This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 25, 2013

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.

$20,225,000*
STATE OF VERMONT
General Obligation Bonds
2013 Series A
(VERMONT CITIZEN BONDS)†
(Negotiated)

$46,410,000*	$18,680,000*
STATE OF VERMONT	**STATE OF VERMONT**
General Obligation Bonds	**General Obligation Refunding Bonds**
2013 Series B‡	**2013 Series C‡**
(Competitive)	**(Competitive)**

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

The 2013 Series A Bonds (the "Series A Bonds"), the 2013 Series B Bonds (the "Series B Bonds") and the 2013 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, 2014. 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.

WITH RESPECT TO THE SERIES B BONDS AND SERIES C BONDS, ELECTRONIC BIDS WILL BE RECEIVED BY THE STATE IN ACCORDANCE WITH THE OFFICIAL NOTICE OF SALE UNTIL 10:30 A.M. AND 11:00 A.M. (VERMONT TIME), RESPECTIVELY, ON WEDNESDAY, NOVEMBER 6, 2013, UNLESS POSTPONED OR CANCELLED AS DESCRIBED IN THE APPLICABLE OFFICIAL NOTICE OF SALE.

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 Underwriters of the Series A Bonds 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 November 14, 2013.

Morgan Stanley

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

November __, 2013

* Preliminary; subject to change.

† 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 will be sold on a competitive sale basis as described herein under "COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS" and pursuant to the Official Notice of Sale attached hereto as Appendix D.

$20,225,000*
STATE OF VERMONT
General Obligation Bonds
2013 Series A (VERMONT CITIZEN BONDS)

Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258	Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258
2014	$1,015,000				2024	$1,010,000			
2015	1,015,000				2025	1,010,000			
2016	1,015,000				2026	1,010,000			
2017	1,015,000				2027	1,010,000			
2018	1,015,000				2028	1,010,000			
2019	1,010,000				2029	1,010,000			
2020	1,010,000				2030	1,010,000			
2021	1,010,000				2031	1,010,000			
2022	1,010,000				2032	1,010,000			
2023	1,010,000				2033	1,010,000			

$46,410,000*
STATE OF VERMONT
General Obligation Bonds
2013 Series B

Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258	Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258
2014	$2,320,000				2024	$2,320,000			
2015	2,320,000				2025	2,320,000			
2016	2,320,000				2026	2,320,000			
2017	2,320,000				2027	2,320,000			
2018	2,320,000				2028	2,320,000			
2019	2,325,000				2029	2,320,000			
2020	2,325,000				2030	2,320,000			
2021	2,320,000				2031	2,320,000			
2022	2,320,000				2032	2,320,000			
2023	2,320,000				2033	2,320,000			

$18,680,000*
STATE OF VERMONT
General Obligation Refunding Bonds
2013 Series C

Due August 15*	Principal Amount*	Interest Rate	Price or Yield	CUSIP† 924258
2014	$7,070,000			
2015	4,645,000			
2016	1,940,000			
2017	1,100,000			
2023	1,955,000			
2024	1,970,000			

* Preliminary; subject to change.
† Copyright 2013, American Bankers Association.

STATE OF VERMONT

ELECTED OFFICERS

<u>Name</u>

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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF VERMONT

$20,225,000*
General Obligation Bonds
2013 Series A
(VERMONT CITIZEN BONDS)
(Negotiated)

$46,410,000*	$18,680,000*
General Obligation Bonds	General Obligation Refunding Bonds
2013 Series B	2013 Series C
(Competitive)	(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 $20,225,000* aggregate principal amount of its General Obligation Bonds, 2013 Series A (Vermont Citizen Bonds) (the "Series A Bonds"), $46,410,000* aggregate principal amount of its General Obligation Bonds, 2013 Series B (the "Series B Bonds") and $18,680,000* aggregate principal amount of its General Obligation Refunding Bonds, 2013 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.

The Series A Bonds will be purchased for re-offering by the Underwriters listed on the cover page of this Official Statement, as set forth herein under the heading "UNDERWRITING OF THE SERIES A BONDS." The Series B Bonds and the Series C Bonds will be sold by competitive sale as set forth herein and in the applicable Notice of Sale set forth in Appendix D hereto. See "COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS" and the Notices of Sale contained in Appendix D.

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

* Preliminary; subject to change.

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, 2014, 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		
Section 2	State Buildings – Various Projects	$31,710,082
Section 3	Administration – Vermont Center for Geographic Information	100,000
Section 4	Human Services – Various Projects	5,200,000
Section 5	Judiciary	1,000,000
Section 6	Commerce and Community Development	440,000
Section 7	Grant Programs	1,575,000
Section 8	Education	6,704,634
Section 9	University of Vermont – Major Maintenance	1,400,000
Section 10	Vermont State Colleges – Major Maintenance	1,400,000
Section 11	Natural Resources	13,772,550
Section 12	Military	750,000
Section 13	Public Safety – Various Projects	3,600,000
Section 14	Agriculture, Food and Markets	150,000
Section 15	Vermont Public Television	205,750
Section 16	Vermont Rural Fire Protection	100,000
Section 17	Vermont Veterans' Home	1,216,000
Section 18	Vermont Interactive Technologies	288,000
Section 18a	Enhanced 911 Program	10,000
Act 104 of 2012		
Section 7	Vermont State Colleges – Major Maintenance	2,000,000
Act 40 of 2011		
Section 2	State Buildings- Various Projects	2,540
		$71,624,556

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, 2022 will not be subject to redemption prior to maturity. The Bonds maturing after August 15, 2022 will be subject to redemption prior to maturity, at the option of the State, on and after August 15, 2022, 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.

---

* Preliminary; subject to change.

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
2004 Series A					
2005 Series A					

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

* Preliminary; subject to change.

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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

STATE GOVERNMENT

Governmental Organization

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

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

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

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

(2) Agency of Transportation: The Agency of Transportation consists of four functional divisions that are responsible for the planning, design, construction, maintenance and operation of state highways, railroads, and airports; and the Department of Motor Vehicles, which is responsible for the administration of motor vehicle registrations, driver's licenses and other motor vehicle regulations. The Agency of Transportation is responsible for the administration and collection of the motor vehicle purchase and use and motor fuel taxes as well as motor vehicle registrations and renewals and driver's license fees.

(3) Agency of Education: Through fiscal year 2012, the State Board of Education consisted of ten persons, all of whom were appointed by the Governor with the advice and consent of the Senate. The State Board of Education had supervision over and management responsibilities for the Department of Education and the public school system and had 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 had authority to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; to examine and determine all appeals made to it; and to make regulations governing the certification and qualification of all public school teachers. During the 2012 Legislative session, the Legislature passed language reorganizing the Department of Education, such that, effective July 1, 2012, the Department of Education has been elevated to the State Agency of Education. An executive search is underway to fill the newly created Governor's cabinet position of Secretary of Education.

(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 2012 show that Vermont's population declined by an estimated 581 persons between July 1, 2011 and July 1, 2012, representing a 0.1% rate of population decrease. That decrease ran counter to 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 0.3% rate of population increase in the New England region as a whole. Vermont had an estimated growth of 63,253 persons (rounded) between July 1, 1990 and July 1, 2012, or an average yearly rate of 0.3% 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 1.0% over the same 1990–2012 period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970–2012

	----------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]
2012	626	(0.1)%	14,563	0.3%	313,914	0.7%
2011	626	0.1	14,517	0.4	311,588	0.7
2010	626	0.7	14,463	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 2012, 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 2012 the median age of the Vermont population was 42.3 years, 4.9 years older than the national average median age of 37.4 years. Among the various age groups, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 80.2% of the State's population versus 76.5% of the total population of the United States) in 2012. 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 2012 (at 80.2% for Vermont versus 78.2% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 4.9% 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 6.4% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 15.7% of the State population) in 2012 was higher than that for the U.S. population as a whole (at 13.7% of the U.S. population overall) in 2012, and less than one percentage point higher than the New England average (at 14.9% of the total). In addition, the percentage of Vermont's population in 2012 aged 45-64 years (at 30.7% of the State's population) was significantly higher than both the percentage of the New England regional population (at 28.8% of the total) and the U.S. population overall (at 26.3% of the total) in 2012. Vermont had slightly more of its population in the 85 years and older category (at 2.2% of the State total) relative to the U.S. population (at 1.9% of the U.S. population) in 2012, but a slightly lower percentage than the New England region overall (at 2.3% of the New England regional population) in 2012.

The Vermont population in 2011 (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 (2011 American Community Survey). Table 2 shows that a total of 91.8% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 4th among the 50 states, and approximately six percentage points higher than the national average of 85.9% of the U.S. population aged 25 years and older. In addition, a total of 35.4% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont 6th highest among the 50 states. The percentage of Vermont residents aged 25 years and over with a four-year college degree exceeds the comparable national average of 28.5% of U.S. residents aged 25 years and over with a four-year college degree by approximately seven percentage points.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2011

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	91.8%	4th	85.9%
COLLEGE:			
Bachelor's Degree or More	35.4%	6th	28.5%

SOURCE: U.S. Department of Commerce, Bureau of the Census; 2011 American Community Survey.

Data from the U.S. Census for 2011 (the latest data available) also indicate that Vermont's population remains primarily rural. A total of 66.2% of the State's population lived outside of the State's single metropolitan area—the highest percentage among the 50 states. Vermont's percentage as of July 1, 2011 was over four times the national, 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, 2011

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	264,619	84.9%	46,969	15.1%
Northeast	51,241	92.3	4,280	7.7
New England	12,697	87.5	1,820	12.5
Vermont	213	33.8	415	66.2

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 2012. 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, 2012, despite the initial economic recovery from the last recession, equalized property values have continued to decline.

The estimates from 1997–2012 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[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 5.0% from their price peak in 2008 to the second quarter of calendar year 2013. This was by far 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
1990–2012

Equalization Date As of April 1,	Fair Market Value
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, and $3,003.0 million in 2012.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report..

Economic Activity

The opinions set forth in this section are provided by Economic & Policy Resources, Inc., Williston, Vermont, based upon such firm's independent evaluation of economic information and trends in the State of Vermont and the United States. The firm serves as a consultant to the State of Vermont with responsibilities as to matters of the analysis of economic trends and economic forecasting as well as providing technical forecasting services to the State with respect to the various short-term and longer-term consensus revenue estimating processes performed pursuant to Vermont statute.

The description of the economic forecast for the United States and Vermont is based on the same underlying forecast contained under "The Moody's Analytics National Economic Forecast Assumptions" herein that is provided by Moody's Analytics of West Chester, Pennsylvania, as adjusted by the consensus revenue forecasting process between Economic & Policy Resources, Inc. (the economist for the Administration) and the economist for the State's Legislative Joint Fiscal Office. The economic forecasts are completed in conjunction with the New England Economic Partnership (NEEP), a nonprofit economic forecasting group with participating members in all six New England states, as adjusted during the consensus revenue forecasting process. For more information on the consensus revenue forecasting process, see "REVENUE ESTIMATES" herein.

The U.S. Economic Situation: For the most part, developments in the U.S. economy through August 2013 reflect a strengthening private sector, which is helping the rest of the economy cope with increasing drag resulting from federal fiscal policy. The U.S. economy gained 148,000 nonfarm jobs in September, and the unemployment rate moved down slightly to 7.23% - declining by 0.1 percentage points for the third straight month. Total private jobs increased by 126,000, while the public sector gained 22,000 jobs.

Although economic activity in the summer and early fall of 2013 has been dampened by federal expenditure sequestration, monetary policy has been helping—by lifting stock prices and housing prices—which has bolstered household wealth. This, in turn, has helped the household sector cope with the FICA tax increase in January 2013, the fiscal policy uncertainties at home, and the still developing economic (in Europe) and global security (e.g. Korea, Syria and Iran) issues abroad. So far, the helpful boost from monetary policy has come without any real signs of asset bubbles in stock or housing prices that can sometimes follow a long period of low interest rate policy from monetary policy. However, the Federal Reserve's continued historically high level of asset purchases remains uncertain and has unsettled financial markets. There is concern about the "tapering" of future asset purchases by the Federal Reserve and the potential impact this may have on U.S. and global economic activity.

Earlier this year, the Administration and Congress were not able to avoid sequestration. The sequestration cuts, according to a recent estimate by Moody's Analytics,[2] will result in a significant level of fiscal policy drag on the U.S. economy, reducing Gross Domestic Product (GDP) growth by an estimated 0.5 percentage points, reducing nonfarm payroll job gains by an estimated 500,000 and increasing the U.S. unemployment rate by about ¼ of a percentage point by the middle of calendar year 2014 (or the end of the State's fiscal year 2014). According to Moody's Analytics, the above effects relating to sequestration come on top of an already significant amount of fiscal drag related to past policy measures. These measures include the fiscal cliff deal, which raised taxes by $200 billion in calendar year 2013 and will reduce GDP growth by an estimated 0.8 percentage points in calendar year 2013, and other congressional expenditure reduction decisions such as those related to the 2011 debt ceiling agreement and the reduction of Hurricane Sandy relief (as compared to the original relief package)—which will reduce GDP growth by another 0.2 percentage points in calendar year 2013. In total, Moody's Analytics estimates these measures are expected to reduce GDP growth in the U.S. economy by 1.5 percentage points overall during calendar year 2013. Overall, these measures are expected to exert the greatest amount of drag on the economy during the second half of calendar year 2013. Considering the lagged effects between budget authority and actual expenditures in the federal budget, at least some of the effects of federal sequestration will spill over into the next federal and state fiscal years.

It is expected that the pace of forward progress in the U.S. and Vermont economies will slow through the Fall of 2013 and this will be made somewhat worse due to negative effects of the most recent fiscal policy standoff in Washington. Any slowdown of any appreciable magnitude will weigh heavily on the already fragile collective psyche of households, businesses, and investors. This will leave the current, still somewhat fragile pace of forward progress in the economy vulnerable to any one or a combination of adverse developments in the economy or in international politics either in Europe or in the Middle East.

The U.S. and Vermont economies should begin to strengthen during the first half of calendar year 2014. The private sector component of the economy is building strength, and consumer spending, business investment and now even housing will add to the pace of the U.S. and Vermont economies. In the absence of a policy mistake domestically, a sudden and adverse development in the global economy and/or a global political meltdown, economic progress is expected to once again begin to reflect a more normal pace and profile.

The Vermont Situation: Turning to the Vermont economy, the State continued to make modest recovery progress over the first eight months of calendar year 2013, despite the uncertainty regarding federal fiscal policy issues and the overall global economic slowdown—particularly in Europe and some parts of Asia. Through August, the State has recovered roughly 12,800 of the 14,300 payroll jobs lost during the last economic downturn—a rate of recapture of 89.5%—despite a number of well publicized layoff announcements.[3] 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

[2] As presented at the Spring 2013 New England Economic Partnership economic outlook conference in Boston Massachusetts, May 23, 2013.

[3] This is consistent with the 78.0% job re-capture rate for the U.S. economy through August—despite announcements of significant layoffs at IBM in Essex Junction and some other Vermont businesses.

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) or not as poor (when on the downside of the pattern) as the labor market reading was indicating.

When looking at the latest State data available from August 2013, Vermont's year-over-year job change performance ranked highest in New England and 24th among the 50 states. Vermont gained payroll jobs at the rate of 1.5% (on a year-over-year basis). The State's 1.4% year-over-year gain in private sector payroll jobs ranked Vermont 34th nationally in year-over-year job change. Vermont's ranking was only below the state of Massachusetts 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 August 2012, Vermont has had positive job addition experience over the past year in the Professional and Business Services sector (an increase of 4.2%), as well as Education and Health Services (an increase of 2.0%). Year-over-year payroll job gains were also experienced in the Finance Services sector (an increase of 1.7%) over the same time period. The State also made positive progress in the Manufacturing sector, the Leisure and Hospitality sector and the Trade, Transportation and Utilities sector, with increases of 0.9%, 0.6% and 0.5%, respectively, over the prior year. The State's Construction sector saw no change in employment on a year-over-year basis, ranking Vermont near the bottom in New England (5th) and 36th nationally in construction job change over the past year. One likely cause of this sector's stagnation is the completion of many of the public infrastructure or building repairs related to Tropical Storm Irene, as workers are no longer needed following the large amount of repair work inherent in disaster relief for a storm of that magnitude. Over the past year, Government employment in Vermont has experienced a positive 1.9% change for the year ended August 2013—mostly due to the State education sub-category.

Relative to the other New England states by major sector, with respect to year-over-year job change performance, Vermont's highest ranked performances are found in Professional and Business Services (1st in New England and 7th nationally), Manufacturing (2nd in New England and 16th nationally) and Government (1st in New England and 3rd nationally). The State's lowest ranked performers are the Construction sector (5th in New England and 36th nationally), the Leisure and Hospitality sector (5th in New England and 45th nationally) and the Trade, Transportation and Utilities sector (4th in New England and 39th nationally). Vermont also ranks 21st nationally and 3rd in New England in the Education and Health Services sector.

The Moody's Analytics National Economic Forecast Assumptions: The economic outlook for Vermont for the calendar year 2013–17 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 2013. This forecast includes a significant amount of restraint on national economic growth through mid-calendar year 2013, resulting primarily from fiscal policy developments related to sequestration (which reflects reduced Federal spending). Fiscal policy decisions in Washington, D.C. are estimated by Moody's to have subtracted 1.1% from annual GDP growth in 2013. Overall, the forecast calls for a moderate, but still historically restrained pace of output growth for the U.S. economy during the rest of calendar year 2013, averaging 2.0%, and a more robust calendar year 2014, expected to average 3.8% GDP growth. The baseline growth rate for GDP across the calendar year 2015–17 forecast period includes 4.4% for calendar year 2015 and 3.6% for calendar year 2016, slowing to a 2.9% rate of growth for calendar year 2017.

The Moody's Analytics national outlook for U.S. labor markets calls for an annual average increase in payroll jobs of 1.3% in calendar year 2013 and a continuation of the high U.S. unemployment rate, which is expected to average 7.7%. The national forecast also expects only a modest rate of payroll job additions in calendar year 2014 of 1.8%, rising to 2.6% for calendar year 2015 as the U.S. economy builds some momentum and fiscal policy begins to normalize. Following its peak in calendar year 2015, employment growth will roll back slightly in calendar year 2016 to a 2.3% rate of growth, and is expected to fall further to 1.4% in 2017. The national rate of unemployment is expected to decrease steadily throughout calendar years 2013-15, achieving 5.8% by the end of calendar year 2016, a rate which has not been achieved since the beginning of the Great Recession in 2008.

Consumer prices, as measured by the Consumer Price Index (CPI), are expected in this forecast to increase by 1.9% in calendar year 2013 and then increase to a 2.1% rate of inflation for calendar year 2014. Consumer prices are expected to continue to inflate at a rate above 2.0% for the remainder of the forecast horizon, increasing at 2.4%

for calendar year 2015, 2.3% for calendar year 2016 and 2.2% for calendar year 2017. The Moody's Analytics forecast for monetary policy takes into account the Fed's stated expectations, which call for a tightening after calendar year 2015 when the national unemployment rate is expected to be 6.5%.

The key risks to the Moody's Analytics five-year outlook include uncertainty regarding fiscal policy, primarily how sequestration will influence employment and output through calendar years 2013 and 2014, the improving but still weak condition of national housing markets, the persistent sovereign debt, banking, and currency crisis in Europe, and international political stability regarding U.S. relations with the Middle East and East Asia. An implicit assumption in this outlook is that federal budget and debt issues are resolved in a manner that does not adversely affect the economy over the long-term. In addition, this past recession was unique in that it was a synchronized global downturn and involved an unprecedented level of banking, private sector, and now public sector financial de-leveraging—particularly federal employment, which was affected by sequestration. In light of these risks, the short-term and longer-term economic forecast calls for a below trend rate of output and income growth and similarly below trend rate of labor market recovery for an extended period—at least until the lingering effects of the persistent European financial crises work through their adjustment processes and while federal sequestration remains in effect.

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 2013-17 period. Looking at the major macro variables, the updated forecast calls for the current State economic upturn to proceed along a modest recovery/expansion path for real output (as measured by Gross State Product or GSP), for inflation-adjusted or real personal income, and for its labor market recovery. This restrained rate of recovery in Vermont is an artifact of the less than average rate of output, income, and job decline for the Vermont economy during the "Great Recession" relative to its U.S. and New England counterparts.

In terms of Vermont's key economic variables, the forecast for Vermont expects an annualized 1.9% increase in output through the remainder of calendar year 2013. Calendar year 2014's output is then expected to follow a more normal 3.6% annual rate of increase, subsequently leading to a 4.4% rate of growth for calendar year 2015. For calendar year 2016, GSP growth is expected to pull back slightly, reaching 3.2%, while GSP growth in 2017 is expected to be further restrained to 2.7%, as the economy slows in the final year of the five-year forecast time horizon. The rate of payroll job growth is expected to be 0.8% in calendar year 2013, followed by increases of 1.3% in calendar year 2014 and 2.3% in calendar year 2015. The rate of payroll job increase is expected to creep back to 1.9% in calendar year 2016, before tailing off to a 1.2% rate in calendar year 2017.

Nominal dollar personal income is expected to post a performance similar to GSP and employment growth, ballooning in the initial years of the forecast horizon then tapering off to a more restrained level of growth. For the remainder of calendar year 2013, nominal dollar personal income is expected to increase by 0.4%, followed by increases of 1.5% in calendar year 2014, with Personal Income growth peaking in 2015 at 2.3%. The final two years of the forecast horizon show this metric steadily declining, at 1.8% growth in 2016 and 0.6% growth in 2017. The State's unemployment rate is expected to continue to perform consistently superior to U.S. unemployment rates throughout the calendar year 2013–17 forecast timeline. The Federal Housing Finance Agency (FHFA) Housing Price Index for Vermont is also expected to post a more modest and restrained rate of increase in this forecast timeline than in previous analyses, reflecting the mid-2013 slowdown and the resulting effect on employment and personal wealth.

Although the State's economic performance is expected to be moderately positive over the calendar year 2013-17 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 4.7% annual rate for calendar year 2013 and a 4.3% annual average in calendar year 2014, and then declining to a 3.9% annual average in calendar year 2015, a 3.6% annual average in calendar year 2016, and a 3.4% annual average unemployment rate in calendar year 2017. This forecast, if achieved, would result in a Vermont unemployment rate at the end of calendar year 2017 being a full 2.0 percentage points below the forecasted U.S. unemployment rate and 1.4 percentage points below the forecasted New England average unemployment rate.

Turning to the State's housing market recovery, the forecast for Vermont expects there will be improvement in sales and construction activity in the Vermont housing market, but these improvements will occur very slowly. According to the FHFA Price Index, the prices in Vermont reached the anticipated turning point in the third quarter of calendar year 2012, when the index began to report a sustained increase in value. Having reached a "bottom" in the market, housing prices are expected to continue recovering, with more consistently positive movement. This forecast update calls for prices to realize the following schedule of annual increases: 1.2% increase in calendar year 2013, 1.7% increase in calendar year 2014, 2.0% increase in calendar year 2015, 3.3% increase in calendar year 2016, and a 3.6% increase in calendar year 2017. While the Vermont housing price performance has been superior to the U.S. and New England averages over the calendar year 2008 to calendar year 2012 time frame, the more restrained housing price growth in Vermont over the calendar year 2013 through 2017 time frame is expected given the fact that Vermont housing prices as measured by the FHFA index did not experience nearly the rate of housing price decline that was experienced in many other states and relative to the New England and U.S. averages during the deep recession in the housing market. Moreover, it is highly questionable that other markets will experience as sharp a bounce-back as is expected in the forecast—given the still very tight lending practices for housing in the market place.

Impact of Tropical Storm Irene. Near-term economic prospects and the pace of economic recovery in Vermont will also likely continue to be affected by the lingering effects of Tropical Storm Irene. This storm, which hit the State at the end of August 2011, resulted in heavy rains and record flooding, and caused significant destruction throughout the State. The widespread flooding cause by this storm was the second greatest natural disaster in the 20th and 21st centuries (the largest being the November 1927 Flood) for Vermont.

Like disaster recovery experience elsewhere, the ultimate economic impacts to the State associated with the recovery from Tropical Storm Irene look to be slightly positive due to the influx of out-of-state relief workers, the effect of which appears to mimic increased tourism. Most of the recovery and disaster relief activities that mitigated the effects of infrastructural and property damage have been complete for months. As a result, the positive economic impact of this repair effort has already been 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 will be 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. In addition, replacement of the Vermont State Hospital is expected to cost approximately $43 million, of which approximately $27.8 million is expected to be financed by FEMA and insurance proceeds.

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 Spring of calendar year 2013 and was subsequently adjusted as needed for the July 2013 consensus revenue forecast process as discussed below. The Vermont statistics present the specific detail for the Vermont economic forecast, and incorporate the estimated impacts of weak levels of construction activity, continued sluggish sales activity in housing market, only slow improvement in State labor market conditions, and other macroeconomic variables.

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

	Actual					Forecast[1]				
	2008	2009	2010	2011[1]	2012[1]	2013	2014	2015	2016	2017
Real Output (% Change)										
U.S. Gross Domestic Product	(0.3)	(3.1)	2.4	1.8	2.2	2.0	3.8	4.4	3.6	2.9
New England Gross Regional Product	(0.8)	(3.2)	3.5	1.8	1.9	2.2	3.4	4.2	3.5	2.8
Vermont Gross State Product	(0.2)	(3.5)	4.1	0.5	1.8	1.9	3.6	4.4	3.2	2.7
Non-Farm Employment (% Change)										
U.S.	(0.6)	(4.4)	(0.7)	1.2	1.7	1.3	1.8	2.6	2.3	1.4
New England	0.0	(3.6)	(0.2)	1.0	1.1	0.8	1.1	2.0	1.8	1.1
Vermont	(0.4)	(3.3)	0.2	0.7	1.2	0.8	1.3	2.3	1.9	1.2
Personal Income (% Change) (2000 Dollars)										
U.S.	1.3	0.2	(0.3)	(1.8)	(0.8)	(0.1)	1.2	2.0	1.2	0.8
New England	0.3	(4.4)	2.0	2.3	1.1	1.1	4.0	4.6	4.1	2.9
Vermont	1.1	(2.2)	1.4	2.2	2.3	0.4	1.5	2.3	1.8	0.6
Unemployment (%)										
U.S.	5.8	9.3	9.6	8.9	8.1	7.7	7.0	6.2	5.8	5.4
New England	5.4	8.1	8.5	7.8	7.2	6.8	6.2	5.8	5.4	5.1
Vermont	4.6	6.9	6.4	5.6	5.0	4.7	4.3	3.9	3.6	3.4
FHFA Home Prices [2] (% Change) (Current Dollars)										
U.S.	(4.7)	(5.2)	(3.8)	(3.6)	(0.2)	1.3	4.3	4.7	2.8	1.8
New England	(4.1)	(4.8)	(2.6)	(2.2)	(0.9)	0.0	2.9	3.9	4.5	4.5
Vermont	0.0	(1.9)	(1.0)	(0.5)	0.5	1.2	1.7	2.0	3.3	3.6

[1] 2011 and 2012 variables are subject to further revision, and 2013 through 2017 values in this table reflect projected data as of March 2013.
[2] FHFA means Federal Housing Finance Agency.

Sources: Moody's Analytics (U.S., VT) June 2013 Control Forecast as adjusted, Vermont Fiscal Revenue Forecast, July 2013. May 2013 NEEP forecast update (NE).

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 2013, Vermont is forecast to see inflation-adjusted output continue to rebound on par with the U.S. as a whole. Payroll jobs are expected to grow at the same rate projected for the New England region as a whole, although slightly slower than the average for the U.S. in calendar year 2013. Personal income in Vermont is expected to post an average performance relative to the U.S. as a whole over the calendar year 2014-2017 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 2013 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.

	Aug 2013	July 2013	Aug 2012	Change From Last Year
Vermont	4.6%	4.6%	5.2%	(0.6)
Connecticut	8.1	8.1	8.6	(0.5)
Maine	7.0	6.9	7.3	(0.3)
Massachusetts	7.2	7.2	6.8	0.4
New Hampshire	5.0	5.1	5.7	(0.7)
New Jersey	8.5	8.6	9.7	(1.2)
New York	7.6	7.5	8.6	(1.0)
Rhode Island	9.1	8.9	10.4	(1.3)
United States	7.3	7.4	8.1	(0.8)

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

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

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

City	Annual Average % 2006	Annual Average % 2007	Annual Average % 2008	Annual Average % 2009	Annual Average % 2010	Annual Average % 2011	Annual Average % 2012
Connecticut							
Bridgeport, Stamford, Norwalk	4.0	4.1	5.2	7.8	8.6	8.3	7.8
Danbury	3.4	3.6	4.5	7.2	7.8	7.1	6.7
Hartford-W. Hartford-E. Hartford	4.6	4.8	5.7	8.2	9.4	9.0	8.4
New Haven	4.6	4.8	5.8	8.2	9.6	9.3	8.7
Norwich-New London	4.2	4.4	5.5	7.8	9.0	8.8	8.6
Waterbury	5.7	6.0	7.5	11.0	12.4	11.7	10.9
Maine							
Bangor	4.7	4.8	5.3	7.5	8.1	7.5	7.1
Lewiston-Auburn	4.7	4.7	5.5	8.5	8.5	7.8	7.4
Portland, So. Portland, Biddeford	3.5	3.6	4.3	6.7	6.8	6.2	5.9
Massachusetts							
Barnstable Town	4.8	4.6	5.7	8.3	8.7	7.9	7.1
Boston, Cambridge, Quincy	4.4	4.1	4.9	7.6	7.6	6.6	6.1
Leominster, Fitchburg, Gardner	6.1	5.7	6.8	10.4	10.7	9.8	9.1
New Bedford	6.5	6.4	7.8	11.4	11.9	10.8	10.3
Pittsfield	4.2	4.3	5.1	7.8	8.3	7.4	7.0
Springfield	5.3	5.1	5.9	8.7	9.2	8.5	7.9
Worcester	4.9	4.8	5.7	8.7	8.9	7.8	7.4
New Hampshire							
Manchester	3.6	3.5	3.9	6.3	6.3	5.4	5.5
Portsmouth	3.3	3.3	3.6	5.6	5.4	4.9	4.9
Rochester-Dover	3.4	3.4	3.8	6.4	6.3	5.6	5.5
Rhode Island							
Providence, Fall River, Warwick	5.3	5.4	7.6	11.1	11.7	11.1	10.3
Vermont							
Burlington-South Burlington	3.4	3.4	3.9	6.0	5.3	4.5	4.0

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 2012 Annual Average (000s)	Change in Number of Nonfarm Jobs Calendar Years 2001–2012 (000s)	Percent Change in Nonfarm Jobs Calendar Years 2001–2012
Connecticut				
Bridgeport, Stamford, Norwalk	422.2	405.4	(16.8)	(4.0)%
Danbury	69.2	67.8	(1.4)	(2.0)
Hartford-W. Hartford-E. Hartford	553.8	542.7	(11.1)	(2.0)
New Haven	273.5	271.1	(2.4)	(0.9)
Norwich-New London	130.8	128.0	(2.8)	(2.1)
Waterbury	69.7	63.0	(6.7)	(9.6)
Maine				
Bangor	63.2	64.8	1.6	2.5
Portland, So. Portland, Biddeford	185.8	192.4	6.6	3.6
Massachusetts				
Barnstable Town	96.8	99.1	2.3	2.4
Boston, Cambridge, Quincy	2,535.9	2,499.2	(36.7)	(1.4)
New Bedford	66.8	66.7	(0.1)	(0.1)
Springfield	300.4	284.0	(16.4)	(5.5)
Worcester	245.9	243.1	(2.8)	(1.1)
New Hampshire				
Manchester	96.4	98.9	2.5	2.6
Portsmouth	51.5	55.6	4.1	8.0
Rochester-Dover	51.6	55.9	4.3	8.3
Rhode Island				
Providence, Fall River, Warwick	573.3	548.3	(25.0)	(4.4)
Vermont				
Burlington-South Burlington	113.6	116.2	2.6	2.3

Note: Labor Market Areas are subject to sporadic revisions depending on the state and also are subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: 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 2011-2012 period. Employment data by industry are provided for the 2010-2012 calendar year period for Vermont and 2012 for the U.S.

The full-time and part-time jobs data through calendar year 2012 show that manufacturing remains one of the State's most important sectors, representing an estimated 8.3% of total all non-farm employment in 2012 (versus 7.0% of employment for the U.S. in 2012) and an estimated 13.5% of total earnings in 2012, slightly above the share of total earnings during calendar year 2011. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 13.4% of 2012 total employment (up from 13.2% of total employment in 2011) and 14.7% of total earnings in 2012, Retail Trade at 11.0% of 2012 total employment (down two tenths of a percentage point in share from an 11.2% share in 2011) and 7.6% of total earnings in 2012, Private Educational Services at 4.1% of total employment versus the U.S. average of 2.3% in 2012, and Accommodations and Food Services at 7.7% of total employment versus 7.1% of employment for the U.S. as a whole in 2012. 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Table 9
Total Earnings by Industry
2011-2012
($Thousands)

	2011		2012	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$60,178	0.4%	$71,563	0.4%
Non-Farm Industry:				
Construction	775,020	4.9	790,749	4.8%
Forestry, Fishing and Other Related Activities	33,946	0.2	33,012	0.2%
Mining	40,916	0.3	43,298	0.3%
Utilities	236,848	1.5	237,158	1.5%
Manufacturing	2,109,177	13.3	2,207,763	13.5%
Wholesale Trade	633,172	4.0	622,793	3.8%
Retail Trade	1,255,907	7.9	1,235,818	7.6%
Information	316,463	2.0	296,227	1.8%
Financial Activities	730,274	4.6	740,349	4.5%
Real Estate and Rental and Leasing	125,802	0.8	134,604	0.8%
Transportation and Warehousing	345,907	2.2	346,389	2.1%
Management of Companies and Enterprises	137,774	0.9	188,759	1.2%
Professional, Scientific and Technical Services	1,054,636	6.7	1,101,422	6.8%
Education Services	527,934	3.3	548,787	3.4%
Health Care and Social Assistance	2,306,145	14.6	2,404,895	14.7%
Arts, Entertainment, and Recreation	114,807	0.7	119,946	0.7%
Accommodations and Food Services	707,968	4.5	747,073	4.6%
Administrative and Waste Services	350,104	2.2	395,607	2.4%
Other Private Services-Providing	401,047	2.5	419,799	2.6%
Total Private Non-Farm Industries	$12,203,847	77.2%	$12,614,448	77.3%
Government and Government Enterprises	$3,553,879	22.5%	$362,7606	22.2%
Total Farm and Non-Farm Earnings	$15,817,904	100.0%	$16,313,617	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
2010-2012

	2010		2011		2012		U.S. 2012	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	8,608	2.1%	8,714	2.1%	8,745	2.1%	2,616,000	1.5%
Non-Farm Industry:								
Construction	28,081	6.8%	28,113	6.8%	27,869	6.6%	8,830,900	4.9%
Forestry, Fishing, and Other Related Activities	3,345	0.8%	3,455	0.8%	3,428	0.8%	864,700	0.5%
Mining	1,131	0.3%	1,124	0.3%	1,194	0.3%	1,328,700	0.7%
Manufacturing	33,902	8.2%	34,281	8.2%	35,271	8.3%	12,596,500	7.0%
Wholesale Trade	10,794	2.6%	10,937	2.6%	10,600	2.5%	6,300,100	3.5%
Retail Trade	46,562	11.3%	46,775	11.2%	46,430	11.0%	18,184,800	10.1%
Information	6,777	1.6%	6,326	1.5%	6,089	1.4%	3,257,900	1.8%
Financial Activities	14,010	3.4%	14,686	3.5%	14,823	3.5%	9,985,200	5.6%
Transportation, Warehousing & Utilities	10,614	2.6%	11,015	2.6%	11,035	2.6%	6,413,600	3.6%
Management of Companies and Enterprises	1,115	0.3%	1,646	0.4%	2,189	0.5%	2,166,800	1.2%
Real Estate and Rental and Leasing	13,754	3.3%	14,266	3.4%	14,822	3.5%	8,243,200	4.6%
Professional and Technical Services	26,158	6.3%	25,914	6.2%	26,424	6.3%	12,244,700	6.8%
Education Services	17,002	4.1%	16,956	4.1%	17,174	4.1%	4,196,400	2.3%
Health Care and Social Assistance	55,006	13.3%	55,102	13.2%	56,522	13.4%	19,855,000	11.1%
Arts, Entertainment, and Recreation	10,849	2.6%	10,938	2.6%	11,282	2.7%	3,997,600	2.2%
Accommodations and Food Services	31,379	7.6%	31,793	7.6%	32,651	7.7%	12,798,500	7.1%
Administrative and Waste Services	16,177	3.9%	16,679	4.0%	17,354	4.1%	11,087,500	6.2%
Other Services, except public administration	20,219	4.9%	20,753	5.0%	21,396	5.1%	10,544,200	5.9%
Total Private Sector Non-Farm	346,875	84.0%	350,759	84.3%	356,553	84.4%	152,896,300	85.1%
Government	57,420	13.9%	56,838	13.7%	57,188	13.5%	24,101,000	13.4%
Total Employment	412,903	100.0%	416,311	100.0%	422,486	100.0%	179,613,300	100.0%

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

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

Largest Private Employers

The Vermont economy reflects a diverse mix of manufacturing, tourist-based, education/higher education, professional services (including health care, business, and private sector higher education services), trade, and other employers. In calendar year 2012, the State's three largest private sector employers were Fletcher Allen Health Care, IBM, and Green Mountain Coffee Roasters. Fletcher Allen Health Care is reported to have approximately 7,100 employees (including per diem and part-time employees) and is now operating in significantly expanded and upgraded facilities. IBM is a global manufacturer of semiconductor and related devices with a total of roughly 4,000 jobs according to various published sources. The firm has generally been successful in securing major long term supply contracts for both private sector and governmental (e.g. the U.S. Department of Defense) customers and through the development of new products. This has led to a stabilizing in their employment numbers over the last three years, prior to an announced resource reduction of 419 positions earlier in calendar year 2013. The company—even with the recent layoff—is making periodic addition of small numbers of new workers and the periodic reduction of some others based on the firm's staffing needs for its fabrication operations. One of the largest markets for the IBM Essex plant's production remains the consumer electronics market, which continues to be a growing part of household spending. IBM's strategy to capture increased market share in the consumer electronics market has underpinned growth in demand for IBM's Microelectronics Division. Green Mountain Coffee Roasters has expanded significantly in recent years, with approximately 1,850 employees according to press reports, through a strategy of innovation (the next round of "K Cups"), and strategic acquisition. Other major private sector employers in the State include several companies reportedly with roughly 1,000 employees in the State. These employers reflect a mix of retail (Martin's Food Stores d.b.a. Hannaford's, Price Chopper Stores), financial institutions (People's United Bank), manufacturers (General Electric Company), health care including services providers (Central Vermont Medical Center, Inc., Rutland Regional Medical Center), medical software providers (GE Health Care), higher education (Middlebury College), manufacturers (GE Aircraft Engines), and the travel-tourism industry (Killington LTD and the Stratton Corporation). Other notable employers in the State include Central Vermont Public Service Company (the State's largest investor-owned utility), FairPoint Communications, Inc. (which acquired the land line operations of Verizon New England, Inc., which has begun to emerge from bankruptcy), TD Banknorth NA, B.F. Goodrich Aerospace of Vergennes, and several of the State's major resorts (Mt. Mansfield Company Inc. in Stowe, Jay Peak in Jay, Smugglers Notch Management Company, LTD in Jeffersonville, and Mount Snow, LTD in West Dover). The University of Vermont and State Agricultural College also is a major employer in the State with a total of over 3,300 employees according to press reports. However, the University of Vermont is classified as a public sector employer and is not considered to be a part of the private sector employment mix of the State economy for any of the major employment job count surveys conducted by the Vermont Department of Labor.

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1991–2012 period. On an average annual basis, total personal income in Vermont has increased by 4.4% per year from 1991 to 2012, compared to 4.6% per year rate of increase for the New England region and a 4.9% 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 2012, Vermont's per capita personal income had risen to \$44,545, or 101.9% of the U.S. average of \$43,735. Vermont's per capita personal income increased by 3.8% in calendar year 2012, performing above the New England regional average increase of 3.3% and the national average improvement of 3.4% for calendar year 2012. These same data show that Vermont's change in per capita personal income for calendar year 2012 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 1991–2012
($ 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
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 1991–2012

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth	Per Capita Income	Percent Growth
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 352,000 (rounded) in calendar year 2013 (on an annual average basis through August), with approximately 336,000 (rounded) estimated as being employed and approximately 16,400 (rounded) estimated as being unemployed during that period. Vermont's 4.6% unemployment rate in calendar year 2013 (on an annual average basis through August) compares favorably with the 7.7% annual average unemployment rate for the nation overall and the 7.2% annual average unemployment rate for the New England region over the same period. For calendar year 2013, 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 2013.

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 (%)
2013*	352	336	4.6%	7.2%	7.7%
2012	356	339	5.0	7.2	8.1
2011	359	339	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 2013.
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. One such project is the Bennington By-Pass, which in its entirety, is expected to alleviate east-west traffic in the U.S. Route 9 to U.S. Route 7 corridor that currently passes through downtown Bennington. The first completed section of the Bennington By-Pass, the Western Segment, was opened in October 2004. Construction was completed on the second part of the project, the Northern Segment, and the road was opened in September 2012. No construction schedule has been developed for the third and final Southern Segment.

Construction of new sections of the Chittenden County Circumferential Highway (the "Circ") was suspended on May 10, 2004 as a result of a U.S. District Court decision that 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. As of the date of this Official Statement, the efforts continue to secure the necessary environmental permits and it is expected that even after such permits are secured, construction will be delayed further due to expected litigation by the opposing parties.

Recognizing the protracted delays in the Circ project and the fact that the Circ Highway as originally envisioned would not be built, on May 20, 2011, the Governor announced the initiation of a new, inclusive public process designed to advance a set of congestion relief projects within the communities adversely impacted by the long delays of the construction of the Circ. The Circ Alternatives Task Force was established to identify and self-select a series of acceptable projects, and identify and undertake planning activities that would aid in meeting the original purpose of the Circ Highway. 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. Currently, the Task Force is working to complete several key studies that relate to congestion relief in the northwest area of the State and will be convening a series of Task Force and public meetings this Fall to develop a set of project recommendations to the 2015 Vermont General Assembly consistent with its original charge.

Vermont's highway system also includes 2,727 bridges and overpasses, of which 995 or 36.62% are greater than 70 years of age. As of December 2012, 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. Some of the more significant State bridge projects include Milton I-89 bridges north and southbound over the Lamoille River; Windsor I-91 bridges north and southbound over VT44 and Mill Brook; and Brattleboro I-91 bridges north and southbound over VT30 and the West River, Maple Street, Williams Street and the West River. Construction of the Richmond US2 bridge over the Winooski River was recently completed and reopened to traffic.

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 2010, the State received a $51 million grant under the American Recovery and Reinvestment Act of 2009 ("ARRA") to improve passenger rail speeds between St. Albans, Vermont and Springfield, Massachusetts. These grant funds were used for track and bridge improvements that were completed in 2012, which resulted in a reduction in travel times between Vermont and major destinations such as New York City and Washington, D.C. In September 2013, the State received an $8.9 million grant under the Transportation Investment Generating Economic Recovery (TIGER) program to rebuild 20 miles of State-owned Vermont Railway track between Rutland and Leicester, Vermont. This effort is an important part of the State's $18.5 million effort to connect Burlington and Rutland by rail. The improvements will allow freight trains to move larger loads faster, and will also enhance the capacity of the rail system by extending Amtrak's Ethan Allen service along the western corridor.

Transit. There are ten public transit providers in the State, which provide an estimated 4.6 million passenger trips each year. Vermont is served by three private intercity providers, Greyhound, Megabus and Yankee Trails.

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 2012, enplanements at BIA totaled 615,005, a decline of 3.3% from calendar year 2011's 636,019 enplanements total, largely due to the sluggish pace of the economic recovery and reductions in the number of seats available flying out of the airport. For calendar year 2013, through August, passenger enplanements totaled 408,177, down by 1.4% as compared to the passenger total for the same period in 2012 of 427,174.

As of August 2013, the list of commercial air carriers serving BIA includes a total of five national and regional carriers serving New York (John F. Kennedy and LaGuardia Airports), Newark, Philadelphia, two of the three Washington, D.C. area airports, and Atlanta. 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-Continental Airlines, Delta Airlines and U.S. Airways. In 2011, seasonal service to Billy Bishop Toronto City Airport was initiated by Porter Airlines. This new seasonal service was designed to fill the need for seasonal travel to Vermont ski areas for Ontario-based Canadian customers. In November 2012, JetBlue Airways ended its daily non-stop flight from Burlington to Orlando.

The BIA has plans to invest approximately $150 million over the next 20 years for general aviation, cargo and new facilities upgrades including an Aviation Tech Center on the airport for which funding has already been partially secured.

Utilities

In recent years, there have been a number of developments that have contributed to the stability of the electric utility industry in Vermont. In the interest of maintaining stability, Vermont has suspended movement toward retail choice. Retail customers continue to receive service from vertically integrated, regulated electric utilities. The State currently allows for "economic development" rates for portions of the power used by businesses in Vermont subject to the approval of the Vermont Public Service Board ("VPSB"), the State utility regulatory body that grants certificates of public good for utility projects. Many businesses have filed for and received approval for such rates in conjunction with their service provider over the past several years including large manufacturers and ski resorts.

In terms of the State's supply needs over the next ten years, there have been a number of notable recent developments. First, the State's major utilities have in place long-term power purchase agreements that will enable the State to have adequate energy supplies over the next several years, and current regional supply and prices are favorable. For example in May 2011, Green Mountain Power Corporation (GMP) announced its plans to purchase initially 60 megawatts of power (decreasing to 40 megawatts later on in the contract) over a 23 year period from NextEra Energy Resources, LLC—the owner of the Seabrook, New Hampshire nuclear power plant. In addition, in August 2010, the State's two major investor-owned utilities (which have since merged under the ownership of GazMétro —see below), GMP and Central Vermont Public Service Corporation (CVPS), reached agreement with Hydro-Quebec to purchase 225 megawatts of power over the 2012-2030 time period at what are reported to be advantageous prices beginning at $0.06 per kilowatt hour in 2012. Further, both investor-owned utilities also have announced major power supply agreements with other renewable energy projects, including a total of 82.8% of the output from the 99 megawatt Granite Reliable Wind generation project in Coos County, New Hampshire over the next 20 years. The above are examples of specific actions to replace the Vernon station output since March 2012 when the most recent 10-year Power Purchase Agreement (PPA) between Vermont utilities (primarily Green Mountain Power Corporation and Central Vermont Public Service Corporation) and the Vernon station ended. Since March 2012, the Vernon station provided no power through contract to any Vermont utility.

