

*STATE OF VERMONT*

**COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT**

*For the fiscal year ending JUNE 30, 2015*



*Peter Shumlin*  
Governor

*Prepared by the Department of Finance and Management*

**STATE OF VERMONT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	PAGE
<b>INTRODUCTION (Unaudited)</b>	
Title page.....	1
Table of Contents.....	2 - 4
Letter of Transmittal.....	5 - 8
Certificate of Achievement .....	9
Organization Chart.....	10 - 11
Selected State Officials.....	12
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report.....	14 - 16
Management's Discussion and Analysis (Unaudited).....	17 - 36
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position.....	40 - 41
Statement of Activities.....	42 - 43
Governmental Funds Financial Statements	
Balance Sheet.....	46 - 47
Reconciliation of Governmental Fund Balances to the Statement of Net Position - Governmental Activities.....	48
Statement of Revenues, Expenditures and Changes in Fund Balances.....	50 - 51
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities.....	52
Proprietary Funds Financial Statements	
Statement of Net Position.....	54 - 55
Statement of Revenues, Expenses and Changes in Net Position.....	56 - 57
Statement of Cash Flows.....	58 - 59
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Position.....	62
Statement of Changes in Fiduciary Net Position.....	63
Discretely Presented Component Units Financial Statements	
Statement of Net Position.....	66 - 67
Statement of Activities.....	68
Notes to the Financial Statements Index.....	69
Notes to the Financial Statements.....	70-162

	<u>PAGE</u>
<b>Required Supplementary Information (Unaudited)</b>	
Defined Benefit Pension Plans-Schedule of Changes in Net Pension Liability and Related Ratios.....	164
Defined Benefit Pension Plans-Schedule of Investment Returns.....	165
Defined Benefit Pension Plans-Schedule of Employer and Nonemployer Contributions.....	165
Defined Benefit Pension Plans-Notes to Required Supplementary Information.....	166
Defined Benefit Pension Plans-Schedule of State's Proportionate Share of the Net Pension Liability.	167
Other Postemployment Benefit Plans-Schedule of Funding Progress.....	168
Other Postemployment Benefit Plans-Schedule of Employer and Non-Employer Contributions.....	169
Budgetary Comparison Schedule-General Fund.....	170-171
Budgetary Comparison Schedule-Transportation Fund.....	172
Budgetary Comparison Schedule-Education Fund.....	173
Budgetary Comparison Schedule-Special Fund.....	174-175
Budgetary Comparison Schedule-Federal Revenue Fund.....	176
Budgetary Comparison Schedule-Global Commitment Fund.....	177
Budgetary Comparison Schedule-American Recovery and Reinvestment Act Fund.....	178
Budgetary Comparison Schedule-State Health Care Resource Fund.....	179
Budgetary Comparison Schedule-Tobacco Trust Fund.....	180
Notes to Required Supplementary Information-Budgetary Reporting.....	181-183
<b>Other Supplementary Information - Combining and Individual Fund Statements and Schedules</b>	
Governmental Funds	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	190-193
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	194-197
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Position.....	200-201
Combining Statement of Revenues, Expenses and Changes in Net Position.....	202-203
Combining Statement of Cash Flows.....	204-205
Internal Service Funds	
Combining Statement of Net Position.....	208-213
Combining Statement of Revenues, Expenses and Changes in Net Position.....	214-219
Combining Statement of Cash Flows.....	220-225
Fiduciary Funds	
Pension and Other Postemployment Benefit Trust Funds	
Combining Statement of Plan Net Position.....	228-229
Combining Statement of Changes in Plan Net Position.....	230-231
Agency Funds	
Combining Statement of Changes in Assets and Liabilities.....	234-235
Discretely Presented Component Units	
Non-major Component Units	
Combining Statement of Net Position.....	238-239
Combining Statement of Activities.....	240-241

