

STATE OF VERMONT

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For the fiscal year ended JUNE 30, 2016



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, 2016

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State of Vermont

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Agency of Administration

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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, 2016. 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, 2016, 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 28, 2016, had an estimated population of 626,042. The State capital is Montpelier, and the largest city is Burlington. As of calendar year 2013, 91.7% of Vermonters aged 25 or older are at least high school graduates (ranked number 7 in the country) while 36.9% have at least a college bachelor's degree (ranked number 8 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; Education; 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 2016, General Fund tax revenues accounted for 97.3% 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 81.9% of General Fund total tax revenues or approximately 79.6% of total General Fund revenues. General Fund expenditures used 56.2% 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 2016 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 2016 was revised twice during the fiscal year as the economic and revenue environment continued its improving trend, although improvements have occurred at historically slow rates. During fiscal year 2016, the Vermont economy and its labor markets continued to expand. Vermont was the second New England state to complete its labor market recovery from the “Great Recession,” and through October 2016 had added an estimated 5,800 jobs above its last payroll job peak back in 2009. Actual year end revenue collections in the General Fund for fiscal year 2016 were roughly 1.1 percent below the final consensus forecast target for the fiscal year due to sluggish U.S., New England, and Vermont economic growth. The Vermont economy during the Winter of 2015-16 was also adversely impacted by a poor Winter tourism season which adversely impacted fiscal year 2016 revenue performance.

The consensus economic forecast for the U.S. and Vermont economies reflect a continued moderate pace to the economy’s forward progress and improvements in labor markets. The pace of output growth for the U.S. economy is expected to strengthen in calendar year 2017 and 2018, and this should also be reflected in the pace of output growth in the Vermont economy - although perhaps not at the same rate as the U.S. average. Payroll job growth in Vermont should also reflect gradually strengthening character. As of the Fall of calendar year 2016, the Vermont economy continues to demonstrate an “up-and-down” or saw-toothed pattern to monthly payroll job changes. These uneven month-to-month changes occur around a modest but positive improving trend for payroll jobs growth. The State’s Labor force has been flat in recent years although it has increased over much of the past year. That, in combination with modest rates of job growth, has resulted in a low rate of unemployment in the State. As of October of 2016, Vermont had the 7th lowest rate of unemployment in the U.S., and the second lowest rate of unemployment among the six states in the New England region. Vermont’s unemployment rate has been below the U.S. average for more than 100 months.

Progress also continues to be made on other areas of the Vermont economy. Vermont per person Personal Income at \$45,587 in calendar year 2015 ranked 18th among the 50 states, tied with calendar year 2009’s 18th in the nation relative ranking. That reading for 2015 per person Personal Income was tied for its highest relative rank among the 50 states dating back to calendar year 1929. Housing prices in Vermont, as measured by the Federal Housing Finance Agency’s (the “FHFA”) housing price index, shows that Vermont has nearly fully recovered from the housing price declines which occurred in the aftermath of the mid-2000s housing-bubble. As of the third quarter of calendar year 2016, the FHFA housing price index Vermont was only 0.1 percentage points below its third quarter of calendar year 2008 peak. As a result, Vermont is poised to be the first state in New England to fully recover from the housing price declines that were experienced across the region and the country following the national financial and housing downturns. Looking ahead, the U.S. and Vermont economic landscapes look to be favorable for continued future improvement overall.

With the above factors as economic context, the most recent consensus revenue forecast for the fiscal year 2017-19 period completed in July of 2016 reflects the likelihood of continued sluggish economic growth and further forward economic progress. This is expected to follow fiscal year 2016’s slight under-performance of about 1 percent versus January 2016 revenue targets. It is expected that affected consumption taxes will bounce back and experience a more “normal” Winter tourism season in fiscal year 2017 and beyond. However, a number of drags on economic growth from both domestic and international factors, along with what is expected to be a number of policy moves by the Federal Reserve that will reflect a gradually tightening U.S. monetary policy posture, will challenge future revenue growth.

