This Preliminary Supplemental Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Supplemental 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 SUPPLEMENTAL OFFICIAL STATEMENT DATED NOVEMBER 9, 2010

New Issue – Book-Entry Only

Ratings: Moody's: ___
Fitch: ___
S&P: ___
(See "RATINGS" herein)

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

$25,000,000*
STATE OF VERMONT
General Obligation Bonds
2010 Series E (Vermont Citizen Bonds)

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

The 2010 Series E Bonds (the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $1,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of 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 EXHIBIT I – "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on February 15 and August 15 commencing August 15, 2011. The Bonds will not be subject to redemption prior to maturity.

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

This cover page contains certain information for quick reference only. It is a summary of this issue. Prospective investors must read the entire Supplemental Official Statement, including EXHIBIT I hereto, to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued by the State and accepted by the Underwriter, subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about November 30, 2010.

BofA Merrill Lynch

November __, 2010

* Preliminary; subject to change.

$25,000,000*
STATE OF VERMONT
General Obligation Bonds
2010 Series E (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
2011	$2,500,000				2016	$2,500,000			
2012	2,500,000				2017	2,500,000			
2013	2,500,000				2018	2,500,000			
2014	2,500,000				2019	2,500,000			
2015	2,500,000				2020	2,500,000			

* Preliminary; subject to change.

† Copyright 2010, American Bankers Association.

STATE OF VERMONT

ELECTED OFFICERS

Name

JAMES H. DOUGLAS, *Governor*

BRIAN E. DUBIE, *Lieutenant Governor*

GEORGE B. "JEB" SPAULDING, *Treasurer*

DEBORAH L. MARKOWITZ, *Secretary of State*

THOMAS M. SALMON, *Auditor of Accounts*

WILLIAM H. SORRELL, *Attorney General*

BOND COUNSEL
Edwards Angell Palmer & Dodge LLP
Boston, Massachusetts

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. The securities described in this Supplemental Official Statement have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Supplemental Official Statement and, if given or made, such other information or representations must not be relied upon. This Supplemental Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplemental Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Vermont since the date hereof.

This Supplemental Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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

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

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SUPPLEMENTAL OFFICIAL STATEMENT

STATE OF VERMONT

$25,000,000*
General Obligation Bonds
2010 SERIES E (VERMONT CITIZEN BONDS)

INTRODUCTORY STATEMENT

This Supplemental 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 the State's $25,000,000* General Obligation Bonds, 2010 Series E (Vermont Citizen Bonds) (the "Bonds"). The State previously issued $3,750,000 aggregate principal amount of its General Obligation Bonds, 2010 Series D-1 and $46,250,000 aggregate principal amount of its General Obligation Bonds, 2010 Series D-2 (Federally Taxable – Build America Bonds – Direct Payment) (collectively, the "2010 Series D Bonds") on October 26, 2010. In connection with the offering of the 2010 Series D Bonds, the State prepared its Official Statement, dated October 14, 2010 (the "Official Statement"), which is attached hereto as EXHIBIT I and made a part hereof. EXHIBIT I contains information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. This Supplemental Official Statement is to be read and understood only in conjunction with the Official Statement and is subject to the limitations described therein. All capitalized terms not defined herein shall have the meanings ascribed to them in the Official Statement. The terms of the Bonds are described generally in this Supplemental Official Statement, which should be read together with the entire Official Statement.

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

Payment and Security for the Bonds

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

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will mature on August 15 in each of the years as set forth on the inside cover page of this Supplemental Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the inside cover page of this Supplemental Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $1,000 or any integral multiple thereof on the records of The Depository Trust Company, New York, New York ("DTC") and its Participants. See EXHIBIT I – "BOOK-ENTRY ONLY SYSTEM" herein.

Principal, when due, will be payable to each registered owner at the principal office of Institutional Trust People's United Bank (formerly Chittenden Trust Company), Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 15 and August 15 commencing August 15, 2011, 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

* Preliminary; subject to change.

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 EXHIBIT I – "BOOK-ENTRY ONLY SYSTEM" herein.

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated ("General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following Acts of the General Assembly set forth the capital purposes of the State for which the Bond proceeds are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Bonds to the extent not expended for the purposes referenced below, may be expended for such other capital projects as may be authorized by the General Assembly. Under Vermont law the State Treasurer, with the approval of the Secretary of Administration, is authorized to transfer unspent proceeds from the sale of bonds, including the Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State authorized by the General Assembly. See EXHIBIT I – "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization."

General Obligation Bonds, 2010 Series E (Vermont Citizen Bonds)

Act 148 of 1998		
Section 13	Natural Resources – Pollution Control Projects	$298,805
Act 149 of 2002		
Section 8	Natural Resources – Pollution Control Projects	118,726
Act 63 of 2003		
Section 8	Natural Resources – Water Pollution Grants	5,896
Act 121 of 2004		
Section 10	Natural Resources – Various Projects	226,148
Act 147 of 2006		
Section 3	Health and Public Safety Laboratories	2
Section 10	Natural Resources – Water Pollution Grants	153,462
Act 200 of 2008		
Section 12	Natural Resources – Pollution Control Projects	539,177
Section 16	Agriculture, Food and Markets – Various Projects	182,000
Act 43 of 2009		
Section 1	State Buildings – Maintenance	3,065,705
Section 2	Administration – Medicaid/Healthcare Data System	1,280,000
Section 6	Austine School – Building Renovations	207,937
Section 9	Natural Resources – Various Projects	61,410
Section 20	Vermont Investment Program – Various Grant Programs	320,000
Section 21	State Buildings – Various Projects	108,757
Act 161 of 2010		
Section 2	Administration; Vermont Center for Geographic Information	1,511,280
Section 4	Judiciary – Various Projects	200,000
Section 5	Commerce and Community Development – Various Projects	535,000
Section 6	Building Community Grants	1,080,000
Section 8	Austine School – Building Renovations	540,104
Section 9	University of Vermont – Major Maintenance	2,000,000
Section 11	Vermont Interactive Television	290,085
Section 12	Natural Resources – Pollution Control Projects	7,715,700
Section 13	Military – Maintenance and Renovations	850,000
Section 14	Public Safety – Various Projects	707,139
Section 16	Agriculture, Food and Markets – Various Projects	216,000
Section 17	Vermont Public Television	500,000
Section 18	Vermont Rural Fire Protection	100,000
Section 19	Vermont Veteran's Home – Various Projects	320,000
Section 20	Vermont Center for Crime Victims	50,000
Section 21	Vermont Historical Society	150,000
Section 22	Vermont Housing and Conservation Board	1,666,667
		$25,000,000

Security for the Bonds

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

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

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

Record Date

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

Redemption

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

ADDITIONAL INFORMATION AFFECTING THE STATE

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

The following information updates the information under the heading "*STATE GOVERNMENT*:"

As a result of the statewide general election held on November 2, 2010, Vermont's statewide officers as of January 6, 2011 will be as follows:

PETER SHUMLIN, *Governor*
PHIL SCOTT, *Lieutenant Governor*
GEORGE B. "JEB" SPAULDING, *Treasurer*
JIM CONDOS, *Secretary of State*
THOMAS M. SALMON, *Auditor of Accounts*
WILLIAM H. SORRELL, *Attorney General*

The following information updates the information under the heading "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2011 General, Transportation and Education Funds to Date:"

The following tables present revenue results for the components of each major fund, as compared to October 2010 consensus monthly cash flow targets and fiscal year 2011 year-to-date consensus cash flow targets. The tables show that, although there may be significant differences among individual components, all three major funds in aggregate continue to track either ahead of expectations (as in the case of the General Fund at 3.8% versus the cumulative consensus cash flow target) or very close to expectations (as in the Transportation Fund and Education Fund, which are each within 0.6 percentage points of the consensus cash flow target) through the first four months of fiscal year 2011. (All dollar amounts shown below are in thousands.)

Fiscal Year 2011 General Fund Results to Date

	October 2010			FY 2011 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Personal Income Tax	$47,988.3	$47,978.2	(0.0)	$181,705.5	$181,648.9	(0.0)
Sales and Use Tax	20,054.4	20,174.3	0.6	73,180.9	73,727.7	0.7
Corporate Income Tax	2,775.7	3,701.2	33.3	17,144.9	26,708.2	55.8
Meals and Rooms Tax	10,682.5	10,659.8	(0.2)	44,762.8	44,743.7	(0.0)
Property Transfer	747.8	772.7	3.3	2,436.8	2,820.9	15.8
Other Revenues	8,762.6	8,997.3	2.7	40,990.1	44,279.8	8.0
Total	$91,011.3	$92,283.4	1.4	$360,221.0	$373,929.2	3.8

[1] Official Revenue Estimates as of July 15, 2010.
Note: Unaudited.

Fiscal Year 2010 Transportation Fund Results to Date

	October 2010			FY 2011 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Gasoline Tax[2]	$5,186.0	$5,554.2	7.1	$21,936.1	$21,653.5	(1.3)
Diesel Tax[2]	1,421.2	1,245.2	(12.4)	4,880.4	4,807.6	(1.5)
Purchase and Use Tax	4,261.1	4,316.9	1.3	17,111.3	16,741.2	(2.2)
Motor Vehicle Fees	6,042.9	5,549.7	(8.2)	22,973.3	23,611.9	2.8
Other Fee Revenues	1,549.6	1,339.4	(13.6)	6,035.2	5,689.5	(5.7)
Total[2]	$18,460.8	$18,005.1	(2.5)	$72,936.3	$72,503.6	(0.6)

[1] Official Revenue Estimates as of July 15, 2010.
[2] Excludes Transportation Infrastructure Bond revenues.
Note: Unaudited.

Fiscal Year 2011 Education Fund Results to Date*

	October 2010			FY 2011 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Sales and Use Tax	$10,027.2	$10,087.0	0.6	$36,590.4	$36,863.3	0.7
Lottery	1,672.4	1,567.2	(6.3)	6,109.5	5,845.6	(4.3)
Motor Vehicle Purchase & Use Tax	2,130.6	2,158.3	1.3	8,555.6	8,370.6	(2.2)
Other Revenues[2]	44.0	2.3	(94.8)	33.0	21.4	(35.0)
Total	$13,874.1	$13,814.0	(0.4)	$51,288.6	$51,100.9	(0.4)

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of July 15, 2010.
[2] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as negative revenue.
Note: Totals may not add due to rounding. All figures are unaudited.

The State continues to monitor its revenues on a monthly basis, within the context of the most recent update of the July 15, 2010 consensus revenue forecast. At this time, the next scheduled consensus forecast revision is scheduled for on or about January 15, 2011.

The following information updates the information under the heading "STATE INDEBTEDNESS – Debt Statement:"

The Reserve Fund Commitment for the Vermont Municipal Bond Bank as of June 30, 2010 is $505,165, which results in a total Gross Direct and Contingent Debt amount of $1,425,506 and total Reserve Fund Commitments of ($950,165). (All dollars are in thousands.)

The following information updates the information under the heading "*PENSION PLANS – Defined Benefit Pension Plans – Actuarial Valuation*:"

The actuarial reports for the fiscal year ending June 30, 2010 were completed in October 2010. They are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/bonds/VSERS_2010_valuation_report.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/bonds/VSTRS_2010_actuarial_valuation_report.pdf

As reflected in the October 2010 actuarial report for VSRS, the fiscal year 2010 year-end actuarial rate of return was 6.7%, as compared to an assumed actuarial rate of return of 8.25%. The ARCs for VSRS are $34.5 million for the fiscal year ended June 30, 2011, $36.5 million for the fiscal year ended June 30, 2012, and $38.3 million for the fiscal year ended June 30, 2013.

As reflected in the October 2010 actuarial report for STRS, the fiscal year 2010 year-end actuarial rate of return was 6.8%, as compared to an assumed actuarial rate of return of 8.25%. The ARCs for STRS are $48.8 million for the fiscal year ended June 30, 2011, $51.2 million for the fiscal year ended June 30, 2012, and $53.8 million for the fiscal year ended June 30, 2013.

The following information updates information under the heading "*PENSION PLANS – Other Post-Employment Benefits*:"

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2010. This is the sixth annual OPEB valuation for each system. For VSRS, assuming no additional prefunding beyond the Medicare D receipts, the actuarial accrued liability for OPEB obligations earned through June 30, 2010 is $962.6 million with a UAAL of $954.7 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an OPEB ARC commencing at $69.5 million for fiscal year 2011 and projected to increase to $310.3 million in fiscal year 2041. If, however, prefunding is assumed, the actuarial accrued liability is reduced to $543.1 million with a UAAL of $535.2 million, and the OPEB ARC is calculated to commence at $44.1 million for fiscal year 2011, projected to increase to $181.6 million for fiscal year 2040. Upon retirement of the UAAL, the projected normal cost in fiscal year 2041 on a prefunding basis is $74.8 million.

For STRS, assuming no prefunding, the actuarial accrued liability and the UAAL for OPEB obligations earned through June 30, 2010 is $703.8 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an OPEB ARC commencing at $41.5 million for fiscal year 2011 and projected to increase to $161.7 million in fiscal year 2041. If, however, prefunding is assumed, the actuarial accrued liability and the UAAL is reduced to $374.1 million, and the OPEB ARC is calculated to commence at $26.8 million for fiscal year 2011, projected to increase to $110.4 million for fiscal year 2040. Upon retirement of the UAAL, the projected normal cost in fiscal year 2041 on a prefunding basis is $34.9 million.

The OPEB funding 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:						
2010	$7,897	$962,618	$954,721	0.8%	$414,936	230.1%
STRS						
2010	$0	$703,751	$703,751	0.0%	$560,763	125.5%

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and State

of Vermont personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

FINANCIAL ADVISOR

Government Finance Associates, Inc., New York, New York, serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Supplemental Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

RATINGS

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

UNDERWRITING

The Bonds are being purchased for re-offering by Merrill Lynch, Pierce, Fenner & Smith, Incorporated (the "Underwriter"), at an aggregate purchase price of $_____ and the Underwriter will receive a fee from the State in an amount equal to $_____. The Contract of Purchase provides that the Underwriter will purchase all of the Bonds if any are purchased. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower (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 Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed

form of opinion is attached hereto as Appendix B. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish 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 Supplemental Official Statement (including EXHIBIT I hereto), as of the date of this Supplemental Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. 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 A 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 to provide annual financial information or event notices.

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 CAFR. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. George B. "Jeb" Spaulding, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022, Telephone: (212) 521-4090.

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

Several discussions throughout this Supplemental Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2011 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 2011 and 2012 cannot be verified until after the close of the respective 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 Supplemental Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Supplemental Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

By:_____
Governor

By:_____
Treasurer

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APPENDIX A

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of its $_____ General Obligation Bonds, 2010 Series E (Vermont Citizen Bonds) (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and that has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

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

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall promptly file a notice of such change with the MSRB.

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available; and

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated October 14, 2010.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB's Internet Web site or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events 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) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsections (a)(ii), (vi), (vii), (viii), (x), (xiii) or (xiv), the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) Upon the occurrence of a Listed Event described in subsections (a)(i), (iii), (iv), (v), (vi), (ix), (xi) or (xii), and in the event the Issuer determines that the occurrence of a Listed Event described in subsections (a)(ii), (vi), (vii), (viii), (x), (xiii) or (xiv) is material under applicable federal securities laws, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

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

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

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

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* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

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

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

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) 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: _____, 2010

STATE OF VERMONT, as Issuer

By: _____
George B. "Jeb" Spaulding
Treasurer

EXHIBIT A
NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: General Obligation Bonds, 2010 Series E (Vermont Citizen Bonds)

Date of Issuance: _____, 2010

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 _____, 2010. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

STATE OF VERMONT, as Issuer

By: _____

EXHIBIT B

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board

http://emma.msrb.org

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FORM OF OPINION OF BOND COUNSEL

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PROPOSED FORM OF OPINION OF BOND COUNSEL

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

(Date of Delivery)

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

$25,000,000*
State of Vermont
General Obligation Bonds
2010 Series E (Vermont Citizen Bonds)
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculation 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

* Preliminary, subject to change.

included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

EXHIBIT I

OFFICIAL STATEMENT, DATED OCTOBER 14, 2010 OF THE STATE OF VERMONT RELATING TO ITS

$3,750,000
GENERAL OBLIGATION BONDS, 2010 Series D-1

AND

$46,250,000
GENERAL OBLIGATION BONDS, 2010 Series D-2
(FEDERALLY TAXABLE – BUILD AMERICA BONDS – DIRECT PAYMENT)

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New Issue – Book Entry Only

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

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series D-1 Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series D-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series D-2 Bonds is included in the gross income of the owners thereof for federal income tax purposes. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$3,750,000
STATE OF VERMONT
General Obligation Bonds
2010 Series D-1

and

$46,250,000
STATE OF VERMONT
General Obligation Bonds
2010 Series D-2
(Federally Taxable – Build America Bonds – Direct Payment)

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

The 2010 Series D-1 Bonds (the "Series D-1 Bonds") and the 2010 Series D-2 Bonds (the "Series D-2 Bonds," and collectively with the Series D-1 Bonds, the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $5,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing August 15, 2011. The Series D-1 Bonds are not subject to redemption prior to maturity. The Series D-2 Bonds will be subject to redemption prior to maturity as more fully described herein.

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

The Bonds are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, and to certain other conditions referred to herein and in the Notice of Sale. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about October 26, 2010.

October 14, 2010

$50,000,000
STATE OF VERMONT
General Obligation Bonds

$3,750,000
2010 SERIES D-1

$3,750,000 Serial Bonds

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP† 924258
2011	$1,250,000	3.00%	0.32%	VF0
2012	1,250,000	3.00	0.48	VG8
2013	1,250,000	3.00	0.67	VH6

$46,250,000
2010 SERIES D-2
(Federally Taxable – Build America Bonds – Direct Payment)

$38,750,000 Serial Bonds

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP† 924258	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP† 924258
2014	$1,250,000	1.45%	1.29%	VJ2	2022	$3,750,000	3.60%	3.60%	VS2
2015	1,250,000	1.85	1.66	VK9	2023	3,750,000	3.90	3.65[c]	VT0
2016	1,250,000	2.00	1.91	VL7	2024	3,750,000	3.95	3.75[c]	VU7
2017	1,250,000	2.60	2.49	VM5	2027	3,750,000	4.20	4.05[c]	VW3
2018	1,250,000	2.80	2.69	VN3	2028	3,750,000	4.40	4.42	VX1
2019	1,250,000	3.10	3.10	VP8	2029	3,750,000	4.55	4.57	VY9
2020	1,250,000	3.20	3.20	VQ6	2030	3,750,000	4.70	4.72	VZ6
2021	3,750,000	3.40	3.40	VR4					

$7,500,000 3.95% Term Bonds Due August 15, 2026, Price 100.00%, CUSIP†: 924258 VV5

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† Copyright 2010, American Bankers Association.

[c] Priced to call at par on the first call date of August 15, 2020.

STATE OF VERMONT

ELECTED OFFICERS

Name

JAMES H. DOUGLAS, *Governor*

BRIAN E. DUBIE, *Lieutenant Governor*

GEORGE B. "JEB" SPAULDING, *Treasurer*

DEBORAH L. MARKOWITZ, *Secretary of State*

THOMAS M. SALMON, *Auditor of Accounts*

WILLIAM H. SORRELL, *Attorney General*

BOND COUNSEL
Edwards Angell Palmer & Dodge LLP
Boston, Massachusetts

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. The securities described in this Official Statement have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Vermont since the date hereof.

This Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

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STATE OF VERMONT

$50,000,000
GENERAL OBLIGATION BONDS

consisting of

$3,750,000
2010 SERIES D-1

AND

$46,250,000
2010 SERIES D-2
(Federally Taxable – Build America Bonds – Direct Payment)

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 $3,750,000 aggregate principal amount of its General Obligation Bonds, 2010 Series D-1 (the "Series D-1 Bonds") and $46,250,000 aggregate principal amount of its General Obligation Bonds, 2010 Series D -2 (Federally Taxable – Build America Bonds – Direct Payment) (the "Series D-2 Bonds," and collectively with the Series D-1 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 Bonds were sold by competitive sale. At the time of sale, the State determined to issue the Series D-2 Bonds as Federally Taxable Build America Bonds (Direct Payment). See "COMPETITIVE SALE OF BONDS."

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 $5,000 or any integral multiple thereof on the records of the Depository Trust Company, New York, New York ("DTC") and its Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of Institutional Trust People's United Bank (formerly Chittenden Trust Company), Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing August 15, 2011, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede

& Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated ("General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following statutes and Acts of the General Assembly set forth the capital purposes of the State for which the Bond proceeds are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Bonds to the extent not expended for the purposes referenced below, may be expended for such capital projects as may be authorized by the General Assembly. See "STATE INDEBTEDNESS — State Indebtedness and Procedure for Authorization." Under Vermont law the State Treasurer is authorized to transfer unspent proceeds from the sale of bonds, including the Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State authorized by the General Assembly. The State also expects to issue in November 2010 $25,000,000 General Obligation Bonds, 2010 Series E (Citizens Bonds) (the "Series E Bonds") to finance additional capital projects. The State is also reviewing a possible refunding bond issue, the timing and amount of which will be subject to market conditions.

Act 161 of 2010		
Section 1	State Buildings – Various Projects	$21,645,000
Section 2	Vermont Telecommunications Authority – Cellular and Broadband	4,500,000
Section 3	Human Services – Various Projects	5,435,000
Section 7	Education – Vermont School Construction	7,000,000
Section 10	Vermont State Colleges – Major Maintenance	2,000,000
Section 12	Natural Resources – State Parks Infrastructure Improvements	2,500,000
Section 14	Public Safety – Various Projects	2,586,667
Section 15	Criminal Justice Training Council – Pittsford Firing Range	1,000,000
Section 22	Vermont Housing and Conservation Board	3,333,333
		$50,000,000

Build America Bonds

The State is authorized to issue the Series D-2 Bonds as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009 ("ARRA") and to elect to receive a subsidy payment ("Direct Payments") from United States Treasury equal to 35% of the taxable interest the State pays on the Series D-2 Bonds. In order to receive the Direct Payments, the State is required to make certain filings with the Internal Revenue Service. If the State fails to make the required filings, it will not be eligible to receive the Direct Payments. The State intends to make all required filings in accordance with applicable rules of the United States Treasury in order to receive the Direct Payments contemporaneously with the payment of interest due on the Series D-2 Bonds. Additionally, the proceeds of "Build America Bonds" have a number of limitations on their use. If the State were to use the proceeds of the Series D-2 Bonds for expenditures other than capital expenditures, reasonably required reserve funds and costs of issuance, the Series D-2 Bonds would not be eligible for the Direct Payments. Direct Payments are treated as overpayments of tax, and accordingly are subject to offset against certain amounts that may be owed by the State to an agency of the United States of America. Finally, it is possible that the Direct Payments could be reduced or eliminated as a result of a change in federal law. See "TAX MATTERS" herein.

At the time of the competitive sale of the Bonds, the State determined to issue the Series D-2 Bonds as Federally Taxable Build America Bonds (Direct Payment).

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 – Series D-1 Bonds

The Series D-1 Bonds are not subject to redemption prior to maturity.

Redemption Provisions – Series D-2 Bonds

Extraordinary Optional Redemption

Before August 15, 2020, the Series D-2 Bonds are subject to redemption on any date prior to their maturity at the option of the State, in whole or in part upon the occurrence of an Extraordinary Event, as defined below, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the such Series D-2 Bonds to be redeemed; or

(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such Series D-2 Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series D-2 Bonds are to be redeemed, discounted to the date on which such Series D-2 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points;

plus, in each case, accrued interest on such Series D-2 Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if the State determines that a material adverse change has occurred to Sections 54AA or 6431 of the Code (as such Sections were added by Section 1531 of ARRA, pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Department of the Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Department of the Treasury, which determination is not the result of any act or omission by the State to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States

Department of the Treasury, pursuant to which the State's 35% cash subsidy payment from the United States Department of the Treasury is reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for a particular Series D-2 Bond, the yield to maturity as of such redemption date of United States securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519)) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Series D-2 Bonds to be redeemed; provided, that if the period from the redemption date to the maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Optional Redemption

The Series D-2 Bonds maturing on and prior to August 15, 2020 will not be subject to redemption prior to maturity except pursuant to the extraordinary optional redemption provisions set forth above. The Series D-2 Bonds maturing after August 15, 2020 will be subject to redemption prior to maturity, at the option of the State, on and after August 15, 2020, either in whole or in part at any time and by lot within a maturity, at a redemption price of 100% of the principal amount of the Series D-2 Bonds to be redeemed, plus accrued interest to the date set for redemption.

Mandatory Redemption

The Series D-2 Bonds maturing on August 15, 2026 are subject to mandatory redemption from sinking fund installments at a redemption price equal to 100% of the principal amount thereof, without premium, plus interest, if any, accrued thereon to the date fixed for redemption, on each August 15 of the years and in the principal amounts set forth below:

Year	Principal Amount
2025	$3,750,000
2026†	3,750,000

† Final Maturity.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Series D-2 Bonds of a particular maturity and bearing interest at a particular interest rate are called for redemption, the Series D-2 Bonds within such maturity to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the State by lot or in any customary manner as the State in its discretion may determine.

Notice of Redemption

Notice of redemption of Series D-2 Bonds, specifying the maturities, CUSIP numbers and dates of Series D-2 Bonds to be redeemed, the redemption date, the redemption prices, expressed as a percentage of the principal amount and the place or places of payment of the redemption price and the numbers and portions of the Series D-2 Bonds to be redeemed, shall be mailed, postage prepaid, by the Paying Agent not more than 60 days and not less than 30 days prior to the date set for redemption to the registered owners of any Series D-2 Bonds or portions of Series D-2 Bonds to be redeemed, at their last addresses appearing on the registry books kept by the Paying Agent. Failure to mail such notice to the owner of any Series D-2 Bond will not affect the redemption of any other Series D-2 Bonds. If moneys for the redemption are held by the Paying Agent on the redemption date and if notice of the redemption shall have been duly mailed, then from and after the redemption date interest on the Series D-2 Bonds (or the portions thereof) called for redemption shall cease to accrue.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard and Poor's highest rating: AAA. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds of such maturity to be redeemed, unless other arrangements are made between DTC and the State.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action that is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

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

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STATE GOVERNMENT

Governmental Organization

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

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

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

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Human Resources, the Department of Information and Innovation (including the duties of the Chief Information Officer), the Department of Libraries, the Department of Buildings and General Services, and for the duration of the federal stimulus program, the Vermont Office of Economic Stimulus and Recovery. By the end of fiscal year 2010, the individual departmental human resource functions, business office operations, and information technology services will be centralized within the Agency of Administration.

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

(3) State Board of Education: The State Board of Education consists of ten persons, all of whom are appointed by the Governor with the advice and consent of the Senate. The State Board of Education has supervision over and management responsibilities for the Department of Education and the public school system and has the power to establish such advisory commissions as in the judgment of the Board will be of assistance to it in carrying out its duties. The Board has the authority to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; to examine and determine all appeals made to it; and to make regulations governing the certification and qualification of all public school teachers.

(4) Agency of Natural Resources: The Agency of Natural Resources consists of the Office of the Secretary, Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, and the Department of Environmental Conservation. While not part of the Agency, the Natural Resources Board provides review and permitting for land use and development.

(5) Agency of Commerce and Community Development: The resources of the Agency of Commerce and Community Development are utilized to foster continued improvement in the Vermont economy and provide assistance to Vermont communities in their efforts to plan for the future. The Agency is composed of the Department of Economic, Housing and Community Development, the

Department of Tourism and Marketing, the Office of the Chief Marketing Officer and Vermont Life Magazine.

(6) Agency of Human Services: The Agency of Human Services administers the programs responsible for meeting the human service needs of Vermont citizens. The Agency is composed of the Office of the Secretary, the Departments of Disabilities, Aging and Independent Living, Corrections, Health, Mental Health, Children and Families, Health Access, the Office of Health Care Reform Implementation, and the Developmental Disabilities Council.

(7) Other Agencies and Departments: There are a number of other agencies and departments responsible for other service areas within the Executive Branch as follows: the Agency of Agriculture, Food and Markets; the Department of Banking, Insurance, Securities and Health Care Administration; the Department of Labor; the Department of Liquor Control; the Military Department; the Defender General; the Department of Public Safety; the Department of Public Service, the Public Service Board, and the Clean Energy Development Board.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, and Superior, District, Family, Environmental, and Probate Courts and the Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices. There are 31 Trial Judges sitting in the Superior, District and Family Courts, including one Administrative Judge. The Family Court has five magistrates. The Environmental Court has two Judges. All judges are appointed by the Governor with the advice and consent of the Senate for six-year terms. The Judicial Bureau has two hearing officers appointed by the Administrative Judge. The Probate Court has 18 districts in the State, each with a Probate Judge elected by the electorate of their respective districts for terms of four years.

There are 14 counties in the State. Their administration consists of two Assistant Judges of each Superior Court, one or two Judges of Probate, a State's Attorney and a Sheriff, all of whom are elected quadrennially. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executory in that the major responsibilities and functions of government pass directly from the State to the cities and towns.

STATE ECONOMY

General

Vermont, which is known as the Green Mountain State, was first settled in 1666 when the French built Fort St. Anne on Isle LaMotte in Lake Champlain. The first English settlement was in 1690 at a location that is now the southern Vermont town of Vernon. Vermont ratified the United States Constitution on January 10, 1791 and joined the Union as the fourteenth State on March 4 of the same year. Rural in character, Vermont measures 9,615 square miles (including land and water area), ranking the State 45th 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, 2000 was 608,827, ranking the State 49th among the fifty states—unchanged from the 1990 Census (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 as of April 1, 2000. The State's largest cities and towns as of the 2000 Census were the City of Burlington, population 38,889; the Town of Essex, population 18,626; the City of Rutland, population 17,292; the Town of Colchester, population 16,986; and the Town of Bennington, population 15,737.

Demographic Trends

Mid-year estimates from the Census Bureau for 2009 show that Vermont's population grew by an estimated 711 persons between July 1, 2008 and July 1, 2009, representing a 0.1% rate of increase. That rate of increase was slower than both the 0.9% rate of increase in population for the nation as a whole over that same period, and the 0.5% rate of population increase in the New England region as a whole. Vermont had an estimated growth of 57,234 persons (rounded) between July 1, 1990 and July 1, 2009, or an average yearly rate of 0.5% per year, which was in line with the 0.5% rate of growth per year for the New England region as a whole. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 1.1% over the same 1990–2009 period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970–2009

	----------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]
2009	621	0.1%	14,429	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 2009, 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 2009 (the latest year for which data for this statistic are available) the median age of the Vermont population was 41.2 years, 4.4 years older than the national average median age of 36.8 years. Among the various age groups, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 79.7% of the State's population versus 75.7% of the total population of the United States) in 2009. 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 2009 (at 79.7% for Vermont versus 78.1% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 5.2% of the State's total population) relative to both the New England average (at 5.8% of the New England regional population) and U.S. average (at 6.9% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 14.5% of the State population) in 2009 was higher than that for the U.S. population as a whole (at 12.6% of the U.S. population overall) in 2007, and one-half of a percentage point higher than the New England average (at 14.0% of the total). In addition, the percentage of Vermont's population in 2009 aged 45-64 years (at 30.3% of the State's population) was significantly higher than both the percentage of the New England regional population (at 28.0% of the total) and the U.S. population overall (at 25.9% of the total) in 2009. Vermont had slightly more of its population in the 85 years and older category (at 2.0% of the State total) relative to the U.S. population (at 1.8% of the U.S. population) in 2009, but a slightly lower percentage than the New England region overall (at 2.2% of the New England regional population) in 2009.

The Vermont population in 2008 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 (2008 American Community Survey). Table 2 shows that a total of 90.4% of Vermont's residents aged 25 years and over have completed a high school education, a level that ranks Vermont 6th among the 50 states, and more than five percentage points higher than the national average of 85.0% of the U.S. population aged 25 years and older. In addition, a total of 33.1% of Vermont residents over 25 years of age have received a four-year college degree or higher, which ranks Vermont 8th

highest among the 50 states. The percentage of Vermont residents aged 25 years and over with a four year college degree exceeds the comparable national average of 25.7% of U.S. residents aged 25 years and over with a four-year college degree by approximately four and a half percentage points.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2009

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	90.4%	6th	85.0%
COLLEGE:			
Bachelor's Degree or More	33.1%	8th	25.7%

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

Data from the 2000 Census (the latest data available) also indicate that Vermont's population remains primarily rural. A total of 61.8% of the State's population lived outside of the State's single metropolitan area—the highest percentage among the 50 states. Vermont's percentage as of April 1, 2000 was over double the national average percentage of persons living outside of metropolitan areas (21.0%), and was over three times the average for the northeastern U.S. region.

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

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	222,361	79.0%	59,061	21.0%
Northeast	45,226	80.6	8,368	19.4
New England	11,220	84.4	2,702	15.6
Vermont	232	38.2	376	61.8

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

Property Valuation

The Vermont Department of Taxes, through its Division of Property Valuation and Review, annually conducts a study of all the grand lists (i.e., tax rolls) prepared by the municipalities in the State. The purpose of this study, commonly known as the "Equalization Study," is to derive estimates of the fair market value of all of the property in the State. These values are then used as one of the primary factors to determine each municipality's school property tax rates. Since most municipalities' grand lists are not at the statutorily required 100 percent fair market value standard in any given year, the study attempts to bring all municipalities' grand lists to 100 percent of market value, thereby "equalizing" the tax rolls statewide.

In general, equalized property values were determined by comparing grand list values to real estate sales or property appraisals and deriving the ratio representing the level of appraisal for each municipality. The resulting estimates of full property value in each municipality were then aggregated to derive an estimate of the market value of all taxable property in the State.

Changes to Vermont law due to Act 178 of the 1996 Session of the General Assembly (changing the agricultural and forest taxation program to reflect the value of property based on its "Current Use") and Act 60 of the 1997 Session (changing the method of education financing in Vermont) altered the nature of determining the value of taxable property under Vermont law. The changes had the following effects: (1) the Current Use program requires municipalities to assess property enrolled in that program at their "use" value as opposed to market value; and (2) the definition of taxable property now reflects only the total fair market value or use value of property that is subject to taxation for school purposes.

The State's Current Use program provides for property taxation of active agricultural land, farm buildings, conservation and managed forest land at their productive use value rather than fair market value. Use value is almost always lower than market value resulting in lower values included in the grand lists.

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

Table 4 sets forth the fair market value of all taxable property in the State as certified by the Division of Property Valuation and Review from 1990 to 1995 and comparable estimates for 1997 through 2009. The State experienced a significant increase in estimated fair market value between 2002 and 2008 largely due to strong price appreciation in residential and second home markets. Residential price appreciation, second home price appreciation, and valuations for some commercial properties first slowed and now have apparently declined slightly as the U.S. and State economic downturns unfolded.[1] With the U.S. and State economies measurably improved and in recovery since late calendar year 2009, further price declines, if any, are expected to remain modest (see Table 5 below).

The estimates from 1997–2009 include an estimate of the fair market value of property enrolled in the Current Use Program. These later values have been estimated by, but have not been certified by, the Division of Property Valuation and Review of the Vermont Department of Taxes.

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[1] For example, housing price changes in Vermont as measured by the Federal Housing Finance Agency (FHFA) Home Price Index declined by 2.6% between the first quarter of fiscal 2009 and the first quarter of fiscal 2010. This was the lowest price decline experienced among the six New England states. Vermont's performance over that time period was the 7th lowest decline among the 49 states that experienced year-over-year declines during the period and ranked 8th best among the 50 states overall.

Table 4
Equalized Property Values
1990–2009

Equalization Date As of April 1,	Fair Market Value
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, and $2,938.6 million in 2009.

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: The adjusted May 2010 Vermont NEEP forecast update (the latest forecast available) is based on the Moody's Analytics U.S. control forecast and represents a slight upgrade from the fall 2009 forecast for many key macro variables. The Moody's Analytics U.S. control forecast includes an uneven path for

U.S. GDP recovery-expansion, and the nonfarm payroll job employment forecast expects full recovery to pre-recession jobs levels by the beginning of calendar year 2013 following expected payroll job losses for calendar year 2010 overall. The U.S. unemployment rate is expected to increase, peaking at 10.1% overall for calendar year 2010, and then slowly improving as the current period of slower recovery momentum passes sometime in calendar year 2011. By calendar year 2014, the national unemployment rate is expected to fall below 6.0%, a level closer to the long-term natural rate of unemployment—meaning unemployment is expected to remain elevated for the next three calendar years.

Given the depths of last year's declines in the U.S. economy in many key areas (e.g. housing, consumer confidence, and manufacturing—especially vehicle manufacturing and related areas), the economy would have to experience a significant amount of recovery before economic conditions and activity levels could once again be termed "normal" or "good." In addition, several significant downside risks in the national economic landscape remain. These include still substantial—although clearly slowing—rates of payroll job losses, the on-going threat of another potential wave of mortgage foreclosures, on-going difficulties in commercial real estate markets that have not yet fully played out, historically low levels of consumer confidence and consumption spending, and persistently high crude oil prices that have now crept back up to $75 per barrel and above. Moreover, the pace and process by which federal fiscal and monetary policy disengage from its heretofore unprecedented involvement in the U.S. economy as the private sector is expected to begin to take up the recovery slack, will largely determine in what areas and how fast the U.S. economy recovers and moves toward a self-sustaining expansion over the next several calendar years.

The Vermont Situation: Because the U.S. economy is perhaps the largest factor driving the Vermont economy, the Vermont economic conditions generally track the pace and profile of U.S. economic activity. Looking at the survey data, payroll jobs in Vermont—like the U.S.—appear to have bottomed in the fall of calendar 2009 and have slowly and unevenly increased through July 2010. The total peak-to-trough decline in jobs, assuming there is no "double dip recession" in State labor markets, totaled more than 16,000 lost payroll jobs over an eight-quarter period. While that level of job decline was not as long or severe of a decline as was expected in previous State economic forecasts, the peak to bottom payroll job declines were still the most significant since the downturn in the early 1990s. With a turning point in the Vermont labor market likely reached, it is expected to take more than three years for payroll jobs to reach their pre-recession level. Vermont also appears to have reached a bottom in real output, or Gross State Product (GSP), during the first half of calendar 2009, and is estimated to have seen positive changes in GSP since then. On an annual basis, Vermont's output recovery will likely be faster, as will the recovery in the State's Personal Income levels. Looking back at the State's payroll job record, it took 60 months in 1991 and 42 months in 2001 for the labor market recovery from those recessions to reach their respective pre-recession employment levels (e.g. the point of full recovery). Recessions prior to 1991 were followed by much shorter periods of recovery. While this downturn has not resulted in job declines as harsh as the 1990-1992 downturn, the State's updated labor market outlook expects that it will take a long period of time for the State's labor market to reach previous job count levels last experienced during mid-calendar year 2009.

On the sector-by-sector front, Vermont's best performance over the last year came in the Leisure and Hospitality sector, where it posted an increase of 3.1% in employment versus August 2009, ranking it 12th highest among the 50 states and 4th among the New England states. The State also had a positive performance in the Education and Health Sector, where it posted an increase of 1.2% over the prior year, ranking 34th highest among the 50 states and 3rd in New England. The State's poorest performance was in Construction. Construction payroll jobs experienced a 12.3% year-over-year decline, ranking 48th in the nation and 6th in New England. The Construction sector, for the most part, has declined in reaction to the unwinding of the housing bubble, and activity has been particularly hard hit in the second home market since 2006.

In contrast, housing prices overall in Vermont have held up relatively well compared to many other states in the country. Using Federal Housing Finance Agency data on a year-over-year basis, Arizona, Florida, Michigan, Nevada and Utah have all experienced house price declines in excess of 10% over the last year, with Nevada having the largest decline at 18.3%. Vermont has the 8th smallest price decline at 2.6%, while New Hampshire has seen declines of 7.5%. New England as a whole has been somewhat insulated from the large price declines seen elsewhere in places like the Far West and the Southeast.

This comparatively stronger house price performance was reinforced by housing price data from the Vermont Department of Taxes' Property Transfer Tax statistics.[1] Calendar year–to-date data through the month of June 2010 show that cumulative average house prices have declined 6.1% from calendar 2007's cumulative first half average (as the peak year in this data series), but has declined by only 1.1% over last year's cumulative average sales price. Sales volume also has apparently begun to recover, and volume is currently at a level that was nearly equal to calendar 2007's sales volumes. The increase in volume represents a significant turnaround in market activity—although it may have been substantially the result of the temporary federal incentives. Even the vacation home market component, which has seen large declines in sales and prices over the period since early in calendar year 2006, has likewise recently begun to show signs of a rebound. This is important since the second home market has been negatively impacted by the recent financial market meltdown—particularly in the Boston and New York financial sectors.

Among the news from key employers in the State is the website developer Dealer Dot Com, Inc. ("Dealer.com"). Dealer.com recently released a plan to double its work force and expand the company's operations, which should mean roughly another 100 jobs in the greater Burlington area. The company has planned the growth over a three year period and had considered moving the bulk of the operations to California, but was convinced to stay in Vermont by an authorization of $3.5 million in incentives by the Vermont Economic Progress Council. Within manufacturing, several notable businesses are reportedly doing well and some are even expanding. Green Mountain Coffee Roasters, Inc. currently employs more than 1,000 people, and its growth should probably mean that it is now a former small business. The company, needing more space, is executing plans to expand operations from its central Vermont location in Waterbury to Williston, closer to the only major metro area of Burlington. Elsewhere in the factory sector, Resolution Inc., an eyewear manufacturer located in Williston, has won recent military contracts ensuring continued operations and job retention in the northwest region of the State.

Another major player in Vermont's manufacturing sector is IBM. IBM is the largest manufacturing employer in the State with roughly 5,000 employees, and any changes at the Essex Junction facility can have significant State economic impacts. IBM, after having several rounds of layoffs during the winter of 2009, has begun to hire again. The company has recently had relatively stronger recent earnings reports in 2010. This was widely viewed as a welcomed development given the manufacturing sector's previous difficulties.

The Moody's Analytics National Economic Forecast Assumptions: The economic outlook for the calendar year 2010–14 period is based on a national outlook assembled by Moody's Analytics, a respected national economic forecasting firm. Frequently, there are fine-tuning adjustments made to this outlook by Administration and Joint Fiscal Office economists as part of the consensus revenue forecasting process and these statistics reflect this underlying Moody's Analytics national economic forecast as adjusted during the consensus revenue forecasting process. The adjusted March 2010 Moody's Analytics national forecast scenario, which formed the national basis for the State's July 2010 consensus revenue forecast, includes a relatively restrained pace of recovery—following the initial inventory re-stocking burst of production activity, which occurred during late calendar year 2009. The adjusted forecast then calls for a moderate, but still historically restrained pace of output growth for the U.S. economy during calendar years 2012–14, topping out at a 5.0% rate of growth during calendar year 2013. The top-line Gross Domestic Product (GDP) growth rate numbers across the calendar year 2010–14 forecast period include 3.18% for calendar year 2010 and 3.7% for calendar year 2011, a 5.0% rate of GDP increase for 2012, topping out at a 5.0% rate of GDP growth for fiscal 2013. For calendar year 2014, inflation-adjusted GDP growth is forecasted to fall to 2.8%.

The Moody's Analytics national outlook for U.S. labor markets calls for payroll job losses in 2010 and a continued high U.S. unemployment rate of just under the 10.0% level. The national forecast also expects only a modest turnaround in 2011 payroll jobs, as reflected by the only 1.5% annual average increase for calendar year 2011. Year-over-year job gains of 2.9% and a more typical 3.2% are expected during calendar years 2012 and 2013, respectively. A payroll job increase of 1.7% is expected for calendar year 2014. The national rate of unemployment is expected to remain high throughout the calendar year 2010–14 timeframe, forecasted to average 9.9% in calendar year 2010, before declining to a persistently high 9.5% average for calendar year 2011. The national unemployment rate is expected to decline to a 7.5% annual average in calendar year 2012 before falling to a "more normal" 6.1% and 5.7% annual average level for calendar years 2013 and 2014, respectively.

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

Consumer prices, as measured by the Consumer Price Index (CPI), are expected in this forecast to increase by 1.8% in calendar year 2010. Calendar year 2011 and beyond are expected to register restrained inflation rates of between 2.2% in calendar year 2011 to 3.1% in calendar year 2012. CPI inflation is expected to range between 2.3% and 3.1% during the 2013–2014 period. As a result, the Moody's Analytics forecast for monetary policy is for the continuation of a generally accommodative monetary policy posture with only gradual tightening through at least the first two years of the forecast period as private sector demand is expected to strengthen. Over the 2012–14 period, the Federal Reserve is expected to tighten, with the first 4.0% Federal Funds rate by the third quarter of calendar year 2012. The Moody's Analytics forecast includes a relatively modest outlook for global oil prices. The price of the benchmark West Texas Intermediate Crude Oil price per barrel is expected to average around $80 per barrel in calendar year 2010 and then rise to average roughly $90-$92 per barrel through calendar year 2014. The West Texas Intermediate Crude Oil price is an important benchmark price for a key commodity that is expected to have a significant cost-push effect on the general inflation rate.

The key risks to the Moody's Analytics five-year outlook include issues surrounding the direct and indirect impacts of the continuing housing market weakness, the effects withdrawal of the federal fiscal and monetary stimulus, and the still fragile financial market. The European sovereign debt crisis, the effects of the epic downturn in construction and commercial real estate markets, and the still elevated level of housing foreclosures are all symptoms of the above-referenced risks. In addition, this past recession was unique in that it was a synchronized global downturn and involved an unprecedented level of financial de-leveraging, which still has not completely run its course, particularly in the public sector. Because of these exceptional risks, the likelihood of a further slowdown in the pace of the national and global recovery or even a double-dip recession remain uncomfortably high for this point in the recovery cycle. Even so, Moody's Analytics expects the United States economy to continue to move along a restrained and halting recovery path during the 2010-14 forecast period, despite these formidable recovery headwinds over the period.

The Vermont Economic Outlook: The consensus forecast-adjusted Vermont near-term economic outlook similarly expects that the Vermont economy will mirror the U.S. economy throughout the calendar year 2010-14 forecast period. Payroll job changes are expected to be negative through mid-calendar year 2010 and remain relatively restrained for much of the next four calendar years. The State's unemployment rate is expected to remain elevated until the pace of labor market recovery picks up, although the State's unemployment rate is expected to continue to track below the U.S. and New England averages.

Vermont payroll employment is expected to post its third consecutive annual average decline in calendar year 2010, declining by 0.4% on an annual average basis. Payroll employment is then expected to return to register positive annual average gains, increasing by 0.8%, 2.2% and 1.9% in calendar years 2010 through 2013, respectively. Inflation-adjusted output growth is forecasted to bounce back from the 0.3% decline in calendar year 2009 and increase by 3.5% in 2010, 4.0% in 2011 and 5.1% in 2012. Following calendar year 2012, inflation-adjusted output growth is expected to increase by 3.2% in calendar year 2013 and 2.4% in calendar year 2014.

On a sector-by-sector basis, the highest rates of expected payroll job growth over the 2010–14 forecast period are expected in Education & Health Services and Professional & Business Services, following a familiar pattern over much of the 2000s. The Construction sector is expected to experience the most restrained job change performance. Over the forecast period, a total of seven of 11 of the State's major North American Industry Classification System (NAICS) categories are expected to recover and add jobs. Reflecting the housing market correction, this forecast update predicts that Construction will decline in calendar years 2010 and 2011, but have a return to the positive category in calendar years 2012 through 2014. In fact, all of the State's major private sector NAICS categories are expected to be in the positive side of the job change ledger by the end of calendar year 2012.

Although the State's relative economic performance is expected to be somewhat mixed over the calendar 2010 to 2014 period, the revised consensus forecast update includes the continuation of tight labor market conditions throughout the State. The State's annual average unemployment rate is expected to average 6.7% in 2010 and 6.6% in 2011 on an annual average basis, following the average annual peak of 6.9% in 2009. For calendar year 2012, the State's unemployment rate is expected to decline by 1.2 percentage points to 5.4%, with further declines expected to 4.5% in calendar year 2013 and to a more full-employment-like 4.2% in calendar year 2014. That track, should this forecast be realized, would result in a Vermont unemployment rate that would be between 2.5 to 3.2 percentage points below the U.S. unemployment rate and more than 1.5 to 2.0 percentage points below the New England average unemployment rate.

