



FINANCIAL SECTION



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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain discretely presented component units identified in Note I-A. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, or the Tri-State Lotto Commission. The discretely presented component units identified in Note I-A represent 60% of the total assets and 34% of the total revenues of the aggregate discretely presented component units. The Vermont Lottery Commission represents 100% of the total assets and total revenues of the Vermont Lottery Commission Fund and 2% of the total assets and 36% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 72% of the total assets and 5% of the total revenues of the Federal Revenue Fund. The Vermont Energy Efficiency Utility Fund and the Vermont Universal Service Fund collectively represent 10% of the total assets and 12% of the total revenues of the Special Fund and collectively represent 8% of the total assets and 2% of the total revenues of the governmental activities. The Tri-State Lotto Commission represents 100% of the information disclosed in Note V-E. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, and the Tri-State Lotto Commission are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.



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

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

Opinions

In our opinion, based on our audit and the reports of the 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, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As disclosed in Note I-F to the financial statements, the State adopted the provisions of Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 77, *Tax Abatement Disclosures*. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, and required supplementary information, as listed in the table of contents (collectively referred to as RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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



The Other Supplementary Information-Combining and Individual Fund Statements and Schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the Other Supplementary Information-Combining and Individual Fund Statements and Schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introduction and Statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

KPMG LLP

Colchester, Vermont
December 21, 2017

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ended June 30, 2017. This Management Discussion & Analysis (MD&A) section is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide an easily readable overview of the State's financial activities, identify any material changes from the original budget, and highlight financial matters that occurred during fiscal year 2017. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide

- Vermont reported a net position of \$1.273 billion, comprised of \$4.854 billion in total assets and \$595 million in deferred outflows offset by \$4.061 billion in total liabilities and \$115 million in deferred inflows at June 30, 2017 (Table 2). Of this net position amount, \$2.544 billion represents the net investment in capital assets, \$985.6 million is restricted for various purposes, and \$2.257 billion represents a deficit unrestricted net position. The reasons for the negative unrestricted net position are discussed in the Government-wide Financial Analysis below.
- The primary government's net position has increased by \$34.7 million as a result of this year's operations. The net position for governmental activities decreased \$48.6 million and net position for business activities increased by \$83.3 million (Table 3). The increase in net position for business activities was primarily due to improvements in the financial position of the Unemployment Compensation Trust Fund.

Fund level

- The State's governmental funds reported a combined ending fund balance of \$927 million, a decrease of \$78.9 million or 7.8 percent below the prior year. Of this ending fund balance, \$129.2 million is non-spendable, \$592.3 million is restricted for specific purposes, and \$205.5 million is available for spending (committed, assigned, and unassigned fund balance). The decrease in ending fund balance is primarily attributable to decreases in fund balances of the General Fund (\$16.9 million), Transportation Fund (\$3.9 million), Education Fund (\$11.3 million), Special Revenue Funds (\$13.7 million), and Capital Projects Funds (\$41.7 million), offset by an increase in Federal Revenue Funds \$5.3 million, Global Commitment Funds of \$1.9 million, \$384 thousand increase in the Fish and Wildlife Fund, and \$1 million increase in the Permanent Funds.
- The State's enterprise funds reported a combined net position of \$391.9 million or an increase of \$83.1 million over last year.
- The State's General Fund reported an ending fund balance of \$122.4 million, of which \$121.7 million is non-spendable, and \$.7 million is available for spending (assigned).

Capital assets

- The carrying amount of capital assets for the primary government increased to \$2.897 billion, an increase of \$112.1 million over last year. The increase is primarily due to \$69 million in construction in process, \$15 million in buildings and improvements, and \$25 million in infrastructure assets.

Long-term debt

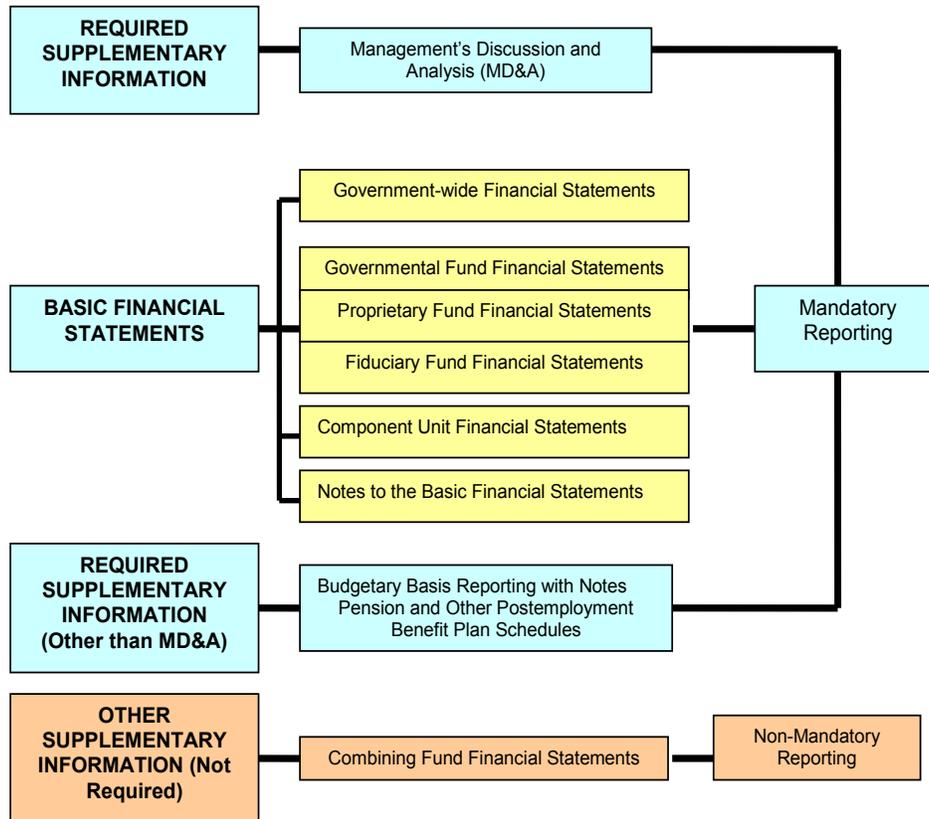
- The State's debt outstanding for general and special obligation bonds decreased \$51.5 million as compared to fiscal year 2016. In 2017, the State retired \$50 million in general obligation bonds, and \$1.5 million in special obligation transportation infrastructure bonds.

More information regarding the government-wide financial statements, fund level financial statements, capital asset activity and long-term debt activity can be found beginning on page 23.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



Basic Financial Statements

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

Table 1 summarizes the major features of the basic financial statements with further explanations below:

| Table 1 - Major Features of the State's Government-wide and Fund Financial Statements | | | | |
|--|---|---|---|--|
| | Government-wide Financial Statements | Fund Financial Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire State government (except fiduciary funds) and the State's discretely presented component units | The activities of the State that are not proprietary or fiduciary, such as Human Services and Transportation | Activities the State operates similar to private businesses, such as the Liquor Control Fund and Vermont Lottery Commission | Instances in which the State is the trustee or agent for someone else's resources, such as the retirement plans for public employees |
| Required financial statements | Statement of Net Position Statement of Activities | Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances | Statement of Net Position Statement of Revenues, Expense, and Changes in Net Position, Statement of Cash Flows | Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset / liability information | All assets and liabilities, both financial and capital, and both short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and both short-term and long-term | All assets and liabilities, both financial and capital, and both short-term and long-term |
| Type of inflow / outflow information | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during the year or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All revenues and expenses during the year, regardless of when cash is received or paid |

1) Government-Wide Financial Statements

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

The government-wide statements contain both short-term and long-term information about the State’s financial position and assist in assessing the State’s economic condition at the end of each fiscal year. The State prepares these statements using the “flow of economic resources” measurement focus and the accrual basis of

accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid.

The government-wide financial statements present two statements:

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

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

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

Primary Government Activities

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

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

Component Units' Activities

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

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

Included with the basic financial statements are two schedules (pages 46 and 50) that reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with governmental activities (accrual basis of accounting) on the government-wide statements. The following summarizes some of the differences in modified accrual and accrual accounting:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund statements.
- Certain revenues that are earned, but not available, are reported as revenues of governmental activities, but are reported as unavailable revenue on the governmental fund statements.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, net pension and other postemployment benefit obligations, and bonds and notes payable appear as liabilities in the government-wide statements but are not reported in the governmental fund statements.
- Internal service funds are reported primarily as governmental activities, but reported as proprietary funds in the fund financial statements.
- Capital outlay spending results in recording capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements. Payments of bond and note principal results in a reduction in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Net position balances are allocated as *net investment in capital assets* (capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds and notes attributable to those assets) *restricted net position* (those with constraints placed on their use by external sources or imposed by law through constitutional provision or enabling legislation) and *unrestricted net position* (the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not meet any of the above restrictions).

The notes to the basic financial statements provide additional information that is integral to understanding the data provided in the government-wide and fund financial statements.

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. For governmental activities, the governmental funds financial statements indicate how these services are financed in the short-term as opposed to the government-wide statements, which present a long-term view of the State's finances.

In accordance with GASB Statement No. 34, the focus of governmental fund financial statements has shifted from fund types to reporting on the most significant funds of the State, or major funds. Accordingly, the governmental and proprietary funds are divided into major and non-major categories as required by the Governmental Accounting Standards Board. For the governmental and proprietary funds, the major funds are reported in individual columns in the fund financial statements while the non-major funds are presented in a consolidated column in the fund financial statements. Combining schedules or statements in the Other Supplementary Information section present detailed non-major fund activity. Fiduciary funds are reported by fiduciary type (pension and other postemployment benefit trusts, private purpose trusts, and agency funds) with combining schedules or statements for the individual pension, other postemployment benefit, and agency funds presented in the Other Supplementary Information section.

The three categories of funds are Governmental Funds, Proprietary Funds, and Fiduciary Funds. It is important to note that these fund categories use different accounting methods and should be interpreted differently as described below. Following is a brief overview of these three major categories of funds.

Governmental Funds

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

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

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

Fund balance (the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources) is classified as nonspendable, restricted and unrestricted (committed, assigned or unassigned).

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or various special revenue funds. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund and each special revenue fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with the approved budgets. These schedules can be found as part of the required supplementary information section of this report.

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

Proprietary Funds

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

Enterprise funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail and at the fund level. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting. Enterprise funds account

for services provided to the general public, government, and non-State government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

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

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. These funds provide communication and information technology, facilities and property management, fleet management, printing, risk management and insurance services. The internal service fund activities are allocated proportionately between the governmental activities (predominately) and the business-type activities in the government-wide statements based on the benefit of the services provided to these activities. The reconciliation between the government-wide financial statements for business-type activities and the proprietary fund statements is presented at the end of the proprietary fund financial statements.

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

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

Fiduciary Funds

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

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

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

3) Discretely Presented Component Units' Financial Statements

As mentioned previously, the State has included the net position and activities of four major component units in individual columns and five non-major component units in a single column on the statements. The component units' financial statements can be found immediately after the fiduciary funds. Combining individual non-major component units' financial statements can be found in Other Supplementary Information section of this report.

4) Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and the fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. The notes also explain some of the information contained in the financial statements and provides more detail than is practical in the financial statements.

The notes include a summary of significant accounting policies; additional information regarding the reconciliation of government-wide and fund financial statements; discussions on stewardship, compliance and accountability; detail notes on all activities and funds; and other information. 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 Changes in Net Pension Liability and Related Ratios, the Schedule of Investment Returns, the Schedule of Employer and Nonemployer Contributions, and the Schedule of the State's Proportionate Share of the Net Pension Liability for the two defined benefit pension trust are included in the required supplementary information section. Also, this section includes the Schedule of Changes in Net OPEB Liability and Related Ratios, The Schedule of Investment Returns, the Schedule of Funding Progress and the Schedule of Employer Contributions for the other postemployment benefit plans.
- Schedules for the General Fund and budgeted Special Revenue Funds comparing their original budgeted amounts; final budgeted amounts; actual inflows, outflows, and balances stated on the budgetary basis; and variances between the final budgeted amounts and actual amounts presented on a budgetary basis. See Note III. A. for additional information regarding the budgetary process, including the budgetary basis.
- Notes to Required Supplementary Information include a schedule reconciling the statutory fund balance presented on a budgetary basis to the fund balance prepared on a modified accrual basis as presented in the governmental fund financial statements for the general fund and each budgeted special revenue fund, as well as additional information regarding the budgetary process.

Other Supplementary Information

Combining Financial Statements

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

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

Statistical Section

A statistical section containing information regarding financial trends, revenue capacity, and debt capacity, as well as operating, economic and demographic information is presented immediately following the combining financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

The following primary government condensed financial statement information is derived from the State's June 30, 2017 and 2016 government-wide Statement of Net Position. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

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

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| ASSETS | | | | | | |
| Current assets..... | \$ 1,108.1 | \$ 1,155.1 | \$ 416.9 | \$ 334.9 | \$ 1,525.0 | \$ 1,490.0 |
| Other assets..... | 430.4 | 440.0 | 2.0 | 2.3 | 432.4 | 442.3 |
| Capital assets..... | 2,895.7 | 2,783.7 | 0.9 | 0.9 | 2,896.6 | 2,784.6 |
| Total assets..... | 4,434.2 | 4,378.8 | 419.8 | 338.1 | 4,854.0 | 4,716.9 |
| DEFERRED OUTFLOWS | | | | | | |
| Total deferred outflows..... | 592.3 | 471.8 | 2.5 | 1.8 | 594.8 | 473.6 |
| LIABILITIES | | | | | | |
| Long-term liabilities..... | 3,447.4 | 3,213.7 | 6.3 | 5.4 | 3,453.7 | 3,219.1 |
| Other liabilities..... | 584.1 | 571.2 | 23.3 | 25.1 | 607.4 | 596.3 |
| Total liabilities..... | 4,031.5 | 3,784.9 | 29.6 | 30.5 | 4,061.1 | 3,815.4 |
| DEFERRED INFLOWS | | | | | | |
| Total deferred inflows..... | 113.8 | 135.9 | 0.7 | 0.7 | 114.5 | 136.6 |
| NET POSITION | | | | | | |
| Net Investment in capital assets..... | 2,543.1 | 2,428.1 | 0.9 | 0.9 | 2,544.0 | 2,429.0 |
| Restricted..... | 601.2 | 639.4 | 384.4 | 302.4 | 985.6 | 941.8 |
| Unrestricted (deficit)..... | (2,263.2) | (2,137.8) | 6.7 | 5.5 | (2,256.5) | (2,132.3) |
| Total net position..... | \$ 881.1 | \$ 929.7 | \$ 392.1 | \$ 308.8 | \$ 1,273.2 | \$ 1,238.5 |

Totals may not add due to rounding.

The State's combined net position (governmental and business-type activities) totals \$1.3 billion at the end of fiscal year 2017, as shown in Table 2. Approximately \$2.5 billion of the combined net position represents the State's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This net investment in capital assets represents resources used to provide services to citizens, and therefore is not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Capital assets net of accumulated depreciation increased by \$112.0 million primarily due to the \$15 million in building and improvements and \$25 million in infrastructure assets. In addition, construction in process increased \$69 million.

An additional portion of the primary government's net position (77.4 percent) represents resources that are subject to external restrictions on how they may be used. This is an increase of \$43.8 million and is primarily a result of additional amounts that are restricted for unemployment compensation (\$82.0 million) and natural resources (\$16.6 million), offset by decreases in capital projects (\$41.7 million) and human services (\$14.2 million).

Internally imposed designations of resources are not presented as restricted net position. The remaining balance of unrestricted net position is a deficit of \$2.257 billion. The governmental activities' negative

unrestricted net position balance is mainly the result of three actions: 1) long-term debt issued by the State for municipal, non-profit or component unit capital purposes, \$193.7 million outstanding at June 30, 2017 that does not result in a governmental activities' capital asset, 2) the amount of net position that is restricted for various purposes, and 3) the net Pension and OPEB liabilities (see Note IV. G. 4.).

