5 percent above the January 2011 revenue forecast of $1,117.5 million. The higher than projected General Fund revenues were attributable to higher than expected Personal Income Tax receipts ($19.0 million above target), Estate Tax receipts ($14.9 million above target), Corporate Income Tax receipts ($9.1 million above target), and Sales & Use Tax receipts ($1.6 million above target). No revenues were significantly below target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $54.4 million, representing the statutory maximum of 5 percent of the prior year appropriations level.

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, 2011, was $1.838 billion, a total increase of 11.0 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 organizations' 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, 2011, the State had $213.3 million of general obligation bonds outstanding related to capital assets of these other organizations. Additional information on the State's capital assets can be found in Note 4 of the notes to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land, Land Use Rights, and Land Improvements	$ 114,141	$ 108,125	$ -	$ -	$ 114,141	$ 108,125
Construction in Progress	439,533	396,092	-	-	439,533	396,092
Works of Art	136	136	-	-	136	136
Buildings and Improvements	245,633	222,290	23	29	245,656	222,319
Machinery and Equipment	54,138	49,762	834	915	54,972	50,677
Infrastructure	983,474	878,556	-	-	983,474	878,556
Totals	$ 1,837,055	$ 1,654,961	$ 857	$ 944	$ 1,837,912	$ 1,655,905

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. Annually, the General Assembly passes appropriations for capital purposes and authorizes the State Treasurer to issue general obligation bonds to provide the financing for all or a portion of the appropriations. 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 2011, the State of Vermont's outstanding general and special obligation bond debt increased by approximately $36.8 million. This increase can be accounted for by the issuance of $75 million of general obligation bonds, $14.3 million of special obligation bonds and accretion of $0.5 million in principal on the State's capital appreciation bonds offset by the redemption of $53.1 million. Additional information on the State's bonded debt 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 AAA by Fitch Ratings (since April 2010).

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 2010, the CDAAC issued its recommendation by presenting two proposals, one for fiscal year 2012 alone and one for fiscal years 2012 and 2013 as a unit. The CDAAC proposed that the maximum amount of long-term general obligation debt authorized to be issued by the State in each of fiscal year 2012 and 2013 be $76.58 million or a total of $153.16 million for the two year period.

Economic Outlook
Recent data on Vermont economic conditions indicate that the performance of the Vermont economy has generally outperformed the developments in the U.S. economy overall during the past 12 to18 months since the

State's last period of economic recession ended. Real GDP growth is expected to accelerate in the second half of 2011 to more than 3%. Consumer spending has continued to underpin the recovery. The primary downside risks are related to potential economic policy errors in Washington and the European Union. Job market data shows that Vermont labor markets have continued to outpace the U.S. average, with the sixth lowest unemployment rate in the nation in May, 2011 at 5.4%. Construction and real estate markets continue to struggle, and housing prices in Vermont experienced a minor decline. This poses policy challenges for the Education Fund property tax. Income based taxes showed exceptional strength in 2011; however much of this strength was due to one-time events, which are unlikely to recur. The large consumption taxes ended fiscal year 2011 about 1% above target, and growth is expected to continue into fiscal year 2012.

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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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents	$ 582,325,752	$ 43,845,771	$ 626,171,523	$ 326,383,685
Taxes receivable, net	90,279,097	29,622,607	119,901,704	-
Loans and notes receivable, net	33,757,683	982,624	34,740,307	236,465,398
Federal grants receivable	156,994,169	1,391,094	158,385,263	40,612,850
Other receivables, net	20,643,901	3,251,586	23,895,487	95,796,007
Investments	25,749,691	-	25,749,691	202,714,982
Inventories	2,532,668	5,782,411	8,315,079	398,812
Internal balances	2,975,817	(2,975,817)	-	-
Receivable from primary government	-	-	-	3,276,859
Other current assets	1,183,927	137,255	1,321,182	37,407,578
Total current assets	916,442,705	82,037,531	998,480,236	943,056,171
Noncurrent Assets				
Cash and equivalents	-	536,854	536,854	187,476,444
Taxes receivable	108,821,598	-	108,821,598	-
Other receivables	48,599,397	69,802	48,669,199	-
Loans and notes receivable	190,580,047	1,537,896	192,117,943	2,908,580,046
Investments	40,239,000	2,079,970	42,318,970	533,832,985
Other noncurrent assets	8,509,408	-	8,509,408	30,032,294
Capital assets				
Land	114,140,562	-	114,140,562	32,656,316
Construction in progress	439,533,473	-	439,533,473	10,326,338
Works of art	136,003	-	136,003	-
Capital assets being depreciated				
Infrastructure	1,686,052,884	-	1,686,052,884	32,877,703
Property, plant and equipment	596,484,486	2,179,933	598,664,419	1,149,556,473
Less accumulated depreciation	(999,292,084)	(1,323,029)	(1,000,615,113)	(477,303,443)
Total capital assets, net of depreciation	1,837,055,324	856,904	1,837,912,228	748,113,387
Total noncurrent assets	2,233,804,774	5,081,426	2,238,886,200	4,408,035,156
Total assets	3,150,247,479	87,118,957	3,237,366,436	5,351,091,327

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

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	245,290,256	9,426,071	254,716,327	103,105,780
Income tax refunds payable	57,783,477	-	57,783,477	-
Payable to primary government	-	-	-	1,699,116
Payable to component units	1,577,743	-	1,577,743	-
Intergovernmental payable - due to federal government	6,526,509	-	6,526,509	-
Accrued interest payable	8,202,163	-	8,202,163	8,516,287
Current portion of long-term liabilities	88,292,466	3,103,164	91,395,630	628,119,216
Unearned revenue	4,789,773	730,125	5,519,898	34,126,979
Total current liabilities	412,462,387	13,259,360	425,721,747	775,567,378
Long-term liabilities				
Lottery prize awards payable	-	1,610,161	1,610,161	-
Bonds, notes and leases payable	461,286,181	-	461,286,181	3,296,365,817
Compensated absences	11,342,510	136,668	11,479,178	-
Claims and judgments	29,588,523	-	29,588,523	-
Other long-term liabilities	641,561,494	77,731,861	719,293,355	185,572,880
Total long-term liabilities	1,143,778,708	79,478,690	1,223,257,398	3,481,938,697
Total liabilities	1,556,241,095	92,738,050	1,648,979,145	4,257,506,075
NET ASSETS				
Invested in capital assets, net of related debt	1,607,969,779	856,904	1,608,826,683	145,156,808
Restricted for				
Component unit net assets	-	-	-	807,031,000
Funds held in permanent investments				
Expendable	351,958	-	351,958	-
Nonexpendable	7,416,453	-	7,416,453	-
General government	14,671,050	-	14,671,050	-
Protection to persons and property	19,241,898	-	19,241,898	-
Human services	150,450,296	-	150,450,296	-
Labor	5,216,212	-	5,216,212	-
General education	1,748,464	-	1,748,464	-
Natural resources	285,295,363	-	285,295,363	-
Commerce and community development	301,027	-	301,027	-
Transportation	4,486,803	-	4,486,803	-
Debt service	1,986,575	-	1,986,575	-
Unrestricted (deficit)	(505,129,494)	(6,475,997)	(511,605,491)	141,397,444
Total net assets	$ 1,594,006,384	$ (5,619,093)	$ 1,588,387,291	$ 1,093,585,252

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government	$ 161,192,255	$ 22,091,755	$ 43,111,170	$ -
Protection to persons and property	325,958,987	150,756,058	64,879,053	8,088
Human services	1,969,294,411	22,759,476	1,351,440,489	-
Labor	32,193,842	12,731,226	24,597,727	-
General education	1,670,516,810	3,045,264	147,134,563	142,522
Natural resources	106,875,097	24,973,700	34,925,071	18,864,847
Commerce and community development	48,205,655	512,176	18,697,438	-
Transportation	390,837,034	119,421,823	19,161,114	295,561,925
Interest on long-term debt	20,887,649	667,564	-	-
Total governmental activities	4,725,961,740	356,959,042	1,703,946,625	314,577,382
Business-type activities				
Vermont Lottery Commission	74,146,769	95,542,973	-	-
Liquor Control	47,928,143	50,249,370	-	-
Unemployment Compensation	190,679,297	116,323,099	62,444,950	-
Other	4,761,243	4,423,387	-	-
Total business-type activities	317,515,452	266,538,829	62,444,950	-
Total primary government	$ 5,043,477,192	$ 623,497,871	$ 1,766,391,575	$ 314,577,382
Component Units				
Vermont Student Assistance Corporation	$ 111,490,000	$ 63,072,000	$ 47,246,000	$ -
University of Vermont and State Agricultural College	609,156,000	344,995,000	235,087,000	8,790,000
Vermont State Colleges	184,785,099	113,623,464	67,765,321	2,792,353
Vermont Housing Finance Agency	40,223,750	1,152,554	-	-
Other	69,850,724	47,990,257	29,486,620	5,952,918
Total component units	$ 1,015,505,573	$ 570,833,275	$ 379,584,941	$ 17,535,271

General Revenues
Taxes
Personal and corporate income
Sales and use
Meals and rooms
Purchase and use
Motor fuel
Statewide education
Other taxes

Total taxes
Investment earnings
Tobacco litigation settlement
Additions to non-expendable endowments
Miscellaneous
Transfers

Total general revenues and transfers

Changes in net assets

Net Assets - Beginning, as restated

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 Activities	Total	
$ (95,989,330)	$ -	$ (95,989,330)	$ -
(110,315,788)	-	(110,315,788)	-
(595,094,446)	-	(595,094,446)	-
5,135,111	-	5,135,111	-
(1,520,194,461)	-	(1,520,194,461)	-
(28,111,479)	-	(28,111,479)	-
(28,996,041)	-	(28,996,041)	-
43,307,828	-	43,307,828	-
(20,220,085)	-	(20,220,085)	-
(2,350,478,691)	-	(2,350,478,691)	-
-	21,396,204	21,396,204	-
-	2,321,227	2,321,227	-
-	(11,911,248)	(11,911,248)	-
-	(337,856)	(337,856)	-
-	11,468,327	11,468,327	-
(2,350,478,691)	11,468,327	(2,339,010,364)	-
			(1,172,000)
-	-	-	(20,284,000)
-	-	-	(603,961)
-	-	-	(39,071,196)
-	-	-	13,579,071
-	-	-	(47,552,086)
677,861,819	-	677,861,819	-
323,353,299	-	323,353,299	-
122,558,397	-	122,558,397	-
76,994,312	-	76,994,312	-
63,712,289	-	63,712,289	-
917,936,004	-	917,936,004	-
379,268,726	-	379,268,726	6,101,662
2,561,684,846	-	2,561,684,846	6,101,662
2,966,334	(23,367)	2,942,967	117,673,767
33,864,352	-	33,864,352	-
-	-	-	547,550
4,157,045	11,929	4,168,974	18,368,836
22,025,934	(22,025,934)	-	-
2,624,698,511	(22,037,372)	2,602,661,139	142,691,815
274,219,820	(10,569,045)	263,650,775	95,139,729
1,319,786,564	4,949,952	1,324,736,516	998,445,523
$ 1,594,006,384	$ (5,619,093)	$ 1,588,387,291	$ 1,093,585,252

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Vermont

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents	$ 137,418,605	$ 23,178,460	$ 49,300,991	$ 85,530,159
Investments	11,700,000	-	-	29,799,815
Receivables				
Taxes receivable, net	171,126,714	9,631,221	14,121,245	4,118,487
Accrued interest receivable	11,936	188	-	1,929
Notes and loans receivable	757,999	210,010	-	4,566,671
Other receivables, net	7,428,674	8,958,054	-	22,260,668
Intergovernmental receivables - federal government, net	376,253	29,561,030	-	-
Due from other funds	802,292	181,069	-	1,936,678
Due from component units	2,949,534	-	-	62,827
Interfund receivable	39,065,716	-	-	-
Advances to other funds	303,400	-	-	-
Advances to component units	1,142,663	-	-	-
Total assets	$ 373,083,786	$ 71,720,032	$ 63,422,236	$ 148,277,234
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$ 22,700,868	$ 36,364,797	$ 11,642,647	$ 26,380,798
Accrued liabilities	7,890,806	3,827,643	-	2,475,600
Retainage payable	66,618	249,417	-	16,915
Due to other funds	12,534,050	62,042	10,195	22,484,573
Due to component units	-	-	-	-
Intergovernmental payable - federal government	-	-	-	-
Tax refunds payable	5,356,351	-	162,735	3,539
Deferred revenue	110,159,075	10,879,587	2,858,065	11,802,973
Total liabilities	158,707,768	51,383,486	14,673,642	63,164,398
FUND BALANCES				
Nonspendable				
Advances	1,446,063	-	-	-
Long-term notes and loans receivable	757,999	-	-	-
Permanent Fund principal	-	-	-	-
Restricted	-	-	-	5,234,120
Committed	60,165,194	20,336,546	48,748,594	79,555,767
Assigned	5,364,300	-	-	322,949
Unassigned	146,642,462	-	-	-
Total fund balances	214,376,018	20,336,546	48,748,594	85,112,836
Total liabilities and fund balances	$ 373,083,786	$ 71,720,032	$ 63,422,236	$ 148,277,234

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
$ 87,536,132	$ 86,705,005	$ 59,031,349	$ -	$ 528,700,701
433,127	-	24,055,749	-	65,988,691
-	-	103,028	-	199,100,695
14,404	-	-	-	28,457
218,803,050	-	-	-	224,337,730
2,529,518	23,625,126	545,666	-	65,347,706
70,842,053	55,672,296	542,537	-	156,994,169
330,840	34,330,547	9,198	(35,774,985)	1,815,639
493,626	-	-	-	3,505,987
-	-	-	-	39,065,716
-	-	-	-	303,400
-	-	-	-	1,142,663
$ 380,982,750	$ 200,332,974	$ 84,287,527	$ (35,774,985)	$ 1,286,331,554
$ 40,136,960	$ 78,232,059	$ 5,182,519	$ -	$ 220,640,648
3,426,264	1,696,994	400,442	-	19,717,749
317,912	302,357	1,366,685	-	2,319,904
967,472	34,195	67,005	(35,774,985)	384,547
-	-	6,226,393	-	6,226,393
5,209,262	-	-	-	5,209,262
-	-	-	-	5,522,625
9,479,084	11,997,730	595	-	157,177,109
59,536,954	92,263,335	13,243,639	(35,774,985)	417,198,237
-	-	-	-	1,446,063
-	-	-	-	757,999
-	-	7,416,453	-	7,416,453
321,445,796	108,069,639	33,780,876	-	468,530,431
-	-	31,178,227	-	239,984,328
-	-	-	-	5,687,249
-	-	(1,331,668)	-	145,310,794
321,445,796	108,069,639	71,043,888	-	869,133,317
$ 380,982,750	$ 200,332,974	$ 84,287,527	$ (35,774,985)	$ 1,286,331,554

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2011

Total fund balances from previous page		$	**869,133,317**
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	114,114,406		
Construction in progress	436,103,725		
Depreciable capital assets and infrastructure, net of $951,106,562 of accumulated depreciation	1,250,560,598		
Capital assets, net of accumulated depreciation			1,800,778,729
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			9,345,161
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			152,414,957
Deferred charge for unamortized bond issuance costs and discount on sale of bonds			3,826,930
Deferred for unamortized loss on sale of refunding bonds			4,682,478
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 (net of interneal service funds' liability)	(509,654,828)		
Accrued interest payable on bonds	(8,202,163)		
Intergovernmental payable - federal government	(1,317,247)		
Compensated absences (net of internal service funds' liability)	(31,117,057)		
Tax refunds payable	(52,260,852)		
Other long-term liabilities	(643,623,041)		
Long-term liabilities			(1,246,175,188)
Net assets of governmental activities		$	**1,594,006,384**

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, 2011

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax	$ 551,344,136	$ -	$ -	$ 2,747,962
Corporate income tax	93,915,057	-	-	-
Sales and use tax	217,092,154	-	108,382,402	-
Meals and rooms tax	122,484,475	-	-	-
Motor fuels tax	-	60,888,496	-	1,872,870
Purchase and use tax	-	51,325,929	25,668,383	-
Statewide education tax	-	-	917,936,004	-
Other taxes	156,273,036	16,745,111	2,128,074	209,732,523
Earnings of departments				
Fees	20,451,033	23,826,276	-	61,054,554
Rents and leases	-	1,534,358	-	3,192,162
Sales of services	1,070,211	9,515	-	12,362,881
Federal grants	-	314,336,296	-	-
Fines, forfeits and penalties	5,736,182	5,108,614	-	6,873,865
Investment income	388,901	104,385	52,155	3,013,980
Licenses				
Business	2,964,818	707,923	-	13,351,859
Non-business	82,225	76,635,359	-	3,218,394
Special assessments	-	-	-	60,465,150
Other revenues	2,770,752	10,780,792	-	75,079,850
Total revenues	1,174,572,980	562,003,054	1,054,167,018	452,966,050
EXPENDITURES				
General government	72,428,990	-	9,921,783	16,228,144
Protection to persons and property	98,940,392	28,576,070	-	110,545,823
Human services	391,601,800	-	-	50,894,324
Labor	2,347,670	-	-	4,617,824
General education	141,597,694	-	1,298,115,318	18,703,612
Natural resources	19,492,396	-	-	27,227,952
Commerce and community development	17,429,577	-	-	4,130,147
Transportation	23,570	523,760,388	-	77,863
Debt service	-	-	-	-
Total expenditures	743,862,089	552,336,458	1,308,037,101	232,425,689
Excess of revenues over (under) expenditures	430,710,891	9,666,596	(253,870,083)	220,540,361
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	-	-	-	-
Transfers in	43,576,969	-	256,173,438	54,452,152
Transfers out	(400,161,485)	(8,493,350)	-	(292,273,024)
Total other financing sources (uses)	(356,584,516)	(8,493,350)	256,173,438	(237,820,872)
Net change in fund balances	74,126,375	1,173,246	2,303,355	(17,280,511)
Fund balances, July 1, as restated	140,249,643	19,163,300	46,445,239	102,393,347
Fund balances, June 30	$ 214,376,018	$ 20,336,546	$ 48,748,594	$ 85,112,836

The accompanying notes are an integral part of these statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 554,092,098
-	-	-	-	93,915,057
-	-	-	-	325,474,556
-	-	-	-	122,484,475
-	-	950,923	-	63,712,289
-	-	-	-	76,994,312
-	-	-	-	917,936,004
-	-	-	-	384,878,744
-	-	171,135	-	105,502,998
-	-	46,322	-	4,772,842
-	-	2,175	-	13,444,782
902,656,765	783,392,647	7,719,122	-	2,008,104,830
-	-	10,884	-	17,729,545
470,597	-	2,307,295	-	6,337,313
-	-	1,320	-	17,025,920
2,500	-	6,514,987	-	86,453,465
-	-	8,616	-	60,473,766
641,116	-	906,535	-	90,179,045
903,770,978	783,392,647	18,639,314	-	4,949,512,041
41,435,805	-	27,691,725	-	167,706,447
62,859,582	1,843,342	7,733,403	-	310,498,612
525,972,108	987,702,115	5,991,462	-	1,962,161,809
23,990,754	-	-	-	30,956,248
147,109,795	5,382,869	12,643,431	-	1,623,552,719
40,708,822	-	21,393,525	-	108,822,695
18,680,493	-	7,993,022	-	48,233,239
-	-	12,798,001	-	536,659,822
-	-	71,912,126	-	71,912,126
860,757,359	994,928,326	168,156,695	-	4,860,503,717
43,013,619	(211,535,679)	(149,517,381)	-	89,008,324
-	-	89,400,000	-	89,400,000
-	-	1,602,102	-	1,602,102
3,866,297	341,076,074	84,550,885	(755,867,216)	27,828,599
(27,772,478)	(23,570,491)	(5,866,297)	755,867,216	(2,269,909)
(23,906,181)	317,505,583	169,686,690	-	116,560,792
19,107,438	105,969,904	20,169,309	-	205,569,116
302,338,358	2,099,735	50,874,579	-	663,564,201
$ 321,445,796	$ 108,069,639	$ 71,043,888	$ -	$ 869,133,317

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, 2011

Total net change in fund balances from the previous page	**$ 205,569,116**
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	263,751,023
Depreciation expense	(84,556,135)
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	53,195,000
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	
Bonds issued	(89,400,000)
Bond premium is amortized over the life of the bonds in the statement of activities	61,594
Refunding bonds gain amortized over the life of the refunded bonds	(2,429,122)
Bond discount is amortized over the life of the bonds in the statement of activities	(22,351)
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	653,385
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds	412,962
Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities	15,076,585
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Net increase in accrued interest payable	(803,041)
Accreted interest on capital appreciation bonds	(579,705)
Increase in compensated absences	(44,009)
Increase in employer pension and other postemployment related costs	(94,307,797)
Increase in pollution remediation related costs	(54,536)
Increase in intergovernmental payable - federal government	(1,317,247)
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	9,014,098
Total changes in net assets of governmental activities as reported on the statement of activities	**$ 274,219,820**

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, 2011

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents	$ 37,833,410	$ 2,711,693	$ 1,954,250
Receivables			
Taxes receivable, net of allowance for uncollectibles	29,622,607	-	-
Accrued interest receivable	-	-	-
Accounts receivable, net of allowance for uncollectibles	1,071,553	428,070	1,406,865
Loans receivable	-	-	-
Due from other funds	-	-	-
Intergovernmental receivables - federal government	1,391,094	-	-
Inventories, at cost	-	5,125,250	485,136
Prepaid expenses	-	-	-
Total current assets	69,918,664	8,265,013	3,846,251
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	-
Investments	-	-	2,079,970
Loans receivable	-	-	-
Accounts receivable - subcriptions	-	-	-
Imprest cash and change fund - advances	-	500	300,000
Total restricted assets	-	500	2,379,970
Capital Assets			
Land	-	-	-
Construction in progress	-	-	-
Works of art	-	-	-
Capital assets being depreciated/amortized			
Machinery, equipment and buildings	-	1,904,880	269,244
Less accumulated depreciation	-	(1,083,309)	(238,187)
Total capital assets, net of depreciation	-	821,571	31,057
Total restricted and capital assets	-	822,071	2,411,027
Total assets	69,918,664	9,087,084	6,257,278
LIABILITIES			
Current Liabilities			
Accounts payable	1,058,082	4,744,614	449,309
Accrued salaries and benefits	-	317,293	136,776
Claims payable	-	-	-
Due to lottery winners	-	-	244,014
Due to agents	-	429,546	-
Due to other funds	112,800	717,738	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	2,659,643
Unearned revenue	-	-	159,537
Capital leases payable	-	-	-
Other current liabilities	2,215,511	-	-
Total current liabilities	3,386,393	6,209,191	3,649,279
Long-term Liabilities			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	1,610,161
Claims payable	-	-	-
Advances from other funds	-	500	300,000
Capital leases payable	-	-	-
Other noncurrent liabilities	77,731,861	-	-
Total long-term liabilities	77,731,861	500	1,910,161
Total liabilities	81,118,254	6,209,691	5,559,440
NET ASSETS			
Invested in capital assets, net of related debt	-	821,571	31,057
Unrestricted (deficit)	(11,199,590)	2,055,822	666,781
Total net assets	$ (11,199,590)	$ 2,877,393	$ 697,838

The accompanying notes are an integral part of these statements.

