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 Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$20,310,000
STATE OF VERMONT
General Obligation Bonds
2014 Series A
(Vermont Citizen Bonds)†
(Negotiated)

$53,245,000
STATE OF VERMONT
General Obligation Bonds
2014 Series B‡
(Competitive)

$36,205,000
STATE OF VERMONT
General Obligation Refunding Bonds
2014 Series C‡
(Competitive)

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

The 2014 Series A Bonds (the "Series A Bonds"), the 2014 Series B Bonds (the "Series B Bonds") and the 2014 Series C Bonds (the "Series C Bonds," and together with the Series A Bonds and the Series B 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 and the Series C 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, 2015. The Bonds will be subject to redemption prior to maturity as more fully described herein.

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

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 Series C Bonds, in the Official Notice of Sale. Certain legal matters will be passed upon for the Series A Underwriters by Nixon Peabody LLP, 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 December 9, 2014.

Morgan Stanley

BofA Merrill Lynch **Citigroup** **J.P. Morgan**

November 18, 2014 (with respect to the Series A Bonds)
November 19, 2014 (with respect to the Series B Bonds and Series C Bonds)

† Only the Series A Bonds will be purchased by the Underwriters listed above, as described under "UNDERWRITING OF THE SERIES A BONDS" herein.

‡ The Series B Bonds and the Series C Bonds were sold on a competitive sale basis as described herein under "COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS."

$20,310,000
STATE OF VERMONT
General Obligation Bonds
2014 Series A (VERMONT CITIZEN BONDS)

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP[†] 924258	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP[†] 924258
2015	$355,000	0.14%	0.14%	G67	2021	$2,245,000	3.00%	1.75%	H90
2015	530,000	2.00	0.14	J56	2021	435,000	5.00	1.75	K39
2016	770,000	0.35	0.35	H41	2022	425,000	4.00	1.99	J23
2016	1,150,000	3.00	0.35	J64	2022	325,000	5.00	1.99	K47
2017	985,000	0.60	0.58	H58	2023	955,000	2.00	2.14	J31
2017	1,265,000	3.00	0.58	J72	2023	395,000	5.00	2.14	K54
2018	400,000	3.00	0.85	H66	2024	1,675,000	2.25	2.25	J49
2018	650,000	4.00	0.85	J80	2024	1,240,000	5.00	2.25	K62
2019	950,000	2.00	1.14	K70	2025	20,000	5.00	2.36[C]	G75
2019	830,000	3.00	1.14	H74	2026	225,000	5.00	2.46[C]	G83
2019	780,000	5.00	1.14	J98	2027	125,000	5.00	2.53[C]	G91
2020	420,000	1.45	1.45	H82	2028	40,000	5.00	2.60[C]	H25
2020	1,585,000	5.00	1.45	K21	2029	1,535,000	3.00	3.00	H33

$53,245,000
STATE OF VERMONT
General Obligation Bonds
2014 Series B

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP[†] 924258	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP[†] 924258
2015	$2,795,000	5.00%	0.17%	K88	2025	$3,660,000	5.00%	2.35%[C]	M29
2016	1,760,000	5.00	0.34	K96	2026	3,450,000	5.00	2.43[C]	M37
2017	1,430,000	5.00	0.58	L20	2027	3,550,000	5.00	2.52[C]	M45
2018	2,630,000	5.00	0.85	L38	2028	3,635,000	5.00	2.54[C]	M52
2019	1,120,000	5.00	1.14	L46	2029	2,140,000	5.00	2.57[C]	M60
2020	1,675,000	5.00	1.45	L53	2030	3,675,000	5.00	2.62[C]	M78
2021	1,000,000	5.00	1.74	L61	2031	3,675,000	5.00	2.67[C]	M86
2022	2,930,000	5.00	1.98	L79	2032	3,675,000	5.00	2.77[C]	M94
2023	2,330,000	5.00	2.12	L87	2033	3,675,000	5.00	2.82[C]	N28
2024	765,000	5.00	2.22	L95	2034	3,675,000	5.00	2.87[C]	N36

$36,205,000
STATE OF VERMONT
General Obligation Refunding Bonds
2014 Series C

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP[†] 924258	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP[†] 924258
2015	$3,405,000	3.00%	0.12%	N44	2023	$4,485,000	4.00%	2.20%	N93
2016	3,170,000	5.00	0.35	N51	2024	4,465,000	4.00	2.30	P26
2017	1,755,000	5.00	0.58	N69	2025	4,450,000	4.00	2.40[C]	P34
2018	3,900,000	5.00	0.85	N77	2026	4,405,000	3.00	2.50[C]	P42
2019	4,065,000	5.00	1.15	N85	2027	2,105,000	3.00	2.61[C]	P59

[C] Priced at the stated yield to the August 15, 2024 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*

DOUGLAS R. HOFFER, *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, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series A 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 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 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 the 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

$20,310,000
General Obligation Bonds
2014 SERIES A
(VERMONT CITIZEN BONDS)
(Negotiated)

$53,245,000 **General Obligation Bonds** **2014 SERIES B** **(Competitive)**	**$36,205,000** **General Obligation Refunding Bonds** **2014 SERIES C** **(Competitive)**

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 $20,310,000 aggregate principal amount of its General Obligation Bonds, 2014 Series A (Vermont Citizen Bonds) (the "Series A Bonds"), $53,245,000 aggregate principal amount of its General Obligation Bonds, 2014 Series B (the "Series B Bonds") and $36,205,000 aggregate principal amount of its General Obligation Refunding Bonds, 2014 Series C (the "Series C Bonds," and together with the Series A Bonds and the Series B 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 and the Series C 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, 2015, 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

Series A Bonds and Series B Bonds

The Series A Bonds and the Series B 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 and the Series B Bonds (consisting of the aggregate par amount thereof plus original issue premium thereon, if any) are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Series A Bonds and the Series B 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 and the Series B 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.

Act 51 of 2013		
(as amended by Act 178 of 2014)		
Section 2	State Buildings – Various Projects	$49,467,548
Section 3	Administration – Vermont Center for Geographic Information	100,000
Section 4	Human Services – Various Projects	6,981,000
Section 5	Judiciary	2,628,000
Section 6	Commerce and Community Development	288,000
Section 7	Grant Programs	1,075,000
Section 8	Education	10,354,690
Section 9	University of Vermont – Major Maintenance	1,400,000
Section 10	Vermont State Colleges – Major Maintenance	1,400,000
Section 11	Natural Resources	6,242,929
Section 12	Military	550,000
Section 13	Public Safety – Various Projects	3,486,000
Section 14	Agriculture, Food and Markets	200,000
Section 15	Vermont Public Television	200,000
Section 16	Vermont Rural Fire Protection	100,000
Section 17	Vermont Veterans' Home	435,000
Section 18	Vermont Interactive Technologies	88,000
Act 40 of 2011		
Section 2	State Buildings – Various Projects	1,642
		$84,997,809

Series C Bonds

The Series C 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 C 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 Bonds maturing on and prior to August 15, 2024 will not be subject to redemption prior to maturity. The Bonds maturing after August 15, 2024 will be subject to redemption prior to maturity, at the option of the State, on and after August 15, 2024, either in whole or in part at any time and by lot within a series and 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.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Bonds of a particular series and maturity and bearing interest at a particular interest rate are called for redemption, the applicable Bonds within such series and 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 Bonds, specifying the maturities, CUSIP numbers and dates of the Bonds to be redeemed, the redemption date, the redemption prices, expressed as a percentage of the principal amount, and the place or places of payment of the redemption price and the numbers and portions of the Bonds to be redeemed, shall be mailed, postage prepaid, by the Paying Agent not more than 60 days and not less than 30 days prior to the date set for redemption to the registered owners of any Bonds or portions 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 Bond will not affect the redemption of any other Bonds. If moneys for the redemption are held by the Paying Agent on the redemption date and if notice of the redemption shall have been duly mailed, then from and after the redemption date interest on the Bonds (or the portions thereof) called for redemption shall cease to accrue.

PLAN OF REFUNDING

The Series C 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:

Refunded Bonds

Series	Maturity Date	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price
2005 Series C					
	03/01/2016	3.600%	$315,000	03/01/2015	100%
	03/01/2016	5.000	3,335,000	03/01/2015	100
	03/01/2017	5.000	3,185,000	03/01/2015	100
	03/01/2018	5.000	1,805,000	03/01/2015	100
	03/01/2019	5.000	1,645,000	03/01/2015	100
	03/01/2020	5.000	1,785,000	03/01/2015	100
			$12,070,000		
2007 Series A					
	07/15/2023	4.100%	$2,250,000	07/15/2016	100%
	07/15/2024	4.100	2,250,000	07/15/2016	100
	07/15/2025	4.100	2,250,000	07/15/2016	100
	07/15/2026	4.100	2,250,000	07/15/2016	100
			$9,000,000		
2007 Series D					
	07/15/2018	4.000%	$2,300,000	07/15/2017	100%
	07/15/2019	4.000	2,300,000	07/15/2017	100
	07/15/2023	4.625	2,300,000	07/15/2017	100
	07/15/2024	4.625	2,300,000	07/15/2017	100
	07/15/2025	4.500	2,300,000	07/15/2017	100
	07/15/2026	4.500	2,300,000	07/15/2017	100
	07/15/2027	4.500	2,300,000	07/15/2017	100
			$16,100,000		

Upon delivery of the Series C 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 C 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 Office of Health Care Reform, 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) Agency of Education: The Agency of Education is under the direction and supervision of the Secretary of Education, who is appointed by the Governor with the advice and consent of the Senate. The Secretary serves at the pleasure of the Governor and is a member of the Governor's cabinet. The principal statutory duties of the Secretary include the following: identifying the educational goals of the public schools, evaluating the program of instruction in the public schools, supervising and directing the execution of the laws relating to the public schools, and supervising the expenditure and distribution of all money appropriated by the State for public elementary and high schools. The Secretary serves on the State Board of Education as a nonvoting member. While not part of the Agency of Education, the State Board of Education evaluates education policy proposals, including those presented by the Governor or the Secretary, engages local school board members and the broader education community, establishes and advances education policy for the State 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 also has authority, among other things, to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; and to examine and determine all appeals made to it. The Board consists of ten members appointed by the Governor with the advice and consent of the Senate.

(4) Agency of Natural Resources: The Agency of Natural Resources consists of the Office of the Secretary, the 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 Development, the Department of 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 Department of Disabilities, Aging and Independent Living, the Department of Corrections, the Department of Health, the Department of Mental Health, the Department of Children and Families and the Department of 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 Financial Regulation (formerly 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 Green Mountain Care 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 2013 show that Vermont's population increased by an estimated 677 persons between July 1, 2012 and July 1, 2013, representing a 0.1% rate of population growth. That increase is reflected in the regional and national trends, with a 0.7% rate of increase in population for the nation as a whole over that same period, and a 0.4% rate of population increase in the New England region as a whole. Vermont had an estimated growth of 63,872 persons (rounded) between July 1, 1990 and July 1, 2013, or an average yearly rate of 0.4% per year, which was in line with the 0.4% 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 0.9% over the same 1990–2013 period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970–2013

	----------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]
2013	627	0.1%	14,619	0.4%	316,129	0.7%
2012	626	(0.1)	14,563	0.3	313,874	0.7
2011	626	0.1	14,518	0.4	311,583	0.7
2010	626	0.7	14,465	0.2	309,326	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 2013, 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 2013 the median age of the Vermont population was 41.4 years, 3.9 years older than the national average median age of 37.5 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 76.7% of the total population of the United States) in 2013. 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 2013 (at 79.3% for Vermont versus 79.2% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 4.8% of the State's total population) relative to both the New England average (at 5.3% of the New England regional population) and U.S. average (at 6.3% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 16.4% of the State population) in 2013 was higher than that for the U.S. population as a whole (at 14.1% of the U.S. population overall) in 2013, and just over one percentage point higher than the New England average (at 15.3% of the total). In addition, the percentage of Vermont's population in 2013 aged 45-64 years (at 30.4% of the State's population) was significantly higher than both the percentage of the New England regional population (at 28.7% of the total) and the U.S. population overall (at 26.3% of the total) in 2013. Vermont had slightly more of its population in the 85 years and older category (at 2.1% of the State total) relative to the U.S. population (at 1.9% of the U.S. population) in 2013, but a slightly lower percentage than the New England region overall (at 2.4% of the New England regional population) in 2013.

As reflected in Table 2 below, the Vermont population in 2013 (the latest data available) 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 (2013 American Community Survey).

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2013

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	91.5%	9th	86.6%
COLLEGE:			
Bachelor's Degree or More	35.7%	7th	29.6%

SOURCE: U.S. Department of Commerce, Bureau of the Census; 2012 American Community Survey.

Data from the U.S. Census for 2013 (the latest data available) also indicate that Vermont's population remains primarily rural. A total of 65.9% 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 July 1, 2013 was over four times the national, and over five times the northeastern and New England average percentages of persons living outside of metropolitan areas.

Table 3
Metropolitan vs. Non-Metropolitan Area Populations
As of July 1, 2013

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	266,736	84.4%	49,393	15.6%
Northeast	50,745	90.7	5,198	9.3
New England	12,745	87.2	1,874	12.8
Vermont	214	34.1	413	65.9

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

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 2013. 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 then declined during the most recent U.S. and State economic downturns.[1] As of April 1, 2013, despite the initial economic recovery from the last recession, equalized property values have continued to decline.

The estimates from 1997–2013 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] During the period, however, housing prices in Vermont as measured by the Federal Housing Finance Agency (FHFA) Home Price Index have declined by only 1.3% from their price peak in 2008 to the second quarter of calendar year 2014. This was the lowest price decline experienced among the six New England states and among the lowest among the 50 states from the pre-recession peak to the most recent quarter where comparable data for all 50 states are available.

Table 4
Equalized Property Values
1990–2013

Equalization Date As of April 1,	Fair Market Value
2013**	$82,358,419,039
2012**	82,568,773,344
2011**	83,636,887,446
2010**	85,260,877,760
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, $3,028.7 million in 2010, $2,983.0 million in 2011, $3,003.0 million in 2012 and $3,013.7 million in 2013.

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 Kavet, Rockler & Associates, LLC (the economist for the State's Legislative Joint Fiscal Office). The economic forecasts are completed in conjunction with the annual forecast of the New England Economic Partnership (NEEP), a nonprofit economic forecasting group with participating members in all six New England states, as adjusted during the consensus revenue forecasting process. For more information on the consensus revenue forecasting process, see "REVENUE ESTIMATES" herein.

The U.S. Economic Situation: For the most part, developments in the U.S. economy through September 2014 reflect a strengthening private sector, which is helping the rest of the economy cope with the continuing, but diminishing drag from federal expenditure cuts (including but not limited to federal sequestration). The U.S. economy gained 248,000 nonfarm jobs in September, and the unemployment rate declined to 5.9%—its lowest level since July 2008. Total private jobs increased by 236,000, while the government sector gained 12,000 jobs. Professional and business services, leisure and hospitality, and education and healthcare industries had the largest gains, adding 81,000, 33,000 and 32,000 jobs, respectively. Goods-producing sectors overall added 29,000 payroll jobs during the month. For the first nine months of calendar year 2014, payroll jobs have increased by an average of 227,000 per month, reflecting the strongest per-month payroll job growth for a calendar year since calendar year 2000.

Although output growth stalled during the first half of calendar year 2014, national economic fundamentals continue to look relatively strong. Following an unexpected 2.1% decline in U.S. Gross Domestic Product (GDP) during the first quarter of calendar year 2014, output growth rebounded to increase at a 4.2% annualized rate during the second quarter, reinforcing the view that the first quarter decline was more an aberration than the start of a trend. Total nonfarm payroll jobs averaged 227,000 new jobs per month over the first nine months of the 2014 calendar year, which is 34,000 more jobs per month than through the same nine month period for calendar year 2013.

Activity in the housing sector, however, has been less robust. Since the end of the "Great Recession,"[2] housing has made little forward progress after the initial flush of activity tied to investor activity. Most of the slowdown in housing activity over the past year appears tied to last year's increase in mortgage interest rates and a lack of new household formation in the age categories that typically correspond to first time home-buyers. Overall, housing market activity so far in calendar year 2014 has continued to be disappointing overall.

While there has in fact been good—albeit slow—forward progress in the national economy since the end of the "Great Recession," the U.S. economy continues to operate below potential. The unemployment rate still remains above the level associated with long run full employment and labor force participation is still below normal, which represents a declining trend in recent times that exceeds what would be expected by an aging population. Those indicators are among those that point to the still significant amount of slack that remains in U.S. labor markets.

As further evidence of the slower than expected recovery progress, the inflation rate, as measured by the Consumer Price Index (CPI), remains well below the 2.0% level, which is the reported long term inflation target of Federal Reserve policy makers. Pressures in food and energy prices have pushed the Personal Consumption Expenditures (PCE) price index up to around 2.0% over the first half of calendar year 2014, but it has fallen back to the 1.5% range over the mid-Summer period of calendar year 2014. The PCE price index has increased below a 2.0% rate for 28 consecutive months through August. The total core inflation rate, a price increase measure that excludes food and energy prices, is expected to increase by less than 2.0% for all of calendar year 2014. Those types of price increases are indicative of an economy that still has farther to go before reaching a level of activity that could be considered healthy and "normal," at least in terms of price changes.

The Vermont Situation: Turning to the Vermont economy, the State continues to make modest recovery progress from the "Great Recession." Through September, the State had recovered roughly 11,200 of the 14,700 payroll jobs lost during the last economic downturn—a rate of recapture of 76.2%. However, the character of the State's labor market recovery has been uneven, following an up-and-down pattern. In each case, whether the State was on the upside or the downside of this uneven pattern, it appears that economic conditions were not as positive (when on the upside of the pattern) nor as poor (on the downside of the pattern) as the labor market reading for a particular month was indicating.

[2] The "Great Recession" refers to the last U.S. business cycle downturn that began in December 2007 and ended in June 2009 according to the Business Cycle Dating Committee of the National Bureau of Economic Research—a widely recognized economic research organization that impartially dates U.S. business cycles going back to the 19th century.

When looking at the latest State data available from September 2014, Vermont's year-over-year job change performance ranked 6th in New England and 48th among the 50 states. Vermont gained payroll jobs at the rate of 0.2% (on a year-over-year basis). The State's 0.5% year-over-year gain in private sector payroll jobs ranked Vermont 46th nationally in year-over-year job change. Vermont's ranking was also 6th in the New England region for the year-over-year total private sector payroll job change.

Using the most recent state employment statistics, on a year-over-year basis since September 2013, Vermont has had positive job addition experience over the past year in the Mining and Logging sector (an increase of 12.5%), Nondurable Goods Manufacturing (an increase of 5.7%), and the Construction sector (an increase of 3.2%). The State also made positive progress in the Manufacturing sector overall, the Professional and Business sector, and the Retail Trade sector—with increases of 1.6%, 0.7% and 0.3%, respectively, over the prior year. Over the past year, Government employment in Vermont has experienced a decline of 1.4% for the 12-month period ended September 2014. Relative to the other New England states by major sector, with respect to year-over-year job change performance through September, Vermont's highest ranked performances are found in Financial Activities (1st in New England and 7th nationally), Manufacturing (1st in New England and 23rd nationally) and Construction (3rd in New England and 23rd nationally). The State's lowest ranked performers are the Trade, Transportation, and Utility sector (6th in New England and 48th nationally), the Information sector (6th in New England and 49th nationally), the Government sector (6th in New England and 48th nationally), and the Leisure and Hospitality sector (6th in New England and 44th nationally). Vermont also ranks 42nd nationally and 5th in New England in the year-over-year job change in the Professional and Business Services sector.
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The Moody's Analytics National Economic Forecast Assumptions: The economic outlook for Vermont for the calendar year 2014–18 period is based on a comprehensive national economic outlook assembled by Moody's Analytics, a respected national economic forecasting firm. The statistics in the consensus economic forecast in Table 5 (below) reflect this underlying Moody's Analytics national economic forecast as adjusted in the consensus revenue forecast that was completed in July 2014. This forecast includes the expectation that "firmer" consumer spending, job creation and business investment will boost the underlying pace of U.S. GDP growth over the forecast period, aided by an expected revival in U.S. housing markets. In addition, the Moody's Analytics' national forecast expects national economic growth will also be aided by a subsiding fiscal drag—with the federal government's deficit stabilizing and the fiscal condition of state and local governments gradually improving. Overall, the forecast calls for the continuation of the rebound in economic activity from the first quarter of calendar year 2014 "hiccup." Calendar year 2014 in total is expected to post a moderate 2.1% rate of increase, followed by a more robust but still historically restrained pace of output growth for the U.S. economy of 3.5% in calendar year 2015 and 3.3% in calendar year 2016. For the 2014-18 time frame as a whole, U.S. GDP growth is expected to average 2.7% per year.

The Moody's Analytics national outlook for U.S. labor markets predicts an annual average increase in payroll jobs of 1.8% in calendar year 2014, with an average annual increase of 1.7% over the 2014 through 2018 forecast period. The U.S. unemployment rate, which is expected to average 6.3% in calendar year 2014, is expected to improve significantly over the forecast period. By calendar year 2018, the U.S. unemployment rate is expected to average 5.1%, representing a 2.2 percentage point decline in the U.S. unemployment rate over the forecast period to a level last experienced prior to the "Great Recession."

Consumer prices, as measured by the Consumer Price Index (CPI), are expected in this forecast to increase by 1.9% in calendar year 2014 and then increase to a 2.2% rate of inflation for calendar year 2015. Consumer prices are expected to continue to inflate at a rate above 2.0% for the remainder of the forecast horizon. The Moody's Analytics forecast for monetary policy over the 2015 through 2018 period expects a "graceful" and uneventful exit from the securities buying program by the Federal Reserve, widely known as "Quantitative Easing" (or "QE"), and a gradual tightening of monetary policy, as the economy is expected to continue to strengthen. Accordingly, an increase in interest rates is expected to commence in calendar year 2015 as the U.S. unemployment rate slips below 6.0% in the fourth quarter of calendar year 2014. The forecast also includes a standard set of downside forecast risks, including geopolitical instability in the Middle East and Eastern Europe. While these threats are an obvious source of ongoing concern, the updated Moody's economic forecast does not expect this instability to reach the level of threatening the current U.S. economic expansion-recovery.

The Vermont Economic Outlook: The Vermont near-term economic outlook, which is based on the Moody's Analytics' national forecast as described above (and reflected in Table 5 below), includes a Vermont economy that will follow a similar path to the U.S. economy's progression throughout the calendar year 2014-18 period. Looking at the major macro variables, the updated forecast calls for the current State economic upturn to continue for real output (as measured by Gross State Product or GSP), for inflation-adjusted or real personal income, and for the labor market. It is also expected that the pace of recovery-expansion will continue to be moderate, due to the less than average decline in output, income and jobs that the State experienced during the Great Recession compared to the U.S. and New England.

In terms of Vermont's key economic variables, the forecast for Vermont expects an annualized 1.3% increase in output for all of calendar year 2014. Calendar year 2015's output is then expected to post a more typical 3.7% annual rate of increase, with a slight increase in output growth to 4.0% for calendar year 2016. For calendar year 2017, GSP growth is expected to fall back to 3.0%, while GSP growth in 2018 is expected to grow at a 2.6% annual rate. The forecast reflects an anticipated slowing in GSP growth over the back end of the forecast period as the U.S. economy slows due to the maturing economic cycle. The rate of payroll job growth is expected to be 0.6% in calendar year 2014, followed by increases of 1.7% in calendar year 2015 and 1.9% in calendar year 2016. The rate of payroll job increase is then expected to fall back to 1.2% in calendar year 2017, before tailing off to a 0.4% rate in calendar year 2018.

Nominal dollar personal income is expected to post a performance similar to GSP and employment growth, posting the strongest rates of growth during the initial years of the forecast horizon then tapering off to a more restrained level of growth. For the remainder of calendar year 2014 through calendar year 2016, inflation-adjusted personal income is expected to increase between 2.4% per year and 3.0% per year. Thereafter, calendar year inflation-adjusted dollar personal income is expected to increase by more restrained rates of 2.4% in calendar year 2017 and 2.2% in calendar year 2018. The final two years of the forecast horizon show this metric performing consistently with the other macro variables discussed above. The State's unemployment rate is expected to continue to perform consistently superior to both the U.S. and New England regional unemployment rates throughout the calendar year 2014–18 forecast timeline. The Federal Housing Finance Agency (FHFA) Housing Price Index for Vermont is also expected to post modest rates of increase over this forecast timeline, reflecting the mid-2013 slowdown and the gradual pace of price recovery expected in calendar year 2014 and 2015. For the out-years of the forecast period, between calendar years 2016 through 2018, price increases are expected to reflect a more mature economic expansion, with price increases roughly between 3.1% and 4.6%. While the Vermont housing price performance over the past decade has generally been superior to the U.S. and New England averages, the more restrained housing price growth in Vermont over the calendar year 2014 through 2018 time frame should be expected. This is because Vermont housing prices, as measured by the FHFA index, did not experience nearly the rate of housing price decline during the "Great Recession" that was experienced in many other states and relative to the New England and U.S. averages.

Although the State's economic performance is expected to be moderately positive over the calendar year 2014-18 period, the forecast for Vermont also expects that labor market conditions will remain "tight" throughout the State and there will be a modest recovery in housing prices in the Vermont housing market. The State's annual average unemployment rate is expected to fall through the forecast period, registering a 4.1% annual average rate for calendar year 2014, before declining modestly to 3.7% in calendar year 2015 and 3.4% in calendar year 2016. This forecast, if achieved, would result in a Vermont unemployment rate at the end of calendar year 2018 that is 1.9 percentage points below the forecasted U.S. unemployment rate and 1.7 percentage points below the forecasted New England average unemployment rate.

Impact of Tropical Storm Irene. Like disaster recovery experience elsewhere, the ultimate economic impacts to the State associated with the recovery from Tropical Storm Irene, which hit the State at the end of August 2011 and caused significant destruction throughout the State due to heavy rains and record flooding, look to be slightly positive due to the influx of federal disaster assistance funds and out-of-state relief workers. The federal disaster assistance funding helped the State and affected municipalities to undertake immediate repairs to critical infrastructure, and it had a positive effect on the State's construction industry. The out-of-state relief workers also helped to off-set losses in the tourism sector due to declines in visitor activity during this time period, as the expenditures made by these workers often mimicked those made by recreational visitors. Most of the recovery and disaster relief activities that mitigated the effects of infrastructure and property damage have been completed. As a result, the majority of the positive economic impact associated with the repair effort has already been experienced, along with the indirect effects that were distributed throughout the Vermont economy.

The largest Irene recovery project that remains to be completed is the reconstruction of the Waterbury State Office Complex in Waterbury, which was destroyed by the flooding caused by the storm. On May 8, 2013, Vermont was approved by FEMA to begin demolishing and rebuilding the Waterbury complex. The new office complex is currently being built on the same site, is expected to be completed by late 2015 and is expected to cost approximately $182.5 million. Reconstruction of the Waterbury complex is expected to be financed by funds received from FEMA and State insurance proceeds (approximately $85 million), with the remainder being covered by the State as part of its annual capital bill appropriations, including $21.2 million appropriated as part of the fiscal year 2014 capital bill and $33.0 million appropriated as part of the fiscal year 2015 capital bill.

The other major Irene recovery project was the replacement of the Vermont State Hospital. This involved the construction of the new 25-bed, state-of-the-art Vermont Psychiatric Care Hospital in Berlin, Vermont, and the creation of additional bed capacity in Middlesex, Morrisville, Rutland and Brattleboro, all of which projects were completed by August 2014 at a total aggregate cost of $43.7 million (of which $28.5 million was financed by FEMA and insurance proceeds and the balance with State capital funds).

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 the Summer of calendar year 2014 and was subsequently adjusted as needed for the July 2014 consensus revenue forecast process and for the State's examination of the financing of health care reform as of early November 2014. The Vermont statistics present the specific detail for the Vermont economic forecast, and incorporate the estimated impacts of on-going sluggish levels of construction activity and sales activity in housing market, along with on-going, 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[1]				
	2009	2010	2011	2012[1]	2013[1]	2014	2015	2016	2017	2018
Real Output (% Change)										
U.S. Gross Domestic Product	(2.8)	2.5	1.6	2.3	2.2	2.1	3.5	3.3	2.7	2.1
New England Gross Regional Product	(2.9)	2.4	0.9	1.6	1.3	1.7	2.9	2.7	2.5	2.2
Vermont Gross State Product	(2.5)	4.4	2.2	1.0	1.9	1.3	3.7	4.0	3.0	2.6
Non-Farm Employment (% Change)										
U.S.	(4.3)	(0.7)	1.2	1.7	1.7	1.8	2.4	2.4	1.3	0.5
New England	(3.6)	(0.2)	1.0	1.3	1.1	1.3	1.5	1.7	1.1	0.4
Vermont	(3.3)	0.3	0.8	1.3	0.5	0.6	1.7	1.9	1.2	0.4
Personal Income (% Change) (2000 Dollars)										
U.S.	(2.7)	1.1	3.7	3.3	0.8	3.0	3.7	3.9	3.0	2.5
New England	(2.0)	1.3	3.0	1.7	1.2	2.4	3.3	3.7	2.7	1.7
Vermont	(1.4)	0.0	4.6	1.8	1.8	2.4	2.9	3.0	2.4	2.2
Unemployment (%)										
U.S.	9.3	9.6	8.9	8.1	7.3	6.3	5.7	5.6	5.3	5.1
New England	8.1	8.5	7.8	7.2	7.1	6.0	5.7	5.5	5.1	4.9
Vermont	6.9	6.4	5.6	4.9	4.4	4.1	3.7	3.4	3.3	3.2
FHFA Home Prices[2] (% Change) (Current Dollars)										
U.S.	(5.5)	(4.0)	(3.7)	(0.1)	4.1	4.8	3.3	2.1	3.1	3.4
New England	(4.9)	(2.8)	(2.3)	(0.9)	1.2	3.0	4.0	2.8	2.1	3.3
Vermont	(2.1)	(1.2)	(0.6)	0.5	0.2	1.0	2.0	3.1	3.8	4.6

[1] 2012 and 2013 variables are subject to further revision, and 2014 through 2018 values in this table reflect projected data as of November 2014.
[2] FHFA means Federal Housing Finance Agency.

Sources: Moody's Analytics (U.S) September, 2014 Control Forecast as adjusted; October 2014 NEEP forecast update (NE), November 2014 Vermont Consensus Forecast Update (as of November 4, 2014).

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 U.S. 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. on average during the most recent deep and prolonged period of economic recession. For calendar year 2014, Vermont is forecast to see inflation-adjusted output continue to rebound at a level somewhat above the U.S. and New England regions as a whole. Personal income growth in Vermont is expected to be generally lower than that of the U.S. and New England region as a whole over the calendar year 2015-2018 period.

Regional Comparison

Data presented in Tables 6 through 8 include comparative labor market information for the State relative to the other New England states and the major metropolitan areas in the New England region. Table 6 shows the most current monthly unemployment rate data for Vermont, the seven northeastern states, and the U.S. as a whole. 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 in the New England region in comparison to the other 20 New England metropolitan areas. 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 complete business cycle (November 2001 through December 2007), the period corresponding to the latest recession (January 2008 to June 2009) and the subsequent recovery. This previous cycle includes the year with the 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 through 2014 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.

	August 2014	July 2014	August 2013	Change From Last Year
Vermont	4.1%	3.7%	4.5%	(0.4)
Connecticut	6.6	6.6	7.8	(1.2)
Maine	5.6	5.5	6.7	(1.1)
Massachusetts	5.8	5.6	7.2	(1.4)
New Hampshire	4.4	4.4	5.3	(0.9)
New Jersey	6.6	6.5	8.1	(1.5)
New York	6.4	6.6	7.7	(1.3)
Rhode Island	7.7	7.7	9.6	(1.9)
United States	6.1	6.2	7.2	(1.1)

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

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

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

City	Annual Average % 2007	Annual Average % 2008	Annual Average % 2009	Annual Average % 2010	Annual Average % 2011	Annual Average % 2012	Annual Average % 2013
Connecticut							
Bridgeport, Stamford, Norwalk	4.1	5.2	7.8	8.6	8.3	7.7	7.2
Danbury	3.6	4.5	7.2	7.8	7.1	6.7	6.2
Hartford-W. Hartford-E. Hartford	4.8	5.7	8.2	9.4	9.0	8.3	8.4
New Haven	4.8	5.8	8.2	9.6	9.3	8.6	8.1
Norwich-New London	4.4	5.5	7.8	9.0	8.8	8.5	8.0
Waterbury	6.0	7.5	11.0	12.4	11.7	10.8	10.3
Maine							
Bangor	4.8	5.3	7.5	8.1	7.4	7.0	6.4
Lewiston-Auburn	4.7	5.5	8.5	8.5	7.7	7.3	6.4
Portland, So. Portland, Biddeford	3.6	4.3	6.7	6.8	6.3	5.8	5.5
Massachusetts							
Barnstable Town	4.6	5.7	8.3	8.7	7.9	7.2	7.3
Boston, Cambridge, Quincy	4.1	4.9	7.6	7.5	6.6	6.1	6.4
Leominster, Fitchburg, Gardner	5.7	6.8	10.4	10.7	9.8	9.1	9.4
New Bedford	6.4	7.8	11.4	11.8	10.7	10.2	11.1
Pittsfield	4.3	5.1	7.8	8.2	7.4	7.1	7.4
Springfield	5.1	5.9	8.7	9.2	8.4	7.8	8.1
Worcester	4.8	5.7	8.7	8.9	7.8	7.4	7.7
New Hampshire							
Manchester	3.5	3.9	6.3	6.3	5.4	5.4	5.1
Portsmouth	3.3	3.6	5.6	5.4	4.9	4.8	4.7
Rochester-Dover	3.4	3.8	6.4	6.3	5.6	5.4	5.1
Rhode Island							
Providence, Fall River, Warwick	5.4	7.6	11.1	11.7	11.2	10.2	9.7
Vermont							
Burlington-South Burlington	3.4	3.9	6.0	5.3	4.5	3.9	3.6

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

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 2001 Annual Average (000s)	Number of Nonfarm Jobs Calendar Year 2013 Annual Average (000s)	Change in Number of Nonfarm Jobs Calendar Years 2001–2013 (000s)	Percent Change in Nonfarm Jobs Calendar Years 2001–2013
Connecticut				
Bridgeport, Stamford, Norwalk	422.2	411.0	(11.2)	(2.7)%
Danbury	69.2	69.0	(0.2)	(0.3)
Hartford-W. Hartford-E. Hartford	553.8	549.1	(4.7)	(0.4)
New Haven	273.5	274.3	0.8	0.3
Norwich-New London	130.8	127.8	(3.0)	(2.3)
Waterbury	69.7	64.3	(5.4)	(7.7)
Maine				
Bangor	63.2	65.3	2.1	3.3
Lewiston-Auburn	47.5	48.5	1.0	2.1
Portland, So. Portland, Biddeford	185.8	194.7	8.9	4.8
Massachusetts				
Barnstable Town	96.8	101.1	4.3	4.4
Boston, Cambridge, Quincy	2,535.9	2,554.0	18.1	0.7
Leominster-Fitchburg-Gardner	53.4	48.6	(4.8)	(9.0)
New Bedford	66.8	69.2	2.4	3.6
Pittsfield	36.6	36.0	(0.6)	(1.6)
Springfield	300.4	293.3	(7.1)	(2.4)
Worcester	245.9	248.1	2.2	0.9
New Hampshire				
Manchester	96.4	100.3	3.9	2.7
Portsmouth	51.5	56.9	5.4	10.5
Rochester-Dover	51.6	56.3	4.7	9.1
Rhode Island				
Providence, Fall River, Warwick	573.3	556.5	(16.8)	(2.9)
Vermont				
Burlington-South Burlington	113.6	117.8	4.2	2.0

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

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 2012-2013 period. Employment data by industry are provided for the 2011-2013 calendar year period for Vermont and 2013 for the U.S.

The full-time and part-time jobs data through calendar year 2013 show that Manufacturing remains one of the State's most important sectors, representing an estimated 8.4% of total all non-farm employment in 2013 (versus 7.0% of employment for the U.S. in 2013) and an estimated 13.2% of total earnings in 2013, slightly below the share of total earnings during calendar year 2012. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 13.4% of 2013 total employment (up from 13.3% of total employment in 2012) and 15.0% of total earnings in 2013; Retail Trade at 10.8% of 2013 total employment (down one tenth of a percentage point in share from a 10.9% share in 2012) and 7.6% of total earnings in 2013; Private Educational Services at 4.1% of total employment versus the U.S. average of 2.3% in 2013; and Accommodations and Food Services at 7.8% of total employment versus 7.2% of employment for the U.S. as a whole in 2013. 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
2012-2013
($Thousands)

	2012		2013	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$71,563	0.4%	$73,138	0.4%
Non-Farm Industry:				
Construction	790,749	4.8	812,096	4.8
Forestry, Fishing and Other Related Activities	33,012	0.2	41,737	0.2
Mining	43,298	0.3	43,756	0.3
Utilities	237,158	1.5	246,963	1.5
Manufacturing	2,207,763	13.5	2,217,976	13.2
Wholesale Trade	622,793	3.8	634,522	3.8
Retail Trade	1,255,907	7.7	1,275,981	7.6
Information	296,227	1.8	306,497	1.8
Financial Activities	740,349	4.5	762,101	4.5
Real Estate and Rental and Leasing	134,604	0.8	144,728	0.9
Transportation and Warehousing	346,389	2.1	346,607	2.1
Management of Companies and Enterprises	188,759	1.2	190,759	1.1
Professional, Scientific and Technical Services	1,101,422	6.7	1,143,358	6.8
Education Services	548,787	3.4	573,289	3.4
Health Care and Social Assistance	2,404,895	14.7	2,524,995	15.0
Arts, Entertainment, and Recreation	119,946	0.7	132,693	0.8
Accommodations and Food Services	747,073	4.6	795,663	4.7
Administrative and Waste Services	395,607	2.4	428,082	2.5
Other Private Services-Providing	419,799	2.6	432,264	2.6
Total Private Non-Farm Industries	$12,634,537	77.4%	$13,053,431	77.6%
Government and Government Enterprises	$3,627,606	22.2%	$368,7719	21.9%
Total Farm and Non-Farm Earnings	$16,333,706	100.0%	$16,814,288	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
2011-2013

	2011		2012		2013		U.S. 2013	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	8,788	2.1%	8,796	2.1%	9,163	2.2%	2,629,000	1.4%
Non-Farm Industry:								
Construction	28,061	6.8	28,274	6.7	28,358	6.7	9,267,400	5.1
Forestry, Fishing, and Other Related Activities	3,477	0.8	3,682	0.9	3,428	0.9	902,800	0.5
Mining	1,124	0.3	1,590	0.4	1,623	0.4	1,607,000	0.9
Manufacturing	34,275	8.2	35,573	8.4	35,748	8.4	12,747,100	7.0
Wholesale Trade	10,935	2.6	10,466	2.5	10,499	2.5	6,343,500	3.5
Retail Trade	46,737	11.2	45,992	10.9	46,207	10.8	18,371,300	10.1
Information	6,322	1.5	5,960	1.4	5,986	1.4	3,225,700	1.8
Financial Activities	14,682	3.5	14,483	3.4	14,542	3.4	9,873,900	5.4
Transportation, Warehousing & Utilities	11,002	2.6	11,066	2.6	11,015	2.6	6,576,200	3.6
Management of Companies and Enterprises	1,646	0.4	2,222	0.5	2,218	0.5	2,265,100	1.2
Real Estate and Rental and Leasing	14,259	3.4	13,634	3.2	14,452	3.4	7,985,300	4.4
Professional and Technical Services	25,904	6.2	26,190	6.2	26,198	6.1	12,453,000	6.8
Education Services	16,953	4.1	17,125	4.1	17,281	4.1	4,221,300	2.3
Health Care and Social Assistance	55,071	13.2	65,313	13.3	57,029	13.4	20,585,600	11.3
Arts, Entertainment, and Recreation	10,932	2.6	11,213	2.7	11,512	2.7	4,114,500	2.3
Accommodations and Food Services	31,771	7.6	32,364	7.7	33,286	7.8	13,093,400	7.2
Administrative and Waste Services	16,666	4.0	17,129	4.1	17,412	4.1	11,325,100	6.2
Other Services, except public administration	20,725	5.0	21,265	5.0	21,526	5.1	10,617,100	5.8
Total Private Sector Non-Farm	350,542	84.1%	354,541	84.0%	358,032	84.0%	155,604,200	85.4%
Government	57,258	13.7%	58,667	13.9%	58,841	13.8%	24,045,000	13.2%
Total Employment	416,588	100.0%	422,004	100.0%	426,036	100.0%	182,278,200	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. According to the Vermont Business Directory 2014/15 published by Vermont Business Magazine, in calendar year 2013, the State's three largest private sector employers were (i) Fletcher Allen Health Care, with approximately 5,400 employees, (ii) IBM, with a reported 4,000 employees, and (ii) Keurig Green Mountain (formerly Green Mountain Coffee Roasters, Inc.) with a reported 2,200 employees.

Fletcher Allen Health Care is the State's largest private employer, with nearly 7,100 employees, after adding approximately 1,700 per diem and part-time employees to the total listed above. Fletcher Allen has a strategic alliance with the University of Vermont's College of Medicine, bringing world-class research, education and care to the State. The company is in the process of upgrading its inpatient facilities, and expects to submit a Certificate of Need to the State by the close of calendar year 2014.

IBM, a global manufacturer of semiconductor and related devices, is the second largest private employer in the State. On October 20, 2014, GlobalFoundries, Inc. ("GlobalFoundaries") and IBM announced that the two companies had reached a definitive agreement for GlobalFoundries to acquire IBM's global commercial semiconductor technology business, including IBM's intellectual property and its technologists and technologies related to IBM Microelectronics, subject to all applicable regulatory reviews. This acquisition will include IBM's facilities in Vermont. As part of the agreement, GlobalFoundries will also become IBM's exclusive server processor semiconductor technology provider for 22 nanometer (nm), 14 nm and 10 nm semiconductors for a period of 10 years. Assuming successful completion of regulatory reviews, the acquisition is expected to be completed in calendar year 2015. While the State cannot predict the ultimate impact of this acquisition, GlobalFoundaries has indicated that it plans to maintain the workforce and continue operations in Vermont.

Keurig Green Mountain, currently the State's third largest private employer, continues to expand. In February 2014, Keurig Green Mountain and Coca Cola signed a ten year agreement to collaborate on the development and introduction of The Coca Cola Company's global brand portfolio for use in Keurig's forthcoming Keurig Cold™ at-home beverage system. As part of that agreement, Coca-Cola acquired a 10% minority equity position in Keurig and subsequently announced its intention to increase its stake up to 16%. In September 2014, the two companies expanded the relationship to include Keurig's hot beverage systems in the U.S. and Canadian markets. As part of this effort, Keurig Green Mountain recently opened an "Early Production Center" facility in Williston, Vermont that is expected to employ several hundred local workers. Currently, Vermont comprises about a third of the company's global job base.

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 and Bennington College), manufacturers (GE Aircraft Engines), and the travel-tourism industry (Jay Peak Resort, Mt. Mansfield Company Inc., Killington LTD and the Stratton Corporation). Other notable private sector employers in the State include Green Mountain Power Corporation (which acquired Central Vermont Public Service Company in 2012, and is now the State's largest investor-owned utility), FairPoint Communications, Inc., TD Banknorth NA, B.F. Goodrich Aerospace of Vergennes, and several of the State's major resorts (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 3,450 employees according to the Vermont Business Directory 2014/15. 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 1991–2013 period. On an average annual basis, total personal income in Vermont has increased by 4.8% per year from 1991 to 2013, compared to 4.5% per year rate of increase for the New England region and a 4.8% per year 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 1991 was $17,869 or 90.2% of the U.S. average of $19,818. By calendar 2013, Vermont's per capita personal income had risen to $45,783, or 102.8% of the U.S. average of $44,543. Vermont's per capita personal income increased by 2.8% in calendar year 2013, performing above the New England regional average increase of 1.9% and the national average improvement of 1.8% for calendar year 2012. These same data show that Vermont's change in per capita personal income for calendar year 2013 ranked 1st among the six New England states for that same period.

Table 11

Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
Calendar Years 1991–2013
($ 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
2013	$28,689	2.9%	$798,765	2.3%	$14,081,242	2.6%
2012	27,886	3.7	780,562	3.6	13,729,063	4.2
2011	26,888	7.1	753,453	5.4	13,179,561	6.1
2010	25,116	1.7	714,709	3.0	12,423,332	2.9
2009	24,697	(1.4)	693,912	(2.1)	12,073,738	(2.9)
2008	25,058	3.9	708,601	2.6	12,429,284	3.7
2007	24,113	5.3	690,946	5.3	11,990,244	5.4
2006	22,903	6.8	656,404	7.4	11,376,460	7.3
2005	21,450	2.5	611,357	4.1	10,605,645	5.6
2004	20,917	6.3	587,220	5.7	10,043,284	5.9
2003	19,686	4.7	555,378	2.8	9,479,611	3.6
2002	18,804	2.5	540,439	0.7	9,145,998	1.8
2001	18,353	6.8	536,778	5.1	8,983,388	5.0
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	--	302,930	--	5,013,484	--

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 1991–2013

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
2013	$45,783	2.8%	$54,640	1.9%	$44,543	1.8%
2012	44,545	3.8	53,600	3.3	43,735	3.4
2011	42,911	6.9	51,900	5.0	42,298	5.3
2010	40,126	1.5	49,416	2.6	40,163	2.0
2009	39,527	(1.5)	48,176	(2.5)	39,357	(3.7)
2008	40,148	3.8	49,414	2.1	40,873	2.7
2007	38,675	5.2	48,388	5.0	39,804	4.4
2006	36,768	6.5	46,078	7.2	38,127	6.2
2005	34,530	2.3	43,003	4.0	35,888	4.6
2004	33,742	5.9	41,334	5.6	34,300	5.0
2003	31,862	4.3	39,160	2.3	32,676	2.8
2002	30,554	1.9	38,268	0.1	31,798	0.9
2001	29,977	6.3	38,229	4.4	31,524	4.0
2000	28,196	7.3	36,610	9.0	30,319	7.0
1999	26,268	5.4	33,581	4.5	28,333	3.9
1998	24,921	7.6	32,128	6.8	27,258	6.3
1997	23,168	4.8	30,087	5.5	25,654	5.0
1996	22,106	5.0	28,521	5.4	24,442	5.1
1995	21,057	4.0	27,048	4.8	23,262	4.3
1994	20,255	4.2	25,804	4.2	22,297	4.3
1993	19,446	2.7	24,773	2.9	21,385	2.8
1992	18,941	6.0	24,077	5.3	20,799	5.0
1991	17,869	--	22,867	--	19,818	--

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

Employment Statistics

Vermont had a labor force of 351,000 (rounded) in calendar year 2014 (on an annual average basis through August), with approximately 338,000 (rounded) estimated as being employed and approximately 12,700 (rounded) estimated as being unemployed during that period. Vermont's 3.6% unemployment rate in calendar year 2014 (on an annual average basis through August) compares favorably with the 6.4% annual average unemployment rate for the nation overall and the 7.1% annual average unemployment rate for the New England region over the same period. For calendar year 2014, through the month of August, 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 August of calendar year 2014.

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 (%)
2014*	351	338	3.6%	7.1%	6.4%
2013	351	336	4.4	7.2	7.7
2012	354	338	4.9	7.2	8.1
2011	358	338	5.6	7.8	8.9
2010	360	337	6.4	8.5	9.6
2009	360	335	6.9	8.1	9.3
2008	357	341	4.5	5.4	5.8
2007	355	341	3.9	4.5	4.6
2006	356	343	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 August 2014.
Sources: Vermont Department of Labor (Vermont); U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Boston (New England and the United States).