In June 2012, the VPSB approved the petition of GMP and CVPS for the acquisition of CVPS by GazMétro Limited Partnership (GazMétro) and the merger of GMP and CVPS into one utility. The merger approval requires the newly merged utility to provide a guaranteed $144 million in customer savings over a ten-year period. Taking into account the first year of guaranteed savings from the merger, GMP filed for its first rate decrease (0.04%) in 24 years in 2012. In addition to customer savings, the merger order requires divestiture of a portion of VELCO ownership to a nonprofit public benefits corporation that will invest VELCO dividends, expected to total $1 million per year, for projects consistent with the State energy policy. The merger order also requires the establishment of the headquarters for Operations and Energy Innovation in Rutland. The order prohibits merger-related layoffs, other than some executive officer positions due to the consolidation, and mandatory relocation of employees. Additional benefits for the Rutland region include the establishment of a new downtown facility, $200,000 for regional economic development (including $100,000 for an "Open for Business Fund," and $100,000 for a "Green Growth" Fund at the Rutland Economic Development Corporation) and support for the City's downtown, and a new "Solar City" program in Rutland.

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 through 2032, it would be ceasing power production at its Vernon single unit boiling water reactor power station at the end of its current fuel cycle and moving to safe shutdown in the fourth quarter of calendar year 2014. The company 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 plant is shut down, workers will de-fuel the reactor and follow a decommissioning plan to be submitted by Entergy to the NRC.

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.

Beyond the above power system issues, it should be noted that the Vernon station also has a significant economic reach in southern Vermont, southern New Hampshire and northwest Massachusetts. The station employs approximately 630 workers, with approximately one-third of those employees residing in Vermont. All 600 plus employees of the Vernon station pay Vermont Personal Income Tax on their wages earned within the State. Further, the Vernon station is also subject to the revised electric energy tax passed by the Legislature in May 2012 and effective July 1, 2012. See “STATE FUNDS AND REVENUES – State General Fund Revenues – Electric Energy Tax.” The revised energy tax generated revenues of $8.9 million in fiscal year 2013 and is expected to generate revenues of $12.5 million in fiscal year 2014. The additional revenues generated from the increased tax are deposited in the General Fund for use (subject to appropriation) to provide funding for discretionary items. Accordingly, any reduction in the revenues generated from this tax as a result of the closure of the Vernon facility is not expected to have a materially adverse effect on the current or any future year’s budget.

There is litigation underway between Entergy and the State including (i) a case regarding the State’s assessment of the electric energy tax described above, which has the effect of increasing the annual State tax levy on the Vermont Yankee facility, and (ii) a case challenging certain statutes that required legislative approval before Entergy could obtain VPSB approval to operate Vermont Yankee past March 2012. In the tax case, the State prevailed in the trial court and the parties await a decision by the Second Circuit Court of Appeals. In the other case, the Second Circuit affirmed the trial court’s decision that the statutes are preempted by federal law, but reversed the trial court’s decision that the State had also violated the dormant Commerce Clause (the claim on which Entergy sought payment of attorney’s fees if it prevailed). The State and Entergy each have until mid-November to appeal to the U.S. Supreme Court or to seek more time in which to file an appeal. While the State cannot predict the outcome of either piece of litigation, a decision adverse to the State in either case is not expected to have a materially adverse effect on the current or any future year's budget.

In addition, Entergy's State license to operate has been under review at the VPSB and, upon announcement of its intent to close, Entergy sought a limited operation license from the State through December 31, 2014. Those requests are currently pending at the VPSB.

Natural gas is an important source of energy, both environmentally and economically, in northwestern sections of Vermont that receive natural gas service through Vermont Gas Systems, Inc. (VGS) supplied from a connection at Highgate Springs to the Trans Canada Pipeline. VGS serves approximately 42,000 customers in Chittenden and Franklin Counties. Its customer base 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. The company also has started an effort to expand its natural gas pipeline from northwest Vermont to Addison County. In December 2012, VGS filed for a Certificate of Public Good regarding its plans to expand its transmission and distribution system to Addison County. The review process is on-going and "technical hearings" were held before the Vermont Public Service Board in September 2013. Further, VGS also announced an agreement with International Paper (IP) located in Ticonderoga, New York to further extend its proposed natural gas pipeline from Middlebury through Cornwall and Shoreham, then underneath Lake Champlain to IP's mill facility. Plans are currently in the advanced design phase. VGS plans to make a filing for an additional Certificate of Public Good for this extension before the end of calendar year 2013. The plan to extend the VGS pipeline beyond Middlebury in Addison County and any expansion beyond Addison County to Rutland, Vermont is dependent upon a favorable decision in the Addison County regulatory proceeding by the VPSB. VGS would commence service in Addison County, if VPSB approval is obtained in a timely manner, by the end of calendar year 2015.

Vermont currently has a robust and extensive telecommunications network. In early 2008, Verizon sold its land-line business in Maine, New Hampshire and Vermont to FairPoint Communications, Inc. ("FairPoint") of Charlotte, North Carolina. FairPoint and Comcast are major service providers in Vermont, although more than one hundred companies have been authorized by the Vermont Public Service Department to provide local telephone service to consumers. Independent telephone companies have deployed broadband to virtually all of their service territories. In addition, Level 3, VTel, Sovernet, and FirstLight now have extensive fiber optic networks that reach most regions of the State.

Broadband services are currently available to approximately 96% of the residential and business premises in the State. There are a number of public and incumbent carrier commitments to continue to expand coverage. The Governor is committed to identifying a broadband solution for every Vermonter by the end of calendar year 2013. In calendar year 2010, a significant part of the expansion of broadband access activity was facilitated by more than $165 million in ARRA capital funding grants and loans. Those ARRA funds dramatically changed the investment environment affecting broadband and mobile development in Vermont. Among the many programs currently in place is the Wireless Open World (WOW) program—a $116 million grant and loan program that involves the Rural Utilities Service (RUS) and Broadband Initiatives Program (BIP). The WOW program concentrates on funding for "last mile" projects and the necessary mid-mile infrastructure to support it. Projects are substantially underway and the RUS deadline for projects to be substantially complete has been extended to calendar year 2015 (from calendar year 2013).

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."

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 2013 Comprehensive Annual Financial Report (CAFR) is expected to be completed by December 31, 2013. 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 2012 CAFR was completed on December 27, 2012. The audited basic financial statements of the State for fiscal year 2012, 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 2012 CAFR (pages 14 through 161) at Finance & Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its CAFR for the fiscal year ended June 30, 2011. This was the fourth consecutive year that the State has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The State submitted its fiscal year 2012 CAFR and plans to submit its fiscal year 2013 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 2013 and 2014 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 Assets and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in the entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from the government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

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

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

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

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

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

Fund Structure

The State's financial statements are structured into three fund types: governmental, proprietary and fiduciary. The funds in the governmental and proprietary fund types are further classified as "major" or "non-major" depending upon their size in relation to the other funds and importance to the financial statement users, as required by Governmental Accounting Standards Board Statement No 34. (See Note 1 in the State's fiscal year 2012 audited financial statements attached hereto as Appendix A for further explanation of these criteria.)

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

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

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

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

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

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

The general characteristics of the fund types are as follows.

Governmental Fund Types

General Fund (Major Fund): By act of the General Assembly, the General Fund is established as the basic operating fund of the State. The General Fund is required to be used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects, and include the following:

Transportation Fund (Major Fund): Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on general obligation bonds and notes issued for transportation capital projects (which include the State Transportation and Highway bonds and notes). The principal sources of revenue in this fund are Motor Fuel Taxes, Purchase and Use Taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Within the Transportation Fund there exists a sub-fund, the Transportation Infrastructure Bond Fund (the "TIB Fund"), to which assessments on gasoline and diesel fuel are credited as dedicated revenues. Under State law, these revenues are used first for debt service requirements on the State's special obligation transportation infrastructure bonds, any associated reserve or sinking funds and any associated costs of such bonds. To the extent additional TIB Fund resources are available for such purposes, these revenues are used for pay-as-you-go capital projects or other authorized purposes. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Education Fund (Major Fund): Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as well as property tax reform. In accordance with 16 V.S.A. 4025(a) as amended, the sources of revenue in this fund are as follows: statewide education property tax; revenues from the State lotteries; revenue from the electric generating plant education property tax; one-third of the motor vehicle Purchase and Use Tax; one-third of the Sales and Use Tax; Medicaid reimbursements pursuant to 16 V.S.A. 2959a(f) and funds appropriated or transferred by the General Assembly. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

Federal Revenue Fund (Major Fund): All federal grant receipts are recorded in this fund, except for those federal funds specifically earmarked for the Global Commitment to Health Medicaid section 1115 waiver, transportation or fish and wildlife purposes. Grants of these types are recorded in the State's Global Commitment Fund, Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within the Federal Revenue Fund are for various health, education and welfare programs, the State counterpart of which is reflected in the General and Special Funds.

Special Fund (Major Fund): These funds account for proceeds of specific revenues not otherwise categorized that are limited to expenditures for specific purposes. These purposes cover the entire spectrum of State government.

Global Commitment (to health) Fund (Major Fund): This is a major special revenue fund created in 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal government. The original waiver agreement was amended on January 1, 2011 and will expire on December 31, 2013. This agreement caps Federal expenditures for Medicaid services, but gives Vermont great latitude in promoting universal access to health care, cost containment and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies.

Fish and Wildlife Fund (Non-major Fund): Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and Federal grants.

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

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

<u>Permanent Funds (Non-major Funds)</u>: 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

<u>Enterprise Funds</u>: 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, 2012 and 2011 as contained in each fiscal year's CAFR. **Fiscal year ending June 30, 2013 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

For fiscal year 2012, the General Fund had a $178.4 million total fund balance as compared to a $214.4 million total fund balance in fiscal year 2011, a decrease of $36.0 million. This decrease occurred after the nonspendable portion of fund balance decreased from $2.2 million in 2011 to $2.1 million in 2012, the committed portion of fund balance decreased from $60.2 million in 2011 to $18.5 million in 2013, and the assigned portion of fund balance increased from $5.4 million in 2011 to $6.9 million in 2012. The unassigned portion of this fund balance, which includes the statutory budget stablilization reserve, increased from $146.6 million in 2011 to $151.0 million in 2012.

For fiscal year 2012, the Transportation Fund had a committed and total fund balance of $18.4 million, a decrease of $1.9 million compared to the fiscal year 2011 balance. This committed fund balance includes the statutory budget stabilization reserve. Both fiscal years 2012 and 2011 had no fund balance in the Transportation Fund categorized as nonspendable, restricted, assigned or unassigned.

For fiscal year 2012, the Education Fund had a committed and total fund balance of $65.8 million, an increase of $17.1 million compared to the fiscal year 2011 balance. This committed fund balance includes the statutory budget stabilization reserve. Both fiscal years 2012 and 2011 had no fund balance in the Education Fund categorized as nonspendable, restricted, assigned or unassigned.

As of June 30, 2012, the budget stabilization reserves in the the General, Transportation, and Education Funds were funded at their respective maximum statutory levels.

For fiscal year 2012, the Global Commitment Fund had a total fund balance of $89.5 million. Net transfers in of $399.7 million and federal grant revenue of $618.3 million together exceeded expenditures of $1,036.6 million by $18.6 million. The Global Commitment Fund has no legislatively mandated budget stabilization reserve. See "MAJOR GOVERNMENTAL PROGRAMS AND SERVICES – Medicaid and State Health Insurance Initiatives – Medicaid."

For fiscal year 2012, the Federal Revenue Fund reported a total fund balance of $351.8 million, which was an increase of $30.4 million compared to the fiscal year 2011 balance of $321.4 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 87.0% of the General Fund revenue in fiscal year 2013.

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

Personal Income Tax: From January 1, 1994 through December 31, 1999, Vermont Personal Income Tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont Personal Income Tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont Personal Income Tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cut effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure of calculating Vermont income tax based on federal taxable income for tax years 2001 and 2002 was made permanent by the development and implementation of standardized Vermont tax tables utilizing the same revenue base maintenance approach devised under the 2001 to 2002 temporary change. The Personal Income Tax accounted for $660.6 million or 51.3% of net General Fund revenues in fiscal year 2013.

Sales and Use Tax: The 2003 Vermont General Assembly increased the general Vermont Sales and Use Tax rate from 5% to 6% effective October 1, 2003. Major exemptions to the State's general Sales and Use Tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to, in part, fund Act 60 (the State's education finance reform legislation). The telecommunications sales tax rate was increased to the general sales tax rate of 6% effective October 1, 2003. Effective July 1, 2004, the statutory structure of these taxes changed from: (1) 100% of the annual receipts of the general Sales and Use Tax to the General Fund, and (2) 100% of the gross receipts of the telecommunications tax to the Education Fund, to a statutory transfer of one-third of total gross Sales and Use Tax receipts (inclusive of the telecommunications tax) from the General Fund to the Education Fund. Effective January 1, 2007, the State also became a participant in the multi-state Streamlined Sales Tax Agreement (SSTA). The SSTA is a multi-state effort to simplify and streamline state Sales and Use Taxes in order to facilitate the collection of such taxes from out-of-state vendors such as mail order and internet retailers. 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 2013, the Sales and Use Tax totaled $231.2 million or 17.9% of net General Fund receipts.

Meals and Rooms Tax: A 9% tax is imposed on taxable meals and the rent for each occupancy. The Meals and Rooms Tax imposed on liquor consumed on the premises is 10%. Through June 30, 2004, the law required a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund. Since July 1, 2004, 100% of the gross receipts from this tax will remain in the State's General Fund. In fiscal year 2013, Meals and Rooms Tax revenues amounted to $134.8 million or 10.5% 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 2013, receipts from the Corporate Income Tax were $95.0 million (adjusted) or 7.4% 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 2013, insurance taxes accounted for $55.0 million or 4.3% 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 2013, telephone receipts and property taxes generated $9.4 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 2013, gross receipts from the transfer tax totaled $28.5 million. After statutory transfers, net receipts totaling $9.2 million or 0.7% of revenues available were retained by the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2013, liquor taxes generated $17.0 million or 1.3% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $6.2 million or 0.5% of net General Fund revenues in fiscal year 2013.

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 $15.4 million or 1.2% of net General Fund revenues in fiscal year 2013.

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 $8.9 million or 0.7% of net General Fund revenues in fiscal year 2013. 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 and litigation now pending brought by the owner of Vermont Yankee challenging this tax.

Bank Franchise Tax: The State levies a bank franchise tax based on average monthly deposits. The tax rate on such deposits was increased from .004% to .0096% pursuant to Act 60 Property Tax Reform legislation. Beginning on July 1, 1998 and through June 30, 2004, 58.3% of total collections in this tax source are allocated to the Education Fund. As of July 1, 2004, 100% of gross receipts from this tax have been dedicated to the General Fund. The bank franchise tax revenues were $10.7 million, which represented 0.8% of revenues available to the General Fund in fiscal year 2013.

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 $44.3 million or 3.4% of revenues available to the General Fund in fiscal year 2013.

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 2013.

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 $55.7 million representing 24.4% of net revenues available to the Transportation Fund were received in fiscal year 2013.

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 2013, motor vehicle fees accounted for $77.9 million, representing 34.1% 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 will be 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 will be reduced by 6.9 cents to 12.1 cents per gallon. In fiscal year 2013, the motor fuel tax accounted for $75.6 million or 33.1% of net revenues available to the Transportation Fund.

Since 2000, diesel tax has been imposed at the distributor level at 25 cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. 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 will increase to 28 cents per gallon. In fiscal year 2013, the diesel fuel tax accounted for $15.6 million or 6.9% 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 2013, these other sources of revenues accounted for $19.1 million or 8.4% 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 2013, the homestead and non-residential rates were $0.89 and $1.38, respectively.

In addition to business property tax relief provided to industrial and commercial owners, Act 60 and Act 68 each provided that any household with income of less than $75,000 would not pay more than 2% (adjusted for 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. In fiscal year 2012, the statewide education property tax contributed $913.7 million, or 84.9% of total Education Fund revenues. Sales and Use Tax receipts for fiscal year 2012 totaled $113.9 million, or 10.6% of total Education Fund revenues. Purchase and Use Tax receipts for fiscal year 2012 were $27.3 million, corresponding to 2.5% of total Education Fund revenues. In fiscal year 2012, the State lottery transferred $20.8 million to the Education Fund, or 1.9% of total Education Fund revenues. In fiscal year 2013, the statewide education property tax contributed $932.41 million, or 86.7% of total Education Fund revenues. Sales and Use Tax receipts for fiscal year 2013 totaled $115.59 million, or 10.7% of total Education Fund revenues. Purchase and Use Tax receipts for fiscal year 2013 were $27.9 million, corresponding to 2.6% of total Education Fund revenues. In fiscal year 2013, the State lottery transferred $22.94 million to the Education Fund, or 2.1% of total Education Fund revenues. The Education Fund also has earned minimal interest income over these years.

Federal Receipts

In fiscal year 2012, the State's special revenue funds received approximately $1.887 billion in total from the federal government on a GAAP basis, a decrease of $121 million or 6.0% below fiscal year 2011. 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 2013 federal grant cash receipts were $1.721 billion, including $9.72 million received from ARRA. The fiscal year 2014 Appropriations Act, as passed, anticipates approximately $1.834 billion in federal receipts, of which $1.7 million is expected to be received under ARRA. Federal receipts through July 2013 were $200.2 million, of which $1.6 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

2013 were made in the areas of Human Services, $1.155 billion; Transportation, $287.5 million; Education, $120.5 million; Protection to Persons and Property, $58.6 million; and Natural Resources, $46.2 million.

Federal Sequestration. Certain federal funding received by the State has been and is expected to continue to be adversely affected by implementation of certain provisions of the federal Budget Control Act of 2011 (the "Budget Control Act"), which was signed into law by the President on August 2, 2011. The Joint Select Committee on Deficit Reduction failed to reach an agreement on the deficit reduction actions as required by the Budget Control Act and, as a result, sequestration has been triggered. No legislative action was taken by Congress prior to March 1, 2013 and, accordingly, implementation of sequestration began on March 1, 2013 resulting in cancellation of $85 billion in federal appropriations through the end of federal fiscal year 2013 (September 30, 2013). Sequestration will adversely affect the availability of certain federal funds received annually by the State. Some of the largest sources of federal revenues for the State, however, such as Medicaid reimbursements and federal aid to highways, are generally exempt from sequestration. To date, the immediate direct impact to the State has been less than anticipated, with the largest known impacts affecting the Low Income Home Energy Assistance Program (LIHEAP) (annualized impact $1.1 million) and the Women, Infants, and Children (WIC) nutritional programs (annualized impact $712,000). Other impacts may become known as departments develop their State fiscal year 2015 budgets and State fiscal year 2014 budget adjustment requests, but are currently expected to be smaller than the ones noted above.

The State responded to the federal fiscal year 2013 across-the-board (ATB) federal reductions under sequestration (as specified in the Budget Control Act) in a number of ways:

- First, legislation (32 VSA §308c(a)(3)) was enacted to appropriate funds "to be used only upon emergency board action to transfer these funds to appropriations to offset reduced federal funding." Based on this provision, $6.525 million was appropriated on a one-time basis in State fiscal year 2013 for use in State fiscal years 2014 and 2015.

    - In the case of the Low Income Home Energy Assistance Program (LIHEAP) and the Women, Infants, and Children nutritional assistance program, the State continues to assess the impact of the reductions described above to determine whether it is appropriate to replace the lost federal funds with State funds, and how to fund any such increases in State expenditures, including possibly utilizing a portion of the $6.525 million reserve appropriation.

      At this time, the State has replaced the lost federal funds from sequestration with new State fund only for LIHEAP. (The WIC reduction was subsidized in State fiscal year 2013 on a one-time basis with an existing human services reserve.) For the past two years, the State has appropriated State funds specifically to be used to offset the impact of federal reductions, and those amounts ($5.1 million in State fiscal year 2012 and $7.0 million in State fiscal year 2013) have been used to offset significant federal cuts to LIHEAP, including the federal fiscal year 2013 sequester reduction to LIHEAP.

- Second, in many instances, the federal fiscal year 2013 ATB reductions, when distributed to Vermont, were handled as "pass-through" grants by the State, with corresponding reductions to recipient entities; thus there was no fiscal impact to the State with respect to these grants.

- Third, in some instances, the reductions have been minimal and departments have been able to absorb the reductions using other fund sources.

In addition, the Internal Revenue Service ("IRS") notified the State on March 4, 2013 of an 8.7% reduction in direct pay subsidies for the State's outstanding "build America bonds" (BABs). This did not impact the State for fiscal year 2013, as the subsidies payable to the State with respect to its general obligation BABs occur in February and August of each year. However, for State fiscal year 2014, this resulted in a reduction in subsidies payable to the State with respect to its general obligation BABs in the amount of approximately $54,517 through September 30, 2013, the end of federal fiscal year 2013. The IRS has announced that for federal fiscal year 2014 (which commenced October 1, 2013) the sequester reduction percentage for the State's outstanding BABs will be 7.2%. This is expected to result in a reduction in subsidies payable to the State with respect to its general obligation BABs in the amount of approximately $90,236 for the period from October 1, 2013 through September 30, 2014. The State budgets for the full non-subsidized interest payments for its general obligation BABs each year and treats the subsidy payments as reimbursements to the General Fund. Accordingly, the reduction in subsidies payable to the State is not expected to have a materially adverse effect on the current or any future year's budget.

Given that federal fiscal year 2013 is almost over, it is unlikely that any significant additional impacts to Vermont under the current-year sequestration will materialize. For federal fiscal year 2014, the federal budget picture is too unclear to anticipate precisely the impact to Vermont. (Various scenarios have been proposed that could result in larger–or smaller–reductions versus the federal fiscal year 2013 reductions.) As noted above, the State has reserved funds specifically to offset reduced federal funding and is reviewing those program areas experiencing the largest reductions and/or those federal programs that are most closely tied to State policy priorities.

The State cannot predict at this time what total impacts sequestration will have on the State as a whole. The State will likely face reduced federal grant awards in future years as a result of overall efforts to control federal spending.

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]
2003	$34.51	-	$30.55	-	$30.55
2004	28.80	-	25.82	-	25.82
2005	28.80	-	26.20	-	26.20
2006	28.80	-	24.06	-	24.06
2007	28.80	-	24.99	-	24.99
2008	29.37	$15.65	25.48	$14.42	39.91
2009	29.37	15.65	25.88	14.78	40.66
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	22.44	11.82	33.26
2013	29.37	15.65	22.59	11.92	34.51

[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.
* Not 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 2013 was $10.71 million.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

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

Fiscal Year 2010

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

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

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

Fiscal Year 2011

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

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

The State Education Fund ended fiscal year 2011 with 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 upon which 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 total revenues of $226.18 million, including revenue enhancements and carry forward from the prior year, and an operating surplus of $6.96 million. Year-over-year revenues increased by 3.5% or $7.63 million from fiscal year 2011 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 (unaudited) 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 upon which 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. The $3.88 million originally reserved in fiscal year 2011 remains reserved against other potential federal cuts, and 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 total revenues of $231.81 million, including revenue enhancements, 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 revenues increased by 2.49% or $5.63 million from fiscal year 2012 revenues of $226.18 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, $36.95 million additional surplus remained unallocated and unreserved as of June 30, 2013.

Fiscal Year 2014 – Forecast

The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 23, 2013, current law General Fund revenues in fiscal year 2014 were projected to be $1,320.2 million and in May 2013, the General Assembly passed a fiscal year 2014 budget consistent with this revenue forecast. On July 23, 2013, the Emergency Board met to consider the forecast and agreed to a General Fund consensus revenue forecast of $ 1,324.2 million for fiscal year 2014, which represented a $4.0 million increase over the estimates made when the budget was being prepared earlier in 2013. The increase in the estimates in July 2013 was based on an updated national and State economic outlook and technical re-specifications of the forecasting models for a better than previously expected performance of the economy relative to January's expectations. See "REVENUE ESTIMATES" below. The budget as passed for fiscal year 2014 may be found at http://www.leg.state.vt.us/docs/2014/acts/act050.pdf. See "Fiscal Year 2014 Budget" below.

On January 23, 2013, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $233.7 million for fiscal year 2014. On July 23, 2013, the Emergency Board agreed to a revised fiscal year 2014 consensus revenue forecast of $250.9 million, a $17.2 million or 7.35% increase entirely due to tax increases passed during the 2013 legislative session for gasoline and diesel fuel, effective May 2013 and July 2013, respectively. The revised forecast, excluding the tax increases, would have been below the previous forecast.

On January 23, 2013, the Emergency Board agreed to an Education Fund consensus revenue forecast of $177.9 million for fiscal year 2014. On July 23, 2013, the Emergency Board agreed to a slight downward revision to the consensus revenue forecast for fiscal year 2014 to $177.4 million. This technical forecast was also based on the latest national and State economic outlook and technical re-specifications of the forecasting models for these revenue sources.

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

As of June 30, 2011, the General Fund Budget Stabilization Reserve was $54.37 million. Other General Fund reserves included: $60.17 million in the Human Services Caseload Reserve and $3.88 million in the Revenue Shortfall Reserve. The Transportation Fund Budget Stabilization Reserve as of June 30, 2011 was $10.44 million. The Education Budget Stabilization Reserve was $30.29 million as of June 30, 2011 with an additional $3.43 million in Unreserved and Undesignated Fund Balance. For fiscal year 2011, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2011.

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.

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.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2010 through 2013, and current law for fiscal year 2014, for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2010 – 2014
($ in Millions)

	Actual FY2010	Actual FY2011	Actual FY2012	Actual FY2013[2]	Current Law FY2014[3]
Sources					
Current Law Revenues	$1,038.34	$1,156.69	$1,196.97	$1,288.58	$1,324.20
VEDA Debt Forgiveness	-	(0.38)	(0.04)	(0.29)	(0.05)
Direct Applications, Transfers in & Reversions	20.47	40.74	42.23	54.88	35.48
Other Bills and Tax Changes	9.81	8.12	-	-	(3.99)
Additional Property Transfer Tax	6.45	7.48	4.61	1.60	3.40
Prior Year Reserves for Appropriation	14.84	15.20	-	-	11.93
Total Sources	**1,089.91**	**1,227.85**	**1,243.77**	**1,344.77**	**1,370.90**
Uses					
Base Appropriations	1,065.50	1,096.12	1,232.15	1,307.15	1,355.73
Contingent Base Appropriations	-	-	-	-	-
One-time Appropriations	-	37.06	11.33	21.21	-
Additional GF to Ed Fund - Act 68 2003	-	-	-	-	-
One-time Appropriations P/Y Surplus Reserve	13.28	18.25	5.15	(5.15)	-
Contingent One-time Appropriations from Same Year Surplus	6.11	10.60	-	-	-
Other Bills	2.56	0.25	1.41	0.02	0.01
Enhanced Federal Financial Participation	-	-	-	-	-
Federal Flexible Funding Replacement	-	-	-	-	-
Total Uses	**1,087.45**	**1,162.28**	**1,250.04**	**1,323.22**	**1,355.74**
Operating Surplus (deficit)	**2.46**	**65.57**	**(6.27)**	**21.55**	**15.16**
Transfers (to) / from Other Funds					
Transportation Fund	1.71	-	3.99	(4.37)	-
Tobacco Settlement	-	-	-	-	-
General Bond Fund	-	-	-	-	-
Internal Service Funds	(0.77)	(0.30)	(3.87)	(0.90)	(0.74)
Education Fund	(6.89)	(0.90)	-	-	-
Other Funds	3.27	(4.79)	(31.76)	(22.34)	1.10
Human Service Caseload Reserve	-	-	41.66	18.50	-
Total Transfers (to) / from Other Funds	(2.68)	(5.99)	10.01	(9.12)	0.36
Transfers (to) / from Reserves					
Budget Stabilization Reserve	2.70	2.94	(3.74)	(4.39)	(3.66)
Human Services Caseload Reserve	(16.22)	(60.10)	-	-	-
Reserved for transfer to Education Fund	-	-	-	-	-
Reserved for transfer to Debt Service[4]	(1.46)	1.46	-	-	-
Reserved in GF Surplus/Revenue Shortfall Reserve	15.20	(3.88)	-	(8.05)	(11.87)
Total Reserved in the GF	0.22	(59.58)	(3.74)	(12.44)	(15.52)
Total Transfers (to) / from Surplus	**(2.46)**	**(65.57)**	**6.27**	**(21.55)**	**(15.16)**
Unallocated Operating Surplus/ (Deficit)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GF Reserves (cumulative)					
Budget Stabilization Reserve	57.31	54.37	58.11	62.50	66.16
Human Services Caseload Reserve	0.07	60.17	18.50	-	-
Reserved for Bond Premium/Debt Service[4]	1.46	-	-	-	-
Reserved in GF Surplus/Revenue Shortfall Reserve[5]	15.20	3.88	3.88	11.93	11.87
Total GF Reserve Balances	**$74.04**	**$118.42**	**$80.50**	**$ 74.43**	**$78.03**

1 Results may not add due to rounding.
2 Preliminary; unaudited.
3 Reflects the revised consensus revenue forecast adopted by the Vermont Emergency Board through July 23, 2013.
4 Per 32 V.S.A. 954(a), bond premium received from issuance of debt is to be used as part of the first interest or principal payment to bondholders. Prior to FY 2011, such amounts were reserved in the General Fund for use to make such interest or principal payments. Beginning in FY 2011, bond issue premium is no longer reserved in the General Fund, but is directly deposited in the applicable debt service fund to pay debt service, in accordance 32 VSA Sec 954(a), as amended by Section F.101 of Act 63 of 2011.
5 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 2010 – 2014
($ in Millions)

	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013[2]	Current Law FY 2014[3]
Sources					
Current Law Revenues	$213.34	$218.52	$221.71	$228.19	$250.90
Other Sources	0.03	0.03	0.15	3.05	-
Direct Applications & Reversions	-	-	3.42	0.56	-
Prior Year Unallocated Operating Surplus	-	-	0.90	-	-
Total Sources	**213.37**	**218.55**	**226.18**	**231.81**	**250.90**
Uses					
Base Appropriations	210.24	213.72	219.23	227.08	246.21
Budget Adjustments	(1.47)	(0.46)	-	1.07	-
Excess Receipts	0.03	-	-	2.71	-
Pay Act	-	-	-	3.40	1.91
One-time Appropriations	-	2.07	-	-	-
Total Uses	**208.80**	**215.33**	**219.23**	**234.26**	**248.12**
Operating Surplus (deficit)	**4.57**	**3.22**	**6.96**	**(2.45)**	**2.78**
Transfers (to) / from Other Funds:					
General Fund	(1.71)	-	(4.74)	4.37	-
Downtown Fund	(0.40)	(0.40)	(0.40)	(0.38)	(0.38)
Central Garage Fund	(1.12)	(1.12)	(1.12)	(1.12)	(1.12)
Other Funds	(2.65)	(0.28)	-	-	-
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	(6.25)	(2.17)	(6.63)	2.50	(1.87)
Transfers (to) / from Reserves:					
Bond Insurance Premium Reserve	0.67	-	-	-	-
Budget Stabilization Reserve	1.01	(0.15)	(0.33)	(0.04)	(0.90)
Total Transfers (to) / from Reserves	1.69	(0.15)	(0.33)	(0.04)	(0.90)
Total Transfers (to) / From	**(4.57)**	**(2.32)**	**(6.96)**	**2.45**	**(2.78)**
Unallocated Operating Surplus / (deficit)	**0.00**	**0.90**	**0.00**	**0.00**	**0.00**
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	-	-	-	-	-
Budget Stabilization Reserve	10.28	10.44	10.77	10.81	11.71
Total TF Reserve Balances	**$10.28**	**$10.44**	**$10.77**	**$10.81**	**$11.71**

1 Results may not add due to rounding.
2 Preliminary; unaudited.
3 Reflects the revised consensus revenue forecast adopted by the Vermont Emergency Board through July 23, 2013, and adjusted for appropriation rescissions approved by the Legislature's Joint Fiscal Committee on September 11, 2013.

Education Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2010– 2014
($ in Millions)

	Actual FY 2010	Actual FY 2011	Actual FY 2012[2]	Actual FY 2013[3]	Current Law FY 2014[4]
Sources					
Net Homestead Education Tax	$359.30	$366.20	$378.45	$400.88	$424.60
Non-Homestead Education Tax	550.05	551.03	535.24	531.53	545.80
General Fund Appropriation to Education Fund	247.69	234.74	276.24	282.32	288.92
Sales & Use Tax	103.71	108.54	113.94	115.59	125.00
Purchase & Use Tax	23.24	25.68	27.30	27.85	29.40
Lottery Transfer	21.57	21.42	22.33	22.94	22.90
Medicaid Transfer	-	-	7.86	6.90	7.00
Vermont Yankee Education Tax	2.10	2.14	2.31	-	-
Fund Interest	0.10	0.05	0.48	0.16	0.10
2012 Act 162 Sec. D.108	-	-	-	2.10	-
Wind Property Tax	-	-	-	0.41	-
Net Continuing Appropriations[5]	7.00	-	1.53	13.27	17.64
Total Sources	**1,314.76**	**1,309.80**	**1,365.68**	**1,403.95**	**1,461.36**
Uses					
Education Payment	1,098.87	1,096.62	1,127.00	1,161.44	1,223.11
Special Education	142.46	136.63	147.21	150.05	163.45
State-Placed Students	15.60	13.98	14.32	15.43	15.10
Transportation	15.54	15.78	16.32	16.29	16.73
Technical Education	12.80	12.77	12.64	12.95	13.27
Small Schools	6.98	7.05	7.25	7.48	7.49
EEE Block Grant	5.70	5.53	5.71	5.80	6.14
Capital Debt	0.19	0.15	0.15	0.13	0.13
Adult Education & Literacy	4.80	5.02	4.50	4.18	5.80
Early Education Initiative	1.13	1.12	-	-	-
Renter Rebate (EF share only: 70%)	5.93	5.80	5.80	5.68	6.19
Reappraisal, Listing Payment, & Accounting Fees	3.47	3.97	4.37	4.18	4.14
Corrections Education	-	-	4.18	4.30	3.93
Total Uses	**1,313.47**	**1,304.42**	**1,349.45**	**1,387.90**	**1,465.48**
Operating Surplus/(Deficit)	**1.29**	**5.38**	**16.23**	**16.05**	**(4.12)**
Transfers (to) / from Other Funds					
Other Transfers Out	-	-	-	-	-
Sales Tax Holiday: Hold Harmless Funding [GF]	-	-	-	-	-
Total Transfers (to) / from Other Funds	**-**	**-**	**-**	**-**	**-**
Transfers (to) / from Reserves					
Budget Stabilization Reserve	1.23	(0.44)	0.44	0.58	0.06
Unreserved/Unallocated	0.98	(1.56)	13.87	(1.57)	4.06
Total Transfers (to) / from Reserves	**2.21**	**(2.00)**	**14.31**	**(0.99)**	**4.12**
Unallocated Operating Surplus / Deficit	**3.50**	**3.38**	**30.54**	**15.06**	**0.00**
EF Reserves					
Budget Stabilization Reserve	29.85	30.29	29.84	29.26	29.20
Cumulative Prior Year Appropriation Surplus/(Deficit)	8.24	15.40	15.85	17.64	-
Prior Year Unallocated/Unreserved	5.65	3.43	17.75	19.32	15.25
Total EF Reserve Balance	**$43.74**	**$49.12**	**$63.44**	**$66.22**	**$44.45**

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 Reflects the revised consensus revenue forecast adopted by the Vermont Emergency Board through July 23, 2013.
5 Appropriation Surplus minus Prior Year Reversions.

Fiscal Year 2014 Budget

The General Fund consensus revenue forecast upon which the fiscal 2014 General Fund budget was based was $1,320.20 million, plus $1.12 million in estimated proposed revenue tax changes. In addition to the consensus revenue forecast, the fiscal 2014 General Fund budget includes $34.84 million in revenue enhancement, primarily in the form of direct applications from special funds and prior year General Fund reversions. The fiscal 2014 General Fund budget, as passed, provides for total appropriations of $1,355.74 million and projects a fully funded budget stabilization reserve of $65.17 million and an ending balance in the General Fund Balance Reserve of $0.02 million. In July 2013, the Emergency Board increased the consensus revenue forecast by $4.00 million, an increase of 0.30%. The July estimate, which incorporated revised tax change estimates, resulted in an effective current law revenue upgrade of $2.88 million or 0.22%. The fiscal 2014 General Fund budget, as passed, does not rely on any funding from any General Fund Reserves. In July 2013, however, the Emergency Board appropriated an additional $19.625 million of the fiscal year 2013 General Fund surplus, which would have been reserved in the General Fund Budget Stabilization Reserve, for use in fiscal year 2013 (see "Fiscal Year 2013" above). This had the effect of increasing the total fiscal year 2013 appropriation, which means that an additional $0.99 million will be needed to fully fund the General Fund Budget Stabilization Reserve (at 5% of the final FY 2013 total appropriations). This additional amount will be funded from the $11.93 million in the General Fund Balance Reserve at June 30, 2013. The fiscal 2014 General Fund budget does not assume the use of any additional General Fund Balance Reserve funds.

The fiscal year 2014 Transportation Fund budget was based on a Transportation Fund non-dedicated consensus revenue estimate of $233.70 million plus fiscal year 2014 revenue enhancements of $20.42 million due primarily to increases in gasoline and diesel fuel taxes and a carry forward balance of $1.62 million expected from fiscal year 2013 revenue enhancements. The fiscal year 2014 budget, as passed, provides for total appropriations of $252.23 million, a fully funded Budget Stabilization reserve and an unallocated balance of $0.87 million. In July 2013, the Emergency Board approved a revised consensus revenue forecast of $250.90 million, which incorporated the increases to gasoline and diesel fuel taxes passed by the Legislature in 2013, thereby resulting in a net revenue reduction of $3.22 million or (1.27%) for fiscal year 2014 and no carry forward balance from fiscal year 2013. In accordance with 32 V.S.A. §704 (b)(1), a net consensus revenue reduction of 1% or more requires the Secretary of Administration to submit a rescission plan to the Legislature's Joint Fiscal Committee (JFC). Accordingly, a rescission plan in the amount of $4.11 million was submitted to and approved by the JFC at its September 2013 meeting. 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 2014 budget adjustment. The State cannot predict the timing or magnitude of any further reductions in Transportation Fund appropriations for fiscal year 2014.

The January 2013 Education Fund consensus revenue forecast for non-property tax receipts for fiscal year 2014 was $177.9 million. The fiscal year 2014 budget, as passed, provides for a current year operating deficit of $4.12 million, which assumes the use of $21.20 million of the $36.95 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 $4.12 million operating deficit. In July 2013, the Emergency Board approved a revised consensus revenue forecast of $177.4 million, a reduction of $0.50 million.

State Dependence on Federal Funds

The State's fiscal year 2014 budget, as passed, for all funding sources is $5,334.46 million, of which $1,853.93 million (34.75%) is assumed to come from federal funds. Of the remaining $3,480.53 million in State funds, $1,355.74 million represents General Fund revenues. The State's major reserve funds are currently fully funded, its revenues are expected to continue to show slow but steady growth, and over the last four years the State has shown a commitment to efficiently and effectively deal with any reduction in federal revenues by covering the shortfall with other funds or enacting rescissions.

With respect to federal aid in the area of healthcare, Vermont's Medicaid and Long Term Care are not covered by the traditional federal programs; they are covered under Section 1115 demonstration waivers. In each case, these waivers represent written agreements with the federal Centers for Medicare and Medicaid Services ("CMS"), which run through September 2015. Accordingly, it is not clear how, if at all, any federal Medicaid reductions would impact the State's Medicaid Global Commitment waiver and/or Choices for Care long term care waiver. However, the Low Income Home Energy Assistance Program (LIHEAP), a 100% federally funded program, experienced federal cuts that impacted fiscal years 2012 and 2013 and are projected to experience federal cuts that will impact fiscal year 2014. Due to the federal LIHEAP reductions, the State used $5.1 million in one-time State General Funds and $1.0 million in one-time special funds to supplement the reduced federal funds in fiscal 2012; and the State used $7.9 million one-time State General Funds and $0.9 million in one-time special funds to supplement the reduced federal funds in fiscal 2013. For fiscal year 2014, $6.0 million in base General Funds have been built into the budget for LIHEAP. The State continues to review the LIHEAP program and benefit amounts to determine whether the base $6.0 million in General Funds for fiscal 2014 and beyond is sufficient or whether additional funds or structural program changes must be made, or some combination of the two. As of June 30, 2013, the State had $11.93 million reserved and $6.52 million appropriated against potential additional federal reductions impacting fiscal year 2014. These reserved amounts do not take into account other cuts that may result from federal sequestration, which may impact other State programs beyond LIHEAP. See "STATE FUNDS AND REVENUES – Federal Receipts."

In March 2012, the Vermont Veterans' Home ("VVH") in Bennington, Vermont was cited for some deficiencies by the Vermont Division of Licensing and Protection and received notification of a possible termination of federal certification for Medicare and Medicaid federal funding. These deficiencies were corrected, and VVH was recertified by CMS in August 2013, thereby eliminating the risk of the loss of federal funding. An in-depth consulting management review of the VVH was also conducted and the Administration is working to address a number of operational issues highlighted in the report.

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 2014 and 2015 was completed in July 2013 and was approved by the Emergency Board on July 23, 2013 (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). 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 2014 and 2015. Such estimates reflect anticipated increases or decreases in collections of each major revenue source in each revenue aggregate and the allocation of such collections between the General Fund and the Education Fund pursuant to Act 68. The July Forecast is a current law forecast as of July 23, 2013, and includes all revenue changes as passed by the 2013 Vermont General Assembly.

<u>Personal Income Tax</u>: The July Forecast for the Personal Income Tax for fiscal years 2014 and 2015 reflects a consensus assessment for a historically slow-paced economic and labor market recovery over the initial part of the two-year forecast period, with a strengthening in the pace of recovery during the later stages of the two-year time frame. Over the forecast time horizon, Personal Income Tax receipts are expected to show moderate improvement through fiscal year 2015 due to: (1) the continuation of the State's labor market recovery and gradually

falling rates of unemployment, (2) the expected recovery in real estate markets associated with the continuing general recovery in national, New England regional and State economies, and (3) an expected leveling in the rate of business profits growth for taxpayers that pay their business tax liability through their Personal Income Tax filings. The July Forecast includes revenue receipts of $686.3 million for fiscal 2014, reflecting a 3.9% increase as compared to actual fiscal 2013 receipts, and $738.6 million for fiscal 2015, reflecting a 7.6% annual increase as compared to forecasted fiscal 2014 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. For fiscal year 2014, Personal Income Tax receipts are expected to reach levels last experienced prior to the last recession (or in fiscal year 2008), finishing fiscal year 2014 at the level of 10.3% above the last cyclical revenue peak in Personal Income Tax (experienced during fiscal year 2008). Relative to the January 2013 consensus revenue forecast, the July Forecast represents a 0.3 percentage point increase in the year-over-year revenue growth rate for fiscal year 2014. For fiscal year 2015, the July Forecast represents less than a tenth of a percentage point increase in the year-over-year growth rate relative to the January 2013 consensus revenue forecast.

Sales and Use Tax: The July Forecast for the Sales and Use Tax for fiscal 2014 and fiscal 2015 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 2014 and 2015 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 through at least the initial half of fiscal year 2014. 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 that will pick up after the period where federal sequestration will have its greatest "fiscal drag" effect. The solidifying of the labor market recovery and a turnaround in real estate markets will help to lift disposable income. The July Forecast for fiscal 2014 includes a 0.4% year-over-year increase to $232.2 million, and a 3.3% increase in Sales and Use Tax revenues for fiscal year 2015, as compared to forecasted fiscal year 2014 receipts. The revised consensus forecast for fiscal year 2015 still projects total revenue collections that are 6.3% above the previous cyclical peak for Sales and Use Tax collections experienced in fiscal year 2008. Relative to the January 2013 consensus revenue forecast, the July Forecast represents a 0.7 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2014. For fiscal year 2015, the July Forecast represents a 0.9% decrease in the year-over-year growth rate relative to the January 2013 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 expected to experience a modest, correcting decline in 2014—following the rebound in fiscal year 2013 from the 4.2% decline experienced in fiscal year 2012. The July Forecast for fiscal year 2014 is for a correcting decline in receipts of 3.4% year-over-year, following the double-digit increase in fiscal year 2013, and fiscal year 2015 includes a return to a tempered year-over-year growth in overall Corporate Income Tax of 3.1%. For fiscal year 2014, the July Forecast for Corporate Income Tax revenues totals $91.8 million. Fiscal year 2015 receipts are forecasted to be $94.6 million. Relative to the January 2013 consensus revenue forecast, the July Forecast represents a 4.7 percentage point decrease in the year-over-year rate of revenue change for fiscal year 2014. For fiscal year 2015, the July Forecast represents a 3.9 percentage point decrease in the year-over-year growth rate relative to the January 2013 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 $137.3 million in Meals and Rooms Tax revenues for fiscal year 2014, representing a 1.8% increase on a year-over-year basis from fiscal year 2013. The July Forecast for fiscal year 2015 calls for a total of $142.5 million in Meals and Rooms Tax revenues, corresponding to an increase of 3.8% versus forecasted receipts for fiscal year 2014. Relative to the January 2013 consensus revenue forecast, the July Forecast represents a 0.6% increase in the year-over-year revenue growth rate for fiscal year 2014. For fiscal year 2015, the July Forecast represents a 0.1 percentage point increase in the year-over-year growth rate relative to the January 2013 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 2012 and fiscal year 2013, and the projected General Fund revenue collections for fiscal year 2014 and fiscal year 2015 per the July Forecast.