Current assets increased by \$35.0 million primarily due to increase in cash and cash equivalents (\$24.6 million) and investments (\$2.2 million), offset by decreases in federal grants receivable (\$5.5 million). Long term liabilities increased by \$234.6 million primarily due to the increase in net pension liabilities and net other postemployment benefit obligations (\$297.8 million), offset by a decrease in bonds, notes, and leases payables (\$56.1 million).

At the end of fiscal year 2017, the State reported positive total net position balances in its governmental activities, its business-type activities, and its discretely presented component units.

Changes in Net Position

Governmental type activities had an overall decrease in net position of \$48.6 million, or 5.2%, resulting from an operating loss of \$76.1 million offset by transfers in from business-type activities of \$27.5 million, primarily from the Vermont Lottery Commission (\$25.5 million) to support education. The \$24.4 million increase in revenues over 2016 was due to a \$29.8 million increase in program revenues; offset by \$5.4 million decrease in general revenues.

Business-type activities had an overall increase in net position of \$83.3 million or 27.0%, resulting from an operating increase of \$110.8 million offset by transfers out of \$27.5 million to governmental activities, primarily from the Lottery (\$25.5 million) to support education. Revenues decreased from 2016, primarily due to a decrease in ticket sales in the Vermont Lottery Commission (\$1.9 million) and a decrease in sales in Federal Surplus Property Fund (\$2.6 million), offset by an increase in revenue in the Department of Liquor Control (\$2.5 million) and investment income in the Unemployment Compensation Trust Fund (\$1.7 million). The revenue declines were offset by a decrease in expenses of \$2.9 million, primarily due to a decrease in expenses in Federal Surplus Property Fund (\$2.6 million).

The primary government condensed financial statement information is derived from the State's June 30, 2017 and 2016 government-wide Statement of Changes in Net Position. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

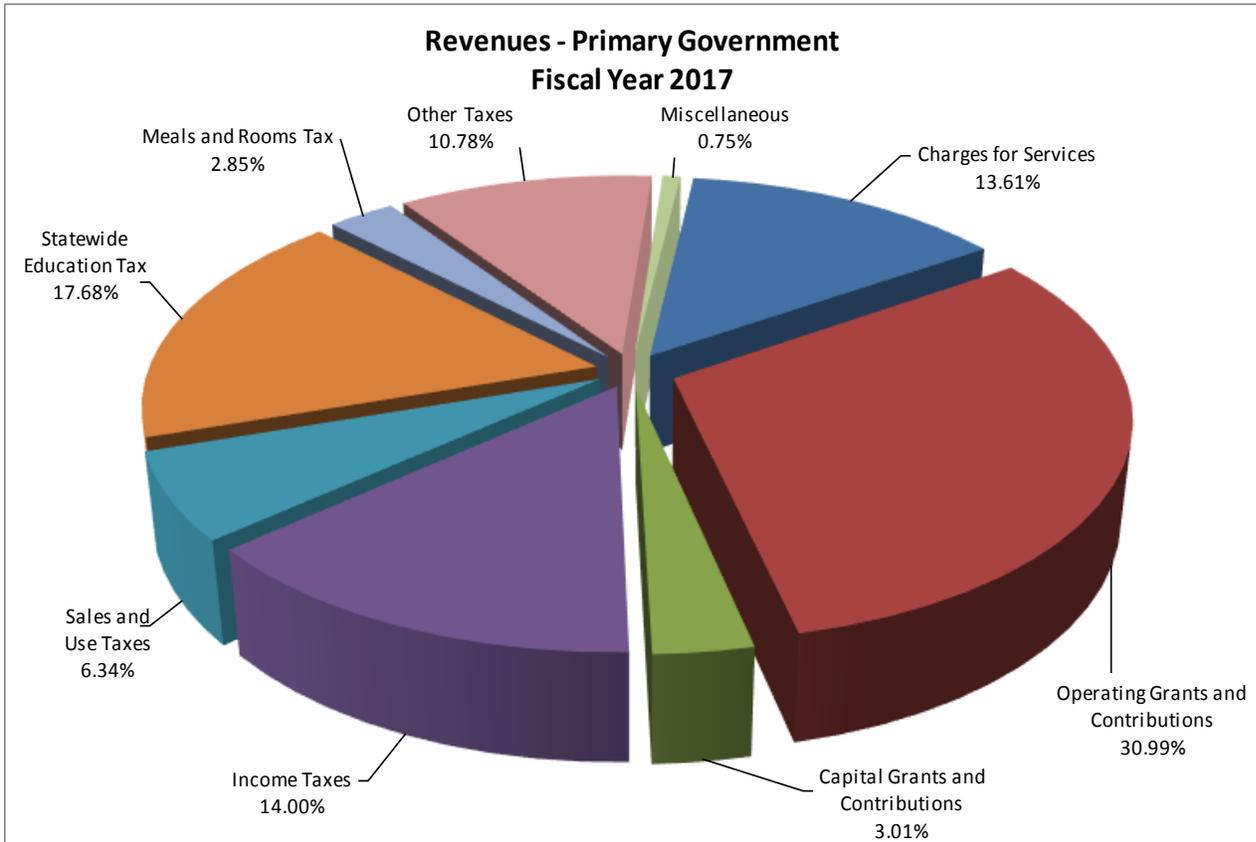
(Table on next page.)

TABLE 3
State of Vermont's Changes in Net Position
(In Millions)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services..... | \$ 473.8 | \$ 415.8 | \$ 334.2 | \$ 337.3 | \$ 808.0 | \$ 753.1 |
| Operating grants and contributions..... | 1,838.5 | 1,861.8 | 0.8 | 1.0 | 1,839.3 | 1,862.8 |
| Capital grants and contributions..... | 178.8 | 183.7 | - | - | 178.8 | 183.7 |
| General revenues | | | | | | |
| Income taxes..... | 830.8 | 871.2 | - | - | 830.8 | 871.2 |
| Sales and use taxes..... | 376.4 | 370.4 | - | - | 376.4 | 370.4 |
| Statewide education tax | | | | | | |
| Gross tax assessed..... | 1,219.3 | 1,209.3 | - | - | 1,219.3 | 1,209.3 |
| Income sensitivity adjustment..... | (170.2) | (158.6) | - | - | (170.2) | (158.6) |
| Meals and rooms tax..... | 169.1 | 158.3 | - | - | 169.1 | 158.3 |
| Other taxes..... | 639.6 | 620.5 | - | - | 639.6 | 620.5 |
| Miscellaneous..... | 37.6 | 36.9 | 7.0 | 5.3 | 44.6 | 42.2 |
| Total revenues..... | 5,593.7 | 5,569.3 | 342.0 | 343.6 | 5,935.7 | 5,912.9 |
| Expenses | | | | | | |
| General government..... | 137.9 | 86.5 | - | - | 137.9 | 86.5 |
| Protection to persons and property..... | 385.0 | 340.2 | - | - | 385.0 | 340.2 |
| Human services..... | 2,509.1 | 2,411.4 | - | - | 2,509.1 | 2,411.4 |
| Labor..... | 31.8 | 30.6 | - | - | 31.8 | 30.6 |
| General education..... | 1,995.5 | 1,941.1 | - | - | 1,995.5 | 1,941.1 |
| Natural resources..... | 112.2 | 109.6 | - | - | 112.2 | 109.6 |
| Commerce and community development.... | 48.3 | 53.5 | - | - | 48.3 | 53.5 |
| Transportation..... | 432.9 | 430.2 | - | - | 432.9 | 430.2 |
| Interest on long-term debt..... | 17.1 | 18.4 | - | - | 17.1 | 18.4 |
| Unemployment compensation..... | - | - | 68.8 | 69.4 | 68.8 | 69.4 |
| Lottery commission..... | - | - | 96.9 | 97.7 | 96.9 | 97.7 |
| Liquor control..... | - | - | 60.7 | 59.5 | 60.7 | 59.5 |
| Other business type expenses..... | - | - | 4.8 | 7.4 | 4.8 | 7.4 |
| Total expenses..... | 5,669.8 | 5,421.5 | 231.2 | 234.0 | 5,901.0 | 5,655.5 |
| Change in net position | | | | | | |
| before transfers..... | (76.1) | 147.8 | 110.8 | 109.6 | 34.7 | 257.4 |
| Transfers net in (out)..... | 27.5 | 28.5 | (27.5) | (28.5) | - | - |
| Change in net position..... | (48.6) | 176.3 | 83.3 | 81.1 | 34.7 | 257.4 |
| Net position, beginning of year..... | 929.7 | 753.4 | 308.8 | 227.7 | 1,238.5 | 981.1 |
| Net position, end of year..... | \$ 881.1 | \$ 929.7 | \$ 392.1 | \$ 308.8 | \$ 1,273.2 | \$ 1,238.5 |

Totals may not add due to rounding.

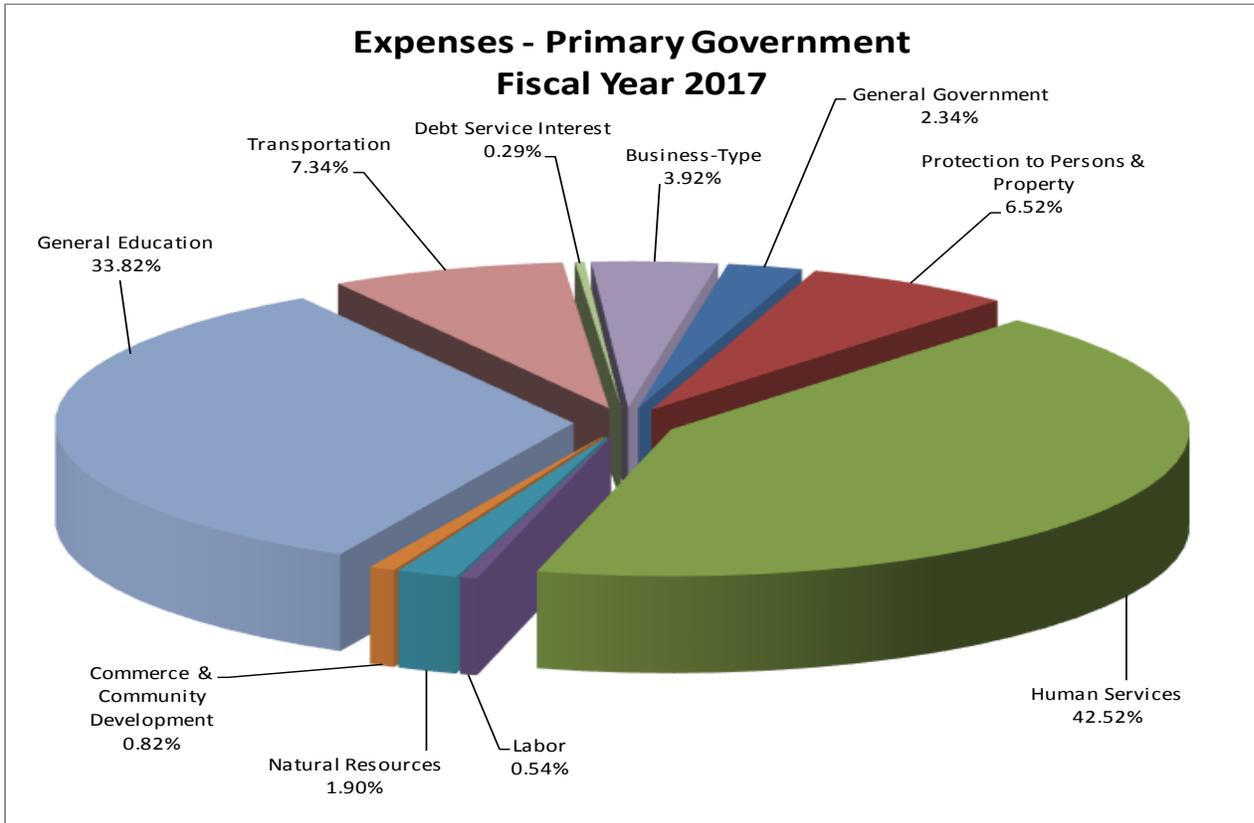
The following graph illustrates the revenues of Vermont’s primary government for fiscal year 2017. Approximately 34.0 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 31.7 percent of total revenues are generated by the statewide education and income taxes.



Percentages may not equal 100% due to rounding.

The following graph illustrates the percentages of total primary government expenses for fiscal year 2017. The largest category of expense is for human services (42.52 percent of total expense) which provides for Vermont’s low-income, elderly care services and persons in state custody in the form of grants for selected services such as food stamps, health care, housing and child protective services. The second most significant category of expense is for general education (33.82 percent of total expenses) which provides for Vermont’s support to secondary and higher education.

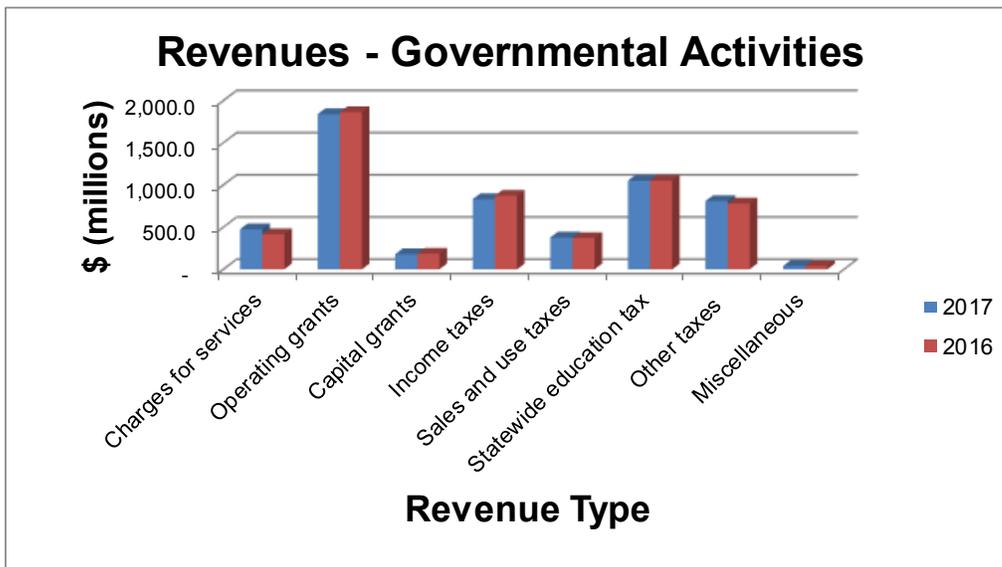
(Chart on next page.)



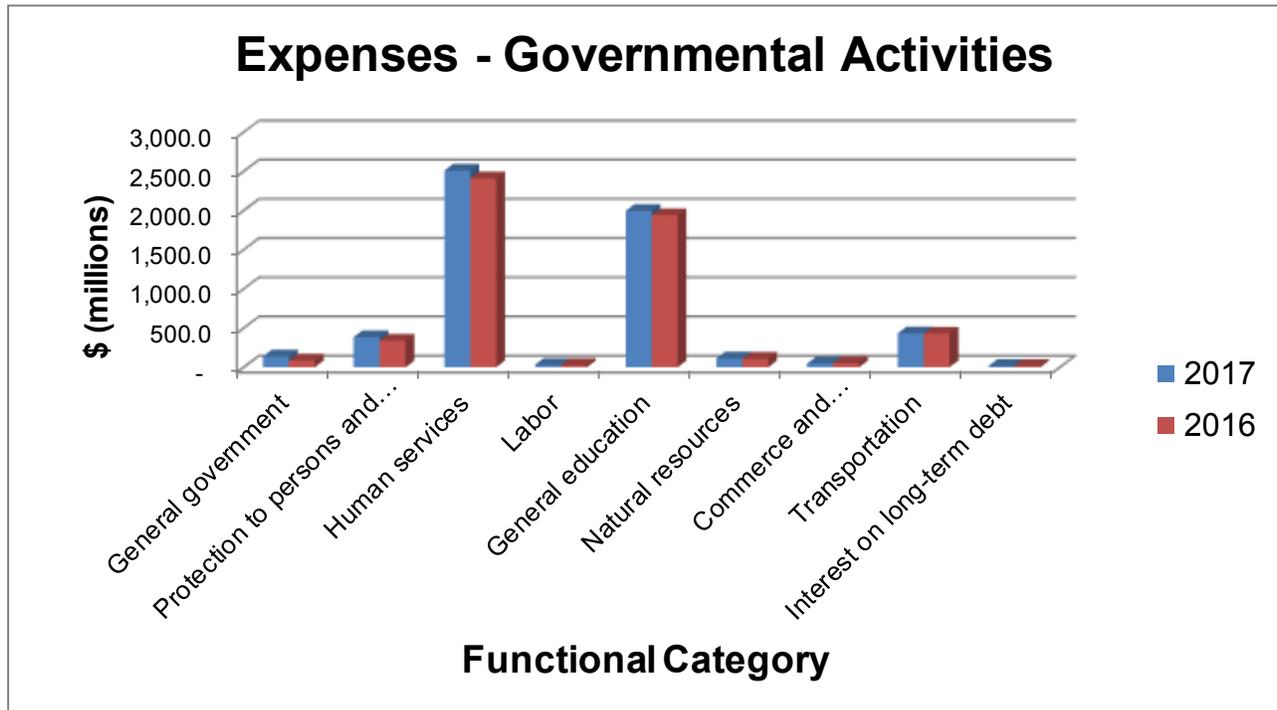
Percentages may not equal 100% due to rounding.