Transportation

Highway System. 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. Projects range from safety, and bridge maintenance, enhancement and replacement to capacity expansion projects. One capacity expansion project in the southern part of the State 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 was completed on the second part of the project, the Northern Segment, and the road was opened in September 2012. The third and final Southern Segment remains to be undertaken and completed.

A second capacity expansion project in the northwestern region of the State is the construction of new sections of the Chittenden County Circumferential Highway (the "Circ"). Construction of the connector highway was suspended on May 10, 2004 as a result of a U.S. District Court decision that 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. 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 an alternative, 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 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 congestion-relieving purpose of the Circ Highway. In November of 2012, the task force recommended six projects totaling $13.9 million in funding to the Secretary of Transportation. In 2013, the Vermont General Assembly approved the Task Force's request for these implementation projects to be included in the Transportation Capital Program ("TCP"). The TCP included funding to commence preliminary engineering, as well as funding for immediate investments in Transportation Demand Management (TDM) and transit projects. In 2014, the Task Force completed its work on a second round of additional congestion reducing projects. The project list was the result of several congestion relief studies, which produced a set of recommendations that the Task Force passed unanimously. This project list was forwarded to VTrans for inclusion on the list in the Agency's project recommendations to the 2015 Vermont General Assembly consistent with its original charge.

Vermont's highway system also includes 2,716 long structure bridges (i.e. bridges having a span length of greater than 20 feet and located on public roads), of which 873 or 32.14% are greater than 70 years of age. As of December 2012 (the most recent data available), 10.56% of Vermont's bridges were structurally deficient. Nationally, this ranks Vermont 28th among the 50 states for percentage of structurally deficient bridges, which is a significant improvement from the State's 45th ranking in 2007 (at which time almost 20% of the State's bridges were structurally deficient). This improvement was due in large part to federal funds received by the State from ARRA as well as in connection with Tropical Storm Irene. Recently completed bridge projects include the Milton I-89 bridges north and southbound over the Lamoille River; the Windsor I-91 bridges north and southbound over VT44 and Mill Brook; the Brattleboro I-91 bridges north and southbound over VT30 and the West River, Maple Street, Williams Street and the West River; and the Richmond US2 bridge over the Winooski River. In January 2012, the State implemented the Accelerated Bridge Program ("ABP"). The primary focus of the ABP is to improve the condition of Vermont's bridges while reducing project costs through expedited project development, delivery and construction. All seven ABP projects advertised in 2012 were successfully constructed during the 2013 construction season. A total of six of these projects were Tropical Storm Irene-related emergency projects.

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, Inc. 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, Montreal, Maine and Atlantic Railroad and Pan American Railroad. 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 2013, the State started construction on freight improvements for 18.8 miles of railroad track between St. Albans, VT and the tracks of Canadian National at the Canadian Border, which project is being financed by a grant received under the Transportation Investment Generating Economic Recovery (TIGER) IV program. The upgrades were designed to enable the track to carry the gross rail weight standard of up to 286,000 pounds, allowing more efficient movement of goods throughout the region and internationally and improving the competitiveness of the New England Central Railroad (NECR) freight rail by allowing heavier freight hauls. These improvements also benefit Amtrak, with the capability to extend service to Montreal once again. This TIGER IV grant followed the 2012 completion of the $75 million Track I ARRA project on the NECR, which improved 190 miles of railroad—including 140 miles of new continuous-welded rail (CWR), safety upgrades at 52 crossings, and the strengthening of 50 bridges. Not only did these improvements benefit passenger rail by providing greater comfort and faster speeds, but freight service also improved along the entire line from St. Albans to the Massachusetts border. This corridor is now rated at 286,000 pounds for freight service, making Vermont competitive with other rail shippers nationwide. These two projects will complete 100% of the rail upgrades needed from the Canadian border to the southern border of Vermont on the NECR line.

Also in 2013, VTrans received a TIGER V grant for track upgrades from Rutland to Leicester on the Vermont Railway line (VTR). This allowed for 9.8 miles of new ties, ballast and CWR to be installed, which will increase freight speeds and improve efficiencies through this section of track. Construction of this project will help to achieve the State's long-term goal of restoring Amtrak service from Rutland to Burlington along the Western Corridor.

Transit. There are ten public transit providers in the State, which provided an estimated 4.8 million passenger trips in calendar year 2012. Vermont is served by three private intercity providers, Greyhound, Yankee Trails, Inc. and Megabus.

Air. There are 16 public use airports, including ten State-owned airports and two that are municipally owned, including Burlington International Airport ("BIA"). During calendar year 2013, enplanements at BIA totaled 606,721, a decline of 1.35% from calendar year 2012's 615,026 enplanements total, largely due to the sluggish pace of the regional economic recovery and reductions in the number of seats available flying out of the airport. For calendar year 2014, through August, passenger enplanement totaled 408,997, down by less than 0.1% as compared to the passenger total for the same eight-month period through August in 2013 of 409,180 enplanements.

As of October 2014, the list of commercial air carriers serving BIA includes five national and regional carriers serving New York (John F. Kennedy and LaGuardia Airports), Newark, Philadelphia, and two of the three Washington, D.C. area airports. In addition, carriers also provide non-stop service to Chicago, Cleveland and Detroit. Jet Blue Airlines continues to be the most significant carrier. Other major carriers currently at BIA include United Airlines, Delta Airlines and U.S. Airways. Porter Airlines also provides seasonal service to Billy Bishop Toronto City Airport, providing travel to Vermont ski areas for Ontario-based Canadian customers during the winter months.

In 2013, Rutland Southern Vermont Regional Airport (RSVR) had more than 6,000 enplanements including regular passenger service offered via Cape Air. Over 500,000 pounds of cargo moved through RSVR in 2013 and over 200,000 pounds moved through Knapp State Airport in Berlin.

Utilities

In recent years, there have been a number of developments that have contributed to the stability of the electric utility industry in Vermont. For example, when other states were moving aggressively toward retail choice, Vermont elected to preserve an approach where retail customers continue to receive service from vertically integrated, regulated electric utilities. Pursuant to 30 V.S.A. §218c1, each regulated electric or gas company is required to prepare and implement a least cost integrated plan (also called an integrated resource plan, or "IRP") for provision of energy services to its Vermont customers. The IRP process and the implementation of each Vermont utility's approved plan are intended to meet the public's need for energy services, at the lowest present value life cycle cost (including environmental and economic costs), through a strategy combining investments and expenditures on energy supply, transmission and distribution capacity, transmission and distribution efficiency, and comprehensive energy efficiency programs. 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. The State's major utility, Green Mountain Power Corporation ("GMP") (which acquired the State's other major utility, Central Vermont Public Service Corporation in October 2012), has in place long-term power purchase agreements that will enable the State to have adequate energy supplies over the next several years, and current regional supply and prices are favorable. Examples of such agreements include, (i) an agreement with NextERA Energy Resources, LC—the owner of the Seabrook, New Hampshire nuclear power plant—to purchase initially 60 megawatts of power (decreasing to 40 megawatts later on in the contract) over a 23 year period which commenced in May 2011; and (ii) and 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, it has in place power supply agreements with other renewable energy projects, including a total of 82.8% of the output from the 99 megawatt Granite Reliable Wind generation project in Coos County, New Hampshire over the next 20 years.

With respect to nuclear power, on August 27, 2013, Entergy Nuclear Vermont Yankee LLC ("Entergy") announced that, despite receiving a federal 20-year licensing extension from the Nuclear Regulatory Commission ("NRC") for operation of the Vermont Yankee nuclear facility in Vernon (the Vernon station) through 2032, it would be ceasing power production at the Vernon station permanently at the end of its current fuel cycle and moving to safe shutdown on or about December 31, 2014. Entergy attributed the decision to economic reasons, including the combination of the transformational shift in natural gas supply due to the impacts of shale gas and the resulting sustained low natural gas prices and wholesale energy prices, the high cost structure of the Vernon station, and what the company called "wholesale market design flaws" in the pricing structure for so-called merchant generating plants established by the Independent System Operator in New England (ISO NE), which maintains and operates the wholesale power market in which the company operates. Once the Vernon station is shut down, workers will de-fuel the reactor and follow a radiological decommissioning plan and then will transition to site restoration.

On December 23, 2013, Entergy, Entergy Nuclear Operations, Inc., the Vermont Department of Public Service and the Vermont Agency of Natural Resources entered into a Memorandum of Understanding (the "Entergy MOU"), which effectively resolved all outstanding litigation relating to the closure of the Vernon station and established the groundwork for moving forward with the plant's closure. According to the Entergy MOU, Entergy Nuclear Operations, Inc. is required to complete a site assessment study by December 31, 2014, including the costs and tasks of site restoration for the Vernon station site. In addition to the site assessment study, the Entergy MOU provides for the following: (1) the dismissal of outstanding litigation among the parties, (2) the continuation of all existing tax obligations by Entergy to the State, (3) a commitment by Entergy to make a payment of $5 million to the Vermont Department of Taxes before April 25, 2015, and (4) a commitment by Entergy to make a total of $25 million in payments to a Site Restoration Fund between January 2014 and December 31, 2017. In addition, pursuant to the Entergy MOU, Entergy is required to (i) release all escrowed monies as of the date of execution of the Entergy MOU to the Clean Energy Development Fund in January 2014, and (ii) make a total of $10 million in payments (consisting of annual installments of $2 million) to the Vermont Agency of Commerce and Community Development over the 2014 through 2018 period to promote economic development in Windham County—which is the county in Vermont where the Vermont Yankee Nuclear Power Plant is located. The last item is designed to assist the economic transition of the southern Vermont region due to the closing of the Vernon station—the facility's impacts also stretch geographically into southern New Hampshire and northwest Massachusetts. In exchange for the above, the parties to the Entergy MOU agreed to support a petition by Entergy and Entergy Nuclear Operations, Inc. to amend its Certificate of Public Good from the VPSB to operate the Vernon station to include the period of March 21, 2012 through December 31, 2014—or through the end of its current operating cycle. The amendment to Entergy's Certificate of Public Good was subsequently granted by the VPSB on March 28, 2014.

From a New England regional perspective, the Vernon station does not currently sell any power to Vermont utilities and represents about two percent (2%) of generation capacity for ISO-NE with a maximum dependable capacity of 605 megawatts. According to ISO-NE, there is sufficient generation capacity without the Vernon station to supply the energy needs of Vermont utilities and to reliably serve the energy needs of customers throughout New England. ISO-NE permitted the Vernon station to delist from forward capacity auctions starting in 2013. Vermont's electric utilities are vertically integrated and operate in the ISO-NE power market. These utilities have historically either owned and operated the Vernon station or have had contracts to purchase output from the facility.

The closure of the Vernon station is expected to have no direct economic, financial or rate impact on Vermont utilities or rate payers. Indirectly, and over the longer term, the decision may have a minimal effect on overall New England wholesale energy prices due to a slight decrease in supply (New England, with the Vernon station, has a combined summer/winter total capacity of about 33,000 MW of resources that include generation, demand resources and imports; the Vernon station has a rated capacity of 625MW), although the actual wholesale price impact is unknown at this time. Regardless, when the decrease in supply is coupled with changes in demand arising from conservation, self-generation and energy efficiency measures, it is expected to have only a minimal impact, if any, on wholesale energy and capacity prices, which in turn will have only a minimal impact, if any, on retail energy prices.

The retirement of this large nuclear station may result in less fuel diversity and a somewhat greater near term, though not necessarily long term, reliance on natural gas as a fuel for power generation in New England. Increased dependence on natural gas has developed over the last decade and is expected to continue over the near term. Over the longer term, fuel diversity will depend upon the types of new resources that are deployed in the region. ISO-NE has identified New England's dependence on natural gas for power generation and the potential retirement of non-natural gas generators as key strategic risks for the region and is developing solutions to address these and other strategic challenges over the longer term.

New England-wide reliability is also not expected to be adversely impacted by the closure of the Vernon station. ISO-NE has also studied the needs of the high-voltage power transmission system serving the region (including Vermont and New Hampshire) for more than four years, including analyses of scenarios with and without Vernon station service. The most recent study (completed in 2012) shows that the regional power grid could be operated reliably without Vermont Yankee and without any substantial new investment in transmission facilities as a result of the closing of the Vermont Yankee facility.

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"). Natural gas is currently supplied to Vermont 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 recently has increased by about 3% per year. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline upgrade looping segments constructed each year, including calendar year 2014.

In December 2013, VGS obtained a Certificate of Public Good from the VPSB to undertake a roughly 43-mile expansion of its natural gas pipeline from Chittenden and Franklin counties into Addison County. While reported project cost increases of up to 40 percent caused the VPSB to consider remanding the Certificate of Public Good for the Addison County pipeline during the late Summer 2014, ultimately the VPSB ruled in early October 2014 not to reconsider the December 2013 issuance of the CPG for this project. VGS has also filed for a Certificate of Public Good to further extend its natural gas pipeline from Middlebury through Cornwall and Shoreham, then underneath Lake Champlain to the International Paper mill facility in Ticonderoga, New York. In late September 2014, this second phase of the project received federal approval under the Natural Gas Act from the Federal Energy Regulatory Commission (FERC); this phase is currently undergoing technical review by the VPSB. Further, VGS has also started planning for the third phase of its pipeline extension to Rutland. If the second and third phases receive VPSB approval, VGS hopes to begin service in Rutland by calendar year 2020.

Vermont currently has a robust and extensive telecommunications network. Vermont is served by ten incumbent local exchange carriers (ILECs). The incumbent carriers are FairPoint Vermont, Inc., Franklin Telephone Company, Ludlow Telephone Company (TDS Telecom), Northfield, Telephone Company (TDS Telecom), Perkinsville Telephone Company (TDS Telecom), Shoreham Telephone, LLC (OTT Communications), Telephone Operating Company of Vermont, LLC (FairPoint Communications), Topsham Telephone Company, Vermont Telephone Company (VTel), and Waitsfield–Fayston Telephone Co., Inc. These companies have designated service territories and are obligated to make service available to every location in their territory. Incumbent carriers must file tariffs with the VPSB and adhere to service quality standards. Telephone Operating Company of Vermont is Vermont's successor Regional Bell Operating Company. Both FairPoint companies are price-cap carriers under State and federal law. The eight "independent" ILECs are treated as rate of return carriers for purposes of federal law and are designated as "small eligible telecommunications carriers" by the VPSB, allowing them to receive Universal Service Fund support.

The State is also served by several facilities-based competitive local exchange carriers (CLECs). CLECs are not rate regulated and have no imposed service territory. Voice competition exists throughout the State, but is not evenly distributed. Urban centers and suburban areas generally have multiple carriers, and ILECs face competition from several facilities-based providers. Most cable companies also now offer voice service, and cable networks reach an estimated 67.5% of E-911 locations in Vermont. CLECs lease facilities of a phone company or co-locate equipment within ILEC-owned central offices. Facilities-based CLECs also include cable operators, which offer voice service through their cable network, and wireless Internet service providers (WISPS). Three of the four national wireless providers also have a presence in Vermont, reaching an estimated 96% of the State's geographic area. Within urban centers, ILECs experience strong competition from these providers, which can offer lower cost services. Rural areas have a less developed telephone market. In many rural exchanges, ILECs are the only landline carrier. In an estimated 22-25% of the State's addresses, the designated ILEC is the only landline option for voice service available to potential users.

Ten years ago, only 75% of the State's locations had high speed internet access available, defined then as 768 kilobits per second (kbps) download and 200 kbps upload. In the State's 2011 Telecommunications Plan, the State put forward a goal of ubiquitous availability of broadband at 768/200 kbps with service at 10 megabits per second (Mbps) available to most locations by the end of calendar year 2013. The State met this goal, due to significant system investments and hard work of Vermont service providers (such as VTel) and the Governor. Key investments from private partners, more than $165 million in federal stimulus investments (including both grants and loans), and State capital appropriations have resulted in the expansion of basic broadband service. According to the Vermont Department of Public Service, and as set forth in its 2014 Telecommunications Plan (public comments draft), as of October 2014, high speed service is available in 99% of the State, with the remaining 1% having a funded solution in place, and seventy five percent (75%) of households have access to speeds of four Mbps download and one Mbps upload, or faster.

The Vermont Telecommunications Authority ("VTA") is a public instrumentality of the State charged with developing or facilitating development of telecommunications infrastructure in unserved and underserved areas of Vermont. It does not provide broadband or cellular service directly to the public. VTA's current efforts fall into four broad categories: (i) grants to retail service providers of broadband or cellular service; (ii) development and management of fiber optic infrastructure, (iii) wireless tower development and wireless site management; and (iv) wireless equipment leasing. For fiscal years 2012 through 2013, the Vermont Legislature provided a total of $10 million in direct appropriations for broadband and cellular related projects to enhance and expand high speed internet access to all State residents, which amount was funded with proceeds of general obligation bonds issued by the State in March 2012. In addition, the General Assembly in 2007 also authorized the provision of the State's moral obligation for up $40 million in bonds with prior approval of the Governor and Treasurer or their respective designees in order to achieve this goal, although the VTA has not to date utilized this bonding authority. See "STATE INDEBTEDNESS – Reserve Fund Commitments – Vermont Telecommunications Authority." In 2014, the Legislature passed Act 190 of 2014, pursuant to which the Division of Connectivity was created within the Agency of Administration to be the successor in interest to and the continuation of the VTA. Provided the conditions of Act 190 are satisfied, the Division of Connectivity shall become operative, and the VTA shall cease all operations, effective July 1, 2015.

Wireless (Cellular and PCS) telephone service in Vermont is provided by AT&T, Verizon Wireless, U.S. Cellular, T-Mobile, Sprint PCS, Vanu CoverageCo (which provides wholesale access for retail cellular carrier to its network in rural Vermont), and VTel Wireless (which will be adding cellular service to its wireless broadband offering). Vermont's wireless telephone service companies have been expanding their network and investing statewide, as well as launching wireless broadband "4G" multimedia and internet services.

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 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 2014 Comprehensive Annual Financial Report (CAFR) is expected to be completed by December 31, 2014. When the audit opinion is issued by KPMG LLP, the State's independent auditor, the CAFR will be published on Finance & Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

The audit of the State's fiscal year 2013 CAFR was completed on December 18, 2013. The audited basic financial statements of the State for fiscal year 2013, 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 2013 CAFR (pages 14 through 163) 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, 2013. This was the sixth 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 plans to submit its fiscal year 2014 CAFR to the GFOA to determine its eligibility for additional certificates.

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.

All fiscal year 2014 and 2015 information set forth in this Official Statement is preliminary and unaudited.

Government-Wide Financial Statements

Vermont's Government-wide Financial Statements (the Statement of Net Position 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 position (the amount by which assets and deferred outflow of resources exceed liabilities and deferred inflow of resources) are reported on the Statement of Net Position 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 2013 audited financial statements attached hereto as Appendix A for further explanation of these criteria.)

Governmental Fund Types

In accordance with GASB Statement 54, the fund balance amounts for governmental funds are reported in classifications that comprise a hierarchy (nonspendable, restricted, committed, assigned or unassigned) 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.

- **Nonspendable** fund balances include items that cannot be spent due to legal or contractual requirements to remain intact, and items that are not in spendable form.
- **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. The same type of formal action is necessary to remove or change the specified use.
- **Assigned** fund balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed.
- **Unassigned** fund balances are the residual amount of the General Fund not included in the four categories above, and any deficit fund balances within other governmental fund types.

The general characteristics of the fund types are as follows.

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; 35% 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. During fiscal year 2014, the waiver agreement was renewed for the period from October 2, 2014 to December 31, 2016. 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.

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

Debt Service Funds (Non-major Funds): 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 23 funds of this non-major type reported by the State. These funds are used to account for the financing of goods and services provided by one State department or agency to other State departments, agencies, or other governmental units on a cost-reimbursement basis. These funds are consolidated into one column and are reported in the Proprietary Funds' financial statements.

Fiduciary Fund Types

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These funds include the following:

Pension and Other Employee Benefit Trust Funds: These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement (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, 2013 and 2012 as contained in each fiscal year's CAFR. **Fiscal year ending June 30, 2014 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

As of June 30, 2013, the General Fund had a $159.2 million total fund balance as compared to a $178.4 million total fund balance as of June 30, 2012, a decrease of $19.2 million. This decrease occurred after the nonspendable portion of this fund balance decreased from $2.1 million in 2012 to $1.7 million in 2013, the committed portion of this fund balance was reduced from $18.5 million in 2012 to $0 in 2013, and the assigned portion of this fund balance decreased from $6.9 million in 2012 to $5.3 million in 2013. The unassigned portion of this fund balance, which includes the statutory budget stabilization reserve, increased from $151.0 million as of June 30, 2012 to $152.2 million as of June 30, 2013.

As of June 30, 2013, the Transportation Fund had a $21.8 million total fund balance as compared to an $18.4 million total fund balance as of June 30, 2012, an increase of $3.4 million. This increase is the combination of an increase in the restricted portion of this fund balance from $0 in 2012 to $6.2 million in 2013 and a decrease in the committed portion of this fund balance from $18.4 million in 2012 to $15.6 million in 2013. This committed fund balance includes the statutory budget stabilization reserve. As of both June 30, 2013 and June 30, 2012, there was no fund balance in the Transportation Fund categorized as nonspendable, assigned or unassigned.

As of June 30, 2013, the Education Fund had a committed and total fund balance of $66.4 million, an increase of $0.6 million compared to the balance as of June 30, 2012. This committed fund balance includes the statutory budget stabilization reserve. As of both June 30, 2013 and June 30, 2012, there was no fund balance in the Education Fund categorized as nonspendable, restricted, assigned or unassigned.

As of June 30, 2013, the budget stabilization reserves in the General, Transportation, and Education Funds were funded at their respective maximum statutory levels.

As of June 30, 2013, the Global Commitment Fund had a total fund balance of $94.9 million. Net transfers in of $448.1 million and federal grant and other revenues of $718.1 million together exceeded expenditures of $1,160.8 million by $5.4 million. The Global Commitment Fund has no legislatively mandated budget stabilization reserve.

As of June 30, 2013, the Federal Revenue Fund reported a total fund balance of $392.5 million, which was an increase of $40.7 million compared to the June 30, 2012 balance of $351.8 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 87.6% of the General Fund revenue in fiscal year 2014.

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 $671.1 million or 50.5% of net General Fund revenues in fiscal year 2014.

<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. Effective July 1, 2013, the allocation of gross Sales and Use Tax receipts to the Education Fund and General Fund changed from 33% and 67%, respectively, to 35% and 65%, respectively. In fiscal year 2014, the Sales and Use Tax totaled $229.9 million or 17.3% 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 2014, Meals and Rooms Tax revenues amounted to $142.7 million or 10.7% 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 2014, receipts from the Corporate Income Tax were $94.8 million (adjusted) or 7.3% of the revenues available to the General Fund.

Insurance Tax: Insurance companies are taxed at a rate of 2.0% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written. The rate schedule for captive insurance rates was reduced in 2003 to a range from .0038 to .00072 (from previous rates of .004 to .00075) in order to reinforce the State as a preferred domicile for captive insurers in an increasingly competitive industry climate. In fiscal year 2014, insurance taxes accounted for $57.1 million or 4.4% 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 2014, telephone receipts and property taxes generated $9.1 million or 0.7% 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 2014, gross receipts from the transfer tax totaled $30.9 million. After statutory transfers, net receipts totaling $10.0 million or 0.8% 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 2014, liquor taxes generated $17.7 million or 1.4% 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 $6.4 million or 0.5% of net General Fund revenues in fiscal year 2014.

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 $35.5 million or 2.7% of net General Fund revenues in fiscal year 2014.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 has been restructured several times in recent years. Prior to 2000, plants were assessed a tax of 3.5% of the assessed value thereof (defined as original cost less deprecation as required to be reported to the Public Service Department). Beginning in 2000, the tax rate was reduced to 2.75% and the deduction allowed for local taxes was repealed. At the same time, an education tax of 2.0% of the appraised value was imposed. Beginning in 2004, the electric energy tax was restructured as a generating tax with a rate schedule ranging from $2.0 million to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000 (and the education tax was similarly restructured with a rate schedule ranging from $1.465 million to $1.9 million plus $0.29 per megawatt hour in excess of 4,200,000). Effective July 1, 2013, the rate schedule was replaced with a generating tax of $0.0025 per kilowatt hour (and the education tax was repealed). The tax raised $13.1 million or 1.0% of net General Fund revenues in fiscal year 2014. Once the Vermont Yankee nuclear facility in Vernon ceases operations by the end of calendar year 2014, it will no longer be liable for the payment of this tax. No decisions or proposals have yet been made regarding whether or how this tax might be further modified in order to allow the State to continue to receive a similar amount of tax receipts. See "STATE ECONOMY – Utilities" above for information concerning the Vermont Yankee facility.

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 $11.0 million, which represented 0.8% of revenues available to the General Fund in fiscal year 2014.

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. Net revenues in this category were $30.0 million or 2.3% of revenues available to the General Fund in fiscal year 2014.

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 2014.

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 $58.7 million representing 23.2% of net revenues available to the Transportation Fund were received in fiscal year 2014.

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 and 2012, the Vermont General Assembly increased certain fees. In fiscal year 2014, motor vehicle fees accounted for $79.0 million, representing 31.2% 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. Effective May 1, 2013, the ad valorem per gallon tax on gasoline was reduced from 19.0 cents per gallon to 18.2 cents per gallon and a new 2% Transportation Fund Assessment on the quarterly retail price of gasoline (subject to a 6.7 cents per gallon minimum and a 9.0 cents per gallon maximum) was levied through June 30, 2014 . Effective July 1, 2014, a 4% levy is assessed on the retail price of gasoline (with a floor of 13.4 cents per gallon and a maximum of 18 cents per gallon) and the ad valorem tax per gallon was reduced by 6.9 cents to 12.1 cents per gallon. In fiscal year 2014, the motor fuel tax accounted for $76.5 million or 27.6% 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. Effective July 1, 2013, the ad valorem per gallon tax on diesel fuel was increased from 25 cents per gallon to 27 cents per gallon through June 30, 2014. Effective July 1, 2014, the diesel tax increased to 28 cents per gallon. In fiscal year 2014, the diesel fuel tax accounted for $17.2 million or 6.8% 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 2014, these other sources of revenues accounted for $19.5 million or 7.7% 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 property tax rates and collected school taxes from the property owners 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 of equalized property value 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 net revenues 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 2014, the homestead and non-residential rates were $0.94 and $1.44, respectively.

Act 68 of 2003 also included an excess spending provision designed to discourage high per-pupil spending by school districts. Districts spending over the annual threshold are taxed a second time on the excess spending amount. The threshold amount is calculated annually as the product of (i) the statewide average district education spending per equalized pupil in the prior fiscal year, multiplied by (ii) a specified percentage. Act 68 set this percentage as 135% in fiscal year 2005, 130% in fiscal year 2006 and 125% in fiscal year 2007 and thereafter. In

2013, legislation was passed (Act 60 of 2013) that decreased the percentage to 123% in fiscal years 2015 and 2016, and to 121% in fiscal year 2017 and thereafter. In 2014, the Legislature passed Act 174, which modified the threshold amount calculation such that, rather than looking at data from the prior fiscal year, it would be based on the statewide average district education spending per equalized pupil in fiscal year 2014 adjusted for inflation. The net effect of these changes was to lower the threshold above which school districts incur an additional tax for higher per pupil education costs.

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 per pupil 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 tiered 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. Whereas payments were formerly made directly to eligible taxpayers, with the passage of Act 185, adjustments were paid to the municipalities in which the funds were used to reduce the payable amount on 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, 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 beginning in 2011, which eliminated all but the following exclusions: 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. In 2012, the Legislature passed Act 143, which excludes health savings account deductions from the calculation of household income for property tax adjustment claims filed beginning in 2013.

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. Education Fund revenues from the Statewide education property tax, the Sales and Use Tax, the Purchase and Use Tax, and the State lottery for the two most recent fiscal years are shown in the table below. The Education Fund also has earned minimal interest income over these years.

	($ in millions)	
	Fiscal Year 2013	Fiscal Year 2014
Statewide Education Property Tax	$932.41	$974.58
Sales and Use Tax	115.59	123.78
Purchase and Use Tax	27.90	30.61
State Lottery	22.94	22.57

Federal Receipts

In fiscal year 2013, the State's special revenue funds received approximately $1.866 billion in total from the federal government on a GAAP basis, a decrease of $21.6 million or 1.15% below fiscal year 2012. 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. Fiscal year 2014 federal grant cash receipts were $1.788 billion, including $10.8 million received from ARRA. The fiscal year 2015 Appropriations Act, as passed, anticipates approximately $1.961 billion in federal receipts, of which $1.4 million is expected to be received under ARRA. Federal receipts through September 2014 were $600.5 million, of which $0.6 million was from ARRA.

Federal grants normally are restricted as to use depending on the particular program being funded and normally require matching resources by the State. The largest categories of federal grants receipts in fiscal year 2014 were made in the areas of Human Services, $1.231 billion; Transportation, $307.1 million; Education, $114.8 million; Protection to Persons and Property, $55.5 million; and Natural Resources, $33.5 million.

Federal Sequestration. The State has budgeted for the continuing effects of federal sequestration, including the continuation of reductions in direct pay subsidies for the State's outstanding "build America bonds" (BABs) (announced to be 7.3% for federal fiscal year 2015), and accordingly does not currently expect such reductions to have a material adverse effect on the current or any future year's budget.

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. Pursuant to the MSA, in addition to regular MSA annual payments, beginning in fiscal year 2008, Vermont is also entitled to receive approximately $10-14 million in net 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.

The table below lists Vermont's base payment and Strategic Contribution Payment as set forth in the MSA, and the actual receipts of settlement funds (in millions) for each of the past ten years:

	MSA[1]		Actual		
Fiscal Year	Base Payment	Strategic Payment	Base Payment	Strategic Payment	Total[2]
2004	$28.80	-	$25.85	-	$25.85
2005	28.80	-	26.21	-	26.21
2006	28.80	-	23.98	-	23.98
2007	28.80	-	24.96	-	24.96
2008	29.37	$15.65	25.48	$14.42	39.91
2009	29.37	15.65	28.10	14.78	42.88
2010	29.37	15.65	23.39	12.83	36.22
2011	29.37	15.65	22.17	11.69	33.86
2012	29.37	15.65	22.61	11.91	34.52
2013	29.37	15.65	22.59	11.92	34.51
2014	29.37	15.65	*	*	34.52

[1] Base payment amount and Strategic Contribution Payments as established in the MSA at time of initial settlement; amounts subject to annual adjustments.
[2] Does not take into account Tobacco Litigation Settlement Fund Account performance due to interest income or expense.
* The breakdown between the base payment and the strategic payment amounts for fiscal year 2014 are not yet available.

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 2014 was $5.19 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. Reference is also made to the operating statements appearing on pages 50-52 of this Official Statement (under the heading "Financial Summaries") for a tabular presentation of the operating results described below.

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 consensus (current law) revenues of $218.52 million and total revenues, including refunds of prior year expenditures, of $218.55 million and an operating surplus of $3.22 million. Year-over-year consensus (current law) revenues increased by 2.4%, or $5.18 million, from fiscal year 2010 current law 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 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 net prior year appropriations.

Fiscal Year 2012

The State ended fiscal year 2012 with General Fund revenues of $1,196.97 million and an operating loss of $6.27 million. The operating loss of $6.27 million was offset by net transfers in from other funds and the use of prior year reserve balances. Year-over-year consensus (current law) revenues increased by $40.28 million, or 3.48% from fiscal year 2011 revenues of $1,156.69 million. The fiscal year 2012 General Fund consensus revenue forecast, which was the basis for the fiscal year 2012 budget, as passed, was approved by the Emergency Board in January 2011. This estimate was subsequently revised upward by the Emergency Board in July 2011 and January 2012. The higher than projected ($7.60 million above target) General Fund revenues were attributable to above target receipts in all but two major revenue categories reported: Personal Income Tax receipts ($2.40 million above target); Corporate Income Tax receipts ($8.62 million above target); Sales & Use Tax receipts ($1.36 million above target); Meals & Rooms Tax ($0.17 million above target); Insurance Tax receipts ($0.35 million above target); Estate Tax receipts ($6.17 million below target); Real Property Transfer Tax receipts ($0.49 million below target); and Other Tax receipts ($1.36 million above target). The current law revenue results, plus $46.80 million in revenue enhancements and the use of $41.66 million in Human Service Caseload Reserve balance from fiscal year 2011, allowed the State to fund $16.48 million in one-time appropriations. Of these one-time appropriations, $11.33 million was appropriated for the repair of the Waterbury State Office Complex damaged by Tropical Storm Irene; and $5.10 million was appropriated to replenish General Funds used to offset federal reduction in the Low Income Home Energy Assistance Program (LIHEAP). In addition, the positive revenue results allowed the State to transfer $16 million to the Emergency Relief & Assistance Fund (ERAF) to assist with the State's share of Irene-related damage repair costs. A total of $18.50 million remains reserved in the Human Services Caseload Reserve against growth in caseload and utilization, as well as potential federal reductions in human services; $3.88 million, originally reserved in fiscal year 2011, remains reserved against other potential federal cuts, and an additional $7.0 million appropriated in fiscal year 2011 ($1.9 million) and fiscal year 2012 ($5.10 million) remains available to offset federal cuts. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $58.11 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2012 with consensus (current law) revenues of $221.71 million and total revenues, including revenue enhancements and carry forward from the prior year, of $226.18 million and an operating surplus of $6.96 million. Year-over-year consensus (current law) law revenues increased by 1.46% or $3.19 million from fiscal year 2011 consensus (current law) revenues of $218.52 million. Transportation Fund receipts for fiscal year 2012 were slightly below the consensus revenue target of $221.81 million by 1.49%, primarily due to: Gasoline Tax receipts ($1.42 million below target); Diesel Tax receipts ($0.30 million above target); Motor Vehicle Purchase & Use ($0.66 million below target); Motor Vehicle Fees ($0.86 million below target); and Other Fees ($0.82 million below target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed a fully funded Transportation Fund Budget Stabilization Fund of $10.77 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2012 with non-property tax revenues of $164.05 million. Total Educations Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in an operating surplus (after transfers from other funds) of $16.23 million, primarily due higher than expected revenues and less than anticipated grant expenditures for the fiscal year. The Education Fund Budget Stabilization Reserve ended fiscal year 2012 fully funded at the statutory maximum of 5% of net prior year appropriations ($29.84 million). In addition to the $29.84 million Education Fund Budget Stabilization Reserve, $33.60 million additional surplus remains unallocated and unreserved as of June 30, 2012.

Fiscal Year 2013

The State ended fiscal year 2013 with General Fund revenues of $1,288.58 million and an operating gain of $21.55 million. The operating gain of $21.55 million was offset by net transfers out to other funds of $9.12 million and transfers to reserves of $12.44 million. Year-over-year consensus (current law) revenues increased by $91.61 million, or 7.65% from fiscal year 2012 revenues of $1,196.97 million. The fiscal year 2013 General Fund consensus revenue forecast, which was the basis for the fiscal year 2013 budget, as passed, was approved by the Emergency Board in January 2012. This estimate was subsequently revised upward by the Emergency Board in July 2012 and January 2013. The higher than projected ($26.08 million above target) General Fund revenues were attributable to above target receipts in Personal Income Tax ($36.05 million above target), Corporate Income Tax ($0.85 million above target) and Meals & Rooms Tax ($2.59 million above target), which were offset by below target receipts in the remaining revenue components: Sales & Use Tax receipts ($1.63 million below target); Insurance Tax receipts ($4.28 million below target); Estate Tax receipts ($6.21 million below target); and Other Tax receipts ($1.30 million above target). The current law revenue results, plus $56.19 million in revenue enhancements and the use of $18.50 million in Human Service Caseload Reserve balance from fiscal year 2012, allowed the State to fund $3.32 million in budget adjustments and $16.08 million in one-time appropriations. Of these one-time appropriations, $6.525 million was appropriated to cover as yet undetermined future federal cuts, $13.05 million was appropriated to the surplus property tax relief fund and $0.22 million was used to cover the final adjustment to employee health plan savings. In addition, the positive revenue results allowed the State to transfer $11.93 million to the General Fund Balance Reserve for subsequent years' appropriation subject to Emergency Board action. Of the $3.88 million originally reserved in fiscal year 2011, approximately $0.50 million remains reserved against other potential federal cuts. The balance was used in the fiscal year 2015 rescission plan (See "Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" below). The additional $7.0 million previously appropriated in fiscal years 2011 ($1.9 million) and 2012 ($5.1 million) and reserved against potential federal cuts was used (along with other available funds) to offset federal reductions in LIHEAP funding and for other fiscal year 2013 appropriations. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $62.50 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2013 with consensus (current law) revenues of $228.19 million and total revenues, including revenue enhancements, of $231.81 million and an operating deficit of $2.45 million. The operating shortfall was covered by the net of transfers to and from other funds, including the General Fund. Preliminary closeout indicated a year end deficit; the Secretary of Administration closed this deficit by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. Year-over-year consensus (current law) revenues increased by 2.92% or $6.48 million from fiscal year 2012 consensus (current law) revenues of $221.71 million. Transportation Fund receipts for fiscal year 2013 were slightly below the consensus revenue target of $229.10 million by 0.40%, primarily due to: Gasoline Tax receipts (1.40% above target); Diesel Tax receipts (0.30% above target); Motor Vehicle Purchase & Use (0.18% below target); Motor Vehicle Fees (1.56% below target); and Other Fees (2.28% below target). The Transportation Fund results, coupled with net transfers into the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $10.81 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2013 with non-property tax revenues of $166.45 million. Total Educations Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in an operating surplus (after transfers from other funds) of $16.05 million, primarily due higher than expected revenues and less than anticipated grant expenditures for the fiscal year. The Education Fund Budget Stabilization Reserve ended fiscal year 2013 fully funded at the statutory maximum of 5% of net prior year appropriations ($29.26 million). In addition to the $29.26 million Education Fund Budget Stabilization Reserve, $36.96 million additional surplus remained unallocated and unreserved as of June 30, 2013.

Fiscal Year 2014*

The State ended fiscal year 2014 (unaudited) with General Fund revenues of $1,316.70 million and—after taking into account an additional $11.64 million of estate tax revenue that is traditionally transferred to the higher education trust fund, but which the Legislature permitted to be retained in the General Fund under the fiscal year

* All fiscal year 2014 results are preliminary and unaudited.

2015 appropriations bill—an operating gain of $13.99 million, The operating gain of $13.99 million was offset by net transfers out to other funds of $5.33 million and transfers to reserves of $8.66 million. Year-over-year consensus (current law) revenues, factoring in the additional estate tax revenues described above, increased by $39.77 million, or 3.09% from fiscal year 2013 revenues of $1,288.58 million. The fiscal year 2014 General Fund consensus revenue forecast, which was the basis for the fiscal year 2014 budget, as passed, was approved by the Emergency Board in January 2013. This estimate was subsequently revised upward by the Emergency Board in July 2013 and January 2014. Compared to target, year-end revenues, factoring in the additional estate tax revenues described above, were 0.32% below the January 2013 revenue forecast of $1,332.60 million. The lower than projected ($4.22 million below target) General Fund revenues were attributable to below target receipts in Personal Income Tax ($22.11 million below target), Sales and Use ($1.66 million below target), Property Transfer Tax ($0.57 million below target) and Other Tax receipts ($3.87 million below target). This underperformance was offset by above target receipts in Corporate Income Tax ($5.65 million above target), Meals & Rooms Tax ($2.64 million above target), Insurance Tax receipts ($0.56 million above target), and Estate Tax receipts ($15.14 million above target). The current law revenue results, plus $59.89 million in revenue enhancements, allowed the State to fund $1.0 million to repay an Area Health Education Center loan, transfer $0.25 million to the Higher Education Trust Fund and maintain $5.00 million in the General Fund Balance Reserve for subsequent years' appropriation subject to Emergency Board action. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $66.16 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2014 (unaudited) with consensus (current law) revenues of $253.38 million and total revenues, including revenue enhancements and appropriations reversions, of $255.22 million and an operating surplus of $2.61 million. Preliminary closeout indicated a year end deficit; the Secretary of Administration closed this deficit by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. Year-over-year consensus (current law) revenues increased by 11.04% or $25.19 million from fiscal year 2013 consensus (current law) revenues of $228.19 million. Transportation Fund receipts for fiscal year 2014 were slightly below the consensus revenue target of $255.10 million by 0.67%, primarily due to: Gasoline Tax receipts (1.56% below target); Diesel Tax receipts (0.21% below target); Motor Vehicle Purchase & Use (0.62% below target); Motor Vehicle Fees (0.35% below target); and Other Fees (0.99% above target). The Transportation Fund results, coupled with net transfers into the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $11.55 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2014 (unaudited) with non-property tax revenues of $177.02 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in an $8.24 million operating deficit (after transfers to/from other funds), primarily due to lower than expected revenues. The Education Fund Budget Stabilization Reserve ended fiscal year 2014 fully funded at the statutory maximum of 5% of net prior year appropriations ($30.34 million). In addition to the $30.34 million Education Fund Budget Stabilization Reserve, $9.99 million additional surplus remained unallocated and unreserved as of June 30, 2014.

Fiscal Year 2015 – Forecast and Results to Date

Forecast. The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 16, 2014, current law General Fund revenues in fiscal year 2014 were projected to be $1,396.7 million and in May 2014, the General Assembly passed a fiscal year 2015 budget consistent with this revenue forecast. On July 24, 2014, the Emergency Board met to consider the forecast and agreed to a revised General Fund consensus revenue forecast of $1,367.9 million for fiscal year 2015, which represented a $28.8 million decrease over the estimates made when the budget was prepared earlier in 2014. As a result of this revised revenue forecast, the Joint Fiscal Committee approved an appropriation rescission on August 13, 2014. See "Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" below. The decrease in the estimates in July 2014 was based on an updated national and State economic outlook. See "REVENUE ESTIMATES" below. The budget as passed for fiscal year 2015 may be found at http://www.leg.state.vt.us/DOCS/2014/ACTS/ACT179.PDF. See "Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" below.

On January 16, 2014, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $262.9 million for fiscal year 2015. On July 24, 2014, the Emergency Board agreed to a revised fiscal year 2015 consensus revenue forecast of $260.5 million, a $2.4 million decrease. This decrease was also based on updated national and State economic outlook.

On January 16, 2014, the Emergency Board agreed to an Education Fund consensus revenue forecast of $184.2 million for fiscal year 2015. On July 24, 2014, the Emergency Board agreed to a revised fiscal year 2015 consensus revenue forecast of $181.7 million, a $2.5 million decrease. This revised forecast was also based on the latest national and State economic outlook and technical re-specifications of the forecasting models for these revenue sources.

General, Transportation and Education Funds to Date. The following tables present revenue results for the components of each major fund, as compared to July 2014 monthly cash flow targets and fiscal year 2015 year-to-date consensus cash flow targets, which reflect the July 2014 consensus revenue forecast for fiscal year 2015. The tables show that, although there may be significant differences among individual components, the General Fund in aggregate tracked below expectations (2.7% below target) and the Transportation Fund and Education Fund each tracked slightly ahead of target (1.1% and 0.8% ahead of target, respectively) through October of fiscal year 2015. At this point, the differences between actual revenues and targets are at plus or minus 2.7% of the expected monthly consensus forecast amounts. Differences reflect sluggish Personal Income Tax receipts in the General Fund, which were partially offset by stronger than expected receipts in the General Fund's two principal consumption taxes—the Sales and Use Tax and the Meals and Rooms Tax (attributable in part to a strong Summer and Fall tourism season)—and stronger than expected receipts in the Corporate Income Tax. The forecast difference in the "Other Revenues" category of the General Fund is almost entirely attributable to lower than expected Estate Tax receipts through October. The Estate Tax is traditionally a volatile tax source. Revenue performance in the Transportation Fund reflects nearly across the board positive performances versus the respective consensus target in the non-fuel revenue sources and for the Diesel Tax. The Gasoline Tax continues to lag as gasoline consumption declines. Fiscal Year 2015 results through October in the Education Fund reflect a combination of positive receipts activity in the Sales and Use Tax and the Motor Vehicle Purchase and Use Tax, but lagging transfers of profits from the State lottery.

Fiscal Year 2015 General Fund Results to Date

	October 2014			Fiscal Year 2015 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Personal Income Tax	$62.88	$55.81	(11.24)	$234.64	$219.74	(6.35)
Sales and Use Tax	21.86	22.93	4.89	80.50	82.97	3.07
Corporate Income Tax	3.08	2.22	(27.71)	23.92	28.46	18.99
Meals and Rooms Tax	13.12	13.73	4.59	53.84	55.41	2.92
Property Transfer	1.03	1.23	19.50	4.22	4.35	2.97
Other Revenues	13.38	11.34	(15.22)	49.11	43.40	(11.64)
Total	$115.35	$107.26	(7.01)	$446.23	$434.32	(2.67)

[1] Official Revenue Estimates as of July 24, 2014.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.

Fiscal Year 2015 Transportation Fund Results to Date

	October 2014			Fiscal Year 2015 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Gasoline Tax[2]	$6.66	$7.21	8.34	$27.87	$27.29	(2.08)
Diesel Tax[2]	1.52	0.97	(36.51)	5.61	6.01	7.16
Purchase and Use Tax	5.68	6.37	12.00	21.96	22.71	3.43
Motor Vehicle Fees	6.63	6.92	4.34	26.28	26.68	1.51
Other Fee Revenues	1.69	1.53	(9.55)	6.44	6.45	0.26
Total[2]	$22.18	$22.99	3.65	$88.15	$89.14	1.12

[1] Official Revenue Estimates as of July 24, 2014.
[2] Excludes Transportation Infrastructure Bond revenues.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.

Fiscal Year 2015 Education Fund Results to Date*

	October 2014			Fiscal Year 2015 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Sales and Use Tax	$11.77	$12.35	4.89	$43.35	$44.68	3.07
Lottery	1.69	0.72	(57.23)	6.26	5.02	(19.82)
Motor Vehicle Purchase & Use Tax	2.84	3.18	12.00	10.98	11.35	3.43
Other Revenues[2]	0.02	0.00	NM	(0.02)	0.02	25.77
Total	$16.33	16.26	(0.44)	$60.60	$61.07	0.78

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of July 24, 2014.
[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 millions.
NM means Not Meaningful.

The State continues to monitor its revenues on a monthly basis, with the most recent update of the consensus revenue forecast occurring on July 24, 2014. The State updates revenue forecasts semiannually in January and June of the fiscal year. The next scheduled consensus revenue forecast will occur in January 2015.

Based on the revenue trends year-to-date, the State intends to continue close monitoring of its revenues, and it is possible that the Emergency Board will further decrease its General Fund consensus revenue forecast in January 2015. See "”Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" below.

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, 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.

As of June 30, 2012, the General Fund Budget Stabilization Reserve was $58.11 million. Other General Fund reserves included: $18.50 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, 2012 was $10.77 million. The Education Budget Stabilization Reserve was $29.84 million as of June 30, 2012 with an additional $17.75 million in Unreserved and Undesignated Fund Balance. For fiscal year 2012, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2012.

As of June 30, 2013, the General Fund Budget Stabilization Reserve was $62.50 million. Other General Fund reserves included: $11.93 million in the General Fund Balance Reserve (a.k.a. the "rainy day reserve"). The

Transportation Fund Budget Stabilization Reserve as of June 30, 2013 was $10.81 million. The Education Budget Stabilization Reserve was $29.26 million as of June 30, 2013 with an additional $36.95 million in Unreserved and Undesignated Fund Balance. For fiscal year 2013, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2013.

As of June 30, 2014, the General Fund Budget Stabilization Reserve was $66.16 million. Other General Fund reserves included: $5.00 million in the General Fund Balance Reserve (a.k.a. the "rainy day reserve"). The Transportation Fund Budget Stabilization Reserve as of June 30, 2014 was $11.55 million. The Education Budget Stabilization Reserve was $30.34 million as of June 30, 2014 with an additional $9.99 million in Unreserved and Undesignated Fund Balance. For fiscal year 2014, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2014.