Sources (Available to the General Fund)	Actual Fiscal 2012	Actual Fiscal 2013[1]	Forecast Fiscal 2014	Forecast Fiscal 2015	Percentage Change 2013–2014
Personal Income Taxes	$596,998,576	$660,574,415	$686,300,000	$738,600,000	3.9%
Sales and Use Taxes	227,891,275	231,175,242	232,180,000	239,915,000	0.4
Corporate Taxes	85,920,854	94,951,092	91,800,000	94,600,000	(3.3)
Meals and Rooms Taxes	126,873,783	134,790,908	137,300,000	142,500,000	1.9
Other Taxes	124,391,925	133,473,324	142,111,780	143,737,080	6.5
Total Taxes	$1,162,076,413	$1,254,964,981	$1,289,691,780	$1,359,352,080	2.8
Other Revenues	34,947,994	33,566,172	34,500,000	37,700,000	2.8
Total General Fund	$1,197,024,387	$1,288,531,153	$1,324,191,780	$1,397,052,080	2.8%

[1] Fiscal year 2013 data are unaudited receipts totals.
Source: Vermont Department of Finance and Management. Fiscal totals may not add due to rounding.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The following table reflects budgetary-based General Fund revenue history from fiscal 2011 through fiscal 2013 (preliminary actual) and forecasted revenues for fiscal 2014 and fiscal 2015:

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

COMPONENT	**Actual 2011**	**Percent Change**	**Actual 2012**	**Percent Change**	**Actual 2013**[1]	**Percent Change**	**Forecast 2014**[2]	**Percent Change**	**Forecast 2015**[2]	**Percent Change**
TAXES:										
Personal Income	$553.3	11.1%	$597.0	7.9%	$660.6	10.6%	$686.3	3.9%	$738.6	7.6%
Sales and Use	217.1	4.7	227.9	5.0	231.2	1.4	232.2	0.4	239.9	3.3
Corporate	89.7	42.7	89.7	(4.2)	95.0	10.5	91.8	(3.3)	94.6	3.1
Meals and Rooms	122.6	4.0	126.9	3.5	134.8	6.2	137.3	1.9	142.5	3.8
Liquor	15.4	3.1	16.4	7.0	17.0	3.4	17.4	2.4	18.0	3.4
Insurance	55.0	3.3	56.3	2.5	55.0	(2.3)	54.3	(1.3)	53.6	(1.3)
Total Telephone Tax	11.4	44.4	9.6	(15.3)	9.4	(2.6)	9.3	(0.8)	9.2	(1.1)
Beverage	5.8	2.2	6.0	3.3	6.2	3.3	6.3	2.1	6.5	3.2
Electrical Energy	2.9	0.8	2.9	0.3	8.9	204.5	12.5	NM	11.7	NM
Estate	21.0	48.3	13.3	(36.5)	15.4	15.4	19.1	24.1	19.7	3.1
Property Transfer	8.4	7.6	7.9	(6.2)	9.2	16.5	10.3	12.0	11.7	14.2
Bank Franchise	15.4	49.0	10.7	(30.9)	10.7	0.2	10.8	1.1	10.9	0.5
Other Taxes	3.7	1.7	1.2	(66.7)	1.8	42.9	2.2	24.4	2.5	13.6
TOTAL TAXES:	$1,121.6	11.4	$1,162.1	3.6%	$1,255.0	8.0%	$1,289.7	2.8%	$1,359.4	5.4%
OTHER REVENUES:										
Business Licenses	$3.0	(0.6%)	$3.0	2.8%	$2.8	(8.0)%	$3.0	7.0%	$3.2	6.7%
Fees	20.5	6.4	20.9	2.1	21.4	2.2	21.7	1.6	22.6	4.1
Services	1.1	(8.7)	2.3	105.8	2.5	8.7	1.8	(28.9)	1.9	5.6
Fines, Forfeits	5.7	(22.2)	7.4	28.7	4.7	(35.9)	5.9	25.1	6.3	6.8
Interest, Premiums	0.3	(45.9)	0.4	52.6	0.5	20.5	1.1	134.2	2.6	136.4
Special Assessments	0.0	NM	0.0	NM	0.0	NM	0.0	NM	0.0	NM
Other	0.7	115.7	0.9	15.8	1.7	93.1	1.0	(40.1)	1.1	10.0
TOTAL OTHER	$31.3	(1.2%)	$34.9	11.5%	$33.6	(3.8)%	$34.5	2.8%	$37.7	9.3%
TOTAL GENERAL FUND	$1,152.8	11.0%	$1,197.0	3.8%	$1,288.6	7.7%	$1,324.2	2.8%	$1,397.1	5.5%

NM means Not Meaningful.

[1] 2013 data are actual, unaudited receipts totals.

[2] Based on July Forecast.

Source: Vermont Department of Finance and Management

MAJOR GOVERNMENTAL PROGRAMS AND SERVICES

Human Services

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

Office of the Secretary: This Office includes the Division of Administrative Services that provides Agency planning and oversight functions for the Secretary. It also provides support for the Division of Rate Setting, the Director of Housing, 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. As such, it is the largest insurer in Vermont in terms of dollars spent and the second largest insurer in terms of covered lives.

The sources of Agency of Human Services' appropriations for fiscal years 2012, 2013 and 2014 are as follows:

	Fiscal 2012 Appropriations	Fiscal 2013 Appropriations	Current Law Fiscal 2014 Appropriations
General Fund	$533,061,991	$578,827,411	$590,507,696
Federal Funds[1]	1,065,300,165	1,122,370,855	1,186,473,782
Tobacco Settlement	40,609,204	34,615,257	40,046,431
Special Funds[2]	325,557,631	352,851,852	357,162,830
Education Funds[3]	4,187,627	4,337,051	3,929,242
Other Funds	10,000	10,000	25,000
Total	$1,968,726,618	$ 2,093,012,426	$2,178,144,981

1 Federal Funds includes ARRA funds.
2 Special Funds includes State Health Care Resources Fund, Catamount Fund (fiscal year 2012 only), 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.

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.

State Private Insurance Coverage Initiatives

In 2006, Vermont created an employer-sponsored insurance (ESI) initiative under which Medicaid funding may be used to pay part of the cost of ESI for individuals with incomes under 300% of the federal poverty level. In addition, the State established a comprehensive, affordable commercial insurance program called Catamount Health that has a premium assistance program for individuals with incomes under 300% of the federal poverty level. Financing comes from individuals (sliding scale premiums), employers with uninsured employees and tobacco taxes. The State's fiscal obligation is protected through the ability of the Joint Fiscal Committee to impose enrollment caps. Employer contributions began in the second quarter of calendar 2007 and enrollment and coverage began October 1, 2007. This program will be discontinued on December 31, 2013 due to the implementation of the health benefit exchange and new insurance requirements in the Affordable Care Act (see "State Health Care Reform" below).

State Health Care Reform

Overview

Federal health care reform enacted in the Patient Protection and Affordable Care Act ("ACA") is expected to create significant changes in health care financing in Vermont, and in particular will impact Vermont's Medicaid program and Global Commitment waiver. 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") as a stepping-stone toward Green Mountain Care ("GMC"), a system of universal health care coverage 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 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 and small employers on October 1, 2013 for coverage beginning January 1, 2014. As of October 15, 2013, the State has had over 60,000 visitors to the website with over 5,000 accounts created.

To date, the State has 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 for operations and information technology development, staff training, and staff and contractor salaries through the end of calendar year 2014. Funding for VHC operations becomes the State's responsibility in calendar year 2015 and is expected to cost approximately $18 million annually. During the 2013 legislative session, the Vermont Legislature passed a financing plan for VHC based on the estimated $18 million annual cost of on-going operations in a budget neutral manner, utilizing an existing revenue stream. This funding is estimated to fully fund VHC into the future.

The State currently covers many individuals through Medicaid, Catamount Health and Medicaid-expansion programs under Global Commitment. Commencing January 1, 2014, these individuals with incomes above 133% of the federal poverty level (FPL) will access coverage through VHC. The ACA will provide 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 will offer 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 is expected to be approximately $22.0 million annually, with approximately $9.7 million to come from General Fund revenues each year. The State expects to fund these measures on an ongoing basis through a mix of savings generated from the migration of individuals from the Vermont Health Access Plan and Catamount Health to qualified health plans and a 2.2% enhanced Medicaid federal match rate, as well as a 1% increase in the health care claims assessment, to be phased in over a two-year period, 2015-2016. The State does not expect the ACA legislation to have any additional State fiscal impact in fiscal year 2014, and is currently evaluating the impact on future fiscal years.

Green Mountain Care (GMC)

The implementation of VHC was federally-mandated by the ACA. Pursuant to Act 48, however, the State plans to use the new VHC infrastructure as a stepping-stone to implement universal health care coverage for all Vermonters commencing in calendar year 2017. In particular, Act 48 created GMC, a unified health care system based on Vermont residency, and established a planning process to look comprehensively at various aspects of program design and administrative simplification, as well as the costs and appropriate financing for such a system.

Under Act 48, the Administration was required to deliver a report to the legislature in January 2013 relating to the costs and potential funding sources for GMC (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 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 are rising at an unsustainable rate and the current distribution of health care costs in Vermont is 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 annual cost of health care services in GMC under the basic single-payer model would be $3.5 billion, not including administrative costs. The estimated sources of funding for the unified system include $332 million from individuals and employees, $3.0 billion in federal funding relating to Medicare, state Medicaid contributions and other federal financing programs and $267 million in ACA waivers from the federal government. An additional $637 million would be contributed by the State, which matches the current amount of State funding for the existing Medicaid program. This leaves $1.6 billion of incremental annual costs of the system that remain to be financed. The Administration continues to develop 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 Green Mountain Care financing proposals for implementation.

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 January 1, 2017. 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 whether GMC will be implemented in accordance with the timetable set forth above.

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 2013, the General Fund transfer to the Education Fund for support of K-12 schools was $282.3 million, including contingent funding. Additionally, the State contributed $64.9 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 $1.39 billion in fiscal year 2013 and are expected to be $1.46 billion in fiscal year 2014. 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, $13.5 million was distributed to towns to reimburse taxes reduced for land conservation and management programs. In fiscal year 2014, the General Fund transfer to the Education Fund is expected to be $288.9 million; the State expects to contribute $73.1 million to the State Teachers Retirement System and $0.9 million will be spent from the Education Fund to pay State financial system charges.

In fiscal year 2013, $66.8 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 $3.5 million in State funds appropriated as match for federal FEMA funds, $17.9 million in federal funds (excluding an additional $66.2 million for federal disaster assistance[1]) and $1.5 million in local funds. For fiscal year 2014, $62.0 million was appropriated to town highway programs (excluding appropriations for FHWA Emergency Relief to town highways and FEMA Public Assistance Grants[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.

	Fiscal 2012 Appropriations	Fiscal 2013 Appropriations	As Passed Fiscal 2014 Appropriations
State Aid to Local School Districts	$1,130,900,000	$1,161,350,000	$1,223,114,508
Special Education Aid to Local Districts	148,600,000	155,177,546	163,454,037
Vermont State Teachers' Retirement System Contributions	52,991,932	64,932,755	73,102,825
Town Highway Grants	42,126,484	43,871,849	43,976,101
Total	$1,374,618,416	$1,425,332,150	$1,503,647,471

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

	Fiscal 2012 Appropriations	Fiscal 2013 Appropriations	As Passed Fiscal 2014 Appropriations
Property Tax Assistance	$15,190,000	$14,545,808	$13,967,000
Land Use Reimbursement	12,400,000	12,640.000	13,475,000
Total	$27,590,000	$27,185,808	$27,442,000

Higher Education

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

[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) $63.0 million from FEMA and $3.2 million from FHWA Emergency Relief in fiscal year 2013 and (ii) $27.0 million from FEMA and $3.2 million from FHWA Emergency Relief in fiscal year 2014, for town highway portions of the federal aid system. These appropriations are excluded because it is the State's usual practice not to appropriate disaster aid; it was appropriated in fiscal years 2013 and 2014 because of the magnitude of the damage from Tropical Storm Irene.

	Fiscal 2012 Appropriations	Fiscal 2013 Appropriations	As Passed Fiscal 2014 Appropriations
University of Vermont	$40,746,634	$40,746,634	$42,469,032
Vermont State Colleges*	25,009,429	25,009,429	26,259,711
Vermont Student Assistance Corporation	18,363,607	18,363,607	19,414,515
Total	$84,119,670	$84,119,670	$88,143,258

* Includes Vermont Interactive TV.

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2010 to fiscal year 2014.

General Fund Appropriations by Major Function

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	As Passed Fiscal 2014[1]
General Government	$65,750,684	$68,285,089	$68,949,902	$65,346,744	$69,657,388
Protection to Persons and Property	79,277,696	100,117,759	105,272,668	109,237,894	118,749,083
Human Services	431,347,904	458,108,397	533,487,989	578,827,411	590,507,696
Education	381,386,025	370,695,566	417,721,805	435,678,737	455,067,357
Labor	2,491,370	2,381,019	2,777,474	2,969,425	3,054,572
Natural Resources	21,078,628	18,925,044	19,782,139	20,901,236	26,072,035
Transportation	---	---	---	---	---
Commerce and Community Development	13,670,469	12,886,095	13,227,262	14,340,526	14,731,031
Other – One-time[2]	27,207,995	65,077,091	24,244,664	32,249,494	7,378,674
Debt Service	65,241,180	65,804,622	64,575,793	63,667,340	70,521,584
Total Appropriations	$1,087,451,951	$1,162,280,682	$1,250,039,696	$1,323,218,807	$1,355,739,420

1 The fiscal year figures for 2014 are presented as appropriated in the 2013 legislative session.
2 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 2008 through fiscal year 2012 presented on a GAAP basis. **Fiscal year ending June 30, 2013 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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				
	2008	**2009**	**2010**	**2011**	**2012**
REVENUES:					
Taxes	$ 2,409,100	$ 2,372,150	$ 2,370,547	$ 2,539,487	$ 2,604,185
Fees	61,444	82,561	85,052	105,503	116,636
Sales of services, rents and leases	17,697	23,723	21,002	18,218	21,009
Federal grants	1,317,932	1,426,347	1,926,853	2,008,105	1,887,156
Fines, forfeits and penalties	21,972	27,089	21,446	17,730	22,302
Investment income	11,994	4,056	5,553	6,337	2,993
Licenses	96,079	94,517	102,449	103,479	105,104
Special assessments	44,802	59,196	65,675	60,474	69,750
Other revenues	80,022	86,115	79,185	90,179	100,452
Total revenues	**4,061,042**	**4,175,754**	**4,677,762**	**4,949,512**	**4,929,587**
EXPENDITURES:					
General government	85,545	96,344	139,166	140,015	153,865
Protection to persons and property	250,028	265,402	265,367	302,765	318,406
Human services	1,637,940	1,717,878	1,857,823	1,956,180	2,008,480
Employment and training	27,056	13,565	19,780	19,552	17,728
General education	1,533,340	1,583,191	1,623,796	1,618,734	1,629,885
Natural resources	97,321	111,567	95,142	100,830	89,833
Commerce and community development	35,465	19,941	70,515	35,435	37,771
Transportation	369,815	379,344	448,047	536,660	633,113
Public service enterprises	4,502	3,893	2,732	0	0
Capital outlay	37,208	56,289	73,584	78,421	55,652
Debt service	68,698	71,459	70,747	71,912	72,390
Total expenditures	**4,146,918**	**4,318,873**	**4,666,699**	**4,860,504**	**5,017,123**
Excess of revenues over (under) expenditures	**(85,876)**	**(143,119)**	**11,063**	**89,008**	**(87,536)**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	75,195	50,500	114,533	89,400	144,781
Transfers from Lottery	22,567	20,949	21,581	21,436	22,328
Net operating transfers in (out)	5,569	5,139	6,332	4,123	(2,582)
Other sources (uses)	(28,577)	1,850	(40,996)	1,602	(79,023)
Total other financing sources (uses)	**74,754**	**78,438**	**101,450**	**116,561**	**85,505**
Net change in fund balances	**(11,122)**	**(64,681)**	**112,513**	**205,569**	**(2,032)**
Fund Balance, July 1, restated[1]	431,687	420,565	355,884	663,564	869,133
Fund Balance, June 30	**$ 420,565**	**$ 355,884**	**$ 468,397**	**$ 869,133**	**$ 867,101**

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

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institutions Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's public improvement bonds and the State's transportation and highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State has also borrowed money to finance qualifying transportation capital projects by issuing transportation infrastructure bonds, the payment of which is <u>not</u> secured by the full faith and credit of the State. See "Transportation Infrastructure Bonds" hereinafter. The State also has established certain statewide authorities that have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

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

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

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

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

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

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefore if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2013, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

State of Vermont
Debt Statement
As of June 30, 2013
($ in thousands)

General Obligation Bonds*(1):	
General Fund	$531,295
Transportation Fund	12,765
Special Fund	2,000
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	554,395
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	**$1,586,455**
Less:	
Contingent Liabilities	(11,000)
Reserve Fund Commitments	(1,029,395)
Net Tax-Supported Debt (1):	**$546,060**

* Includes original principal amounts of Capital Appreciation Bonds.

1 Does not include (i) the Bonds offered hereby, (ii) general obligation bonds that have been refunded, (iii) $1,320,722, which is the accreted value of capital appreciation bonds, less the original principal amount of such bonds, and (iv) the present value of outstanding capitalized leases in the amount of $2,053,974.

Selected Debt Statistics[1]

	2009	2010	2011	2012	Projected 2013
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[2]	$440,633	$464,341	$491,748	$504,005	$555,165
Population[3]	624,817	625,916	626,592	626,011	627,963
Debt Per Capita	$705	$742	$785	$805	$884
Personal Income ($ in millions by fiscal year)[4]	$24,326	$24,404	$25,495	$26,447	$27,098
Debt as a Percent of Personal Income	1.8%	1.9%	1.9%	1.9%	2.0%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[2]	$71,459	$70,747	$70,309	$70,386	$62,709
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,307,670	$1,251,068	$1,375,000	$1,418,700	$1,492,600
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	5.5%	5.7%	5.1%	5.0%	4.2%

Percentage Of Debt To Be Retired (as of June 30, 2012)	Special Fund[6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	100.0%	40.9%	58.4%	41.7%
10 years	100.0	69.6	86.5	70.3
15 years	100.0	90.7	96.5	90.9
20 years	100.0	100.0	100.0	100.0

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

1 General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis. Statistics reflect certain revised and estimated data for 2009 through 2012 and projected data for 2013.

2 Excludes general obligation bonds that have been refunded; assumes issuance in fiscal year 2013 of total authorized amount of $97.08 million plus all previously authorized but unissued debt of $5.71 million.

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

4 Personal income is on a fiscal year basis and is projected for fiscal year 2013 using the July 2013 consensus revenue forecast. Fiscal year 2011 and 2012 personal income data is subject to revision.

5 Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments. Projected fiscal year 2013 revenues are based on the July 2013 Forecast.

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

Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee was created by the 1990 Vermont General Assembly to estimate annually the maximum amount of new long-term general obligation debt that prudently may be authorized by the State for the next fiscal year. The Committee's estimate is required by law to be based on a number of considerations, historic and projected, including debt service requirements, debt service as a percent of total General and Transportation Fund revenues, outstanding debt as a percent of personal income, and per capita debt ratios. The Committee is comprised of five members, four of whom are ex-officio State officials and one of whom is appointed by the Governor from the private sector for a two-year term. The Committee was directed by law to issue a report by September 30 of each calendar year. The amount of general obligation debt authorized by the Vermont General Assembly in recent years has never exceeded the Committee's recommended levels.

While historically the Committee's report provided a recommendation for the amount of new long-term general obligation debt that may be authorized by the State for the following fiscal year, starting with fiscal year 2012, the Committee 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 2010 meeting, the Committee recommended a two-year debt authorization of $153.16 million of general obligation bonds for fiscal years 2012 and 2013 (representing $76.58 million in each of fiscal years 2012 and 2013). Consistent with the Committee's recommendation, the General Assembly authorized the State to sell $153.16 million of general obligation bonds for the purposes of funding appropriations for both fiscal years 2012 and 2013. In fiscal year 2012, $63.00 million of new money debt was issued, representing $56.77 million of the amount authorized for that year under the two-year debt authorization, plus $6.23 million of authorized but unissued debt remaining from prior fiscal years. In fiscal year 2013, the State issued $102.79 million of new money debt (including original issue premium thereon), representing the balance of the 2012-13 authorization, plus all authorized but unissued debt remaining from prior fiscal years.

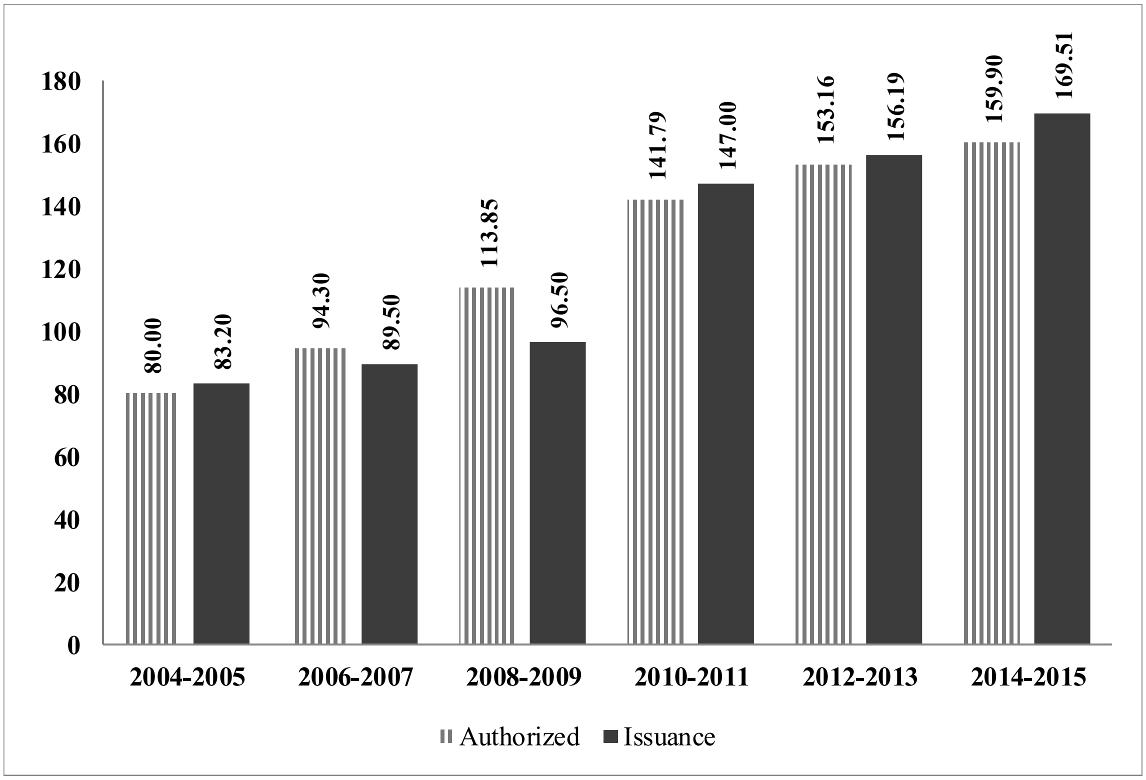
At its September 2012 meeting, the Committee recommended a two-year debt authorization of $159.9 million of general obligation bonds for fiscal years 2014 and 2015. Consistent with the Committee's recommendation, the General Assembly authorized the State to sell $159.9 million of general obligation bonds 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.

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 projected amounts for fiscal years 2014 and 2015.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Historical General Obligation Bonds Authorization and Issuance by Biennimum

(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.*
- *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), and the "Issuance" amount includes the $66.635 million expected to be issued in November 2013 plus the remaining $93.265 million expected to be issued in fiscal year 2015.*

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, 2013, 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, 2013

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2014	$50,033,060	$21,741,804	$71,774,864	$481,261,643
2015	42,769,245	17,514,785	60,284,030	438,492,399
2016	39,599,245	16,023,598	55,622,842	398,893,154
2017	36,644,245	14,707,990	51,352,235	362,248,909
2018	34,388,008	13,393,955	47,781,963	327,860,901
2019	33,432,180	12,142,602	45,574,782	294,428,720
2020	32,637,180	10,925,695	43,562,875	261,791,540
2021	32,702,180	9,573,483	42,275,663	229,089,360
2022	29,982,180	8,299,646	38,281,826	199,107,180
2023	28,192,180	7,184,991	35,377,171	170,915,000
2024	25,955,000	6,211,564	32,166,564	144,960,000
2025	25,940,000	5,175,311	31,115,311	119,020,000
2026	23,870,000	4,140,744	28,010,744	95,150,000
2027	21,975,000	3,236,456	25,211,456	73,175,000
2028	19,725,000	2,413,425	22,138,425	53,450,000
2029	17,425,000	1,677,000	19,102,000	36,025,000
2030	15,160,000	985,763	16,145,763	20,865,000
2031	11,555,000	484,500	12,039,500	9,310,000
2032	4,655,000	209,475	4,864,475	4,655,000
2033	4,655,000	69,825	4,724,825	--

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2014	$1,754,240	$502,918	$2,257,158	$10,853,357
2015	1,650,755	443,799	2,094,554	9,202,602
2016	1,550,755	396,214	1,946,969	7,651,846
2017	1,550,755	333,334	1,884,089	6,101,091
2018	1,451,992	257,460	1,709,452	4,649,100
2019	1,417,820	211,724	1,629,544	3,231,280
2020	417,820	142,411	560,231	2,813,460
2021	417,820	123,098	540,918	2,395,640
2022	417,820	103,786	521,606	1,977,820
2023	417,820	84,315	502,135	1,560,000
2024	260,000	67,405	327,405	1,300,000
2025	260,000	56,745	316,745	1,040,000
2026	260,000	45,825	305,825	780,000
2027	260,000	34,775	294,775	520,000
2028	260,000	23,400	283,400	260,000
2029	260,000	11,700	271,700	--

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2014	$530,000	$98,910	$628,910	$1,470,000
2015	560,000	72,940	632,940	910,000
2016	590,000	45,500	635,500	320,000
2017	320,000	16,000	336,000	--

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 2014 but does not currently anticipate any draws thereon or any short-term borrowings for the fiscal year.

Total Authorized Unissued Debt

Subsequent to the issuance of the Bonds, the total amount of authorized unissued debt of the State will be approximately $10.0 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, 2013, the Authority had mortgage insurance contracts outstanding of $1,423,598. 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

* Preliminary; subject to change.

balance of this indemnification fund at June 30, 2013 was approximately $411,064. 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, 2013 was $512,037.

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, 2013, $2,125,867 of these loans was outstanding, of which $1,000,000 is covered by insurance.

Reserve Fund Commitments

Vermont Municipal Bond Bank: The Vermont Municipal Bond Bank (the "Bond Bank") was established by the State in 1970 for the purpose of aiding governmental units in the financing of their public improvements by making available a voluntary, alternate method of marketing their obligations in addition to the ordinary competitive bidding channels. By using the Bond Bank, small individual issues of governmental units can be combined into one larger issue that would attract more investors. The Bond Bank is authorized to issue bonds in order to make loans to municipalities in the State through the purchase of either general obligation or revenue bonds of the municipalities. The Bond Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the Senate for terms of two years. As of June 30, 2013, the Bond Bank has issued 69 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2013 was $554,395,000. 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, 2013, the VHFA's total outstanding indebtedness was $537,084,834.

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, 2013, the principal amount of outstanding debt covered by this moral obligation was $62,435,000. As of June 30, 2013, the debt service reserve fund requirement for this debt was $4,524,597, and the value of the debt service reserve fund was $5,621,794. 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 $115 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, 2013 was $131.3 million.

In the 2013 legislative session, the debt service reserve fund pledge from the State for this program was increased to $130 million. The Authority is currently in the process of increasing the size of the direct-pay letter of credit that supports its commercial paper, and plans to issue an additional $15 million of commercial paper as soon as the process is complete. For additional information about the Authority, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

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

University of Vermont/ State Colleges: Pursuant to Act 200 of 2008, the University of Vermont and State Agricultural College ("UVM") and the Vermont State Colleges ("VSC") are each permitted to create and establish, by resolution, one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes. The debt service reserve fund requirement shall be an amount not to exceed the "maximum debt service" on the bonds or notes to be secured by such debt service reserve fund. Up to $66,000,000 principal amount of UVM debt and up to $34,000,000 principal amount of VSC debt may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve funds for this debt. For each institution, if the reserve fund requirement for this debt has less than the required amount, the chair of the board of trustees will notify the governor, the president of the senate, and the speaker of the house of the deficiency. To date, it has not been necessary for the State to appropriate money to maintain the debt service reserve fund requirement for any of the institutions. For additional information about UVM and VSC, see their most recent disclosure documents, which can be found on the 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, 2013, VSAC's total outstanding indebtedness was $1,344,937,660, of which $50 million is secured by a debt service reserve fund pledge that is permitted under the legislation enacted into law as 16 V.S.A. § 2867 on March 31, 2009 (the "VSAC Moral Obligation Statute"), described below.

Under the VSAC Moral Obligation Statute, VSAC is permitted to create and establish, by resolution, (i) one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes, and/or (ii) one or more pledged equity funds to provide pledged equity or over-collateralization of any trust estate of VSAC to the issuer of a liquidity or credit facility, bond insurance or other credit enhancement obtained by VSAC. In the case of a debt service reserve fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular debt issue, which amount must be established by resolution of the corporation prior to the issuance of such bonds or notes. In the case of a pledged equity fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular credit enhancement, which amount must be established by resolution of the corporation prior to entering into any credit enhancement agreement related to such pledged equity fund. Both uses of the VSAC Moral Obligation Statute require the consent of the Governor and the Treasurer of the State.

The VSAC Moral Obligation Statute establishes a combined debt service reserve fund and equity fund pledge from the State in an amount not to exceed $50 million. The debt service reserve fund pledge is based on a similar structure utilized by the Vermont Municipal Bond Bank, the Vermont Housing Finance Agency and the University of Vermont/Vermont State Colleges, as discussed above, and is limited to $50 million of VSAC bonds, adjusted downward for any amount used for pledged equity funds. The pledged equity fund amount is limited to $50 million of equity commitment, adjusted downward for any bonds issued with the debt service reserve fund pledge described in the preceding sentence. For additional information about VSAC, see its most recent disclosure document, which can be found on the 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	$12,675,000
August 9, 2012	2012A	10,820,000	10,415,000
August 8, 2013	2013A	11,165,000	11,165,000

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 with approximately the following membership as of June 30, 2013: the Vermont State Teachers' Retirement System ("STRS"), with 10,101 active, 2,322 inactive, 751 terminated, vested and 7,743 retired members; the Vermont State Employees' Retirement System ("VSRS"), which includes general State employees and State Police, with 8,158 active, 796 inactive, 741 terminated, vested and 5,795 retired members; and the Vermont Municipal Employees' Retirement System ("VMERS"), with 6,577 active, 1,765 inactive, 652 terminated, vested and 2,146 retired members. Each retirement system is serviced by an independent actuarial firm.

The State appropriates funding for pension costs associated with its two major retirement plans, VSRS and STRS, covering substantially all State employees and teachers, respectively. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are fixed on the basis of the liabilities of the systems as shown by actuarial valuations. Both the VSRS and STRS system unfunded liabilities are amortized over a 30-year period ending in 2038. See "Actuarial Valuation" below.

The STRS appropriation is made from general fund appropriations to the pension fund. In the case of VSRS, the various State cost centers/funds are assessed an employer contribution based on the payroll associated with the cost center/fund. VSRS funding requirements are then calculated as a percentage of the State payroll and are remitted to the pension fund as an employer contribution with each bi-weekly payroll. As actual payroll for the year may vary from estimated totals and from pay period to pay period, a reconciliation is completed by the State each year, and an adjustment to the subsequent appropriation calculation is made to assure that all funds required to meet the projected ARC (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 2003 through fiscal year 2013, inclusive. The fiscal year 2013 information is unaudited.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Vertical 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
2013[3]	$1,554,351,561	$32,343,368	$63,646,240	$120,403,030	$155,394,012
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
2003	1,099,109,824	18,820,703	20,446,282	52,506,838	59,619,320

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
2013[3,4]	$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
2003	917,711,810	12,171,186	24,394,933	40,435,216	53,795,326

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 2013 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 and $667,196 in fiscal year 2013.

Vertical 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
2013[3]	$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
2003	197,420,510[4]	5,000,479	5,707,184	2,630,247	6,233,647

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 2013 information is preliminary and unaudited.
4 Two large municipalities joined the VMERS during fiscal year 2003 and transferred in existing assets totaling over $6.0 million to cover partial liability for past service.

Actuarial Valuation

Overview. Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. These reports, 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. These reports also include, for each system, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions, a summary of member data, the current amortization schedule for the unfunded actuarial accrued liability ("UAAL") and projected benefit payouts and contributions over the next ten years. The actuarial reports for the fiscal year ending June 30, 2013 (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%202013%20valuation%20report.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/VSTRS%202013%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.

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 2013, the actuarial rate of return of the assets was 6.71% for VSRS and 6.72% 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, 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

	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						
	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
	2002	1,169,294,000	1,065,978,943	109.7	6.7	(4.7)
VSRS						
	2013	1,469,169,902	1,470,493,897	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
	2002	990,450,000	892,221,769	111.0	6.1	(5.1)

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

For VSRS, the market value of net assets as of June 30, 2013 was estimated to be approximately $1,470.5 mill (unaudited) and the estimated market rate of return for fiscal year 2013 was 8.6% (unaudited). For STRS, the market value of net assets as of June 30, 2013 was estimated to be approximately $1,554.4 million (unaudited) and the estimated market rate of return for fiscal year 2013 was 8.4% (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 2013. 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 2013 actuarial 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. The trustees for each system, therefore, opted to accelerate the existing schedule for conducting experience studies (State law provides that at least once in each five-year period, the State's actuary is to make an investigation into the mortality, service, and comprehensive experience of the members and beneficiaries of each system and make recommendations for certain modifications of the actuarial assumptions, as needed) and completed such studies for each of the systems this past fiscal year (one year earlier than required under State law). Accordingly, the most recent studies were completed for the VSRS and STRS systems by Buck Consultants for the period covering July 1, 2005 through June 30, 2010. These reports are incorporated herein by reference and available at:

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

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

As a result of the recommendations set forth in each of these experience studies, changes in the actuarial assumptions were made 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 actuarial reports referenced above.

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

Under legislation enacted in fiscal year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the average final compensation (AFC). Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to 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 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.

Funded Status and Funding Progress

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

For the VSRS, the fiscal year 2013 ARC was $37.1 million, based on the actuarial report for the year ended June 30, 2011. A small portion is typically paid by member towns, estimated at $0.7 million, leaving a State portion of $36.4 million. The Legislature passed a base appropriation sufficient to fully fund the fiscal year 2013 ARC. For fiscal year 2014, the VSRS ARC was $40.2 million, based on the actuarial report for the year ended June 30, 2012.

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

Based on an estimate of $0.7 million of contributions by town participants, the actuarial recommendation was reduced to $39.5 million. The Legislature passed a base appropriation sufficient to fully fund the fiscal year 2014 ARC. The fiscal year 2014 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.

For the STRS, the fiscal year 2013 ARC was $60.1 million, based on the actuarial report for the year ended June 30, 2011. The Legislature passed a base appropriation of $63.6 million, to be supplemented by an estimated $1.3 million of Medicare Part D reimbursement funds, for total funding of $64.9 million. This amount 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 2014, the STRS ARC was $68.4 million, based on the actuarial 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 includes an additional $4.75 million to be deposited in a sub-fund of the pension fund and used toward the payment of health care expenses.] As was the case for VSRS, the fiscal year 2013 ARC for STRS reflects the results of the previously discussed experience study, including the lowering of the assumed rate of return using the select-and-ultimate method.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans from 2003 through 2013, based on the annual actuarial valuation report for each respective year.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

	Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Vermont State Employees' Retirement System							
	2003	$1,025,469	$1,052,004	$26,535	97.5%	$319,855	8.3%
	2004	1,081,359	1,107,634	26,275	97.6	336,615	7.8
	2005	1,148,908	1,174,796	25,888	97.8	349,258	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
Vermont State Teachers' Retirement System							
	2003	$1,218,001	$1,358,822	$140,821	89.6%	$437,239	32.2%
	2004	1,284,833	1,424,662	139,829	90.2	453,517	30.8
	2005	1,354,006	1,492,150	138,144	90.7	486,858	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
Vermont Municipal Employees' Retirement System							
	2003	$222,854	$218,533	$(4,321)	102.0%	$126,216	(3.4)%
	2004	232,890	225,092	(7,798)	103.5	135,351	(5.8)
	2005	259,076	248,140	(10,936)	104.4	146,190	(7.5)
	2006	288,347	276,552	(11,795)	104.3	148,815	(7.9)
	2007	325,774	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

Source: Annual Actuarial Valuation Reports

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

Defined Contribution Retirement Plans

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2013, the VSRS Defined Contribution Plan's net assets totaled $49.1 million (unaudited) and there were 419 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, 2013, the VMERS Defined Contribution Plan's net assets totaled $18.5 million (unaudited) and there were 289 participants.

Recent Changes to Pension Obligation Reporting

In June 2012, the Government Accounting Standards Board (GASB) 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 new standard will be effective for the State's fiscal year 2015.

Other Post-Employment Benefits

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

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 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. VMERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The difference between the value of prefunded and pay-as-you-go OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension, liquid investments over the long term. The discount rate for the STRS is estimated at 4.0%, while the discount rate for VSRS is a "blended rate" of 4.25%, reflecting some level of prefunding from Medicare D receipts. In the event of prefunding, the discount rate would increase to a return on long-term investments consistent with the respective pension funds, currently estimated at 8.1% for VSRS and 7.9% for STRS. In order to treat its OPEB liabilities as prefunded, the State would have to enact legislation providing for the deposit of annual contributions in an irrevocable trust, in the manner similar to the pension funds. As further described below, an OPEB trust has been established for VSRS although funding to date is limited to the deposit of Medicare-D subsidies received for State employees' health programs. An OPEB trust has not been created for STRS and no prefunding has been made.

For VSRS, assuming no additional prefunding beyond the Medicare D receipts, the actuarial accrued liability for OPEB obligations earned through June 30, 2013 is $947.9 million with a UAAL of $932.2 million. This represents a net decrease of $66.2 million as compared to the UAAL as of June 30, 2012 of $998.4 million. The decrease in liability is primarily attributable to premiums declining slightly rather than increasing as expected.

Based on the actuarial report for the year ended June 30, 2013, the VSRS OPEB ARCs for fiscal years 2014 and 2015, each calculated assuming no additional prefunding and an assumed discount rate of 4.25%, are $64.1 million and $67.1 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for VSRS OPEB obligations earned through June 30, 2013 is reduced to $569.5 million with a UAAL of $553.8 million, and the OPEB ARC for fiscal year 2014 is calculated to be $43.1 million. In fiscal year 2013, the State funded actual health care pay-as-you-go payments for VSRS in the amount of $23.9 million. Under the current year budget, the State expects fiscal year 2014 health care pay-as-you-go payments for VSRS to be approximately $29.4 million.

For STRS, assuming no prefunding, the actuarial accrued liability and the UAAL for OPEB obligations earned through June 30, 2013 is $712.7 million. This represents a net decrease of $114.5 million over the UAAL as of June 30, 2012 of $827.2 million. The decrease in liability is primarily attributable to the change in structure to the prescription drug benefits plan.

Based on the actuarial report for the year ended June 30, 2013, the STRS OPEB ARCs for fiscal years 2014 and 2015 each calculated on the pay-as-you-go basis at an assumed discount rate of 4.00%, are $39.2 million and $40.8 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability and UAAL for STRS OPEB obligations earned through June 30, 2013 is reduced to $405.2 million, and the OPEB ARC for fiscal year 2014 is calculated to be $27.1 million. In fiscal year 2013, the State funded actual health care pay-as-you-go payments for STRS in the amount of $22.5 million. Under the current year budget, the State expects fiscal year 2014 health care pay-as-you-go payments for STRS to be approximately $26.5 million.

The State has not yet made decisions on when or how it will fund the full OPEB ARC, although it has taken several steps. In fiscal year 2007, an irrevocable trust was established to be administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree post-employment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute. All funds remitted to the State as a subsidy on behalf of the members of the VSRS for employer-sponsored qualified prescription drug plans pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 are and will continue to be deposited into this fund, as well as any appropriations by the Legislature to fund retiree post-employment benefits for members of the VSRS. In addition, the 2009 Legislature expanded this fund to also include amounts contributed or otherwise made available by members of the VSRS or their beneficiaries for the purpose of meeting current or future post-employment benefits costs. Since 2009, the State has been depositing money into this fund and making healthcare pay-as-you-go payments for VSRS out of this fund. As of June 30, 2013, the fund had assets of $15.7 million. Finally, effective January 4, 2014 STRS will implement the Employer Group Waiver Plan (EGWP). As of June 30, 2013, this change was expected to reduce the accrued actuarial liability to $712.7 million, a reduction of $203.6 million.

In the case of VSRS, current year heath care expenses are expressly funded, separate from the pension actuarial contribution. In the case of STRS, the health care expenses are paid through a sub-fund of the pension fund but are not explicitly budgeted or funded, are treated as an amortized actuarial loss, and are therefore not included in the net OPEB Obligation ("NOO") calculation, but rather are reflected as part of the Net Pension Obligation ("NPO"). The ARC for fiscal year 2012 and fiscal year 2013 included some incremental budget increases to begin to address this. See Note 5 to the State's fiscal year 2012 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, 2013 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:						
2013	$15,663	$947,864	$932,201	1.7%	$442,240	210.8%
STRS						
2013	$0	$712,666	$712,666	0.0%	$563,534	126.5%

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

LABOR RELATIONS

As of June 30, 2013, there were 7,805 employees (approximately 7,740 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, 2012 and expires on June 30, 2014, provides for the restoration (prospectively only) of the 3% across the board pay decrease implemented in July 2010 and resumption of the normal longevity-based salary increases (steps) that were "frozen" in July 2010. In addition, a 2% across the board pay increase was effective July 1, 2012, and an additional 2% across the board pay increase was effective in July 2013. 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. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. See "CERTIFICATES OF STATE OFFICERS – Absence of Litigation" for a discussion of the Attorney General's certificate regarding litigation affecting the Bonds. See also Note 12 to the audited basic financial statements of the State for fiscal year 2012, attached as Appendix A to this Official Statement.

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 "Underwriters"), at an aggregate purchase price of $_____________ and the Underwriters will receive a fee from the State in an amount equal to $_______. Pursuant to the Contract of Purchase, the 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 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 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.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and 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 each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Series A Bonds from JPMS at the initial public offering price less a negotiated portion of the selling concession applicable to any of the Series A Bonds that such firm sells.

COMPETITIVE SALE OF SERIES B BONDS AND SERIES C BONDS

The Series B Bonds and the Series C Bonds will be offered for sale at competitive bidding on November 6, 2013, unless postponed or cancelled as described in the applicable Official Notice of Sale of the State dated October 25, 2013. This Preliminary Official Statement has been deemed final as of its date by the State in accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). After the Series B Bonds and the Series C Bonds have been awarded, the State will prepare a final Official Statement (the "Final Official Statement"), which will be a "final official statement" within the meaning of Rule 15c2-12. The Final Official Statement will be similar in form to this Preliminary Official Statement, and will include, for each series of Bonds, among other matters, the identity of the winning bidder and the managers of the syndicate, if any, submitting the winning bid, the purchase price of the Bonds from the State and other information regarding the interest rates and reoffering prices or yields of the Bonds, as supplied by the winning bidder.

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 Underwriters of the Series A Bonds 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").

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

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. Elizabeth A. Pearce, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, telephone: (802) 828-2301 or from Mr. Thomas F. Huestis, Senior Managing Director, Public Resources Advisory Group, 117 Gayley Street, Suite 200, Media, Pennsylvania 19063, Telephone: (610) 565-5990.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2014 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 2014 and 2015 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: ______________________________
Governor

By: ______________________________
Treasurer

APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The information in this Appendix A includes pages 14 through 161 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2012. The entire CAFR is available from the Department of Finance and Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State), as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of certain discretely presented component units identified in note 1A. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., or the Tri-State Lotto Commission. The discretely presented component units identified in note 1A represent 74% of the total assets and 42% 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 6% of the total assets and 30% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 69% of the total assets and 5% of the total revenues of the Federal Revenue Fund. The Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund and the Vermont Information Technology Leaders, Inc., collectively represent 8% of the total assets and 11% of the total revenues of the Special Fund and collectively represent 9% of the total assets and 2% of the total revenues of the governmental activities. The Tri-State Lotto Commission represents 100% of the information disclosed in note 13. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., and the Tri-State Lotto Commission is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 17-30 and the budgetary comparison information on pages 144-161 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.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State of Vermont's basic financial statements. The Introduction and Statistical sections and the Other Supplementary Information-Combining and Individual Fund Statements and Schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Other Supplementary Information-Combining and Individual Fund Statements and Schedules have been subjected to the auditing procedures applied 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 financial

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

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information-Combining and Individual Fund Statements and Schedules are 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.

KPMG LLP

December 27, 2012

Vt. Reg. No. 92-0000241

THIS PAGE INTENTIONALLY LEFT BLANK

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2012. 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 2012. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide

- Vermont reported net assets of $1.677 billion, comprised of $3.447 billion in total assets offset by $1.770 billion in total liabilities at June 30, 2012 (Table 1).

- The primary government's net assets have increased by $88.6 million as a result of this year's operations. The net assets for governmental activities increased $50.8 million and net assets for business activities increased by $37.8 million (Table 2).

Fund level

- The State's governmental funds reported a combined ending fund balance of $867.1 million, a decrease of 0.2 percent over last year. Of this amount, $374.9 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 $36.0 million which decreased the accumulated fund balance to $178.4 million, of which $2.1 million is nonspendable and $18.5 million is committed for specific purposes.