Economic Forecast – Summary Data

The following table sets forth comparative statistics and assumptions corresponding to the current short term economic outlook for the Vermont and national economies. The U.S. data correspond to the assumed macroeconomic environment for the Vermont economy as provided by Moody's Analytics for the upcoming five calendar year period as it was developed in March-April 2010 and was subsequently adjusted as needed for the July 2010 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----------				
	2005	2006	2007	2008	2009[1]	2010[1]	2011	2012	2013	2014
Real Output (% Change)										
U.S. Gross Domestic Product	3.1	2.7	2.1	0.4	(2.4)	3.1	3.9	5.0	3.4	2.6
New England Gross Regional Product	1.3	2.5	2.3	1.1	(1.3)	3.5	4.1	4.9	2.9	2.2
Vermont Gross State Product	2.2	1.3	1.7	1.7	(0.3)	3.5	4.0	5.1	3.2	2.4
Non-Farm Employment (% Change)										
U.S.	1.7	1.8	1.1	(0.6)	(4.3)	(0.5)	1.5	3.0	3.2	1.7
New England	0.6	0.9	0.9	0.0	(3.8)	(0.6)	1.0	2.0	2.0	1.0
Vermont	0.8	0.7	0.2	(0.4)	(3.3)	(0.4)	0.8	2.2	1.9	1.5
Personal Income (% Change) (Current Dollars)										
U.S.	5.5	7.5	5.6	2.9	(1.7)	2.8	3.4	5.5	6.0	4.7
New England	3.8	7.9	5.4	2.6	(1.3)	2.1	3.9	5.6	6.3	5.4
Vermont	2.3	8.0	4.8	2.7	(0.3)	2.2	3.4	5.4	5.8	5.5
Unemployment (%)										
U.S.	5.1	4.6	4.6	5.8	9.3	9.9	9.5	7.5	6.1	5.7
New England	4.7	4.5	4.4	5.4	8.3	9.2	8.7	7.1	6.2	5.9
Vermont	3.5	3.7	3.9	4.5	6.9	6.7	6.6	5.4	4.5	4.2
FHFA Home Prices [2] (% Change) (Current Dollars)										
New England	10.8	3.2	(1.1)	(3.5)	(4.1)	(4.9)	(1.2)	2.2	3.0	3.5
Vermont	13.9	8.4	3.1	0.4	(1.5)	(2.1)	0.1	1.1	2.1	2.7

[1] Some 2009 values are preliminary and subject to further revision, and 2010 values in this table reflect projected rates as of July 2010

[2] FHFA means Federal Housing Finance Agency.

Sources: Moody's Analytics (U.S., VT) March 2010 Control Forecast, New England Economic Partnership May 2010 Forecast (New England).

The data portrayed in Table 5 is consistent with the labor market and personal income growth experience of the State during the early 2000s, where the Vermont economy underwent a generally milder economic downturn during the period relative to both the nation and the New England region as a whole. The State's rate of job recovery and income recovery/growth performance following the 2001 downturn was slightly below the U.S. average, which continued during the mid-2000s and into the later stages of the economic upturn during that period. However, despite peaking earlier in its labor markets than the U.S. and New England economies leading into what has been called the "Great Recession" of 2009, the State's non-farm payroll jobs fell at a slower pace and declined less deeply than either New England or the U.S. as a whole during the Great Recession of 2009. For calendar year

2010, Vermont is forecast to see inflation-adjusted output rebound moderately faster than the U.S. as a whole and payroll jobs and Personal Income are expected to rebound slightly faster than the average for the New England regions.

The State's economic performance is expected to accelerate like its U.S. and New England counterparts during 2011 and 2012, before easing back in calendar years 2013 and 2014 Overall, the State's relative economic performance is expected to remain on a recovery, and eventually, an expansionary path over the calendar year 2010 to 2013 period. The forecast also expects that the State's unemployment rate will continue to track below both the U.S. and New England regional averages throughout that time frame. This forecast is consistent with the favorable relative unemployment rate position the State has held for the last several years despite a reduced supply of labor that has eased significantly during the current recession. Some State labor market analysts have indicated that the lack of available labor force supply contributed to the relatively constrained payroll job growth across the State throughout the early- and mid-2000s.

Regional Comparison

Data presented in Tables 6 through 8 include comparative labor market information for the State relative to the other New England states and the major metropolitan areas in the New England region. Table 6 shows the most current monthly unemployment rate data for Vermont, seven northeastern states, and the U.S. Tables 7 and 8 set forth the latest annual unemployment and payroll job change data available for the various New England metro areas. These data show that during the current and previous economic cycles the Burlington metropolitan area continues to be a strong performing metropolitan area compared to the other 20 metropolitan areas in the New England region. The tables show that the State and its major metropolitan area have among the lowest unemployment rates, and among the best relative job change performances, in the region during the most recent business cycle (November 2001 through December 2007) plus the latest recession (January 2008 to June 2009). This previous cycle includes the year with the most recent labor market peak and trough surrounding the early-2000s national economic recession and subsequent expansion up-cycle in the New England region and the United States as a whole that ended in December 2007.

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

	August 2010	July 2010	August 2009	Change From Last Year
Vermont	6.0%	6.0%	6.9%	(0.9%)
Connecticut	9.1	8.9	8.6	0.5
Maine	8.0	8.1	8.2	(0.2)
Massachusetts	8.8	9.0	8.8	0.0
New Hampshire	5.7	5.8	6.7	(1.0)
New Jersey	9.6	9.7	9.7	(0.1)
New York	8.3	8.2	8.8	(0.5)
Rhode Island	11.8	11.9	11.7	0.1
United States	9.6	9.5	9.7	(0.1)

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

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

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

City	Annual Average % 2002	Annual Average % 2003	Annual Average % 2004	Annual Average % 2005	Annual Average % 2006	Annual Average % 2007	Annual Average % 2008	Annual Average % 2009
Connecticut								
Bridgeport, Stamford, Norwalk	4.3	5.1	4.6	4.5	4.0	4.1	5.2	7.8
Danbury	3.4	4.2	3.8	3.8	3.4	3.5	4.5	7.3
Hartford-W. Hartford-E. Hartford	4.5	5.7	5.2	5.1	4.6	4.7	5.7	8.3
New Haven	4.3	5.4	4.9	5.0	4.6	4.8	5.8	8.2
Norwich-New London	4.0	4.8	4.5	4.5	4.2	4.3	5.5	7.9
Waterbury	6.0	7.2	6.3	6.3	5.7	6.0	7.5	11.1
Maine								
Bangor	4.1	4.6	4.7	4.7	4.7	4.5	5.2	7.4
Lewiston-Auburn	4.4	5.0	4.5	4.9	4.7	4.6	5.4	8.5
Portland, So. Portland, Biddeford	3.3	3.6	3.5	3.7	3.5	3.5	4.2	6.7
Massachusetts								
Barnstable Town	4.5	5.1	4.9	4.7	4.8	4.6	5.6	8.5
Boston, Cambridge, Quincy	5.3	5.7	5.0	4.5	4.4	4.1	4.8	7.8
Leominster, Fitchburg, Gardner	6.5	7.0	6.5	6.4	6.1	5.7	6.7	10.7
New Bedford	6.9	7.7	7.0	6.8	6.5	6.3	7.7	11.8
Pittsfield	4.6	5.1	4.7	4.4	4.2	4.2	5.0	8.1
Springfield	5.1	6.0	5.6	5.3	5.3	5.0	5.9	8.9
Worcester	5.4	6.0	5.4	5.0	4.9	4.8	5.6	9.0
New Hampshire								
Manchester	4.3	4.3	3.7	3.6	3.6	3.5	3.8	6.4
Portsmouth	4.2	4.1	3.6	3.5	3.3	3.2	3.5	5.6
Rochester-Dover	4.6	4.4	3.5	3.5	3.4	3.4	3.8	6.5
Rhode Island								
Providence, Fall River, Warwick	5.3	5.6	5.5	5.3	5.3	5.4	7.6	11.4
Vermont								
Burlington-South Burlington	3.6	4.0	3.3	3.2	3.4	3.4	3.9	6.0

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: Federal Reserve Bank of Boston.

Table 8

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

City	Number of Nonfarm Jobs Calendar Year 2000 Annual Average (000s)	Number of Nonfarm Jobs Calendar Year 2009 Annual Average (000s)	Change in Number of Nonfarm Jobs Calendar Years 2000–2009 (000s)	Percent Change in Nonfarm Jobs Calendar Years 2000–2009
Connecticut				
Bridgeport, Stamford, Norwalk	426.4	399.6	(26.8)	(6.3%)
Danbury	70.1	65.6	(4.5)	(6.4)
Hartford-W. Hartford-E. Hartford	556.7	540.3	(16.4)	(3.0)
New Haven	274.5	266.0	(8.5)	(3.1)
Norwich-New London	128.1	131.8	3.7	2.9
Waterbury	71.4	62.4	(9.0)	(12.6)
Maine				
Bangor	62.2	64.7	2.5	4.0
Portland, So. Portland, Biddeford	182.7	188.4	5.7	3.1
Massachusetts				
Barnstable Town	95.2	97.4	2.2	2.3
Boston, Cambridge, Quincy	2,538.8	2,408.8	(130.0)	(5.1)
New Bedford	67.9	64.0	(3.9)	(5.7)
Springfield	301.8	285.7	(16.1)	(5.3)
Worcester	245.1	237.8	(7.3)	(3.0)
New Hampshire				
Manchester	95.2	97.7	2.5	2.6
Portsmouth	50.8	53.6	2.8	5.5
Rochester-Dover	51.6	55.8	4.2	8.1
Rhode Island				
Providence, Fall River, Warwick	576.2	540.1	(36.1)	(6.2)
Vermont				
Burlington-South Burlington	113.0	110.7	(2.3)	(2.0)

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

Composition of the Vermont Economy

Tables 9 and 10 include data that profile the earnings and employment levels by major industry for the State of Vermont under the North American Industry Classification System (NAICS). The earnings data cover the calendar year 2008–09 period (calendar year 2009 being the latest year where complete annual average data are available). Employment data by industry are provided for the 2007–09 calendar year period for Vermont and 2009 for the U.S. (2009 being the latest year where annual average data are available from the Bureau of Economic Analysis of the U.S. Department of Commerce).

The full-time and part-time jobs data through calendar year 2009 show that manufacturing remains one of the State's most important sectors, representing an estimated 8.2% of total all non-farm employment in 2009 (versus 7.1% of employment for the U.S. in 2009) and an estimated 12.2% of total earnings in 2009, down from 13.5% of total earnings in Vermont during calendar year 2008. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 13.3% of 2009 total employment (up from 12.9% of total employment in 2008) and 14.4% of total earnings in 2009, Retail Trade at 11.3% of 2009 total employment (down four tenths of a percentage point in share from an 11.7% share in 2008) and 7.9% of total earnings in 2009, Private Educational Services at 4.1% of total employment versus the U.S. average of 2.3% in 2009, and Accommodations and Food Services at 7.3% of total employment versus 6.9% of employment for the U.S. as a whole in 2009. Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on Construction, Manufacturing, Private Education Services, Health Care and Social Assistance, Retail Trade, Accommodations and Food Services, Arts, Entertainment, and Recreation, and the Farm sector. The State's relatively high reliance on Retail Trade, Arts, Entertainment and Recreation, and Accommodations and Food Services reflects the importance of travel and tourism to the State's economy. At the same time, the State has a slightly lower reliance on sectors such as Professional and Technical Services, Financial Activities, Transportation, Warehousing and Utilities, Management of Companies and Enterprises, Mining, Administrative and Waste Services, and the Wholesale Trade sector for its employment and earnings.

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Table 9
Total Earnings by Industry
2008–2009
($Thousands)

	2008		2009	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$160,683	0.9%	$74,875	0.4%
Non-Farm Industry:				
Construction	1,184,443	6.9	1,019,970	5.9
Forestry, Fishing and Other Related Activities	71,014	0.4	72,819	0.4
Mining	53,756	0.3	45,681	0.3
Utilities	223,421	1.3	232,400	1.4
Manufacturing	2,319,152	13.5	2,092,127	12.2
Wholesale Trade	686,474	4.0	655,350	3.8
Retail Trade	1,417,803	8.3	1,363,136	7.9
Information	333,984	1.9	321,119	1.9
Financial Activities	812,081	4.7	765,080	4.5
Real Estate and Rental and Leasing	178,051	1.0	172,610	1.0
Transportation and Warehousing	420,905	2.5	398,290	2.3
Management of Companies and Enterprises	19,199	0.1	50,007	0.3
Professional, Scientific and Technical Services	1,299,129	7.6	1,290,335	7.5
Education Services	536,141	3.1	545,284	3.2
Health Care and Social Assistance	2,348,723	13.7	2,478,985	14.4
Arts, Entertainment, and Recreation	145,499	0.8	147,386	0.9
Accommodations and Food Services	717,727	4.2	688,569	4.0
Administrative and Waste Services	420,935	2.5	394,418	2.3
Other Private Services-Providing	672,090	3.9	655,846	3.8
Total Private Non-Farm Industries	$13,860,527	80.8%	$13,389,412	78.0%
Government and Government Enterprises	$3,140,145	18.3%	$3,178,857	19.1%
Total Farm and Non-Farm Earnings	$17,161,355	100.0%	$16,643,144	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
2007–2009

	2007		2008		2009		U.S. 2009	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	8,425	2.0%	8,716	2.0%	8,667	2.0%	2,642,000	1.5%
Non-Farm Industry:								
Construction	33,291	7.8	32,462	7.6	28,812	6.9	9,507,000	5.5
Forestry, Fishing, and Other Related Activities	3,538	0.8	3,481	0.8	3,475	0.8	836,300	0.5
Mining	1,062	0.2	1,304	0.3	1,198	0.3	1,358,500	0.8
Manufacturing	38,921	9.1	38,572	9.0	34,158	8.2	12,394,700	7.1
Wholesale Trade	11,670	2.7	11,631	2.7	10,978	2.6	6,160,900	3.5
Retail Trade	50,044	11.7	49,928	11.7	47,044	11.3	17,706,100	10.2
Information	7,210	1.7	7,239	1.7	7,050	1.7	3,355,300	1.9
Financial Activities	13,020	3.0	13,624	3.2	14,229	3.4	9,429,000	5.4
Transportation, Warehousing & Utilities	11,198	2.6	9,425	2.2	8,751	2.1	5,498,300	3.2
Management of Companies and Enterprises	14,069	3.3	15,442	3.6	13,992	3.4	7,532,100	4.3
Real Estate and Rental and Leasing	480	0.1	388	0.1	470	0.1	1,966,600	1.1
Professional and Technical Services	24,917	5.8	26,554	6.2	25,222	6.1	11,832,800	6.8
Education Services	17,497	4.1	17,614	4.1	17,041	4.1	3,931,400	2.3
Health Care and Social Assistance	54,053	12.6	55,075	12.9	55,510	13.3	18,763,100	10.8
Arts, Entertainment, and Recreation	10,323	2.4	10,937	2.6	10,861	2.6	3,827,000	2.2
Accommodations and Food Services	31,592	7.4	31,502	7.4	30,594	7.3	12,000,100	6.9
Administrative and Waste Services	16,004	3.7	16,748	3.9	15,517	3.7	9,940,300	5.7
Other Services, except public administration	23,767	5.6	25,634	6.0	24,269	5.8	9,882,500	5.7
Total Private Sector Non-Farm	362,656	84.9%	369,416	86.4%	351,109	84.2%	146,523,200	84.3%
Government	56,264	13.2%	56,785	13.3%	57,045	13.7%	24,649,000	14.2%
Total Employment	427,345	100.0%	434,917	100.0%	416,821	100.0%	173,814,200	100.0%

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

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

Largest Private Employers

The Vermont economy reflects a diverse mix of manufacturing, tourist-based, education/higher education, professional services (including health care, business, and private sector higher education services), trade, and other employers. In 2009, the State's two largest private sector employers were IBM and Fletcher Allen Health Care. IBM is a global manufacturer of semiconductor and related devices with a total of roughly 5,000 jobs according to various published sources. The firm has generally been successful in securing major long term supply contracts for both private sector and governmental (e.g. the U.S. Department of Defense) customers and through the development of new products. This has led to a stabilizing in their employment numbers over the last three years, with the periodic addition of small numbers of new workers and the periodic reduction of some others based on the firm's staffing needs for its fabrication operations. One of the largest markets for the IBM Essex plant's production remains the consumer electronics market, which remains a growing part of household spending. IBM's strategy to capture increased market share in the consumer electronics market has underpinned growth in demand for IBM's Microelectronics Division. Fletcher Allen Health Care is reported to have approximately 6,700 employees (including per diem and part-time employees) and is now operating in significantly expanded and upgraded facilities. Other major private sector employers in the State include several companies reportedly with roughly 1,000 employees in the State. These employers reflect a mix of retail (Martin's Food Stores d.b.a. Hannaford's, Price Chopper Stores), financial institutions (People's United Bank), manufacturers (General Electric Company), health care including services providers (Central Vermont Medical Center, Inc., Rutland Regional Medical Center), medical software providers (GE Health Care), higher education (Middlebury College), manufacturers (Green Mountain Coffee Roasters), and the travel-tourism industry (Killington LTD and the Stratton Corporation). Other notable employers in the State include Central Vermont Public Service Company (the State's largest investor-owned utility), FairPoint Communications, Inc. (which acquired the land line operations of Verizon New England, Inc., which has begun to emerge from bankruptcy), TD Banknorth NA, B.F. Goodrich Aerospace of Vergennes, and several of the State's major resorts (Mt. Mansfield Company Inc. in Stowe, Jay Peak in Jay, Smugglers Notch Management Company, LTD in Jeffersonville, and Mount Snow, LTD in West Dover). The University of Vermont and State Agricultural College also is a major employer in the State with a total of over 3,000 employees according to press reports. However, the University of Vermont is classified as a public sector employer and is not considered to be a part of the private sector employment mix of the State economy for any of the major employment job count surveys conducted by the Vermont Department of Labor.

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1990–2009 period. On an average annual basis, total personal income in Vermont has increased by 4.7% per year from 1990 to 2009, compared to 4.6% for the New England region and a 4.9% national average rate of growth for the same period. According to the U.S. Department of Commerce data presented in Table 12, Vermont's per capita personal income in calendar 1990 was $17,869 or 92.3% of the U.S. average of $19,354. By calendar 2009, Vermont's per capita personal income had risen to $38,503, or 98.4% of the U.S. average of $39,138. Vermont's per capita personal income declined by 1.9% in calendar 2009, the same as the New England regional average decline, and significantly better than the national average decline of 2.6% for calendar 2009. These same data show that Vermont's change in per capita personal income for calendar year 2009 ranked 2nd among the six New England states, with only the state of New Hampshire actually increasing on an average annual basis.

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

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

Table 12
Growth in Nominal Dollar Per Capita Personal Income for
Vermont, New England and the United States
Calendar Years 1990–2009

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

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

Employment Statistics

Vermont had a labor force of 360,000 (rounded) on an annual average basis in 2009, with approximately 335,000 estimated as being employed and approximately 25,000 estimated as being unemployed in that year. Vermont's 6.9% unemployment rate in calendar year 2009 compares favorably with the 9.3% annual average unemployment rate for the nation overall and the 8.3% annual average unemployment rate for the New England region for that year. For calendar year 2010, 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 calendar year 2009. Partial year data for calendar year 2010 are also presented in Table 13.

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 (%)
2010*	360	336	6.5	9.0	9.9
2009	360	335	6.9	8.3	9.3
2008	357	341	4.5	5.4	5.8
2007	355	341	3.9	4.5	4.6
2006	356	342	3.7	4.5	4.6
2005	349	337	3.5	4.7	5.1
2004	347	334	3.7	4.9	5.5
2003	347	331	4.5	5.4	6.0
2002	346	332	4.0	4.8	5.8
2001	341	330	3.3	3.7	4.9
2000	336	327	2.7	2.8	4.0
1999	335	326	2.9	3.2	4.2
1998	332	322	3.1	3.5	4.5
1997	329	316	4.0	4.4	5.0
1996	324	310	4.4	4.8	5.4
1995	319	305	4.3	5.4	5.6
1994	316	302	4.6	5.9	6.1
1993	315	298	5.3	6.8	6.9
1992	312	292	6.4	8.1	7.5
1991	309	288	6.6	8.0	6.9
1990	309	294	4.9	5.7	5.6

* Average through August 2010.
Sources: Vermont Department of Labor (Vermont); Federal Reserve Bank of Boston (New England and the United States).

Transportation

Vermont's highway system includes 320 miles of interstate routes, over 2,387 miles of toll-free State highways, and approximately 11,415 miles of supporting roads with several major road construction projects in progress. One such project is the Bennington By-Pass, which in its entirety, is expected to alleviate east-west traffic in the U.S. Route 9 to U.S. Route 7 corridor that currently passes through downtown Bennington. The first completed section of the Bennington By-Pass, the Western Segment, was opened in October 2004. Construction began on the second part of the project, the Northern Segment, in July 2007 and is expected to continue through calendar year 2012. No construction schedule has been developed for the third and final Southern Segment. Construction of new sections of the Chittenden County Circumferential Highway was suspended on May 10, 2004 as a result of a U.S. District Court decision. That decision required the Vermont Agency of Transportation ("VTrans") to complete an updated environmental impact assessment that met the current requirements of the National Environmental Policy Act. This assessment is nearing completion with the release of the Circ-Williston Final Environmental Impact Statement ("FEIS"). The deadline for submitting comments on the FEIS to VTrans was August 27, 2010. The FEIS will be incorporated into the 404 Permit Process of the U.S. Army Corps of Engineers,

which also involves participation by the U.S. Environmental Protection Agency and the U.S. Fish and Wildlife Service. This will be followed by a request by VTrans for a Least Environmentally Damaging Practicable Alternative (LEDPA) from the 404 Permit Process and a request for a Record of Decision from the U.S. Federal Highway Administration—the last step in the process except for any potential legal appeals.

Vermont also has recently received significant amounts of ARRA funding that will enable the State to repair and significantly upgrade its roads and bridges. In calendar 2010, the State expects to pave roughly 250 miles of highways and interstate (up from 142 miles in 2009), repair or upgrade roughly 20 additional bridges (relative to the number typically repaired or upgraded in a year), and undertake additional design and right of way acquisition that will enable developing projects to advance faster than normally is the case. Overall, ARRA funding over the last two years for highways, roads, and bridges has been roughly equivalent to three annual federal funding authorizations to the State.

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

Transit. Vermont Transit, a Greyhound subsidiary, operates bus routes in many of the major communities. There are 12 public transit providers, which provide an estimated 4.5 million passenger trips each year.

Air. There are 17 public use airports, including ten State-owned airports and two that are municipally owned, including Burlington International Airport ("BIA"). During calendar year 2009, enplanements at BIA totaled 707,891, a decline of 6.1% from calendar year 2008's record of 759,021 enplanements total, reflecting the impact of the 2007-09 recession. For calendar year 2010, through August 2010, passenger enplanements totaled 433,916, down 11.7% as compared to the 2009 passenger enplanements total for the same period of 491,254. Enplanements to-date in calendar year 2010 have been adversely impacted by the on-going economic weakness and a runway rehabilitation project at the BIA that has temporarily reduced the overnight hours of operation at the airport from April 2010 through mid-October 2010.

As of September 2010, 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 three Washington, D.C. area airports, and Orlando, Florida. In addition, carriers also provide non-stop service to Chicago, Cleveland, and Detroit. Jet Blue Airlines continues to be the most significant carrier, with approximately 25% of total enplanements during calendar 2009. Other major carriers currently at BIA include Continental Airlines, Delta Airlines, and U.S. Airways.

A $25.6 million facilities expansion plan was completed at the BIA in several stages between calendar years 2003 and 2006. Facility upgrades included a significant addition to the airport's parking garage, the completion of a second skywalk between the parking garage and the terminal, additional gates, and expanded baggage handling and terminal-waiting facilities. In calendar year 2009, BIA was awarded a total of $12.75 million of federal grants for two of its runway improvement and reconstruction projects. The grant money was awarded from the Federal Aviation Administration's Airport Improvement Program and from ARRA. In calendar year 2010, the BIA received approval from Burlington City voters for a $21.5 million expansion of its existing three-story, 2,100 space parking garage to provide 600 additional parking spaces. Construction is currently underway and is scheduled to be completed by the Spring of 2011. In addition, in May 2010, Heritage Aviation, one of the airport's Fixed Base Operators (FBO), opened its 79,000 square foot FBO terminal and maintenance facility, which involved the conversion of a 56-year old Air National guard station into a state-of-the-art modern facility. Heritage Aviation now provides 24-hour service, 7 days per week to private aircraft. The BIA has plans to invest another $150 million over the next 20 years for general aviation, cargo and new facilities upgrades including an Aviation Tech Center on the airport for which funding has already been partially secured.

Utilities

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

In terms of the State's supply needs over the next ten years, there have been a number of notable recent developments. First, Entergy Nuclear of Mississippi (Entergy) is seeking an extension of its license at the Vermont Yankee nuclear facility in Vernon. In February 2010, the State Senate voted against allowing the VPSB to consider granting a 20-year operating license extension for the plant. After the Senate vote, Entergy issued a statement that it remained determined to prove its case for the plant to the Vermont General Assembly and to the public. Currently, it is unclear whether there will be another vote on this matter in next year's legislative session. Entergy Corporation has indicated that it could still operate the plant past March 2012 if the matter of re-licensing was settled by the spring of calendar year 2011. The State cannot predict the outcome of the relicensing of the plant, but expects in any event to have an adequate energy supply.

In addition to the Vermont Yankee power plant relicensing issue, the State's major utilities have been successful in securing long-term power purchase agreements for power from several sources. In August 2010, the State's two major investor-owned utilities, Green Mountain Power Corporation and Central Vermont Public Service Corporation, 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. In addition, both investor-owned utilities also have announced major power supply agreements with other renewable energy projects, including a total of 55% of the output from the 99 megawatt Granite Reliable Wind generation project in Coos County, New Hampshire over the next 20 years. In May 2010, Green Mountain Power Corporation also announced it had filed an application with State regulators to construct a 63 megawatt wind generation project in Lowell, Vermont to complement its power supply contract purchases with additional generation resources of its own. Negotiations with other potential sources and potential projects are on-going as each utility continues to explore additional long-term purchases. These announced and potential additional power supply purchases, along with the recently completed transmission system upgrades by the Vermont Electric Power Company (VELCO) and a nearly $69 million ARRA grant to implement so-called SmartGrid technology throughout the State's transmission system by the end of calendar year 2012, have positioned the State's electrical system well for meeting the future needs of the State's residents and businesses over the next decade.

Natural gas is an important source of energy, both environmentally and economically, in northwestern sections of Vermont that receive natural gas service through Vermont Gas Systems, Inc. (VGS) supplied from a connection at Highgate Springs to the Trans Canada Pipeline. VGS serves approximately 42,000 customers in Chittenden and Franklin Counties. Its customer base continues to increase by about 3% per year. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline segments constructed each year.

Vermont currently has a robust and extensive telecommunications network. In early 2008, Verizon sold its land-line business in Maine, New Hampshire and Vermont to FairPoint Communications, Inc. ("FairPoint") of Charlotte, North Carolina. FairPoint currently offers local telephone service to approximately 85% of Vermont consumers while nine other independent local telephone companies serve the areas of the State not served by FairPoint. The independent telephone companies have deployed broadband to virtually all of their service territories. In addition, Level 3 and several other carriers have extensive fiber optic networks that reach most regions of the State. On October 26, 2009, FairPoint voluntarily filed for Chapter 11 bankruptcy protection after reportedly reaching agreement with key lenders to lower its debt from $2.7 billion to $1.0 billion. Although the FairPoint restructuring plan includes other major cost cutting initiatives and is seeking concessions from its employees, the company has indicated it is still committed to aggressive broadband deployments in the State. The proposed restructuring plan must be approved by the U.S. Bankruptcy Court in the Southern District of New York and by certain state regulators, including in Vermont, Maine, and New Hampshire. As of September 1, 2010, regulators in New Hampshire and Maine and the 15 other states where the company operates have approved the

company's financial reorganization plan. Regulatory approval has not been received in Vermont and FairPoint continues to work with the VPSB to gain approval. If it is unable to reach agreement with Vermont regulators, FairPoint also has the option to ask the federal bankruptcy Court to overturn the VPSB's rejection of its reorganization plan.

Broadband services are currently available to approximately 87% of the residents of the State and incumbent carrier commitments are in place to expand coverage to well over 90% by the end of calendar year 2010. During 2009 and 2010, public and private parties submitted several ARRA funding applications to assist in the expansion of broadband availability to State residents. As of September 2010, more than $165 million in ARRA capital funding grants and loans have been approved, which has dramatically changed the investment environment affecting broadband and mobile development in Vermont. The Vermont Telecommunications Authority ("VTA") is working closely with the State's telephone, broadband and electric utilities to ensure the development of tower infrastructure and fiber optic connection that will connect to all schools, libraries, medical facilities, State offices, electric substations, and provide backhaul facilities for communication companies, thereby enabling the State to meet its Act 79 mandate.[1] For fiscal years 2009 through 2011, the Vermont Legislature provided a total of $7.65 million in direct appropriations for broadband and cellular related projects to enhance and expand high speed internet access to all State residents. In addition, the General Assembly in 2007 also authorized the provision of the State's moral obligation for up $40 million in bonds to supplement direct State appropriations and ARRA capital grants and loans to order to achieve this goal. See "STATE INDEBTEDNESS – Reserve Fund Commitments – *Vermont Telecommunications Authority*."

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

STATE FUNDS AND REVENUES

Budget Process

The Governor submits to the General Assembly, not later than the third Tuesday of every regular and adjourned session, a recommended budget for appropriations or other authorizations for State expenditures for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act, which must be approved by the Governor before expenditures may be made.

The budget process commences in July of each year when the Emergency Board determines estimates of available revenues based on a forecast for the next fiscal year. The Department of Finance and Management makes provisional allocations to the various budgetary entities ("Departments"), and an assessment of funding required to continue operations at the prior year's levels. Negotiation of revised or incremental funding levels, reflecting Departments' initiatives and priorities and directives from the Governor, while remaining within the projected revenue parameters, takes place through meetings between Departments and the Agency of Administration. Budget documents are submitted electronically, presenting appropriations and expenditures for the current and immediately prior fiscal years and the budget request for the subsequent fiscal year. The Emergency Board has historically updated the revenue forecast in January of each year, which may result in revised funding and programmatic recommendations, which are then presented by the Governor to the Legislature no later than the third Tuesday of every annual legislative session, as required by law. However, with the continuation of the current recession, the Emergency Board has been scheduling interim quarterly revenue reviews. 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

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

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 2010 Comprehensive Annual Financial Report (CAFR) is expected to be completed by December 31, 2010. 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 audited basic financial statements of the State for fiscal year 2009, 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 2009 CAFR (pages 14 through 151) at Finance & Management's website 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, 2009. This was the second consecutive year that the State has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The State plans to submit its fiscal year 2010 CAFR to the GFOA to determine its eligibility for another certificate.

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

All fiscal year 2010 and 2011 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. The amount of net assets restricted by enabling legislation for the State as of June 30, 2009 (the most recent fiscal year for which this data is available) is $200.2 million.

(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 2009 audited financial statements attached hereto as Appendix A for further explanation of these criteria.) The general characteristics of the fund types are as follows.

Governmental Fund Types

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

Special Revenue Funds: These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

Transportation Fund (Major Fund): Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on Transportation Fund bonds and notes (which include the State Transportation and Highway bonds and notes). The principal sources of revenue in this fund are Motor Fuel Taxes, Purchase and Use Taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Education Fund (Major Fund): Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as

well as property tax reform. Through fiscal year 2004, the sources of revenue in this fund (16 V.S.A. 4025(a)) were the education property tax, the local share property tax, revenues from the State lotteries, the tax on telecommunications services, revenues from brokerage fees, 20 percent of the meals and rooms and alcoholic beverages tax, 16 percent of the gasoline tax, one-sixth of the motor vehicles Purchase and Use Tax revenue, 19 percent of the tax on corporations including Subchapter S corporations, partnerships and limited liability companies, 58.3 percent of bank franchise tax revenue, and funds appropriated or transferred by the General Assembly. Beginning in fiscal year 2005, in accordance with 16 V.S.A. 4025(a) as amended, the sources of funding are as follows: statewide education property tax; revenues from the State lotteries; revenue from the electric generating plant education property tax; one-third of the motor vehicle Purchase and Use Tax; one-third of the Sales and Use Tax; Medicaid reimbursements pursuant to 16 V.S.A. 2959a(f) and funds appropriated or transferred by the General Assembly. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

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

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

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

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

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

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

Proprietary Fund Types

Enterprise Funds: These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the State's intent is that the costs of providing goods or services to the public be financed or recovered primarily through user charges, or (b) where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These types of funds are reported in both major (3 funds) and non-major (5 funds) categories as described above.

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

Fiduciary Fund Types

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

Pension and Other Employee Benefit Trust Funds: These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement System of Vermont, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account, the State Employees' Postemployment Benefit Trust Fund and the Vermont Municipal Employees' Health Benefit Fund. See "PENSION PLANS."

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

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

Agency Funds: These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding and State income tax withholding.

GAAP-Based Fund Results

The following is selective comparable financial information based on audited financial data for specific governmental funds for fiscal years ending June 30, 2009 and 2008 as contained in each fiscal year's CAFR. **Fiscal year ending June 30, 2010 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

For fiscal year 2009, the General Fund had a $149.9 million total fund balance as compared to a $155.7 million total fund balance in fiscal year 2008, a decrease of $5.8 million. The unreserved portion of this fund balance decreased from $54.5 million in 2008 to $46.7 million in 2009. This decrease occurred after the General Fund Budget Stabilization Reserve balance was increased from $57.8 million in 2008 to $60.0 million in 2009, the Reserve for General Fund Surplus (32 V.S.A. 308c) was decreased from $18.98 million in 2008 to $0 in 2009, the Reserve for Human Services Caseload Management decreased from $17.2 million in 2008 to $16.3 million in 2009, and the Reserve for Revenue Shortfall was established with a balance of $14.8 million. In summary, the total of the unreserved portion and the budget stabilization reserve portion of the fund balance decreased from $112.3 million at the end of fiscal year 2008 to $106.7 million at the end of fiscal year 2009 for a total decrease of $5.6 million.

For fiscal year 2009, the Transportation Fund had a total fund balance of $10.2 million, a decrease of $3.4 million compared to the fiscal year 2008 balance. The unreserved portion of the Transportation Fund had a total fund deficit of $1.8 million for fiscal year 2009, which represents a decrease of $3.1 million compared to fiscal year 2008. The Budget Stabilization Reserve in the Transportation Fund ended fiscal year 2009 with a $11.3 million balance, an increase of $91,000 from the fiscal year 2008 balance. In summary, the total of the unreserved, undesignated portion and the budget stabilization reserve portion of the fund balance decreased from $12.6 million at the end of fiscal year 2008 to $9.5 million at the end of fiscal year 2009 for a total decrease of $3.1 million.

For fiscal year 2009, the Education Fund had a total fund balance of $44.6 million, an increase of $4.3 million compared to the fiscal year 2008 balance. The unreserved portion of the 2009 total fund balance was $13.6 million, which represents an increase of $2.7 million compared to fiscal year 2008. The Budget Stabilization Reserve in the Education Fund increased from $29.4 million in fiscal year 2008 to $31.1 million in fiscal year 2009. In summary, the total of the unreserved portion and the budget stabilization reserve portion of the fund balance increased from $40.3 million at the end of fiscal year 2008 to $44.6 million at the end of fiscal year 2009 for a total increase of $4.3 million.

In summary, as of June 30, 2009, the budget stabilization reserves in the the General, Transportation, and Education Funds were funded at their respective maximum statutory levels.

For fiscal year 2009, the Global Commitment Fund had a total fund deficit of $29.4 million, a decrease of $6.7 million compared to the fiscal year 2008 balance. This was the result of total expenditures of $873.7 million funded by net transfers in of $880.4 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 2009, the Federal Revenue Fund reported a total fund balance of $32.9 million, which was a decrease of $36.9 million compared to the fiscal year 2008 balance. The unreserved portion of this total fund balance decreased from $58.1 million in 2008 to $19.6 million in 2009, a decrease of $38.5 million. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

The principal sources of State General Fund revenues are the Personal Income Tax, the Corporate Income Tax, a general State Sales Tax, and a Meals and Rooms Tax. These four tax sources accounted for 85.3% of the General Fund revenue in fiscal year 2010.

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 $498.0 million (adjusted) or 48.0% of net General Fund revenues in fiscal year 2010.

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

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. In fiscal year 2010, the Sales and Use Tax totaled $207.4 million or 20.0% of net General Fund receipts.

Meals and Rooms Tax: A 9% tax is imposed on taxable meals and the rent of each occupancy. The Meals and Rooms Tax imposed on liquor consumed on the premises is 10%. Through June 30, 2004, the law required a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund. Since July 1, 2004, 100% of the gross receipts from this tax will remain in the State's General Fund. In fiscal year 2010, Meals and Rooms Tax revenues amounted to $118.0 million or 11.3% 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 2010, receipts from the Corporate Income Tax were $62.8 million (adjusted) or 6.1% of the revenues available to the General Fund. The receipts for fiscal year 2010 reflects the consensus manual adjustment made to account for the over-reporting of nonresident withholding payments described in the Personal Income Tax section above.

Insurance Tax: Insurance companies are taxed at a rate of 2.0% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written. The rate schedule for captive insurance rates was reduced in 2003 to a range from .0038 to .00072 (from previous rates of .004 to .00075) in order to reinforce the State as a preferred domicile for captive insurers in an increasingly competitive industry climate. In fiscal year 2010, insurance taxes accounted for $53.3 million or 5.1% 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 2010, telephone receipts and property taxes generated $7.8 million or 0.8% of net General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax are retained by the General Fund, and the remainder deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. In recent years, the General Assembly has often modified this formula to the benefit of the General Fund. In fiscal year 2010, receipts from the transfer tax totaled $23.8 million. After statutory transfers, net receipts totaling $7.8 million or 0.8% of revenues available were retained by the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2010, liquor taxes generated $14.9 million or 1.4% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $5.7 million or 0.5% of net General Fund revenues in fiscal year 2010.

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 $14.2 million or 1.4% of net General Fund revenues in fiscal year 2010.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 was restructured for periods beginning in 2004. Until January 1, 2004 plants were assessed a tax of 3.5% of the value thereof less an adjustment for local taxes as appraised by the Commissioner of Taxes. Effective January 1, 2004 the tax is assessed on generation according to a rate schedule ranging from a $2.0 million minimum to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000. The tax raised $2.9 million or 0.3% of net General Fund revenues in fiscal year 2010.

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 $10.4 million, which represented 1.0% of revenues available to the General Fund in fiscal year 2010.

Other Taxes-Fees: In addition to the taxes discussed above, the State levies taxes and other minor fees that are credited to the General Fund. Current law includes the dedication of 100% of the revenues raised from increased brokerage fees as passed under Act 60 to the Education Fund through June 30, 2004. Effective July 1, 2004, 100% of the revenues raised by those increased brokerage fees has been dedicated to the General Fund. Net revenues in this category were $31.7 million or 3.1% of revenues available to the General Fund in fiscal year 2010.

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 2010.

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 $46.5 million representing 21.8% of net revenues available to the Transportation Fund were received in fiscal year 2010.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers with the amount determined by the type, size, weight, and function of the vehicle. Driver's license fees are also included in this category as well as miscellaneous registration and license fees. During the 2006 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2007. In 2009, the Vermont General Assembly increased certain fees. In fiscal year 2010, motor vehicle fees accounted for $72.4 million, representing 33.9% 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 Transportation Infrastructure Bond fund, which is dedicated to the payment of the debt service on transportation infrastructure revenue bonds. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. In fiscal year 2010, the motor fuel tax accounted for $61.0 million or 35.7% of net revenues available to the Transportation Fund.

Since 2000, diesel tax has been imposed at the distributor level at 25 cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. In fiscal year 2010, the diesel fuel tax accounted for $15.1 million or 7.1% of net revenues available to the Transportation Fund.

Other Taxes-Fees: These categories include all remaining sources of revenue for the Transportation Fund except Federal receipts. Some of the items are registration fees on off-road vehicles, a tax on aviation fuel, title fees, overweight permit fees, air and rail revenue and revenue from fines and penalties. During the 2006 session, the Vermont General Assembly passed legislation that changed the level of several fees in this category effective July 1, 2007. The 2009 Vermont General Assembly also changed other fees, effective July 1, 2009. In fiscal year 2010, these other sources of revenues accounted for $18.2 million or 8.6% 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 over the past 13 years.

Prior to Act 60, each school district funded educational expenditures within that district and set tax rates and collected school taxes from the population of the district. School tax rates were determined by each school district and ranged from as little as $0.125 per $100 of listed property value in one school district to over $3.00 per $100 in another, adjusted for inequities in town grand lists of property values. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues. Act 60 provided for a block grant from the State to each school district on a per student basis commencing in fiscal year 1999. The law provided for the amount of the grant to grow based on the inflation index each year. The block grant was funded through a uniform statewide property tax (described below) as well as with significant State appropriations. Act 60 created a statewide school tax at a uniform rate of $1.10 per $100 that was implemented over a three-year transitional period that began in fiscal year 1999. In addition to creating the statewide tax rate to specifically support education, Act 60 increased several broad based taxes and committed the increases to the Education Fund. In addition, all lottery receipts were dedicated to the Education Fund.

In 2003, the Legislature passed Act 68, which modified the statewide property tax system by classifying property as either homestead or nonresidential and taxing those classes differently. Homestead property was assessed at the rate of $1.10 per $100 of assessed value multiplied by the district spending adjustment, while all other property was assessed at $1.59 per $100 and was not subject to the district spending adjustment. These rates have been adjusted annually based upon the Education Fund balance. For fiscal year 2010, the homestead and non-residential rates were $0.86 and $1.35, respectively.

In addition to business property tax relief provided to industrial and commercial owners, Act 60 and Act 68 each provided that any household with income of less than $75,000 would not pay more than 2% (adjusted for district spending) of that income for the statewide school taxes. The household income amount was raised to $85,000 for fiscal year 2007 and to $90,000 for fiscal year 2008 and after. If a household's income is over the specified amount, the taxes on the first $200,000 of equalized homestead value may be eligible for calculation of an adjustment not based on income. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total applicable tax (municipal and school) exceeds between 2.0% and 5.0% of their income based on a sliding scale. The applicable percentage for the lowest income category was reduced from 3.5% to 2.0% for claims filed in fiscal year 2007 and after. The maximum adjustment amount for claims filed in fiscal year 2007 was $10,000, reduced to $8,000 for claims filed in fiscal year 2008 and after.

In 2006, the Legislature passed Act 185, which significantly altered the way property tax adjustments are paid. It combines the former payments to individual taxpayers into one adjustment amount paid to the applicable municipality to be credited on individual taxpayers' property tax bills. For fiscal year 2008, that amount was paid to the municipality in which the homestead was located on or around July 1, 2007 for timely filed homestead declarations. A second payment to the municipalities occurred on or around September 15, 2007 for late filed declarations. For fiscal years 2009 and 2010, municipalities were notified of any property tax adjustment that was to be credited to a taxpayer's bill, but only the municipal tax portion of the adjustment was paid to the municipalities. Beginning in fiscal year 2010, property tax adjustments resolved after September 15 are paid directly to the claimant by the tax department, rather than through notification of the municipality in which the homestead is located.

In 2010, the Legislature passed Act 160, which retroactively changed the calculation of property tax adjustments for claims filed beginning January 1, 2010 and thereafter. Homeowners with interest and dividend income above $10,000 will have the excess amount over that threshold counted twice in calculating the adjustment. In addition, for claimants with household income between $47,000-90,000, the adjustment will be 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 makes additional changes to the definition of "household income" for claims filed in fiscal years 2011 and 2012, which changes eliminate all but the following adjustments: total income to certain business expenses of reservists, one-half of self-employment tax paid, alimony paid, and deductions for tuition and fees.

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 2009, the statewide education property tax contributed $876.8 million, or 66.4% of total Education Fund revenues. Sales and Use Tax receipts for fiscal year 2009 totaled $107.1 million, or 8.1% of total Education Fund revenues. Purchase and Use Tax receipts for fiscal year 2009 were $22.0 million, corresponding to 1.7% of total Education Fund revenues. In fiscal year 2010, property taxes contributed $909.4 million, or 69.5% of total Education Fund revenues; Sales and Use Taxes contributed $103.7 million, or 7.9% of total Education Fund revenues; and Purchase and Use Tax revenues accounted for $23.2 million, or 1.8% of total Education Fund revenues. In fiscal year 2010, the State lottery transferred $21.6 million to the Education Fund. The Education Fund also has earned minimal interest income over the years.

Federal Receipts

In fiscal year 2009, the State's special revenue funds received approximately $1.426 billion in total from the federal government on a GAAP basis, an increase of $108.0 million or 8.2% over fiscal year 2008. 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 2010 federal grant cash receipts were $1.788 billion, including $332.0 million received under ARRA. The fiscal year 2011 Appropriations Act, as passed, anticipates approximately $1.901 billion in federal receipts, of which $346.9 million is expected to be received under ARRA. Federal receipts in fiscal year 2011 through July 2010 were $133.2 million, of which $24.2 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 2010 were made in the areas of Human Services, $1.188 billion; Transportation, $243.5 million; Education, $143.8 million; Labor, $27.9 million; and Natural Resources, $54.6 million.

Tobacco Litigation Settlement Fund

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

	Master Settlement[1]	Expected[2]	Actual[3]
Fiscal year 2001	$28.47	$28.47	$24.68
Fiscal year 2002	34.18	34.18	30.92
Fiscal year 2003	34.51	34.51	30.55
Fiscal year 2004	28.80	28.80	25.82
Fiscal year 2005	28.80	26.10	26.20
Fiscal year 2006	28.80	24.50	24.06
Fiscal year 2007	28.80	22.60	24.99
Fiscal year 2008	29.37	39.50	39.91
Fiscal year 2009	29.37	39.91	40.65
Fiscal year 2010	29.37	36.00	36.21

[1] Base payment amount as established in the MSA at time of initial settlement; amounts subject to annual adjustments.
[2] Determined during third quarter of each fiscal year. Beginning in fiscal year 2008, amount includes payments expected as Vermont's share of the Strategic Contribution Payments.
[3] Revised and without accounting for Tobacco Litigation Settlement Fund Account performance due to interest income or expense.

Pursuant to the MSA, in addition to regular MSA annual payments, beginning in fiscal year 2008, Vermont is to receive approximately $10-14 million in Strategic Contribution Payments (as defined in the MSA) per year for ten years. Both the regular MSA payments and the Strategic Contribution Payments are subject to withholding adjustments based on inflation, the effect of any decreases in the sale of tobacco products to the base year among participating manufacturers and certain other adjustments. Various aspects of the MSA remain in litigation or arbitration in venues across the country.

In fiscal year 2000, the Vermont Legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the MSA are deposited into the Tobacco Litigation Settlement Fund. The State of Vermont targets these revenues specifically for tobacco enforcement, prevention and education programs, substance abuse and youth protection programs in the Agency of Human Services. These funds are also used to support Medicaid and other health-related spending but are not used as a supplemental revenue source to fund other core governmental operations. Any unexpended receipts at the end of each fiscal year are earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. The balance in the Tobacco Investment Trust Fund at the end of fiscal year 2010 was $22.5 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 2007

The State ended fiscal year 2007 with General Fund revenues of $1,151.36 million and an operating surplus of $31.73 million. The year-over-year growth was 3.5%. Compared to target, year end revenues were 2.4% above the January 2007 revenue forecast of $1,124.1 million and 2.6% above the July 2006 forecast of $1,122.7 million. Both Personal Income Tax and Corporate Income Tax receipts were unexpectedly strong and account for the majority of the increase. The Sales and Use Tax was the most significant under-performing tax missing forecast by 3.38% or $3.87 million. The operating surplus was reduced by transfers to the Transportation Fund ($8.0 million) and other funds ($1.1 million). The General Fund ended the fiscal year with $55.22 million in Budget Stabilization Reserves, 100% of statutory maximum and $10.69 million, after transfers, in unallocated reserves.

The State ended fiscal year 2007 with Transportation Fund revenues of $219.97 million and an operating shortfall of $3.14 million, which was covered by reverting available appropriations at year-end. None of the reversions were a result of project cuts or deliberate delays. The Transportation Fund ended the fiscal year with $10.67 million in Budget Stabilization Reserves, 100% of statutory maximum.

The State ended fiscal year 2007 with Education Fund revenues of $163.3 million and an operating surplus of $19.98 million. The Education Fund Budget Stabilization was at 100% of statutory maximum with a $28.25 million balance, leaving an unreserved and undesignated Education Fund balance of $16.10 million.

Fiscal Year 2008

The State ended fiscal year 2008 with General Fund revenues of $1,199.74 million and an operating surplus of $30.12 million. Year-over-year growth was 4.2%. Compared to target, the revenues were 0.9% over the April 2008 revised revenue forecast of $1,189.7 million, and 2.5% above the July 2007 revenue forecast of $1,170.2 million. The majority of the higher than projected General Fund revenues was attributable to the Personal Income Tax, which completed the fiscal year ahead of the April 2008 revised revenue forecast by $12.6 million or 2.1%. The most significant under-performing tax was the Sales and Use Tax that ended the fiscal year at $225.6 million, which was 1.9% below the April 2008 revised revenue forecast. However, the Sales and Use Tax revenues were 1.4% higher than fiscal year 2007. The operating surplus was reduced by net transfers to various other funds ($7.57 million). The General Fund's operating results allowed for $2.62 million to be added to the Budget Stabilization Reserve, bringing the balance to $57.84 million (100% of the 5% statutory maximum), and an additional $18.98 million to be put in the General Fund Surplus Reserve.

The State Transportation Fund ended fiscal year 2008 with revenues of $223.08 million and an operating surplus of $2.15 million. Year-over-year growth was 1.4%. Compared to target, the revenues were 1.4% below the April 2008 revenue forecast of $226.2 million. The four major components of the Transportation Fund's revenues were below their respective targets for the fiscal year. The gasoline tax ended the year at $62.6 million, which was 0.18% below the revenue target. The diesel tax ended the year at $16.6 million, which was 2.99% below the revenue target. The motor vehicle Purchase and Use Tax ended the year at $52.7 million, which was 2.42% below the revenue target. The Transportation Fund's operating results allowed for $0.53 million to be added to the Budget Stabilization Reserve, bringing the balance to $11.20 million (100% of the 5% statutory maximum), and an additional $0.62 million to be added to the Transportation Surplus Reserve.