General Fund Balance Reserve

Act No. 162 of the 2012 Legislative session established within the General Fund the General Fund Balance Reserve (a.k.a. the "rainy day reserve"), which replaced the Revenue Shortfall Reserve, effective July 1, 2012. After satisfying the funding requirements for the General Fund Budget Stabilization Reserve and after other statutory and/or reserve requirements have been met, any remaining unreserved and undesignated General Fund surplus at the end of the fiscal year shall be reserved in the General Fund Balance Reserve. Without legislative authorization, the balance in the General Fund Balance Reserve shall not exceed 5% of the appropriations from the General Fund for the prior fiscal year. Monies from this reserve shall be available for appropriation by the General Assembly. The $3.88 million deposited in the Revenue Shortfall Reserve as of June 30, 2012 was used for appropriations in fiscal year 2013. At the end of fiscal year 2013, $11.93 million was transferred and reserved in the General Fund Balance Reserve for use in subsequent fiscal years with legislative approval. At the end of fiscal year 2014, $5.00 million was transferred and reserved in the General Fund Balance Reserve for use in subsequent fiscal years with legislative approval.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2011 through 2014, and current law for fiscal year 2015, 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 2011 – 2015
($ in Millions)

	Actual FY2011	Actual FY2012	Actual FY2013	Actual FY2014[2]	As Passed FY2015[3]	Current Law FY2015[4]
Sources						
Current Law Revenues	$1,156.69	$1,196.97	$1,288.58	$1,316.70	$1,396.70	$1,367.90
Transfer from Higher Education Trust Fund	-	-	-	11.64	-	-
VEDA Debt Forgiveness	(0.38)	(0.04)	(0.29)	(0.70)	(0.05)	(0.05)
Direct Applications, Transfers in & Reversions	40.74	42.23	54.88	52.28	44.43	53.65
Other Bills and Tax Changes	8.12	-	-	-	1.56	0.87
Proceeds from the Sale of St. Albans Property	-	-	-	5.50	-	-
Additional Property Transfer Tax	7.48	4.61	1.60	2.81	5.07	3.28
Prior Year Reserves for Appropriation	15.20	-	-	11.93	5.00	5.00
Total Sources	**1,227.85**	**1,243.77**	**1,344.77**	**1,400.17**	**1,452.71**	**1,430.65**
Uses						
Base Appropriations	1,096.12	1,232.15	1,307.15	1,374.03	1,431.66	1,409.60
Contingent Base Appropriations	-	-	-	-	-	-
One-time Appropriations	37.06	11.33	21.21	12.14	8.34	8.34
Additional GF to Ed Fund - Act 68 2003	-	-	-	-	-	-
One-time Appropriations P/Y Surplus Reserve	18.25	5.15	(5.15)	-	-	-
Contingent One-time Appropriations from Same Year Surplus	10.60	-	-	-	-	-
Other Bills	0.25	1.41	0.02	0.01	-	-
Enhanced Federal Financial Participation	-	-	-	-	-	-
Federal Flexible Funding Replacement	-	-	-	-	-	-
Total Uses	**1,162.28**	**1,250.04**	**1,323.22**	**1,386.18**	**1,439.99**	**1,417.93**
Operating Surplus (deficit)	**65.57**	**(6.27)**	**21.55**	**13.99**	**12.71**	**12.71**
Transfers (to) / from Other Funds						
Transportation Fund	-	3.99	(4.37)	-	-	-
Tobacco Settlement	-	-	-	-	-	-
General Bond Fund	-	-	-	-	-	-
Internal Service Funds	(0.30)	(3.87)	(0.90)	(0.74)	(0.19)	(0.19)
Education Fund	(0.90)	-	-	-	-	-
Other Funds	(4.79)	(31.76)	(22.34)	(4.59)	(4.98)	(4.98)
Human Service Caseload Reserve	-	41.66	18.50	-	-	-
Total Transfers (to) / from Other Funds	(5.99)	10.01	(9.12)	(5.33)	(5.17)	(5.17)
Transfers (to) / from Reserves						
Budget Stabilization Reserve	2.94	(3.74)	(4.39)	(3.66)	(3.15)	(3.15)
Human Services Caseload Reserve	(60.10)	-	-	-	-	-
Reserved for transfer to Education Fund	-	-	-	-	-	-
Reserved for transfer to Debt Service[5]	1.46	-	-	-	-	-
Reserved in GF Surplus/Revenue Shortfall Reserve	(3.88)	-	(8.05)	(5.00)	(4.39)	(4.39)
Total Reserved in the GF	(59.58)	(3.74)	(12.44)	(8.66)	(7.54)	(7.54)
Total Transfers (to) / from Surplus	**(65.57)**	**6.27**	**(21.55)**	**(13.99)**	**(12.71)**	**(12.71)**
Unallocated Operating Surplus/ (Deficit)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GF Reserves (cumulative)						
Budget Stabilization Reserve	54.37	58.11	62.50	66.16	69.31	69.31
Human Services Caseload Reserve	60.17	18.50	-	-	-	-
Reserved in GF Surplus/Revenue Shortfall Reserve[6]	3.88	3.88	11.93	5.00	4.39	4.39
Total GF Reserve Balances	**$118.42**	**$80.50**	**$ 74.43**	**$ 71.16**	**$73.70**	**$73.70**

1 Results may not add due to rounding.
2 Preliminary; unaudited.
3 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 16, 2014 and appropriations effective July 1, 2014.
4 Reflects the revised consensus revenue forecast adopted by the Vermont Emergency Board on July 24, 2014, and adjusted for appropriation rescissions approved by the Legislature's Joint Fiscal Committee on August 13, 2014.
5 Represents bond issue premium that was previously reserved in the General Fund for use to make interest and principal payments to bondholders (pursuant to 32 V.S.A. 954(a)). Beginning in FY 2011, bond issue premiums were no longer reserved in the General Fund, but were directly deposited in the applicable debt service fund to pay debt service, in accordance with 32 VSA Sec 954(a), as amended by Section F.102 of Act 63 of 2011; and beginning in FY 2013, bond issue premiums are no longer required to be used to make interest and principal payments, but can be used towards any authorized purpose for which the related bonds were issued.
6 Effective July 1, 2012, this reserve was renamed the "General Fund Balance Reserve." See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – General Fund Balance Reserve" above.

Transportation Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2011 – 2015
($ in Millions)

	Actual FY 2011	Actual FY 2012	Actual FY 2013	Actual FY 2014[2]	As Passed FY 2015[3]	Current Law FY 2015[4]
Sources						
Current Law Revenues	$218.52	$221.71	$228.19	$253.38	$262.90	$260.50
Other Sources	0.03	0.15	3.05	0.04	0.65	0.65
Direct Applications & Reversions	-	3.42	0.56	1.79	-	2.54
Prior Year Unallocated Operating Surplus	-	0.90	-	-	-	-
Total Sources	**218.55**	**226.18**	**231.81**	**255.22**	**263.55**	**263.69**
Uses						
Base Appropriations	213.72	219.23	227.08	247.14	258.73	258.73
Budget Adjustments	(0.46)	-	1.07	3.55	-	-
Excess Receipts	-	-	2.71	-	-	-
Pay Act	-	-	3.40	1.91	2.00	2.00
One-time Appropriations	2.07	-	-	-	-	-
Total Uses	**215.33**	**219.23**	**234.26**	**252.60**	**260.73**	**260.73**
Operating Surplus (deficit)	**3.22**	**6.96**	**(2.45)**	**2.61**	**2.82**	**2.95**
Transfers (to) / from Other Funds:						
General Fund	-	(4.74)	4.37	-	-	-
Downtown Fund	(0.40)	(0.40)	(0.38)	(0.38)	(0.38)	(0.38)
Central Garage Fund	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)
Other Funds	(0.28)	-	-	-	-	-
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	(2.17)	(6.63)	2.50	(1.87)	(1.87)	(1.87)
Transfers (to) / from Reserves:						
Bond Insurance Premium Reserve	-	-	-	-	-	-
Budget Stabilization Reserve	(0.15)	(0.33)	(0.04)	(0.74)	(0.94)	(1.08)
Total Transfers (to) / from Reserves	(0.15)	(0.33)	(0.04)	(0.74)	(0.94)	(1.08)
Total Transfers (to) / From	**(2.32)**	**(6.96)**	**2.45**	**(2.61)**	**(2.82)**	**(2.95)**
Unallocated Operating Surplus / (deficit)	**0.90**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
TF Reserves (cumulative)						
Bond Insurance Premium Reserve	-	-	-	-	-	-
Budget Stabilization Reserve	10.44	10.77	10.81	11.55	11.55	11.55
Total TF Reserve Balances	**$10.44**	**$10.77**	**$10.81**	**$11.55**	**$11.55**	**$11.55**

1 Results may not add due to rounding.
2 Preliminary; unaudited.
3 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 16, 2014 and appropriations effective July 1, 2014.
4 Reflects the revised consensus revenue forecast adopted by the Vermont Emergency Board through July 14, 2014 and adjusted for appropriation rescissions approved by the Secretary of Administration and reported to the Legislature's Joint Fiscal Committee on September 5, 2014.

Education Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2011 – 2015
($ in Millions)

	Actual FY 2011	Actual FY 2012[2]	Actual FY 2013	Actual FY 2014[3]	As Passed FY 2015[4]	Current Law FY 2015[5]
Sources						
Net Homestead Education Tax	$366.20	$378.45	$400.88	$403.62	$421.70	$421.70
Non-Homestead Education Tax	551.03	535.24	531.53	570.96	595.20	595.20
General Fund Appropriation to Education Fund	234.74	276.24	282.32	288.92	295.82	295.82
Sales & Use Tax	108.54	113.94	115.59	123.78	128.60	126.78
Purchase & Use Tax	25.68	27.30	27.85	30.61	32.10	32.20
Lottery Transfer	21.42	22.33	22.94	22.57	23.40	22.60
Medicaid Transfer	-	7.86	6.90	6.38	6.20	6.20
Vermont Yankee Education Tax	2.14	2.31	-	-	-	-
Fund Interest	0.05	0.48	0.16	0.07	0.10	0.10
2012 Act 162 Sec. D.108	-	-	2.10	-	-	-
Solar Energy Property Tax & Other	-	-	-	0.17	-	-
Wind Property Tax	-	-	0.41	0.79	-	-
Supplemental Property Tax Relief	-	-	-	4.25	3.00	3.00
Net Continuing Appropriations[6]	-	1.53	13.27	1.36	-	-
Total Sources	**1,309.80**	**1,365.68**	**1,403.95**	**1,453.48**	**1,506.12**	**1,503.59**
Uses						
Education Payment	1,096.62	1,127.00	1,161.44	1,220.05	1,258.54	1,258.54
Special Education	136.63	147.21	150.05	162.29	173.29	173.29
State-Placed Students	13.98	14.32	15.43	15.73	16.90	16.90
Transportation	15.78	16.32	16.29	16.73	17.16	17.16
Technical Education	12.77	12.64	12.95	13.00	13.71	13.71
Small Schools	7.05	7.25	7.48	7.47	7.65	7.65
EEE Block Grant	5.53	5.71	5.80	5.99	6.30	6.30
Capital Debt	0.15	0.15	0.13	0.12	0.13	0.13
Adult Education & Literacy	5.02	4.50	4.18	5.49	5.80	5.80
Early Education Initiative	1.12	-	-	-	-	-
Renter Rebate (EF share only: 70%)	5.80	5.80	5.68	6.53	6.23	6.23
Reappraisal, Listing Payment, & Accounting Fees	3.97	4.37	4.18	4.32	4.44	4.44
Corrections Education	-	4.18	4.30	4.01	3.80	3.80
Total Uses	**1,304.42**	**1,349.45**	**1,387.90**	**1,461.72**	**1,513.94**	**1,513.94**
Operating Surplus/(Deficit)	**5.38**	**16.23**	**16.05**	**(8.24)**	**(7.83)**	**(10.35)**
Transfers (to) / from Reserves						
Budget Stabilization Reserve	(0.44)	0.44	0.58	(1.08)	(0.53)	(0.53)
Unreserved/Unallocated	(1.56)	13.87	(1.57)	9.31	8.36	9.82
Total Transfers (to) / from Reserves	**(2.00)**	**14.31**	**(0.99)**	**8.23**	**7.83**	**10.35**
Unallocated Operating Surplus / Deficit	**3.38**	**30.54**	**15.06**	**0.00**	**0.00**	**0.00**
EF Reserves						
Budget Stabilization Reserve	30.29	29.84	29.26	30.34	29.80	29.80
Cumulative Prior Year Appropriation Surplus/(Deficit)	15.40	15.85	17.64	-	-	-
Prior Year Unallocated/Unreserved	3.43	17.75	19.32	9.99	1.63	0.17
Total EF Reserve Balance	**$49.12**	**$63.44**	**$66.22**	**$40.32**	**$31.43**	**$29.97**

[1] Results may not add due to rounding.
[2] FY 2012 revenues exceeded forecasts and grant based expenditures were lower than expected, resulting in the higher than typical total Education Fund Reserve Fund balance of $63.44 million.
[3] Preliminary; unaudited.
[4] Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 16, 2014 and appropriations effective July 1, 2014.
[5] Reflects the revised consensus revenue forecast adopted by the Vermont Emergency Board through July 24, 2014.
[6] Appropriation Surplus minus Prior Year Reversions.

Fiscal Year 2015 Budget, Budget Rescission and Other Reductions

The General Fund consensus revenue forecast upon which the fiscal 2015 General Fund budget was based was $1,396.70 million, plus $0.69 million in estimated proposed revenue tax changes. In addition to the consensus revenue forecast, the fiscal 2015 General Fund budget includes $50.32 million in revenue enhancement, primarily in the form of direct applications from special funds and prior year General Fund reversions. The fiscal 2015 General Fund budget, as passed, provides for total appropriations of $1,439.99 million and projects a fully funded budget stabilization reserve of $69.31 million and an ending balance in the General Fund Balance Reserve of $4.39 million.

In July 2014, the Emergency Board decreased the General Fund consensus revenue forecast by $28.80 million, a decrease of 2.06%. The July estimate, which incorporated revised tax change estimates, resulted in an effective current law revenue downgrade of $31.28 million or 2.24%. Because the decrease in revenue forecast was greater than 1% from the estimates determined and assumed for purposes of the fiscal 2015 General Fund budget, as passed, in accordance with State law (32 V.S.A. §704(b)(1)), the Secretary of Administration prepared and submitted a General Fund rescission plan to the Joint Fiscal Committee that was accepted with minor adjustments on August 13, 2014. The rescission package includes the use of additional revenues and General Fund reversions ($9.22 million) and appropriation reductions ($22.06 million), and results in a current projected surplus of $12.71 million in the General Fund. Of these adjustments, approximately 48% were base in nature (i.e., not one-time adjustments). The rescission plan does not call for the use of any funds from the General Fund Budget Stabilization Reserve or the General Fund Balance Reserve.

The State continues to monitor the fiscal 2015 General Fund budget, as revised, in light of the lower than forecast revenues received year-to-date (see "Fiscal Year 2015 – Forecast and Results to Date" above) and additional spending pressures, in particular as a result of increased human services caseloads, increased year-over-year health care premiums (currently projected to be $10.6 million over the current fiscal year 2015 budget due to premium increases that will be effective January 1, 2015) and costs related to the Vermont Health Connect exchange (see "MAJOR GOVERNMENTAL PROGRAMS AND SERVICES – State Health Care Reform" herein). The Governor and/or Legislature may propose funding alternatives or additional appropriation reductions as part of the fiscal 2015 budget adjustment. The State cannot predict the timing or magnitude of any further changes in General Fund appropriations for fiscal year 2015.

The fiscal year 2015 Transportation Fund budget was based on a Transportation Fund non-dedicated consensus revenue estimate of $262.90 million plus fiscal year 2015 anticipated one-time revenue of $0.65 million due to a property sale. The fiscal year 2015 budget, as passed, provides for total appropriations of $260.73 million and a fully funded Budget Stabilization reserve. In July 2014, the Emergency Board approved a revised consensus revenue forecast of $260.50 million, thereby resulting in a net revenue reduction of $2.40 million or (0.91%) for fiscal year 2015. Under State law (32 V.S.A. §704 (b)(2)), if a net consensus revenue reduction is less than 1%, the Secretary of Administration may prepare and implement an expenditure reduction plan without the approval of the Joint Fiscal Committee, subject to certain limitations, provided the plan is filed with the Joint Fiscal Committee prior to implementation. Accordingly, a rescission plan in the amount of $2.54 million was filed with the Joint Fiscal Committee in September 2014 and implemented shortly thereafter. These appropriation reductions are imposed until such time as the Legislature convenes and may consider additional action and/or alternatives. The Governor and/or the Legislature may propose funding alternatives as part of the fiscal 2015 budget adjustment. The State cannot predict the timing or magnitude of any further changes in Transportation Fund appropriations for fiscal year 2015.

The January 2014 Education Fund consensus revenue forecast for non-property tax receipts for fiscal year 2015 was $184.2 million. The fiscal year 2015 budget, as passed, provides for a current year operating deficit of $7.83 million, which assumes the use of $8.36 million of the $9.99 million cumulative prior years' unallocated/unreserved balance. After adjusting the Budget Stabilization Reserve as necessary, the remaining unallocated/unreserved balance is expected to be sufficient to cover the $7.83 million operating deficit. In July 2014, the Emergency Board approved a revised consensus revenue forecast of $181.7 million, a reduction of $2.50 million.

State Dependence on Federal Funds

The State's fiscal year 2015 budget, as passed, for all funding sources is $5,592.16 million, of which $1,971.76 million (35.26%) is assumed to come from federal funds. Of the remaining $3,620.41 million in State funds, $1,439.99 million represents General Fund revenues. The State's major reserve funds are currently fully funded 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. However, the Low Income Home Energy Assistance Program (LIHEAP), typically a 100% federally funded program, experienced federal cuts that impacted fiscal years 2012 and 2013. For fiscal year 2014, the Vermont program received $19.2 million in federal grants, almost $1.0 million more than the amount received for fiscal year 2013, but still below historical federal funding levels. The State expects level federal funding for fiscal year 2015. Due to the overall federal LIHEAP reductions over the past three fiscal years, the State has been supplementing the funding for this program since fiscal year 2012. To supplement the reduced federal funds in fiscal year 2014, the State used $6.0 million in base General Funds that were built into the budget for LIHEAP, $2.1 million in one-time State General Funds and $0.35 million in settlement funds. For fiscal year 2015, $6.0 million in base General Funds has been built into the budget for LIHEAP. The State believes this to be sufficient supplemental funding for the LIHEAP program for fiscal year 2015, but will continue to analyze whether additional funds or structural program changes need to be made in the future.

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 2015 and 2016 was completed in July 2014 and was approved by the Emergency Board on July 24, 2014 (the "July 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 July Forecast incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the State's participation in the New England Economic Partnership (NEEP) and data supplied by Moody's Analytics—a nationally recognized macroeconomic forecasting firm in West Chester, Pennsylvania. 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 July Forecast, that are available for General Fund appropriations in fiscal years 2015 and 2016. Such estimates reflect anticipated increases or decreases in collections in each revenue aggregate and the allocation of such collections between the General Fund and the Education Fund pursuant to Act 68. The July Forecast is a current law forecast as of July 24, 2014, and includes all revenue changes as passed by the 2014 Vermont General Assembly.

<u>Personal Income Tax</u>: The July Forecast for the Personal Income Tax for fiscal years 2015 and 2016 reflects a consensus assessment for the continued historically slow-paced economic and labor market recovery over

the initial part of the two-year forecast period. Over the forecast time horizon, Personal Income Tax receipts are expected to show moderate improvement through fiscal year 2016 due to: (1) the continuation of the State's labor market recovery and tightening labor markets as evidenced by a continued low rate of unemployment, (2) the expected recovery in real estate and construction activity, in conjunction with the continuing recovery in the national and New England regional economies, and (3) an expected leveling in the rate of business profits growth as companies in Vermont, regionally, and nationally increase their hiring activity. The July Forecast includes revenue receipts of $716.4 million for fiscal 2015, reflecting a 6.8% increase as compared to actual fiscal 2014 receipts, and $756.2 million for fiscal 2016, reflecting a 5.6% annual increase as compared to forecasted fiscal 2015 receipts. This represents a continuation of the restrained recovery the State has been experiencing since 2011, following the two-year, 20.0% decline in receipts during the fiscal year 2008–10 time period. Relative to the January 2014 consensus revenue forecast, the July Forecast represents a 0.3 percentage point increase in the year-over-year revenue growth rate for fiscal year 2015. For fiscal year 2016, the July Forecast represents a 0.9 percentage point increase in the year-over-year growth rate relative to the January 2014 consensus revenue forecast.

Sales and Use Tax: The July Forecast for the Sales and Use Tax for fiscal 2015 and fiscal 2016 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 2015 and 2016 time frame. The forecast expects that Vermont resident consumers and many of the State's visitors (tourists) will continue to be careful with their expenditures as the national and State labor market recovery continues to be sluggish. This period of continued sluggishness will at least be partially off-set by continued strong levels of Canadian visitor activity in the State and gradually improving national and State labor market conditions. As the current fiscal drag from the federal government fiscal cutbacks subsides, the solidifying of the labor market recovery and a turnaround in real estate markets will help to increase disposable income. The July Forecast for fiscal 2015 includes a 2.4% year-over-year increase to $235.4 million, and a 2.8% increase in Sales and Use Tax revenues for fiscal year 2016, as compared to forecasted fiscal year 2015 receipts. Relative to the January 2014 consensus revenue forecast, the July Forecast represents a 0.7 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2015. For fiscal year 2016, the July Forecast represents a 0.1 percentage point decrease in the year-over-year growth rate relative to the January 2014 consensus revenue forecast.

Corporate Income Tax: The July Forecast for Corporate Income Tax receipts in fiscal year 2014 and fiscal year 2015 includes the expectation of a slowdown in the rate of increase in corporate profits as the solidifying labor market recovery results in rising personnel costs. Overall, the Corporate Tax component is conservatively expected to decline on a year-over-year basis for both fiscal years during the two year, consensus forecast period—following the rebound in fiscal year 2013 from the 4.2% decline experienced in fiscal year 2012 and a flat performance in fiscal 2014. The July Forecast for fiscal year 2015 is for a decline in receipts of 5.2% year-over-year, following the double-digit increase in fiscal year 2013 and little change in 2014; fiscal year 2016 includes a continued year-over-year decrease in overall Corporate Income Tax of 3.3%. For fiscal year 2015, the July Forecast for Corporate Income Tax revenues totals $89.9 million. Fiscal year 2016 receipts are forecasted to be $86.9 million. Relative to the January 2014 consensus revenue forecast, the July Forecast represents a 9.0 percentage point decrease in the year-over-year rate of revenue change for fiscal year 2015. For fiscal year 2015, the July Forecast represents a 1.0 percentage point decrease in the year-over-year growth rate relative to the January 2014 consensus revenue forecast.

Meals and Rooms Tax: The July Forecast reflects a normalization of tourism activity over the next two years as the U.S., New England and Vermont economies continue their recovery, along with continued favorable levels of Canadian visitor traffic. The July Forecast includes a total of $146.9 million in Meals and Rooms Tax revenues for fiscal year 2015, representing a 2.9% increase on a year-over-year basis from fiscal year 2014. The July Forecast for fiscal year 2016 calls for a total of $151.5 million in Meals and Rooms Tax revenues, corresponding to an increase of 3.1% versus forecasted receipts for fiscal year 2015. Relative to the January 2014 consensus revenue forecast, the July Forecast represents a 1.0 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2015. For fiscal year 2016, the July Forecast represents a 0.1 percentage point decrease in the year-over-year growth rate relative to the January 2014 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 July 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 July 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 year 2013 and fiscal year 2014, and the projected General Fund revenue collections for fiscal year 2015 and fiscal year 2016 per the July Forecast.

Sources (Available to the General Fund)	Actual Fiscal 2013	Actual Fiscal 2014[1]	Forecast Fiscal 2015	Forecast Fiscal 2016	Percentage Change 2014–2015
Personal Income Taxes	$660,647,911	$671,090,413	$716,400,000	$756,200,000	6.8%
Sales and Use Taxes	231,175,242	229,881,930	235,430,000	242,125,000	2.4
Corporate Taxes	94,951,092	94,846,629	89,900,000	86,900,000	(5.2)
Meals and Rooms Taxes	134,790,908	142,741,758	146,900,000	151,500,000	2.9
Other Taxes	133,473,294	161,784,462	142,726,240	142,907,080	(8.1)
Total Taxes	$1,255,038,447	$1,300,345,192	$1,337,356,240	$1,379,632,080	2.8
Other Revenues	33,545,185	28,044,844	30,500,000	32,100,000	8.8
Total General Fund	$1,288,583,662	$1,328,390,036	$1,367,856,240	$1,411,732,080	3.0%

[1] Fiscal year 2014 data are unaudited receipts totals.
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 2012 through fiscal 2014 (preliminary actual) and forecasted revenues for fiscal 2015 and fiscal 2016:

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

COMPONENT	Actual 2012	Percent Change	Actual 2013	Percent Change	Actual 2014[1]	Percent Change	Forecast 2015[2]	Percent Change	Forecast 2016[2]	Percent Change
TAXES:										
Personal Income	$597.0	7.9%	$660.6	10.7%	$671.1	1.6%	$716.4	6.8%	$756.2	5.6%
Sales and Use	227.9	5.0	231.2	1.4	229.9	(0.6)	235.4	2.4	242.1	2.8
Corporate	85.9	(4.2)	95.0	10.5	94.8	(0.1)	89.9	(5.2)	86.9	(3.3)
Meals and Rooms	126.9	3.5	134.8	6.2	142.7	5.9	146.9	2.9	151.5	3.1
Liquor	16.4	7.0	17.0	3.4	17.7	4.0	18.3	3.6	18.9	3.3
Insurance	56.3	2.5	55.0	(2.3)	57.1	3.7	57.4	0.6	57.8	0.7
Total Telephone Tax	9.6	(15.3)	9.4	(2.6)	9.1	(2.9)	9.0	(1.2)	8.9	(1.1)
Beverage	6.0	3.3	6.2	3.3	6.4	3.6	6.6	3.2	6.8	3.0
Electrical Energy	2.9	0.3	8.9	204.5	13.1	46.9	9.1	(30.9)	0.0	NM
Estate	13.3	(46.4)	15.4	15.4	35.5	131.0	24.2	(31.9)	25.4	5.0
Property Transfer	7.9	(6.1)	9.2	16.5	10.0	9.3	10.9	8.6	11.7	7.7
Bank Franchise	10.7	(30.9)	10.7	0.2	11.0	2.7	11.1	1.2	11.0	(0.9)
Other Taxes	1.2	(66.7)	1.8	42.9	1.9	9.7	2.2	13.5	2.4	9.1
TOTAL TAXES:	$1,162.1	3.3	$1,255.0	8.0%	$1,300.3	3.6%	$1,337.4	2.8%	$1,379.6	3.2%
OTHER REVENUES:										
Business Licenses	$3.0	3.4%	$2.8	(8.0)%	$1.1	(61.4)%	$1.1	1.7%	$1.2	4.5%
Fees	20.9	2.1	21.4	2.2	20.6	(3.4)	21.2	2.7	21.8	2.8
Services	2.3	105.8	2.5	8.3	1.3	(47.3)	1.5	12.9	1.6	3.3
Fines, Forfeits	7.4	28.7	4.7	(35.9)	3.6	(24.2)	5.1	42.7	5.5	7.8
Interest, Premiums	0.4	36.3	0.5	20.5	0.2	(66.6)	0.5	218.8	0.9	80.0
Special Assessments	0.0	NM	0.0	NM	0.0	NM	0.0	NM	0.0	NM
Other	0.9	19.7	1.7	86.8	1.3	(24.0)	1.1	(13.3)	1.2	9.1
TOTAL OTHER	$34.9	11.6%	$33.5	(3.9)%	$28.0	(16.4)%	$30.5	8.8%	$32.1	5.2%
TOTAL GENERAL FUND	$1,197.0	3.5%	$1,288.6	7.7%	$1,328.4	3.1%	$1,367.9	3.0%	$1,411.7	3.2%

NM means Not Meaningful.

1 2014 data are actual, unaudited receipts totals.

2 Based on July Forecast.

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

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, 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 promotes the health and well-being of Vermonters in coordination with community organizations, providing statewide mental health services for children, families, adults and the elderly. These services include psychiatry, case management, employment, crisis and residential care. The Department also works in collaboration with advocacy and consumer organizations to ensure that educational, support and peer-directed services occur statewide.

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, State-only funded programs, federal-only funded programs and Vermont Health Connect.

The sources of Agency of Human Services' appropriations for fiscal years 2013, 2014 and 2015 are as follows:

	Fiscal 2013 Appropriations	Fiscal 2014 Appropriations	As Passed Fiscal 2015 Appropriations	Current Law Fiscal 2015 Appropriations[4]
General Fund	$578,827,411	$606,770,937	$647,401,549	$630,914,940
Federal Funds[1]	1,122,370,855	1,207,610,475	1,291,973,622	1,278,046,203
Tobacco Settlement	34,615,257	40,046,431	37,103,341	37,103,341
Special Funds[2]	352,851,852	357,398,522	362,950,330	362,950,330
Education Funds[3]	4,337,051	3,929,242	3,804,425	3,804,425
Other Funds	10,000	25,000	25,000	25,000
Total	$ 2,093,012,426	$ 2,215,780,607	$2,343,258,267	$2,312,844,239

1 Federal Funds includes ARRA funds.
2 Special Funds includes State Health Care Resources Fund and other AHS special funds.
3 Represents appropriation from Education Fund to cover Department of Corrections High School of Vermont, which was previously funded with General Funds.
4 Reflects the August 2014 budget rescission. See "Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" above.

Medicaid and State Health Insurance Initiatives

Medicaid

Vermont has two major Medicaid demonstration waivers: the Global Commitment to Health ("Global Commitment") demonstration waiver and the Choices for Care demonstration waiver. The Global Commitment demonstration waiver became effective October 1, 2006 and extends to December 31, 2016. 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 is $13.20 billion for the waiver term. The aggregate spending limit is based upon actuarially-certified Per Member Per Month (PMPM) rate ranges, but access to federal matching funds are based on actual program expenditures. This aggregate spending limit applies to all Medicaid services with the exception of long-term care services (which are managed under the Choices for Care demonstration waiver), Disproportionate Share Hospital (DSH) Payments and the state Children's Health Insurance Program (CHIP). Vermont is financially at risk for managing costs within the limit, but benefits from the flexibility to use Medicaid funds in non-traditional methods. Under Global Commitment, the Vermont Agency of Human Services (AHS) contracts with the Department of Vermont Health Access (DVHA) to operate as a managed care model. The Global Commitment demonstration waiver encompasses the traditional mandatory and optional Medicaid populations. There remains a relatively small continuing non-Medicaid pharmacy program under this demonstration waiver. In addition, the State remains subject to the Medicare Part D "clawback," which requires states that had covered pharmacy costs through Medicaid prior to the passage of Medicare Part D to financially contribute to fund Medicare Part D.

The Choices for Care waiver, approved through September 30, 2015, 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 to the Choices for Care population.

Working with CMS, the State currently expects to consolidate the Choices for Care waiver and the Children's Health Insurance Program (CHIP) into the Global Commitment demonstration waiver by the end of State fiscal year 2015.

State Health Care Reform

Overview

Federal health care reform enacted in the Patient Protection and Affordable Care Act ("ACA") has impacted Vermont's Medicaid program and Global Commitment waiver by shifting the source of coverage for many

Vermonters. In part as a result of the passage of the ACA, in 2011, the Legislature passed Act 48 of 2011 ("Act 48"). Act 48 put Vermont on the path to a unified and universal health care system, including providing for the creation of (i) the Green Mountain Care Board ("GMCB") to address health care costs, and (ii) a state-based health benefits exchange, Vermont Health Benefit Exchange (a.k.a. Vermont Health Connect) ("VHC"), in compliance with the ACA. In addition, Act 48 set forth the broad outlines of Green Mountain Care ("GMC"), the Governor's vision for a universal health care coverage system based on Vermont residency.

Green Mountain Care Board

Act 48 created the independent Green Mountain Care Board, which is charged with working to improve the health of Vermonters, overseeing the creation of a new health delivery system designed to improve quality while reducing the rate of growth in costs, regulating hospital budgets and capital expenditures, and approving health insurance plans and rates. The Board was appointed and began work on October 1, 2011.

Vermont Health Connect (VHC)

The creation of a state-based health benefits exchange, such as Vermont Health Connect (VHC), is a requirement of the ACA. Act 48 authorized VHC and provides a framework for its goals, functions and governance structure. VHC was established as a division of the Department of Vermont Health Access to build on existing State healthcare infrastructure and avoid duplication of expense. VHC is a virtual marketplace through which Vermonters can access, compare and select health plans, and it is also the vehicle through which Vermonters can access federal tax credits, State premium reduction and cost sharing subsidies made available through the ACA. VHC began enrolling individuals through its website on October 1, 2013 for coverage beginning January 1, 2014 and worked with health insurers to enroll small businesses directly into VHC insurance plans for coverage beginning in calendar year 2014.

In calendar year 2014, VHC has experienced technical challenges with some aspects of its website, in particular the processing of certain change requests, such as marriage, divorce and name changes. In response, the State has taken steps to ensure appropriate manual processes, to strengthen internal management and to move to a new contractor for the remaining development work needed. The State is currently preparing for plan renewals for calendar year 2015. Despite these technical challenges, the State has had the highest per capita enrollment of any state-based exchange. As of October 1, 2014, over 170,000 Vermonters (approximately 30% of the population) enrolled in VHC health plans either through the marketplace or directly through an insurance carrier. The majority of Vermont's marketplace customers are found eligible for Medicaid or financial help to lower the cost of coverage. Enrollments continue to rise, even outside of the open enrollment period, and the State maintains a low uninsured rate (2nd lowest in the nation according to the Kaiser Family Foundation).

Through the end of calendar year 2014, all of the costs associated with VHC including (i) design, development and implementation costs and (ii) maintenance and operations, have been and will be funded by the federal government through a combination of direct federal funding and grants. Through September 30, 2014, the State had received a $1.0 million planning grant and $171.6 million in implementation grants from the Center of Consumer Information and Insurance Oversight (CCIIO), U.S. Department of Health and Human Services to develop and staff VHC. These grants will continue to provide funds to cover design and development, as well as operations and information technology development, staff training, and staff and contractor salaries through the end of calendar year 2014. Commencing January 1, 2015, the State will become responsible for funding 100% of the operations and maintenance of VHC and 10% of certain remaining design and development costs, with the remaining 90% of design and development costs being federally funded through CMS. The State expects to fund its share of the costs through a combination of State appropriations, Medicaid funds and additional federal grants.

Based on then-current expectations regarding the total cost of operations of VHC and the expected amount of federal funding to cover certain portions of those costs, in the fiscal year 2015 appropriations act, the Legislature appropriated $5.3 million from State funds and $10.5 million from Medicaid to fund VHC operations from January 2015 through the end of fiscal year 2015. It is currently unclear whether these appropriated amounts will be sufficient to cover the State's share of total maintenance and operating costs through the end of fiscal year 2015. To the extent such amounts prove insufficient, the State expects to cover the additional costs through additional legislative appropriations and/or savings generated from fiscal year 2015 budget adjustments.

The State is also currently evaluating the total cost of operating and maintaining VHC annually from and after June 30, 2015. There remain many uncertainties around the actual costs of operating and maintaining VHC going forward. Further, the State cannot predict whether the current level of federal funding for VHC will continue to be available in the future, or whether additional federal grant monies will be made available to the State for any portion of those costs. Accordingly, the State's share of the costs of VHC could be substantially higher than what was originally budgeted for fiscal year 2015 and beyond. The State continues to evaluate the costs associated with VHC and potential State and federal funding sources to finance those costs.

The State previously covered many individuals through Medicaid, Catamount Health and Medicaid expansion programs under Global Commitment. As of January 1, 2014, these individuals with incomes above 133% of the federal poverty level (FPL) accessed coverage through VHC. The ACA provided federal premium tax credits and cost-sharing subsidies to low and middle-income individuals enrolled in VHC in fiscal year 2014. In addition, in an effort to maintain the State's current affordability standards, the State offers additional financial assistance to Vermonters enrolled via VHC with incomes below 300% of the FPL to ensure that premiums are affordable and to Vermonters enrolled via VHC with incomes below 250% FPL to ensure affordable deductibles and out-of-pocket maximums. The cost of this additional financial assistance for fiscal year 2014 (representing a partial year of operations) was $2.9 million, of which $1.8 million was financed from General Fund revenues. On a going forward basis, the cost of this additional financial assistance is expected to be approximately $22.0 million annually, with approximately $9.7 million to come from General Fund revenues each year. The State continues to evaluate how it will fund the remaining costs of these measures on an ongoing basis, but currently expects to fund such costs through a mix of savings generated from the migration of individuals from the Vermont Health Access Plan and Catamount Health to qualified health plans, additional State appropriations, Medicaid funds and federal grants. The ACA did not have any additional State fiscal impact in fiscal years 2014 or 2015, and the State is currently evaluating the impact on future fiscal years.

Green Mountain Care (GMC)

The implementation of VHC was federally-mandated by the ACA; however, the State plans to implement universal health care coverage for all Vermont residents, with a current target date of calendar year 2017. Specifically, Act 48 created Green Mountain Care (GMC), a universal and 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.

As required under Act 48, the Administration delivered a report to the legislature in January 2013 relating to the costs and potential funding sources for GMC upon implementation in calendar year 2017 (the "2017 Plan"). A copy of the 2017 Plan can be found at:

http://hcr.vermont.gov/sites/hcr/files/2013/Health%20Care%20Reform%20Financing%20Plan_typos%26formatting%20corrected_012913.pdf

The 2017 Plan was developed with health policy experts from the University of Massachusetts Medical Center for Health Law and Economics and the actuarial firm Wakely Consulting, who conducted analyses of health care coverage and costs under multiple future scenarios. The report found that health care costs were rising at an unsustainable rate and the current distribution of health care costs in Vermont was inequitable, but that GMC provides the opportunity to provide better coverage for Vermonters and save money for Vermonters while still meeting or exceeding the health benefits required by the ACA. Specifically, the report found that GMC presents an opportunity to save the State an estimated $281 million over the first three years after its implementation, even with enhancements to coverage, elimination of the uninsured and a reduction in out of pocket costs for Vermonters.

The 2017 Plan estimated that the total cost of health care services for all Vermonters in calendar year 2017 would be $5.916 billion (including administrative costs, but excluding out of pocket costs), which amount includes an estimated $3.5 billion in costs for GMC (based on the basic single payer model, and excluding administrative costs). As set forth in the table below, the estimated sources of funding for the unified system include federal contributions via Medicare, Medicaid, monies drawn dawn via a waiver from the ACA and other federal programs; State tax support via traditional Medicaid; new State taxes that replace private insurance premiums; and premiums paid by individuals and employers who opt to continue insurance outside GMC. The new State taxes are listed as "amount to be publicly financed."

Total Statewide Healthcare Cost & Revenue Estimates
Calendar Year 2017
($ in Millions)

System Costs	
Statewide (Non-GMC)[1]	$2,155
GMC (Excluding Administrative Costs)	3,498
GMC Administrative Costs	263
Total Costs	**$5,916**
Revenue Sources	
Federal: Medicare	$1,613
Federal: Medicaid Match	1,247
Federal: ACA	267
Federal: Other	209
Assumed Level of State Medicaid Funding	637
Individuals and Employers (Non-GMC)	332
Amount to be Publicly Financed[2]	1,611
Total Revenue	**$5,916**

1 Represents health care costs associated with individuals that remain enrolled in employer-sponsored health insurance or who receive insurance or care primarily from another source, such as the VA.
2 Amount expected to be funded with new State taxes.

Source: State of Vermont Health Care Financing Plan beginning Calendar Year 2017 Analysis, dated January 24, 2013, prepared by University of Massachusetts Medical School Center for Health Law and Economics and Wakely Consulting.

The Administration did additional analysis, in conjunction with the Legislative Joint Fiscal Office to review other potential cost changes due to implementation of GMC. This analysis led to a consensus cost analysis adopted in February 2014. The analysis found that the system required additional resources for operations, reserves or reinsurance to properly manage risk and to backfill State Medicaid revenue sources that may not continue under GMC. These systems improvements created a consensus cost range for public financing of $1.766 billion to $2.175 billion for calendar year 2017.

The Administration is currently updating the cost estimates and developing specific financing plans to be presented during the 2015 legislative session and is working collaboratively with legislative leaders and staff to ensure a rigorous process to evaluate GMC financing proposals for implementation. In addition, the Administration is developing benefit plan options for public consideration and review by the GMCB early in calendar year 2015. The Administration continues to be assisted by the University of Massachusetts Medical School Center for Health Law and Economics and Wakely Consulting in connection with this work. Additionally, the State contracted with Dr. Jonathan Gruber of the Massachusetts Institute of Technology to better understand the economic impact of its proposed financing and coverage plans.

Act 48 requires that the GMCB ensure that certain triggers are met before GMC is implemented, including that the State receives a waiver from the ACA. Under current federal law, ACA waivers are not available until 2017, so the State's current target date for implementation of Green Mountain Care for all Vermonters is calendar year 2017. Other triggers that must be met before GMC is implemented include: (i) enactment of legislation establishing the financing for GMC, (ii) enactment of appropriations for the initial GMC benefit package, and (iii) a determination by the GMCB that, (a) each Vermont resident covered by GMC will receive benefits with an actuarial value of 80% or greater, (b) when implemented, GMC will not have a negative aggregate impact on the State's economy, (c) the financing for GMC is sustainable, (d) administrative expenses will be reduced, (e) cost-containment efforts will result in a reduction in the rate of growth in the State's per-capita health care spending, and (f) health care professionals will be reimbursed at levels sufficient to allow the State to recruit and retain high-quality health care professionals.

The State continues to work through the complex task of establishing this unified single-payer health care system, and no assurance can be given as to how the system will ultimately be structured, or what the actual costs and revenues available to pay such costs will be, or whether GMC will be implemented in accordance with the timetable set forth above.

Recent Developments

On September 15, 2014, the State decided to temporarily shut down the VHC website in order to address possible security weaknesses after consultation with CMS. CMS's quarterly evaluation of the State's plan of action and milestones identified a significant number of open high security findings and/or open moderate findings, which the State has been addressing. The temporary shutdown also allows the State and its contractor additional time to work on the website and continue to add upgrades to the portal. The State chose to shut down at that time because of the security findings and because the volume on the website is currently low. While the consumer web portal is down, the back end system is working normally and the State has been able to provide all services through the call center without significant impact on citizens. The State expects to have the site up prior to the start of open enrollment on November 15, 2014.

Other Federal Financial Support for Health Care Initiatives

Federal financial support continues to flow toward Vermont's other state-specific health care efforts. In particular, the State received a $45 million State Innovation Model grant from the Center for Medicare and Medicaid Innovation (CMMI) to assist in implementation of delivery system reform and to test three new payment models. The grant began October 1, 2013 and lasts for 36 months, enabling a robust partnership between government, health care providers, health insurers and other interested parties.

Aid to Municipalities

Significant portions of Vermont's budget are used to support the cities, towns and school districts. In fiscal year 2014, the General Fund transfer to the Education Fund for support of K-12 schools was $288.9 million, including contingent funding. Additionally, the State contributed $71.9 million to the State Teachers' Retirement System and $0.9 million was spent from the Education Fund to pay State financial system charges. Total Education Fund appropriated expenditures were $1.47 billion in fiscal year 2014 and are expected to be $1.51 billion in fiscal year 2015. 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, $13.4 million in General Funds was distributed to towns to reimburse taxes reduced for land conservation and management programs. In fiscal year 2015, the General Fund transfer to the Education Fund is expected to be $295.8 million; the State expects to contribute $72.9 million to the State Teachers Retirement System and $1.2 million will be spent from the Education Fund to pay State financial system charges.

In fiscal year 2014, $62.0 million was appropriated to town highway programs (excluding appropriations for FHWA Emergency Relief to town highways, FEMA Public Assistance Grants and State match for FEMA grants through the Emergency Relief and Assistance Fund[1]), funded with $44.0 million in State funds, an additional $2.2 million in State funds appropriated as match for federal FEMA funds, $14.8 million in federal funds (excluding an additional $30.2 million for federal disaster assistance[1]) and $1.0 million in local funds. For fiscal year 2015, $62.4 million was appropriated to town highway programs (excluding appropriations for FHWA Emergency Relief to town highways and FEMA Public Assistance Grants[1]), funded with $43.9 million in State funds, an additional $3.6 million in State funds appropriated as match for federal FEMA funds, $13.7 million in federal funds (excluding an additional $46.3 million for federal disaster assistance[1]) and $1.2 million in local funds.

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[1] These appropriations included disaster funding for Tropical Storm Irene and other federally declared disasters, mostly for town highways but also for town public buildings, schools and non-profits, consisting of (i) $27.0 million from FEMA, $3.2 million from FHWA Emergency Relief for town highway portions of the federal aid system and $2.2 million from the State's ERAF in fiscal year 2014 and (ii) $45.0 million from FEMA, $1.3 million from FHWA Emergency Relief for town highway portions of the federal aid system and $3.6 million from ERAF in fiscal year 2015. These appropriations are excluded because it is the State's usual practice not to appropriate disaster aid; it was appropriated in fiscal years 2013, 2014 and 2015 because of the magnitude of the damage from Tropical Storm Irene in August 2011.

	Fiscal 2013 Appropriations	Fiscal 2014 Appropriations	As Passed/Current Law Fiscal 2015 Appropriations*
State Aid to Local School Districts	$1,161,350,000	$1,223,114,508	$1,258,535,630
Special Education Aid to Local Districts	155,177,546	163,454,037	173,292,153
Vermont State Teachers' Retirement System Contributions	64,932,755	71,783,200	72,857,163
Town Highway Grants	43,871,849	43,326,101	43,919,968
Total	$1,425,332,150	$1,501,677,846	$1,548,604,914

* The August 2014 budget rescission did not affect these appropriations.

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

	Fiscal 2013 Appropriations	Fiscal 2014 Appropriations	As Passed/ Current Law Fiscal 2015 Appropriations*
Property Tax Assistance	$13,175,000	$14,922,415	$15,717,000
Land Use Reimbursement	12,640.000	13,380,037	14,000,000
Total	$25,815,000	$28,302,452	$29,717,000

* The August 2014 budget rescission did not affect these appropriations.

Higher Education

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

	Fiscal 2013 Appropriations	Fiscal 2014 Appropriations	As Passed Fiscal 2015 Appropriations	Current Law Fiscal 2015 Appropriations*
University of Vermont	$40,746,633	$42,469,032	$42,701,407	$42,509,093
Vermont State Colleges**	25,009,429	26,259,711	26,397,082	26,275,580
Vermont Student Assistance Corporation	18,363,607	19,414,515	19,511,587	19,414,588
Total	$84,119,669	$88,143,258	$88,610,076	$88,199,261

* Reflects the August 2014 budget rescission. See "Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" above.
** Includes Vermont Interactive TV.

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2011 to fiscal year 2015.