	PAGE
<b>STATISTICAL SECTION (Unaudited)</b>	
Statistical Section Contents.....	243
<b>Financial Trends Information</b>	
Table 1 - Net position by component, last 10 fiscal years.....	244-245
Table 2 - Changes in net position, last 10 fiscal years.....	246-249
Table 3 - Fund balances, governmental funds - last 10 fiscal years.....	250-251
Table 4 - Changes in fund balances, governmental funds - last 10 fiscal years.....	252-253
<b>Revenue Capacity Information</b>	
Table 5 - Personal income and earnings by major industry, last 10 calendar years.....	254-255
Table 6 - Personal income tax rates and collections, last 10 calendar years.....	256
Table 7 - Personal income tax filers and liability by income level, calendar years 2014 and 2005.....	257
<b>Debt Capacity Information</b>	
Table 8 - Ratios of outstanding debt by type, last 10 years.....	258
Table 9 - Ratios of general obligation bonded debt outstanding, last 10 fiscal years .....	259
<b>Demographic and Economic Information</b>	
Table 10 - Demographic and economic statistics.....	260-261
Table 11 - Annual average non-farm employment by industry.....	262
<b>Operating Information</b>	
Table 12 - State government full-time equivalent employees by function/program.....	263
Table 13 - Operating indicators by function/program, last 10 years.....	264
Table 14 - Capital asset statistics by function, last 10 years.....	265
Legend of Acronyms.....	266-267

**State of Vermont**

Department of Finance & Management  
109 State Street, Pavilion Building  
Montpelier, VT 05620-0401

[phone] 802-828-2376  
[fax] 802-828-2428

*Agency of Administration*

## LETTER OF TRANSMITTAL

To the Honorable Peter Shumlin, Governor,  
The Honorable Phil Scott, Lieutenant Governor,  
Chairs of House Committees on Appropriations, Institutions and Ways and Means,  
Senate Committees on Appropriations, Finance and Institutions, and  
The Citizens of the State of Vermont:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ended June 30, 2015. The Department of Finance and Management prepared this report as required by Title 32, Vermont Statutes Annotated, Section 182(a)(8). By issuing this report by December 31, 2015, the Department has met the State statutorily required issuance date. The Department prepared these financial statements and assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of this report in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Because the cost of internal controls should not outweigh their benefits, Vermont's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatement. I believe that the accompanying financial statements are accurate and fairly stated in all material respects, and presented in a manner designed to fairly report the State of Vermont's financial position, results of operations and changes in net position/fund balances.

I would like to direct your attention toward two important items contained in this CAFR. The first item is the Management Discussion and Analysis (MD&A) that follows the Independent Auditors' Report. This analysis is designed to give you, the reader, an overview of the State's financial position, described in understandable terms, in order to help you better understand the results of operations of your state government. Secondly, I would like to direct your attention to the Basic Financial Statements (BFS) which follow the MD&A. The BFS were prepared in conformity with GAAP as prescribed by the GASB. The BFS contain government-wide statements that present the State's financial activities in a manner similar to that of a private corporation; fund statements that report governmental, proprietary, fiduciary fund financial activity; discretely presented component unit financial activity; and note disclosures that explain and enhance the basic financial statements.

In addition to the MD&A and BFS, this CAFR includes a Required Supplementary Information (RSI) section, an Other Supplementary Information section, and a Statistical section. The RSI section contains various schedules relating to the State's defined benefit pension and other postemployment benefits plans, and Budget to Actual comparison schedules for the State's general and major special revenue funds with Notes reconciling budgetary fund balance to the governmental funds GAAP fund balance. The Other Supplementary Information section contains combining fund financial statements for the State's Non-major Governmental, Proprietary, and



Fiduciary Funds, and for the State's Non-major discretely presented Component Units. The Statistical section presents data relating to financial trends, revenue and debt capacity, and demographic and operating information about the State of Vermont. It should be noted that the information contained in the MD&A, RSI and Statistical sections is unaudited.