The State Education Fund ended fiscal year 2008 with revenues of $160.5 million and an operating shortfall of $3.11 million. Compared to target, the revenues were 1.1% below the April 2008 revenue forecast of $162.3 million. In order for the Education Fund to maintain a fully funded Budget Stabilization Reserve (100% of the 5% statutory maximum), $1.1 million was allocated to the Budget Stabilization Reserve from the unreserved and undesignated Education Fund balance, bringing the balance to $29.39 million and leaving an unreserved and undesignated Education Fund balance of $5.82 million.

Fiscal Year 2009

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

The State Transportation Fund ended fiscal year 2009 with revenues of $203.69 million and an operating shortfall of $0.68 million. Year-over-year revenues decreased by 8.7% from $223.08 million in fiscal year 2008. As with the General Fund, the official Transportation Fund revenue target approved by the Emergency Board on April 15, 2008, which was the basis for the Transportation Fund Budget As Passed, was reduced four times during the fiscal year, with the final Transportation Fund revenue forecast reduction approved by the Emergency Board on April 24, 2009. The Transportation Fund revenue forecast was reduced by 3.53% in July 2008, 2.36% in November 2008, 2.09% in January 2009 and 1.89% in April 2009. Compared to the final April 2009 target, the revenues were slightly above the April 2009 revised revenue forecast of $202.60 million. Cumulatively, three of the five components of the Transportation Fund revenues were at or above their respective targets for the fiscal year by $1.44 million or 0.91%. The fourth component, motor vehicle Purchase & Use Tax fell below target by $0.38 million or 0.85%. The gasoline tax ended the year at $60.64 million, which was 0.40% above the revenue target. The diesel tax ended the year at $15.50 million, which was 4.04% above the revenue target. The motor vehicle fees ended the year at $65.51 million, which was 0.02% above the revenue target. The other revenue component ended the year at $18.09 million, which was 3.34% above target. The Transportation Fund's operating results allowed for $91,091 to be added to the Budget Stabilization Reserve, bringing the balance to $11.29 million (100% of the 5% statutory maximum), and $0.67 million to be set aside as a bond reserve for the first transportation bond payment of fiscal year 2010.

The State Education Fund ended fiscal year 2009 with revenues of $150.23 million and an operating surplus of $0.93 million. Year-over-year revenues decreased by 6.4% from $160.5 million in fiscal year 2008. Compared to the final target, the revenues were 0.65% above the April 2009 revised revenue forecast of $149.26 million. The Education Fund Budget Stabilization Reserve ended the fiscal year at the statutory maximum of 5% (statutory minimum 3.5%) after allocating $1.69 million to the Budget Stabilization Reserve from the unreserved and undesignated Education Fund balance, bringing the balance to $31.08 million and leaving an unreserved and undesignated Education Fund balance of $6.64 million.

Fiscal Year 2010

The State ended fiscal year 2010 with General Fund revenues of $1,038.34 million and an operating surplus of $2.46 million, which, along with the addition of net transfers in from other funds, was reserved for subsequent year appropriations. Year-over-year revenues decreased by $65.64, 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 ($11.73 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 in revenue enhancement and to reserve the remaining $15.20 million for fiscal year 2011 spending. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $57.31 million, representing the statutory maximum of 5% of the prior year appropriations level.

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

The State Education Fund ended fiscal year 2010 with consensus revenues of $148.62 million and an operating surplus of $1.29 million. Year-over-year revenues decreased by 1.1% from the fiscal year 2009 revenues. The Education Fund Budget Stabilization Reserve ended the fiscal year at the statutory maximum of 5% ($29.85

million), leaving an unreserved and undesignated Education Fund balance of $5.65 million. Statute allows the Education Fund Budget Stabilization reserve to be at a minimum of 3.5% and a maximum of 5% of prior year appropriations.

Fiscal Year 2011 General, Transportation and Education Funds to Date

The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 13, 2010, current law General Fund revenues in fiscal year 2011 were projected to be $1,086.6 million and in June 2010, the General Assembly passed a fiscal year 2011 budget consistent with this revenue forecast. On July 15, 2010, the Emergency Board met to consider the forecast and agreed to a General Fund consensus revenue forecast of $1,090.4 million for fiscal year 2011, which represented a small $3.8 million increase over the estimates made when the budget was being prepared earlier in 2010. The increase in the estimates in July 2010 reflects the latest national and State economic outlook and technical re-specifications of the forecasting models for slightly higher than expected fiscal year 2010 actual results. The budget as passed for fiscal year 2011 may be found at http://www.leg.state.vt.us/docs/2010/bills/Passed/H-789.pdf. See "Fiscal Year 2011 Budget" below.

On January 13, 2010, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $218.0 million for fiscal year 2011. On July 15, 2010, the Emergency Board agreed to a revised fiscal year 2011 consensus revenue forecast of $218.4 million, a $0.4 million or 0.2% increase. This revised forecast was based on an updated national and State economic forecast and technical adjustments based on model re-specifications for actual fiscal year 2010 results.

On January 13, 2010, the Emergency Board agreed to an Education Fund consensus revenue forecast of $151.3 million for fiscal year 2011. On July 15, 2010, the Emergency Board agreed to a revised fiscal year 2011 consensus forecast of $153.1 million, an upgrade to the forecast of $1.8 million or 1.2%. This forecast upgrade was based on the latest national and State economic outlook and technical re-specifications of the forecasting models for these revenue sources.

The following tables present revenue results for the components of each major fund, as compared to September 2010 monthly cash flow targets and fiscal year 2011 year-to-date consensus cash flow targets. The tables show that, although there may be significant differences among individual components, all three major funds in aggregate continue to track either ahead of expectations (as in the case of the General Fund at 4.6% versus the cumulative consensus cash flow target) or very close to expectations (as in the Transportation Fund and Education Fund, which are each within 0.4 percentage points of the consensus cash flow target) through the first quarter of fiscal year 2011.

Fiscal Year 2011 General Fund Results to Date

	September 2010			FY 2011 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Personal Income Tax	$56,061.8	$55,761.0	(0.5)	$133,717.3	$133,670.7	(0.0)
Sales and Use Tax	16,933.2	17,511.7	3.1	53,126.5	53,553.4	0.8
Corporate Income Tax	11,946.7	22,257.2	86.3	14,369.2	23,006.9	60.1
Meals and Rooms Tax	12,682.7	12,595.2	(0.7)	34,080.3	34,083.9	0.0
Property Transfer	845.1	681.3	(19.4)	2,436.8	2,048.2	(15.9)
Other Revenues	10,444.4	8,918.2	(14.6)	31,479.6	35,282.5	12.1
Total	$108,973.9	$117,724.6	8.0	$269,209.7	$281,645.7	4.6

[1] Official Revenue Estimates as of July 15, 2010.
Note: Totals may not add due to rounding. All figures are unaudited.

Fiscal Year 2010 Transportation Fund Results to Date

	September 2010			FY 2011 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Gasoline Tax[2]	$5,895.0	$5,245.0	(11.0)	$16,750.1	$16,099.3	(3.0)
Diesel Tax[2]	1,379.2	1,427.0	3.5	3,459.2	3,562.4	3.0
Purchase and Use Tax	4,787.8	5,025.9	5.0	12,850.2	12,424.6	(3.3)
Motor Vehicle Fees	5,657.6	6,017.5	6.4	16,930.4	18,062.3	6.7
Other Fee Revenues	1,616.8	1,605.0	(0.7)	4,485.6	4,350.1	(3.0)
Total[2]	$19,336.4	$19,320.4	(0.1)	$54,475.5	$54,498.6	0.0

[1] Official Revenue Estimates as of July 15, 2010.
[2] Excludes Transportation Infrastructure Bond revenues.
Note: Totals may not add due to rounding. All figures are unaudited.

Fiscal Year 2011 Education Fund Results to Date*

	September 2010			FY 2011 Year-To-Date		
	Revenue Estimate[1]	Revenue Collections	% Change	Revenue Estimate[1]	Revenue Collections	% Change
Sales and Use Tax	$8,496.6	$8,755.7	3.0	$26,563.2	$26,776.3	0.8
Lottery	1,826.5	1,664.1	(8.9)	4,437.1	4,278.4	(3.6)
Motor Vehicle Purchase & Use Tax	2,393.9	2,512.9	5.0	6,425.1	6,212.3	(3.3)
Other Revenues[2]	(10.7)	11.3	(205.5)	(11.0)	19.1	(273.9)
Total	$12,706.3	$12,944.0	1.9	$37,414.5	$37,286.1	(0.3)

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of July 15, 2010.
[2] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as negative revenue.
Note: Totals may not add due to rounding. All figures are unaudited.

The State continues to monitor its revenues on a monthly basis, with the most recent update of the consensus revenue forecast occurring on July 15, 2010. At this time, it is not clear whether the State will continue its past practice of quarterly revenue forecast updates. Currently, there is no November 2010 consensus forecast update scheduled, but the Emergency Board agreed to monitor the revenue results through October 2010 and re-convene in November if necessary. Otherwise, the next scheduled consensus revenue forecast will occur in January 2011.

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

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

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

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

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

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2007 through 2010, and as passed for fiscal year 2011 for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

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General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2007 – 2011
($ in Millions)

	Actual FY2007	Actual FY2008	Actual FY2009	Actual FY2010	Current Law FY2011
Sources					
Current Law Revenues	$1,151.36	$1,199.74	$1,103.98	$1,038.34	$1,090.40
VEDA Debt Forgiveness	0.00	0.00	0.00	0.00	0.00
Direct Applications, Transfers in & Reversions	25.69	16.64	39.06	20.47	25.78
Other Bills and Tax Changes	0.00	0.00	4.93	9.81	9.19
Additional Property Transfer Tax	8.29	3.15	1.30	6.45	7.89
For Appropriation from GF Reserve	0.00	0.00	0.00	0.00	0.00
Current Year Sources	1,185.34	1,219.53	1,149.27	1,075.07	1,133.26
For Appropriations Prior Year Surplus Reserve	21.84	10.87	19.13	14.84	15.20
Total Sources	1,207.18	1,230.40	1,168.40	1,089.91	1,148.46
Uses					
Base appropriations (including GF ARRA supplant)	1,121.08	1,174.78	1,180.46	1,061.22	1,062.43
Pay Act	3.80	0.00	2.12	4.28	0.00
Contingent Base Appropriations	0.00	0.00	0.00	0.00	0.00
One-time Appropriations	8.90	6.14	(42.65)	0.00	0.00
Additional GF to Ed Fund - Act 68 2003	0.00	0.00	0.00	0.00	0.00
One-time Appropriations P/Y Surplus Reserve	14.76	12.46	2.23	13.28	18.25
Contingent One-time Appropriations from Same Year Surplus	23.71	6.79	2.30	6.11	0.00
Other Bills	3.20	0.10	1.82	2.56	0.25
Enhanced Federal Financial Participation	0.00	0.00	0.00	0.00	0.00
Federal Flexible Funding Replacement	0.00	0.00	0.00	0.00	0.00
Total Uses	1,175.45	1,200.27	1,146.28	1,087.45	1,080.93
Operating Surplus (deficit)	31.73	30.12	22.11	2.46	67.53
Transfers of Surplus (to) / from Other Funds					
Transportation Fund	(8.00)	0.00	0.00	1.71	0.00
Tobacco Settlement	0.00	0.00	0.00	0.00	0.00
General Bond Fund	(0.18)	0.00	0.00	0.00	0.00
Internal Service Funds	(4.45)	(0.45)	(3.12)	(0.77)	(0.30)
Education Fund	0.00	0.00	(0.67)	(6.89)	0.00
Other Funds	(5.00)	(6.86)	(1.09)	3.27	(4.79)
Human Service Caseload Reserve	8.53	(0.26)	0.00	0.00	0.00
Total Transfers (to) / from Other Funds	(9.10)	(7.57)	(4.88)	(2.68)	(5.09)
Transfers of Surplus (to)/from Reserves					
Budget Stabilization Reserve	(3.41)	(2.62)	(2.17)	2.70	2.94
Human Services Caseload Reserve	(8.53)	0.00	0.96	(16.22)	(62.26)
Reserved for transfer to Education Fund	0.00	0.00	0.00	0.00	0.00
Reserved for transfer to Debt Service [2]	0.00	0.00	(1.18)	(1.46)	1.46
Reserved in GF Surplus/Revenue Shortfall Reserve	(10.69)	(19.93)	(14.84)	15.20	(4.58)
Total Reserved in the GF	(22.63)	(22.55)	(17.23)	0.22	(62.44)
Total Transfer of Surplus	(31.73)	(30.12)	(22.11)	(2.46)	(67.53)
Unallocated Operating Surplus/ (Deficit)	0.00	0.00	0.00	0.00	0.00
GF Reserves (cumulative)					
Budget Stabilization Reserve	55.22	57.84	60.01	57.31	54.37
Human Services Caseload Reserve	16.98	17.24	16.29	0.07	62.33
Reserved for Bond Premium/Debt Service [2]	0.18	0.95	1.18	1.46	0.00
Reserved in GF Surplus/Revenue Shortfall Reserve	10.69	18.98	14.84	15.20	4.58
Total GF Reserve Balances	$83.07	$95.01	$92.32	$74.04	$121.28

[1] Results may not add due to rounding.
[2] Per 32 V.S.A. 954 (a), bond premium received from issuance of debt is to be used as part of the first interest or principal payment to bondholders.

Transportation Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2007 – 2011
($ in Millions)

	Actual FY 2007	Actual FY 2008	Actual FY 2009	Actual FY 2010	Current Law FY 2011
Sources					
Current Law Revenues	$219.97	$223.08	$203.69	$213.34	$218.50
Federal Reimbursements	0.00	0.00	0.00	0.00	0.00
Refund of Prior Year	0.00	0.00	0.00	0.03	0.00
Bond Premium	0.00	0.00	0.67	0.00	0.00
Other Bills/Fees	0.00	0.00	0.00	0.00	0.00
Direct Applications & Transfers In	0.88	4.80	0.00	0.00	0.00
Current Year Sources	220.85	227.88	204.37	213.37	218.50
For Approp from General Fund Transfer	0.00	0.00	0.00	0.00	0.00
For Approp from RMMTC Reserve	0.00	0.00	0.00	0.00	0.00
Prior Year Unallocated Operating Surplus	0.00	3.22	0.62	0.00	0.00
Total Sources	220.85	231.10	204.99	213.37	218.50
Uses					
Base Appropriations	229.25	227.76	204.83	210.24	216.10
Budget Adjustments	(7.67)	0.00	0.00	(1.47)	0.00
Excess Receipts	0.00	0.00	0.00	0.03	0.00
Pay Act	2.41	1.19	0.84	0.00	0.00
Rescission	0.00	0.00	0.00	0.00	0.00
Contingent One-time Approp from Prior Year	0.00	0.00	0.00	0.00	0.00
Total Uses	223.99	228.95	205.67	208.80	216.10
Operating Surplus (deficit)	$(3.14)	$2.15	$(0.68)	$4.57	$2.40
Allocation of Surplus					
Transfers of Surplus (to) / from Other Funds:					
General Fund	$8.00	$0.00	$0.00	$(1.71)	$0.00
Downtown Fund	(0.80)	(0.73)	(0.40)	(0.40)	(0.40)
Central Garage Fund	(0.85)	0.10	1.48	(1.12)	(1.12)
Other Funds	0.00	0.00	0.73	(2.65)	(0.28)
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	5.98	(1.00)	1.44	(6.25)	(2.17)
Reserved in TF (designated):					
Bond Insurance Premium Reserve	0.00	0.00	(0.67)	0.67	0.00
Transportation FMS Development Fund	0.00	0.00	0.00	0.00	0.00
Budget Stabilization Reserve	0.37	(0.53)	(0.09)	1.01	(0.15)
Total Reserved in the TF (designated)	0.37	(0.53)	(0.76)	1.69	(0.14)
Total Allocated	6.35	(1.53)	0.68	(4.57)	(2.32)
Unallocated Operating Surplus / (deficit)	$3.22	$0.62	$0.00	$0.00	$0.08
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	$0.00	$0.00	$0.67	$0.00	$0.00
Transportation FMS Development Fund	0.00	0.00	0.00	0.00	0.00
Budget Stabilization Reserve	10.67	11.20	11.29	10.28	10.44
Rutland MMTC Reserve	0.00	0.00	0.00	0.00	0.00
Total TF Reserve Balances	$10.67	$11.20	$11.96	$10.28	$10.44

[1] Results may not add due to rounding.

Education Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2007 – 2011
($ in Millions)

	Actual FY 2007	Actual FY 2008	Actual FY 2009	Actual FY 2010	As Passed FY 2011
Sources					
Current law revenues	$28.79	$28.29	$24.00	$25.34	$26.60
Sales Tax	111.24	112.80	107.05	103.71	107.00
Lottery Revenue	23.30	22.71	20.95	21.57	21.40
Homestead Property Tax	422.53	321.43	352.71	359.30	358.90
Non-Residential Property Tax	455.06	477.48	524.10	550.05	554.54
General Fund Appropriations	282.38	280.20	291.79	247.69	234.74
Medicaid Reimbursement	5.63	6.45	0.00	0.00	0.00
Interest on Fund Balance	(1.28)	(1.31)	0.26	0.10	0.20
Total Sources	1,327.64	1,248.05	1,320.86	1,307.77	1,303.37
Uses					
Base appropriations	1,308.70	1,254.32	1,321.74	1,313.29	1,313.91
School Construction Assistance	0.38	0.22	0.22	0.19	0.18
Total Uses	1,309.08	1,254.54	1,321.96	1,313.48	1,314.09
Revenue Surplus/(Deficit)	18.56	(6.49)	(1.09)	(5.71)	(10.71)
Appropriation Surplus/(Deficit)	1.42	3.39	2.02	6.99	0.00
Operating Surplus (deficit)	19.98	(3.11)	0.93	1.29	(10.71)
Transfer Out	0.00	(4.70)	0.00	0.00	0.00
Net Surplus/(Deficit)	$19.98	$(7.81)	$0.93	$1.29	$(10.71)
Education Fund Balance: Start of Fiscal Year					
Budget Stabilization Reserve	$24.32	$28.25	$29.39	$31.08	$29.85
Cumulative Prior Year Appropriation Surplus/(Deficit)	5.03	4.98	6.31	4.74	8.24
Prior Year Unallocated/Unreserved	0.00	16.10	5.82	6.64	5.65
Total	$29.36	$49.33	$41.53	$42.46	$43.74
Operating Surplus/(Deficit) Allocation					
Transfer to/(from) the Stabilization Reserve	$3.92	$1.14	$1.69	(1.23)	(2.52)
Transfer to/(from) Continuing Appropriations	(0.05)	1.33	(1.57)	3.50	(2.54)
Transfer to/(from) Unallocated/Unreserved	16.10	(10.28)	0.81	(0.98)	(5.65)
Education Fund Balance: End of Fiscal Year	$49.33	$41.53	$42.46	$43.74	$33.03

[1] Results may not add due to rounding.

Fiscal Year 2011 Budget

The General Fund consensus revenue forecast upon which the fiscal year 2011 General Fund budget was based was $1,086.60 million. The fiscal year 2011 budget, as passed, provides for total appropriations of $1,080.90 million and projects a fully funded budget stabilization reserve of $54.05 million. In July 2010, the Emergency Board increased the fiscal year 2011 consensus revenue forecast to $1,090.40 million, an increase of 0.3% or $3.8 million. The budget included an additional transfer of general funds to the Human Services Caseload Reserve of $62.26 million based on anticipated receipts of enhanced federal Medicaid participation payments, which would free up a like amount of general funds. However, as a conservative measure, the fiscal year 2011 appropriations bill reserved these potentially freed up general funds in the Human Service Caseload Reserve, with appropriations of $53.69 million allowable against that increased reserve contingent on actual receipt of the enhanced match (and limited to the actual amount of such match). Subsequently, the Agency of Human Services now estimates an enhanced Medicaid match of $37.70 million, rather than the previously estimated $62.26 million. As a result, the amount reserved in the Human Services Caseload Reserve was revised to the anticipated match of $37.70 million, with the $24.56 million difference being appropriated from the General Fund to the Global Commitment Fund. As a result of these changes, the State currently expects to fund $35.60 million of the $53.69 million contingent one-time appropriations set forth in the fiscal year 2011 appropriations bill. The estimated Human Service Caseload Reserve is $2.17 million, based on receipt of the $37.70 million enhanced federal Medicaid match and $35.60 million in contingent appropriations. The General Fund Stabilization Reserve of $54.05 million will not be changed regardless of the amount of enhanced federal Medicaid receipts.

The fiscal year 2011 Transportation Fund budget was based on a Transportation Fund consensus revenue forecast of $218.0 million. The fiscal year 2011 budget, as passed, provides for total appropriations of $216.10 million and a fully funded Transportation Fund Budget Stabilization Fund Reserve of $10.44 million. In July 2010, the Emergency Board approved a small ($500,000 or 0.23%) increase to the Transportation Fund Consensus Revenue forecast.

The January 2010 Education Fund consensus revenue forecast for fiscal year 2011 was $151.3 million. The fiscal year 2011 budget, as passed, provides for a current year operating deficit of $10.7 million, to be covered by allocating all of the previously unallocated surplus and reducing the Education Fund Budget Stabilization Reserve to $27.32 million (from 5% to 4.83% of the prior year net appropriations). In July 2010, the Emergency Board approved a $1.8 million increase in the Education Fund consensus revenue forecast to $153.1 million.

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 2011 and 2012 was completed in July 2010 and was approved by the Emergency Board on July 15, 2010 (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 2011 and 2012. 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 15, 2010, and includes all revenue changes as passed by the 2010 Vermont General Assembly

Personal Income Tax: The July Forecast for the Personal Income Tax for fiscal years 2011 and 2012 reflects a consensus assessment for a historically slow-paced economic and labor market recovery over the calendar year 2010 through early calendar 2011 time frame, with a significant strengthening in the pace of recovery during the second half of calendar year 2011 and into the first half of calendar year 2012. Over the forecast time horizon, Personal Income Tax receipts are expected to remain subdued through fiscal year 2011 due to (1) the slow pace of the labor market recovery and persistently high rates of unemployment , (2) reduced capital gains income resulting from equity market declines and continued weakness in real estate asset prices associated with the national, New England regional and State real estate market downturns and weak construction activity, and (3) a slowdown in the level 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 $530.4 million for fiscal 2011, reflecting a 6.5% increase as compared to actual fiscal 2010 receipts, and $590.8 million for fiscal 2012, reflecting an 11.41% annual increase as compared to forecasted fiscal 2011 receipts. This represents a restrained recovery following the two-year, 20.0% decline in receipts during the fiscal year 2008–10 time period. For fiscal year 2012, Personal Income Tax receipts will be roughly equivalent to the level of Personal Income Tax receipts in fiscal year 2007, and remain 5.1% below the last cyclical revenue peak in this tax source experienced in fiscal year 2008. Relative to the January 2010 consensus revenue forecast, the July Forecast represents a 0.6 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2011. For fiscal 2012, the July Forecast represents a 2.7 percentage point increase in the year-over-year growth rate relative to the January 2010 consensus revenue forecast.

Sales and Use Tax: The July Forecast for the Sales and Use Tax for fiscal 2011 and fiscal 2012 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 2011 and 2012 time frame. The forecast expects that Vermont consumers and many of the State's domestic visitors will continue to be careful with their expenditures as the national and State labor market recovery continues to struggle through fiscal year 2011 and into the early part of fiscal year 2012. This weakness will at least be partially off-set by continued strong levels of Canadian visitor activity in the State. The July Forecast for fiscal 2011 includes a 3.2% year-over-year increase to $214.0 million, and a 4.4% increase in Sales and Use Tax revenues for fiscal year 2012, as compared to forecasted fiscal year 2011 receipts. The revised consensus forecast for fiscal year 2012 still projects total revenue collections that are 0.1% below the previous cyclical peak for Sales & Use Tax collections experienced in fiscal year 2008. Relative to the January 2010 consensus revenue forecast, the July Forecast represents a 0.5 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2011. For fiscal 2012, the July Forecast represents no change in the year-over-year growth rate relative to the January 2010 consensus revenue forecast.

Corporate Income Tax: The July Forecast for the Corporate Income Tax was developed against a backdrop of modest year-to-year declines in Corporate Income Tax revenues over the past two fiscal years and an outlook for increased corporate profits, although cyclically subdued for fiscal year 2011 due to curtailed credit availability. For fiscal 2012, corporate profits are expected to generally be favorable, constrained mostly by rising personnel costs due to the labor market recovery. Overall, the Corporate Tax component is expected to experience comparatively modest rebound, especially considering the depth of the recessionary period. The July forecast for fiscal 2011 and fiscal 2012 includes increases in overall Corporate Income Tax of 5.7% and 10.1%, respectively. For fiscal 2011, the July Forecast for Corporate Income Tax revenues totals $66.4 million. Fiscal 2012 receipts are forecasted to be $73.1 million. Relative to the January 2010 consensus revenue forecast, the July Forecast represents a 1.6 percentage point increase in the year-over-year revenue growth rate for fiscal year 2011. For fiscal 2012, the July Forecast represents a 1.9 percentage point decrease in the year-over-year growth rate relative to the January 2010 consensus revenue forecast.

Meals and Rooms Tax: The July Forecast reflects the continuation of the modest, but uneven turnaround in the U.S., New England and Vermont economies during fiscal years 2011 and 2012, and continued favorable levels of Canadian visitor traffic. The July Forecast includes a total of $121.1 million in Meals and Rooms Tax revenues

for fiscal year 2011, representing a 2.7% increase on a year-over-year basis from fiscal year 2010. The July Forecast for fiscal year 2012 calls for a total of $126.0 million in Meals and Rooms Tax revenues, corresponding to an increase of 4.0% versus forecasted receipts for fiscal 2011. Relative to the January 2010 consensus revenue forecast, the July Forecast represents a 0.5 percentage point decrease in the year-over-year revenue growth rate for fiscal year 2011. For fiscal 2012, the July Forecast represents a 0.2 percentage point decrease in the year-over-year growth rate relative to the January 2010 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 July Forecast does not include any revenues from lottery profits or sales. The following table compares actual General Fund revenue collections for fiscal 2009 and fiscal 2010, and the projected General Fund revenue collections for fiscal 2011 and 2012 per the July Forecast.

Sources (Available to the General Fund)	Actual Fiscal 2009	Actual Fiscal 2010[1]	Forecast Fiscal 2011	Forecast Fiscal 2012	Percentage Change 2010–2011
Personal Income Taxes [2]	$530,318,539	$498,957,576	$530,400,000	$590,800,000	6.5%
Sales and Use Taxes	214,108,741	207,427,646	214,000,000	223,400,000	3.2
Corporate Taxes [2]	66,175,694	62,825,489	66,400,000	73,100,000	5.7
Meals and Rooms Taxes	117,056,476	117,965,475	121,100,000	126,000,000	2.7
Other Taxes	141,589,755	120,525,826	128,100,000	128,100,000	6.3
Total Taxes	1,069,249,205	1,006,702,012	1,060,000,000	1,141,400,000	5.3
Other Revenues	34,763,334	31,687,683	30,400,000	32,600,000	(4.1)
Total General Fund	$1,104,012,539	$1,038,389,695	$1,090,400,000	$1,174,000,000	5.0%

[1] Fiscal year 2010 data are actual, unaudited receipts totals.
[2] For fiscal year 2010, Personal Income Tax and Corporate Income Tax receipts have been adjusted as described above in "STATE FUNDS AND REVENUES – State General Fund Revenues – *Personal Income Tax*" in connection with the conversion to a new computer system at the Vermont Department of Taxes.
Source: Vermont Department of Finance and Management. Fiscal totals may not add due to rounding.

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The following table reflects budgetary-based General Fund revenue history from fiscal 2008 through fiscal 2010 and forecasted revenues for fiscal 2011 and fiscal 2012:

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

COMPONENT	Actual 2008	Percent Change	Actual 2009	Percent Change	Actual 2010[1]	Percent Change	Forecast 2011[2]	Percent Change	Forecast 2012[2]	Percent Change
TAXES:										
Personal Income [3]	$622.3	7.1%	$530.3	(14.8%)	$498.0	(6.1%)	$530.4	6.5%	$590.8	11.4%
Sales and Use	225.6	1.4	214.1	(5.1)	207.4	(3.1)	214.0	3.2	223.4	4.4
Corporate [3]	74.6	2.4	66.2	(11.3)	62.8	(5.1)	66.4	5.7	73.1	10.1
Meals and Rooms	121.1	5.4	117.1	(3.3)	118.0	0.8	121.1	2.7	126.0	4.0
Liquor	14.2	3.7	15.0	6.0	14.9	(1.0)	15.2	2.1	15.7	3.3
Insurance	54.8	3.8	53.7	(2.1)	53.3	(0.9)	54.5	2.3	56.0	2.8
Telephone Receipts	0.4	(31.2)	0.2	(54.1)	0.2	(54.1)	0.1	(53.8)	0.1	0.0
Telephone Property	9.1	(3.1)	9.0	(1.8)	7.6	(14.7)	10.9	42.5	9.2	(15.6)
Beverage	5.6	1.9	5.6	0.3	5.7	0.4	5.8	1.6	5.9	2.6
Electrical Energy	2.7	3.3	2.8	4.0	2.9	2.5	2.9	(0.6)	1.4	(50.0)
Estate	15.7	(11.9)	23.4	49.1	14.2	(35.2)	16.8	18.6	16.2	(3.6)
Property Transfer	10.7	(16.3)	8.5	(21.1)	7.8	(8.2)	8.6	10.4	9.6	12.2
Bank Franchise	10.2	(3.4)	20.6	102.5	10.4	(49.7)	10.6	2.4	10.8	1.9
Other Taxes	3.2	(51.1)	2.8	(12.7)	3.7	32.1	2.8	(23.4)	3.1	10.7
TOTAL TAXES:	$1,170.3	4.1%	$1,067.7	(8.8)	$1,006.7	(5.7)	$1,060.0	5.3%	$1,141.4	7.7%
OTHER REVENUES:										
Business Licenses	$2.7	(1.0%)	$3.0	9.0%	$3.0	(0.2)%	$3.1	3.9%	$.2	3.2%
Fees	14.7	3.6	19.1	29.5	19.2	0.9	19.5	1.4	20.3	4.1
Services	1.7	15.9	1.5	(11.0)	1.2	(19.9)	1.3	4.9	1.4	7.7
Fines, Forfeits	4.4	38.6	9.8	122.0	7.4	(24.8)	5.4	(26.6)	5.6	3.7
Interest, Premiums	5.3	7.2	1.2	(77.8)	0.5	(54.7)	0.7	32.5	1.6	128.6
Special Assessments	0.0	NM	0.0	NM	0.0	NM	0.0	NM	0.0	NM
Other	0.6	(44.1)	0.3	(59.2)	0.3	57.3	0.4	15.7	0.5	25.0
TOTAL OTHER	$29.5	6.5%	$34.8	18.1%	$31.7	(8.8)%	$30.4	(4.1%)	$32.6	7.2%
TOTAL GENERAL FUND	$1,199.8	4.2%	$1,104.0	(8.0%)	$1,038.4	(5.8%)	$1,090.4	5.0%	$1,174.0	7.7%

NM means Not Meaningful.

1 2010 data are actual, unaudited receipts totals.

2 Based on July Forecast.

3 For fiscal year 2010, Personal Income Tax and Corporate Income Tax receipts have been adjusted as described above in "STATE FUNDS AND REVENUES – State General Fund Revenues – *Personal Income Tax*" in connection with the conversion to a new computer system at the Vermont Department of Taxes.

Source: Vermont Department of Finance and Management

MAJOR GOVERNMENTAL PROGRAMS AND SERVICES

Human Services

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

Office of the Secretary: This Office includes the Division of Administrative Services that provides Agency planning and oversight functions for the Secretary. It also provides support for the Division of Rate Setting, the Director of Housing & Transportation, the Investigations Unit, the Human Services Board, the Community on National and Community Service (CNCS) and the Developmental Disabilities Council.

Department of Disabilities, Aging and Independent Living: This Department assists elderly Vermonters and adults with disabilities to live as independently as possible. It helps adults with disabilities to find and maintain meaningful employment. It licenses inpatient health care facilities and long-term care providers.

Department of Corrections: In partnership with Vermont communities, this Department serves and protects the public by offering a continuum of graduated sanctions for offenders to repair the damage their crimes have caused to victims and communities. The Department operates corrections facilities for incarcerated offenders and Community Correctional Service Centers for offenders convicted of lesser crimes. It also supports 64 Community Reparative Boards that develop sanctions and restorative plans in order for many nonviolent offenders to make amends for their crimes and return value to their communities.

Department of Health: This Department protects and promotes health, and prevents disease and injury through public health programs to maintain and improve the health status of all Vermonters. Programs focus on infectious and chronic disease control and prevention (e.g., injury prevention, and healthy babies programs), surveillance (e.g., disease reporting), and protection (e.g., restaurant inspections). Previously, the Department also oversaw provision of services to adults with mental illness, children and adolescents experiencing a severe emotional disturbance and their families. As of July 1, 2007 the Department reorganized, creating a separate Department of Mental Health. This change was organizational and administrative only with no changes to programs or services.

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

Department for Children and Families: This Department administers several programs that address the basic needs of Vermonters who are unable to provide for themselves and their dependents. These programs promote the well-being of families and individuals through welfare-to-work services, in-kind benefits, and cash assistance. The Department also helps families and individuals lead healthy and independent lives by providing support services and offering educational, information, and prevention services to communities. Social services seek to break the cycle of abuse, neglect, and delinquency. Child care services take a lead role in developing quality child care services in Vermont. The Division of Child Support enforces state and federal statutes to ensure that children receive financial support from absent parents and improves financial security for children by obtaining child support obligations and payments.

Department of Vermont Health Access: This Office promotes the well-being of families and individuals through the provision of health care coverage. The Office is the state office responsible for the management of Medicaid, the State Children's Health Insurance Program, and other publicly funded health insurance programs in Vermont. As such, it is the largest insurer in Vermont in terms of dollars spent and the second largest insurer in terms of covered lives.

The sources of Agency of Human Services' appropriations for fiscal years 2009, 2010 and 2011 are as follows:

	Fiscal 2009 Appropriations	Fiscal 2010 Appropriations	Current Law Fiscal 2011 Appropriations
General Fund	$457,702,123	$430,932,386	$455,891,035
Federal Funds[1]	996,847,990	1,140,545,736	1,179,485,319
Tobacco Settlement	45,510,381	40,184,340	40,184,340
Special Funds[2]	227,727,670	232,861,456	249,256,137
Other Funds	10,000	10,000	10,000
Total	$1,727,798,164	$1,844,533,918	$1,924,826,831

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

In addition to the fiscal year 2011 general funds above, in accordance with the fiscal year 2011 appropriations act (Act 156 of 2010), to the extent available after other mandated appropriations, up to $13.5 million of funds in the Human Services Caseload Reserve will be made available for State matching of Medicaid capitation payments in fiscal year 2011. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2011 Budget."

Medicaid and State Health Insurance Initiatives

Medicaid: Vermont has two major Medicaid demonstration waivers. The Global Commitment to Health ("Global Commitment") demonstration waiver became effective October 1, 2006. Global Commitment was designed to provide Vermont with the flexibility necessary to administer the State's publicly supported health care programs in a member-centered and fiscally sustainable manner. The Global Commitment demonstration waiver capitates the federal spending for Medicaid services in Vermont at $4.7 billion for five years, based on a mutually agreed upon base year and actuarially determined trend rate. This capitated arrangement applies to all Medicaid service in Vermont, with the exception of the Long-term Care Services for Elders and People with Physical Disabilities (which is managed under a separate Medicaid demonstration waiver), DSH Payments and the State Children's Health Insurance Program (SCHIP) program. Vermont is financially at risk for managing costs within the capitated amount, and will benefit from any savings accrued due to program efficiencies that are achieved. Under this Demonstration, the Vermont Agency of Human Services (AHS) contracts with the Department of Vermont Health Access (OVHA) as a publicly sponsored managed care entity. The Global Commitment demonstration waiver encompasses the traditional mandatory and optional Medicaid populations. The Choices for Care waiver provides long-term care services for the elderly and disabled in both nursing home and home and community based settings. In addition, Vermont provides some traditional acute care Medicaid services outside the Global Commitment demonstration waiver to the Choices for Care population. There remains a relatively small continuing non-Medicaid pharmacy program, and the Medicare Part D "clawback" under which the states all subsidize the federal government.

State Health Insurance Initiative: During the 2006 legislative session the State passed the 2006 Health Care Affordability Act to control the rising costs of health care by managing chronic care and making health care affordable and accessible for all Vermonters. This legislation created an employer-sponsored insurance (ESI) initiative under which Medicaid funding may be used to pay part of the cost of ESI for individuals with incomes under 300% of the federal poverty level. In addition, the legislation established a comprehensive, affordable commercial insurance program called Catamount Health that has a premium assistance program for people with incomes under 300% of the federal poverty level. Financing comes from individuals (sliding scale premiums), employers with uninsured employees and tobacco taxes. The State's fiscal obligation is protected through the ability of the Joint Fiscal Committee to impose enrollment caps. Employer contributions began in the second quarter of calendar 2007 and enrollment and coverage began October 1, 2007.

Federal Health Care Reform: Recently enacted federal health care reform legislation will have an impact on Vermont's Medicaid program. The State currently expects such impact to be minimal, however, and more

administrative rather than fiscal in nature, as some of the required reforms are already at least partially in place as part of the State's current program. The State does not expect the legislation to have any significant fiscal impact in fiscal years 2011 or 2012. The major components of the legislation, however, will not take effect until 2014 and, as such, the future fiscal and administrative impact on the State is not known at this time.

Aid to Municipalities

Significant portions of Vermont's budget are used to support the cities, towns and school districts. In fiscal year 2010, the General Fund transfer to the Education Fund for support of K-12 schools was $247.7 million, including contingent funding. Additionally, the State contributed $41.5 million to the State Teachers' Retirement System. Total Education Fund appropriated expenditures were $1.3 billion in fiscal year 2010 and is expected to be the same amount in fiscal year 2011. 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, $10.8 million was distributed to towns to reimburse taxes reduced for land conservation and management programs. In fiscal year 2011, the General Fund transfer to the Education Fund is expected to be $234.7 million; the State expects to contribute $48.2 million to the State Teachers Retirement System and $0.4 million will be spent from the Education Fund to pay State financial system charges.

In fiscal year 2010, $64.2 million was appropriated to town highway programs, funded with $38.3 million in State funds, $15.1 million in federal funds, $1.4 million in local funds, and $9.4 million in ARRA funds. As the available ARRA funds decline, the town highway appropriations are expected to decline accordingly. For fiscal year 2011, $60.7 million was appropriated to town highway programs, funded with $41.7 million in State funds, $14.3 million in federal funds, $0.8 million in local funds, and $4.0 million in ARRA funds.

	Fiscal 2009 Appropriations	Fiscal 2010 Appropriations	Current Law Fiscal 2011 Appropriations
State Aid to Local School Districts	$1,112,291,525	$1,098,874,964	$1,099,500,000
Special Education Aid to Local Districts	142,457,975	142,457,975	142,457,975
Vermont State Teachers' Retirement System Contributions	37,077,050	41,503,002	48,233,006
Town Highway Grants	37,167,610	38,302,976	41,700,980
Total	$1,328,994,160	$1,321,138,917	$1,331,891,961

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

	Fiscal 2009 Appropriations	Fiscal 2010 Appropriations	Current Law Fiscal 2011 Appropriations
Property Tax Assistance	$12,921,868	$13,725,647	$16,720,000
Land Use Reimbursement	9,850,000	10,807,403	11,700,000
Total	$22,771,868	$24,533,050	$28,420,000

Higher Education

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

	Fiscal 2009 Appropriations	Fiscal 2010 Appropriations	Current Law Fiscal 2011 Appropriations
University of Vermont	$40,746,629	$40,746,630	$40,746,634
Vermont State Colleges[1]	24,992,869	25,009,429	25,009,429
Vermont Student Assistance Corporation	18,363,706	18,363,607	18,363,607
Total	$84,103,105	$84,119,666	$84,119,670

[1] Includes Vermont Interactive TV.

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2007 to fiscal year 2011.

General Fund Appropriations by Major Function

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011[1]
General Government	$56,402,147	$66,273,342	$68,032,034	65,780,684	71,764,967
Protection to Persons and Property	79,231,276	84,433,014	88,707,248	79,277,696	101,547,048
Human Services	483,628,014	498,139,715	458,065,396	431,347,904	456,318,953
Education	388,366,110	412,643,803	417,307,954	370,175,063	376,753,672
Labor	2,303,684	2,352,976	2,049,105	2,491,370	2,561,430
Natural Resources	25,231,174	25,553,103	22,471,787	21,078,628	20,234,475
Transportation	---	---	---		
Commerce and Community Development	15,475,541	15,842,695	14,222,963	13,670,469	13,704,312
Other – One-time[2]	44,796,402	30,827,442	8,373,557	38,418,957	32,368,657
Debt Service	64,547,179	64,205,317	67,048,726	65,241,180	65,804,622
Total Appropriations	$1,159,981,527	$1,200,271,407	$1,146,278,770	1,087,451,951	1,141,058,136

[1] The fiscal year figures for 2011 are presented as appropriated in the 2010 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 2005 through fiscal year 2009 presented on a GAAP basis. **Fiscal year ending June 30, 2010 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

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				
	2005	**2006**	**2007**	**2008**	**2009**
REVENUES:					
Taxes	$ 2,160,131	$ 2,337,341	$ 2,460,571	$ 2,409,100	$ 2,372,150
Fees	58,291	52,813	70,221	61,444	82,561
Sales of services, rents and leases	13,251	13,455	13,724	17,697	23,723
Federal grants	1,149,687	1,195,619	1,243,958	1,317,932	1,426,347
Fines, forfeits and penalties	19,383	19,172	19,315	21,972	27,089
Investment income	7,906	11,469	17,317	11,994	4,056
Licenses	79,897	82,772	92,593	96,079	94,517
Special assessments	25,154	27,320	29,062	44,802	59,196
Other revenues	69,137	58,328	71,338	80,022	86,115
Total revenues	**3,582,837**	**3,798,289**	**4,018,099**	**4,061,042**	**4,175,754**
EXPENDITURES:					
General government	69,638	63,455	66,605	85,545	96,344
Protection to persons and property	222,239	227,085	247,732	250,028	265,402
Human services	1,397,574	1,433,190	1,521,057	1,637,940	1,717,878
Employment and training	20,946	21,090	24,488	27,056	13,565
General education	1,414,259	1,513,712	1,609,653	1,533,340	1,583,191
Natural resources	82,298	93,673	97,456	97,321	111,567
Commerce and community development	35,026	30,843	30,608	35,465	19,941
Transportation	310,061	321,421	379,347	369,815	379,344
Public service enterprises	1,650	1,994	1,890	4,502	3,893
Capital outlay	52,774	43,063	37,035	37,208	56,289
Debt service	67,353	67,231	69,130	68,698	71,459
Total expenditures	**3,673,818**	**3,816,757**	**4,085,001**	**4,146,918**	**4,318,873**
Excess of revenues over (under) expenditures	**(90,981)**	**(18,468)**	**(66,902)**	**(85,876)**	**(143,119)**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	64,267	45,000	44,500	75,195	50,500
Transfers from Lottery	20,444	23,014	23,573	22,567	20,949
Net operating transfers in (out)	10,572	(1,825)	1,117	5,569	5,139
Other sources (uses)	(22,338)	744	305	(28,577)	1,850
Total other financing sources (uses)	**72,945**	**66,933**	**69,495**	**74,754**	**78,438**
Net change in fund balances	**(18,036)**	**48,465**	**2,593**	**(11,122)**	**(64,681)**
Fund Balance, July 1	398,665	380,629	429,094	431,687	420,565
Fund Balance, June 30	**$ 380,629**	**$ 429,094**	**$ 431,687**	**$ 420,565**	**$ 355,884**

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, 2010, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

State of Vermont
Debt Statement
As of June 30, 2010
($ in thousands)

General Obligation Bonds*(1):	
General Fund	$440,430
Transportation Fund	20,086
Special Fund	3,825
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	531,470
Vermont Housing Finance Agency	155,000
VEDA	100,000
Vermont Student Assistance Corporation	50,000
Vermont Telecom Authority	40,000
Univ. of Vermont/ State Colleges	100,000
Gross Direct and Contingent Debt	**$1,451,811**
Less:	
Contingent Liabilities	(11,000)
Reserve Fund Commitments	(976,470)
Net Tax-Supported Debt (1):	**$464,341**

* Includes original principal amounts of Capital Appreciation Bonds.

1 Does not include (i) the Bonds offered hereby or the expected issuance of the Series E Bonds, (ii) general obligation bonds that were refunded, (iii) $8,655,768, 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 $108,802. In addition, the State entered into an approximately $4.7 million capitalized lease to fund an energy services contract in fiscal year 2009. Payments due under this lease are budgeted to be funded from energy savings realized under the related contract, which savings are guaranteed by the contractor.

Selected Debt Statistics[1]

	2007	2008	2009	2010	Projected 2011
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands)[2]	$438,397	$438,582	$440,633	$464,341	$503,878
Population[3]	620,750	621,270	621,240	622,550	624,190
Debt Per Capita	$706	$706	$707	$746	$807
Personal Income ($ in millions by fiscal year)[4]	$22,518	$23,817	$24,491	$24,296	$25,580
Debt as a Percent of Personal Income	1.9%	1.9%	1.8%	1.9%	2.0%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands)[2]	$69,130	$69,419	$71,459	$70,747	$70,309
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands)[5]	$1,371,311	$1,422,829	$1,307,670	$1,251,068	$1,308,900
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues	5.0%	4.9%	5.5%	5.7%	5.4%

Percentage Of Debt To Be Retired (as of June 30, 2010)	Special Fund [6]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	76.2%	44.3%	54.2%	45.0%
10 years	100.0	71.3	86.0	72.1
15 years	100.0	90.8	94.8	91.0
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.

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[1] General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis. Statistics reflect certain revised data for 2007 through 2009 and projected data for 2010 and 2011.

[2] Excludes general obligation bonds that were refunded; assumes issuance in fiscal year 2011 of total authorized amount of $71.825 million plus all previously authorized but unissued debt of $15.305 million.

[3] Reflects latest population estimates available from the U.S. Census Bureau for Vermont for July 1 of the indicated year. Population for 2010 and 2011 are projected using the New England Economic Partnership (NEEP) May 2010 forecast update.

[4] Personal income is on a fiscal year basis and is projected using the May 2010 NEEP forecast update for 2010 and 2011. Fiscal 2009 personal income data is subject to revision.

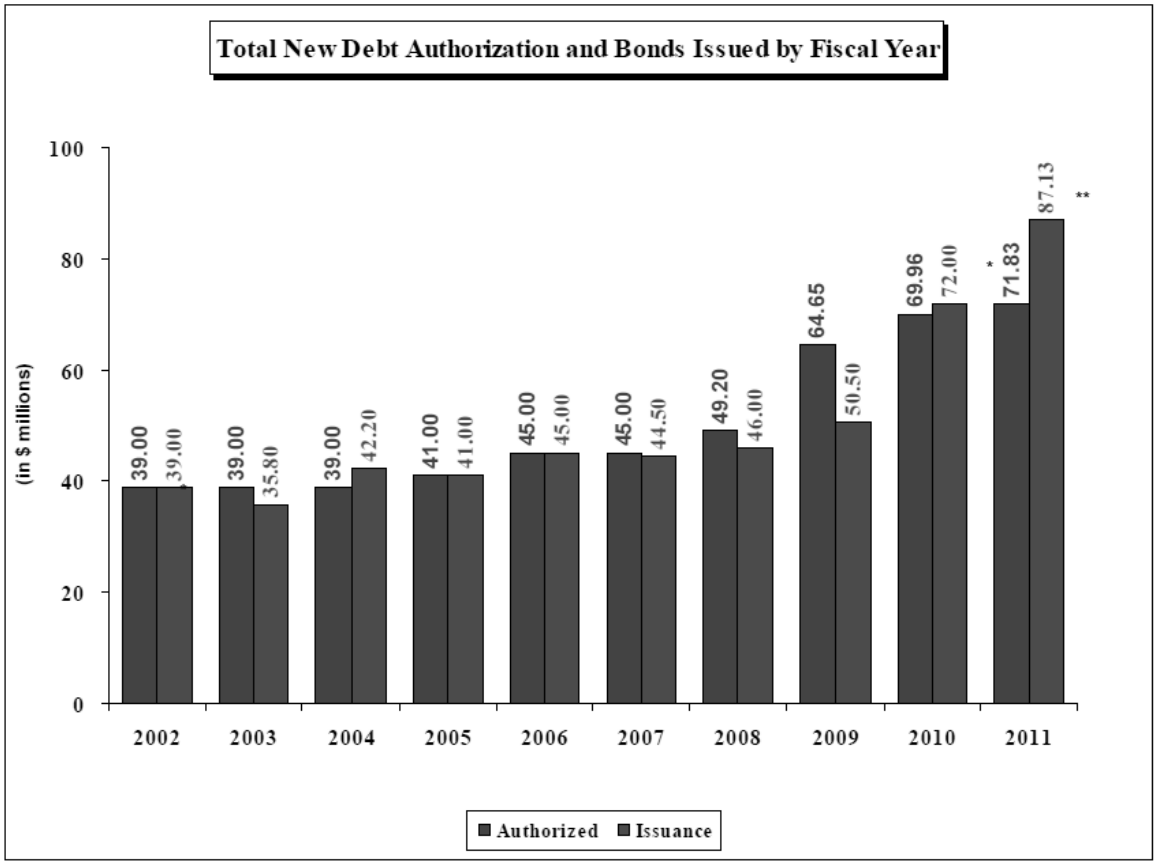
[5] Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments. Projected fiscal year 2011 revenues are based on the July 2010 Forecast.