Governmental Activities

In 2017, governmental activities' expenses exceeded revenues by \$76.1 million and were offset by transfers in of \$27.5 million from business activities, resulting in a decrease of \$48.6 million (or 5.2 percent) decrease in net position. Revenues increased by \$24.4 million, primarily due to an increase in program revenue (\$29.8 million) offset by a decrease in general revenues (\$5.4 million). Spending increased for general government (\$51.4 million), protection to persons and property (\$44.8 million), human services (\$97.7 million) and general education (\$54.4 million). The following chart provides a two-year comparison of governmental activities revenues:



The following chart provides a two-year comparison of governmental activities expenses:



The following table shows to what extent program revenues (charges for services and grants and contributions) covered program expenses. For fiscal year 2017, program revenues covered \$2.5 billion or 43.9 percent of \$5.7 billion in program expenses. The remaining \$3.2 billion or 56.1 percent of program expenses was paid for by state taxes and other general revenue.

TABLE 4
Net Program Revenue
For the years ended June 30, 2017 and 2016

| Functions/programs | Program Expenses 2017 | Less Program Revenues 2017 | Net Program (Expense)/Revenue | | Program Revenues as a Percentage of Program Expenses | |
|------------------------------------|--------------------------|-------------------------------|-------------------------------|---------------------------|--|--------------|
| | | | 2017 | 2016 | 2017 | 2016 |
| General government | \$ 137,924,212 | \$ 33,952,954 | \$ (103,971,258) | \$ (50,589,098) | 24.6% | 41.5% |
| Protection to persons and property | 385,011,729 | 273,520,888 | (111,490,841) | (120,160,248) | 71.0% | 64.7% |
| Human services | 2,509,094,559 | 1,495,698,449 | (1,013,396,110) | (890,017,161) | 59.6% | 63.1% |
| Labor | 31,834,634 | 48,236,931 | 16,402,297 | 13,122,446 | 151.5% | 142.9% |
| General education | 1,995,530,020 | 139,691,528 | (1,855,838,492) | (1,811,810,462) | 7.0% | 6.7% |
| Natural resources | 112,198,673 | 76,704,268 | (35,494,405) | (26,213,484) | 68.4% | 76.1% |
| Commerce and community development | 48,319,567 | 20,585,541 | (27,734,026) | (27,235,148) | 42.6% | 49.1% |
| Transportation | 432,898,295 | 401,470,539 | (31,427,756) | (30,050,831) | 92.7% | 93.0% |
| Interest on long-term debt | 17,137,985 | 1,149,909 | (15,988,076) | (17,233,569) | 6.7% | 6.3% |
| | <u>\$ 5,669,949,674</u> | <u>\$ 2,491,011,007</u> | <u>\$ (3,178,938,667)</u> | <u>\$ (2,960,187,555)</u> | <u>43.9%</u> | <u>45.4%</u> |

FINANCIAL ANALYSIS OF THE PRIMARY GOVERNMENT'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unrestricted (unassigned, assigned, and committed) fund balances may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2017, the unrestricted fund balance is 22.2 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance is restricted or nonspendable to indicate that it is not available for appropriation, such as the principal of the State's Permanent Funds, and other items that are nonspendable, such as advances and long-term receivables. At the end of fiscal year 2017, the State's governmental funds reported combined fund balances of \$927 million, a decrease of \$78.9 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2017, the General Fund's total fund balance was \$122.4 million. The fund balance was made up of nonspendable amounts totaling \$121.7 million, and assigned amounts totaling \$.7 million. During 2017, total revenues and other financing sources were less than total expenditures and other financing uses by \$16.9 million.

General Fund revenues increased by \$24.3 million, or 1.7%, primarily due to a \$27 million increase in security registration fees. Expenditures increased by \$92.5 million or 11.5%, primarily due to a \$61.4 million increase in human services (personnel costs and third-party contractors and grant expenditures), a \$14.7 million increase in general education (increased grant expenditures), and a \$11.4 million increase in protection to persons and property (personnel costs and third-party contractors). The General Fund's statutory reserve for budgetary stabilization increased by \$2.9 million to \$74.1 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was \$15.1 million at June 30, 2017, a decrease of \$3.9 million from the fiscal year 2016's ending total fund balance. Transportation Fund revenues remained relatively flat at \$564 million; while expenditures related to State Police Services decreased \$2.2 million and expenditures related to transportation projects decreased \$1.5 million. The Transportation Fund's statutory reserve for budget stabilization increased by \$462 thousand to \$13.3 million, the maximum allowed by statute.

The Education Fund at June 30, 2017 had a total fund balance of \$70.4 million, which represents a \$11.3 million decrease from fiscal year 2016's ending balance. General education costs increased by \$26.4 million, primarily due to an increase in grants to school districts (\$26.6 million). The statewide education tax decreased \$1.3 million; while sales and use taxes increased \$3.6 million and purchase and use tax increased \$1.0 million. Transfer in from the General Fund increased (\$3 million) and Special Fund for Medicaid costs increased (\$1 million), and Lottery Fund decreased (\$900 thousand). The Education Fund's statutory reserve for budget stabilization increased \$843 thousand to \$33.5 million, the maximum allowed by statute.

The Special Fund's total fund balance at the end of fiscal year 2017 was \$95.9 million, a decrease of 12.5 percent in comparison with 2016. The Special Fund's total fund balance is comprised of \$12 million as restricted, \$84 million as committed and unassigned. Special Fund revenues increased \$26.7 million or 4.61 percent, and expenditures increased \$23.8 million or 8.54 percent. The increase in expenditures was primarily in the protection to persons and property function (\$25.2 million), of which \$20.4 million was in the Energy Efficiency Utility program's grants. This resulted in an increase in "excess of revenues over expenditures" of \$2.9 million from last fiscal year. Fiscal year 2017 transfers out to other funds exceeded transfers in from other funds by \$316.5 million. The Special Fund received transfers in of \$58.5 million, in part, consisting of federal fund monies for the earned income tax credit (\$19.7 million); matching funds for school based Medicare services (\$27.2 million); the Next Generation Fund (\$2.9 million); the Emergency Relief and Assistance Fund (\$2.6 million); and federal funds for Children's Health Insurance Claims fund (\$1.5 million). Transfers out of \$375

million consisted primarily of payments for a portion of the State's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver (\$321 million); Security, Insurance, & Captive Fund reimbursements to the General Fund (\$31.4 million); reimbursed Medicaid funds to the Education Fund (\$10.6 million).

The Federal Revenue Fund accounts for all federal grants except those federal grants that are awarded to the Agency of Transportation (which are included in the Transportation Fund), the Global Commitment to Health Medicaid waiver (which are included in the Global Commitment Fund) and the Department of Fish and Wildlife (which are included in the Fish and Wildlife Fund, a non-major governmental fund). The Federal Revenue Fund's federal grant revenues for fiscal year 2017 were \$788.1 million, an increase of \$16.5 million over fiscal year 2016's federal grant revenues. Expenditures were \$728.9 million, an increase of \$6 million over 2016. The Federal Revenue Fund's total fund balance at the end of fiscal year 2017 (\$458.5 million) was an increase of \$5.3 million as compared to the total fund balance at the end of fiscal year 2016.

The fiscal year 2017 ending total fund balance for the Global Commitment Fund was \$107.8 million. The revenues and net transfers in of \$1,502.5 exceeded expenditures of \$1,500.6 million by \$1.9 million. The primary changes were a decrease in federal grants of \$38.1 million and a decrease in human services expenses of \$19.7 million both due to lower administrative expenditures claimable under the Global Commitment Waiver Agreement. See Note I, Section E for more information regarding these funds.

Proprietary Funds

The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund's total net position balance increased from \$302.4 million at June 30, 2016 to \$384.4 million at June 30, 2017, an increase of \$82.0 million in one year. Expenditures from the fund for unemployment benefits decreased by \$6 million over 2016.

The State's *internal service funds'* total net position at June 30, 2017 was \$32.5 million, a \$19.6 million improvement from June 30, 2016. This improvement is primarily due to an improvement in net position of \$13.3 million in the medical insurance fund, as well as an increase in the workers compensation fund of \$9.1 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds

The State's fiduciary funds account for resources held for the benefit of parties outside State government. The Pension and Other Postemployment Benefit Trust Funds' net position increased by 8.37% to \$4.25 billion at June 30, 2017. For more information regarding the State's retirement and other postemployment benefit plans, see Note IV. G. 4. to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2017 is \$13.5 million, and total liabilities balance is \$8.9 million, including the escheat property claims liability estimated at \$8.8 million, resulting in ending net position of \$4.6 million. Net position of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The State ended fiscal year 2017 with General Fund revenues of \$1.457 billion, expenditures of \$1.151 billion, and net transfers to other funds of \$281.9 million (non-GAAP budgetary basis). This was a \$44.5 million increase in revenues over the previous year. The fiscal year 2017 General Fund consensus revenue forecast initially approved by the Emergency Board in July, 2016 was subsequently revised downward by the Emergency Board at their January 2017 meeting. Compared to target, the revenues were 1.61 percent below the July, 2016 revenue forecast of \$1,481 million, and .05 percent over the January, 2017 revised revenue forecast of \$1,456 million. Personal income tax receipts were \$13.8 million below target, corporate income tax receipts were \$19.5 million above target, and sales and use tax receipts were \$3.5 million below target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of \$74.1 million, representing the statutory maximum of 5 percent of the prior year appropriations level.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2017 was \$2.897 billion, a total increase of 4.0 percent (Table 5). 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.

TABLE 5
Capital Assets at Fiscal Year End
(Net of depreciation, amounts in thousands)

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|----------------------------|---------------------|-----------------------------|---------------|-----------------------------|---------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land, Land Use Rights, and Land Improvements..... | \$ 149,691 | \$ 146,361 | \$ - | \$ - | \$ 149,691 | \$ 146,361 |
| Construction in Progress..... | 645,525 | 576,571 | 237 | 283 | 645,762 | 576,854 |
| Works of Art..... | 136 | 136 | - | - | 136 | 136 |
| Buildings and Improvements..... | 447,648 | 432,273 | 1 | 2 | 447,649 | 432,275 |
| Machinery and Equipment..... | 276,838 | 277,061 | 659 | 574 | 277,497 | 277,635 |
| Infrastructure..... | <u>1,375,842</u> | <u>1,351,261</u> | - | - | <u>1,375,842</u> | <u>1,351,261</u> |
| Totals..... | <u>\$ 2,895,679</u> | <u>\$ 2,783,662</u> | <u>\$ 897</u> | <u>\$ 859</u> | <u>\$ 2,896,576</u> | <u>\$ 2,784,522</u> |

Totals may not add due to rounding.

Many component unit, municipal and non-profit organizations' capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other entities. Therefore, these capital assets are recorded on the financial statements of those entities and not on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2017, the State had \$193.7 million of general obligation bonds outstanding related to capital assets of these other entities. Additional information on the State's capital assets can be found in Note IV. E. of the notes to the financial statements.

Debt Administration*Bonded Indebtedness*

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

During fiscal year 2017, the State of Vermont's outstanding general and special obligation bond debt decreased by approximately \$51.5 million. This decrease can be accounted for by redemption of \$50.0 million in general obligation bonds and \$1.5 million in special obligation bonds. Additional information on the State's bonded debt is contained in Note IV. G. 1. of the notes to the financial statements.

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

ECONOMIC OUTLOOK

The Vermont near-term economic outlook includes a Vermont economy that will largely follow a similar path as the U.S. economy throughout the calendar year 2017 through calendar year 2019 period. The consensus revenue forecast in July 2017 calls for a modest downgrade to revenue expectations for the General Fund and the Transportation Fund over the fiscal year 2018 through 2019 time frame.

For fiscal year 2018, the July 2017 consensus revenue forecast, across all three fund aggregates in total, calls for a total downward adjustment of \$28.8 million (or -1.5% versus the consensus forecast of last January) of which \$16.3 million is accounted for by the extraordinary pending Corporate tax refunds.

Reduced future liabilities will lower General Fund revenues in fiscal year 2018 by about 0.5%. Lower fee yields and slightly slower car and truck sales growth will also result in small negative Transportation Fund adjustments of about 1% in both fiscal years 2017 and 2018. The Education Fund (excluding State property taxes) is virtually unchanged, with lower transfer in from the Transportation Fund and slightly higher transfer from the General fund. Year-over-year revenue growth for fiscal year 2018 is forecasted to be 3.7 percent in the General Fund, 1.9 percent in the Transportation Fund, and 3.4 percent in the Education Fund.