	Business-type Activities-Enterprise Funds			Governmental Activities
	Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
	$ 1,043,017	$ -	$ 43,542,370	$ 53,625,051
	-	-	29,622,607	-
	14,450	-	14,450	-
	330,649	-	3,237,137	9,146,394
	982,624	-	982,624	-
	112,995	(112,800)	195	8,996
	-	-	1,391,094	-
	172,025	-	5,782,411	2,532,668
	137,255	-	137,255	1,183,927
	2,793,015	(112,800)	84,710,143	66,497,036
	536,854	-	536,854	-
	-	-	2,079,970	-
	1,537,896	-	1,537,896	-
	69,802	-	69,802	-
	2,900	-	303,400	-
	2,147,452	-	4,527,922	-
	-	-	-	26,156
	-	-	-	3,429,748
	-	-	-	8,200
	5,809	-	2,179,933	80,998,013
	(1,533)	-	(1,323,029)	(48,185,522)
	4,276	-	856,904	36,276,595
	2,151,728	-	5,384,826	36,276,595
	4,944,743	(112,800)	90,094,969	102,773,631
	349,660	-	6,601,665	6,849,879
	61,241	-	515,310	2,673,454
	-	-	-	12,155,134
	-	-	244,014	-
	-	-	429,546	-
	702	(112,800)	718,440	1,098,096
	1,972,601	-	1,972,601	36,756,237
	-	-	2,659,643	-
	33,734	-	193,271	27,621
	-	-	-	480,440
	214	-	2,215,725	-
	2,418,152	(112,800)	15,550,215	60,040,861
	536,854	-	536,854	-
	-	-	1,610,161	-
	-	-	-	29,588,523
	2,900	-	303,400	-
	-	-	-	3,780,657
	-	-	77,731,861	-
	539,754	-	80,182,276	33,369,180
	2,957,906	(112,800)	95,732,491	93,410,041
	4,276	-	856,904	32,015,498
	1,982,561	-	(6,494,426)	(22,651,908)
	$ 1,986,837	$ -	(5,637,522)	$ 9,363,590
Adjustment to reflect the consolidation of internal service activities related to enterprise funds..................................			18,429	
Net Assets - Business-type Activities..........			$ (5,619,093)	

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services	$ 116,323,099	$ 46,973,750	$ -
Ticket sales	-	-	95,540,604
Rental income	-	-	-
License fees	-	1,150,469	-
Federal donated properties	-	-	-
Advertising revenues	-	-	-
Other operating revenues	-	2,125,151	2,369
Total operating revenues	116,323,099	50,249,370	95,542,973
OPERATING EXPENSES			
Cost of sales and services	-	37,018,810	71,526,163
Claims expense	190,679,297	-	-
Salaries and benefits	-	3,521,875	1,427,886
Insurance premium expense	-	16,305	5,974
Contractual services	-	600,075	80,321
Repairs and maintenance	-	83,198	7,588
Depreciation	-	302,700	14,910
Rental expense	-	60,267	187,817
Utilities and property management	-	327,304	89,901
Non-capital equipment purchased	-	169,818	18,774
Promotions and advertising	-	67,801	546,342
Administration expenses	-	79,060	22,066
Supplies and parts	-	194,530	33,423
Distribution and postage	-	40,240	20,673
Travel	-	31,260	10,670
Other operating expenses	-	5,458,126	168,703
Total operating expenses	190,679,297	47,971,369	74,161,211
Operating income (loss)	(74,356,198)	2,278,001	21,381,762
NONOPERATING REVENUES (EXPENSES)			
Federal grants	62,444,950	-	-
Gain on disposal of capital assets	-	11,929	-
Investment income	-	-	(24,150)
Other non-operating revenues (expenses)	-	-	-
Total nonoperating revenues (expenses)	62,444,950	11,929	(24,150)
Income (loss) before contributions and transfers	(11,911,248)	2,289,930	21,357,612
Transfers in	389,478	-	-
Transfers out	(641,253)	(840,066)	(21,435,868)
Changes in net assets	(12,163,023)	1,449,864	(78,256)
Total net assets, July 1, as restated	963,433	1,427,529	776,094
Total net assets, June 30	$ (11,199,590)	$ 2,877,393	$ 697,838

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
$ 3,616,973	$ -	$ 166,913,822	$ 238,590,241
-	-	95,540,604	-
-	-	-	13,079,476
-	-	1,150,469	-
357,855	-	357,855	-
311,201	-	311,201	-
137,358	-	2,264,878	2,119,384
4,423,387	-	266,538,829	253,789,101
3,287,261	-	111,832,234	25,861,054
-	-	190,679,297	128,069,374
652,492	-	5,602,253	31,014,962
6,810	-	29,089	7,505,173
262,271	-	942,667	3,908,265
362	-	91,148	6,648,626
1,533	-	319,143	7,491,004
14,197	-	262,281	2,322,421
21,241	-	438,446	11,757,186
5,960	-	194,552	2,194,035
169,234	-	783,377	19,696
35,902	-	137,028	8,150,083
3,545	-	231,498	9,243,585
280,795	-	341,708	100,733
1,802	-	43,732	121,053
20,510	-	5,647,339	1,017,266
4,763,915	-	317,575,792	245,424,516
(340,528)	-	(51,036,963)	8,364,585
-	-	62,444,950	-
-	-	11,929	420,777
783	-	(23,367)	85,564
-	-	-	-
783	-	62,433,512	506,341
(339,745)	-	11,396,549	8,870,926
891,253	(1,030,731)	250,000	2,019,909
(389,478)	1,030,731	(22,275,934)	(1,816,397)
162,030	-	(10,629,385)	9,074,438
1,824,807	-	4,991,863	289,152
$ 1,986,837	$ -	$ (5,637,522)	$ 9,363,590

Total change in net assets reported above..........	$ (10,629,385)
Consolidation adjustment of internal service activities related to enterprise funds......	60,340
Change in net assets - business type activities...	$ (10,569,045)

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 105,395,305	$ 62,748,426	$ 95,504,965
Cash paid to suppliers for goods and services	-	(44,673,071)	-
Cash paid to employees for services	-	(3,651,881)	(1,501,384)
Cash paid for prizes and commissions	-	-	(66,143,929)
Cash paid to claimants	(192,079,842)	-	-
Liquor taxes and licenses paid	-	(15,762,364)	-
Cash paid for fees, operations and other	-	-	(6,457,599)
Other operating revenues	-	3,275,620	2,369
Other operating expenses	-	(11,990)	-
Total cash provided (used) by operating activities	(86,684,537)	1,924,740	21,404,422
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(174,644)	(840,066)	(21,420,144)
Other nonoperating (expenses)	-	-	-
Interfund loans and advances	-	(6,000)	-
Federal grants	62,679,296	-	-
Temporary loan from federal government	45,074,796	-	-
Net cash provided (used) by noncapital financing activities	107,579,448	(846,066)	(21,420,144)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(226,042)	-
Proceeds from capital leases	-	-	-
Proceeds from sale of capital assets	-	11,929	-
Net cash provided (used) by capital and related financing activities	-	(214,113)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	-	-	(66,955)
Proceeds from sales/maturities of investments	-	-	242,219
Net cash provided (used) by investing activities	-	-	175,264
Net increase (decrease) in cash and cash equivalents	20,894,911	864,561	159,542
Cash and cash equivalents, July 1	16,938,499	1,847,632	2,094,708
Cash and cash equivalents, June 30	$ 37,833,410	$ 2,712,193	$ 2,254,250
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ (74,356,198)	$ 2,278,001	$ 21,381,762
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	302,700	14,910
(Increase) decrease in accounts/taxes receivable	(10,927,794)	12,312	(67,700)
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	104,663	69,945
(Increase) decrease in prepaid expenses	-	-	-
Increase (decrease) in accounts payable	-	(804,836)	16,249
Increase (decrease) in accrued salaries and benefits	-	(130,006)	(73,498)
Increase (decrease) in claims payable	(1,138,391)	-	-
Increase (decrease) in due to lottery winners	-	-	(161,428)
Increase (decrease) in due to agents	-	71,931	-
Increase (decrease) in future and unclaimed prizes payable	-	-	192,121
Increase (decrease) in due to other funds	-	89,975	-
Increase (decrease) in deferred revenues	-	-	32,061
Increase (decrease) in other liabilities	(262,154)	-	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	(12,328,339)	(353,261)	22,660
Net cash provided (used) by operating activities	$ (86,684,537)	$ 1,924,740	$ 21,404,422
Noncash investing, capital, and financing activities:			
Retirement of assets not fully depreciated	-	-	-
Receipt of inventory from other funds on consignment	-	-	-

NOTE: Total cash and 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
$ 4,978,724	$ 268,627,420	$ 254,101,990
(4,557,221)	(49,230,292)	(76,822,886)
(676,985)	(5,830,250)	(31,931,127)
-	(66,143,929)	-
-	(192,079,842)	(128,760,448)
-	(15,762,364)	-
-	(6,457,599)	-
80,308	3,358,297	2,119,384
(42,510)	(54,500)	(1,017,266)
(217,684)	(63,573,059)	17,689,647
424,644	(22,010,210)	1,229,737
-	-	-
245,982	239,982	727,040
-	62,679,296	-
-	45,074,796	-
670,626	85,983,864	1,956,777
(5,809)	(231,851)	(10,853,992)
-	-	(449,991)
-	11,929	848,213
(5,809)	(219,922)	(10,455,770)
783	(66,172)	87,647
-	242,219	-
783	176,047	87,647
447,916	22,366,930	9,278,301
1,134,855	22,015,694	44,346,750
$ 1,582,771	$ 44,382,624	$ 53,625,051
$ (340,528)	$ (51,036,963)	$ 8,364,585
1,533	319,143	7,491,004
60,392	(10,922,790)	2,448,325
232,376	232,376	-
2,533	2,533	-
(195)	(195)	(10,682)
(14,129)	160,479	(275,924)
(57,775)	(57,775)	(85,822)
(48,807)	(837,394)	1,369,076
(24,438)	(227,942)	(886,742)
-	(1,138,391)	(691,074)
-	(161,428)	-
-	71,931	-
-	192,121	-
(55)	89,920	(17,910)
(26,635)	5,426	(15,189)
57	(262,097)	-
(2,013)	(2,013)	-
122,844	(12,536,096)	9,325,062
$ (217,684)	$ (63,573,059)	$ 17,689,647
-	-	(8,025)
-	-	7,431

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Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 13,347,025	$ -	$ 4,209,305	$ 6,754,557
Investments at fair value				
Pooled investments	3,279,429,741	123,133,371	-	-
Fixed income	5,904,488	-	-	-
Equities	2,741,815	-	2,715,704	-
Real estate and venture capital	965,098	-	-	-
Mutual funds	150,118,117	-	-	-
Invested securities lending collateral	267,399,290	10,145,680	-	-
Receivables				
Taxes	-	-	-	2,639,380
Contributions - current	10,400,871	-	-	-
Contributions - noncurrent	6,805,308	-	-	-
Interest and dividends	470,629	-	-	-
Due from other funds	376,253	-	-	-
Other	1,121,105	-	-	1,678,653
Prepaid expenses	10,857	-	-	-
Other assets	-	-	2,309,091	-
Capital assets				
Construction in progress	3,072,370	-	-	-
Capital assets being depreciated				
Equipment	2,188,574	-	613	-
Less accumulated depreciation	(589,497)	-	(400)	-
Total capital assets, net of depreciation	4,671,447	-	213	-
Total assets	3,743,762,044	133,279,051	9,234,313	11,072,590
LIABILITIES				
Accounts payable	5,426,693	123,984	14,854	-
Accrued liabilities	-	-	24,399	-
Claims payable	-	-	7,882,209	-
Retainage payable	602,973	-	-	-
Interfund loans payable	14,670	118,450	-	203,758
Due to depositories	-	-	-	70,018
Intergovernmental payable - other governments	-	-	-	6,652,452
Amounts held in custody for others	-	-	-	3,118,503
Other liabilities	-	-	-	1,027,859
Securities lending obligations	267,399,291	10,145,680	-	-
Total liabilities	273,443,627	10,388,114	7,921,462	$ 11,072,590
NET ASSETS HELD IN TRUST FOR				
Employees' pension benefits	3,448,108,026	-	-	
Employees' other postemployment benefits	22,210,391	-	-	
Pool participants	-	122,890,937	-	
Individuals, organizations and other governments	-	-	1,312,851	
Net assets held in trust for benefits and other purposes	$ 3,470,318,417	$ 122,890,937	$ 1,312,851	

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, 2011

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions			
Employer - pension benefit	$ 84,071,931	$ -	$ -
Employer - healthcare benefit	38,963,027	-	-
Plan member	67,333,013	-	-
Transfers from non-state systems	7,379	-	-
Medicare part D drug subsidy	3,381,505	-	-
Early retiree reinsurance program	2,183,712	-	-
Total contributions	195,940,567	-	-
Investment Income			
Net appreciation in fair value of investments	13,905,239	-	-
Income from pooled investments	577,606,430	21,624,889	-
Dividends	2,261,783	-	-
Interest income	2,359,876	-	79,967
Securities lending income	1,527,001	-	-
Other income	643,781	-	-
Total investment income	598,304,110	21,624,889	79,967
Less Investment Expenses			
Investment managers and consultants	13,617,379	478,706	-
Securities lending expenses	375,531	-	-
Total investment expenses	13,992,910	478,706	-
Net investment income	584,311,200	21,146,183	79,967
Pool participant deposits	-	2,000,000	-
Escheat property remittances	-	-	5,171,404
Total additions	780,251,767	23,146,183	5,251,371
DEDUCTIONS			
Retirement benefits	214,757,312	-	-
Other postemployment benefits	43,902,020	-	-
Refunds of contributions	4,226,308	-	-
Death claims	764,430	-	-
Depreciation	260,980	-	205
Operating expenses	2,993,344	18,017	648,515
Pool participant withdrawal	-	2,000,000	-
Transfers out	-	-	3,736,268
Total deductions	266,904,394	2,018,017	4,384,988
Change in net assts held in trust for			
Employees' pension benefits	508,589,017	-	-
Employees' other postemployment benefits	4,758,356	-	-
Pool participants	-	21,128,166	-
Individuals, organizations and other governments	-	-	866,383
Net Assets, July 1	2,956,971,044	101,762,771	446,468
Net Assets, June 30	$ 3,470,318,417	$ 122,890,937	$ 1,312,851

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
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2011

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
ASSETS						
Current Assets						
Cash and cash equivalents	$ 231,702,000	$ 69,372,000	$ 564,867	$ 1,842,551	$ 22,902,267	$ 326,383,685
Investments	3,179,000	114,157,000	71,459,022	1,518,686	12,401,274	202,714,982
Accounts receivable, net	-	18,210,000	11,618,192	-	2,632,647	32,460,839
Accrued interest receivable - loans	28,409,000	-	-	3,831,875	22,148,648	54,389,523
Accrued interest receivable - investments	15,000	-	-	818,773	-	833,773
Loans and notes receivable - current portion	166,743,000	3,030,000	-	12,948,100	53,744,298	236,465,398
Other receivables	708,000	3,682,000	-	3,494,216	227,656	8,111,872
Due from federal government	313,000	19,198,000	-	-	21,101,850	40,612,850
Due from primary government	-	-	-	-	3,276,859	3,276,859
Inventories, at cost	-	-	282,498	-	116,314	398,812
Other current assets	1,311,000	9,763,000	9,097,455	12,988,272	4,247,851	37,407,578
Total current assets	432,380,000	237,412,000	93,022,034	37,442,473	142,799,664	943,056,171
Restricted and Noncurrent Assets						
Cash and cash equivalents	-	8,875,000	569,406	177,450,250	581,788	187,476,444
Investments	-	340,690,000	24,592,245	95,983,153	72,567,587	533,832,985
Deferred bond issue costs	8,241,000	-	-	3,569,804	6,039,199	17,850,003
Loans and notes receivable, net	1,696,054,000	27,519,000	5,360,356	487,249,428	692,397,262	2,908,580,046
Other assets	-	6,069,000	1,028,974	5,078,460	5,857	12,182,291
Total restricted and noncurrent assets	1,704,295,000	383,153,000	31,550,981	769,331,095	771,591,693	3,659,921,769
Capital Assets						
Land	3,150,000	22,197,000	5,712,848	775,000	821,468	32,656,316
Construction in progress	-	-	7,214,193	-	3,112,145	10,326,338
Capital assets, being depreciated						
Buildings and leasehold improvements	16,772,000	716,655,000	210,232,291	1,688,174	25,465,606	970,813,071
Equipment, furniture and fixtures	9,628,000	149,265,000	14,459,891	1,203,323	4,187,188	178,743,402
Infrastructure	-	-	32,877,703	-	-	32,877,703
Less accumulated depreciation	(11,094,000)	(338,993,000)	(109,853,528)	(2,101,600)	(15,261,315)	(477,303,443)
Total capital assets, net of depreciation	18,456,000	549,124,000	160,643,398	1,564,897	18,325,092	748,113,387
Total assets	2,155,131,000	1,169,689,000	285,216,413	808,338,465	932,716,449	5,351,091,327
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	7,084,000	55,780,000	13,214,172	1,610,512	3,090,109	80,778,793
Accrued interest payable	-	-	-	5,741,278	60,631	5,801,909
Bond interest payable	928,000	-	-	-	1,786,378	2,714,378
Unearned revenue	6,584,000	16,296,000	6,803,976	14,350	4,428,653	34,126,979
Other current liabilities	-	-	-	-	20,477,887	20,477,887
Current portion of long-term liabilities	329,847,000	7,541,000	4,433,894	130,025,706	156,271,616	628,119,216
Due to primary government	-	-	-	-	556,453	556,453
Escrowed cash deposits	-	-	-	1,649,481	199,619	1,849,100
Advances from primary government	-	-	-	-	1,142,663	1,142,663
Total current liabilities	344,443,000	79,617,000	24,452,042	139,041,327	188,014,009	775,567,378
Noncurrent liabilities						
Bonds, notes and leases payable	1,635,432,000	472,525,000	141,106,858	568,395,614	478,906,345	3,296,365,817
Accounts payable and accrued liabilities	-	15,011,000	34,568	-	-	15,045,568
Accrued arbitrage rebate	21,131,000	-	-	92,410	242,788	21,466,198
Other liabilities	-	90,929,000	42,590,340	15,536,370	5,404	149,061,114
Total noncurrent liabilities	1,656,563,000	578,465,000	183,731,766	584,024,394	479,154,537	3,481,938,697
Total liabilities	2,001,006,000	658,082,000	208,183,808	723,065,721	667,168,546	4,257,506,075
NET ASSETS						
Invested in capital assets, net of related debt	1,014,000	75,792,000	51,581,398	1,564,897	15,204,513	145,156,808
Restricted	112,168,000	378,143,000	19,325,558	81,136,627	216,257,815	807,031,000
Unrestricted	40,943,000	57,672,000	6,125,649	2,571,220	34,085,575	141,397,444
Total net assets	$ 154,125,000	$ 511,607,000	$ 77,032,605	$ 85,272,744	$ 265,547,903	$ 1,093,585,252

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2011

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
Expenses						
Salaries and benefits	$ 25,064,000	$ 376,467,000	$ 115,766,911	$ 3,153,177	$ 18,593,103	$ 539,044,191
Other expenses	43,889,000	166,916,000	46,487,629	4,609,154	48,609,103	310,510,886
Scholarship, grants and fellowships	25,053,000	17,070,000	8,714,124	-	-	50,837,124
Depreciation	1,349,000	28,070,000	7,792,090	114,138	1,117,729	38,442,957
Interest on debt	16,135,000	20,633,000	6,024,345	32,347,281	1,530,789	76,670,415
Total expenses	111,490,000	609,156,000	184,785,099	40,223,750	69,850,724	1,015,505,573
Program Revenues						
Charges for services	63,072,000	344,995,000	113,623,464	1,152,554	47,990,257	570,833,275
Operating grants and contributions	47,246,000	235,087,000	67,765,321	-	29,486,620	379,584,941
Capital grants and contributions	-	8,790,000	2,792,353	-	5,952,918	17,535,271
Total program revenues	110,318,000	588,872,000	184,181,138	1,152,554	83,429,795	967,953,487
Net revenue (expense)	(1,172,000)	(20,284,000)	(603,961)	(39,071,196)	13,579,071	(47,552,086)
General Revenues						
Property transfer tax	-	-	-	-	6,101,662	6,101,662
Investment income	453,000	65,863,000	5,856,437	38,967,851	6,533,479	117,673,767
Additions to non-expendable endowments	-	-	547,550	-	-	547,550
Miscellaneous	17,101,000	-	-	437,750	830,086	18,368,836
Total general revenues	17,554,000	65,863,000	6,403,987	39,405,601	13,465,227	142,691,815
Changes in net assets	16,382,000	45,579,000	5,800,026	334,405	27,044,298	95,139,729
Net assets - beginning	137,743,000	466,028,000	71,232,579	84,938,339	238,503,605	998,445,523
Net assets - ending	$ 154,125,000	$ 511,607,000	$ 77,032,605	$ 85,272,744	$ 265,547,903	$ 1,093,585,252

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, 2011

INDEX

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. 54 – "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications.

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, 2011.

A. Reporting Entity

The basic financial statements include all funds of the primary government (the State), as well as component units that have been determined to meet the requirements for inclusion in the State's financial reporting entity.

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." Each discretely presented Component Unit's designation as either "major" or "non-major" has been determined by applying the criteria of GASB Statement No. 34, as amended by GASB Statement No. 61. 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:

Discretely Presented 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. The Governor of the State appoints five of the eleven members of the Board of Directors and the State of Vermont has the ability to impose its will upon VSAC through its ability to change or alter the organization, structure or programs. 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. Currently, 36% of UVM's budget comes from State and Federal appropriations, and private grants. 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
Allied Health Nursing Program
Vermont Manufacturing Extension Center

The Governor, with the advice and consent of the Senate, appoints all 15 members of the board of directors. VSC also has a fiscal dependency on the State of Vermont. 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.

Vermont Housing Finance Agency (VHFA) – The VHFA was created in 1974 by an Act of the General Assembly of the State of Vermont for the purpose of financing and promoting affordable, safe and decent housing opportunities for low- and moderate-income Vermonters. VHFA is legally separate from the State. The State appoints the majority of the VHFA's board of commissioners. Further information may be obtained by contacting the Agency's administrative offices at 164 Saint Paul Street, Burlington, VT 05402-0408.

Discretely Presented 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. The authority has 12 voting members consisting of the secretary of the agency of commerce and community development, the State treasurer, the secretary of agriculture, food and markets, or a designee of any of the above; and nine members, who are residents of the State of Vermont and appointed by the governor with the advice and consent of the senate. The entity's services primarily benefit the Vermont citizenry.

VEDA also administers the State Infrastructure Bank (SIB), the Drinking Water State Revolving Loan Fund – Private Loans, the Brownsfield Revitalization Fund, and the Clean Energy Development Fund. These four 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. The VHCB's Board of Directors is appointed by the Governor of the State of Vermont and there is a material financial relationship. The 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. (VSJF) – 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). The Governor of the State of Vermont appoints the majority of the voting members of the Board. Additionally, the VSJF program works collaboratively with the agency of agriculture, food and markets to assist the Vermont slaughterhouse industry in supporting its efforts at productivity and sustainability. 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, with written consent of the Governor or the State Treasurer, 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 Vermont educational or health related entities. The majority of the Board of VEHBFA is appointed by the Governor of the State. The Board may appoint officers, agents, consultants and employees and fix their compensation, subject to approval of the governor. 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) –VCGI is a public non-profit chartered by the State of Vermont to assist the Vermont GIS Community with creating a comprehensive strategy for the development and use of a geographic information system. VCGI is a legally separate entity which is fiscally dependent on the State as a significant portion of VCGI's funding comes from State grants. 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 is financially accountable to the State, and is therefore included as a discretely presented component unit in Vermont's CAFR. 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. The Vermont Rehabilitation Corporation is fiscally dependent on the State as its primary source of funding is from the Agency of Natural Resources. 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. The Vermont Film Corporation does not provide the majority of its services specifically to the State government, but, receives the majority of its funding from the State's Department of Tourism and Marketing and is therefore included as a discretely presented component unit. 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 and promoting and facilitating ongoing upgrades in statewide telecommunications infrastructure in the most efficient and economically feasible manner. The Vermont Telecommunications Authority is considered a component unit of the State as the State has the ability to impose its will on this legally separate entity. 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, currently inactive, has remained in the State Statutes in case it becomes necessary to reactivate it in the future. 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.