This CAFR includes the funds and entities for which the State is accountable based on GASB's criteria for defining the financial reporting entity. The criteria include fiscal dependence, financial accountability and legal standing. Please refer to Note I, for more information regarding the reporting entity and the component units.

## **State Profile**

Vermont, known as the Green Mountain State, was first settled by the French in 1666, then by the English in 1690, and joined the Union as the fourteenth State in 1791. Rural in character, the state measures 9,249 square miles of land area, and, as of September 30, 2015, had an estimated population of 626,562. The State capital is Montpelier, and the largest city is Burlington. As of calendar year 2012, 94.4% of Vermonters aged 25 or older are at least high school graduates (ranked number 2 in the country) while 37.1% have at least a college bachelor's degree (ranked number 6 in the country).

The State Constitution provides for three traditional branches of Government – the Legislative, the Executive, and the Judicial. The Legislative branch is comprised of the House of Representatives (150 members) and the Senate (30 members); all are elected for two-year terms. The Executive branch includes six elected officers – the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts, and the Attorney General – all elected for two year terms, without term limitations. The Governor is responsible for the faithful execution of all laws and the management of the departments and agencies of the Executive Branch – including the agencies of Administration; Transportation; Natural Resources; Commerce and Community Development; Agriculture, Food and Markets; and Human Services, as well as other departments – through which the functions of the State government are carried out. The Judicial branch of the State is made up of a Supreme and Superior Courts, and the Judicial Bureau. The judges are appointed by the Governor with the advice and consent of the Senate, and serve six-year terms.

## **Budget Adoption and Legal Compliance/Budgetary Results**

The Required Supplementary Information section includes Budget to Actual comparison schedules for the General Fund and the five budgeted special revenue funds. The State's budgeting process is described in the Notes to the Budget to Actual comparison schedules. These schedules present each fund's original budget, final budget, actual expenditures incurred on a budgetary basis, and the variance between the final budget and actual expenditures incurred. As the adopted budget provides legal control over spending, expenditures cannot exceed amounts appropriated under Vermont law. Budgetary control is exercised by fund within appropriation.

## **The General Fund**

The General Fund accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds as well as the expenditures associated with these revenues. In fiscal year 2015, General Fund tax revenues accounted for 97.2% of total General Fund revenues. The three principal tax revenue contributors – the personal income tax, the General Fund's portion of the sales and use tax, and the meals and room tax – accounted for 80.8% of General Fund total tax revenues or approximately 78.6% of total General Fund revenues. General Fund expenditures used 59.5% of the

total revenues, and these expenditures occurred in the following major governmental functional categories: General Government, Protection to Persons and Property, Human Services, Labor, General Education, Natural Resources, and Commerce and Community Development. The majority of the remainder of the resources provided from the 2015 General Fund revenues were transferred out to other funds and used for various purposes. Please see Note IV.D. for a summary of these transfers.

## **Economic Condition**

The consensus revenue forecast for fiscal year 2015 was revised twice during the fiscal year as the economic and revenue environment began to stabilize. During fiscal year 2015, the Vermont economy continued a slow and sometimes uneven recovery with the modest upgrade in the consensus revenue forecast in July 2014, followed by a slight downward revision in January for the balance of fiscal year 2015. Actual year end revenue collections in the General Fund exceeded both the initial and the final consensus forecast target.

The consensus economic forecast for the Vermont economy reflects the difficulties experienced nationwide. Despite another mid-Winter stall in output growth and consumption, the U.S. economy continues to make forward progress. As of this Summer, the economy once again seems poised to move onto a higher growth plane over the first half of fiscal year 2016. Progress is also being made on other areas of the labor market. There has been a significant decline in the number of workers that are among the ranks of the long-term unemployed, and there also has been a decline in the number of part-time workers who would otherwise prefer to be working full-time. The Consumer Confidence Index (CCI) increased 6.8 points during the month of June. Existing home prices appreciated steadily on a year-over-year basis during the 3-month period of February through April of calendar year 2015. Looking ahead, the U.S. economic landscape looks to be favorable for future improvement overall.