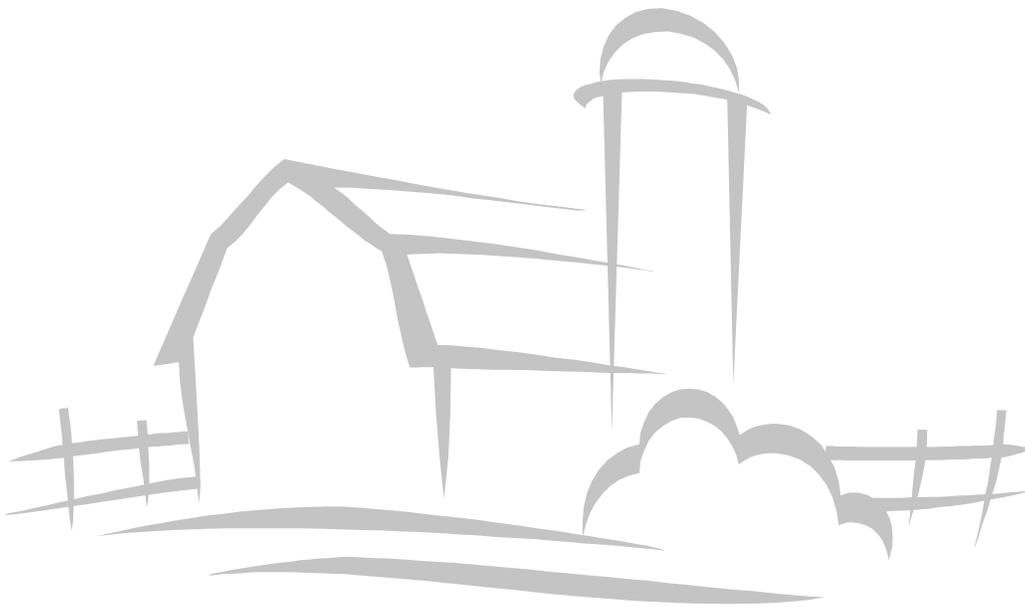
REQUESTS FOR INFORMATION

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

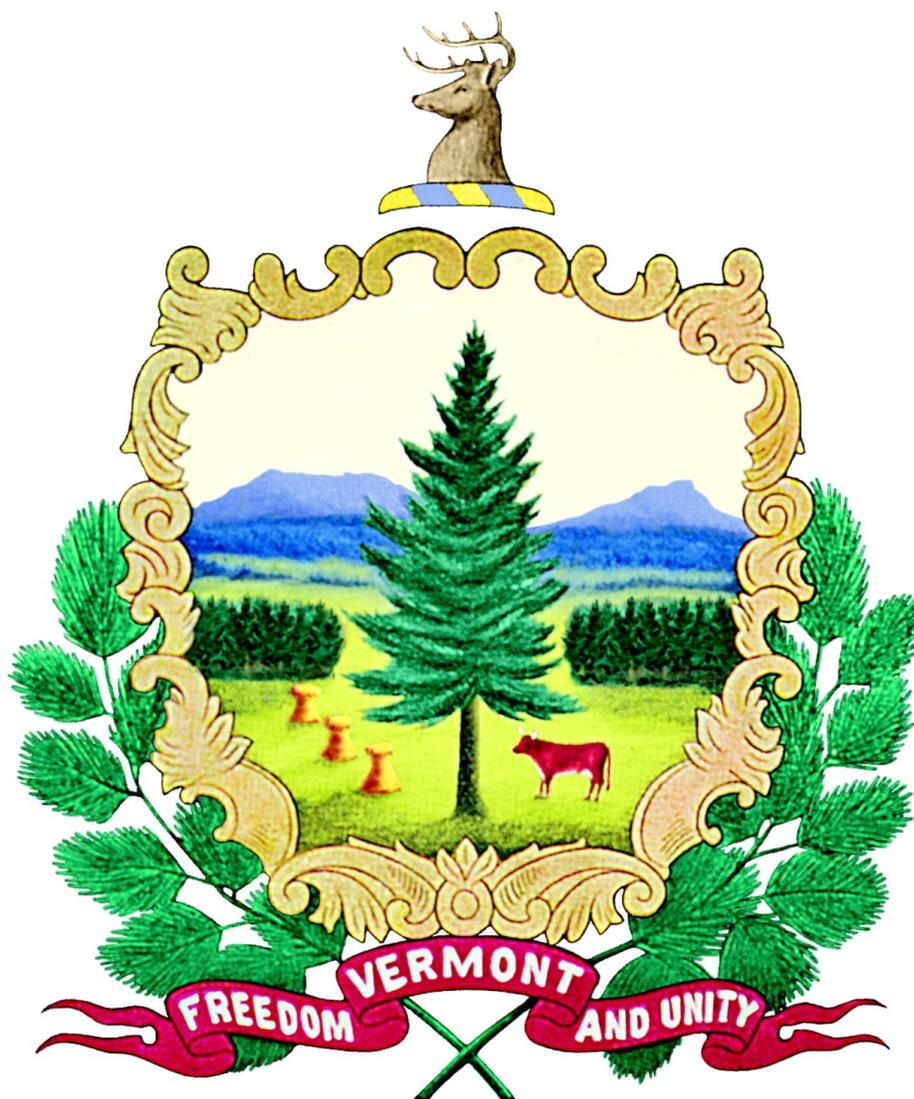
State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
Pavilion Building
Montpelier, Vermont 05609-0401

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

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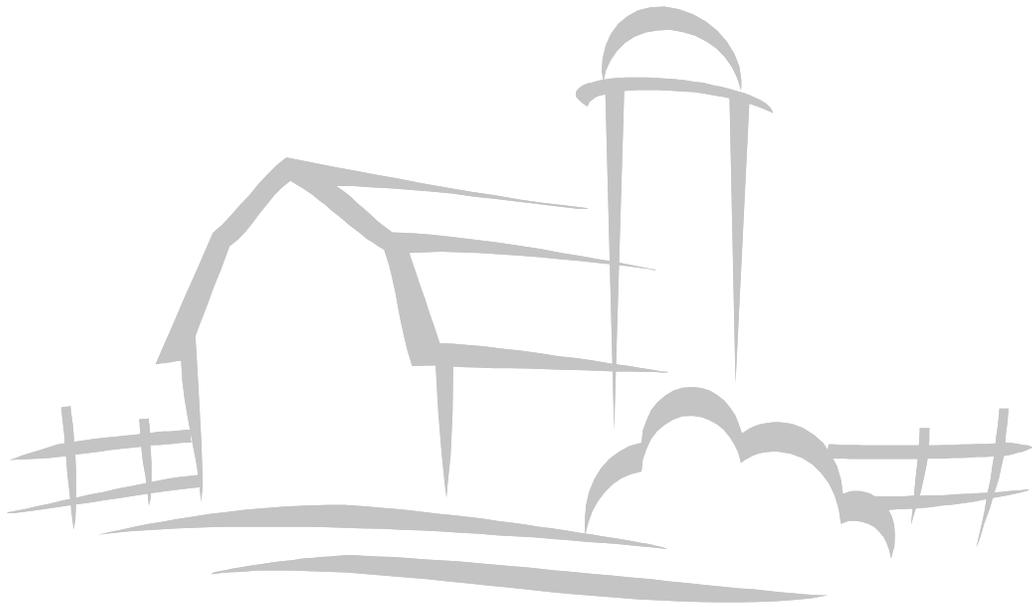


Vermont



BASIC FINANCIAL STATEMENTS

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Vermont



***GOVERNMENT-WIDE
FINANCIAL STATEMENTS***

STATE OF VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2017

| | Primary Government | | | Discretely Presented |
|---|----------------------|--------------------|----------------------|-------------------------|
| | Governmental | Business-type | Total | Component Units |
| | Activities | Activities | | |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents..... | \$ 584,528,072 | \$ 365,905,751 | \$ 950,433,823 | \$ 210,703,456 |
| Taxes receivable, net..... | 117,405,138 | 39,549,140 | 156,954,278 | - |
| Loans and notes receivable, net..... | 26,012,886 | 436,324 | 26,449,210 | 215,907,891 |
| Federal grants receivable..... | 229,815,779 | 513,779 | 230,329,558 | 9,154,299 |
| Other receivables, net..... | 90,151,661 | 5,819,916 | 95,971,577 | 66,384,980 |
| Investments..... | 42,312,109 | - | 42,312,109 | 167,862,954 |
| Inventories..... | 2,696,682 | 8,399,552 | 11,096,234 | 107,039 |
| Internal balances..... | 3,698,840 | (3,698,840) | - | - |
| Receivable from primary government..... | - | - | - | 2,448,020 |
| Receivable from component units..... | 7,154,450 | - | 7,154,450 | - |
| Other current assets..... | 4,289,015 | 17,188 | 4,306,203 | 15,109,438 |
| Total current assets..... | 1,108,064,632 | 416,942,810 | 1,525,007,442 | 687,678,077 |
| Noncurrent Assets | | | | |
| Cash and equivalents..... | - | 359,704 | 359,704 | 159,073,490 |
| Taxes receivable..... | 121,021,454 | - | 121,021,454 | - |
| Other receivables..... | 42,590,416 | 6,252 | 42,596,668 | - |
| Loans and notes receivable..... | 266,810,150 | 563,024 | 267,373,174 | 1,911,326,479 |
| Investments..... | - | 1,024,708 | 1,024,708 | 776,302,049 |
| Other noncurrent assets..... | - | - | - | 57,321,620 |
| Capital assets | | | | |
| Land..... | 149,691,153 | - | 149,691,153 | 45,658,134 |
| Construction in progress..... | 645,524,647 | 237,143 | 645,761,790 | 82,075,928 |
| Works of art..... | 136,003 | - | 136,003 | - |
| Capital assets being depreciated: | | | | |
| Infrastructure..... | 2,448,652,417 | - | 2,448,652,417 | 39,314,228 |
| Property, plant and equipment..... | 1,201,169,996 | 2,356,785 | 1,203,526,781 | 1,390,483,253 |
| Less accumulated depreciation..... | (1,549,494,958) | (1,697,159) | (1,551,192,117) | (714,127,682) |
| Total capital assets, net of depreciation..... | 2,895,679,258 | 896,769 | 2,896,576,027 | 843,403,861 |
| Total noncurrent assets..... | 3,326,101,278 | 2,850,457 | 3,328,951,735 | 3,747,427,499 |
| Total assets..... | 4,434,165,910 | 419,793,267 | 4,853,959,177 | 4,435,105,576 |
| DEFERRED OUTFLOW OF RESOURCES | | | | |
| Loss on refunding of bonds payable..... | 8,608,675 | - | 8,608,675 | 44,301,491 |
| Pension related outflows..... | 583,718,025 | 2,487,969 | 586,205,994 | 4,943,745 |
| Interest rate swap..... | - | - | - | 1,583,000 |
| Total deferred outflow of resources..... | 592,326,700 | 2,487,969 | 594,814,669 | 50,828,236 |

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

| | Primary Government | | | Discretely |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| | Governmental | Business-type | Total | Presented |
| | Activities | Activities | | Component |
| | | | | Units |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Accounts payable and other current liabilities..... | 367,880,994 | 8,444,487 | 376,325,481 | 94,855,233 |
| Income tax refunds payable..... | 93,770,046 | - | 93,770,046 | - |
| Payable to primary government..... | - | - | - | 7,154,450 |
| Payable to component units..... | 2,448,020 | - | 2,448,020 | - |
| Intergovernmental payable - due to federal government... | 1,614,822 | - | 1,614,822 | - |
| Accrued interest payable..... | 8,452,778 | - | 8,452,778 | 5,924,133 |
| Current portion of long-term liabilities..... | 108,771,218 | 6,384,933 | 115,156,151 | 187,836,322 |
| Unearned revenue..... | 1,141,292 | 8,431,369 | 9,572,661 | 86,677,236 |
| Total current liabilities..... | 584,079,170 | 23,260,789 | 607,339,959 | 382,447,374 |
| Long-term Liabilities | | | | |
| Lottery prize awards payable..... | - | 764,495 | 764,495 | - |
| Bonds, notes and leases payable..... | 592,655,723 | - | 592,655,723 | 2,544,389,777 |
| Compensated absences..... | 1,304,617 | 48,512 | 1,353,129 | - |
| Claims and judgments..... | 30,950,791 | - | 30,950,791 | - |
| Net pension liabilities..... | 1,955,150,806 | 5,471,704 | 1,960,622,510 | 10,839,177 |
| Net other postemployment benefits obligation..... | 853,994,137 | - | 853,994,137 | 297,504,056 |
| Other long-term liabilities..... | 13,357,519 | - | 13,357,519 | 35,780,866 |
| Total long-term liabilities..... | 3,447,413,593 | 6,284,711 | 3,453,698,304 | 2,888,513,876 |
| Total liabilities..... | 4,031,492,763 | 29,545,500 | 4,061,038,263 | 3,270,961,250 |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Gain on refunding of bonds payable..... | - | - | - | 28,670,000 |
| Service concession arrangement..... | - | - | - | 2,104,000 |
| Pension related inflows..... | 113,839,421 | 703,557 | 114,542,978 | 1,643,740 |
| Total deferred inflow of resources..... | 113,839,421 | 703,557 | 114,542,978 | 32,417,740 |
| NET POSITION | | | | |
| Net investment in capital assets..... | 2,543,114,266 | 896,769 | 2,544,011,035 | 181,406,933 |
| Restricted for | | | | |
| Unemployment compensation..... | - | 384,431,433 | 384,431,433 | - |
| Funds held in permanent investments | | | | |
| Expendable..... | 320,145 | - | 320,145 | - |
| Nonexpendable..... | 7,416,453 | - | 7,416,453 | - |
| General government..... | 1,550,702 | - | 1,550,702 | 13,014,242 |
| Protection to persons and property..... | 15,481,071 | - | 15,481,071 | - |
| Human services..... | 168,381,964 | - | 168,381,964 | 1,606,148 |
| Labor..... | 3,730,879 | - | 3,730,879 | - |
| General education..... | 2,581,806 | - | 2,581,806 | 564,887,858 |
| Natural resources..... | 381,926,111 | - | 381,926,111 | - |
| Commerce and community development..... | 6,118,375 | - | 6,118,375 | 324,618,066 |
| Capital projects..... | 10,494,548 | - | 10,494,548 | - |
| Debt service..... | 3,212,128 | - | 3,212,128 | - |
| Unrestricted (deficit)..... | (2,263,168,022) | 6,703,977 | (2,256,464,045) | 97,021,575 |
| Total net position..... | \$ 881,160,426 | \$ 392,032,179 | \$ 1,273,192,605 | \$ 1,182,554,822 |

**STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

| | Program Revenues | | | |
|---|-------------------------|--|--|-----------------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| FUNCTIONS/PROGRAMS | | | | |
| Primary Government | | | | |
| Governmental activities | | | | |
| General government..... | \$ 137,924,212 | \$ 32,169,824 | \$ 1,783,130 | \$ - |
| Protection to persons and property..... | 385,011,729 | 215,255,227 | 58,265,661 | - |
| Human services..... | 2,509,094,559 | 29,091,507 | 1,466,606,942 | - |
| Labor..... | 31,834,634 | 23,755,857 | 24,481,074 | - |
| General education..... | 1,995,530,020 | 4,243,334 | 135,448,194 | - |
| Natural resources..... | 112,198,673 | 39,052,295 | 37,651,973 | - |
| Commerce and community development.... | 48,319,567 | 2,829,055 | 17,756,486 | - |
| Transportation..... | 432,898,295 | 127,361,449 | 95,330,902 | 178,778,188 |
| Interest on long-term debt..... | 17,137,985 | - | 1,149,909 | - |
| Total governmental activities..... | 5,669,949,674 | 473,758,548 | 1,838,474,271 | 178,778,188 |
| Business-type activities | | | | |
| Vermont Lottery Commission..... | 96,896,575 | 122,375,359 | - | - |
| Liquor Control..... | 60,714,645 | 63,210,431 | - | - |
| Unemployment Compensation..... | 68,817,280 | 143,118,993 | 787,273 | - |
| Other | 4,779,250 | 5,532,738 | - | - |
| Total business-type activities..... | 231,207,750 | 334,237,521 | 787,273 | - |
| Total primary government..... | \$ 5,901,157,424 | \$ 807,996,069 | \$ 1,839,261,544 | \$ 178,778,188 |
| Component Units | | | | |
| Vermont Student Assistance Corporation..... | \$ 68,649,000 | \$ 44,989,000 | \$ 32,377,000 | \$ - |
| University of Vermont and | | | | |
| State Agricultural College..... | 655,120,000 | 440,391,000 | 242,279,000 | 2,344,000 |
| Vermont State Colleges..... | 189,633,385 | 119,893,206 | 59,327,157 | 2,002,199 |
| Vermont Housing Finance Agency..... | 19,486,000 | 1,178,000 | - | - |
| Other..... | 81,318,873 | 49,362,347 | 16,790,518 | 5,136,636 |
| Total component units..... | \$ 1,014,207,258 | \$ 655,813,553 | \$ 350,773,675 | \$ 9,482,835 |

General Revenues

Taxes

| | |
|------------------------------------|-------|
| Personal and corporate income..... | |
| Sales and use..... | |
| Meals and rooms..... | |
| Purchase and use..... | |
| Motor fuel..... | |
| Statewide education..... | |
| Other taxes..... | |

Total taxes.....

Investment earnings.....

Tobacco litigation settlement.....

Miscellaneous.....

Additions to non-expendable endowments.....

Transfers.....

Total general revenues and transfers.....

Changes in net position.....

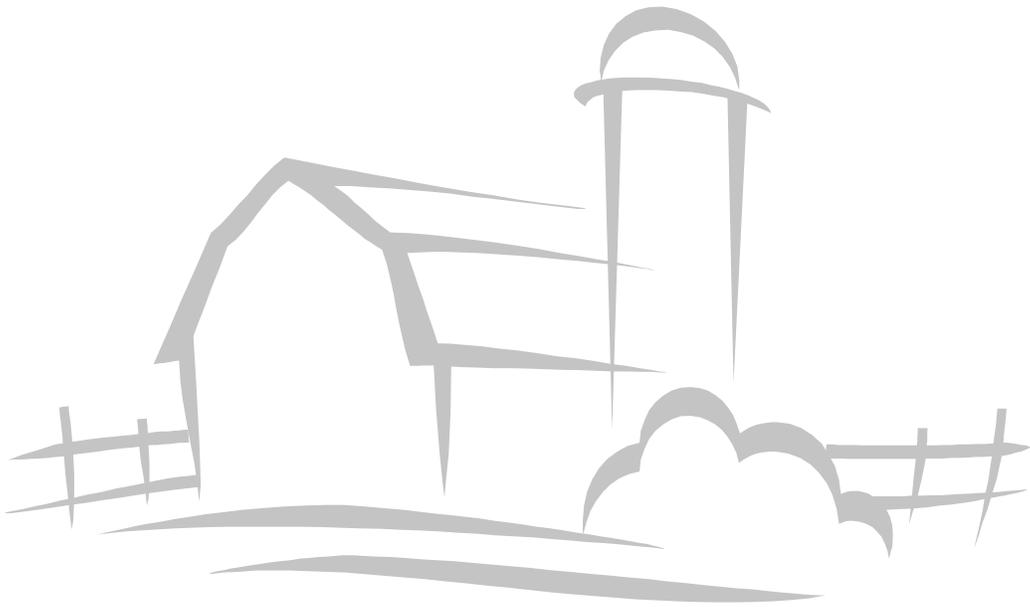
Net Position - Beginning, as restated.....