Blended Component Unit

Vermont Information Technology Leaders, Inc. (VITL) – VITL is a legally separate non-profit public corporation whose vision is a health care system where health information is secure and readily available. VITL is a multi-stakeholder partnership facilitating participation in the process by providers, payers, employers, patients, and State agencies. VITL provides services almost entirely to the State of Vermont and therefore is reported as part of the primary government as a blended component unit. The financial statements for this component unit have been blended into the State's Special Fund. For further information, contact their administrative offices at 144 Main Street, Suite 1, Montpelier, Vermont 05602.

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 have not been 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 Vermont State Housing Authority (24 V.S.A. 4005) has been classified as a related organization, and thus their financial activity has not been included in the State's financial statements.

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.

(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 combined 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 to be re-appropriated in the future.

Special Revenue Funds **-** These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects, 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 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 combines many individual special revenue funds that account for proceeds or specific revenues not categorized above that are limited 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 human services, transportation or fish and wildlife purposes (which are recorded in the State's Global Commitment Fund, 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. The original waiver agreement was amended on January 1, 2011, and will expire on December 31, 2013. This agreement caps Federal expenditures in Medicaid services, 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 Department of Vermont Health Access (DVHA), which serves as a publicly sponsored managed care organization, and adheres to all Federal managed care organization regulations.

In addition to the grant received from the Federal Government, General and Special Fund resources are used to fund payments of actuarially certified premiums from the Agency of Human Services to the managed care organization within the DVHA 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 and Special 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 DVHA, and approved by the Commissioner of Finance and Management consistent with agreements between the managed care organization within the DVHA and departments delivering eligible services under the waiver. These resources paid to the Global Commitment Fund are adjusted by the AHS each quarter to the actual expenditures paid.

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 committed 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 Obligation Bond Projects Fund and the Transportation Infrastructure Bond Projects Fund, are non-major governmental funds, and account for and report financial resources that are restricted, committed, or assigned to be used for expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

Debt Service Funds—These funds, consisting of the General Obligation Debt Service Fund and the Transportation Infrastructure Debt Service Fund, are non-major governmental funds, and account for and report financial resources that are restricted, committed, or assigned to be used for expenditures for bond principal and interest.

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 nine 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 six 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 (defined benefit) System, 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.

Investment Trust Fund – Under the authority granted in 3 V.S.A. 523, beginning in Fiscal Year 2009, 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 Unclaimed Property Division in the State Treasurer's Office administers procedures for returning this property to its rightful owner if they can be located. In addition to monetary assets, from time to time, the Unclaimed Property Division 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 the Unclaimed Property Division's operating expenses, is transferred to the General Fund. Additionally, amounts which have been held by the Unclaimed Property Division for at least 10 years and which are less than $100 are transferred to the Vermont Higher Education Endowment Fund (a permanent fund). It should be noted that any of the funds so transferred above will be returned to their rightful owners upon request at any time in the future.

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 and are reported net of allowance for uncollectible accounts. See Note 6—Accounts Receivable for further information.

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 are 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 11 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

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 the 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, art and historical treasures, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide Statements of Net Assets, and in the fund financial statements for the proprietary and fiduciary funds. All purchased capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated assets are valued at estimated fair market value on the date donated to the State.

Capital assets, except as stated below, have an initial cost of at least $5,000, and that provide 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 and land use rights, regardless of cost, are capitalized and are 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. Software with a cost of at least $150,000 and a useful life of more than one year is capitalized.

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, software is 3 to 10 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.

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. Repairs and maintenance are recorded as expenses. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements. 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.

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.

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 withheld portions of progress payment amounts made to contractors 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 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, 2011 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2011. The amount reported as tax refunds payable at June 30, 2011 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2011's tax liability as well as overpayments for calendar year 2010 and prior years' tax liabilities that have not been paid out as of June 30, 2011.

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, 2011, 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 net assets.

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. Encumbrances remaining at fiscal year-end are reported within the restricted, committed, or assigned fund balances of the governmental funds.

The following shows encumbrances by governmental fund type at June 30, 2011:

General Fund	$ 5,364,300
Transportation Fund	5,931
Special Fund	4,382,948
Federal Revenue Fund	21,677,226
Global Commitment Fund	3,190,997
Non-major Governmental Funds	4,454,582
Total Encumbrances	$ 39,075,984

FUND BALANCES

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54—"Fund Balance Reporting and Government Fund Type Definitions." Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law by the legislature specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.

- Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

- Unassigned fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, generally it is the State's policy to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, it is generally the State's policy to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed.

The composition of the fund balances of the governmental funds for the fiscal year ended June 30, 2011 are shown on the following page.

Governmental Funds Fund Balances

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable								
Advances	$ 1,446,063	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,446,063
Long-term Notes Receivable	757,999	-	-	-	-	-	-	757,999
Permanent Fund Principal	-	-	-	-	-	-	7,416,453	7,416,453
Total Nonspendable	2,204,062	-	-	-	-	-	7,416,453	9,620,515
Restricted								
General Government	-	-	-	324,036	107,273	-	13,938,054	14,369,363
Protection to Persons and Property	-	-	-	325,528	15,084,885	-	3,745,534	19,155,947
Human Services	-	-	-	863,156	28,013,531	108,069,639	1,651,553	138,597,879
Labor	-	-	-	-	6,271,120	-	-	6,271,120
Education	-	-	-	-	1,511,745	-	358,212	1,869,957
Natural Resources	-	-	-	3,721,400	270,142,041	-	11,496,012	285,359,453
Commerce and Community Development	-	-	-	-	315,201	-	2,558	317,759
Transportation	-	-	-	-	-	-	602,378	602,378
Debt Service	-	-	-	-	-	-	1,986,575	1,986,575
Total Restriced	-	-	-	5,234,120	321,445,796	108,069,639	33,780,876	468,530,431
Committed								
General Government	-	-	-	4,491,347	-	-	-	4,491,347
Protection to Persons and Property	-	-	-	42,778,340	-	-	-	42,778,340
Human Services	60,165,194	-	-	15,081,940	-	-	-	75,247,134
Labor	-	-	-	870,625	-	-	-	870,625
Education	-	-	48,748,594	-	-	-	23,769,038	72,517,632
Natural Resources	-	-	-	14,557,283	-	-	6,021,068	20,578,351
Commerce and Community Development	-	-	-	1,775,106	-	-	-	1,775,106
Transportation	-	20,336,546	-	-	-	-	-	20,336,546
Debt Service	-	-	-	1,126	-	-	1,388,121	1,389,247
Total Committed	60,165,194	20,336,546	48,748,594	79,555,767	-	-	31,178,227	239,984,328
Assigned								
General Government	59,961	-	-	-	-	-	-	59,961
Protection to Persons and Property	598,201	-	-	251,731	-	-	-	849,932
Human Services	1,896,287	-	-	-	-	-	-	1,896,287
Education	3,870	-	-	-	-	-	-	3,870
Natural Resources	796,785	-	-	40,483	-	-	-	837,268
Commerce and Community Development	2,009,196	-	-	7,040	-	-	-	2,016,236
Transportation	-	-	-	23,695	-	-	-	23,695
Total Assigned	5,364,300	-	-	322,949	-	-	-	5,687,249
Unassigned	146,642,462	-	-	-	-	-	(1,331,668)	145,310,794
Total Fund Balance	$ 214,376,018	$ 20,336,546	$ 48,748,594	$ 85,112,836	$ 321,445,796	$ 108,069,639	$ 71,043,888	$ 869,133,317

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 the subsequent year or be forfeited.

Liabilities for compensated absences are recorded in the government-wide statement activity where the employees are assigned, and in the funds, where applicable. 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 effective interest rate 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 the 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 All Pension 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 minimizing exposure to risk 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 guidelines for certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. These include the Tobacco Trust Fund, the Higher Education Trust Fund, the ANR Stewardship Fund, two Veterans' Home trusts, the Fish and Wildlife Trust, Vermont State Retirement OPEB Fund, and various small trusts.

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 uncollateralized; or collateralized with securities held by the pledging financial institution, its trust department or agent, that are not registered 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. Bank balances of deposits for the primary government, excluding pension trust funds, as of June 30, 2011, (including certificates of deposits) were $436,012,538. Of these, $3,382,281 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 risk that changes in market interest rates will adversely affect the fair value of an investment. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2011 are presented below.

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..........	$ 41,264	$ 182	$ 992	$ 413	$ 39,677
Money Market Mutual Fund.......	195,338	195,338	-	-	-
Other..................................	341	36	152	79	74
Total Debt Investments.........	236,943	$ 195,556	$ 1,144	$ 492	$ 39,751
Other Investments					
Mutual Funds........................	3,435				
Equity Securities....................	21,170				
US Unemployment Trust Pool...	37,494				
Total.............................	**$ 299,042**				

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................	$	299,042
Included in cash & cash equivalents:		
Money market mutual fund...........................		(194,037)
Certificates of deposit..................................		12,433
US Treasury trust pool.................................		(37,494)
Financial statement investments total...........	**$**	**79,944**
Governmental activities total............................	$	65,989
Business activities total..................................		2,080
Fiduciary - State employees' OPEB trust fund.....		9,159
Fiduciary - private purpose trust fund.................		2,716
Total...	**$**	**79,944**

(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, 2011, 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, 2011 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 fund investments, as of June 30, 2011, is presented as follows using the Moody's rating scale.

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

		Quality Ratings	
Debt Investments	**Fair Value**	**Aaa**	**Unrated**
US Agencies/Treasuries.............	$ 41,264	$ 41,264	$ -
Money Market Mutual Fund..........	195,338	195,338	-
Other......................................	341	-	341

(d) Foreign Currency Risk
Foreign currency risk is the extent to which changes in exchange rates affect the value of an investment. Vermont's operating funds are restricted, through statute and formal guidelines, to specific money market instruments and money market funds who only invest in domestic instruments. In the Trust Investment Account portfolio, total exposure to foreign currency risk as of June 30, 2011, valued in US dollars, is $121,950, consisting of Canadian Dollar investments.

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

The State has three defined benefit plans (Vermont State Retirement System (VSRS), State Teachers Retirement System (STRS), and Vermont Municipal Employees' Retirement System (MERS)); three defined contribution plans (VSRS, MERS, 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 established by the Vermont Legislature (Title 3 V.S.A. Chapter 17), effective July 1, 2005, to combine the assets of the VSRS, STRS and MERS defined benefit plans for the purpose of (i) investment in a manner that is more cost- and resource-efficient; (ii) improving the effectiveness of the oversight and management of the assets of the Retirement Systems; and (iii) maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems. The majority of these assets have been pooled for investment purposes. Effective May 31, 2006, legislation amended VPIC's authority allowing VPIC to enter into agreements with municipalities administering their own retirement systems to invest retirement funds for those municipal plans.

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 thereby creating an "external investment pool." An "external investment pool" is defined by GASB 31 as the commingling and investing of the monies of more than one legally separate entity, on the participants' behalf, in an investment portfolio. In this case, 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
STATEMENTS OF NET ASSETS
June 30, 2011
(Expressed in Thousands)

Assets	
Cash and short term investments	$ 24,936
Receivables	
Interest and dividends	11,125
Investments sold	48,677
Total receivables	59,802
Investments at Fair Value	
Fixed income	850,168
Equities	801,332
Mutual funds	1,208,210
Real estate and venture capital	495,464
Invested securities lending collateral	277,545
Total investments	3,632,719
Total assets	3,717,457
Liabilities	
Accounts payable	125
Other liabilities	118
Payable for investments purchased	37,349
Securities lending obligations	277,545
Total liabilities	315,137
Net assets held in trust for investment pool participants	$ 3,402,320

VERMONT PENSION INVESTMENT COMMITTEE
INVESTMENT POOL
STATEMENTS OF CHANGES IN NET ASSETS
June 30, 2011
(Expressed in Thousands)

Additions	
Investment income	
Net appreciation in fair value of investments	$ 506,008
Dividends	52,730
Interest income	41,155
Securities lending income	56
Other income	376
Total investment gain	600,325
Total additions	600,325
Deductions	
Net pool participant withdrawals	74,901
Operating expenses	1,591
Total deductions	76,492
Change in net assets	523,833
Net assets held in trust for pool participants	
July 1, 2010	2,878,487
June 30, 2011	$ 3,402,320
Pool participants	
Vermont State Retirement System	$ 1,371,054
State Teacher's Retirement System	1,511,976
Vermont Municipal Employees' Retirement System	396,399
City of Burlington	122,891
Totals - June 30, 2011	$ 3,402,320

All three defined benefit plans managed by the State have adopted a common asset allocation as determined by the VPIC. As of October 29, 2009, 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 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 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 employment benefit 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 by many of the State's primary funds, exclusive of pension funds, and is included in the cash and investment disclosures for the primary government as is its cash deposits. The "Muni OPEB" in invested under the authority of the Municipal Retirement Board of Trustees and utilizes an outside administrator, ICMA-RC employing mutual funds. Disclosures related to its 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 $11,635,104, none of which was exposed to custodial credit risk.

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, 2011 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 categorized.

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 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, Vermont Muncipal Employees Health Benefit 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	$ 213,565	$ 10,387	$ 17,480	$ 65,027	$ 120,671
Corporate Debt	339,470	28,498	125,485	150,053	35,434
Money Market Mutual Fund	26,082	26,082	-	-	-
Municipals	23,304	201	1,446	192	21,465
Asset Backed Securities	4,475	-	1,176	246	3,053
Mortgage Backed Securities	81,371	-	560	2,719	78,092
Sovereign Debt	189,314	9,575	97,316	49,294	33,129
Commercial Paper	9,182	9,182	-	-	-
Repurchase Agreements	4,145	4,145	-	-	-
Total Debt Investments	890,908	$ 88,070	$ 243,463	$ 267,531	$ 291,844
Other Investments					
Mutual Funds	1,380,906				
Equity Securities	801,332				
Real Estate - Venture Capital	473,338				
Fixed Income - Derivatives	(1,331)				
Total	**$ 3,545,153**				

(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, 2011, 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 Trust securities are as follows.

Pension, Vermont Muncipal Employees Health Benefit and Investment Trust Funds' Investments

(Expressed in Thousands)

		Quality Ratings		
Debt Investments	**Fair Value**	**Aaa**	**Aa**	**A**
US Agencies/Treasuries	$ 213,565	$ 213,565	$ -	$ -
Corporate Debt	339,470	20,522	32,972	43,346
Money Market Mutual Fund	26,082	-	-	-
Municipals	23,304	717	11,429	7,401
Asset Backed Securities	4,475	550	623	198
Mortgage Backed Securities	81,371	32,483	2,737	2,561
Sovereign Debt	189,314	97,478	34,321	35,735
Repurchase Agreements	4,145	4,145	-	-
Commercial Paper	9,182	-	-	6,500

continued below

	Quality Ratings			
Debt Investments	**Baa**	**Ba**	**B and below**	**Unrated**
US Agencies/Treasuries	$ -	$ -	$ -	$ -
Corporate Debt	47,361	53,202	121,334	20,733
Money Market Mutual Fund	-	-	-	26,082
Municipals	-	-	-	3,757
Asset Backed Securities	1,052	246	-	1,806
Mortgage Backed Securities	1,764	2,314	11,663	27,849
Sovereign Debt	6,521	4,573	-	10,686
Repurchase Agreements	-	-	-	-
Commercial Paper	-	-	-	2,682

d) 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, Vermont Municipal Employees Health Benefit and Investment Trust Funds' Investments
Foreign Currency Risk - International Securities at Fair Value
(Expressed in Thousands)

Currency	Total	Short Term	Debt	Equity
Australian Dollar	$ 36,044	$ -	$ 14,288	$ 21,756
Brazilian Real	1,108	-	1,108	-
Canadian Dollar	34,056	4,212	25,498	4,346
Danish Krone	2,389	9	-	2,380
Euro Currency	172,085	590	53,131	118,364
Hong Kong Dollar	4,098	83	-	4,015
Hungarian Forint	3,609	-	3,609	-
Indonesian Rupiah	4,573	-	4,573	-
Israeli Shekel	124	-	-	124
Japanese Yen	106,632	742	33,799	72,091
Malaysian Ringgit	6,584	22	6,377	185
Mexican Peso	11,206	412	10,617	177
New Taiwan Dollar	2,644	-	-	2,644
New Zealand Dollar	5,910	10	5,274	626
Norwegian Krone	7,937	135	5,804	1,998
Pakistan Rupee	234	3	-	231
Philippine Peso	151	2	-	149
Polish Zloty	18,831	-	16,579	2,252
Pound Sterling	66,086	213	11,878	53,995
Singapore Dollar	14,571	319	-	14,252
South African Rand	4,189	-	4,147	42
South Korean Won	6,252	-	6,252	-
Swedish Krona	3,238	-	-	3,238
Swiss Franc	16,159	11	-	16,148
Thailand Baht	1	-	-	1
Turkish Lira	1	1	-	-
Total	**$ 528,712**	**$ 6,764**	**$ 202,934**	**$ 319,014**

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.

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 the State, certain securities held by State Street as custodian, and received United States and foreign currency cash, or securities issued or guaranteed by the United States government as collateral. 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. Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to provide a form of indemnification to the State in the event of default by a borrower. On June 30, 2011 Vermont had no credit risk exposure to borrowers.

During the fiscal year, the State and the borrowers maintained the right to terminate all securities lending transactions upon notice. 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, 2011, the liquidity pool had an average duration of 31.67 days and an average weighted final maturity of 61.80 days for United States Dollar (USD) collateral. As of this date, the duration pool had an average duration of 35.97 days and an average weighted final maturity of 484.43 days for USD collateral. Because the securities lending transactions were terminable at will their duration did not generally match the duration of the investments made with cash collateral. The market value of collateral held and the market values of securities on loan for Vermont as of June 30, 2011 were $278,100,885 and $272,832,271, respectively.

The defined benefit pension trust funds report securities lent (the underlying securities) as assets on the Statement of Plan Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. A corresponding liability is recorded as the defined benefit pension trust funds must return the cash collateral to the borrower upon expiration of the loan. Security lending transactions in the VPIC pooled fund are allocated to the participating funds based on a pro rata share determined based on their equity in the pooled investments participating in the lending program. Since State Street, acting on behalf of the State, did not have the ability to pledge or sell collateral securities absent a borrower default, these securities are not recorded as an asset with a corresponding liability on the financial statements. The cash collateral of $201,596,599 in the liquidity pool and $75,948,372 in the duration pool is invested in the State Street Quality D Short-term Investment Fund, all in USD currency. The fund is not rated by a Nationally Recognized Statistical Rating Organization. The investments purchased with cash collateral are held by the custodial agent, but not in the name of the fund. The market value of the invested collateral is $201,590,398 in the liquidity pool and $74,181,686 in the duration pool as of June 30, 2011.

Authority to enter into securities lending transactions for the 3 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

C. Derivative Financial Instruments

The State does not have any derivatives associated with issuance of debt. Certain investment managers (Managers) for the Vermont Pension Investment Committee (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. Disclosures related to derivatives positions required under Governmental Accounting Standards Board Statement No. 53 – "Accounting and Financial Reporting for Derivative Instruments" (GASB No. 53) apply only to those derivative instruments held directly by the VPIC on behalf of the defined benefit plans and the external investment trust and not those held within commingled fund investment vehicles. The Pension Trust Funds do not have hedgeable assets or liabilities, and all derivative instruments are considered investment derivatives, with corresponding changes in fair value reported in investment income. The fair value of all derivative financial instruments are reported in the Statement of Fiduciary Net Assets. All of the derivatives reported at June 30, 2011, are at fair market value.

Derivative instruments may be used for any of the following purposes;

- To gain market exposure.
- To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. dollar). Any and all international Managers may enter into foreign exchange contracts on currency provided that: a) such contracts are one year or less, and b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within the Manager's portfolio. There shall be no foreign currency speculation or any related investment activity, with the exception of currency hedging Managers who enter into currency hedging will be guided by specific risk parameters in their contracts.
- To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the Manager and other contract terms applicable to the Manager.
- To make portfolio adjustments that are consistent with other elements of the VPIC's investment policies and that do not systematically increase risk or expected volatility of the rate-of-return of the total portfolio.
- For trading purposes which are intended to enhance investment returns. This purpose is subject to the requirement that it be consistent with other elements of the VPIC's investment policies and that it does not systematically increase the risk or expected volatility of the rate of return of the total portfolio.

All other uses of derivatives are prohibited unless specifically approved by the VPIC. Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC Portfolio. Separately managed funds include the following reporting requirements: a list of all derivative positions as of quarter-end; an assessment of how the derivative positions affect the risk exposures of the total portfolio; an explanation of any significant pricing discrepancies between the Manager and custodian bank; an explanation of any non-compliance. Commingled funds provide the VPIC with a quarterly list of derivative positions and assessment of the effect on the risk exposure of the portfolio.

For derivative securities, the Custodian Bank is required to obtain two independent prices, or to notify the VPIC that two independent prices are not available. Managers are required to reconcile the valuations of all derivatives positions on a monthly basis with the Custodian Bank. Derivatives, which are futures contracts, are CFTC approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC).

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 Fiduciary Net Assets. The net gain for the year was $456,377. At June 30, 2011 and 2010, the VPIC's investments had the following values:

	June 30, 2011		June 30, 2010	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Fixed Income Futures:				
Long	$ -	$ 207,150,000	$ -	$ -
Short	-	-	-	(1,400,000)

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 in the Statement of Changes in Fiduciary Net Assets. The net loss for the year was $3,785,154. At June 30, 2011 and 2010, the VPIC's investments included the following currency forwards balances:

	June 30, 2011		June 30, 2010	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
FX Forwards	$ (1,168,389)	$ 112,059,204	$ 2,517,225	$ 82,398,757

Only forward currency contracts are defined as derivatives per GASB No. 53 are reported above; currency spot contracts are not included.

Risk of loss arises from changes in currency exchange rates. Below is a listing of currency forward positions as of June 30, 2011, and the associated currencies.

Transaction Type	Base Current Value	Open Buy Equivalent Value	Open Sell Equivalent Value	Currency	Unrealized Gain/Loss
Cross deals between two foreign currencies					
	$ 6,481,138	$ 6,617,022	$ 6,617,022	Sold EUR/Bought GBP	$ (135,884)
			Sub-Total		**$ (135,884)**
Pending foreign exchange purchases					
	2,567,174	2,567,025	2,567,025	Bought CNY/Sold USD	149
	5,147,175	4,634,384	4,634,384	Bought BRL/Sold USD	512,791
	118,176	117,780	117,780	Bought CNY/Sold USD	396
	236,769	222,621	222,621	Bought BRL/Sold USD	14,148
	2,767,234	2,751,824	2,751,824	Bought SGD/Sold USD	15,410
	2,836,428	2,857,434	2,857,434	Bought CNY/Sold USD	(21,006)
	5,586,659	5,825,923	5,825,923	Bought TRY/Sold USD	(239,264)
	13,639,866	13,885,721	13,885,721	Bought GBP/Sold USD	(245,855)
	1,382,465	1,360,063	1,360,063	Bought BRL/Sold USD	22,402
	784,383	799,397	799,397	Bought GBP/Sold USD	(15,014)
			Sub-Total		**44,157**
Pending foreign exchange sales					
	13,037,234	13,536,936	13,536,936	Sold AUD/Bought USD	(499,702)
	2,380,052	2,458,521	2,458,521	Sold BRL/Bought USD	(78,469)
	2,636,344	2,741,649	2,741,649	Sold BRL/Bought USD	(105,305)
	2,766,483	2,753,162	2,753,162	Sold CAD/Bought USD	13,321
	4,806,775	4,873,299	4,873,299	Sold NZD/Bought USD	(66,524)
	2,322,410	2,268,983	2,268,983	Sold GBP/Bought USD	53,427
	1,733,767	1,700,324	1,700,324	Sold GBP/Bought USD	33,443
	1,542,611	1,513,300	1,513,300	Sold GBP/Bought USD	29,311
	5,512,541	5,539,682	5,539,682	Sold EUR/Bought USD	(27,141)
	1,328,809	1,351,442	1,351,442	Sold BRL/Bought USD	(22,633)
	855,105	835,785	835,785	Sold GBP/Bought USD	19,320
	7,406,309	7,548,281	7,548,281	Sold CAD/Bought USD	(141,972)
	7,391,565	7,541,426	7,541,426	Sold CAD/Bought USD	(149,861)
	4,016,106	4,080,325	4,080,325	Sold CAD/Bought USD	(64,219)
	1,308,045	1,345,255	1,345,255	Sold BRL/Bought USD	(37,210)
	7,369,241	7,400,049	7,400,049	Sold AUD/Bought USD	(30,808)
	2,716,528	2,715,938	2,715,938	Sold CHF/Bought USD	590
	77,539	79,769	79,769	Sold NZD/Bought USD	(2,230)
			Sub-Total		**(1,076,662)**
				Total	**$ (1,168,389)**

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. The net gain for the year was $1,513,431. At June 30, 2011 and 2010, the VPIC's investments had the following option balances:

	June 30, 2011		June 30, 2010	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Fixed Income Options:				
Written………………………	$ (1,258,241)	$ (170,100,000)	$ (540,910)	$ (77,900,000)

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2011, the VPIC had two different types of swap arrangements; interest rate 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. In total return swaps, the underlying asset, referred to as the reference asset, is usually an equity index, loans, or bonds. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Fiduciary Net Assets. The net loss for the year was $,437,510. At June 30, 2011 and 2010, the VPIC's investments had the following swap market value balances:

	June 30, 2011		June 30, 2010	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Interest rate swaps	$ (73,103)	$ 24,600,000	$ 101,042	$ 20,600,000

The following interest rate swaps are in place as of June 30, 2011.