[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.

The following table sets forth, as of the dates indicated, the total amount of new debt authorized and issued by the State from fiscal year 2002 through fiscal year 2011. In fiscal year 2010, $72 million of new money debt was issued, representing all of the $69.955 million authorized for that year plus $2.045 million of authorized but unissued debt remaining from fiscal years 2008 and 2009. For fiscal year 2011, the Committee voted for and the General Assembly authorized $71.825 million of general obligation bonds. At its September 2010 meeting, the Committee voted for $76.58 million of general obligation bonds for fiscal year 2012.



** As approved by CDAAC.*
*** Anticipated to be issued.*
Note: Annual issuances do not include refunding bonds.

Debt Service Requirements

Set forth below is a schedule of the principal and interest requirements of all general obligation bonds of the State outstanding on June 30, 2010, 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, 2010

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2011	$44,042,137	$22,430,049	$66,472,186	$396,388,162
2012	42,597,141	17,838,850	60,435,991	353,791,021
2013	38,661,318	15,391,186	54,052,504	315,129,703
2014	38,473,060	14,108,896	52,581,956	276,656,643
2015	31,154,245	11,278,767	42,433,012	245,502,398
2016	27,964,245	10,084,955	38,049,200	217,538,154
2017	25,059,245	8,997,385	34,056,630	192,478,909
2018	22,853,008	7,958,187	30,811,196	169,625,900
2019	21,912,180	7,058,897	28,971,077	147,713,720
2020	21,117,180	6,228,415	27,345,595	126,596,540
2021	21,192,180	5,284,690	26,476,870	105,404,360
2022	18,487,180	4,436,428	22,923,608	86,917,180
2023	16,777,180	3,687,166	20,464,346	70,140,000
2024	14,715,000	2,970,189	17,685,189	55,425,000
2025	14,715,000	2,328,949	17,043,949	40,710,000
2026	12,665,000	1,682,381	14,347,381	28,045,000
2027	10,415,000	1,159,519	11,574,519	17,630,000
2028	8,165,000	723,600	8,888,600	9,465,000
2029	5,865,000	382,725	6,247,725	3,600,000
2030	3,600,000	93,600	3,693,600	0

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2011	$2,710,915	$766,986	$3,477,901	$17,374,630
2012	2,695,576	676,248	3,371,824	14,679,054
2013	1,913,637	568,805	2,482,442	12,765,417
2014	1,912,060	502,918	2,414,978	10,853,357
2015	1,650,755	443,799	2,094,554	9,202,602
2016	1,550,755	396,214	1,946,969	7,651,846
2017	1,550,755	333,334	1,884,089	6,101,091
2018	1,451,992	257,460	1,709,452	4,649,100
2019	1,417,820	211,724	1,629,544	3,231,280
2020	417,820	142,411	560,231	2,813,460
2021	417,820	123,098	540,918	2,395,640
2022	417,820	103,786	521,606	1,977,820
2023	417,820	84,315	502,135	1,560,000
2024	260,000	67,405	327,405	1,300,000
2025	260,000	56,745	316,745	1,040,000
2026	260,000	45,825	305,825	780,000
2027	260,000	34,775	294,775	520,000
2028	260,000	23,400	283,400	260,000
2029	260,000	11,700	271,700	0

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2011	$840,000	$186,225	$1,026,225	$2,985,000
2012	480,000	145,950	625,950	2,505,000
2013	505,000	123,150	628,150	2,000,000
2014	530,000	98,910	628,910	1,470,000
2015	560,000	72,940	632,940	910,000
2016	590,000	45,500	635,500	320,000
2017	320,000	16,000	336,000	0

Short-Term Debt

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

The State Treasurer may with the approval of the Governor borrow from any fund including restricted funds to defray State Government expenses. Such borrowing may be made twice per year: first from fifteen days preceding to fifteen days following the State's fiscal year end of June 30, and second from December 10 (or earlier if December 10 shall occur on a Friday or Saturday) to January 10 of the subsequent calendar year.

The State has not had any revenue anticipation borrowings outstanding at any date during each of the five most recent fiscal years. Since 1998, the State has met its short term borrowing needs using revenue anticipation notes only, which notes have been paid in full and on time. The State had no line of credit or short-term borrowings in fiscal year 2006 through 2010. The State has the ability to obtain a line of credit for fiscal year 2011 but currently anticipates no short-term borrowings for the fiscal year.

Total Authorized Unissued Debt

Subsequent to the issuance of the Bonds, the total amount of authorized unissued debt of the State will be $37.13 million. Of this amount, the State expects to issue its Series E Bonds in the aggregate principal amount of $25 million in November 2010.

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

Contingent Liabilities

Vermont Economic Development Authority. In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed the Vermont Economic Development Authority in 1993 ("VEDA" or the "Authority") transferring to it the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority and the Aid Board. Each of the original entities was delegated a particular segment of commercial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a twelve-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Secretary of Agriculture, Food and Markets, and nine persons appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $9 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State, to finance machinery and equipment, and to provide working capital. The full faith and credit of the State is pledged to support these activities of the Authority. As of June 30, 2010, the Authority had mortgage insurance contracts outstanding of $4,901,888. The State maintains a dedicated indemnification fund that is funded with annual payments from the Authority to insure against losses in the mortgage insurance program. The balance of this indemnification fund at June 30, 2010 was approximately $370,186. The State is obligated to pay any actual losses incurred by the Authority in excess of the then available indemnification fund balance from any other available funds of the State or, if necessary, from the proceeds of bonds or notes of the State, which are authorized to be issued in an amount not to exceed $10 million for the purposes of this program and the one described in the following paragraph. The State has no current expectation of issuing bonds or notes pursuant to this authorization.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lender enrolls in the program. The full faith and credit of the State is pledged in an amount equal to the reserve premium deposited by the participating lenders for each enrolled loan, with the aggregate amount of credit that may be pledged not to exceed $1 million at any time. The State's contingent liability at June 30, 2010 was $807,044.

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, 2010, $1,106,530 of these loans were outstanding, of which $883,882 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, 2010, the Bond Bank has issued 53 series of bonds (including refundings). The principal amount of bonds outstanding as of June 30, 2010 was $502,019,768. The Bond Bank's outstanding bonds have been issued under two separate general bond resolutions, one adopted on May 3, 1988 (the "1988 resolution") and one adopted on February 17, 1972 (the "1972 resolution"). For bonds issued under the 1972 resolution, the Bond Bank is required to maintain a reserve fund at all times equal to the maximum annual debt service requirement. For bonds issued under the 1988 resolution, the Bond Bank is required to maintain a reserve fund equal to the lesser of: the maximum annual debt service requirement, 125% of average annual debt service, or 10% of the proceeds of any series of bonds. The Bond Bank anticipates issuing all additional bonds under the 1988 resolution. If the reserve funds have less than the required amount, the chair shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. Since the participating municipalities have always met their obligations on their bonds the State has never needed to appropriate any money to the reserve fund, and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency was created by the State in 1974 for the purpose of promoting the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency consists of nine commissioners, including ex-officio the Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, the Executive Director of the Vermont Housing and Conservation Board, or their designees, and five commissioners to be appointed by the Governor with the advice and consent of the Senate for terms of four years. The Agency is empowered to issue notes and bonds to fulfill its corporate purposes. As of June 30, 2010, the Agency's total outstanding indebtedness was $783,853,074.

The Agency's act requires the creation of debt service reserve funds for each issue of bonds or notes based on the Agency's resolutions and in an amount not to exceed the "maximum debt service." Of the debt that the Agency may issue, up to $155,000,000 of principal outstanding may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve funds for that debt. If the reserve fund requirement for this debt has less than the required amount, under the act, the chairman of the Agency will notify the Governor or the Governor-elect, the president of the senate and the speaker of the house of the deficiency. As of June 30, 2010, the principal amount of outstanding debt covered by this moral obligation was $78,450,000. As of June 30, 2010, the debt service reserve fund requirement for this debt was $6,450,541, and the value of the debt service reserve fund was $8,312,795. Since the Agency's creation, it has not been necessary for the State to appropriate money to maintain this debt service reserve fund requirement.

Vermont Economic Development Authority: The Authority has established a commercial paper program to fund loans to local and regional development corporations and to businesses under certain programs. The Authority's commercial paper is supported by a direct-pay letter of credit from a bank. The direct-pay letter of credit is currently secured from various repayment sources, including a $20 million leverage fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $70 million. This debt service reserve pledge is based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. In fiscal year 2010, the Legislature voted to increase the maximum principal amount of Authority debt that can be backed by the moral obligation of the State from $70 million to $100 million. The existing direct-pay letter of credit referred to above is expected to be rewritten in December 2010 to increase the debt service reserve fund pledge from the State to $100 million. The amount of commercial paper outstanding under this program at June 30, 2010 was $84.5 million.

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

University of Vermont/ State Colleges: Pursuant to 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.

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, 2010, VSAC's total outstanding indebtedness was $413,261,449, none of which is or will be secured by a debt service reserve fund pledge or any pledged equity fund arrangement 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.

Transportation Infrastructure Bonds

In 2009, the General Assembly enacted 19 V.S.A. §11f (the "TIB Act"), which provided for the establishment of the Transportation Infrastructure Bond Fund (the "TIB Fund"). Under the TIB Act, the State Treasurer is authorized to issue transportation infrastructure bonds ("TIBs") from time to time in amounts authorized by the General Assembly in its annual transportation bill. The TIB Act provides that the TIB Fund shall be credited with certain funds raised from motor fuel (gas and diesel) assessments levied on distributors. Principal and interest on the TIBs and associated costs will be paid from the TIB Fund (i.e., not supported from current transportation fund or general fund revenues). However, the State is permitted to add its general obligation to secure the repayment of the TIBs if necessary to market the TIBs in the best interest of the State. After payment of the related bond costs, any remaining money in the TIB Fund may be used to fund qualifying transportation

capital projects. In August 2010, the State issued its first series of TIBs, its Special Obligation Transportation Infrastructure Bonds, 2010 Series A (the "2010A TIBs"), in the aggregate principal amount of $14,400,000. The 2010A TIBs are not general obligations of the State and are not secured by the full faith and credit of the State.

PENSION PLANS

Defined Benefit Retirement Plans

Overview

The State maintains three defined benefit pension plans with approximately the following membership as of June 30, 2010: the Vermont State Teachers' Retirement System ("STRS"), with 10,509 active, 2,853 inactive, 718 terminated, vested and 6,146 retired members; the Vermont State Employees' Retirement System ("VSRS"), which includes general State employees and State Police, with 7,786 active, 857 inactive, 765 terminated, vested and 5,201 retired members; and the Vermont Municipal Employees' Retirement System ("VMERS"), with 6,605 active, 1,842 inactive, 585 terminated, vested and 1,644 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 beginning July 1, 2008. See "Actuarial Valuation" below.

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

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

The following tables set forth the total market value of net assets, amount of employee and employer contributions, net investment income, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the defined benefit plans for STRS, VSRS and VMERS for fiscal year 2000 through fiscal year 2010, inclusive. The fiscal year 2010 information is unaudited.

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

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2010[3]	$1,305,250,050	$25,315,397	$40,545,321	$214,806,420	$116,217,934
2009	1,145,066,114	20,937,686	35,960,934	(307,382,558)	109,524,146
2008	1,501,320,179	22,918,798	39,549,097	(110,019,634)	99,929,342
2007	1,647,057,577	22,533,479	37,341,609	244,425,689	90,158,642
2006	1,430,822,223	21,884,140	24,446,282	130,835,585	81,056,808
2005	1,333,532,418	21,158,452	24,446,282	115,058,694	73,154,820
2004	1,245,650,105	21,088,345	24,446,282	166,325,045	65,586,721
2003	1,099,109,824	18,820,703	20,446,282	52,506,838	59,619,320
2002	1,090,866,255	18,073,548	20,448,248	(56,937,537)	54,266,491
2001	1,154,185,392	16,350,020	19,143,827	(38,810,722)	48,929,303
2000	1,207,519,089	15,747,082	18,586,240	90,583,761	44,632,926

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

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2010[3]	$1,177,742,284	$22,840,354	$52,357,232	$182,593,261	$102,843,135
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
2002	975,195,519	11,723,858	23,788,282	(55,362,596)	51,373,166
2001	1,084,280,086	10,845,315	19,548,598	(78,694,636)	48,176,511
2000	1,176,318,988	8,628,317	19,012,608	113,121,773	45,843,848

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

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

3 Fiscal year 2010 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. 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 and $480,064 in fiscal year 2010.

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

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2010[3]	$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
2002	200,880,056	4,412,699	4,941,465	(2,884,622)	5,877,465
2001[5]	195,169,272	4,066,523	4,571,993	(506,729)	9,215,493
2000	197,020,268	4,414,961	4,788,671	8,624,104	4,357,654

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 2010 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.
5 June 30, 2001 VMERS includes transfers to a newly created Defined Contribution Plan.

Actuarial Valuation

Overview. Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. These reports are delivered in late October of each year, and contain an actuarial valuation of the system as of the end of the most recent fiscal year, as well as recommendations for the ARC (defined below) for the current fiscal year and the next two fiscal years. These reports also include, for each system, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions, a summary of member data, the current amortization schedule for the unfunded actuarial accrued liability ("UAAL") and projected benefit payouts and contributions over the next ten years. The actuarial reports for the fiscal year ending June 30, 2009 (the most recently completed actuarial reports) are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/reports/stateActuary2009.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/teacherActuary2009.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. 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, the ARC calculation for the current fiscal year may increase or decrease relative to the ARC used for appropriation in that fiscal year (which was based on the projection in the prior year's October actuarial report). Appropriations, however, are not adjusted to reflect the true-up ARC calculation, but rather remain based on the projected ARC calculated in the prior fiscal year's October report.

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. This could have a resulting impact on the ARC, which may increase the amount of the State's contribution to the system.

With respect to expected rate of return of assets, 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. Currently, the assumed rate of return for each system, set by State statute, is 8.25%. For fiscal year 2009, the actuarial rate of return of the assets of VSRS was negative 9.6% and the actuarial rate of return of the assets of STRS was negative 11.2%, causing the UAAL for each system to increase significantly between fiscal year 2008 and fiscal year 2009. For fiscal year 2010, the estimated year-end actuarial rate of return is 6.7% for VSRS and 6.8% for STRS.

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 use of the corridor in the 2009 actuarial valuations for VSRS and STRS lowered the actuarial value of assets that would have been established in its absence and thus raised the ARC in fiscal year 2011 for those systems above the levels that would have been established in its absence. 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.

	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						
	2010[2]	$1,410,368,434	$1,305,250,049	108.1%	6.8%	18.0%
	2009	1,374,079,337	1,145,066,114	120.0	(11.2)	(19.8)
	2008	1,605,461,728	1,501,320,179	106.9	6.9	(6.6)
	2007	1,541,859,000	1,647,057,577	93.6	10.5	17.4
	2006	1,427,393,070	1,430,282,999	99.8	8.4	10.4
	2005	1,354,006,143	1,333,532,418	101.5	8.1	9.7
	2004	1,284,832,664	1,245,650,105	103.1	7.7	15.7
	2003	1,218,000,794	1,099,109,824	110.8	6.3	5.6
	2002	1,169,294,000	1,065,978,943	109.7	6.7	(4.7)
	2001	1,116,846,000	1,138,548,007	98.1	10.3	(1.6)
	2000	1,037,465,880	1,190,498,179	87.1	13.3	8.6
	1999	931,056,000	1,110,214,000	83.9	14.7	11.2
VSRS						
	2010[2]	$1,265,404,195	$1,169,844,902	108.2%	6.7%	17.9%
	2009	1,217,637,578	1,014,697,982	120.0	(9.6)	(18.7)
	2008	1,377,101,471	1,282,493,872	107.4	6.9	(5.9)
	2007	1,318,686,844	1,392,327,467	94.7	9.9	16.5
	2006	1,223,322,954	1,219,616,872	100.3	8.3	10.6
	2005	1,148,907,597	1,120,247,149	102.6	7.8	8.9
	2004	1,081,358,637	1,040,927,987	103.9	7.4	15.7
	2003	1,025,469,088	917,711,810	111.7	5.6	4.6
	2002	990,450,000	892,221,769	111.0	6.1	(5.1)
	2001	954,821,000	962,944,449	99.2	8.7	(7.0)
	2000	895,150,880	1,058,889,568	84.5	14.3	12.2
	1999	804,970,000	963,971,000	83.5	14.7	9.1

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

2 Fiscal year 2010 information is preliminary and unaudited.

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 2009 actuarial reports referenced above and Note 5 to the State's fiscal year 2009 CAFR included as Appendix A to this Official Statement.

Recent Actuarial Assumption Changes. 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 the system and make recommendations for certain modifications of the actuarial assumptions, as needed. The most recent study was completed for the VSRS system for the period covering July 1, 2001 through June 30, 2006. As a result of this experience study performed by Buck Consultants and recent changes by the System's Board of Trustees, changes in the actuarial assumptions were made in the valuation report for the period ending June 30, 2007. The assumed rate of return was raised from 8.00% per year to 8.25% per year, the liability for inactive members was raised from 150% to 250% of employee contributions with interest, and various decrement tables were updated to more closely match the anticipated future experience of the system. This report is incorporated herein by reference and available at:
http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/reports/stateExperienceStudy2006.pdf.

For the VSRS valuation report for the period ending June 30, 2008, an additional assumption change was made relating to joint survivorship for Group C members. No additional assumption changes were made for the June 30, 2009 valuation. The benefit changes to State Group F employees hired after July 1, 2008 discussed below under the heading "Pension and Health Benefits" were incorporated in both the 2008 and 2009 actuarial reports. The 2009 actuarial report also reflects a significant change to the active member population, down from 8,442 on June 30, 2008 to 8,095 on June 30, 2009 due to reductions in the size of the State labor force. After issuance of the 2009 actuarial report, the Vermont State Employees' Association ("VSEA"), the union representing the majority of members in VSRS, agreed to a 3% wage decrease and a delay to the wage step schedule, as discussed below. The VSRS Board adopted a change to the actuarial assumptions to reflect this, as noted under the heading "Funded Status and Funding Progress" below. The 2010 actuarial report is expected to have additional reductions in the active population, and an increase in retiree population.

Several changes in the actuarial assumptions for the STRS have been enacted into law starting with the year ending June 30, 2006, largely as a result of recommendations that came from the Commission on Funding the State Teachers' Retirement System ("2005 Commission"), which was created by the General Assembly in 2005 to address underfunding and to make recommendations to ensure an adequate, sustainable, and actuarially sound retirement benefit plan. In particular, the actuarial method was changed to entry age normal without FIL, as described above; the actuarial assumed rate of return for investments was raised by 25 basis points to 8.25%; and the 30-year period for amortization of the unfunded actuarial accrued liability was restarted, effective July 1, 2006. In addition, an experience study was conducted for the period covering July 1, 2002 through June 30, 2007. As a result of this experience study and recent changes by the System's Board of Trustees, additional changes in the actuarial assumptions were made in the valuation report for the period ending June 30, 2008. This experience study is incorporated herein by reference and available at:
http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/teacherExperienceStudy2007.pdf.

As described above, the amortization period for STRS was reset in 2006 as part of a comprehensive review of the systems funding in 2005 and 2006. 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. For VSRS, the 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. This resulted in a bifurcated amortization period within VSRS and varying schedules between systems. In an effort 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 periods for all three systems were reset, effective July 1, 2008, for a new period of 30 years.

Pension and Health Benefits

Overview. Substantially all State employees and teachers participate in one of the two systems, with five years of employment required before retirement benefits become vested. Retirement benefits are calculated based on a percentage of final average compensation ("AFC"), which is calculated as the average annual compensation during a prescribed period of time based on the particular category of membership an employee falls within. For

example, the AFC for Group F employees (the largest VSRS employee group) is calculated as the average annual compensation during the highest three consecutive years. Participants also are offered an early retirement benefit after a prescribed number of years service, if age requirements for those retirement benefits are met. For a summary of the benefit provisions for each of the VSRS and STRS systems, see the most recent actuarial reports referenced above.

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

For the VSRS system, a number of health and benefit changes recently have been made for new hires. 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% of payroll through June 30, 2019, and 4.85% thereafter, due to increases in the COLA benefit and other benefit changes. There were also changes to the normal retirement age, an increase in the maximum pension benefit from 50% to 60% of AFC, and a revised early retirement penalty rewarding length of service. These changes were enacted for new Group F employees starting employment on or after July 31, 2008.

In addition to raising the member contribution level as described above, the majority of the net cost for providing full COLA benefits was derived from a change in medical insurance subsidies for new hires. Group F employees hired after July 1, 2008, will receive a tiered retiree health care reimbursement, based on completed years of service. As part of the enacted legislation, Group F employees hired after July 1, 2008, also have the ability to recapture (access) subsidized health insurance at 80% upon initiation of retirement benefits in a manner comparable to regular retirements even if the employee is terminated prior to his or her early retirement date, providing the member has twenty years of service upon termination of employment. At the time of the 2008 legislation, the combined effects of the Group F changes to pension and health benefits resulted in projected savings totaling approximately $265 million if the State continues to fund retiree medical benefits on a pay-as-you-go basis, and an estimated $308 million if the State moves to pre-funding its retiree medical insurance. The present value of these projected savings was calculated at $46 million and $70 million, respectively. The 2008 impact of the benefit changes were incorporated in the June 30, 2008 valuation completed in October 2009.

The State continues to review pension and health benefits in an effort to provide fair and sustainable benefits. The 2009 General Assembly created the Commission on the Design and Funding of Retirement and Retiree Health Benefit Plans for State Employees and Teachers (the "2009 Retirement Commission") to review and report on the design and funding of retirement and retiree health benefit plans for VSRS and STRS. The 2009 Retirement Commission, chaired by the State Treasurer, issued its report and recommendations in December 2009. The key recommendations include the following: (i) make no change to pension or retiree health benefits for those already retired or close to retirement, (ii) maintain the current defined benefit plan and not transition to a defined contribution plan, (iii) continue to fully fund the ARC for both VSRS and STRS, (iv) develop and implement a separate independent funding mechanism to fund OPEB obligations, (v) make revisions to normal and early retirement ages, (vi) lengthen the salary compensation periods for certain State and teacher employees, (vii) increase the maximum benefit for certain State employees and teachers, (viii) revise the contribution rate ratio and rates for employers and employees, (ix) establish a tiered medical premium co-payment structure based on length of service and (x) provide certain vested, terminated members the ability to "recapture" the retiree health benefit when they begin to draw benefits. A copy of that report may be found at:

http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retirement-all/Final%20Report%20of%20Retirement%20Commission%20Dec%202009.pdf

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"). 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. The funding impacts of VNEA Benefits Legislation are discussed under the heading "Funded Status and Funding Progress" below.

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

The State has had initial negotiations with its two largest bargaining units, the VSEA and the Vermont Troopers Association (the "VT Association") to identify additional benefit changes and cost savings for the VSRS system beyond those that were enacted into law for new hires in the Group F system, effective July 1, 2010 (see above). Negotiations are expected to continue with the objective of providing a recommendation to the Legislature for consideration in fiscal year 2011. Legislation passed in 2010 requires that this review also include provisions to minimize the impacts of the 3% salary cut on average final compensation, contingent upon the implementation of a plan to make this section cost neutral by achieving sufficient ongoing savings in VSRS. If cost savings are achieved, the salary used to determine a State employee's average final compensation for fiscal years 2011 and 2012, for an employee retiring on or after June 30, 2011, would be no less than the employee's salary paid during fiscal year 2010 when calculating the employee's retirement allowance. These changes, if implemented, are expected to increase the ARC for VSRS for fiscal year 2012 by approximately $2.4 million.

The recommendations for VSRS will be considered in the 2011 Legislative session. There can be no assurance whether or to what extent the General Assembly and Governor will accept these recommendations.

Funded Status and Funding Progress

For the VSRS, the fiscal year 2009 ARC was $25.3 million, based on the actuarial report for the year ended June 30, 2007. The Legislature passed a base appropriation sufficient to fund $23.0 million of the ARC, or $2.3 million less than the ARC. For fiscal year 2010, the VSRS ARC was $32.0 million, based on the actuarial report for the year ended June 30, 2008. The ARC was subsequently reduced by $2.2 million because of the restarting of the amortization period. The Legislature passed a base appropriation sufficient to fund the updated fiscal year 2010 ARC. In October 2009, the actuary recommended a contribution of $41.5 million to VSRS for the fiscal year 2011 budget. Subsequent to the completion of the valuation, as discussed above, the State and VSEA agreed to a 3% wage decrease and a delay to the wage step schedule and the State and the VT Association agreed to wage changes that approximated a 3% reduction. The VSRS Board of Trustees adopted a change to its salary inflation assumptions to reflect this change and the actuary calculated that this resulted in a $4.4 million reduction to the fiscal year 2011 ARC, applying the same long-term assumptions and amortization schedule, bringing the recommended ARC to $37.2 million. The Legislature passed a base appropriation sufficient to fund the updated fiscal year 2011 ARC. Based on the VSRS actuarial report released in October 2009, the ARCs for VSRS are $41.5 million and $43.5 million for the fiscal years ending June 30, 2011 and June 30, 2012, respectively.

At the time of completion of the fiscal year 2009 budget, the ARC for STRS was $37.1 million for fiscal year 2009. The Legislature passed a base appropriation of $32.6 million to be supplemented by one-time legal settlements of $3.3 million and an estimated $1.2 million of Medicare D reimbursement funds for full total funding

of $37.1 million. At the time of completion of the fiscal year 2010 budget, the ARC for STRS was $41.5 million for fiscal year 2010, based on the actuarial report for the year ended June 30, 2008, which was completed and delivered in October 2008. The Legislature passed a base appropriation of $40.3 million to be supplemented by an estimated $1.3 million of Medicare D reimbursement funds for full total funding of $41.5 million. Based on the STRS actuarial report released in October 2009, the ARCs for STRS are $63.5 million and $66.5 million for the fiscal years ending June 30, 2011 and June 30, 2012, respectively.

Subsequent to the issuance of the October 2009 actuarial report, the VNEA Benefits Legislation was enacted, which significantly reduced the ARC funding requirements for fiscal year 2011 and for subsequent years, as discussed under the heading "Pension and Health Benefits" above. While some benefit changes increase the opportunity for teachers with more than 20 years of service to increase their benefits, these changes were more than offset by requirements including a longer period for eligibility for most teachers to qualify for normal retirement and an increase in the retirement contribution made by all teachers. As a result of these benefit changes, the ARC for STRS for fiscal year 2011 was reduced from $63.5 million to $48.2 million, or a savings of $15.3 million. The "normal cost" component of the ARC was reduced from $22.8 million to $10.3 million, while the amortization of the UAAL was reduced from $40.7 million to $37.9 million. The projected fiscal year 2012 ARC for STRS from the 2009 actuarial valuation was reduced from $66.5 million to $50.6 million, a reduction of $15.9 million. Based on the 2009 valuation, the State's actuaries have calculated the expected impact of the VNEA Benefits Legislation on a go forward basis as follows. All of the projected amounts shown below are subject to change based upon the actual circumstances that will occur over time.

STRS Pension Funding –
Impact of VNEA Benefits Legislation

Fiscal Year	Projected ARC per 2009 Valuation Report	ARC Components		ARC Per Proposed Change	ARC Components Based on Proposed Change		Savings
		Normal Cost	Amortization		Normal Cost	Amortization	
2011	$63,501,220	$22,828,834	$40,672,386	$48,233,006	$10,270,041	$37,962,965	$15,268,214
2012	66,562,136	23,856,131	42,706,005	50,593,306	10,732,193	39,861,113	15,968,830
2013	69,770,962	24,929,657	44,841,305	53,069,311	11,215,142	41,854,169	16,701,651
2014	73,134,862	26,051,492	47,083,370	55,666,700	11,719,823	43,946,877	17,468,162
2015	76,661,348	27,223,809	49,437,539	58,391,436	12,247,215	46,144,221	18,269,912
2016	80,358,296	28,448,880	51,909,416	61,249,772	12,798,340	48,451,432	19,108,524
2017	84,233,967	29,729,080	54,504,887	64,248,269	13,374,265	50,874,004	19,985,698
2018	88,297,020	31,066,889	57,230,131	67,393,811	13,976,107	53,417,704	20,903,209
2019	92,556,537	32,464,899	60,091,638	70,693,621	14,605,032	56,088,589	21,862,916
2020	97,022,039	33,925,819	63,096,220	74,155,276	15,262,258	58,893,018	22,866,763

NOTE: The figures presented, prepared by Buck Consultants, were developed by rerunning the 2009 actuarial valuation of the STRS under the provisions of the VNEA Benefits Legislation. This allows for direct comparison of costs and liabilities of the system under current and proposed statute but does not reflect any demographic or economic experience of the system subsequent to June 30 of last year.

Reductions for the ARC for health care were also made as a result of this legislation, as discussed under the heading "Other Post-Employment Benefits" below.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans from 2001 through 2009, based on the annual actuarial valuation report for each respective year. The annual actuarial valuation report for fiscal year 2010 is expected to be available in late October 2010.

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

	Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Vermont State Employees' Retirement System							
	2001	$954,821	$1,026,993	$72,172	93.0%	$278,507	25.9%
	2002	990,450	1,017,129	26,679	97.4	300,994	8.9
	2003	1,025,469	1,052,004	26,535	97.5	319,855	8.3
	2004	1,081,359	1,107,634	26,275	97.6	336,615	7.8
	2005	1,148,908	1,174,796	25,888	97.8	349,225	7.4
	2006*	1,223,323	1,232,367	9,044	99.3	369,310	2.4
	2007*	1,318,687	1,307,643	(11,044)	100.8	386,917	(2.9)
	2008*	1,377,101	1,464,202	87,100	94.1	404,938	21.5
	2009*	1,217,638	1,544,144	326,506	78.9	404,516	80.7
Vermont State Teachers' Retirement System							
	2001	$1,116,846	$1,254,341	$137,496	89.0%	$403,258	34.1%
	2002	1,169,294	1,307,202	137,908	89.5	418,904	32.9
	2003	1,218,001	1,358,822	140,821	89.6	437,239	32.2
	2004	1,284,833	1,424,662	139,829	90.2	453,517	30.8
	2005	1,354,006	1,492,150	138,144	90.7	486,872	28.4
	2006*	1,427,393	1,686,502	259,108	84.6	499,044	51.9
	2007*	1,541,860	1,816,650	274,790	84.9	515,573	53.3
	2008*	1,605,462	1,984,967	379,505	80.9	535,807	70.8
	2009*	1,374,079	2,101,838	727,759	65.4	561,588	129.6
Vermont Municipal Employees' Retirement System							
	2001	$177,928	$158,786	($19,142)	112.1%	$101,873	(18.8%)
	2002	193,278	176,109	(17,169)	109.7	106,986	(16.0)
	2003	222,854	218,533	(4,321)	102.0	126,216	(3.4)
	2004	232,890	225,092	(7,798)	103.5	135,351	(5.8)
	2005	259,076	248,140	(10,936)	104.4	146,190	(7.5)
	2006	288,347	276,552	(11,795)	104.3	148,815	(7.9)
	2007	325,774	306,643	(19,131)	106.2	162,321	(11.8)
	2008	348,740	343,685	(5,055)	101.5	175,894	(2.9)
	2009	331,407	366,973	35,566	90.3	191,521	18.6

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, 2010, the VSRS Defined Contribution Plan's net assets totaled $36.9 million and there were 592 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, 2010, the VMERS Defined Contribution Plan's net assets totaled $13.3 million and there were 590 participants.

Other Post-Employment Benefits

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

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2009. This is the fifth 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. VMERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

For VSRS, assuming no additional prefunding beyond the Medicare D receipts, the actuarial accrued liability for OPEB obligations earned through June 30, 2009 is $780.7 million with a UAAL of $775.0 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an OPEB ARC commencing at $58.0 million for fiscal year 2010 and projected to increase to $264.8 million in fiscal year 2040. If, however, prefunding is assumed, the actuarial accrued liability is reduced to $454.2 million with a UAAL of $448.5 million, and the OPEB ARC is calculated to commence at $37.6 million for fiscal year 2010, projected to increase to $154.6 million for fiscal year 2039. Upon retirement of the UAAL, the projected normal cost in fiscal year 2040 on a prefunding basis is $65.2 million.

For STRS, assuming no prefunding, the actuarial accrued liability and the UAAL for OPEB obligations earned through June 30, 2009 is $872.2 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an OPEB ARC commencing at $59.0 million for fiscal year 2010 and projected to increase to $266.2 million in fiscal year 2040. If, however, prefunding is assumed, the actuarial accrued liability and the UAAL is reduced to $431.9 million, and the OPEB ARC is calculated to commence at $32.2 million for fiscal year 2010, projected to increase to $132.5 million for fiscal year 2039. Upon retirement of the UAAL, the projected normal cost in fiscal year 2040 on a prefunding basis is $45.6 million.

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

The funding is as follows (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:						
2009	$5,749	$780,748	$774,999	0.7%	$426,827	181.6%
STRS						
2009	$0	$872,236	$872,236	0.0%	$561,588	155.3%

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.

Since the 2009 valuation, major health benefit changes have been made in the STRS system. As noted under the heading "Pension and Health Benefits" above, the VNEA Benefits Legislation mandated changes to the STRS benefits including a tiered medical premium co-payment structure offset partly by a change to spousal eligibility. Based on the 2009 valuation, the fiscal year 2011 OPEB ARC, assuming no prefunding, was $62.1 million. With the adoption of the tiered structure, the fiscal year 2011 OPEB ARC is calculated to be reduced to a range of $46.9 to $47.3 million (based on assumed utilization of the spousal option), a reduction of up to $15.2 million. By fiscal year 2040 the OPEB ARC would be reduced from $266.2 million to $170.5 million, a reduction of $95.7 million. Annual pay-as-you go savings increase in each year, reaching approximately $8.8 million by fiscal year 2040. The 2010 actuarial valuation will be available in late October. Based on the 2009 valuation, the changes to the STRS as a result of the VENA Benefits Legislation are projected to have a significant impact on the OPEB ARC, as reflected below. All of the projected amounts shown below are subject to change based upon the actual circumstances that will occur over time.

Health Benefit/OPEB Funding – Impact of VNEA Benefits Legislation

Fiscal Year	Current OPEB ARC per 2009 Valuation Report	OPEB ARC Per Proposed Change		OPEB ARC Savings (vs. Low Utilization Estimate)	Current Cash Pay-Out per 2009 Valuation Report	Estimated Cash Payout per Proposed Change		Cash Savings (vs. Low Utilization Estimate)
		Low*	High*			Low**	High**	
2011	$62,147,390	$46,942,500	$47,289,605	$15,204,890	$19,909,578	$19,864,521	$19,864,521	$45,057
2012	65,465,928	49,115,181	n/a	16,350,747	21,911,328	21,784,174	21,784,174	127,154
2013	68,929,161	51,362,195	n/a	17,566,966	23,734,393	23,467,565	23,467,566	266,828
2014	72,551,696	53,695,685	n/a	18,856,011	25,618,354	25,153,079	25,153,088	465,275
2015	76,341,837	56,121,360	n/a	20,220,477	27,470,533	26,750,893	26,750,929	719,640
2020	98,138,390	69,856,617	n/a	28,281,773	38,339,180	35,553,023	35,558,737	2,786,157
2025	125,653,260	86,828,322	n/a	38,824,938	50,717,835	46,070,997	46,116,278	4,646,838
2030	160,769,765	108,013,155	n/a	52,756,610	63,119,143	56,785,422	57,100,802	6,333,721
2035	206,235,042	135,040,474	n/a	71,194,568	73,392,103	65,347,465	66,344,688	8,044,638
2040	266,156,263	170,526,670	n/a	95,629,593	77,409,329	68,633,228	70,356,949	8,776,101

* Low to high range based on assumed utilization of spousal option; a high range has not been projected for fiscal years 2012 and beyond.

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. In fiscal year 2009, health care pay-as-you go payments for VSRS were paid out of this fund. As of June 30, 2009, the fund had assets of $7.9 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, 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"). See Note 5 to the State's fiscal year 2009 CAFR, included as Appendix A to this Official Statement, for additional information on the funded status and the development of the NPO and NOO.

LABOR RELATIONS

As of June 30, 2010, there were 7,733 employees (approximately 7,650 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 VSEA. The 270 +/- member Vermont State Police bargaining unit is represented by the VT Association. The State's current contract with its unionized VSEA employees, which began on July 1, 2010 and expires on June 30, 2012, provides for a 3% across the board pay decrease for the duration of the contract, as well as a "freeze" of the traditional longevity-based salary increases (steps) for the duration of the contract. Negotiations for successor VSEA contracts will not begin until August/September 2011. The VT Association bargaining unit has negotiated a one year agreement, beginning July 1, 2010 and expiring June 30, 2011, which provides for no across the board pay increase and a "freeze" of the traditional longevity-based salary increases (steps) for the duration of the contract. The VT Association contract also provides for reductions in other benefits (such as holiday premium pay, physical fitness bonuses, etc.) that effectively amount to a 3% across the board pay decrease. Negotiations for a successor VT Association contract are expected to begin no later than November 2010.

LITIGATION

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

TAX MATTERS

Series D-1 Bonds

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State of Vermont ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series D-1 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 Series D-1 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 Series D-1 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 Series D-1 Bonds. Failure to comply with these requirements may result in interest on the Series D-1 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series D-1 Bonds. The State has covenanted to comply with such

requirements to ensure that interest on the Series D-1 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 Series D-1 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 Series D-1 Bonds. Bond Counsel also has not opined as to the taxability of the Series D-1 Bonds or the income therefrom under the laws of any state other than the State of Vermont. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series D-1 Bonds is less than the amount to be paid at maturity of such Series D-1 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series D-1 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 Series D-1 Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. For this purpose, the issue price of a particular maturity of the Series D-1 Bonds is the first price at which a substantial amount of such maturity of the Series D-1 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series D-1 Bonds accrues daily over the term to maturity of such Series D-1 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 Series D-1 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series D-1 Bonds. Beneficial Owners of the Series D-1 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series D-1 Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series D-1 Bonds in the original offering to the public at the first price at which a substantial amount of such Series D-1 Bonds is sold to the public.

Series D-1 Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Series D-1 Bonds, or, in some cases, at the earlier redemption date of such Series D-1 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 Series D-1 Bonds may adversely affect the value of, or the tax status of interest on, the Series D-1 Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Series D-1 Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Series D-1 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series D-1 Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Series D-2 Bonds (Federally Taxable Build America Bonds – Direct Payment)

Under existing law, interest on the Series D-2 Bonds is included in gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other federal tax law consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series D-2 Bonds.

The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) requires certain U.S. holders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, interest and gains from the sale or other disposition of the Series D-2 Bonds for taxable years beginning after December 31, 2012. U.S. Holders (as such term is defined below) that are individuals, estates or trusts should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the Series D-2 Bonds.

Bond Counsel is also of the opinion that, under existing law, interest on the Series D-2 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 Series D-2 Bonds. Bond Counsel also has not opined as to the taxability of the Series D-2 Bonds or the income therefrom under the laws of any state other than the State of Vermont. A complete copy of the proposed form of opinion of Bond Counsel with respect to the Series D-2 Bonds is set forth in Appendix C hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to beneficial owners of the Series D-2 Bonds that acquire their Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not address all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to investors who may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors who hold their Series D-2 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, the following discussion does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a beneficial owner of Series D-2 Bonds. In addition, this summary generally is limited to investors who become beneficial owners of Series D-2 Bonds pursuant to the initial offering for the issue price that is applicable to such Series D-2 Bonds (i.e., the price at which a substantial amount of such Series D-2 Bonds is first sold to the public) and who will hold their Series D-2 Bonds as "capital assets" within the meaning of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series D-2 Bond who for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any State thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust with respect to which a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series D-2 Bond (other than a partnership) who is not a U.S. Holder. If an entity classified as a partnership for U.S. federal income tax purposes is a beneficial owner of Series D-2 Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partners in such partnerships should consult their own tax advisors regarding the tax consequences of an investment in the Series D-2 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. Stated interest on the Series D-2 Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

"Original issue discount" will arise for U.S. federal income tax purposes in respect of any Series D-2 Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For any Series D-2 Bonds issued with original issue discount, the excess of the stated redemption price at maturity of that Series D-2 Bond over its issue price will constitute original issue discount for U.S. federal income tax purposes. The stated redemption price at maturity of a Series D-2 Bond is the sum of all scheduled amounts payable on such Series D-2 Bond other than qualified stated interest. U.S. Holders of Series D-2 Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders of Series D-2 Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

"Premium" generally will arise for U.S. federal income tax purposes in respect of any Series D-2 Bond to the extent its issue price exceeds its stated principal amount. A U.S. Holder of a Series D-2 Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series D-2 Bond.

Disposition of the Series D-2 Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition of a Series D-2 Bond will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder of a Series D-2 Bond generally will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series D-2 Bond which will be taxed in the manner described above under "Interest") and (ii) the U.S. Holder's adjusted tax basis in the Series D-2 Bond (generally, the purchase price paid by the U.S. Holder for the Series D-2 Bond, increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Series D-2 Bond and decreased by any payments previously made on such Series D-2 Bond, other than payments of qualified stated interest, or decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. Defeasance or material modification of the terms of any Series D-2 Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Series D-2 Bonds generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner's adjusted tax basis in the Series D-2 Bond.

In the case of a non-corporate U.S. Holder of the Series D-2 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain may be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series D-2 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

The following discussion applies only to non-U.S. Holders. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a "controlled foreign corporation" or a "passive foreign investment company," and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences of holding the Series D-2 Bonds that may be relevant to them.

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Series D-2 Bond to a Non-U.S. Holder, other than a bank which acquires such Series D-2 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, generally will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series D-2 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Series D-2 Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition of a Series D-2 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series D-2 Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Series D-2 Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding—U.S. Holders and non-U.S. Holders

Interest on, and proceeds received from the sale of, a Series D-2 Bond generally will be reported to U.S. Holders, other than certain exempt recipients, such as corporations, on IRS Form 1099. In addition, a backup withholding tax may apply to payments with respect to the Series D-2 Bonds if the U.S. Holder fails to furnish the payor with a correct taxpayer identification number or other required certification or fails to report interest or dividends required to be shown on the U.S. Holder's federal income tax returns.

In general, a non-U.S. Holder will not be subject to backup withholding with respect to interest payments on the Series D-2 Bonds if such non-U.S. Holder has certified to the payor under penalties of perjury (i) the name and address of such non-U.S. Holder and (ii) that such non-U.S. Holder is not a United States person, or, in the case of an individual, that such non-U.S. Holder is neither a citizen nor a resident of the United States, and the payor does not know or have reason to know that such certifications are false. However, information reporting on IRS Form 1042-S may still apply to interest payments on the Series D-2 Bonds made to non-U.S. Holders not subject to backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding with respect to the proceeds of the sale of a Series D-2 Bond made within the United States or conducted through certain U.S. financial intermediaries if the payor receives the certifications described above and the payor does not know or have reason to know that such certifications are false, or if the non-U.S. Holder otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular circumstances, the availability of exemptions and the procedure for obtaining such exemptions, if available.

Backup withholding is not an additional tax, and amounts withheld as backup withholding are allowed as a refund or credit against a holder's federal income tax liability, provided that the required information as to withholding is furnished to the IRS.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular Beneficial Owner of Series D-2 Bonds in light of the Beneficial Owner's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series D-2 Bonds, including the application and effect of state, local, foreign and other tax laws.

Circular 230 Disclaimer

The preceding tax matters discussion related to the Series D-2 Bonds is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Series D-2 Bonds. Such discussion was written to support the promotion or marketing of the Series D-2 Bonds. Each purchaser of the Series D-2 Bonds should seek advice based on such purchaser's particular circumstances from an independent tax advisor.

FINANCIAL ADVISOR

Government Finance Associates, Inc., New York, New York, serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

COMPETITIVE SALE OF BONDS

After competitive bidding on October 14, 2010, the Series D-1 Bonds were awarded as tax-exempt bonds and the Series D-2 Bonds were awarded as Federally Taxable Build America Bonds (Direct Payment) to Morgan Keegan & Company, Inc. (the "Representative"), as representative of a syndicate of underwriters (the "Underwriters"). The Representative has supplied the information as to the public offering yields and prices of the Bonds set forth on the inside cover hereof. The Representative has informed the State that (i) if all of the Series D-1 Bonds are resold to the public at the yields shown on the inside cover hereof, they anticipate the total Underwriters' compensation for the Series D-1 Bonds to be $26,625.00 and (ii) if all of the Series D-2 Bonds are resold to the public at the respective yields and prices shown on the inside cover hereof, they anticipate the total Underwriters' compensation for the Series D-2 Bonds to be $328,375.00. The Underwriters may change the public offering yields or prices from time to time.

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 Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose approving opinion will be delivered with the Bonds. Copies of the proposed forms of opinion are attached hereto as Appendix C.

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, if material. The Annual Report will be filed by the State with the Municipal Securities Rulemaking Board (the "MSRB"). The notices of material events will be filed by the State with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in Appendix B hereto, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

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 to provide annual financial information or notices of material events.

ADDITIONAL INFORMATION

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

Additional information may be obtained upon request from the office of the State Treasurer, Hon. George B. "Jeb" Spaulding, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 590 Madison Avenue, 21st Floor, New York, New York 10022, Telephone: (212) 521-4090.

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

Several discussions throughout this Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2011 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 2011 and 2012 cannot be verified until after the close of the fiscal year. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: /s/ Brian E. Dubie
Lieutenant Governor
(acting pursuant to 3 V.S.A. §1(b))

By: /s/ George B. "Jeb" Spaulding
Treasurer

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APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

The information in this Appendix A includes pages 14 through 151 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2009. The entire CAFR is available from Finance & Management's website at http://finance.vermont.gov/reports_and_publications/cafr.

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

Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

To the Speaker of the House of Representatives,
President Pro-Tempore of the Senate
and the Governor of the State of Vermont:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the "State"), as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units identified in Note 1A. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., or the Tri-State Lotto Commission. The discretely presented component units identified in Note 1A represent 62% of the total assets and 41% of the total revenues of the aggregate discretely presented component units. The Vermont Lottery Commission represents 100% of the total assets and revenues of the Vermont Lottery Commission Fund and 7% of the total assets and 36% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 69% of total assets and 2% of total revenues of the Federal Revenue Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund and the Vermont Information Technology Leaders, Inc. represent 9% of total assets and 9% of total revenues of the Special Fund and collectively represent 9% of total assets and 1% of total revenues of the governmental activities. The Tri-State Lotto Commission represents 100% of the information disclosed in Note 13. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and, our opinions, insofar as they relate to the amounts and disclosures included for those discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., or the Tri-State Lotto Commission, are based solely on the reports of the other auditors.

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

VT Reg. No. 92-0000741

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in note 1 and note 17, the State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* as of July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2009 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information, listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis and Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Vermont's basic financial statements. The introductory section, supplementary information, and statistical section, listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 17, 2009

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2009. This Management's 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 2009. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Vermont reported net assets of $1.243 billion, comprised of $2.560 billion in total assets offset by $1.317 billion in total liabilities at June 30, 2009 (Table 1).

The primary government's net assets have decreased by $177.4 million as a result of this year's operations. The net assets for governmental activities decreased $87.3 million and net assets for business type activities decreased by $90.1 million (Table 2).

The State's governmental funds reported combined ending fund balances of $355.9 million. Of this amount, $181.6 million is available for spending at the State's discretion (unreserved fund balance).