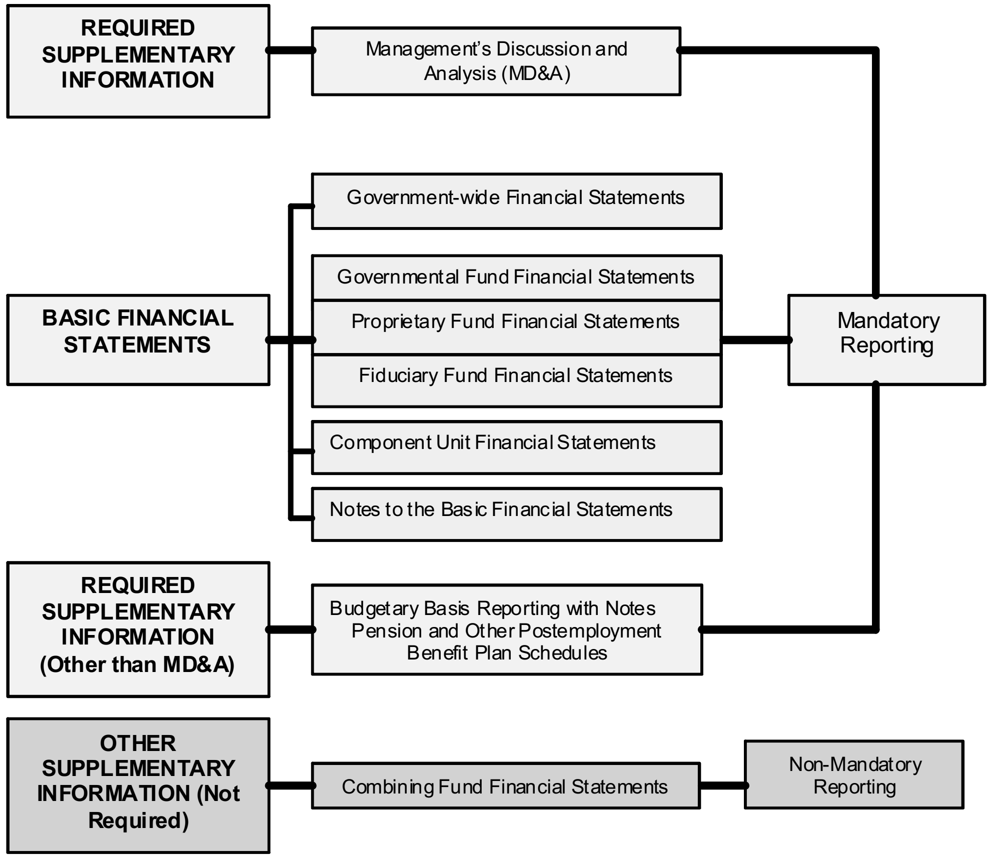
Long-term debt

- The State's debt outstanding for General and Special Obligation Bonds increased $9.9 million as compared to fiscal year 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

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

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

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

The *Statement of Activities* presents the reported year's financial activity and hence, the reason(s) for the changes in net assets included on the Statement of Net Assets. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between the State's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

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

Primary Government Activities
Governmental Activities – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. The governmental activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and public transportation. Taxes, grants, and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – These business-type activities of the State include the operations of Vermont's enterprise activities. For financial reporting purposes, these activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. Activities categorized as major include the Unemployment Compensation Trust Fund program, Liquor Control, and the State Lottery Commission. Activities reported as non-major include the federal surplus property program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. Both major and non-major activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

Component Units' Activities
Discretely Presented Component Units – These are legally separate (incorporated) entities for which the primary government has the ability to impose its will on the entity, receive a benefit from activities of the entity, or could receive a financial burden due to the activities of the entity. The State's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of three major and ten non-major component units. This categorization is determined by the relative size of the entities' assets, liabilities, revenues and expenses in relation to the total of all component units. Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and additional information about the State's component units are presented in Note 1 to the financial statements.

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

2) Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Similar to other state and local governments, Vermont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

Governmental Funds
Most of the basic services provided by the State are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as the balances of resources available at the end of the fiscal year. This approach uses the "flow of current financial resources" measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the time period focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Schedules reconciling the governmental funds' Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances to their respective government-wide statements are provided on the pages immediately following each governmental fund financial statement to facilitate this comparison.

The State reports twenty governmental funds of which six are classified as "major" governmental funds. These major funds are the General Fund, Transportation Fund, Education Fund, Special Fund, Federal Revenue Fund and Global Commitment Fund. Each major fund is presented in a separate column in the Governmental Funds' *Balance Sheet* and in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*. The "non-major" governmental funds include the Fish and Wildlife Fund, two capital projects funds, two debt service funds, and nine permanent funds and are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the Other Supplementary Information section of this report.

The governmental funds' financial statements immediately follow the government-wide financial statements.

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

Enterprise funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail and at the fund level. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting. Enterprise funds account for services provided to the general public, government, and non-State government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

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

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. Because the activities in these funds primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

The State reports twenty-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 Assets; Statement of Revenues, Expenses, and Changes In Net Assets; and Statement of Cash Flows.

The proprietary funds' financial statements immediately follow the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the Other Supplementary Information section of this report.

Fiduciary Funds
The fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. Fiduciary funds are excluded from the government-wide financial statements because the State cannot use these assets to finance its operations. The fiduciary funds use the accrual basis of accounting.

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

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

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net assets and activities of four major component units in individual columns and ten non-major component units in a single column on the statements.

The component units' financial statements can be found immediately after the fiduciary funds. Combining individual non-major component units' financial statements can be found in Other Supplementary Information section of this report.

4) Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information Other Than MD&A
The basic financial statements are followed by a section of required supplementary information. This section includes:

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

Schedules for the General Fund and major Special Revenue Funds comparing their original budgeted amounts; final budgeted amounts; actual inflows, outflows, and balances stated on the budgetary basis; and variances between the final budgeted amounts and actual amounts presented on a budgetary basis. See Note 1, Section E for additional information regarding the budgetary process, including the budgetary basis.

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

Other Supplementary Information
Combining Financial Statements
The combining fund financial statements referred to earlier in connection with non-major funds and non-major component units are presented following the Required Supplementary Information section. The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
The State's (governmental and business-type activities) combined net assets total $1.677 billion at the end of 2012, as shown in Table 1. Approximately $1.728 billion of these combined net assets consist of the State's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This investment in capital assets, net of related debt, represents resources used to provide services to citizens, and therefore is not available for future spending. Although the State's

investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the primary government's net assets (31.3 percent) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The remaining balance of unrestricted net assets is a deficit of $577.0 million.

The governmental activities' negative unrestricted net assets balance is mainly the result of three actions: 1) long-term debt issued by the State for municipal, non-profit or component unit capital purposes, $217.2 million outstanding at June 30, 2012, that does not result in a governmental activities' capital asset, 2) the amount of net assets that are restricted for various purposes, and 3) the net Pension and OPEB liabilities (See Note 5).

At the end of fiscal year 2012, the State reported positive total net asset 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, 2012 and 2011 government-wide Statement of Net Assets. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current assets	$ 916.4	$ 916.4	$ 130.6	$ 82.0	$ 1,047.0	$ 998.4
Other assets	444.9	396.7	3.7	4.2	448.6	400.9
Capital assets	1,950.6	1,837.1	0.8	0.9	1,951.4	1,838.0
Total assets	3,311.9	3,150.2	135.1	87.1	3,447.0	3,237.3
LIABILITIES						
Long-term liabilities	1,239.3	1,143.7	59.3	79.5	1,298.6	1,223.2
Other liabilities	427.8	412.5	43.6	13.2	471.4	425.7
Total liabilities	1,667.1	1,556.2	102.9	92.7	1,770.0	1,648.9
NET ASSETS						
Invested in capital assets, net of related debt	1,727.6	1,607.9	0.8	0.9	1,728.4	1,608.8
Restricted	499.4	491.2	26.2	-	525.6	491.2
Unrestricted (deficit)	(582.2)	(505.1)	5.2	(6.5)	(577.0)	(511.6)
Total net assets	$ 1,644.8	$ 1,594.0	$ 32.2	$ (5.6)	$ 1,677.0	$ 1,588.4

Totals may not add due to rounding.

In 2012, governmental activities' revenues exceeded expenses by $27.8 million, received transfers of $23.0 million from business activities, resulting in a 3.2 percent increase in net assets. Business-type activities had an overall increase in net assets of 675.0 percent, resulting from an operating profit of $60.8 million and by transfers out of $23.0 million to governmental activities, primarily from the Lottery ($22.3 million) to support education.

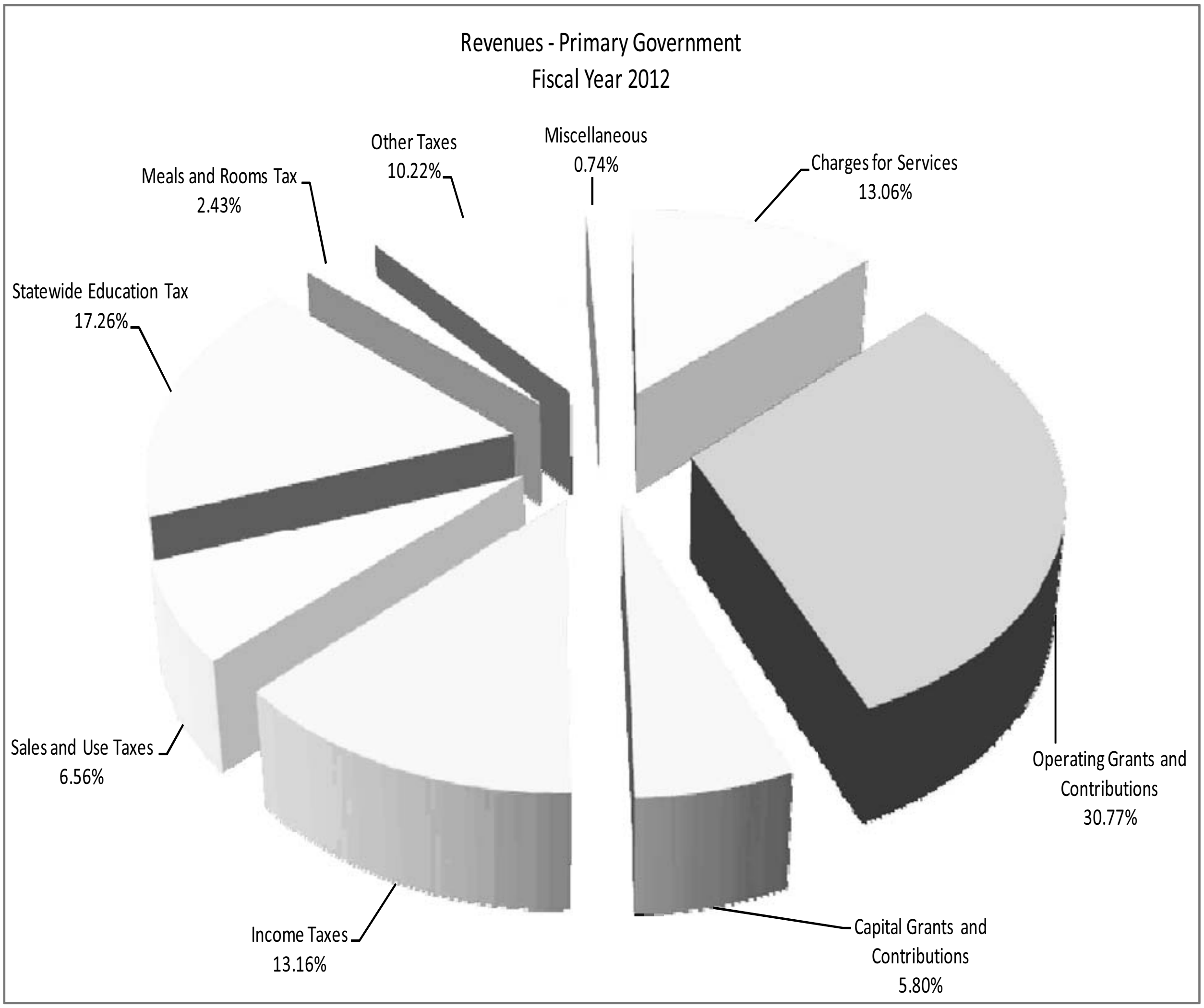
The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2012 and 2011, and contains primary government data only.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	394.9	357.0	296.2	266.5	691.1	623.5
Operating grants and contributions	1,590.3	1,703.9	38.2	62.5	1,628.5	1,766.4
Capital grants and contributions	307.0	314.6	-	-	307.0	314.6
General revenues						
Income taxes	696.7	677.9	-	-	696.7	677.9
Sales and use taxes	347.3	323.4	-	-	347.3	323.4
Statewide education tax						
Gross tax assessed	1,063.8	1,065.4	-	-	1,063.8	1,065.4
Income sensitivity adjustment	(150.2)	(147.5)	-	-	(150.2)	(147.5)
Meals and rooms tax	128.6	122.6	-	-	128.6	122.6
Other taxes	540.7	520.0	-	-	540.7	520.0
Miscellaneous	38.7	40.9	0.2	-	38.9	40.9
Total revenues	4,957.8	4,978.2	334.6	329.0	5,292.4	5,307.2
Expenses						
General government	185.5	161.2	-	-	185.5	161.2
Protection to persons and property	328.3	326.0	-	-	328.3	326.0
Human services	2,013.6	1,969.3	-	-	2,013.6	1,969.3
Labor	30.0	32.2	-	-	30.0	32.2
General educaton	1,680.4	1,670.5	-	-	1,680.4	1,670.5
Natural resources	91.5	106.9	-	-	91.5	106.9
Commerce and community development	38.8	48.2	-	-	38.8	48.2
Transportation	542.1	390.8	-	-	542.1	390.8
Interest on long-term debt	19.8	20.9	-	-	19.8	20.9
Unemployment compensation	-	-	139.3	190.7	139.3	190.7
Lottery commission	-	-	78.6	74.1	78.6	74.1
Liquor control	-	-	50.5	47.9	50.5	47.9
Other business type expenses	-	-	5.4	4.8	5.4	4.8
Total expenses	4,930.0	4,726.0	273.8	317.5	5,203.8	5,043.5
Increase (decrease) in net assets before transfers	27.8	252.2	60.8	11.5	88.6	263.7
Transfers net in (out)	23.0	22.0	(23.0)	(22.0)	-	-
Change in net assets	50.8	274.2	37.8	(10.5)	88.6	263.7
Net assets, beginning of year	1,594.0	1,319.8	(5.6)	4.9	1,588.4	1,324.7
Net assets, end of year	$ 1,644.8	$ 1,594.0	$ 32.2	$ (5.6)	$ 1,677.0	$ 1,588.4

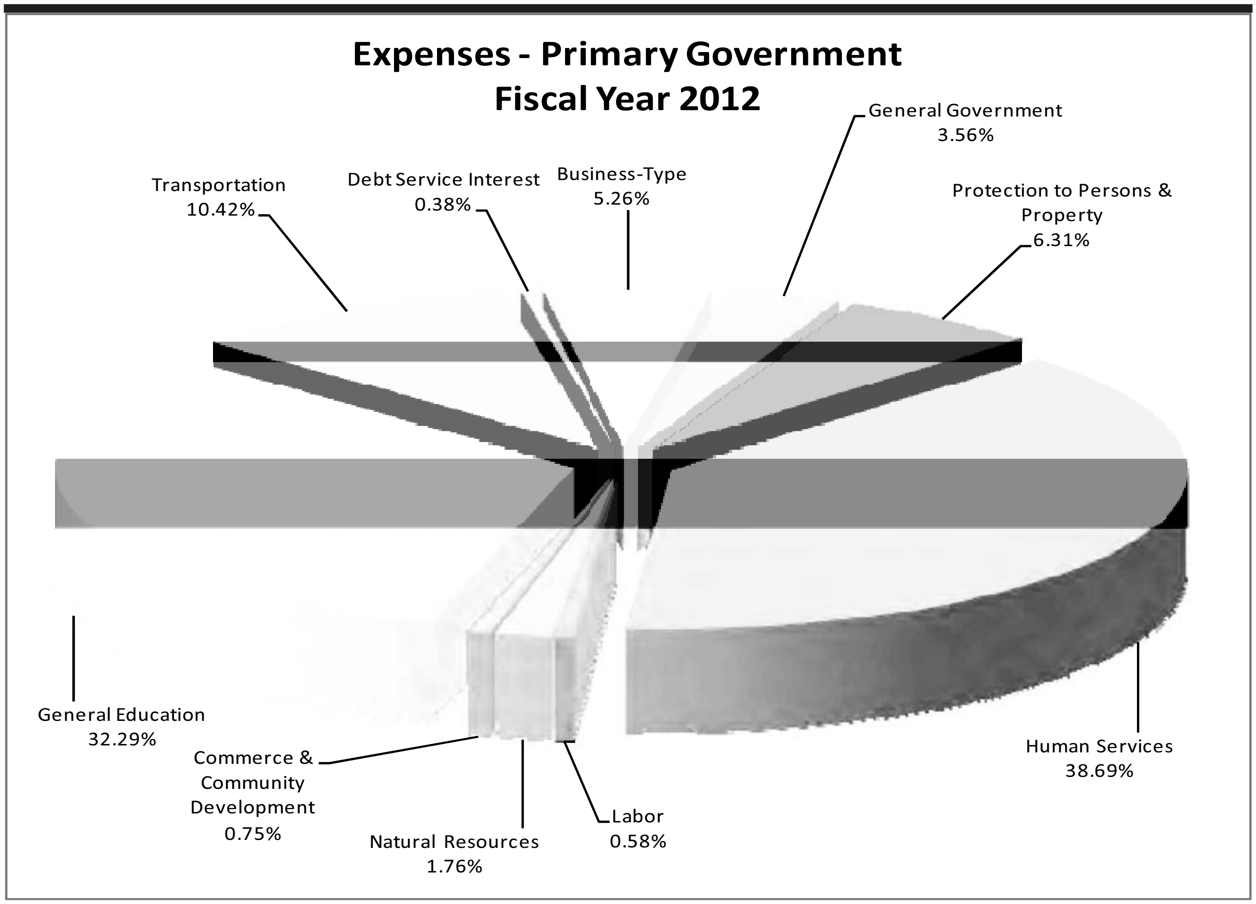
Totals may not add due to rounding.

The following graph illustrates the revenues of Vermont's primary government for fiscal year 2012. Approximately 36.57 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 30.42 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 2012. The largest category of expense is for human services (38.69 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 (32.29 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 2012, the unrestricted fund balance is 43.23 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance is restricted or nonspendable to indicate that it is not available for new spending such as the principal of the State's Permanent Funds, and other items that are nonspendable, such as advances and prepaid items and long-term receivables. At the end of fiscal year 2012, the State's governmental funds reported combined fund balances of $867.1 million, a decrease of $2.0 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 2012, the General Fund's total fund balance was $178.4 million and the unassigned portion of this fund balance was $151.0 million. Its remaining fund balance was made up of nonspendable amounts totaling $2.1 million, and committed and assigned amounts totaling $25.3 million. During 2012, total expenditures and other financing uses exceeded total revenues and other financing sources by $36.0 million.

The Special Fund's total fund balance at the end of fiscal year 2012 was $88.8 million, an increase of 4.3 percent in comparison with 2011. The Special Fund's total fund balance is comprised of $4.8 million as restricted and $85.8 million as committed or assigned. Special Fund revenues increased $71.1 million and expenditures increased $48.9 million compared to 2011 resulting in an increase in "excess of revenues over expenditures" of $22.1 million from last fiscal year. Fiscal year 2012 transfers out to other funds exceeded transfers in from other funds by $239.4 million. The Special Fund transferred $292.0 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 Agency of Human Services (which are included in the Global Commitment Fund) and the Department of Fish and Wildlife (which are included in the Fish and Wildlife Fund, a non-major governmental fund). The Federal Revenue Fund's federal grant revenues for fiscal year 2012 were $845.4 billion, a 6.3 percent decrease over fiscal year 2011's federal grant revenues. The majority of this decrease is for federal grants for the payment of the Federal share of Medicaid expenditures under the Global Commitment to Health Medicaid waiver. That amount is now reported as revenue in the Global Commitment Fund. The Federal Revenue Fund's total fund balance at the end of fiscal year 2012 ($351.8 million) was a increase of $30.4 million as compared to the total fund balance at the end of fiscal year 2011.

The fiscal year 2012 ending total fund balance for the Global Commitment Fund was $89.5 million. Expenditures of $1,036.6 million exceeded revenues and net transfers in of $1,018.0 million by $18.6 million.

The Education Fund at June 30, 2012, had a total fund balance of $65.8 million, which represents a $17.1 million increase over fiscal year 2011's ending balance. Prior to fiscal year 2008, the State appropriated property tax relief payments directly to taxpayers based on taxpayer income levels and property taxes (income sensitivity). Beginning with fiscal year 2009, the State changed the methodology it used to implement income sensitivity as applied to property taxes. Now the State determines the amount each taxpayer is to receive based on their personal income tax return submissions and notifies each municipality of the amount each taxpayer is to have applied against their gross property tax bill. The municipality then applies this amount against the homeowner's gross property tax. The State pays the sensitivity amount to the municipality directly. The Education Fund's reserve for budget stabilization decreased $0.4 million to $29.8 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $18.4 million at June 30, 2012, a decrease of $1.9 million from the fiscal year 2011 ending total fund balance. This decrease was primarily the result of revenue exceeding expenditures by $10.8 million offset by transfers to other funds of $12.7 million. The Transportation Fund's reservation for budget stabilization increased from $10.4 million to $10.8 million, the maximum allowed by statute.

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

Proprietary Funds

The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund's total net asset balance increased from a negative $11.2 million at June 30, 2011 to a $26.2 million at June 30, 2012, an increase of $37.4 million in one year. The fund received an Unemployment Insurance Modernization Grant of $38 million. In addition, the Legislature enacted an increase in the Taxable Wage Base Assessment to cover unemployment benefit distributions and pay down the $78 million Title XII cash advance from the U.S. Treasury.

The State's *internal service funds'* total net assets at June 30, 2012 were $17.8 million, an $8.4 million increase from June 30, 2011. This increase is primarily due to operating income totaling $1.9 million, net non-operating expenses of $0.4 million and net transfers in from other funds of $6.9 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside State government. The *pension and other postemployment benefit trust funds'* net assets decreased by 0.57 percent to $3.45 billion at June 30, 2012. For more information regarding the State's retirement and other postemployment benefit plans, see Note 5 to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2012 is $9.6 million, and total liabilities balance is $6.7 million, including the escheat property claims liability estimated at $6.65 million, resulting in ending net assets of $2.9 million. The Investment Trust Fund's total net assets at June 30, 2012, were $124.7 million. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The State ended fiscal year 2012 with General Fund revenues of $1.197 billion, expenditures of $888.0 million, and net transfers to other funds of $338.7 million (non-GAAP budgetary basis). This was a $29.3 million increase in revenues over the previous year. The fiscal year 2012 General Fund consensus revenue forecast initially approved by the Emergency Board in July, 2011 was subsequently revised upward by the Emergency Board at their January 2012 meeting. Compared to target, the revenues were 0.5 percent above the July, 2011 revised revenue forecast of $1,191.2 million, and 0.6 percent above the January 2012 revenue forecast of $1,189.4 million. The higher than projected General Fund revenues were attributable to higher than expected Personal Income Tax receipts ($2.4 million above target), Corporate Income Tax receipts ($8.6 million above target), and Sales & Use Tax receipts ($1.4 million above target). Receipts from the Inheritance and Estate Tax was $6.2 million below target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $58.1 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, 2012, was $1.951 billion, a total increase of 6.2 percent (Table 3). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Many component unit, municipal and non-profit organizations' capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other organizations. Therefore, these capital assets are recorded on the financial statements of these owning organizations and are not listed on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2012, the State had $217.2 million of general obligation bonds outstanding related to capital assets of these other organizations. Additional information on the State's capital assets can be found in Note 4 of the notes to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land, Land Use Rights, and Land Improvements	$ 117,465	$ 114,141	$ -	$ -	$ 117,465	$ 114,141
Construction in Progress	490,630	439,533	-	-	490,630	439,533
Works of Art	136	136	-	-	136	136
Buildings and Improvements	242,487	245,633	16	23	242,503	245,656
Machinery and Equipment	58,663	54,138	729	834	59,392	54,972
Infrastructure	1,041,216	983,474	-	-	1,041,216	983,474
Totals	$ 1,950,597	$ 1,837,055	$ 745	$ 857	$ 1,951,342	$ 1,837,912

Totals may not add due to rounding.

Debt Administration

The State has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990, the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the State. Annually, the General Assembly passes appropriations for capital purposes and authorizes the State Treasurer to issue general obligation bonds to provide the financing for all or a portion of the appropriations. Bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the debt.

During fiscal year 2012, the State of Vermont's outstanding general and special obligation bond debt increased by approximately $9.9 million. This increase can be accounted for by the issuance of $132.1 million of general obligation bonds and accretion of $0.3 million in principal on the State's capital appreciation bonds offset by the redemption of $52.1 million and defeasance of $70.3 million. Additional information on the State's bonded debt is contained in Note 8 of the notes to the financial statements.

The State's general obligation bond ratings are as follows: Aaa by Moody's Investor Service (since February 2007), AA+ by Standard & Poor's Ratings Services (since September 2000), and AAA by Fitch Ratings (since April 2010).

ECONOMIC FACTORS AFFECTING THE STATE

Capital Debt Affordability

Annually the Capital Debt Affordability Advisory Committee (CDAAC) completes a review of the size and affordability of the State tax-supported general obligation debt. By October 1, the CDAAC submits to the Governor and to the General Assembly an estimate of the maximum amount of new long-term general obligation debt that prudently may be authorized for the next fiscal year. In September 2011, the CDAAC issued its recommendation by presenting two proposals, one for fiscal year 2012 alone and one for fiscal years 2012 and 2013 as a unit. The CDAAC proposed that the maximum amount of long-term general obligation debt authorized to be issued by the State in each of fiscal year 2013 and 2014 be $76.58 million or a total of $153.16 million for the two year period.

Economic Outlook

Recent data on Vermont economic conditions indicate that the performance of the Vermont economy has generally outperformed the developments in the U.S. economy overall during the past 12 to18 months since the State's last period of economic recession ended, although there has been little change in the economic and revenue outlook over the previous six months to a year. The primary downside risks continue to be related to potential economic policy errors in Washington and the European Union, although the situation in Europe is better than it was six months ago. 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 eighth lowest unemployment rate in the nation in November, 2012. Construction and real estate markets continue to struggle, although market imbalances have almost run their course. Total revenues for the General Fund, Transportation Fund, and Education Fund currently show a variance from target of less than one percent. The large consumption taxes (meals and rooms, sales and use, and motor vehicle purchase and use) are right on target, and corporate taxes remain strong at about 4% above target. Such growth is expected to continue into fiscal year 2013.

REQUESTS FOR INFORMATION

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

State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
Pavilion Building
Montpelier, Vermont 05609-0401

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

BASIC FINANCIAL STATEMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents	$ 537,882,533	$ 82,376,472	$ 620,259,005	$ 169,774,896
Taxes receivable, net	89,465,132	38,544,255	128,009,387	-
Loans and notes receivable, net	25,601,990	993,093	26,595,083	248,786,611
Federal grants receivable	195,338,930	645,530	195,984,460	30,380,145
Other receivables, net	37,519,934	4,668,156	42,188,090	78,336,301
Investments	22,190,306	-	22,190,306	165,236,213
Inventories	2,266,225	6,012,600	8,278,825	1,973,037
Internal balances	2,671,962	(2,671,962)	-	-
Receivable from primary government	-	-	-	54,871
Receivable from component units	2,276,581	-	2,276,581	-
Other current assets	1,224,354	77,341	1,301,695	18,845,440
Total current assets	916,437,947	130,645,485	1,047,083,432	713,387,514
Noncurrent Assets				
Cash and equivalents	-	488,880	488,880	456,130,496
Taxes receivable	136,540,209	-	136,540,209	-
Other receivables	41,615,402	8,747	41,624,149	-
Loans and notes receivable	216,387,501	1,205,309	217,592,810	2,687,116,404
Investments	36,107,442	2,045,324	38,152,766	541,851,499
Other noncurrent assets	14,303,171	-	14,303,171	58,330,247
Capital assets				
Land	117,465,089	-	117,465,089	36,057,033
Construction in progress	490,629,998	-	490,629,998	7,343,287
Works of art	136,003	-	136,003	-
Capital assets being depreciated				
Infrastructure	1,792,146,281	-	1,792,146,281	34,420,140
Property, plant and equipment	618,572,800	2,203,061	620,775,861	1,200,806,173
Less accumulated depreciation	(1,068,352,857)	(1,457,793)	(1,069,810,650)	(514,735,731)
Total capital assets, net of depreciation	1,950,597,314	745,268	1,951,342,582	763,890,902
Total noncurrent assets	2,395,551,039	4,493,528	2,400,044,567	4,507,319,548
Total assets	3,311,988,986	135,139,013	3,447,127,999	5,220,707,062

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	248,495,912	9,304,613	257,800,525	104,371,504
Income tax refunds payable	64,020,569	-	64,020,569	-
Payable to primary government	-	-	-	2,331,452
Intergovernmental payable - due to federal government	12,307,203	-	12,307,203	-
Accrued interest payable	7,164,990	-	7,164,990	8,014,672
Current portion of long-term liabilities	91,922,217	24,229,860	116,152,077	313,779,341
Unearned revenue	3,916,760	10,085,700	14,002,460	32,287,394
Total current liabilities	427,827,651	43,620,173	471,447,824	460,784,363
Long-term liabilities				
Lottery prize awards payable	-	1,435,101	1,435,101	-
Bonds, notes and leases payable	469,784,072	-	469,784,072	3,464,713,548
Compensated absences	11,891,076	146,406	12,037,482	-
Claims and judgments	31,840,200	-	31,840,200	-
Other long-term liabilities	725,819,511	57,731,861	783,551,372	222,844,169
Total long-term liabilities	1,239,334,859	59,313,368	1,298,648,227	3,687,557,717
Total liabilities	1,667,162,510	102,933,541	1,770,096,051	4,148,342,080
NET ASSETS				
Invested in capital assets, net of related debt	1,727,652,353	745,268	1,728,397,621	142,583,900
Restricted for				
Unemployment compensation	-	26,216,418	26,216,418	-
Component unit net assets	-	-	-	803,220,725
Funds held in permanent investments				
Expendable	342,340	-	342,340	-
Nonexpendable	7,416,453	-	7,416,453	-
General government	23,547,051	-	23,547,051	-
Protection to persons and property	13,656,816	-	13,656,816	-
Human services	140,217,686	-	140,217,686	-
Labor	6,337,550	-	6,337,550	-
General education	1,756,117	-	1,756,117	-
Natural resources	302,825,433	-	302,825,433	-
Commerce and community development	263,036	-	263,036	-
Transportation	5,678	-	5,678	-
Debt service	3,009,094	-	3,009,094	-
Unrestricted (deficit)	(582,203,131)	5,243,786	(576,959,345)	126,560,357
Total net assets	$ 1,644,826,476	$ 32,205,472	$ 1,677,031,948	$ 1,072,364,982

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government	$ 185,483,918	$ 50,734,333	$ 13,110,732	$ -
Protection to persons and property	328,292,534	144,070,587	65,598,999	-
Human services	2,013,616,477	34,764,977	1,196,193,489	-
Labor	30,003,709	14,606,017	22,069,942	-
General education	1,680,443,175	2,006,883	126,071,066	-
Natural resources	91,451,936	26,914,537	23,550,258	20,738,390
Commerce and community development	38,781,699	435,030	16,066,475	-
Transportation	542,054,684	121,345,117	126,173,274	286,217,828
Interest on long-term debt	19,775,783	-	1,437,142	-
Total governmental activities	4,929,903,915	394,877,481	1,590,271,377	306,956,218
Business-type activities				
Vermont Lottery Commission	78,555,648	100,930,520	-	-
Liquor Control	50,519,182	51,700,444	-	-
Unemployment Compensation	139,339,697	138,550,415	38,238,794	-
Other	5,394,045	5,010,829	-	-
Total business-type activities	273,808,572	296,192,208	38,238,794	-
Total primary government	$ 5,203,712,487	$ 691,069,689	$ 1,628,510,171	$ 306,956,218
Component Units				
Vermont Student Assistance Corporation	$ 101,216,000	$ 59,239,000	$ 45,227,000	$ -
University of Vermont and State Agricultural College	614,136,000	359,596,000	217,771,000	6,687,000
Vermont State Colleges	191,327,165	117,848,254	63,393,587	2,157,985
Vermont Housing Finance Agency	37,065,000	704,000	-	-
Other	88,972,974	47,462,467	35,411,681	991,058
Total component units	$ 1,032,717,139	$ 584,849,721	$ 361,803,268	$ 9,836,043

General Revenues
- Taxes
  - Personal and corporate income
  - Sales and use
  - Meals and rooms
  - Purchase and use
  - Motor fuel
  - Statewide education
  - Other taxes
  - Total taxes
- Investment earnings
- Tobacco litigation settlement
- Additions to non-expendable endowments
- Miscellaneous
- Transfers

Total general revenues and transfers

Changes in net assets

Net Assets - Beginning, as restated

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	
$ (121,638,853)	$ -	$ (121,638,853)	$ -
(118,622,948)	-	(118,622,948)	-
(782,658,011)	-	(782,658,011)	-
6,672,250	-	6,672,250	-
(1,552,365,226)	-	(1,552,365,226)	-
(20,248,751)	-	(20,248,751)	-
(22,280,194)	-	(22,280,194)	-
(8,318,465)	-	(8,318,465)	-
(18,338,641)	-	(18,338,641)	-
(2,637,798,839)	-	(2,637,798,839)	-
-	22,374,872	22,374,872	-
-	1,181,262	1,181,262	-
-	37,449,512	37,449,512	-
-	(383,216)	(383,216)	-
-	60,622,430	60,622,430	-
(2,637,798,839)	60,622,430	(2,577,176,409)	-
			3,250,000
-	-	-	(30,082,000)
-	-	-	(7,927,339)
-	-	-	(36,361,000)
-	-	-	(5,107,768)
-	-	-	(76,228,107)
696,663,745	-	696,663,745	-
347,282,654	-	347,282,654	-
128,591,786	-	128,591,786	-
81,908,566	-	81,908,566	-
61,791,172	-	61,791,172	-
913,639,504	-	913,639,504	-
397,011,589	-	397,011,589	8,047,500
2,626,889,016	-	2,626,889,016	8,047,500
998,095	160,297	1,158,392	44,141,917
34,519,359	-	34,519,359	-
-	-	-	990,077
3,254,299	-	3,254,299	9,599,087
22,958,162	(22,958,162)	-	-
2,688,618,931	(22,797,865)	2,665,821,066	62,778,581
50,820,092	37,824,565	88,644,657	(13,449,526)
1,594,006,384	(5,619,093)	1,588,387,291	1,085,814,508
$ 1,644,826,476	$ 32,205,472	$ 1,677,031,948	$ 1,072,364,982

THIS PAGE INTENTIONALLY LEFT BLANK

Vermont

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents	$ 87,539,602	$ 4,420,936	$ 63,524,019	$ 117,377,763
Investments	750,000	-	-	22,466,044
Receivables				
Taxes receivable, net	196,530,132	9,435,074	15,852,053	4,084,279
Accrued interest receivable	263	1,165	-	2,469
Notes and loans receivable	728,749	399,550	-	4,388,278
Other receivables, net	9,548,148	13,033,363	-	25,545,755
Intergovernmental receivables - federal government, net	376,775	43,575,043	-	-
Due from other funds	4,080,951	456,609	-	3,028,115
Due from component units	2,016,835	-	-	42,530
Interfund receivable	70,665,000	-	-	-
Advances to other funds	301,275	-	-	-
Advances to component units	1,028,960	-	-	1,259,962
Total assets	$ 373,566,690	$ 71,321,740	$ 79,376,072	$ 178,195,195
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$ 25,730,391	$ 36,388,417	$ 9,221,831	$ 18,516,702
Accrued liabilities	9,027,271	4,711,354	128,945	2,514,486
Retainage payable	10,633	44,854	-	67,689
Due to other funds	15,350,581	1,151,070	10,976	55,372,639
Due to component units	-	-	-	-
Intergovernmental payable - federal government	-	-	-	-
Tax refunds payable	6,633,326	-	86,713	26,045
Deferred revenue	138,433,824	10,637,651	4,123,291	12,886,300
Total liabilities	195,186,026	52,933,346	13,571,756	89,383,861
FUND BALANCES				
Nonspendable				
Advances	1,330,235	-	-	-
Long-term notes and loans receivable	728,749	-	-	-
Permanent Fund principal	-	-	-	-
Restricted	-	-	-	4,757,664
Committed	18,501,930	18,388,394	65,804,316	85,822,913
Assigned	6,833,852	-	-	-
Unassigned	150,985,898	-	-	(1,769,243)
Total fund balances	178,380,664	18,388,394	65,804,316	88,811,334
Total liabilities and fund balances	$ 373,566,690	$ 71,321,740	$ 79,376,072	$ 178,195,195

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
$ 68,505,669	$ 87,095,424	$ 47,120,429	$ -	$ 475,583,842
227,314	-	34,854,390	-	58,297,748
-	-	103,803	-	226,005,341
6,650	-	-	-	10,547
236,472,914	-	-	-	241,989,491
2,376,968	20,856,800	998,379	-	72,359,413
102,617,627	48,332,483	437,002	-	195,338,930
3,275,554	37,341,879	6,669	(47,554,997)	634,780
-	-	-	-	2,059,365
-	-	-	-	70,665,000
-	-	-	-	301,275
-	-	-	-	2,288,922
$ 413,482,696	$ 193,626,586	$ 83,520,672	$ (47,554,997)	$ 1,345,534,654
$ 41,047,020	$ 83,441,296	$ 5,576,133	$ -	$ 219,921,790
4,301,135	2,209,038	441,399	-	23,333,628
273,636	275,077	910,812	-	1,582,701
1,286,318	6,602,727	135,699	(47,554,997)	32,355,013
-	-	2,071,706	-	2,071,706
10,368,896	-	-	-	10,368,896
-	-	-	-	6,746,084
4,356,706	11,616,145	-	-	182,053,917
61,633,711	104,144,283	9,135,749	(47,554,997)	478,433,735
-	-	-	-	1,330,235
-	-	-	-	728,749
-	-	7,416,453	-	7,416,453
351,848,985	89,482,303	36,654,320	-	482,743,272
-	-	30,610,432	-	219,127,985
-	-	-	-	6,833,852
-	-	(296,282)	-	148,920,373
351,848,985	89,482,303	74,384,923	-	867,100,919
$ 413,482,696	$ 193,626,586	$ 83,520,672	$ (47,554,997)	$ 1,345,534,654

STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total Fund balances from previous page		$ 867,100,919
Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:		
Land	117,438,933	
Works of Art	127,803	
Construction in progress	489,414,650	
Depreciable capital assets and infrastructure net of $1,018,429,741 of accumulated depreciation	1,306,619,336	
Capital assets, net of accumulated depreciation		1,913,600,722
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		17,724,719
Amounts presented in the statement of net assets relating to, but not in fund balances due to a different basis of accounting include:		
Long-term assets are not available to pay for current period expenditures and therefore are reported as deferred revenues in the governmental funds		178,155,612
Deferred charge for unamortized bond issuance costs and discounts on sale of bonds		4,090,135
Deferred for unamortized gain on sale of refunding bonds		10,213,036
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore are not reported in the funds. These liabilities include:		
Bonded and capital lease debt (net of internal service funds' liability)	(519,540,294)	
Accrued interest payable on bonds	(7,164,990)	
Intergovernmental payable - federal government	(1,938,307)	
Compensated absences (net of internal service funds' liability)	(31,492,044)	
Tax refunds payable	(57,274,485)	
Other long-term liabilities	(728,648,547)	
Long-term liabilities		(1,346,058,667)
Net assets of governmental activities		$ 1,644,826,476

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

THIS PAGE INTENTIONALLY LEFT BLANK

Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax	$ 593,009,113	$ -	$ -	$ 1,851,012
Corporate income tax	83,931,528	-	-	-
Sales and use tax	229,156,815	-	114,534,722	-
Meals and rooms tax	127,388,883	-	-	-
Motor fuels tax	-	59,335,840	-	1,528,505
Purchase and use tax	-	54,606,185	27,302,381	-
Statewide education tax	-	-	913,639,504	-
Other taxes	128,905,063	17,431,927	2,308,239	248,327,494
Earnings of departments				
Fees	20,906,404	28,679,181	-	66,878,403
Rents and leases	-	1,568,540	-	3,133,906
Sales of services	2,638,754	89,560	-	13,525,412
Federal grants	-	416,274,926	-	-
Fines, forfeits and penalties	7,390,456	4,993,669	-	9,909,847
Investment income	356,392	45,156	48,267	830,747
Licenses				
Business	3,048,422	662,426	-	13,693,584
Non-business	72,555	78,142,262	-	2,944,010
Special assessments	-	-	-	69,746,876
Other revenues	2,584,071	4,578,651	1,509	91,679,032
Total revenues	1,199,388,456	666,408,323	1,057,834,622	524,048,828
EXPENDITURES				
General government	75,847,347	44,720	9,043,752	55,349,814
Protection to persons and property	107,330,032	25,819,205	-	115,085,599
Human services	398,566,976	-	4,238,891	53,692,193
Labor	4,493,989	-	-	3,427,888
General education	141,830,842	-	1,333,780,611	17,706,202
Natural resources	19,306,116	-	-	28,638,251
Commerce and community development	13,474,915	-	-	4,742,373
Transportation	-	629,767,465	-	2,722,460
Debt service	-	-	-	-
Total expenditures	760,850,217	655,631,390	1,347,063,254	281,364,780
Excess of revenues over (under) expenditures	438,538,239	10,776,933	(289,228,632)	242,684,048
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	9,962,616	-	-	437,125
Proceeds from the sale of refunding bonds	69,060,000	-	-	-
Payment to bond escrow agent	(79,022,616)	-	-	-
Transfers in	41,177,548	370,705	306,432,101	80,222,286
Transfers out	(515,711,141)	(13,095,790)	(147,747)	(319,644,961)
Total other financing sources (uses)	(474,533,593)	(12,725,085)	306,284,354	(238,985,550)
Net change in fund balances	(35,995,354)	(1,948,152)	17,055,722	3,698,498
Fund balances, July 1	214,376,018	20,336,546	48,748,594	85,112,836
Fund balances, June 30	$ 178,380,664	$ 18,388,394	$ 65,804,316	$ 88,811,334

The accompanying notes are an integral part of these statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 594,860,125
-	-	-	-	83,931,528
-	-	-	-	343,691,537
-	-	-	-	127,388,883
-	-	926,827	-	61,791,172
-	-	-	-	81,908,566
-	-	-	-	913,639,504
-	-	-	-	396,972,723
		-		
-	220	172,002	-	116,636,210
-	-	48,537	-	4,750,983
-	-	4,200	-	16,257,926
845,394,646	618,312,802	7,173,586	-	1,887,155,960
-	-	8,448	-	22,302,420
588,056	-	1,124,635	-	2,993,253
-	-	980	-	17,405,412
-	-	6,539,729	-	87,698,556
-	-	2,767	-	69,749,643
777,106	-	831,983	-	100,452,352
846,759,808	618,313,022	16,833,694	-	4,929,586,753
12,790,283	789,438	25,657,378	-	179,522,732
68,171,280	1,999,853	2,706,701	-	321,112,670
523,534,329	1,028,422,339	3,546,545	-	2,012,001,273
21,333,878	-	-	-	29,255,755
125,923,293	5,406,166	12,795,298	-	1,637,442,412
21,006,632	-	24,940,728	-	93,891,727
16,117,503	-	4,058,902	-	38,393,693
-	-	622,855	-	633,112,780
-	-	72,390,391	-	72,390,391
788,877,198	1,036,617,796	146,718,798	-	5,017,123,433
57,882,610	(418,304,774)	(129,885,104)	-	(87,536,680)
-	-	63,000,000	-	63,000,000
-	-	2,321,565	-	12,721,306
-	-	-	-	69,060,000
-	-	-	-	(79,022,616)
4,687,564	423,191,991	72,977,491	(901,069,711)	27,989,975
(32,166,985)	(23,474,553)	(5,072,917)	901,069,711	(8,244,383)
(27,479,421)	399,717,438	133,226,139	-	85,504,282
30,403,189	(18,587,336)	3,341,035	-	(2,032,398)
321,445,796	108,069,639	71,043,888	-	869,133,317
$ 351,848,985	$ 89,482,303	$ 74,384,923	$ -	$ 867,100,919

STATE OF VERMONT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITUES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Total net change in fund balances from the previous page	**$**	**(2,032,398)**
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).		
Capital outlay/functional expenditures		360,884,801
Expensed net book value of disposed capital		(158,031,780)
Depreciation expense		(89,975,849)
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayment		52,120,000
Payment to refunding bond escrow agent		79,022,616
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Bonds issued		(63,000,000)
Refunding bonds issued		(69,060,000)
Bond premium is amortized over the life of the bonds in the statement of activities		(10,816,185)
Refunding bonds gain is amortized over the life of the refunding bonds in the statement of activities		(2,167,041)
Bond issuance costs are reported as expenditures in the governmental funds, but this cost is amortized over the life of the bonds in the statement of activities		632,983
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds		25,740,655
Estimated personal income tax refunds and retirement incentives that are not due and payable are not reported as expenditures in the governmental funds		(5,013,633)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Net decrease in accrued interest payable		1,037,173
Accreted interest on capital appreciation bonds		(280,645)
Increase in compensated absences		(374,987)
Increase in employer pension and other postemployment related costs		(75,029,116)
Increase in pollution remediation related costs		(432,250)
Increase in intergovernment payable - federal government		(621,060)
Increase in early retirement incentives		(162,750)
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		8,379,558
Total changes in net asets of governmental activities as reported on the statement of activities	**$**	**50,820,092**

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents	$ 75,283,681	$ 2,192,735	$ 3,180,721
Receivables			
Taxes receivable, net of allowance for uncollectibles	38,544,255	-	-
Accrued interest receivable	-	-	-
Accounts receivable, net of allowance for uncollectibles	1,192,595	1,152,022	1,821,371
Loans receivable	-	-	-
Due from other funds	-	161	-
Intergovernmental receivables - federal government	645,530	-	-
Inventories, at cost	-	5,240,510	497,831
Prepaid expenses	-	-	5,819
Total current assets	115,666,061	8,585,428	5,505,742
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	-
Investments	-	-	2,045,324
Loans receivable	-	-	-
Accounts receivable - subcriptions	-	-	-
Imprest cash and change fund - advances	-	75	300,000
Total restricted assets	-	75	2,345,324
Capital Assets			
Land	-	-	-
Construction in progress	-	-	-
Works of art	-	-	-
Capital assets being depreciated/amortized			
Machinery, equipment and buildings	-	1,944,866	252,386
Less accumulated depreciation	-	(1,219,855)	(234,469)
Total capital assets, net of depreciation	-	725,011	17,917
Total restricted and capital assets	-	725,086	2,363,241
Total assets	115,666,061	9,310,514	7,868,983
LIABILITIES			
Current Liabilities			
Accounts payable	628,616	4,833,323	905,682
Accrued salaries and benefits	-	355,402	149,353
Claims payable	-	-	-
Due to lottery winners	-	-	249,057
Due to agents	-	523,113	-
Due to other funds	91,828	406,476	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	3,791,589
Unearned revenue	9,278,599	1,650	162,537
Capital leases payable	-	-	-
Other current liabilities	21,718,739	39,927	-
Total current liabilities	31,717,782	6,159,891	5,258,218
Long-term Liabilities			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	1,435,101
Claims payable	-	-	-
Advances from other funds	-	75	300,000
Capital leases payable	-	-	-
Other noncurrent liabilities	57,731,861	-	-
Total long-term liabilities	57,731,861	75	1,735,101
Total liabilities	89,449,643	6,159,966	6,993,319
NET ASSETS			
Invested in capital assets, net of related debt	-	725,011	17,917
Restricted for unemployment compensation benefits	26,216,418	-	-
Unrestricted (deficit)	-	2,425,537	857,747
Total net assets	$ 26,216,418	$ 3,150,548	$ 875,664