General Fund Appropriations by Major Function

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014[1]	As Passed Fiscal 2015[2]	Current Law Fiscal 2015[3]
General Government	$68,285,089	$68,949,902	$65,346,744	$70,763,769	$73,558,712	$73,078,847
Protection to Persons and Property	100,117,759	105,272,668	109,237,894	119,499,112	127,455,490	125,253,688
Human Services	458,108,397	533,487,989	578,827,411	607,258,202	647,401,549	630,914,940
Education	370,695,566	417,721,805	435,678,737	455,067,357	471,607,604	470,795,708
Labor	2,381,019	2,777,474	2,969,425	3,054,572	3,036,896	2,915,420
Natural Resources	18,925,044	19,782,139	20,901,236	27,838,171	28,448,662	27,591,368
Commerce and Community Development	12,886,095	13,227,262	14,340,526	14,731,031	15,240,082	14,978,651
Other – One-time[4]	65,077,091	24,244,664	32,249,494	18,247,466	7,242,165	7,242,165
Debt Service	65,804,622	64,575,793	63,667,340	70,210,177	65,401,531	65,401,531
Total Appropriations	$1,162,280,682	$1,250,039,696	$1,323,218,807	$1,386,669,857	$1,439,392,691	$1,418,172,318

[1] Includes the Fiscal Year 2014 Budget Adjustment As Passed and one-time appropriations made for Fiscal Year 2014 in Act 179 of 2014.
[2] As appropriated in the 2014 legislative session.
[3] Reflects the August 2014 budget rescission. See "Fiscal Year 2015 Budget, Budget Rescission and Other Reductions" above.
[4] Includes one-time appropriations.

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 2009 through fiscal year 2013 presented on a GAAP basis. **Fiscal year ending June 30, 2014 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

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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				
	2009	**2010**	**2011**	**2012**	**2013**
REVENUES:					
Taxes	$ 2,372,150	$ 2,370,547	$ 2,539,487	$ 2,604,185	$ 2,734,774
Fees	82,561	85,052	105,503	116,636	131,497
Sales of services, rents and leases	23,723	21,002	18,218	21,009	25,011
Federal grants	1,426,347	1,926,853	2,008,105	1,887,156	1,865,540
Fines, forfeits and penalties	27,089	21,446	17,730	22,302	31,393
Investment income	4,056	5,553	6,337	2,993	3,794
Licenses	94,517	102,449	103,479	105,104	110,312
Special assessments	59,196	65,675	60,474	69,750	55,486
Other revenues	86,115	79,185	90,179	100,452	131,061
Total revenues	**4,175,754**	**4,677,762**	**4,949,512**	**4,929,587**	**5,088,868**
EXPENDITURES:					
General government	96,344	139,166	140,015	153,865	139,725
Protection to persons and property	265,402	265,367	302,765	318,406	321,811
Human services	1,717,878	1,857,823	1,956,180	2,008,480	2,211,947
Employment and training	13,565	19,780	19,552	17,728	34,000
General education	1,583,191	1,623,796	1,618,734	1,629,885	1,678,816
Natural resources	111,567	95,142	100,830	89,833	87,579
Commerce and community development	19,941	70,515	35,435	37,771	30,936
Transportation	379,344	448,047	536,660	633,113	507,218
Public service enterprises	3,893	2,732	0	0	0
Capital outlay	56,289	73,584	78,421	55,652	73,416
Debt service	71,459	70,747	71,912	72,390	71,962
Total expenditures	**4,318,873**	**4,666,699**	**4,860,504**	**5,017,123**	**5,157,410**
Excess of revenues over (under) expenditures	**(143,119)**	**11,063**	**89,008**	**(87,536)**	**(68,542)**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	50,500	114,533	89,400	132,060	104,005
Transfers from Lottery	20,949	21,581	21,436	22,328	22,927
Net operating transfers in (out)	5,139	6,332	4,123	(2,582)	(639)
Other sources (uses)	1,850	(40,996)	1,602	(66,302)	9,923
Total other financing sources (uses)	**78,438**	**101,450**	**116,561**	**85,504**	**136,216**
Net change in fund balances	**(64,681)**	**112,513**	**205,569**	**(2,032)**	**67,674**
Fund Balance, July 1, restated[1, 2]	420,565	355,884	663,564	869,133	866,623
Fund Balance, June 30	**$ 355,884**	**$ 468,397**	**$ 869,133**	**$ 867,101**	**$ 934,297**

[1] The July 1, 2010 fund balance was restated for a change in accounting principles. (See 2011 Comprehensive Annual Financial Report, Note 17.)

[2] The July 1, 2012 fund balance was restated for a change in accounting principles. (See 2013 Comprehensive Annual Financial Report, Note V.)

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 not 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, 2014, 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, 2014
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$548,527
Transportation Fund	10,853
Special Fund	1,470
Self-Supporting Debt	
Special Obligation Transportation Infrastructure Bonds (TIBs)	32,865
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	591,060
Vermont Housing Finance Agency	155,000
VEDA	130,000
Vermont Student Assistance Corporation	50,000
Vermont Telecom Authority	40,000
Univ. of Vermont/ State Colleges	100,000
Gross Direct and Contingent Debt	**$1,670,775**
Less:	
Self-Supporting Debt	(32,865)
Contingent Liabilities	(11,000)
Reserve Fund Commitments	(1,066,060)
Net Tax-Supported Debt [1]:	**$560,850**

1 Does not include (i) the Bonds offered hereby, (ii) general obligation bonds that have been refunded, and (iii) the present value of outstanding capitalized leases in the amount of $1,630,220.

Selected Debt Statistics[1]

	2010	2011	2012	2013	2014 (unaudited)
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[2]	$464,341	$491,748	$504,005	$546,060	$560,850
Population[3]	625,793	626,320	625,953	626,630	628,197
Debt Per Capita	$742	$785	$805	$871	$893
Personal Income ($ in millions by fiscal year)[4]	$24,786	$26,017	$27,398	$28,150	$29,088
Debt as a Percent of Personal Income	1.9%	1.9%	1.8%	1.9%	1.9%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[2]	$70,747	$70,309	$69,962	$69,099	$73,565
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,254,181	$1,386,336	$1,419,310	$1,517,397	$1,582,358
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	5.6%	5.1%	4.9%	4.6%	4.6%

Percentage Of Debt To Be Retired (as of June 30, 2014)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	100.0%	37.1%	70.2%	37.9%
10 years	100.0	67.4	88.0	67.9
15 years	100.0	90.3	100.0	90.6
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 2010 through 2013 and projected data for 2014.

[2] Excludes general obligation bonds that have been refunded.

[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 quarter of the calendar year indicated.

[4] Personal income is on a fiscal year basis and is projected for fiscal year 2014 using the November 2014 administration-legislative consensus economic forecast prepared in connection with the evaluation of financing alternatives for Green Mountain Care. Fiscal year 2012 and 2013 personal income data are subject to revision.

[5] Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments. Fiscal year 2014 revenues are preliminary.

[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 now submits a 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.

At its September 2012 meeting, the Committee recommended a two-year debt authorization of $159.9 million of general obligation bonds for fiscal years 2014 and 2015. Consistent with the Committee's recommendation, the General Assembly authorized the State to sell $159.9 million of general obligation bonds for the purposes of funding appropriations for both fiscal years 2014 and 2015 (consisting of not more than $90.37 million in fiscal year 2014 and the remaining $69.53 million in fiscal year 2015). At its September 2013 meeting, the Committee recommended that the State maintain its current authorization for fiscal years 2014 and 2015, but also cautioned that future capital funding capacity recommendations may be constrained.

At its September 2014 meeting, the Committee issued an interim report in which it delayed its formal debt recommendation for fiscal years 2016 and 2017 pending the receipt of the November 2014 administration-legislative consensus economic forecast prepared in connection with the evaluation of financing alternatives for Green Mountain Care (the "November 2014 Forecast"). The interim report indicated that, based upon consensus interim economic projections prepared by Economic & Policy Resources, Inc. (the State's economist), the Committee's preliminary two-year debt recommendation for fiscal years 2016 and 2017 range from $124.5 million to $134.8 million, reflecting reductions of 22.1% and 15.7%, respectively, from the previous biennium recommendation of $159.9 million. This range is preliminary, and based on the November 2014 Forecast (which has been received but has not yet been formally reviewed and analyzed by the Committee), it is possible that the final recommendation will be above this range. The Committee expects to issue its final recommended two-year debt authorization for fiscal years 2016 and 2017 by early December 2014.

The following chart presents the amounts of general obligation debt that has been authorized and issued by the State since fiscal year 2004 on a biennium basis, as well as the projected amount for fiscal year 2015. Commencing with fiscal year 2013, the "Issuance" amount reflected in the table below is inclusive of net premium on the debt issued.

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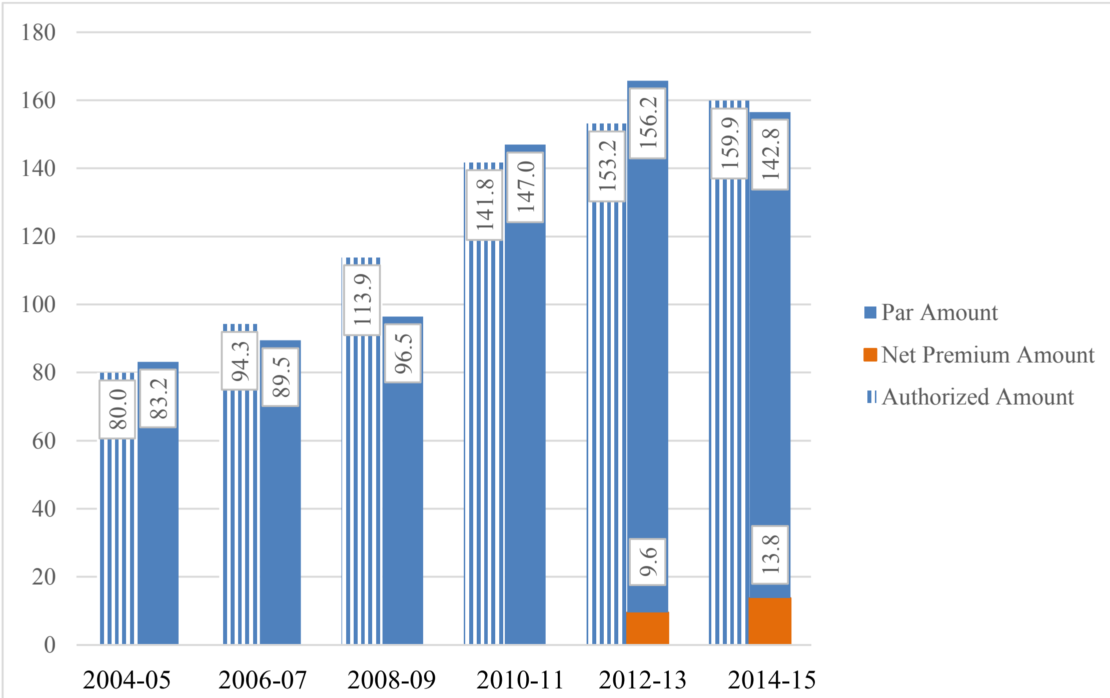
Historical General Obligation Bonds Authorization and Issuance by Biennium
(in millions of dollars)



Notes:

- *Annual issuances do not include refunding bonds. Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances.*
- *Pursuant to Section 34 of Act 104 of 2011, commencing in fiscal year 2013, premium received from the sale of bonds may be applied towards the purposes for which such bonds were authorized. Accordingly, the "Issuance" amount reflected above, commencing with fiscal year 2013, represents total proceeds (par plus net premium) of the bonds issued that were or are expected to be made available for capital purposes.*
- *For fiscal years 2014-15, the "Authorized" amount reflects the two-year authorized amount of the General Assembly in the 2013 Capital Bill (Act 51), as amended by the 2014 Capital Bill (Act 178), and the "Issuance" amount includes $71.6 million of sale proceeds from the State's November 2013 bond issue, plus $85.0 million of expected sale proceeds of the Bonds.*

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, 2014, 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, 2014

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2015	$46,029,245	$20,539,466	$66,568,711	$502,497,399
2016	42,919,245	18,297,465	61,216,710	459,578,154
2017	39,944,245	16,907,412	56,851,657	419,633,909
2018	37,688,008	15,491,217	53,179,226	381,945,901
2019	36,822,180	14,140,790	50,962,970	345,123,720
2020	36,027,180	12,810,307	48,837,488	309,096,540
2021	36,092,180	11,328,145	47,420,325	273,004,360
2022	33,372,180	9,906,083	43,278,263	239,632,180
2023	31,582,180	8,638,179	40,220,359	208,050,000
2024	29,275,000	7,485,401	36,760,401	178,775,000
2025	29,245,000	6,332,724	35,577,724	149,530,000
2026	27,260,000	5,229,531	32,489,531	122,270,000
2027	25,365,000	4,223,544	29,588,544	96,905,000
2028	23,115,000	3,283,606	26,398,606	73,790,000
2029	20,815,000	2,418,063	23,233,063	52,975,000
2030	18,550,000	1,595,963	20,145,963	34,425,000
2031	14,945,000	959,100	15,904,100	19,480,000
2032	8,045,000	548,475	8,593,475	11,435,000
2033	8,045,000	273,225	8,318,225	3,390,000
2034	3,390,000	67,800	3,457,800	--

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
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	--

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2015	$560,000	$72,940	$632,940	$910,000
2016	590,000	45,500	635,500	320,000
2017	320,000	16,000	336,000	--

Short-Term Debt

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

The 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 has not had any draws on its line of credit or short-term borrowings since fiscal year 2004. The State has a line of credit available for fiscal year 2015 but does not currently anticipate any draws thereon or any short-term borrowings for the fiscal year.

Interfund Borrowing

Pursuant to Act 179 of 2014, the State Treasurer is authorized to use interfund borrowings of up to a total of $30 million to finance funding shortfalls to the newly created Retired Teachers' Health and Medical Benefits Fund (the "Retired Teachers Benefits Fund"). It is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023. To date, the State Treasurer has not borrowed any amounts pursuant to this authorization. For more information regarding the Retired Teachers Benefits Fund and planned interfund borrowings in the current and future fiscal years, see "PENSION PLANS – Other Post-Employment Benefits – Funding Status and Funding Progress."

Total Authorized Unissued Debt

Subsequent to the issuance of the Bonds, the total amount of authorized unissued debt of the State will be approximately $16.7 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. The Vermont Economic Development Authority ("VEDA" or the "Authority") was established in 1974 as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a 15-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Secretary of Agriculture, Food and Markets, the Commissioner of Forests, Parks and Recreation, the Commissioner of Public Service and ten persons appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $3.5 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, 2014, the Authority had mortgage insurance contracts outstanding of $1,398,457. 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, 2014 was approximately $489,090. 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 (FAP) for losses incurred on loans that lenders have enrolled in the program. The FAP stopped accepting new enrollments as of January 1, 2012. The program will be terminated when all existing enrolled loans are no longer outstanding. 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, 2014 was $193,185.

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, 2014, $2,398,626 of these loans was outstanding. During fiscal year 2014, the State paid claims totaling $308,700 from the indemnification fund to the Authority for losses under this program; $691,300 of the outstanding loans remains 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. Municipal loan repayments to the Bond Bank are used to make the Bond Bank's bond payments. 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, 2014, the Bond Bank has issued 72 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2014 was $591,060,000. 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 Board consists of nine commissioners, including ex-officio the Commissioner of the Department of Financial Regulation, 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, 2014, the VHFA's total outstanding indebtedness was $469,323,126.

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, 2014, the principal amount of outstanding debt covered by this moral obligation was $54,415,000. As of June 30, 2014, the debt service reserve fund requirement for this debt was $4,045,291, and the value of the debt service reserve fund was $5,090,309. 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 collateralized 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 $130 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, 2014 was $145.5 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, and VTA does not expect to issue any debt prior to ceasing operations on July 1, 2015 (see "STATE ECONOMY – Utilities").

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 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, 2014, VSAC's total outstanding indebtedness was $1,170,876,705, 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 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 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. As of the date of this Official Statement, the State's outstanding TIBs are as follows:

Date of Issuance	Series	Original Par Amount	Outstanding Par Amount
August 3, 2010	2010A	$14,400,000	$12,075,000
August 9, 2012	2012A	10,820,000	9,965,000
August 8, 2013	2013A	11,165,000	10,825,000

The 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, the Vermont State Teachers' Retirement System ("STRS"), the Vermont State Employees' Retirement System ("VSRS"), which includes general State employees and State Police, and the Vermont Municipal Employees' Retirement System ("VMERS"). Each retirement system is serviced by an independent actuarial firm. Approximate membership of each system as of June 30, 2014 was as follows:

	Active	Inactive	Terminated, Vested	Retired
STRS	9,952	2,416	740	8,086
VSRS	8,325	867	732	5,980
VMERS	6,664	1,817	692	2,359

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 (as defined below) 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 2004 through fiscal year 2014, inclusive. The fiscal year 2014 information is unaudited.

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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/(Loss)[2]	Disbursements
2014[3]	$1,705,364,604	$32,558,584	$71,869,736	$212,338,194	$166,962,650
2013	1,554,351,563	32,343,368	63,646,240	120,403,031	155,394,010
2012	1,491,619,901	31,827,995	51,731,875	24,726,665	141,938,812
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

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/(Loss)[2]	Disbursements
2014[3,4]	$1,657,245,868	$31,745,695	$80,755,129	$203,721,748	$128,136,805
2013[4]	1,470,492,327	29,847,352	75,259,094	110,715,697	124,456,335
2012[4]	1,378,489,496	27,708,009	66,167,903	23,604,774	119,974,280
2011[4]	1,380,606,734	22,269,041	62,535,626	238,386,383	113,087,703
2010[4]	1,169,844,902	22,840,354	55,517,534	$182,593,261	101,240,378
2009[4]	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

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

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

3 Fiscal year 2014 information is preliminary and unaudited.

4 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. Commencing 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, $802,020 in fiscal year 2011, $375,423 in fiscal year 2012, $667,196 in fiscal year 2013 and $1,485,472 in fiscal year 2014.

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/(Loss)[2]	Disbursements
2014[3]	$534,525,477	$13,233,728	$12,805,737	$64,346,116	$21,189,402
2013	463,186,430	15,060,665	12,014,186	34,838,507	19,437,379
2012	420,540,070	11,337,926	11,532,230	7,671,464	17,021,297
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

1 Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.
2 Net Investment Income is presented in accordance with GASB 25.
3 Fiscal year 2014 information is preliminary and unaudited.

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 (the "Funding Valuation Reports"), which are delivered in draft form and approved by the respective system boards in late October of each year and posted with any board-approved revisions in early November, 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. The Funding Valuation 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 Funding Valuation Reports for the fiscal year ending June 30, 2014 (the most recently completed and board approved final actuarial reports) are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/reports/VSERS%202014%20Valuation%20Report.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/VSTRS%202014%20Valuation%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.

The Funding Valuation Reports are prepared according to statute for the purpose of funding the respective systems. Recently, the Governmental Accounting Standards Board ("GASB") implemented new standards for accounting for pensions. For more information, see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" below. These new standards are for accounting purposes only and do not affect the State's funding decisions.

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 15:	8.50
Year 16	8.75
Year 17 and later:	9.00

Per the experience study, 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 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%. Since the interest rate is restarted every year, this results in a more conservative return assumption for the amortization of the unfunded liability. For fiscal year 2014, the actuarial rate of return of the assets was 8.28% for VSRS and 8.29% for VSTRS, compared to the select-and-ultimate year 1 expected rate of return of 6.25%.

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, based on the Funding Valuation Reports 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						
	2014	$1,610,285,523	$1,705,364,604	94.4%	8.3%	14.2%
	2013	1,552,924,370	1,554,351,563	99.9	6.7	8.4
	2012	1,517,410,471	1,491,619,901	101.7	6.3	2.2
	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
VSRS						
	2014	$1,566,075,540	$1,657,245,868	94.5%	8.3%	14.5%
	2013	1,469,169,902	1,470,492,327	99.9	6.7	8.6
	2012	1,400,779,062	1,378,489,496	101.6	6.3	2.4
	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

[1] Investment returns based on market value of net assets are gross of fees.
Source: Funding Valuation Reports.

For VSRS, the market value of net assets as of June 30, 2014 was estimated to be approximately $1,657.2 million (unaudited) and the estimated market rate of return for fiscal year 2014 was 14.5% (unaudited). For STRS, the market value of net assets as of June 30, 2014 was estimated to be approximately $1,705.4 million (unaudited) and the estimated market rate of return for fiscal year 2014 was 14.2% (unaudited). These preliminary estimates have not been audited and do not include any accruals or adjusting entries, which factor into the final calculation of the fiscal year-end market value of net assets for each system. Such accruals and adjusting entries may increase or decrease the market value of net assets reflected in this paragraph for each system, and, correspondingly, the final market rate of return for the fiscal year. The State cannot predict what effect such subsequent adjustments will have on the final audited market value of net assets and rate of return for each system for fiscal year 2014. 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 2014 Funding Valuation Reports referenced above.

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. 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. The most recent experience studies for the VSRS and STRS systems were completed 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 commencing with 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 State 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 Funding Valuation 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 age 65 or 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, will be decreased to 5.1% through June 30, 2019, 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"). These changes have resulted in annual savings of 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 2014, the Legislature passed Act 179, which included an increase in employee contributions for STRS employees with less than five years' service as of July 1, 2014, from 5% to 6% of earnable compensation.

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 long-term financial impact of this program.

On December 31, 2013, STRS discontinued participation in the Medicare Retiree Drug Subsidy ("RDS") program, and enrolled retirees in a Medicare Part D Employer Group Waiver Plan ("EGWP"), plus a supplement, starting January 1, 2014. VSRS is scheduled to discontinue participation in RDS on December 31, 2014 and to enroll its retirees in EGWP, plus a supplement, starting January 1, 2015. The transfer from RDS to EGWP is expected to result in cost savings to the State while achieving a similar level of service for covered retirees.

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 Funding Valuation Reports that are completed and delivered for each system in October of the prior fiscal year. When the next Funding Valuation 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 Funding Valuation Report.

For the VSRS, the fiscal year 2014 ARC was $40.2 million, based on the Funding Valuation Report for the year ended June 30, 2012. A small portion is typically paid by member towns, estimated at $0.8 million, leaving a State portion of $39.4 million. The Legislature passed a base appropriation sufficient to fully fund the State's portion of the fiscal year 2014 ARC ($39.4 million). For fiscal year 2015, the VSRS ARC was $44.7 million, based on the Funding Valuation Report for the year ended June 30, 2013. Based on an estimate of $0.8 million of contributions by town participants, the actuarial recommendation was reduced to $43.9 million. The Legislature passed a base appropriation sufficient to fully fund the State's portion of the fiscal year 2015 ARC ($43.9 million). The fiscal year 2015 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.

As set forth in the latest Funding Valuation Report for VSRS referenced above (the "2014 VSRS report"), the "true-up" adjustment to the ARC calculation for fiscal year 2015 recalculates the ARC to be $43.9 million. In addition, the 2014 VSRS report sets forth the following projection of contributions for fiscal years 2016 and 2017.[2]

	Projected Annual Required Contributions (VSRS)		
Fiscal Year	Normal Cost	UAAL	Total
2016	$19,138,047	$27,099,806	$46,237,853
2017	20,245,098	28,454,796	48,699,894

In addition, Schedule E to the 2014 VSRS report sets forth a projected amortization schedule for the UAAL. It projects that the amortization payments will increase from $25.8 million as of June 30, 2014 to $79.3 million as of June 30, 2037, the currently projected final amortization payment. All projected amounts are subject to change as the actual future annual required contributions will be based upon actual future circumstances, which are likely to vary from those projected in the 2014 VSRS report.

For the STRS, the fiscal year 2014 ARC was $68.4 million, based on the Funding Valuation Report for the year ended June 30, 2012. The Legislature passed a base appropriation of $71.8 million, to be supplemented by an estimated $1.3 million of Medicare Part D reimbursement funds, for total funding of $73.1 million. This amount included 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. For fiscal year 2015, the STRS ARC was $73.9 million, based on the Funding Valuation Report for the year ended June 30, 2013. In May 2014, the STRS Board of Trustees reduced its fiscal year 2015 ARC recommendation to $72.9 million to reflect the expected increased contribution from STRS employees with less than five years of service as of July 1, 2014 (pursuant to Act 179 of 2014). The Legislature passed a base appropriation sufficient to fully fund the revised fiscal year 2015 ARC of $72.9 million. As was the case for VSRS, the fiscal year 2015 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.

[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.

[2] See Schedule F to the 2014 VSRS report.

As set forth in the latest Funding Valuation Report for STRS referenced above (the "2014 STRS report"), the "true-up" adjustment to the ARC calculation for fiscal year 2015 recalculates the ARC to be $72.5 million. In addition, the 2014 STRS report sets forth the following projection of contributions for fiscal years 2016 and 2017.[1]

	Projected Annual Required Contributions (STRS)		
Fiscal Year	Normal Cost	UAAL	Total
2016	$10,384,106	$65,718,803	$76,102,909
2017	10,851,391	69,004,743	79,856,134

In addition, Schedule E to the 2014 STRS report sets forth a projected amortization schedule for the UAAL. It projects that the amortization payments will increase from $62.6 million as of June 30, 2014 to $192.2 million as of June 30, 2037, the currently projected final amortization payment. All projected amounts are subject to change as the actual future annual required contributions will be based upon actual future circumstances, which are likely to vary from those projected in the 2014 STRS report.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans from 2004 through 2014, based on the annual Funding Valuation Report for each respective year.

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[1] See Schedule G to the 2014 STRS report.

Public Employee Retirement Systems Defined Benefit Plans
Analysis of Funding Progress Using GASB Statement No. 25[1]
($ 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							
	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	349,258	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	87,101	94.1	404,953	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
	2012*	1,400,779	1,802,604	401,825	77.7	385,526	104.2
	2013*	1,469,170	1,914,300	445,130	76.8	416,766	106.8
	2014*	1,566,076	2,010,090	444,014	77.9	437,676	101.4
Vermont State Teachers' Retirement System							
	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	486,858	29.5
	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
	2012*	1,517,410	2,462,913	945,502	61.6	561,179	168.5
	2013*	1,552,924	2,566,834	1,013,910	60.5	563,623	179.9
	2014*	1,610,286	2,687,049	1,076,764	59.9	567,074	189.9
Vermont Municipal Employees' Retirement System							
	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	309,853	(15,921)	105.1	162,321	(9.8)
	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
	2012	417,443	488,572	71,129	85.4	215,075	33.1
	2013	446,236	528,426	82,190	84.4	220,372	37.3
	2014	500,558	580,972	80,414	86.2	230,969	34.8

Source: Funding Valuation Reports

[1] GASB Statement No. 25 has been amended by GASB 67 (see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" herein). This table does not reflect the reporting standards set forth under GASB 67, but rather is presented for informational purposes only to provide comparison data for the past ten years. Data presented in the table was derived from the Funding Valuation Reports, but the table has not been reviewed by the State's consulting actuary.

* 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, 2014, the VSRS Defined Contribution Plan's net assets totaled $57.9 million (unaudited) and there were 455 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, 2014, the VMERS Defined Contribution Plan's net assets totaled $20.1 million (unaudited) and there were 293 participants.

Recent Changes to Pension Obligation Reporting

GASB Statement No. 67

In June 2012, GASB issued GASB Statement No. 67 ("GASB 67"), which amends GASB Statement No. 25 and sets forth new standards that modify the financial reporting of the State's pension obligations. GASB 67 requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability ("NPL"). It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment disclosures. The new standard was effective commencing with the State's fiscal year 2014.

One significant change implemented by GASB 67 is that reporting under the new requirements is based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year. Accordingly, the State will continue to prepare reports based on its established funding methodology, incorporating the generation of an ARC as the basis for its funding recommendation to the Governor and the General Assembly. Commencing with fiscal year 2014, however, the State's actuary now also prepares a report for each system reflecting fiscal year results under the new accounting requirements (the "GASB 67 Reports"). The GASB 67 Reports for the fiscal year ending June 30, 2014 are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/reports/VSERS%206-30-2014%20GASB%2067.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/VSTRS%206-30-2014%20GASB%2067.pdf

VMERS http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireMuni/reports/VMERS%206-30-2014%20GASB%2067.pdf

The fiscal year 2014 GASB 67 Reports are based on fiscal year 2013 census data rolled forward to fiscal year 2014, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2014. For the purpose of complying with GASB 67, the actuarial assumptions incorporate the use of market value of assets (as previously described) and the entry age normal (EAN) actuarial method. The long-term expected rate of return is determined using best estimated ranges of expected future rates of return based on a method similar to the select-and-ultimate method described under "Defined Benefit Retirement Plans – Actuarial Valuation – *Description of Certain Actuarial Assumptions*" above, but will vary from system to system based on the cash flows associated with the system. The multiple rates are then reduced to a single discount rate used to measure the total pension liability. The single discount rate used for the fiscal year 2014 GASB 67 Reports were 8.22% for VSRS and 8.15% for STRS.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans for fiscal year 2014 based on the GASB 67 Reports. The NPL is calculated using the plan assets of each system at their market value (Fiduciary Net Position) and a single discount rate (calculated as described above). The

UAAL shown in the table on page 88, by contrast, uses a smoothing method to determine the Actuarial Value of Assets at the plan's assumed rate of return.

Schedule of Changes in the Net Pension Liability and Related Ratios Using GASB Statement No. 67
($ in thousands)

	Actuarial Valuation Date (June 30)	System Fiduciary Net Position[1]	Total Pension Liability	Net Pension Liability	System Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll[2]	Net Pension Liability as a Percentage of Covered Payroll
VSRS	2014	$1,657,246	$2,008,888	$351,642	82.50%	$416,766	84.37%
STRS	2014	$1,705,365	$2,663,802	$958,437	64.02%	$563,623	170.05%
VMERS	2014	$534,525	$543,652	$9,127	98.32%	$220,372	4.14%

1 Represents the market value of plan assets as of the actuarial valuation date.
2 As of the actuarial valuation date.

The GASB 67 Reports present both a net pension liability (NPL) and a funding percentage. Because both VSRS and STRS use the entry age normal (EAN) actuarial method for funding, which is the required method for GASB 67, variances between the funding and GASB No. 67 reports are primarily, but not exclusively, related to market value differences. For VMERS, however, the variance between the funding valuations and the GASB 67 numbers are significant as the VMERS system does not use the prescribed EAN method.

GASB 67 also requires an analysis to determine the sensitivity of the NPL to changes in the discount rate, if it were calculated one percentage point lower or one percentage point higher. The results for fiscal year 2014 are as follows:

($ in thousands)	VSRS	STRS
One percent (1%) decrease		
Discount Rate	7.22%	7.15%
Net Pension Liability	$587,188	$1,258,726
Net Pension Liability, as reported		
Discount Rate	8.22%	8.15%
Net Pension Liability	$351,642	$958,437
One percent (1%) increase		
Discount Rate	9.22%	9.15%
Net Pension Liability	$153,107	$706,364

GASB Statement No. 68

In June 2012, GASB also issued GASB Statement No. 68, which sets forth new standards that will modify the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits will require the State to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the asset (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a "crossover date." The new standard will be effective for the State's fiscal year 2015.

Other Post-Employment Benefits

Overview. 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.

Actuarial Valuation. The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2014. 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%, and the discount rate for VSRS is estimated at 4.0% (reduced from the 4.25% "blended rate" previously used due to the fact that VSRS will no longer be prefunded with Medicare D receipts, as a result of the implementation of EGWP commencing in calendar year 2015). 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 prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2014 is $1,092.7 million with a UAAL of $1,073.8 million. This represents a net increase of $141.6 million as compared to the UAAL as of June 30, 2013 of $932.2 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;
- Higher than expected increases to per capita cost assumptions;
- Implementation of EGWP in 2015
- Updated healthcare cost trend assumptions; and
- A decrease in the discount rate from 4.25% to 4.00%.

Increases in net liabilities due to these factors were somewhat mitigated by a return on assets slightly better than expected. Based on the actuarial report for the year ended June 30, 2014, the VSRS OPEB ARCs for fiscal years 2015 and 2016, each calculated assuming no additional prefunding and an assumed discount rate of 4.0%, are $71.5 million and $74.7 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for VSRS OPEB obligations earned through June 30, 2014 is reduced to $645.6 million with a UAAL of $626.7 million, and the OPEB ARC for fiscal year 2015 is calculated to be $46.4 million. In fiscal year 2014, the State funded actual health care pay-as-you-go payments for VSRS in the amount of $22.5 million. Under the current year budget, the State expects fiscal year 2015 health care pay-as-you-go payments for VSRS to be approximately $29.2 million.

For STRS, assuming no prefunding, the actuarial accrued liability and the UAAL for OPEB obligations earned through June 30, 2014 is $766.8 million. This represents a net increase of $54.1 million over the UAAL as of June 30, 2013 of $712.7 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; and
- A reduction in the expected savings from Medicare prescription drug costs resulting from the 2014 implementation of EGWP (due in part to a reduction in the expected risk score of the covered population,[1] federal sequestration and updated guidance from CMS on the adjudication of certain types of claims, which is expected to have a moderate impact on reinsurance payments and gap discounts received by the State).

Based on the actuarial report for the year ended June 30, 2014, the STRS OPEB ARCs for fiscal years 2015 and 2016, each calculated on the pay-as-you-go basis at an assumed discount rate of 4.00%, are $41.0 million and $42.6 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability and UAAL for STRS OPEB obligations earned through June 30, 2014 is reduced to $441.5 million, and the OPEB ARC for fiscal year 2015 is calculated to be $28.1 million. In fiscal year 2014, the State funded actual health care pay-as-you-go payments for STRS in the amount of $24.6 million. Under the current year budget, the State expects fiscal year 2015 health care pay-as-you-go payments for STRS to be approximately $28.6 million.

Funding Status and Funding Progress. 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 and making healthcare pay-as-you-go payments for VSRS out of this fund. As of June 30, 2014, the fund had assets of $18.9 million. Finally, as previously mentioned, effective January 4, 2014, STRS implemented EGWP. As of June 30, 2014, this change was expected to reduce the accrued actuarial liability by $169.8 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, until the end of fiscal year 2014, the health care expenses were paid through a sub-fund of the pension fund but were not explicitly budgeted or funded, were treated as an amortized actuarial loss, and were therefore not included in the net OPEB Obligation ("NOO") calculation, but rather were reflected as part of the Net Pension Obligation ("NPO"). In Act 179 of 2014, the Vermont Legislature created the Retired Teachers' Health and Medical Benefits Fund (the "Retired Teachers Benefits Fund") to explicitly fund current year health care expenses separate from the pension actuarial contribution, commencing July 1, 2014.

The Retired Teachers Benefits Fund receives funding from a combination of sources including General Fund appropriations, Employer Group Waiver Plan (EGWP) subsidies, and, starting in fiscal year 2016, an annual assessment on newly-hired teachers as well as charges to federal grants for pension and health care costs. As described in "STATE INDEBTEDNESS – Short-Term Debt," the State Treasurer is also authorized to use interfund borrowings of up to a total of $30 million to finance any funding shortfalls, and it is the Legislature's intent to repay any such borrowing by the end of fiscal year 2023. For fiscal year 2015, the Retired Teachers Benefits Fund received appropriations of $8.3 million from the General Fund, $2.5 million from the Property Tax Relief Fund, and

[1] The "risk score" is used to determine the amount of direct subsidy received by the EGWP from CMS. CMS provides this value to the covered population based on their overall health; a lower score indicates a healthier population, which translates to a lower subsidy.

$4.25 million from additional sources including EGWP receipts, and the State expects to utilize an interfund borrowing of $13.55 million. The State currently expects to utilize additional interfund borrowings of $8.75 million in fiscal year 2016, $5.1 million in fiscal year 2017 and $1.3 million in fiscal year 2018 to fund the Retired Teachers Benefits Fund. See Note IV.G.4 to the State's fiscal year 2013 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, 2014 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:						
2014	$18,904	$1,092,728	$1,073,824	1.7%	$464,517	231.2%
STRS						
2014	$0	$766,775	$766,775	0.0%	$565,658	135.6%

Note: Both systems reflect a calculation on the pay-as-you-go basis at a discount rate of 4.0%.

LABOR RELATIONS

As of June 30, 2014, there were 8,189 employees (approximately 8,120 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 approximately 270 members of the Vermont State Police bargaining unit (for the rank of Sergeant and below) are represented by the Vermont Troopers' Association (VTA). The State's current contract with its unionized VSEA employees, which began on July 1, 2014 and expires on June 30, 2016, provides for the continuation of longevity-based salary increases (steps) and a 2.5% across the board pay increase effective July 1, 2014, and an additional 2.5% across the board pay increase with the continuation of steps effective July 1, 2015. The VTA bargaining unit agreement (beginning July 1, 2013 and expiring June 30, 2015) provides for the continuation of annual step increases but no across the board pay increases for either year of the two year contract.

LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving tort, contract, civil rights and employment claims. While the State is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts, the State believes that the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the State that would materially affect its financial position is remote. See "CERTIFICATES OF STATE OFFICERS – Absence of Litigation" for a discussion of the Attorney General's certificate regarding litigation affecting the Bonds. See also Note V.D to the audited basic financial statements of the State for fiscal year 2013, attached as Appendix A to this Official Statement. The following additional matter is currently pending, and at this time, it is not possible to predict the outcome.

Pursuant to 33 V.S.A. §1953, the Department of Vermont Health Care Access ("DVHA") is authorized to assess an annual tax on hospitals in the State based on a percentage of the hospital's net patient revenues. In 2013, nine hospitals in the State formally requested that DVHA reconsider the amount of their hospital tax assessments for that year, claiming that DVHA's interpretation and administration of the statute was flawed and had resulted in excessive tax assessments. The hospitals sought a refund of approximately $37 million in allegedly overpaid hospital taxes for fiscal year 2013. If this claim is successful, the State expects that these hospitals would have comparable refund claims for fiscal years 2014 and 2015. Reconsideration hearings were conducted by the DVHA commissioner and he denied all of the hospitals' refund claims. Subsequently, the hospitals filed an appeal of the DVHA commissioner's reconsideration decision in State superior court. In *Fletcher Allen Health Care, et al. v.*

Department of Vermont Health Access, Docket No. 212-4-13 Wncv (May 22, 2014), the superior court rejected two of the appealing hospitals' three asserted bases for a tax refund, and remanded the third claim to DVHA for further reconsideration. DVHA is currently reconsidering the third claim (which relates to the definition and scope of an exemption for the hospital tax for any "physician's office practice"). The reconsideration hearing commenced on October 30, 2014. Additional evidence was taken on November 18, 2014 and all legal briefs are due by December 23, 2014. The final reconsideration decision will be made by DVHA sometime thereafter and depending on the outcome, further litigation (including but not limited to an appeal of the superior court's final judgment to the State supreme court) may follow. The State cannot now predict the outcome of this matter.

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 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 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these 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 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, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

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 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 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 Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the 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

The Series A Bonds are being purchased for re-offering by the underwriters named on the cover page of this Official Statement (the "Series A Underwriters"), at an aggregate purchase price of $21,961,737.10 and the Series A Underwriters will receive a fee from the State in an amount equal to $90,774.77. Pursuant to the Contract of Purchase, the Series A Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Series A Bonds if any are purchased. The Series A Underwriters may offer and sell the Series A Bonds to certain dealers and others (including dealers depositing Series A Bonds into investment trusts) at prices lower (or yields higher) than the public offering prices (or yields) stated on the inside cover page hereof. The public offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Series A Underwriters.

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

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., one of the underwriters of the Series A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series A Bonds.

Citigroup Global Markets Inc. ("Citigroup"), one of the underwriters of the Series A Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. ("UBSFS"). Under the distribution agreement, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup may compensate UBSFS for their selling efforts with respect to the Series A Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Series A Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Series A Bonds, at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase Series A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series A Bonds that CS&Co. sells.

COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS

After competitive bidding on November 19, 2014, the Series B Bonds were awarded to Wells Fargo Bank, National Association (the "Series B Underwriter"). The Series B Underwriter has supplied the information as to the public offering yields or prices of the Series B Bonds set forth on the inside cover page hereof. The Series B Underwriter 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 Underwriter's compensation to be $116,287.08. The Series B Underwriter may change the public offering yields or prices from time to time.

After competitive bidding on November 19, 2014, the Series C Bonds were awarded to Morgan Stanley & Co. LLC (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 page 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 $144,693.28. The Series C Underwriter may change the public offering yields or prices from time to time.

The following language has been provided by the Series C Underwriter. The State takes no responsibility as to the accuracy or completeness thereof.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., the Series C Underwriter, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series C Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date of delivery and payment, proceeds of the Series C 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 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. A copy of the proposed form of opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Series A Underwriters by Nixon Peabody LLP, 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 event 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 event 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"). The State is not aware of any failure to comply in any material respect with any of its previous undertakings with respect to the Rule in the previous five years.

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 2015 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 2015 and 2016 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

APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The information in this Appendix A includes pages 14 through 163 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2013. The entire CAFR is available from the Department of Finance and Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

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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:

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 IA. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, or the Tri-State Lotto Commission. The discretely presented component units identified in note IA represent 70% 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 5% of the total assets and 31% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 67% of the total assets and 5% of the total revenues of the Federal Revenue Fund. The Vermont Energy Efficiency Utility Fund and the Vermont Universal Service Fund collectively represent 7% of the total assets and 10% 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 VE. 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, 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

KPMG

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As disclosed in note 1 to the financial statements, the State adopted the provisions of Governmental Accounting Standards Board Statements No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and No. 65, *Items Previously Reported as Assets and Liabilities*; effective July 1, 2012.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 17-30, the schedules of funding progress and employer contributions for the defined pension plans and other postemployment benefit plans on pages 146-148, and the budgetary comparison information on pages 149-163 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The Introduction, Other Supplementary Information-Combining and Individual Fund Statements and Schedules and the Statistical Section listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information-Combining and Individual Fund Statements and Schedules is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the Other Supplementary Information-Combining and Individual Fund Statements and Schedules is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

KPMG LLP

Colchester, Vermont
December 18, 2013

Vt. Reg. No. 92-0000241

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2013. 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 2013. 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 position of $1.723 billion, comprised of $3.640 billion in total assets and $7.4 million in deferred outflows offset by $1.925 billion in total liabilities at June 30, 2013 (Table 1).

- The primary government's net position has increased by $49.9 million as a result of this year's operations. The net position for governmental activities decreased $11.4 million and net position for business activities increased by $61.3 million (Table 2).

Fund level

- The State's governmental funds reported a combined ending fund balance of $934.3 million, an increase of 7.8 percent over last year. Of this amount, $345.1 million is available for spending at the State's discretion (committed, assigned, and unassigned fund balance).

- The State's General Fund reported an operating deficit this year of $19.2 million which decreased the accumulated fund balance to $159.2 million, of which $1.7 million is nonspendable.

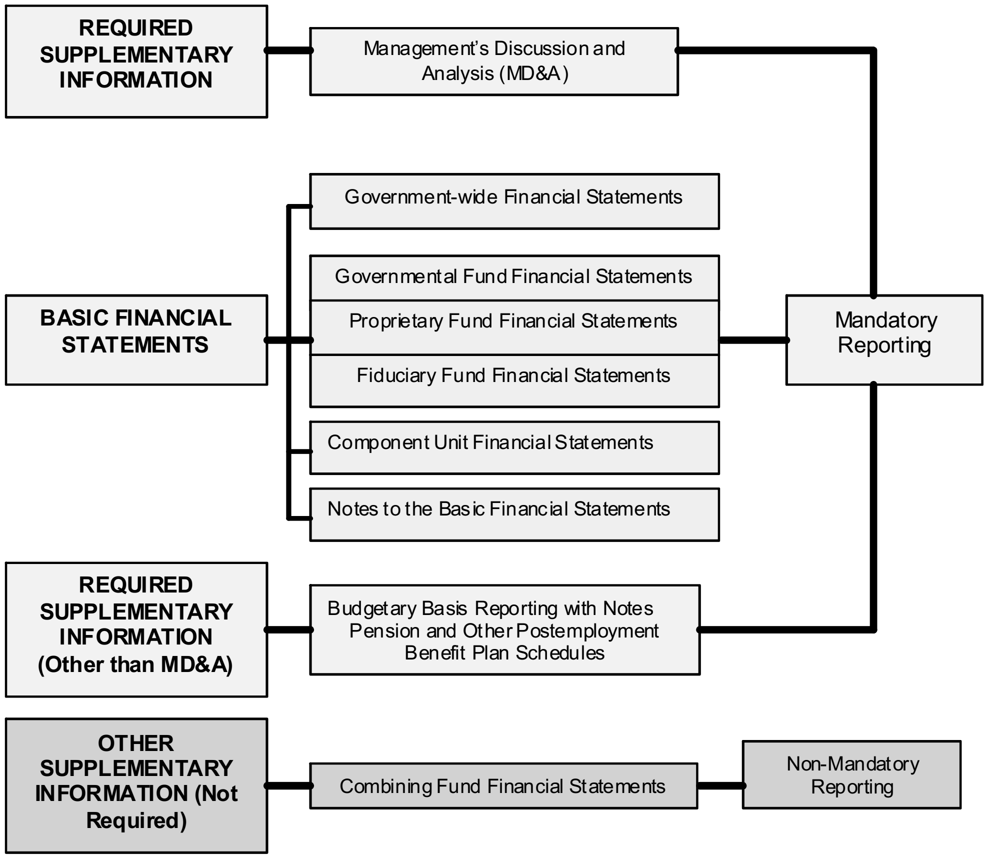
Long-term debt

- The State's debt outstanding for General and Special Obligation Bonds increased $50.9 million as compared to fiscal year 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The layout of the financial section and the 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.



Basic Financial Statements

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

1) Government-Wide Financial Statements

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

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

The *Statement of Net Position* presents a snapshot of both the primary government's and its component units' assets and liabilities and deferred outflows and deferred inflows, as of the date of this report, with the difference between the assets and deferred outflows, and liabilities and deferred inflows reported as "net position". Over time, increases or decreases in the primary government's net position 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 position included on the Statement of Net Position. 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 I 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 four major and nine non-major component units. This categorization is determined by the entity's relative significance to the State. 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 I to the financial statements.

Blended Component Units – The State has no blended component units.

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 Position;* a *Statement of Revenues, Expenses and Changes in Net Position*; 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-three internal service funds, which are reported in one consolidated column entitled "Governmental Activities – Total Internal Service Funds" on the Proprietary Funds Statement of Net Position; Statement of Revenues, Expenses, and Changes In Net Position; 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 Position;* and a *Statement of Changes in Fiduciary Net Position*.

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 position and activities of four major component units in individual columns and nine 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 III. A. 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 Position
The State's (governmental and business-type activities) combined net position totals $1.723 billion at the end of 2013, as shown in Table 1. Approximately $1.783 billion of the combined net position represents 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 net investment in capital assets 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 position (40.1 percent) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net position. The remaining balance of unrestricted net position is a deficit of $751.6 million.

The governmental activities' negative unrestricted net position 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, $218.0 million outstanding at June 30, 2013, that does not result in a governmental activities' capital asset, 2) the amount of net position that is restricted for various purposes, and 3) the net Pension and OPEB liabilities (See Note IV. G. 4.).

At the end of fiscal year 2013, the State reported positive total net position balances in its governmental activities, its business-type activities, and its discretely presented component units.

The following primary government condensed financial statement information is derived from the State's June 30, 2013 and 2012 government-wide Statement of Net Position. 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 Position
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current assets..........................	$ 1,009.2	$ 916.4	$ 165.3	$ 130.6	$ 1,174.5	$ 1,047.0
Other assets...........................	450.4	444.9	3.5	3.7	453.9	448.6
Capital assets..........................	2,010.8	1,950.6	0.7	0.8	2,011.5	1,951.4
Total assets......................	3,470.4	3,311.9	169.5	135.1	3,639.9	3,447.0
DEFERRED OUTFLOWS						
Total deferred outflows........	7.4	-	-	-	7.4	-
LIABILITIES						
Long-term liabilities..................	1,374.0	1,239.3	1.4	59.3	1,375.4	1,298.6
Other liabilities.........................	474.7	427.8	74.6	43.6	549.3	471.4
Total liabilities...................	1,848.7	1,667.1	76.0	102.9	1,924.7	1,770.0
NET POSITION						
Net Investment in capital assets..........................	1,781.9	1,727.6	0.7	0.8	1,782.6	1,728.4
Restricted................................	605.6	499.4	86.0	26.2	691.6	525.6
Unrestricted (deficit)..................	(758.4)	(582.2)	6.8	5.2	(751.6)	(577.0)
Total net position...............	$ 1,629.1	$ 1,644.8	$ 93.5	$ 32.2	$ 1,722.6	$ 1,677.0

Totals may not add due to rounding.