Recent developments regarding the Vermont economy continue to exhibit an “up and down” character. Seasonally adjusted payroll job changes in the State over the first half of calendar year 2015 continued to experience this now well-established “saw-toothed pattern”. Vermont has made modest forward progress in its labor markets by adding 4,000 private sector jobs (and a total of 4,200 payroll jobs including the government sector). Improvements in job change are most significant in the leisure and hospitality sector, the education and health services sector, and the construction sector. Housing prices have increased by 2.7% for the four quarters ending with March, 2015.

With these factors in mind, the most recent consensus revenue forecast has moved back to a more upside orientation than the forecast issued in January 2015. For fiscal year 2015, data show that three of the State’s major tax components (personal income tax, corporation income tax and meals and rooms tax) tracked well ahead of their respective targets. As a result, forecasts for General Fund revenues for fiscal year 2016 were revised upward by \$40.2 million (or 2.9%) from the January 2015 forecast due to improved tax receipts; forecasts for the Transportation Fund were reduced by \$0.8 million (or 0.3%) due to sluggish gas tax receipts due to weaker than anticipated gasoline prices; and forecasts for the Education Fund were increased by \$1.6 million (or 0.8%) based on current trends in the taxes that support this fund.

## **Long-term Financial Planning**

As part of the State’s long term financial planning, the Legislature created a Capital Debt Affordability Advisory Committee who is required to present to the Governor and General Assembly, no later than September 30 of each year, a recommendation as to the maximum amount of net tax-supported debt that the State may prudently issue for the ensuing fiscal year and which complies with the State’s triple-A

debt rating guidelines. The recommendation is calculated and presented in accordance with certain debt affordability guidelines and other matters that may be relevant to the proposed debt to be authorized.

At its September 2015 meeting the Committee made the recommendation to maintain the current authorization not to exceed \$144 million for the 2016-2017 fiscal year biennium. This represents a 9.9% reduction from the previous biennium's recommendation of \$159.9 million. This, coupled with a \$11.6 million premium in the State's recent bond sale that is being used to fund capital projects, provides a total capacity of \$155.6 million.

### **Independent Audit of These Financial Statements**

KPMG LLP, an independent certified public accounting firm, performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2015. The auditors have issued unmodified opinions, the most favorable outcome of the audit process. The audit described in the auditors' report is not intended to meet all requirements of the Federal Single Audit Act of 1996. Rather, the Single Audit Report for the State is issued under separate cover.

### **Awards and Acknowledgements**

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 of Vermont for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the seventh year that Vermont has achieved this prestigious 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. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report involved the dedicated work of staff in the Department of Finance and Management, the Office of the State Treasurer, the Office of the Auditor of Accounts, and the support of all State agencies, departments, component units, the Legislature, and the Judiciary. We welcome inquiries concerning this report and the finances of the State of Vermont.