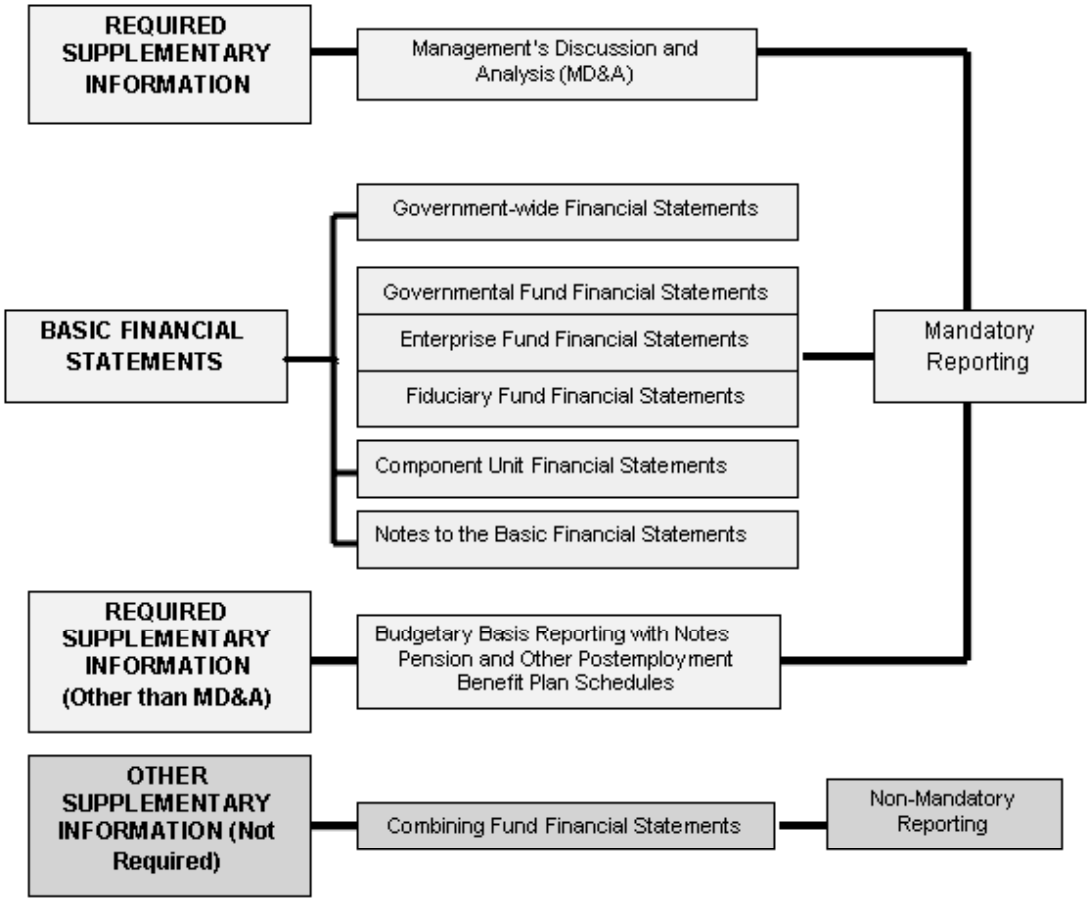
The State's General Fund reported a deficit this year of $5.8 million which decreased the accumulated fund balance to $149.9 million, of which $103.2 million is reserved for specific purposes.

The State's debt outstanding for General Obligation Bonds decreased $1.5 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



Basic Financial Statements

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

1) Government-Wide Financial Statements

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

The government-wide statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. The State

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

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

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

Primary Government Activities

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

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

Component Units' Activities

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

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

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

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

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

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

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

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

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

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

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

The State reports twenty-two internal service funds which are reported in one consolidated column entitled "Governmental Activities – Internal Service Funds Total" on the Proprietary Funds Statement of Net Assets; Statement of Revenues, Expenses, and Changes In Net Assets; and Statement of Cash Flows.

The proprietary funds' financial statements immediately follow the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the other supplementary information section.

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

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

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

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net assets and activities of 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 the supplementary information of this report.

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
The State's (governmental and business-type activities) combined net assets total $1.243 billion at the end of 2009, as shown in Table 1. Approximately $1.320 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 $1.320 billion in capital assets represent resources used to provide services to citizens, and therefore are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the primary government's net assets (16.1 percent) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The remaining balance of unrestricted net assets is a deficit of $276.9 million. This unrestricted deficit balance increased by $164.4 million from the previous year's unrestricted net asset deficit.

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, $214.3 million outstanding at June 30, 2009, that does not result in a governmental activities' capital asset, 2) the statutorily mandated restricting of net assets for the budget stabilization reserves ($204.8 million), and 3) the net Pension and OPEB liabilities (See Note 5).

The business type-activities' positive unrestricted net asset balance may be used to meet the State's ongoing obligation to its citizens and creditors.

At the end of fiscal year 2009, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following primary government condensed financial statement information is derived from the State's June 30, 2009 and 2008 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

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current assets	$ 610.8	$ 808.1	$ 103.0	$ 183.3	$ 713.9	$ 991.5
Other assets	345.9	213.4	5.2	5.0	351.1	218.4
Capital assets	1,494.5	1,402.8	0.9	0.8	1,495.4	1,403.6
Total assets	**2,451.2**	**2,424.3**	**109.2**	**189.1**	**2,560.4**	**2,613.3**
Long-term liabilities	880.9	762.4	4.5	4.9	885.4	767.2
Other liabilities	410.4	414.8	21.7	11.0	432.1	425.8
Total liabilities	**1,291.3**	**1,177.2**	**26.2**	**15.9**	**1,317.5**	**1,193.0**
Net assets:						
Invested in capital assets, net of related debt	1,318.7	1,245.9	0.9	0.6	1,319.6	1,246.5
Restricted	121.7	117.1	78.5	169.2	200.2	286.3
Unrestricted (deficit)	(280.6)	(115.8)	3.7	3.3	(276.9)	(112.5)
Total net assets	**$ 1,159.9**	**$ 1,247.2**	**$ 83.0**	**$ 173.1**	**$ 1,242.9**	**$ 1,420.3**

Note: Net assets, for the year ending 2008 ,has been restated in the governmental activities as a result of the implementation of GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations.

In 2009, governmental activities' revenues fell short of expenses by $109.3 million, which was offset by transfers of $21.9 million from business activities, resulting in a 7.00 percent decrease in net assets. Business-type activities had an overall decrease in net assets of 52.05 percent, resulting from an operating shortfall of $68.1 million, plus transfers out of $21.9 million to governmental activities, primarily from the Lottery ($20.9 million) to support education.

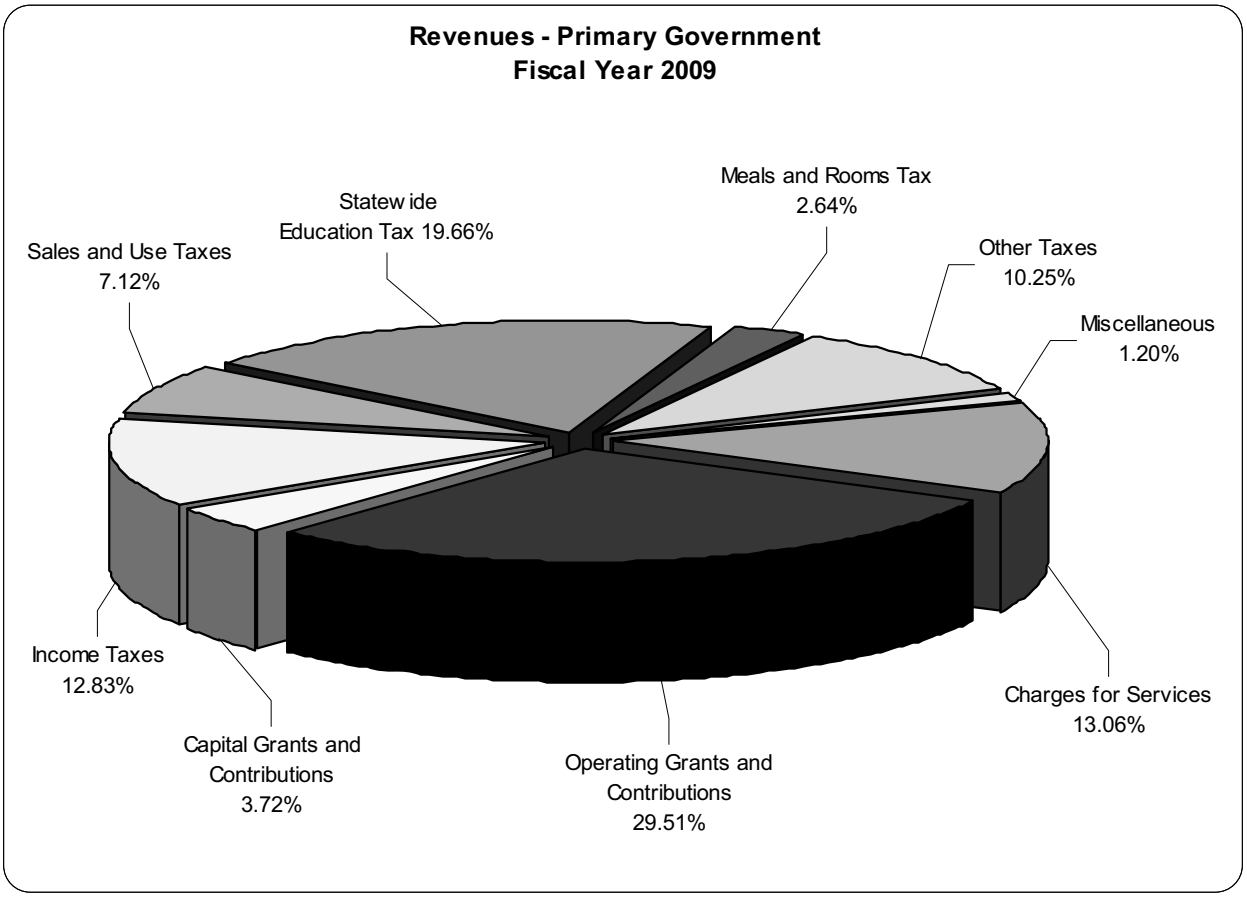
The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2009 and 2008, and contains primary government data only.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	$ 318.1	$ 273.5	$ 264.0	$ 216.3	$ 582.2	$ 489.8
Operating grants and contributions	1,315.5	1,182.6	-	-	1,315.5	1,182.6
Capital grants and contributions	165.8	151.7	0.1	-	165.9	151.7
General revenues:						
Income taxes	572.0	698.3	-	-	572.0	698.3
Sales and use taxes	317.6	336.2	-	-	317.6	336.2
Statewide education tax:						
Gross tax assessed	995.9	916.9	-	-	995.9	916.9
Income sensitivity adjustment	(119.5)	(118.0)	-	-	(119.5)	(118.0)
Meals and rooms tax	117.8	119.8	-	-	117.8	119.8
Other taxes	456.7	461.6	-	-	456.7	461.6
Miscellaneous	47.7	50.5	6.0	8.8	53.7	59.3
Total revenues	**4,187.8**	**4,073.1**	**270.2**	**225.0**	**4,458.0**	**4,298.2**
Expenses						
General government	116.8	101.5	-	-	116.8	101.5
Protection to persons and property	280.4	259.7	-	-	280.4	259.7
Human services	1,750.9	1,652.7	-	-	1,750.9	1,652.7
Labor	29.1	28.0	-	-	29.1	28.0
General education	1,657.3	1,614.4	-	-	1,657.3	1,614.4
Natural resources	98.1	95.7	-	-	98.1	95.7
Commerce and community development	33.3	37.0	-	-	33.3	37.0
Transportation	308.5	310.7	-	-	308.5	310.7
Public service enterprises	3.9	4.5	-	-	3.9	4.5
Interest on long-term debt	18.7	19.4	-	-	18.7	19.4
Unemployment compensation	-	-	214.6	99.0	214.6	99.0
Lottery commission	-	-	74.9	79.6	74.9	79.6
Liquor control	-	-	46.4	45.3	46.4	45.3
Other business-type expenses	-	-	2.5	3.1	2.5	3.1
Total expenses	**4,297.1**	**4,123.6**	**338.3**	**227.0**	**4,635.4**	**4,350.6**
(Decrease) in net assets before transfers	(109.3)	(50.5)	(68.1)	(2.0)	(177.4)	(52.4)
Transfers net in (out)	21.9	23.9	(21.9)	(23.9)	-	-
Change in net assets	**(87.3)**	**(26.6)**	**(90.1)**	**(25.9)**	**(177.4)**	**(52.4)**
Net assets, July 1	1,247.2	1,273.7	173.1	199.0	1,420.3	1,472.7
Net assets, June 30	**$ 1,159.9**	**$ 1,247.2**	**$ 83.0**	**$ 173.1**	**$ 1,242.9**	**$ 1,420.3**

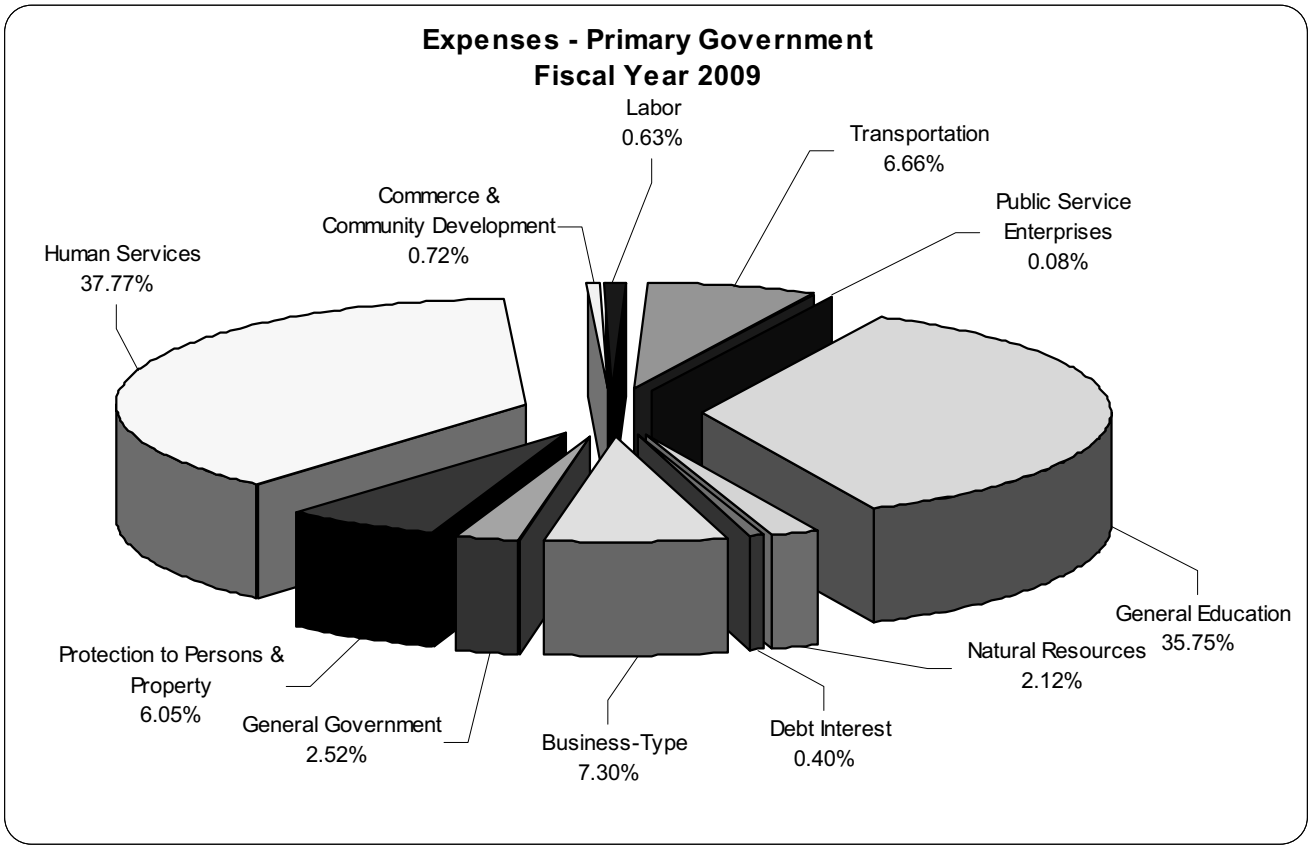
Totals may not add due to rounding.

The following graph illustrates the revenues of Vermont's primary government for fiscal year 2009. Approximately 33.23 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 32.49 percent of total revenues is generated by the statewide education and income taxes.



Percentages may not equal 100%, due to rounding.

The following graph illustrates the percentages of total primary government expenses. The largest portion of expenses is for human services (37.77 percent of total expenses) which provides for Vermont's low-income, elderly care services and persons in state custody in the form of grants for selected services such as food stamps, health care, housing and child protective services. The second most significant expense is for general education (35.75 percent of total expenses), which provides for Vermont's support to elementary, secondary and higher education.



Percentages may not equal 100%, due to rounding.

FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2009, the unreserved fund balance is 51.03 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance has been reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders, for debt service, for the human services caseload reserve, for budget stabilization purposes, and for a variety of other purposes.

At the end of fiscal year 2009, the State's governmental funds reported combined fund balances of $355.9 million, a decrease of $64.7 million in comparison with the prior fiscal year. This decrease is primarily attributable to declines in personal and corporate income tax.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2009, the General Fund's total fund balance was $149.9 million and the unreserved portion of this fund balance was $46.7 million. Its remaining fund balance was made up of reservations totaling $103.2 million. The most significant reservations are: $60 million for budget stabilization, $16.3 million for the human services caseload reserve and $14.85 million for the revenue shortfall reserve. During 2009, total expenditures and other financing uses surpassed revenues and other financing sources by $5.8 million. The General Fund transferred $78.1 million to the Global Commitment Fund for a portion of the State's payment for Medical coverage under the Global Commitment to Health Medicaid waiver.

The Special Fund's total fund balance at the end of fiscal year 2009 was $95.3 million, a decrease of 18.23 percent in comparison with 2008. The Special Fund's total fund balance is comprised of $91.6 million as unreserved, and $3.7 million in reserved for encumbrances. Special Fund revenues increased $48.4 million and expenditures increased $9.7 million compared to 2008 resulting in a decrease in "excess of revenues over expenditures" of $38.7 million from last fiscal year. Fiscal year 2009 transfers out to other funds exceed transfers in from other funds by $190.6 million. The Special Fund transferred $203.6 million to the Global Commitment Fund for a portion of the State's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver.

The Federal Revenue Fund accounts for the federal share of all federal grants except those federal grants that are awarded to the Agency of Transportation (which are included in the Transportation Fund) and the Department of Fish and Wildlife (which are included in the Fish and Wildlife Fund, a non-major governmental fund). The Federal Revenue Fund's federal grant revenues for fiscal year 2009 were $1.232 billion, a 8.83 percent increase over fiscal year 2008's federal grant revenues. The Agency of Human Services' received 82.25 percent of the total federal grants revenue and transferred $621.7 million to the Global Commitment Fund for the payment of the Federal share of Medicaid expenditures under the Global Commitment to Health Medicaid waiver. The Federal Revenue Fund's total fund balance at the end of fiscal year 2009 ($32.9 million) was a decrease of $36.9 million as compared to the total fund balance at the end of fiscal year 2008.

The fiscal year 2009 ending total fund balance for the Global Commitment Fund was a deficit balance $29.4 million. Net transfers in of $880.4 million exceeded expenditures of $873.7 million, resulting in a $6.7 million decrease in the deficit balance from the fiscal year 2008 ending total fund balance. This deficit is the result of Medicaid costs incurred under a previous Medicaid waiver agreement being paid with the resources transferred to the fund under the current agreement. The State plans to clarify with the Centers for Medicare and Medicaid Services (CMS), as part of a waiver amendment, that the State used capitation payments to pay for regular Medicaid claims coming into the global commitment waiver period. The State and CMS recognize the need to develop an equitable funding approach coming out the waiver period.

The Education Fund at June 30, 2009, had a total fund balance of $44.6 million, which represents a $4.3 million increase over fiscal year 2008's ending balance. Prior to fiscal year 2008, the State appropriated for expenditures to provide property tax relief to taxpayers based on taxpayer income levels and property taxes. Beginning with fiscal year 2008, the State changed its methodology of paying income sensitivity adjustments from directly to taxpayers to paying the income sensitivity adjustments directly to the municipalities, and the municipalities adjust the taxpayers' statewide education property tax assessments. The Education Fund's statewide education tax revenue was reduced from the gross assessment of $995.9 million for the $119.5 million that was paid to municipalities for income sensitivity adjustments. The Education Fund's reserve for budget stabilization increased $1.7 million to $31.1 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $10.2 million at June 30, 2009, a decrease of $3.4 million from the fiscal year 2008 ending total fund balance. This decrease was the result of expenditures exceeding revenues by $4.9 million and transfer in exceeding transfers out by $1.5 million. The Transportation Fund's

reservation for budget stabilization increased from $11.2 million to $11.3 million, the maximum allowed by statute.

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

Proprietary Funds
The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund is the largest of the enterprise funds accounting for 94.44 percent of the $83.1 million total net assets reported by the enterprise funds. However, the Unemployment Compensation Trust Fund's total net assets decreased by $90.8 million from $169.2 million at June 30, 2008, to $78.5 million at June 30, 2009. This decrease was the result of unemployment benefit distributions exceeding unemployment tax assessments and other income.

The State's *internal service funds'* total net assets at June 30, 2009 were $2.8 million, a $9.4 million decrease from June 30, 2008. This decrease is primarily due to operating losses totaling $8.2 million and net transfers out to other funds of $2.2 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside the government. The *pension and other postemployment benefit trust funds'* net assets decreased by 21 percent to $2.575 billion at June 30, 2009. 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, 2009 is $9 million, and total liabilities balance is $7.8 million, including the escheat property claims liability estimated at $7.8 million, resulting in ending net assets of $1.2 million. The Investment Trust Fund's total net assets at June 30, 2009, were $89.8 million. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The fiscal year 2009 General Fund revenue forecast was reduced three times during the fiscal year, with the final General Fund revenue forecast reduction approved by the Emergency Board on April 24, 2009. The General Fund revenue forecast was reduced by 2.57% in November 2008, 0.93% in January 2009, and 1.32% in April 2009. As fiscal year 2009 came to a close, the revenues had exceeded the April 2009 revised revenue forecast by $14.6 million. This was mostly attributable to the Inheritance & Estate Tax (included in Other Taxes), which completed the fiscal year $14.1 million ahead of the April 2009 revised revenue . Personal Income Tax, Sales & Use Tax, Meals & Rooms Tax, and Property Transfer Tax cumulatively fell slightly below the final target by $2.31 million or 0.27%, while Corporate Income Tax exceeded target by $5.0 million or 8.1%. The General Fund's operating results allowed for $2.2 million to be added to the Budget Stabilization Reserve, bringing the balance to $60.0 million (100% of the 5% statutory maximum), with an additional $14.9 million placed in the new revenue shortfall reserve. The revenue shortfall reserve was established in 32 V.S.A. 308(d). If the general assembly determines there are insufficient revenues to fund expenditures for the operation of state government at a level the general assembly finds prudent and required, it may specifically appropriate the use of the revenue shortfall reserve to compensate for a reduction of revenues or fund such needs as the general assembly may determine.

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, 2009, was $1.495 billion, a total increase of 6.5 percent (Table 3). This investment in

capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Many component unit, municipal and non-profit capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other organizations. Therefore, these capital assets are recorded on the financial statements of these owning organizations and are not listed on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2009, the State had $214.3 million of general obligation bonds outstanding related to capital assets of these other organizations.

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

	Governmental Activities		Business Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land and Land Improvements…	$ 77,468	$ 72,940	$ -	$ -	$ 77,468	$ 72,940
Construction in Progress……	344,421	304,866	304	-	344,725	304,866
Works of Art……	136	136	-	-	136	136
Buildings and Improvements…..	220,751	205,690	35	31	220,786	205,721
Machinery and Equipment……..	50,234	48,214	598	783	50,832	48,997
Infrastructure……	801,465	771,002	-	-	801,465	771,002
Totals……	**$ 1,494,475**	**$ 1,402,848**	**$ 937**	**$ 814**	**$ 1,495,412**	**$1,403,662**

Totals may not add due to rounding.

Debt Administration

The State has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990, the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the State. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, in the months of May and June proceeding such fiscal year, or in subsequent fiscal years. Bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the debt.

During fiscal year 2009, the State of Vermont's outstanding general obligation bond debt decreased by approximately $1.5 million. This decrease can be accounted for by the issuance of $50.5 million of general obligation bonds and accretion of $1.4 million in principal on the State's capital appreciation bonds offset by the redemption of $53.4 million. Additional information on the State's long-term indebtedness is contained in Note 8 of the notes to the financial statements.

The State's general obligation bond ratings are as follows: Aaa by Moody's Investor Service (since February 2008), AA+ by Standard & Poor's Ratings Services (since September 2000), and AA+ by Fitch Ratings (since October 1999).

ECONOMIC FACTORS AFFECTING THE STATE

Capital Debt Affordability

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

debt that prudently may be authorized for the next fiscal year. In September 2009, the CDAAC issued its recommendation proposing that the maximum amount of long-term general obligation debt authorized for the State in fiscal year 2010 be $69.96 million and in fiscal year 2011 be $71.83 million. The State anticipates the next issuance of general obligation bonds will be in the first quarter of calendar 2010.

Economic Conditions

Vermont economic conditions have followed the national trend with an apparent slowing in the rate of decline over the last six to eight months. Labor market conditions remain weak, although the condition of the State's housing markets and the State's unemployment rate remain less adversely impacted than either the national average or the experience felt by many other states or regions throughout the country. The impact of the recession in Vermont has been most evident in the State's job market. Currently, nonfarm payroll jobs have contracted by 5.0% since the last payroll job peak during mid-calendar year 2007. Job losses in Vermont recently have slowed, following the sharp drop off that occurred between September 2008 and April 2009. As economic conditions have stabilized and begun to improve, another sharp drop off in payroll jobs seems unlikely. The Construction and Manufacturing sectors have been hit particularly hard. Second home construction has all but ceased in the State. Already existing problems in Manufacturing were exacerbated by the recession. Both of these sectors continue to struggle due to elevated energy prices. Thus far, however, Vermont's job losses have not yet reached the over 6% peak-to-trough payroll job decline that occurred during the 1990-1991 Vermont recession. That recession was a particularly harsh downturn for Vermont, and still remains the most severe economic and labor market downturn in the Vermont economy since the Great Depression. While it is true that the payroll jobs decline during the current downturn has not yet reached the especially harsh payroll job decline of the early 1990s recession, the job losses experienced during the current economic downturn far exceeded the level of payroll job losses experienced during the 2001 economic downturn in Vermont.

REQUESTS FOR INFORMATION

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

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

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

BASIC FINANCIAL STATEMENTS

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Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 317,294,461	$ 80,778,779	$ 398,073,240	$ 227,008,345
Taxes receivable (net)	78,947,265	13,580,549	92,527,814	-
Loans and notes receivable (net)	7,400,000	735,260	8,135,260	234,351,303
Federal grants receivable	127,475,162	1,500,374	128,975,536	13,299,298
Other receivables (net)	34,082,115	3,606,405	37,688,520	121,842,979
Investments	36,230,094	-	36,230,094	82,040,803
Inventories	2,351,973	4,991,309	7,343,282	209,309
Internal balances	2,283,220	(2,283,220)	-	-
Receivable from primary government	-	-	-	1,691,209
Receivable from component units	3,500,163	-	3,500,163	-
Other current assets	1,272,562	133,240	1,405,802	14,989,356
Total current assets	610,837,015	103,042,696	713,879,711	695,432,602
Noncurrent assets:				
Cash and cash equivalents	-	863,590	863,590	134,399,037
Taxes receivable	107,795,321	-	107,795,321	-
Other receivables	21,032,796	28,721	21,061,517	-
Loans and notes receivable	169,705,646	1,774,774	171,480,420	3,389,610,657
Investments	39,669,664	2,558,310	42,227,974	446,567,746
Other noncurrent assets	7,646,939	-	7,646,939	33,079,772
Capital assets:				
Land	77,467,974	-	77,467,974	30,866,456
Construction in progress	344,421,089	304,084	344,725,173	74,072,121
Works of art	136,003	-	136,003	-
Capital assets being depreciated:				
Infrastructure	1,425,008,595	-	1,425,008,595	21,564,527
Property, plant and equipment	534,778,633	1,595,954	536,374,587	979,229,813
Less accumulated depreciation	(887,337,532)	(962,797)	(888,300,329)	(404,480,726)
Total capital assets, net of depreciation	1,494,474,762	937,241	1,495,412,003	701,252,191
Total noncurrent assets	1,840,325,128	6,162,636	1,846,487,764	4,704,909,403
Total assets	2,451,162,143	109,205,332	2,560,367,475	5,400,342,005

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	230,091,777	14,474,160	244,565,937	98,205,522
Income tax refunds payable	75,175,424	-	75,175,424	-
Payable to primary government	-	-	-	5,191,372
Payable to component units	-	-	-	-
Intergovernmental payable - due to federal government	8,002,410		8,002,410	-
Accrued interest payable	7,357,791	-	7,357,791	10,720,416
Current portion of long-term liabilities	88,133,712	654,658	88,788,370	428,287,223
Unearned revenue	1,617,780	6,573,190	8,190,970	29,147,113
Total current liabilities	410,378,894	21,702,008	432,080,902	571,551,646
Long-term liabilities:				
Lottery prize awards payable	-	4,313,243	4,313,243	-
Bonds, notes and leases payable	404,675,982	-	404,675,982	3,803,715,262
Compensated absences	11,188,673	145,001	11,333,674	-
Claims and judgments	27,034,525	-	27,034,525	-
Other long-term liabilities	438,027,536	-	438,027,536	107,252,466
Total long-term liabilities	880,926,716	4,458,244	885,384,960	3,910,967,728
Total liabilities	1,291,305,610	26,160,252	1,317,465,862	4,482,519,374
NET ASSETS				
Invested in capital assets, net of related debt	1,318,708,102	937,241	1,319,645,343	190,955,283
Restricted for:				
Unemployment compensation	-	78,451,846	78,451,846	-
Component unit net assets	-	-	-	610,237,496
Funds held in permanent investments:				
Expendable	11,899,617	-	11,899,617	-
Nonexpendable	7,416,453	-	7,416,453	-
Budget stabilization	102,384,449	-	102,384,449	-
Unrestricted	(280,552,088)	3,655,993	(276,896,095)	116,629,852
Total net assets	$ 1,159,856,533	$ 83,045,080	$ 1,242,901,613	$ 917,822,631

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activities:				
General government	$ 116,802,125	$ 23,075,643	$ 1,338,271	$ -
Protection to persons & property	280,434,303	151,730,311	37,915,765	165,354
Human services	1,750,910,878	22,310,753	1,063,814,956	-
Labor	29,070,744	9,007,019	21,896,102	-
General education	1,657,335,363	1,438,594	114,228,604	12,394
Natural resources	98,135,589	23,749,288	34,240,004	8,689,282
Commerce & community development	33,309,659	561,127	8,153,558	-
Transportation	308,457,417	81,435,147	33,962,719	156,976,909
Public service enterprises	3,894,263	4,831,639	-	-
Interest on long-term debt	18,713,803	-	-	-
Total governmental activities	4,297,064,144	318,139,521	1,315,549,979	165,843,939
Business-type activities:				
Vermont Lottery Commission	74,895,581	95,982,802	-	-
Liquor Control	46,376,992	47,788,549	-	99,999
Unemployment Compensation	214,560,736	117,920,196	-	-
Other	2,470,608	2,341,468	-	-
Total business-type activities	338,303,917	264,033,015	-	99,999
Total primary government	$ 4,635,368,061	$ 582,172,536	$ 1,315,549,979	165,943,938
Component Units:				
Vermont Student Assistance Corporation	$ 153,088,000	$ 82,628,000	$ 57,485,000	$ -
University of Vermont and State Agricultural College	577,357,000	314,917,000	210,406,000	7,240,000
Vermont State Colleges	165,975,359	105,179,309	52,278,104	1,000,349
Vermont Housing Finance Agency	51,876,566	727,525	-	-
Other	74,102,755	44,076,498	16,941,109	3,606,747
Total component units	$ 1,022,399,680	$ 547,528,332	$ 337,110,213	$ 11,847,096

General Revenues:
Taxes:
Personal and corporate income
Sales and use
Meals and rooms
Puchase and use
Motor fuel
Statewide education
Other taxes
Total taxes
Investment earnings (losses)
Tobacco litigation settlement
Additions to non-expendable endowments
Miscellaneous
Transfers
Total general revenues and transfers

Changes in net assets

Net Assets - Beginning, restated (Note 17)

Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activites	Total	
$ (92,388,211)	$ -	$ (92,388,211)	$ -
(90,622,873)	-	(90,622,873)	-
(664,785,169)	-	(664,785,169)	-
1,832,377	-	1,832,377	-
(1,541,655,771)	-	(1,541,655,771)	-
(31,457,015)	-	(31,457,015)	-
(24,594,974)	-	(24,594,974)	-
(36,082,642)	-	(36,082,642)	-
937,376	-	937,376	-
(18,713,803)	-	(18,713,803)	-
(2,497,530,705)	-	(2,497,530,705)	-
-	21,087,221	21,087,221	-
-	1,511,556	1,511,556	-
-	(96,640,540)	(96,640,540)	-
-	(129,140)	(129,140)	-
-	(74,170,903)	(74,170,903)	-
(2,497,530,705)	(74,170,903)	(2,571,701,608)	-
-	-	-	(12,975,000)
-	-	-	(44,794,000)
-	-	-	(7,517,597)
-	-	-	(51,149,041)
-	-	-	(9,478,401)
-	-	-	(125,914,039)
572,032,043	-	572,032,043	-
317,599,085	-	317,599,085	-
117,842,121	-	117,842,121	-
65,861,624	-	65,861,624	-
64,303,367	-	64,303,367	-
876,407,774	-	876,407,774	-
326,518,745	-	326,518,745	12,464,095
2,340,564,759	-	2,340,564,759	12,464,095
2,635,461	6,034,822	8,670,283	(13,249,494)
42,879,252	-	42,879,252	-
-	-	-	575,349
2,178,455	8,659	2,187,114	1,687,309
21,944,841	(21,944,841)	-	-
2,410,202,768	(15,901,360)	2,394,301,408	1,477,259
(87,327,937)	(90,072,263)	(177,400,200)	(124,436,780)
1,247,184,470	173,117,343	1,420,301,813	1,042,259,411
$ 1,159,856,533	$ 83,045,080	$ 1,242,901,613	$ 917,822,631

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Vermont

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS:				
Cash and cash equivalents	$ 74,862,479	$ 10,514,267	$ 42,111,585	$ 63,055,523
Investments	-	-	-	43,967,117
Receivables:				
Taxes receivable (net)	162,050,315	8,759,718	12,758,249	3,078,410
Accrued interest receivable	106,317	1,615	-	14,452
Notes and loans receivable	816,499	374,948	-	699,540
Other receivables (net)	5,913,574	8,676,745	-	20,590,715
Intergovernmental receivable - federal government (net)	485,680	22,961,062	-	-
Due from other funds	2,233,223	575,040	-	1,697,107
Due from component units	3,102,064	-	-	68,357
Interfund receivable	41,006,672	-	-	-
Advances to other funds	309,700	-	-	-
Advances to component units	1,571,940	-	-	-
Total assets	**$ 292,458,463**	**$ 51,863,395**	**$ 54,869,834**	**$ 133,171,221**
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 19,319,000	$ 20,692,885	$ 7,470,468	$ 17,508,178
Accrued liabilities	15,645,476	7,543,364	-	4,656,954
Retainage payable	14,985	387,227	-	289,177
Due to other funds	2,197,145	87,165	24,402	6,291,465
Due to component units	700,000	-	-	-
Intergovernmental payable - federal government	-	-	-	-
Tax refunds payable	4,961,262	-	138,825	-
Deferred revenue	99,720,805	12,964,142	2,592,534	9,090,813
Total liabilities	**142,558,673**	**41,674,783**	**10,226,229**	**37,836,587**
FUND BALANCES (DEFICITS):				
Reserved for:				
Encumbrances	8,166,596	22,989	-	3,704,302
Budget stabilization	60,013,570	11,290,397	31,080,482	-
Debt service	1,176,793	673,628	-	-
Advances and notes receivable	2,698,139	-	-	-
Revenue shortfall	14,845,633	-	-	-
Human caseload management	16,285,719	-	-	-
Endowments	-	-	-	-
Unreserved:				
General Fund	46,713,340	-	-	-
Special revenue funds (deficit)	-	(1,798,402)	13,563,123	91,630,332
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total fund balances (deficits)	**149,899,790**	**10,188,612**	**44,643,605**	**95,334,634**
Total liabilities and fund balances	**$ 292,458,463**	**$ 51,863,395**	**$ 54,869,834**	**$ 133,171,221**

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
$ 19,500,434	$ 25,021,914	$ 36,392,450	$ -	$ 271,458,652
11,132,404	-	20,800,237	-	75,899,758
-	-	95,894	-	186,742,586
29,162	-	2,460	-	154,006
175,214,659	-	-	-	177,105,646
1,779,937	13,878,880	413,605	-	51,253,456
103,448,979	-	579,441	-	127,475,162
549,032	25,249,087	13,245	(27,624,898)	2,691,836
449,011	-	-	-	3,619,432
-	-	-	-	41,006,672
-	-	-	-	309,700
-	-	-	-	1,571,940
$ 312,103,618	**$ 64,149,881**	**$ 58,297,332**	**$ (27,624,898)**	**$ 939,288,846**
$ 34,165,168	$ 88,449,265	$ 2,990,852	$ -	$ 190,595,816
6,831,579	3,030,916	715,074	-	38,423,363
104,186	138,080	725,174	-	1,658,829
19,087,868	416,453	528,207	(27,624,898)	1,007,807
-	-	991,209	-	1,691,209
8,002,410	-	-	-	8,002,410
-	-	-	-	5,100,087
211,051,981	1,504,794	-	-	336,925,069
279,243,192	**93,539,508**	**5,950,516**	**(27,624,898)**	**583,404,590**
13,294,967	663,651	2,968,240	-	28,820,745
-	-	-	-	102,384,449
-	-	-	-	1,850,421
-	-	-	-	2,698,139
-	-	-	-	14,845,633
-	-	-	-	16,285,719
-	-	7,416,453	-	7,416,453
-	-	-	-	46,713,340
19,565,459	(30,053,278)	5,304,329	-	98,211,563
-	-	24,758,177	-	24,758,177
-	-	11,899,617	-	11,899,617
32,860,426	**(29,389,627)**	**52,346,816**	**-**	**355,884,256**
$ 312,103,618	**$ 64,149,881**	**$ 58,297,332**	**$ (27,624,898)**	**$ 939,288,846**

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2009

Total fund balances from previous page		**$ 355,884,256**
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	77,441,818	
Construction in progress	339,692,623	
Depreciable capital assets and infrastructure, net of $845,656,403 of accumulated depreciation	1,042,124,405	
Capital assets, net of accumulated depreciation		1,459,258,846
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets		2,824,557
Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:		
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds		336,179,186
Deferred charge for unamortized bond issuance costs		2,494,882
Deferred for unamortized loss on sale of refunding bonds		5,152,058
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds. These liabilities include:		
Bonded and capital lease debt	(453,161,244)	
Accrued interest payable on bonds	(7,357,791)	
Compensated absences (net of internal service funds' liability)	(31,471,902)	
Tax refunds payable	(70,075,337)	
Other long-term liabilities	(439,870,978)	
Long-term liabilities		(1,001,937,252)
Net assets of governmental activities		**$ 1,159,856,533**

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

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Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES:				
Taxes:				
Personal income tax	$ 526,636,230	$ -	$ -	$ 2,592,455
Corporate income tax	66,453,120	-	-	-
Sales and use tax	213,817,300	-	105,204,680	-
Meals and rooms	117,277,522	-	-	-
Motor fuel tax	-	61,749,294	-	1,590,389
Purchase and use tax	-	43,907,533	21,954,091	-
Statewide education tax	-	-	876,407,774	-
Other taxes	141,463,956	16,944,712	2,027,286	173,160,178
Earnings of departments:				
Fees	19,062,049	4,525,761	-	58,802,775
Rents and leases	-	909,427	-	3,075,222
Sales of services	1,365,342	57,717	-	18,256,837
Federal grants	-	187,333,894	-	-
Fines, forfeits and penalties	9,820,861	7,124,212	-	10,122,674
Investment income	1,223,249	151,838	255,595	1,031,838
Licenses:				
Business	2,969,750	409,616	-	12,610,152
Non-business	74,734	69,053,298	-	2,830,033
Special assessments	-	-	-	59,192,191
Other revenues	3,651,744	1,909,161	-	71,791,116
Total revenues	**1,103,815,857**	**394,076,463**	**1,005,849,426**	**415,055,860**
EXPENDITURES:				
General government	69,590,157	24,364	7,969,218	16,466,160
Protection to persons and property	87,356,283	33,159,585	-	103,159,533
Human services	377,328,545	-	-	59,349,698
Labor	1,969,763	-	-	5,549,369
General education	128,851,693	-	1,306,154,662	20,014,562
Natural resources	23,283,163	-	-	28,203,445
Commerce and community development	16,315,456	-	-	5,388,069
Transportation	1,161,006	363,861,378	-	1,145,647
Public service enterprises	-	-	-	3,892,835
Debt service	67,048,726	1,914,650	-	2,495,675
Total expenditures	**772,904,792**	**398,959,977**	**1,314,123,880**	**245,664,993**
Excess of revenues over (under) expenditures	**330,911,065**	**(4,883,514)**	**(308,274,454)**	**169,390,867**
Other Financing Sources (Uses):				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	1,176,793	673,628	-	-
Transfers in	48,561,335	2,341,945	312,743,052	56,953,969
Transfers out	(386,472,327)	(1,556,875)	(127,483)	(247,592,258)
Total other financing sources (uses)	**(336,734,199)**	**1,458,698**	**312,615,569**	**(190,638,289)**
Net change in fund balances	**(5,823,134)**	**(3,424,816)**	**4,341,115**	**(21,247,422)**
Fund balances, July 1 (deficit)	**155,722,924**	**13,613,428**	**40,302,490**	**116,582,056**
Fund balances, June 30 (deficit)	**$ 149,899,790**	**$ 10,188,612**	**$ 44,643,605**	**$ 95,334,634**

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
$ -	$ -	$ -	$ -	$ 529,228,685
-	-	-	-	66,453,120
-	-	-	-	319,021,980
-	-	-	-	117,277,522
-	-	963,684	-	64,303,367
-	-	-	-	65,861,624
-	-	-	-	876,407,774
-	-	-	-	333,596,132
			-	
-	-	170,754	-	82,561,339
-	-	54,992	-	4,039,641
-	-	3,112	-	19,683,008
1,231,995,445	-	7,017,632	-	1,426,346,971
-	-	21,062	-	27,088,809
1,215,938	-	177,397	-	4,055,855
			-	
-	-	1,185	-	15,990,703
-	-	6,568,529	-	78,526,594
-	-	4,077	-	59,196,268
7,632,823	-	1,129,775	-	86,114,619
1,240,844,206	**-**	**16,112,199**	**-**	**4,175,754,011**
1,886,109	408,379	11,907,510	-	108,251,897
39,807,950	1,918,291	4,304,203	-	269,705,845
415,270,073	865,920,110	3,438,969	-	1,721,307,395
19,766,452	-	-	-	27,285,584
114,481,005	5,436,802	14,746,844	-	1,589,685,568
39,964,035	-	23,373,360	-	114,824,003
8,156,590	-	3,257,060	-	33,117,175
-	-	13,175,967	-	379,343,998
-	-	-	-	3,892,835
-	-	-	-	71,459,051
639,332,214	**873,683,582**	**74,203,913**	**-**	**4,318,873,351**
601,511,992	**(873,683,582)**	**(58,091,714)**	**-**	**(143,119,340)**
-	-	50,500,000	-	50,500,000
-	-	-	-	1,850,421
2,860,586	903,354,059	2,169,622	(1,299,778,046)	29,206,522
(641,268,231)	(22,969,049)	(2,910,586)	1,299,778,046	(3,118,763)
(638,407,645)	**880,385,010**	**49,759,036**	**-**	**78,438,180**
(36,895,653)	**6,701,428**	**(8,332,678)**	**-**	**(64,681,160)**
69,756,079	**(36,091,055)**	**60,679,494**	**-**	**420,565,416**
$ 32,860,426	**$ (29,389,627)**	**$ 52,346,816**	**$ -**	**$ 355,884,256**

State of Vermont
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2009

Total net change in fund balances from the previous page	$ (64,681,160)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period (net of internal service funds).	
Capital outlay/functional expenditures and expensed net book value of disposed capital assets	159,878,558
Depreciation expense	(71,210,043)
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal repayment	53,380,000
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	
Bonds issued	(50,500,000)
Bond premium is amortized over the life of the bonds in the statement of activities	(411,979)
Refunding bonds gain amortized over the life of the refunded bonds	(1,189,971)
Bond issuance costs are reported as expenditures in the governmental funds, but this cost is amortized over the life of the bonds in the statement of activities	344,754
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds	3,976,823
Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities	(2,815,953)
Some expenses reported in the statement of activities do not require the use of current financial resources and, thererfore, are not reported as expenditures in the governmental funds.	
Net decrease in accrued interest payable	508,295
Accreted interest on capital appreciation bonds	(1,391,518)
Increase in compensated absences	(117,698)
Increase in employer pension and other postemployment related costs	(108,932,825)
Increase in pollution remediation related costs	(289,992)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities	(9,321,733)
Notes and loans issued by governmental funds are reported as an expenditure in governmental funds and repayments are reported as a revenue in the governmental funds, but the issuances and repayment increase or decrease notes and loans receivable in the statement of net assets	5,446,505
Total changes in net assets of governmental activities as reported on the statement of activities	$ (87,327,937)

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, 2009

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 75,345,168	$ 3,008,028	$ 1,689,688
Receivables:			
Taxes receivable (net of allowance for uncollectibles)	13,580,549	-	-
Accrued interest receivable	-	-	-
Accounts receivable (net of allowance for uncollectibles)	1,664,261	245,692	1,318,652
Loans receivable	-	-	-
Due from other funds	-	15,981	27,571
Intergovernmental receivable - federal	1,500,374	-	-
Inventories, at cost	-	4,281,243	461,134
Prepaid expenses	-	-	-
Total current assets	**92,090,352**	**7,550,944**	**3,497,045**
Restricted and Noncurrent Assets:			
Cash-subscription reserve fund	-	-	-
Investments	-	-	2,558,310
Loans receivable	-	-	-
Accounts receivable - subscriptions	-	-	-
Imprest cash and change fund - advances	-	6,800	300,000
Capital Assets:			
Land	-	-	-
Construction in progress	-	304,084	-
Capital assets being depreciated:			
Machinery, equipment and buildings	-	1,301,612	288,042
Less accumulated depreciation	-	(730,109)	(226,388)
Total capital assets, net of depreciation	**-**	**875,587**	**61,654**
Total restricted & noncurrent assets	-	882,387	2,919,964
Total assets	**92,090,352**	**8,433,331**	**6,417,009**
LIABILITIES			
Current Liabilities:			
Accounts payable	3,562,863	5,464,816	255,611
Accrued salaries and benefits	-	473,273	183,480
Claims payable	-	-	-
Due to lottery winners	-	-	431,309
Due to agents	-	249,988	-
Due to other funds	45,222	359,744	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	2,378,844
Deferred revenue	5,633,435	-	217,976
Capital leases payable	-	-	-
Other liabilities	4,396,986	-	-
Total current liabilities	**13,638,506**	**6,547,821**	**3,467,220**
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	1,934,399
Advances from other funds	-	6,800	300,000
Total liabilities payable from restricted assets	**-**	**6,800**	**2,234,399**
Total liabilities	**13,638,506**	**6,554,621**	**5,701,619**
NET ASSETS			
Invested in capital assets, net of related debt	-	875,587	61,654
Restricted for unemployment compensation benefits	78,451,846	-	-
Unrestricted (deficit)	-	1,003,123	653,736
Total net assets	**$ 78,451,846**	**$ 1,878,710**	**$ 715,390**

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
$ 735,895	$ -	$ 80,778,779	$ 45,835,809
-	-	13,580,549	-
17,597	-	17,597	8,115
360,203	-	3,588,808	11,803,774
735,260	-	735,260	-
84,094	(45,222)	82,424	512,691
-	-	1,500,374	-
248,932	-	4,991,309	2,351,973
133,240	-	133,240	1,272,562
2,315,221	**(45,222)**	**105,408,340**	**61,784,924**
553,890	-	553,890	-
-	-	2,558,310	-
1,774,774	-	1,774,774	-
28,721	-	28,721	-
2,900	-	309,700	-
-	-	-	26,156
-	-	304,084	4,728,466
6,300	-	1,595,954	71,915,038
(6,300)	-	(962,797)	(41,453,744)
-	**-**	**937,241**	**35,215,916**
2,360,285	-	6,162,636	35,215,916
4,675,506	**(45,222)**	**111,570,976**	**97,000,840**
167,683	-	9,450,973	5,272,287
87,810	-	744,563	3,543,222
-	-	-	38,149,402
-	-	431,309	-
-	-	249,988	-
14,966	(45,222)	374,710	2,390,377
1,658,662	-	1,658,662	39,243,204
-	-	2,378,844	-
167,889	-	6,019,300	871,897
-	-	-	4,728,466
-	-	4,396,986	-
2,097,010	**(45,222)**	**25,705,335**	**94,198,855**
553,890	-	553,890	-
-	-	1,934,399	-
2,900	-	309,700	-
556,790	**-**	**2,797,989**	**-**
2,653,800	**(45,222)**	**28,503,324**	**94,198,855**
-	-	937,241	30,487,450
-	-	78,451,846	-
2,021,706	-	3,678,565	(27,685,465)
$ 2,021,706	**$ -**	**$ 83,067,652**	**$ 2,801,985**

Adjustment to reflect the consolidation of internal service activities related to enterprise funds	(22,572)
Net Assets - Business-type Activities.....	**$ 83,045,080**