Net Position - Ending.....

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

| Net (Expense) Revenue and Changes in Net Position | | | |
|--|-----------------------|-------------------------|-------------------------|
| Primary Government | | | Discretely |
| Governmental | Business-type | Total | Presented |
| Activities | Activities | | Component |
| | | | Units |
| \$ (103,971,258) | \$ - | \$ (103,971,258) | \$ - |
| (111,490,841) | - | (111,490,841) | - |
| (1,013,396,110) | - | (1,013,396,110) | - |
| 16,402,297 | - | 16,402,297 | - |
| (1,855,838,492) | - | (1,855,838,492) | - |
| (35,494,405) | - | (35,494,405) | - |
| (27,734,026) | - | (27,734,026) | - |
| (31,427,756) | - | (31,427,756) | - |
| (15,988,076) | - | (15,988,076) | - |
| <u>(3,178,938,667)</u> | <u>-</u> | <u>(3,178,938,667)</u> | <u>-</u> |
| - | 25,478,784 | 25,478,784 | - |
| - | 2,495,786 | 2,495,786 | - |
| - | 75,088,986 | 75,088,986 | - |
| - | 753,488 | 753,488 | - |
| - | <u>103,817,044</u> | <u>103,817,044</u> | <u>-</u> |
| <u>(3,178,938,667)</u> | <u>103,817,044</u> | <u>(3,075,121,623)</u> | <u>-</u> |
| - | - | - | 8,717,000 |
| - | - | - | 29,894,000 |
| - | - | - | (8,410,823) |
| - | - | - | (18,308,000) |
| - | - | - | (10,029,372) |
| - | - | - | <u>1,862,805</u> |
| 830,796,767 | - | 830,796,767 | - |
| 376,361,833 | - | 376,361,833 | - |
| 169,126,912 | - | 169,126,912 | - |
| 103,234,900 | - | 103,234,900 | - |
| 38,203,665 | - | 38,203,665 | - |
| 1,049,359,457 | - | 1,049,359,457 | - |
| 498,161,996 | - | 498,161,996 | 11,304,840 |
| 3,065,245,530 | - | 3,065,245,530 | 11,304,840 |
| 2,116,064 | 6,917,345 | 9,033,409 | 23,217,957 |
| 34,633,342 | - | 34,633,342 | - |
| 863,171 | 62,037 | 925,208 | 7,980,643 |
| - | - | - | 873,512 |
| 27,496,803 | (27,496,803) | - | - |
| <u>3,130,354,910</u> | <u>(20,517,421)</u> | <u>3,109,837,489</u> | <u>43,376,952</u> |
| (48,583,757) | 83,299,623 | 34,715,866 | 45,239,757 |
| <u>929,744,183</u> | <u>308,732,556</u> | <u>1,238,476,739</u> | <u>1,137,315,065</u> |
| <u>\$ 881,160,426</u> | <u>\$ 392,032,179</u> | <u>\$ 1,273,192,605</u> | <u>\$ 1,182,554,822</u> |

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Vermont



***GOVERNMENTAL FUNDS
FINANCIAL STATEMENTS***

**STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

| | General Fund | Transportation Fund | Education Fund | Special Fund |
|---|-----------------------|--------------------------------|-----------------------|-----------------------|
| ASSETS | | | | |
| Cash and cash equivalents..... | \$ 32,307,189 | \$ 7,391,470 | \$ 74,533,988 | \$ 145,842,276 |
| Investments..... | - | - | - | 3,641,543 |
| Receivables | | | | |
| Taxes receivable, net..... | 205,678,296 | 8,880,484 | 16,784,183 | 7,005,630 |
| Accrued interest receivable..... | 675,644 | 33,739 | - | 4,438 |
| Notes and loans receivable..... | 21,994,952 | 1,565,645 | - | 6,798,089 |
| Other receivables, net..... | 8,113,321 | 9,594,558 | 90 | 34,624,443 |
| Intergovernmental receivables - federal government, net..... | - | 41,518,005 | - | - |
| Due from other funds..... | 939,548 | 13,837 | - | 4,629,246 |
| Due from component units..... | 1,203,944 | - | - | - |
| Interfund receivable..... | 94,812,957 | - | - | - |
| Advances to other funds..... | 300,275 | - | - | - |
| Advances to component units..... | 5,500,000 | - | - | 13,332 |
| Total assets..... | \$ 371,526,126 | \$ 68,997,738 | \$ 91,318,261 | \$ 202,558,997 |
| LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts payable..... | \$ 37,307,303 | \$ 36,796,836 | \$ 17,169,514 | \$ 23,675,326 |
| Accrued liabilities..... | 19,978,141 | 7,116,092 | 187,034 | 8,987,929 |
| Retainage payable..... | 555,603 | 34,960 | - | 402,668 |
| Due to other funds..... | 32,183,110 | 2,401,245 | 37,571 | 51,255,108 |
| Due to component units..... | - | - | - | - |
| Intergovernmental payable - federal government..... | - | - | - | - |
| Tax refunds payable..... | 34,480,032 | - | 140,308 | 37,762 |
| Unearned revenue..... | - | 156,860 | - | 407,411 |
| Total liabilities..... | 124,504,189 | 46,505,993 | 17,534,427 | 84,766,204 |
| DEFERRED INFLOW OF RESOURCES | | | | |
| Unavailable revenue..... | 124,583,974 | 7,433,223 | 3,362,963 | 21,848,539 |
| Total deferred inflow of resources..... | 124,583,974 | 7,433,223 | 3,362,963 | 21,848,539 |
| FUND BALANCES | | | | |
| Nonspendable | | | | |
| Advances..... | 5,800,275 | - | - | - |
| Long-term receivables..... | 115,950,553 | - | - | - |
| Permanent Fund principal..... | - | - | - | - |
| Restricted..... | - | - | - | 11,988,681 |
| Committed..... | - | 15,058,522 | 70,420,871 | 92,807,678 |
| Assigned..... | 687,135 | - | - | - |
| Unassigned..... | - | - | - | (8,852,105) |
| Total fund balances..... | 122,437,963 | 15,058,522 | 70,420,871 | 95,944,254 |
| Total liabilities, deferred inflows and fund balances..... | \$ 371,526,126 | \$ 68,997,738 | \$ 91,318,261 | \$ 202,558,997 |

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

| <u>Federal Revenue Fund</u> | <u>Global Commitment Fund</u> | <u>Non-major Governmental Funds</u> | <u>Eliminations</u> | <u>Total Governmental Funds</u> |
|-----------------------------|-------------------------------|-------------------------------------|------------------------|---------------------------------|
| \$ 148,152,955 | \$ 81,549,490 | \$ 24,927,939 | \$ - | \$ 514,705,307 |
| - | - | 38,670,566 | - | 42,312,109 |
| - | - | 77,999 | - | 238,426,592 |
| 22,674 | - | - | - | 736,495 |
| 260,207,730 | - | - | - | 290,566,416 |
| 3,998,745 | 35,337,297 | 44,589 | - | 91,713,043 |
| 108,244,911 | 79,914,527 | 138,336 | - | 229,815,779 |
| 703,149 | 68,846,726 | 128 | (73,922,447) | 1,210,187 |
| - | - | 437,174 | - | 1,641,118 |
| - | - | - | - | 94,812,957 |
| - | - | - | - | 300,275 |
| - | - | - | - | 5,513,332 |
| <u>\$ 521,330,164</u> | <u>\$ 265,648,040</u> | <u>\$ 64,296,731</u> | <u>\$ (73,922,447)</u> | <u>\$ 1,511,753,610</u> |
| \$ 45,103,097 | \$ 145,539,688 | \$ 3,726,116 | \$ - | \$ 309,317,880 |
| 9,571,474 | 2,703,038 | 976,131 | - | 49,519,839 |
| 1,159,844 | 4,441 | 254,308 | - | 2,411,824 |
| 3,886,622 | 518,493 | 82,584 | (73,922,447) | 16,442,286 |
| - | - | 2,448,020 | - | 2,448,020 |
| 1,307,921 | 306,901 | - | - | 1,614,822 |
| - | - | - | - | 34,658,102 |
| 209,070 | - | - | - | 773,341 |
| <u>61,238,028</u> | <u>149,072,561</u> | <u>7,487,159</u> | <u>(73,922,447)</u> | <u>417,186,114</u> |
| <u>1,561,492</u> | <u>8,811,869</u> | <u>4,460</u> | <u>-</u> | <u>167,606,520</u> |
| <u>1,561,492</u> | <u>8,811,869</u> | <u>4,460</u> | <u>-</u> | <u>167,606,520</u> |
| - | - | - | - | 5,800,275 |
| - | - | - | - | 115,950,553 |
| - | - | 7,416,453 | - | 7,416,453 |
| 458,530,644 | 107,763,610 | 14,026,821 | - | 592,309,756 |
| - | - | 35,361,838 | - | 213,648,909 |
| - | - | - | - | 687,135 |
| - | - | - | - | (8,852,105) |
| <u>458,530,644</u> | <u>107,763,610</u> | <u>56,805,112</u> | <u>-</u> | <u>926,960,976</u> |
| <u>\$ 521,330,164</u> | <u>\$ 265,648,040</u> | <u>\$ 64,296,731</u> | <u>\$ (73,922,447)</u> | <u>\$ 1,511,753,610</u> |

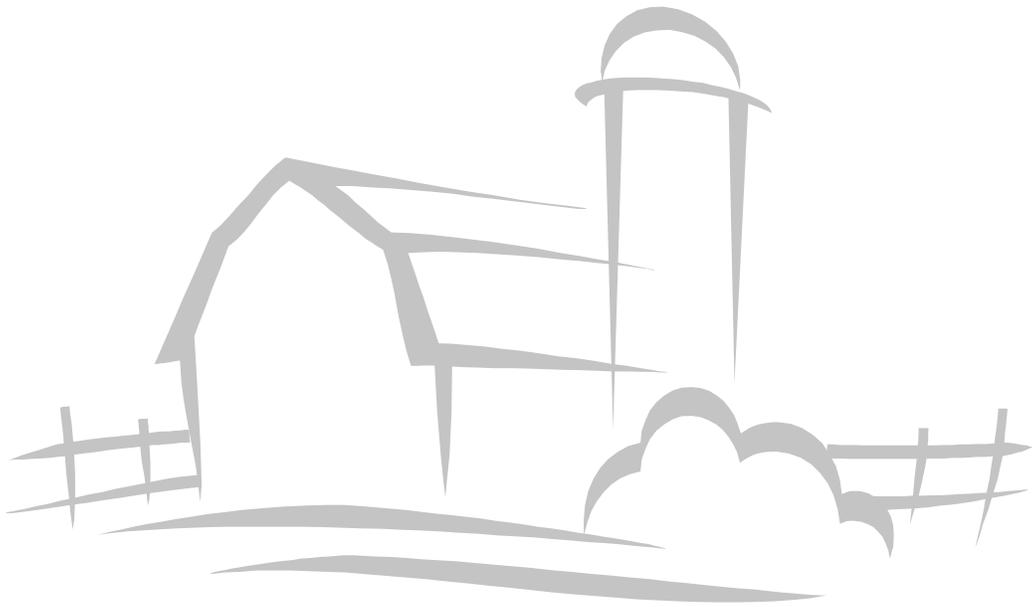
**STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

| | | |
|---|-----------|---------------------------|
| Total fund balances from previous page | \$ | 926,960,976 |
| Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds ⁽¹⁾ | | 2,839,080,885 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position..... | | 32,392,912 |
| Amounts presented in the statement of net position relating to, but not in fund balances due to a different basis of accounting ⁽¹⁾ | | 646,093,799 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore are not reported in the funds ⁽¹⁾ | | <u>(3,563,368,146)</u> |
| Net position of governmental activities | \$ | <u>881,160,426</u> |

⁽¹⁾ Additional information on these amounts can be found in Note II. A.

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

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Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | General Fund | Transportation Fund | Education Fund | Special Fund |
|--|-----------------------|--------------------------------|-----------------------|----------------------|
| REVENUES | | | | |
| Taxes | | | | |
| Personal income tax..... | \$ 752,316,958 | \$ - | \$ - | \$ 1,044,937 |
| Corporate income tax..... | 83,910,459 | - | - | 2,163,950 |
| Sales and use tax..... | 246,503,380 | - | 132,733,560 | - |
| Meals and rooms tax..... | 166,565,700 | - | - | 2,160,353 |
| Motor fuels tax..... | - | 35,819,714 | - | 1,483,937 |
| Purchase and use tax..... | - | 68,821,910 | 34,412,990 | - |
| Statewide education tax..... | - | - | 1,049,359,457 | - |
| Other taxes..... | 140,972,463 | 60,971,181 | 1,691,248 | 293,096,456 |
| Earnings of departments | | | | |
| Fees..... | 48,450,406 | 21,243,811 | - | 86,095,527 |
| Rents and leases..... | - | 2,048,593 | - | 2,974,922 |
| Sales of services..... | 3,039,441 | 96,918 | - | 9,151,375 |
| Federal grants..... | - | 274,109,019 | - | - |
| Fines, forfeits and penalties..... | 3,149,106 | 3,597,593 | - | 6,866,084 |
| Investment income..... | 1,484,455 | 153,464 | 375,918 | 624,854 |
| Licenses | | | | |
| Business..... | 1,242,697 | 509,375 | - | 25,237,553 |
| Non-business..... | 75,075 | 93,169,925 | - | 3,010,901 |
| Special assessments..... | - | - | - | 89,333,111 |
| Other revenues..... | 6,992,023 | 3,519,018 | - | 81,506,738 |
| Total revenues..... | 1,454,702,163 | 564,060,521 | 1,218,573,173 | 604,750,698 |
| EXPENDITURES | | | | |
| General government..... | 78,858,432 | 3,923,917 | 9,654,795 | 13,740,276 |
| Protection to persons and property..... | 144,869,787 | 20,486,952 | - | 150,804,663 |
| Human services..... | 428,741,001 | - | 3,334,820 | 67,094,513 |
| Labor..... | 3,934,111 | - | - | 3,630,585 |
| General education..... | 195,798,068 | - | 1,558,843,861 | 19,483,541 |
| Natural resources..... | 28,323,940 | - | - | 37,317,986 |
| Commerce and community development..... | 15,693,390 | - | - | 7,806,476 |
| Transportation..... | - | 536,651,232 | - | 2,041,527 |
| Capital outlay..... | - | - | - | - |
| Debt service..... | - | - | - | - |
| Total expenditures..... | 896,218,729 | 561,062,101 | 1,571,833,476 | 301,919,567 |
| Excess of revenues over (under) expenditures..... | 558,483,434 | 2,998,420 | (353,260,303) | 302,831,131 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in..... | 87,396,366 | 588,000 | 342,001,411 | 58,487,305 |
| Transfers out..... | (662,733,943) | (7,499,668) | - | (374,979,579) |
| Total other financing sources (uses)..... | (575,337,577) | (6,911,668) | 342,001,411 | (316,492,274) |
| Net change in fund balances..... | (16,854,143) | (3,913,248) | (11,258,892) | (13,661,143) |
| Fund balances, July 1 | 139,292,106 | 18,971,770 | 81,679,763 | 109,605,397 |
| Fund balances, June 30..... | \$ 122,437,963 | \$ 15,058,522 | \$ 70,420,871 | \$ 95,944,254 |

The accompanying notes are an integral part of these statements.