In 2013, governmental activities' expenses exceeded revenues by $35.4 million and received transfers of $24.0 million from business activities, resulting in a $11.4 million (or 0.7 percent) decrease in net position . Business-type activities had an overall increase in net position of 190.4 percent, resulting from an operating profit of $85.3 million and by transfers out of $24.0 million to governmental activities, primarily from the Lottery ($22.9 million) to support education.

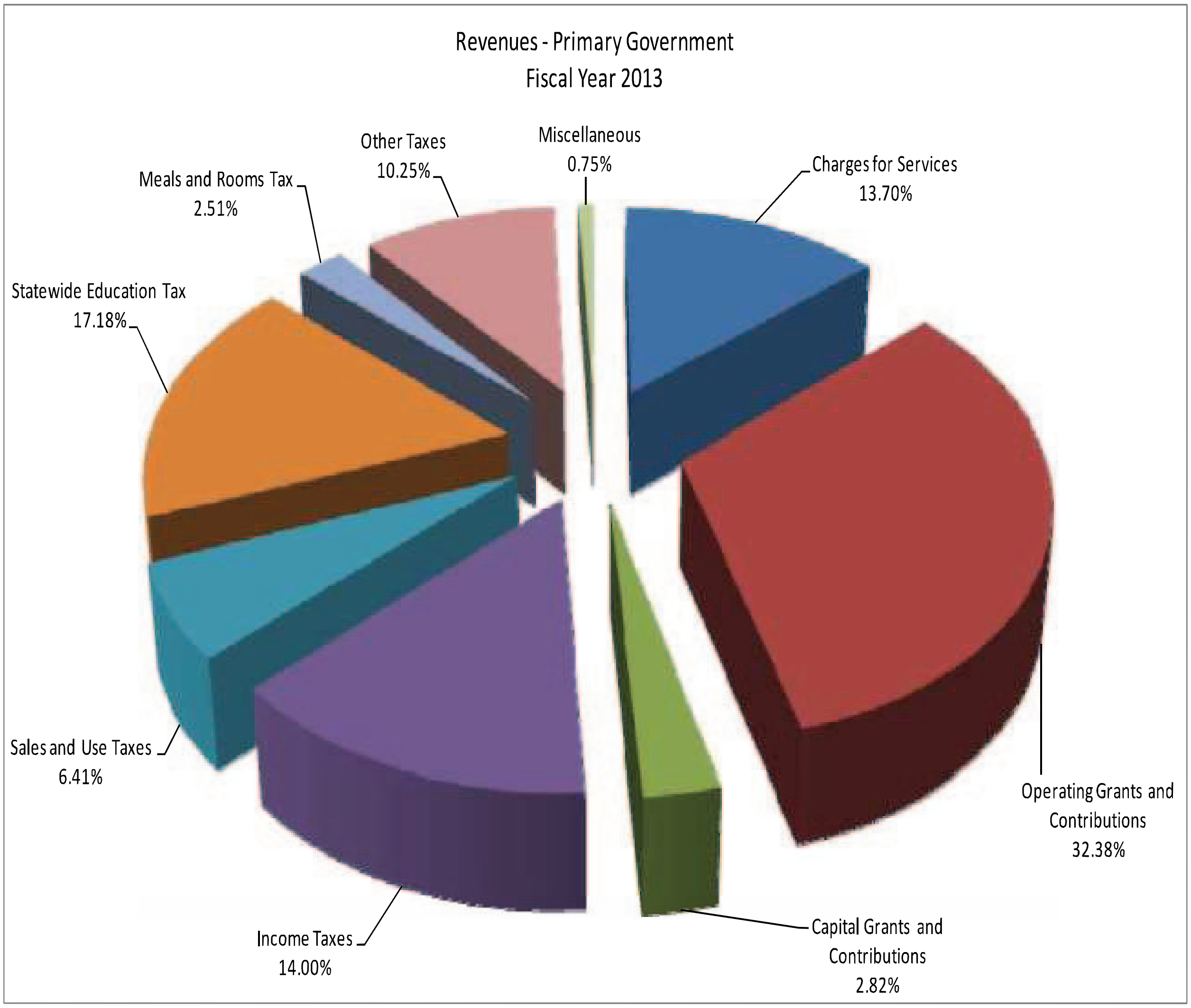
The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2013 and 2012, and contains primary government data only.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	432.3	394.9	311.8	296.2	744.1	691.1
Operating grants and contributions	1,739.2	1,590.3	19.7	38.2	1,758.9	1,628.5
Capital grants and contributions	152.9	307.0	-	-	152.9	307.0
General revenues						
Income taxes	760.3	696.7	-	-	760.3	696.7
Sales and use taxes	348.1	347.3	-	-	348.1	347.3
Statewide education tax						
Gross tax assessed	1,072.4	1,063.8	-	-	1,072.4	1,063.8
Income sensitivity adjustment	(139.4)	(150.2)	-	-	(139.4)	(150.2)
Meals and rooms tax	136.6	128.6	-	-	136.6	128.6
Other taxes	556.7	540.7	-	-	556.7	540.7
Miscellaneous	40.4	38.7	0.5	0.2	40.9	38.9
Total revenues	5,099.5	4,957.8	332.0	334.6	5,431.5	5,292.4
Expenses						
General government	176.5	185.5	-	-	176.5	185.5
Protection to persons and property	348.1	328.3	-	-	348.1	328.3
Human services	2,210.9	2,013.6	-	-	2,210.9	2,013.6
Labor	34.8	30.0	-	-	34.8	30.0
General educaton	1,735.8	1,680.4	-	-	1,735.8	1,680.4
Natural resources	94.6	91.5	-	-	94.6	91.5
Commerce and community development	33.8	38.8	-	-	33.8	38.8
Transportation	479.4	542.1	-	-	479.4	542.1
Interest on long-term debt	21.0	19.8	-	-	21.0	19.8
Unemployment compensation	-	-	109.2	139.3	109.2	139.3
Lottery commission	-	-	79.2	78.6	79.2	78.6
Liquor control	-	-	52.1	50.5	52.1	50.5
Other business type expenses	-	-	6.2	5.4	6.2	5.4
Total expenses	5,134.9	4,930.0	246.7	273.8	5,381.6	5,203.8
Increase (decrease) in net position before transfers	(35.4)	27.8	85.3	60.8	49.9	88.6
Transfers net in (out)	24.0	23.0	(24.0)	(23.0)	-	-
Change in net position	(11.4)	50.8	61.3	37.8	49.9	88.6
Net position, beginning of year - restated.	1,640.5	1,594.0	32.2	(5.6)	1,672.7	1,588.4
Net position, end of year	$ 1,629.1	$ 1,644.8	$ 93.5	$ 32.2	$ 1,722.6	$ 1,677.0

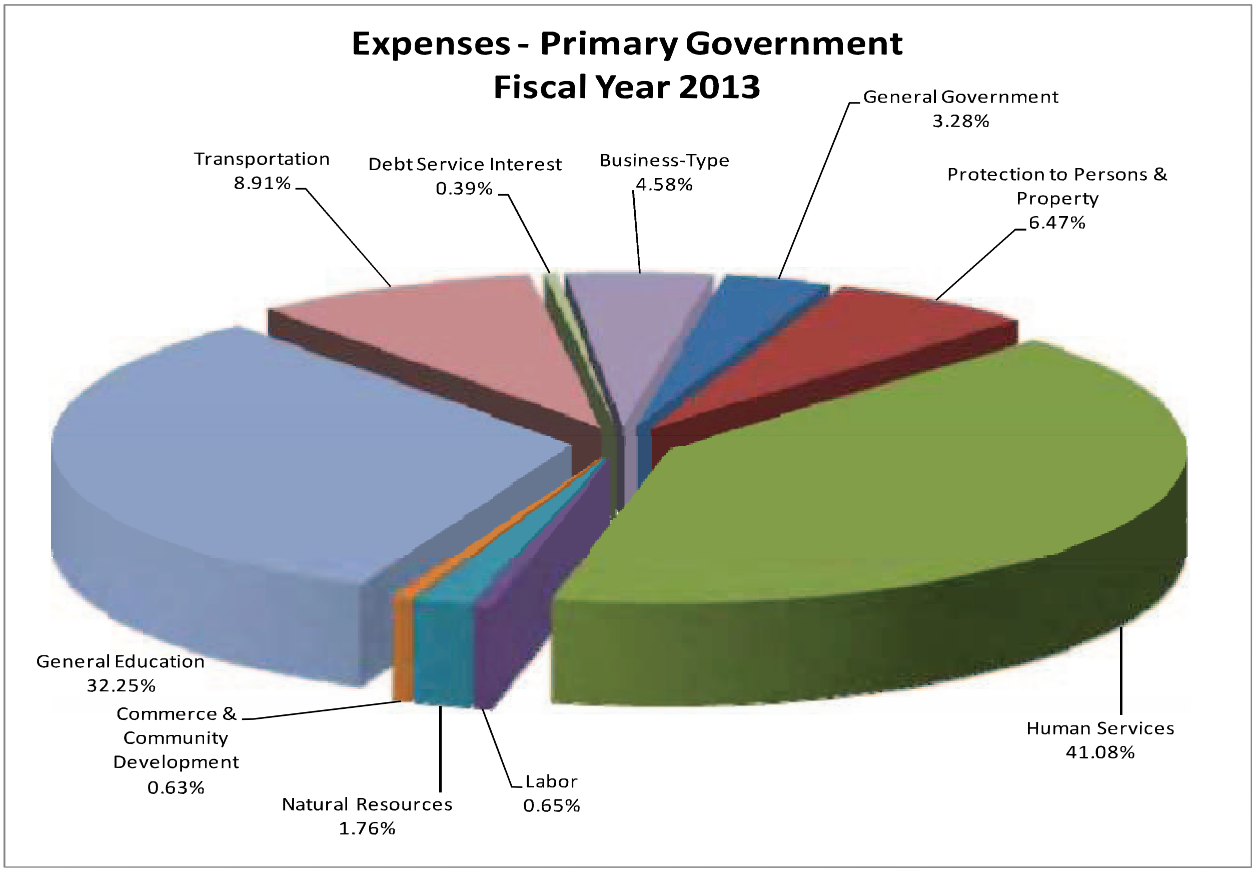
Totals may not add due to rounding.

The following graph illustrates the revenues of Vermont's primary government for fiscal year 2013. Approximately 35.20 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 31.18 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 2013. The largest category of expense is for human services (41.08 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 (32.25 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 2013, the unrestricted fund balance is 36.94 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 appropriation, such as the principal of the State's Permanent Funds, and other items that are nonspendable, such as advances and long-term receivables. At the end of fiscal year 2013, the State's governmental funds reported combined fund balances of $934.3 million, an increase of $67.7 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 2013, the General Fund's total fund balance was $159.2 million and the unassigned portion of this fund balance was $152.2 million. Its remaining fund balance was made up of nonspendable amounts totaling $1.7 million, and assigned amounts totaling $5.3 million. During 2013, total expenditures and other financing uses exceeded total revenues and other financing sources by $19.2 million.

The Special Fund's total fund balance at the end of fiscal year 2013 was $86.0 million, a decrease of 2.6 percent in comparison with 2012. The Special Fund's total fund balance is comprised of $8.8 million as restricted and $82.5 million as committed. Special Fund revenues increased $25.0 million and expenditures increased $12.4 million compared to 2012 resulting in an increase in "excess of revenues over expenditures" of $12.6 million from last fiscal year. Fiscal year 2013 transfers out to other funds exceeded transfers in from other funds by $257.6 million. The Special Fund transferred $293.0 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 Global Commitment to Health Medicaid waiver (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 2013 were $877.1 million, a 3.7 percent increase over fiscal year 2012's federal grant revenues. The Federal Revenue Fund's total fund balance at the end of fiscal year 2013 ($392.5 million) was a increase of $40.6 million as compared to the total fund balance at the end of fiscal year 2012.

The fiscal year 2013 ending total fund balance for the Global Commitment Fund was $94.9 million. Revenues and net transfers in of $1,166.2 million exceeded expenditures of $1,160.8 million by $5.4 million.

The Education Fund at June 30, 2013, had a total fund balance of $66.4 million, which represents a $0.6 million increase over fiscal year 2012's ending balance. The State's income sensitivity adjustment to taxpayers' property tax assessment is determined by the Tax Department based on the taxpayers' personal income tax return submissions. Each municipality is notified 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 this income sensitivity adjustment amount to the municipality directly. The Education Fund's statutory reserve for budget stabilization decreased $0.6 million to $29.3 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $21.8 million at June 30, 2013, an increase of $3.5 million from the fiscal year 2012 ending total fund balance. This increase was primarily the result of revenue exceeding expenditures by $9.1 million offset by transfers to other funds of $5.7 million. The Transportation Fund's statutory reserve for budget stabilization increased by $0.04 million to $10.8 million, the maximum allowed by statute.

See Note I, 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 position balance increased from $26.2 million at June 30, 2012 to $86.0 million at June 30, 2013, an increase of $59.8 million in one year. The fund received Federal grants of $20 million. In addition, the State paid $24 million of the $78 million Title XII cash advance from the U.S. Treasury in fiscal year 2013, and the remaining balance of $53 million was paid in July 2013.

The State's *internal service funds'* total net position at June 30, 2013 was $14.7 million, a $3.1 million decrease from June 30, 2012. This decrease is primarily due to operating loss totaling $10.2 million, net non-operating revenues of $1.5 million and net transfers in from other funds of $5.7 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside State government. The *pension and other postemployment benefit trust funds'* net position increased by 5.82 percent to $3.65 billion at June 30, 2013. For more information regarding the State's retirement and other postemployment benefit plans, see Note IV. G. 4. to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2013 is $9.5 million, and total liabilities balance is $7.4 million, including the escheat property claims liability estimated at $7.3 million, resulting in ending net position of $2.1 million. The Investment Trust Fund's total net position at June 30, 2013, were $134.8 million. Net position of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The State ended fiscal year 2013 with General Fund revenues of $1.289 billion, expenditures of $977.1 million, and net transfers to other funds of $339.2 million (non-GAAP budgetary basis). This was a $91.6 million increase in revenues over the previous year. The fiscal year 2013 General Fund consensus revenue forecast initially approved by the Emergency Board in July, 2012 was subsequently revised upward by the Emergency Board at their January 2013 meeting. Compared to target, the revenues were 2.3 percent above the July, 2012 revised revenue forecast of $1,260.2 million, and 2.1 percent above the January 2013 revenue forecast of $1,262.5 million. The higher than projected General Fund revenues were attributable to higher than expected Personal Income Tax receipts ($36.0 million above target) and Corporate Income Tax receipts ($0.9 million above target). Receipts from the Inheritance and Estate Tax were $6.2 million below target and receipts from Sales and Use Tax were $1.6 million below target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $62.5 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, 2013, was $2.011 billion, a total increase of 3.1 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 entities. Therefore, these capital assets are recorded on the financial statements of those entities and not 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, 2013, the State had $218.0 million of general obligation bonds outstanding related to capital assets of these other entities. Additional information on the State's capital assets can be found in Note IV. E. 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	
	2013	2012	2013	2012	2013	2012
Land, Land Use Rights, and Land Improvements	$ 127,485	$ 117,465	$ -	$ -	$ 127,485	$ 117,465
Construction in Progress	525,205	490,630	-	-	525,205	490,630
Works of Art	136	136	-	-	136	136
Buildings and Improvements	246,336	242,487	10	16	246,346	242,503
Machinery and Equipment	63,810	58,663	672	729	64,482	59,392
Infrastructure	1,047,780	1,041,216	-	-	1,047,780	1,041,216
Totals	$ 2,010,752	$ 1,950,597	$ 682	$ 745	$ 2,011,434	$ 1,951,342

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 2013, the State of Vermont's outstanding general and special obligation bond debt increased by approximately $50.9 million. This increase can be accounted for by the issuance of $93.2 million of general obligation bonds, $10.8 million of special obligation bonds, and accretion of $0.2 million in principal on the State's capital appreciation bonds offset by the redemption of $53.3 million. Additional information on the State's bonded debt is contained in Note IV. G. 1. 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 two fiscal years. In September 2012, the CDAAC proposed that the maximum amount of long-term general obligation debt authorized to be issued by the State for fiscal years 2014 and 2015 not exceed $159.9 million.

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, although there has been little change in the economic and revenue outlook over the previous six months to a year. Monetary policy and fiscal policy in Washington contradict one another and prevented achievement of potential economic growth and full recovery. Job market data shows that Vermont labor markets have continued to outpace the U.S. average, with the lowest unemployment rate in New England, and the fourth lowest unemployment rate in the nation in June, 2013. Housing markets continue to heal, but will take several years to recover to prior levels.. Total revenues for the General Fund, Transportation Fund, and Education Fund all closed FY13 about 1.5% above expectations. The large consumption taxes (meals and rooms, sales and use, and motor vehicle purchase and use) are right on target. Such growth is expected to continue into fiscal year 2014.

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 I to the State's financial statements.

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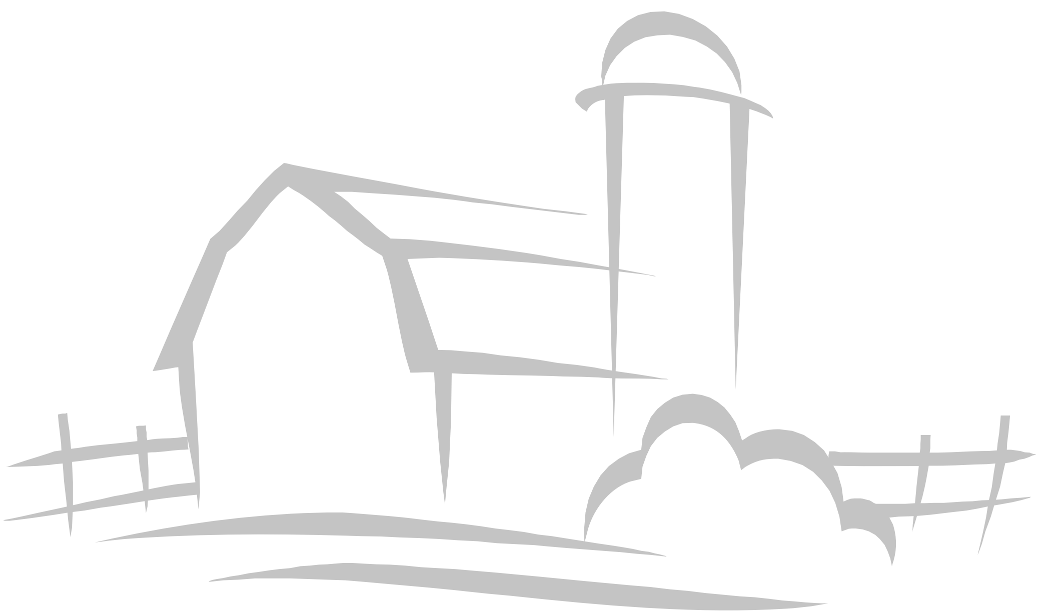

Vermont

BASIC FINANCIAL STATEMENTS

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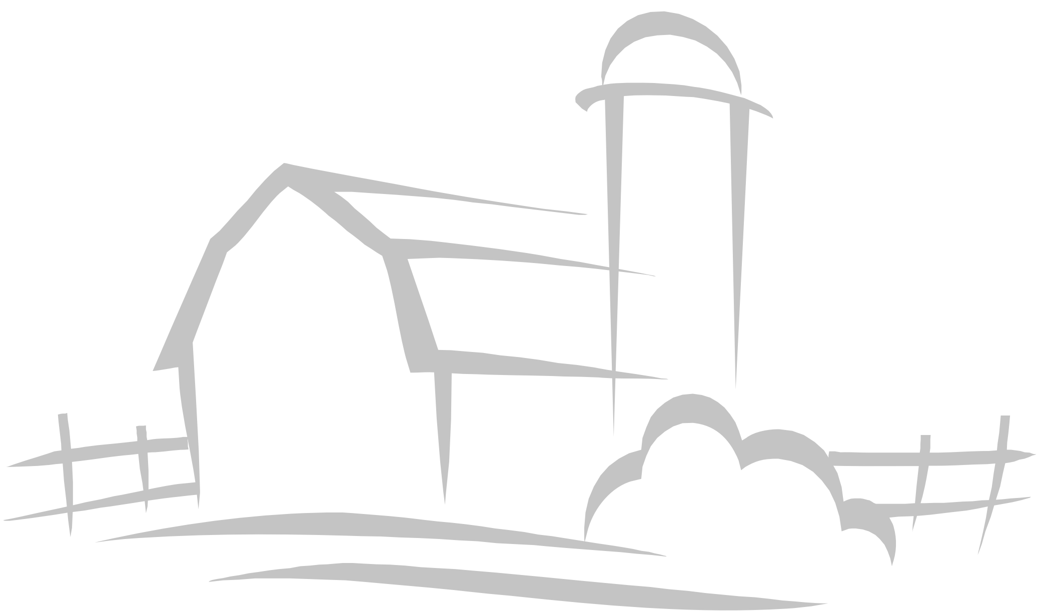

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents	$ 564,492,502	$ 117,123,136	$ 681,615,638	$ 128,119,088
Taxes receivable, net	106,665,879	37,732,456	144,398,335	-
Loans and notes receivable, net	25,547,684	899,600	26,447,284	256,443,176
Federal grants receivable	235,442,500	700,812	236,143,312	24,797,475
Other receivables, net	42,806,117	5,232,369	48,038,486	78,814,907
Investments	21,730,392	-	21,730,392	165,617,628
Inventories	2,410,329	5,970,188	8,380,517	2,096,565
Internal balances	2,512,380	(2,512,380)	-	-
Receivable from component units	3,974,173	-	3,974,173	-
Other current assets	3,665,300	107,781	3,773,081	22,327,619
Total current assets	1,009,247,256	165,253,962	1,174,501,218	678,216,458
Noncurrent Assets				
Cash and equivalents	-	449,350	449,350	166,742,106
Taxes receivable	130,303,151	-	130,303,151	-
Other receivables	51,195,223	5,370	51,200,593	-
Loans and notes receivable	239,889,503	1,299,759	241,189,262	2,439,178,458
Investments	29,001,768	1,757,232	30,759,000	625,994,611
Other noncurrent assets	-	-	-	18,479,105
Capital assets				
Land	127,485,005	-	127,485,005	38,186,760
Construction in progress	525,204,864	-	525,204,864	9,774,134
Works of art	136,003	-	136,003	-
Capital assets being depreciated				
Infrastructure	1,859,793,568	-	1,859,793,568	36,440,568
Property, plant and equipment	645,212,675	2,294,191	647,506,866	1,243,240,527
Less accumulated depreciation	(1,147,080,119)	(1,611,829)	(1,148,691,948)	(558,241,574)
Total capital assets, net of depreciation	2,010,751,996	682,362	2,011,434,358	769,400,415
Total noncurrent assets	2,461,141,641	4,194,073	2,465,335,714	4,019,794,695
Total assets	3,470,388,897	169,448,035	3,639,836,932	4,698,011,153
DEFERRED OUTFLOW OF RESOURCES				
Loss on refunding of bonds payable	7,425,908	-	7,425,908	-
Interest rate swap	-	-	-	22,093,309
Total deferred outflow of resources	7,425,908	-	7,425,908	22,093,309

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	299,326,147	6,777,212	306,103,359	115,596,629
Income tax refunds payable	60,900,904	-	60,900,904	-
Payable to primary government	-	-	-	3,974,173
Intergovernmental payable - due to federal government	10,046,801	-	10,046,801	-
Accrued interest payable	8,615,940	-	8,615,940	7,020,950
Current portion of long-term liabilities	94,319,461	57,823,032	152,142,493	228,946,405
Unearned revenue	1,561,391	9,956,190	11,517,581	28,184,163
Total current liabilities	474,770,644	74,556,434	549,327,078	383,722,320
Long-term liabilities				
Lottery prize awards payable	-	1,250,154	1,250,154	-
Bonds, notes and leases payable	547,532,785	-	547,532,785	2,959,097,884
Compensated absences	10,552,514	141,874	10,694,388	-
Claims and judgments	33,276,151	-	33,276,151	-
Other long-term liabilities	782,620,592	-	782,620,592	214,744,808
Total long-term liabilities	1,373,982,042	1,392,028	1,375,374,070	3,173,842,692
Total liabilities	1,848,752,686	75,948,462	1,924,701,148	3,557,565,012
DEFERRED INFLOW OF RESOURCES				
Gain on refunding of bonds payable	-	-	-	58,604,000
Total deferred inflow of resources	-	-	-	58,604,000
NET POSITION				
Net Investment in capital assets	1,781,928,046	682,362	1,782,610,408	172,470,157
Restricted for				
Unemployment compensation	-	86,005,782	86,005,782	-
Funds held in permanent investments				
Expendable	339,376	-	339,376	-
Nonexpendable	7,416,453	-	7,416,453	-
General government	29,627,828	-	29,627,828	32,460,343
Protection to persons and property	21,794,223	-	21,794,223	-
Human services	187,460,581	-	187,460,581	-
Labor	9,290,379	-	9,290,379	-
General education	1,821,627	-	1,821,627	442,684,521
Natural resources	331,082,093	-	331,082,093	-
Commerce and community development	2,873,621	-	2,873,621	275,936,855
Transportation	10,722,535	-	10,722,535	-
Debt service	3,102,071	-	3,102,071	-
Unrestricted (deficit)	(758,396,714)	6,811,429	(751,585,285)	180,383,574
Total net position	$ 1,629,062,119	$ 93,499,573	$ 1,722,561,692	$ 1,103,935,450

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government	$ 176,506,201	$ 31,203,961	$ 11,834,476	$ -
Protection to persons and property	348,121,767	163,635,295	64,416,298	-
Human services	2,210,850,356	64,336,127	1,316,903,346	-
Labor	34,795,358	16,153,692	27,066,751	-
General education	1,735,793,736	2,463,929	123,191,058	-
Natural resources	94,616,364	30,661,768	22,721,907	22,901,028
Commerce and community development	33,762,818	563,450	13,485,317	-
Transportation	479,410,876	123,249,215	158,287,706	129,949,487
Interest on long-term debt	20,947,976	-	1,253,280	-
Total governmental activities	5,134,805,452	432,267,437	1,739,160,139	152,850,515
Business-type activities				
Vermont Lottery Commission	79,209,619	102,088,644	-	-
Liquor Control	52,151,358	54,780,683	-	-
Unemployment Compensation	109,211,403	148,866,298	19,705,388	-
Other	6,218,054	6,064,928	-	-
Total business-type activities	246,790,434	311,800,553	19,705,388	-
Total primary government	$ 5,381,595,886	$ 744,067,990	$ 1,758,865,527	$ 152,850,515
Component Units				
Vermont Student Assistance Corporation	$ 105,927,000	$ 58,349,000	$ 37,126,000	$ -
University of Vermont and State Agricultural College	642,630,000	368,358,000	244,104,000	1,942,000
Vermont State Colleges	200,920,125	119,811,206	64,446,242	16,667,366
Vermont Housing Finance Agency	38,291,000	792,000	-	-
Other	90,216,710	45,531,176	39,933,242	-
Total component units	$ 1,077,984,835	$ 592,841,382	$ 385,609,484	$ 18,609,366

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 position

Net Position - Beginning, as restated

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	
$ (133,467,764)	$ -	$ (133,467,764)	$ -
(120,070,174)	-	(120,070,174)	-
(829,610,883)	-	(829,610,883)	-
8,425,085	-	8,425,085	-
(1,610,138,749)	-	(1,610,138,749)	-
(18,331,661)	-	(18,331,661)	-
(19,714,051)	-	(19,714,051)	-
(67,924,468)	-	(67,924,468)	-
(19,694,696)	-	(19,694,696)	-
(2,810,527,361)	-	(2,810,527,361)	-
-	22,879,025	22,879,025	-
-	2,629,325	2,629,325	-
-	59,360,283	59,360,283	-
-	(153,126)	(153,126)	-
-	84,715,507	84,715,507	-
(2,810,527,361)	84,715,507	(2,725,811,854)	-
			(10,452,000)
-	-	-	(28,226,000)
-	-	-	4,689
-	-	-	(37,499,000)
-	-	-	(4,752,292)
-	-	-	(80,924,603)
760,334,144	-	760,334,144	-
348,137,013	-	348,137,013	-
136,622,667	-	136,622,667	-
83,618,044	-	83,618,044	-
61,375,374	-	61,375,374	-
932,973,127	-	932,973,127	-
411,662,651	-	411,662,651	13,688,640
2,734,723,020	-	2,734,723,020	13,688,640
1,240,033	513,450	1,753,483	86,835,153
34,513,819	-	34,513,819	-
-	-	-	536,886
4,699,852	18,066	4,717,918	19,998,371
23,952,922	(23,952,922)	-	-
2,799,129,646	(23,421,406)	2,775,708,240	121,059,050
(11,397,715)	61,294,101	49,896,386	40,134,447
1,640,459,834	32,205,472	1,672,665,306	1,063,801,003
$ 1,629,062,119	$ 93,499,573	$ 1,722,561,692	$ 1,103,935,450

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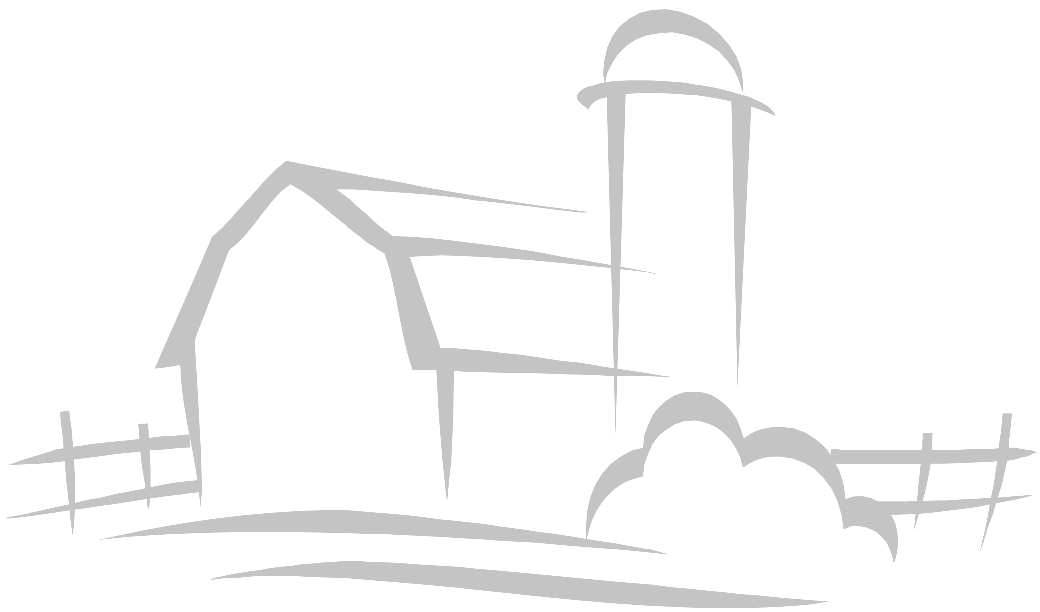

Vermont

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents..................................	$ 24,043,284	$ 3,043,499	$ 66,772,069	$ 167,843,903
Investments..	-	-	-	15,612,204
Receivables				
Taxes receivable, net.....................................	205,600,774	10,355,602	16,161,134	4,729,752
Accrued interest receivable............................	-	1,850	-	2,009
Notes and loans receivable............................	699,499	601,801	-	3,798,748
Other receivables, net....................................	7,800,942	12,574,429	-	24,797,068
Intergovernmental receivables - federal	-	-	-	-
government, net..	814,744	44,580,290	-	-
Due from other funds..	2,243,277	619,816	285,896	2,704,077
Due from component units..................................	2,759,649	-	-	50,799
Interfund receivable..	110,583,216	-	-	-
Advances to other funds.....................................	301,275	-	-	-
Advances to component units..............................	737,472	-	-	572,826
Total assets...	$ 355,584,132	$ 71,777,287	$ 83,219,099	$ 220,111,386
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
LIABILITIES				
Accounts payable...	$ 28,816,631	$ 32,758,200	$ 12,381,502	$ 25,114,460
Accrued liabilities..	9,307,700	5,251,819	140,846	4,556,321
Retainage payable...	6,190	39,351	-	102,527
Due to other funds...	17,106,321	906,882	12,737	91,153,405
Due to component units......................................	-	-	-	-
Intergovernmental payable - federal government.......	-	247,803	-	-
Tax refunds payable..	9,701,847	-	-	30,101
Unearned revenue...	-	52,697	-	127,889
Total liabilities...	64,938,689	39,256,752	12,535,085	121,084,703
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue.................................	131,461,876	10,675,064	4,249,248	12,998,571
Total deferred inflow of resources..........	131,461,876	10,675,064	4,249,248	12,998,571
FUND BALANCES				
Nonspendable				
Advances...	1,038,747	-	-	-
Long-term notes and loans receivable................	699,499	-	-	-
Permanent Fund principal..............................	-	-	-	-
Restricted..	-	6,223,686	-	8,832,338
Committed...	-	15,621,785	66,434,766	82,533,744
Assigned...	5,274,128	-	-	-
Unassigned..	152,171,193	-	-	(5,337,970)
Total fund balances....................................	159,183,567	21,845,471	66,434,766	86,028,112
Total liabilities, deferred inflows and fund balances..	$ 355,584,132	$ 71,777,287	$ 83,219,099	$ 220,111,386

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
	$ 67,258,078	$ 86,544,853	$ 90,250,565	$ -	$ 505,756,251
	103,453	-	35,016,503	-	50,732,160
	-	-	121,768	-	236,969,030
	13,917	-	-	-	17,776
	260,337,139	-	-	-	265,437,187
	3,053,793	30,980,218	593,867	-	79,800,317
	-	-			
	133,766,329	55,818,933	462,204	-	235,442,500
	1,415,312	44,258,007	97	(51,009,911)	516,571
	5,667	-	-	-	2,816,115
	-	-	-	-	110,583,216
	-	-	-	-	301,275
	-	-	-	-	1,310,298
	$ 465,953,688	$ 217,602,011	$ 126,445,004	$ (51,009,911)	$ 1,489,682,696
	$ 53,653,236	$ 96,333,331	$ 10,496,161	$ -	$ 259,553,521
	5,140,707	2,761,949	503,342	-	27,662,684
	1,508,976	371,145	1,733,605	-	3,761,794
	1,324,771	2,641,104	75,691	(51,009,911)	62,211,000
	-	-	152,240	-	152,240
	8,662,311	-	-	-	8,910,114
	-	-	-	-	9,731,948
	1,355,936	-	-	-	1,536,522
	71,645,937	102,107,529	12,961,039	(51,009,911)	373,519,823
	1,847,366	20,630,014	4,035	-	181,866,174
	1,847,366	20,630,014	4,035	-	181,866,174
	-	-	-	-	1,038,747
	-	-	-	-	699,499
	-	-	7,416,453	-	7,416,453
	392,460,385	94,864,468	77,614,724	-	579,995,601
	-	-	29,569,164	-	194,159,459
	-	-	-	-	5,274,128
	-	-	(1,120,411)	-	145,712,812
	392,460,385	94,864,468	113,479,930	-	934,296,699
	$ 465,953,688	$ 217,602,011	$ 126,445,004	$ (51,009,911)	$ 1,489,682,696

STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2013

Total fund balances from previous page	$ 934,296,699
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 [1]	1,970,452,523
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 position	14,671,637
Amounts presented in the statement of net position relating to, but not in fund balances due to a different basis of accounting [1]	189,292,082
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 [1]	(1,479,650,822)
Net position of governmental activities	$ 1,629,062,119

[1] Additional information on these amounts can be found in Note II. A.

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

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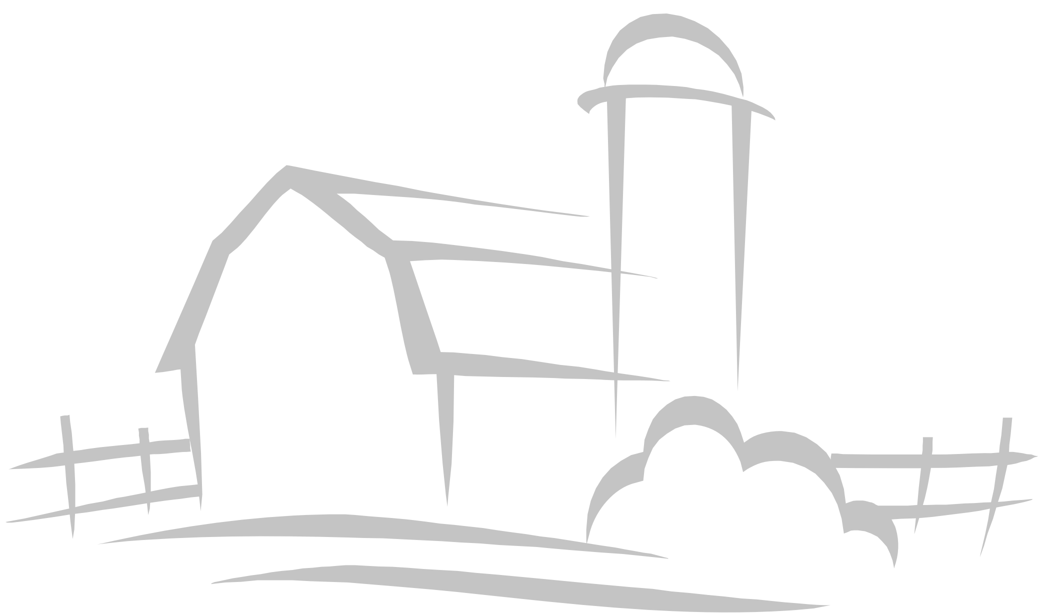

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax	$ 663,255,624	$ -	$ -	$ 2,225,403
Corporate income tax	94,976,413	-	-	-
Sales and use tax	231,848,562	-	115,793,500	580,573
Meals and rooms tax	135,847,716	-	-	252,066
Motor fuels tax	-	58,913,620	-	1,532,593
Purchase and use tax	-	55,740,944	27,877,100	-
Statewide education tax	-	-	932,973,127	-
Other taxes	144,020,140	19,179,475	492,602	248,335,168
Earnings of departments				
Fees	21,366,142	28,819,729	-	81,148,174
Rents and leases	-	1,515,555	-	2,659,008
Sales of services	2,059,967	54,842	-	18,650,380
Federal grants	-	288,237,193	-	-
Fines, forfeits and penalties	4,663,538	5,124,001	-	21,590,668
Investment income	512,500	48,221	83,414	1,023,411
Licenses				
Business	2,803,141	391,579	-	14,175,691
Non-business	74,244	82,780,852	-	2,866,017
Special assessments	-	-	-	55,482,554
Other revenues	3,336,199	1,878,826	-	98,514,606
Total revenues	1,304,764,186	542,684,837	1,077,219,743	549,036,312
EXPENDITURES				
General government	74,193,273	3,968,106	8,921,465	40,883,075
Protection to persons and property	112,696,487	26,474,990	-	121,738,508
Human services	424,677,286	-	4,370,601	68,628,649
Labor	5,099,761	-	-	4,673,370
General education	153,419,496	-	1,377,538,262	17,999,440
Natural resources	21,977,174	-	-	30,618,329
Commerce and community development	14,220,107	-	-	5,175,933
Transportation	108,440	503,094,883	-	4,015,154
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	806,392,024	533,537,979	1,390,830,328	293,732,458
Excess of revenues over (under) expenditures	498,372,162	9,146,858	(313,610,585)	255,303,854
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	-	-	-	-
Transfers in	45,296,928	4,370,272	314,241,035	75,389,655
Transfers out	(562,866,187)	(10,060,053)	-	(332,999,068)
Total other financing sources (uses)	(517,569,259)	(5,689,781)	314,241,035	(257,609,413)
Net change in fund balances	(19,197,097)	3,457,077	630,450	(2,305,559)
Fund balances, July 1 - as restated	178,380,664	18,388,394	65,804,316	88,333,671
Fund balances, June 30	$ 159,183,567	$ 21,845,471	$ 66,434,766	$ 86,028,112

The accompanying notes are an integral part of these statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 665,481,027
-	-	-	-	94,976,413
-	-	-	-	348,222,635
-	-	-	-	136,099,782
-	-	929,161	-	61,375,374
-	-	-	-	83,618,044
-	-	-	-	932,973,127
-	-	-	-	412,027,385
-	-	162,880	-	131,496,925
-	-	65,960	-	4,240,523
-	-	5,404	-	20,770,593
877,054,531	692,294,717	7,953,292	-	1,865,539,733
-	-	14,863	-	31,393,070
507,602	-	1,618,473	-	3,793,621
-	-	1,045	-	17,371,456
-	-	7,220,119	-	92,941,232
-	-	3,443	-	55,485,997
980,310	25,756,529	594,737	-	131,061,207
878,542,443	718,051,246	18,569,377	-	5,088,868,144
11,759,181	-	-	-	139,725,100
60,277,318	623,369	-	-	321,810,672
559,308,524	1,154,937,180	25,000	-	2,211,947,240
24,226,926	-	-	-	34,000,057
123,149,505	5,211,671	1,497,045	-	1,678,815,419
18,754,918	-	16,228,382	-	87,578,803
11,540,301	-	-	-	30,936,341
-	-	-	-	507,218,477
-	-	73,416,091		73,416,091
-	-	71,962,177	-	71,962,177
809,016,673	1,160,772,220	163,128,695	-	5,157,410,377
69,525,770	(442,720,974)	(144,559,318)	-	(68,542,233)
-	-	104,005,000	-	104,005,000
-	-	9,922,543	-	9,922,543
3,639,726	469,743,441	73,282,039	(957,128,737)	28,834,359
(32,554,096)	(21,640,302)	(3,555,257)	957,128,737	(6,546,226)
(28,914,370)	448,103,139	183,654,325	-	136,215,676
40,611,400	5,382,165	39,095,007	-	67,673,443
351,848,985	89,482,303	74,384,923	-	866,623,256
$ 392,460,385	$ 94,864,468	$ 113,479,930	$ -	$ 934,296,699

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, 2013

Total net change in fund balances from the previous page	**$ 67,673,443**
Governmental funds report capital outlays 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 outlays exceeded depreciation in the current period (net of internal service funds) [1]	56,760,826
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal repayment	53,250,000
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position [1]	(114,558,904)
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds	3,710,562
Estimated personal income tax refunds and retirement incentives that are not due and payable are not reported as expenditures in the governmental funds	6,105,529
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 [1]	(81,286,089)
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	(3,053,082)
Total changes in net position of governmental activities as reported on the statement of activities	**$ (11,397,715)**

[1] Additional information on these amounts can be found in Note II. B.