Asset ID	**Asset Description**	**Fair Value at June 30, 2011**	**Notional**
SWU058971	SWU058971 IRS BRL R F 11.57000 / SWU058971 IRS BRL P V 00MCETIP	$ 122,225	$ 10,300,000
SWU0A0PQ2	SWU0APQ2 IRS BRL R F 11.49000 / SWUOA0PQ2 IRS BRL P V 00MBRCDI	(15,202)	8,300,000
SWU0338Q3	SWU0338Q3 IRS USD R V 03MLIBOR / SWU0338Q3 IRS USD P F 4.25000	(73,788)	2,300,000
SWU0372Q0	SWU0372Q0 IRS USD R V 03MLIBOR / SWU0372Q0 IRS USD P F 4.25000	(80,205)	2,500,000
SWU0498Q9	SWU0498Q9 IRS USD R V 03MLIBOR / SWU0498Q9 IRS USD P F 3.50000	(26,133)	1,200,000

Counter-party creditworthiness, for non-exchange traded derivatives, shall be at a minimum of “A3” as defined by Moody’s Investor Service, “A-” by Standard & Poor’s, and “A-” by Fitch. The use of counter-parties holding a split rating with one of the ratings below A3/A– is prohibited. The use of unrated counter-parties is prohibited. Individual counter-party exposure, for non-exchange traded commodity derivatives, is limited to 50% of the notional amount of the VPIC Portfolio commodity derived exposure. An exception is allowed if the total commodity derivative exposure is less than $3 million. Any entity acting as counter-party must be regulated in either the United States or the United Kingdom.

The following shows the market value of credit exposure per Moody’s ratings at June 30, 2011.

Moody's Rating	Market Value
Aa3	$ 714,118
A1	122,815
Total	$ 836,933

In addition, Manager credit research teams are tasked with evaluating potential counterparties for their creditworthiness as counterparties, not relying on ratings agencies alone. Managers evaluate individual counterparties using various methods of credit analysis: company visits, reports, earnings updates and take into account other factors, including the broker’s/dealer’s reputation for sound management, the past experience of the manager with the broker/dealer, market levels for its debt and equity, its quality of liquidity provided and its share of market participation. At June 30, 2011, risk concentrations are as follows.

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
HSBC BANKUSA	80%	AA	AA	Aa3
GOLDMAN SACHS & CO	15%	A	A+	A1
BARCLAYS CAPITAL	3%	AA-	AA-	Aa3
UBS AG	2%	A+	A+	Aa3
STATE STREET BANK LONDON	0%	A+	A+	A1

VPIC’s Managers use master agreements and may receive additional protection through the collateralization requirements, which helps to mitigate a party’s exposure to another party in the event of a default or termination event by requiring the pledging/posting of assets to the other party to secure any outstanding obligations under certain transactions. By regular, generally daily, movement of collateral on forward settling trades, VPIC’s exposure to any particular counterparty can be reduced. Collateral movement threshold for securities under the master forward agreements typically ranges from $0 to $250 thousand per account, depending on the particular counterparty. Managers require daily posting of collateral with many of our counterparties.

VPIC does not have a formal policy regarding master netting arrangements. As a general practice, Managers use industry standardized contracts, generally known as “master agreements” or “netting agreements,” counterparty risk is reduced by providing parties to a transaction the ability to close out and net its total exposure to a counterparty in event of a default with respect to all transactions governed under that particular agreement. These agreements (ISDA Master Agreement and Credit Support Annex, Master OTC Options Agreement, Master Securities Forward Transaction Agreement, Global/Master Repurchase Agreement) allow parties to a transaction to know their legal rights and obligations, in addition to an ability to net. Managers generally put master agreements in place on behalf of each account it manages and each separate counterparty legal entity with which it transacts.

Maximum Loss Before and After Netting and Collateral		
Maximum amount of loss VPIC would face in case of default of all counterparties		
i.e. aggregated (positive) fair value of OTC positions as of June 30, 2011	$	836,933
Effect of collateral reducing maximum exposure		-
Liabilities subject to netting arrangements reducing exposure		-
Resulting net exposure	**$**	**836,933**

Derivative instruments often contain credit-risk-related contingent features that could result in an immediate payment to the counterparty. For example, a material adverse change clause could provide the counterparty with the right to early terminate the derivative agreement. Alternatively, it could provide a basis for renegotiating the agreement if specific events occur, such as a downgrade of the entity's credit rating below investment grade. These provisions may include an obligation to post additional collateral in instances where the credit-risk contingent feature is triggered or the counterparty is provided the right to terminate the agreement early.

The VPIC 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-through, 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 underlying 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 represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2011, are as follows.

Due From Other Funds	Due to Other Funds – Governmental Funds: General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	$ -	$ 7,042	$ -	$ 23,926
Transportation Fund	12	-	-	4,101
Education Fund	-	-	-	-
Special Fund	231,537	55,000	10,195	-
Federal Revenue Fund	101,986	-	-	228,854
Global Commitment Fund	11,824,262	-	-	22,212,776
Non-major Governmental Funds	-	-	-	6,622
Liquor Control Fund	-	-	-	-
Vermont Lottery Commission	-	-	-	-
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	-	-	-	8,294
Fiduciary Funds	376,253	-	-	-
Total	$ 12,534,050	$ 62,042	$ 10,195	$ 22,484,573

continued below

Due From Other Funds	Due to Other Funds – Governmental Funds: Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Internal Service Funds
General Fund	$ 19,343	$ 34,195	$ 48	$ -
Transportation Fund	119,536	-	-	57,420
Education Fund	-	-	-	-
Special Fund	535,084	-	66,957	1,037,905
Federal Revenue Fund	-	-	-	-
Global Commitment Fund	293,509	-	-	-
Non-major Governmental Funds	-	-	-	2,576
Liquor Control Fund	-	-	-	-
Vermont Lottery Commission	-	-	-	-
Non-major Enterprise Funds	-	-	-	195
Internal Service Funds	-	-	-	-
Fiduciary Funds	-	-	-	-
Total	$ 967,472	$ 34,195	$ 67,005	$ 1,098,096

continued below

Due From Other Funds	Due to Other Funds – Enterprise Funds: Unemployment Compensation Trust Fund	Liquor Control Fund	Non-major Enterprise Funds	Total
General Fund	$ -	$ 717,738	$ -	$ 802,292
Transportation Fund	-	-	-	181,069
Education Fund	-	-	-	-
Special Fund	-	-	-	1,936,678
Federal Revenue Fund	-	-	-	330,840
Global Commitment Fund	-	-	-	34,330,547
Non-major Governmental Funds	-	-	-	9,198
Liquor Control Fund	-	-	-	-
Vermont Lottery Commission	-	-	-	-
Non-major Enterprise Funds	112,800	-	-	112,995
Internal Service Funds	-	-	702	8,996
Fiduciary Funds	-	-	-	376,253
Total	$ 112,800	$ 717,738	$ 702	$ 38,088,868

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, 2011, are summarized below.

Proprietary Funds		
Vermont Lottery Fund	$	300,000
Liquor Control Fund		500
Non-major Proprietary Funds		2,900
Total	$	303,400

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, 2011, 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	$	1,972,601
Internal Service Funds		36,756,237
Fiduciary Funds		
Pension Trust Funds		14,670
Investment Trust Fund		118,450
Agency Funds		203,758
Total	$	39,065,716

D. Inter - Primary Government/Component Unit Balances

Advances to component units consist of the amounts advanced under various agreements with component units to use the funds for specific programs. As the component unit uses the funds, the advance is reduced and expenditures are recognized by the State. At June 30, 2011, the General Fund advances to component units was $1,142,663 advanced to the Vermont Development Authority for interest rate subsidies and grants to be issued at the direction of State agencies.

Due from component units/Due to primary government consist of the amounts owed to the primary government for programs administered 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. Due from primary government/Due to component units consist of amounts appropriated from the primary government's funds to the component units that had not been disbursed by fiscal year end.

At June 30, 2011, these account balances are as follows.

	Due to Primary Government/(Component Units)			
	Vermont Housing & Conservation Board	Vermont Economic Development Authority	Vermont Veterans Home	Total
Due from Component Units				
General Fund	$ 2,949,534	$ -	$ -	$ 2,949,534
Special Fund	-	62,827	-	62,827
Federal Fund	-	-	493,626	493,626
Due from Primary Government				
Non-major Governmental Funds	(6,226,393)	-	-	(6,226,393)
	-	-	-	
Total	$ (3,276,859)	$ 62,827	$ 493,626	$ (2,720,406)

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.

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education. The Special Fund received transfers from the General Fund for the Next Generation Initiative, from the Federal Revenue Fund for the weatherization assistance program, and from the Global Commitment Fund for education Medicaid reimbursements. The Global Commitment Fund received transfers from the General and Special Funds for Medicaid related services provided under the Vermont Global Commitment to Health Medicaid waiver.

Interfund transfers for the fiscal year ending June 30, 2011, are on the following page.

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	Transfers Out				
	Governmental Funds				
Transfers in	**General Fund**	**Transportation Fund**	**Special Fund**	**Federal Revenue Fund**	**Global Commitment Fund**
General Fund	$ -	$ -	$ 32,043,755	$ 6,196,734	$ -
Education Fund	234,737,570	-	-	-	-
Special Fund	5,461,737	1,485,519	-	20,908,180	23,570,491
Federal Revenue Fund	-	-	-	-	-
Global Commitment Fund	82,607,557	-	258,468,517	-	-
Non-major Governmental Funds	76,804,621	5,887,831	1,160,843	667,564	-
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	250,000	-	-	-	-
Internal Service Funds	300,000	1,120,000	599,909	-	-
Total	$ 400,161,485	$ 8,493,350	$ 292,273,024	$ 27,772,478	$ 23,570,491

continued below

	Transfers Out			
	Governmental Funds	Proprietary Funds		
Transfers in	**Non-major Governmental Funds**	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**
General Fund	$ -	$ -	$ 840,066	$ -
Education Fund	-	-	-	21,435,868
Special Fund	2,000,000	-	-	-
Federal Revenue Fund	3,866,297	-	-	-
Global Commitment Fund	-	-	-	-
Non-major Governmental Funds	-	-	-	-
Unemployment Compensation Trust Fund	-	-	-	-
Non-major Enterprise Funds	-	641,253	-	-
Internal Service Funds	-	-	-	-
Total	$ 5,866,297	$ 641,253	$ 840,066	$ 21,435,868

continued below

	Transfers Out			
Transfers in	**Non-major Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
General Fund	$ -	$ 790,172	$ 3,706,242	$ 43,576,969
Education Fund	-	-	-	256,173,438
Special Fund	-	1,026,225	-	54,452,152
Federal Revenue Fund	-	-	-	3,866,297
Global Commitment Fund	-	-	-	341,076,074
Non-major Governmental Funds	-	-	30,026	84,550,885
Unemployment Compensation Trust Fund	389,478	-	-	389,478
Non-major Enterprise Funds	-	-	-	891,253
Internal Service Funds	-	-	-	2,019,909
Total	$ 389,478	$ 1,816,397	$ 3,736,268	$ 786,996,455

Note 4: CAPITAL ASSETS

Capital assets activities for the fiscal year ended June 30, 2011, were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated					
Land, land use rights, and land improvements	$ 108,124,674	$ 6,015,888	$ -	$ -	$ 114,140,562
Construction in process	396,092,246	261,953,743	(217,436,628)	(1,075,888)	439,533,473
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	504,352,923	267,969,631	(217,436,628)	(1,075,888)	553,810,038
Capital assets, being depreciated					
Buildings and improvements	400,361,347	38,959,661	(6,548,812)	6,845	432,779,041
Machinery and equipment	153,685,818	19,841,193	(9,808,021)	(13,545)	163,705,445
Infrastructure	1,535,720,452	169,572,995	(19,247,263)	6,700	1,686,052,884
Total capital assets, being depreciated	2,089,767,617	228,373,849	(35,604,096)	-	2,282,537,370
Less accumulated depreciation for					
Buildings and improvements	(178,071,216)	(12,847,280)	3,784,803	(12,513)	(187,146,206)
Machinery and equipment	(103,924,309)	(14,538,809)	8,882,900	13,546	(109,566,672)
Infrastructure	(657,164,386)	(64,661,050)	19,247,263	(1,033)	(702,579,206)
Total accumulated depreciation	(939,159,911)	(92,047,139)	31,914,966	-	(999,292,084)
Capital assets, being depreciated, net	1,150,607,706	136,326,710	(3,689,130)	-	1,283,245,286
Governmental activities capital assets, net	$ 1,654,960,629	$ 404,296,341	$ (221,125,758)	$ (1,075,888)	$ 1,837,055,324

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, being depreciated					
Buildings and improvements	$ 59,935	$ -	$ -	$ -	$ 59,935
Machinery and equipment	2,018,063	231,851	(129,916)	-	2,119,998
Total capital assets, being depreciated	2,077,998	231,851	(129,916)	-	2,179,933
Less accumulated depreciation for					
Buildings and improvements	(30,918)	(6,294)	-	-	(37,212)
Machinery and equipment	(1,102,884)	(312,849)	129,916	-	(1,285,817)
Total accumulated depreciation	(1,133,802)	(319,143)	129,916	-	(1,323,029)
Capital assets, being depreciated, net	944,196	(87,292)	-	-	856,904
Business-type activities capital assets, net	$ 944,196	$ (87,292)	$ -	$ -	$ 856,904

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated					
Construction in process	$ 2,828,753	$ 573,806	$ (120,554)	$ (209,635)	$ 3,072,370
Total capital assets, not being depreciated	2,828,753	573,806	(120,554)	(209,635)	3,072,370
Capital assets, being depreciated					
Machinery and equipment	2,068,633	120,554	-	-	2,189,187
Total capital assets, being depreciated	2,068,633	120,554	-	-	2,189,187
Less accumulated depreciation for					
Machinery and equipment	(328,712)	(261,185)	-	-	(589,897)
Total accumulated depreciation	(328,712)	(261,185)	-	-	(589,897)
Capital assets, being depreciated, net	1,739,921	(140,631)	-	-	1,599,290
Fiduciary activities capital assets, net	$ 4,568,674	$ 433,175	$ (120,554)	$ (209,635)	$ 4,671,660

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

Governmental Activities		Business-type Activities	
General Government	$ 10,688,671	Liquor Control	$ 302,700
Protection to Persons and Property	4,716,465	Vermont Lottery Commission	14,910
Human Services	819,817	Vermont Life Magazine	1,533
Labor	21,629		
General Education	28,091	**Total**	$ 319,143
Natural Resources	2,401,823		
Commerce & Community Development	289,283		
Transportation	65,590,356	**Fiduciary Activities**	
Depreciation on capital assets held by Internal Service Funds	7,491,004	Pension	$ 261,185
Total	$ 92,047,139	**Total**	$ 261,185

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT 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 and two defined contribution plans. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

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, 2011. 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 6.4% of payroll (contributions cease upon attainment of 25 years of creditable service);
- State police, law enforcement positions, and airport firefighters (Group C), with a contribution rate of 8.28% of payroll;
- judges (Group D), with a contribution rate of 6.4% of payroll;
- terminated vested members of the non-contributory system (Group E); and
- all other general employees (Group F), with a contribution rate of 6.4% of payroll.

Effective July 1, 2011, the contribution rate for all State employees was raised, through legislation enacted in fiscal year 2011. The rate for Group A and D employees was increased from 5.10% to 6.40% through June 30, 2016. The rate for Group C employees was increased from 6.98% to 8.28% through June 30, 2016. The rate for Group F employees was increased from 5.10% to 6.40% through June 30, 2016, and will be 4.85% after that.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) 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 is made up of:

- general teachers who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 5.5% of payroll (contributions cease upon attainment of 25 years of creditable service);
- terminated vested members of the non-contributory system (Group B); and
- all other general teachers (Group C), with a contribution rate of 5.0% 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 have elected to transfer their memberships from a contributory to a non-contributory membership class. 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. 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 contributions to the MERS' pension accumulation fund. Effective July 1, 1987, and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial 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 two 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 statement are as follows.

Statement of Plan Net Assets
Defined Benefit Plans
June 30, 2011

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets			
Cash and short term investments	$ 5,921,353	$ 4,770,355	$ -
Receivables			
Contributions - current	3,015,175	3,886,857	3,111,748
Contributions - non-current	-	-	6,805,308
Interest and dividends	73,615	78,462	318,425
Due from other funds	49,266	-	54,860
Other	41,736	984,873	94,496
Investments at Fair Value			
Pooled investments	1,371,053,907	1,511,976,479	396,399,355
Real estate and venture capital	965,098	-	-
Invested securities lending collateral	114,251,887	119,671,351	33,476,052
Prepaid expenses	-	-	10,857
Capital assets, net of depreciation	1,831,103	2,162,537	677,807
Total assets	1,497,203,140	1,643,530,914	440,948,908
Liabilities			
Accounts payable	2,122,507	2,821,846	446,453
Retainage payable	222,012	270,784	110,177
Interfund payable	-	-	14,670
Securities lending obligations	114,251,887	119,671,352	33,476,052
Total liabilities	116,596,406	122,763,982	34,047,352
Net assets held in trust for employees' pension benefits	$ 1,380,606,734	$ 1,520,766,932	$ 406,901,556

Statement of Changes in Plan Net Assets
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2011

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit	$ 37,572,599	$ 33,134,361	$ 11,117,363
Employer - healthcare benefit	-	14,000,000	-
Plan member	22,269,041	32,062,253	11,702,728
Transfers from other pension trust funds	743,172	208,107	266,425
Medicare part D drug subsidy	-	1,381,587	-
Early retiree reinsurance program	-	1,752,183	-
Total contributions	60,584,812	82,538,491	23,086,516
Investment Income			
Net appreciation in fair value of investments	485,001	5,561	72,012
Income from pooled investments	242,615,086	267,153,775	67,837,569
Interest income	18,765	23,927	440,086
Securities lending income	649,947	691,815	182,943
Other income	294,521	322,380	25,562
Total investment income	244,063,320	268,197,458	68,558,172
Less Investment Expenses			
Investment managers and consultants	5,516,418	6,141,125	1,555,401
Securities lending expenses	160,519	170,022	44,990
Total investment expenses	5,676,937	6,311,147	1,600,391
Net investment income	238,386,383	261,886,311	66,957,781
Total additions	298,971,195	344,424,802	90,044,297
Deductions			
Retirement benefits	84,716,513	106,930,467	12,298,902
Other post employment benefits	-	18,749,675	-
Refunds of contributions	1,731,375	1,218,955	1,275,978
Death claims	328,623	303,237	132,570
Transfers to other pension trust funds	285,276	305,854	754,139
Depreciation	97,845	115,811	47,324
Operating expenses	1,049,731	1,283,921	522,279
Total deductions	88,209,363	128,907,920	15,031,192
Change in net assets	210,761,832	215,516,882	75,013,105
Net assets held in trust for employees' pension benefits			
July 1, 2010	1,169,844,902	1,305,250,050	331,888,451
June 30, 2011	$ 1,380,606,734	$ 1,520,766,932	$ 406,901,556

Plan membership

At June 30, 2011, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees			
Vested	5,693	7,780	3,838
Non-vested	2,075	2,343	2,637
Total active employees	7,768	10,123	6,475
Retirees and beneficiaries of deceased retirees currently receiving benefits	5,375	7,005	1,779
Terminated employees entitled to benefits but not yet receiving them (vested)	774	647	645
Inactive members	849	2,675	1,821
Total participants	14,766	20,450	10,720

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.

Actuarial valuations attempt to estimate costs associated with the pension system based on a number of demographic, economic, and retirement experience assumptions. To the extent assumptions are at variance to experience, this can result in actuarial gains and losses ultimately impacting contribution rates and the development of the ARC. Experience studies are required by statute to be conducted every five years to review actual experience in comparison to these assumptions and to provide recommended changes to assumptions.

At the same time there has been significant discussion on the national level relative to the appropriate interest rate assumptions used by public pension plans. The Vermont retirement systems, in concert with its investment and actuarial consultants, determined that rather than dealing with the interest rate as an isolated calculation, it should be viewed as part of an interrelated set of actuarial assumptions through a formal experience study and accelerated the schedule and completed these studies in fiscal year 2011 for the four year period ending June 30, 2010 (prior studies were completed in 2006 for the state system, 2007 for the teacher system and 2008 for the municipal system).

All three systems adopted a new method of developing interest rate assumptions called "select-and-ultimate". Under this method, differences between near-term and long-term expectations of rates of return on assets may be incorporated in the assumed rate of return by setting it on a select-and-ultimate basis. The most recent asset allocation established by the Vermont Pension Investment Committee (VPIC) was the basis of the data inputs into the model.

A select-and-ultimate rate structure can be used to reflect expectations of unusually strong or weak returns in near-term years followed by a trending to a long-term equilibrium. In this sense, it is a more elaborate and complete specification of future return assumptions than is a single rate used in all future years. All three systems adopted a uniform interest rate assumption based on the application of this model:

- Year 1: 6.25%
- Year 2: 6.75%
- Year 3: 7.00%
- Year 4: 7.50%
- Year 5: 7.75%
- Year 6 through year 8: 8.25%
- Year 9: through year 16: 8.50%
- Year 17 and later: 9.00%

Over a 20-year period, the 50th percentile rate of return forecast for such a portfolio is approximately 7.9%. Since the cash flows associated with each system varies, however, for computational or administrative ease, it is preferable to set the assumed interest rate equal to the single rate that produces the same result as the select-and-ultimate rate set. The effective rate, based on assumed cash flows, for the state and municipal systems is 8.1% and 7.9% for STRS. These changes, reflecting a more conservative approach to actuarial assumptions have had the effect of shifting costs upward.

The recent experience for STRS updated the mortality assumptions for service retirees and beneficiaries to the RP-2000 Mortality Tables for Employees and Healthy Annuitants projected with Scale AA to 2010 (The unadjusted RP-2000 Mortality Tables for Employees and Healthy Annuitants were used for these participants in the prior valuation). The VSRS experience study also incorporated a change in the assumptions for separation from services. The representative values of the assumed annual rates of for withdrawal, and vested retirement were increased for the first ten years of service.

For the STRS, representative values of the assumed annual rates of future salary increases were reduced across all age groups. Disability incidence rates were reduced at certain ages. For post-retirement mortality for Group C in STRS, the age setback was changed from one year for males and females to three years for males and one year for females. Disabled retiree mortality was changed to reflect morality improvement projection to 2016.

In the municipal system, mortality assumptions for active participants, the assumptions were changed from 70% of the Buck mortality tables to 50%.