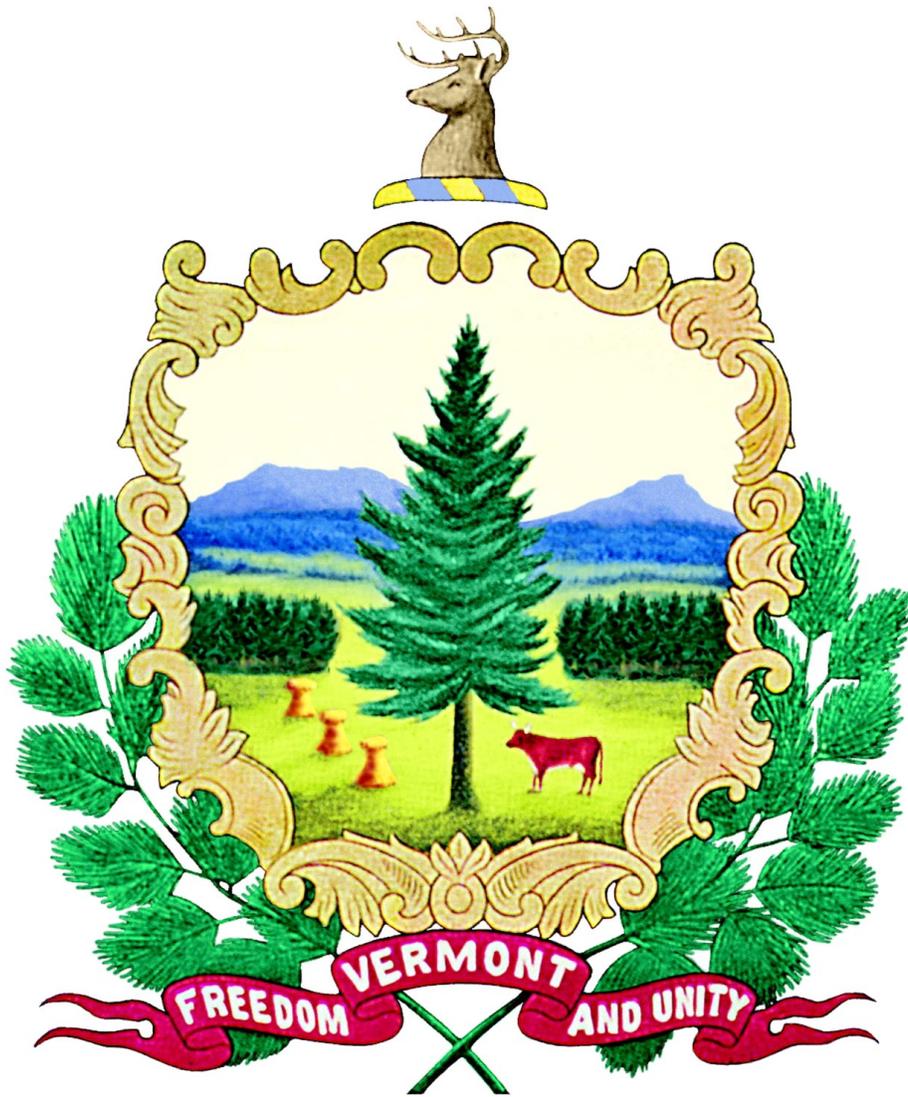
| <u>Federal Revenue Fund</u> | <u>Global Commitment Fund</u> | <u>Non-major Governmental Funds</u> | <u>Eliminations</u> | <u>Total Governmental Funds</u> |
|-----------------------------|-------------------------------|-------------------------------------|----------------------|---------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ 753,361,895 |
| - | - | - | - | 86,074,409 |
| - | - | - | - | 379,236,940 |
| - | - | - | - | 168,726,053 |
| - | - | 899,834 | - | 38,203,485 |
| - | - | - | - | 103,234,900 |
| - | - | - | - | 1,049,359,457 |
| - | - | - | - | 496,731,348 |
| - | - | 217,335 | - | 156,007,079 |
| - | - | 55,217 | - | 5,078,732 |
| - | - | 89 | - | 12,287,823 |
| 788,126,406 | 922,260,643 | 7,168,701 | - | 1,991,664,769 |
| - | - | 13,956 | - | 13,626,739 |
| 899,263 | - | 2,558,556 | - | 6,096,510 |
| - | - | 885 | - | 26,990,510 |
| - | - | 7,457,832 | - | 103,713,733 |
| - | - | - | - | 89,333,111 |
| <u>2,607,340</u> | <u>13,464,456</u> | <u>1,841,773</u> | - | <u>109,931,348</u> |
| <u>791,633,009</u> | <u>935,725,099</u> | <u>20,214,178</u> | - | <u>5,589,658,841</u> |
| 1,197,648 | - | - | - | 107,375,068 |
| 57,310,787 | 79,826 | - | - | 373,552,015 |
| 472,248,548 | 1,495,604,693 | 25,000 | - | 2,467,048,575 |
| 25,291,395 | - | - | - | 32,856,091 |
| 135,605,885 | 4,915,578 | 1,153,296 | - | 1,915,800,229 |
| 20,344,912 | - | 17,898,404 | - | 103,885,242 |
| 16,941,171 | - | - | - | 40,441,037 |
| - | - | - | - | 538,692,759 |
| - | - | 38,817,006 | - | 38,817,006 |
| - | - | 76,991,490 | - | 76,991,490 |
| <u>728,940,346</u> | <u>1,500,600,097</u> | <u>134,885,196</u> | - | <u>5,695,459,512</u> |
| <u>62,692,663</u> | <u>(564,874,998)</u> | <u>(114,671,018)</u> | - | <u>(105,800,671)</u> |
| 4,103,005 | 599,291,651 | 78,451,532 | (1,141,898,467) | 28,420,803 |
| <u>(61,541,763)</u> | <u>(32,519,893)</u> | <u>(4,103,005)</u> | <u>1,141,898,467</u> | <u>(1,479,384)</u> |
| <u>(57,438,758)</u> | <u>566,771,758</u> | <u>74,348,527</u> | - | <u>26,941,419</u> |
| 5,253,905 | 1,896,760 | (40,322,491) | - | (78,859,252) |
| <u>453,276,739</u> | <u>105,866,850</u> | <u>97,127,603</u> | - | <u>1,005,820,228</u> |
| <u>\$ 458,530,644</u> | <u>\$ 107,763,610</u> | <u>\$ 56,805,112</u> | <u>\$ -</u> | <u>\$ 926,960,976</u> |

**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, 2017**

| | | |
|---|-----------|----------------------------|
| Total net change in fund balances from the previous page..... | \$ | (78,859,252) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period (net of internal service funds) ⁽¹⁾ | | 111,213,488 |
| Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position ⁽¹⁾ | | 51,520,000 |
| Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position ⁽¹⁾ | | 6,802,965 |
| Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds..... | | (5,700,263) |
| Estimated personal income tax refunds that are not due and payable are not reported as governmental fund liabilities..... | | (1,838,454) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds ⁽¹⁾ | | (151,073,611) |
| 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..... | | <u>19,351,370</u> |
| Total changes in net position of governmental activities as reported on the statement of activities..... | \$ | <u>(48,583,757)</u> |

⁽¹⁾ Additional information on these amounts can be found in Note II. B.

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



***PROPRIETARY FUNDS
FINANCIAL STATEMENTS***

**STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

| | Business-type Activities-Enterprise Funds | | |
|---|---|------------------------------------|---|
| | Unemployment Compensation Trust Fund | Liquor Control Fund | Vermont Lottery Commission |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents..... | \$ 353,734,445 | \$ 4,300,790 | \$ 4,827,405 |
| Receivables | | | |
| Taxes receivable, net of allowance for uncollectibles..... | 38,579,929 | - | - |
| Accounts receivable, net of allowance for uncollectibles..... | 1,802,575 | 1,479,879 | 2,139,926 |
| Loans receivable..... | - | - | - |
| Accrued interest receivable..... | - | - | - |
| Due from other funds..... | - | - | 25,360 |
| Intergovernmental receivables - federal government..... | 513,779 | - | - |
| Inventories, at cost..... | - | 7,518,933 | 854,917 |
| Prepaid expenses..... | - | - | - |
| Total current assets..... | 394,630,728 | 13,299,602 | 7,847,608 |
| Restricted and Noncurrent Assets | | | |
| Cash - subscription reserve fund..... | - | - | - |
| Investments..... | - | - | 1,024,708 |
| Loans receivable..... | - | - | - |
| Accounts receivable - subscriptions..... | - | - | - |
| Imprest cash and change fund - advances..... | - | 75 | 300,000 |
| Total restricted assets..... | - | 75 | 1,324,708 |
| Capital Assets | | | |
| Land..... | - | - | - |
| Construction in progress..... | - | 237,143 | - |
| Works of art..... | - | - | - |
| Capital assets being depreciated/amortized: | | | |
| Machinery, equipment and buildings..... | - | 2,129,087 | 221,889 |
| Less accumulated depreciation..... | - | (1,480,975) | (210,375) |
| Total capital assets, net of depreciation..... | - | 885,255 | 11,514 |
| Total restricted and capital assets..... | - | 885,330 | 1,336,222 |
| Total assets..... | 394,630,728 | 14,184,932 | 9,183,830 |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Pension related outflows..... | - | 1,664,256 | 552,039 |
| Total deferred outflow of resources..... | - | 1,664,256 | 552,039 |

| Business-type Activities-Enterprise Funds | | | Governmental Activities |
|--|---------------------|-------------------------------|-------------------------------------|
| Non-major Enterprise Funds | Eliminations | Total Enterprise Funds | Total Internal Service Funds |
| \$ 2,742,836 | \$ - | \$ 365,605,476 | \$ 66,622,323 |
| 969,211 | - | 39,549,140 | - |
| 391,610 | - | 5,813,990 | 19,958,865 |
| 436,324 | - | 436,324 | 742,682 |
| 5,926 | - | 5,926 | - |
| 305,185 | (58,599) | 271,946 | 16,209,750 |
| - | - | 513,779 | - |
| 25,702 | - | 8,399,552 | 2,696,682 |
| 17,188 | - | 17,188 | 4,289,015 |
| <u>4,893,982</u> | <u>(58,599)</u> | <u>420,613,321</u> | <u>110,519,317</u> |
| 359,704 | - | 359,704 | - |
| - | - | 1,024,708 | - |
| 563,024 | - | 563,024 | 1,513,938 |
| 6,252 | - | 6,252 | - |
| 200 | - | 300,275 | 3,200,442 |
| <u>929,180</u> | <u>-</u> | <u>2,253,963</u> | <u>4,714,380</u> |
| - | - | - | 26,156 |
| - | - | 237,143 | 3,848,879 |
| - | - | - | 8,200 |
| - | - | - | - |
| 5,809 | - | 2,356,785 | 116,730,066 |
| (5,809) | - | (1,697,159) | (64,014,928) |
| <u>-</u> | <u>-</u> | <u>896,769</u> | <u>56,598,373</u> |
| <u>929,180</u> | <u>-</u> | <u>3,150,732</u> | <u>61,312,753</u> |
| <u>5,823,162</u> | <u>(58,599)</u> | <u>423,764,053</u> | <u>171,832,070</u> |
| <u>271,674</u> | <u>-</u> | <u>2,487,969</u> | <u>-</u> |
| <u>271,674</u> | <u>-</u> | <u>2,487,969</u> | <u>-</u> |

continued on next page

**STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

| | <u>Business-type Activities-Enterprise Funds</u> | | |
|--|---|------------------------------------|---|
| | <u>Unemployment Compensation Trust Fund</u> | <u>Liquor Control Fund</u> | <u>Vermont Lottery Commission</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable..... | - | 4,410,814 | 620,810 |
| Accrued salaries and benefits..... | - | 450,449 | 151,662 |
| Claims payable..... | 1,303,009 | - | - |
| Due to lottery winners..... | - | - | 116,781 |
| Due to agents..... | - | 392,218 | - |
| Due to other funds..... | 58,599 | 317,730 | 17,376 |
| Interfund payable..... | - | - | - |
| Future and unclaimed prizes payable..... | - | - | 6,006,197 |
| Unearned revenue..... | 7,885,846 | - | 185,819 |
| Capital leases payable..... | - | - | - |
| Other current liabilities..... | 951,841 | - | - |
| Total current liabilities..... | 10,199,295 | 5,571,211 | 7,098,645 |
| Long-term Liabilities | | | |
| Unexpired subscriptions..... | - | - | - |
| Due to lottery winners..... | - | - | 764,495 |
| Claims payable..... | - | - | - |
| Advances from other funds..... | - | 75 | 300,000 |
| Capital leases payable..... | - | - | - |
| Net pension liabilities..... | - | 3,649,528 | 1,224,242 |
| Other noncurrent liabilities..... | - | 35,372 | 10,827 |
| Total long-term liabilities..... | - | 3,684,975 | 2,299,564 |
| Total liabilities..... | 10,199,295 | 9,256,186 | 9,398,209 |
| DEFERRED INFLOW OF RESOURCES | | | |
| Pension related inflows..... | - | 419,971 | 191,941 |
| Total deferred inflow of resources..... | - | 419,971 | 191,941 |
| NET POSITION | | | |
| Net investment in capital assets..... | - | 885,255 | 11,514 |
| Restricted for unemployment compensation benefits..... | 384,431,433 | - | - |
| Unrestricted (deficit)..... | - | 5,287,776 | 134,205 |
| Total net position..... | \$ 384,431,433 | \$ 6,173,031 | \$ 145,719 |

The accompanying notes are an integral part of these statements.

| <u>Business-type Activities-Enterprise Funds</u> | | | <u>Governmental Activities</u> |
|---|---------------------|-------------------------------|-------------------------------------|
| <u>Non-major Enterprise Funds</u> | <u>Eliminations</u> | <u>Total Enterprise Funds</u> | <u>Total Internal Service Funds</u> |
| 379,954 | - | 5,411,578 | 11,842,465 |
| 45,685 | - | 647,796 | 4,581,906 |
| - | - | 1,303,009 | 17,108,305 |
| - | - | 116,781 | - |
| - | - | 392,218 | - |
| 746 | (58,599) | 335,852 | 806,329 |
| 3,485,048 | - | 3,485,048 | 62,099,803 |
| - | - | 6,006,197 | - |
| - | - | 8,071,665 | 367,951 |
| - | - | - | 605,889 |
| - | - | 951,841 | 154,972 |
| <u>3,911,433</u> | <u>(58,599)</u> | <u>26,721,985</u> | <u>97,567,620</u> |
| 359,704 | - | 359,704 | - |
| - | - | 764,495 | - |
| - | - | - | 30,950,791 |
| 200 | - | 300,275 | - |
| - | - | - | 9,751,211 |
| 597,934 | - | 5,471,704 | - |
| 2,313 | - | 48,512 | 1,019,147 |
| <u>960,151</u> | <u>-</u> | <u>6,944,690</u> | <u>41,721,149</u> |
| <u>4,871,584</u> | <u>(58,599)</u> | <u>33,666,675</u> | <u>139,288,769</u> |
| <u>91,645</u> | <u>-</u> | <u>703,557</u> | <u>-</u> |
| <u>91,645</u> | <u>-</u> | <u>703,557</u> | <u>-</u> |
| - | - | 896,769 | 46,241,273 |
| - | - | 384,431,433 | - |
| <u>1,131,607</u> | <u>-</u> | <u>6,553,588</u> | <u>(13,697,972)</u> |
| <u>\$ 1,131,607</u> | <u>\$ -</u> | <u>391,881,790</u> | <u>\$ 32,543,301</u> |
| Adjustment to reflect the consolidation of internal service activities related to enterprise funds..... | | 150,389 | |
| Net Position - Business-type Activities..... | | <u><u>\$ 392,032,179</u></u> | |