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents	$ 110,313,459	$ 1,360,294	$ 3,484,668
Receivables			
Taxes receivable, net of allowance for uncollectibles	37,732,456	-	-
Accrued interest receivable	-	-	-
Accounts receivable, net of allowance for uncollectibles	1,411,969	1,519,674	1,843,443
Loans receivable	-	-	-
Due from other funds	-	11,054	8,680
Intergovernmental receivables - federal government	700,812	-	-
Inventories, at cost	-	5,405,955	491,788
Prepaid expenses	-	-	6,569
Total current assets	150,158,696	8,296,977	5,835,148
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	-
Investments	-	-	1,757,232
Loans receivable	-	-	-
Accounts receivable - subcriptions	-	-	-
Imprest cash and change fund - advances	-	75	300,000
Total restricted assets	-	75	2,057,232
Capital Assets			
Land	-	-	-
Construction in progress	-	-	-
Works of art	-	-	-
Capital assets being depreciated/amortized			
Machinery, equipment and buildings	-	2,035,996	252,386
Less accumulated depreciation	-	(1,365,169)	(241,254)
Total capital assets, net of depreciation	-	670,827	11,132
Total restricted and capital assets	-	670,902	2,068,364
Total assets	150,158,696	8,967,879	7,903,512
LIABILITIES			
Current Liabilities			
Accounts payable	619,589	3,315,226	542,971
Accrued salaries and benefits	-	386,104	134,403
Claims payable	-	-	-
Due to lottery winners	-	-	254,537
Due to agents	-	262,897	-
Due to other funds	73,594	260,217	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	4,487,653
Unearned revenue	9,278,599	1,550	178,832
Capital leases payable	-	-	-
Other current liabilities	54,181,132	-	-
Total current liabilities	64,152,914	4,225,994	5,598,396
Long-term Liabilities			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	1,250,154
Claims payable	-	-	-
Advances from other funds	-	75	300,000
Capital leases payable	-	-	-
Other noncurrent liabilities	-	-	-
Total long-term liabilities	-	75	1,550,154
Total liabilities	64,152,914	4,226,069	7,148,550
NET POSITION			
Net investment in capital assets	-	670,827	11,132
Restricted for unemployment compensation benefits	86,005,782	-	-
Unrestricted (deficit)	-	4,070,983	743,830
Total net position	$ 86,005,782	$ 4,741,810	$ 754,962

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
	$ 1,663,440	$ -	$ 116,821,861	$ 58,736,251
	-	-	37,732,456	-
	21,189	-	21,189	-
	436,094	-	5,211,180	23,040,931
	899,600	-	899,600	-
	78,302	(73,594)	24,442	61,371,814
	-	-	700,812	-
	72,445	-	5,970,188	2,410,329
	101,212	-	107,781	3,665,300
	3,272,282	(73,594)	167,489,509	149,224,625
	449,350	-	449,350	-
	-	-	1,757,232	-
	1,299,759	-	1,299,759	-
	5,370	-	5,370	-
	1,200	-	301,275	-
	1,755,679	-	3,812,986	-
	-	-	-	26,156
	-	-	-	2,307,082
	-	-	-	8,200
	5,809	-	2,294,191	90,115,215
	(5,406)	-	(1,611,829)	(52,157,180)
	403	-	682,362	40,299,473
	1,756,082	-	4,495,348	40,299,473
	5,028,364	(73,594)	171,984,857	189,524,098
	486,622	-	4,964,408	15,185,688
	70,984	-	591,491	3,695,663
	-	-	-	12,327,552
	-	-	254,537	-
	-	-	262,897	-
	215	(73,594)	260,432	254,592
	1,989,818	-	1,989,818	108,133,972
	-	-	4,487,653	-
	47,859	-	9,506,840	24,869
	-	-	-	327,296
	-	-	54,181,132	-
	2,595,498	(73,594)	76,499,208	139,949,632
	449,350	-	449,350	-
	-	-	1,250,154	-
	-	-	-	33,276,151
	1,200	-	301,275	-
	-	-	-	1,611,975
	-	-	-	-
	450,550	-	2,000,779	34,888,126
	3,046,048	(73,594)	78,499,987	174,837,758
	403	-	682,362	38,360,202
	-	-	86,005,782	-
	1,981,913	-	6,796,726	(23,673,862)
	$ 1,982,316	$ -	93,484,870	$ 14,686,340
Adjustment to reflect the consolidation of internal service activities related to enterprise funds..................................			14,703	
Net Position - Business-type Activities........			$ 93,499,573	

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services	$ 148,866,298	$ 51,170,922	$ -
Ticket sales	-	-	102,087,388
Rental income	-	-	-
License fees	-	1,188,055	-
Federal donated properties	-	-	-
Advertising revenues	-	-	-
Other operating revenues	-	2,421,706	1,256
Total operating revenues	148,866,298	54,780,683	102,088,644
OPERATING EXPENSES			
Cost of sales and services	-	40,350,846	76,253,346
Claims expense	109,211,403	-	-
Salaries and benefits	-	3,781,393	1,477,901
Insurance premium expense	-	19,694	3,549
Contractual services	-	738,722	116,893
Repairs and maintenance	-	19,451	4,422
Depreciation	-	300,343	6,785
Rental expense	-	92,014	183,715
Utilities and property management	-	321,687	92,851
Non-capital equipment purchased	-	90,402	8,003
Promotions and advertising	-	68,589	769,222
Administration expenses	-	58,474	33,620
Supplies and parts	-	283,177	34,975
Distribution and postage	-	42,015	22,082
Travel	-	36,006	15,277
Other operating expenses	-	5,908,857	172,082
Total operating expenses	109,211,403	52,111,670	79,194,723
Operating income (loss)	39,654,895	2,669,013	22,893,921
NONOPERATING REVENUES (EXPENSES)			
Federal grants	19,705,388	-	-
Capital contributions	-	-	-
Gain on disposal of capital assets	-	18,066	-
Investment income	600,859	-	(87,518)
Total nonoperating revenues (expenses)	20,306,247	18,066	(87,518)
Income (loss) before contributions, and transfers	59,961,142	2,687,079	22,806,403
OTHER FINANCING SOURCES (USES)			
Transfers in	621,042	-	-
Transfers out	(792,820)	(1,095,817)	(22,927,105)
Total other financing sources (uses)	(171,778)	(1,095,817)	(22,927,105)
Changes in net position	59,789,364	1,591,262	(120,702)
Total net position, July 1	26,216,418	3,150,548	875,664
Total net position June 30	$ 86,005,782	$ 4,741,810	$ 754,962

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
$ 3,985,374	$ -	$ 204,022,594	$ 254,345,663
-	-	102,087,388	-
-	-	-	14,529,938
-	-	1,188,055	-
1,539,433	-	1,539,433	-
409,078	-	409,078	-
131,043	-	2,554,005	2,810,875
6,064,928	-	311,800,553	271,686,476
4,760,063	-	121,364,255	32,861,036
-	-	109,211,403	141,606,365
737,253	-	5,996,547	36,556,110
8,478	-	31,721	4,693,047
253,961	-	1,109,576	11,440,415
1,261	-	25,134	8,309,854
1,937	-	309,065	8,575,905
8,537	-	284,266	2,322,639
17,274	-	431,812	12,032,063
5,713	-	104,118	2,492,982
111,473	-	949,284	30,374
25,221	-	117,315	7,660,379
3,781	-	321,933	10,242,644
253,869	-	317,966	85,829
2,203	-	53,486	142,336
22,906	-	6,103,845	2,868,022
6,213,930	-	246,731,726	281,920,000
(149,002)	-	65,068,827	(10,233,524)
-	-	19,705,388	-
-	-	-	659,214
-	-	18,066	696,565
109	-	513,450	97,879
109	-	20,236,904	1,453,658
(148,893)	-	85,305,731	(8,779,866)
1,042,820	(1,413,862)	250,000	6,296,226
(801,042)	1,413,862	(24,202,922)	(628,150)
241,778	-	(23,952,922)	5,668,076
92,885	-	61,352,809	(3,111,790)
1,889,431	-	32,132,061	17,798,130
$ 1,982,316	$ -	$ 93,484,870	$ 14,686,340

Total change in net position reported above........	$ 61,352,809
Consolidation adjustment of internal service activities related to enterprise funds......	(58,708)
Change in net position - business type activities..	$ 61,294,101

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 149,458,723	$ 50,646,018	$ 102,080,861
Cash paid to suppliers for goods and services	-	(44,104,762)	-
Cash paid to employees for services	-	(3,750,691)	(1,490,301)
Cash paid for prizes and commissions	-	-	(70,053,980)
Cash paid to claimants	(109,638,459)	-	-
Liquor taxes and licenses paid	-	-	-
Cash paid for fees, operations and other	-	-	(7,498,678)
Other operating revenues	-	3,609,761	1,256
Other operating expenses	-	(5,908,857)	-
Total cash provided (used) by operating activities	39,820,264	491,469	23,039,158
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(190,012)	(1,095,817)	(22,935,785)
Other nonoperating (expenses)	-	-	-
Interfund loans and advances	-	-	-
Federal grants	19,650,106	-	-
Temporary loan from federal government	(24,851,439)	-	-
Net cash provided (used) by noncapital financing activities	(5,391,345)	(1,095,817)	(22,935,785)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(246,159)	-
Payment of capital leases	-	-	-
Insurance recoveries	-	-	-
Proceeds from sale of capital assets	-	18,066	-
Net cash provided (used) by capital and related financing activities	-	(228,093)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	600,859	-	(51,687)
Proceeds from sales/maturities of investments	-	-	252,261
Interest and penalties received (paid)	-	-	-
Net cash provided (used) by investing activities	600,859	-	200,574
Net increase (decrease) in cash and cash equivalents	35,029,778	(832,441)	303,947
Cash and cash equivalents, July 1	75,283,681	2,192,810	3,480,721
Cash and cash equivalents, June 30	$ 110,313,459	$ 1,360,369	$ 3,784,668
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ 39,654,895	$ 2,669,013	$ 22,893,921
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	300,343	6,785
(Increase) decrease in accounts/taxes receivable	592,425	(367,652)	(22,072)
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	(10,893)	-
(Increase) decrease in inventory	-	(165,445)	6,043
(Increase) decrease in prepaid expenses	-	-	(750)
Increase (decrease) in accounts payable	-	(1,518,097)	(362,711)
Increase (decrease) in accrued salaries and benefits	-	30,702	(14,950)
Increase (decrease) in claims payable	(418,029)	-	-
Increase (decrease) in due to lottery winners	-	-	(179,467)
Increase (decrease) in due to agents	-	(260,216)	-
Increase (decrease) in future and unclaimed prizes payable	-	-	696,064
Increase (decrease) in due to other funds	-	(146,259)	-
Increase (decrease) in unearned revenues	-	(100)	16,295
Increase (decrease) in other liabilities	(9,027)	(39,927)	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	165,369	(2,177,544)	145,237
Net cash provided (used) by operating activities	$ 39,820,264	$ 491,469	$ 23,039,158
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	-	-	-
Retirement of assets not fully depreciated	-	-	-

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 Position.

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

Business-type Activities-Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 5,464,755	$ 307,650,357	$ 257,428,782
(4,779,282)	(48,884,044)	(91,160,561)
(740,274)	(5,981,266)	(35,978,687)
-	(70,053,980)	-
-	(109,638,459)	(142,130,396)
-	-	-
-	(7,498,678)	-
82,314	3,693,331	2,810,875
(38,378)	(5,947,235)	(2,868,022)
(10,865)	63,340,026	(11,898,009)
260,012	(23,961,602)	5,668,076
-	-	-
(43,406)	(43,406)	14,748,929
-	19,650,106	-
-	(24,851,439)	-
216,606	(29,206,341)	20,417,005
-	(246,159)	(12,341,185)
-	-	(1,656,308)
-	-	18,683
-	18,066	1,799,495
-	(228,093)	(12,179,315)
109	549,281	97,879
-	252,261	-
-	-	-
109	801,542	97,879
205,850	34,707,134	(3,562,440)
1,908,140	82,865,352	62,298,691
$ 2,113,990	$ 117,572,486	$ 58,736,251
$ (149,002)	$ 65,068,827	$ (10,233,524)
1,937	309,065	8,575,905
48,425	251,126	(7,157,958)
(957)	(957)	-
(3,540)	(3,540)	-
(4,708)	(15,601)	(4,336,945)
201,814	42,412	(144,104)
(29,690)	(30,440)	(2,440,946)
65,381	(1,815,427)	3,657,839
6,246	21,998	589,807
-	(418,029)	(524,031)
-	(179,467)	-
-	(260,216)	-
-	696,064	-
(4,344)	(150,603)	109,534
(106,175)	(89,980)	6,414
(99)	(49,053)	-
(36,153)	(36,153)	-
138,137	(1,728,801)	(1,664,485)
$ (10,865)	$ 63,340,026	$ (11,898,009)
-	-	659,214
-	-	(1,121,613)

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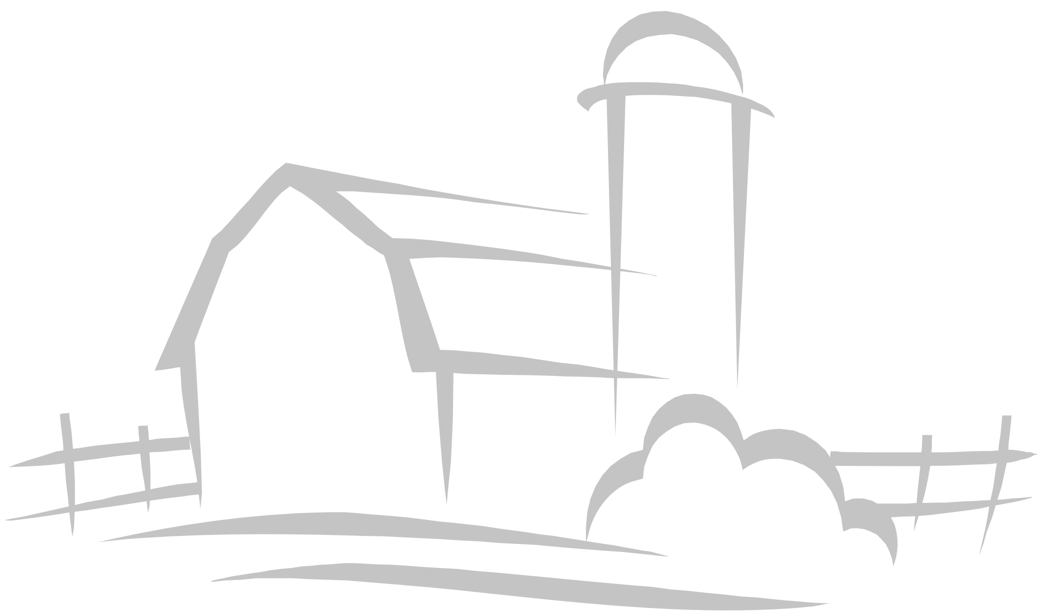

Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 11,576,772	$ -	$ 5,269,301	$ 8,536,548
Investments at fair value				
Pooled investments	3,458,870,072	135,086,814	-	-
Fixed income	7,950,726	-	-	-
Equities	4,972,971	-	843,536	-
Mutual and commingled funds	146,315,045	-	-	-
Receivables				
Taxes	-	-	-	1,184,894
Contributions - current	11,193,774	-	-	-
Contributions - noncurrent	6,907,977	-	-	-
Interest and dividends	359,586	-	-	-
Due from other funds	814,744	-	-	-
Other	372,257	-	-	1,216,912
Prepaid expenses	2,068,374	-	-	-
Other assets	-	-	3,374,176	-
Capital assets				
Construction in progress	3,523,712	-	-	-
Capital assets being depreciated				
Equipment	2,198,127	-	5,261	-
Less accumulated depreciation	(1,000,022)	-	(1,117)	-
Total capital assets, net of depreciation	4,721,817	-	4,144	-
Total assets	3,656,124,115	135,086,814	9,491,157	10,938,354
LIABILITIES				
Accounts payable	4,050,468	136,539	26,198	-
Accrued liabilities	-	-	29,538	-
Claims payable	-	-	7,334,004	-
Retainage payable	608,733	-	-	-
Due to other funds	1,547	-	-	-
Interfund loans payable	-	159,280	-	300,146
Due to depositories	-	-	-	852
Intergovernmental payable - other governments	-	-	-	6,235,619
Amounts held in custody for others	-	-	-	3,187,709
Other liabilities	-	-	-	1,214,028
Total liabilities	4,660,748	295,819	7,389,740	$ 10,938,354
NET POSITION HELD IN TRUST FOR				
Employees' pension benefits	3,624,107,855	-	-	
Employees' other postemployment benefits	27,355,512	-	-	
Pool participants	-	134,790,995	-	
Individuals, organizations and other governments	-	-	2,101,417	
Net position held in trust for benefits and other purposes	$ 3,651,463,367	$ 134,790,995	$ 2,101,417	

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

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions			
Employer - pension benefit	$ 108,567,364	$ -	$ -
Employer - healthcare benefit	46,557,683	-	-
Plan member	78,603,119	-	-
Transfers from non-state systems	23,713	-	-
Medicare part D drug subsidy	1,440,080	-	-
Total contributions	235,191,959	-	-
Investment Income			
Net appreciation in fair value of investments	7,745,261	-	-
Income from pooled investments	278,657,695	10,650,844	-
Dividends	4,338,560	-	-
Interest income	866,637	-	13,525
Other income	458,376	-	-
Total investment income	292,066,529	10,650,844	13,525
Less Investment Expenses			
Investment managers and consultants	14,974,890	584,098	-
Total investment expenses	14,974,890	584,098	-
Net investment income	277,091,639	10,066,746	13,525
Pool participant deposits	-	1,400,000	-
Escheat property remittances	-	-	3,983,511
Total additions	512,283,598	11,466,746	3,997,036
DEDUCTIONS			
Retirement benefits	254,726,511	-	-
Other postemployment benefits	46,530,470	-	-
Refunds of contributions	5,707,353	-	-
Death claims	495,137	-	-
Depreciation	233,280	-	498
Operating expenses	3,698,524	18,578	781,673
Pool participant withdrawal	-	1,400,000	-
Transfers out	-	-	4,003,287
Total deductions	311,391,275	1,418,578	4,785,458
Change in net position held in trust for			
Employees' pension benefits	197,702,024	-	-
Employees' other postemployment benefits	3,190,299	-	-
Pool participants	-	10,048,168	-
Individuals, organizations and other governments	-	-	(788,422)
Net Position, July 1	3,450,571,044	124,742,827	2,889,839
Net Position, June 30	$ 3,651,463,367	$ 134,790,995	$ 2,101,417

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

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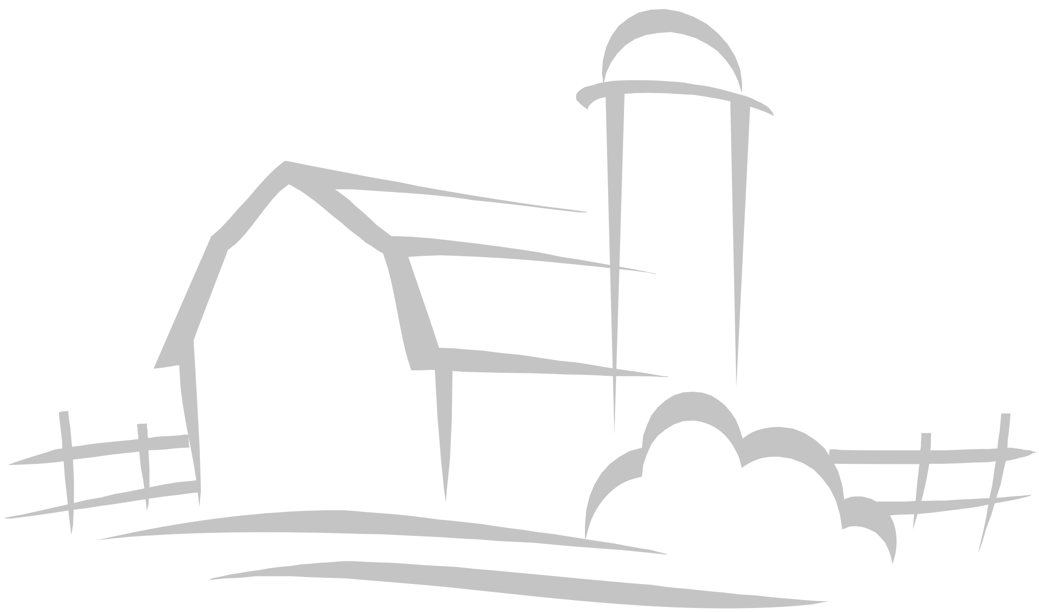

Vermont

COMPONENT UNITS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2013

	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	$ 28,651,000	$ 72,452,000	$ 3,446,616	$ 548,000	$ 23,021,472	$ 128,119,088
Investments	3,751,000	136,914,000	7,710,558	3,052,000	14,190,070	165,617,628
Accounts receivable, net	-	21,443,000	10,804,059	-	2,299,442	34,546,501
Accrued interest receivable - loans	11,710,000	-	-	3,611,000	22,465,156	37,786,156
Accrued interest receivable - investments	1,000	-	-	384,000	-	385,000
Loans and notes receivable - current portion	163,525,000	2,538,000	-	26,646,000	63,734,176	256,443,176
Other receivables	1,147,000	3,027,000	-	993,000	930,250	6,097,250
Due from federal government	228,000	8,187,000	-	-	16,382,475	24,797,475
Inventories, at cost	-	1,676,000	304,797	-	115,768	2,096,565
Other current assets	865,000	9,304,000	2,868,378	-	9,290,241	22,327,619
Total current assets	209,878,000	255,541,000	25,134,408	35,234,000	152,429,050	678,216,458
Restricted and Noncurrent Assets						
Cash and cash equivalents	67,912,000	28,560,000	783,947	67,289,000	2,197,159	166,742,106
Investments	-	337,176,000	51,274,407	160,774,000	76,770,204	625,994,611
Loans and notes receivable, net	1,262,750,000	26,410,000	5,223,078	352,280,000	792,515,380	2,439,178,458
Other assets	-	7,800,000	851,136	3,921,000	5,906,969	18,479,105
Total restricted and noncurrent assets	1,330,662,000	399,946,000	58,132,568	584,264,000	877,389,712	3,250,394,280
Capital Assets						
Land	3,150,000	27,709,000	6,428,274	50,000	849,486	38,186,760
Construction in progress	-	-	7,990,626	-	1,783,508	9,774,134
Capital assets, being depreciated						
Buildings and leasehold improvements	17,027,000	745,615,000	242,648,236	1,761,000	31,226,939	1,038,278,175
Equipment, furniture and fixtures	9,347,000	158,536,000	30,853,774	1,278,000	4,947,578	204,962,352
Infrastructure	-	-	36,440,568	-	-	36,440,568
Less accumulated depreciation	(12,693,000)	(395,488,000)	(129,856,677)	(2,333,000)	(17,870,897)	(558,241,574)
Total capital assets, net of depreciation	16,831,000	536,372,000	194,504,801	756,000	20,936,614	769,400,415
Total assets	1,557,371,000	1,191,859,000	277,771,777	620,254,000	1,050,755,376	4,698,011,153
Deferred Outflows of Resources						
Interest rate swaps	-	-	10,603,309	11,490,000	-	22,093,309
Total deferred outflows of resources	-	-	10,603,309	11,490,000	-	22,093,309
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	4,319,000	69,241,000	12,734,330	868,000	5,803,727	92,966,057
Accrued interest payable	-	-	-	4,507,000	100,380	4,607,380
Bond interest payable	429,000	-	-	-	1,984,570	2,413,570
Unearned revenue	6,475,000	13,270,000	6,481,816	-	1,957,347	28,184,163
Other current liabilities	-	-	-	570,000	19,840,423	20,410,423
Current portion of long-term liabilities	500,000	8,414,000	3,637,524	20,615,000	195,779,881	228,946,405
Due to primary government	-	-	-	-	2,663,875	2,663,875
Escrowed cash deposits	-	-	-	2,095,000	125,149	2,220,149
Advances from primary government	-	-	-	-	1,310,298	1,310,298
Total current liabilities	11,723,000	90,925,000	22,853,670	28,655,000	229,565,650	383,722,320
Noncurrent liabilities						
Bonds, notes and leases payable	1,321,938,000	459,710,000	130,935,970	518,191,000	528,322,914	2,959,097,884
Accounts payable and accrued liabilities	-	13,058,000	220,129	-	-	13,278,129
Accrued arbitrage rebate	1,200,000	-	-	-	670,401	1,870,401
Other liabilities	-	127,550,000	60,204,514	11,836,000	5,764	199,596,278
Total noncurrent liabilities	1,323,138,000	600,318,000	191,360,613	530,027,000	528,999,079	3,173,842,692
Total liabilities	1,334,861,000	691,243,000	214,214,283	558,682,000	758,564,729	3,557,565,012
Deferred Inflows of Resources						
Gain on refunding of bonds payable	58,604,000	-	-	-	-	58,604,000
Total deferred inflows of resources	58,604,000	-	-	-	-	58,604,000
NET POSITION						
Net investment in capital assets	16,831,000	71,226,000	65,590,456	756,000	18,066,701	172,470,157
Restricted	33,850,000	385,451,000	23,383,521	66,305,000	242,092,198	751,081,719
Unrestricted	113,225,000	43,939,000	(14,813,174)	6,001,000	32,031,748	180,383,574
Total net position	$ 163,906,000	$ 500,616,000	$ 74,160,803	$ 73,062,000	$ 292,190,647	$ 1,103,935,450

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, 2013

	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	$ 20,378,000	$ 382,122,000	$ 123,650,069	$ 2,981,000	$ 20,427,347	$ 549,558,416
Other expenses	49,848,000	195,823,000	49,589,479	13,075,000	66,435,939	374,771,418
Scholarship, grants and fellowships	24,535,000	16,015,000	8,007,863	-	-	48,557,863
Depreciation	1,213,000	27,823,000	13,238,072	119,000	1,440,903	43,833,975
Interest on debt	9,953,000	20,847,000	6,434,642	22,116,000	1,912,521	61,263,163
Total expenses	105,927,000	642,630,000	200,920,125	38,291,000	90,216,710	1,077,984,835
Program Revenues						
Charges for services	58,349,000	368,358,000	119,811,206	792,000	45,531,176	592,841,382
Operating grants and contributions	37,126,000	244,104,000	64,446,242	-	39,933,242	385,609,484
Capital grants and contributions	-	1,942,000	16,667,366	-	-	18,609,366
Total program revenues	95,475,000	614,404,000	200,924,814	792,000	85,464,418	997,060,232
Net revenue (expense)	(10,452,000)	(28,226,000)	4,689	(37,499,000)	(4,752,292)	(80,924,603)
General Revenues						
Property transfer tax	-	-	-	-	13,688,640	13,688,640
Investment income	376,000	47,317,000	2,189,117	31,174,000	5,779,036	86,835,153
Additions to non-expendable endowments	-	-	536,886	-	-	536,886
Miscellaneous	19,035,000	-	-	1,298,000	(334,629)	19,998,371
Total general revenues	19,411,000	47,317,000	2,726,003	32,472,000	19,133,047	121,059,050
Changes in net position	8,959,000	19,091,000	2,730,692	(5,027,000)	14,380,755	40,134,447
Net position - beginning, as restated	154,947,000	481,525,000	71,430,111	78,089,000	277,809,892	1,063,801,003
Net position - ending	$ 163,906,000	$ 500,616,000	$ 74,160,803	$ 73,062,000	$ 292,190,647	$ 1,103,935,450

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

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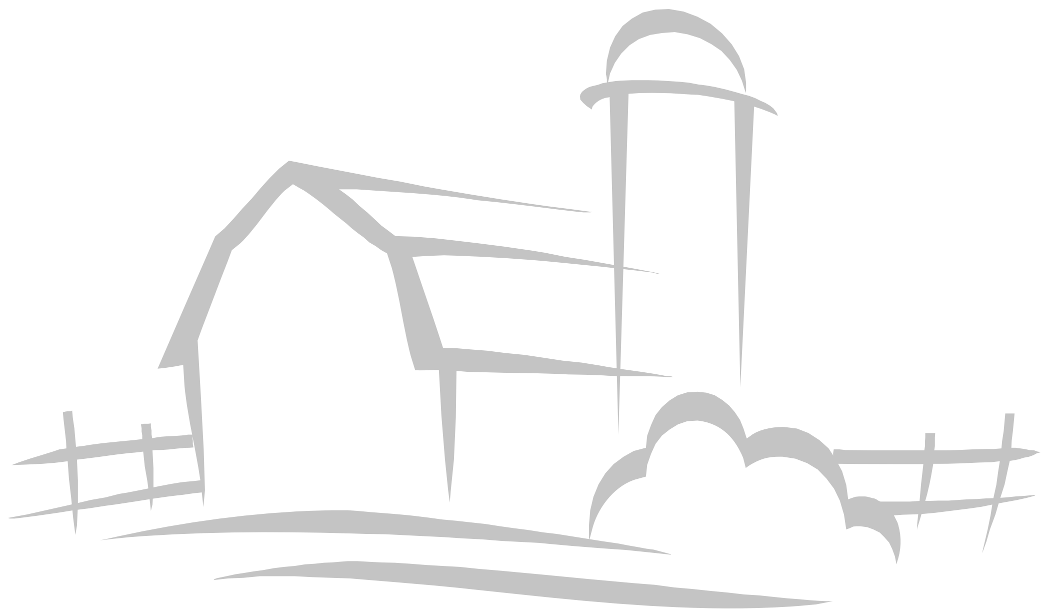

Vermont

STATE OF VERMONT
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2013

Note I. 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 applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting policies.

Newly implemented in these statements are the requirements of four new GASB statements. GASB Statement No. 61—*"The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34"* - modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62—*"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"* - incorporates into the GASB's authoritative literature certain accounting and financial guidance included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 63—*"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* - provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and identifies net position as the residual of all other elements presented in a statement of net financial position. GASB Statement No. 65—*"Items Previously Reported as Assets and Liabilities"* - establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously classified as assets and liabilities; and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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, 2013.

The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

A. Financial Reporting Entity

The State of Vermont's Primary Government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, with a Senate of 30 members and a House of Representatives of 150 members; and the Judicial Branch, with Supreme and Superior Courts and the Judicial Bureau.

The basic financial statements include all funds, agencies, boards, commissions and organizations 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. These component units are financially accountable to the State if the State appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, or if there is a potential for the organization to provide a financial benefit or financial burden to the State. Alternatively, for those organizations where the State does not appoint a voting majority, an organization is financially accountable to the State if the organization is fiscally dependent and the organization provides a financial benefit or financial burden to the State.
Component unit activity may be "blended" into the activity of the primary government or may be reported

separately. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. If they are reported separately, they are called "discretely presented component units" and are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit's designation as either "major" or "non-major" has been determined by the entity's relative significance to the State. 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.

Discretely Presented Major Component Units

The "Discretely Presented Component Units" contained in the government-wide financial statements report the financial results of the following entities:

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 Legislature appoints two additional members. 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 10 East Allen Street, P.O. Box 2000, Winooski, Vermont 05404.

*University of Vermont (UVM)** - The University of Vermont's financial report includes both the University and the State Agricultural College. The State appoints twelve of the twenty-three voting members of the Board of trustees. The State has assumed an obligation to provide financial support through its annual appropriation and is obligated to maintain the University's debt service reserves. 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 nine of the fifteen members of the board of trustees, and the legislature appoints an additional four members. The State has assumed an obligation to provide financial support through its annual appropriations and has assumed an obligation to maintain VSC's debt service reserves. 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, PO Box 7, Montpelier VT 05601.

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. The State appoints voting members of VHFA's board of commissioners. The State is able to impose its will on the organization as the Governor can remove any member of the board at will. The State also has an obligation to maintain the organization's debt reserves. Further information may be obtained by contacting the Agency's administrative offices at 164 Saint Paul Street, Burlington, VT 05401.

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 15 voting members consisting of the secretary of the agency of commerce and community development, the State treasurer, the secretary of agriculture, food and markets, the commissioner of forest, parks, & recreation, and the commissioner of public service or a designee of any of the above; and ten members, who are residents of the State of Vermont and appointed by the Governor with the advice and consent of the senate. The State has the ability to impose its will on the entity as the Governor can remove members at will and the State can change the structure and activities of the organization at any time. 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 58 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. Funding for the organization is provided by the Legislature, comprised of 50% of the revenue from the property transfer tax, plus other monies appropriated from time to time. The VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 58 East State Street,, Suite 5 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 majority of the voting members of the Board are indirectly appointed by the State. The State is able to impose its will on the organization as the Governor can remove any member at will, and VEDA can appoint the management of the organization. Audited financial statements and additional information may be obtained by contacting them at 58 East State Street, Suite 5, 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. The Governor appoints the four directors, and can remove members at will. VMBB is authorized, with written consent of the Governor and 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. The State is obligated annually to appropriate any funds necessary to maintain required reserves of the bond bank. The VMBB 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 20 Winooski Falls Way, Winooski VT 05404.

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 20 Winooski Falls Way, Winooski VT 05404.

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. The State appoints all members, and has the ability to impose its will on the entity as directors serve at the pleasure of the Governor. 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 State can impose its will on the entity as directors serve at the pleasure of the Governor. The Vermont Veterans' Home is financially accountable to the State as the State provides all funding and controls the finances of the Home. The Vermont Veterans' Home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

Vermont Rehabilitation Corporation – The Vermont Rehabilitation Corporation is a non-profit quasi-public corporation that was incorporated in 1935 in accordance with 10 V.S.A. 272-277. Its main purpose is to provide a limited source of loan funds to family farmers or prospective family farmers under terms and conditions which will reduce their investment costs to an extent that offers them a reasonable chance to succeed. The Vermont Rehabilitation Corporation is included as a component unit of the State as it is closely related and financially integrated with the State of Vermont. Additional information may be obtained by contacting the Vermont State Treasurer at 109 State Street, 4th Floor, Montpelier, Vermont 05609-6200.

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 State appoints all members of the Vermont Telecommunications Authority and the State has the ability to impose its will on the entity as it must approve all bonds issued by the authority. Additional information may be obtained by contacting the corporation at 100 State Street, Suite 342, Montpelier VT 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. All members of the authority are appointed by the Governor, and all resources revert to the State on termination of the authority. 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.

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 V. E. 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", as amended by GASB Statements No. 61.

Vermont Information Technology Leaders (VITL)
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. Basis of Presentation—Government-wide Financial Statements

The basic financial statements of the State of Vermont include both *government-wide statements* and *fund financial statements*. The focus of the government-wide statements is on reporting the operating results and financial position of the State as a whole and present a longer-term view of the State's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the State and present a shorter-term view of how operations were financed and what remains available for future spending.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, although the latter are excluded from the government-wide financial statements.

The State of Vermont's Government-wide Financial Statements (the Statement of Net Position 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 discretely presented 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 position (the amount by which assets and deferred outflows exceed liabilities and deferred inflows) are reported on the Statement of Net Position in three components:

(1) Net investment in capital assets– total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are related to the acquisition or construction of those assets, including related deferred outflows of resources and deferred inflows of resources;

(2) Restricted – for amounts when constraints placed on the net position are either externally imposed, or are imposed by constitutional provisions or enabling legislation.

(3) Unrestricted – the total net position 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. Basis of Presentation—Fund Financial Statements

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.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and discretely presented 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 and component units 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 plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, 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.

The financial activities of the State 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, committed or assigned 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. 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 as part of the global commitment to health Medicaid waiver, 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. 1901(e). 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, was renewed on October 2, 2013, and will expire on December 31, 2016. 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 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.

<u>Proprietary Funds</u>

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 are used to support public education and are transferred monthly to the Education Fund.

Internal Service Funds – These twenty-three 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 net position and report items such as Federal income tax withholding, social security tax withholding, etc.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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.

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

Expenditures generally are recorded when a liability is due and payable, 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.

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. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash balances for most funds are deposited with the State Treasurer. Except for the Pension and Vermont Municipal Employees Health Benefit Trust Funds, Investment Trust Fund, and Capital Projects Funds, 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. For additional information regarding types of investments and basis of valuation, see Note IV.B.—Investments.

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 IV.C.—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 unavailable 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 V.C. – 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 Position, 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 a minimum of 2 years. This includes 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 a minimum of 3 years. 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 $50,000 and a useful life of more than two years, and internally generated intangible assets with a cost of at least $150,000 and a useful life of more than one year are capitalized.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 5 to 50 years, equipment is 3 to 20 years, software is 3 to 10 years, and infrastructure assets are 7 to 80 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes IV. E. - Capital Assets - and IV. G. 3.– Lease Commitments - 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 Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government only has one item that qualifies for reporting in this category, the unamortized balance of losses on bond refunding reported in the government-wide Statement of Net Position. A loss on a bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Primary Government has only one type of item, which only arises under the modified accrual basis of accounting, that qualifies for reporting in this category, and that is *unavailable revenue*. Governmental funds report unavailable revenue in the balance sheet for revenue that is not available under the modified accrual basis. The amount is deferred and recognized as revenue in the period that the it becomes available.

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, 2013 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2013, and will be paid within sixty days. The amount reported as tax refunds payable at June 30, 2013 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2013's tax liability that will be paid out in calendar year 2014.

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, 2013, 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 position.

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 IV. G. 5. – 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.

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, as appropriate. The amount of the encumbrances remaining in the general fund, reported as assigned fund balances, is $5,274,128.

Fund Balances

The fund balance amounts for governmental funds have been classified 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. In the General Fund, amounts are assigned by the Agency of Administration under authorization by the Legislature in the annual Budget Adjustment Act.

· 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. Additional information may be found in Note IV. H.—Fund Balance/Net Position

Bond Discounts, Premiums and Issuance Costs

In the government-wide financial statements, bond discounts or premiums are capitalized 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 other than prepaid insurance are reported as expenses.

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 II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund financial statements each include a schedule that reconciles the fund balance and net changes in fund balance in the fund financial statements to the net position and changes in net position in the government-wide financial statements. Differences between the two occur because the current financial resources measurement focus and modified accrual basis of accounting that is used in governmental funds must be converted to the economic resources measurement focus and accrual basis of accounting that is used in government-wide reporting. In addition, differences will occur because balances and transactions associated with interfund activity must be eliminated in the process of preparing the government-wide financial statements, including consolidation of internal service fund data into the governmental activities in the government-wide financial statements.

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation explains that “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.” The details of this $1,970,452,523 are as follows:

Land	$ 127,458,849
Construction in progress	522,897,782
Works of art	127,803
Depreciable capital assets and infrastructure	
Capital assets	2,414,891,028
Less accumulated depreciation	(1,094,922,939)
Net adjustment to increase *fund balances - total governmental funds* to arrive at *net position - governmental activities*	$ 1,970,452,523

Another element of that reconciliation explains that “amounts are presented in the Statement of Net Position but are not presented in fund balances due to a different basis of accounting.” The details of this $189,292,082 are as follows:

Long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds	181,866,174
Deferred outflow for unamortized loss on sale of refunding bonds	7,425,908
Net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ 189,292,082

The final element of that reconciliation explains that "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." The details of this $1,479,650,822 are as follows:

Bonded and capital lease debt (net of internal service funds' liability)	$ (603,122,513)
Accrued interest payable on bonds	(8,615,940)
Intergovernmental payable - federal government (accrued interest)	(1,136,687)
Compensated absences (net of internal service funds' liability)	(29,925,369)
Tax refunds payable	(51,168,956)
Other long-term liabilities	(785,681,357)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ (1,479,650,822)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period, net of internal service funds." The details of this $56,760,826 difference are as follows:

Capital outlay/functional expenditures	$ 323,473,538
Expensed net book value of disposed assets	(166,722,189)
Depreciation expense	(99,990,523)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 56,760,826

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. The details of this $114,558,904 difference are as follows:

Bonds issued increases long-term debt in the statement of activities	$ (104,005,000)
Refunding bonds issued increases long-term debt in the statement of activities	-
Bond premium is amortized over the life of the bonds in the statement of activities	(7,766,777)
Refunding bonds deferred outflow amortized to interest expense over life of refunded bonds	(2,787,127)
Net adjustment to decrease *changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ (114,558,904)

Another element of that reconciliation states that "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 governmental funds." The details of this $81,286,089 difference are as follows:

Increase in accrued interest payable	$	(1,450,950)
Accreted interest on capital appreciation bonds		(153,488)
Decrease in compensated absences		1,566,675
Increase in employer pension and other postemployment benefit related costs		(77,514,510)
Increase in pollution remediation related costs		(4,616,811)
Decrease in intergovernmental payable - federal government (accrued interest)		801,620
Decrease in early retirement incentives		81,375
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$	(81,286,089)

Note III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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 and usually at the program level. 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).

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.

B. Deficit Fund Balances/Net Position

Business-type Proprietary Funds

Federal Surplus Property Fund ended fiscal year 2013 with both a deficit unrestricted net position and a total net position of $259,588. The program continues to suffer from a lack of inventory for sale from the federal government that could in turn be retrieved for sale by the State. In 2013, the fund received additional capital from the General Fund in the amount of $250,000. The plan going forward is to reduce the deficit by actively retrieving goods for sale to increase program sales in 2014. Given the program is popular with local governments further recapitalization from the General Fund would be required if sales continue to keep the program in a deficit position.

Vermont Life Magazine Fund ended fiscal year 2013 with a deficit unrestricted net position of $1,659,239 and a deficit total net position of $1,658,836. The Vermont Agency of Commerce & Community Development hired a publisher with business turn-around experience. The publisher advised the Agency in February of his intent to work with staff and the Vermont Life Advisory Board to balance Vermont Life Enterprise's operating budget by the end of fiscal 2015. In May, the Legislature gave Vermont Life Enterprise authority to generate revenues from additional sources. The fiscal 2013 consolidated loss increased the deficit total net position to $1,658,836. On February 21, 2013, the publisher submitted a document to the Secretary of Commerce & Community Development outlining Vermont Life's strategies to balance the budget by the end of fiscal 2015. Some strategies, such as the reengineering of the Vermont Life Catalog, increased circulation revenue due to a direct mail campaign and lower introductory rates, and cost cutting in editorial took place as planned, and the resulting improvements to the bottom line will hopefully be evident after the end of the fiscal year.

Internal Service Funds

Single Audit Revolving Fund ended fiscal year 2013 with both a deficit unrestricted net position and a total net position of $306,154. 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 prior year billings, but should be recovered through normal billing for services in future years.

Financial & HR Information Fund ended fiscal year 2013 with a deficit unrestricted net position of $67,326 and a deficit total net position of $34,458. This fund has had a fund surplus up until this year. This small deficit will be recovered through increased efficiencies in the program in the coming years. If the deficit continues to grow a small rate increase will be needed.
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Communications & Information Technology Fund ended fiscal year 2013 with a deficit unrestricted net position of $2,889,346 and a deficit total net position of $334,449. The fund is made up of three different programs. The mainframe program has a large surplus that was reduced during fiscal year 2013 by $190,000. The allocation program had an increase in its deficit; while telecom program had a large decrease in its surplus. The programs in total resulted in a deficit balance. Fiscal year 2014 should continue to see a reduction in the surplus from the mainframe program due to rate holidays, while the allocation program should see a reduction of its deficit through increased efficiencies.

Fleet Fund ended fiscal year 2013 with a deficit unrestricted net position of $4,939,985. The unrestricted deficit is the result of the rolling annual replacement schedule for vehicles that are financed through the inter-fund payables. More importantly, the total net position is positive and is expected to remain in that position. A rate holiday or a possible payback of unused mileage charges is possible in 2014 to help reduce the overall program fund surplus.

Copy Center Fund ended fiscal year 2013 with a deficit unrestricted net position of $3,289,695 and a deficit total net position of $1,701,804. The print shop has increased its sales volume over the last few years which have helped to stabilize the fund. Sales volume is expected to continue to increase as a result of the administrative requirement that all state entities use the print shop when possible. The increased volume, however, may need to be supplemented with an increase in rates to keep up with the increasing cost of goods.

Postage Fund ended fiscal year 2013 with both a deficit unrestricted net position and a total net position of $1,976,049. It is the intention that the current fund deficit will be recovered through business operations. An increase in the General Fund subsidy to cover the increasing cost of internal mail delivery and bomb screening has been budgeted for 2014 and 2015.

Facilities Operations Fund ended fiscal year 2013 with a deficit unrestricted net position of $3,453,991 and a deficit total net position of $3,552,179. The fund deficit will need to be recovered through increased billings. To do this a deficit reduction amount would need to be added to the fee for space rates.

Property Management Fund ended fiscal year 2013 with a deficit unrestricted net position of $22,713,804 and a deficit total net position of $22,710,701. The fund deficit continues to expand due to the lack of a revenue source to cover the ongoing operating expense of the program. The administration is exploring adding a surcharge to the existing leases to aid in covering these costs. The 20-year bonding of the three buildings in the program and the 50-year recovery period of the bond principle resulted in the lion's share of the fund deficit. As of 2013, only one building remains with bond principal payments.

Workers' Compensation Fund ended fiscal year 2013 with both a deficit unrestricted net position and a total net position of $5,032,896. The rates for fiscal year 2014 include an additional $1 million to help alleviate part of this fund deficit. In 2015, the fund deficit will be addressed in the rate setting process 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 signs of recovery. This goal should result in an improvement in the claims expense going forward.

Human Resources Fund ended fiscal year 2013 with both a deficit unrestricted net position and total net position of $446,057. This program continues to grow beyond its initial plans and initial funding amounts. As the fund has now reached a more stable situation there should be no further increases to the deficit. Planned rate increases and program efficiencies will be used to offset the current deficit.

Governmental Fund Types

General Obligation Bond Projects Fund ended fiscal year 2013 with a negative unassigned fund balance of $1,120,411. Spending authority for this fund is done through appropriations, while the bonds to pay for these expenses are not issued until the next fiscal year.

Special Fund ended fiscal year 2013 with a negative unassigned fund balance of $5,337,970. This is due to payment of expenses for Tropical Storm Irene, while reimbursements are expected in later fiscal years.

NOTE IV. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash and Cash Equivalents

Deposits 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. Chapter 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 custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository (FDIC) insurance and are uncollateralized; or collateralized with securities held by the pledging financial institution's 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, or other collateral acceptable to the Treasurer. 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, 2013, (including certificates of deposits) were $377,193,075. Of these, $1,571,644 was exposed to custodial credit risk as uninsured and uncollateralized.

The pension trust funds' cash deposits, outside of the pension trust funds' custodian bank, totaled $11,576,772, none of which was exposed to custodial credit risk.

B. Investments

Primary Government—Excluding All Pension Trust Funds

Investments for the primary government are governed by State statutes. 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.

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
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, 2013 are presented as follows:

Primary Government Investments - Excluding
Pension, Other Postemployment Benefits and Investment Trust Funds
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to <6	6 to 10	More Than 10
Debt Investments					
US Agencies/Treasuries	$ 30,580	$ 211	$ 731	$ 437	$ 29,201
Money Market Mutual Fund	246,824	246,824	-	-	-
Other	181	24	75	50	32
Total Debt Investments	277,585	$ 247,059	$ 806	$ 487	$ 29,233
Other Investments					
Equity Securities	241				
Mutual Funds	15,863				
US Unemployment Trust Pool	75,114				
Total Investments	$ 368,803				

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 Investments - Excluding
Pension, Other Postemployment Benefits and Investment Trust Funds

Investments per maturity schedule	$ 368,803
Included in cash & cash equivalents:	
Money market mutual fund	(240,459)
Certificates of deposit	103
US Unemployment trust pool	(75,114)
Financial statement investments total	$ 53,333
Governmental activities total	$ 50,732
Business activities total	1,757
Fiduciary - private purpose trust fund	844
Total	$ 53,333

(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, 2013, 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, 2013 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, 2013, is presented as follows using the Moody's rating scale.

Primary Government Rated Debt Instruments Excluding

Pension, Other Postemployment Benefits and Investment Trust Funds

(Expressed in Thousands)

		Quality Ratings	
Debt Investments	**Fair Value**	**Aaa**	**Unrated**
US Agencies/Treasuries	$ 30,580	$ 30,580	$ -
Money Market Mutual Fund	246,824	246,824	-
Other	181	-	181
Totals	$ 277,585	$ 277,404	$ 181

(e) 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, 2013, was $0.

Primary Government—Pension , Other Postemployment Benefits and Investment Trust Funds

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 postemployment benefit funds. Additional information on these plan benefit and actuarial valuations may be found in Note IV.G.4.—Pension and Other Postemployment Benefits.

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 position and statement of changes in net position are as follows.

VERMONT PENSION INVESTMENT COMMITTEE
INVESTMENT POOL
STATEMENT OF NET POSITION
June 30, 2013
(Expressed in Thousands)

Assets	
Cash and short term investments	$ 16,898
Receivables	
Interest and dividends	7,764
Investments sold	188,684
Total receivables	196,448
Investments at Fair Value	
Fixed income	764,918
Equities	750,576
Mutual funds	1,950,333
Real estate and venture capital	179,625
Total investments	3,645,452
Total assets	3,858,798
Liabilities	
Accounts payable	137
Other liabilities	159
Payable for investments purchased	264,841
Total liabilities	265,137
Net position held in trust for investment pool participants	$ 3,593,661

VERMONT PENSION INVESTMENT COMMITTEE
INVESTMENT POOL
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

Additions	
Investment income	
Net appreciation (depreciation) in fair value of investments	$ 201,642
Dividends	59,374
Interest income	29,285
Other income	16
Total investment gain	290,317
Total additions	290,317
Deductions	
Net pool participant withdrawals	84,261
Operating expenses	1,394
Total deductions	85,655
Change in net position	204,662
Net position held in trust for pool participants	
July 1, 2012	3,388,999
June 30, 2013	$ 3,593,661
Pool participants	
Vermont State Retirement System	$ 1,463,484
State Teacher's Retirement System	1,545,109
Vermont Municipal Employees' Retirement System	450,277
City of Burlington	134,791
Totals - June 30, 2013	$ 3,593,661

All three defined benefit plans managed by the State have adopted a common asset allocation as determined by the Vermont Pension Investment Committee. 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 a commingled stable bond fund. 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 postemployment benefit funds, the Vermont State Postemployment Benefits Trust Fund (State OPEB) and the Vermont Municipal Employees Health Benefit Fund (Muni OPEB). 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.

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 is carried at the net asset value of each retirement system's real estate fund investments, 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

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, Other Postemployment Benefits and Investment Trust Funds investments are as follows:

Pension, Other Postemployment Benefits, and
Investment Trust Funds' Investments
(Expressed in Thousands)

Investment Type	Fair Value	Less Than 1	1 to <6	6 to 10	More Than 10
Debt Investments					
US Agencies/Treasuries	$ 383,259	$ 76,460	$ 35,551	$ 168,309	$ 102,939
Corporate Debt	189,417	23,145	68,023	89,435	8,814
Money Market Mutual Fund	17,467	17,467	-	-	-
Repurchase Agreements	2,100	2,100	-	-	-
Municipals	26,374	-	-	560	25,814
Asset Backed Securities	3,798	-	-	905	2,893
Mortgage Backed Securities	61,148	-	-	1,849	59,299
Sovereign Debt	86,534	5,743	36,085	35,855	8,851
Bank Loans	19,751	850	8,823	10,078	-
Total Debt Investments	789,848	$ 125,765	$ 148,482	$ 306,991	$ 208,610
Other Investments					
Mutual & Commingled Funds	2,096,648				
Equity Securities	755,549				
Real Estate - Venture Capital	179,625				
Fixed Income - Derivatives	2,588				
Total	$ 3,824,258				

(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, 2013, no issuer exceeded 5%.

(c) Custodial Credit Risk
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, 2013, 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.