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Operating Revenues			
Charges for sales and services	$ 117,920,196	$ 44,412,701	$ -
Ticket sales	-	-	95,975,537
Rental income	-	-	-
License fees	-	1,063,797	-
Federal donated property	-	-	-
Advertising revenue	-	-	-
Other operating revenues	-	2,312,051	7,265
Total operating revenues	**117,920,196**	**47,788,549**	**95,982,802**
Operating Expenses			
Cost of sales and services	-	35,888,111	-
Claims expense	214,398,226	-	-
Lottery ticket prizes	-	-	60,737,049
Agents commissions and fees	-	-	5,635,880
Tri-State (megabucks) and MUSL (powerball) expenses	-	-	2,275,089
Lottery tickets	-	-	1,232,545
Salaries and benefits	-	-	1,420,582
Insurance premium expense	-	-	-
Transportation	-	-	250,141
Contractual services	-	-	-
Repairs and maintenance	-	-	-
Warehouse expense	-	1,052,843	-
Depreciation	-	215,673	15,848
Rental expense	-	-	64,455
Utilities and property management	-	-	-
Non-capital equipment purchased	-	-	-
Stores and agencies expense	-	5,657,620	-
Promotions and advertising	-	-	494,319
Administrative expenses	-	1,724,111	1,972,651
Inspection and enforcement expense	-	1,819,749	-
Supplies and parts	-	-	21,401
Distribution and postage	-	-	-
Travel	-	-	-
Loss on bad debts	162,510	-	-
Other operating expenses	-	1,798	767,815
Total operating expenses	**214,560,736**	**46,359,905**	**74,887,775**
Operating income (loss)	**(96,640,540)**	**1,428,644**	**21,095,027**
Non-Operating Revenues			
Gain on disposal of capital assets	-	8,659	-
Investment income	5,900,644	-	131,390
Total non-operating revenues	**5,900,644**	**8,659**	**131,390**
Income (loss) before contributions and transfers	**(90,739,896)**	**1,437,303**	**21,226,417**
Capital contributions from (to) other funds	-	99,999	-
Transfer in	353,671	-	-
Transfer out	(367,739)	(840,320)	(21,101,963)
Changes in net assets	**(90,753,964)**	**696,982**	**124,454**
Total net assets, July 1	**169,205,810**	**1,181,728**	**590,936**
Total net assets, June 30	**$ 78,451,846**	**$ 1,878,710**	**$ 715,390**

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

Business-type Activities - Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
$ 1,483,706	$ -	$ 163,816,603	$ 209,042,580
-	-	95,975,537	-
-	-	-	13,120,001
-	-	1,063,797	-
135,329	-	135,329	-
593,678	-	593,678	-
128,755	-	2,448,071	2,706,142
2,341,468	**-**	**264,033,015**	**224,868,723**
705,108	-	36,593,219	24,926,959
-	-	214,398,226	120,040,521
-	-	60,737,049	-
-	-	5,635,880	-
-	-	2,275,089	-
-	-	1,232,545	-
835,624	-	2,256,206	30,476,355
-	-	-	6,786,461
63,274	-	313,415	-
-	-	-	5,215,467
981	-	981	4,376,468
-	-	1,052,843	-
1,409	-	232,930	7,971,555
17,026	-	81,481	2,363,946
7,245	-	7,245	10,475,622
970	-	970	2,797,030
-	-	5,657,620	-
391,718	-	886,037	-
186,959	-	3,883,721	9,056,939
-	-	1,819,749	-
11,599	-	33,000	7,951,652
206,223	-	206,223	-
8,885	-	8,885	165,527
10,896	-	173,406	-
16,865	-	786,478	439,672
2,464,782	**-**	**338,273,198**	**233,044,174**
(123,314)	**-**	**(74,240,183)**	**(8,175,451)**
-	-	8,659	236,089
2,788	-	6,034,822	788,322
2,788	**-**	**6,043,481**	**1,024,411**
(120,526)	**-**	**(68,196,702)**	**(7,151,040)**
-	-	99,999	(860)
367,739	(14,068)	707,342	3,118,763
(356,229)	14,068	(22,652,183)	(5,319,315)
(109,016)	**-**	**(90,041,544)**	**(9,352,452)**
2,130,722	**-**	**173,109,196**	**12,154,437**
$ 2,021,706	**$ -**	**$ 83,067,652**	**$ 2,801,985**

Total change in net assets reported above.....	(90,041,544)
Consolidation adjustment of internal service activities related to enterprise funds.....	(30,719)
Change in net assets - business-type activities.....	$ (90,072,263)

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers	$ 59,966,902	$ 60,693,548	$ 96,321,974
Cash paid to suppliers for goods and services	-	(41,553,784)	-
Loans received (made)	-	-	-
Cash paid to employees for services	-	(3,838,255)	(1,396,181)
Cash paid for prizes and commissions	-	-	(66,952,474)
Cash paid to claimants	(154,128,575)	-	-
Liquor taxes and licenses paid	-	(15,168,708)	-
Cash paid for fees, operations and other	-	-	(7,347,361)
Other operating revenues (expenses)	2,942,373	2,242,241	7,265
Net cash provided (used) by operating activities	**(91,219,300)**	**2,375,042**	**20,633,223**
Cash Flows from Noncapital Financing Activities:			
Operating transfers in (out)	(364,021)	(840,320)	(21,102,852)
Interfund loans and advances	353,671	500	-
Net cash provided (used) by noncapital financing activities	**(10,350)**	**(839,820)**	**(21,102,852)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(576,495)	(10,300)
Proceeds from capital leases	-	-	-
Capital contributions	-	99,999	-
Proceeds from sale of capital assets	-	9,012	-
Net cash provided (used) by capital and related financing activities	**-**	**(467,484)**	**(10,300)**
Cash Flows From Investing Activities:			
Interest and dividends on investments	5,900,646	-	13,176
Proceeds from sales/maturities of investments	-	-	497,403
Interest & penalties received (paid)	-	-	-
Excess cash transferred	-	-	(591,650)
Net cash provided (used) by investing activities	**5,900,646**	**-**	**(81,071)**
Net increase (decrease) in cash and cash equivalents	**(85,329,004)**	**1,067,738**	**(561,000)**
Cash and cash equivalents at July 1	**160,674,172**	**1,947,090**	**2,550,688**
Cash and cash equivalents at June 30 (see note below)	**$ 75,345,168**	**$ 3,014,828**	**$ 1,989,688**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$ (96,640,540)	$ 1,428,644	$ 21,095,027
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	-	215,673	15,848
(Increase) decrease in accounts/taxes receivable	(3,472,515)	(85,106)	310,906
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	-	-
(Increase) decrease in inventory	-	6,676	(109,209)
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in intergovernmental receivable - federal	(1,433,618)	-	-
Increase (decrease) in accounts payable	-	777,986	(268,945)
Increase (decrease) in accrued salaries and benefits	-	3,774	24,401
Increase (decrease) in claims payable	2,352,384	-	-
Increase (decrease) in due to lottery winners	-	-	191,668
Increase (decrease) in due to agents	-	2,107	-
Increase (decrease) in future and unclaimed prizes payable	-	-	(662,004)
Increase (decrease) in due to other funds	-	25,288	-
Increase (decrease) in deferred revenue	5,633,435	-	35,531
Increase (decrease) in other liabilities	2,341,554	-	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	**5,421,240**	**946,398**	**(461,804)**
Net cash provided (used) by operating activities	**$ (91,219,300)**	**$ 2,375,042**	**$ 20,633,223**

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

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

Business-type Activities - Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 2,969,800	$ 219,952,224	$ 220,814,647
(2,153,035)	(43,706,819)	(73,242,524)
-	-	-
(866,675)	(6,101,111)	(30,695,454)
-	(66,952,474)	-
-	(154,128,575)	(117,723,415)
-	(15,168,708)	-
-	(7,347,361)	-
89,547	5,281,426	2,266,470
39,637	**(68,171,398)**	**1,419,724**
(843)	(22,308,036)	(2,198,803)
221,913	576,084	3,278,014
221,070	**(21,731,952)**	**1,079,211**
-	(586,795)	(11,577,073)
-	-	4,728,466
-	99,999	-
-	9,012	675,906
-	**(477,784)**	**(6,172,701)**
2,788	5,916,610	820,087
-	497,403	-
364,021	364,021	-
(353,671)	(945,321)	-
13,138	**5,832,713**	**820,087**
273,845	**(84,548,421)**	**(2,853,679)**
1,018,840	**166,190,790**	**48,689,488**
$ 1,292,685	**$ 81,642,369**	**$ 45,835,809**
$ (123,314)	$ (74,240,183)	$ (8,175,451)
1,409	232,930	7,971,555
(78,838)	(3,325,553)	(873,910)
248,037	248,037	-
21,709	21,709	-
(19,157)	(19,157)	(474,024)
104,876	2,343	320,798
26	26	(37,037)
-	(1,433,618)	-
14,784	523,825	(59,948)
(31,051)	(2,876)	(39,099)
-	2,352,384	2,317,106
-	191,668	-
-	2,107	-
-	(662,004)	-
14,966	40,254	(353,821)
(59,711)	5,609,255	823,555
-	2,341,554	-
(54,099)	(54,099)	-
162,951	**6,068,785**	**9,595,175**
$ 39,637	**$ (68,171,398)**	**$ 1,419,724**

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Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 10,097,311	$ 2,464	$ 4,191,041	$ 8,336,096
Investments at fair value	2,547,115,245	89,921,739	3,964,853	-
Receivables:				
Taxes	-	-	-	1,682,741
Contributions - current	9,308,199	-	-	-
Contributions - non-current	6,546,347	-	-	-
Interest and dividends	1,049,492	-	-	-
Investments sold	1,236,325	-	-	-
Other	310,438	-	-	175,258
Due from other funds	485,680	-	263	-
Prepaid expenses	1,374,551	-	-	-
Other assets	-	-	829,746	-
Capital assets:				
Construction in progress	2,833,746	-	-	-
Capital assets being depreciated:				
Equipment	208,814	-	-	-
Less accumulated depreciation	(120,718)	-	-	-
Total capital assets, net of depreciation	2,921,842	-	-	-
Total assets	**2,580,445,430**	**89,924,203**	**8,985,903**	**10,194,095**
LIABILITIES				
Liabilities:				
Accounts payable	3,107,023	95,700	9,120	-
Accrued liabilities	-	-	30,161	-
Claims payable	-	-	7,783,217	-
Retainage	327,109	-	-	-
Interfund loans payable	-	-	-	104,806
Due to depositories	-	-	-	72,420
Intergovernmental payable - other governments	-	-	-	5,767,317
Amounts held in custody for others	-	-	-	2,969,938
Payable for investments purchased	2,194,430	-	-	-
Other liabilities	-	-	-	1,279,614
Total liabilities	**5,628,562**	**95,700**	**7,822,498**	**$10,194,095**
NET ASSETS HELD IN TRUST FOR:				
Employees' pension benefits	$ 2,560,030,327	$ -	$ -	
Employees' other postemployment benefits	14,786,541	-	-	
Pool participants	-	89,828,503	-	
Individuals, organizations and other governments	-	-	1,163,405	
Net assets held in trust for benefits & other purposes	**$ 2,574,816,868**	**$ 89,828,503**	**$ 1,163,405**	

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, 2009

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions:			
Employer - pension benefit	$ 54,610,630	$ -	$ -
Employer - healthcare benefit	38,537,238	-	-
Plan member	53,942,274	-	-
Transfers from non-state systems	3,784,337	-	-
Medicare part D drug subsidy	1,388,884	-	-
Total contributions	152,263,363	-	-
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(13,962,589)	-	-
Loss from investment pool	(604,047,193)	(23,758,081)	-
Dividends	1,659,245	-	-
Interest income	5,263,164	-	79,168
Securities lending income	5,436,192	-	-
Other income	1,494,251	-	-
Less Investment Expenses:			
Investment managers and consultants	(10,222,565)	(359,579)	-
Securities lending expenses	(1,320,606)	-	-
Net investment income (loss)	(615,700,101)	(24,117,660)	79,168
Escheat property remittances	-	-	2,442,646
Total additions	**(463,436,738)**	**(24,117,660)**	**2,521,814**
DEDUCTIONS			
Retirement benefits	178,951,368	-	-
Other post employment benefits	34,960,927	-	-
Refunds of contributions	4,048,236	-	-
Death claims	821,152	-	-
Depreciation	48,724	-	-
Operating expenses	3,111,938	-	832,117
Pool participant withdrawal	-	3,722,267	-
Transfers out	-	-	1,942,366
Total deductions	**221,942,345**	**3,722,267**	**2,774,483**
Change in net assets held in trust for:			
Employees' pension benefits	(687,854,781)	-	-
Employees' other postemployment benefits	2,475,698	-	-
Pool participants	-	(27,839,927)	-
Individual, organizations and other governments	-	-	(252,669)
Net Assets, July 1	**3,260,195,951**	**117,668,430**	**1,416,074**
Net Assets, June 30	**$ 2,574,816,868**	**$ 89,828,503**	**$ 1,163,405**

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

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Vermont

Component Units Financial Statements

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2009

	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	$ 124,724,000	$ 75,701,000	$ 1,257,020	$ 5,228,147	$ 20,098,178	$ 227,008,345
Investments	2,360,000	42,040,000	25,690,769	100,000	11,850,034	82,040,803
Accounts receivable (net)	-	33,968,000	7,814,732	-	2,028,728	43,811,460
Accrued interest receivable - loans	48,744,000	-	-	3,933,996	18,602,557	71,280,553
Accrued interest receivable - investments	25,000	-	-	713,297	-	738,297
Loans and notes receivable - current portion	165,215,000	2,810,000	-	15,658,988	50,667,315	234,351,303
Other receivables	729,000	2,517,000	-	2,709,180	57,489	6,012,669
Due from federal government	490,000	-	-	-	12,809,298	13,299,298
Due from primary government	-	-	-	-	1,691,209	1,691,209
Inventories (at cost)	-	-	99,268	-	110,041	209,309
Other current assets	1,897,000	11,173,000	1,127,629	-	791,727	14,989,356
Total current assets	**344,184,000**	**168,209,000**	**35,989,418**	**28,343,608**	**118,706,576**	**695,432,602**
Restricted and Non-Current Assets:						
Cash and cash equivalents	-	2,939,000	34,859,869	95,502,794	1,097,374	134,399,037
Investments	-	319,118,000	28,690,345	30,997,171	67,762,230	446,567,746
Deferred bond issue costs	10,605,000	-	-	3,970,723	5,952,528	20,528,251
Loans and notes receivable (net)	2,076,298,000	32,716,000	5,137,777	665,345,443	610,113,437	3,389,610,657
Other assets	-	5,897,000	731,179	5,917,845	5,497	12,551,521
Total restricted and noncurrent assets	**2,086,903,000**	**360,670,000**	**69,419,170**	**801,733,976**	**684,931,066**	**4,003,657,212**
Capital Assets:						
Land	3,150,000	20,665,000	5,712,848	775,000	563,608	30,866,456
Construction in process	-	27,173,000	44,220,339	-	2,678,782	74,072,121
Building and leasehold improvements	16,765,000	624,882,000	143,982,409	1,655,162	20,425,267	807,709,838
Equipment, furniture and fixtures	10,089,000	143,796,000	12,840,891	1,068,335	3,725,749	171,519,975
Infrastructure	-	-	21,564,527	-	-	21,564,527
Accumulated depreciation	(8,694,000)	(283,489,000)	(97,202,304)	(1,870,136)	(13,225,286)	(404,480,726)
Total capital assets, net of depreciation	**21,310,000**	**533,027,000**	**131,118,710**	**1,628,361**	**14,168,120**	**701,252,191**
Total assets	**2,452,397,000**	**1,061,906,000**	**236,527,298**	**831,705,945**	**817,805,762**	**5,400,342,005**
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	4,574,000	56,210,000	21,266,750	1,677,376	3,167,800	86,895,926
Accrued interest payable	-	-	-	7,460,555	100,554	7,561,109
Bond interest payable	1,366,000	-	-	-	1,793,307	3,159,307
Deferred revenue	7,252,000	15,416,000	6,306,591	75,438	97,084	29,147,113
Other current liabilities	-	-	-	-	8,757,479	8,757,479
Current portion of long-term liabilities	244,843,000	6,920,000	2,656,033	38,025,905	135,842,285	428,287,223
Due to primary government	-	-	-	-	3,619,432	3,619,432
Escrowed cash deposits	-	-	-	2,368,331	183,786	2,552,117
Advances from primary government	-	-	-	-	1,571,940	1,571,940
Total current liabilities	**258,035,000**	**78,546,000**	**30,229,374**	**49,607,605**	**155,133,667**	**571,551,646**
Restricted and Non-Current Liabilities:						
Bonds, notes and leases payable	2,063,700,000	476,997,000	118,387,532	699,607,761	445,022,969	3,803,715,262
Accounts payable and accrued liabilities	-	13,760,000	371,279	-	-	14,131,279
Accrued arbitrage rebate	16,688,000	-	-	1,346,031	1,071,963	19,105,994
Other liabilities	-	50,841,000	22,845,112	324,037	5,044	74,015,193
Total liabilities payable from restricted assets	**2,080,388,000**	**541,598,000**	**141,603,923**	**701,277,829**	**446,099,976**	**3,910,967,728**
Total liabilities	**2,338,423,000**	**620,144,000**	**171,833,297**	**750,885,434**	**601,233,643**	**4,482,519,374**
NET ASSETS						
Invested in capital assets, net of related debt	2,264,000	125,009,000	51,169,325	1,628,361	10,884,597	190,955,283
Restricted	74,816,000	270,193,000	13,723,076	70,873,078	180,632,342	610,237,496
Unrestricted	36,894,000	46,560,000	(198,400)	8,319,072	25,055,180	116,629,852
Total net assets	**$ 113,974,000**	**$ 441,762,000**	**$ 64,694,001**	**$ 80,820,511**	**$ 216,572,119**	**$ 917,822,631**

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2009

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
Expenses:						
Salaries and benefits	$ 25,476,000	$ 356,943,000	$ 107,115,902	$ 3,361,430	$ 18,517,524	$ 511,413,856
Other expenses	44,334,000	164,150,000	43,479,916	5,417,446	30,711,524	288,092,886
Scholarships, grants and fellowships	24,744,000	13,867,000	4,849,769	-	-	43,460,769
Depreciation	1,378,000	27,081,000	5,638,845	121,637	853,393	35,072,875
Interest on debt	57,156,000	15,316,000	4,890,927	42,976,053	24,020,314	144,359,294
Total expenses	153,088,000	577,357,000	165,975,359	51,876,566	74,102,755	1,022,399,680
Program Revenues:						
Charges for services	82,628,000	314,917,000	105,179,309	727,525	44,076,498	547,528,332
Operating grants and contributions	57,485,000	210,406,000	52,278,104	-	16,941,109	337,110,213
Capital grants and contributions	-	7,240,000	1,000,349	-	3,606,747	11,847,096
Total program revenues	140,113,000	532,563,000	158,457,762	727,525	64,624,354	896,485,641
Net expense	(12,975,000)	(44,794,000)	(7,517,597)	(51,149,041)	(9,478,401)	(125,914,039)
General Revenues:						
Property transfer tax	-	-	-	-	12,464,095	12,464,095
Investment income (losses)	2,104,000	(70,983,000)	7,697	47,545,276	8,076,533	(13,249,494)
Additions to non-expendable endowments	-	-	575,349	-	-	575,349
Miscellaneous	-	-	-	166,734	1,520,575	1,687,309
Total general revenues	2,104,000	(70,983,000)	583,046	47,712,010	22,061,203	1,477,259
Changes in net assets	(10,871,000)	(115,777,000)	(6,934,551)	(3,437,031)	12,582,802	(124,436,780)
Net assets - beginning, restated (Note 17)	124,845,000	557,539,000	71,628,552	84,257,542	203,989,317	1,042,259,411
Net assets - ending	$ 113,974,000	$ 441,762,000	$ 64,694,001	$ 80,820,511	$ 216,572,119	$ 917,822,631

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

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Vermont

State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2009

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Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Vermont (State) have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Newly implemented in these statements are the requirements of GASB Statement No. 49 – "Accounting and Financial Reporting for Pollution Remediation Obligations" (GASB 49), GASB Statement No. 55 – "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," and GASB Statement No. 56 – "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards." As a result of the adoption of GASB 49, the State has restated the beginning net asset balance for the governmental activities. See Note 17 for additional information on the adoption of GASB 49.

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, 2009.

A. Reporting Entity

The financial statements include the various agencies, boards, commissions, public trusts, and authorities of the State as well as legally separate entities over which the State's executive, legislative, and judicial branches exercise oversight responsibility. Oversight responsibility as defined by GASB includes the following considerations:

Financial interdependency
Selection of governing authority
Designation of management
Ability to significantly influence operations
Accountability for fiscal matters

In addition, the following criteria were considered during the evaluation of the legally separate entities for inclusion in the CAFR as Component Units:

the scope of public services as to whether its activity benefits the State or its citizens, and whether the activity is conducted within the geographic boundaries of Vermont and is generally available to Vermont residents; and

the existence of any special relationships regardless of whether the government exercises oversight responsibility that would cause the State's financial statements to be misleading or incomplete if the entity's financial activity were to be omitted.

Entities that may meet only one of the above criteria have not been included in this report.

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

COMPONENT UNITS

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State such that exclusion would cause the State's financial statements to be misleading or incomplete. Their activity may be "blended" into the activity of the primary government or may be reported separately. If they are reported separately, they are called "discretely presented component units." Each discrete 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. For further information, contact their administrative offices at the Champlain Mill, P.O. Box 2000, Winooski, Vermont 05404-2601.

*University of Vermont (UVM)** - The University of Vermont's financial report includes both the University and the State Agricultural College. Additional information may be obtained by contacting the university's administrative offices at 348 Waterman Building, Burlington, Vermont 05405.

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

System Offices and Services
Community College of Vermont
Castleton State College
Johnson State College
Lyndon State College
Vermont Technical College
Vermont Interactive Television
Practical Nursing Program
Vermont Manufacturing Extension Center

Additional information about the system itself or about any of the individual organizations included in the system may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, Stanley Hall, Park Street, P.O. Box 359, Waterbury, Vermont 05676.

*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 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. In June of 2009, VHFA signed a memorandum of agreement with the State of Vermont to administer $7 million out of $19.6 million of Neighborhood Stabilization Program (NSP) funds allocated to the State under the Federal Housing and Economic Recovery Act of 2008. Further information may be obtained by contacting the Agency's administrative offices at 164 Saint Paul Street, Burlington, VT 05402-0408.

Discretely Presented Non-major Component Units

*Vermont Economic Development Authority (VEDA)** – VEDA, a tax-exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital.

VEDA also administers the State Infrastructure Bank (SIB), the Drinking Water State Revolving Loan Fund – Private Loans, the Brownsfield Revitalization Fund, and the Clean Energy Development Fund. These four funds are administered for the benefit of the State and are consolidated and reported in VEDA's agency fund. Audited financial statements and additional information may be obtained by contacting VEDA at 56 East State Street,

Suite 5, Montpelier, Vermont 05602.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this organization with two goals: create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 149 State Street, Montpelier, Vermont 05602.

Vermont Sustainable Jobs Fund, Inc. – The Vermont Legislature established a jobs program and directed VEDA to set up a non-profit 503(c)(3) corporation to implement the program and to establish policies and procedures in order to fulfill the goals of the jobs program as listed in 10 V.S.A. 326(a). Audited financial statements and additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. VMBB is authorized to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. It has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

VMBB also administers the *Special Environmental Revolving Fund* in accordance with 24 V.S.A. 4753(b). This fund was created by the Vermont Legislature for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. The fund has a June 30 year-end and issues its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 58 East State Street, Montpelier, Vermont 05601-0564.

Vermont Educational and Health Buildings Financing Agency (VEHBFA) – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible educational or health related entities. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 58 East State Street, Montpelier, Vermont 05601-0564.

Vermont Center For Geographic Information (VCGI) – The Vermont Legislature established VCGI and charged it with creating a comprehensive strategy for the development and use of a geographic information system. Audited financial statements or additional information may be obtained by contacting them at 58 South Main Street, Suite 2, Waterbury, Vermont 05676.

Vermont Veterans' Home – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the Vermont Veterans' Home. The Vermont Veterans' Home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

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

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

05633-2001.

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

Vermont Transportation Authority (VTA) – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. The VTA is not currently an operating organization. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

* - Indicates entity was audited by KPMG LLP.

Blended Component Unit

Vermont Information Technology Leaders, Inc. (VITL) – VITL is a non-profit public partnership whose vision is a transformed health care system where health information is secure and readily available when the people need it. VITL is a multi-stakeholder corporation facilitating participation in the process by providers, payers, employers, patients, and state agencies. This component unit provides services almost entirely to the State of Vermont. 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 is not included in the State's financial statements; however, see Note 13 for additional information regarding the organization.

JOINTLY-GOVERNED ORGANIZATIONS

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

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

RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government appoints a voting majority of the board members, but does not have either (a) the ability to impose its will on the organization or (b) a relationship of financial benefit or burden with the organization. The 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. The amount of governmental activities net assets restricted by enabling legislation for the State as of June 30, 2009, is $98,430,952.

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

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

C. Fund Financial Statements

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

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

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

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

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

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

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

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

c. Debt service expenditures and claims and judgments are recorded only when payment is due to be paid.

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

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

E. Fund Accounting

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

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds.

GOVERNMENTAL FUNDS

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

Special Revenue Funds **-** These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

Transportation Fund – This fund is a major special revenue fund. It is used primarily for preservation, maintenance, and improvements to the State's transportation infrastructure. This infrastructure includes highways, bridges, railroads, airports, public transportation, and other related activities. The fund is also used for maintenance and staffing of highway rest areas, construction of transportation capital facilities, and to provide funding for transportation related debt service requirements. The primary sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for transportation projects.

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

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

Federal Revenue Fund – This fund is a major special revenue fund. All federal grant receipts are recorded in this fund except for those federal funds specifically designated for transportation or fish and wildlife purposes. Federal grants of these latter two types are recorded in the State's Transportation Fund or Fish and Wildlife Fund respectively.

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

General, Special and Federal Revenue Funds are used to fund payments of actuarially certified premiums from the Agency of Human Services to the managed care organization within the Office of Vermont Health Access for the purpose of providing services under the global commitment to health care waiver approved by the Federal Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. These payments are reported as transfers out of the General, Special and Federal Revenue Funds and as transfers in to the Global Commitment Fund. These funds will be expended as appropriated by the general assembly, authorized by the Director of the Office of Vermont Health Access, and approved by the Commissioner of Finance and Management consistent with agreements between the managed care organization within the Office of Vermont Health Access and departments delivering eligible services under the waiver.

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

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

Capital Projects Funds – These funds, consisting of the General Bond Fund and the Transportation Bond Fund, are non-major governmental funds, and account for capital improvement expenditures. These appropriations are primarily funded by the issuance of State capital bonds. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

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

PROPRIETARY FUNDS

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

Enterprise Funds – These eight funds are used to account for operations that are financed and operated in a

manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State's unemployment compensation program, the liquor control board, and the State's lottery program, are reported as "major funds" while the remaining five are reported as non-major funds.

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

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

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

Internal Service Funds – These twenty-two separate funds are used to account for the financing of goods and services provided by one State department to other State agencies, departments, or intergovernmental units. Their objective is not to make a profit but rather to recover the total cost of providing these goods and services by charging users of their services and products. Activities accounted for in the State's internal service funds include risk management; employee group insurance programs; equipment acquisition and maintenance; rental and maintenance of facilities; financial, human resource, audit, and information technology services; postage, copying and supply procurement services; and State vehicle fleet management. In the government-wide financial statements, Internal Service Funds are reported within the governmental activities.

FIDUCIARY FUNDS

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

Pension and Other Postemployment Benefit Trust Funds – These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement System of Vermont (defined benefit), the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account, and the State Employees' Postemployment Benefit Trust Fund and the Vermont Municipal Employees' Health Benefit Fund.

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

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

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding, other employee payroll deductions and withholdings, etc.

CASH AND CASH EQUIVALENTS

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

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

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

INVESTMENTS

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

RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants receivable.

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

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

INVENTORIES

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

PREPAID EXPENSES

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

CAPITAL ASSETS AND DEPRECIATION

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

Vermont defines a Capital Asset as a physical resource that costs at least $5,000 and provides a future economic benefit for more than 1 year. This includes capital leases and buildings that are not considered to be part of an infrastructure asset. All land, regardless of cost, is capitalized and is not depreciated.

Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature, utilized primarily by the general public as opposed to State employees, cost at least $50,000 and provide future economic benefit for more than 1 year. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most capital assets.

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

Capital assets in the proprietary funds are capitalized at historical cost when acquired. Depreciation is calculated and recorded using the straight-line method with estimated useful lives being the same as those for the governmental capital assets. Interest is capitalized, when material.

When a capital asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements.

DEFERRED REVENUE

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

ACCOUNTS PAYABLE

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

The “payable for investments purchased” balance for the Pension Trust Funds represents amounts due for securities purchased prior to year-end, which were paid subsequent to year-end.

ACCRUED LIABILITIES

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

TAX REFUNDS PAYABLE

Tax refunds payable primarily represent amounts owed by the State to taxpayers because of overpayment of their personal income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2009 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2009. The amount reported as tax refunds payable at June 30, 2009 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2009 tax liability as well as overpayments for calendar year 2008 and prior years' tax liabilities that have not been paid out as of June 30, 2009.

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, 2009, the primary government had no outstanding arbitrage rebate obligation. The arbitrage rebate liabilities reported by the discretely-presented component units are included in "Other Long-term Liabilities" in the government-wide statement of activities.

ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Un-liquidated encumbrances remaining at fiscal year-end are reported in the Reserved for Encumbrances account as a component of fund equity for the governmental fund types.

FUND BALANCES

Fund balances for governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation such as "reserved of advances and notes receivable;" (2) funds legally separated for a specific use such as "reserved for encumbrances;" or (3) funds segregated by legal restrictions such as "reserved for endowments" that includes the non-expendable portion of the permanent funds. Certain other reservations of the Governmental Funds' fund balances are described below.

Budget Stabilization Reserve – These reserves are established in the General, Transportation, and Education funds. They were created to reduce the effects of annual variations in State revenues by reserving certain surpluses of revenue. See Note 10 for a more complete disclosure of these reserves as it pertains to the current fiscal year.

Reserved for Debt Service – The reserve for debt service includes the premium on the sale of general obligation bonds sold during the fiscal year. This will be appropriated in the following fiscal year to be used on the first payment of principal or interest due on the bonds.

Reserved for Human Caseload Management – The General Fund reserve for human caseload management, established pursuant to 32 V.S.A. Section 308b(a) was created to be available for appropriation to meet caseload-related needs at the Agency of Human Services. The Secretary of Administration may transfer to this reserve any general fund unexpended appropriations directly attributable to Aid To Needy Families With Children (ANFC) caseload reductions and the effective management of related federal receipts.

COMPENSATED ABSENCES

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

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

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

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

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

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

INTERFUND TRANSACTIONS

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

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

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

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

USE OF ESTIMATES

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

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Primary Government – Excluding Pension and Investment Trust Funds

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

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

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

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

Deposits - Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository (FDIC) insurance and are uncollateralized or collateralized with securities held by the pledging financial institution or by the pledging financial institution's trust department or agent but not in the depositor – government's name. Although State statute does not require deposits to be collateralized, the Treasurer requires the State's cash deposits held in its primary bank to be collateralized with either United States Treasury securities or Vermont municipal securities or other approved money market instruments. Certificates of deposit are collateralized, in whole or in part, on the basis of agreements with the bank, a protocol requiring periodic due diligence and review of bank capitalization and assets. Bank deposits in excess of the FDIC amounts and collateral agreements are uninsured and uncollateralized. The bank collateral for the State's deposit balances is held by the banks' trust department for the benefit of the State. Bank balances of deposits for the primary government, excluding pension and investment trust funds, as of June 30, 2009 (including certificates of deposits) were $186,331,483. Of these, $1,618,831 was exposed to custodial credit risk as uninsured and uncollateralized.

Investments
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, 2009 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.

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 State Treasurer's Office believes that reported fair values at the balance sheet date are reasonable.

(a) Interest Rate Risk – Investments
Interest rate risk is the extent that changes in market interest rates of debt investments will adversely affect the fair market value of an investment. State investment guidelines require that short-term money market instruments be limited to duration of one year or less. While there is no formal policy specific to the Trust Investment Account, statute states that the treasurer shall apply the same investment objectives and policies adopted by the Vermont state employees' retirement system, where appropriate, to the investment of funds for the trust investments. Those guidelines specify that the average duration of an actively managed portfolio shall not differ from the passive benchmark's duration by more than 25 percent. 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. Additional manager requirements are specified in written investment contracts. The primary government's investments, other than pension and investment trust funds' investments at June 30, 2009, 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	$ 39,154	$ 280	$ 842	$ 8,521	$ 29,511
Money Market Mutual Fund	184,477	184,477	-	-	-
Other	480	68	195	101	116
Total Debt Investments	224,111	$ 184,825	$ 1,037	$ 8,622	$ 29,627
Other Investments					
Mutual Funds	2,733				
Equity Securities	19,204				
US Unemployment Trust Pool	75,275				
Total	**$ 321,323**				

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……..	$	321,323
Included in cash & cash equivalents:		
Money market mutual fund……		(181,514)
Certificates of deposit……		22,433
US Treasury trust pool……		(75,275)
Financial statement investments total……	**$**	**86,967**

Governmental activities total……	$	75,900
Business activities total……		2,558
Fiduciary - OPEB trust……		4,544
Fiduciary - private purpose trust fund……..		3,965
Total……	**$**	**86,967**

(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, 2009, 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, 2009 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. State Statute and formal guidelines adopted by the State Treasurer, pursuant to statute, define the State's credit quality policies for various investment classes. All primary funds, excluding certain trusts specified otherwise in other sections of statute, require that bankers' acceptances, commercial paper and guarantees investment contracts have credit ratings by nationally recognized rating agencies in the highest tier applicable to their investments. Money market funds either must be SEC registered and rated by a nationally recognized agency or consist of only dollar-denominated securities managed consistent with SEC rule 2a-7. Municipal debt obligations must be investment-grade obligations as defined by nationally recognized rating agencies. Treasuries, agencies and repurchase agreements whose underlying securities consist of treasuries or agencies, are excluded from rate requirements. While there is no formal policy specific to the Trust Investment Account, statute states that the treasurer shall apply the same investment objectives and policies adopted by the Vermont state employees' retirement system, where appropriate, to the investment of funds for the trust investments. Additional manager requirements are specified in written investment contracts. The credit risk associated with the State's debt securities, money market funds, bond mutual funds, and other pools of fixed income securities, exclusive of pension and investment trust funds' investments, as of June 30, 2009, is presented as follows using the Moody's rating scale.

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

Debt Investments	Fair Value	Quality Ratings	
		Aaa	Unrated
US Agencies/Treasuries	$ 39,154	$ -	$ 39,154
Money Market Mutual Fund	184,477	184,377	100
Bond Mutual Fund	2,733	-	2,733
Other	480	-	480

(d) Foreign Currency Risk
Foreign currency risk is the extent to which changes in exchange rates affect the value of an investment. Operating funds are restricted, through statute and formal guidelines, to specific money market instruments and money market funds investing in domestic instruments.

In the Trust Investment Account portfolio, total exposure to foreign currency risk as of June 30, 2009, valued in US dollars, is $560,670. This consists of $74,275 Canadian Dollar, $387,725 Euro Currency, and $98,670 Mexican Peso.

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

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

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

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

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

STATE OF VERMONT
INVESTMENT POOL
STATEMENTS OF NET ASSETS
June 30, 2009
(in thousands)

Assets:		
Cash and short term investments	$	204,925
Receivables:		
Interest and dividends		10,582
Investments sold		99,467
Total receivables		**110,049**
Investments at Fair value:		
Fixed income		583,192
Equities		1,048,642
Mutual funds		635,647
Real estate and venture capital		111,491
Total investments		**2,378,972**
Total assets		**2,693,946**
Liabilities:		
Payable for investments purchased		196,673
Accounts payable		96
Total liabilities		**196,769**
Net assets held in trust for investment pool participants	**$**	**2,497,177**

Vermont Pension Investment Committee
Investment Pool
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2009
(in thousands)

Additions :		
Investment Income:		
Net depreciation in fair value of investments	$	(717,805)
Dividends		46,224
Interest income		44,199
Securities lending income		211
Other income		352
Total investment loss		**(626,819)**
Total additions		**(626,819)**
Deductions:		
Net pool participant withdrawals		66,246
Operating expenses		1,054
Total deductions		**67,300**
Change in net assets		**(694,119)**
Net assets held in trust for pool participants:		
July 1		**3,191,296**
June 30	**$**	**2,497,177**
Vermont State Retirement System	$	1,007,288
State Teacher's Retirement System		1,135,514
Vermont Municipal Employees' Retirement System		264,546
City of Burlington		89,829
June 30	$	2,497,177

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

The State's Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, is invested in two intermediate term bond portfolios managed by two different investment managers. The investment policy governing the SDIA portfolios includes a minimum average credit quality of double-A, no bonds rated below investment grade, and limitations on asset-backed, mortgage-backed, collateralized Mortgage Obligations, corporate bonds, and single issuers of non-treasury/government agency backed bonds. The bonds are "wrapped" by an insurance policy guaranteeing the book principal value of investment to SDIA Account participants. This insurance wrapper requires monthly adjustments of participant crediting rates based on the

changing market value of the portfolio. The insurance provider is rated double-A by Moody's and Standard & Poor's.

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

The state has two other post benefit employment funds, the Vermont State Post Employment Benefits Trust Fund (State OPEB) and the Vermont Municipal Employees health benefit Fund (Muni OPEB). These are described in Note 5. The "State OPEB" is invested in the Trust Investment Account utilized as an investment vehicle 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 $ 8,387,263 none of which was exposed to custodial credit risk.

Investments
Custodial credit risk for investments is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The VPIC manages exposure to custodial credit risk by requiring all relevant investment managers to hold investments in separate accounts with VPIC's custodian. VPIC guidelines specify the custodial requirements for these accounts and the duties of the managers and the custodian. As of June 30, 2009 all securities were registered in the name of the State at its custodian bank. Investments in pools, open-end mutual funds, and other investments not evidenced by specific securities are not categorized.

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

(a) Interest Rate Risk – Investments

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

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

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to < 6**	**6 to 10**	**More Than 10**
Debt Investments					
US Agencies/Treasuries	$ 137,401	$ 29,117	$ 4,562	$ 19,681	$ 84,041
Corporate Debt	381,338	16,454	187,441	121,048	56,395
Money Market Mutual Fund	47,109	47,109	-	-	-
Municipals	3,795	-	888	488	2,419
Asset Backed Securities	14,470	205	5,691	1,053	7,521
Mortgage Backed Securities	78,994	-	-	447	78,547
Sovereign Debt	48,728	3,012	9,713	23,090	12,913
Repurchase Agreements	154,000	154,000	-	-	-
Total Debt Investments	865,835	$ 249,897	$ 208,295	$ 165,807	$ 241,836
Other Investments					
Mutual Funds	668,395				
Equity Securities	1,048,673				
Real Estate - Venture Capital	137,480				
Fixed Income - Derivatives	(1,279)				
Total	**$ 2,719,104**				

(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, 2009, no issuer exceeded 5%.

(c) Credit Risk of Debt Investments

Detailed pension guidelines by asset class and supplemental requirements by investment manager are used to set risk parameters and are stated in written contracts. These guidelines are reviewed and adopted by VPIC. Treasury staff and independent investment consultants are utilized to assure compliance. The credit risks associated with the Pension Trust securities are as follows:

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

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
US Government Agencies/Treasuries	$ 137,401	$ -	$ -	$ -
Corporate Debt	381,338	27,406	16,180	70,697
Money Market Mutual Fund	47,109	-	-	-
Municipals	3,795	888	621	1,818
Asset Backed Securities	14,470	5,035	605	1,272
Mortgage Backed Securities	78,994	14,027	7,546	6,195
Sovereign Debt	48,728	19,265	10,748	7,995
Repurchase Agreement	154,000	-	-	-

continued below

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated
US Government Agencies/Treasuries	$ -	$ -	$ -	$ 137,401
Corporate Debt	117,134	55,481	85,285	9,155
Money Market Mutual Fund	-	-	-	47,109
Municipals	468	-	-	-
Asset Backed Securities	1,288	1,666	2,575	2,029
Mortgage Backed Securities	4,032	6,618	11,270	29,306
Bond Mutual Fund	4,935	4,427	260	1,098
Repurchase Agreement	-	-	-	154,000

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	$ 35,564	$ 16	$ 9,098	$ 26,449
Brazilian Real	2,013	-	2,013	-
Canadian Dollar	6,231	190	1,145	4,895
Colombian Peso	550	-	550	-
Danish Krone	699	-	-	699
Euro Currency	130,123	704	17,702	111,716
Hong Kong Dollar	6,707	-	-	6,707
Iceland Krona	-	-	-	-
Indonesian Rupiah	1,087	-	1,087	-
Israeli Shekel	47	47	-	-
Japanese Yen	95,699	980	14,169	80,551
Mexican Peso	4,767	60	4,628	79
New Russian Ruble	-	-	-	-
New Zealand Dollar	3,526	30	1,991	1,505
Norwegian Krone	730	175	-	555
Polish Zloty	5,961	37	5,777	148
Pound Sterling	46,420	531	4,864	41,025
Singapore Dollar	11,741	7	-	11,734
South African Rand	3,228	1	1,363	1,864
Swedish Krona	3,053	93	1,087	1,873
Swiss Franc	10,208	146	-	10,061
Thailand Baht	218	66	-	152
Total	$ 368,570	$ 3,083	$ 65,474	$ 300,013

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

Fixed Income Short Positions
A short-sale of a security occurs when an investment manager places a sale order for an account without actually holding the underlying security for delivery. In some situations, short sales are entered into in anticipation of a decline in the fair value of a security; in other cases short sales are entered into as a hedge against potential losses from securities owned (held long) in an account. Short sales incur the risk of loss when the price of a security underlying the short sale increases and the fund is subject to a higher cost to purchase the

security in order to cover the position. Short positions totaling approximately $28.5 million in the VPIC portfolio at June 30, 2009, are predominately related to hedging against losses in long securities positions and to managing the effective duration of an investment portfolio; as a result, while a short position may in and of itself expose the account to risk of loss, such potential losses are at least partially if not fully offset by securities held long. The use of short-sales in certain cases is provided for by written investment guidelines and incorporated in specific manager contracts.

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

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

The State did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. 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. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration and notice of Default of the borrower other than the default by Lehman Brothers Inc. and Lehman Brothers International Europe which occurred in September, 2008, and the State was made whole in connection with this process. On June 30, 2009 Vermont had no credit risk exposure to borrowers.

During the fiscal year, the State and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2009, such investment pool had an average duration of 42.64 days and an average weighted final maturity of 317.62 days for United States Dollar collateral. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the market values of securities on loan for Vermont as of June 30, 2009 were $ 349,214,006 and $337,627,143 respectively.

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
Certain investment 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. At June 30, 2009, VPIC investments had four types of derivative financial instruments: futures, currency forwards, options, and swaps. All of the derivatives reported at June 30, 2009 are at fair market value. The futures and options are traded on exchanges and are marked-to-market daily using the prices as reported by Reuters (primary source). Currency forwards are traded over the counter using prices from WM Co. and Reuters. Interest rate swaps and credit default swaps are traded over the counter and are based on prices from the investment manager as provided by Pricing Direct Inc. (primary source). Swaptions are traded over the counter and are provided by the investment manager using Pricing Direct Inc. and Bloomberg as pricing sources. *Futures* represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified

price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets.

At June 30, 2009 the VPIC's investments had the following futures balances:

	Market Value of Contract
Long positions equity futures	$(646,656)
Long-term debt securities futures	(3,908)
Short-term debt securities futures	4,642

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

At June 30, 2009, the VPIC's investments included the following currency forwards balances:

Currency forwards – cross deals between two foreign currencies	$290,887
Currency forwards - pending foreign exchange purchases	162,641
Currency forwards - pending foreign exchange sales	(204,491)

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

At June 30, 2009, the VPIC investments had the following option balances:

Purchased call options	$176,888
Purchased put options	478,147
Written call options	(296,285)
Written put options	(178,218)

S*waps* represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2009 the VPIC had three different types of swap arrangements; interest rate swaps, credit default swaps and total return swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert long term variable interest investments into fixed interest rate investments. Credit default swaps are used to manage credit exposure without buying securities outright. In a total return swap, one party makes payments based upon the total return of a reference asset such as an index or basket of assets, and the other party pays a fixed or floating rate of interest plus any negative total returns on the reference asset. Total return swaps are used as substitutes for physical assets and to obtain exposure in markets where physical securities are not available. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets.

At June 30, 2009, the VPIC's investments had the following swap market value balances:

Interest Rate Swaps (244 positions)	$42,612
Credit Default Swaps (186 positions)	5,692,153
Total Return Swaps (2 positions)	371,397

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

JP Morgan Chase Bank NA	Barclay's Bank
Citibank N.A.	Merrill Lynch Capital Services
Morgan Stanley Capital Services	First Boston Credit Suisse
Deutsche Bank AG	Royal Bank of Scotland PLC
Goldman, Sachs Capital Markets LP	Royal Bank of Canada

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

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

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

Note 3: INTERFUND BALANCES

A. Due From/To Other Funds

Due from/to other funds result mainly from the time lag between the date that interfund goods and services are received or reimbursable costs are incurred, and the date the payment between the funds are made. The balances of due from/to other funds at June 30, 2009, are as follows.

	Due To Other Funds			
	Governmental Funds			
Due From Other Funds	General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	$ -	$ 6,865	$ -	$ 11,125
Transportation Fund	18,676	-	-	98
Education Fund	-	-	-	-
Special Fund	235,819	80,300	-	-
Federal Revenue Fund	40,211	-	-	367,030
Global Commitment Fund	1,416,759	-	-	5,899,967
Non-major Governmental Funds	-	-	-	13,245
Liquor Control Fund	-	-	-	-
Vermont Lottery Commission	-	-	24,402	-
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	-	-	-	-
Fiduciary Funds	485,680	-	-	-
Total	**$ 2,197,145**	**$ 87,165**	**$ 24,402**	**$ 6,291,465**

continues below

	Due To Other Funds			
	Governmental Funds			
Due From Other Funds	Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Internal Service Funds
General Fund	$ 124,545	$ 298,886	$ -	$ 1,432,058
Transportation Fund	26,032	-	120	530,114
Special Fund	1,060,754	100,000	30,362	189,872
Federal Revenue Fund	-	17,567	-	124,224
Global Commitment Fund	17,876,537	-	-	55,824
Non-major Governmental Funds	-	-	-	-
Liquor Control Fund	-	-	-	15,981
Vermont Lottery Commission	-	-	-	3,169
Non-major Enterprise Funds	-	-	-	38,872
Internal Service	-	-	497,725	-
Fiduciary Funds	-	-	-	263
Total	**$ 19,087,868**	**$ 416,453**	**$ 528,207**	**$ 2,390,377**

continues below

	Enterprise Funds			
Due From Other Funds	Unemployment Compensation Trust Fund	Liquor Control Fund	Non-major Enterprise Funds	Total
General Fund	$ -	$ 359,744	$ -	**$ 2,233,223**
Transportation Fund	-	-	-	**575,040**
Special Fund	-	-	-	**1,697,107**
Federal Revenue Fund	-	-	-	**549,032**
Global Commitment Fund	-	-	-	**25,249,087**
Non-major Governmental Funds	-	-	-	**13,245**
Liquor Control Fund	-	-	-	**15,981**
Vermont Lottery Commission	-	-	-	**27,571**
Non-major Enterprise Funds	45,222	-	-	**84,094**
Internal Service	-	-	14,966	**512,691**
Fiduciary Funds	-	-	-	**485,943**
Total	**$ 45,222**	**$ 359,744**	**$ 14,966**	**$ 31,443,014**

B. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursement needs. The General Fund advances to other funds at June 30, 2009, are summarized below.

Proprietary Funds	
Vermont Lottery Fund	$ 300,000
Liquor Control Fund	6,800
Non-major Proprietary Funds	2,900
Total	**$ 309,700**

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, 2009, reported interfund payables. It is expected that certain amounts due the General Fund from the Internal Service Funds will not be repaid within one year. It is expected that these interfund payables will be reduced in future years through changes to billing rates and management of operations.

Proprietary Funds	
Non-major Enterprise Funds	$ 1,658,662
Internal Service Funds	39,243,204
Fiduciary Funds	
Agency Funds	104,806
Total	**$ 41,006,672**

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, 2009, the General Fund advances to component units was $1,571,940 advanced to the Vermont Development Authority for interest rate subsidies and grants to be issued at the direction of State agencies.

Due from component units/Due to primary government consist of the amounts owed to the primary government for programs administered by component units, in accordance with memoranda of understanding with State departments, and for the elimination of negative balances in the State Treasurer's pooled cash. Due from primary government/Due to component units consist of amounts appropriated from the primary government's funds to the component units that had not been disbursed by fiscal year end.

At June 30, 2009, these account balances are as follows:

	Due to Primary Government/(Component Units)			
	Vermont Housing & Conservation Trust Fund	Vermont Economic Development Authority	Vermont Veterans' Home	Total
Due from Component Units				
General Fund	$ 3,102,064	$ -	$ -	**$ 3,102,064**
Special Fund	-	68,357	-	**68,357**
Federal Revenue Fund	-	-	449,011	**449,011**
Due from Primary Government				
General Fund	(700,000)	-	-	**(700,000)**
Nonmajor Governmental Funds	(991,209)	-	-	**(991,209)**
Total	**$ 1,410,855**	**$ 68,357**	**$ 449,011**	**$ 1,928,223**

E. Interfund Transfers

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

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

Interfund transfers for the fiscal year ending June 30, 2009, are as follows.