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Business-type Activities-Enterprise Funds | | |
|---|---|------------------------------------|---|
| | Unemployment Compensation Trust Fund | Liquor Control Fund | Vermont Lottery Commission |
| OPERATING REVENUES | | | |
| Charges for sales and services..... | \$ 143,118,993 | \$ 57,415,543 | \$ - |
| Ticket sales..... | - | - | 122,370,063 |
| Rental income..... | - | - | - |
| License fees..... | - | 1,909,751 | - |
| Federal donated properties..... | - | - | - |
| Advertising revenues..... | - | - | - |
| Other operating revenues..... | - | 3,885,137 | 5,296 |
| Total operating revenues..... | 143,118,993 | 63,210,431 | 122,375,359 |
| OPERATING EXPENSES | | | |
| Cost of sales and services..... | - | 46,963,734 | 93,945,640 |
| Claims expenses..... | 68,817,280 | - | - |
| Salaries and benefits..... | - | 4,905,669 | 1,632,505 |
| Insurance premium expenses..... | - | 16,243 | 4,784 |
| Contractual services..... | - | 234,968 | 148,828 |
| Repairs and maintenance..... | - | 43,623 | 7,710 |
| Depreciation..... | - | 205,835 | 3,784 |
| Rental expenses..... | - | 43,078 | 202,998 |
| Utilities and property management..... | - | 378,375 | 101,568 |
| Non-capital equipment purchased..... | - | 32,856 | 9,090 |
| Promotions and advertising..... | - | 58,097 | 564,959 |
| Administration expenses..... | - | 107,609 | 36,245 |
| Supplies and parts..... | - | 149,342 | 29,411 |
| Distribution and postage..... | - | 44,433 | 15,482 |
| Travel..... | - | 28,600 | 15,527 |
| Other operating expenses..... | - | 7,704,149 | 195,053 |
| Total operating expenses..... | 68,817,280 | 60,916,611 | 96,913,584 |
| Operating income (loss)..... | 74,301,713 | 2,293,820 | 25,461,775 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Federal grants..... | 787,273 | - | - |
| Gain on disposal of capital assets..... | - | 51,962 | - |
| Investment income..... | 6,942,045 | - | (43,439) |
| Total nonoperating revenues (expenses)..... | 7,729,318 | 51,962 | (43,439) |
| Income (loss) before other revenues, expenses, gains, losses, and transfers..... | 82,031,031 | 2,345,782 | 25,418,336 |
| OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS | | | |
| Insurance recoveries..... | - | 10,075 | - |
| Capital contributions..... | - | - | - |
| Transfers in..... | - | - | - |
| Transfers out..... | - | (1,063,630) | (25,501,795) |
| Total other revenues, expenses, gains, losses, and transfers..... | - | (1,053,555) | (25,501,795) |
| Changes in net position..... | 82,031,031 | 1,292,227 | (83,459) |
| Total net position, July 1..... | 302,400,402 | 4,880,804 | 229,178 |
| Total net position June 30..... | \$ 384,431,433 | \$ 6,173,031 | \$ 145,719 |

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

| Business-type Activities-Enterprise Funds | | Governmental Activities |
|--|-------------------------------|-------------------------------------|
| Non-major Enterprise Funds | Total Enterprise Funds | Total Internal Service Funds |
| \$ 4,743,741 | \$ 205,278,277 | \$ 337,726,783 |
| - | 122,370,063 | - |
| - | - | 20,159,893 |
| - | 1,909,751 | - |
| 396,538 | 396,538 | - |
| 336,757 | 336,757 | - |
| 55,702 | 3,946,135 | 2,954,978 |
| <u>5,532,738</u> | <u>334,237,521</u> | <u>360,841,654</u> |
| 3,601,806 | 144,511,180 | 40,069,009 |
| - | 68,817,280 | 178,626,973 |
| 714,556 | 7,252,730 | 46,197,149 |
| 6,862 | 27,889 | 5,153,562 |
| 161,952 | 545,748 | 12,209,977 |
| 906 | 52,239 | 6,582,122 |
| - | 209,619 | 11,157,444 |
| 2,617 | 248,693 | 2,774,212 |
| 23,457 | 503,400 | 11,951,682 |
| 639 | 42,585 | 2,798,940 |
| 29,624 | 652,680 | 73,111 |
| 13,507 | 157,361 | 14,098,258 |
| 8,273 | 187,026 | 6,834,780 |
| 203,528 | 263,443 | 70,729 |
| 5,577 | 49,704 | 71,614 |
| 25,906 | 7,925,108 | 3,873,684 |
| <u>4,799,210</u> | <u>231,446,685</u> | <u>342,543,246</u> |
| <u>733,528</u> | <u>102,790,836</u> | <u>18,298,408</u> |
| - | 787,273 | - |
| - | 51,962 | 831,049 |
| 18,739 | 6,917,345 | 363,976 |
| <u>18,739</u> | <u>7,756,580</u> | <u>1,195,025</u> |
| <u>752,267</u> | <u>110,547,416</u> | <u>19,493,433</u> |
| - | 10,075 | 32,122 |
| - | - | (490,634) |
| - | - | 1,479,384 |
| (931,378) | (27,496,803) | (924,000) |
| <u>(931,378)</u> | <u>(27,486,728)</u> | <u>96,872</u> |
| (179,111) | 83,060,688 | 19,590,305 |
| <u>1,310,718</u> | <u>308,821,102</u> | <u>12,952,996</u> |
| <u>\$ 1,131,607</u> | <u>\$ 391,881,790</u> | <u>\$ 32,543,301</u> |

Total change in net position reported above..... \$ 83,060,688
Consolidation adjustment of internal service activities related to enterprise funds..... 238,935
Change in net position - business type activities.. \$ 83,299,623

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

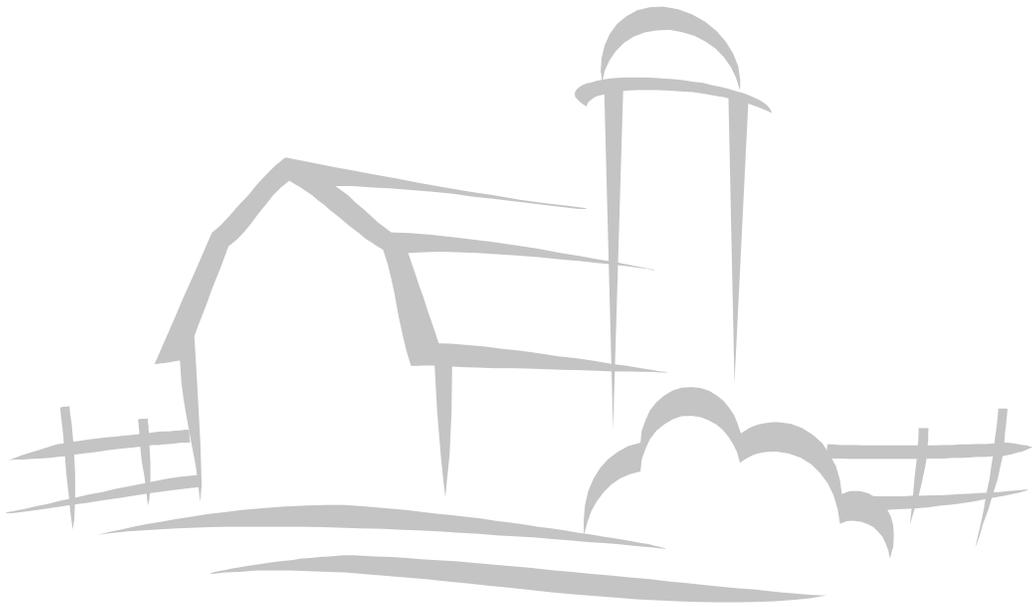
| | Business-type Activities-Enterprise Funds | | |
|--|--|---------------------------|----------------------------------|
| | Unemployment Compensation Trust Fund | Liquor Control Fund | Vermont Lottery Commission |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers..... | \$ 143,589,931 | \$ 57,935,196 | \$ 122,523,503 |
| Cash paid to suppliers for goods and services..... | - | (48,495,893) | (8,144,719) |
| Cash paid to employees for services..... | - | (4,703,062) | (1,574,278) |
| Cash paid for prizes and commissions..... | - | - | (86,992,174) |
| Cash paid to claimants..... | (69,101,762) | - | - |
| Cash paid for fees, operations and other..... | - | - | (195,053) |
| Other operating revenues..... | - | 5,794,888 | 5,296 |
| Other operating expenses..... | - | (7,704,149) | - |
| Total cash provided (used) by operating activities..... | 74,488,169 | 2,826,980 | 25,622,575 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers in..... | - | - | - |
| Transfers out..... | - | (1,063,630) | (25,521,646) |
| Interfund loans and advances..... | - | - | - |
| Federal grants..... | (638,618) | - | - |
| Net cash provided (used) by noncapital financing activities..... | (638,618) | (1,063,630) | (25,521,646) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Acquisition and construction of capital assets..... | - | (294,446) | - |
| Payment of capital leases and loans..... | - | - | - |
| Insurance recoveries..... | - | 10,075 | - |
| Proceeds from capital loans..... | - | - | - |
| Proceeds from sale of capital assets..... | - | 53,701 | - |
| Net cash provided (used) by capital and related financing activities..... | - | (230,670) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends on investments..... | 6,942,045 | - | (43,439) |
| Proceeds from sales/maturities of investments..... | - | - | 196,134 |
| Proceeds from loan repayments..... | - | - | - |
| Loans issued..... | - | - | - |
| Net cash provided (used) by investing activities..... | 6,942,045 | - | 152,695 |
| Net increase (decrease) in cash and cash equivalents..... | 80,791,596 | 1,532,680 | 253,624 |
| Cash and cash equivalents, July 1..... | 272,942,849 | 2,768,185 | 4,873,781 |
| Cash and cash equivalents, June 30..... | \$ 353,734,445 | \$ 4,300,865 | \$ 5,127,405 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | |
| Operating income (loss)..... | \$ 74,301,713 | \$ 2,293,820 | \$ 25,461,775 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | | |
| Depreciation and amortization..... | - | 205,835 | 3,784 |
| Impairment loss..... | - | 45,363 | - |
| (Increase) decrease in accounts/taxes receivable..... | 484,363 | 448,529 | 176,932 |
| (Increase) decrease in due from other funds..... | - | 55,144 | - |
| (Increase) decrease in inventory..... | - | (466,500) | (39,396) |
| (Increase) decrease in prepaid expenses..... | - | - | - |
| (Increase) decrease in deferred outflows..... | - | (460,315) | (130,764) |
| Increase (decrease) in accounts payable..... | - | (10,144) | (172,195) |
| Increase (decrease) in accrued salaries and benefits..... | - | 19,705 | 2,505 |
| Increase (decrease) in claims payable..... | (99,920) | - | - |
| Increase (decrease) in due to lottery winners..... | - | - | (119,643) |
| Increase (decrease) in due to agents..... | - | 36,346 | - |
| Increase (decrease) in future and unclaimed prizes payable..... | - | - | 268,007 |
| Increase (decrease) in due to other funds..... | (13,425) | 15,980 | 8,576 |
| Increase (decrease) in unearned revenues..... | - | - | (23,492) |
| Increase (decrease) in other liabilities..... | (184,562) | - | 10,827 |
| Increase (decrease) in subscription reserves..... | - | - | - |
| Increase (decrease) in net pension liabilities..... | - | 691,574 | 175,039 |
| Increase (decrease) in deferred inflows..... | - | (48,357) | 620 |
| Total adjustments..... | 186,456 | 533,160 | 160,800 |
| Net cash provided (used) by operating activities..... | \$ 74,488,169 | \$ 2,826,980 | \$ 25,622,575 |
| Noncash investing, capital, and financing activities: | | | |
| Contributions of capital assets to/from other funds..... | - | - | - |
| Retirement of assets not fully depreciated..... | - | (1,739) | - |
| Fair market value of donated inventory sold..... | - | - | - |

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

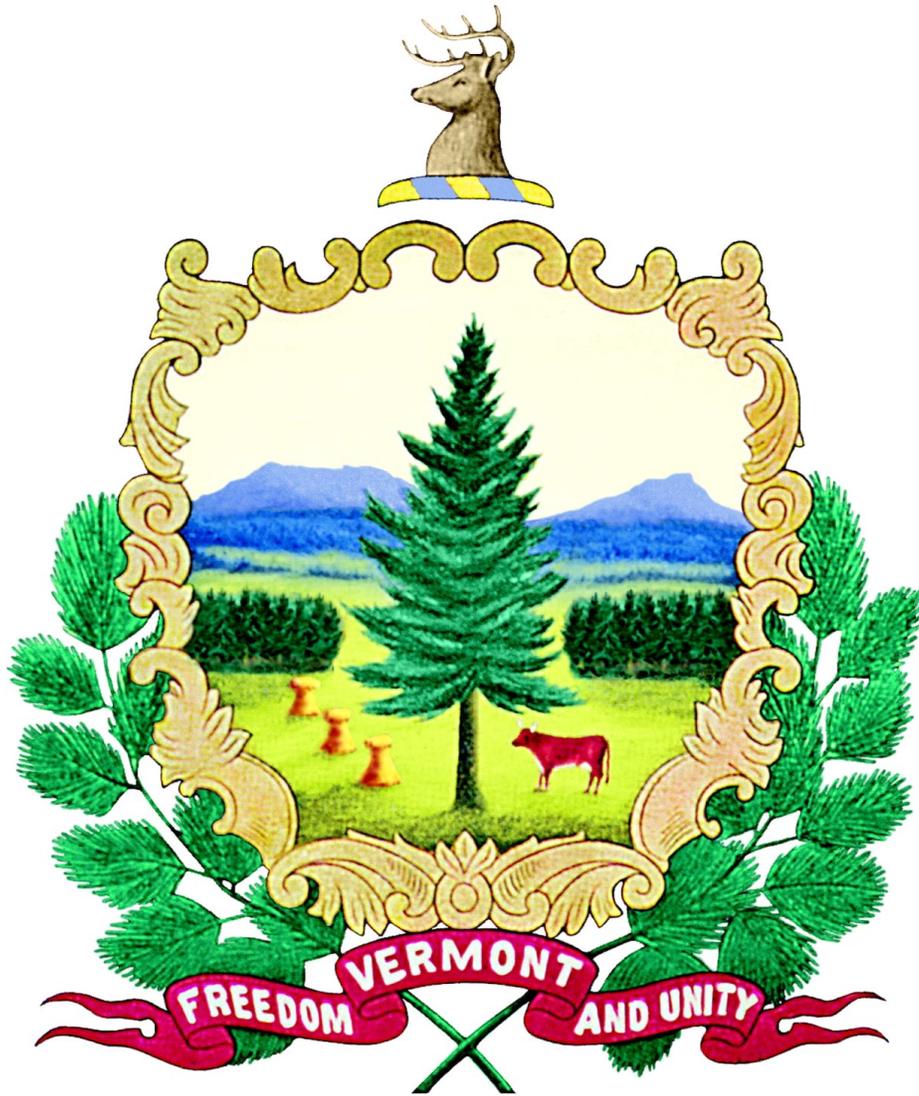
The accompanying notes are an integral part of these financial statements.

| Business-type Activities-Enterprise Funds | | Activities |
|--|-------------------------------|-------------------------------------|
| Non-major Enterprise Funds | Total Enterprise Funds | Total Internal Service Funds |
| \$ 4,586,480 | \$ 328,635,110 | \$ 359,180,986 |
| (3,508,573) | (60,149,185) | (102,168,940) |
| (689,530) | (6,966,870) | (45,677,452) |
| - | (86,992,174) | - |
| - | (69,101,762) | (190,263,548) |
| - | (195,053) | - |
| 3,976 | 5,804,160 | 3,386,795 |
| (26,616) | (7,730,765) | (1,651,473) |
| <u>365,737</u> | <u>103,303,461</u> | <u>22,806,368</u> |
| - | - | 1,479,384 |
| (931,378) | (27,516,654) | (924,000) |
| 407,957 | 407,957 | 42,792 |
| - | (638,618) | - |
| <u>(523,421)</u> | <u>(27,747,315)</u> | <u>598,176</u> |
| - | (294,446) | (12,846,481) |
| - | - | (704,739) |
| - | 10,075 | 32,097 |
| - | - | 1,080,773 |
| - | 53,701 | 1,462,879 |
| - | (230,670) | (10,975,471) |
| (3,979) | 6,894,627 | 363,975 |
| - | 196,134 | - |
| 605,212 | 605,212 | 230,475 |
| (369,958) | (369,958) | (2,129,897) |
| <u>231,275</u> | <u>7,326,015</u> | <u>(1,535,447)</u> |
| 73,591 | 82,651,491 | 10,893,626 |
| <u>3,029,149</u> | <u>283,613,964</u> | <u>58,929,139</u> |
| <u>\$ 3,102,740</u> | <u>\$ 366,265,455</u> | <u>\$ 69,822,765</u> |
| | | |
| \$ 733,528 | \$ 102,790,836 | \$ 18,298,408 |
| - | 209,619 | 11,157,444 |
| - | 45,363 | - |
| (268,966) | 840,858 | (3,156,476) |
| (221,996) | (166,852) | 6,405,827 |
| 230,104 | (275,792) | (312,366) |
| 1,195 | 1,195 | 1,638,134 |
| (48,379) | (639,458) | - |
| 83,500 | (98,839) | (34,558) |
| (10,160) | 12,050 | (44,824) |
| - | (99,920) | (10,464,508) |
| - | (119,643) | - |
| - | 36,346 | - |
| - | 268,007 | - |
| (2,250) | 8,881 | (687,361) |
| (165,000) | (188,492) | (32,900) |
| - | (173,735) | 39,548 |
| (46,453) | (46,453) | - |
| 59,532 | 926,145 | - |
| <u>21,082</u> | <u>(26,655)</u> | <u>-</u> |
| <u>(367,791)</u> | <u>512,625</u> | <u>4,507,960</u> |
| <u>\$ 365,737</u> | <u>\$ 103,303,461</u> | <u>\$ 22,806,368</u> |
| - | - | (490,634) |
| - | (1,739) | (684,073) |
| 612,027 | 612,027 | 70,884 |