Under legislation enacted in Fiscal Year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the average final compensation (AFC). Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to a “rule of 87”. This “Rule of 87” refers to the sum of the employee’s age and years of service. Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6% per year to one determined on a service based schedule. Due to the relatively small number of participants affected by the hire date incorporated in these changes, the actuary reports a minimal impact on the normal cost and accrued liability. The remaining significant provision of the same legislation makes changes to retiree cost of living (COLA) adjustments. The annual-cost-of living adjustment (COLA) applicable to the benefits of group F members retiring after July 1, 2008, rose 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 were 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 terminated service or transferred to another group plan prior to June 30, 2008 are not eligible for the new COLA unless they return to active group F service after July 1, 2008 and prior to retirement. The COLA provisions were reflected in the 2008 valuation as well as the valuation for the period ending June 30, 2011.

In the case of VSRS, the actuarial accrued liability for current retired members, terminated vested members and beneficiaries is $953,911,779 and the actuarial accrued liability for current active and inactive members is $1,073,985,019 for a total actuarial accrued liability of $2,027,896,798. The actuarial value of assets is $1,348,762,790 resulting in an unfunded accrued liability of $346,537,738.

The total net actuarial loss for the VSRS system from June 30, 2010 to June 30, 2011 is $22,760,583. Significant factors impacting this actuarial loss were salary experience loss of $35,867,925, retirement experience loss of $7,040,422, offset by COLA experience gain of $7,391,265, and investment experience gain from the smoothing of assets of $13,637,923.

Effective July 1, 2010 a number of changes were made to the STRS based on changes enacted by the Legislature. There were no new changes in fiscal year 2011. For Group C members who are within five years of normal retirement as of July 1, 2010, the maximum allowable benefit will increase from 50% of Average Final Compensation (AFC) to 53.34%, provided that service needed to earn a benefit in excess of 50% of AFC is rendered after July 1, 2010. For Group C members who are not within five years of normal retirement as of July 1, 2010, eligibility for normal retirement is changed from age 62 or completion of 30 years of service, to attainment of age 65 or satisfaction of the "rule of 90." Reductions for early retirement are changed from 6% per year by which commencement of benefits precedes age 62 to factors based on the System's definition of actuarial equivalence. Maximum benefits for members of this group are increased from 50% to 60% of the AFC, and the benefit multiplier is increased from 1.67% per year to 2% per year of service in excess of 20.

In the case of STRS, the actuarial accrued liability for current retired members, terminated vested members and beneficiaries is $1,307,685,859 and the actuarial accrued liability for current active and inactive members is $1,265,303,845 for a total actuarial accrued liability of $2,572,989,704. The actuarial value of assets is $1,486,698,448, resulting in an unfunded accrued liability of $845,107,880.

The total net actuarial loss for the STRS system from June 30, 2010 to June 30, 2011 is $67,563,552. Significant factors accounting for the actuarial loss were retirement experience losses of $16,297,444, termination experience losses of $31,725,921, and expenses other than investment expenses of $21,240,905. Investment experience, including smoothing, accounted for a gain of $8,517,121.

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.

	VSRS	STRS	MERS
Valuation date	06/30/11	06/30/11	07/01/11
Actuarial cost method (1)	Entry Age Normal	Entry Age Normal	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Installments increasing 5% per year
Remaining amortization period (2) All closed basis	27 years	27 years	27 years

	VSRS	STRS	MERS
Asset valuation method [3]	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]	6.25%-9.00%	6.25%-9.00%	6.25%-9.00%
Projected salary increases [5]	4.5%-7.79%	4.25%-8.40%	5.00%
Cost of living adjustments	1.5%-3.0%	1.5%-3.0%	Group A - 1.5% Groups B, C & D - 1.80%
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 increased on January 1 by one-half of the percentage increase in CPI but not in excess of percentage indicated	Group F - 5% [6]	Group A - 2% Groups B, C, & D - 3%	
Assumed annual rate of cost-of-living increases	For those eligible for increases of 100% of CPI change: 3.0% For those eligible for increases of 50% of CPI change: 1.5%	For those eligible for increases of 100% of CPI change: 3.0% For those eligible for increases of 50% of CPI change: 1.5%	

(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 7/1/08 for STRS, and VSRS.
(3) The preliminary asset value is equal to the previous year's asset value (for valuation purposes) adjusted for contributions less benefit payments and expenses and expected income. If necessary a further adjustment is made to ensure that the valuation of assets are within 20% of the market value.
(4) Effective 6/30/11, a select-and ultimate interest rate assumption was used, as described earlier in the note.
(5) Reflects change from 6/30/10 of 4.50% - 7.79% for VSRS, and 4.41% - 10.68% for STRS.
(6) The Group F cost of living adjustment will be increased to equal the full CPI, effective January 1, 2014 for employees who were actively contributing into the system on June 30, 2008, and retired on or after July 1, 2008, will be eligible for the enhanced COLA.

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2010 and June 30, 2011, as follows.

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2010	$ 293,920,094	$ 711,823,061
Normal cost	38,979,778	35,846,531
Contributions	(60,584,812)	(82,538,491)
Interest on unfunded liability, normal cost and contribution	25,014,638	58,345,495
Actuarial (gains) and losses/experience	22,760,583	67,563,552
Changes in actuarial assumptions	26,425,205	54,067,732
Changes to benefits/system provisions	22,252	-
Unfunded actuarial accrued liability, June 30, 2011	$ 346,537,738	$ 845,107,880

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, 2011 were as follows.

	VSRS	STRS
Annual Required Contribution (ARC)	$ 44,491,459	$ 48,233,006
Interest on NPO	4,485,864	14,870,263
Amortization of NPO	(2,958,574)	(9,807,425)
Pension Cost	46,018,749	53,295,844
Actual Contribution	(37,572,599)	(50,268,131)
Increase in NPO	8,446,150	3,027,713
NPO - Beginning of Year	54,374,109	180,245,609
NPO - End of Year	$ 62,820,259	$ 183,273,322
Percentage of APC Contributed	81.65%	94.32%

Three-Year Trend Information

Year Ended 6/30	Annual Pension Cost	Percentage Contributed	NPO Balance
VSRS			
2009	$ 29,415,375	85.45%	$ 47,047,885
2010	38,795,109	81.12%	54,374,109
2011	46,018,749	81.65%	62,820,259
STRS			
2009	41,891,551	92.52%	181,555,753
2010	40,610,459	103.23%	180,245,609
2011	53,295,844	94.32%	183,273,322

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						
6/30/11	$ 1,348,763	$ 1,695,301	$ 346,538	79.6%	$ 398,264	87.0%
STRS						
6/30/11	1,486,698	2,331,806	845,108	63.8%	547,748	154.3%
MERS						
7/1/11	402,550	436,229	33,679	92.3%	205,589	16.4%

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 Trust Funds.

The actuarial calculation 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. During the fiscal year ending June 30, 2011, member contributions totaled $689,554 with State employer contributions at $1,601,455. As of June 30, 2011, the Vermont State Defined Contribution Plan’s net assets totaled $45,121,860 and there were 643 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 as a pension trust fund. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001, actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999, 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% of earnable compensation. 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. During the fiscal year ending June 30, 2011, member contributions totaled $646,153 and employer contributions at $609,437. As of June 30, 2011, the Municipal Employees' Defined Contribution Plan's net assets totaled $16,083,093, and there were 566 participants.

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

The STRS's members in the Group A contributory plan could have elected 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 have elected 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, 2011 there were 1,908 members, with net assets of $78,627,851 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows.

Statement of Plan Net Assets
Defined Contribution Plans
June 30, 2011

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Assets			
Cash and short term investments…………….	$ 41,356	$ 862,290	$ 75,371
Receivables			
Contributions - current………………………	91,823	-	13,601
Interest and dividends………………………..	-	127	-
Investments at Fair Value			
Mutual funds…………………………………..	45,042,406	77,765,434	16,049,454
Total assets………………………………….	45,175,585	78,627,851	16,138,426
Liabilities			
Accounts payable………………………………	4,459	-	473
Due to other funds………………………………	49,266	-	54,860
Total liabilities……………………………..	53,725	-	55,333
Net assets held in trust			
for employees' pension benefits……………	$ 45,121,860	$ 78,627,851	$ 16,083,093

Statement of Changes in Plan Net Assets
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2011

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit	$ 1,601,455	$ -	$ 646,153
Plan member	689,554	-	609,437
Transfers from other pension trust funds	111,102	-	16,463
Transfers from non-state systems	7,379	-	-
Total contributions	2,409,490	-	1,272,053
Investment Income			
Net appreciation in fiar value of investments	7,192,492	1,162,467	2,684,041
Dividends	957,771	942,626	286,497
Interest income	189	1,678,303	418
Securities lending income	197	2,099	-
Other income	-	218	-
Total investment income	8,150,649	3,785,713	2,970,956
Less Investment Expenses			
Investment managers and consultants	-	342,888	-
Total investment expenses	-	342,888	-
Net investment income	8,150,649	3,442,825	2,970,956
Total additions	10,560,139	3,442,825	4,243,009
Deductions			
Retirement benefits	2,450,124	6,908,397	1,452,909
Operating expenses	49,906	-	87,439
Total deductions	2,500,030	6,908,397	1,540,348
Change in net assets	8,060,109	(3,465,572)	2,702,661
Net assets held in trust for employees' pension benefits			
July 1, 2010	37,061,751	82,093,423	13,380,432
June 30, 2011	$ 45,121,860	$ 78,627,851	$ 16,083,093

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
Employees Hired Prior To July 1, 2008
Employees hired prior to July 1, 2008, and retiring directly from active State service for any reason (disability, early, or normal), including the State Police, may elect to carry whatever medical coverage is in effect at that time into retirement for themselves and their dependents. During their lifetime the retiree will pay 20% of the cost of the premium, except in the case where retirees select joint or survivorship options. If the retiree chooses the joint or survivor pension options and predeceases his or her spouse, the medical benefits along with the pension benefit will continue for the spouse. However, generally, the surviving spouse must pay 100% of the cost of the premium.

In addition, once a retiree or surviving spouse 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 the secondary insurer. The insured's State insurance premium costs will then decrease in recognition of this change.

If an employee, other than a group C member, does not retire directly from State service, they are not eligible to participate in the State's medical insurance plan. Group C members who terminate with 20 or more years of service, but are not yet 50 years old, may elect to receive medical coverage at the time they begin receiving their retirement benefits. If the insurance is terminated at any time after retirement benefits have been received, coverage will not be able to be obtained again at a later date.

Employees Hired After June 30, 2008
Based on legislation enacted during fiscal year 2008, Group F employees hired after June 30, 2008 will pay, upon retirement, a tiered retiree health care premium amount based on completed years of service. The tiered rate paid will range from 100% of the premium cost for retirees with less than 10 years of service to 20% of the premium cost for retirees with 20 or more years of service. Additionally, as part of the enacted legislation, Group F employees hired after June 30, 2008 will also have the ability to elect health care insurance at the 20% premium cost level when they begin to receive retirement benefits in a manner comparable to regular retirements even if the employee terminated prior to their early retirement date, provided the member had 20 years of service upon termination of employment.

As of June 30, 2011, 4,011 of the 12,168 participants in the plan were retirees enrolled in the single, spousal, or family plan options. Of the $135.4 million in premiums received by the Medical Insurance Fund (internal service fund) during 2011, retirees contributed $6.3 million. Of the $126.9 million in claims expense incurred by the Medical Insurance Fund during 2010, $34.4 million was attributable to retiree claims.

The Vermont State Postemployment Benefits 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 other than pension benefits for members of the VSRS. By definition this is a fund required to follow the reporting requirements of the Governmental Accounting Standards Board Statement No. 43 - "Financial Reporting for Postemployment Benefit Plans Other Than Pensions." The State's fiscal year 2011 contributions to this trust fund totaled $27.4 million which included a $2.0 million Medicare D reimbursement received from the Federal Government, and $.4 million from the Federal Early Retiree Reinsurance Program. The trust fund then paid premium payments of $24.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2011, the trust fund has total net assets of $11,215,536 being held in trust for postemployment benefits other than pension benefits.

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, the 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. As of June 30, 2011, 4,601 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $11.8 million in premiums and the system contributed $14.0 million in premiums and paid $18.7 million on a pay-as-you-go basis, during fiscal year 2011. VEHI incurred $29.8 million in retiree claims expense for the fiscal year ending June 30, 2011.

The valuation reflects plan changes effective July 1, 2010. The changes affect future retirements only as no changes were adopted for those retired prior to July 1, 2010. At 25 years of service, employees in this category are generally eligible to elect spousal coverage at retirement. Eligibility criteria and premium sharing levels were revised for active employees who did not attain 10 years of service as of June 30, 2010. In addition, the plan now offers subsidized spouse coverage for the first time. For new hires and those with less than 10 years of service as of July 1, 2010, there is no subsidized coverage for those retiring with less than 15 years of service at retirement, 60% single coverage at 15 years, 70% single coverage at 20 years and 80% single or spousal coverage at 25 years. Current employees with more than ten years of service as of July 1, 2011 continue with the current 80% coverage. No additional plan changes were made in fiscal year 2011.

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 insurer. 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 the primary insurer.

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 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. The State system has also agreed to offer the same prescription drug coverage program 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, 2011, the subsidy for the VSRS system was $1,999,918. The State has elected to place this revenue in the Vermont State Postemployment Benefits Trust Fund, an OPEB trust fund to fund future post employment health benefit liabilities. In the case of STRS, the subsidy for fiscal year 2011 was $1,381,587 and was deposited into the STRS Pension Trust Fund.

Plan Membership

At June 30, 2011, the number of participants included in the OPEB valuations are as follows.

	VSRS	STRS
Active employees	8,157	10,123
Terminated vested	-	647
Retired employees	4,011	4,953
Total participants	12,168	15,723

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 (NOO) beginning balance for both the VSRS and STRS OPEB defined benefit plans.

The following table shows the component of the State's annual OPEB cost for the year ended June 30, 2011 the amount actually contributed, and the changes in the State's net OPEB obligation.

	VSRS	STRS
Annual Required Contribution (ARC)	$ 67,030,307	$ 41,509,429
Interest on NOO	4,459,841	7,212,368
Adjustment to ARC	(3,146,528)	(5,213,706)
Annual OPEB Cost (AOC)	68,343,620	43,508,091
Employer Contribution Made	(27,394,474)	-
Increase in NOO	40,949,146	43,508,091
NOO - July 1, 2010	104,937,441	180,309,205
NOO - June 30, 2011	$ 145,886,587	$ 223,817,296
Percentage of ARC contributed	40.08%	0.00%

Three-Year Trend Information

OPEB Fund/Plan	Year Ended 6/30	Annual OPEB Cost*	Percentage Contributed	NOO Balance
State Employees' Postemployment Benefit Trust Fund				
	2009	$ 58,994,051	33.72%	$ 68,609,470
	2010	58,856,739	38.28%	104,937,441
	2011	68,343,620	40.08%	145,886,587
Postemployment Benefits for State Teachers Retirement System				
	2009	59,791,692	0.00%	120,012,681
	2010	60,296,524	0.00%	180,309,205
	2011	43,508,091	0.00%	223,817,296

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

In the case of VSRS, health care administrative expenses are appropriated in an administrative budget. The State's contribution for the payment of these administrative expenses is paid into the State Employee Postemployment Benefit Trust Fund which pays the health care expenses. Since these expenses are expressly funded in the State's budget, they have not been included in the VSRS defined benefit pension actuarial contribution calculations.

In the case of STRS, the health care administrative expenses are paid through the pension fund but are not explicitly appropriated. Since these expenses are not expressly funded in the State's budget, they have been included in the STRS defined benefit pension actuarial contribution calculation.

Funded Status and Funding Progress

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2011. 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. Since the VSRS has accumulated some assets, a third blended calculation is also included. The MERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated State health care benefit or liability. 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. 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.

The funding status of the plans as of June 30, 2011, was as follows *(expressed 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 [1]										
6/30/11	$	11,216	$	1,009,792	$	998,576	1.1%	$	420,321	237.6%
STRS [2]										
6/30/11		-		780,032		780,032	0.0%		547,748	142.4%

(1) Reflects blended discount rate of 4.25% in 2011.
(2) Discount rate for 2011 at 4.0%, reflecting no prefunding.

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 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

For VSRS, the actuarial accrued liability for OPEB obligations earned through June 30, 2011 is $1,009.8 million with an unfunded actuarial liability of $998.6 million. This is an increase as compared to the June 30, 2010 unfunded actuarial liability of $917.3 million. The net increase in liability was due to expected increases over time and differences in demographic experience, as well as updates to mortality assumptions.

The health care trend cost rate assumption was modified to extend the period until the ultimate trend rate is reached from 2 years to 8 years in order to reflect general market expectations. Age morbidity factors were adjusted, eliminating the assumed increase in cost for ages above 65 for prescription drug costs for Medicare-eligible participants in light of recent internal studies of claims experience for credible retiree populations comparable to the population covered by the System. Assumed costs for pre-65 medical and prescription drug and Medicare-eligible medical costs continue to reflect age adjustments. All other assumptions, including the assumed discount rate, were the same as those used in 2010.

An OPEB trust has been established for VSRS funded in part, as required by statute, through the deposit of Medicare-D subsidies received for State employees' prescription programs. Therefore the VSRS system reflects a "blended rate" reflecting some level of prefunding, resulting in an assumed discount of 4.25% instead of the pay-as-you-go liability calculated at 4%.

An OPEB valuation was also completed for STRS. An OPEB trust has not been created for STRS and no prefunding has been made. As noted above, an experience study was completed for the STRS retirement system. Valuation assumptions were updated to reflect the postretirement benefit plans changes and the effects of changes to pension benefits adopted concurrently. As a result of the study, the disability incidence and post-retirement mortality assumptions were revised.

For STRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2011 is $780.0 million. This is an increase compared to the unfunded actuarial liability as of June 30, 2010. The net increase of $76.2 million was primarily due to expected increases over time and an increase in the number of retirees, consistent with the pension valuations. In addition, updates to the demographic assumptions in the pension valuation were incorporated.

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 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	06/30/11	06/30/11
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Closed basis for prefunded Open basis for pay-as-you-go	Closed basis for prefunded Open basis for pay-as-you-go
Remaining amortization period	30 years starting in 2011	30 years starting in 2011
<u>Actuarial assumptions</u>		
Investment rate of return - prefunding	8.10%	7.90%
Investment rate of return - pay-as-you-go	4.25% [(1)]	4.00%
Medical Care and State Share inflation	6.75% in 2012 6.5% in 2013 6.25% in 2014 declining to 5% in 2020	6.0 % in 2012 5.0% in 2013 and subsequent years
Coverage	80% of current active employees will elect retiree medical coverage and 70% of terminated vested will elect coverage	60% of current active employees will elect retiree medical coverage and 30% of terminated vested will elect coverage

[(1)] In fiscal year 2011, partial prefunding resulted in a blended rate of 4.25%

For both plans, the State uses an amortization method with payments increasing 5% annually, as is consistent with Statutory guidelines regarding amortization of pension liabilities.

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2010 and June 30, 2011, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2010	$ 917,285,325	$ 703,750,867
End of year service cost	41,205,530	22,006,627
Interest cost	38,664,023	27,768,912
Benefit payments	(30,881,967)	(19,056,126)
Expected increase in assets	(2,220,789)	-
Impact of recent year demographic experience	4,370,847	21,137,004
New per capita costs	(8,641,523)	(33,107,500)
New decrement assumptions	25,186,537	22,119,681
Include July 1 retirees	-	35,412,690
Health Care Reform	14,705,707	-
Asset gain	(1,097,365)	-
Unfunded actuarial accrued liability, June 30, 2011	$ 998,576,325	$ 780,032,155

Dental Insurance

Dental plans are available to retired State employees, retired teachers, retired municipal employees 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. There is no cost to the State.

Life Insurance

In the case of life insurance, if a State employee retires with 20 or more years of service and was participating in the life insurance program, it will continue into retirement, but, up until July 1, 2008, was reduced to $5,000. As of July 1, 2008, this benefit was increased to $10,000 for all State employees. If a State employee retires due to disability prior to age 60, and if proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. When the retiree reaches the age of 65 and if they have a total of 20 years or more of active and retired (while receiving disability) service, life insurance coverage will automatically change to the $10,000 (increase from $5,000 effective July 1, 2008) level with 100% of the premium being paid by the State. In addition, a retiree may convert their insurance coverage in effect at their time of retirement to an individual policy within 30 days of their retirement date without a physical exam.

Vermont Municipal Employees Health Benefit Fund

The MERS 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 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 MERS Board deposited an initial amount of $5.1 million into the RHS accounts on July 2, 2007. Additional employer contributions totaling approximately $6 million were collected during the course of the fiscal years 2008 and 2009 that were deposited in member accounts during fiscal year 2009. No such contributions have been made since fiscal year 2009. Future contributions and subsequent transfers to member accounts will be made as directed by the MERS Board of Trustees. There is no guarantee that the RHS member accounts will receive any additional funding. While classified as a post employment benefit fund, there is no accrued liability in excess of the asset of the fund. There is no annual required contribution and unfunded actuarial accrued liability.

All MERS defined benefit 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 after separation from service and the achievement of retiree status from the MERS plan. For members who were already receiving retirement benefits from the MERS, the funds in their RHS account could be accessed after July 2, 2007 to reimbursement expenses incurred after July 1, 2007. Members who are still actively employed, and members in a vested-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, 2011, there were 5,226 active and retired members participating in the MERS RHS plan. Investments in member accounts as of June 30, 2011 totaled $10,994,855. The financial statements for the OPEB Funds are as follows.

Statement of Plan Net Assets
Other Postemployment Benefit Funds
June 30, 2011

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Assets		
Cash and short term investments………………	$ 1,429,153	$ 247,147
Receivables		
Contributions - current………………………..	281,667	-
Due from other funds………………………..	376,253	-
Investments at Fair Value		
Fixed income…………………………………	5,904,488	-
Equities……………………………………….	2,741,815	-
Mutual funds………………………………….	513,115	10,747,708
Total assets…………………………………….	11,246,491	10,994,855
Liabilities		
Accounts payable……………………………….	30,955	-
Total liabilities……………………………….	30,955	-
Net assets held in trust for employee's other postemployment benefits…………….	$ 11,215,536	$ 10,994,855

Statement of Changes in Plan Net Assets
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2011

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Additions		
Contributions		
Employer - healthcare benefit	$ 24,963,027	$ -
Medicare part D drug subsidy	1,999,918	-
Early retiree reinsurance program	431,529	-
Total contributions	27,394,474	-
Investment Income		
Net appreciation in fair value of investments	528,985	1,774,680
Dividends	74,889	-
Interest income	197,046	1,142
Other income	1,100	-
Total investment income	802,020	1,775,822
Less Investment Expenses		
Investment managers and consultants	-	61,547
Total investment expenses	-	61,547
Net investment income	802,020	1,714,275
Total additions	28,196,494	1,714,275
Deductions		
Other postemployment benefits	24,878,272	274,073
Operating expenses	68	-
Total deductions	24,878,340	274,073
Change in net assets	3,318,154	1,440,202
Net assets held in trust for employees postemployment benefits		
July 1, 2010	7,897,382	9,554,653
June 30, 2011	$ 11,215,536	$ 10,994,855

Note 6: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 are summarized as follows:

	Governmental Funds		Internal	Total Governmental
	Major	Non-major	Service Funds	Activities
Governmental activities				
Taxes				
Personal and corporate income	$ 188,289,289	$ -	$ -	$ 188,289,289
Sales and use	58,957,958	-	-	58,957,958
Meals and rooms	28,149,035	-	-	28,149,035
Purchase and use	345,427	-	-	345,427
Motor Fuel	7,126,988	103,028	-	7,230,016
Other taxes	13,778,161	-	-	13,778,161
Subtotal	296,646,858	103,028	-	296,749,886
Allowance for uncollectibles	(97,649,191)	-	-	(97,649,191)
Taxes receivable, net	$ 198,997,667	$ 103,028	$ -	$ 199,100,695
		Current receivable		$ 90,279,097
		Non-current receivable		108,821,598
		Total taxes receivable, net		$ 199,100,695
Loans and notes				
Loans and notes receivable	$ 224,805,930	$ -	$ -	$ 224,805,930
Allowance for uncollectibles	(468,200)	-	-	(468,200)
Loans and notes receivable, net	$ 224,337,730	$ -	$ -	$ 224,337,730
		Current receivable		$ 33,757,683
		Non-current receivable		190,580,047
		Total loans and notes receivable, net		$ 224,337,730
Federal grants	$ 156,451,632	$ 542,537	$ -	$ 156,994,169
Other				
Accrued interest and other receivables	$ 80,747,725	$ 546,405	$ 9,191,930	$ 90,486,060
Allowance for uncollectibles	(15,917,228)	(739)	(45,536)	(15,963,503)
Other receivables, net	$ 64,830,497	$ 545,666	$ 9,146,394	74,522,557
Interfund loans receivable from Fiduciary Funds				336,878
Less Internal Service Funds' receivables from Governmental Funds				(5,616,137)
Other receivables, net				$ 69,243,298
		Current receivable		$ 20,643,901
		Non-current receivable		48,599,397
		Total other receivable, net		$ 69,243,298

	Enterprise Funds		Total Business-type
	Major	Non-major	Activities
Business-type activities			
Taxes			
Unemployment	$ 33,755,547	$ -	$ 33,755,547
Allowance for uncollectibles	(4,132,940)	-	(4,132,940)
Taxes receivable, net	$ 29,622,607	$ -	$ 29,622,607
Loans and notes receivable	$ -	$ 2,520,520	$ 2,520,520
	Current receivable		$ 982,624
	Non-current receivable		1,537,896
	Total loans and notes receivable, net		$ 2,520,520
Federal grants	$ 1,391,094	$ -	$ 1,391,094
Other			
Accrued interest and other receivables	$ 2,956,594	$ 440,312	$ 3,396,906
Allowance for uncollectibles	(50,106)	(25,411)	(75,517)
Other receivables, net	$ 2,906,488	$ 414,901	$ 3,321,389
	Current receivable		$ 3,251,586
	Non-current receivable		69,802
	Total other receivable, net		$ 3,321,388

Note 7: LEASE COMMITMENTS

A. Operating Leases

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

Total lease payments paid by the primary government in fiscal year 2011 was $9,023,393 for operating leases of which $8,978,721 was paid for property leases, $16,520 for equipment leases and $28,152 for cancellable land rentals.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2011.