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
$ 1,418,060	$ -	$ 82,075,197	$ 62,298,691
-	-	38,544,255	-
17,649	-	17,649	-
484,519	-	4,650,507	15,882,973
993,093	-	993,093	-
91,828	(91,828)	161	31,982,797
-	-	645,530	-
274,259	-	6,012,600	2,266,225
71,522	-	77,341	1,224,354
3,350,930	(91,828)	133,016,333	113,655,040
488,880	-	488,880	-
-	-	2,045,324	-
1,205,309	-	1,205,309	-
8,747	-	8,747	-
1,200	-	301,275	-
1,704,136	-	4,049,535	-
-	-	-	26,156
-	-	-	1,215,348
-	-	-	8,200
5,809	-	2,203,061	85,670,002
(3,469)	-	(1,457,793)	(49,923,114)
2,340	-	745,268	36,996,592
1,706,476	-	4,794,803	36,996,592
5,057,406	(91,828)	137,811,136	150,651,632
421,241	-	6,788,862	11,527,849
64,738	-	569,493	3,105,856
-	-	-	14,287,534
-	-	249,057	-
-	-	523,113	-
4,559	(91,828)	411,035	228,465
2,033,224	-	2,033,224	68,249,564
-	-	3,791,589	-
154,034	-	9,596,820	18,455
-	-	-	494,233
99	-	21,758,765	-
2,677,895	(91,828)	45,721,958	97,911,956
488,880	-	488,880	-
-	-	1,435,101	-
-	-	-	31,840,200
1,200	-	301,275	-
-	-	-	3,101,346
-	-	57,731,861	-
490,080	-	59,957,117	34,941,546
3,167,975	(91,828)	105,679,075	132,853,502
2,340	-	745,268	33,401,013
-	-	26,216,418	-
1,887,091	-	5,170,375	(15,602,883)
$ 1,889,431	$ -	32,132,061	$ 17,798,130

Adjustment to reflect the consolidation of internal service activities related to enterprise funds..................................	73,411
Net Assets - Business-type Activities..........	$ 32,205,472

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services	$ 138,550,415	$ 48,274,581	$ -
Ticket sales	-	-	100,927,079
Rental income	-	-	-
License fees	-	1,241,195	-
Federal donated properties	-	-	-
Advertising revenues	-	-	-
Other operating revenues	-	2,184,668	3,441
Total operating revenues	138,550,415	51,700,444	100,930,520
OPERATING EXPENSES			
Cost of sales and services	-	38,822,523	75,664,961
Claims expense	139,339,697	-	-
Salaries and benefits	-	3,738,554	1,480,387
Insurance premium expense	-	15,977	3,902
Contractual services	-	999,009	122,514
Repairs and maintenance	-	59,940	7,709
Depreciation	-	299,597	13,140
Rental expense	-	52,210	193,407
Utilities and property management	-	325,230	99,951
Non-capital equipment purchased	-	74,416	8,311
Promotions and advertising	-	69,057	687,950
Administration expenses	-	62,544	51,070
Supplies and parts	-	265,127	35,430
Distribution and postage	-	41,241	18,426
Travel	-	30,106	15,293
Other operating expenses	-	5,691,692	169,918
Total operating expenses	139,339,697	50,547,223	78,572,369
Operating income (loss)	(789,282)	1,153,221	22,358,151
NONOPERATING REVENUES (EXPENSES)			
Federal grants	38,238,794	-	-
Gain on disposal of capital assets	-	-	-
Investment income	11,275	-	147,771
Total nonoperating revenues (expenses)	38,250,069	-	147,771
Income (loss) before contributions, and transfers	37,460,787	1,153,221	22,505,922
Capital contributions to other funds	-	-	-
Transfers in	771,006	-	-
Transfers out	(815,785)	(880,066)	(22,328,096)
Changes in net assets	37,416,008	273,155	177,826
Total net assets, July 1	(11,199,590)	2,877,393	697,838
Total net assets, June 30	$ 26,216,418	$ 3,150,548	$ 875,664

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
$ 3,472,621	$ -	$ 190,297,617	$ 256,111,298
-	-	100,927,079	-
-	-	-	13,306,677
-	-	1,241,195	-
1,004,760	-	1,004,760	-
373,898	-	373,898	-
159,550	-	2,347,659	4,477,866
5,010,829	-	296,192,208	273,895,841
3,819,100	-	118,306,584	30,163,411
-	-	139,339,697	144,668,123
681,944	-	5,900,885	34,411,952
7,150	-	27,029	4,343,017
268,750	-	1,390,273	5,377,958
477	-	68,126	8,732,833
1,936	-	314,673	7,896,880
9,246	-	254,863	2,574,599
19,060	-	444,241	11,013,004
9,720	-	92,447	2,329,519
136,416	-	893,423	36,170
42,715	-	156,329	7,472,880
5,183	-	305,740	10,108,627
366,779	-	426,446	88,354
2,900	-	48,299	123,745
32,889	-	5,894,499	2,676,799
5,404,265	-	273,863,554	272,017,871
(393,436)	-	22,328,654	1,877,970
-	-	38,238,794	-
-	-	-	(470,790)
1,251	-	160,297	94,556
1,251	-	38,399,091	(376,234)
(392,185)	-	60,727,745	1,501,736
-	-	-	(4,855)
1,065,785	(1,586,791)	250,000	7,994,383
(771,006)	1,586,791	(23,208,162)	(1,056,724)
(97,406)	-	37,769,583	8,434,540
1,986,837	-	(5,637,522)	9,363,590
$ 1,889,431	$ -	$ 32,132,061	$ 17,798,130

Total change in net assets reported above..........	$ 37,769,583
Consolidation adjustment of internal service activities related to enterprise funds......	54,982
Change in net assets - business type activities...	$ 37,824,565

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 129,507,725	$ 64,371,163	$ 100,509,754
Cash paid to suppliers for goods and services	-	(46,401,055)	-
Cash paid to employees for services	-	(3,700,445)	(1,467,809)
Cash paid for prizes and commissions	-	-	(69,375,094)
Cash paid to claimants	(140,265,935)	-	-
Liquor taxes and licenses paid	-	(17,130,307)	-
Cash paid for fees, operations and other	-	-	(6,298,142)
Other operating revenues	-	3,425,863	3,441
Other operating expenses	-	(1,074)	-
Total cash provided (used) by operating activities	(10,758,210)	564,145	23,372,150
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(65,751)	(880,066)	(22,328,096)
Other nonoperating (expenses)	-	-	-
Interfund loans and advances	-	(425)	-
Federal grants	48,262,957	-	-
Temporary loan from federal government	-	-	-
Net cash provided (used) by noncapital financing activities	48,197,206	(880,491)	(22,328,096)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(203,037)	-
Proceeds from capital leases	-	-	-
Proceeds from sale of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	-	(203,037)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	-	-	(64,660)
Proceeds from sales/maturities of investments	-	-	247,077
Interest and penalties received (paid)	11,275	-	-
Net cash provided (used) by investing activities	11,275	-	182,417
Net increase (decrease) in cash and cash equivalents	37,450,271	(519,383)	1,226,471
Cash and cash equivalents, July 1	37,833,410	2,712,193	2,254,250
Cash and cash equivalents, June 30	$ 75,283,681	$ 2,192,810	$ 3,480,721
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ (789,282)	$ 1,153,221	$ 22,358,151
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	299,597	13,140
(Increase) decrease in accounts/taxes receivable	(9,042,690)	(723,952)	(414,506)
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	(161)	-
(Increase) decrease in inventory	-	(115,260)	(12,695)
(Increase) decrease in prepaid expenses	-	-	(5,819)
Increase (decrease) in accounts payable	-	88,709	456,373
Increase (decrease) in accrued salaries and benefits	-	38,109	12,577
Increase (decrease) in claims payable	(496,772)	-	-
Increase (decrease) in due to lottery winners	-	-	(170,017)
Increase (decrease) in due to agents	-	93,567	-
Increase (decrease) in future and unclaimed prizes payable	-	-	1,131,946
Increase (decrease) in due to other funds	-	(311,262)	-
Increase (decrease) in deferred revenues	-	1,650	3,000
Increase (decrease) in other liabilities	(429,466)	39,927	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	(9,968,928)	(589,076)	1,013,999
Net cash provided (used) by operating activities	$ (10,758,210)	$ 564,145	$ 23,372,150
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	-	-	-
Retirement of assets not fully depreciated	-	-	-
Receipt of inventory from other funds on consignment	-	-	-

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

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

Business-type Activities-Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 4,860,013	$ 299,248,655	$ 258,766,462
(4,278,729)	(50,679,784)	(79,490,304)
(674,590)	(5,842,844)	(33,986,243)
-	(69,375,094)	-
-	(140,265,935)	(140,284,046)
-	(17,130,307)	-
-	(6,298,142)	-
105,091	3,534,395	4,477,866
(62,341)	(63,415)	(2,676,799)
(50,556)	13,127,529	6,806,936
315,751	(22,958,162)	6,937,659
-	-	-
58,923	58,498	4,592,529
-	48,262,957	-
-	-	-
374,674	25,363,293	11,530,188
-	(203,037)	(10,753,426)
-	-	(502,646)
-	-	1,498,032
-	(203,037)	(9,758,040)
1,251	(63,409)	94,556
-	247,077	-
-	11,275	-
1,251	194,943	94,556
325,369	38,482,728	8,673,640
1,582,771	44,382,624	53,625,051
$ 1,908,140	$ 82,865,352	$ 62,298,691
$ (393,436)	$ 22,328,654	$ 1,877,970
1,936	314,673	7,896,880
(153,870)	(10,335,018)	(6,736,579)
322,118	322,118	-
(3,199)	(3,199)	-
195	34	(5,095,130)
(102,234)	(230,189)	266,443
65,733	59,914	(40,427)
71,581	616,663	4,677,970
3,497	54,183	432,402
-	(496,772)	4,384,077
-	(170,017)	-
-	93,567	-
-	1,131,946	-
3,857	(307,405)	(847,504)
120,300	124,950	(9,166)
(115)	(389,654)	-
13,081	13,081	-
342,880	(9,201,125)	4,928,966
$ (50,556)	$ 13,127,529	$ 6,806,936
-	-	(4,855)
-	-	(1,257,956)
-	-	9,097

THIS PAGE INTENTIONALLY LEFT BLANK

Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 13,429,702	$ -	$ 5,701,500	$ 8,015,999
Investments at fair value				
Pooled investments	3,264,255,973	124,988,200	-	-
Fixed income	7,177,476	-	-	-
Equities	3,051,156	-	1,245,925	-
Mutual funds	145,113,215	-	-	-
Receivables				
Taxes	-	-	-	1,779,747
Contributions - current	10,192,510	-	-	-
Contributions - noncurrent	6,774,199	-	-	-
Interest and dividends	350,606	-	-	-
Due from other funds	376,775	-	-	-
Other	551,086	-	-	1,753,439
Prepaid expenses	-	-	-	-
Other assets	-	-	2,641,662	-
Capital assets				
Construction in progress	3,495,776	-	-	-
Capital assets being depreciated				
Equipment	2,173,383	-	1,627	-
Less accumulated depreciation	(796,511)	-	(619)	-
Total capital assets, net of depreciation	4,872,648	-	1,008	-
Total assets	3,456,145,346	124,988,200	9,590,095	11,549,185
LIABILITIES				
Accounts payable	4,965,569	112,915	24,457	-
Accrued liabilities	-	-	29,405	-
Claims payable	-	-	6,646,394	-
Retainage payable	608,733	-	-	-
Interfund loans payable	-	132,458	-	249,754
Due to depositories	-	-	-	1,839
Intergovernmental payable - other governments	-	-	-	7,263,681
Amounts held in custody for others	-	-	-	2,895,603
Other liabilities	-	-	-	1,138,308
Total liabilities	5,574,302	245,373	6,700,256	$ 11,549,185
NET ASSETS HELD IN TRUST FOR				
Employees' pension benefits	3,426,405,831	-	-	
Employees' other postemployment benefits	24,165,213	-	-	
Pool participants	-	124,742,827	-	
Individuals, organizations and other governments	-	-	2,889,839	
Net assets held in trust for benefits and other purposes	$ 3,450,571,044	$ 124,742,827	$ 2,889,839	

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

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions			
Employer - pension benefit	$ 95,539,776	$ -	$ -
Employer - healthcare benefit	36,365,470	-	-
Plan member	72,174,075	-	-
Transfers from non-state systems	19,494	-	-
Medicare part D drug subsidy	3,459,142	-	-
Early retiree reinsurance program	2,747,713	-	-
Total contributions	210,305,670	-	-
Investment Income			
Net depreciation in fair value of investments	(1,296,994)	-	-
Income from pooled investments	67,797,878	2,868,718	-
Dividends	4,123,018	-	-
Interest income	729,527	-	448,451
Securities lending income	1,384,902	-	-
Other income	74,289	-	-
Total investment income	72,812,620	2,868,718	448,451
Less Investment Expenses			
Investment managers and consultants	13,978,639	508,341	-
Securities lending expenses	325,384	-	-
Total investment expenses	14,304,023	508,341	-
Net investment income	58,508,597	2,360,377	448,451
Pool participant deposits	-	2,000,000	-
Escheat property remittances	-	-	5,707,558
Total additions	268,814,267	4,360,377	6,156,009
DEDUCTIONS			
Retirement benefits	232,178,946	-	-
Other postemployment benefits	46,697,659	-	-
Refunds of contributions	5,094,538	-	-
Death claims	856,260	-	-
Depreciation	237,413	-	219
Operating expenses	3,496,824	8,487	853,713
Pool participant withdrawal	-	2,500,000	-
Transfers out	-	-	3,725,089
Total deductions	288,561,640	2,508,487	4,579,021
Change in net assts held in trust for			
Employees' pension benefits	(21,702,195)	-	-
Employees' other postemployment benefits	1,954,822	-	-
Pool participants	-	1,851,890	-
Individuals, organizations and other governments	-	-	1,576,988
Net Assets, July 1	3,470,318,417	122,890,937	1,312,851
Net Assets, June 30	$ 3,450,571,044	$ 124,742,827	$ 2,889,839

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

THIS PAGE INTENTIONALLY LEFT BLANK

Vermont

COMPONENT UNITS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2012

	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	$ 33,471,000	$ 71,649,000	$ 38,682,802	$ 3,890,000	$ 22,082,094	$ 169,774,896
Investments	3,126,000	130,608,000	15,072,756	2,093,000	14,336,457	165,236,213
Accounts receivable, net	-	14,581,000	10,091,212	-	2,583,901	27,256,113
Accrued interest receivable - loans	19,505,000	-	-	3,323,000	20,536,636	43,364,636
Accrued interest receivable - investments	26,000	-	-	604,000	-	630,000
Loans and notes receivable - current portion	170,290,000	3,004,000	-	14,117,000	61,375,611	248,786,611
Other receivables	1,178,000	3,359,000	-	2,354,000	194,552	7,085,552
Due from federal government	262,000	13,849,000	-	-	16,269,145	30,380,145
Due from primary government	-	-	-	-	54,871	54,871
Inventories, at cost	-	1,574,000	253,839	-	145,198	1,973,037
Other current assets	1,347,000	8,638,000	1,058,338	-	7,802,102	18,845,440
Total current assets	229,205,000	247,262,000	65,158,947	26,381,000	145,380,567	713,387,514
Restricted and Noncurrent Assets						
Cash and cash equivalents	297,265,000	8,220,000	854,558	146,669,000	3,121,938	456,130,496
Investments	-	315,188,000	22,327,478	127,385,000	76,951,021	541,851,499
Deferred bond issue costs	-	-	-	6,779,000	6,201,211	12,980,211
Loans and notes receivable, net	1,465,593,000	27,122,000	5,207,715	423,543,000	765,650,689	2,687,116,404
Other assets	-	5,818,000	17,777,999	21,748,000	6,037	45,350,036
Total restricted and noncurrent assets	1,762,858,000	356,348,000	46,167,750	726,124,000	851,930,896	3,743,428,646
Capital Assets						
Land	3,150,000	25,667,000	6,368,565	50,000	821,468	36,057,033
Construction in progress	-	-	7,075,650	-	267,637	7,343,287
Capital assets, being depreciated						
Buildings and leasehold improvements	16,981,000	732,885,000	233,694,257	1,747,000	30,887,686	1,016,194,943
Equipment, furniture and fixtures	9,070,000	153,173,000	16,581,175	1,227,000	4,560,055	184,611,230
Infrastructure	-	-	34,420,140	-	-	34,420,140
Less accumulated depreciation	(11,514,000)	(367,714,000)	(116,791,424)	(2,214,000)	(16,502,307)	(514,735,731)
Total capital assets, net of depreciation	17,687,000	544,011,000	181,348,363	810,000	20,034,539	763,890,902
Total assets	2,009,750,000	1,147,621,000	292,675,060	753,315,000	1,017,346,002	5,220,707,062
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	4,853,000	54,135,000	14,124,206	731,000	4,184,019	78,027,225
Accrued interest payable	-	-	-	4,977,000	107,584	5,084,584
Bond interest payable	944,000	-	-	-	1,986,088	2,930,088
Unearned revenue	6,341,000	16,363,000	6,484,210	65,000	3,034,184	32,287,394
Other current liabilities	-	-	-	491,000	19,862,172	20,353,172
Current portion of long-term liabilities	25,450,000	7,839,000	4,940,334	87,317,000	188,233,007	313,779,341
Due to primary government	-	-	-	-	42,530	42,530
Escrowed cash deposits	-	-	-	5,873,000	118,107	5,991,107
Advances from primary government	-	-	-	-	2,288,922	2,288,922
Total current liabilities	37,588,000	78,337,000	25,548,750	99,454,000	219,856,613	460,784,363
Noncurrent liabilities						
Bonds, notes and leases payable	1,794,552,000	465,281,000	136,258,923	549,445,000	519,176,625	3,464,713,548
Accounts payable and accrued liabilities	-	13,300,000	92,178	-	-	13,392,178
Accrued arbitrage rebate	22,663,000	-	-	-	513,309	23,176,309
Other liabilities	-	109,178,000	59,345,098	17,747,000	5,584	186,275,682
Total noncurrent liabilities	1,817,215,000	587,759,000	195,696,199	567,192,000	519,695,518	3,687,557,717
Total liabilities	1,854,803,000	666,096,000	221,244,949	666,646,000	739,552,131	4,148,342,080
NET ASSETS						
Invested in capital assets, net of related debt	677,000	72,272,000	51,786,211	810,000	17,038,689	142,583,900
Restricted	113,884,000	357,943,000	20,638,547	81,300,000	229,455,178	803,220,725
Unrestricted	40,386,000	51,310,000	(994,647)	4,559,000	31,300,004	126,560,357
Total net assets	$ 154,947,000	$ 481,525,000	$ 71,430,111	$ 86,669,000	$ 277,793,871	$ 1,072,364,982

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, 2012

	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	$ 19,821,000	$ 373,829,000	$ 120,814,241	$ 2,863,000	$ 19,604,738	$ 536,931,979
Other expenses	42,083,000	174,298,000	48,581,832	7,012,000	66,353,122	338,327,954
Scholarship, grants and fellowships	26,053,000	16,245,000	7,908,653	-	-	50,206,653
Depreciation	1,296,000	28,721,000	7,624,758	112,000	1,268,350	39,022,108
Interest on debt	11,963,000	21,043,000	6,397,681	27,078,000	1,746,764	68,228,445
Total expenses	101,216,000	614,136,000	191,327,165	37,065,000	88,972,974	1,032,717,139
Program Revenues						
Charges for services	59,239,000	359,596,000	117,848,254	704,000	47,462,467	584,849,721
Operating grants and contributions	45,227,000	217,771,000	63,393,587	-	35,411,681	361,803,268
Capital grants and contributions	-	6,687,000	2,157,985	-	991,058	9,836,043
Total program revenues	104,466,000	584,054,000	183,399,826	704,000	83,865,206	956,489,032
Net revenue (expense)	3,250,000	(30,082,000)	(7,927,339)	(36,361,000)	(5,107,768)	(76,228,107)
General Revenues						
Property transfer tax	-	-	-	-	8,047,500	8,047,500
Investment income	458,000	-	1,334,768	33,816,000	8,533,149	44,141,917
Additions to non-expendable endowments	-	-	990,077	-	-	990,077
Miscellaneous	4,881,000	-	-	3,941,000	777,087	9,599,087
Total general revenues	5,339,000	-	2,324,845	37,757,000	17,357,736	62,778,581
Changes in net assets	8,589,000	(30,082,000)	(5,602,494)	1,396,000	12,249,968	(13,449,526)
Net assets - beginning, as restated	146,358,000	511,607,000	77,032,605	85,273,000	265,543,903	1,085,814,508
Net assets - ending	$ 154,947,000	$ 481,525,000	$ 71,430,111	$ 86,669,000	$ 277,793,871	$ 1,072,364,982

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

THIS PAGE INTENTIONALLY LEFT BLANK

Vermont

State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2012

INDEX

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Vermont (State) have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

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, 2012.

A. Reporting Entity

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

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State such that exclusion would cause the State's financial statements to be misleading or incomplete. Their activity may be "blended" into the activity of the primary government or may be reported separately. If they are reported separately, they are called "discretely presented component units." Each discretely presented Component Unit's designation as either "major" or "non-major" has been determined by applying the criteria of GASB Statement No. 34. See Section C – Fund Financial Statements – for definitions of major and non-major funds. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

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

Discretely Presented Major Component Units

Vermont Student Assistance Corporation (VSAC) – VSAC was established by the Vermont Legislature to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. The Governor of the State appoints five of the eleven members of the Board of Directors and the State of Vermont has the ability to impose its will upon VSAC through its ability to change or alter the organization, structure or programs. For further information, contact their administrative offices at 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 thirteen of the fifteen members of the Board of trustees. Currently, 36% of UVM's budget comes from State and Federal appropriations, and private grants. Additional information may be obtained by contacting the university's administrative offices at 348 Waterman Building, Burlington, Vermont 05405.

Vermont State College System (VSC) – The Vermont State College System's annual report includes the financial activity for the following organizations:

- System Offices and Services
- Community College of Vermont
- Castleton State College
- Johnson State College

Lyndon State College
Vermont Technical College
Vermont Interactive Television
Allied Health Nursing Program
Vermont Manufacturing Extension Center

The Governor, with the advice and consent of the Senate, appoints all 15 members of the board of directors. VSC also has a fiscal dependency on the State of Vermont. Additional information about the system itself or about any of the individual organizations included in the system may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, 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. VHFA is legally separate from the State. The State appoints the majority of the VHFA's board of commissioners. VHFA has a fiscal dependency on the State of Vermont. 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 12 voting members consisting of the secretary of the agency of commerce and community development, the State treasurer, the secretary of agriculture, food and markets, or a designee of any of the above; and nine members, who are residents of the State of Vermont and appointed by the governor with the advice and consent of the senate. The State has the ability to impose its will on the entity. 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. 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. Additionally, the VSJF program works collaboratively with the agency of agriculture, food and markets to assist the Vermont slaughterhouse industry in supporting its efforts at productivity and sustainability. Audited financial statements and additional information may be obtained by contacting them at 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. VMBB is authorized, with written consent of the Governor or the State Treasurer, to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. It has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

VMBB also administers the Special Environmental Revolving Fund in accordance with 24 V.S.A. 4753(b). This fund was created by the Vermont Legislature for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. The fund has a June 30 year-end and issues its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 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 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 Vermont Veterans' Home is financially accountable to the State, and is therefore included as a discretely presented component unit in Vermont's CAFR. The Vermont Veterans' Home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

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

Vermont Film Corporation – The legislature repealed the statutes that created this corporation, and net assets were transferred to the Department of Tourism and Marketing.

Vermont Telecommunications Authority – The Vermont Telecommunications Authority was created in June 2007 pursuant to 30 V.S.A. 8061, for the purposes of ensuring that all regions of the State have access to affordable broadband and mobile telecommunications services and promoting and facilitating ongoing upgrades in statewide telecommunications infrastructure in the most efficient and economically feasible manner. The Vermont Telecommunications Authority is considered a component unit of the State as the State has the ability to impose its will on this legally separate entity. Additional information may be obtained by contacting the corporation at 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. The VTA, currently inactive, has remained in the State Statutes in case it becomes necessary to reactivate it in the future. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

* - Indicates entity was audited by KPMG LLP.

Blended Component Unit

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

JOINT VENTURES

A joint venture is a legal entity or other contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The Tri-State Lotto Commission (31 V.S.A. 673) is classified as a joint venture. The financial activities' of this organization have not been included in the State's financial statements; however, see Note 13 for additional information regarding the organization.

JOINTLY-GOVERNED ORGANIZATIONS

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

Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)
New England Board of Higher Education (16 V.S.A. 2692)
New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)
Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)

RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government appoints a voting majority of the board members, but does not have either (a) the ability to impose its will on the organization or (b) a relationship of financial benefit or burden with the organization. The Vermont State Housing Authority (24 V.S.A. 4005) has been classified as a related organization, and thus their financial activity has not been included in the State's financial statements.

EXCLUDED ORGANIZATIONS

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 “The Financial Reporting Entity.”

- Vermont Council on the Humanities
- Vermont Council on the Arts
- Vermont Historical Society
- Vermont Public Power Supply Authority
- Connecticut River Atlantic Salmon Commission (10 V.S.A. 4654)
- Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

These organizations have not been included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State’s primary government and exclusion from the reporting entity would not render Vermont’s financial statements incomplete or misleading.

B. Government-wide Financial Statements

The State of Vermont’s Government-wide Financial Statements (the Statement of Net Assets and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in these entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from these government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities’ sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

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

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

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

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

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

C. Fund Financial Statements

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

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

In addition to the above major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users (i.e. because of public interest or for consistency) may be reported as a major fund.

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Statewide education property taxes are recognized as revenues in the year for which the taxes are levied. This property tax is levied by the State on July 1, is included in the property tax bills levied by municipalities, and is collected by municipalities. The municipalities, by December 1 and June 1, must make payment to the State Treasurer in the amount specified by the Commissioner of Taxes.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of year-end. Major revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. See special consideration for personal income tax revenue recognition under the "Receivables" section of this footnote.

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

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

Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units **–** The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred. The State's enterprise funds have elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from non–operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

E. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. A fund is defined as a separate accounting entity with a self-balancing set of accounts. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The financial activities of the State that are reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds.

GOVERNMENTAL FUNDS

General Fund – The Vermont Legislature has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance and to account for all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future.

Special Revenue Funds **-** These funds are used to account for and report the proceeds of specific revenue sources that are restricted, 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, and to provide funding for transportation related debt service requirements. The primary sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for transportation projects.

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

Special Fund – This fund is a major special revenue fund. It combines many individual special revenue funds that account for proceeds or specific revenues not categorized above that are limited to expenditures for specific purposes. These purposes cross the entire range of State government activities.

Federal Revenue Fund – This fund is a major special revenue fund. All federal grant receipts are recorded in this fund except for those federal funds specifically designated for human services, transportation or fish and wildlife purposes (which are recorded in the State's Global Commitment Fund, Transportation Fund or Fish and Wildlife Fund respectively).

Global Commitment (to Health) Fund – This fund is a major special revenue fund created in accordance with Section16c of 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal Government. The original waiver agreement was amended on January 1, 2011, and will expire on December 31, 2013. This agreement caps Federal expenditures in Medicaid services, but gives Vermont great latitude in promoting universal access to health care, cost containment, and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies. As part of the agreement, the Agency of Human Resources (AHS) has contracted with the Department of Vermont Health Access (DVHA), which serves as a publicly sponsored managed care organization, and adheres to all Federal managed care organization regulations.

In addition to the grant received from the Federal Government, General and Special Fund resources are used to fund payments from the Agency of Human Services to the managed care organization within the DVHA for the purpose of providing services under the global commitment to health care waiver approved by the Federal Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. These payments are reported as transfers out of the General and Special Funds and as transfers in to the Global Commitment Fund. These funds will be expended as appropriated by the general assembly, authorized by the Director of the DVHA, and approved by the Commissioner of Finance and Management consistent with agreements between the managed care organization within the DVHA and departments delivering eligible services under the waiver. These resources paid to the Global Commitment Fund are adjusted by the AHS each quarter to the actual expenditures paid.

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

Fish and Wildlife Fund – This fund is a non-major special revenue fund. The fund's revenue is committed by statute and can only be utilized for fish and wildlife purposes. Principal sources of revenue include license fees and federal grants.

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

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

Permanent Funds – These are non-major governmental funds that report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or citizenry, such as higher education, cemetery care, and monument preservation.

PROPRIETARY FUNDS

These funds account for those activities for which the intent of management is to recover the cost of providing goods or services to the general public or other departments of government primarily through user charges; or where prudent financial management dictates that periodic determinations of results of operations are appropriate. These funds include the following types:

Enterprise Funds – These nine funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State’s unemployment compensation program, the liquor control board, and the State’s lottery program, are reported as “major funds” while the remaining six are reported as non-major funds.

> *Unemployment Compensation Trust Fund* – accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed (21 V.S.A. Chapter 17).
>
> *Liquor Control Fund* – accounts for the operations of the Liquor Control Board which purchases, distributes, and sells distilled spirits through its agency stores (7 V.S.A. Chapter 40).
>
> *Vermont Lottery Commission* – accounts for the operations of the Vermont Lottery (31 V.S.A. Chapter 14). The net profits of the Vermont Lottery Commission used to support public education and are transferred monthly to the Education Fund.

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

CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer. Except for the Pension Trust Funds, Investment Trust Fund, Capital Projects Funds, and the Single Deposit Investment Account Fund, cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

Income earned by these short-term investments is allocated based on average daily balances to those funds authorized to receive it while any remaining earnings are deposited in the General Fund.

Cash and cash equivalents as reported in the financial statements include bank accounts, imprest cash, short-term investments with an original maturity of three months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

INVESTMENTS

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

RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants and are reported net of allowance for uncollectible accounts. See Note 6—Accounts Receivable for further information.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from drinking water and clean water special environmental loans. Other receivables include primarily fees, fines, and expenditure reimbursements due to the Medicaid program from drug companies and third party insurance companies. Revenues accrued in the governmental funds' financial statements consist primarily of accrued taxes, and notes receivable from component units that will be collected by the State within 60 days after year-end. Amounts estimated to be collected after the 60-day revenue recognition period are recorded as deferred revenues. Federal receivables are amounts due from the federal government to reimburse the State's expenditures incurred pursuant to federally funded programs. Federal grant revenues are accrued when the qualifying expenditure is incurred. Notes receivable in the General Fund consist primarily of Vermont Economic Development Authority notes purchased by the State. See Note 11 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

INVENTORIES

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

PREPAID EXPENSES

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

CAPITAL ASSETS AND DEPRECIATION

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

Capital assets, except as stated below, have an initial cost of at least $5,000, and that provide a future economic benefit for more than 1 year. This includes capital leases and buildings that are not considered to be part of an infrastructure asset. All land and land use rights, regardless of cost, are capitalized and are not depreciated. Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature, utilized primarily by the general public as opposed to State employees, cost at least $50,000 and provide future economic benefit for more than 1 year. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most capital assets. Software with a cost of at least $150,000 and a useful life of more than one year is capitalized.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 20 to 50 years, equipment is 3 to 24 years, software is 3 to 10 years, and infrastructure assets are 6 to 80 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes 4 and 7, respectively.

When a capital asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Repairs and maintenance are recorded as expenses. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements. Interest incurred on debt issued for construction of governmental activities capital assets is not capitalized.

The majority of the historic artifacts and collections that are maintained by the various State agencies and departments are not included in the capital asset reporting. The items not reported are protected and preserved, held for public exhibition and educational purposes and the proceeds from any sales of such items are used to acquire new items for the collection.

DEFERRED REVENUE

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

ACCOUNTS PAYABLE

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred prior to year-end, and where payment was actually made subsequent to year-end. When paying its liabilities, it is the policy of the State to apply restricted resources first to situations where either restricted or unrestricted net assets may be used.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of the statement date. Retainage payable consists of withheld portions of progress payment amounts made to contractors which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

TAX REFUNDS PAYABLE

Tax refunds payable primarily represent amounts owed by the State to taxpayers because of overpayment of their income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2012 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2012. The amount reported as tax refunds payable at June 30, 2012 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2012's tax liability as well as overpayments for calendar year 2011 and prior years' tax liabilities that have not been paid out as of June 30, 2012.

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, 2012, the primary government had no outstanding arbitrage rebate obligation. The arbitrage rebate liabilities reported by the discretely-presented component units are included in "Other Long-term Liabilities" in the government-wide statement of net assets.

ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Encumbrances remaining at fiscal year-end are reported within the restricted, committed, or assigned fund balances of the governmental funds, as appropriate. The amount of the encumbrances remaining in the general fund, reported as assigned fund balances, is $6,833,852.

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.

The composition of the fund balances of the governmental funds for the fiscal year ended June 30, 2012 are shown on the following page.

Governmental Funds' Fund Balances

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable								
Advances	$ 1,330,235	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,330,235
Long-term Notes Receivable	728,749	-	-	-	-	-	-	728,749
Permanent Fund Principal	-	-	-	-	-	-	7,416,453	7,416,453
Total Nonspendable	2,058,984	-	-	-	-	-	7,416,453	9,475,437
Restricted								
General Government	-	-	-	-	2,753,415	-	20,801,987	23,555,402
Protection to Persons and Property	-	-	-	509,747	9,313,294	-	2,567,832	12,390,873
Human Services	-	-	-	-	39,697,745	89,482,303	2,442,689	131,622,737
Labor	-	-	-	-	7,007,183	-	-	7,007,183
Education	-	-	-	-	1,802,039	-	-	1,802,039
Natural Resources	-	-	-	4,247,917	290,962,278	-	7,824,331	303,034,526
Commerce and Community Development	-	-	-	-	313,031	-	2,709	315,740
Transportation	-	-	-	-	-	-	5,678	5,678
Debt Service	-	-	-	-	-	-	3,009,094	3,009,094
Total Restriced	-	-	-	4,757,664	351,848,985	89,482,303	36,654,320	482,743,272
Committed								
Protection to Persons and Property	-	-	-	57,466,482	-	-	-	57,466,482
Human Services	18,501,930	-	-	6,979,708	-	-	-	25,481,638
Labor	-	-	-	2,226,348	-	-	-	2,226,348
Education	-	-	65,804,316	1,048,495	-	-	23,549,137	90,401,948
Natural Resources	-	-	-	16,315,111	-	-	4,739,728	21,054,839
Commerce and Community Development	-	-	-	1,785,643	-	-	-	1,785,643
Transportation	-	18,388,394	-	-	-	-	-	18,388,394
Debt Service	-	-	-	1,126	-	-	2,321,567	2,322,693
Total Committed	18,501,930	18,388,394	65,804,316	85,822,913	-	-	30,610,432	219,127,985
Assigned								
General Government	840,076	-	-	-	-	-	-	840,076
Protection to Persons and Property	1,358,689	-	-	-	-	-	-	1,358,689
Human Services	974,082	-	-	-	-	-	-	974,082
Education	294,673	-	-	-	-	-	-	294,673
Natural Resources	1,386,128	-	-	-	-	-	-	1,386,128
Commerce and Community Development	1,980,204	-	-	-	-	-	-	1,980,204
Total Assigned	6,833,852	-	-	-	-	-	-	6,833,852
Unassigned	150,985,898	-	-	(1,769,243)	-	-	(296,282)	148,920,373
Total Fund Balance	$ 178,380,664	$ 18,388,394	$ 65,804,316	$ 88,811,334	$ 351,848,985	$ 89,482,303	$ 74,384,923	$ 867,100,919

COMPENSATED ABSENCES

Compensated absences' liabilities include amounts for accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 24 days annually and may not accumulate more than a maximum of 45 days (360 hours) at any one time. This liability is expected to be liquidated in future periods as either salary payments or cash payments upon termination of employment. Compensatory time and personal leave time accumulates as earned by the employees but must be taken within the subsequent year or be forfeited.

Liabilities for compensated absences are recorded in the government-wide statement activity where the employees are assigned, and in the funds, where applicable. The amounts are calculated based on an employee's pay rate in effect as of year-end. Additional information including changes in balances may be found in Note 16 – Changes in Long-term Liabilities.

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

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

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

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

INTERFUND TRANSACTIONS

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

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

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

Transfers – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Transfers are not revenue, expenditures, or expenses, and are classified as "Other Financing Sources (Uses)" in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities that affect the disclosure of contingent assets and liabilities as of the date of the financial statements, and that affect the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Primary Government – Excluding All Pension Trust Funds

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

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

The statutory guidelines for certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. These include the Tobacco Trust Fund, the Higher Education Trust Fund, the ANR Stewardship Fund, two Veterans' Home trusts, the Fish and Wildlife Trust, Vermont State Retirement OPEB Fund, and various small trusts.

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

Deposits - Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository (FDIC) insurance and 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, 2012, (including certificates of deposits) were $341,322,529. Of these, $2,068,034 was exposed to custodial credit risk as uninsured and uncollateralized.

Investments

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

(a) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2012 are presented below.

Primary Government Investments - Excluding Pension and Investment Trust Funds

(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to <6**	**6 to 10**	**More Than 10**
Debt Investments					
US Agencies/Treasuries	$ 45,299	$ 208	$ 915	$ 470	$ 43,706
Money Market Mutual Fund	253,400	253,400	-	-	-
Other	264	31	114	69	50
Total Debt Investments	298,963	$ 253,639	$ 1,029	$ 539	$ 43,756
Other Investments					
Mutual Funds	370				
Equity Securities	19,844				
US Unemployment Trust Pool	75,114				
Total Investments	$ 394,291				

The above includes instruments that are classified as cash and short-term investments for balance sheet purposes. The following is a reconciliation of the investment types to the financial statement presentation (*in Thousands*).

Primary Government - Excluding Pension and Investment Trust Funds

Investments per maturity schedule	$ 394,291
Included in cash & cash equivalents:	
Money market mutual fund	(248,276)
Certificates of deposit	978
US Unemployment trust pool	(75,114)
Financial statement investments total	$ 71,879
Governmental activities total	$ 58,298
Business activities total	2,045
Fiduciary - OPEB trust	10,290
Fiduciary - private purpose trust fund	1,246
Total	$ 71,879

(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, 2012, 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, 2012 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, 2012, is presented as follows using the Moody's rating scale.

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

		Quality Ratings	
Debt Investments	**Fair Value**	**Aaa**	**Unrated**
US Agencies/Treasuries	$ 45,299	$ 45,299	$ -
Money Market Mutual Fund	253,400	253,400	-
Other	264	-	264
Totals	$ 298,963	$ 298,699	$ 264

(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, 2012, valued in US dollars, is $99,125, consisting of Canadian Dollar investments.

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

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

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

On November 1, 2007, the City of Burlington, Vermont pooled its investments with the majority of the assets of the State, Teachers and Municipal defined benefit plans pursuant to a change in State statute permitting Vermont municipalities to pool their funds with the VPIC thereby creating an "external investment pool." An "external investment pool" is defined by GASB 31 as the commingling and investing of the monies of more than one legally separate entity, on the participants' behalf, in an investment portfolio. In this case, one of the participants, the City of Burlington, is not part of the State's reporting entity. Each of the participating funds has an equity position in the external pool and individual investment securities are not specifically identified to any of the participating funds. As a result, the "pooled investment" is a net equity position, incorporating the results of the underlying securities, receivables and liabilities. Earnings in each pooled investment are allocated based on the month-end balances of each of the respective systems.

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

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

VERMONT PENSION INVESTMENT COMMITTEE

INVESTMENT POOL

STATEMENTS OF NET ASSETS

June 30, 2012

(Expressed in Thousands)

Assets	
Cash and short term investments	$ 51,975
Receivables	
Interest and dividends	7,732
Investments sold	94,427
Total receivables	102,159
Investments at Fair Value	
Fixed income	742,883
Equities	727,770
Mutual funds	1,511,090
Real estate and venture capital	395,486
Total investments	3,377,229
Total assets	3,531,363
Liabilities	
Accounts payable	113
Other liabilities	132
Payable for investments purchased	142,119
Total liabilities	142,364
Net assets held in trust for investment pool participants	$ 3,388,999

VERMONT PENSION INVESTMENT COMMITTEE

INVESTMENT POOL

STATEMENTS OF CHANGES IN NET ASSETS

June 30, 2012

(Expressed in Thousands)

Additions	
Investment income	
Net appreciation (depreciation) in fair value of investments	$ (7,621)
Dividends	44,845
Interest income	35,370
Securities lending income	58
Other income	872
Total investment gain	73,524
Total additions	73,524
Deductions	
Net pool participant withdrawals	85,462
Operating expenses	1,383
Total deductions	86,845
Change in net assets	(13,321)
Net assets held in trust for pool participants	
July 1, 2011	3,402,320
June 30, 2012	$ 3,388,999
Pool participants	
Vermont State Retirement System	$ 1,370,105
State Teacher's Retirement System	1,483,892
Vermont Municipal Employees' Retirement System	410,259
City of Burlington	124,743
Totals - June 30, 2012	$ 3,388,999

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

Deposits - Custodial Credit Risk

The pension trust funds' cash deposits, outside of the pension trust funds' custodian bank, totaled $8,882,267, none of which was exposed to custodial credit risk.

Investments

Investments are stated at market value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at market value when published market prices and quotations are available, or at amortized cost, which approximates fair value. 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 – Investments

As pension trust funds have a different investment term horizon based on a long average liability term, the VPIC manages exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities with Core, Core Plus and Global Fixed Income investment managers, requiring that the duration be within a specified percentage of the duration band of the appropriate benchmark index. In the case of domestic Core Fixed Income managers the average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the appropriate passive benchmark's duration by more than

+/- 25 percent. The Core Plus portfolio restriction is +/- two years around the passive benchmark duration. With respect to Global Fixed Income portfolios, current portfolio durations are restricted to a range of one to ten years. High yield fixed income portfolios prices and yields are not as directly correlated with the general level of interest rates and are duration monitored but not duration restricted. The calculation of the duration of mortgage backed securities involves assumptions as to the expected future prepayment rate for the security. The Managers are required to calculate duration at the time of initial purchase and on a routine basis to maintain compliance with these guidelines. Fixed income managers are required to report portfolio characteristics quarterly inclusive of portfolio duration as a measure of portfolio interest rate sensitivity. Pension, Vermont Municipal Employees Health Benefit and Investment Trust Funds investments are as follows:

Pension, Vermont Municipal Employees Health Benefit 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	$ 298,175	$ 50,296	$ 15,825	$ 123,332	$ 108,722
Corporate Debt	240,029	11,419	123,144	94,043	11,423
Money Market Mutual Fund	46,640	46,640	-	-	-
Municipals	23,760	-	1,446	213	22,101
Asset Backed Securities	5,348	-	1,187	-	4,161
Mortgage Backed Securities	63,693	-	-	1,994	61,699
Sovereign Debt	88,882	8,824	29,647	35,500	14,911
Bank Loans	24,284	-	15,574	8,710	-
Total Debt Investments	790,811	$ 117,179	$ 186,823	$ 263,792	$ 223,017
Other Investments					
Mutual Funds	1,665,025				
Equity Securities	727,770				
Real Estate - Venture Capital	395,486				
Fixed Income - Derivatives	(1,288)				
Total	$ 3,577,804				

(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, 2012, 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, 2012, 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 of Debt Investment

Detailed pension guidelines by asset class and supplemental requirements by investment manager are used to set risk parameters and are stated in written contracts. These guidelines are reviewed and adopted by

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

Pension, Vermont Municipal Employees Health Benefit and
Investment Trust Funds Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
US Agencies/Treasuries	$ 298,175	$ 298,175	$ -	$ -
Corporate Debt	240,029	5,792	4,250	12,187
Money Market Mutual Fund	46,640	-	-	-
Municipals	23,760	846	11,412	10,020
Asset Backed Securities	5,348	894	360	1,699
Mortgage Backed Securities	63,693	25,953	1,381	428
Sovereign Debt	88,882	20,873	48,259	8,714
Bank Loans	24,284	-	-	-

continued below

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated
US Agencies/Treasuries	$ -	$ -	$ -	$ -
Corporate Debt	36,977	62,399	110,523	7,901
Money Market Mutual Fund	-	-	-	46,640
Municipals	-	-	-	1,482
Asset Backed Securities	1,008	-	36	1,351
Mortgage Backed Securities	2,805	2,066	9,792	21,268
Sovereign Debt	11,036	-	-	-
Bank Loans	-	-	-	24,284

d) Foreign Currency Risk

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

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

Currency	Total	Short Term	Debt	Equity
Australian Dollar	$ 13,123	$ 93	$ -	$ 13,030
Brazilian Real	737	-	737	-
Canadian Dollar	5,121	(48)	1,567	3,602
Danish Krone	2,043	51	-	1,992
Euro Currency	113,248	479	29,676	83,093
Hong Kong Dollar	2,438	40	-	2,398
Israeli Shekel	65	-	-	65
Japanese Yen	106,510	792	43,833	61,885
Malaysian Ringgit	120	4	-	116
Mexican Peso	11,024	433	10,542	49
New Zealand Dollar	203	6	-	197
Norwegian Krone	2,193	40	-	2,153
Philippine Peso	1	1	-	-
Polish Zloty	9,106	17	8,606	483
Pound Sterling	42,083	91	-	41,992
Singapore Dollar	10,784	142	-	10,642
South African Rand	9	9	-	-
South Korean Won	5,247	10	-	5,237
Swedish Krona	2,273	-	-	2,273
Swiss Franc	14,025	205	-	13,820
Thailand Baht	890	3	-	887
Total	$ 341,243	$ 2,368	$ 94,961	$ 243,914

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

Securities Lending Transactions

State statutes and boards of trustees' policies permit the Office of the Vermont State Treasurer to use investments of the three defined benefit pension plans to enter into securities lending transactions/loans of securities to broker dealers and other entities for collateral, with a simultaneous agreement to return the collateral for the same securities in the future. Pursuant to a Securities Lending Authorization Agreement, State Street Bank and Trust Company (State Street) was authorized to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street loaned, on behalf of the State, certain securities held by State Street as custodian, and received United States and foreign currency cash, or securities issued or guaranteed by the United States government as collateral. Borrowers were required to deliver collateral for each loan equal to not less than one hundred percent (100%) of the market value of the loaned security.

The State did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to provide a form of indemnification to the State in the event of default by a borrower. On June 30, 2012 Vermont had no credit risk exposure to borrowers.

During the fiscal year, VPIC exercised its rights to terminate the securities lending program on February 28, 2012. No securities were on loan as of June 30, 2012.