	Transfers Out				
	Governmental Funds				
Transfers In	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**	**Federal Revenue Fund**
General Fund	$ -	$ -	$ -	$ 43,085,837	$ 1,400,000
Transportation Fund	-	-	127,483	729,351	-
Education Fund	291,794,400	-	-	-	-
Special Fund	11,978,116	1,163,502		-	18,147,627
Federal Revenue Fund	-	-	-	-	-
Global Commitment Fund	78,058,716	-	-	203,574,739	621,720,604
Non-major Governmental Funds	1,522,332	393,373		202,331	-
Unemployment Comp Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	-	-	-	-	-
Internal Service Funds	3,118,763	-	-	-	-
Total	**$ 386,472,327**	**$ 1,556,875**	**$ 127,483**	**$ 247,592,258**	**$ 641,268,231**

continues below

	Transfers Out				
	Governmental Funds		Proprietary Funds		
Transfers In	**Global Commitment Fund**	**Non-major Governmental Funds**	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Vermont Lottery Commission**
General Fund	$ -	$ -	$ -	$ 840,320	$ 3,311
Transportation Fund	-	-	-	-	-
Education Fund	-	-	-	-	20,948,652
Special Fund	22,969,049	50,000	-	-	150,000
Federal Revenue Fund	-	2,860,586	-	-	-
Global Commitment Fund	-	-	-	-	-
Non-major Governmental Funds	-	-	-	-	-
Unemployment Comp Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	-	-	367,739	-	-
Internal Service Funds	-	-	-	-	-
Total	**$ 22,969,049**	**$ 2,910,586**	**$ 367,739**	**$ 840,320**	**$ 21,101,963**

continues below

	Transfers Out			
Transfers In	**Non-major Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
General Fund	$ 2,558	$ 1,338,529	$ 1,890,780	**$ 48,561,335**
Transportation Fund	-	1,485,111	-	**2,341,945**
Education Fund	-	-	-	**312,743,052**
Special Fund	-	2,495,675	-	**56,953,969**
Federal Revenue Fund	-	-	-	**2,860,586**
Global Commitment Fund	-	-	-	**903,354,059**
Non-major Governmental Funds	-	-	51,586	**2,169,622**
Unemployment Comp Trust Fund	353,671	-	-	**353,671**
Non-major Enterprise Funds	-	-	-	**367,739**
Internal Service Funds	-	-	-	**3,118,763**
Total	**$ 356,229**	**$ 5,319,315**	**$ 1,942,366**	**$ 1,332,824,741**

Note 4: CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2009 were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	$ 72,939,991	$ 4,527,983	$ -	$ -	$ 77,467,974
Construction in process	304,865,733	161,131,700	(116,417,510)	(5,158,834)	344,421,089
Works of Art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	377,941,727	165,659,683	(116,417,510)	(5,158,834)	422,025,066
Capital assets, being depreciated:					
Buildings and improvements	361,977,840	25,847,237	(829,580)	160,735	387,156,232
Machinery and equipment	139,628,527	17,840,905	(10,172,241)	325,210	147,622,401
Infrastructure	1,356,179,525	84,928,729	(15,367,988)	(731,671)	1,425,008,595
Total capital assets, being depreciated	1,857,785,892	128,616,871	(26,369,809)	(245,726)	1,959,787,228
Less accumulated depreciation for:					
Buildings and improvements	(156,287,658)	(10,432,582)	314,739	-	(166,405,501)
Machinery and equipment	(91,415,278)	(14,283,505)	8,428,886	(118,108)	(97,388,005)
Infrastructure	(585,177,144)	(54,465,511)	15,366,958	731,671	(623,544,026)
Total accumulated depreciation	(832,880,080)	(79,181,598)	24,110,583	613,563	(887,337,532)
Total capital assets, being depreciated, net	1,024,905,812	49,435,273	(2,259,226)	367,837	1,072,449,696
Governmental activities capital assets, net	$ 1,402,847,539	$ 215,094,956	$ (118,676,736)	$ (4,790,997)	$ 1,494,474,762

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated:					
Construction in process	$ -	$ 304,084	$ -	$ -	$ 304,084
Total capital assets, not being depreciated	-	304,084	-	-	304,084
Capital assets, being depreciated:					
Buildings and improvements	86,135	10,300	-	-	96,435
Machinery and equipment	1,365,741	272,411	(138,633)	-	1,499,519
Total capital assets, being depreciated	1,451,876	282,711	(138,633)	-	1,595,954
Less accumulated depreciation for:					
Buildings and improvements	(54,873)	(6,251)	-	-	(61,124)
Machinery and equipment	(813,274)	(226,679)	138,280	-	(901,673)
Total accumulated depreciation	(868,147)	(232,930)	138,280	-	(962,797)
Total capital assets, being depreciated, net	583,729	49,781	(353)	-	633,157
Business-type activities capital assets, net	$ 583,729	$ 353,865	$ (353)	$ -	$ 937,241

Fiduciary Funds	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated:					
Construction in process	$ 2,407,499	$ 426,247	$ -	$ -	$ 2,833,746
Total capital assets, not being depreciated	2,407,499	426,247	-	-	2,833,746
Capital assets, being depreciated:					
Machinery and equipment	183,814	-	-	25,000	208,814
Total capital assets, being depreciated	183,814	-	-	25,000	208,814
Less accumulated depreciation for:					
Machinery and equipment	(71,994)	(48,724)	-	-	(120,718)
Total accumulated depreciation	(71,994)	(48,724)	-	-	(120,718)
Total capital assets, being depreciated, net	111,820	(48,724)	-	25,000	88,096
Fiduciary assets, Net	$ 2,519,319	$ 377,523	$ -	$ 25,000	$ 2,921,842

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

Governmental Activities:	
General Government	$ 9,795,910
Protection to Persons and Property	3,647,415
Human Services	588,852
Labor	114,064
General Education	18,984
Natural Resources	1,444,948
Commerce & Community Development	482,235
Transportation	55,117,635
Depreciation on capital assets held by Internal Service Funds	7,971,555
Total	$ 79,181,598

Business-type Activities:	
Liquor Control	$ 215,673
Lottery Commission	15,848
Vermont Life	1,409
Total	$ 232,930
Fiduciary Activities:	
Pension	$ 48,724

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.

A. Defined Benefit Retirement Plans

Retirement Plan Descriptions

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

- general employees who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 5.1% of payroll (contributions cease upon attainment of 25 years of creditable service);
- State police, law enforcement positions, and airport firefighters (Group C), with a contribution rate of 6.98% of payroll;

- judges (Group D), with a contribution rate of 5.1% of payroll;
- terminated vested members of the non-contributory system (Group E); and
- all other general employees (Group F), with a contribution rate of 5.10% of payroll.

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% though June 30, 2019 and 4.85% thereafter, due to increases in the cost of living benefit for all Group F employees and other benefit changes described below.

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 3.54% of covered payroll.

The State appropriates funding for pension costs associated with the above two plans. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class. 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.

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, 2009. Securities without an establish market are reported at estimated fair value.

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

Statement of Plan Net Assets
Defined Benefit Plans
June 30, 2009

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets:			
Cash and short term investments	$ 2,232,186	$ 2,148,484	$ 1,103,898
Receivables:			
Contributions - current	4,315,714	2,462,424	2,364,080
Contributions non-current	-	-	6,546,347
Interest and dividends	3,793	2,916	393,481
Due from other funds	35,635	-	33,887
Other	-	310,438	-
Investments at Fair value:			
Pooled investments	1,007,287,404	1,135,514,287	264,546,223
Fixed income	-	23	-
Equities	-	388	-
Real estate and venture capital	1,306,170	3,272,912	1,166,402
Prepaid expenses	-	1,363,987	-
Capital assets, net of depreciation	1,184,717	1,360,021	377,104
Total assets	**1,016,365,619**	**1,146,435,880**	**276,531,422**
Liabilities:			
Accounts payable	1,547,700	1,225,587	296,000
Retainage payable	119,937	144,179	62,993
Due to other funds	-	-	-
Total liabilities	**1,667,637**	**1,369,766**	**358,993**
Net assets held in trust for employees' pension benefits	**$ 1,014,697,982**	**$ 1,145,066,114**	**$ 276,172,429**

Statement of Changes in Plan Net Assets
Defined Benefit Plans
For the fiscal year ended June 30, 2009

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions :			
Contributions			
Employer - pension benefit	$ 25,134,235	$ 19,260,934	$ 8,008,862
Employer - healthcare benefit	-	16,700,000	-
Plan member	22,148,754	20,937,686	9,557,973
Transfers from other pension trust funds	246,476	453,488	244,624
Transfers from non-state systems	795,394	1,911,648	1,077,295
Medicare part D drug subsidy	-	1,388,884	-
Total contributions	**48,324,859**	**60,652,640**	**18,888,754**
Investment Income:			
Net appreciation (depreciation) in fair value of investments	(796,772)	472,870	394,805
Income (loss) from pooled investments	(240,509,484)	(306,111,171)	(57,426,538)
Dividends	-	-	-
Interest income	36,702	85,349	795,048
Securities lending income	2,290,357	2,683,170	461,935
Other income	586,770	799,619	102,263
Total investment income (loss)	**(238,392,427)**	**(302,070,163)**	**(55,672,487)**
Less Investment Expenses:			
Investment managers and consultants	(4,033,847)	(4,666,821)	(1,139,931)
Securities lending expenses	(550,108)	(645,574)	(124,924)
Total investment expenses	**(4,583,955)**	**(5,312,395)**	**(1,264,855)**
Net investment income (loss)	**(242,976,382)**	**(307,382,558)**	**(56,937,342)**
Total additions	**(194,651,523)**	**(246,729,918)**	**(38,048,588)**
Deductions:			
Retirement benefits	70,043,119	89,825,986	10,228,263
Other post employment benefits	-	16,421,176	-
Refunds of contributions	1,403,995	1,420,776	1,223,465
Death claims	177,194	397,607	246,351
Transfers to other pension trust funds	300,772	208,828	552,107
Depreciation	18,045	20,976	9,703
Operating expenses	1,201,242	1,228,798	579,196
Total deductions	**73,144,367**	**109,524,147**	**12,839,085**
Change in net assets	**(267,795,890)**	**(356,254,065)**	**(50,887,673)**
Net assets held in trust for employees' pension benefits:			
July 1	**1,282,493,872**	**1,501,320,179**	**327,060,102**
June 30	**$ 1,014,697,982**	**$ 1,145,066,114**	**$ 276,172,429**

Plan membership

At June 30, 2009, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees:			
Vested	5,752	8,076	3,585
Non-vested	2,343	2,723	2,948
Total active employees	8,095	10,799	6,533
Retirees and beneficiaries of deceased retirees currently receiving benefits	4,797	5,910	1,538
Terminated employees entitled to benefits but not yet receiving them (vested)	798	721	554
Inactive members	939	2,655	2,015
Total participants	14,629	20,085	10,640

Actuarial Valuation- Methods and Assumptions

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

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

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

Such a study was completed for the VSRS system for the period covering July 1, 2001 through June 30, 2006. Those changes were reflected in the June 30, 2007 valuation report. No changes to the actuarial assumptions used in the 2008 valuation occurred for the valuation completed for the period ending June 30, 2009. However, the 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2008. Benefit modifications were made in both 2008 and 2009 as described below.

In December 2007 an experience study was conducted for the STRS system for the period covering July 1, 2002 through June 30, 2007. As a result of this experience study and recent changes adopted by the System’s Board of Trustees, changes in the actuarial assumptions were made in the valuation report for the period ending June 30, 2008. No assumption changes were made in the valuation report for the period ending June 30, 2009. The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective July 1, 2008.

In the case of VSRS, the actuarial accrued liability for current retired members, terminated vested members and beneficiaries is $760,453,336 and the actuarial accrued liability for current active and inactive members is

$783,690,730 for a total actuarial accrued liability of $1,544,144,066. The actuarial value of assets is $1,217,637,578 resulting in an unfunded accrued liability of $326,506,488.

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”, attainment of that number though a combination of years of service and age. 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 be 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, 2009.

The total net actuarial loss for the VSERS system from June 30, 2008 to June 30, 2009 is $243,194,030. Investment losses during the recent economic cycle accounted for almost all of the change, $242,482,443. Other significant factors impacting the actuarial loss were COLA experience and new entrants with prior service with offsetting gains in mortality experience, retirement and termination experience, and the reimbursement of expenses.

In the case of STRS, the actuarial accrued liability for current retired members, terminated vested members and beneficiaries is $972,834,725 and the actuarial accrued liability for current active and inactive members is $1,129,003,118 for a total actuarial accrued liability of $2,101,837,843. The actuarial value of assets is $1,374,079,337 resulting in an unfunded accrued liability of $727,758,506.

There were no changes in the benefit provisions since the prior valuation. Actuarial assumptions remain the same as in the previous valuation.

The total net actuarial loss for the STRS system from June 30, 2008 to June 30, 2009 is $341,414,764. Investment experience accounted for $312,726,392. Other significant factors increasing the actuarial loss were expenses other than investment expenses, termination experience, COLA experience and new entrants with prior service. Retirement and mortality experience partially offset this as well as other factors.

Actuarial Assumptions & Methods

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

	VSRS	STRS	MERS
Valuation date	06/30/09	06/30/09	07/01/09
Actuarial cost method (1)	Entry Age Normal	Entry Age Normal	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period (2) All closed basis	29 years	29 years	29 years
Asset valuation method	Preliminary Asset Value plus 20% difference between market and preliminary asset value	Preliminary Asset Value plus 20% difference between market and preliminary asset value	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions (3)			
Investment rate of return	8.25%	8.25%	8.00%
Projected salary increases	4.50%-7.79%	4.41%-10.68%	5.0%
Cost-of-living adjustments	1.5%-3.0%	1.5%-3.0%	1.5%-1.8%
Post Retirement Adjustments			
Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C & D - 5%	Group A - 5%	N/A
Allowances in payment for at least one year adjusted for cost of living based on one-half of CPI but not in excess of percentage indicated	Group F - 5% (4)	Group C - 5%	Group A - 2% Groups B, C & D - 3%

(1) Beginning with 6/30/06, the actuarial cost method was changed to the Entry Age Normal method for VSRS and STRS.
(2) The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective 7/1/08 for STRS, VSRS, and VMERS.

(3) Beginning with 6/30/06, the funding interest rate has been raised from 8.00% per year to 8.25% per year for STRS. The VSRS rate was raised from 8.0% to 8.25% effective 6/30/07.
(4) The Group F cost of living adjustment will be increased to equal the full CPI, effective January 1, 2014 for employees who are actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008 will be eligible for the enhanced COLA

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2008 and June 30, 2009, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2008	$ 87,100,468	$ 379,505,069
Normal cost	44,574,324	35,690,059
Contribution paid	(48,324,859)	(60,652,640)
Interest on unfunded liability, normal cost and contribution	8,909,271	31,801,254
Actuarial (gains) and losses/experience	243,194,030	341,414,764
Assumption changes	-	-
Changes to benefits/system provisions	(8,946,746)	-
Unfunded actuarial accrued liability, June 30, 2009	$ 326,506,488	$ 727,758,506

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, 2009 were as follows:

	VSRS	STRS
Annual Required Contribution (ARC)	$28,997,554	$39,616,990
Interest on NPO	3,528,257	14,387,193
Adjustment to ARC	(3,110,436)	(9,488,825)
Annual Pension Cost (APC)	29,415,375	44,515,358
Employer Contribution Made	(25,134,235)	(38,756,288)
Increase in NPO	4,281,140	5,759,070
NPO - Beginning of Year	42,766,745	175,796,683
NPO - End of Year	$47,047,885	$181,555,753
Percentage of ARC contributed	86.68%	97.83%

Schedule Of Employer Contributions

Year Ended 6/30	Annual Pension Cost	Percentage Contributed	NPO Balance
VSRS			
2007	$ 39,254,553	100.11%	$ 40,512,811
2008	41,447,876	94.56%	42,766,745
2009	29,415,375	85.45%	47,047,885
STRS			
2007	43,365,458	86.11%	169,188,878
2008	46,156,902	85.68%	175,796,683
2009	44,515,358	87.06%	181,555,753

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						
6/30/2009	$1,217,638	$1,544,144	$326,506	78.9%	$404,516	80.7%
STRS						
6/30/2009	$1,374,079	$2,101,838	$727,759	65.4%	$561,588	129.6%
MERS						
7/1/2009	$331,407	$366,973	$35,566	90.3%	$191,521	18.6%

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

B. Defined Contribution Retirement Plans

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

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. Approximately 375 exempt employees representing 45% of the eligible employees elected to transfer to the defined contribution plan. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan on January 4, 1999, as a result of the election. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999, have a one-time opportunity to elect either the defined benefit or defined contribution plan.

Employees are required to contribute at the rate of 2.85%. The State is required to contribute to each employee's account at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. During the fiscal year ending June 30, 2009, member contributions totaled $657,129 with State employer contributions at $1,520,354. As of June 30, 2009, the Vermont State Defined Contribution Plan's net assets totaled $32,737,781 and there were 589 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, will have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective July 1 of the following year.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Effective July 1, 2008, employers began contributing 5.125% while employee contribution percentages remain unchanged. Employees become vested in the plan after 12 months of service. During the fiscal year ending June 30, 2009, member contributions totaled $640,732 with employer contributions at $686,245. As of June 30, 2009, the Municipal Employees' Defined Contribution Plan's net assets totaled $11,656,033, and there were 594 participants.

Single Deposit Investment Account
The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, was established according to the provisions of Public Act 41 of the 1981 Session. The Act authorized a new Group B noncontributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS). The SDIA is reported as a pension trust fund.
The STRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

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

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

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

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2009, there were 2,120 members, with net assets of $79,699,988 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are on the following pages.

Statement of Plan Net Assets
Defined Contribution Plans
June 30, 2009

	Defined Contribution Plans		
	Vermont State Defined Contribution Fund	**Single Deposit Investment Account Fund**	**Vermont Municipal Employees' Defined Contribution Fund**
Assets:			
Cash and short term investments	$ 181,726	$ 3,521,761	$ 62,883
Receivables:			
Contributions - current	145,915	-	20,066
Interest and dividends	-	649,302	-
Investments sold	-	1,236,325	-
Investments at Fair value:			
Fixed income	-	76,456,190	-
Equities	-	30,840	-
Mutual funds	32,472,751	-	11,607,167
Prepaid expenses	10,564	-	-
Total assets	**32,810,956**	**81,894,418**	**11,690,116**
Liabilities:			
Payable for investments purchased	-	2,194,430	-
Accounts payable	37,540	-	196
Due to other funds	35,635	-	33,887
Total liabilities	**73,175**	**2,194,430**	**34,083**
Net assets held in trust for employees' pension benefits	**$ 32,737,781**	**$ 79,699,988**	**$ 11,656,033**

Statement of Changes in Plan Net Assets
Defined Contribution Plans
For the fiscal year ended June 30, 2009

	Defined Contribution Plans		
	Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund
Additions :			
Contributions			
Employer - pension benefit	$ 1,520,354	$ -	$ 686,245
Plan member	657,129	-	640,732
Transfers from other pension trust funds	74,926	-	42,193
Transfers from non-state systems	-	-	-
Total contributions	**2,252,409**	**-**	**1,369,170**
Investment Income:			
Net depreciation in fair value of investments	(7,689,824)	(2,545,458)	(2,831,581)
Dividends	1,233,497	6,703	381,195
Interest income	2,181	4,185,836	759
Securities lending income	-	730	-
Other income	31	5,537	31
Total investment income (loss)	**(6,454,115)**	**1,653,348**	**(2,449,596)**
Less Investment Expenses:			
Investment managers and consultants	-	(331,667)	-
Total investment expenses	**-**	**(331,667)**	**-**
Net investment income (loss)	**(6,454,115)**	**1,321,681**	**(2,449,596)**
Total additions	**(4,201,706)**	**1,321,681**	**(1,080,426)**
Deductions:			
Retirement benefits	2,185,464	6,195,782	472,754
Operating expenses	36,170	-	66,532
Total deductions	**2,221,634**	**6,195,782**	**539,286**
Change in net assets	**(6,423,340)**	**(4,874,101)**	**(1,619,712)**
Net assets held in trust for employees' pension benefits:			
July 1	**39,161,121**	**84,574,089**	**13,275,745**
June 30	**$ 32,737,781**	**$ 79,699,988**	**$ 11,656,033**

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 retiring directly from active State service for any reason (disability, early, or normal), including the State Police, may carry whatever coverage is in effect at that time into retirement for themselves and their dependents. During the lifetime of the retiree, currently only 20% of the cost of the premium will be paid by the retiree, except in the case of retirees selecting joint or survivorship options. If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits also continue for the spouse, along with the pension. However, generally the surviving spouse must pay 100% of the cost of the premium. In addition, once a retiree becomes eligible for Medicare coverage (at age 65); it is mandatory that they enroll in both Medicare Part A and Part B as soon as possible. Medicare thus becomes the primary insurer with the State plan becoming secondary. The retiree's State insurance premium costs will then decrease in recognition of this change.

If an employee, 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, may pick up the medical coverage at the time they begin retirement benefits. If the insurance is terminated at any time after retirement, coverage will not be able to be obtained again at a later date.

Based on legislation enacted during fiscal Year 2008, Group F employees hired after July 1, 2008 will receive a tiered retiree health care reimbursement, based on completed years of service. As part of the enacted legislation, Group F employees hired after July 1, 2008 also have the ability to recapture (access) subsidized health insurance at 80% upon initiation of retirement benefits in a manner comparable to regular retirements even if employee terminated prior to their early retirement date, providing the member has twenty years of service upon termination of employment. As of June 30, 2009, 3,571 retirees were enrolled in the medical plan in the single, spouse, and family plan options. The retirees contributed $5.1 million in premiums and incurred $26.7 million in claims expense for the fiscal year ending June 30, 2009.

The State Employees' Postemployment Benefit Pension Trust Fund (State OPEB) (3 V.S.A. 479a) was established in fiscal year 2007 as an irrevocable trust fund for the purpose of accumulating and providing reserves to support retiree postemployment benefits for members of the VSRS. By definition this is a fund required to follow the reporting requirements of Governmental Accounting Standards Board Statement No. 43 (Financial Reporting for Postemployment Benefit Plans Other Than Pensions). The State's fiscal year 2009 contributions to the State OPEB included, on a pay-as-you-go basis, $18.1 million for the State's share of the cost of the premiums. The State OPEB paid $17.9 million in premiums, on a pay-as-you-go basis, to the Medical Insurance Fund for this benefit in fiscal year 2009. In addition to the contributions and expenses for premiums on a pay-as-you-go basis, noted above, the State contributed $1,798,425 in Medicare Part D reimbursements to the State OPEB to fund future OPEB benefits. The fund has total assets of $5,748,582 at June 30, 2009. These assets are held in trust for postemployment benefits other than pension.

State Teachers Retirement System

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

Members of the STRS have access to three medical benefit plans in retirement. The plans are identical to those offered to active teachers in public school systems in Vermont. Members may pick up medical coverage under one of the plans offered for themselves and all eligible dependents at the time of retirement, or anytime

thereafter during one of the semi-annual open enrollment periods. If the member has a minimum of 10 years of creditable service at the time of retirement, the STRS picks up 80% of the retiree's premium only, based on the cost of the "standard plan" as defined by statute. The retiree must pick up the full cost of the premium for all covered dependents. As of June 30, 2009, 3,932 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $10.96 million in premiums and the STRS contributed $16.7million in premiums and paid $16.4 million, on a pay-as-you-go basis, in fiscal year 2009.

Once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the Teacher's medical plans become the secondary carrier. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes primary.

Medicare Part D - Prescription Drug Subsidy

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

The State Teachers' Retirement System Board of Trustees agreed that they would continue to offer the same prescription drug coverage program 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, 2009, the subsidy for the VSRS system was $1,798,425. The state has elected to place this revenue in an OPEB trust fund to fund future post employment health benefit liabilities. In the case of STRS, the subsidy for fiscal year 2009 was $1,388,884 and was deposited into the pension trust.

Plan Membership

At June 30, 2009, VSRS, the number of participants included in the OPEB valuations:

	VSRS	STRS
Active employees	8,441	10,799
Terminated vested	-	732
Retired employees	3,587	4,045
Total participants	12,028	15,576

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, 2009 the amount actually contributed, and the changes in the State's net OPEB obligation.

	VSRS	STRS
Annual required contribution (ARC) and annual OPEB cost (AOC).....	$ 58,994,051	$ 59,791,692
Contribution paid.....	(19,893,129)	-
Increase in OPEB obligation.....	39,100,922	59,791,692
Net obligation at beginning of year.....	29,508,548	60,220,989
Net obligation at end of year.....	**$ 68,609,470**	**$ 120,012,681**

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

For the fiscal year ending June 30, 2009, Sate employer contributions to the VSRS OPEB and STRS OPEB plans were 33.72% and 0% of the annual required contribution, respectively.

Funded Status and Funding Progress

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2009. This is the fifth 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 Vermont Municipal Employees' Retirement System (VMERS), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. While the Vermont Municipal Employees Health benefit Fund is classified as a post employment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The funding status of the plans, with amounts in thousands of dollars, as of June 30, 2009, was as follows.

Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS (1)						
2009	$5,749	$780,748	$774,999	0.7%	$426,827	181.6%
STRS (2)						
2009	$0	$872,236	$872,236	0.0%	$561,588	155.3%

(1) Reflects blended discount rate of 4.25% in 2009.
(2) Discount rate for 2009 at 4.0%, reflecting no prefunding.

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

OPEB Actuarial Valuation- Methods and Assumptions

For VSRS, the actuarial accrued liability for OPEB obligations earned through June 30, 2009 is $780.7 million with an unfunded actuarial liability of $775.0 million. The plan participant count was increased from 11,815 to 12,028. This increase in liability was partially offset by adjustments to the estimated per capita claims due and the allocation of expected claims between pre- and post 65 participants. The results also incorporate a change to the plan provisions to reflect the fact that Group F employees hired after July 1, 2008 will receive a tiered retiree health care premium reimbursement based on completed years of service, as noted above. All assumptions including health care inflation rates, separation, coverage and coverage participation rates were the same as in the previous valuation with the exception of the discount rate. 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 VSERS 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%. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $58.0 million for fiscal year 2010 and projected to increase to $264.8 million in fiscal year 2040. If, however, prefunding is assumed, the actuarial accrued liability is reduced to $454.2 million with an unfunded actuarial liability of $448.5 million and the ARC is calculated to commence at $37.6 million for fiscal year 2010, projected to increase to $154.6 million for fiscal year 2039. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2040 on a prefunding basis is $65.2 million. The fiscal year 2010 State budget funds the current year expected benefit payments of approximately $21.1 million, which is less than the ARC applicable under either funding basis.

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. Demographic assumptions in the June 30, 2009 OPEB valuation are consistent with those used to value the system's pension benefits and do not reflect any changes from the previous OPEB valuation. There were no changes to plan provisions.

An increase in the liability is due to an increase in the participant population from 15,194 to 15,576. The increase in liability was partially offset by the fact that here were no increases in health care premium costs for the past year.

For STRS, assuming no prefunding, the actuarial accrued liability and the unfunded actuarial liability for OPEB obligations earned through June 30, 2009 is $872.2 million. To fully amortize this liability over a 30-year period utilizing an amortization with installments increasing at a rate of 5.0% per year would require an ARC commencing at $59.0 million for fiscal year 2010 and projected to increase to $266.2 million in fiscal year 2040. If, however, prefunding is assumed, the actuarial accrued liability and the unfunded actuarial liability is reduced to $431.9 million and the ARC is calculated to commence at $32.2 million for fiscal year 2010, projected to increase to $132.5 million for fiscal year 2039. Upon retirement of the unfunded accrued liability, the projected normal cost in fiscal year 2040 on a prefunding basis is $45.6 million.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.
The following list contains the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS OPEB plans.

	VSRS	STRS
Valuation date	06/30/09	06/30/09
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Closed basis for prefunded Open basis for pay-as-you go/ blended rate	Closed basis for prefunded Open basis for pay-as-you go
Amortization period	30 years starting in 2010	30 years starting in 2010
Actuarial assumptions		
Investment rate of return - pefunding	8.25%	8.25%
Investment rate of return - pay-as-you-go [1]	4.00% [3]	4.00%
Medical Care and State Care Inflation [2]	8% in 2010 7% in 2011, 6% in 2012, declining to 5% in 2013	8% in 2010 7% in 2011, 6% in 2012, declining to 5% in 2013
Coverage	80% of current active employees will elect retiree medical coverage and 70% of terminated vested will elect coverage	60% of current active employees with 10 years of service will elect retiree medical coverage and 30% of terminated vested will elect coverage

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

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

[3] In Fiscal year 2009, partial prefunding resulted in a blended rate of 4.25%

Dental Insurance

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

Life Insurance

In the case of life insurance, if a state employee retires with 20 or more years of service, life insurance will continue into retirement, but, through June 30, 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 VMERS 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 VMERS 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, Future contributions and subsequent transfers to member accounts will be made as directed by the VMERS Board of Trustees. There is no guarantee that the RHS member accounts will receive any additional funding. While 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 VMERS 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 VMERS plan. For members who were already receiving retirement benefits from the VMERS, the funds in their RHS account could be accessed after July 2, 2007 to reimbursement expenses incurred after July 1, 2007. Members who are still actively employed, or 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, 2009, there were 5,220 active and retired members participating in the VMERS RHS plan. Investments in member accounts as of June 30, 2009 totaled $8,910,561.

The financial statements for the OPEB Funds are as follows.

Statement of Plan Net Assets
Other Postemployment Benefit Funds
June 30, 2009

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Assets:		
Cash and short term investments.....	$ 718,975	$ 127,398
Receivables:		
Due from other funds.....	485,680	-
Investments at Fair value:		
Fixed income.....	3,068,680	-
Equities.....	1,249,660	-
Mutual funds.....	225,587	8,910,561
Total assets.....	**5,748,582**	**9,037,959**
Liabilities:		
Total liabilities.....	**-**	**-**
Net assets held in trust other postemployment benefits.....	**$ 5,748,582**	**$ 9,037,959**

Statement of Changes in Plan Net Assets
Other Postemployment Benefit Funds
For the fiscal year ended June 30, 2009

	Vermont State Postemployment Benefit Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Additions :		
Contributions		
Employer - healthcare benefit	$ 19,893,129	$ 1,944,109
Total contributions	**19,893,129**	**1,944,109**
Investment Income:		
Net depreciation in fair value of investments	(93,081)	(873,548)
Dividends	37,850	-
Interest income	141,685	15,604
Total investment income (loss)	**86,454**	**(857,944)**
Less Investment Expenses:		
Investment managers and consultants	-	(50,299)
Total investment expenses	**-**	**(50,299)**
Net investment income (loss)	**86,454**	**(908,243)**
Total additions	**19,979,583**	**1,035,866**
Deductions:		
Other post employment benefits	17,894,518	645,233
Total deductions	**17,894,518**	**645,233**
Change in net assets	**2,085,065**	**390,633**
Net assets held in trust for postemployment benefits:		
July 1	**3,663,517**	**8,647,326**
June 30	**$ 5,748,582**	**$ 9,037,959**

Note 6: ACCOUNTS RECEIVABLE

Accounts receivables at June 30, 2009 are summarized as follows:

Governmental activites:	Governmental Funds Major	Governmental Funds Non-major	Internal Service Funds	Total Governmental Activities
Taxes:				
Personal and corporate income	$ 163,859,856	$ -	$ -	$ 163,859,856
Sales and use	53,588,331	-	-	53,588,331
Meals and rooms	24,741,857	-	-	24,741,857
Purchase and use	180,131	-	-	180,131
Motor Fuel	6,633,527	95,894	-	6,729,421
Other taxes	20,967,863	-	-	20,967,863
Subtotal	269,971,565	95,894	-	270,067,459
Allowance for uncollectibles	(83,324,873)	-	-	(83,324,873)
Taxes receivable, net	$ 186,646,692	$ 95,894	$ -	$ 186,742,586
		Current receivable		$ 78,947,265
		Non-current receivable		107,795,321
		Total taxes receivable, net		$ 186,742,586
Loans and notes:				
Loans and notes receivable	$ 177,449,246	$ -	$ -	$ 177,449,246
Allowance for uncollectibles	(343,600)	-	-	(343,600)
Loans and notes receivable, net	$ 177,105,646	$ -	$ -	$ 177,105,646
		Current receivable		$ 7,400,000
		Non-current receivable		169,705,646
		Total loans and notes receivable, net		$ 177,105,646
Federal grants	$ 126,895,721	$ 579,441	$ -	$ 127,475,162
Other:				
Accrued interest and other receivables	$ 66,761,944	$ 416,065	$ 12,132,437	$ 79,310,446
Allowance for uncollectibles	(15,770,547)	-	(320,548)	(16,091,095)
Other receivables, net	$ 50,991,397	$ 416,065	$ 11,811,889	63,219,351
Due from Fiduciary Funds				104,806
Less Internal Service Funds' receivables from Governmental Funds				(8,209,246)
Other receivables, net				$ 55,114,911
		Current receivable		$ 34,082,115
		Non-current receivable		21,032,796
		Total other receivables, net		$ 55,114,911

Business-type activities:	Enterprise Funds Major	Enterprise Funds Non-major	Total Business-type Activities
Taxes:			
Unemployment	$ 16,640,549	$ -	$ 16,640,549
Allowance for uncollectibles	(3,060,000)	-	(3,060,000)
Taxes receivable, net	$ 13,580,549	$ -	$ 13,580,549
Loans and notes receivable	$ -	$ 2,510,034	$ 2,510,034
	Current receivable		$ 735,260
	Non-current receivable		1,774,774
	Total loans and notes receivable, net		$ 2,510,034
Federal grants	$ 1,500,374	$ -	$ 1,500,374
Other:			
Accrued interest and other accounts receivable	$ 3,290,824	$ 406,521	$ 3,697,345
Allowance for uncollectibles	(62,219)	-	(62,219)
Other accounts receivable, net	$ 3,228,605	$ 406,521	$ 3,635,126
	Current receivable		$ 3,606,405
	Non-current receivable		28,721
	Total other receivables, net		$ 3,635,126

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 2009 was $8,825,209 for operating leases of which $8,636,922 was paid for property leases, $152,235 for equipment leases and $36,052 for cancellable land rentals. Capital lease payments for office equipment during fiscal year 2009 totaled $164,064.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2009:

	Primary Government		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total
2010	$ 6,685,017	$ 30,787	$ 6,715,804
2011	4,327,765	16,244	4,344,009
2012	3,449,813	9,913	3,459,726
2013	3,117,907	7,786	3,125,693
2014	1,334,216	1,641	1,335,857
2015 to 2019	1,417,472	5,013	1,422,485
2020 to 2024	455,849	-	455,849
2025 to 2029	132,563	-	132,563
Totals	$ 20,920,602	$ 71,384	$ 20,991,986

B. Capital Leases

The State has entered into capital lease arrangements for various items of machinery and equipment with a gross asset value totaling $712,140. In addition, the State has entered into a capital lease agreement with the Banc of America Public Capital Corp, who in return have an agreement with the contractor, NORESCO LLC., for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex. The total cost of the equipment to be funded by the lessee under the Agreement is $4,728,466. The progress payments from Banc of America to NORESCO, LLC as stated in the agreement commenced on August 1, 2008, with a final payment made by November 1, 2009. At this point the lessee, the State, takes ownership of the projects. The first capital lease payment will occur on January 1, 2010, with payment terms consisting of 120 payments, based on 10 years using simple interest rate of 3.089%, and a compound interest of 3.133%. The term of the lease is for the agreement date of August 1, 2008, and ending on September 11, 2018.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2009, are as follows:

Fiscal Year	Primary Government
2010	$ 434,102
2011	613,291
2012	618,703
2013	625,206
2014	639,806
2015-2019	2,912,427
Total minimum lease payments	5,843,535
Less: interest	(935,437)
Present value of minimum lease payments	$ 4,908,098

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

Note 8: GENERAL OBLIGATION BONDS PAYABLE

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

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

The changes in bonds principal payable for fiscal year 2009 are summarized in the following schedule.

		General Obligation Bonds
Balance, July 1, 2008		$ 454,470,093
Additions:		
Issuances	$ 50,500,000	
Accretions	1,391,518	
Total		51,891,518
Deductions:		
Redemptions	53,380,000	
Defeasances	-	
Total		(53,380,000)
Balance, June 30, 2009		$ 452,981,611

During fiscal years 1991, 1992, and 1994, the State issued zero coupon capital appreciation bonds. Zero coupon capital appreciation bonds are bonds issued at a discount to their face value. Instead of interest being paid on a periodic (i.e. semi-annual) basis, an increase in the principal due (accreted amount) is recognized on a regular basis. The total accreted amount at maturity will be the face value of the bonds.

On December 1, 1993, the State issued capital appreciation bonds with a maturity value of $32,625,000 maturing on August 1 in the years 1999 through 2013. Proceeds from these bonds totaled $17,987,640, and have an accreted value of $7,834,334 at June 30, 2009.

On October 30, 1991, capital appreciation bonds with a maturity value of $20,575,000 were issued. These bonds mature on October 15 in the years 1996 through 2011. Proceeds from these bonds totaled $9,999,837, and have an accreted value of $3,502,435 at June 30, 2009.

During fiscal year 1991, capital appreciation bonds were issued with a maturity value of $48,935,000, and are scheduled to mature on December 1 in the years 1995 through 2010. Proceeds from these bonds totaled $19,310,002, and have an accreted value of $7,669,842 at June 30, 2009.

Future general obligation debt service requirements at June 30, 2009, are as follows:

Fiscal Year	Current Interest Bonds		Capital Appreciation Bonds	Total
	Principal	Interest		
2010	$ 45,790,000	$ 17,811,671	$ 7,145,000	$ 70,746,671
2011	41,890,000	16,019,334	7,140,000	65,049,334
2012	41,075,000	14,331,803	3,035,000	58,441,803
2013	36,775,000	12,735,834	1,750,000	51,260,834
2014	36,560,000	11,269,281	2,000,000	49,829,281
2015-2019	120,100,000	37,740,274	-	157,840,274
2020-2024	76,660,000	16,088,404	-	92,748,404
2025-2029	35,125,000	3,226,269	-	38,351,269
Totals	$ 433,975,000	$129,222,870	$ 21,070,000	$ 584,267,870

General Obligation Bonds outstanding at June 30, 2009 are comprised of the following issues:

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value of Capital Appreciation Bonds	Maturity Value Sources of Payments: General Fund	Maturity Value Sources of Payments: Transportation Fund	Maturity Value Sources of Payments: Special Fund	Maturity Value of Bonds Outstanding Total
General Obligation Current Interest Bonds:								
11/1/1999	2/1/2019	4.5 to 6.5	$ 32,000,000		$ 1,685,000	$ -	$ -	$ 1,685,000
12/16/1999	2/1/2010	4.55 to 5.05	5,000,000		500,000	-	-	500,000
11/14/2001	8/1/2020	3.25 to 4.75	46,000,000		25,335,000	-	-	25,335,000
12/27/2001	8/1/2011	4.0 to 4.375	5,000,000		1,500,000	-	-	1,500,000
12/11/2002	8/1/2019	3.0 to 5.0	30,800,000		18,840,000	-	-	18,840,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		18,312,500	997,500	-	19,310,000
2/11/2004	2/1/2018	1.1 to 5.0	134,457,000		80,222,431	2,797,569	3,005,000	86,025,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		28,870,521	2,209,479	-	31,080,000
3/2/2005	3/1/2025	3.0 to 4.0	26,000,000		23,800,000	-	-	23,800,000
4/13/2005	3/1/2015	2.4 to 4.0	15,000,000		8,400,000	600,000	-	9,000,000
6/7/2005	3/1/2020	2.65 to 5.0	20,805,000		19,109,087	565,913	880,000	20,555,000
11/22/2005	7/15/2026	3.5 to 5.0	30,000,000		27,750,000	-	-	27,750,000
12/13/2005	7/15/2016	3.1 to 4.0	15,000,000		10,500,000	-	-	10,500,000
2/21/2007	7/15/2026	4.0 to 5.0	30,000,000		28,500,000	-	-	28,500,000
3/15/2007	7/15/2016	3.375 to 4.0	9,500,000		7,600,000	-	-	7,600,000
3/15/2007	7/15/2016	3.375 to 4.0	5,000,000		4,000,000	-	-	4,000,000
11/28/2007	7/15/2027	3.50 to 5.25	35,000,000		33,800,000	-	-	33,800,000
12/20/2007	7/15/2017	3.0 to 4.0	11,000,000		9,900,000	-	-	9,900,000
12/20/2007	7/15/2017	3.0 to 5.0	29,195,000		21,226,432	423,568	2,145,000	23,795,000
3/11/2009	3/1/2029	2.0 to 5.0	50,500,000		35,300,000	15,200,000	-	50,500,000
Total General Obligation Current Interest Bonds					**405,150,971**	**22,794,029**	**6,030,000**	**433,975,000**
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	48,935,000	8,215,000	-	-	8,215,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	3,855,000	-	-	3,855,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	9,000,000	-	-	9,000,000
Total Maturity Value					**21,070,000**	-	-	**21,070,000**
Less: Unaccreted Interest					2,063,389	-	-	2,063,389
Total General Obligation Capital Appreciation Bonds					**19,006,611**	**-**	**-**	**19,006,611**
Total General Obligation Bonds					**$ 424,157,582**	**$ 22,794,029**	**$ 6,030,000**	**$ 452,981,611**

At June 30, 2009, there remains $87,805,870 of authorized but unissued general obligation bonds.

Note 9: PRIOR YEARS' BOND REFUNDINGS

During fiscal years 2004, 2005, and 2008, 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, 2009, is $26,170,000.

Note 10: BUDGET STABILIZATION RESERVES

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

The reserves balances will consist of any unreserved undesignated surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the Vermont Legislature. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. For fiscal year 2009, 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, 2009 are as follows: $11,290,397 in the Transportation Fund's Budget Stabilization Reserve; $60,013,570 in the General Fund's Budget Stabilization Reserve; and $31,080,482 in the Education Fund's Budget Stabilization Reserve.

Note 11: CONTINGENT AND LIMITED LIABILITIES

A. Contingent Liabilities

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

The Authority has the power to insure up to $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 the Authority. As of June 30, 2009, the State's contingent liability for the mortgage insurance contracts entered into by the Authority was $6,718,291. The full faith and credit of the State is pledged to support these activities of the Authority.

In fiscal year 2007, the Authority determined a loss on a mortgage insurance contract was probable, though the specific amount of loss is not determinable at this time. The Authority estimates the probable loss to range from a minimum of $300,000 to a maximum of $1,500,000. The Authority recorded the $300,000 loss and a receivable from the State for $300,000 during fiscal year 2007 and the balance remained outstanding at June 30, 2008. As the full faith and credit of the State supports this activity, the State recorded a $300,000 payable to the Authority in the Governmental Funds. In fiscal year 2009, the claim on the insured loan was settled in the

amount of $513,163. The Authority recorded the loss settlement under provision for losses on insured loans, and the State removed the contingent liability previously recorded in fiscal year 2008. The State has no recorded payable to the Authority in the Governmental Funds for fiscal 2009.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lenders register with the Authority. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed $1 million at any one time. The State's contingent liability at June 30, 2009 was $877,234.

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

B. Limited Liabilities

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

Vermont Student Assistance Corporation:
The State has a limited liability for the Vermont Student Assistance Corporation. The Corporation may create and establish one or more debt service reserve funds in accordance with 16 V.S.A. Section 2867. Annually, the Corporation must report to the State, any amounts necessary to bring the reserve fund balances up to the minimum required by statute. The sum may be appropriated, and if appropriated, shall be paid to the Corporation during the then current state fiscal year. The State's obligation with respect to funding any pledged equity fund shall be limited to its maximum commitment, as agreed upon by the Corporation and the State at or prior to the Corporation entering into any credit enhancement agreement related to such pledged equity fund.

C. Contractual Liabilities:

At June 30, 2009, the State of Vermont had long-term contracts outstanding of approximately $189,252,000 for federally funded contracts and $619,060,000 for all other 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. The significant contractual obligations are follows.

The Department of Human Resources carries two major contracts; a contract with Cigna for $21,500,000, in which $7,900,000 remains outstanding for the administration of the health insurance for current and retired employees; and a contract with Express Scripts for $82,000,000, in which $72,939,700 remains outstanding for the administration of the prescription medication program for current and retired employees.

The Office of the Treasurer has two contracts in the Fiduciary Funds. One contract with UBS Realty Investor LLC for $29,000,000 with an outstanding obligation of $28,230,300 for Real Estate Management Services and another to Vermont Education Health Initiative of $60,010,800 with an outstanding liability of $28,316,800 for the Vermont State Teachers Health Insurance program. The Office of Treasurer has two additional contracts for investment management services to Wellington Trust Company for $14,000,000 with a current outstanding obligation of $13,225,400 and with Wellington Management Co. LLP for $10,250,000 with a remaining obligation of $5,746,800.

The Vermont Public Service Board maintains a contract with Vermont Energy Investment Corporation for the administration of the Vermont Energy Efficiency Utility Fund, included in the Special Fund, which provides funding for ten core statewide energy efficiency programs. The contract to Vermont Energy Investment Corporation is for $175,450,250, with an outstanding commitment of $111,792,100.

The Office of Vermont Health Access has three major contracts for services provided to support their operations. The contract with Maximus, for member services and benefits counseling, is for $14,251,400, with a remaining obligation of $10,673,800. The contract with MedMetrics, for pharmacy benefits management, is for $14,726,800, with a remaining obligation of $8,779,100. The contract with EDS, for Medicaid Management Information Systems and claims processing, is for $96,911,400 with a remaining obligation of $39,442,600.

The Department of Corrections has a contract with Prison Health Services, Inc., for health services for inmates, which is for $41,750,028, with a remaining obligation of $9,102,700.

The Agency of Transportation has many contracts to support the building, repairing and maintaining of highways, structures, airports and rail lines. The total obligation remaining that is funded with federal grant sources is $143,888,850, and funded from all other sources is $89,737,200. Three of the major contracts are with Pike Industries for project RS 0113(40) in Hartford with a contract of $12,599,800; Kubricky Construction Corp for project NH 019-1 (51) for the Bennington By Pass project with a contract totaling $15,676,140 and to J. A. McDonald, Inc. for a contract totaling $22,133,103 for project NH 019-1 (53) for the Bennington By Pass project. Remaining balances on the three contracts are $1,975,200, $15,676,140 and $3,083,992 respectively.

Note 12: LITIGATION

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

Note 13: JOINT VENTURE

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission which is an interstate body, both corporate and politic, serving as a common agency of the party states and representing them both collectively and individually in the exercise of its powers and duties. The commission is composed of one member from each of the party states. Each state's lottery commission appoints one of its members to this position. The three-member commission annually elects a chairperson from among its members. The commission is empowered to operate and administer Tri-State Lotto and to

promulgate rules and regulations governing the establishment and operation of the lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the commission. Fifty percent of the gross sales from each state are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

At June 30, 2009, the commission had total assets of $101,958,498, and total liabilities of $86,382,791, representing decreases of $16.4 million and $16.3 million respectively, compared to June 30, 2008. For the fiscal year ended June 30, 2009, the commission had operating revenues of $65,079,577, a decrease of $8.2 million; interest income of $224,232, a decrease of $422,638; commissions, fees, and bonus expenses of $7,620,500, a decrease of $987,503; prize awards of $32,377,288, a decrease of $4.8 million; and other operating expenses of $4,448,624, an increase of $574,363; all activity as compared to the fiscal year ended June 30, 2008.

During fiscal year 2009, the commission made operating transfers to member states of $20,857,397 versus $24,209,442 during fiscal year 2008. This total included $2,560,947 transferred to Vermont during the fiscal year, a decrease of $417,683 as compared to fiscal year 2008.

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

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

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

The Liability Insurance Fund covers general and employment practices liability, discrimination, and auto liability risk. The coverage is comparable to standard private commercial policies. It offers coverage to the same group of participants as those covered by the workers' compensation program described above. The State's exposure to risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. Exposure outside of Vermont is potentially unlimited. The State is self-insured (SIR) for the first $250,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to $750,000 ($1,000,000 total) in Vermont and $10,000,000 in excess of the $250,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by Risk Management personnel (prior to 2006, claims were processed by a third-party administrator), and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's liability exposure is reliable. This liability is reviewed annually by an outside actuary, including a

review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management personnel utilizing departmental exposure and experience factors.

The Risk-Management – All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self-assumed. This coverage provides insurance for State-owned real property, bonds for various categories of employees, errors and omissions coverage for judges, and various other miscellaneous coverages. The State's liability exposure is limited to the amount of the various deductibles associated with the respective policies. Premium charges from the various insurers are either assessed directly against the entity requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Risk Management also assesses a surcharge of up to 5% of the premium to cover administrative costs. Entities eligible for coverage are the same as those listed above for the other funds.