	Primary Government		
Fiscal Year	**Non-Cancelable Leases**	**Cancelable Leases**	**Total**
2012.............	$ 7,738,444	$ 21,290	$ 7,759,734
2013.............	6,989,215	13,518	7,002,733
2014.............	4,816,786	3,867	4,820,653
2015.............	3,212,758	2,666	3,215,424
2016.............	1,992,911	1,406	1,994,317
2017 - 2021....	3,825,964	5,156	3,831,120
2022 - 2026....	413,285	4,825	418,110
Totals	$ 28,989,363	$ 52,728	$ 29,042,091

B. Capital Leases

The State has entered into capital lease arrangements to acquire various items of machinery and equipment and building improvements with a gross asset value totaling $5,286,041. The majority of the gross value total is from a lease with the Banc of America Public Capital Corp, for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex. The total cost of the equipment to be funded by the lessee under the agreement is $4,728,467 consisting of 120 payments, based on 10 years using simple interest rate of 3.089% and a compound interest of 3.133% with the first payment made on January 1, 2010. Lease payments for 2011 were $589,242.

Capital lease payments for the primary government in 2011 totaled $634,047 with $44,805 for machinery and equipment and $589,242 for building improvements.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2011 are as follows.

Fiscal Year	Primary Government
2012	$ 647,664
2013	653,527
2014	662,131
2015	668,081
2016	674,713
2017 - 2019	1,581,621
Total minimum lease payments	4,887,737
Less interest	(547,732)
Present value of minimum lease payments	$ 4,340,005

The State, 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, 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.

Special obligation transportation infrastructure bonds are limited obligations of the State of Vermont payable from and secured solely by a pledge funds held in trust by the Peoples United Bank in accordance with the terms of a Trust Agreement. Funding sources for the pledged funds are funds to be received from the Motor Fuel Infrastructure Assessments as authorized by Act 50 of the 2009 legislative session. The proceeds from this issue are expected to be expended for transportation infrastructure purposes, namely the rehabilitation or replacement of five State bridges, construction of one roadway capacity project, and rehabilitation and reconstruction of two interstate bridges.

The changes in bonds principal payable for fiscal year 2011 are summarized in the following schedule.

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2010	$ 472,791,215	$ -	$ 472,791,215
Additions:			
Issuances	75,000,000	14,400,000	89,400,000
Accretions	579,705	-	579,705
Total	75,579,705	14,400,000	89,979,705
Deductions:			
Redemptions	(52,630,000)	(565,000)	(53,195,000)
Total	(52,630,000)	(565,000)	(53,195,000)
Balance, June 30, 2011	$ 495,740,920	$ 13,835,000	$ 509,575,920

During fiscal years 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. The proceeds from these bonds totaled $17,987,640. These bonds have a remaining maturity value of $5,500,000 and an accreted value of $5,051,970 at June 30, 2011.

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. These bonds have a remaining maturity value of $1,285,000 and an accreted value of $1,243,950 at June 30, 2011.

See the following page for a schedule of general obligation and special obligation transportation infrastructure bonds outstanding at June 20, 2011.

General Obligation and Special Obligation Transportation Infrastructure Bonds Outstanding at June 30, 2011

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:								
11/14/2001	8/1/2020	3.25 to 4.75	46,000,000		$ 2,185,000	$ -	$ -	$ 2,185,000
12/27/2001	8/1/2011	4.0 to 4.375	5,000,000		500,000	-	-	500,000
12/11/2002	8/1/2021	3.0 to 5.0	30,800,000		3,770,000	-	-	3,770,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		10,961,500	598,500	-	11,560,000
2/11/2004	2/1/2018	1.1 to 5.0	137,457,000		52,538,302	981,698	2,105,000	55,625,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		24,746,161	1,893,839	-	26,640,000
3/2/2005	3/1/2025	3.0 to 4.0	26,000,000		22,700,000	-	-	22,700,000
4/13/2005	3/1/2015	2.4 to 4.0	15,000,000		5,600,000	400,000	-	6,000,000
6/7/2005	3/1/2020	2.65 to 5.0	20,805,000		19,109,087	565,913	880,000	20,555,000
11/22/2005	7/15/2025	3.5 to 5.0	30,000,000		17,250,000	-	-	17,250,000
12/13/2005	7/15/2015	3.1 to 4.0	15,000,000		7,500,000	-	-	7,500,000
2/21/2007	7/15/2026	4.0 to 5.0	30,000,000		27,000,000	-	-	27,000,000
3/15/2007	7/15/2016	3.375 to 4.0	9,500,000		5,700,000	-	-	5,700,000
3/15/2007	7/15/2016	3.375 to 4.0	5,000,000		3,000,000	-	-	3,000,000
11/28/2007	7/15/2027	3.50 to 5.25	35,000,000		31,400,000	-	-	31,400,000
12/20/2007	7/15/2017	3.0 to 4.0	11,000,000		7,700,000	-	-	7,700,000
12/20/2007	7/15/2017	3.0 to 5.0	29,195,000		12,425,320	254,680	-	12,680,000
3/11/2009	3/1/2029	2.0 to 5.0	50,500,000		32,770,000	12,680,000	-	45,450,000
2/3/2010	8/15/2016	2.0 to 5.0	11,200,000		9,600,000	-	-	9,600,000
2/3/2010	8/15/2029	3.75 to 4.5	40,800,000		40,800,000	-	-	40,800,000
3/11/2010	8/15/2019	2.0 to 2.8	20,000,000		18,000,000	-	-	18,000,000
3/11/2010	8/15/2021	2.0 to 5.0	29,155,000		29,155,000	-	-	29,155,000
3/11/2010	8/15/2021	2.0 to 5.0	9,675,000		9,675,000	-	-	9,675,000
10/26/2010	8/15/2013	3.0	3,750,000		3,750,000	-	-	3,750,000
10/26/2010	8/15/2030	1.45 to 4.7	46,250,000		46,250,000	-	-	46,250,000
11/30/2010	8/15/2020	1.5 to 5.0	25,000,000		25,000,000	-	-	25,000,000
Total General Obligation Current Interest Bonds					**469,085,370**	**17,374,630**	**2,985,000**	**489,445,000**
General Obligation Capital Appreciation Bonds:								
10/30/1991	10/15/2011	N/A	9,999,837	20,575,000	1,285,000	-	-	1,285,000
12/01/1993	08/01/2013	N/A	17,987,640	32,625,000	5,500,000	-	-	5,500,000
Total Maturity Value					**6,785,000**	-	-	**6,785,000**
Less: Unaccreted Interest					489,080	-	-	489,080
Total General Obligation Capital Appreciation Bonds					**6,295,920**	**-**	**-**	**6,295,920**
Total General Obligation Bonds					**475,381,290**	**17,374,630**	**2,985,000**	**495,740,920**
Special Obligation Transportation Infrastructure Bonds:								
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000		**-**	**13,835,000**	**-**	**13,835,000**
Total General Obligation and Special Obligation Bonds					**$ 475,381,290**	**$ 31,209,630**	**$ 2,985,000**	**$ 509,575,920**

At June 30, 2011, there remains $103,301,218 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2011 are as follows:

Fiscal Year	General Obligation Current Interest Bonds Principal	General Obligation Current Interest Bonds Interest	Special Obligation Current Interest Bonds Principal	Special Obligation Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2012	$ 48,510,000	$ 19,853,829	$ 575,000	$ 416,563	$ 3,035,000	$ 72,390,392
2013	44,210,000	17,369,221	585,000	405,063	1,750,000	64,319,284
2014	43,995,000	15,695,019	600,000	393,363	2,000,000	62,683,382
2015	37,115,000	14,017,419	610,000	381,363	-	52,123,782
2016	33,855,000	12,656,081	625,000	369,163	-	47,505,244
2017-2021	136,460,000	45,667,265	3,345,000	1,613,660	-	187,085,925
2022-2026	97,725,000	21,367,564	3,880,000	1,088,587	-	124,061,151
2027-2031	47,575,000	4,542,444	3,615,000	354,738	-	56,087,182
Totals	$ 489,445,000	$ 151,168,842	$ 13,835,000	$ 5,022,500	$ 6,785,000	$ 666,256,342

Note 9: BOND REFUNDINGS

During fiscal years 2004, 2005, and 2010, 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, 2011, is $50,100,000.

Note 10: BUDGET STABILIZATION ARRANGEMENTS

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 consist of any budgetary basis 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. For fiscal year 2011, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds to their respective statutory maximum levels. The balances at June 30, 2011 are as follows: $10,438,554 in the Transportation Fund's Budget Stabilization Reserve; $54,372,598 in the General Fund's Budget Stabilization Reserve; and $30,287,039 in the Education Fund’s Budget Stabilization Reserve.

The State has previously reported its General Fund Budget Stabilization Reserve as reserved for budget stabilization in the governmental funds. With the implementation of GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, the reserve does not meet the criteria to be classified as restricted or committed fund balance, and is reported as unassigned fund balance. This is a reporting change. There has been no change in the budget stabilization policy or the way in which the policy is being carried out. The Transportation Fund’s Budget Stabilization Reserve and the Education Fund’s Education Reserve are classified as committed for transportation and education, respectively.

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 (VEDA) in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Aid Board to it. Each of these original entities was relegated to a particular segment of commercial development. VEDA 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 full faith and credit of the State is pledged to support the activities of VEDA.

VEDA has the power, under its two insurance programs (the Mortgage Insurance Program – MIP and the Financial Access program – FAP), to insure various types of loans.

Under the MIP, VEDA has the power to insure up to $9 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 VEDA. As of June 30, 2011, the State's contingent liability for mortgage insurance contracts insured under its MIP is $2,484,000.

VEDA is authorized to reimburse lenders participating in its other insurance program (FAP) for losses incurred on loans that the lenders register with VEDA. 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 $1 million at any one time. The State's contingent liability for the FAP at June 30, 2011 is $809,748. The State has no recorded payable to VEDA in the Governmental Funds for fiscal 2011.

Federal Grants:
The State receives federal grants that are subject to audit and review by federal grantor agencies that could result in expenditures being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting from such disallowances would not be material.

B. Limited Liabilities

Vermont Economic Development Authority:
The State has a limited liability for the VEDA. VEDA may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, VEDA 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. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont Municipal Bond Bank:
The State has a limited liability for the Vermont Municipal Bond Bank (Bank). The Bank is required to maintain debt service reserve funds. 24 V.S.A. Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency:
The State has a limited liability for the Vermont Housing Finance Agency (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring these reserve fund balances up to the minimum required by statute.

This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

C. Contractual Liabilities

At June 30, 2011, the State of Vermont had long-term contracts outstanding of approximately $232,163,271 funded from federal sources, and $554,742,370 funded from all other funding sources. Contracts such as retainer contracts and contracts for commodities have not been included since the nature of these on-going contracts are tracked statewide to insure the best prices for supplies and some professional services. Following is a summary of contractual liabilities by agency, department or office at June 30, 2011.

Agency, Department, or Office	Total Contractual Obligation	Funded by Federal Sources	Funded by Other Sources
Agency of Administration	$ 125,939,032	$ 125,440	$ 125,813,593
Agency of Agriculture, Food & Markets	1,086,410	481,360	605,050
Agency of Commerce & Community Development	9,050,970	207,259	8,843,711
Agency of Human Services	127,517,172	26,436,887	101,080,285
Agency of Natural Resources	9,387,164	2,139,235	7,247,929
Agency of Transportation	348,746,998	177,004,593	171,742,406
Auditor of Account's Office	5,405,259	-	5,405,259
Center for Crime Victims Services	7,137	5,500	1,637
Criminal Justice Training Council	200,946	-	200,946
Department of Banking, Insurance, Securities and Health Care Administration	2,278,949	291,946	1,987,003
Department of Education	7,410,061	6,796,063	613,998
Department of Labor	270,494	270,494	-
Department of Liquor Control	100,274	-	100,274
Department of Public Safety	10,107,483	6,830,423	3,277,060
Enhanced 911 Board	9,854,970	-	9,854,970
Joint Fiscal Office	520,823	-	520,823
Judiciary	3,194,393	20,000	3,174,393
Legislative Council	2,959,393	2,655,632	303,761
Military Department	555,619	49,124	506,495
Office of the Attorney General	2,317,576	-	2,317,576
Public Service Board	1,643,138	-	1,643,138
Public Service Department	16,071,584	8,849,316	7,222,268
Secretary of State's Office	44,913	-	44,913
State Treasurer's Office	102,169,775	-	102,169,775
State's Attorneys and Sheriffs	35,511	-	35,511
Vermont Lottery Commission	29,599	-	29,599
Total	$ 786,905,641	$ 232,163,271	$ 554,742,370

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 69% have end dates of June 30, 2012 or earlier. Of the Agency of Human Services contract liability balance, 30% is for contracts in the Department of Corrections and 46% is Department of Vermont Health Access. Of the contracts in the Agency of Administration, 40% have end dates during fiscal year 2012, and are primarily for human resource benefit administration services, information technology services, and capital construction. The State Treasurer's Office contracts are mostly investment management services for the retirement plans which consist of 98% of the total, with 8% having end dates during fiscal year 2012.

D. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. During fiscal year 2011, the State awarded over 7,500 grants. The chart below shows the funding sources for these awards, the fiscal year 2011 payments issued to grantees on both these awards and prior year grant awards, and the remaining unexpended award amounts and June 30, 2011.

	Fiscal Year 2011 Awards	Current & Prior Year Awards Expended During Fiscal Year	Award Balances at June 30, 2011
General Fund	$ 138,718,558	$ 135,178,442	$ 8,956,687
Federal grant sources	266,808,095	268,050,735	151,279,360
Other funding sources	299,637,639	279,936,243	88,889,058
Total	$ 705,164,292	$ 683,165,420	$ 249,125,104

A partial summary of the 2011 grant activity is provided below.

Higher education and student assistance grants awarded during fiscal year 2011 totaled $92,931,202 with $80,922,099 from General Fund, $475,522 from Federal sources and the remaining amount of $11,533,581 from all other funds. During fiscal year 2011, the State expended $92,932,105 both on these awards and prior year awards. At June 30, 2011, there is a remaining unexpended award balance of $1,478,223.

During fiscal year 2011, over 1,005 federal ARRA grants, totaling $100,432,948, were awarded in the areas of general education, loan funds, training, tourism, Vermont economic development and public safety programs. The amount expended during fiscal year 2011 totaled $82,029,400 which leaves an unexpended balance of $31,762,306 at June 30, 2011, with $12,710,653 from federal sources and $19,051,653 from other sources.

During fiscal year 2011, 118 grants have been awarded to programs under mental health for adults and children with awards totaling $110,391,992. Programs managed under mental health are youth in transition, success beyond six, children's upstream and Vt. Child trauma. The amount expended during fiscal year 2011 totaled $106,123,574, with $312,375 from general fund, $4,748,607 from federal sources, and $101,062,592 remaining from all other funds. This leaves an unexpended balance of $6,670,815 at June 30, 2011.

During fiscal year 2011, 110 public health grants were awarded for prevention of diseases, public awareness programs like tobacco cessation, HIV prevention and family planning, vaccinations and inspection programs. Grants totaling $13,133,183 were awarded, with $9,026,574 coming from federal sources. These awards, plus unexpended awards from previous years totaling $5,684,564, funded the fiscal year 2011 expenditures of $10,755,740 with $1,928,439, $7,442,337 and $1,384,964 coming from general fund, federal funds, and all other sources, respectively. The unexpended balance at June 30, 2011 is $8,062,008 with 67% or $5,421,528 from federal sources.

During fiscal year 2011, over 100 grants were awarded by the State to alcohol and drug abuse programs, which includes DUI enforcement grants. The total awarded of $11,966,700 consists of $3,657,389 from general fund, $7,860,611 in federal fund sources, and $448,700 from all other sources. The State expended $12,708,622 during fiscal year 2011, which leaves an unexpended awarded balance of $2,786,412, with $747,342 in General Fund, $1,832,297 in federal grant sources, and $206,774 in all other funding sources at June 30, 2011.

Under labor and training programs like vocational rehabilitation, 94 grants have been awarded to outreach programs, individuals with disabilities, work training programs, workforce education, career exploration and apprenticeship programs. In fiscal year 2011, grants of $3,842,419 (with $1,715,500 coming from federal sources) were awarded, and $4,119,850 was expended from all fund sources. The unexpended balance remaining at June 30, 2011, is $3,366,409 which includes prior years' unexpended balances of $3,689,241.

Other educational grants have been awarded for school improvements, Title I, II, III and V as well as head start and technology advances. During fiscal year 2011, 1,369 education grants totaling $127,694,241 with 77% or $98,529,088 coming from federal sources were awarded. These grants, along with prior years' awarded but unexpended funds of $18,888,552, allowed for a fiscal year 2011 expended amount of $120,500,806 with $91,797,888, $1,352,185, and $27,350,734 coming from federal sources, General Funds, and all other sources respectively. The remaining unexpended balance at June 30, 2011 is $13,238,330, with all of this balance coming from federal sources.

During fiscal year 2011, 193 community and economic development grants totaling $17,535,599 were awarded for energy savings programs and feasibility studies utilizing wind power, solar panels and geothermal projects. Expenditures in these areas totaled $18,963,182, with $2,160,957 in general fund, $15,713,830 in federal fund sources and $1,088,395 in all other sources. Along with prior years' unexpended balance of $23,561,362, that leaves an unexpended grant balance of $22,184,811, with $17,812,826 or 80% in federal funds at June 30.

During fiscal year 2011, the United States Department of Justice awarded the Vermont Crime Victims 64 federal grants totaling $1,809,031 for crime victim assistance, and domestic and family violence services' programs. The amount expended totaled $1,806,324 which along with a prior years' unexpended balance of $937,832 leaves an unexpended committed balance of $886,539 at June 30, 2011.

Transportation grants consists of town highway projects like bridge replacement and rehabilitation, culvert repair and State aid to towns; State and FTA funded projects; State paving projects, enhancement projects and various roadway projects. Fiscal year 2011 total grants awarded were $57,148,235, with $21,549,148 coming from federal sources, and $35,599,087 coming from State and bonding sources other than the General Fund. This total, plus previous years' unexpended awards of $125,099,231, funded $75,573,710 in total expenditures, with $33,871,517 or 44% from federal sources and $41,702,193 or 55% coming the sources. This leaves an unexpended balance of $108,383,845 at June 30, 2011.

During fiscal year 2011, over 170 grants totaling $25,522,271 were awarded to the aged and independent living programs. The majority of the grants were for training, work based learning and supported education, abuse prevention, caregiver programs and grants for home delivered meals. Of the total grant amount of $25,522,271 awarded, $7,381,397 came from the General Fund, $14,573,376 from federal sources, and $3,567,498 from all other sources; the sum of which when combined with an unexpended balance remaining from previous awards of $4,032,999, funded expenditures of $23,521,281. The unexpended balance remaining at June 30, 2011 totaled $6,033,989 and is comprised of $654,290 in General Fund, $4,690,536 in federal sources, and $689,163 in all other sources.

Public Safety grants are made up of safety programs like homeland security, motorcycle safety, bicycle safety, traffic safety, seatbelt safety and boating safety. During fiscal year 2011, safety grants included 393 grants for a total of $7,393,453 with 98% of the total made up from federal sources. Total expended balance of $4,483,500, combined with an outstanding balance of $2,781,745 from previous years' unexpended balance, is $5,806,572 with $5,759,041 from federal sources.

During fiscal year 2011, $44,387,952 ($29,609,552 in federal sources) in human services grants from department of children and families for child care programs, economic and family services, economic opportunities and weatherization programs were awarded. These awards along with previous years' unexpended balances of $9,184,002 funded expenditures of $39,939,263 resulting in an unexpended balance of $4,291,952, of which $2,916,627 was funded by federal sources, $1,093,177 from general fund and $910,147 from other sources..

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 (Commission) which is an interstate body, both corporate and politic, serving as a common agent for 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 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 promulgate rules and regulations governing the establishment and to administer the operation of the Tri-State 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, 2011, the Commission had total assets of $73,925,110, and total liabilities of $61,322,055, representing decreases of $20.4 million and $18.0 million respectively, compared to June 30, 2010 figures. For the fiscal year ended June 30, 2011, the Commission had operating revenues of $68,131,731, a decrease of $10.6 million; interest income of $48,018, an increase of $19,075; commissions, fees, and bonus expenses of $6,792,771, a decrease of $2,107,951; prize awards of $34.239.069 a decrease of $5.0 million; and other operating expenses of $4,322,719, a decrease of $9,741; all activity as compared to the fiscal year ended June 30, 2010.

During fiscal year 2011, the Commission made operating transfers to member states of $22,826,190 versus $26,245,842 during fiscal year 2010. This total included $3,631,338 transferred to Vermont during the fiscal year, an increase of $280,370 as compared to fiscal year 2010.

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. Workers' Compensation and Risk Management

The Agency of Administration 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 have 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 2011 and 2010 respectively, approved claims paid were $473,239 and $292,291. In fiscal year 2011, one large claim was settled.

B. Health Care Insurance, Dental Assistance Plan, Life Insurance, Employee Assistance Program, and Long Term Disability Funds for State Employee Benefit Plans

The Administrative Services Division of the Department of Human Resources maintains medical/behavioral health insurance, dental assistance plan, life insurance, employee assistance program, and long term disability program funds for the benefit of current State employees, retired former employees, and legislators as well as employees and certain former employees of outside "special" groups which have been declared eligible to participate by statute or labor agreement. Not all of these named groups may participate in every plan. Detailed eligibility information for each group listed above can be found in the plan summaries that follow. Temporary and contractual employees are not eligible to participate in these plans.

Enrolled plan participants share in the premium cost of the medical/behavioral health plan. Prescription drug coverage is included in the medical/behavioral health plan. 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. Special Groups covered under the health insurance plan remit premium to the State for their members. Retirees covered under the health plan pay premium through the Retirement Division.