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

Derivative Financial Instruments

The State does not have any derivatives associated with issuance of debt. Certain investment managers (Managers) for the Vermont Pension Investment Committee (VPIC) invest in derivative financial investments as authorized by the VPIC policy. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. Disclosures related to derivatives positions required under Governmental Accounting Standards Board Statement No. 53 – "Accounting and Financial Reporting for Derivative Instruments" (GASB No. 53) apply only to those derivative instruments held directly by the VPIC on behalf of the defined benefit plans and the external investment trust and not those held within commingled fund investment vehicles. The Pension Trust Funds do not have hedgeable assets or liabilities, and all derivative instruments are considered investment derivatives, with corresponding changes in fair value reported in investment income. The fair value of all derivative financial instruments are reported in the Statement of Fiduciary Net Assets. All of the derivatives reported at June 30, 2012, are at fair market value.

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

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

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

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

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Fiduciary Net Assets. The net gain for the year was $1,864,972. At June 30, 2012 and 2011, the VPIC's investments had the following values:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Fixed Income Futures:				
Long......................................	$ -	$ -	$ -	$ 207,150,000

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency related transactions in the Statement of Changes in Fiduciary Net Assets. The net gain for the year was $3,510,999. At June 30, 2012 and 2011, the VPIC's investments included the following currency forwards balances:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
FX Forwards..................................	$ 451,237	$ 72,202,058	$ (1,168,389)	$ 112,059,204

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

Risk of loss arises from changes in currency exchange rates. Below is a listing of currency forward positions as of June 30, 2012, and the associated currencies.

Transaction Type	Base Current Value	Open Buy Equivalent Value	Open Sell Equivalent Value	Currency	Unrealized Gain/Loss
Cross deals between two foreign currencies					
	$ 6,297,269	$ 6,203,833	$ 6,203,833	SOLD EUR/BOUGHT GBP	$ 93,436
			Sub-Total		**$ 93,436**
Pending foreign exchange purchases					
	8,809,315	8,870,000	8,870,000	BOUGHT CNY/SOLD USD	(60,685)
	8,621,969	8,732,308	8,732,308	BOUGHT CNY/SOLD USD	(110,339)
	1,218,288	1,224,168	1,224,168	BOUGHT EUR/SOLD USD	(5,880)
	1,218,289	1,222,908	1,222,908	BOUGHT EUR/SOLD USD	(4,619)
	125,481	125,589	125,589	BOUGHT CNY/SOLD USD	(108)
	187,259	186,252	186,252	BOUGHT BRL/SOLD USD	1,007
	201,131	200,049	200,049	BOUGHT BRL/SOLD USD	1,082
	250,552	250,000	250,000	BOUGHT BRL/SOLD USD	552
	208,492	207,829	207,829	BOUGHT BRL/SOLD USD	663
	5,260,403	5,100,786	5,100,786	BOUGHT AUD/SOLD USD	159,617
	77,420	80,778	80,778	BOUGHT EUR/SOLD USD	(3,358)
	507,672	501,430	501,430	BOUGHT EUR/SOLD USD	6,242
	2,437,152	2,396,794	2,396,794	BOUGHT EUR/SOLD USD	40,358
	1,259,273	1,251,082	1,251,082	BOUGHT CAD/SOLD USD	8,191
	5,894,758	5,894,812	5,894,812	BOUGHT AUD/SOLD USD	(54)
			Sub-Total		**32,669**
Pending foreign exchange sales					
	5,904,783	5,899,771	5,899,771	SOLD AUD/BOUGHT USD	5,012
	5,030,740	5,026,470	5,026,470	SOLD AUD/BOUGHT USD	4,270
	684,799	660,035	660,035	SOLD BRL/BOUGHT USD	24,764
	578,144	557,237	557,237	SOLD BRL/BOUGHT USD	20,907
	117,388	119,267	119,267	SOLD AUD/BOUGHT USD	(1,879)
	1,739,169	1,726,974	1,726,974	SOLD EUR/BOUGHT USD	12,195
	104,823	110,940	110,940	SOLD AUD/BOUGHT USD	(6,117)
	2,355,744	2,396,160	2,396,160	SOLD EUR/BOUGHT USD	(40,416)
	1,293,496	1,240,090	1,240,090	SOLD EUR/BOUGHT USD	53,406
	937,793	911,206	911,206	SOLD EUR/BOUGHT USD	26,587
	4,323,333	4,206,950	4,206,950	SOLD EUR/BOUGHT USD	116,383
	81,138	82,452	82,452	SOLD EUR/BOUGHT USD	(1,314)
	48,684	49,091	49,091	SOLD EUR/BOUGHT USD	(407)
	218,862	211,600	211,600	SOLD EUR/BOUGHT USD	7,262
	336,618	341,552	341,552	SOLD EUR/BOUGHT USD	(4,934)
	2,555,725	2,487,519	2,487,519	SOLD MXN/BOUGHT USD	68,206
	2,423,235	2,351,816	2,351,816	SOLD MXN/BOUGHT USD	71,419
	1,344,101	1,374,313	1,374,313	SOLD AUD/BOUGHT USD	(30,212)
			Sub-Total		**325,132**
				Total	**$ 451,237**

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the VPIC receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the VPIC pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The net gain for the year was $1,207,571. At June 30, 2012 and 2011, the VPIC's investments had the following option balances:

Investment Derivatives	June 30, 2012 Fair value	June 30, 2012 Notional	June 30, 2011 Fair value	June 30, 2011 Notional
Fixed Income Options:				
Bought	$ 270,316	$ 11,100,000	$ -	$ -
Written	(1,166,102)	(159,900,000)	(1,258,241)	(170,100,000)
Foreign Currency Options				
Bought	172,722	13,959,550	-	-

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2012, 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 Assets. The net loss for the year was $7,072,275. At June 30, 2012 and 2011, the VPIC's investments had the following swap market value balances:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Credit default swaps bought	$ 1,856,164	$ 31,241,068	$ -	$ -
Credit default swaps written	32,895	2,550,000	-	-
Pay fixed interest rate swaps	(2,999,294)	81,200,000	(180,126)	6,000,000
Receive fixed interest rate swaps	545,717	28,277,657	107,023	18,600,000

The following swaps are in place as of June 30, 2012.

Asset ID	**Asset Description**	**Fair Value at June 30, 2012**	**Notional**
Pay Fixed Interest Rate Swaps:			
99S0BNJ83/ 99S0BNJ91	BWU0830U7 IRS USD R V 03MLIBOR / BWU0830U7 IRS USD P F 2.75000	$ (253,891)	$ 4,800,000
99S0BXJZ1/ 99S0BXK06	BWU0640U7 IRS USD R V 03MLIBOR / BWU0640U7 IRS USD P F 2.25000	(1,786,005)	40,000,000
99S0BYB87/ 99S0BYB95	BWU0695U1 IRS USD R V 03MLIBOR / BWU0695U1 IRS USD P F 1.50000	(959,398)	36,400,000
Receive Fixed Interest Rate Swaps:			
99S0AQB51/ 99S0AQB69	SWU002W08 IRS BRL R F 10.58000 / SWU002W08 IRS BRL P V 12MBRDCI	83,523	2,378,062
99S0AQS53/ 99S0AQS61	SWU026R29 IRS BRL R F 10.53000 / SWU026R29 IRS BRL P V 00MBZDIO	345,054	10,106,765
99S0CHEZ0/ 99S0CHF06	SWU0083W7 IRS CAD R F 2.00000 / SWU0083W7 IRS CAD P V 03MCDOR	100,025	14,027,172
99S0CKO58/ 99S0CKO66	SWU0006O9 IRS CAD R F 2.25000 / SWU0006O9 IRS CAD P V 03MCDOR	17,115	1,765,658

Asset ID	Asset Description	Fair Value at June 30, 2012	Notional
Credit Default Swaps Bought:			
99S0BENH8/ 99S0BENI6	BWPC274Q9 CDS USD R V 00MEVENT / BWPC274Q9 CDS USD P F 5.00000	138,600	5,760,000
99S0BYUN3/ 99S0BYUO1	SWPC979K0 CDS USD R V 01MEVENT / SWPC979K0 CDS USD P F .09000	666,676	1,111,888
99S0BZNZ1/ 99S0BZO07	SWPC616R4 CDS EUR R V 03MEVENT / SWPC616R4 CDS EUR P F 1.00000	301,899	10,786,925
99S0C9A25/ 99S0C9A33	BWPC1CME6 CDS USD R V 03MEVENT BWPC1CME6 CDS USD P F 1.00000	10,586	1,800,000
99S0CBDT8/ 99S0CBDU5	SWPC059S6 CDS EUR R V 03MEVENT / SWPC059S6 CDS EUR P F 1.00000	89,970	1,269,050
99S0CCLW0/ 99S0CCLX8	SWPC075S6 CDS EUR R V 00MEVENT / SWPC075S6 CDS EUR P F 1.00000	548,814	7,741,205
99S0CCRT1/ 99S0CCRU8	BWPC133S6 CDS USD R V 00MEVENT / BWPC133S6 CDS USD P F 5.00000	99,619	2,772,000
Credit Default Swaps Written:			
99S0AGYK5/ 99S0AGYL3	SWPC627N0 CDS USD R F 1.00000 / SWPC627N0 CDS USD P V 03MEVENT	16,173	800,000
99S0ALDH4/ 99S0ALDI2	SWPC861N5 CDS USD R F 1.00000 / SWPC861N5 CDS USD P V 03MEVENT	22,238	1,100,000
99S0AW589/ 99S0AW597	SWPC635P5 CDS USD R F 1.00000 / SWPC635P5 CDS USD P V 03MEVENT	951	400,000
99S0B6PT7/ 99S0B6PU4	SWPC995P9 CDS USD R F 1.00000 / SWPC995P9 CDS USD P V 00MEVENT	(6,467)	250,000

Counter-party creditworthiness, for non-exchange traded derivatives, shall be at a minimum of “A3” as defined by Moody’s Investor Service, “A-” by Standard & Poor’s, and “A-” by Fitch. The use of counter-parties holding a split rating with one of the ratings below A3/A– is prohibited. The use of unrated counter-parties is prohibited. Individual counter-party exposure, for non-exchange traded commodity derivatives, is limited to 50% of the notional amount of the VPIC Portfolio commodity derived exposure. An exception is allowed if the total commodity derivative exposure is less than $3 million. Any entity acting as counter-party must be regulated in either the United States or the United Kingdom. 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 2012 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, 2012.

Moody's Rating	Market Value
Aa2	$ 12,195
Aa3	373,982
A1	945,634
A2	808,850
A3	928,034
Baa1	83,523
Baa2	10,586
Total	$ 3,162,804

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, 2012, risk concentrations are as follows.

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
CITIBANK N.A.	28%	A	A	A3
BARCLAYS BANK PLC	17%	A+	A	A2
JPMORGAN CHASE BANK	12%	A+	AA-	Aa3
HSBC BANKUSA	11%	AA-	AA-	A1
CREDIT SUISSE FOB CME	11%	A+	A	A1
STATE STREET BANK LONDON	8%	A+	A+	A1
UBS AG	4%	A	A	A2
MORGAN STANLEY CO INC	3%	A-	A	Baa1
BARCLAYS CAPITAL	2%	A+	A	A2
BNP PARIBAS SA	1%	AA-	A+	A2
BANK OF AMERICA N.A.	1%	A	A	A3
ROYAL BANK OF SCOTLAND PLC	1%	A	A	A3
BARCLAYS BANK CME	1%	A+	A	A2
UBS AG STAMFORD	1%	A	A	A2
STATE STREET BANK AND TRUST CO	0%	AA-	A+	Aa2
CITIGROUP GLOBAL MARKETS CME	0%	A-	A	Baa2

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

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

Maximum Loss Before and After Netting and Collateral

Maximum amount of loss VPIC would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC positions as of June 30, 2012	$	3,162,804
Resulting net exposure	**$**	**3,162,804**

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

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

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

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

Note 3: INTERFUND BALANCES

A. Due From/To Other Funds

Due from/to other funds represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2012, are as follows.

Due From Other Funds	Due to Other Funds – Governmental Funds: General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	$ -	$ 11,627	$ 85	$ 40,196
Transportation Fund	41,953	-	-	13,501
Special Fund	699,015	1,137,676	10,891	-
Federal Revenue Fund	69,376	-	-	181,765
Global Commitment Fund	14,122,471	-	-	23,195,407
Non-major Governmental Funds	2,345	-	-	3,945
Liquor Control Fund	-	-	-	-
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	38,646	1,767	-	31,937,825
Fiduciary Funds	376,775	-	-	-
Total	$ 15,350,581	$ 1,151,070	$ 10,976	$ 55,372,639

continued below

Due From Other Funds	Due to Other Funds – Governmental Funds: Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Internal Service Funds
General Fund	$ 29,459	$ 3,592,742	$ 211	$ 155
Transportation Fund	400,965	-	100	90
Special Fund	831,514	-	135,388	213,631
Federal Revenue Fund	-	3,009,985	-	14,428
Global Commitment Fund	24,001	-	-	-
Non-major Governmental Funds	379	-	-	-
Liquor Control Fund	-	-	-	161
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	-	-	-	-
Fiduciary Funds	-	-	-	-
Total	$ 1,286,318	$ 6,602,727	$ 135,699	$ 228,465

continued below

Due From Other Funds	Due to Other Funds – Enterprise Funds: Unemployment Compensation Trust Fund	Liquor Control Fund	Non-major Enterprise Funds	Total
General Fund	$ -	$ 406,476	$ -	$ 4,080,951
Transportation Fund	-	-	-	456,609
Special Fund	-	-	-	3,028,115
Federal Revenue Fund	-	-	-	3,275,554
Global Commitment Fund	-	-	-	37,341,879
Non-major Governmental Funds	-	-	-	6,669
Liquor Control Fund	-	-	-	161
Non-major Enterprise Funds	91,828	-	-	91,828
Internal Service Funds	-	-	4,559	31,982,797
Fiduciary Funds	-	-	-	376,775
Total	$ 91,828	$ 406,476	$ 4,559	$ 80,641,338

B. 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, 2012, are summarized below.

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

C. Interfund Receivables/Payables

The primary government cash in most funds is pooled in the State Treasurer's accounts. When a fund has a deficit cash balance, this amount is reclassified to a liability account - interfund payable. The General Fund reports the corresponding interfund receivable for the cash borrowed from the pool. The following funds at June 30, 2012, 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	$	2,033,224
Internal Service Funds		68,249,564
Fiduciary Funds		
Investment Trust Fund		132,458
Agency Funds		249,754
Total	$	70,665,000

D. Inter - Primary Government/Component Unit Balances

Advances to component units consist of the amounts advanced under various agreements with component units to use the funds for specific programs. As the component unit uses the funds, the advance is reduced and expenditures are recognized by the State. At June 30, 2012, the General Fund advances to component units was $1,028,960 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 $1,259,962 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, 2012, these account balances are as follows.

	Due to Primary Government/(Component Units)		
	Vermont Housing & Conservation Board	**Vermont Economic Development Authority**	**Total**
Due from Component Units			
General Fund	$ 2,016,835	$ -	$ 2,016,835
Special Fund	-	42,530	42,530
Due from Primary Government			
Non-major Governmental Funds	(2,071,706)	-	(2,071,706)
Total	$ (54,871)	$ 42,530	$ (12,341)

E. Interfund Transfers

Transfers between funds occur when one fund collects revenues and transfers the assets to another for expenditure or when one fund provides working capital to another fund. All transfers are legally authorized by the Legislature through either statute or Appropriation Acts.

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education. The Special Fund received transfers from the General Fund for 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, 2012, are on the following page.

The space below has been intentionally left blank.

Transfers in	Transfers Out: Governmental Funds: General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund
General Fund	$ -	$ 4,739,288	$ -	$ 18,506,660	$ 13,087,120
Transportation Fund	-	-	-	185,352	-
Education Fund	276,240,000	-	-	7,864,005	-
Special Fund	36,569,536	1,431,003	147,747	-	17,642,723
Federal Revenue Fund	-	-	-	-	-
Global Commitment Fund	131,201,429	-	-	291,990,562	-
Non-major Governmental Funds	64,575,793	5,805,499	-	1,098,382	1,437,142
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	250,000	-	-	-	-
Internal Service Funds	6,874,383	1,120,000	-	-	-
Total	$ 515,711,141	$ 13,095,790	$ 147,747	$ 319,644,961	$ 32,166,985

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	-	185,353	-	-	-
Education Fund	-	-	-	-	22,328,096
Special Fund	23,474,553	200,000	-	-	-
Federal Revenue Fund	-	4,687,564	-	-	-
Global Commitment Fund	-	-	-	-	-
Non-major Governmental Funds	-	-	-	-	-
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	-	-	815,785	-	-
Internal Service Funds	-	-	-	-	-
Total	$ 23,474,553	$ 5,072,917	$ 815,785	$ 880,066	$ 22,328,096

continued below

Transfers in	Transfers Out: Non-major Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ -	$ 300,000	$ 3,664,414	$ 41,177,548
Transportation Fund	-	-	-	370,705
Education Fund	-	-	-	306,432,101
Special Fund	-	756,724	-	80,222,286
Federal Revenue Fund	-	-	-	4,687,564
Global Commitment Fund	-	-	-	423,191,991
Non-major Governmental Funds	-	-	60,675	72,977,491
Unemployment Compensation Trust Fund	771,006	-	-	771,006
Non-major Enterprise Funds	-	-	-	1,065,785
Internal Service Funds	-	-	-	7,994,383
Total	$ 771,006	$ 1,056,724	$ 3,725,089	$ 938,890,860

Note 4: CAPITAL ASSETS

A. Capital Asset Activity

Capital assets activities for the fiscal year ended June 30, 2012, were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated					
Land, land use rights, and land improvements	$ 114,140,562	$ 3,324,527	$ -	$ -	$ 117,465,089
Construction in process	439,533,473	205,953,057	(151,419,224)	(3,437,308)	490,629,998
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	553,810,038	209,277,584	(151,419,224)	(3,437,308)	608,231,090
Capital assets, being depreciated					
Buildings and improvements	432,779,041	14,739,968	(2,313,238)	99,313	445,305,084
Machinery and equipment	163,705,445	21,318,527	(11,656,943)	(99,313)	173,267,716
Infrastructure	1,686,052,884	133,188,918	(27,095,521)	-	1,792,146,281
Total capital assets, being depreciated	2,282,537,370	169,247,413	(41,065,702)	-	2,410,719,081
Less accumulated depreciation for					
Buildings and improvements	(187,146,206)	(12,020,641)	(3,651,379)	-	(202,818,226)
Machinery and equipment	(109,566,672)	(15,100,980)	10,062,547	-	(114,605,105)
Infrastructure	(702,579,206)	(70,751,108)	22,400,788	-	(750,929,526)
Total accumulated depreciation	(999,292,084)	(97,872,729)	28,811,956	-	(1,068,352,857)
Capital assets, being depreciated, net	1,283,245,286	71,374,684	(12,253,746)	-	1,342,366,224
Governmental activities capital assets, net	$ 1,837,055,324	$ 280,652,268	$ (163,672,970)	$ (3,437,308)	$ 1,950,597,314

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, being depreciated					
Buildings and improvements	$ 59,935	$ -	$ -	$ -	$ 59,935
Machinery and equipment	2,119,998	203,037	(179,909)	-	2,143,126
Total capital assets, being depreciated	2,179,933	203,037	(179,909)	-	2,203,061
Less accumulated depreciation for					
Buildings and improvements	(37,212)	(6,293)	-	-	(43,505)
Machinery and equipment	(1,285,817)	(308,380)	179,909	-	(1,414,288)
Total accumulated depreciation	(1,323,029)	(314,673)	179,909	-	(1,457,793)
Capital assets, being depreciated, net	856,904	(111,636)	-	-	745,268
Business-type activities capital assets, net	$ 856,904	$ (111,636)	$ -	$ -	$ 745,268

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated					
Construction in process	$ 3,072,370	$ 423,406	$ -	$ -	$ 3,495,776
Total capital assets, not being depreciated	3,072,370	423,406	-	-	3,495,776
Capital assets, being depreciated					
Machinery and equipment	2,189,187	16,222	(30,399)	-	2,175,010
Total capital assets, being depreciated	2,189,187	16,222	(30,399)	-	2,175,010
Less accumulated depreciation for					
Machinery and equipment	(589,897)	(237,632)	30,399	-	(797,130)
Total accumulated depreciation	(589,897)	(237,632)	30,399	-	(797,130)
Capital assets, being depreciated, net	1,599,290	(221,410)	-	-	1,377,880
Fiduciary activities capital assets, net	$ 4,671,660	$ 201,996	$ -	$ -	$ 4,873,656

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

Governmental Activities			**Business-type Activities**		
General Government	$	10,512,509	Liquor Control	$	299,597
Protection to Persons and Property		5,052,248	Vermont Lottery Commission		13,140
Human Services		873,783	Vermont Life Magazine		1,936
Labor		9,750			
General Education		13,552	**Total**	$	314,673
Natural Resources		1,741,069			
Commerce & Community Development		150,655	**Fiduciary Activities**		
Transportation		71,622,283			
Depreciation on capital assets held by			Pension Trust Funds	$	237,413
Internal Service Funds		7,896,880	Privat Purpose Trust Funds		219
Total	$	97,872,729	**Total**	$	237,632

B. **Impairment of Capital Assets**

State capital assets have been impaired as a result of physical damage caused by Tropical Storm Irene. An impairment loss has been calculated for this damage as required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The amount of the impairment loss for damaged capital assets is based on calculations using the Restoration Cost Approach, in which a ratio of either (a) the estimated costs to restore the impaired assets' service utility divided by the replacement costs, or (b) the deflated estimated restoration costs divided by the historical costs, is multiplied by the carrying value of each impaired asset. As a result, assets fully depreciated prior to the tropical storm would have an impairment loss of zero, regardless of the damage. Actual repairs to damaged capital assets are expected to far exceed the calculated impairment loss.

Insurance recoveries received during the year that were related to those impaired assets have been used to offset the impairment loss, in accordance with the guidelines of GASB 42. Insurance recoveries were also recognized during the year to the extent the amounts were determined to be realizable. Insurance recoveries received in excess of the calculated impairment losses would result in a gain being recorded. The impairment loss net of insurance recoveries received during the year is reported as a program expense in the Government -wide Statement of Activities, and as a nonoperating expense in the Statement of Revenues, Expenses and Changes in Net Assets for Proprietary Funds. Governmental funds do not report capital assets or losses associated with capital assets. Accordingly, insurance recoveries received during the year are reported as nonoperating revenue in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds. Insurance recoveries that will be received or recognized in subsequent year(s) will be recorded as program revenue in the Government-wide Statement of Activities and as nonoperating revenue in the Statement of Revenues, Expenses and Changes in Net Assets for Proprietary Funds.

Reimbursements from the Federal Emergency Management Agency (FEMA), the Federal Highway Administration (FHWA) and similar agencies are not treated in the same manner as insurance recoveries. Unlike insurance, which transfers the risk of loss to a third party, under these programs the risk of loss is not transferred to the federal government; rather the government provides emergency grant assistance to help cope with losses. These reimbursements are recognized as program revenue in the Government-wide Statement of Activities and in the Statement of Activities for Component Units, and as nonoperating revenue in the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds and the Statement of Revenues, Expenses and Changes in Net Assets for Proprietary Funds, when all applicable grant requirements have been met.

The impairment loss for capital assets is based on a threshold for restoration costs of the greater of $100,000 or 20% of the capitalized cost of the asset.

Impairment losses calculated for Governmental Activities assets, net of insurance recoveries, are $4,790,250 for buildings, $17,060 for machinery and equipment, and $4,532,432 for infrastructure (including $2,020,836 for assets that have been completely destroyed and $7,540,632 for assets that have been damaged and will be repaired). The carrying value of impaired assets that were idle at the end of the year is $17,903,330 for buildings and $1,202,293 for infrastructure.

The State has recognized $238,786 in insurance recoveries related to machinery and equipment. Insurance coverage is not available for the State's infrastructure. Recoveries are reported as an offset to the impairment loss.

Net losses after recoveries for assets carried in Internal Service Funds total $1,097,077. This amount is included as nonoperating revenue on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets. Net losses after recoveries for assets carried in Governmental Funds total $8,242,665. No amount related to capital assets is displayed in Governmental Fund financial statements. On the Statement of Activities, losses relating to Internal Service Funds are included in miscellaneous revenues, and losses relating to Governmental Activities are included in the applicable functional expenses.

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

Summary of significant accounting policies – basis of accounting and valuation of investments

The financial statements for the pension and other postemployment benefit trust funds are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are due. The employers' contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. All investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2012. Securities without an establish market are reported at estimated fair value.

A. Defined Benefit Retirement Plans

Retirement Plan Descriptions

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer public employee defined benefit retirement system which covers substantially all general State employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment. The membership consists of:

- general employees who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 6.4% of payroll (contributions cease upon attainment of 25 years of creditable service);
- State police, law enforcement positions, and airport firefighters (Group C), with a contribution rate of 8.28% of payroll;
- judges (Group D), with a contribution rate of 6.4% of payroll;
- terminated vested members of the non-contributory system (Group E); and
- all other general employees (Group F), with a contribution rate of 6.4% of payroll.

Effective July 1, 2011, the contribution rate for all State employees was raised, through legislation enacted in fiscal year 2011. The rate for Group A and D employees was increased from 5.10% to 6.40% through June 30,

2016. The rate for Group C employees was increased from 6.98% to 8.28% through June 30, 2016. The rate for Group F employees was increased from 5.10% to 6.40% through June 30, 2016, and will 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 Assets

Defined Benefit Plans

June 30, 2012

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets			
Cash and short term investments	$ 4,858,969	$ 3,930,254	$ 428,733
Receivables			
Contributions - current	3,782,623	3,896,583	2,379,816
Contributions - non-current	-	-	6,774,199
Interest and dividends	2,430	4,702	343,349
Due from other funds	64,614	-	48,607
Other	729	491,774	58,583
Investments at Fair Value			
Pooled investments	1,370,104,804	1,483,892,279	410,258,890
Capital assets, net of depreciation	1,906,486	2,243,052	723,110
Total assets	1,380,720,655	1,494,458,644	421,015,287
Liabilities			
Accounts payable	2,007,016	2,561,646	362,881
Retainage payable	224,143	273,261	111,329
Due to other funds	-	3,836	1,007
Total liabilities	2,231,159	2,838,743	475,217
Net assets held in trust for employees' pension benefits	$ 1,378,489,496	$ 1,491,619,901	$ 420,540,070

Statement of Changes in Plan Net Assets
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2012

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit	$ 40,302,433	$ 41,231,875	$ 11,532,230
Employer - healthcare benefit	-	10,500,000	-
Plan member	27,708,009	31,827,995	11,337,926
Transfers from other pension trust funds	377,562	85,110	118,191
Medicare part D drug subsidy	-	1,672,423	-
Early retiree reinsurance program	-	2,747,713	-
Total contributions	68,388,004	88,065,116	22,988,347
Investment Income			
Net appreciation in fair value of investments	251,957	11,718	-
Income from pooled investments	28,591,705	30,472,513	8,733,660
Dividends	-	5,194	-
Interest income	13,702	20,304	453,851
Securities lending income	576,926	634,424	173,514
Other income	32,431	38,157	3,701
Total investment income	29,466,721	31,182,310	9,364,726
Less Investment Expenses			
Investment managers and consultants	5,726,752	6,305,871	1,652,847
Securities lending expenses	135,195	149,774	40,415
Total investment expenses	5,861,947	6,455,645	1,693,262
Net investment income	23,604,774	24,726,665	7,671,464
Total additions	91,992,778	112,791,781	30,659,811
Deductions			
Retirement benefits	90,170,209	117,801,002	14,214,160
Other post employment benefits	-	20,620,144	-
Refunds of contributions	1,908,752	1,521,099	1,664,687
Death claims	482,483	186,384	187,393
Transfers to other pension trust funds	219,653	205,448	282,206
Depreciation	86,854	108,139	42,420
Operating expenses	1,242,065	1,496,596	630,431
Total deductions	94,110,016	141,938,812	17,021,297
Change in net assets	(2,117,238)	(29,147,031)	13,638,514
Net assets held in trust for employees' pension benefits			
July 1, 2011	1,380,606,734	1,520,766,932	406,901,556
June 30, 2012	$ 1,378,489,496	$ 1,491,619,901	$ 420,540,070

Plan membership

At June 30, 2012, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees			
Vested	5,735	7,941	3,985
Non-vested	2,143	2,321	2,621
Total active employees	7,878	10,262	6,606
Retirees and beneficiaries of deceased retirees currently receiving benefits	5,600	7,376	1,991
Terminated employees entitled to benefits but not yet receiving them (vested)	767	793	623
Inactive members	835	2,193	1,653
Total participants	15,080	20,624	10,873

Actuarial Valuation - Methods and Assumptions

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

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

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

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

In fiscal year 2011, all three systems adopted a new method of developing interest rate assumptions called “select-and-ultimate”. Under this method, differences between near-term and long-term expectations of rates of return on assets may be incorporated in the assumed rate of return by setting it on a select-and-ultimate basis. The most recent asset allocation established by the Vermont Pension Investment Committee (VPIC) was the basis of the data inputs into the model.

A select-and-ultimate rate structure can be used to reflect expectations of unusually strong or weak returns in near-term years followed by a trending to a long-term equilibrium. In this sense, it is a more elaborate and complete specification of future return assumptions than is a single rate used in all future years. 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%

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

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

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

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

Under legislation enacted in Fiscal Year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the average final compensation (AFC). Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to a “rule of 87”. This “Rule of 87” refers to the sum of the employee’s age and years of service. Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6% per year to one determined on a service based schedule. Due to the relatively small number of participants affected by the hire date incorporated in these changes, the actuary reports a minimal impact on the normal cost and accrued liability. The remaining significant provision of the same legislation makes changes to retiree cost of living (COLA) adjustments. The annual-cost-of living adjustment (COLA) applicable to the benefits of group F members retiring after July 1, 2008, rose from 50% of the annual increase of the Consumer Price Index (CPI) to 100% of the annual increase in the CPI index, up to a ceiling of 5%, effective January 1, 2014. Only current group F members who were actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008 will be eligible for the enhanced COLA in 2014. Group F members who terminated service or transferred to another group plan prior to June 30, 2008 are not eligible for the new COLA unless they return to active group F service after July 1, 2008 and prior to retirement. The COLA provisions were reflected in the 2008 valuation as well as the valuation for the period ending June 30, 2012.

Effective July 1, 2010 a number of changes were made to the STRS based on changes enacted by the Legislature. There were no new changes in fiscal year 2012. For Group C members who are within five years of normal retirement as of July 1, 2010, the maximum allowable benefit will increase from 50% of Average Final Compensation (AFC) to 53.34%, provided that service needed to earn a benefit in excess of 50% of AFC is rendered after July 1, 2010. For Group C members who are not within five years of normal retirement as of July 1, 2010, eligibility for normal retirement is changed from age 62 or completion of 30 years of service, to attainment of age 65 or satisfaction of the “rule of 90.” Reductions for early retirement are changed from 6% per year by which commencement of benefits precedes age 62 to factors based on the System’s definition of actuarial equivalence. Maximum benefits for members of this group are increased from 50% to 60% of the AFC, and the benefit multiplier is increased from 1.67% per year to 2% per year of service in excess of 20.

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS.

	VSRS	STRS	MERS
Valuation date	06/30/12	06/30/12	07/01/12
Actuarial cost method	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 (1) All closed basis	26 years	26 years	26 years
Asset valuation method (2)	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 (3)	6.25%-9.00%	6.25%-9.00%	6.25%-9.00%
Projected salary increases	4.50%-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% (4)	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) The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective 7/1/08 for STRS, and VSRS.
(2) 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.
(3) Effective 6/30/11, a select-and ultimate interest rate assumption was used, as described earlier in the note.
(4) 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, 2011 and June 30, 2012, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2011…	$ 346,537,738	$ 845,107,880
Normal cost……	41,517,079	35,205,405
Contributions……	(68,388,004)	(88,065,116)
Interest on unfunded liability, normal cost and contributions……	22,148,689	52,309,253
Restart of select-and-ultimate interest structure……	31,587,726	43,012,727
Actuarial (gains)/losses experience:		
Salary experience……	10,916,553	(18,940,673)
COLA experience……	2,278,408	2,591,239
Mortality experience……	4,809,926	4,238,443
Retirement and disability experience……	7,723,400	17,997,922
Termination experience……	3,006,875	54,234,810
New members and rehires……	2,645,456	2,751,161
Investment and other expenses……	7,412,175	23,121,145
Investment experience……	(274,598)	6,447,642
Other (data corrections, purchased services, etc.)…	(10,096,678)	(34,509,522)
Unfunded actuarial accrued liability, June 30, 2012……	$ 401,824,745	$ 945,502,316

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, 2012 were as shown on the following page.

	VSRS	STRS
Annual Required Contribution (ARC)	$ 28,748,401	$ 51,241,932
Interest on NPO	3,926,266	11,454,583
Adjustment to ARC	(3,531,192)	(10,301,984)
Annual Pension Cost (APC)	29,143,475	52,394,531
Employer Contribution Made	(40,302,433)	(56,152,011)
Increase (Decrease) in NPO	(11,158,958)	(3,757,480)
NPO - July 1, 2011	62,820,259	183,273,322
NPO - June 30, 2012	$ 51,661,301	$ 179,515,842
Percentage of APC contributed	138.29%	107.17%

Three-Year Trend Information

Year Ended 6/30	Annual Pension Cost	Percentage Contributed	NPO Balance
VSRS			
2010	$ 38,795,109	81.12%	$ 54,374,109
2011	46,018,749	81.65%	62,820,259
2012	29,143,475	138.29%	51,661,301
STRS			
2010	46,220,068	103.23%	180,245,609
2011	53,295,844	94.32%	183,273,322
2012	52,394,531	107.17%	179,515,842

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						
6/30/12	$ 1,400,779	$ 1,802,604	$ 401,825	77.7%	$ 385,526	104.2%
STRS						
6/30/12	1,517,410	2,462,913	945,503	61.6%	561,179	168.5%
MERS						
7/1/12	417,443	488,572	71,129	85.4%	215,075	33.1%

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

B. Defined Contribution Retirement Plans

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

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, 2012, member contributions totaled $649,488 with State employer contributions at $1,813,629. As of June 30, 2012, the Vermont State Defined Contribution Plan's net assets totaled $45,140,497 and there were 434 participants.

Vermont Municipal Employees' Defined Contribution Plan
The Vermont Municipal Employees' Defined Contribution Plan (24 V.S.A. 5070) was implemented by the Vermont Municipal Employees' Retirement System's Board of Trustees on July 1, 2000, and is reported as a pension trust fund. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001, actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999, have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective July 1 of the following year.

Participating municipal employees and their employers are required to contribute at the rate of 5% of earnable compensation. Effective July 1, 2008, employers began contributing 5.125% while employee contribution percentages remain unchanged. Employees become vested in the plan after 12 months of service. During the fiscal year ending June 30, 2012, member contributions totaled $659,609 and employer contributions at $605,657. As of June 30, 2012, the Municipal Employees' Defined Contribution Plan's net assets totaled $16,540,973, and there were 351 participants.

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

The STRS's members in the Group A contributory plan could have elected to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

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

The VSRS's members in the Group A contributory plan could have elected to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group E plan had their choice between the following three options:

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

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2012 there were 1,788 members, with net assets of $74,074,894 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows:

Statement of Plan Net Assets
Defined Contribution Plans
June 30, 2012

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Assets			
Cash and short term investments	$ 75,165	$ 1,020,170	$ 83,233
Receivables			
Contributions - current	120,382	-	13,106
Interest and dividends	-	125	-
Investments at fair value			
Mutual funds	44,994,420	73,054,599	16,493,804
Total assets	45,189,967	74,074,894	16,590,143
Liabilities			
Accounts payable	4,266	-	563
Due to other funds	45,204	-	48,607
Total liabilities	49,470	-	49,170
Net assets held in trust for employees' pension benefits	$ 45,140,497	$ 74,074,894	$ 16,540,973

Statement of Changes in Plan Net Assets
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2012

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit	$ 1,813,629	$ -	$ 659,609
Plan member	694,488	-	605,657
Transfers from other pension trust funds	110,673	-	15,771
Transfers from non-state systems	5,009	-	14,485
Total contributions	2,623,799	-	1,295,522
Investment Income			
Net appreciation (depreciation) in fair value of investments	(1,131,683)	1,040	(529,722)
Dividends	1,151,379	2,414,165	453,412
Interest income	124	862	335
Securities lending income	-	38	-
Total investment income	19,820	2,416,105	(75,975)
Less Investment Expenses			
Investment managers and consultants	-	234,679	-
Total investment expenses	-	234,679	-
Net investment income	19,820	2,181,426	(75,975)
Total additions	2,643,619	2,181,426	1,219,547
Deductions			
Retirement benefits	2,578,550	6,734,383	680,642
Operating expenses	46,432	-	81,025
Total deductions	2,624,982	6,734,383	761,667
Change in net assets	18,637	(4,552,957)	457,880
Net assets held in trust for employees' pension benefits			
July 1, 2011	45,121,860	78,627,851	16,083,093
June 30, 2012	$ 45,140,497	$ 74,074,894	$ 16,540,973

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

Medical Insurance Plan Descriptions

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

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

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

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

As of June 30, 2012, 4,132 of the 12,404 participants in the plan were retirees enrolled in the single, spousal, or family plan options. Of the $142.0 million in premiums received by the Medical Insurance Fund (internal service fund) during 2012, retirees contributed $6.3 million. Of the $125.6 million in claims expense incurred by the Medical Insurance Fund during 2012, $34.8 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 2012 contributions to this trust fund totaled $27.7 million which included a $1.8 million Medicare D reimbursement received from the Federal Government. The trust fund then paid premium payments of $25.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2012, the trust fund has total net assets of $13,378,884 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 2012.

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, 2012, 4,751 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $7.6 million in premiums, the State contributed $10.5 million to the STRS pension trust fund for medical benefit premiums, and the STRS pension trust fund paid $20.6 million in premiums to VEHI on a pay-as-you-go basis, during fiscal year 2012. VEHI incurred $33.1 million in retiree claims expense for the fiscal year ending June 30, 2012.

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, 2012, the subsidy for the VSRS system was $1,786,719. The State has elected to place this revenue in the Vermont State Postemployment Benefits Trust Fund, an OPEB trust fund to fund future post employment health benefit liabilities. In the case of STRS, the subsidy for fiscal year 2012 was $1,672,423 and was deposited into the STRS Pension Trust Fund.

Plan Membership

At June 30, 2012, the number of participants included in the OPEB valuations is as follows:

	VSRS	STRS
Active employees [1]	8,272	10,262
Terminated vested	-	793
Retired employees	4,132	5,185
Total participants	12,404	16,240

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

OPEB Actuarial Valuation- Methods and Assumptions

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2012. This is the sixth annual OPEB valuation for each system. Both the VSRS and STRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. Since the VSRS has accumulated some assets, a third blended calculation is also included. The MERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated State health care benefit or liability. While the Vermont Municipal Employees Health Benefit Fund is classified as a post employment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The health care trend cost rate assumption was modified to extend the period until the ultimate trend rate is reached from 2 years to 8 years in order to reflect general market expectations. Age morbidity factors were adjusted, eliminating the assumed increase in cost for ages above 65 for prescription drug costs for Medicare-eligible participants in light of recent internal studies of claims experience for credible retiree populations comparable to the population covered by the System. Assumed costs for pre-65 medical and prescription drug and Medicare-eligible medical costs continue to reflect age adjustments. All other assumptions, including the assumed discount rate, were the same as those used in 2011.

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

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

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

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

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	6/30/2012	6/30/2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Closed basis for prefunded Open basis for pay-as-you-go	Closed basis for prefunded Open basis for pay-as-you-go
Remaining amortization period	30 years starting in 2012	30 years starting in 2012
Actuarial assumptions		
Investment rate of return - pay-as-you-go	4.25% [(1)]	4.00%
Medical Care and State Share inflation	6.50% in 2013 6.25% in 2014 6.00% in 2015 5.75% in 2016 declining to 5% in 2020	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 2012, 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, 2011 and June 30, 2012, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2011	$ 998,576,325	$ 780,032,155
End of year service cost	41,635,535	21,690,053
Interest cost	41,723,540	30,750,867
Benefit payments	(34,046,208)	(22,743,953)
Expected increase in assets	(3,129,835)	-
Impact of recent year demographic experience	4,411,084	31,795,420
New per capita costs	(12,734,566)	(20,221,328)
Other refinements	(38,998,395)	5,876,884
Asset loss	966,487	-
Unfunded actuarial accrued liability, June 30, 2012	$ 998,403,967	$ 827,180,098

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, 2012 the amount actually contributed, and the changes in the State's net OPEB obligation.

	VSRS	STRS
Annual Required Contribution (ARC)	$69,880,277	$43,410,732
Interest on NOO	$6,200,180	$8,952,692
Amortization of NOO	($4,374,380)	($6,471,758)
Annual OPEB Cost (AOC)	71,706,077	45,891,666
Employer Contribution Made	(27,652,189)	-
Increase in NOO	44,053,888	45,891,666
NOO - July 1, 2011	145,886,587	223,817,296
NOO - June 30, 2012	$ 189,940,475	$ 269,708,962
Percentage of ARC contributed	38.56%	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				
	2010	$ 58,856,739	38.28%	$ 104,937,441
	2011	68,343,620	40.08%	145,886,587
	2012	71,706,077	38.56%	189,940,475
Postemployment Benefits for State Teachers Retirement System				
	2010	60,296,524	0.00%	180,309,205
	2011	43,508,091	0.00%	223,817,296
	2012	45,891,666	0.00%	269,708,962

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

Funded Status and Funding Progress

The funding status of the plans as of June 30, 2012, 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)]						
6/30/12	$ 13,379	$ 1,011,783	$ 998,404	1.3%	$ 406,929	245.4%
STRS [(2)]						
6/30/12	-	827,180	827,180	0.0%	561,026	147.4%

[(1)] Reflects blended discount rate of 4.25% in 2012
[(2)] Discount rate for 2012 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, it will continue into retirement, but, up until July 1, 2008, was reduced to $5,000. As of July 1, 2008, this benefit was increased to $10,000 for all State employees. If a State employee retires due to disability prior to age 60, and if proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. When the retiree reaches the age of 65 and if they have a total of 20 years or more of active and retired (while receiving disability) service, life insurance coverage will automatically change to the $10,000 (increase from $5,000 effective July 1, 2008) level with 100% of the premium being paid by the State. In addition, a retiree may convert their insurance coverage in effect at their time of retirement to an individual policy within 30 days of their retirement date without a physical exam.

Vermont Municipal Employees Health Benefit Fund

The MERS RHS Plan established on July 1, 2007, is a tax-advantaged savings plan that assists retirees in paying for healthcare costs after retirement. Contributions to this fund are deposited into the RHS Plan member accounts on a tax-free basis, accumulate interest on a tax-free basis, and are drawn out during retirement on a tax-free basis to reimburse health care expenses, including out-of-pocket expenses, deductibles and premiums.

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

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

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

At June 30, 2012, there were 5,238 active and retired members participating in the MERS RHS plan. Investments in member accounts as of June 30, 2012 totaled $10,786,329.

The financial statements for the OPEB Funds are as follows:

Statement of Plan Net Assets
Other Postemployment Benefit Funds
June 30, 2012

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Assets		
Cash and short term investments	$ 2,756,174	$ 277,004
Receivables		
Due from other funds	376,775	-
Investments at Fair Value		
Fixed income	7,177,476	-
Equities	3,051,156	-
Mutual funds	61,067	10,509,325
Total assets	13,422,648	10,786,329
Liabilities		
Accounts payable	14,567	-
Due to other funds	43,764	-
Total liabilities	58,331	-
Net assets held in trust for employee's other postemployment benefits	$ 13,364,317	$ 10,786,329

Statement of Changes in Plan Net Assets
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2012

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Additions		
Contributions		
Employer - healthcare benefit	$ 25,865,470	$ -
Medicare part D drug subsidy	1,786,719	-
Total contributions	27,652,189	-
Investment Income		
Net appreciation in fair value of investments	37,144	62,552
Dividends	98,868	-
Interest income	239,411	938
Total investment income	375,423	63,490
Less Investment Expenses		
Investment managers and consultants	-	58,490
Total investment expenses	-	58,490
Net investment income	375,423	5,000
Total additions	28,027,612	5,000
Deductions		
Other postemployment benefits	25,863,989	213,526
Operating expenses	275	-
Total deductions	25,864,264	213,526
Change in net assets	2,163,348	(208,526)
Net assets held in trust for employees postemployment benefits		
July 1, 2011	11,215,536	10,994,855
June 30, 2012	$ 13,378,884	$ 10,786,329

Note 6: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 are summarized as follows:

	Governmental Funds		Internal	Total Governmental
	Major	Non-major	Service Funds	Activities
Governmental activities				
Taxes				
Personal and corporate income	$ 230,700,997	$ -	$ -	$ 230,700,997
Sales and use	66,898,290	-	-	66,898,290
Meals and rooms	31,753,610	-	-	31,753,610
Purchase and use	372,071	-	-	372,071
Motor Fuel	7,180,630	103,803	-	7,284,433
Other taxes	13,009,960	-	-	13,009,960
Subtotal	349,915,558	103,803	-	350,019,361
Allowance for uncollectibles	(124,014,020)	-	-	(124,014,020)
Taxes receivable, net	$ 225,901,538	$ 103,803	$ -	$ 226,005,341
		Current receivable		$ 89,465,132
		Non-current receivable		136,540,209
		Total taxes receivable, net		$ 226,005,341
Loans and notes				
Loans and notes receivable	$ 242,498,491	$ -	$ -	$ 242,498,491
Allowance for uncollectibles	(509,000)	-	-	(509,000)
Loans and notes receivable, net	$ 241,989,491	$ -	$ -	$ 241,989,491
		Current receivable		$ 25,601,990
		Non-current receivable		216,387,501
		Total loans and notes receivable, net		$ 241,989,491
Federal grants	$ 194,901,928	$ 437,002	$ -	$ 195,338,930
Other				
Accrued interest and other receivables	$ 110,553,370	$ 998,379	$ 15,931,401	$ 127,483,150
Allowance for uncollectibles	(39,181,789)	-	(48,428)	(39,230,217)
Other receivables, net	$ 71,371,581	$ 998,379	$ 15,882,973	88,252,933
Interfund loans receivable from Fiduciary Funds				382,212
Less Internal Service Funds' receivables from Governmental Funds				(9,499,809)
Other receivables, net				$ 79,135,336
		Current receivable		$ 37,519,934
		Non-current receivable		41,615,402
		Total other receivable, net		$ 79,135,336

	Enterprise Funds Major	Enterprise Funds Non-major	Total Business-type Activities
Business-type activities			
Taxes			
Unemployment	$ 42,876,273	$ -	$ 42,876,273
Allowance for uncollectibles	(4,332,018)	-	(4,332,018)
Taxes receivable, net	$ 38,544,255	$ -	$ 38,544,255
Loans and notes receivable	$ -	$ 2,198,402	$ 2,198,402
	Current receivable		$ 993,093
	Non-current receivable		1,205,309
	Total loans and notes receivable, net		$ 2,198,402
Federal grants	$ 645,530	$ -	$ 645,530
Other			
Accrued interest and other receivables	$ 4,224,944	$ 536,326	$ 4,761,270
Allowance for uncollectibles	(58,956)	(25,411)	(84,367)
Other receivables, net	$ 4,165,988	$ 510,915	$ 4,676,903
	Current receivable		$ 4,668,156
	Non-current receivable		8,747
	Total other receivable, net		$ 4,676,903

Note 7: LEASE COMMITMENTS

A. Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes. It should also be noted that the State is currently negotiating a small number of operating leases on which rent is being paid on a month-by-month basis and for which there is no signed agreement. These leases have not been included in the following table.