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

In addition to the three internal service funds above, effective July 1, 2007, the General Assembly established the Sarcoidosis Benefit Trust Fund (a program in the Special Fund) to cover specific claims arising from an outbreak of Sarcoidosis at the impaired state office building in Bennington, Vermont (Act 53 of 2007). Claims are reviewed and processed under rules established that mirror the rules for the Workers' Compensation Fund claims. Funding was established as a special fund and not a proprietary fund as funding will only be available by the General Assembly as claims arise and funding needs are determined. The Fund is managed by the Workers' Compensation personnel. In fiscal year 2009 and 2008 respectively, approved claims paid were $43,359 and $384,688.

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

The Administrative Services Division of the Department of Human Resources maintains medical insurance, dental insurance, life insurance, employee assistance, and long term disability program funds for the benefit of current State employees, retirees, retired former employees (allowed participation by statute or labor agreement), legislators, and employees and certain former employees of outside groups which have been declared eligible to participate by statute. All or some of these named groups may participate in each plan depending upon the plan. Temporary and contractual employees are not eligible to participate in these plans.

Participating employees share in the premium cost of all of the medical plans. Premium rate setting is performed by an outside actuary in conjunction with the Fiscal Unit of the Administrative Services Division of the Department of Human Resources. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience.

The current medical insurance plan offerings include four plan options. TotalChoice, HealthGuard, and SafetyNet are "preferred provider organization" indemnity-type plans. There is a lifetime limit on coverage for a participant in these three plans. The SelectCare POS is a "point of service" plan, similar to an open-ended HMO. Members may opt out of the SelectCare network but must meet a deductible and coinsurance to do so. There is no lifetime coverage limit for care received in-network; however, there is a lifetime limit for care received out of network. Benefits are administered under a managed care arrangement. All four health plan options are self insured by the State. The State employs a third party administrator to provide administrative services, including claim payment. To limit the State's large claims exposure, the State has purchased stop loss insurance.

The self-funded State of Vermont Employee Dental Assistance Plan provides up to $1,000 regular dental benefits annually and up to $1,750 lifetime benefit for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Fiscal Unit of Administrative Services Division within the Department of Human Resources sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups

mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents.

The State of Vermont Employee Life Insurance Program consists of a Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times a participant's base salary rounded down to the nearest $100. Retirees who work for the State for at least twenty years and who have life insurance at the time of retirement receive a retiree life benefit of $5,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Administrative Services Division calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees' premiums and 100% of retirees' premium costs. Only current State employees, retired State employees, and current active employees of outside groups are eligible to participate.

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

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

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become disabled due to non-occupational injury or illness, and the disability is expected to be long term or permanent. The plan provides financial protection for State employees and their families by continuing a portion of their income while disabled. Only State employees who are not eligible to be represented by the employees' union (the Vermont State Employees Association) are eligible for this benefit. There is a one-year eligibility waiting period before coverage is effective. This plan is fully insured through an insurance company, so there is no liability to the State for claims. The premium is based on a percentage of the salaries of eligible participants. The State issues payment to the insurance company for the premium and the cost is then recovered from eligible employees in the following manner: Those eligible employees who are covered by a leave plan forfeit one day of compensated absence leave per year. Those eligible employees who are not covered by a leave plan have a one-time 0.2% salary reduction in their next cost-of-living increase following eligibility.

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

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Balance of Liability at End of Fiscal Year
Workers' Compensation Fund				
2007	$ 17,201,602	$ 6,716,086	$ 5,726,127	$ 18,191,561
2008	18,191,561	6,291,342	5,861,002	18,621,901
2009	18,621,901	8,810,223	6,679,413	20,752,711
State Liability Insurance Fund				
2007	5,972,601	(162,879)	1,056,976	4,752,746
2008	4,752,746	2,587,585	1,563,479	5,776,852
2009	5,776,852	1,663,583	1,158,621	6,281,814
Medical Insurance Fund				
2007	10,028,947	90,495,260	90,034,981	10,489,226
2008	10,489,226	97,858,788	97,169,573	11,178,441
2009	11,178,441	104,332,765	104,672,736	10,838,470
Dental Insurance Fund				
2007	285,856	5,013,548	5,023,647	275,757
2008	275,757	5,206,269	5,226,924	255,102
2009	255,102	5,233,950	5,212,645	276,407

Note 15: DEFICIT FUND BALANCES AND NET ASSETS

The following individual funds had deficit total net assets, deficit unrestricted net assets, or deficit fund balances at June 30, 2009.

Business-type Proprietary Funds

Federal Surplus Property: ended fiscal year 2009 with both a deficit unrestricted net asset and a deficit total net asset balance of $829,729. These deficits are the result of a lack of inventory available from the federal government that is available for resale by the State of Vermont. The effect was a net loss to the program of $114,659 for fiscal year 2009. The intention of this program is to actively retrieve goods for sale and increase activity in fiscal year 2010. The program has been historically popular with local governments. Therefore, any continued deficit that cannot be recovered through normal business operations will result in a request, to the Legislature, for recapitalization of the program.

Vermont Life Magazine: ended fiscal year 2009 with both a deficit unrestricted net asset and a deficit total net asset balance of $459,690. Despite the economic recession, Vermont Life Magazine reduced its operating loss in fiscal year 2009 over the fiscal year 2008 by approximately $65,000 to an operating loss of approximately $20,000. Additional steps were taken in fiscal year 2009 to further reduce expenses in fiscal year 2010, which include eliminating one position and leaving another position vacant, as well as reducing the number of product catalog mailings. The above noted changes along with some additional operating changes are expected to create additional savings to eliminate the operating deficit in fiscal year 2010.

Internal Service Funds

Highway Garage Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $3,349,430. The Highway Garage Department has restructured its 5-year plan to eliminate the remaining deficit by increasing rental rates to eliminate 20% of the deficit per year over the remaining 5 years. Rental rates for the majority of vehicles have been restructured to charge for possession rather than usage, which should significantly stabilize revenues and allow more reliable debt reduction.

Single Audit Revolving Fund: ended fiscal year 2009 with both a deficit unrestricted net asset and a deficit total net asset balance of $241,540. The deficit is the result of 2009 program costs exceeding the billing for services, and budget rescissions that the Auditor of Accounts Office achieved through a transfer to the general fund. The fund deficit should be recovered through normal billing for services.

Communications and Information Technology: ended fiscal year 2009 with a deficit unrestricted net asset balance of $842,248. The deficit unrestricted net asset balance is driven by large investments in information technology capital assets, which should become less over time.

Fleet Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $5,780,491.
Despite the current fund deficit, the program actually ended the fiscal year in positive territory. Much of the gain was due to the automobile and liability premium holiday in fiscal year 2009. The deficit unrestricted net asset balance is primarily due to the purchase and disposition of current assets. The total net asset balance is positive. It is expected that normal business activity will address this current fund deficit in the unrestricted net asset account.

Copy Center Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $2,213,369 and a deficit total net asset balance of $1,672,879. The fund actually reduced its annual operating loss over fiscal year 2008 due to cost containment and aggressive management. With the incorporation of the printing function and customers from the Department of Information and Innovation, the program should operate at a profit in fiscal year 2010. In addition, potential policy changes on mandating the use of the Copy Center may increase the revenues to the program while saving the state money. The fund deficit should be recovered through normal operations.

Postage Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $1,347,197 and a deficit total net asset balance of $1,271,320. The Postal Fund loss in fiscal year 2009 appears larger than fiscal year 2008 for the following reasons: a reduction in sales from the prior year, an increase in staff costs from the prior year, and a one-time reimbursement from Pitney Bowes in the prior year for equipment service charges. A review of the current rate structure, as well as staffing patterns, should result in the fund improving in fiscal year 2010. The cost of additional services such as; pink mail and bomb screening that are not covered in the postage rates may require additional general fund support.

Facilities Operations Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $2,981,040 and a deficit total net asset balance of $2,291,762. The General Assembly has been assisting the program through the budget adjustment process to cover unexpected spending needs in the program. The result of the latest budget adjustment, as well as close management of the spending patterns, should result in an annual operating profit for fiscal year 2010 in the Fee for Space program. The fund deficit should be recovered through normal operations.

Property Management Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $17,866,925 and a deficit total net asset balance of $17,865,317. In fiscal year 2009, the Property Management Fund experienced a significant increase in the cost of repairs and maintenance due to a flood at the Asa Bloomer office building in Rutland. Without this event, the fund would have been profitable. In addition, the fund deficit continues to expand due to the 20- year bond financing of the three buildings in the program with a 50-year recovery period of the bond principle. The fund will begin to recover after the 20-year bond period has ended.

State Liability Insurance Fund: ended fiscal year 2009 with both a deficit unrestricted net asset and a deficit total net asset balance of $255,697. Two successive premium holidays for the fund resulted in the reduction of the fund equity surplus to the current deficit situation. The current deficit is actuarially driven and should be recovered through normal operations which resumed in fiscal year 2010.

Risk Management – All Other Fund: ended fiscal year 2009 with a deficit unrestricted net asset balance of $84,111 and a deficit total net asset balance of $79,147. The deficit fund balance in the fund was reduced by 75% from operations in fiscal year 2009. Normal operations should recover the current deficit in fiscal year 2010.

Workers' Compensation Fund: ended fiscal year 2009 with both a deficit unrestricted net asset and a deficit total net asset balance of $3,660,114. An increase in the claims level for the state resulted in a $2.1 million increase in the actuarial adjustment to the claims incurred but not reported liability in fiscal year 2009. In addition, paid claims account for the majority of the loss in the fund in fiscal year 2009. During economic downturns and with the threat of employee layoffs, there appears to be an increase in the number of workers' compensation claims. An improvement to the economy, as well as normal billing operations in fiscal year 2010 should reflect an improvement to the fund.

Governmental Funds

Global Commitment Fund: ended fiscal year 2009 with a deficit unreserved fund balance of $30,053,278 and a deficit total fund balance of $29,389,627. This deficit is the result of Medicaid costs incurred under a previous Medicaid waiver agreement being paid with the resources transferred to the fund under the current agreement. The State plans to eliminate this deficit thorough amendment to the current Medicaid waiver agreement's Terms and Conditions to allow these costs to be incorporated into future capitation rates which determine the amount to be transferred to the fund.

Transportation Fund: ended the fiscal year with a total fund balance of $10,188,612. This total includes: $11,290,397 reserved for budget stabilization, $673,628 reserved for debt service, and $22,989 reserved for encumbrances, and an unreserved fund balance deficit of $1,798,402. The deficit unreserved fund balance is the result of a deficit fund balance of $5,780,805 in the federal and local government dedicated revenue portions of the fund. This deficit will be eliminated through the normal collection of federal grants and payments from local governments in fiscal year 2010.

The unreserved fund balance for the non-dedicated revenue portion of the transportation fund was $3,982,403. Therefore, no adjustment of the budget stabilization reserve is required on a generally accepted accounting principle basis.

Note 16: CHANGES IN LONG-TERM LIABILITIES

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

During the year ended June 30, 2009, the following changes occurred in the long-term liabilities.

PRIMARY GOVERNMENT

	July 1, 2008	Additions	Reductions	June 30, 2009	Amounts due within one year
Governmental activities:					
Bonds payable	$ 454,470,093	$ 51,891,518	$ 53,380,000	$ 452,981,611	$ 52,935,000
Capital leases payable	384,017	4,786,557	262,475	4,908,099	278,728
Compensated absences	33,080,051	33,284,666	33,214,379	33,150,338	21,961,665
Claims and judgments	35,832,296	120,040,521	117,723,415	38,149,402	11,114,877
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligations	218,563,428	73,930,733	63,890,523	228,603,638	-
Net other postemployment obligations	89,729,537	118,785,743	19,893,129	188,622,151	-
Other liabilities	11,543,217	1,850,421	1,438,442	11,955,196	1,438,442
Pollution Remediation Obligation	3,400,000	335,297	45,304	3,689,993	405,000
Total governmental activities long-term liabilities	$ 854,002,639	$ 404,905,456	$289,847,667	$ 969,060,428	$ 88,133,712

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

Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the United States Environmental Protection Agency (USEPA) expends superfund trust moneys for cleanup. Currently, there are five sites in various stages of cleanup, from initial assessment to cleanup activities. As a result of implementing GASB Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations (PRO), additional pollution remediation liabilities of $335,297 were reported for June 30, 2009, in addition to $3.4 million that was obligated as of June 30, 2008 which had not been previously reported. 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 price increases or reductions, technology, or changes in 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 PRO, in which liabilities have not been recognized as the potential outlays are not estimable. The site, which is a mine, has been identified as having significant erosion. Currently, costs for the remediation and long term maintenance are considered to be inestimable, as these investigations are in their infancy. Site remedy is not determined at this point. The State is in the process of determining who is responsible and if there is a potential to recover settlement funds from former owners. The case has been referred to the USEPA for consideration as a Superfund site.

	July 1, 2008	Additions	Reductions	June 30, 2009	Amounts due within one year
Business-type activities:					
Compensated absences	$ 356,870	$ 310,882	$ 299,402	$ 368,350	$ 223,349
Lottery prize awards payable	5,214,888	60,737,049	61,207,385	4,744,552	431,309
Total business-type activities long-term liabilities	$ 5,571,758	$ 61,047,931	$ 61,506,787	$ 5,112,902	$ 654,658
Fiduciary:					
Compensated absences	$ 10,584	$ 9,212	$ 7,665	$ 12,131	$ 9,384
Total fiduciary long-term liabilities	$ 10,584	$ 9,212	$ 7,665	$ 12,131	$ 9,384

COMPONENT UNITS					
Bonds and notes payable	$4,001,306,720	$ 1,089,131,312	$861,215,738	$4,229,222,294	$ 425,530,483
Capital leases payable	105,030	-	55,446	49,584	26,133
Accrued arbitrage rebate	28,689,064	1,499,449	9,365,912	20,822,601	1,716,607
Net postemployment benefit obligation	33,814,600	31,966,830	-	65,781,430	-
Other liabilities	25,480,303	1,050,180	3,475,478	23,379,042	1,014,000
Total component units long-term liabilities	$4,089,395,717	$ 1,123,647,771	$874,112,574	$4,339,254,951	$ 428,287,223

Note 17: RESTATEMENTS

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations
This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current of potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closures and postclosure care and nuclear power plant decommissioning.

When a government knows or reasonably believes that a site is polluted, the government should determine whether one or more components of a pollution remediation obligation (PRO) are recognizable as a liability, or if appropriate, capitalized when goods and services are acquired.

GASB Statement No. 49 is effective for financial statements for periods beginning after December 15, 2007. The Statement requires that Governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods should apply the provisions of this Statement retroactively for all such prior periods presented. Therefore, the beginning balance for fiscal year 2009 has been restated to reflect the PRO liability, resulting in a $3.4 million decrease in the beginning net assets balance for the governmental activities in the Government-wide Statement of Activities.

Vermont Housing Finance Agency
The Vermont Housing Finance Agency (VHFA) has been included as a major component unit beginning this fiscal year. In making a determination as to whether VHFA qualifies as a component unit, there isn't one event that necessarily makes that case. Rather, there are several factors that lead to the decision to include as a component unit.

Act 260, in 1974 established the VHFA. Per the enabling legislation, the State appoints a majority of the nine member VHFA board of commissioners as well as authorized the State to replenish the debt reserve funds for each of the reserve funds established by the VHFA. During the 2007/2008 legislative session, the Legislature increased the State's authorization for replenishing the debt from $84 million to $155 million. Although the State has no legal obligation to repay VHFA's debt, approximately $90 million of bonds collateralized by loans under the multi-family program carry the State's moral obligation to replenish the associated reserve fund. Moral obligation is a legal term describing a duty someone ought to perform, but, isn't legally obligated to perform. In addition to the moral obligation to perform, the State has provided financial support to the VHFA. Act 176 of the 2007/2008 legislative session authorized the State Treasurer to extend up to $50 million in short term credit to VHFA. During the State's fiscal year 2009, $17.5 million was extended to VHFA and repaid.

Based upon the above facts and a review of GASB 14, it was determined that beginning in fiscal year 2009, the VHFA should be included in the State's Comprehensive Annual Financial Report as a component unit. As a result, the beginning balance for the component unit net assets has been restated to reflect the inclusion of the VHFA, resulting in an increase of $84,257,542 in the Discretely Presented Component Unit column in the Government-Wide Statement of Activities, for the year ended June 30, 2009.

Note 18: RESTRICTED NET ASSETS – Discretely Presented Component Units

Restricted net assets are those portions of total net assets that are not appropriable for expenditure or that are legally segregated for a specific future use. Net assets restricted at June 30, 2009 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	$ 102,000	$ 186,187,000	$ 1,665,905	$ -	$ -
Nonexpendable	2,374,000	84,006,000	12,057,171	-	-
Grants and scholarships	704,000	-	-	-	-
Bond resolution	71,636,000	-	-	70,873,078	-
Educational programs appropriation	-	-	-	-	-
Interest rate subsidies	-	-	-	-	1,965,620
Investment - Vermont Capital Partners, LP	-	-	-	-	400,000
Collateral for commercial paper program	-	-	-	-	20,068,029
Project and program commitments	-	-	-	-	25,687,758
Loans receivable[1]	-	-	-	-	132,510,935
Total Component Units - Restricted Net Assets	**$ 74,816,000**	**$ 270,193,000**	**$ 13,723,076**	**$ 70,873,078**	**$ 180,632,342**

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

Note 19: SUBSEQUENT EVENTS

On July 16, 2009, the Joint Fiscal Committee's Emergency Board (E-Board) was presented with updated consensus revenue forecast reports that recommended a $28 million reduction in the General Fund revenue forecast for fiscal year 2010. The Administration also proposed a budget rescission plan as a result of forecasts that indicated a revenue downturn. The downturn is a direct result of the global recession. Reducing the State's expenses in order to offset these revenue downturns will be an ongoing effort by the State's Legislature and Administration. The E-Board approved these changes.

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Vermont

Required Supplementary Information

(Unaudited)

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

Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS[1]						
2009	$1,217,638	$ 1,544,144	$ 326,506	78.9%	$ 404,516	80.7%
2008	1,377,101	1,464,202	87,101	94.1%	404,938	21.5%
2007	1,318,687	1,307,643	(11,044)	100.8%	386,917	-2.9%
2006	1,223,323	1,232,367	9,044	99.3%	369,310	2.4%
2005	1,148,908	1,174,796	25,888	97.8%	349,258	7.4%
2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
STRS[1]						
2009	$1,374,079	$ 2,101,838	$ 727,759	65.4%	$ 561,588	129.6%
2008	1,605,462	1,984,967	379,505	80.9%	515,573	73.6%
2007	1,541,860	1,816,650	274,790	84.9%	499,044	55.1%
2006	1,427,393	1,686,502	259,109	84.6%	468,858	55.3%
2005	1,354,006	1,492,150	138,144	90.7%	453,517	30.5%
2004	1,284,833	1,424,662	139,829	90.2%	437,239	32.0%
MERS						
2009	$ 331,407	$ 366,973	$ 35,566	90.3%	$ 191,521	18.6%
2008	348,740	343,685	(5,055)	101.5%	162,321	-3.1%
2007	325,774	309,853	(15,921)	105.1%	148,815	-10.7%
2006	288,347	276,552	(11,795)	104.3%	146,190	-8.1%
2005	259,076	248,140	(10,936)	104.4%	135,351	-8.1%
2004	232,890	225,092	(7,798)	103.5%	126,216	-6.2%

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

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

Retirement System	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
Vermont State Retirement System	2009	$ 28,997,554	86.68%
	2008	42,375,068	92.49%
	2007	40,189,812	97.78%
	2006	38,214,704	97.58%
	2005	36,019,056	101.32%
	2004	29,023,431	91.81%
State Teachers' Retirement System	2009	$ 39,616,990	97.83%
	2008	41,204,051	99.40%
	2007	38,929,729	98.89%
	2006	56,627,046	44.06%
	2005	47,714,318	51.23%
	2004	41,658,946	58.68%
Vermont Municipal Employees' Retirement System	2009	$ -	NA
	2008	-	NA
	2007	8,546,496	100.00%
	2006	7,839,769	100.00%
	2005	7,359,628	100.00%
	2004	6,616,630	100.00%

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 Employee's Health Benefit Fund.

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

(dollar amounts in thousands)
(Unaudited)

Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
State Employees' Postemployment Benefit Pension Trust Fund						
2009	$ 5,749	$ 780,748	$ 774,999	0.7%	$426,827	181.6%
2008	3,664	754,690	751,026	0.5%	404,937	185.5%
2007	2,211	606,499	604,288	0.4%	386,917	156.2%
State Teachers Retiree Medical Benefit Plan						
2009	-	872,236	872,236	0.0%	561,588	155.3%
2008	-	863,555	863,555	0.0%	535,807	161.2%
2007	-	820,212	820,212	0.0%	515,573	159.1%

Based on a discount rate of 3.75% for 2007, 4.00% for 2008, and 2009.

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

OPEB Fund	Year Ended 6/30	Annual Required Contribution *	Percentage Contributed
State Employees' Postemployment Benefit Trust Fund			
	2009	$ 58,994,051	33.72%
	2008	47,284,903	37.59%
	2007	40,874,365	0.00%
Postemployment Benefits for State Teachers Retirement System			
	2009	$ 59,791,692	0.00%
	2008	60,220,989	0.00%

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Taxes	$ 1,107,405,000	$ 1,047,096,900	$ 1,069,249,205	$ 22,152,305
Earnings of Departments	18,300,000	18,700,000	19,058,394	358,394
Other	18,095,000	23,605,900	15,712,342	(7,893,558)
Total revenues	**1,143,800,000**	**1,089,402,800**	**1,104,019,941**	**14,617,141**
Expenditures:				
General Government				
Agency of Administration	39,851,482	39,144,669	38,468,491	(676,178)
Executive Office	1,583,578	1,382,044	1,382,044	-
Legislative Council	10,753,438	10,790,617	9,940,901	(849,716)
Joint Fiscal Office	1,298,032	1,359,539	1,311,021	(48,518)
Sergeant at Arms	612,553	662,009	546,822	(115,187)
Lieutenant Governor's Office	161,613	155,113	152,388	(2,725)
Auditor of Accounts	526,254	498,938	374,668	(124,270)
State Treasurer	1,140,693	1,152,644	1,087,037	(65,607)
State Labor Relations Board	209,480	210,124	209,896	(228)
VOSHA Review Board	25,047	25,706	23,145	(2,561)
Homeowner Property Tax Assistance	12,921,868	11,870,272	11,870,198	(74)
Renter Rebate Tax Assistance	2,386,756	2,334,799	2,331,543	(3,256)
Protection to Persons and Property				-
Attorney General	5,798,782	5,059,603	5,059,603	-
Defender General	10,615,666	10,585,521	10,437,572	(147,949)
Judiciary	32,168,828	30,966,702	30,955,242	(11,460)
State's Attorneys & Sheriffs	12,532,115	13,082,132	12,047,075	(1,035,057)
Department of Public Safety	16,161,407	18,332,931	16,123,228	(2,209,703)
Military Department	3,707,776	3,376,182	3,356,181	(20,001)
Center Crime Victim Services	49,809	203,233	155,396	(47,837)
Criminal Justice Training Council	1,419,664	1,381,258	1,380,849	(409)
Agency of Agricultural, Food, and Markets	5,924,382	6,932,650	5,886,716	(1,045,934)
Banking, Insurance, Securities, and				-
Health Care Administration	308,251	324,331	255,847	(68,484)
Secretary of State	1,765,725	1,968,550	1,967,541	(1,009)
Public Service Department	-	50,498	20,287	(30,211)
Human Rights Commission	312,426	300,158	284,255	(15,903)
Human Services				-
Agency of Human Services	521,606,029	467,310,522	456,239,980	(11,070,542)
Governor's Commission on Women	275,538	275,015	267,517	(7,498)
Human Services Board	50,030	49,178	49,178	-
Labor				-
Department of Labor	2,307,673	2,397,430	1,967,853	(429,577)
General Education				-
Department of Education	14,263,125	13,232,869	12,876,799	(356,070)
State Teachers' Retirement	33,549,097	35,849,097	35,849,097	-
Higher Education	83,945,213	81,940,168	80,440,162	(1,500,006)

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Expenditures:				
Natural Resources				-
Agency of Natural Resources	25,026,938	25,213,935	22,529,221	(2,684,714)
Natural Resources Board	965,755	962,898	962,898	-
Commerce and Community Development				-
Agency of Commerce & Community Development	14,226,260	15,823,417	13,497,839	(2,325,578)
Cultural Development	1,723,949	1,564,733	1,564,733	-
Vermont Economic Development Authority	500,000	-	-	-
Vermont Agricultural Credit Corporation	-	1,000,000	1,000,000	-
Vermont Housing and Conservation Board	-	700,000	-	(700,000)
Vermont Housing Finance Authority	-	50,000	50,000	-
Transportation				-
Agency of Transportation	-	1,344,999	1,161,006	(183,993)
Debt service				-
Principal and Interest	67,048,726	67,148,726	67,048,726	(100,000)
Total expenditures	**927,723,958**	**877,013,210**	**851,132,955**	**(25,880,255)**
Excess of revenues over expenditures	**216,076,042**	**212,389,590**	**252,886,986**	**40,497,396**
Other Financing Sources (Uses):				
Transfers in	7,891,949	52,844,557	52,844,557	-
Transfers out	(302,064,400)	(308,406,209)	(308,406,209)	-
Premium on sale of bonds	-	1,176,793	1,176,793	-
Total other financing uses	**(294,172,451)**	**(254,384,859)**	**(254,384,859)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(78,096,409)**	**(41,995,269)**	**(1,497,873)**	**40,497,396**
Fund balance, July 1	**123,483,861**	**123,483,861**	**123,483,861**	**-**
Fund balance, June 30	**$ 45,387,452**	**$ 81,488,592**	**$ 121,985,988**	**$ 40,497,396**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Taxes	$ 127,700,000	$ 119,633,300	$121,827,740	$ 2,194,440
Motor Vehicle Fees	68,000,000	65,500,000	65,512,950	12,950
Federal	203,253,166	216,168,895	190,946,502	(25,222,393)
Other	20,300,000	17,500,000	21,947,066	4,447,066
Total revenues	**419,253,166**	**418,802,195**	**400,234,258**	**(18,567,937)**
Expenditures:				
General Government				
Agency of Administration	1,210,258	10,193	9,554	(639)
Joint Fiscal Office	-	-	-	-
Sergeant at Arms	-	-	-	-
Protection to Persons and Property				-
Department of Public Safety	32,725,324	33,341,728	33,289,223	(52,505)
General Education				-
Department of Education	127,483	-	-	-
Transportation				-
Agency of Transportation	395,216,922	397,963,083	367,591,236	(30,371,847)
Debt service				-
Principal and Interest	1,914,650	1,914,650	1,914,650	-
Total expenditures	**431,194,637**	**433,229,654**	**402,804,663**	**(30,424,991)**
Excess of expenditures over revenues	**(11,941,471)**	**(14,427,459)**	**(2,570,405)**	**11,857,054**
Other Financing Sources (Uses):				
Proceeds from Sale of Notes and Bonds	-	673,628	673,628	-
Transfers in	366,519	2,305,553	2,214,462	-
Transfers out	(4,463,222)	(1,647,966)	(1,556,875)	-
Total other financing sources (uses)	**(4,096,703)**	**1,331,215**	**1,331,215**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(16,038,174)**	**(13,096,244)**	**(1,239,190)**	**11,857,054**
Fund balance, July 1	**9,765,674**	**9,765,674**	**9,765,674**	**-**
Fund (deficit)balance, June 30	**$ (6,272,500)**	**$ (3,330,570)**	**$ 8,526,484**	**$ 11,857,054**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Taxes	$ 862,808,441	$ 1,006,079,377	$ 1,007,465,204	$ 1,385,827
Interest & premiums	8,600,000	-	255,595	255,595
Total revenues	**871,408,441**	**1,006,079,377**	**1,007,720,799**	**1,641,422**
Expenditures:				
General government				
Grand List	3,240,112	3,266,085	3,241,427	(24,658)
Renter Rebates	5,569,096	5,569,096	5,276,701	(292,395)
General education				-
Department of Education	1,315,047,726	1,315,843,637	1,311,421,785	(4,421,852)
Total expenditures	**1,323,856,934**	**1,324,678,818**	**1,319,939,913**	**(4,738,905)**
Excess of revenues over expenditures	**(452,448,493)**	**(318,599,441)**	**(312,219,114)**	**6,380,327**
Other Financing Sources (Uses):				
Transfers in	312,743,941	312,743,941	312,743,941	-
Total other financing sources (uses)	**312,743,941**	**312,743,941**	**312,743,941**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(139,704,552)**	**(5,855,500)**	**524,827**	**6,380,327**
Fund balance, July 1	**41,526,727**	**41,526,727**	**41,526,727**	**-**
Fund (deficit) balance, June 30	**$ (98,177,825)**	**$ 35,671,227**	**$ 42,051,554**	**$ 6,380,327**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Special Fund Revenues	$ 215,075,484	$ 275,513,693	$ 233,262,394	$ (42,251,299)
Total revenues	**215,075,484**	**275,513,693**	**233,262,394**	**(42,251,299)**
Expenditures:				
General government				
Agency of Administration	10,484,845	25,890,939	18,691,418	(7,199,521)
Executive Office	193,500	393,414	244,599	(148,815)
Joint Fiscal Office	-	513,355	-	(513,355)
Legislative Council	-	9,417	8,219	(1,198)
Auditor of Accounts	54,431	53,430	53,430	-
Treasurer's Office	1,615,435	2,763,902	2,530,019	(233,883)
State Labor Relations Board	5,870	5,870	1,822	(4,048)
VOSHA Review Board	-	23,044	21,603	(1,441)
Unorganized Towns & Gores	-	190,000	159,136	(30,864)
Protection to persons and property				-
Attorney General	3,305,165	6,088,014	4,930,913	(1,157,101)
Defender General	628,357	629,502	552,056	(77,446)
Judiciary	4,647,749	5,124,649	3,679,391	(1,445,258)
State's Attorneys & Sheriffs	2,266,624	2,309,222	2,184,710	(124,512)
Department of Public Safety	13,279,069	14,208,650	12,819,617	(1,389,033)
Military Department	66,000	141,000	141,000	-
Center of Crime Victim's Services	8,315,390	7,847,168	6,464,077	(1,383,091)
Criminal Justice Training Council	790,402	1,215,446	903,049	(312,397)
Agency of Agriculture, Food & Markets	7,857,868	8,964,326	7,665,771	(1,298,555)
Banking, Insurance, Securities, and				-
Health Care Administration	13,299,841	13,310,738	12,045,365	(1,265,373)
Secretary of State	4,416,524	5,284,336	4,907,063	(377,273)
Public Service Department	10,283,977	14,746,626	13,256,356	(1,490,270)
Public Service Board	2,857,376	2,975,264	2,960,764	(14,500)
Enhanced 911 Board	5,484,695	5,482,486	5,019,764	(462,722)
Department of Liquor Control	204,000	314,500	366,548	52,048
Human Rights Commission	-	43,377	7,642	(35,735)
Human services				-
Agency of Human Services	66,315,597	76,797,037	68,525,852	(8,271,185)
Governor's Commission on Women	5,000	20,798	17,067	(3,731)
Human Services Board	287,541	161,185	110,441	(50,744)
Vermont Veterans Home	10,675,489	11,382,788	10,470,323	(912,465)
Labor				-
Department of Labor	8,154,946	8,806,380	7,757,383	(1,048,997)
General education				-
Department of Education	14,731,651	15,698,806	15,153,268	(545,538)
Higher Education	4,300,000	3,835,000	3,835,000	-

Continued on next page ——>

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Expenditures:				
Natural resources				-
Agency of Natural Resources	28,837,702	34,369,140	29,677,977	(4,691,163)
Natural Resources Board	1,844,506	1,911,758	1,910,870	(888)
Commerce and community development				-
Agency of Commerce & Community Development	6,331,813	8,154,920	5,623,244	(2,531,676)
Cultural Development	-	33,250	33,250	-
Transportation				-
Agency of Transportation	100,000	1,880,039	1,269,484	(610,555)
Public service enterprises				-
Public Service Department	20,000	5,430,000	4,936,828	(493,172)
Debt service				-
Principal and Interest	2,495,675	2,495,675	2,495,675	-
Total Expenditures	**234,157,038**	**289,505,451**	**251,430,994**	**(38,074,457)**
Excess of revenues over expenditures	**(19,081,554)**	**(13,991,758)**	**(18,168,600)**	**(4,176,842)**
Other Financing Sources (Uses):				
Transfers in	35,523,524	71,296,550	71,296,550	-
Transfers out	(16,441,970)	(57,219,593)	(57,219,593)	-
Total other financing sources (uses)	**19,081,554**	**14,076,957**	**14,076,957**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**-**	**85,199**	**(4,091,643)**	**(4,176,842)**
Fund balance, July 1	**76,300,457**	**76,300,457**	**76,300,457**	**-**
Fund balance, June 30	**$ 76,300,457**	**$ 76,385,656**	**$ 72,208,814**	**$ (4,176,842)**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Federal	$ 1,133,816,812	$ 1,208,013,765	$1,120,307,370	$ (87,706,395)
Interest and premiums	-	319,201	319,201	-
Other	-	2,715	34,751	32,036
Total revenues	**1,133,816,812**	**1,208,335,681**	**1,120,661,322**	**(87,674,359)**
Expenditures:				
General Government				
Agency of Administration	823,729	851,456	812,449	(39,007)
Executive Office	2,103,864	1,577,898	933,010	(644,888)
State Treasurer	-	470,036	426,679	(43,357)
VOSHA Review Board	25,047	-	-	-
Protection to Persons and Property				-
Attorney General	643,000	641,337	641,337	-
Judiciary	414,808	554,140	431,784	(122,356)
State's Attorneys & Sheriffs	31,000	31,000	11,259	(19,741)
Department of Public Safety	21,477,040	25,996,418	16,512,103	(9,484,315)
Military Department	18,637,256	18,808,043	15,124,696	(3,683,347)
Center of Crime Victim Services	3,865,078	3,865,078	3,642,470	(222,608)
Agency of Agriculture, Food & Markets	1,378,961	1,753,648	1,573,400	(180,248)
Secretary of State	2,000,000	2,201,732	1,257,560	(944,172)
Pubic Service Department	1,157,800	1,157,800	659,706	(498,094)
Human Rights Commission	170,739	170,151	145,331	(24,820)
Human Services				-
Agency of Human Services	910,718,395	951,450,881	910,712,361	(40,738,520)
Human Services Board	12,254	149,897	149,897	-
Agency of Administration	-	2,639,202	1,759,283	(879,919)
Vermont Veteran's Home	5,940,546	5,938,582	5,938,582	-
Labor				-
Department of Labor	20,613,870	20,633,950	19,322,671	(1,311,279)
General Education				-
Department of Education	118,910,533	119,295,032	115,753,722	(3,541,310)
Natural Resources				-
Agency of Natural Resources	14,375,544	28,754,538	24,832,130	(3,922,408)
Commerce and Community Development				-
Agency of Commerce & Community Development	10,517,348	21,072,946	8,080,772	(12,992,174)
Total expenditures	**1,133,816,812**	**1,208,013,765**	**1,128,721,202**	**(79,292,563)**
Excess of revenues over expenditures	**-**	**321,916**	**(8,059,880)**	**(8,381,796)**
Other Financing Uses:				
Transfers out	(785,286)	(20,931,163)	(20,931,163)	-
Total other financing uses	**(785,286)**	**(20,931,163)**	**(20,931,163)**	**-**
Excess of revenues over (under) expenditures and other uses	**(785,286)**	**(20,609,247)**	**(28,991,043)**	**(8,381,796)**
Fund balance, July 1	**22,614,683**	**22,614,683**	**22,614,683**	**-**
Fund (deficit) balance, June 30	**$ 21,829,397**	**$ 2,005,436**	**$ (6,376,360)**	**$ (8,381,796)**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Global Commitment Premiums	$ 937,400,000	$ 933,600,000	$ 889,659,354	$ (43,940,646)
Total revenues	**937,400,000**	**933,600,000**	**889,659,354**	**(43,940,646)**
Expenditures:				
General Government				
Agency of Administration	416,113	408,379	408,379	-
Protection to Persons and Property				
Banking, Insurance, Securities, and Health Care Administration	1,898,824	1,897,427	1,871,651	(25,776)
Human Services				
Agency of Human Services	889,889,788	879,622,184	875,347,553	(4,274,631)
Vermont Veteran's Home	881,289	881,043	881,043	-
General Education				
Higher Education	4,411,563	4,411,563	4,411,563	-
Deparment of Education	1,075,143	1,072,786	1,028,913	(43,873)
Total expenditures	**898,572,720**	**888,293,382**	**883,949,102**	**(4,344,280)**
Excess of revenues over expenditures	**38,827,280**	**45,306,618**	**5,710,252**	**(39,596,366)**
Other Financing Uses:				
Transfers out	(15,822,181)	(22,969,049)	(22,969,049)	-
Total other financing uses	**(15,822,181)**	**(22,969,049)**	**(22,969,049)**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**23,005,099**	**22,337,569**	**(17,258,797)**	**(39,596,366)**
Fund balance, July 1	**42,285,554**	**42,285,554**	**42,285,554**	**-**
Fund balance, June 30	**$ 65,290,653**	**$ 64,623,123**	**$ 25,026,757**	**$ (39,596,366)**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Federal	$ -	$ 184,518,625	$ 83,978,571	$ (100,540,054)
Total revenues	**-**	**184,518,625**	**83,978,571**	**(100,540,054)**
Expenditures:				
Human Services				
Agency of Human Services	-	81,177,625	76,268,403	(4,909,222)
Labor				
Department of Labor	-	400,000	258,028	(141,972)
Natural Resources				
Agency of Natural Resources	-	38,961,000	102,890	(38,858,110)
Transportation				
Agency of Transportation	-	63,980,000	12,697,286	(51,282,714)
Total expenditures	**-**	**184,518,625**	**89,326,607**	**(95,192,018)**
Excess of expenditures over revenues	**-**	**-**	**(5,348,036)**	**(5,348,036)**
Fund balance, July 1	**-**	**-**	**-**	**-**
Fund (deficit) balance, June 30	**$ -**	**$ -**	**$ (5,348,036)**	**$ (5,348,036)**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
State Health Care Resources Fund Revenues.....	$ 146,600,000	$ 147,300,000	$ 146,828,494	$ (471,506)
Total revenues.....	**146,600,000**	**147,300,000**	**146,828,494**	**(471,506)**
Expenditures:				
Human services				
Agency of Human Services.....	147,623,246	148,261,016	147,678,315	(582,701)
Total expenditures.....	**147,623,246**	**148,261,016**	**147,678,315**	**(582,701)**
Excess of revenues over expenditures.....	**(1,023,246)**	**(961,016)**	**(849,821)**	**111,195**
Fund balance, July 1.....	**(582,703)**	**(582,703)**	**(582,703)**	**-**
Fund (deficit) balance, June 30.....	**$ (1,605,949)**	**$ (1,543,719)**	**$ (1,432,524)**	**$ 111,195**

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, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Tobacco Trust Funds Revenue	$ 47,083,694	$ 47,242,133	$ 43,017,640	$ (4,224,493)
Total revenues	**47,083,694**	**47,242,133**	**43,017,640**	**(4,224,493)**
Expenditures:				
General government				
Agency of Administration	58,000	58,000	58,000	-
Protection to persons and property				
Attorney General	290,000	357,320	357,320	-
Judiciary	40,000	40,000	40,000	-
Department of Liquor Control	289,645	296,306	296,306	-
Human services				
Agency of Human Services	45,410,381	45,510,381	45,400,915	(109,466)
General education				
Department of Education	995,668	980,126	950,243	(29,883)
Total expenditures	**47,083,694**	**47,242,133**	**47,102,784**	**(139,349)**
Excess of expenditures over revenues	**-**	**-**	**(4,085,144)**	**(4,085,144)**
Other Financing Sources (Uses):				
Transfers in	1,953,525	1,953,525	1,953,525	-
Transfers out	(2,612,406)	(5,608,531)	(5,608,531)	-
Total other financing uses	**(658,881)**	**(3,655,006)**	**(3,655,006)**	**-**
Excess of revenues over expenditures	**(658,881)**	**(3,655,006)**	**(7,740,150)**	**(4,085,144)**
Fund balance, July 1	**34,307,324**	**34,307,324**	**34,307,324**	**-**
Fund balance, June 30	**$ 33,648,443**	**$ 30,652,318**	**$ 26,567,174**	**$ (4,085,144)**

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
CATAMOUNT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Over (Under)
Revenues:				
Catamount Fund Revenues	$ 19,900,000	$ 19,800,000	$ 19,809,554	$ 9,554
Total revenues	**19,900,000**	**19,800,000**	**19,809,554**	**9,554**
Expenditures:				
Human services				
Agency of Human Services	31,073,806	23,762,994	22,752,750	(1,010,244)
Employment & Training				
Department of Labor	394,072	519,072	397,597	(121,475)
Total expenditures	**31,467,878**	**24,282,066**	**23,150,347**	**(1,131,719)**
Excess of expenditures over revenues	**(11,567,878)**	**(4,482,066)**	**(3,340,793)**	**1,141,273**
Other Financing Sources (Uses):				
Transfers in	1,800,000	1,800,000	1,800,000	-
Transfers out	-	(1,800,000)	(1,800,000)	-
Total other financing sources	**1,800,000**	**-**	**-**	**-**
Excess of revenues and other sources over (under) expenditures and other uses	**(9,767,878)**	**(4,482,066)**	**(3,340,793)**	**1,141,273**
Fund balance, July 1	**10,424,676**	**10,424,676**	**10,424,676**	**-**
Fund balance, June 30	**$ 656,798**	**$ 5,942,610**	**$ 7,083,883**	**$ 1,141,273**

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

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

Budgetary Process

Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis usually at the program level. The Governor may amend appropriations or transfer appropriations within limits established by 32 V.S.A. Chapter 9. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Budgetary Funds

Vermont's annual Appropriation Act, the State's legally adopted budget, does not present budgets using the same fund structure as what is used for reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). The GAAP basis Special Fund is represented in the Appropriation Act as program-level budgets for the Special, State Health Care Resources, Tobacco Trust and Catamount Funds. These funds are present separately in the accompanying schedules. 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. During fiscal year 2009, the Joint Fiscal Office and the Secretary of Administration provided the Emergency Board with their respective revised revenue estimate in November 2008 and April 2009 due to the rapid changes in current economic conditions.

Expenditure and Transfer Budgets

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Secretary of Administration (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of state government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have

been approved by the federal government for advance construction in which the expenditure of state funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts including federal receipts exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature.

Budget and GAAP Basis Reporting

The accompanying budgetary comparison schedules report the actual revenues, expenditures and other financing sources (uses) on a budget basis, which differs significantly from GAAP. These different accounting principles result in basis, perspective, and entity differences in the fund balance—budgetary basis. *Basis differences* arise because the basis of budgeting (cash basis) differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances—governmental funds. *Perspective differences* result because the Appropriation Act's program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State's financial reporting entity for GAAP purposes is excluded from the Appropriation Act. The following presents a reconciliation of the budgetary basis and GAAP basis fund balances for the funds reported in the accompanying schedules for the fiscal year ended June 30, 2009.

	General Fund	Transportation Fund	Education Fund	Federal Revenue Fund	Global Commitment Fund	ARRA Fund
Fund Balance - Budgetary Basis....	$ 121,985,988	$ 8,526,484	$ 42,051,554	$ (6,376,360)	$ 25,026,757	$ (5,348,036)
Basis differences:						
Cash not in budget balances.....	(895)	461	-	12,825	(492)	320
Escrow deposits not included in budget balances.....	-	2,601	-	-	-	-
Taxes receivable.....	171,127,585	8,759,718	12,758,249	-	-	-
Notes and loan receivable.....	616,499	374,948	-		-	-
Other receivables.....	5,466,527	8,464,231	-	550,642	13,878,880	-
Interest receivable.....	106,317	1,615	-	29,162	-	-
Due from other funds.....	2,233,223	575,041	-	549,033	25,249,087	-
Due from federal government.....	485,680	22,961,062	-	91,518,316	-	11,053,758
Due from component units.....	-	-	-	449,011	-	-
Accounts payable.....	(19,804,191)	(21,120,291)	(7,410,437)	(30,959,061)	(88,453,616)	(2,951,721)
Intergovernment Payables.....	-	-	-	(8,002,410)	-	-
Accrued liablilities.....	(15,645,476)	(7,543,364)	-	(6,791,608)	(3,030,916)	(39,971)
Retainage payable.....	(14,985)	(387,227)	-	(104,186)	(138,080)	-
Deferred revenue.....	(108,798,075)	(12,964,142)	(2,592,534)	(41,287,880)	(1,504,794)	(2,513,804)
Tax refunds payable.....	(4,961,262)	-	(138,825)	-	-	-
Due to other funds.....	(2,197,145)	(87,164)	(24,402)	(16,651,178)	(416,453)	(2,436,691)
Due to component units.....	(700,000)	-	-	-	-	
Entity differences:						
Blended non-budgeted funds.....	-	2,624,639	-	49,339,536	-	-
Perspective differences:						
Component unit include in budgeted funds.....	-	-	-	2,820,729	-	-
Budgeted funds reclassified to GAAP basis major governmental fund.....	-	-	-	(2,236,145)	-	2,236,145
Fund Balance - GAAP Basis.....	$ 149,899,790	$ 10,188,612	$ 44,643,605	$ 32,860,426	$ (29,389,627)	$ -

	Budget Basis Funds				GAAP Basis
	Special Fund	State Health Care Resource Fund	Tobacco Trust Fund	Catamount Fund	Special Fund
Fund Balance - Budgetary Basis....	$ 72,208,814	$ (1,432,524)	$ 26,567,174	$ 7,083,884	$ -
Basis differences:					
Cash not in budget balances.....	460,515	-	-	-	460,515
Acquisition of preferred stock.....	100,000	-	-	-	100,000
Taxes receivable.....	2,555,956	522,454	-	-	3,078,410
Other receivables.....	12,016,537	16,160	-	124,194	12,156,891
Interest receivable.....	13,950	-	-	-	13,950
Due from other funds.....	1,695,450	-	1,657	-	1,697,107
Due from component units.....	68,357	-	-	-	68,357
Accounts payable.....	(8,238,940)	(24)	(137,562)	-	(8,376,526)
Accrued liablilities.....	(4,480,185)	-	(32,135)	(9,289)	(4,521,609)
Retainage payable.....	(289,177)	-	-	-	(289,177)
Deferred revenue.....	(8,776,720)	(211,743)	-	(84,202)	(9,072,665)
Tax refunds payable.....	-	-	-	-	-
Due to other funds.....	(665,897)	(4,139,209)	(940,206)	(546,153)	(6,291,465)
Due to component units.....	-	-	-	-	-
Entity differences:					
Blended non-budgeted funds.....	7,322,903	-	-	-	7,322,903
Blended component unit.....	306,138	-	-	-	306,138
Perspective differences:					
Component unit included in budgeted funds.....	(5,745,543)	-	-	-	(5,745,543)
Budgeted funds reclassified to GAAP basis major governmental fund.....	(68,552,158)	5,244,886	(25,458,928)	(6,568,434)	95,334,634
Fund Balance - GAAP Basis.....	**$ -**	**$ -**	**$ -**	**$ -**	**$ 86,241,920**

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APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of its $3,750,000 General Obligation Bonds, 2010 Series D-1 and $46,250,000 General Obligation Bonds, 2010 Series D-2 (Federally Taxable – Build America Bonds – Direct Payment) (collectively, the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and that has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

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

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall promptly file a notice of such change with the MSRB.

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available; and

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated October 14, 2010.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB's Internet Web site or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events 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.

(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) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsections (a)(ii), (vi), (vii), (viii), (x), (xiii) or (xiv), the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) Upon the occurrence of a Listed Event described in subsections (a)(i), (iii), (iv), (v), (vi), (ix), (xi) or (xii), and in the event the Issuer determines that the occurrence of a Listed Event described in subsections (a)(ii), (vi), (vii), (viii), (x), (xiii) or (xiv) is material under applicable federal securities laws, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

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

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

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

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

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

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original

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

(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: October 26, 2010

STATE OF VERMONT, as Issuer

By: _____
George B. "Jeb" Spaulding
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: General Obligation Bonds, 2010 Series D-1 and 2010 Series D-2 (Federally Taxable – Build America Bonds – Direct Payment)

Date of Issuance: October ___, 2010

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 October 26, 2010. 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

APPENDIX C

FORMS OF BOND COUNSEL OPINIONS

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PROPOSED FORM OF OPINION OF BOND COUNSEL –
SERIES D-1 BONDS

The following proposed form of opinion of bond counsel shall be delivered in connection with the Series D-1 Bonds.

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

(Date of Delivery)

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

$3,750,000
State of Vermont
General Obligation Bonds, 2010 Series D-1
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded

from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

PROPOSED FORM OF OPINION OF BOND COUNSEL –
SERIES D-2 BONDS

The following proposed form of opinion of bond counsel shall be delivered in connection with the Series D-2 Bonds.

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

(Date of Delivery)

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

$46,250,000
State of Vermont
General Obligation Bonds, 2010 Series D-2
(Federally Taxable – Build America Bonds – Direct Payment)
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is included in the gross income of owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is not intended or written by Edwards Angell Palmer & Dodge LLP to be used and cannot be used by you for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

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STATE OF VERMONT • GENERAL OBLIGATION BONDS, 2010 SERIES E (VERMONT CITIZEN BONDS)

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