The medical insurance plan offerings have been in place since 2001 and include four plan options. TotalChoice and HealthGuard options are "preferred provider organization" indemnity-type plans. The SafetyNet option is a high-deductible catastrophic plan. The SelectCare plan 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. 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 claims payment. To limit the State's large claims exposure, the State has purchased a stop loss insurance policy.

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 plan operates with a schedule of benefits which is bargained under the labor contract and has not been updated since 2001. The 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. Special Groups covered under the dental assistance plan remit premium to the State for their members.

The State of Vermont Employee Life Insurance Program consists of a Term-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 $10,000 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 special groups are eligible to participate. Special Groups covered under the life insurance plan remit premium to the State for their members.

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, 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. Employees must be employed for one (1) year 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. During 2011, departments were given a 13 pay-period rate holiday and normal premium recovery from employees was not processed.

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	Cuurent FY Claims and Changes in Estimates	Current FY Claims Payments	Liability at End of the Fiscal Year
Workers' Compensation Fund				
2009	$ 18,621,901	$ 8,810,223	$ 6,679,413	$ 20,752,711
2010	20,752,711	9,958,945	6,374,876	24,336,780
2011	24,336,780	5,850,317	6,983,306	23,203,791
State Liability Insurance Fund				
2009	5,776,852	1,663,583	1,158,621	6,281,814
2010	6,281,814	1,983,164	1,347,076	6,917,902
2011	6,917,902	400,884	891,905	6,426,881
Medical Insurance Fund				
2009	11,178,441	104,332,765	104,672,736	10,838,470
2010	10,838,470	109,027,749	108,961,398	10,904,821
2011	10,904,821	116,845,994	115,834,579	11,916,236
Dental Insurance Fund				
2009	255,102	5,233,950	5,212,645	276,407
2010	276,407	4,972,853	4,974,032	275,228
2011	275,228	4,972,179	5,050,658	196,749

Note 15: DEFICIT FUND BALANCES AND NET ASSETS

Business-type Proprietary Funds

Unemployment Compensation Trust Fund: ended fiscal year 2011 with a deficit total net asset balance of $11,199,590. The Fund became insolvent during the first quarter of 2010. Legislation was subsequently passed that made changes in unemployment statutes designed to bring the State closer to solvency, including a significant increase in the wage base, a freeze on the maximum weekly benefit amount, a prohibition on employees fired for gross misconduct from using those wages to qualify for benefits, and the institution of a "waiting period" week, among other changes.

Federal Surplus Property: ended fiscal year 2011 with both a deficit unrestricted net asset and a deficit total net asset balance of $705,916. The program continues to suffer from a lack of inventory for sale from the federal government that could be retrieved for sale by the State. Though the deficit in fiscal 2011 was reduced, the reduction was solely due to a $250,000 recapitalization of the fund from the General Fund. The intent is to actively retrieve goods for sale and increase activity in fiscal 2012. Given the program is popular with local governments the plan is to continue to recapitalize the fund from the General Fund if sales continue to keep the program in a deficit position.

Vermont Life Magazine: ended fiscal year 2011 with both a deficit unrestricted net asset balance of $1,006,269 and a deficit total net asset balance of $1,001,993. Due mainly to the economic recession, like print publications throughout the country, Vermont Life has seen impacts on advertising revenue, sales revenue and circulation numbers. The magazine has taken a number of steps this year to improve performance. The magazine was redesigned with the Spring issue, and the redesign appears to have been popular. A new incentive-based advertising professional and a new incentive-based product sales vendor have been hired to promote these revenue areas. The magazine is actively promoting new partnerships with business and with other state agencies and departments. The direct mailing campaign has been strengthened by increasing the number of direct mail pieces sent out and by exploring new mailing lists to expand the subscription base, as well as redesigning all direct mail pieces. In fiscal year 2012, the magazine will have an Audit Bureau of Circulations audit conducted to determine any change in demographics.

Internal Service Funds

Copy Center Fund: ended fiscal year 2011 with a deficit unrestricted net asset balance of $3,058,429 and a deficit total net asset balance of $1,683,235. Increased efficiencies implemented in the Print Shop created savings, which in turn reduced the deficit in 2011. The Copy Center expects an increase in business activity in fiscal year 2012 and beyond with the goal of saving the state resources as a result of new printing mandates being implemented by the administration directing more business to the Print Shop. The fund deficit should be recovered through normal operations.

Facilities Operations Fund: ended fiscal year 2011 with a deficit unrestricted net asset balance of $2,319,151 and a deficit total net asset balance of $2,484,321. In part the loss is due to budget rescissions to the program in the amount of $753,000. The remainder of the loss is due to operating expenses being volatile for heating and utilities. These factors will be considered in future rates and it is expected that he entire fund deficit will be recovered through increased efficiencies and an increase in future rates.

Fleet Fund: ended fiscal year 2011 with a deficit unrestricted net asset balance of $4,731,121 and a positive total net asset balance of $460,123. The unrestricted deficit balance is due to a rolling annual replacement schedule for vehicles financed through Interfund Loans Payable The Invested in Capital Assets balance is a positive $5,191,244. Given the financial structure of the fund, the unrestricted net assets are not expected to be positive, but the combined net asset balance is and should remain in that position.

Highway Garage Fund: ended fiscal year 2011 with a deficit unrestricted net asset balance of $393,414. The Highway Garage Department has structured a five year plan to eliminate the deficit by increasing rental rates. Rental rates for all vehicles and equipment have been restructured to charge for possession rather than usage, which will significantly stabilize revenues and reduce the deficit.

Postage Fund: ended fiscal year 2011 with a deficit unrestricted net asset balance of $1,777,184 and a deficit total net asset balance of $1,758,817. The Postage Fund continues to see a loss from year to year. However, due to increased sales in fiscal year 2011, the loss was smaller than it has been in past years. The current fund deficit will be recovered through normal business operations.

Property Management Fund: ended fiscal year 2011 with a deficit unrestricted net asset balance of $20,877,024 and a deficit total net asset balance of $20,871,762. The fund deficit continues to expand due to the 20-year bonding of the three buildings in the program and the 50-year recovery period of the bond principle. The fund will begin to recover after the 20-year bonding period has ended. Two of the three buildings have completed their 20-year bond period. It is anticipated that the fund will begin to recover soon afterwards.

Single Audit Revolving Fund: ended fiscal year 2011 with both a deficit unrestricted net asset and a total net asset balance of $366,405. In part, the deficit can be attributed to fiscal year 2009 budget rescissions resulting in a transfer to the General Fund of $196,000. The remaining deficit is due to estimated billing costs that were understated in fiscal year 2011, but should be recovered through normal billing for services in fiscal year 2012.

Workers' Compensation Fund: ended fiscal year 2011 with both a deficit unrestricted net asset balance and a total net asset balance of $3,933,967. The rates for fiscal year 2012 include an additional $1 million to help alleviate part of this deficit fund balance. The fund deficit will be addressed in setting the fiscal year 2013 rates for departments and agencies. The workers' compensation program has an aggressive medical case management team that is striving to return injured employees back to work at the earliest possible date. This objective should result in an improvement in the claims expense going forward.

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 transfers of resources from the General, Transportation, Special and Federal Funds. Other liabilities include the unamortized premium on the sale of bonds. During the year ended June 30, 2011, the following changes occurred in the long-term liabilities.

	Total Liability July 1, 2010	Additions	Reductions	Total Liability June 30, 2011	Amounts due within one year
Governmental activities					
Bonds payable	$ 472,791,215	$ 89,979,705	$ 53,195,000	$ 509,575,920	$ 52,120,000
Capital leases payable	4,819,885	36,923	516,803	4,340,005	509,744
Compensated absences	32,658,655	33,203,524	33,073,628	32,788,551	21,446,041
Claims and judgments	42,434,731	128,069,374	128,760,448	41,743,657	12,155,134
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligations	234,619,718	99,314,593	87,840,730	246,093,581	-
Net other postemployment obligations	285,246,646	111,851,711	27,394,474	369,703,883	-
Other liabilities	15,677,340	1,602,102	1,663,696	15,615,746	1,818,027
Pollution remediation obligations	5,155,295	297,500	242,964	5,209,831	243,520
Total governmental activities long-term liabilities	$ 1,100,403,485	$ 464,355,432	$ 332,687,743	$ 1,232,071,174	$ 88,292,466

Governmental activities bonds payable additions of $89,979,705 include $75,000,000 in general obligation bonds, $14,400,000 in special obligation bonds, and $579,705 of accretions on capital appreciation bonds.

Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the United States Environmental Protection Agency (USEPA) expends resources from the superfund trust for cleanup. Currently, there are five sites in Vermont in various stages of cleanup, from initial assessment to cleanup activities. There was a net increase of $54,536 in the Pollution Remediation Obligation (PRO) at June 30, 2011. These liabilities were measured using the actual contract cost, where no changes in cost are expected, or a method that is materially close to the expected cash flow technique. Liability estimates are subject to change due to cost increases or reductions, or changes in technology or applicable laws or regulations governing the remediation efforts. The State does not anticipate recovering reimbursements from the parties who caused the pollution.

The State has identified another site for cleanup for which estimated costs (liabilities) have not been recognized. The site, which is a mine, has been identified as having significant erosion. Currently, costs for its remediation and long term maintenance have not been determined at this time as the evaluation processes have just begun. The State is in the process of determining who is responsible and if there is a potential to recover cleanup funds from former owners. The case has been referred to the USEPA for consideration as a Superfund site.

	Total Liability July 1, 2010	Additions	Reductions	Total Liability June 30, 2011	Amounts due within one year
Business-type activities					
Unemployment compensation trust fund federal account loan	$ 32,657,065	$ 45,074,796	$ -	$ 77,731,861	$ -
Compensated absences	353,330	283,696	300,851	336,175	199,507
Lottery prize awards payable	4,483,125	60,613,105	60,582,412	4,513,818	2,903,657
Total business-type activities long term liabilities	$ 37,493,520	$ 105,971,597	$ 60,883,263	$ 82,581,854	$ 3,103,164
Fiduciary					
Compensated absences	$ 13,812	$ 14,433	$ 13,625	$ 14,620	$ 9,476
Total fiduciary long-term liabilities	$ 13,812	$ 14,433	$ 13,625	$ 14,620	$ 9,476

During the fiscal year, the Unemployment Compensation Trust Fund drew advances from the U. S. Treasury's Unemployment Trust Fund (UTF), The American Recovery and Reinvestment Act of 2009 provided that these State advances be interest free through December 31, 2010. Accrued interest at June 30, 2011 was $1,317,247, to be paid from the general fund when due in September, 2011.

Note 17: ACCOUNTING CHANGES

Notes and Loans Receivable.

Prior to the implementation of GASB No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, the State elected to report notes and loans receivable with an offsetting deferred revenue, with notes and loans made recorded as an expenditure, and notes and loans repaid recorded as a revenue. The State elected not to report a reserved fund balance, so as not to give the reader the mistaken impression that the funds were available for appropriation in the near term. With the implementation of GASB No. 54, the new fund balance classifications, particularly the non-spendable fund balance for notes and loans receivable, the State has elected to change the way it is reporting these loans to show the balance as non-spendable fund balance instead of reporting as deferred revenue.

For the General Fund, beginning fund balance was restated by $587,249, which represented the amount of notes and loans receivable as of July 1, 2010. For the Special Fund, beginning fund balance was retroactively adjusted by $1,157,019, which represents the amounts of notes and loans receivable as of July 1, 2010. For the Federal Revenue Fund, beginning fund balance was retroactively adjusted by $193,299,186, which represented the amount of notes and loans receivable as of July 1, 2010. In cases where the original proceeds are restored, committed or assigned, the loans are reported in the same category of fund balance as the original proceeds.

Electric Power Sales Fund

In prior years, the State reported as a part of its Special Fund the purchase and sale of electric power, with sales being reported under sales of service revenue and purchases being reported under public service enterprises expenditures. For the year ended June 30, 2011, the State determined that the nature of the fund had changed over time to be more properly classified as an enterprise fund as the intent is for the fund to operate as a business-type activity.

For the Special Fund, beginning fund balance was retroactively adjusted by $193,295, which represented the modified accrual negative fund balance in the fund at July 1, 2010. For the Electric Power Sales Fund, beginning fund balance was restated by ($14,274), which represented the accrual basis negative fund balance in the fund at July 1, 2010. The difference of $179,021 represented accounts receivable at June 30, 2010, which was deferred in the Special Fund as it was not collected within a reasonable period of time after year end, but was recognized as revenue in the Electric Power Sales Fund. Beginning net assets in the Government-wide financial statements were similarly restated.

Note 18: RESTRICTED NET ASSETS - Discretely Presented Component Units

Restricted net asets are those portions of total net assets that are not available for appropriation for expenditure or that are legally segregated for a specific future use. Restricted net assets at June 30, 2011 are as follows:

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units
Restricted for					
Endowments					
Expendable	$ 157,000	$ 283,481,000	$ 5,910,795	$ -	$ -
Nonexpendable	3,215,000	94,662,000	13,414,763	-	-
Grants and scholarships	2,961,000	-	-	-	-
Bond resolution	105,835,000	-	-	81,136,627	-
Interest rate subsidies	-	-	-	-	4,034,469
Investment - Vermont Seed Capital, LP	-	-	-	-	4,040,000
Investment - VSJF Flexible Cap Fund	-	-	-	-	41,010
Collateral for commercial paper program	-	-	-	-	20,067,767
Infrastructure invetments	-	-	-	-	2,509,900
Project and program commitments	-	-	-	-	30,828,494
Loans receivable [1]	-	-	-	-	154,736,175
Total Component Units Restricted Net Assets	$ 112,168,000	$ 378,143,000	$ 19,325,558	$ 81,136,627	$ 216,257,815

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

Note 19: SUBSEQUENT EVENTS
Tropical Storm Irene

On August 28, 2011, Vermont was struck by Tropical Storm Irene, causing catastrophic damage to the State. One hundred forty-six State roads and 34 State highway bridges were damaged or destroyed, as well as five bridges on the State-owned rail system. The State Office Complex in Waterbury was flooded and nearly 1,500 employees were displaced. While the estimated damage to Vermont is $440 million, the full impact of the storm on the State is not known at this time.

The State carries commercial insurance policies to cover damage to State-owned real property. The State is currently working with insurance adjusters on the amount of any insurance recoveries the State may be receiving, but it is expected that most of the cost of stabilization and reconstruction will be covered. Damage to roads and bridges will be eligible for reimbursement from either the Federal Highway Administration Emergency Relief Program or the Federal Emergency Management Agency Public Assistance Program. The State is currently working with representatives from FHWA and FEMA on the amount of repairs and reconstruction costs that are eligible for reimbursement. FHWA funding is usually capped at $100 million per State per event; however, Congress has passed legislation removing that cap. Emergency repairs are eligible for 100% funding while permanent repairs are eligible for 80% funding. FEMA funding typically covers 75% of all approved costs, although since the damage is expected to pass the threshold of $127 per capita, the funding will be increased to 90%. The estimated cost to the State for these damages is $34 million.

Two of the State's component units, the Vermont State College System (VSC) and the Vermont Center for Geographic Information, Inc. (VCGI), also suffered substantial damage. The VSC had damage to facilities at three of its locations and the VCGI suffered damage at its location. Both the VSC and the VCGI carry commercial insurance policies to cover damage to equipment and real property that should cover most of the losses to their facilities.

There was also extensive damage to local governments. Two thousand, one hundred thirty-five segments of town roads, 931 town culverts and 283 town bridges were damaged or destroyed, with estimated reconstruction costs of $140 million. Thirteen communities were unreachable for a period of time, and another eight had limited access. Many municipal structures were damaged, including buildings, park land, and water and wastewater facilities. Damage to buildings and utility systems are eligible for insurance reimbursement, and other damages are eligible for disaster assistance from FEMA. The State will provide a portion of the match that FEMA requires. This assistance to cities and towns is estimated at $7 million.

The storm also damaged or destroyed many private homes and other buildings across the State. It is anticipated that many of these building owners will apply for property tax relief through their local town's Board of Abatement. A significant portion of the property taxes that may be abated consists of the State-wide education property tax. The State has announced a plan whereby if the abatement meets certain criteria, the State will reimburse the towns for any portion of the education property tax that may be abated. It is expected that this will cost the State between $2 and $4 million.

There are other costs related to the impact of the storm, including damages to forests and parks, as well as costs for business loans and the Statewide audit. These costs are estimated at $2 million.

The State is currently compiling information relative to any asset impairments that need to be recorded. Any necessary adjustments will be included in the financial Statements for the year ending June 30, 2012.

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Vermont

Required Supplementary Information

(Unaudited)

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
SCHEDULE OF FUNDING PROGRESS
(dollar amounts expressed in thousands)
(Unaudited)

Actuarial Valuation Date June 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]						
2011	$ 1,348,763	$ 1,695,301	$ 346,538	79.56%	$ 398,264	87.01%
2010	1,265,404	1,559,324	293,920	81.15%	393,829	74.63%
2009	1,217,638	1,544,144	326,506	78.86%	404,516	80.72%
2008	1,377,101	1,464,202	87,101	94.05%	404,938	21.51%
2007	1,318,687	1,307,643	(11,044)	100.84%	386,917	-2.85%
2006	1,223,323	1,232,367	9,044	99.27%	369,310	2.45%
STRS [1]						
2011	$ 1,486,698	$ 2,331,806	$ 845,108	63.76%	$ 547,748	154.29%
2010	1,410,368	2,122,191	711,823	66.46%	562,150	126.63%
2009	1,374,079	2,101,838	727,759	65.38%	561,588	129.59%
2008	1,605,462	1,984,967	379,505	80.88%	515,573	73.61%
2007	1,541,860	1,816,650	274,790	84.87%	499,044	55.06%
2006	1,427,393	1,686,502	259,109	84.64%	468,858	55.26%
MERS						
2011	$ 402,550	$ 436,229	$ 33,679	92.28%	$ 205,589	16.38%
2010	376,153	409,022	32,869	91.96%	202,405	16.24%
2009	331,407	366,973	35,566	90.31%	191,521	18.57%
2008	348,740	343,685	(5,055)	101.47%	162,321	-3.11%
2007	325,774	309,853	(15,921)	105.14%	148,815	-10.70%
2006	288,347	276,552	(11,795)	104.27%	146,190	-8.07%

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

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
Vermont State	2011	$ 44,491	84.45%
Retirement System	2010	37,418	84.10%
	2009	28,998	86.68%
	2008	42,375	92.49%
	2007	40,190	97.78%
	2006	38,215	97.58%
State Teachers'	2011	$ 48,233	104.22%
Retirement System	2010	41,503	101.01%
	2009	37,077	100.74%
	2008	40,749	100.51%
	2007	38,200	100.77%
	2006	49,924	50.05%
Vermont Municipal Employees'	2011	$ 11,117	100.00%
Retirement System	2010	10,593	100.00%
	2009	-	N/A
	2008	-	N/A
	2007	8,546	100.00%
	2006	7,840	100.00%

N/A - not applicable

For fiscal years 2009 and 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 Employees' Health Benefit fund.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF FUNDING PROGRESS
(dollar amounts expressed in thousands)
(Unaudited)

Actuarial Valuation Date June 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 Trust Fund [1]						
2011	$ 11,216	$ 1,009,792	$ 998,576	1.11%	$ 420,321	237.57%
2010	7,897	925,183	917,286	0.85%	414,936	221.07%
2009	5,749	780,748	774,999	0.74%	426,827	181.57%
2008	3,664	754,690	751,026	0.49%	404,934	185.47%
2007	2,211	606,499	604,288	0.36%	386,917	156.18%

[1] Based on a discount rate of 4.00% for 2007 and 2008, and 4.25% for 2009, 2010, and 2011

Actuarial Valuation Date June 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 Teachers Retiree Medical Benefit Plan [2]						
2011	$ -	$ 780,032	$ 780,032	0.00%	$ 547,748	142.41%
2010	-	703,751	703,751	0.00%	560,763	125.50%
2009	-	872,236	872,236	0.00%	561,588	155.32%
2008	-	863,555	863,555	0.00%	535,807	161.17%
2007	-	820,212	820,212	0.00%	515,573	159.09%

(2) Based on a discount rate of 3.75% for 2007, 4.00% for 2008 and thereafter

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BEEFIT PLANS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
State Employees' Postemployment Benefit Trust Fund			
	2011	$ 67,030	40.87%
	2010	57,998	38.84%
	2009	58,994	33.72%
	2008	47,285	37.59%
	2007	40,874	0.00%
Postemployment Benefits for State Teachers' Retirement System			
	2011	$ 41,509	0.00%
	2010	58,966	0.00%
	2009	59,712	0.00%
	2008	60,221	0.00%

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$1,060,000,000	$1,087,400,000	$1,136,437,103	$ 49,037,103
Earnings of Departments	19,500,000	19,900,000	20,464,581	564,581
Other	10,900,000	10,200,000	10,819,993	619,993
Total revenues	1,090,400,000	1,117,500,000	1,167,721,677	50,221,677
Expenditures				
General Government				
Agency of Administration	47,562,306	64,801,288	39,123,374	(25,677,914)
Executive Office	1,366,854	1,398,137	1,312,425	(85,712)
Legislative Council	10,101,148	10,878,374	9,850,681	(1,027,693)
Joint Fiscal Office	1,754,666	2,090,765	1,798,130	(292,635)
Sergeant at Arms	559,433	648,500	482,425	(166,075)
Lieutenant Governor's Office	167,212	183,391	178,350	(5,041)
Auditor of Accounts	399,951	392,936	381,129	(11,807)
State Treasurer	1,114,016	1,278,060	1,249,052	(29,008)
State Labor Relations Board	194,699	198,927	198,058	(869)
VOSHA Review Board	26,583	33,984	10,608	(23,376)
Homeowner Property Tax Assistance	16,720,000	14,032,550	14,015,567	(16,983)
Renter Rebate Tax Assistance	2,500,000	2,630,000	2,629,150	(850)
Protection to Persons and Property				
Attorney General	4,990,687	5,412,513	5,008,310	(404,203)
Defender General	11,340,341	11,616,387	11,264,790	(351,597)
Judiciary	30,944,988	31,561,793	31,561,781	(12)
State's Attorneys and Sheriffs	12,936,335	13,229,268	12,647,346	(581,922)
Department of Public Safety	27,833,355	27,258,401	25,477,259	(1,781,142)
Military Department	3,432,624	3,526,446	3,351,944	(174,502)
Center Crime Victim Services	1,118,448	1,101,498	1,101,498	-
Criminal Justice Training Council	1,592,462	1,722,245	1,587,040	(135,205)
Agency of Agriculture, Food and Markets	5,328,396	6,493,154	5,263,364	(1,229,790)
Secretary of State	2,381,157	2,305,190	2,155,954	(149,236)
Public Service Department	-	250,000	-	(250,000)
Human Rights Commission	318,255	334,972	305,731	(29,241)
Human Services				
Agency of Human Services	457,312,418	494,378,947	466,704,099	(27,674,848)
Governor's Commission on Women	296,822	306,993	290,715	(16,278)
Human Services Board	49,713	119,962	119,962	-
Labor				
Department of Labor	2,561,430	6,020,053	2,445,571	(3,574,482)
General Education				
Department of Education	8,696,556	9,604,550	8,836,270	(768,280)
State Teachers' Retirement	46,913,381	46,913,381	46,913,381	-
Higher Education	85,895,268	86,115,278	86,115,270	(8)