Total lease payments paid by the primary government in fiscal year 2012 was $8,939,590 for operating leases of which $8,876,589 was paid for property leases, $36,325 for equipment leases and $26,676 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, 2012.

Fiscal Year	Primary Government Non-Cancelable Leases	Cancelable Leases	Total
2013	$ 8,017,735	$ 14,611	$ 8,032,346
2014	5,354,896	4,955	5,359,851
2015	4,002,242	3,754	4,005,996
2016	2,960,768	2,494	2,963,262
2017	2,018,269	2,385	2,020,654
2018 - 2022	4,973,057	9,640	4,982,697
2023 - 2026	319,711	5,212	324,923
Totals	$ 27,646,678	$ 43,051	$ 27,689,729

B. Capital Leases

The State has entered into capital lease arrangements to acquire various items of machinery and equipment and building improvements with a gross asset value totaling $5,046,983. The majority of the gross value total is from a lease with the Banc of America Public Capital Corp, for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex. The total cost of the equipment to be funded by the lessee under the agreement is $4,538,059. In 2012, the lease payment schedule was revised to show a reduction in the principal balance of $190,407. The revised principal reflects these two adjustments: the actual project costs and the cumulative interest compensation on the differential between the actual amount funded and the initial payment schedule dated August 1, 2008. The interest compensation component is calculated at the three-year Treasury Bill rate. The agreement term consists of 120 payments, based on 10 years using a simple interest rate of 3.089% and a compound interest rate of 3.133%. Lease payments for fiscal year 2012 were $598,095.

Capital lease payments for the primary government in 2012 totaled $622,023, with $23,928 for machinery and equipment, and $598,095 for building improvements.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2012 are as follows:

Fiscal Year	Primary Government
2013	$ 614,066
2014	617,812
2015	631,167
2016	643,060
2017	655,258
2018 - 2019	836,434
Total minimum lease payments	3,997,797
Less interest	(378,489)
Present value of minimum lease payments	$ 3,619,308

The State, acting through its Agency of Transportation entered into a capital lease with Main Street Landing Company, for premises in and adjacent to Union Station at 1 Main Street, Burlington, Vermont, on January 20, 1998 and amended on December 16, 1999. The term of the lease was for a 20 year period and the entire 20 year rent was prepaid. The original agreement’s rent was $1,500,000 in four equal installments beginning November 26, 1996 and ending in 1998. The amendment included an additional payment of $250,000 for a total rent deposit of $1,750,000.The terms of the lease give the State the right to purchase a condominium interest in their leased property at the end of the lease term for $500,000 subject to certain terms and conditions. The State is also required to pay its share of certain annual operating costs throughout the terms of the lease.

Note 8: GENERAL OBLIGATION BONDS PAYABLE

General obligation bonds payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways, assistance to municipalities for construction of water and sewage systems, and local schools. Also, bonds have been authorized and issued to refund outstanding general obligation bonds.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. Except for zero coupon capital appreciation bonds, the bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

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

The changes in bonds principal payable for fiscal year 2012 are summarized in the following schedule.

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2011	$ 495,740,920	$ 13,835,000	$ 509,575,920
Additions:			
Issuances	132,060,000	-	132,060,000
Accretions	280,645	-	280,645
Total	132,340,645	-	132,340,645
Deductions:			
Redemptions	(51,545,000)	(575,000)	(52,120,000)
Defeasance	(70,280,000)	-	(70,280,000)
Total	(121,825,000)	(575,000)	(122,400,000)
Balance, June 30, 2012	$ 506,256,565	$ 13,260,000	$ 519,516,565

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 $3,750,000 and an accreted value of $3,541,565 at June 30, 2012.

General obligation and special obligation transportation infrastructure bonds outstanding at June 20, 2012, are as follows:

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:								
12/11/2002	8/1/2021	3.0 to 5.0	30,800,000		$ 1,885,000	$ -	$ -	$ 1,885,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		7,311,000	399,000	-	7,710,000
2/11/2004	2/1/2018	1.1 to 5.0	137,457,000		39,721,237	98,763	1,625,000	41,445,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		4,124,360	315,640	-	4,440,000
3/2/2005	3/1/2025	3.0 to 4.0	26,000,000		5,750,000	-	-	5,750,000
4/13/2005	3/1/2015	2.4 to 4.0	15,000,000		4,200,000	300,000	-	4,500,000
6/7/2005	3/1/2020	2.65 to 5.0	20,805,000		19,109,087	565,913	880,000	20,555,000
11/22/2005	7/15/2025	3.5 to 5.0	30,000,000		3,000,000	-	-	3,000,000
12/13/2005	7/15/2015	3.1 to 4.0	15,000,000		6,000,000	-	-	6,000,000
2/21/2007	7/15/2026	4.0 to 5.0	30,000,000		12,750,000	-	-	12,750,000
3/15/2007	7/15/2016	3.375 to 4.0	9,500,000		4,750,000	-	-	4,750,000
3/15/2007	7/15/2016	3.375 to 4.0	5,000,000		2,500,000	-	-	2,500,000
11/28/2007	7/15/2027	3.50 to 5.25	35,000,000		23,300,000	-	-	23,300,000
12/20/2007	7/15/2017	3.0 to 4.0	11,000,000		6,600,000	-	-	6,600,000
12/20/2007	7/15/2017	3.0 to 5.0	29,195,000		7,590,641	159,359	-	7,750,000
3/11/2009	3/1/2029	2.0 to 5.0	50,500,000		31,505,000	11,420,000	-	42,925,000
2/3/2010	8/15/2016	2.0 to 5.0	11,200,000		8,000,000	-	-	8,000,000
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		16,000,000	-	-	16,000,000
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		9,590,000	-	-	9,590,000
10/26/2010	8/15/2013	3	3,750,000		2,500,000	-	-	2,500,000
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		22,500,000	-	-	22,500,000
3/21/2012	8/15/2022	0.6 to 3.0	25,000,000		25,000,000	-	-	25,000,000
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
Total General Obligation Current Interest Bonds					**485,530,946**	**14,679,054**	**2,505,000**	**502,715,000**
General Obligation Capital Appreciation Bonds:								
12/01/1993	08/01/2013	N/A	17,987,640	32,625,000	3,750,000	-	-	3,750,000
Total Maturity Value					**3,750,000**	**-**	**-**	**3,750,000**
Less: Unaccreted Interest					208,435	-	-	208,435
Total General Obligation Capital Appreciation Bonds					**3,541,565**	**-**	**-**	**3,541,565**
Total General Obligation Bonds					**489,072,511**	**14,679,054**	**2,505,000**	**506,256,565**
Special Obligation Transportation Infrastructure Bonds:								
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000		**-**	**13,260,000**	**-**	**13,260,000**
Total General Obligation and Special Obligation Bonds					**$ 489,072,511**	**$ 27,939,054**	**$ 2,505,000**	**$ 519,516,565**

At June 30, 2012, there remains $102,790,860 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2012 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
2013	$ 50,510,000	$ 18,092,776	$ 585,000	$ 405,063	$ 1,750,000	$ 71,342,839
2014	47,145,000	16,767,474	600,000	393,363	2,000,000	66,905,837
2015	40,320,000	14,992,749	610,000	381,363	-	56,304,112
2016	37,080,000	13,562,561	625,000	369,163	-	51,636,724
2017	33,855,000	12,312,799	635,000	356,663	-	47,159,462
2018-2022	143,965,000	44,305,185	3,440,000	1,521,411	-	193,231,596
2023-2027	104,090,000	20,201,756	4,005,000	962,124	-	129,258,880
2028-2032	45,750,000	3,360,713	2,760,000	216,788	-	52,087,501
Totals	$ 502,715,000	$ 143,596,013	$ 13,260,000	$ 4,605,938	$ 3,750,000	$ 667,926,951

Note 9: BOND REFUNDINGS

During the 2012 fiscal year, the State issued general obligation refunding bonds Series D in the amount of $69,060,000 to be used solely to refund portions of the State's general obligation bonds. Through advanced refunding, the 2004 Series B Bonds, 2005 Series A Bonds, 2005 Series D Bonds, 2007 Series A Bonds, and the 2007 Series D Bonds, with current basis of $70,280,000, will be refunded with proceeds from the 2012 Series D Bonds. The total refunded amount results in defeasance of debt and the liabilities have been removed from the State's financial statements. Total proceeds inclusive of premium for the 2012 Series D Bonds are $79,459,741, less $437,125 paid for refunding bond issuance costs, the remaining $79,022,616 was paid to the bond escrow agent. The State has taken advantage of lower interest rates and has decreased its aggregate debt service payments by $5,361,440 over the fourteen years ending June 30, 2026. The economic gain (the present value of the debt service savings) for the State through this transaction is $4,416,043, using a discount rate of 2.0%.

During fiscal years 2004, 2005, and 2010, the State defeased "in-substance" certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets are utilized to make all debt service payments on the defeased bonds. Accordingly, these trust assets and the liability for the defeased bonds are not included in the State's financial statements.

The total amount of defeased bonds remaining outstanding at June 30, 2012, is $96,230,000.

Note 10: BUDGET STABILIZATION ARRANGEMENTS

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

The reserves balances consist of any budgetary basis surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the Vermont Legislature. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. For fiscal year 2012, 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, 2012 are as follows: $10,766,086 in the Transportation Fund's Budget Stabilization Reserve; $58,114,034 in the General Fund's Budget Stabilization Reserve; and $29,842,632 in the Education Fund's Budget Stabilization Reserve.

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

Note 11: CONTINGENT AND LIMITED LIABILITIES

A. Contingent Liabilities

Vermont Economic Development Authority:
In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority (VEDA) in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Aid Board to it. Each of these original entities was relegated to a particular segment of commercial development. VEDA was established as a body corporate and politic and a public instrumentality of the State. It is governed by a twelve member board which consists of the Secretary of the Agency of Commerce and Community Development, the State Treasurer, the Secretary of Agriculture, Food and Markets, and nine public members appointed by the Governor with the advice and consent of the Senate. The full faith and credit of the State is pledged to support the activities of VEDA.

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

Under the MIP, VEDA has the power to insure up to $9 million of loans made by financial institutions for the purchase of land and construction of industrial building facilities in the State; to finance the purchase of machinery and equipment; and to provide working capital. The refinancing of existing loans is also possible under the act that created VEDA. As of June 30, 2012, the State's contingent liability for mortgage insurance contracts insured under its MIP is $1,484,000.

VEDA is authorized to reimburse lenders participating in its other insurance program (FAP) for losses incurred on loans that the lenders register with VEDA. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed $1 million at any one time. The State's contingent liability for the FAP at June 30, 2012 is $559,928. The State has no recorded payable to VEDA in the Governmental Funds for fiscal 2012.

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

B. Limited Liabilities

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

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

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

C. Contractual Liabilities

At June 30, 2012, the State of Vermont had long-term contracts outstanding of approximately $255,337,563 funded from federal sources, and $699,459,089 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, 2012.

Agency, Department, or Office	Total Contractual Obligation	Funded by Federal Sources	Funded by Other Sources
Agency of Administration	$ 162,780,855	$ 697,760	$ 162,083,095
Agency of Agriculture, Food & Markets	1,242,127	940,553	301,574
Agency of Commerce & Community Development	1,512,025	180,690	1,331,335
Agency of Human Services	140,667,232	27,720,964	112,946,268
Agency of Natural Resources	11,983,484	1,963,962	10,019,522
Agency of Transportation	404,335,042	202,951,839	201,383,203
Auditor of Account's Office	5,371,481	-	5,371,481
Criminal Justice Training Council	78,468	-	78,468
Department of Education	5,857,722	4,261,409	1,596,313
Department of Labor	3,138,599	3,033,174	105,425
Department of Liquor Control	163,162	-	163,162
Department of Public Safety	7,866,809	5,395,586	2,471,223
Enhanced 911 Board	6,767,755	-	6,767,755
Financial Regulation	8,969,987	401,704	8,568,283
Joint Fiscal Office	514,100	-	514,100
Judiciary	3,186,143	11,750	3,174,393
Legislative Council	6,225,997	5,710,354	515,643
Military Department	685,658	82,044	603,614
Office of the Attorney General	1,030,651	-	1,030,651
Public Service Board	334,255	-	334,255
Public Service Department	9,688,618	663,619	9,024,999
Secretary of State's Office	1,587,983	1,322,155	265,828
State Treasurer's Office	152,156,344	-	152,156,344
State's Attorneys and Sheriffs	36,501	-	36,501
Vermont Lottery Commission	18,615,654	-	18,615,654
Total	$ 954,796,652	$ 255,337,563	$ 699,459,089

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 68% have end dates of June 30, 2013 or earlier. Of the Agency of Human Services contract liability balance, 20% is for contracts in the Department of Corrections, 44% is Department of Vermont Health Access, and 20% is Department of Mental Health. Of the contracts in the Agency of Administration, 70% have end dates during fiscal year 2013, 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 97% of the total, with 27% having end dates during fiscal year 2013.

D. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. During fiscal year 2012, the State awarded over 7,100 grants. The chart below shows the funding sources for these awards, the fiscal year 2012 payments issued to grantees on both these awards and prior year grant awards, and the remaining unexpended award amounts and June 30, 2012.

	Award Balances at June 30, 2011	Current Year Awards	Award Adjustments	Current Year Expended	Award Balances at June 30, 2012	Expended from Federal Funding Sources
Higher education/student assistance grants	$ 1,478,223	$ 91,312,214	$ (2,061)	$ (92,183,194)	$ 605,182	$ 675,675
ARRA grants	31,762,306	13,722,879	(5,544,207)	(26,859,381)	13,081,597	14,816,393
Mental health programs	5,515,556	114,178,718	(1,942,597)	(110,071,014)	7,680,663	2,752,798
Public health grants	8,062,008	32,282,000	-	(31,809,379)	8,534,629	20,951,991
Alcohol and drug abuse programs	2,786,412	27,723,823	(1,055,626)	(27,405,067)	2,049,542	15,232,107
Other education grants	13,238,330	110,136,333	(10,176,076)	(101,152,330)	12,046,257	86,089,123
Labor and training programs	3,366,409	2,923,651	-	(3,884,258)	2,405,802	2,557,094
Community/economic development grants	22,184,811	13,151,655	-	(18,345,465)	16,991,001	14,287,252
Vermont Crime Victims grants	886,539	2,585,903	(24,019)	(1,698,257)	1,750,166	1,698,257
Transportation grants	108,190,883	219,865,320	(3,989,420)	(147,125,657)	176,941,126	102,468,187
Aged and independent living programs	6,033,989	24,564,847	(174,336)	(25,078,122)	5,346,378	14,708,272
Public safety grants	5,806,572	3,783,560	(2,182,239)	(4,715,590)	2,692,303	4,696,821
Human services grants	4,919,952	44,904,604	(250,374)	(36,719,541)	12,854,641	22,042,017
All other grants	34,893,115	107,999,123	(2,607,829)	(95,332,755)	44,951,654	17,148,211
	$ 249,125,105	$ 809,134,630	$ (27,948,784)	$ (722,380,010)	$ 307,930,941	$ 320,124,198

A partial summary of the 2012 grant activity is provided below.

During fiscal year 2012, over 378 federal ARRA grants were awarded in the areas of general education, loan funds, training, tourism, Vermont economic development and public safety programs.

During fiscal year 2012, programs under mental health for adults and children were awarded 104 grants. Programs managed under mental health are youth in transition, success beyond six, children's upstream and Vermont child trauma.

Public health grants are awarded for prevention of diseases, public awareness programs like tobacco cessation, HIV prevention and family planning, vaccinations and inspection programs. During fiscal year 2012, there were 123 grants awarded.

During fiscal year 2012 over 166 grants were awarded by the State to alcohol and drug abuse programs which includes DUI enforcement grants.

Other Educational grants have been awarded for school improvements, Title I, II, III and V as well as head start and technology advances. During fiscal year 2012, 1,009 education grants were awarded.

Under labor and training programs, 63 grants have been awarded in fiscal year 2012 to outreach programs, individuals with disabilities, work training programs, workforce education, career exploration and apprenticeship programs.

During fiscal year 2012, 212 grant awards for community and economic development provided funding for energy savings programs and feasibility studies utilizing wind power, solar panels and geothermal projects.

During fiscal year 2012, the United States Department of Justice awarded the Vermont Crime Victims 46 federal grants for crime victim assistance, and domestic and family violence services' programs.

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 fiscal year 2012, 919 grants were awarded.

During fiscal year 2012, 147 grants were awarded to the aged and independent living programs. The majority of the grants were for training, work based learning and supported education, abuse prevention, caregiver programs and grants for home delivered meals.

Public Safety grants are made up of safety programs like homeland security, motorcycle safety, bicycle safety, traffic safety, seatbelt safety and boating safety. During fiscal year 2012, 294 safety grants were awarded.

During fiscal year 2012, 337 human services grants were awarded from the Department of Children and Families for child care programs, economic and family services, economic opportunities and weatherization programs.

Note 12: LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, any ultimate liability to the State resulting from these lawsuits that is not covered by various insurance policies, would not materially affect the State's overall financial condition.

Note 13: JOINT VENTURE

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

At June 30, 2012, the Commission had total assets of $68,782,197, and total liabilities of $55,170,776, representing decreases of $5.1 million and $6.2 million respectively, compared to June 30, 2011 figures. For the fiscal year ended June 30, 2012, the Commission had operating revenues of $61,311,844, a decrease of $6.8 million; interest income of $42,648, a decrease of $5,370; commissions, fees, and bonus expenses of $6,116,586, a decrease of $676,185; prize awards of $30,862,047 a decrease of $3.4 million; and other operating expenses of $4,155,077 a decrease of $167,642; all activity as compared to the fiscal year ended June 30, 2011.

During fiscal year 2012, the Commission made operating transfers to member states of $20,220,782 versus $22,826,190 during fiscal year 2011. This total included $3,210,805 transferred to Vermont during the fiscal year, a decrease of $420,533 as compared to fiscal year 2011.

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

Note 14: RISK MANAGEMENT

A. Workers' Compensation and Risk Management

The Agency of Administration Financial Operations Division of the Department of Buildings and General Services oversees the Workers' Compensation and Risk Management programs, which administers all insurance programs for State government with the exception of the health and life insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The programs set aside assets and pay claims utilizing the following three Internal Service Funds:

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

The Workers' Compensation Fund covers all State employees who are injured on the job, pursuant to State statute. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. All claims are processed by Workers' Compensation personnel and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's workers' compensation exposure is reliable. Liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by 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.

With the exception of significant reductions in flood coverage (as a result in part following the claims generated from Tropical Storm Irene), there have been no significant reductions in insurance coverage from the prior year. Insurance settlements have never exceeded the coverage disclosed above.

In addition to the three internal service funds above, effective July 1, 2007, the General Assembly established the Sarcoidosis Benefit Trust Fund (a program in the Special Fund) to cover specific claims arising from an outbreak of Sarcoidosis at the impaired State office building in Bennington, Vermont (Act 53 of 2007). Claims are reviewed and processed under rules established that mirror the rules for the Workers' Compensation Fund claims. Funding was established as a special fund and not a proprietary fund as funding will only be available by the General Assembly as claims arise and funding needs are determined. The Fund is managed by Workers' Compensation personnel. There are three accepted ACT 53 claims; one was settled and closed in fiscal year 2011, one in fiscal year 2012, and the third is anticipated to settle in fiscal year 2013. In fiscal year 2012 and 2011 respectively, approved claims paid were $186,924 and $473,239. Total payments issued from fiscal year 2008 through fiscal year 2012 are $1,380,726.

B. 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.

A Flexible Spending Account (FSA) Program is available to active State employees only. This account allows pre-tax salary deductions to be used to reimburse eligible medical and dependent care expenses. The FSA Program administrator is paid a monthly fee based on the number of enrolled employees. No claims costs are incurred under this plan by the State. The State pays 100% of the fee for this plan.

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

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become disabled due to non-occupational injury or illness, and the disability is expected to be long term or permanent. The plan provides financial protection for State employees and their families by continuing a portion of their income while disabled. Only State employees who are not eligible to be represented by the employees' 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 2012, departments were given a 17 pay-period rate holiday and normal premium recovery from employees was not processed.

Presented on the following page is a table displaying three years' changes in the respective funds' claims liability amounts.

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Liability at End of the Fiscal Year
Workers' Compensation Fund				
2010	$ 20,752,711	$ 9,958,945	$ 6,374,876	$ 24,336,780
2011	24,336,780	5,850,317	6,983,306	23,203,791
2012	23,203,791	10,095,099	7,235,542	26,063,348
State Liability Insurance Fund				
2010	6,281,814	1,983,164	1,347,076	6,917,902
2011	6,917,902	400,884	891,905	6,426,881
2012	6,426,881	4,015,135	3,274,882	7,167,134
Medical Insurance Fund				
2010	10,838,470	109,027,749	108,961,398	10,904,821
2011	10,904,821	116,845,994	115,834,579	11,916,236
2012	11,916,236	125,624,972	124,857,795	12,683,413
Dental Insurance Fund				
2010	276,407	4,972,853	4,974,032	275,228
2011	275,228	4,972,179	5,050,658	196,749
2012	196,749	4,932,917	4,915,827	213,839

Note 15: DEFICIT FUND BALANCES AND NET ASSETS

Business-type Proprietary Funds

Federal Surplus Property Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset balance of $498,247. The program continues to suffer from a lack of inventory for sale from the federal government that could be in turn be retrieved for sale by the State. In 2012, 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 2013. 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 2012 with a deficit unrestricted net asset balance of $1,351,675 and a deficit total net asset balance of $1,349,335. Vermont Life Enterprise has experienced operating losses in 17 of the past 28 years. In mid-fiscal 2012, 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. Vermont Life Enterprise’s consolidated loss in fiscal 2012 was $36,000 less than in fiscal 2011, even after taking $67,000 in write-offs for several years of unsold product inventory and advertising bad debt. The fiscal 2012 consolidated loss increased the deficit total net asset balance to $1,349,335. The Vermont Life Advisory Board discussed a wide-range of budget-balancing and new business initiatives at summer and autumn meetings. On October 1, 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. On October 16, the publisher and editor translated these strategies into two dozen specific projects, some of which are starting immediately.

Internal Service Funds

Single Audit Revolving Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset balance of $460,242. In part, the deficit can be attributed to fiscal year 2009 budget rescissions resulting in a transfer to the General Fund of $196,000. The remaining deficit is due to estimated billing costs that were understated in fiscal year 2012, but should be recovered through normal billing for services in fiscal year 2013 and 2014.

Communications & Information Technology Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $1,139,023. The fund is made up of three different programs. The mainframe program has a large surplus that was reduced during fiscal year 2012 by $730,000. The allocation program had an increase in its deficit; while telecom program had a small increase in its surplus. The programs in total resulted in a deficit balance. Fiscal year 2013 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 2012 with a deficit unrestricted net asset balance of $4,876,821. The unrestricted deficit balance of $4,876,821 is the result of the rolling annual replacement schedule for vehicles that are financed through the inter-fund payables. More importantly, the total net asset is positive and is expected to remain in that position. A rate holiday or a possible payback of unused mileage charges is possible in 2013 to help reduce the overall program fund surplus $1,305,149.

Copy Center Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $3,073,735 and a deficit total net asset balance of $1,588,265. The total fund deficit was reduced in 2012 due to increased efficiencies in the Print Shop program. The Copy Center anticipates an increase in business activity in 2013 and beyond with the goal of saving the State resources as a result of new printing mandates being implemented by the Administration directing more businesses to utilize print shop services. The fund deficit should be recovered through normal operations.

Postage Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset of $2,046,307. The Postage fund continues to see a loss from year to year; the loss for fiscal year 2012 was in part due to the increase in the State's footprint shaped by Tropical Storm Irene. It is the intention that the current fund deficit will be recovered through business operations although a General Fund subsidy may be required to cover the increasing cost of internal mail delivery and bomb screening.

Facilities Operations Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $1,618,738 and a deficit total net asset balance of $2,859,538. Fiscal year 2012 was a very dramatic year for this program because of Tropical Storm Irene. Most of the Waterbury State Office Complex was inoperable for 10 months of the year. This meant reduced expenses coupled with reduced billings, as well as a loss on the disposal of capital assets. Capital lease agreements on disposed capital assets runs until September, 2018. All in all the fund came out $375,000 short for the year. If the deficit cannot be recovered through normal operations, the fund will seek financial support from the General Fund.

Property Management Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $21,805,018 and a deficit total net asset balance of $21,800,835. The fund deficit continues to expand due to the 20-year bonding of the three buildings in the program and the 50-year recovery period of the bond principle. The fund will begin to recover after the 20-year bond period has ended. Two of the three buildings have completed their 20 year bond period. It is anticipated that the fund will begin to recover soon afterwards. Another reason for the increasing deficit is that the work the leasing program does to secure leased space does not get added into the cost of the lease. Adding a surcharge to leased space billing to recover these costs is currently under consideration.

Workers' Compensation Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset of $4,635,079. The rates for fiscal year 2013 include an additional $1 million to help alleviate part of this deficit fund balance. In 2014, 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 with both a deficit unrestricted net asset and total net assets of $306,625. The fiscal year results reflect startup considerations with creating a new program such as rate structure and program services. The program grew from its original concept as new service needs were discovered during the year. For instance, part of the current year deficit includes a nearly $200,000 compensated absence liability for the inherited positions that was not considered in the calculation of the 2012 rate. Planned rate increases and program efficiencies will be used to offset the deficit.

Governmental Fund Types

Transportation Infrastructure Bond Projects Fund ended the year with a negative unassigned fund balance. 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 the year with a negative unassigned fund balance of $1,769,243. This is due to payment of expenses for Tropical Storm Irene, while reimbursements are expected in later fiscal years.

Note 16: CHANGES IN LONG-TERM LIABILITIES

Governmental activities long-term liabilities are generally liquidated by payments from the governmental and internal service funds' programs, 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 unamortized premium on the sale of bonds. During the year ended June 30, 2012, the following changes occurred in the long-term liabilities:

	Total Liability July 1, 2011	Additions	Reductions	Total Liability June 30, 2012	Amounts due within one year
Governmental activities					
Bonds payable	$ 509,575,920	$ 132,340,645	$ 122,400,000	$ 519,516,565	$ 52,845,000
Capital leases payable	4,340,005	35,823	756,520	3,619,308	506,801
Compensated absences	32,788,551	32,151,976	31,595,605	33,344,922	21,453,846
Claims and judgments	41,743,657	144,668,123	140,284,046	46,127,734	14,287,534
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligations	246,093,581	81,538,006	96,454,444	231,177,143	-
Net other postemployment obligations	369,703,883	117,597,743	27,652,189	459,649,437	-
Other liabilities	15,615,746	12,884,056	3,319,916	25,179,886	2,312,432
Pollution remediation obligations	5,209,831	2,247,212	1,814,962	5,642,081	516,604
Total governmental activities long-term liabilities	$ 1,232,071,174	$ 523,463,584	$ 424,277,682	$ 1,331,257,076	$ 91,922,217

Governmental activities bonds payable additions of $132,340,645 include $63,000,000 in general obligation bonds, $69,060,000 in refunding bonds, and $280,645 of accretions on capital appreciation bonds.

The reduction in capital leases payable include an amendment to the lease for energy efficiency projects for State owned buildings. The lease obligation was reduced to $190,407 to reflect the cost of equipment that was not completed under the terms of the original agreement.

Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the United States Environmental Protection Agency (USEPA) expends resources from the superfund trust for cleanup. Currently, there are five sites in Vermont in various stages of cleanup, from initial assessment to cleanup activities. The Pollution Remediation Obligation (PRO) at June 30,2012 is $5,062,272, which includes a net reduction of $51,708 from last year. These liabilities were measured using the actual contract cost, where no changes in cost are expected, or a method that is materially close to the expected cash flow technique. Liability estimates are subject to change due to cost increases or reductions, or changes in technology or applicable laws or regulations governing the remediation efforts. The State does not anticipate recovering reimbursements from the parties who caused the pollution.

The State has identified another site for cleanup for which estimated costs (liabilities) have not been recognized. The site, which is a mine, has been identified as having significant erosion. Currently, costs for its remediation and long term maintenance have not been determined at this time as the evaluation processes have just begun. The State is in the process of determining who is responsible and if there is a potential to recover cleanup funds from former owners. The case has been referred to the USEPA for consideration as a Superfund site. The PRO is $71,207 as of June 30, 2012.

The State's Waterbury Office Complex was flooded during Tropical Storm Irene on August 28, 2011. Asbestos removal in order to prevent public exposure has been identified as part of the building demolition and possible renovation efforts. In addition, two other State buildings are undergoing similar asbestos abatement measures during their renovations. The pollution remediation obligation is $508,602 as of June 30, 2012.

	Total Liability July 1, 2011	Additions	Reductions	Total Liability June 30, 2012	Amounts due within one year
Business-type activities					
Unemployment compensation trust fund federal account loan	$ 77,731,861	$ -	$ -	$ 77,731,861	$ 20,000,000
Compensated absences	336,175	270,299	270,854	335,620	189,214
Lottery prize awards payable	4,513,818	64,409,376	63,447,447	5,475,747	4,040,646
Total business-type activities long term liabilities	$ 82,581,854	$ 64,679,675	$ 63,718,301	$ 83,543,228	$ 24,229,860
Fiduciary					
Compensated absences	$ 14,620	$ 16,635	$ 12,988	$ 18,267	$ 10,355
Total fiduciary long-term liabilities	$ 14,620	$ 16,635	$ 12,988	$ 18,267	$ 10,355

During the fiscal year, the Unemployment Compensation Trust Fund drew advances from the U. S. Treasury's Unemployment Trust Fund (UTF), The American Recovery and Reinvestment Act of 2009 provided that these State advances be interest free through December 31, 2010. 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. A payment of $20,000,000 was made in September, 2012.

Note 17: ACCOUNTING CHANGES

Vermont Student Assistance Corporation (a Component Unit of the State of Vermont)

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.

VSAC implemented this new statement during the year ended June 30, 2012, resulting in a restatement of the Statement of Net Position as of June 30, 2011, and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended. The effects of this change on the statements were as follows:

	Net Assets as of June 30, 2011
As originally reported	$ 154,125,000
Restatements	
Alternative loan fee revenue	3,568,000
Lender paid federal origination/default fees	(2,899,000)
Bond issuance costs	(8,436,000)
Restated amount	$ 146,358,000

Vermont Telecommunications Authority (a Component Unit of the State of Vermont)

Management of the authority identified an overstatement of accounts receivable due from Vermont Telecommunications Corporation that requires restatement of its audited financial statements for the year ended June 30, 2011. The overstatement of accounts receivable resulted from excess amounts of accounts receivable carried forward from the fiscal year ended June 30, 2011.

There is no effect on the change in net assets for the year ended June 30, 2012 , as a result of the restatement. The restatement decreased total assets as of June 30, 2011, by $4,000 and decreased net assets as of June 30, 2011 by $4,000.

Note 18: RESTRICTED NET ASSETS – Discretely Presented Component Units

Restricted net assets are those portions of total net assets that are not available for appropriation for expenditure or that are legally segregated for a specific future use. Restricted net assets at June 30, 2012 are as follows:

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units
Restricted for					
Endowments					
Expendable	$ 218,000	$ 260,777,000	$ 6,191,758	$ -	$ -
Nonexpendable	3,285,000	97,166,000	14,446,789	-	-
Grants and scholarships	1,272,000	-	-	-	-
Bond resolution	109,109,000	-	-	81,300,000	-
Interest rate subsidies	-	-	-	-	2,731,958
Investment - Vermont Capital Partners, LP	-	-	-	-	14,537
Investment - Vermont Seed Capital, LP	-	-	-	-	4,040,000
Collateral for commercial paper program	-	-	-	-	20,046,208
Infrastructure investments	-	-	-	-	5,022,629
Project and program commitments	-	-	-	-	33,183,423
Loans receivable [1]	-	-	-	-	164,416,423
Total Component Units Restricted Net Assets	$ 113,884,000	$ 357,943,000	$ 20,638,547	$ 81,300,000	$ 229,455,178

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

Note 19: SUBSEQUENT EVENTS

Debt Issuances

2012 Series A - Special Obligation Transportation Infrastructure Bonds

The State issued $10,820,000 of 2012 Series A - Special Obligation Transportation Infrastructure Bonds, dated August 9, 2012. The interest rates on these bonds vary from 2% to 3%, and payment to the bondholders is scheduled to commence on December 15, 2012, and terminate on June 15, 2032.

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.

2012 Series E (Vermont Citizens Bonds) – General Obligation Bonds and 2012 Series F – General Obligation Bonds

The State issued $26,765,000 of 2012 Series E - General Obligation Bonds, dated October 11, 2012. 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 principle 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, 2013, and terminate on August 15, 2024.

The State issued $66,420,000 of Series F - General Obligation Bonds, dated October 1, 2012. 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 principle 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, 2013, and terminate on August 15, 2032.

The issuance of these bonds is authorized by capital acts from legislative sessions: Act 161 (2010), Act 43 (2009), and Act 40 (2011) as amended by Act 104 (2012). 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.

THIS PAGE INTENTIONALLY LEFT BLANK

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						
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%
2007	1,318,687	1,307,643	(11,044)	100.84%	386,917	-2.85%
STRS						
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%
2007	1,541,860	1,816,650	274,790	84.87%	515,573	53.30%
MERS						
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%
2007	325,774	309,853	(15,921)	105.14%	162,321	-9.81%

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	2012[1]	$	28,748	140.19%
Retirement System	2011		44,491	84.45%
	2010		37,418	84.10%
	2009		28,998	86.68%
	2008		42,375	92.49%
	2007		40,190	97.78%
State Teachers'	2012	$	51,242	109.58%
Retirement System	2011		48,233	104.22%
	2010		41,503	101.01%
	2009		37,077	100.74%
	2008		40,749	100.51%
	2007		38,200	100.77%
Vermont Municipal Employees'	2012	$	11,532	100.00%
Retirement System	2011		11,117	100.00%
	2010		10,593	100.00%
	2009		-	N/A
	2008		-	N/A
	2007		8,546	100.00%

[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 years 2009 and 2008, the Vermont Municipal Employees' Retirement System required no employer contributions for the defined benefit pension plan. Instead, employer contributions were directed to the OPEB defined contribution plan's Vermont Municipal Employees' Health Benefit Fund.

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)]						
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 4.00% for 2008, and 4.25% for 2009 - 2012.

State Teachers Retiree Medical Benefit Plan [(2)]						
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 3.75% prior to 2008, and 4.00% for 2008 - 2012.

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

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			
	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			
	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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,159,600,000	$ 1,158,000,000	$ 1,162,077,698	$ 4,077,698
Earnings of Departments	21,100,000	20,100,000	20,899,181	799,181
Other	10,500,000	11,300,000	14,024,094	2,724,094
Total revenues	1,191,200,000	1,189,400,000	1,197,000,973	7,600,973
Expenditures				
General Government				
Agency of Administration	38,916,921	74,105,287	42,234,362	(31,870,925)
Executive Office	1,423,544	1,493,475	1,363,192	(130,283)
Legislative Council	10,189,626	11,106,679	9,570,024	(1,536,655)
Joint Fiscal Office	1,465,429	1,731,883	1,498,168	(233,715)
Sergeant at Arms	511,664	651,783	525,974	(125,809)
Lieutenant Governor's Office	170,402	174,132	165,310	(8,822)
Auditor of Accounts	396,853	387,482	384,010	(3,472)
State Treasurer	1,065,828	1,202,782	740,044	(462,738)
State Labor Relations Board	203,879	201,457	198,820	(2,637)
VOSHA Review Board	25,614	48,983	26,971	(22,012)
Homeowner Property Tax Assistance	15,190,000	14,206,983	13,699,762	(507,221)
Renter Rebate Tax Assistance	2,500,000	2,803,675	2,794,206	(9,469)
Protection to Persons and Property				
Attorney General	5,146,635	5,799,685	5,526,557	(273,128)
Defender General	11,725,840	11,961,654	11,493,549	(468,105)
Judiciary	31,331,211	31,109,715	31,085,459	(24,256)
State's Attorneys and Sheriffs	13,089,140	13,388,889	12,278,660	(1,110,229)
Department of Public Safety	30,176,837	31,715,659	30,093,616	(1,622,043)
Military Department	3,522,791	4,352,502	4,183,498	(169,004)
Center Crime Victim Services	1,154,480	1,154,480	1,154,480	-
Criminal Justice Training Council	2,324,636	2,366,550	2,237,446	(129,104)
Agency of Agriculture, Food and Markets	5,881,788	7,010,651	5,752,166	(1,258,485)
Secretary of State	1,529,127	1,507,178	1,506,287	(891)
Public Service Department	-	250,000	-	(250,000)
Human Rights Commission	332,882	356,948	356,948	-
Human Services				
Agency of Human Services	551,650,429	559,757,588	529,249,143	(30,508,445)
Governor's Commission on Women	299,058	311,180	291,697	(19,483)
Human Services Board	114,505	113,416	113,416	-
Labor				
Department of Labor	2,425,316	6,350,639	4,466,251	(1,884,388)
General Education				
Department of Education	9,639,157	10,237,988	9,743,545	(494,443)
State Teacher's Retirement	51,672,307	51,672,307	51,672,307	-
Higher Education	80,339,790	80,339,798	80,339,789	(9)

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	18,696,415	20,887,033	18,608,494	(2,278,539)
Natural Resources Board	757,494	720,918	720,918	-
Commerce and Community Development				
Agency of Commerce and Community Development	11,662,218	14,858,639	12,279,193	(2,579,446)
Cultural Development	1,601,792	1,601,792	1,601,792	-
Transportation				
Agency of Transportation	-	108,440	-	(108,440)
Total expenditures	907,133,608	966,048,250	887,956,054	(78,092,196)
Excess of revenues over expenditures	284,066,392	223,351,750	309,044,919	85,693,169
Other Financing Sources (Uses)				
Transfers in	15,116,053	45,804,001	45,804,001	-
Transfers out	(348,768,240)	(384,509,712)	(384,509,712)	-
Refunding bonds issued	-	79,022,616	79,022,616	-
Payment to escrow agent	-	(79,022,616)	(79,022,616)	-
Total other financing sources (uses)	(333,652,187)	(338,705,711)	(338,705,711)	-
Excess of revenues and other sources over (under) expenditures and other uses	(49,585,795)	(115,353,961)	(29,660,792)	85,693,169
Fund balance, July 1	188,491,321	188,491,321	188,491,321	-
Fund balance, June 30	$ 138,905,526	$ 73,137,360	$ 158,830,529	$ 85,693,169

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 132,500,000	$ 131,700,000	$ 131,576,127	$ (123,873)
Motor vehicle fees	74,700,000	74,400,000	73,544,143	(855,857)
Federal	265,359,630	448,505,142	367,516,376	(80,988,766)
Other	38,800,000	41,600,000	49,295,312	7,695,312
Total revenues	511,359,630	696,205,142	621,931,958	(74,273,184)
Expenditures				
Protection to Persons and Property				
Department of Public Safety	25,238,498	25,556,041	25,556,041	-
Transportation				
Agency of Transportation	495,665,659	703,379,501	606,678,430	(96,701,071)
Total expenditures	520,904,157	728,935,542	632,234,471	(96,701,071)
Excess of revenues over (under) expenditures	(9,544,527)	(32,730,400)	(10,302,513)	22,427,887
Other financing sources (uses)				
Transfers in	-	370,705	370,705	-
Transfers out	(12,327,358)	(13,095,790)	(13,095,790)	-
Total other financing sources (uses)	(12,327,358)	(12,725,085)	(12,725,085)	-
Excess of revenues and other sources over (under) expenditures and other uses	(21,871,885)	(45,455,485)	(23,027,598)	22,427,887
Fund balance, July 1	20,630,224	20,630,224	20,630,224	-
Fund balance, June 30	$ (1,241,661)	$ (24,825,261)	$ (2,397,374)	$ 22,427,887

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,056,981,104	$ 1,057,181,104	$ 1,057,244,243	$ 63,139
Interest and premiums	-	100,000	48,267	(51,733)
Other	-	-	1,509	1,509
Total revenues	1,056,981,104	1,057,281,104	1,057,294,019	12,915
Expenditures				
General Government				
Grand List	3,240,000	3,260,000	3,243,752	(16,248)
Renter Rebates	5,800,000	5,800,000	5,800,000	-
Human Services				
Agency of Human Services	4,321,425	4,307,984	4,189,136	(118,848)
General Education				
Department of Education	1,338,766,589	1,351,932,937	1,336,175,187	(15,757,750)
Total expenditures	1,352,128,014	1,365,300,921	1,349,408,075	(15,892,846)
Excess of revenues over (under) expenditures	(295,146,910)	(308,019,817)	(292,114,056)	15,905,761
Other financing sources (uses)				
Transfers in	306,432,101	306,432,101	306,432,101	-
Total other financing sources (uses)	306,432,101	306,432,101	306,432,101	-
Excess of revenues and other sources over (under) expenditures and other uses	11,285,191	(1,587,716)	14,318,045	15,905,761
Fund balance, July 1	49,124,655	49,124,655	49,124,655	-
Fund balance, June 30	$ 60,409,846	$ 47,536,939	$ 63,442,700	$ 15,905,761

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Special Fund Revenues	$ 222,747,409	$ 304,641,175	$ 279,108,528	$ (25,532,647)
Total revenues	222,747,409	304,641,175	279,108,528	(25,532,647)
Expenditures				
General Government				
Agency of Administration	13,710,672	44,063,806	31,388,663	(12,675,143)
Executive Office	193,500	193,500	193,500	-
Auditor of Accounts	53,099	53,099	53,099	-
State Treasurer	1,860,840	2,609,295	2,586,912	(22,383)
State Labor Relations Board	5,576	16,373	16,373	-
VOSHA Review Board	25,614	30,614	27,449	(3,165)
Unorganized Towns and Gores	-	226,000	183,480	(42,520)
Protection to Persons and Property				
Attorney General	3,618,599	4,125,311	3,853,349	(271,962)
Defender General	638,552	642,492	642,424	(68)
Judiciary	6,848,577	6,857,896	5,417,792	(1,440,104)
State's Attorneys and Sheriffs	2,246,019	2,319,456	2,205,995	(113,461)
Department of Public Safety	11,435,983	16,475,798	14,537,515	(1,938,283)
Military Department	84,049	1,654,000	1,644,430	(9,570)
Center Crime Victim Services	5,931,945	6,007,818	5,339,027	(668,791)
Criminal Justice Training Council	252,672	286,130	286,043	(87)
Agency of Agriculture, Food and Markets	7,407,176	7,956,165	5,806,580	(2,149,585)
Financial Regulation	14,820,737	15,492,863	13,900,751	(1,592,112)
Secretary of State	5,208,456	5,679,740	5,426,497	(253,243)
Public Service Department	12,341,218	13,718,454	11,038,341	(2,680,113)
Public Service Board	3,001,980	3,001,980	2,509,171	(492,809)
Enhanced 911 Board	5,845,256	6,820,186	4,961,536	(1,858,650)
Human Rights Commission	-	9,193	9,193	-
Department of Liquor Control	250,000	374,437	246,619	(127,818)
Human Services				
Agency of Human Services	85,917,096	100,596,557	85,383,033	(15,213,524)
Governor's Commission on Women	5,000	5,000	2,014	(2,986)
Human Services Board	85,843	85,843	85,843	-
Vermont Veterans Home	10,635,885	11,591,392	10,988,684	(602,708)
Labor				
Department of Labor	6,419,295	6,636,282	5,136,637	(1,499,645)
General Education				
Department of Education	17,289,117	37,387,359	27,470,688	(9,916,671)
Higher Education	2,644,500	2,644,500	2,644,500	-

continued on next page

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	33,407,608	39,404,368	30,917,265	(8,487,103)
Natural Resources Board	1,965,886	1,985,640	1,875,959	(109,681)
Commerce and Community Development				
Agency of Commerce and Community Development	4,709,165	9,540,591	5,331,576	(4,209,015)
Cultural Development	-	64,000	64,000	-
Transportation				
Agency of Transportation	100,000	3,085,098	2,733,993	(351,105)
Public Service Enterprises				
Public Service Department	-	6,000,000	2,296,432	(3,703,568)
Total expenditures	258,959,915	357,641,236	287,205,363	(70,435,873)
Excess of revenues over expenditures	(36,212,506)	(53,000,061)	(8,096,835)	44,903,226
Other Financing Sources (Uses)				
Proceeds on Sale of Refunding Bonds	-	437,125	437,125	-
Transfers in	51,352,901	80,969,990	80,969,990	-
Transfers out	(15,140,395)	(28,407,054)	(28,407,054)	-
Total other financing sources (uses)	36,212,506	53,000,061	53,000,061	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	44,903,226	44,903,226
Fund balance, July 1	82,345,851	82,345,851	82,345,851	-
Fund balance, June 30	$ 82,345,851	$ 82,345,851	$ 127,249,077	$ 44,903,226