(d) Credit Risk
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 these securities are as follows:

Pension, Other Postemployment Benefits, and
Investment Trust Funds' Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
US Agencies/Treasuries	$ 383,259	$ 383,259	$ -	$ -
Corporate Debt	189,417	-	3,657	10,243
Money Market Mutual Fund	17,467	1,744	-	-
Repurchase Agreements	2,100	-	-	-
Municipals	26,374	2,209	11,508	8,864
Asset Backed Securities	3,798	1,853	-	920
Mortgage Backed Securities	61,148	20,362	1,648	275
Sovereign Debt	86,534	29,298	31,707	9,253
Bank Loans	19,751	-	-	-

continued below

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated
US Agencies/Treasuries	$ -	$ -	$ -	$ -
Corporate Debt	28,295	52,284	76,457	18,481
Money Market Mutual Fund	-	-	-	15,723
Repurchase Agreements	-	-	-	2,100
Municipals	-	-	1,156	2,637
Asset Backed Securities	120	-	-	905
Mortgage Backed Securities	4,828	887	9,526	23,622
Sovereign Debt	10,852	-	-	5,424
Bank Loans	-	-	-	19,751

e) Foreign Currency Risk

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

Pension, Other Postemployment Benefits, and
Investment Trust Funds' Investments
Foreign Currency Risk - International Securities at Fair Value
(Expressed in Thousands)

Currency	Total	Short Term	Debt	Equity	Derivatives
Australian Dollar	$ 21,318	$ 79	$ 8,601	$ 10,985	$ 1,653
Brazilian Real	(2,183)	-	-	-	(2,183)
Canadian Dollar	8,122	74	1,359	6,649	40
Chinese Yuan Renminbi	(55)	-	-	-	(55)
Danish Krone	1,899	-	-	1,899	-
Euro Currency	117,905	639	22,415	94,902	(51)
Hong Kong Dollar	3,560	61	-	3,499	-
Japanese Yen	93,670	645	26,269	66,727	29
Malaysian Ringgit	2,920	-	2,920	-	-
Mexican Peso	10,380	369	9,566	165	280
New Zealand Dollar	42	-	-	42	-
Norwegian Krone	3,817	-	-	3,817	-
Philippine Peso	1	1	-	-	-
Polish Zloty	7,446	106	7,230	110	-
Singapore Dollar	9,868	108	-	9,760	-
South African Rand	24	24	-	-	-
South Korean Won	3,143	28	-	3,115	-
Swedish Krona	17,912	-	9,191	8,721	-
Swiss Franc	18,554	-	-	18,554	-
Thailand Baht	1	-	-	1	-
United Kingdom Pound	52,506	68	2,633	49,818	(13)
Total	$ 370,850	$ 2,202	$ 90,184	$ 278,764	$ (300)

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.

Derivative Financial Instruments

Vermont Pension Investment Committee (VPIC) policy authorizes certain investment managers (Managers) to invest in derivative financial investments. 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 and Other Postemployment Benefit 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 Position. All of the derivatives reported at June 30, 2013, are at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2013		
	Classification	Amount	Classication	Amount	Notional
Fiduciary Funds					
Investment derivatives					
Currency forwards					
FX forwards	Investment revenue	$ 1,970,810	Investment	$ -	$ (293,469,615)
Options					
Fixed income options	Investment revenue	(488,359)	Investment	(612,163)	(47,500,000)
Foreign currency options	Investment revenue	4,331	Investment	(2,169)	(1,200,000)
Swaps					
Credit default swaps	Investment revenue	(725,445)	Investment	366,145	24,136,813
Fixed interest rate swaps	Investment revenue	2,530,524	Investment	2,525,525	1,038,376,169

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 Commodity Futures Trading Commission 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 Position.

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 Position.

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. At June 30, 2013, currency forward positions consisted of pending foreign exchange sales of $1,970,810.

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.

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2013, the VPIC had two different types of swap arrangements; interest rate swaps and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert long term variable interest investments into fixed interest rate investments. Credit default swaps are used to manage credit exposure without buying securities outright. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Fiduciary Net Position.

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. 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. For fiscal year 2013 all counterparties for derivatives met the VPIC counterparty risk rating requirements.

The following shows the market value of credit exposure per Moody's ratings at June 30, 2013.

Moody's Rating	Market Value
Aa3	$ 1,574
A1	435,722
A2	413,740
A3	587,002
Baa1	753,602
Total	$ 2,191,640

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, 2013, risk concentrations are as follows:

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
Morgan Stanley Capital Services LLC	34%	A-	A	Baa1
Citibank NA	20%	A	A	A3
Deutsche Bank AG	19%	A	A+	A2
HSBC BANK USA, N.A.	18%	AA-	AA-	A1
Royal Bank of Scotland PLC	6%	A-	A	A3
Credit Suisse International	2%	A	A	A1
Bank of America NA	1%	A	A	A3
Goldman Sachs Bank USA	0%	A	A	Aa3
Barclays Bank PLC	0%	A	A	A2
BNP PARIBAS S.A.	0%	A+	A+	A2

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. The maximum amount of loss VPIC would face in case of default of all counterparties as of June 30, 2013 consists of the aggregated fair value of OTC positions in the amount of $2,191,640.

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.

C. Receivables

Accounts receivable at June 30, 2013 are summarized as follows:

	Governmental Funds		Internal	Total Governmental
	Major	Non-major	Service Funds	Activities
Governmental activities				
Taxes				
Personal and corporate income	$ 219,124,270	$ -	$ -	$ 219,124,270
Sales and use	69,596,388	-	-	69,596,388
Meals and rooms	34,993,756	-	-	34,993,756
Purchase and use	441,519	-	-	441,519
Motor Fuel	7,996,120	121,768	-	8,117,888
Other taxes	23,321,359	-	-	23,321,359
Subtotal	355,473,412	121,768	-	355,595,180
Allowance for uncollectibles	(118,626,150)	-	-	(118,626,150)
Taxes receivable, net	$ 236,847,262	$ 121,768	$ -	$ 236,969,030
		Current receivable		$ 106,665,879
		Non-current receivable		130,303,151
		Total taxes receivable, net		$ 236,969,030
Loans and notes				
Loans and notes receivable	$ 266,603,887	$ -	$ -	$ 266,603,887
Allowance for uncollectibles	(1,166,700)	-	-	(1,166,700)
Loans and notes receivable, net	$ 265,437,187	$ -	$ -	$ 265,437,187
		Current receivable		$ 25,547,684
		Non-current receivable		239,889,503
		Total loans and notes receivable, net		$ 265,437,187
Federal grants				
Human services programs	$ 157,192,177	$ -	$ -	$ 157,192,177
Transportation projects	44,580,290	-	-	44,580,290
Other	33,207,829	462,204	-	33,670,033
Federal grants	$ 234,980,296	$ 462,204	$ -	$ 235,442,500
Other				
Accrued interest and other receivables	$ 104,595,362	$ 596,041	$ 23,098,148	$ 128,289,551
Allowance for uncollectibles	(25,371,136)	(2,174)	(57,217)	(25,430,527)
Other receivables, net	$ 79,224,226	$ 593,867	$ 23,040,931	102,859,024
Interfund loans receivable from Fiduciary Funds				460,973
Less Internal Service Funds' receivables from Governmental Funds				(9,318,657)
Other receivables, net				$ 94,001,340
		Current receivable		$ 42,806,117
		Non-current receivable		51,195,223
		Total other receivable, net		$ 94,001,340

	Enterprise Funds Major	Enterprise Funds Non-major	Total Business-type Activities
Business-type activities			
Taxes			
Unemployment	$ 43,026,940	$ -	$ 43,026,940
Allowance for uncollectibles	(5,294,484)	-	(5,294,484)
Taxes receivable, net	$ 37,732,456	$ -	$ 37,732,456
Loans and notes receivable	$ -	$ 2,199,359	$ 2,199,359
Current receivable			$ 899,600
Non-current receivable			1,299,759
Total loans and notes receivable, net			$ 2,199,359
Federal grants	$ 700,812	$ -	$ 700,812
Other			
Accrued interest and other receivables	$ 4,837,663	$ 495,157	$ 5,332,820
Allowance for uncollectibles	(62,577)	(32,504)	(95,081)
Other receivables, net	$ 4,775,086	$ 462,653	$ 5,237,739
Current receivable			$ 5,232,369
Non-current receivable			5,370
Total other receivable, net			$ 5,237,739

D. Interfund Balances

1. 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, 2013, are as follows.

	Due to Other Funds			
	Governmental Funds			
Due From Other Funds	General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	$ -	$ 11,141	$ -	$ 118,629
Transportation Fund	387	-	-	48,895
Education Fund	285,896	-	-	-
Special Fund	909,744	895,691	4,057	-
Federal Revenue Fund	61,033	50	-	374,874
Global Commitment Fund	15,029,658	-	-	29,228,290
Non-major Governmental Funds	-	-	-	-
Liquor Control Fund	-	-	-	11,054
Vermont Lottery Commission	-	-	8,680	-
Non-major Enterprise Funds	4,708	-	-	-
Internal Service Funds	151	-	-	61,371,663
Fiduciary Funds	814,744	-	-	-
Total	$ 17,106,321	$ 906,882	$ 12,737	$ 91,153,405

continued below

	Due to Other Funds			
	Governmental Funds			Proprietary Funds
Due From Other Funds	Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Internal Service Funds
General Fund	$ 187,749	$ 1,661,602	$ 2,851	$ 909
Transportation Fund	570,534	-	-	-
Education Fund	-	-	-	-
Special Fund	566,429	50	72,840	253,683
Federal Revenue Fund	-	979,355	-	-
Global Commitment Fund	59	-	-	-
Non-major Governmental Funds	-	97	-	-
Liquor Control Fund	-	-	-	-
Vermont Lottery Commission	-	-	-	-
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	-	-	-	-
Fiduciary Funds	-	-	-	-
Total	$ 1,324,771	$ 2,641,104	$ 75,691	$ 254,592

continued below

	Due to Other Funds				
	Proprietary Funds				
Due From Other Funds	Unemployment Compensation Trust Fund	Liquor Control Fund	Non-major Enterprise Funds	Fiduciary Funds	Total
General Fund	$ -	$ 260,181	$ 215	$ -	$ 2,243,277
Transportation Fund	-	-	-	-	619,816
Education Fund	-	-	-	-	285,896
Special Fund	-	36	-	1,547	2,704,077
Federal Revenue Fund	-	-	-	-	1,415,312
Global Commitment Fund	-	-	-	-	44,258,007
Non-major Governmental Funds	-	-	-	-	97
Liquor Control Fund	-	-	-	-	11,054
Vermont Lottery Commission	-	-	-	-	8,680
Non-major Enterprise Funds	73,594	-	-	-	78,302
Internal Service Funds	-	-	-	-	61,371,814
Fiduciary Funds	-	-	-	-	814,744
Total	$ 73,594	$ 260,217	$ 215	$ 1,547	$ 113,811,076

2. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursements needs. The General Fund advances to other funds at June 30, 2013, are summarized below.

Proprietary Funds		
Vermont Lottery Fund	$	300,000
Liquor Control Fund		75
Non-major Proprietary Funds		1,200
Total	$	301,275

3. 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, 2013, 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	$	1,989,818
Internal Service Funds		108,133,972
Fiduciary Funds		
Investment Trust Fund		159,280
Agency Funds		300,146
Total	$	110,583,216

4. 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, 2013, the General Fund advances to component units was $737,472 advanced to the Vermont Development Authority for interest rate subsidies and grants to be issued at the direction of State agencies. The Special Fund advance was $572,826 to VEDA for emergency flood relief loans.

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, 2013, these account balances are as follows.

	Vermont Housing & Conservation Board	Vermont Economic Development Authority	Total
Due from Component Units			
General Fund	$ 2,759,649	$ -	$ 2,759,649
Special Fund	-	50,799	50,799
Federal Fund	-	5,667	5,667
Due to Component Units			
Non-major Governmental Funds	(152,240)	-	(152,240)
Total	$ 2,607,409	$ 56,466	$ 2,663,875

5. 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 Emergency Relief Assistance and Home Heating Fuel Assistance Funds, from the Federal Revenue Fund for the earned income tax credit for the year, 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, 2013, are on the following page.

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Transfers in	Transfers Out: Governmental Funds: General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund
General Fund	$ -	$ -	$ -	$ 29,083,332	$ 11,386,209
Transportation Fund	4,370,272	-	-	-	-
Education Fund	284,417,280	-	-	6,896,650	-
Special Fund	28,427,346	4,383,499	-	-	19,914,607
Federal Revenue Fund	-	-	-	84,469	-
Global Commitment Fund	176,739,787	-	-	293,003,654	-
Non-major Governmental Funds	63,667,340	4,556,554	-	3,748,899	1,253,280
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	250,000	-	-	-	-
Internal Service Funds	4,994,162	1,120,000	-	182,064	-
Total	$ 562,866,187	$ 10,060,053	$ -	$ 332,999,068	$ 32,554,096

continued below

Transfers in	Transfers Out: Governmental Funds: Global Commitment Funds	Non-major Governmental Funds	Proprietary Funds: Unemployment Compensation Trust Funds	Liquor Control Fund	Vermont Lottery Commission
General Fund	$ -	$ -	$ -	$ 880,066	$ -
Transportation Fund	-	-	-	-	-
Education Fund	-	-	-	-	22,927,105
Special Fund	21,640,302	-	-	215,751	-
Federal Revenue Fund	-	3,555,257	-	-	-
Global Commitment Fund	-	-	-	-	-
Non-major Governmental Funds	-	-	-	-	-
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	-	-	792,820	-	-
Internal Service Funds	-	-	-	-	-
Total	$ 21,640,302	$ 3,555,257	$ 792,820	$ 1,095,817	$ 22,927,105

continued below

Transfers in	Transfers Out: Non-major Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ -	$ -	$ 3,947,321	$ 45,296,928
Transportation Fund	-	-	-	4,370,272
Education Fund	-	-	-	314,241,035
Special Fund	180,000	628,150	-	75,389,655
Federal Revenue Fund	-	-	-	3,639,726
Global Commitment Fund	-	-	-	469,743,441
Non-major Governmental Funds	-	-	55,966	73,282,039
Unemployment Compensation Trust Fund	621,042	-	-	621,042
Non-major Enterprise Funds	-	-	-	1,042,820
Internal Service Funds	-	-	-	6,296,226
Total	$ 801,042	$ 628,150	$ 4,003,287	$ 993,923,184

E. Capital Assets

1. Capital Asset Activity

Capital assets activity for the fiscal year ended June 30, 2013, was as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, not being depreciated					
Land, land use rights, and land improvements	$ 117,465,089	$ 10,019,916	$ -	$ -	$ 127,485,005
Construction in process	490,629,998	207,410,429	(113,806,745)	(59,028,818)	525,204,864
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	608,231,090	217,430,345	(113,806,745)	(59,028,818)	652,825,872
Capital assets, being depreciated					
Buildings and improvements	445,305,084	16,341,906	(1,237,453)	138,419	460,547,956
Machinery and equipment	173,267,716	22,851,671	(12,247,817)	793,149	184,664,719
Infrastructure	1,792,146,281	85,796,558	(18,149,271)	-	1,859,793,568
Total capital assets, being depreciated	2,410,719,081	124,990,135	(31,634,541)	931,568	2,505,006,243
Less accumulated depreciation for					
Buildings and improvements	(202,818,226)	(12,263,877)	615,980	254,396	(214,211,727)
Machinery and equipment	(114,605,105)	(17,069,545)	10,945,873	(126,354)	(120,855,131)
Infrastructure	(750,929,526)	(79,233,006)	18,149,271	-	(812,013,261)
Total accumulated depreciation	(1,068,352,857)	(108,566,428)	29,711,124	128,042	(1,147,080,119)
Capital assets, being depreciated, net	1,342,366,224	16,423,707	(1,923,417)	1,059,610	1,357,926,124
Governmental activities capital assets, net	$ 1,950,597,314	$ 233,854,052	$ (115,730,162)	$ (57,969,208)	$ 2,010,751,996

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, being depreciated					
Buildings and improvements	$ 59,935	$ -	$ -	$ -	$ 59,935
Machinery and equipment	2,143,126	246,159	(155,029)	-	2,234,256
Total capital assets, being depreciated	2,203,061	246,159	(155,029)	-	2,294,191
Less accumulated depreciation for					
Buildings and improvements	(43,505)	(6,085)	-	-	(49,590)
Machinery and equipment	(1,414,288)	(302,980)	155,029	-	(1,562,239)
Total accumulated depreciation	(1,457,793)	(309,065)	155,029	-	(1,611,829)
Capital assets, being depreciated, net	745,268	(62,906)	-	-	682,362
Business-type activities capital assets, net	$ 745,268	$ (62,906)	$ -	$ -	$ 682,362

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, not being depreciated					
Construction in process	$ 3,495,776	$ 27,936	$ -	$ -	$ 3,523,712
Total capital assets, not being depreciated	3,495,776	27,936	-	-	3,523,712
Capital assets, being depreciated					
Machinery and equipment	2,175,010	58,147	(29,769)	-	2,203,388
Total capital assets, being depreciated	2,175,010	58,147	(29,769)	-	2,203,388
Less accumulated depreciation for					
Machinery and equipment	(797,130)	(233,778)	29,769	-	(1,001,139)
Total accumulated depreciation	(797,130)	(233,778)	29,769	-	(1,001,139)
Capital assets, being depreciated, net	1,377,880	(175,631)	-	-	1,202,249
Fiduciary activities capital assets, net	$ 4,873,656	$ (147,695)	$ -	$ -	$ 4,725,961

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

Governmental Activities

General Government	$	12,071,812
Protection to Persons and Property		5,097,723
Human Services		668,850
Labor		47,985
General Education		4,229
Natural Resources		1,512,971
Commerce & Community Development		343,273
Transportation		80,243,680
Depreciation on capital assets held by Internal Service Funds		8,575,905
Total	$	108,566,428

Business-type Activities

Liquor Control	$	300,343
Vermont Lottery Commission		6,785
Vermont Life Magazine		1,937
Total	$	309,065

Fiduciary Activities

Pension Trust Funds	$	233,778

2. Impairment of Capital Assets

During the fiscal year ended June 30, 2012, the State recognized impairment losses for damage caused by Tropical Storm Irene. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, insurance recoveries during the year were used to offset the amount of loss that was recognized. During the fiscal year ended June 30, 2013, additional insurance recoveries in the amount of $11,000,000 were received and recorded as revenues . This amount represents an initial settlement with the insurance company. Additional recoveries are expected; however the amounts are subject to negotiations with the company and cannot be reasonably estimated at this time.

F. Deferred Outflows and Deferred Inflows

Deferred outflows in the government-wide Statement of Net Position consist of the unamortized balance of losses related to refunding of debt. The difference between the reacquisition price (the amount placed in escrow to pay for advance refunding) and the net carrying amount of the old debt, is reported as a deferred outflow and recognized as a component of interest over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Balance, July 1, 2012	$	10,213,035
Current year amortization		(2,787,127)
Balance, June 30, 2013	$	7,425,908

Deferred inflows in the governmental funds Balance Sheet consist of unavailable amounts related to revenue recognition. Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both available and measurable. When an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

G. Long-term Liabilities

1. 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.

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 of 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.

The changes in bonds principal payable for fiscal year 2013 are summarized in the following schedule.

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2012	$ 506,256,565	$ 13,260,000	$ 519,516,565
Additions:			
Issuances	93,185,000	10,820,000	104,005,000
Accretions	153,488	-	153,488
Total	93,338,488	10,820,000	104,158,488
Deductions:			
Redemptions	(52,260,000)	(990,000)	(53,250,000)
Total	(52,260,000)	(990,000)	(53,250,000)
Balance, June 30, 2013	$ 547,335,053	$ 23,090,000	$ 570,425,053

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 $2,000,000 and an accreted value of $1,945,053 at June 30, 2013.

General obligation and special obligation transportation infrastructure bonds outstanding at June 20, 2013, are shown on the following page:

General Obligation and Special Obligation Transportation Infrastructure Bonds Outstanding at June 30, 2013

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:								
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		$ 3,655,500	$ 199,500	$ -	$ 3,855,000
2/11/2004	2/1/2018	1.1 to 5.0	137,457,000		27,455,000	-	1,120,000	28,575,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		2,062,180	157,820	-	2,220,000
3/2/2005	3/1/2025	3.0 to 4.0	26,000,000		5,200,000	-	-	5,200,000
4/13/2005	3/1/2015	2.4 to 4.0	15,000,000		2,800,000	200,000	-	3,000,000
6/7/2005	3/1/2020	2.65 to 5.0	20,805,000		17,748,259	531,741	880,000	19,160,000
11/22/2005	7/15/2025	3.5 to 5.0	30,000,000		2,250,000	-	-	2,250,000
12/13/2005	7/15/2015	3.1 to 4.0	15,000,000		4,500,000	-	-	4,500,000
2/21/2007	7/15/2026	4.0 to 5.0	30,000,000		12,000,000	-	-	12,000,000
3/15/2007	7/15/2016	3.375 to 4.0	9,500,000		3,800,000	-	-	3,800,000
3/15/2007	7/15/2016	3.375 to 4.0	5,000,000		2,000,000	-	-	2,000,000
11/28/2007	7/15/2027	3.50 to 5.25	35,000,000		22,100,000	-	-	22,100,000
12/20/2007	7/15/2017	3.0 to 4.0	11,000,000		5,500,000	-	-	5,500,000
12/20/2007	7/15/2017	3.0 to 5.0	29,195,000		4,429,023	95,977	-	4,525,000
3/11/2009	3/1/2029	2.0 to 5.0	50,500,000		30,240,000	10,160,000	-	40,400,000
2/3/2010	8/15/2016	2.0 to 5.0	11,200,000		6,400,000	-	-	6,400,000
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		14,000,000	-	-	14,000,000
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		9,505,000	-	-	9,505,000
10/26/2010	8/15/2013	3	3,750,000		1,250,000	-	-	1,250,000
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		20,000,000	-	-	20,000,000
3/21/2012	8/15/2022	0.6 to 3.0	25,000,000		18,700,000	-	-	18,700,000
3/21/2012	8/15/2030	3.0 to 3.5	28,000,000		28,000,000	-	-	28,000,000
3/21/2012	8/15/2016	1.0 to 2.0	10,000,000		10,000,000	-	-	10,000,000
3/21/2012	8/15/2025	0.6 to 5.0	69,060,000		67,639,621	1,420,379	-	69,060,000
10/11/2012	8/15/2024	2.0 to 5.0	26,765,000		26,765,000	-	-	26,765,000
10/11/2012	8/15/2032	2.0 to 5.0	66,420,000		66,420,000	-	-	66,420,000
Total General Obligation Current Interest Bonds					**530,624,583**	**12,765,417**	**2,000,000**	**545,390,000**
General Obligation Capital Appreciation Bonds:								
12/01/1993	08/01/2013	N/A	17,987,640	32,625,000	2,000,000	-	-	2,000,000
Total Maturity Value					**2,000,000**	**-**	**-**	**2,000,000**
Less: Unaccreted Interest					54,947	-	-	54,947
Total General Obligation Capital Appreciation Bonds					**1,945,053**	**-**	**-**	**1,945,053**
Total General Obligation Bonds					**532,569,636**	**12,765,417**	**2,000,000**	**547,335,053**
Special Obligation Transportation Infrastructure Bonds:								
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000		-	12,675,000	-	12,675,000
8/9/2012	6/15/2032	2.0 to 3.0	10,820,000		-	10,415,000	-	10,415,000
Total Special Obligation Transportation Bonds					**-**	**23,090,000**	**-**	**23,090,000**
Total General Obligation and Special Obligation Bonds					**$ 532,569,636**	**$ 35,855,417**	**$ 2,000,000**	**$ 570,425,053**

At June 30, 2013, there remains $84,624,556 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2013 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
2014	$ 51,805,000	$ 21,013,752	$ 1,050,000	$ 637,425	$ 2,000,000	$ 76,506,177
2015	44,980,000	18,031,524	1,070,000	616,425	-	64,697,949
2016	41,740,000	16,465,311	1,095,000	595,025	-	59,895,336
2017	38,515,000	15,057,324	1,115,000	573,125	-	55,260,449
2018	35,840,000	13,651,415	1,140,000	547,650	-	51,179,065
2019-2023	160,035,000	48,791,751	6,135,000	2,306,750	-	217,268,501
2024-2028	118,765,000	21,405,650	7,025,000	1,414,675	-	148,610,325
2029-2033	53,710,000	3,438,263	4,460,000	304,450	-	61,912,713
Totals	$ 545,390,000	$ 157,854,990	$ 23,090,000	$ 6,995,525	$ 2,000,000	$ 735,330,515

2. Bond Refundings

During fiscal years 2004, 2005, 2010, and 2012, 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, 2013, is $79,280,000.

3. 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 2013 was $15,072,511 for operating leases of which $14,989,425 was paid for property leases, $58,537 for equipment leases and $24,549 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, 2013:

	Primary Government		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total
2014.............	$ 13,097,386	$ 9,634	$ 13,107,020
2015.............	10,175,272	9,881	10,185,153
2016.............	7,528,380	1,394	7,529,774
2017.............	6,097,689	784	6,098,473
2018.............	5,633,940	453	5,634,393
2019 - 2023....	21,947,088	2,265	21,949,353
2024 - 2026....	226,137	1,359	227,496
Totals	$ 64,705,892	$ 25,770	$ 64,731,662

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 $3,935,989. The majority of the gross value total is from a lease with HLFB, Inc., for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex.

Capital lease payments for the primary government in 2013 totaled $491,950, with $30,815 for machinery and equipment, and $461,135 for building improvements.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2013 are as follows:

Fiscal Year	Primary Government
2014..	$ 424,212
2015..	432,366
2016..	440,573
2017..	447,614
2018..	435,801
2019..	105,337
Total minimum lease payments.....................	2,285,903
Less interest..	(231,929)
Present value of minimum lease payments...	$ 2,053,974

4. Retirement Plans and Other Postemployment Benefits

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans 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, 2013. Securities without an establish market are reported at estimated fair value. Additional information on the plans' investments may be found in Note IV. B.—Investments.

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 then decrease to 5.10% through June 30, 2019, then 4.85% thereafter.

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 Position

Defined Benefit Plans

June 30, 2013

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets			
Cash and short term investments	$ 2,999,756	$ 2,263,586	$ 2,319,068
Receivables			
Contributions - current	4,354,781	3,563,940	2,908,204
Contributions - non-current	-	-	6,907,977
Interest and dividends	4	27,675	331,898
Due from other funds	59,270	525	49,212
Other	3,246	322,941	35,729
Investments at Fair Value			
Pooled investments	1,463,483,913	1,545,109,222	450,276,937
Equities	917	641,401	240,789
Prepaid expenses	-	2,048,261	15,573
Capital assets, net of depreciation	1,850,238	2,173,903	697,676
Total assets	1,472,752,125	1,556,151,454	463,783,063
Liabilities			
Accounts payable	2,034,810	1,522,420	457,666
Retainage payable	224,143	273,261	111,329
Due to other funds	845	4,210	27,638
Total liabilities	2,259,798	1,799,891	596,633
Net position held in trust for employees' pension benefits	$ 1,470,492,327	$ 1,554,351,563	$ 463,186,430

Statement of Changes in Plan Net Position
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2013

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit	$ 51,370,307	$ 42,646,240	$ 12,014,186
Employer - healthcare benefit	-	21,000,000	-
Plan member	29,847,352	32,343,368	15,060,665
Transfers from other pension trust funds	638,736	292,953	170,381
Medicare part D drug subsidy	-	1,440,080	-
Total contributions	81,856,395	97,722,641	27,245,232
Investment Income			
Net appreciation in fair value of investments	917	641,401	240,759
Income from pooled investments	116,648,144	126,091,715	35,917,836
Interest income	13,961	30,002	548,422
Other income	171,299	278,476	6,606
Total investment income	116,834,321	127,041,594	36,713,623
Less Investment Expenses			
Investment managers and consultants	6,118,624	6,638,563	1,875,116
Total investment expenses	6,118,624	6,638,563	1,875,116
Net investment income	110,715,697	120,403,031	34,838,507
Total additions	192,572,092	218,125,672	62,083,739
Deductions			
Retirement benefits	96,241,493	129,416,052	16,101,187
Other postemployment benefits	-	22,459,218	-
Refunds of contributions	2,515,758	1,604,284	1,587,311
Death claims	198,205	91,749	205,183
Transfers to other pension trust funds	239,162	141,986	794,251
Depreciation	86,292	105,064	41,924
Operating expenses	1,288,351	1,575,657	707,523
Total deductions	100,569,261	155,394,010	19,437,379
Change in net position	92,002,831	62,731,662	42,646,360
Net position held in trust for employees' pension benefits			
July 1, 2012	1,378,489,496	1,491,619,901	420,540,070
June 30, 2013	$ 1,470,492,327	$ 1,554,351,563	$ 463,186,430

Plan membership

At June 30, 2013, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees			
Vested	5,763	7,822	4,102
Non-vested	2,395	2,279	2,475
Total active employees	8,158	10,101	6,577
Retirees and beneficiaries of deceased retirees currently receiving benefits	5,795	7,743	2,146
Terminated employees entitled to benefits but not yet receiving them (vested)	741	751	652
Inactive members	796	2,322	1,765
Total participants	15,490	20,917	11,140

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 completed these studies in fiscal year 2011 for the four year period ending June 30, 2010.

In fiscal year 2011, all three systems adopted the 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. This interest rate set is restarted every year. 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 15:	8.50%
· Year 16:	8.75%
· Year 17 and later:	9.00%

Per the experience study, 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 VSRS and MERS is 8.1% and 7.9% for STRS. Since the interest rate is restarted every year, this results in a more conservative return assumption for the amortization of the unfunded liability. For fiscal year 2013, the actuarial rate of return of the assets was 6.71% for VSRS and 6.72% for STRS compared to the select-and-ultimate year 1 expected rate of return of 6.25%.

The VSRS, STRS and MERS have had no changes in the assumptions since the June 30, 2012 valuation. The assumptions now in use are based on the 2011 experience studies. The STRS has had no changes in benefit provisions since the last valuation. The MERS has changes in benefit provision since the July 1, 2012 valuation. The MERS employee and employer contribution rates were increased.

The various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS and at the municipal employer level for MERS, are shown on the following page.

	VSRS	STRS	MERS
Valuation date	06/30/13	06/30/13	07/01/13
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	25 years	25 years	25 years
Asset valuation method (3)	Preliminary Asset Value plus 20% of difference between market and preliminary asset values	Preliminary Asset Value plus 20% of difference between market and preliminary asset values	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	3.00%-7.79%	4.25%-8.40%	5%
Cost of living adjustments	1.5%-3.0%	1.5%-3.0%	Group A - 1.5% Groups B, C & D - 1.8%
Post Retirement Adjustments			
Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C & D - 5%	Group A - 5%	N/A
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in CPI but not in excess of percentage indicated	Group F - 5% (5)	Group C - 5%	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 June 30, 2006, 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.
(4) Effective 6/30/11, a select-and ultimate interest rate assumption was used, as described earlier in the note.
(5) Effective January 1, 2014, the Group F employees 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 cost of living adjustment, which will increase to equal the full CPI change.

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2012 and June 30, 2013, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2012…	$ 401,824,745	$ 945,502,316
Normal cost…	39,217,558	36,673,377
Contributions…	(81,856,395)	(97,722,641)
Interest on unfunded liability, normal cost and contributions…	25,045,898	58,378,429
Restart of select-and-ultimate interest structure…	33,541,162	44,499,276
Actuarial (gains)/losses experience:		
Salary experience…	23,416,670	(26,621,253)
COLA experience…	(7,319,398)	(18,895,595)
Mortality experience…	4,487,254	4,851,424
Retirement and disability experience…	1,721,249	10,732,444
Termination experience…	3,920,466	38,871,116
New members and rehires…	2,552,115	2,106,997
Investment and other expenses…	7,723,883	31,740,330
Investment experience…	(6,437,863)	(6,995,361)
Other (data corrections, purchased services, etc.)…	(2,707,262)	(9,210,574)
Unfunded actuarial accrued liability, June 30, 2013…	$ 445,130,082	$1,013,910,285

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, 2013 were as shown on the following page.

	VSRS	STRS
Annual Required Contribution (ARC)…	$ 39,389,870	$ 60,182,755
Interest on NPO…	3,228,831	11,219,740
Adjustment to ARC…	(2,970,974)	(10,323,707)
Annual Pension Cost (APC)…	39,647,727	61,078,788
Employer Contribution Made…	(51,370,307)	(65,086,320)
Increase (Decrease) in NPO…	(11,722,580)	(4,007,532)
NPO - July 1, 2012…	51,661,301	179,515,842
NPO - June 30, 2013…	$ 39,938,721	$ 175,508,310
Percentage of APC contributed	129.57%	106.56%

Three-Year Trend Information

Year Ended 6/30	Annual Pension Cost	Percentage Contributed	NPO Balance
VSRS			
2011	$ 46,018,749	81.65%	$ 62,820,259
2012	29,143,475	138.29%	51,661,301
2013	39,647,727	129.57%	39,938,721
STRS			
2011	53,295,844	94.32%	183,273,322
2012	52,394,531	107.17%	179,515,842
2013	61,078,788	106.56%	175,508,310

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						
6/30/13	$ 1,469,170	$ 1,914,300	$ 445,130	76.7%	$ 416,766	106.8%
STRS						
6/30/13	1,552,924	2,566,834	1,013,910	60.5%	563,623	179.9%
MERS						
7/1/13	446,236	528,426	82,190	84.4%	220,372	37.3%

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

Retirement Plan Descriptions

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.

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, 2013, member contributions totaled $723,894 with State employer contributions at $1,857,713. As of June 30, 2013, the Vermont State Defined Contribution Plan's net position totaled $49,089,174 and there were 419 participants.

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, 2013, member contributions totaled $627,840 and employer contributions at $678,918. As of June 30, 2013, the Municipal Employees' Defined Contribution Plan's net position totaled $18,527,140, and there were 289 participants.

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, 2013 there were 1,722 members, with net position of $68,461,221 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows:

Statement of Plan Net Position
Defined Contribution Plans
June 30, 2013

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Assets			
Cash and short term investments	$ 109,259	$ 966,007	$ 70,150
Receivables			
Contributions - current	104,858	-	25,470
Interest and dividends	-	9	-
Due from other funds	-	-	26,131
Investments at fair value			
Mutual and commingled funds	48,911,978	67,495,205	18,454,963
Prepaid expenses	4,540	-	-
Total assets	49,130,635	68,461,221	18,576,714
Liabilities			
Accounts payable	1,248	-	362
Due to other funds	40,213	-	49,212
Total liabilities	41,461	-	49,574
Net position held in trust for employees' pension benefits	$ 49,089,174	$ 68,461,221	$ 18,527,140

Statement of Changes in Plan Net Position
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2013

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit	$ 1,857,713	$ -	$ 678,918
Plan member	723,894	-	627,840
Transfers from other pension trust funds	47,198	-	26,131
Transfers from non-state systems	16,742	-	6,971
Total contributions	2,645,547	-	1,339,860
Investment Income			
Net appreciation (depreciation) in fair value of investments	3,932,390	7	1,509,883
Dividends	1,650,014	1,940,606	621,463
Interest income	374	99	288
Other income	1,995	-	-
Total investment income	5,584,773	1,940,712	2,131,634
Less Investment Expenses			
Investment managers and consultants	-	226,654	-
Total investment expenses	-	226,654	-
Net investment income	5,584,773	1,714,058	2,131,634
Total additions	8,230,320	1,714,058	3,471,494
Deductions			
Retirement benefits	4,240,996	7,327,731	1,399,052
Operating expenses	40,647	-	86,275
Total deductions	4,281,643	7,327,731	1,485,327
Change in net position	3,948,677	(5,613,673)	1,986,167
Net position held in trust for employees' pension benefits			
July 1, 2012	45,140,497	74,074,894	16,540,973
June 30, 2013	$ 49,089,174	$ 68,461,221	$ 18,527,140

C. Other Postemployment Benefits

In addition to providing pension benefits, the State offers postemployment 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) 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, 2013, retirees accounted for 4,223 of the 12,798 participants enrolled in the single, spousal, or family plan options. Of the $130 million in premiums received by the Medical Insurance Fund (internal service fund) during 2013, retirees contributed $6.7 million. Of the $125 million in claims expense incurred by the Medical Insurance Fund during 2013, $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 2013 contributions to this trust fund totaled $25.6 million which included a $1.7 million Medicare D reimbursement received from the Federal Government. The trust fund then paid premium payments of $23.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2013, the trust fund has total net position of $15,662,783 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. Current employees with ten or more years of service as of July 1, 2010, receive a premium subsidy of 80%, and have a tiered years of service requirement to be eligible for an 80% spousal insurance premium subsidy. For new hires and those with less than 10 years of service as of July 1, 2010, there is no premium subsidy for those retiring with less than 15 years of service at retirement, 60% single premium subsidy at 15 years, 70% single premium subsidy at 20 years ,and 80% single and spousal premium subsidy at 25 years. The retiree must pick up the full cost of the premium for all covered dependents. No plan changes were made in fiscal year 2013.

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.

As of June 30, 2013, 4,946 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $13.6 million in premiums, the State contributed $21.0 million to the STRS pension trust fund for medical benefit premiums, and the STRS pension trust fund paid $22.5 million to VEHI on a pay-as-you-go basis, during fiscal year 2013. VEHI incurred $34.9 million in retiree claims expense for the fiscal year ending June 30, 2013.

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, 2013, the subsidy for the VSRS system was $1,668,896. The State has elected to contribute this revenue in the Vermont State Postemployment Benefits Trust Fund to fund future postemployment health benefit liabilities. In the case of STRS, the subsidy for fiscal year 2013 was $1,440,080 and was deposited into the STRS Pension Trust Fund.

Plan Membership

At June 30, 2013, the number of participants included in the OPEB valuations are as follows:

	VSRS	STRS
Active employees [(1)]	8,575	10,100
Terminated vested	-	750
Retired employees [(2)]	4,223	5,450
Total participants	12,798	16,300

[(1)] Number of active employees includes participants in the defined contribution plan.

[(2)] Includes 33 VSRS and 157 STRS July 1, 2013 retirements.

OPEB Actuarial Valuation- Methods and Assumptions

The State's independent actuary has prepared annual valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2013. 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 postemployment 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.

In the VSRS and STRS OPEB plans' actuarial valuations, per unit capita healthcare costs were updated based on recent plan premium equivalents and enrollments. All other assumptions, including healthcare cost trend and assumed discount rate, were the same as those used in 2012. All State OPEB Plan provisions were the same as those reflected in the 2012 valuation.

The STRS OPEB Plan's valuation reflects a change in the way prescription drug benefits for Medicare-eligible retirees are structured. Beginning January 1, 2014, VEHI will change from participating in the Retiree Drug Subsidy Program to a Medicare Part D Employer Group Waiver Plan (EGWP).

The VSRS OPEB trust fund has accumulated some level of pre-funding. Therefore, the valuation reflected a blended rate of 4.25%, rather than the pay-as-you-go liability calculated at 4%. The STRS OPEB has no trust fund and no prefunding has been made. Therefore, the valuation used a 4% discount rate to calculate the liability.

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	6/30/2013	6/30/2013
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Open basis for pay-as-you-go	Open basis for pay-as-you-go
Amortization period	30 years starting in fiscal year 2014	30 years starting in fiscal year 2014
Actuarial assumptions		
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	6.25% in 2014, 6.00% in 2015, 5.75% in 2016, 5.50% in 2018, 5.25% in 2019, 5.00% in 2020 and after	5.00%
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 2013, partial prefunding resulted in a blended rate of 4.25%

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2012 and June 30, 2013, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2012	$ 998,403,967	$ 827,180,098
End of year service cost	39,656,943	22,401,753
Interest cost	42,250,046	32,612,252
Estimated benefit payments	(35,699,629)	(23,982,688)
Estimated increase in assets	(3,063,611)	-
Impact of recent year demographic experience	8,753,852	19,076,143
New per capita costs	(133,417,643)	38,380,643
Other refinements	14,537,356	617,121
Asset loss	779,712	-
Implementation of EGWP	-	(203,619,214)
Unfunded actuarial accrued liability, June 30, 2013	$ 932,200,993	$ 712,666,108

Implementation of the EGWP arrangement impacts the calculation of accrued liabilities, as it is treated differently for accounting purposes than the previous Retiree Drug Subsidy (RDS) program. GASB Statement No. 45 disallows reflecting future RDS payments as an offset to liabilities, while the EGWP arrangement flows into reduced premiums as opposed to an intergovernmental transfer, allowing those subsidies to be reflected in the calculation of the liabilities.

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, 2013 the amount actually contributed, and the changes in the State's net OPEB obligation.

	VSRS	STRS
Annual Required Contribution (ARC)	$ 67,977,179	$ 45,458,358
Interest on NOO	8,072,470	10,788,358
Amortization of NOO	(5,695,328)	(7,798,732)
Annual OPEB Cost (AOC)	70,354,321	48,447,984
Employer Contribution Made	(25,557,683)	-
Increase in NOO	44,796,638	48,447,984
NOO - July 1, 2012	189,940,475	269,708,962
NOO - June 30, 2013	$ 234,737,113	$ 318,156,946
Percentage of ARC contributed	36.33%	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				
	2011	$ 68,343,620	40.08%	$ 145,886,587
	2012	71,706,077	38.56%	189,940,475
	2013	70,354,321	36.33%	234,737,113
Postemployment Benefits for State Teachers Retirement System				
	2011	43,508,091	0.00%	223,817,296
	2012	45,891,666	0.00%	269,708,962
	2013	48,447,984	0.00%	318,156,946

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

Funded Status and Funding Progress

The funding status of the plans as of June 30, 2013, 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]						
6/30/13	$ 15,663	$ 947,864	$ 932,201	1.7%	$ 436,949	213.3%
STRS [2]						
6/30/13	-	712,666	712,666	0.0%	563,534	126.5%

[1] Reflects blended discount rate of 4.25% in 2013

[2] Discount rate for 2013 at 4.0%, reflecting no prefunding

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.

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, a $10,000 benefit will continue into retirement. 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 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 postemployment 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, 2013, there were 5,251 active and retired members participating in the MERS RHS plan. Investments in member accounts as of June 30, 2013 totaled $11,692,729.

The financial statements for the OPEB Funds are as follows:

Statement of Plan Net Position
Other Postemployment Benefit Funds
June 30, 2013

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Assets		
Cash and short term investments	$ 2,543,040	$ 305,906
Receivables		
Contributions - current	236,521	-
Due from other funds	814,744	-
Other receivables	10,341	-
Investments at Fair Value		
Fixed income	7,950,726	-
Equities	4,089,864	-
Mutual funds	66,076	11,386,823
Total assets	15,711,312	11,692,729
Liabilities		
Accounts payable	33,962	-
Due to other funds	14,567	-
Total liabilities	48,529	-
Net position held in trust for employee's other postemployment benefits	$ 15,662,783	$ 11,692,729

Statement of Changes in Plan Net Position
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2013

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Additions		
Contributions		
Employer - healthcare benefit	$ 25,557,683	$ -
Total contributions	25,557,683	-
Investment Income		
Net appreciation in fair value of investments	268,113	1,151,791
Dividends	126,477	-
Interest income	272,606	885
Total investment income	667,196	1,152,676
Less Investment Expenses		
Investment managers and consultants	53,906	62,027
Total investment expenses	53,906	62,027
Net investment income	613,290	1,090,649
Total additions	26,170,973	1,090,649
Deductions		
Other postemployment benefits	23,887,003	184,249
Operating expenses	71	-
Total deductions	23,887,074	184,249
Change in net position	2,283,899	906,400
Net position held in trust for employees postemployment benefits		
July 1, 2012	13,378,884	10,786,329
June 30, 2013	$ 15,662,783	$ 11,692,729

5. Other Long-term Liabilities

Governmental activities long-term liabilities are generally liquidated by payments from the governmental and internal service funds' programs, including all major governmental fund types except for the Education Fund. Bonds payable are liquidated by transfers of resources from the General, Transportation, Special and Federal Funds. Other liabilities include the retirement incentive for VT State Hospital employees. During the year ended June 30, 2013, the following changes occurred in the long-term liabilities:

	Total Liability July 1, 2012	Additions	Reductions	Total Liability June 30, 2013	Amounts due within one year
Governmental activities					
Bonds payable					
Bonds[1]	$ 519,516,565	$ 104,158,488	$ 53,250,000	$ 570,425,053	$ 54,855,000
Bond premium	25,017,136	9,922,543	2,155,765	32,783,914	2,328,003
Bond discount	(201,157)	-	-	(201,157)	-
Total bonds payable	544,332,544	114,081,031	55,405,765	603,007,810	57,183,003
Capital leases payable[2]	3,619,308	110,272	1,675,606	2,053,974	345,996
Compensated absences	33,344,922	35,218,397	36,608,660	31,954,659	21,402,145
Claims and judgments	46,127,734	141,606,365	142,130,396	45,603,703	12,327,552
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligations	231,177,143	100,726,515	116,456,627	215,447,031	-
Net other postemployment obligations	459,649,437	118,802,305	25,557,683	552,894,059	-
Other liabilities	162,750	-	81,375	81,375	81,375
Pollution remediation obligations[3]	5,642,081	5,036,819	420,008	10,258,892	2,979,390
Total governmental activities long-term liabilities	$ 1,331,055,919	$ 515,581,704	$ 378,336,120	$ 1,468,301,503	$ 94,319,461

(1) Governmental activities bonds payable additions of $104,158,488 include $93,185,000 in general obligation bonds, $10,820,000 in special obligation bonds, and $153,488 of accretions on capital appreciation bonds.

(2) The reduction in capital leases payable includes an amendment to the lease for energy efficiency projects for State owned buildings. In 2013, the State elected to pay the lessor the prepayment price of $1,302,121 for equipment located at the Waterbury Office Complex which was destroyed by Tropical Storm Irene.

(3) The Pollution Remediation Obligation (PRO) 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.

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 superfund sites in Vermont in various stages of cleanup, from initial assessment to cleanup activities. The Pollution Remediation Obligation (PRO) for these Superfund sites at June 30, 2013 is $5,044,064, which is a net reduction from last of $18,208. The State does not anticipate recovering reimbursements from the parties who caused the pollution.

The State has been working with potential responsible parties and the USEPA to address the environmental contamination from an abandoned mine, which to date is not a superfund site. A remedy for the site's cleanup, including an estimate of the cost of cleanup, has not been determined due to the potential magnitude and the various options that are being investigated. In the interim, the USEPA has installed erosion control measures at the site. The State bears no obligation to USEPA for capital costs but is responsible for monitoring the ongoing erosion control work performed and administering the support of the USEPA site programs. The PRO for the erosion mitigation stage of the work at June 30, 2013 is $360,014, a net increase of $288,808 from last year. These costs will be covered by a portion of special settlement funds received from one of the potential responsible parties.

The State is currently working on cleanup of ground water contamination resulting from a chemical spill at a former dry cleaner facility. The proposed cleanup includes the physical removal of contaminated soils and installation of a groundwater treatment system. By order of the Vermont Superior Court, the Agency of Natural Resources will conduct the cleanup work required and the former owners shall be responsible for reimbursing the State for cost related to implementing the cleanup plan. At June 30, 2013, the PRO is $971,151.

Asbestos removal is underway in three State Buildings. The pollution remediation obligation is $3,883,663 at June 30, 2013, a net increase of $3,375,061 from last year. The asbestos abatement required at the State's Waterbury Office Complex before the buildings can be demolished is $3,808,663 of the total PRO.

	Total Liability July 1, 2012	Additions	Reductions	Total Liability June 30, 2013	Amounts due within one year
Business-type activities					
Unemployment compensation trust fund federal account loan	$ 77,731,861	$ -	$ 24,851,439	$ 52,880,422	$ 52,880,422
Compensated absences	335,620	324,581	317,907	342,294	200,420
Lottery prize awards payable	5,475,747	64,556,404	64,039,807	5,992,344	4,742,190
Total business-type activities long term liabilities	$ 83,543,228	$ 64,880,985	$ 89,209,153	$ 59,215,060	$ 57,823,032
Fiduciary					
Compensated absences	$ 18,267	$ 15,353	$ 15,959	$ 17,661	$ 10,442
Total fiduciary long-term liabilities	$ 18,267	$ 15,353	$ 15,959	$ 17,661	$ 10,442

During previous fiscal years, 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. Subsequent to that date, accrued interest is payable annually each September, from the General Fund. Principal payments are also due annually each September. The amount of the payment depends on the health of the trust fund. Reductions consist of a payment of $20,000,000 that was made in September 2012 and $4,851,439 in FUTA tax credits that were applied directly against the loan balance. The balance of $52,880,422 was paid in July 2013.