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	19,592,759	21,225,293	19,399,437	(1,825,856)
Natural Resources Board	766,716	802,393	802,393	-
Commerce and Community Development				
Agency of Commerce and Community Development	12,759,545	16,002,567	12,899,384	(3,103,183)
Cultural Development	1,589,767	1,589,767	1,589,767	-
Vermont Telecommunications Authority	-	2,850,000	2,850,000	-
Vermont Housing and Conservation Board	-	752,031	752,031	-
Transportation				
Agency of Transportation	-	132,010	23,570	(108,440)
Debt Service				
Principal and Interest	65,804,622	65,804,622	65,804,621	(1)
Total expenditures	886,922,913	955,996,626	886,500,437	(69,496,189)
Excess of revenues over expenditures	203,477,087	161,503,374	281,221,240	119,717,866
Other Financing Sources (Uses)				
Transfers in	16,350,860	51,197,875	51,197,875	-
Transfers out	(245,913,429)	(251,749,307)	(251,749,307)	-
Total other financing sources (uses)	(229,562,569)	(200,551,432)	(200,551,432)	-
Excess of revenues and other sources over (under) expenditures and other uses	(26,085,482)	(39,048,058)	80,669,808	119,717,866
Fund balance, July 1	107,821,513	107,821,513	107,821,513	-
Fund balance, June 30	$ 81,736,031	$ 68,773,455	$ 188,491,321	$ 119,717,866

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 144,700,000	$ 145,100,000	$ 128,957,324	$ (16,142,676)
Motor vehicle fees	72,900,000	73,100,000	72,322,010	(777,990)
Federal	275,885,087	291,453,572	249,145,491	(42,308,081)
Other	38,055,087	39,152,490	46,646,605	7,494,115
Total revenues	531,540,174	548,806,062	497,071,430	(51,734,632)
Expenditures				
General Government				
Sergeant at Arms	2,288,340	-	-	-
Protection to Persons and Property				
Department of Public Safety	27,635,057	30,183,931	29,866,389	(317,542)
Transportation				
Agency of Transportation	484,163,888	521,876,203	450,457,149	(71,419,054)
Debt service				
Principal and Interest	4,077,902	4,413,717	4,413,715	(2)
Total expenditures	518,165,187	556,473,851	484,737,253	(71,736,598)
Excess of revenues over (under) expenditures	13,374,987	(7,667,789)	12,334,177	20,001,966
Other financing sources (uses)				
Transfers out	(3,088,072)	(4,079,635)	(4,079,635)	-
Total other financing sources (uses)	(3,088,072)	(4,079,635)	(4,079,635)	-
Excess of revenues and other sources over (under) expenditures and other uses	10,286,915	(11,747,424)	8,254,542	20,001,966
Fund balance, July 1	12,375,682	12,375,682	12,375,682	-
Fund balance, June 30	$ 22,662,597	$ 628,258	$ 20,630,224	$ 20,001,966

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 889,784,692	$1,049,965,080	$1,053,577,879	$ 3,612,799
Interest and premiums	200,000	100,000	52,155	(47,845)
Total revenues	889,984,692	1,050,065,080	1,053,630,034	3,564,954
Expenditures				
General Government				
Grand List	3,243,196	3,263,196	3,237,946	(25,250)
Renter Rebates	5,800,000	5,800,000	5,800,000	-
General Education				
Department of Education	1,305,042,881	1,310,750,669	1,295,367,629	(15,383,040)
Total expenditures	1,314,086,077	1,319,813,865	1,304,405,575	(15,408,290)
Excess of revenues over (under) expenditures	(424,101,385)	(269,748,785)	(250,775,541)	18,973,244
Other financing sources (uses)				
Transfers in	262,224,089	256,157,714	256,157,714	-
Total other financing sources (uses)	262,224,089	256,157,714	256,157,714	-
Excess of revenues and other sources over (under) expenditures and other uses	(161,877,296)	(13,591,071)	5,382,173	18,973,244
Fund balance, July 1	43,742,482	43,742,482	43,742,482	-
Fund balance, June 30	$ (118,134,814)	$ 30,151,411	$ 49,124,655	$ 18,973,244

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Special Fund Revenues	$ 235,197,363	$ 333,238,997	$ 279,512,981	$ (53,726,016)
Total revenues	235,197,363	333,238,997	279,512,981	(53,726,016)
Expenditures				
General Government				
Agency of Administration	13,481,618	31,622,874	21,937,243	(9,685,631)
Executive Office	193,500	193,500	193,500	-
Legislative Council	-	70,235	70,235	-
Joint Fiscal Office	-	412,424	56,607	(355,817)
Auditor of Accounts	53,099	53,099	53,099	-
State Treasurer	1,739,692	2,204,692	2,142,606	(62,086)
State Labor Relations Board	5,576	7,351	5,591	(1,760)
VOSHA Review Board	26,583	26,583	10,612	(15,971)
Unorganized Towns and Gores	-	304,629	171,216	(133,413)
Protection to Persons and Property				
Attorney General	3,439,124	3,884,992	3,757,025	(127,967)
Defender General	638,552	647,085	439,418	(207,667)
Judiciary	5,183,590	6,189,296	6,112,736	(76,560)
State's Attorneys and Sheriffs	2,174,923	2,576,928	2,330,760	(246,168)
Department of Public Safety	12,798,932	14,434,280	13,283,505	(1,150,775)
Military Department	83,529	87,839	87,839	-
Center Crime Victim Services	5,550,448	5,561,570	5,093,464	(468,106)
Criminal Justice Training Council	895,793	837,962	672,150	(165,812)
Agency of Agriculture, Food and Markets	7,691,500	8,568,980	7,489,045	(1,079,935)
Banking, Insurance, Securities and Health Care Administration	14,096,063	14,149,272	12,985,838	(1,163,434)
Secretary of State	4,909,524	5,978,936	5,336,536	(642,400)
Public Service Department	12,180,237	14,104,730	11,084,497	(3,020,233)
Public Service Board	2,814,863	2,992,388	2,684,082	(308,306)
Enhanced 911 Board	4,605,803	4,586,904	4,493,457	(93,447)
Department of Liquor Control	250,000	491,499	481,157	(10,342)
Human Services				
Agency of Human Services	69,694,029	84,727,614	76,941,582	(7,786,032)
Governor's Commission on Women	5,000	5,000	-	(5,000)
Human Services Board	150,492	85,492	85,492	-
Vermont Veterans Home	11,615,802	11,990,789	10,798,162	(1,192,627)
Labor				
Department of Labor	6,582,791	8,384,254	5,741,587	(2,642,667)
General Education				
Department of Education	54,344,585	73,668,986	54,971,983	(18,697,003)
Higher Education	2,663,250	2,663,250	2,663,250	-

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	30,136,145	35,114,114	28,942,745	(6,171,369)
Natural Resources Board	1,965,886	2,021,306	1,989,070	(32,236)
Commerce and Community Development				
Agency of Commerce and Community Development	5,311,677	7,340,174	5,023,234	(2,316,940)
Transportation				
Agency of Transportation	100,000	459,943	231,002	(228,941)
Public service enterprises				
Public service department	-	6,000,000	2,475,013	(3,524,987)
Debt Service				
Principal and Interest	1,026,225	1,026,225	1,026,225	-
Total expenditures	276,408,831	353,475,195	291,861,563	(61,613,632)
Excess of revenues over expenditures	(41,211,468)	(20,236,198)	(12,348,582)	7,887,616
Other Financing Sources (Uses)				
Transfers in	50,773,673	53,425,927	53,425,927	-
Transfers out	(9,562,205)	(33,189,729)	(33,189,729)	-
Total other financing sources (uses)	41,211,468	20,236,198	20,236,198	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	7,887,616	7,887,616
Fund balance, July 1	74,458,235	74,458,235	74,458,235	-
Fund balance, June 30	$ 74,458,235	$ 74,458,235	$ 82,345,851	$ 7,887,616

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$1,277,932,227	$1,264,763,742	$1,264,228,846	$ (534,896)
Interest and premiums	-	39,722	39,722	-
Other	-	-	2,113	2,113
Total revenues	1,277,932,227	1,264,803,464	1,264,270,681	(532,783)
Expenditures				
General Government				
Agency of Administration	955,372	20,422,669	3,226,847	(17,195,822)
State Treasurer	-	357,208	357,207	(1)
Protection to Persons and Property				
Attorney General	707,526	707,526	562,183	(145,343)
Judiciary	1,435,418	1,560,418	1,177,147	(383,271)
State's Attorneys and Sheriffs	31,000	98,766	46,422	(52,344)
Department of Public Safety	27,243,313	31,243,267	23,582,264	(7,661,003)
Military Department	18,243,562	18,243,562	16,092,811	(2,150,751)
Center Crime Victim Services	4,010,399	4,010,399	3,740,120	(270,279)
Agency of Agriculture, Food and Markets	2,153,732	2,463,732	2,257,594	(206,138)
Banking, Insurance, Securities and Health Care Administration	-	857,734	182,558	(675,176)
Secretary of State	2,000,000	2,000,000	787,048	(1,212,952)
Public Service Department	1,157,800	1,157,800	747,178	(410,622)
Human Rights Commission	170,739	170,739	143,166	(27,573)
Human Services				
Agency of Human Services	1,024,497,370	1,044,444,996	995,815,701	(48,629,295)
Human Services Board	150,493	150,493	113,067	(37,426)
Agency of Administration	-	3,161,799	1,920,390	(1,241,409)
Vermont Veterans' Home	6,031,685	6,031,685	6,031,685	-
Labor				
Department of Labor	23,172,655	23,172,655	22,766,700	(405,955)
General Education				
Department of Education	128,720,522	129,238,259	114,738,575	(14,499,684)
Natural Resources				
Agency of Natural Resources	14,659,151	43,560,915	38,633,485	(4,927,430)
Commerce and Community Development				
Agency of Commerce and Community Development	21,843,850	36,268,399	17,336,742	(18,931,657)
Total expenditures	1,277,184,587	1,369,323,021	1,250,258,890	(119,064,131)
Excess of revenues over expenditures	747,640	(104,519,557)	14,011,791	118,531,348
Other Financing Sources (Uses)				
Transfers out	(17,074,283)	(23,271,017)	(23,271,017)	-
Total other financing sources (uses)	(17,074,283)	(23,271,017)	(23,271,017)	-
Excess of revenues and other sources over (under) expenditures and other uses	(16,326,643)	(127,790,574)	(9,259,226)	118,531,348
Fund balance (deficit), July 1	45,627,061	45,627,061	45,627,061	-
Fund balance (deficit), June 30	$ 29,300,418	$ (82,163,513)	$ 36,367,835	$ 118,531,348

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums	$1,063,500,000	$1,053,600,000	$1,047,364,322	$ (6,235,678)
Total revenues	1,063,500,000	1,053,600,000	1,047,364,322	(6,235,678)
Expenditures				
Protection to Persons and Property				
Banking, Insurance, Securities and Health Care Administration	1,898,824	1,898,824	1,898,343	(481)
Human Services				
Agency of Human Services	1,074,069,359	1,045,414,852	990,272,078	(55,142,774)
Vermont Veterans' Home	1,410,956	1,410,956	1,410,956	-
General Education				
Department of Education	4,411,563	4,411,563	4,411,563	-
Higher Education	1,053,092	1,053,092	987,895	(65,197)
Total expenditures	1,082,843,794	1,054,189,287	998,980,835	(55,208,452)
Excess of revenues over (under) expenditures	(19,343,794)	(589,287)	48,383,487	48,972,774
Other financing sources (uses)				
Transfers out	(23,570,491)	(23,570,491)	(23,570,491)	-
Total other financing sources (uses)	(23,570,491)	(23,570,491)	(23,570,491)	-
Excess of revenues and other sources over (under) expenditures and other uses	(42,914,285)	(24,159,778)	24,812,996	48,972,774
Fund balance, July 1	61,860,271	61,860,271	61,860,271	-
Fund balance, June 30	$ 18,945,986	$ 37,700,493	$ 86,673,267	$ 48,972,774

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
AMERICAN RECOVERY AND REINVESTMENT ACT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 346,900,000	$ 344,600,000	$ 339,423,063	$ (5,176,937)
Interest and principal	-	3,664	3,664	-
Other	-	-	2,567	2,567
Total revenues	346,900,000	344,603,664	339,429,294	(5,174,370)
Expenditures				
General Government				
Agency of Administration	38,575,036	41,984,690	38,752,099	(3,232,591)
Protection to Persons and Property				
Department of Public Safety	1,905,926	3,154,269	1,810,994	(1,343,275)
Center for Crime Victim Services	571,809	709,553	596,723	(112,830)
Public Service Department	15,796,250	15,796,250	12,007,572	(3,788,678)
Public Service Board	265,834	265,834	170,193	(95,641)
Human Services				
Agency of Human Services	154,080,195	167,374,533	140,940,905	(26,433,628)
Labor				
Department of Labor	4,571,772	4,571,772	1,784,365	(2,787,407)
General Education				
Department of Education	46,719,169	46,719,169	28,967,323	(17,751,846)
Natural Resources				
Agency of Natural Resources	1,467,187	21,140,182	16,742,869	(4,397,313)
Commerce and Community Development				
Agency of Commerce and Community Development	1,529,195	2,460,302	1,087,112	(1,373,190)
Transportation				
Agency of Transportation	80,756,516	84,044,984	66,280,301	(17,764,683)
Debt Service				
Principal and interest	667,565	667,565	667,564	(1)
Total expenditures	346,906,454	388,889,103	309,808,020	(79,081,083)
Excess of revenues over (under) expenditures	(6,454)	(44,285,439)	29,621,274	73,906,713
Other financing sources (uses)				
Transfers out	(3,833,897)	(3,833,897)	(3,833,897)	-
Total other financing sources (uses)	(3,833,897)	(3,833,897)	(3,833,897)	-
Excess of revenues and other sources over (under) expenditures and other uses	(3,840,351)	(48,119,336)	25,787,377	73,906,713
Fund balance (deficit), July 1	(27,397,829)	(27,397,829)	(27,397,829)	-
Fund balance (deficit), June 30	$ (31,238,180)	$ (75,517,165)	$ (1,610,452)	$ 73,906,713

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
State Health Care Resources Fund Revenues	$ 175,100,000	$ 181,800,000	$ 181,630,334	$ (169,666)
Total revenues	175,100,000	181,800,000	181,630,334	(169,666)
Expenditures				
Human Services				
Agency of Human Services	176,395,700	181,036,508	180,441,590	(594,918)
Total expenditures	176,395,700	181,036,508	180,441,590	(594,918)
Excess of revenues over (under) expenditures	(1,295,700)	763,492	1,188,744	425,252
Fund balance (deficit), July 1	3,904,454	3,904,454	3,904,454	-
Fund balance (deficit), June 30	$ 2,608,754	$ 4,667,946	$ 5,093,198	$ 425,252

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, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Tobacco Trust Funds Revenue	$ 42,192,434	$ 42,269,948	$ 36,267,525	$ (6,002,423)
Other	-	-	8,250	8,250
Total revenues	42,192,434	42,269,948	36,275,775	(5,994,173)
Expenditures				
General Government				
Agency of administration	58,000	58,000	58,000	-
Protection to Persons and Property				
Attorney General	625,000	652,509	406,285	(246,224)
Judiciary	39,871	39,871	39,871	-
Department of Liquor Control	296,306	285,284	285,284	-
Human Services				
Agency of Human Services	40,184,340	40,252,340	40,011,273	(241,067)
General Education				
Department of Education	988,917	981,944	890,293	(91,651)
Total expenditures	42,192,434	42,269,948	41,691,006	(578,942)
Excess of revenues over (under) expenditures	-	-	(5,415,231)	(5,415,231)
Other financing sources (uses)				
Transfers out	(17,995)	(17,995)	(17,995)	-
Total other financing sources (uses)	(17,995)	(17,995)	(17,995)	-
Excess of revenues and other sources over (under) expenditures and other uses	(17,995)	(17,995)	(5,433,226)	(5,415,231)
Fund balance, July 1	22,537,724	22,537,724	22,537,724	-
Fund balance, June 30	$ 22,519,729	$ 22,519,729	$ 17,104,498	$ (5,415,231)

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
CATAMOUNT BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Catamount Fund Revenues	$ 21,700,000	$ 22,700,000	$ 23,291,835	$ 591,835
Total revenues	21,700,000	22,700,000	23,291,835	591,835
Expenditures				
Human Services				
Agency of Human Services	21,586,514	21,586,514	21,586,514	-
Labor				
Department of Labor	394,072	394,072	374,677	(19,395)
Total expenditures	21,980,586	21,980,586	21,961,191	(19,395)
Excess of revenues over (under) expenditures	(280,586)	719,414	1,330,644	611,230
Fund balance, July 1	881,686	881,686	881,686	-
Fund balance, June 30	$ 601,100	$ 1,601,100	$ 2,212,330	$ 611,230

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

Note to the Required Supplementary Information—Budgetary Reporting (unaudited)

Budgetary Comparison Schedules

The budgetary schedules provide a comparison of the original and final adopted budget with actual data on a budgetary basis for the Governmental Funds. The State compiles a separate legal basis budgetary report, which shows the legal compliance with the budget. Budgetary comparison schedules showing legal level detail may be obtained by contacting the State of Vermont, Department of Finance and Management, 109 State Street, 5th Floor, Pavilion Building, Montpelier, Vermont 05609-0401

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 presented separately in the accompanying schedules. The budgetary basis American Recovery and Reinvestment Act Fund includes certain portions of the GAAP basis Transportation and Federal Revenue Funds. These funds are presented on a budgetary basis 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, Federal Revenue, and American Recovery and Reinvestment Act 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 Commissioner of Finance and Management (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, 2011.

	General Fund	Transportation Fund	Education Fund	Federal Revenue Fund	Global Commitment Fund	ARRA Fund
Fund Balance - Budgetary Basis	$ 188,491,321	$ 20,630,224	$ 49,124,655	$ 36,367,835	$ 86,673,267	$ (1,610,452)
Basis differences						
Cash not in budget balances	1,516,254	(11,876)	680	1,511	-	1,507,274
Taxes receivable	171,126,714	9,631,220	13,245,702	-	-	-
Notes and loans receivable	557,999	-	-	206,809,166	-	756,562
Other receivables	7,061,560	8,794,274	875,543	1,768,831	23,625,126	(10,355)
Interest receivable	11,936	119	-	13,776	-	628
Due from other funds	802,291	181,069	-	330,840	34,330,547	-
Due from federal government	376,253	29,561,030	-	56,105,556	55,672,296	19,193,664
Due from component units	73,269	-	-	493,626	-	-
Accounts payable	(19,634,680)	(35,985,909)	(11,466,991)	(33,586,985)	(78,200,321)	(11,321,120)
Accrued liabilities	(7,890,805)	(3,827,643)	-	(3,387,412)	(1,696,994)	(38,851)
Retainage payable	(66,618)	(167,799)	-	(291,700)	(302,357)	(107,831)
Deferred revenue	(110,159,075)	(10,879,587)	(2,858,065)	(7,764,762)	(11,997,730)	(1,714,322)
Tax refunds payable	(5,356,351)	-	(162,735)	-	-	-
Intergovernment payables	-	-	-	(5,112,750)	-	(96,513)
Due to other funds	(12,534,050)	(62,042)	(10,195)	(938,192)	(34,195)	(29,280)
Due to component units	-	-	-	-	-	-
Entity differences						
Blended non-budgeted funds	-	3,037,607	-	59,730,762	-	-
Perspective differences						
Component unit included in budgeted funds	-	-	-	3,812,149	-	-
Budgeted funds reclassified to GAAP basis major governmental fund	-	(564,141)	-	7,093,545	-	(6,529,404)
Fund Balance - GAAP Basis	$ 214,376,018	$ 20,336,546	$ 48,748,594	$ 321,445,796	$ 108,069,639	$ -

	Budget Basis Funds				GAAP Basis
	Special Fund	State Health Care Resource Fund	Tobacco Trust Fund	Catamount Fund	Special Fund
Fund Balance - Budgetary Basis	$ 82,345,851	$ 5,093,198	$ 17,104,498	$ 2,212,330	$ -
Basis differences					
Cash not in budget balances	1,570,104	-	-	22,748	1,592,852
Preferred stock investment	100,000	-	-	-	100,000
Taxes receivable	3,004,776	1,113,711	-	-	4,118,487
Notes and loans receivable	1,211,843	-	-	-	1,211,843
Other receivables	11,459,492	1,496	-	258,093	11,719,081
Due from other funds	1,922,914	-	-	-	1,922,914
Due from component units	62,827	-	-	-	62,827
Accounts payable	(13,532,618)	(186)	(139,785)	-	(13,672,589)
Accrued liabilities	(2,364,815)	-	(20,406)	-	(2,385,221)
Retainage payable	(16,915)	-	-	-	(16,915)
Deferred revenue	(10,868,444)	(297,379)	-	(181,907)	(11,347,730)
Tax refunds payable	(558)	(2,981)	-	-	(3,539)
Due to other funds	(531,023)	(17,216,903)	(2,873,288)	(1,863,359)	(22,484,573)
Entity differences					
Blended non-budgeted funds	12,611,622	-	-	-	12,611,622
Blended component unit	439,375	-	-	-	439,375
Perspective differences					
Component unit included in budgeted funds	(5,482,369)	-	-	-	(5,482,369)
Budgeted funds reclassified to GAAP basis enterprise fund	(29,106)	-	-	-	(29,106)
Budgeted funds reclassified to GAAP basis major governmental fund	(81,902,956)	11,309,044	(14,071,019)	(447,905)	106,755,877
Fund Balance - GAAP Basis	$ -	$ -	$ -	$ -	$ 85,112,836

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FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of its $25,000,000 General Obligation Bonds, 2012 Series A (Vermont Citizen Bonds), its $28,000,000 General Obligation Bonds, 2012 Series B, its $10,000,000 General Obligation Bonds, 2012 Series C (Federally Taxable) and its $69,060,000 General Obligation Refunding Bonds, 2012 Series D (collectively, 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 that 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 that 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.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement. Filing information for the MSRB is set forth in Exhibit B hereto.

"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.

"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.

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 the MSRB an Annual Report that 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 promptly file a notice of such change with the MSRB.

(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 MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (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.

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; and

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 6, 2012.

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 (i) are available to the public on the MSRB's Internet Web site or (ii) have been filed with the Securities and Exchange Commission. 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 (each, a "Listed Event") with respect to the Bonds:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults, if material.

(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, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

(vii) modifications to rights of Bondholders, if material.

(viii) optional, contingent or unscheduled calls of bonds, if material, and tender offers.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds, if material.

(xi) rating changes.

(xii) bankruptcy, insolvency, receivership or similar event of the Issuer.†

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material

(b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

† As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

(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) the Issuer shall promptly file a notice of such change with the MSRB, 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: _______________, 2012

STATE OF VERMONT, as Issuer

By: ____
Elizabeth A. Pearce
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, 2012 Series A (Vermont Citizen Bonds),
General Obligation Bonds, 2012 Series B,
General Obligation Bonds, 2012 Series C (Federally Taxable), and
General Obligation Refunding Bonds, 2012 Series D

Date of Issuance: March ___, 2012

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 __, 2012. The Issuer anticipates that the Annual Report will be filed by _______________

Dated: ____________

STATE OF VERMONT, as Issuer

By: ____

EXHIBIT B

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board

http://emma.msrb.org

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APPENDIX C

FORMS OF BOND COUNSEL OPINIONS

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PROPOSED FORM OF OPINION OF BOND COUNSEL –
TAX-EXEMPT BONDS

(Date of Delivery)

The Honorable Peter E. Shumlin
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$25,000,000
State of Vermont
General Obligation Bonds, 2012 Series A
(Vermont Citizen Bonds)
Dated Date of Delivery

and

$28,000,000
State of Vermont
General Obligation Bonds, 2012 Series B
Dated Date of Delivery

and

$69,060,000
State of Vermont
General Obligation Refunding Bonds, 2012 Series D
Dated Date of Delivery

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

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

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

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

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

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

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

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

EDWARDS WILDMAN PALMER LLP

**PROPOSED FORM OF OPINION OF BOND COUNSEL –
SERIES C BONDS**

(Date of Delivery)

The Honorable Peter E. Shumlin
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$10,000,000
State of Vermont
General Obligation Bonds, 2012 Series C
(Federally Taxable)
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 included in the gross income of owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is not intended or written by Edwards Wildman Palmer LLP to be used and cannot be used by you for the purpose of avoiding penalties that may be imposed under federal tax law in connection with 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 WILDMAN PALMER LLP

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STATE OF VERMONT • General Obligation Bonds, 2012 Series A, 2012 Series B, 2012 Series C, and General Obligation Refunding Bonds, 2012 Series D

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