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 1,316,519,954	$ 1,123,082,859	$ 1,278,794,686	$ 155,711,827
Interest and premiums	-	71,550	71,550	-
Other	-	62,566	62,566	-
Total revenues	1,316,519,954	1,123,216,975	1,278,928,802	155,711,827
Expenditures				
General Government				
Agency of Administration	1,199,586	18,289,780	9,223,102	(9,066,678)
State Treasurer	-	339,626	339,626	-
Protection to Persons and Property				
Attorney General	685,000	685,000	640,539	(44,461)
Judiciary	1,129,259	1,129,259	947,359	(181,900)
State's Attorneys and Sheriffs	131,000	172,467	72,447	(100,020)
Department of Public Safety	28,109,587	31,024,729	23,440,440	(7,584,289)
Military Department	18,769,454	18,806,278	17,663,210	(1,143,068)
Center Crime Victim Services	3,968,964	3,968,964	3,925,350	(43,614)
Criminal Justice Training Council	-	200,000	-	(200,000)
Agency of Agriculture, Food and Markets	2,006,057	3,344,640	2,519,978	(824,662)
Financial Regulation	527,702	2,108,825	435,822	(1,673,003)
Secretary of State	2,000,000	2,054,427	738,962	(1,315,465)
Public Service Department	1,157,800	1,157,800	765,746	(392,054)
Human Rights Commission	145,000	145,000	84,250	(60,750)
Human Services				
Agency of Human Services	1,043,794,351	1,083,753,197	1,007,145,302	(76,607,895)
Developmental Disabilities Council	542,643	542,643	424,344	(118,299)
Human Services Board	150,844	150,844	115,759	(35,085)
Vermont Veterans' Home	6,881,635	6,881,635	6,881,635	-
Labor				
Department of Labor	23,888,739	23,888,739	19,094,843	(4,793,896)
General Education				
Department of Education	134,449,434	134,468,853	119,890,445	(14,578,408)
Natural Resources				
Agency of Natural Resources	15,796,383	40,885,735	35,134,700	(5,751,035)
Commerce and Community Development				
Agency of Commerce and Community Development	19,583,790	33,442,486	15,940,243	(17,502,243)
Total expenditures	1,304,917,228	1,407,440,927	1,265,424,102	(142,016,825)
Excess of revenues over expenditures	11,602,726	(284,223,952)	13,504,700	297,728,652
Other Financing Sources (Uses)				
Transfers out	(17,642,723)	(30,729,843)	(30,729,843)	-
Total other financing sources (uses)	(17,642,723)	(30,729,843)	(30,729,843)	-
Excess of revenues and other sources over (under) expenditures and other uses	(6,039,997)	(314,953,795)	(17,225,143)	297,728,652
Fund balance, July 1	36,367,835	36,367,835	36,367,835	-
Fund balance (deficit), June 30	$ 30,327,838	$ (278,585,960)	$ 19,142,692	$ 297,728,652

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums	$ 1,079,140,000	$ 1,130,010,000	$ 1,061,421,839	$ (68,588,161)
Total revenues	1,079,140,000	1,130,010,000	1,061,421,839	(68,588,161)
Expenditures				
General Government				
Agency of Administration	-	789,438	789,438	-
Protection to Persons and Property				
Agency of Agriculture, Food & Markets	90,278	90,278	90,278	-
Financial Regulation	1,898,824	1,898,824	1,897,997	(827)
Human Services				
Agency of Human Services	1,095,443,226	1,107,071,031	1,028,346,329	(78,724,702)
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	-
Department of Education	941,971	1,076,971	1,011,542	(65,429)
Total expenditures	1,104,196,818	1,116,749,061	1,037,958,103	(78,790,958)
Excess of revenues over (under) expenditures	(25,056,818)	13,260,939	23,463,736	10,202,797
Other financing sources (uses)				
Transfers out	(23,474,553)	(23,474,553)	(23,474,553)	-
Total other financing sources (uses)	(23,474,553)	(23,474,553)	(23,474,553)	-
Excess of revenues and other sources over (under) expenditures and other uses	(48,531,371)	(10,213,614)	(10,817)	10,202,797
Fund balance, July 1	86,673,267	86,673,267	86,673,267	-
Fund balance, June 30	$ 38,141,896	$ 76,459,653	$ 86,662,450	$ 10,202,797

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 77,410,430	$ 103,894,289	$ 80,871,574	$ (23,022,715)
Interest and principal	55,702	74,759	58,193	(16,566)
Other	282,524	379,182	295,156	(84,026)
Total revenues	77,748,656	104,348,230	81,224,923	(23,123,307)
Expenditures				
General Government				
Agency of Administration	-	2,172,339	2,172,337	(2)
Protection to Persons and Property				
Department of Public Safety	702,727	812,104	552,732	(259,372)
Center for Crime Victim Services	-	217,616	211,710	(5,906)
Public Service Department	15,873,935	19,576,705	17,084,702	(2,492,003)
Public Service Board	245,385	245,385	197,909	(47,476)
Human Services				
Agency of Human Services	6,592,649	20,344,562	16,705,878	(3,638,684)
Labor				
Department of Labor	-	2,787,407	2,182,495	(604,912)
General Education				
Department of Education	10,613,000	10,613,000	5,213,177	(5,399,823)
Natural Resources				
Agency of Natural Resources	698,686	4,014,232	1,935,625	(2,078,607)
Commerce and Community Development				
Agency of Commerce and Community Development	1,002,416	1,154,935	568,980	(585,955)
Transportation				
Agency of Transportation	40,582,716	40,972,803	30,547,314	(10,425,489)
Total expenditures	76,311,514	102,911,088	77,372,859	(25,538,229)
Excess of revenues over expenditures	1,437,142	1,437,142	3,852,064	2,414,922
Other financing sources (uses)				
Transfers out	(1,437,142)	(1,437,142)	(1,437,142)	-
Total other financing sources (uses)	(1,437,142)	(1,437,142)	(1,437,142)	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	2,414,922	2,414,922
Fund balance (deficit), July 1	(1,610,452)	(1,610,452)	(1,610,452)	-
Fund balance (deficit), June 30	$ (1,610,452)	$ (1,610,452)	$ 804,470	$ 2,414,922

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
State Health Care Resources Fund Revenues	$ 217,420,000	$ 227,700,000	$ 221,379,739	$ (6,320,261)
Total revenues	217,420,000	227,700,000	221,379,739	(6,320,261)
Expenditures				
Human Services				
Agency of Human Services	221,579,040	246,847,524	226,331,517	(20,516,007)
Total expenditures	221,579,040	246,847,524	226,331,517	(20,516,007)
Excess of revenues over (under) expenditures	(4,159,040)	(19,147,524)	(4,951,778)	14,195,746
Fund balance, July 1	5,093,198	5,093,198	5,093,198	-
Fund balance (deficit), June 30	$ 934,158	$ (14,054,326)	$ 141,420	$ 14,195,746

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Tobacco Trust Funds Revenue	$ 42,608,297	$ 42,821,801	$ 35,033,983	$ (7,787,818)
Total revenues	42,608,297	42,821,801	35,033,983	(7,787,818)
Expenditures				
General Government				
Agency of Administration	58,000	58,000	58,000	-
Protection to Persons and Property				
Attorney General	625,000	640,837	383,012	(257,825)
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	40,611,537	40,809,204	40,532,607	(276,597)
General Education				
Department of Education	981,944	981,944	897,530	(84,414)
Total expenditures	42,608,297	42,821,801	42,196,304	(625,497)
Excess of revenues over (under) expenditures	-	-	(7,162,321)	(7,162,321)
Fund balance, July 1	17,104,498	17,104,498	17,104,498	-
Fund balance, June 30	$ 17,104,498	$ 17,104,498	$ 9,942,177	$ (7,162,321)

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 BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Catamount Fund Revenues……	$ 26,290,000	$ 25,580,000	$ 27,772,696	$ 2,192,696
Total revenues……	26,290,000	25,580,000	27,772,696	2,192,696
Expenditures				
Human Services				
Agency of Human Services……	23,948,700	25,226,979	25,226,979	-
Labor				
Department of Labor……	401,993	-	-	-
Total expenditures……	24,350,693	25,226,979	25,226,979	-
Excess of revenues over (under) expenditures……	1,939,307	353,021	2,545,717	2,192,696
Fund balance, July 1……	2,212,330	2,212,330	2,212,330	-
Fund balance, June 30……	$ 4,151,637	$ 2,565,351	$ 4,758,047	$ 2,192,696

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 usually, at the program level. The Governor may amend appropriations or transfer appropriations within limits established by 32 V.S.A. Chapter 9. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Budgetary Funds

Vermont's annual Appropriation Act, the State's legally adopted budget, does not present budgets using the same fund structure as what is used for reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). The GAAP basis Special Fund is represented in the Appropriation Act as program-level budgets for the Special, State Health Care Resources, Tobacco Trust and Catamount Funds. These funds are presented separately in the accompanying schedules. The budgetary basis American Recovery and Reinvestment Act Fund includes certain portions of the GAAP basis Transportation and Federal Revenue Funds. These funds are presented on a budgetary basis in the accompanying schedules.

Revenue Estimates

By July 31 each year, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues in the General, Transportation, Education, Catamount, State Health Care Resources, and Global Commitment Funds. The Emergency Board then has 10 days to determine the original revenue estimates for the fiscal year. For the Special, Federal Revenue, and American Recovery and Reinvestment Act Funds, the original budget for revenues is based on the amount appropriated for expenditures. By January 15, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues and the Emergency Board determines any revision to the July revenue estimates.

Expenditure and Transfer Budgets

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts including federal receipts exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature.

Budget and GAAP Basis Reporting

The accompanying budgetary comparison schedules report the actual revenues, expenditures and other financing sources (uses) on a budget basis, which differs significantly from GAAP. These different accounting principles result in basis, perspective, and entity differences in the fund balance—budgetary basis. *Basis differences* arise because the basis of budgeting (cash basis) differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances—governmental funds. *Perspective differences* result because the Appropriation Act's program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State's financial reporting entity for GAAP purposes is excluded from the Appropriation Act. The following presents a reconciliation of the budgetary basis and GAAP basis fund balances for the funds reported in the accompanying schedules for the fiscal year ended June 30, 2012:

	General Fund	Transportation Fund	Education Fund	Federal Revenue Fund	Global Commitment Fund	ARRA Fund
Fund Balance - Budgetary Basis	$ 158,830,529	$ (2,397,374)	$ 63,442,700	$ 19,142,692	$ 86,662,450	$ 804,470
Basis differences						
Cash not in budget balances	20,546	9,765	374	(621,056)	-	1,501,974
Taxes receivable	196,530,132	9,435,074	14,965,825	-	-	-
Notes and loans receivable	528,749	-	-	(1,768,792)	-	1,768,792
Other receivables	9,235,299	12,964,601	886,228	(6,214,829)	20,856,801	(376,988)
Interest receivable	263	45	-	2,830	-	1,910
Due from other funds	4,080,950	456,609	-	3,275,554	37,341,879	-
Due from federal government	376,775	43,575,043	-	95,460,698	48,332,483	8,403,735
Due from component units	-	-	-	-	-	-
Accounts payable	(21,767,852)	(32,632,365)	(9,140,886)	(37,926,122)	(83,008,323)	(3,897,147)
Accrued liabilities	(9,026,891)	(4,711,354)	(128,945)	(4,266,459)	(2,209,038)	(31,485)
Retainage payable	(10,633)	(44,854)	-	(255,128)	(275,077)	(18,509)
Deferred revenue	(138,433,824)	(10,637,651)	(4,123,291)	(3,011,936)	(11,616,145)	(1,344,770)
Tax refunds payable	(6,633,326)	-	(86,713)	-	-	-
Intergovernment payables	-	-	-	(8,344,321)	-	(2,024,575)
Due to other funds	(15,350,678)	(1,151,070)	(10,976)	(1,286,318)	(6,602,727)	-
Due to component units	-	-	-	-	-	-
Entity differences						
Blended non-budgeted funds	-	3,647,221	-	288,888,611	-	-
Blended component unit	625	-	-	-	-	-
Perspective differences						
Component unit included in budgeted funds	-	-	-	3,860,858	-	-
Budgeted funds reclassified to GAAP basis major governmental fund	-	(125,296)	-	4,912,703	-	(4,787,407)
Fund Balance - GAAP Basis	$ 178,380,664	$ 18,388,394	$ 65,804,316	$ 351,848,985	$ 89,482,303	$ -

	Budget Basis Funds				GAAP Basis
	Special Fund	State Health Care Resource Fund	Tobacco Trust Fund	Catamount Fund	Special Fund
Fund Balance - Budgetary Basis.................	$ 127,249,077	$ 141,420	$ 9,942,177	$ 4,758,047	$ -
Basis differences					
Cash not in budget balances.....................	310,190	-	-	-	310,190
Preferred stock investment........................	100,000	-	-	-	100,000
Taxes receivable....................................	2,772,533	1,311,746	-	-	4,084,279
Notes and loans receivable........................	1,067,337	-	-	-	1,067,337
Other receivables....................................	11,479,858	171,186	-	-	11,651,044
Due from other funds................................	3,028,116	-	-	-	3,028,116
Due from component units........................	42,530	-	-	-	42,530
Accounts payable....................................	(9,629,138)	(939)	(88,286)	-	(9,718,363)
Accrued liabilities....................................	(2,493,417)	-	(21,069)	-	(2,514,486)
Retainage payable...................................	(67,691)	-	-	-	(67,691)
Deferred revenue....................................	(12,005,527)	(518,056)	-	-	(12,523,583)
Tax refunds payable.................................	(990)	(25,055)	-	-	(26,045)
Due to other funds...................................	(32,447,780)	(20,511,736)	(2,413,162)	-	(55,372,678)
Due to component units...........................	(61,955)	-	-	-	(61,955)
Entity differences					
Blended non-budgeted funds.....................	10,721,795	-	-	-	10,721,795
Blended component unit...........................	477,663	-	-	-	477,663
Perspective differences					
Component unit included in budgeted funds...	(4,677,379)	-	-	-	(4,677,379)
Budgeted funds reclassified to GAAP basis enterprise fund....................................	199,839	-	-	-	199,839
Budgeted funds reclassified to GAAP basis major governmental fund........................	(96,065,061)	19,431,434	(7,419,660)	(4,758,047)	142,090,721
Fund Balance - GAAP Basis.........................	$ -	$ -	$ -	$ -	$ 88,811,334

[THIS PAGE INTENTIONALLY LEFT BLANK]

FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 $20,225,000* General Obligation Bonds, 2013 Series A (Vermont Citizen Bonds), its $46,410,000* General Obligation Bonds, 2013 Series B and its $18,680,000* General Obligation Refunding Bonds, 2013 Series C (collectively, the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and that has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

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

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual

* Preliminary; subject to change.

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 for the Bonds dated November __, 2013.

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;

[†] 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.

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) 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: _______________, 2013

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, 2013 Series A (Vermont Citizen Bonds),
General Obligation Bonds, 2013 Series B, and
General Obligation Refunding Bonds, 2013 Series C

Date of Issuance: November ___, 2013

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 November __, 2013. 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

[THIS PAGE INTENTIONALLY LEFT BLANK]

FORM OF BOND COUNSEL OPINION

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

$20,225,000*
State of Vermont
General Obligation Bonds, 2013 Series A
(Vermont Citizen Bonds)
Dated Date of Delivery

and

$46,410,000*
State of Vermont
General Obligation Bonds, 2013 Series B
Dated Date of Delivery

and

$18,680,000*
State of Vermont
General Obligation Refunding Bonds, 2013 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.

---

* Preliminary; subject to change.

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

APPENDIX D

NOTICES OF SALE

[THIS PAGE INTENTIONALLY LEFT BLANK]

NOTICE OF SALE

STATE OF VERMONT

$46,410,000*

GENERAL OBLIGATION BONDS

2013 SERIES B

BONDS DATED: DATE OF DELIVERY

ELECTRONIC BIDS ONLY RECEIVED UNTIL 10:30 A.M.
(VERMONT TIME)

WEDNESDAY, NOVEMBER 6, 2013

BY THE HONORABLE ELIZABETH A. PEARCE
TREASURER OF THE STATE OF VERMONT

* Preliminary; subject to change.

NOTICE OF SALE

STATE OF VERMONT

$46,410,000*

GENERAL OBLIGATION BONDS
2013 SERIES B

Electronic bids only will be received by the State of Vermont (the "State"), in accordance with this Official Notice of Sale until 10:30 a.m., Vermont Time, on Wednesday, November 6, 2013 (the "Date of Sale").

Immediately thereafter, the bids will be publicly announced. Award of the Bonds (as defined below), which is subject to confirmation by the Governor, or rejection of all bids, is expected to be made no later than 4:00 p.m., Vermont Time, on the date of receipt of such bids.

Bid Submission

Solely as an accommodation to bidders, electronic bids via BIDCOMP/PARITY (the "Electronic Bidding System") will be accepted until 10:30 a.m., Vermont Time, on the Date of Sale, in accordance with this Official Notice of Sale. The State is using BIDCOMP/PARITY as a communication mechanism to conduct the electronic bidding for the sale of $46,410,000* General Obligation Bonds, 2013 Series B (the "Bonds"), as described herein. To the extent any instructions or directions set forth in BIDCOMP/PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. Each bidder submitting an electronic bid agrees (i) that it is solely responsible for all arrangements with BIDCOMP/PARITY, (ii) that BIDCOMP/PARITY is not acting as the agent of the State, and (iii) that the State is not responsible for ensuring or verifying bidder compliance with any of the procedures of BIDCOMP/PARITY. The State assumes no responsibility for, and each bidder expressly assumes the risks of and responsibility for, any incomplete, inaccurate or untimely bid submitted by such bidder through BIDCOMP/PARITY. Each bidder shall be solely responsible for making necessary arrangements to access the Electronic Bidding System for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the State nor the Electronic Bidding System shall have any duty or obligation to provide or assure such access to any bidder, and neither the State nor BIDCOMP/PARITY shall be responsible for proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, BIDCOMP/PARITY. For further information about BIDCOMP/PARITY, potential bidders may contact BIDCOMP/PARITY at 1359 Broadway, 2nd Floor, New York, New York 10018, telephone (212) 849-5021.

Each bid must be unconditional.

---

* Preliminary; subject to change.

Principal Redemption

The Bonds will be general obligation bonds of the State, dated the date of delivery (the "Dated Date"), and will mature serially or be subject to mandatory sinking fund redemptions on August 15 in the years and amounts shown below.

Due*	Amount*	Due*	Amount*
2014	$2,320,000	2024	$2,320,000
2015	2,320,000	2025	2,320,000
2016	2,320,000	2026	2,320,000
2017	2,320,000	2027	2,320,000
2018	2,320,000	2028	2,320,000
2019	2,325,000	2029	2,320,000
2020	2,325,000	2030	2,320,000
2021	2,320,000	2031	2,320,000
2022	2,320,000	2032	2,320,000
2023	2,320,000	2033	2,320,000

Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemptions

Bidders may provide for all of the Bonds to be issued as serial Bonds or may designate consecutive annual principal amounts of the Bonds to be combined into not more than two Term Bonds. In the event that a bidder chooses to specify a Term Bond, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on August 15 of the first year that has been combined to form such Term Bond and continuing on August 15 in each year thereafter until the stated maturity of such Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule above. Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the Bonds of the maturity being redeemed. The State shall be entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to Term Bonds of any maturity by the principal amount of any such Term Bonds theretofore optionally redeemed by the State.

Description of the Bonds; Book-Entry Only System

The Bonds will be issued by means of a book-entry system with no distribution of physical Bond certificates made to the public. One Bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC"), or its nominee, and immobilized in its custody. The book-entry system will evidence beneficial ownership of the Bonds in principal amounts of $5,000 or multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Bond certificates registered in the name of Cede & Co. will be deposited with DTC. Interest on the Bonds will be paid semiannually on February 15 and August 15 beginning August 15, 2014 until the maturity or earlier redemption thereof. Principal on the Bonds will be paid annually on August 15 beginning August 15, 2014 to DTC or its nominee as registered owner of the Bonds. 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. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be prepared, executed and delivered.

* Preliminary; subject to change.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that case, either a successor depository will be selected by the State or Bond certificates will be prepared, executed and delivered.

Optional Redemption*

The Bonds that mature on or prior to August 15, 2022 are not subject to optional redemption prior to their stated maturities. Bonds that mature after August 15, 2022, will be subject to redemption beginning August 15, 2022, in whole or in part at any time, at the option of the State, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus interest accrued to the redemption date.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected by the State Treasurer in such manner as may be determined to be in the best interest of the State. If less than all of the Bonds of a particular maturity are called for redemption, DTC or any successor securities depository will select the Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system is discontinued, the Bonds to be redeemed will be selected by the State by lot in such manner as the State in its discretion may determine. In either case, each portion of the $5,000 principal amount is counted as one Bond for such purpose.

Notice of Redemption

The State will cause notice of the call for redemption identifying the Bonds or portions thereof to be redeemed to be sent by facsimile transmission, registered or certified mail or overnight express delivery, not less than 30 nor more than 60 days prior to the redemption date, to the registered owner thereof. The State shall not be responsible for mailing notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Bonds. If no qualified securities depository is the registered owner of the Bonds, notice of redemption shall be mailed to the registered owners of the Bonds. If a portion of a Bond is called for redemption, a new Bond in principal amount equal to the unredeemed portion shall be issued to the registered owner upon the surrender thereof.

Security

The Bonds will be valid general obligations of the State, for the payment of the principal or redemption price of and interest on which the full faith and credit of the State is pledged. The Bonds are issued pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended, and specific Appropriation Acts of the General Assembly.

Use of Bond Proceeds

As described in more detail in the State's Preliminary Official Statement, dated October 25, 2013, the Bonds are being issued for the purpose of providing funds for various public improvements.

Adjustments to Principal Amounts and Optional Redemption Provisions of the Bonds

The aggregate principal amount of the Bonds of $46,410,000* and the principal amount of each annual maturity of the Bonds as set forth in this Official Notice of Sale (the "Aggregate Principal Amount" and the "Principal Amount" of each annual maturity, respectively; collectively, the "Principal Amounts") and the optional redemption provisions of the Bonds ("Optional Redemption Provisions") may be revised before the receipt of electronic bids for their purchase. ANY REVISIONS TO THE PRINCIPAL AMOUNTS (the "Adjusted Aggregate Principal Amount" and the "Adjusted Principal Amount" of each annual maturity, respectively; collectively, the "Adjusted Amounts") OR OPTIONAL REDEMPTION

* Preliminary; subject to change.

PROVISIONS OF THE BONDS (the "Adjusted Optional Redemption Provisions") made prior to the receipt of electronic bids WILL BE PUBLISHED ON THOMSON MUNICIPAL MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 9:30 A.M. (VERMONT TIME) ON THE DATE OF THE SALE. In the event that revisions are made, bidders shall submit bids on the Adjusted Amounts and in consideration of the Adjusted Optional Redemption Provisions, and the Adjusted Amounts will be used to compare bids and select a winning bidder.

The State reserves the right, after the award of the Bonds to the successful bidder, to increase or decrease by up to fifteen percent (15%) the principal amount of the Bonds being offered hereby. Should the State decide to exercise this right, any such increase or decrease in the principal amount of particular maturities of the Bonds will be communicated to the successful bidder by 4:00 p.m., Vermont Time, on the Date of Sale. The dollar amount bid for the principal of the Bonds by the successful bidder will be adjusted as necessary to reflect any increase or decrease in the principal amount of the applicable maturities of the Bonds so adjusted, but the interest rates specified by the successful bidder for each maturity will not be altered. **Such adjusted dollar amount bid will not change the successful bidder's compensation per $1,000 of par amount of the Bonds from that which would have resulted from the bid submitted.** The successful bidder may not withdraw its bid as a result of any change made within the foregoing limits.

Bidding Rules; Award of Bonds

Bidders may only bid to purchase all of the Bonds. No bid for less than 100% of par shall be considered. Bidders are invited to name the rate or rates of interest per annum that the Bonds are to bear in multiples of one-twentieth (1/20th) or one-eighth (1/8th) of one percent. All Bonds maturing on the same date must bear interest at the same rate. Any number of rates may be named provided that (a) the lowest rate of interest stated for any maturity may not be less than 2.0% per annum, and (b) the highest rate of interest stated for any maturity may not exceed 5.0% per annum. The State reserves the right to reject any or all bids (regardless of the interest rate bid), to reject any bid not complying with this Official Notice of Sale and, so far as permitted by law, to waive any irregularity or informality with respect to any bid or the bidding process.

All bids will remain firm for a period of no less than five hours after the time specified for the opening of bids. An award of the Bonds, if made, will be made by the State within such five hour period or, with the express consent of the bidders, such longer time period as deemed necessary.

Unless all bids are rejected, the Bonds will be awarded to the bidder complying with the terms of this Official Notice of Sale and submitting a bid that provides the lowest "true" interest cost to the State. True interest cost shall be determined for each bid by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the Dated Date and to the price bid. If more than one bid offers the same lowest true interest cost, the successful bid will be selected by the State Treasurer by lot. The State reserves the right to reject any or all bids and to waive any irregularity or informality with respect to any bid.

Bids for the Bonds shall not be conditioned upon obtaining insurance or any other credit enhancement. If a bidder proposes to obtain a policy of municipal bond insurance or any other credit enhancement, any such purchase of insurance or commitment therefor shall be at the sole option and expense of the bidder, and the bidder must pay any increased costs of issuance of the Bonds as a result of such insurance or commitment. Any failure by the bidder to obtain such a policy of insurance shall not in any way relieve such bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Good Faith Deposit

The successful bidder for the Bonds is required to submit a Good Faith Deposit in the amount of $464,100 payable to the order of the State in the form of a wire transfer in federal funds, as instructed by the State's Financial Advisor. The successful bidder must submit the Good Faith Deposit not later than 5:00 p.m., Vermont Time, on the date of the award. The successful bidder shall provide the federal funds reference number upon request of the State. If the successful bidder fails to comply with the terms of its bid, the Good Faith Deposit shall be retained by the State as full liquidated damages; otherwise, the amount thereof will be applied to the purchase price of the Bonds at the time of delivery. No interest on the Good Faith Deposit will accrue to the successful bidder.

Delivery of the Bonds

The Bonds will be delivered at the expense of the State in New York, New York, through the facilities of DTC on or about Thursday, November 14, 2013.

The successful bidder will be furnished, without cost, with the approving opinion of the law firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, as to the validity and tax status of the Bonds, substantially in the form provided in Appendix C to the Preliminary Official Statement referred to below.

The obligations hereunder to deliver or accept the Bonds pursuant hereto shall be conditioned on the availability to the successful bidder and delivery at the time of delivery of the Bonds of said approving opinion and of the Continuing Disclosure Agreement described below, certificates in form and tenor satisfactory to said law firm evidencing the proper execution and delivery of the Bonds and of receipt of payment therefore and including a statement of the Attorney General dated as of the date of such delivery, to the effect that there is no litigation pending or (to the knowledge of the signer thereof) threatened relating to the Bonds and a statement of the Governor and the State Treasurer certifying that to the best of their knowledge the Official Statement relating to the Bonds, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Certificate of Winning Bidder

The successful bidder must, by facsimile transmission or overnight delivery received by the State within 24 hours after receipt of the bids for the Bonds, furnish the following information to the State to complete the Official Statement in final form, as described below:

A. The offering prices for the Bonds (expressed as the price or yield per maturity).

B. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields described in Subpart A above).

C. The identity of the underwriters if the successful bidder is a part of a group or syndicate.

D. Any other material information necessary to complete the Official Statement in final form but not known to the State.

On or prior to delivery of the Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel to the effect that (i) all of the Bonds of each maturity thereof have been the subject of a bona fide initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the price or yield for each maturity shown on the cover page of the Official Statement, (ii) based on actual facts and reasonable expectations of the successful bidder as of the date on which its bid for the Bonds was accepted (the "Sale Date"), at least 10% of each maturity of the Bonds was or would be sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the respective initial offering price or yield for such maturity shown on the cover page of the Official Statement, and (iii) such prices did not exceed the fair market value as of the Sale Date. If any maturity was not so offered to the general public, the successful bidder will be asked for additional certifications as to the actual and expected sale price for such maturity. In addition, the successful bidder shall furnish to the State such other certifications as Bond Counsel may reasonably require.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder thereof to accept delivery of and pay for the Bonds in accordance with the terms of its bid. All expenses in connection with the assignment of CUSIP numbers shall be paid by the successful bidder. It shall be the obligation of the successful bidder to furnish to DTC an underwriter questionnaire and to the State the CUSIP numbers for the Bonds within two business days following the date of award.

Official Statement

The State will furnish the successful bidder at the expense of the State a reasonable number of copies of the final Official Statement within seven business days from the date of the award of the Bonds, as specified or required in Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC") and the rules of the Municipal Securities Rulemaking Board (the "MSRB") provided that minor delays in furnishing such final Official Statement will not be a basis for failure to pay for and accept delivery of the Bonds. Additional copies will be made available at the successful bidder's request and expense. The State assumes no responsibility or obligation for the distribution or delivery of the Official Statement to anyone other than the successful bidder.

The successful bidder agrees to provide two copies of the Official Statement (with any required forms) to the MSRB in electronic format, as prescribed by the MSRB or its designee, no later than ten business days following the Date of Sale. The successful bidder shall notify the State as soon as practicable of (1) the date that is the end of the underwriting period (such "underwriting period" is described in the Rule), and (2) the date of filing the Official Statement with the MSRB or its designee. The State agrees to advise the successful bidder of any "developments that impact the accuracy and completeness of the key representations" (within the meaning of the Rule) contained in the Official Statement, which may occur during the requisite time period for such notification.

If the Bonds are awarded to a syndicate, the State will designate the senior managing underwriter of the syndicate as its agent for purposes of distributing copies of the Official Statement to each participating underwriter. Any underwriter executing and delivering a bid form with respect to the Bonds agrees thereby that if its bid is accepted it shall accept such designation and shall enter into a contractual relationship with all participating underwriters for the purposes of assuring the receipt and distribution by each such participating underwriter of the Official Statement, unless another firm is so designated by the syndicate in writing and approved by the State.

Federal Securities Laws

No action has been taken to register the Bonds under the federal securities laws.

Tax Matters

The Preliminary Official Statement, dated October 25, 2013 related to the Bonds contains a discussion of the tax status of interest received on the Bonds.

Continuing Disclosure

To assist the successful bidder in complying with the Rule, the State will agree, pursuant to the Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement for the Bonds and will also be set forth in the final Official Statement for the Bonds.

Right to Change the Official Notice of Sale and to Postpone Offering

The State reserves the right to make changes to this Official Notice of Sale and postpone, from time to time, the date established for the receipt of bids. Any such postponement will be announced by the TM3 newswire. If the receipt of bids is postponed, any alternative date for receipt of bids will be announced via the TM3 newswire not less than 24 hours before the alternative date for the receipt of bids. Any bidder must submit a bid for the purchase of the Bonds on such alternative time and sale date in conformity with the provisions of this Official Notice of Sale, except for any changes announced via the TM3 newswire as described therein.

Additional Information

For further information relating to the Bonds and the State, reference is made to the State's Preliminary Official Statement. The State has deemed the Preliminary Official Statement to be final as of its date within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted pursuant to the Rule. The Official Bid Form and the Preliminary Official Statement may be obtained from the State's Financial Advisor, Public Resources Advisory Group, 117 Gayley Street, Suite 200, Media, Pennsylvania 19063 (telephone 610-565-5990), email: thuestis@pragny.com.

Elizabeth A. Pearce
State Treasurer
State of Vermont

Dated: October 25, 2013

NOTICE OF SALE

STATE OF VERMONT

$18,680,000*

GENERAL OBLIGATION REFUNDING BONDS

2013 SERIES C

BONDS DATED: DATE OF DELIVERY

**ELECTRONIC BIDS ONLY RECEIVED UNTIL 11:00 A.M.
(VERMONT TIME)**

WEDNESDAY, NOVEMBER 6, 2013

**BY THE HONORABLE ELIZABETH A. PEARCE
TREASURER OF THE STATE OF VERMONT**

* Preliminary; subject to change.

NOTICE OF SALE

STATE OF VERMONT

$18,680,000*

GENERAL OBLIGATION REFUNDING BONDS 2013 SERIES C

Electronic bids only will be received by the State of Vermont (the "State"), in accordance with this Official Notice of Sale until 11:00 a.m., Vermont Time, on Wednesday, November 6, 2013 (the "Date of Sale").

Immediately thereafter, the bids will be publicly announced. Award of the Bonds (as defined below), which is subject to confirmation by the Governor, or rejection of all bids, is expected to be made no later than 4:30 p.m., Vermont Time, on the date of receipt of such bids.

Bid Submission

Solely as an accommodation to bidders, electronic bids via BIDCOMP/PARITY (the "Electronic Bidding System") will be accepted until 11:00 a.m., Vermont Time, on the Date of Sale, in accordance with this Official Notice of Sale. The State is using BIDCOMP/PARITY as a communication mechanism to conduct the electronic bidding for the sale of $18,680,000* General Obligation Refunding Bonds, 2013 Series C (the "Bonds"), as described herein. To the extent any instructions or directions set forth in BIDCOMP/PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. Each bidder submitting an electronic bid agrees (i) that it is solely responsible for all arrangements with BIDCOMP/PARITY, (ii) that BIDCOMP/PARITY is not acting as the agent of the State, and (iii) that the State is not responsible for ensuring or verifying bidder compliance with any of the procedures of BIDCOMP/PARITY. The State assumes no responsibility for, and each bidder expressly assumes the risks of and responsibility for, any incomplete, inaccurate or untimely bid submitted by such bidder through BIDCOMP/PARITY. Each bidder shall be solely responsible for making necessary arrangements to access the Electronic Bidding System for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the State nor the Electronic Bidding System shall have any duty or obligation to provide or assure such access to any bidder, and neither the State nor BIDCOMP/PARITY shall be responsible for proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, BIDCOMP/PARITY. For further information about BIDCOMP/PARITY, potential bidders may contact BIDCOMP/PARITY at 1359 Broadway, 2nd Floor, New York, New York 10018, telephone (212) 849-5021.

Each bid must be unconditional.

* Preliminary; subject to change.

Principal Redemption

The Bonds will be general obligation bonds of the State, dated the date of delivery (the "Dated Date"), and will mature serially or be subject to mandatory sinking fund redemptions on August 15 in the years and amounts shown below.

Due*	Amount*
2014	$7,070,000
2015	4,645,000
2016	1,940,000
2017	1,100,000
2023	1,955,000
2024	1,970,000

Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemptions

Bidders may provide for all of the Bonds to be issued as serial Bonds or may designate consecutive annual principal amounts of the Bonds to be combined into not more than two Term Bonds. In the event that a bidder chooses to specify a Term Bond, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on August 15 of the first year that has been combined to form such Term Bond and continuing on August 15 in each year thereafter until the stated maturity of such Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule above. Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the Bonds of the maturity being redeemed. The State shall be entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to Term Bonds of any maturity by the principal amount of any such Term Bonds theretofore optionally redeemed by the State.

Description of the Bonds; Book-Entry Only System

The Bonds will be issued by means of a book-entry system with no distribution of physical Bond certificates made to the public. One Bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York ("DTC"), or its nominee, and immobilized in its custody. The book-entry system will evidence beneficial ownership of the Bonds in principal amounts of $5,000 or multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Bond certificates registered in the name of Cede & Co. will be deposited with DTC. Interest on the Bonds will be paid semiannually on February 15 and August 15 beginning August 15, 2014 until the maturity or earlier redemption thereof. Principal on the Bonds will be paid annually on August 15 beginning August 15, 2014 to DTC or its nominee as registered owner of the Bonds. 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. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be prepared, executed 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 case, either a successor depository will be selected by the State or Bond certificates will be prepared, executed and delivered.

* Preliminary; subject to change.

Optional Redemption*

The Bonds that mature on or prior to August 15, 2022 are not subject to optional redemption prior to their stated maturities. Bonds that mature after August 15, 2022, will be subject to redemption beginning August 15, 2022, in whole or in part at any time, at the option of the State, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus interest accrued to the redemption date.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected by the State Treasurer in such manner as may be determined to be in the best interest of the State. If less than all of the Bonds of a particular maturity are called for redemption, DTC or any successor securities depository will select the Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system is discontinued, the Bonds to be redeemed will be selected by the State by lot in such manner as the State in its discretion may determine. In either case, each portion of the $5,000 principal amount is counted as one Bond for such purpose.

Notice of Redemption

The State will cause notice of the call for redemption identifying the Bonds or portions thereof to be redeemed to be sent by facsimile transmission, registered or certified mail or overnight express delivery, not less than 30 nor more than 60 days prior to the redemption date, to the registered owner thereof. The State shall not be responsible for mailing notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Bonds. If no qualified securities depository is the registered owner of the Bonds, notice of redemption shall be mailed to the registered owners of the Bonds. If a portion of a Bond is called for redemption, a new Bond in principal amount equal to the unredeemed portion shall be issued to the registered owner upon the surrender thereof.

Security

The Bonds will be valid general obligations of the State, for the payment of the principal or redemption price of and interest on which the full faith and credit of the State is pledged. The Bonds are issued pursuant to Section 961 of Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended.

Use of Bond Proceeds

As described in more detail in the State's Preliminary Official Statement, dated October 25, 2013, the Bonds are being issued to provide funds to refund certain of the State's outstanding general obligation bonds.

Adjustments to Principal Amounts of the Bonds

The aggregate principal amount of the Bonds of $18,680,000* and the principal amount of each annual maturity of the Bonds as set forth in this Official Notice of Sale (the "Aggregate Principal Amount" and the "Principal Amount" of each annual maturity, respectively; collectively, the "Principal Amounts") may be revised before the receipt of electronic bids for their purchase. ANY REVISIONS TO THE PRINCIPAL AMOUNTS (the "Adjusted Aggregate Principal Amount" and the "Adjusted Principal Amount" of each annual maturity, respectively; collectively, the "Adjusted Amounts") made prior to the receipt of electronic bids WILL BE PUBLISHED ON THOMSON MUNICIPAL MONITOR ("TM3") (www.tm3.com) NOT LATER THAN 10:00 A.M. (VERMONT TIME) ON THE DATE OF THE SALE. In the event that revisions are made, bidders shall submit bids on the Adjusted Amounts, and the Adjusted Amounts will be used to compare bids and select a winning bidder.

---

* Preliminary; subject to change.

The State reserves the right, after the award of the Bonds to the successful bidder, to increase or decrease by up to fifteen percent (15%) the principal amount of the Bonds being offered hereby. Should the State decide to exercise this right, any such increase or decrease in the principal amount of particular maturities of the Bonds will be communicated to the successful bidder by 4:30 p.m., Vermont Time, on the Date of Sale. The dollar amount bid for the principal of the Bonds by the successful bidder will be adjusted as necessary to reflect any increase or decrease in the principal amount of the applicable maturities of the Bonds so adjusted, but the interest rates specified by the successful bidder for each maturity will not be altered. **Such adjusted dollar amount bid will not change the successful bidder's compensation per $1,000 of par amount of the Bonds from that which would have resulted from the bid submitted.** The successful bidder may not withdraw its bid as a result of any change made within the foregoing limits.

Bidding Rules; Award of Bonds

Bidders may only bid to purchase all of the Bonds. No bid for less than 100% of par shall be considered. Bidders are invited to name the rate or rates of interest per annum that the Bonds are to bear in multiples of one-twentieth (1/20th) or one-eighth (1/8th) of one percent. All Bonds maturing on the same date must bear interest at the same rate. Any number of rates may be named provided that (a) the lowest rate of interest stated for any maturity may not be less than 2.0% per annum, and (b) the highest rate of interest stated for any maturity may not exceed 5.0% per annum. The State reserves the right to reject any or all bids (regardless of the interest rate bid), to reject any bid not complying with this Official Notice of Sale and, so far as permitted by law, to waive any irregularity or informality with respect to any bid or the bidding process.

All bids will remain firm for a period of no less than five hours after the time specified for the opening of bids. An award of the Bonds, if made, will be made by the State within such five hour period or, with the express consent of the bidders, such longer time period as deemed necessary.

Unless all bids are rejected, the Bonds will be awarded to the bidder complying with the terms of this Official Notice of Sale and submitting a bid that provides the lowest "true" interest cost to the State. True interest cost shall be determined for each bid by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the Dated Date and to the price bid. If more than one bid offers the same lowest true interest cost, the successful bid will be selected by the State Treasurer by lot. The State reserves the right to reject any or all bids and to waive any irregularity or informality with respect to any bid.

Bids for the Bonds shall not be conditioned upon obtaining insurance or any other credit enhancement. If a bidder proposes to obtain a policy of municipal bond insurance or any other credit enhancement, any such purchase of insurance or commitment therefor shall be at the sole option and expense of the bidder, and the bidder must pay any increased costs of issuance of the Bonds as a result of such insurance or commitment. Any failure by the bidder to obtain such a policy of insurance shall not in any way relieve such bidder of its contractual obligations arising from the acceptance of its bid for the purchase of the Bonds.

Good Faith Deposit

The successful bidder for the Bonds is required to submit a Good Faith Deposit in the amount of $186,800 payable to the order of the State in the form of a wire transfer in federal funds, as instructed by the State's Financial Advisor. The successful bidder must submit the Good Faith Deposit not later than 5:00 p.m., Vermont Time, on the date of the award. The successful bidder shall provide the federal funds reference number upon request of the State. If the successful bidder fails to comply with the terms of its bid, the Good Faith Deposit shall be retained by the State as full liquidated damages; otherwise, the amount thereof will be applied to the purchase price of the Bonds at the time of delivery. No interest on the Good Faith Deposit will accrue to the successful bidder.

Delivery of the Bonds

The Bonds will be delivered at the expense of the State in New York, New York, through the facilities of DTC on or about Thursday, November 14, 2013.

The successful bidder will be furnished, without cost, with the approving opinion of the law firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, as to the validity and tax status of the Bonds, substantially in the form provided in Appendix C to the Preliminary Official Statement referred to below.

The obligations hereunder to deliver or accept the Bonds pursuant hereto shall be conditioned on the availability to the successful bidder and delivery at the time of delivery of the Bonds of said approving opinion and of the Continuing Disclosure Agreement described below, certificates in form and tenor satisfactory to said law firm evidencing the proper execution and delivery of the Bonds and of receipt of payment therefore and including a statement of the Attorney General dated as of the date of such delivery, to the effect that there is no litigation pending or (to the knowledge of the signer thereof) threatened relating to the Bonds and a statement of the Governor and the State Treasurer certifying that to the best of their knowledge the Official Statement relating to the Bonds, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Certificate of Winning Bidder

The successful bidder must, by facsimile transmission or overnight delivery received by the State within 24 hours after receipt of the bids for the Bonds, furnish the following information to the State to complete the Official Statement in final form, as described below:

A. The offering prices for the Bonds (expressed as the price or yield per maturity).

B. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields described in Subpart A above).

C. The identity of the underwriters if the successful bidder is a part of a group or syndicate.

D. Any other material information necessary to complete the Official Statement in final form but not known to the State.

On or prior to delivery of the Bonds, the successful bidder shall furnish to the State a certificate acceptable to Bond Counsel to the effect that (i) all of the Bonds of each maturity thereof have been the subject of a bona fide initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the price or yield for each maturity shown on the cover page of the Official Statement, (ii) based on actual facts and reasonable expectations of the successful bidder as of the date on which its bid for the Bonds was accepted (the “Sale Date”), at least 10% of each maturity of the Bonds was or would be sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the respective initial offering price or yield for such maturity shown on the cover page of the Official Statement, and (iii) such prices did not exceed the fair market value as of the Sale Date. If any maturity was not so offered to the general public, the successful bidder will be asked for additional certifications as to the actual and expected sale price for such maturity. In addition, the successful bidder shall furnish to the State such other certifications as Bond Counsel may reasonably require.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder thereof to accept delivery of and pay for the Bonds in accordance with the terms of its bid. All expenses in connection with the assignment of CUSIP numbers shall be paid by the successful bidder. It shall be the obligation of the successful bidder to furnish to DTC an underwriter questionnaire and to the State the CUSIP numbers for the Bonds within two business days following the date of award.

Official Statement

The State will furnish the successful bidder at the expense of the State a reasonable number of copies of the final Official Statement within seven business days from the date of the award of the Bonds, as specified or required in Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission (the "SEC") and the rules of the Municipal Securities Rulemaking Board (the "MSRB") provided that minor delays in furnishing such final Official Statement will not be a basis for failure to pay for and accept delivery of the Bonds. Additional copies will be made available at the successful bidder's request and expense. The State assumes no responsibility or obligation for the distribution or delivery of the Official Statement to anyone other than the successful bidder.

The successful bidder agrees to provide two copies of the Official Statement (with any required forms) to the MSRB in electronic format, as prescribed by the MSRB or its designee, no later than ten business days following the Date of Sale. The successful bidder shall notify the State as soon as practicable of (1) the date that is the end of the underwriting period (such "underwriting period" is described in the Rule), and (2) the date of filing the Official Statement with the MSRB or its designee. The State agrees to advise the successful bidder of any "developments that impact the accuracy and completeness of the key representations" (within the meaning of the Rule) contained in the Official Statement, which may occur during the requisite time period for such notification.

If the Bonds are awarded to a syndicate, the State will designate the senior managing underwriter of the syndicate as its agent for purposes of distributing copies of the Official Statement to each participating underwriter. Any underwriter executing and delivering a bid form with respect to the Bonds agrees thereby that if its bid is accepted it shall accept such designation and shall enter into a contractual relationship with all participating underwriters for the purposes of assuring the receipt and distribution by each such participating underwriter of the Official Statement, unless another firm is so designated by the syndicate in writing and approved by the State.

Federal Securities Laws

No action has been taken to register the Bonds under the federal securities laws.

Tax Matters

The Preliminary Official Statement, dated October 25, 2013 related to the Bonds contains a discussion of the tax status of interest received on the Bonds.

Continuing Disclosure

To assist the successful bidder in complying with the Rule, the State will agree, pursuant to the Continuing Disclosure Agreement, to provide certain annual financial information and operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement for the Bonds and will also be set forth in the final Official Statement for the Bonds.

Right to Change the Official Notice of Sale and to Postpone or Cancel Offering

The State reserves the right to make changes to this Official Notice of Sale and postpone, from time to time, or cancel the date established for the receipt of bids. Any such postponement or cancellation will be announced by the TM3 newswire. If the receipt of bids is postponed, any alternative date for receipt of bids will be announced via the TM3 newswire not less than 24 hours before the alternative date for the receipt of bids. Any bidder must submit a bid for the purchase of the Bonds on such alternative time and sale date in conformity with the provisions of this Official Notice of Sale, except for any changes announced via the TM3 newswire, as described therein.

Additional Information

For further information relating to the Bonds and the State, reference is made to the State's Preliminary Official Statement. The State has deemed the Preliminary Official Statement to be final as of its date within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted pursuant to the Rule. The Official Bid Form and the Preliminary Official Statement may be obtained from the State's Financial Advisor, Public Resources Advisory Group, 117 Gayley Street, Suite 200, Media, Pennsylvania 19063 (telephone 610-565-5990), email: thuestis@pragny.com.

Elizabeth A. Pearce
State Treasurer
State of Vermont

Dated: October 25, 2013

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF VERMONT • General Obligation Bonds, 2013 Series A (Vermont Citizen Bonds) and 2013 Series B and General Obligation Refunding Bonds, 2013 Series C

MIX
From responsible sources
FSC™ C017146
FSC www.fsc.org

Printed by: ImageMaster
www.ImageMaster.com