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 2016 meeting the Committee made the recommendation to maintain the current authorization not to exceed \$132.5 million for the 2018-2019 fiscal year biennium. This represents a 8% reduction from the previous biennium's recommendation of \$144 million. This, coupled with a \$9.4 million premium in the State's recent bond sale that is being used to fund capital projects, provides a total capacity of \$141.9 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, 2016. 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, 2015. 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 27, 2016



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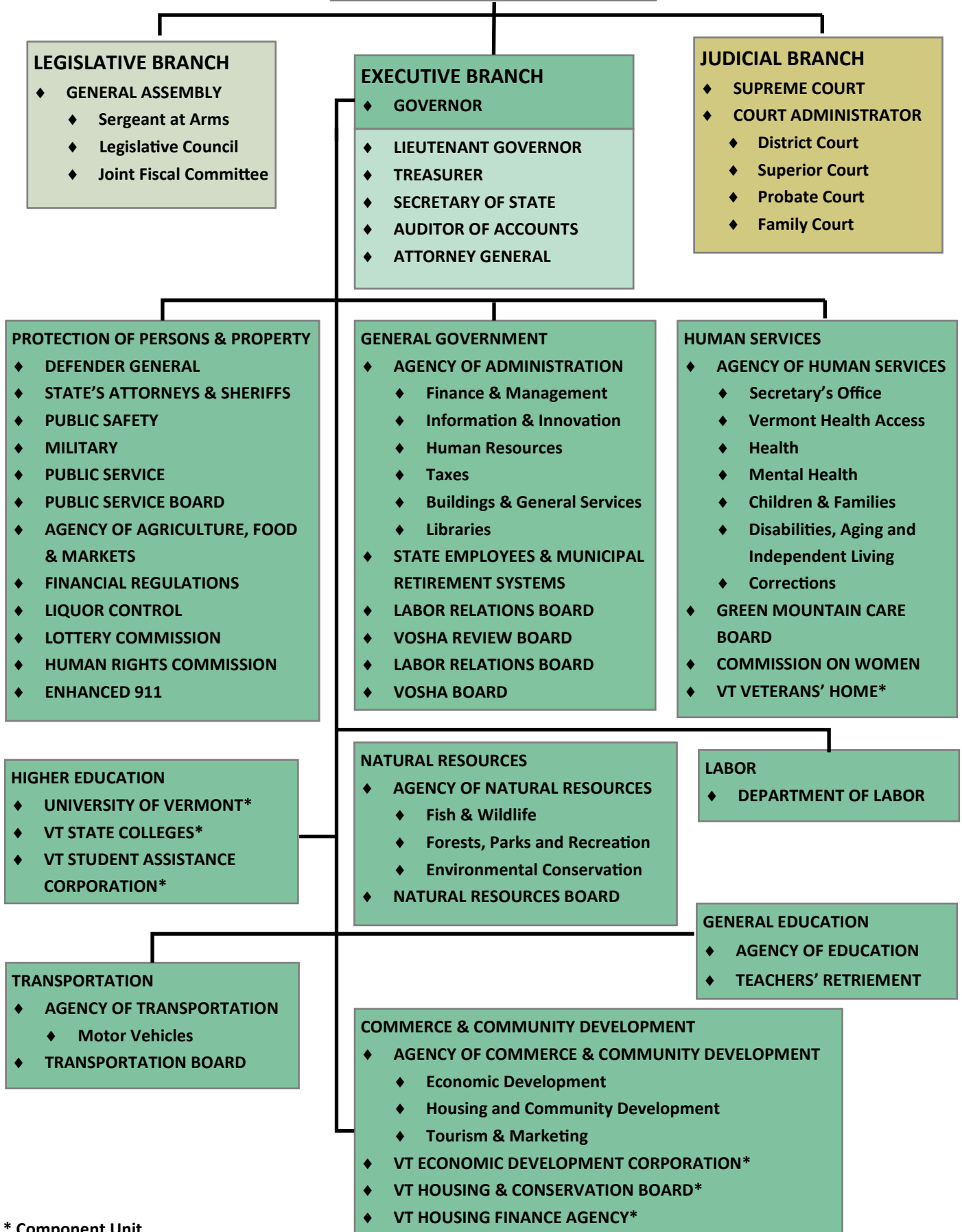
State of Vermont

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

VERMONT CITIZENS



* Component Unit

SELECTED STATE OFFICIALS

As of June 30, 2016

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)