H. Fund Balance/Net Position

Governmental Funds

The composition of the fund balances of the governmental funds for the fiscal year ended June 30, 2013, are shown on the following page.

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable								
Advances	$ 1,038,747	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,038,747
Long-term Notes Receivable	699,499	-	-	-	-	-	-	699,499
Permanent Fund Principal	-	-	-	-	-	-	7,416,453	7,416,453
Total Nonspendable	1,738,246	-	-	-	-	-	7,416,453	9,154,699
Restricted								
General Government	-	-	-	-	8,192	-	29,632,756	29,640,948
Protection to Persons and Property	-	-	-	594,768	15,506,831	-	6,031,266	22,132,865
Human Services	-	-	-	3,116,972	49,674,682	94,864,468	20,819,647	168,475,769
Labor	-	-	-	-	9,847,008	-	-	9,847,008
Education	-	-	-	-	1,843,592	-	-	1,843,592
Natural Resources	-	-	-	5,120,598	314,330,287	-	11,853,920	331,304,805
Commerce and Community Development	-	-	-	-	1,249,793	-	1,676,215	2,926,008
Transportation	-	6,223,686	-	-	-	-	4,498,849	10,722,535
Debt Service	-	-	-	-	-	-	3,102,071	3,102,071
Total Restriced	-	6,223,686	-	8,832,338	392,460,385	94,864,468	77,614,724	579,995,601
Committed								
Protection to Persons and Property	-	-	-	56,417,728	-	-	-	56,417,728
Human Services	-	-	-	178,344	-	-	-	178,344
Labor	-	-	-	3,925,778	-	-	-	3,925,778
Education	-	-	66,434,766	430,322	-	-	23,518,422	90,383,510
Natural Resources	-	-	-	18,637,279	-	-	6,050,739	24,688,018
Commerce and Community Development	-	-	-	2,944,293	-	-	-	2,944,293
Transportation	-	15,621,785	-	-	-	-	-	15,621,785
Debt Service	-	-	-	-	-	-	3	3
Total Committed	-	15,621,785	66,434,766	82,533,744	-	-	29,569,164	194,159,459
Assigned								
General Government	475,236	-	-	-	-	-	-	475,236
Protection to Persons and Property	676,618	-	-	-	-	-	-	676,618
Human Services	1,859,279	-	-	-	-	-	-	1,859,279
Education	119,373	-	-	-	-	-	-	119,373
Natural Resources	1,627,928	-	-	-	-	-	-	1,627,928
Commerce and Community Development	515,694	-	-	-	-	-	-	515,694
Total Assigned	5,274,128	-	-	-	-	-	-	5,274,128
Unassigned	152,171,193	-	-	(5,337,970)	-	-	(1,120,411)	145,712,812
Total Fund Balance	$ 159,183,567	$ 21,845,471	$ 66,434,766	$ 86,028,112	$ 392,460,385	$ 94,864,468	$ 113,479,930	$ 934,296,699

Discretely Presented Component Units

Restricted net position is that portion of total net position that is not available for appropriation for expenditure or that are legally segregated for a specific future use. Restricted net position of discretely presented component units at June 30, 2013, is 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	$ 308,000	$ 286,430,000	$ 8,255,108	$ -	$ -
Nonexpendable	3,659,000	99,021,000	15,128,413	-	-
Grants and scholarships	471,000	-	-	-	-
Bond resolution	29,412,000	-	-	66,305,000	-
Interest rate subsidies	-	-	-	-	1,393,873
Investment - Vermont Capital Partners, LP	-	-	-	-	48,740
Investment - Vermont Seed Capital, LP	-	-	-	-	4,097,450
Collateral for commercial paper program	-	-	-	-	20,063,707
Infrastructure investments	-	-	-	-	6,061,293
Project and program commitments	-	-	-	-	36,018,964
Loans receivable [1]	-	-	-	-	174,408,171
Total Component Units Restricted Net Position	$ 33,850,000	$ 385,451,000	$ 23,383,521	$ 66,305,000	$ 242,092,198

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

Note V. OTHER INFORMATION

A. Risk Management

1. Workers' Compensation and Risk Management

The Agency of Administration's Financial Services Division 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 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 tort 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 and to federal suit and other non-tort suit is potentially unlimited. The State is self-insured (SIR) for the first $500,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to $1,500,000 ($2,000,000 total) in Vermont and $10,000,000 in excess of the $500,000 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 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 and potentially for any claims in excess of the purchased limits.. 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.

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 Workers' Compensation personnel. As of June 30, 2013, all claims in this special fund have been settled. Total payments issued from fiscal year 2008 through fiscal year 2013 are $1,805,846.

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

The Employee Benefits 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 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 of the Treasurer's Office.

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.

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’ unions (the Vermont State Employees Association and the Vermont Troopers 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 2013, departments were given a 5 pay-period rate holiday and normal premium recovery from employees was not processed.

Three years’ changes in the respective funds’ claims liability amounts are displayed in the following table:

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Liability at End of the Fiscal Year
Workers' Compensation Fund				
2011	$ 24,336,780	$ 5,850,317	$ 6,983,306	$ 23,203,791
2012	23,203,791	10,095,099	7,235,542	26,063,348
2013	26,063,348	9,668,124	8,437,633	27,293,839
State Liability Insurance Fund				
2011	6,917,902	400,884	891,905	6,426,881
2012	6,426,881	4,015,135	3,274,882	7,167,134
2013	7,167,134	1,770,040	2,892,628	6,044,546
Medical Insurance Fund				
2011	10,904,821	116,845,994	115,834,579	11,916,236
2012	11,916,236	125,624,972	124,857,795	12,683,413
2013	12,683,413	125,038,644	125,837,029	11,885,028
Dental Insurance Fund				
2011	275,228	4,972,179	5,050,658	196,749
2012	196,749	4,932,917	4,915,827	213,839
2013	213,839	5,129,557	4,963,106	380,290

B. Budget Stabilization Reserves

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in State revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances 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 2013, 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, 2013 are as follows: $10,808,938 in the Transportation Fund's Budget Stabilization Reserve; $62,502,016 in the General Fund's Budget Stabilization Reserve; and $29,260,126 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.

C. Contingent and Limited Liabilities

1. 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, 2013, the State's contingent liability for mortgage insurance contracts insured under its MIP is $1,423,598.

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, 2013 is $512,037. The State has no recorded payable to VEDA in the Governmental Funds for fiscal 2013.

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.

2. 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.

3. Contractual Liabilities

At June 30, 2013, the State of Vermont had long-term contracts outstanding of approximately $383,184,329 funded from federal sources, and $654,007,565 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, 2013.

Agency, Department, or Office	Total Contractual Obligation	Funded by Federal Sources	Funded by Other Sources
Agency of Administration	$ 169,323,074	$ -	$ 169,323,074
Agency of Agriculture, Food & Markets	836,847	229,737	607,110
Agency of Commerce & Community Development	6,147,511	70,188	6,077,323
Agency of Human Services	249,230,241	108,830,462	140,399,779
Agency of Natural Resources	7,001,260	1,397,170	5,604,090
Agency of Transportation	421,918,937	256,498,114	165,420,823
Auditor of Account's Office	10,048,584	-	10,048,584
Center of Crime Victims Services	27,415	6,000	21,415
Criminal Justice Training Council	172,594	-	172,594
Agency of Education	4,828,329	3,588,613	1,239,716
Department of Labor	103,567	103,567	-
Department of Liquor Control	99,680	-	99,680
Department of Public Safety	4,991,772	2,947,257	2,044,515
Enhanced 911 Board	6,445,287	-	6,445,287
Department of Financial Regulation	2,096,387	143,231	1,953,156
Fire Service Training Council	154,553	-	154,553
Green Mountain Care Board	719,293	-	719,293
Joint Fiscal Office	334,198	-	334,198
Judiciary	175,750	-	175,750
Military Department	8,324,411	7,746,064	578,347
Office of the Attorney General	489,497	35,721	453,776
Office of the Defender General	138,510	-	138,510
Public Service Board	1,381,162	-	1,381,162
Public Service Department	9,923,678	523,260	9,400,418
Secretary of State's Office	3,543,548	1,064,945	2,478,603
State Treasurer's Office	116,429,924	-	116,429,924
State's Attorneys and Sheriffs Office	90,000	-	90,000
Vermont Life Magazine	361,090	-	361,090
Vermont Lottery Commission	11,854,795	-	11,854,795
Total	$ 1,037,191,894	$ 383,184,329	$ 654,007,565

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 71% have end dates of June 30, 2014 or earlier. Of the Agency of Human Services contract liability balance, 30% is for contracts in the Department of Corrections, 45% is Department of Vermont Health Access, and 9% is Department of Mental Health. Of the contracts in the Agency of Administration, 47% have end dates during fiscal year 2014, 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 95% of the total, with 34% having end dates during fiscal year 2014.

4. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. During fiscal year 2013, the State awarded over 5,500 grants. The chart below shows the funding sources for these awards, the fiscal year 2013 payments issued to grantees on both these awards and prior year grant awards, and the remaining unexpended award amounts and June 30, 2013.

	Award Balances at June 30, 2012	Current Year Awards	Award Adjustments	Current Year Expended	Award Balances at June 30, 2013	Expended from Federal Funding Sources
General Government	$ 166,036	$ 99,365,601	$ -	$ (99,501,022)	$ 30,615	$ 472,575
Commerce & Community Dev.	17,209,797	32,498,746	(103,071)	(13,453,978)	36,151,494	9,448,999
Education	20,992,203	115,667,952	(7,814,563)	(115,914,086)	12,931,506	85,523,538
Human Services	49,619,653	200,816,443	(6,620,870)	(187,989,470)	55,825,756	68,172,239
Labor	2,405,802	1,823,365	-	(2,324,801)	1,904,366	227,768
Natural Resources	14,143,858	39,202,625	(2,474,558)	(36,749,457)	14,122,468	26,005,007
Protection to Persons and Property	16,785,493	40,577,809	(1,611,881)	(28,747,952)	27,003,469	12,925,389
Transportation	186,608,103	137,288,395	(19,394,402)	(131,890,091)	172,612,005	78,766,726
	$ 307,930,945	$ 667,240,936	$ (38,019,345)	$ (616,570,857)	$ 320,581,679	$ 281,542,241

The major grants awarded in 2013 are summarized below by agency or department.

Human Services: Public health grants are awarded for prevention of diseases, public awareness programs like tobacco cessation, alcohol & drug abuse programs, HIV prevention and family planning, vaccinations and inspection programs. There were 148 grants awarded.

During fiscal year 2013, programs under mental health for adults and children were awarded 129 grants. Programs managed under mental health are child care services including youth in transition, success beyond six, and children's upstream.

The Department of Children and Families awarded 365 grants. Programs included economic assistance and services for families, child development programs, and weatherization programs.

There were 151 grants 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 congregate and home delivered meals.

During FY 2013, the State paid $59.6 million to Fletcher Allen Health Care for the Graduate Medical Education program (GME). The GME program helps ensure access to quality, essential professional health services for Medicaid beneficiaries through the care provided by teaching physicians and teaching hospitals. The University of Vermont contributed $25.8 million to the State to support the GME programs; this support is listed as other revenue in the Global Commitment Fund.

Education: The Agency of Education awarded 57 grants to education and literacy programs that aim to help adults gain essential skills, professional learning, and adult high school diplomas. There were 1006 grants awarded for school improvements which included sources from Federal Title I, IIA, and III grants. Other programs included technology advances, early education and readiness programs, and wellness food programs. Federal ARRA funded 18 grant awards totaling $2,204,879.

Commerce and Community Development: The U.S. Department of Housing and Urban Development funded Vermont grant programs including the Community Development Block Grants, Home Investment Partnerships, Emergency Solutions Grants, and Housing Opportunities for Persons with AIDS. These programs work to provide decent housing, assure a suitable living environment, and expand economic opportunities for Vermonters. The Agency awarded 269 grants of which 29 grants were funded by HUD totaling $26 million.

Natural Resources: The Agency awarded 693 grants which included 35 by the Department of Fish and Wildlife, 37 by the Department of Forest, Parks & Recreation, 621 by the Department of Environmental Conservation. Also included are loans to Municipalities for repair and improvement of water systems, pollution control systems, and storm-water projects. Federal ARRA grants funded 8 clean water loan programs.

Protection to Persons and Property: Public Safety grants are made up of safety programs like homeland security, motorcycle safety, bicycle safety, traffic safety, seatbelt safety and boating safety. The Department awarded 587 grants; the Homeland Security Grant Program received 243 of the number awarded.

The United States Department of Justice awarded the Vermont Crime Victims' Services 39 federal grants for crime victim assistance, and domestic and family violence services' programs.

The Agency of Agricultural, Food & Markets awarded 489 grants supporting programs that encourage growth of agriculture in Vermont while protecting the health of consumers and Vermont's environment.

Transportation: Transportation grants mainly consists of town highway projects like bridge replacement and rehabilitation, culvert repair and state aid to towns; state and FTA funded projects; FEMA emergency projects, state paving projects, enhancement projects and various roadway projects. In 2013, the Agency awarded 651 grants.

D. 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.

E. 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, 2013, the Commission had total assets of $53,334,396, and total liabilities of $42,181,736, representing decreases of $15.4 million and $13.0 million respectively, compared to June 30, 2012 figures. For the fiscal year ended June 30, 2013, the Commission had operating revenues of $54,219,248, a decrease of $7.1 million; interest income of $66,977, an increase of $24,329; commissions, fees, and bonus expenses of $5,443,412, a decrease of $673,174; prize awards of $27,454,001 a decrease of $3.4 million; and other operating expenses of $4,228,653 an increase of $73,576; all activity as compared to the fiscal year ended June 30, 2012.

During fiscal year 2013, the Commission made operating transfers to member states of $17,160,159 versus $20,220,782 during fiscal year 2012. This total included $2,770,628 transferred to Vermont during the fiscal year, a decrease of $440,177 as compared to fiscal year 2012.

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.

F. Accounting Changes

In November, 2010, GASB issued Governmental Accounting Standards Board Statement No. 61, *Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This statement modified certain requirements for inclusion of component units in the financial reporting entity. As a result of the implementation of this standard, Vermont Information Technology Leaders (VITL) no longer qualifies as a component unit of the State. The Governmental Activities net position and the Special Fund fund balance were restated as of June 30, 2012 to remove the amount related to VITL.

In March, 2012, GASB issued Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; and recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The State implemented this new statement during the year ended June 30, 2013, resulting in a restatement of the Government-wide Statement of Net Position as of June 30, 2012, and the Governmental Funds Statements of Revenues, Expenses and Changes in Fund Balance for the year then ended.

The effects of these changes on the statements were as follows:

	Net Position as of June 30, 2012	Fund Balance as of June 30, 2012
As originally reported	$ 1,644,826,476	$ 88,811,334
Restatements		
Remove VITL as blended component unit	(477,663)	(477,663)
Reclassification of bond issuance costs	(3,888,979)	-
Restated amount	$ 1,640,459,834	$ 88,333,671

Two discretely presented component units also restated their net position as of June 30, 2012. The Vermont Housing Finance Agency restated their net position for changes that resulted from the implementation of GASB Statement No. 65. The Vermont Telecommunications Authority restated their net position as a result of the correction of a prior period error. The effects of these changes on the statements were as follows:

	Vermont Housing Finance Agency	Vermont Telecommunications Authority
As originally reported	$ 86,669,000	$ 5,355,624
Restatements		
Correction of prior period error	-	16,021
Reclassification of items previously reported as assets and liabilities	(8,580,000)	-
Restated amount	$ 78,089,000	$ 5,371,645

G. Subsequent Events

1. Debt Issuances

2013 Series A - Special Obligation Transportation Infrastructure Bonds

The State issued $11,165,000 of 2013 Series A - Special Obligation Transportation Infrastructure Bonds, dated August 8, 2013. The interest rates on these bonds vary from 3% to 4.25%, and payment to the bondholders is scheduled to commence on June 15, 2014, and terminate on June 15, 2033.

These bonds are not general obligations of the State, and are not secured by the full faith and credit of the State but are payable only from Pledged Funds held in Trust by the Peoples United Bank (Trustee) in accordance with the terms of a Trust Agreement between the State and Peoples United Bank dated July 1, 2010, as amended and supplemented, and a Second Supplemental Agreement dated August 1, 2012. Funding sources for the Pledged Funds are funds to be received from 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 ten State bridges and four town highway bridges, reconstruction of two roadways, and rehabilitation and reconstruction of two interstate bridges.

2013 Series A (Vermont Citizens Bonds) – General Obligation Bonds and 2013 Series B – General Obligation Bonds

The State issued $25,000,000 of 2013 Series A - General Obligation Bonds, dated November 14, 2013. The bonds are general obligations of the State of Vermont, and the full faith and credit of the State are pledged to the payment of principal and interest on these bonds. The interest rates on these bonds vary from 2% to 5%, and payment to bondholders is scheduled to commence on August 15, 2014, and terminate on August 15, 2028.

The State issued $42,810,000 of 2013 Series B - General Obligation Bonds, dated November 14, 2013. The bonds are general obligations of the State of Vermont, and the full faith and credit of the State are pledged to the payment of principal and interest on these bonds. The interest rates on these bonds vary from 2% to 5%, and payment to bondholders is scheduled to commence on August 15, 2014, and terminate on August 15, 2033.

The issuance of these bonds is authorized by capital acts from legislative sessions: Act 40 (2011), Act 104 (2012), and Act 51 (2013). The proceeds are to be used for various purposes including capital projects, major maintenance at the State buildings, Vermont State Colleges, Vermont school construction, cellular and broadband telecommunications improvements, various projects in the areas of human services, natural resources, public safety, agriculture, various grant purposes, and other projects.

2013 Series C—General Obligation Refunding Bonds

The State issued $18,935,000 of 2013 Series C—General Obligation Refunding Bonds, dated November 14, 2013, for the purpose of advance refunding of $15,380,000 outstanding principle of the 2004 Series A - General Obligation Bonds and $4,100,000 outstanding principle of the 2005 Series A - General Obligation Bonds. Interest rates on the bonds range from 3% to 5%, and payments to bondholders are scheduled to commence on August 15, 2014, and terminate on August 15, 2024. As a result of the bond refunding transaction, the State reduces it total debt service payments over the next 11 years by $1,361,719, and achieves an economic gain of $984,458.

2. FEMA Grant Award

On September 18, 2013, the Federal Emergency Management Agency announced the award of $33,054,028 in disaster funding for payment for rebuilding portions of the Waterbury State Office complex damaged by Tropical Storm Irene.

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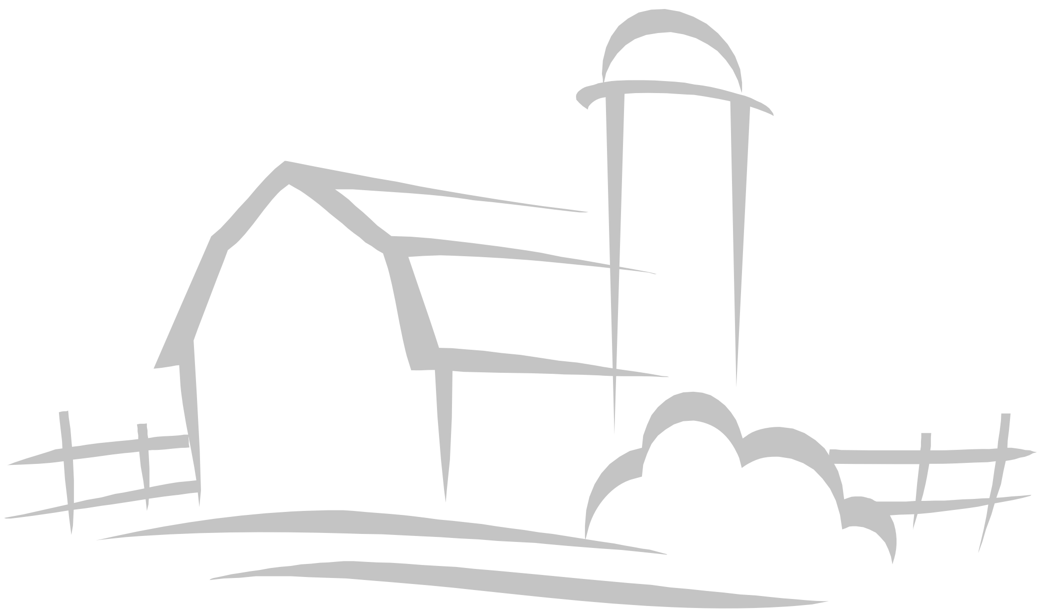

Vermont

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						
2013	$ 1,469,170	$ 1,914,300	$ 445,130	76.75%	$ 416,766	106.81%
2012	1,400,779	1,802,604	401,825	77.71%	385,526	104.23%
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%
STRS						
2013	$ 1,552,924	$ 2,566,834	$ 1,013,910	60.50%	$ 563,623	179.89%
2012	1,517,410	2,462,913	945,503	61.61%	561,179	168.49%
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%	535,807	70.83%
MERS						
2013	$ 446,236	$ 528,426	$ 82,190	84.45%	$ 220,372	37.30%
2012	417,443	488,572	71,129	85.44%	215,075	33.07%
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%	175,894	-2.87%

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

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	2013	$ 39,390	130.41%
Retirement System	2012[(1)]	28,748	140.19%
	2011	44,491	84.45%
	2010	37,418	84.10%
	2009	28,998	86.68%
	2008	42,375	92.49%
State Teachers'	2013	$ 60,183	108.15%
Retirement System	2012	51,242	109.58%
	2011	48,233	104.22%
	2010	41,503	101.01%
	2009	37,077	100.74%
	2008	40,749	100.51%
Vermont Municipal Employees'	2013	$ 12,014	100.00%
Retirement System	2012	11,532	100.00%
	2011	11,117	100.00%
	2010	10,593	100.00%
	2009	-	N/A
	2008	-	N/A

[(1)] Fiscal year 2012 the annual required contribution had been adjusted by $5 million due to the provisions contained in Act 63 of the 2011 legislative session, and by $5.4 million to correct prior year contribution true-ups that were erroneously categorized as expenses.

N/A - not applicable.
For fiscal year 2009, 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.

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

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]						
2013	$ 15,663	$ 947,864	$ 932,201	1.65%	$ 436,949	213.34%
2012	13,379	1,011,783	998,404	1.32%	406,929	245.35%
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	3,364	754,690	751,326	0.45%	404,937	185.54%

[1] Based on a discount rate of 4.25%.

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]						
2013	$ -	$ 712,666	$ 712,666	0.00%	$ 563,534	126.46%
2012	-	827,180	827,180	0.00%	561,026	147.44%
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%

[2] Based on a discount rate of 4.00%.

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			
	2013	$ 67,977	37.60%
	2012	69,880	39.57%
	2011	67,030	40.87%
	2010	57,998	38.84%
	2009	58,994	33.72%
	2008	47,285	37.59%
Postemployment Benefits for State Teachers' Retirement System			
	2013	$ 45,458	0.00%
	2012	43,411	0.00%
	2011	41,509	0.00%
	2010	58,966	0.00%
	2009	59,712	0.00%
	2008	60,221	0.00%

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,226,100,000	$ 1,228,300,000	$ 1,255,038,479	$ 26,738,479
Earnings of Departments	21,600,000	21,100,000	21,363,759	263,759
Other	12,500,000	13,100,000	12,210,676	(889,324)
Total revenues	1,260,200,000	1,262,500,000	1,288,612,914	26,112,914
Expenditures				
General Government				
Agency of Administration	45,711,594	54,415,927	41,786,545	(12,629,382)
Executive Office	1,416,314	1,563,629	1,326,902	(236,727)
Legislative Council	10,381,460	11,115,166	10,164,169	(950,997)
Joint Fiscal Office	1,408,769	1,758,940	1,442,092	(316,848)
Sergeant at Arms	557,533	591,647	546,499	(45,148)
Lieutenant Governor's Office	173,072	180,885	166,520	(14,365)
Auditor of Accounts	379,580	553,308	549,033	(4,275)
State Treasurer	988,481	1,173,624	1,120,664	(52,960)
State Labor Relations Board	198,620	200,721	198,595	(2,126)
VOSHA Review Board	23,265	47,074	25,675	(21,399)
Homeowner Property Tax Assistance	14,545,808	13,175,000	13,175,000	-
Renter Rebate Tax Assistance	2,886,900	2,589,468	2,589,468	-
Protection to Persons and Property				
Attorney General	5,112,866	5,941,512	5,686,037	(255,475)
Defender General	12,301,671	13,019,355	12,434,116	(585,239)
Judiciary	32,750,271	34,399,379	34,398,139	(1,240)
State's Attorneys and Sheriffs	13,149,954	14,545,857	13,228,221	(1,317,636)
Department of Public Safety	29,789,907	33,724,209	32,194,492	(1,529,717)
Military Department	3,629,390	3,816,915	3,313,485	(503,430)
Center Crime Victim Services	1,164,892	1,164,892	1,164,892	-
Criminal Justice Training Council	2,221,393	2,343,015	2,256,122	(86,893)
Agency of Agriculture, Food and Markets	5,904,823	7,395,536	6,405,954	(989,582)
Department of Financial Regulation	200,000	200,000	100,000	(100,000)
Secretary of State	1,653,552	1,685,021	1,654,336	(30,685)
Public Service Department	-	250,000	-	(250,000)
Human Rights Commission	391,093	414,326	388,313	(26,013)
Human Services				
Agency of Human Services	577,959,805	610,066,640	595,482,041	(14,584,599)
Green Mountain Care Board	467,038	925,768	285,104	(640,664)
Governor's Commission on Women	311,571	332,174	300,032	(32,142)
Human Services Board	113,997	111,749	111,749	-
Labor				
Department of Labor	4,782,810	6,742,198	5,189,842	(1,552,356)
General Education				
Agency of Education	9,408,537	9,907,051	9,418,002	(489,049)
State Teacher's Retirement	63,613,130	63,613,130	63,613,130	-
Higher Education	80,339,790	80,339,799	80,339,798	(1)

continued on next page

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	19,698,909	23,644,625	21,078,819	(2,565,806)
Natural Resources Board	751,745	786,616	783,155	(3,461)
Commerce and Community Development				
Agency of Commerce and Community Development	12,326,694	15,757,473	12,445,188	(3,312,285)
Cultural Development	1,601,792	1,657,717	1,657,717	-
Transportation				
Agency of Transportation	-	108,440	108,440	-
Total expenditures	958,317,026	1,020,258,786	977,128,286	(43,130,500)
Excess of revenues over expenditures	301,882,974	242,241,214	311,484,628	69,243,414
Other Financing Sources (Uses)				
Transfers in	1,856,721	46,901,121	46,901,121	-
Transfers out	(360,976,809)	(373,076,318)	(386,126,318)	(13,050,000)
Total other financing sources (uses)	(359,120,088)	(326,175,197)	(339,225,197)	(13,050,000)
Excess of revenues and other sources over (under) expenditures and other uses	(57,237,114)	(83,933,983)	(27,740,569)	56,193,414
Fund balance, July 1	158,830,529	158,830,529	158,830,529	-
Fund balance, June 30	$ 101,593,415	$ 74,896,546	$ 131,089,960	$ 56,193,414

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 133,900,000	$ 130,500,000	$ 132,820,236	$ 2,320,236
Motor vehicle fees	79,800,000	79,100,000	77,864,989	(1,235,011)
Federal	390,536,639	410,451,402	286,462,520	(123,988,882)
Other	41,800,000	42,700,000	49,898,769	7,198,769
Total revenues	646,036,639	662,751,402	547,046,514	(115,704,888)
Expenditures				
General Government				
Agency of Administration	7,038,110	3,638,110	3,638,110	-
Protection to Persons and Property				
Department of Public Safety	25,238,498	26,625,165	26,492,400	(132,765)
Transportation				
Agency of Transportation	619,519,655	659,657,734	505,955,363	(153,702,371)
Total expenditures	651,796,263	689,921,009	536,085,873	(153,835,136)
Excess of revenues over (under) expenditures	(5,759,624)	(27,169,607)	10,960,641	38,130,248
Other financing sources (uses)				
Transfers in	-	4,370,272	4,370,272	-
Transfers out	(7,090,079)	(7,028,244)	(7,028,244)	-
Total other financing sources (uses)	(7,090,079)	(2,657,972)	(2,657,972)	-
Excess of revenues and other sources over (under) expenditures and other uses	(12,849,703)	(29,827,579)	8,302,669	38,130,248
Fund balance, July 1	(2,397,374)	(2,397,374)	(2,397,374)	-
Fund balance, June 30	$ (15,247,077)	$ (32,224,953)	$ 5,905,295	$ 38,130,248

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,081,474,410	$ 1,079,674,410	$ 1,076,341,938	$ (3,332,472)
Interest and premiums	100,000	100,000	83,414	(16,586)
Total revenues	1,081,574,410	1,079,774,410	1,076,425,352	(3,349,058)
Expenditures				
General Government				
Grand List	3,243,196	3,409,444	3,244,329	(165,115)
Renter Rebates	6,736,100	6,020,000	5,677,137	(342,863)
Human Services				
Agency of Human Services	4,337,051	4,455,899	4,297,626	(158,273)
General Education				
Agency of Education	1,381,197,264	1,391,653,773	1,374,684,089	(16,969,684)
Total expenditures	1,395,513,611	1,405,539,116	1,387,903,181	(17,635,935)
Excess of revenues over (under) expenditures	(313,939,201)	(325,764,706)	(311,477,829)	14,286,877
Other financing sources (uses)				
Transfers in	314,249,715	314,249,715	314,249,715	-
Total other financing sources (uses)	314,249,715	314,249,715	314,249,715	-
Excess of revenues and other sources over (under) expenditures and other uses	310,514	(11,514,991)	2,771,886	14,286,877
Fund balance, July 1	63,442,700	63,442,700	63,442,700	-
Fund balance, June 30	$ 63,753,214	$ 51,927,709	$ 66,214,586	$ 14,286,877

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Special Fund Revenues	$ 222,231,282	$ 325,612,996	$ 299,278,799	$ (26,334,197)
Total revenues	222,231,282	325,612,996	299,278,799	(26,334,197)
Expenditures				
General Government				
Agency of Administration	14,144,085	42,147,326	19,678,747	(22,468,579)
Executive Office	193,500	193,500	186,500	(7,000)
Auditor of Accounts	53,099	53,099	53,099	-
State Treasurer	1,963,753	2,400,489	2,376,574	(23,915)
State Labor Relations Board	15,344	21,981	21,981	-
VOSHA Review Board	23,265	25,265	25,265	-
Unorganized Towns and Gores	-	311,000	278,279	(32,721)
Protection to Persons and Property				
Attorney General	4,009,902	4,874,364	4,218,221	(656,143)
Defender General	638,552	645,126	631,070	(14,056)
Judiciary	5,111,969	5,383,128	4,627,973	(755,155)
State's Attorneys and Sheriffs	2,365,740	2,405,669	2,255,548	(150,121)
Department of Public Safety	13,318,099	17,077,653	14,376,208	(2,701,445)
Military Department	221,041	234,437	234,437	-
Center Crime Victim Services	5,996,342	6,163,936	5,917,633	(246,303)
Criminal Justice Training Council	251,478	396,478	364,348	(32,130)
Agency of Agriculture, Food and Markets	6,931,510	9,297,352	6,676,024	(2,621,328)
Department of Financial Regulation	14,559,872	15,397,844	14,428,256	(969,588)
Secretary of State	5,689,283	5,689,283	5,672,511	(16,772)
Public Service Department	10,372,914	15,295,864	13,791,217	(1,504,647)
Public Service Board	2,823,980	2,825,119	2,453,159	(371,960)
Enhanced 911 Board	4,987,418	6,337,431	4,367,428	(1,970,003)
Human Rights Commission	-	17,700	15,000	(2,700)
Department of Liquor Control	-	148,261	94,254	(54,007)
Human Services				
Agency of Human Services	89,422,073	116,338,796	103,078,415	(13,260,381)
Green Mountain Care Board	531,237	1,473,788	1,254,857	(218,931)
Governor's Commission on Women	5,000	5,000	1,500	(3,500)
Human Services Board	85,326	85,326	85,326	-
Vermont Veterans Home	10,606,072	11,056,072	10,526,945	(529,127)
Labor				
Department of Labor	6,485,695	6,500,695	5,704,255	(796,440)
General Education				
Agency of Education	17,060,171	25,772,197	23,975,269	(1,796,928)
Higher Education	2,394,500	2,394,500	2,394,500	-

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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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	34,999,673	40,393,132	31,532,557	(8,860,575)
Natural Resources Board	1,965,886	1,971,057	1,875,133	(95,924)
Commerce and Community Development				
Agency of Commerce and Community Development	4,678,272	8,568,339	5,197,897	(3,370,442)
Transportation				
Agency of Transportation	3,600,000	4,939,550	4,095,068	(844,482)
Total expenditures	265,505,051	356,840,757	292,465,454	(64,375,303)
Excess of revenues over expenditures	(43,273,769)	(31,227,761)	6,813,345	38,041,106
Other Financing Sources (Uses)				
Transfers in	52,502,749	72,403,214	72,403,214	-
Transfers out	(9,228,980)	(41,175,453)	(41,175,453)	-
Total other financing sources (uses)	43,273,769	31,227,761	31,227,761	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	38,041,106	38,041,106
Fund balance, July 1	127,249,077	127,249,077	127,249,077	-
Fund balance, June 30	$ 127,249,077	$ 127,249,077	$ 165,290,183	$ 38,041,106

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 1,400,477,006	$ 1,385,662,243	$ 1,412,487,044	$ 26,824,801
Interest and premiums	-	107,905	107,905	-
Total revenues	1,400,477,006	1,385,770,148	1,412,594,949	26,824,801
Expenditures				
General Government				
Agency of Administration	815,264	9,984,945	9,837,325	(147,620)
State Treasurer	-	450,080	424,922	(25,158)
Protection to Persons and Property				
Attorney General	745,364	745,364	742,480	(2,884)
Judiciary	888,205	1,139,023	528,568	(610,455)
State's Attorneys and Sheriffs	131,000	131,000	93,410	(37,590)
Department of Public Safety	26,869,023	29,156,250	23,120,285	(6,035,965)
Military Department	18,854,095	22,354,095	19,665,648	(2,688,447)
Center Crime Victim Services	4,040,428	4,126,004	4,071,160	(54,844)
Criminal Justice Training Council	-	200,000	129,197	(70,803)
Agency of Agriculture, Food and Markets	2,234,425	3,081,747	2,602,170	(479,577)
Department of Financial Regulation	1,504,283	1,504,283	1,504,283	-
Secretary of State	2,000,000	2,000,000	760,361	(1,239,639)
Public Service Department	843,755	1,967,777	1,112,081	(855,696)
Human Rights Commission	81,211	81,211	71,824	(9,387)
Human Services				
Agency of Human Services	1,115,307,337	1,167,765,892	1,090,996,421	(76,769,471)
Vermont Veterans' Home	7,084,986	7,084,986	7,084,675	(311)
Labor				
Department of Labor	23,751,533	23,758,348	22,890,755	(867,593)
General Education				
Agency of Education	132,744,116	134,953,816	118,437,676	(16,516,140)
Natural Resources				
Agency of Natural Resources	15,010,161	40,136,024	36,554,287	(3,581,737)
Commerce and Community Development				
Agency of Commerce and Community Development	18,732,885	46,589,297	11,063,145	(35,526,152)
Total expenditures	1,371,638,071	1,497,210,142	1,351,690,673	(145,519,469)
Excess of revenues over expenditures	28,838,935	(111,439,994)	60,904,276	172,344,270
Other Financing Sources (Uses)				
Transfers out	(19,914,607)	(31,300,816)	(31,300,816)	-
Total other financing sources (uses)	(19,914,607)	(31,300,816)	(31,300,816)	-
Excess of revenues and other sources over (under) expenditures and other uses	8,924,328	(142,740,810)	29,603,460	172,344,270
Fund balance, July 1	19,142,692	19,142,692	19,142,692	-
Fund balance (deficit), June 30	$ 28,067,020	$ (123,598,118)	$ 48,746,152	172,344,270

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums	$ 1,137,000,000	$ 1,156,200,000	$ 1,192,428,821	$ 36,228,821
Total revenues	1,137,000,000	1,156,200,000	1,192,428,821	36,228,821
Expenditures				
Protection to Persons and Property				
Agency of Agriculture, Food & Markets	90,278	90,278	90,278	-
Department of Financial Regulation	1,048,666	1,048,666	659,544	(389,122)
Human Services				
Agency of Human Services	1,174,225,814	1,201,707,970	1,162,110,390	(39,597,580)
Green Mountain Care Board	1,477,740	1,477,740	1,450,717	(27,023)
Vermont Veterans' Home	1,410,956	1,410,956	1,410,956	-
General Education				
Higher Education	4,411,563	4,411,563	4,411,563	-
Agency of Education	1,059,274	1,059,274	775,416	(283,858)
Total expenditures	1,183,724,291	1,211,206,447	1,170,908,864	(40,297,583)
Excess of revenues over (under) expenditures	(46,724,291)	(55,006,447)	21,519,957	76,526,404
Other financing sources (uses)				
Transfers out	(21,640,302)	(21,640,302)	(21,640,302)	-
Total other financing sources (uses)	(21,640,302)	(21,640,302)	(21,640,302)	-
Excess of revenues and other sources over (under) expenditures and other uses	(68,364,593)	(76,646,749)	(120,345)	76,526,404
Fund balance, July 1	86,662,450	86,662,450	86,662,450	-
Fund balance, June 30	$ 18,297,857	$ 10,015,701	$ 86,542,105	$ 76,526,404

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 12,723,278	$ 28,924,506	$ 14,305,978	$ (14,618,528)
Interest and principal	33,017	75,059	37,124	(37,935)
Other	581,409	1,321,748	653,733	(668,015)
Total revenues	13,337,704	30,321,313	14,996,835	(15,324,478)
Expenditures				
Protection to Persons and Property				
Department of Public Safety	-	1,784,315	854,941	(929,374)
Public Service Department	4,909,080	5,910,842	3,188,029	(2,722,813)
Public Service Board	251,601	251,601	190,424	(61,177)
Human Services				
Agency of Human Services	221,790	8,603,927	7,567,386	(1,036,541)
Labor				
Department of Labor	-	150,000	109,960	(40,040)
General Education				
Agency of Education	-	2,485,583	2,114,907	(370,676)
Natural Resources				
Agency of Natural Resources	-	1,141,074	1,113,431	(27,643)
Commerce and Community Development				
Agency of Commerce and Community Development	-	13,000	1,269	(11,731)
Transportation				
Agency of Transportation	6,701,953	8,727,691	6,873,607	(1,854,084)
Total expenditures	12,084,424	29,068,033	22,013,954	(7,054,079)
Excess of revenues over expenditures	1,253,280	1,253,280	(7,017,119)	(8,270,399)
Other financing sources (uses)				
Transfers out	(1,253,280)	(1,253,280)	(1,253,280)	-
Total other financing sources (uses)	(1,253,280)	(1,253,280)	(1,253,280)	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	(8,270,399)	(8,270,399)
Fund balance (deficit), July 1	804,470	804,470	804,470	-
Fund balance (deficit), June 30	$ 804,470	$ 804,470	$ (7,465,929)	$ (8,270,399)

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
State Health Care Resources Fund Revenues	$ 265,500,000	$ 267,600,000	$ 279,807,928	$ 12,207,928
Total revenues	265,500,000	267,600,000	279,807,928	12,207,928
Expenditures				
Human Services				
Agency of Human Services	266,423,947	286,147,700	278,388,631	(7,759,069)
Total expenditures	266,423,947	286,147,700	278,388,631	(7,759,069)
Excess of revenues over (under) expenditures	(923,947)	(18,547,700)	1,419,297	19,966,997
Other financing sources (uses)				
Transfers out	4,758,047	4,758,849	4,758,849	-
Total other financing sources (uses)	4,758,047	4,758,849	4,758,849	-
Excess of revenues and other sources over (under) expenditures and other uses	3,834,100	(13,788,851)	6,178,146	19,966,997
Fund balance, July 1	141,420	141,420	141,420	-
Fund balance (deficit), June 30	$ 3,975,520	$ (13,647,431)	$ 6,319,566	$ 19,966,997

See Independent Auditor's Report. 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, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Tobacco Trust Funds Revenue	$ 36,398,004	$ 37,009,672	$ 35,033,245	$ (1,976,427)
Total revenues	36,398,004	37,009,672	35,033,245	(1,976,427)
Expenditures				
Protection to Persons and Property				
Attorney General	459,000	459,000	335,352	(123,648)
Judiciary	39,871	39,871	39,871	-
Department of Liquor Control	291,945	291,945	285,284	(6,661)
Human Services				
Agency of Human Services	34,615,257	35,226,925	35,091,174	(135,751)
General Education				
Agency of Education	991,931	991,931	907,621	(84,310)
Total expenditures	36,398,004	37,009,672	36,659,302	(350,370)
Excess of revenues over (under) expenditures	-	-	(1,626,057)	(1,626,057)
Fund balance, July 1	9,942,177	9,942,177	9,942,177	-
Fund balance, June 30	$ 9,942,177	$ 9,942,177	$ 8,316,120	$ (1,626,057)

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
CATAMOUNT FUND BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Catamount Fund Revenues	$ -	$ -	$ 802	$ 802
Total revenues	-	-	802	802
Expenditures				
Human Services				
Agency of Human Services	-	-	-	-
Labor				
Department of Labor	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over (under) expenditures	-	-	802	802
Other financing sources (uses)				
Transfers out	(4,758,047)	(4,758,849)	(4,758,849)	-
Total other financing sources (uses)	(4,758,047)	(4,758,849)	(4,758,849)	-
Excess of revenues and other sources over (under) expenditures and other uses	(4,758,047)	(4,758,849)	(4,758,047)	802
Fund balance, July 1	4,758,047	4,758,047	4,758,047	-
Fund balance, June 30	$ -	$ (802)	$ -	$ 802

See Independent Auditor's Report. 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 and 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, and Tobacco Trust 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, 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, 2013:

	General Fund	Transportation Fund	Education Fund	Federal Revenue Fund	Global Commitment Fund	ARRA Fund
Fund Balance - Budgetary Basis……………..	$ 131,089,960	$ 5,905,295	$ 66,214,586	$ 48,746,152	$ 86,542,105	$ (7,465,929)
Basis differences						
Cash not in budget balances…………………	1,233,956	489	232,122	(1,765,670)	(999)	1,614,349
Taxes receivable………………………………	205,600,774	10,355,603	15,081,333	(2,493)	-	2,493
Notes and loans receivable……………………	499,499	-	-	(1,553,341)	-	1,553,341
Other receivables………………………………	7,540,428	12,507,313	1,079,801	(34,514,027)	30,978,158	-
Interest receivable………………………………	-	22	-	3,307	-	-
Due from other funds……………………………	2,243,277	619,816	285,896	1,415,311	44,258,007	-
Due from federal government…………………	814,744	44,580,290	-	131,703,083	55,818,933	1,295,251
Due from component units……………………	2,139	-	-	(5,667)	-	5,667
Accounts payable………………………………	(22,257,276)	(32,634,569)	(12,056,141)	(52,608,902)	(96,327,525)	(507,542)
Accrued liabilities………………………………	(9,307,700)	(5,251,819)	(140,846)	(5,073,723)	(2,761,949)	(11,779)
Retainage payable………………………………	(6,190)	(39,351)	-	(1,508,976)	(371,144)	-
Unearned revenue………………………………	-	(52,697)	-	(1,355,936)	-	-
Tax refunds payable……………………………	(9,701,847)	-	-	-	-	-
Intergovernment payables………………………	-	(247,803)	-	(8,662,311)	-	(4)
Due to other funds………………………………	(17,106,321)	(906,882)	(12,737)	(1,226,498)	(2,641,104)	(98,273)
Due to component units………………………	-	-	-	-	-	-
Unavailable revenue……………………………	(131,461,876)	(10,675,064)	(4,249,248)	(1,847,366)	(20,630,014)	-
Entity differences						
Blended non-budgeted funds…………………	-	3,665,662	-	314,394,057	-	-
Perspective differences						
Component unit included in budgeted funds…	-	-	-	3,954,976	-	-
Budgeted funds reclassified to GAAP basis major governmental fund……………………	-	(5,980,834)	-	2,368,409	-	3,612,426
Fund Balance - GAAP Basis……………………	$ 159,183,567	$ 21,845,471	$ 66,434,766	$ 392,460,385	$ 94,864,468	$ -

	Budget Basis Funds			GAAP Basis
	Special Fund	State Health Care Resource Fund	Tobacco Trust Fund	Special Fund
Fund Balance - Budgetary Basis	$ 165,290,183	$ 6,319,566	$ 8,316,120	$ -
Basis differences				
Cash not in budget balances	(10,020)	113,687	-	103,667
Preferred stock investment	100,000	-	-	100,000
Taxes receivable	3,010,194	1,719,558	-	4,729,752
Notes and loans receivable	892,020	-	-	892,020
Other receivables	13,404,970	167,913	-	13,572,883
Due from other funds	2,704,077	-	-	2,704,077
Due from component units	44,415	-	-	44,415
Accounts payable	(15,211,704)	(918)	(55,400)	(15,268,022)
Accrued liabilities	(3,428,848)	-	(12,995)	(3,441,843)
Retainage payable	(102,527)	-	-	(102,527)
Unearned revenue	(127,889)	-	-	(127,889)
Tax refunds payable	307,633	(29,977)	-	277,656
Due to other funds	(62,213,592)	(25,509,657)	(3,430,156)	(91,153,405)
Due to component units	-	-	-	-
Unavailable revenue	(12,480,250)	(518,321)	-	(12,998,571)
Entity differences				
Blended non-budgeted funds	9,221,015	-	-	9,221,015
Perspective differences				
Component unit included in budgeted funds	(2,450,985)	-	-	(2,450,985)
Budgeted funds reclassified to GAAP basis enterprise fund	-	-	-	-
Budgeted funds reclassified to GAAP basis major governmental fund	(98,948,692)	17,738,149	(4,817,569)	179,925,869
Fund Balance - GAAP Basis	$ -	$ -	$ -	$ 86,028,112

Note: Catamount Fund was merged with State Health Care Resource Fund in 2013.

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FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF 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 $20,310,000 General Obligation Bonds, 2014 Series A (Vermont Citizen Bonds) (the "Series A Bonds"), its $53,245,000 General Obligation Bonds, 2014 Series B (the "Series B Bonds") and its $36,205,000 General Obligation Refunding Bonds, 2014 Series C (the "Series C Bonds," and collectively with the Series A Bonds and the Series B Bonds, 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 November 18, 2014 with respect to the Series A Bonds and November 19, 2014 with respect to the Series B Bonds and the Series C Bonds.

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 Listed 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.

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

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[†] 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.

issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) 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: _______________, 2014

STATE OF VERMONT, as Issuer

By: ____

Elizabeth A. Pearce

Treasurer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: General Obligation Bonds, 2014 Series A (Vermont Citizen Bonds),
General Obligation Bonds, 2014 Series B, and
General Obligation Refunding Bonds, 2014 Series C

Date of Issuance: December ___, 2014

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated December __, 2014. 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

FORM OF BOND COUNSEL OPINION

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PROPOSED FORM OF OPINION OF BOND COUNSEL

(Date of Delivery)

The Honorable Peter E. Shumlin
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$20,310,000
State of Vermont
General Obligation Bonds, 2014 Series A
(Vermont Citizen Bonds)
Dated Date of Delivery

and

$53,245,000
State of Vermont
General Obligation Bonds, 2014 Series B
Dated Date of Delivery

and

$36,205,000
State of Vermont
General Obligation Refunding Bonds, 2014 Series C
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

STATE OF VERMONT • GENERAL OBLIGATION BONDS, 2014 SERIES A (VERMONT CITIZEN BONDS) AND 2014 SERIES B AND GENERAL OBLIGATION REFUNDING BONDS, 2014 SERIES C

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