Sincerely,



Andrew Pallito  
Commissioner

December 29, 2015



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

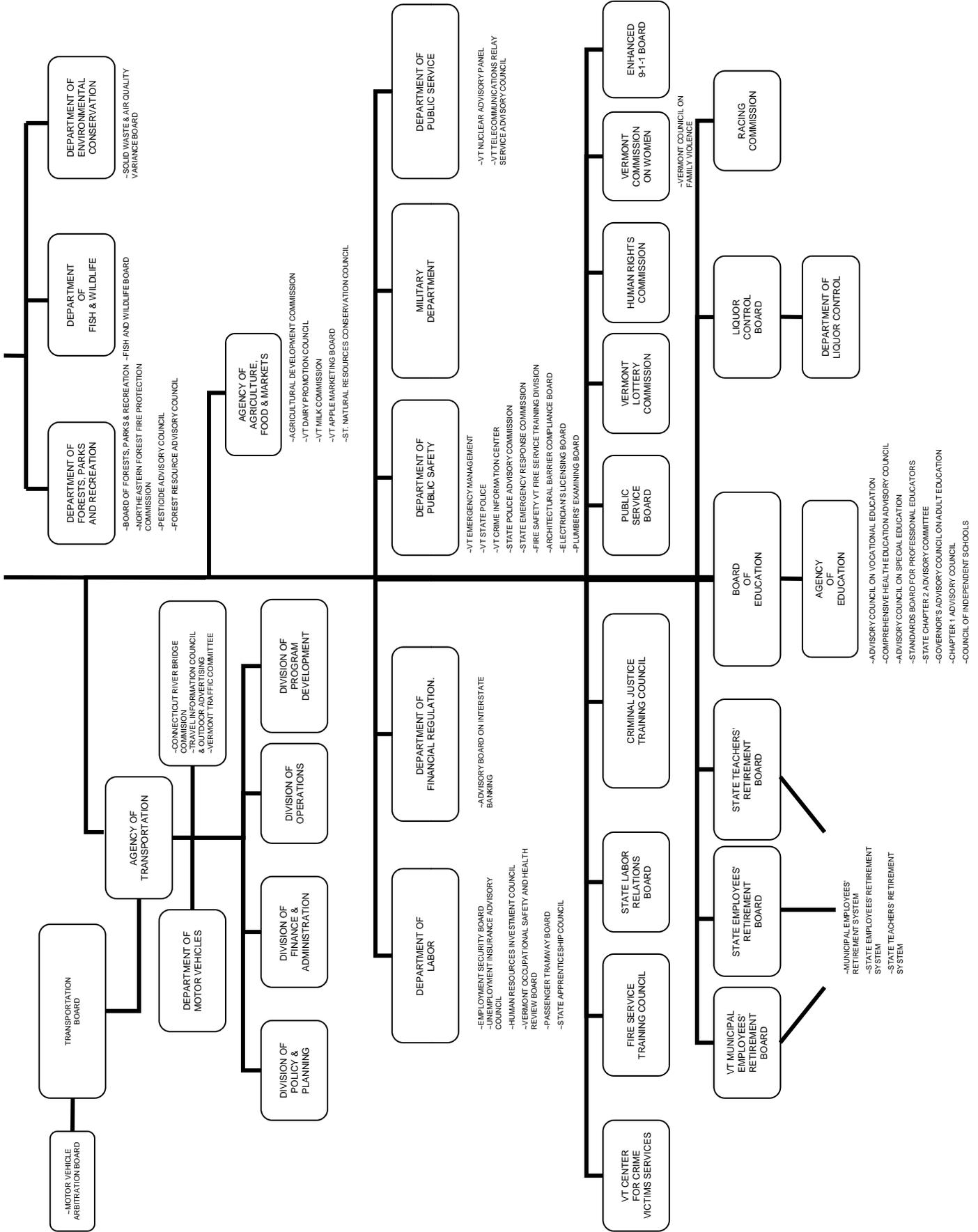
**State of Vermont**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO





***SELECTED STATE OFFICIALS***

*As of June 30, 2015*

***EXECUTIVE***

*Peter Shumlin*  
*Governor*

*Phil Scott*  
*Lieutenant Governor*

*James C. Condos*  
*Secretary of State*

*William H. Sorrell*  
*Attorney General*

*Douglas R. Hoffer*  
*Auditor of Accounts*

*Elizabeth Pearce*  
*State Treasurer*

***JUDICIAL***

*Paul L. Reiber*  
*Chief Justice*

***LEGISLATIVE***

*John F. Campbell*  
*President Pro Tempore of the State Senate*  
*(30 Senators)*

*Shap Smith*  
*Speaker of the House of Representatives*  
*(150 Representatives)*