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Vermont



***FIDUCIARY FUNDS
FINANCIAL STATEMENTS***

**STATE OF VERMONT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

| | Pension and Other Postemployment Benefits Trust Funds | Private Purpose Trust Fund Unclaimed Property Fund | Agency Funds |
|---|--|---|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash and cash equivalents..... | \$ 137,684,520 | \$ 5,752,119 | \$ 9,103,470 |
| Investments | | | |
| Fixed income..... | 599,635,441 | - | - |
| Equities..... | 728,148,623 | 2,208,443 | - |
| Mutual and commingled funds..... | 2,343,771,107 | - | - |
| Real estate and private partnerships..... | 498,987,426 | - | - |
| Receivables: | | | |
| Taxes..... | - | - | 1,931,633 |
| Contributions - current..... | 17,122,113 | - | - |
| Contributions - non-current..... | 6,740,553 | - | - |
| Investments sold..... | 205,550,074 | - | - |
| Interest and dividends..... | 5,859,366 | - | - |
| Other..... | 7,403,178 | - | 1,417,620 |
| Prepaid expenses..... | 146,007 | - | - |
| Other assets..... | - | 5,548,127 | - |
| Capital assets: | | | |
| Capital assets being depreciated: | | | |
| Equipment..... | 8,362,012 | 5,627 | - |
| Less accumulated depreciation..... | (3,542,357) | (4,717) | - |
| Total capital assets, net of depreciation..... | <u>4,819,655</u> | <u>910</u> | <u>-</u> |
| Total assets..... | <u>4,555,868,063</u> | <u>13,509,599</u> | <u>12,452,723</u> |
| LIABILITIES | | | |
| Accounts payable..... | 5,995,570 | 28,532 | - |
| Accrued salaries and benefits..... | - | 28,565 | - |
| Claims payable..... | - | 8,849,112 | - |
| Investments purchased..... | 270,949,572 | - | - |
| Interest payable..... | 289,656 | - | - |
| Due to other funds..... | 107,416 | - | - |
| Interfund loans payable..... | 29,200,000 | - | 28,106 |
| Due to depositories..... | - | - | 209,654 |
| Intergovernmental payable - other governments..... | - | - | 6,582,130 |
| Amounts held in custody for others..... | - | - | 3,854,945 |
| Other liabilities..... | - | - | 1,777,888 |
| Total liabilities..... | <u>306,542,214</u> | <u>8,906,209</u> | <u>\$ 12,452,723</u> |
| NET POSITION | | | |
| Restricted for employees' pension benefits..... | 4,240,166,981 | - | |
| Restricted for employees' other postemployment benefits..... | 9,158,868 | - | |
| Held in trust for individuals, organizations and other governments..... | <u>-</u> | <u>4,603,390</u> | |
| Net position held in trust for benefits and other purposes.... | <u>\$ 4,249,325,849</u> | <u>\$ 4,603,390</u> | |

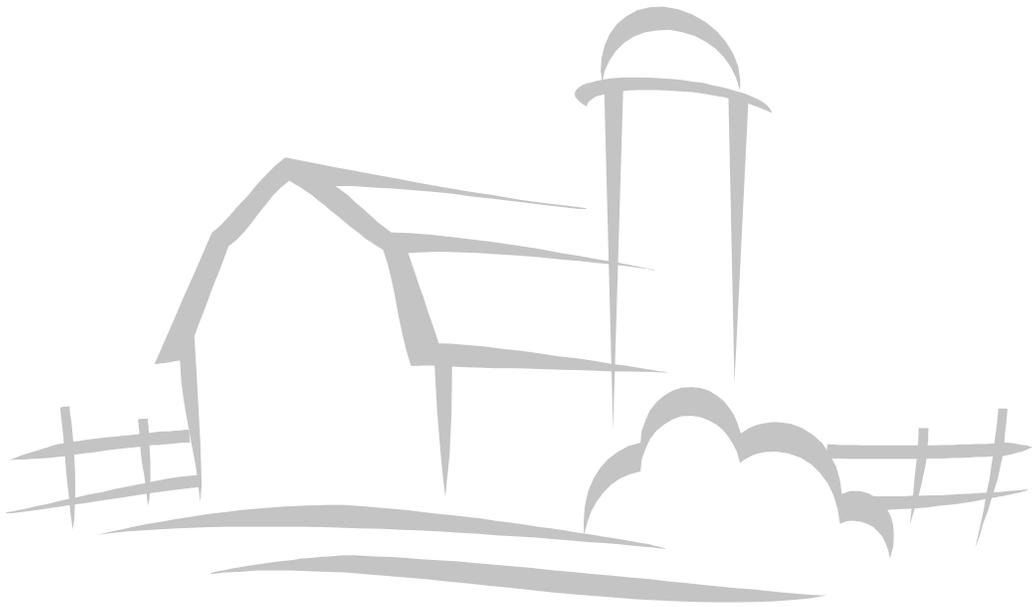
The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

| | Pension and Other Postemployment Benefits Trust Funds | Private Purpose Trust Fund Unclaimed Property Fund |
|---|--|---|
| ADDITIONS | | |
| Contributions | | |
| Employer - pension benefit..... | \$ 79,081,623 | \$ - |
| Employer - healthcare benefit..... | 32,948,697 | - |
| Non-employer - pension benefit..... | 78,663,674 | - |
| Non-employer - healthcare benefit..... | 23,838,958 | - |
| Plan member..... | 98,539,475 | - |
| Transfers from non-state systems..... | 57,427 | - |
| Other revenues..... | <u>4,223,500</u> | - |
| Total contributions..... | <u>317,353,354</u> | - |
| Investment Income | | |
| Net appreciation/(depreciation) in fair value of investments..... | 362,340,874 | - |
| Dividends..... | 42,413,331 | - |
| Interest income..... | 22,416,597 | 67,201 |
| Other income..... | <u>2,193,576</u> | - |
| Total investment income..... | <u>429,364,378</u> | <u>67,201</u> |
| Less Investment Expenses | | |
| Investment managers and consultants..... | <u>11,665,928</u> | - |
| Total investment expenses..... | <u>11,665,928</u> | - |
| Net investment income..... | <u>417,698,450</u> | <u>67,201</u> |
| Escheat property remittances..... | - | <u>1,069,393</u> |
| Total additions..... | <u>735,051,804</u> | <u>1,136,594</u> |
| DEDUCTIONS | | |
| Retirement benefits..... | 328,997,056 | - |
| Other postemployment benefits..... | 63,017,323 | - |
| Refunds of contributions..... | 7,638,744 | - |
| Death claims..... | 1,118,627 | - |
| Depreciation..... | 907,446 | 451 |
| Operating expenses..... | <u>5,283,587</u> | <u>825,272</u> |
| Total deductions..... | <u>406,962,783</u> | <u>825,723</u> |
| Change in net position | | |
| Restricted for employees' pension benefits..... | 331,823,250 | - |
| Restricted for employees' other postemployment benefits..... | (3,734,229) | - |
| Held in trust for individuals, organizations and other governments..... | <u>-</u> | <u>310,871</u> |
| Net position, July 1..... | <u>3,921,236,828</u> | <u>4,292,519</u> |
| Net position, June 30..... | <u>\$ 4,249,325,849</u> | <u>\$ 4,603,390</u> |

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

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Vermont



***DISCRETELY PRESENTED COMPONENT UNITS
FINANCIAL STATEMENTS***

**STATE OF VERMONT
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2017**

| | 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..... | \$ 23,142,000 | \$ 151,514,000 | \$ 10,716,499 | \$ 1,366,000 | \$ 23,964,957 | \$ 210,703,456 |
| Investments..... | - | 121,826,000 | 4,726,059 | 16,269,000 | 25,041,895 | 167,862,954 |
| Accounts receivable, net..... | - | 32,276,000 | 11,050,090 | - | 1,959,696 | 45,285,786 |
| Accrued interest receivable - loans..... | 10,230,000 | - | - | 2,822,000 | 2,297,862 | 15,349,862 |
| Accrued interest receivable - investments..... | 43,000 | - | - | 147,000 | - | 190,000 |
| Loans and notes receivable - current portion..... | 120,559,000 | 997,000 | - | 16,634,000 | 77,717,891 | 215,907,891 |
| Other receivables..... | 1,060,000 | 2,182,000 | - | 422,000 | 1,895,332 | 5,559,332 |
| Due from federal government..... | 138,000 | 7,066,000 | - | - | 1,950,299 | 9,154,299 |
| Due from primary government..... | - | - | - | - | 2,448,020 | 2,448,020 |
| Inventories, at cost..... | - | 14,000 | - | - | 93,039 | 107,039 |
| Other current assets..... | 510,000 | 11,279,000 | 2,321,729 | - | 998,709 | 15,109,438 |
| Total current assets..... | 155,682,000 | 327,154,000 | 28,814,377 | 37,660,000 | 138,367,700 | 687,678,077 |
| Restricted and Noncurrent Assets | | | | | | |
| Cash and cash equivalents..... | 92,314,000 | 11,396,000 | 661,240 | 49,587,000 | 5,115,250 | 159,073,490 |
| Investments..... | 5,215,000 | 471,601,000 | 46,224,853 | 177,457,000 | 75,804,196 | 776,302,049 |
| Loans and notes receivable, net..... | 734,922,000 | 33,132,000 | 5,474,108 | 249,149,000 | 888,649,371 | 1,911,326,479 |
| Other assets..... | - | 35,350,000 | 46,826 | 939,000 | 20,985,794 | 57,321,620 |
| Total restricted and noncurrent assets..... | 832,451,000 | 551,479,000 | 52,407,027 | 477,132,000 | 990,554,611 | 2,904,023,638 |
| Capital Assets | | | | | | |
| Land..... | 3,150,000 | 32,851,000 | 9,004,664 | 50,000 | 602,470 | 45,658,134 |
| Construction in progress..... | - | 80,184,000 | 591,775 | - | 1,300,153 | 82,075,928 |
| Capital assets, being depreciated | | | | | | |
| Buildings and leasehold improvements..... | 17,213,000 | 846,591,000 | 261,540,028 | 1,861,000 | 34,178,899 | 1,161,383,927 |
| Equipment, furniture and fixtures..... | 10,337,000 | 177,575,000 | 34,070,153 | 1,445,000 | 5,672,173 | 229,099,326 |
| Infrastructure..... | - | - | 39,314,228 | - | - | 39,314,228 |
| Less accumulated depreciation..... | (16,136,000) | (495,261,000) | (176,106,780) | (2,668,000) | (23,955,902) | (714,127,682) |
| Total capital assets, net of depreciation... | 14,564,000 | 641,940,000 | 168,414,068 | 688,000 | 17,797,793 | 843,403,861 |
| Total assets..... | 1,002,697,000 | 1,520,573,000 | 249,635,472 | 515,480,000 | 1,146,720,104 | 4,435,105,576 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Loss on refunding of bonds payable..... | - | 5,936,000 | 10,827,370 | - | 27,538,121 | 44,301,491 |
| Interest rate swaps..... | - | - | - | 1,583,000 | - | 1,583,000 |
| Pension related outflows..... | - | - | - | - | 4,943,745 | 4,943,745 |
| Total deferred outflows of resources..... | - | 5,936,000 | 10,827,370 | 1,583,000 | 32,481,866 | 50,828,236 |

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

continued on next page

| | 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 |
|---|---|---|------------------------------|---|---------------------------------|-----------------------------|
| LIABILITIES | | | | | | |
| Current Liabilities | | | | | | |
| Accounts payable and accrued liabilities..... | 2,699,000 | 72,053,000 | 13,440,260 | 412,000 | 3,220,973 | 91,825,233 |
| Accrued interest payable..... | - | - | - | 2,992,000 | 245,000 | 3,237,000 |
| Bond interest payable..... | 652,000 | - | - | - | 2,035,133 | 2,687,133 |
| Unearned revenue..... | 6,175,000 | 74,314,000 | 6,188,236 | - | - | 86,677,236 |
| Current portion of long-term liabilities..... | 7,515,000 | 12,085,000 | 3,982,732 | 15,338,000 | 148,915,590 | 187,836,322 |
| Due to primary government..... | - | - | - | - | 1,641,118 | 1,641,118 |
| Escrowed cash deposits..... | - | - | - | 2,868,000 | 162,000 | 3,030,000 |
| Advances from primary government..... | - | - | - | - | 5,513,332 | 5,513,332 |
| Total current liabilities..... | 17,041,000 | 158,452,000 | 23,611,228 | 21,610,000 | 161,733,146 | 382,447,374 |
| Noncurrent Liabilities | | | | | | |
| Bonds, notes and leases payable..... | 774,637,000 | 556,603,000 | 125,023,977 | 405,123,000 | 683,002,800 | 2,544,389,777 |
| Accounts payable and accrued liabilities..... | - | 23,893,000 | 53,555 | - | - | 23,946,555 |
| Accrued arbitrage rebate..... | 3,255,000 | - | - | - | 44,360 | 3,299,360 |
| Net pension liabilities..... | - | - | - | - | 10,839,177 | 10,839,177 |
| Net other postemployment benefits obligation..... | - | 232,590,000 | 64,914,056 | - | - | 297,504,056 |
| Other liabilities..... | - | - | 6,050,345 | 2,331,000 | 153,606 | 8,534,951 |
| Total noncurrent liabilities..... | 777,892,000 | 813,086,000 | 196,041,933 | 407,454,000 | 694,039,943 | 2,888,513,876 |
| Total liabilities..... | 794,933,000 | 971,538,000 | 219,653,161 | 429,064,000 | 855,773,089 | 3,270,961,250 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Gain on refunding of bonds payable..... | 28,670,000 | - | - | - | - | 28,670,000 |
| Service concession arrangement..... | - | 2,104,000 | - | - | - | 2,104,000 |
| Pension related inflows..... | - | - | - | - | 1,643,740 | 1,643,740 |
| Total deferred inflows of resources..... | 28,670,000 | 2,104,000 | - | - | 1,643,740 | 32,417,740 |
| NET POSITION | | | | | | |
| Net investment in capital assets..... | 14,564,000 | 95,797,000 | 54,661,140 | 688,000 | 15,696,793 | 181,406,933 |
| Restricted | | | | | | |
| Endowments - expendable..... | 531,000 | 329,870,000 | 10,894,871 | - | - | 341,295,871 |
| Endowments - nonexpendable..... | 4,861,000 | 115,035,000 | 18,924,987 | - | - | 138,820,987 |
| Grants and scholarships..... | 778,000 | - | - | - | - | 778,000 |
| Bond resolution..... | 83,993,000 | - | - | 78,816,000 | - | 162,809,000 |
| Investment in limited partnerships..... | - | - | - | - | 3,513,000 | 3,513,000 |
| Collateral for commercial paper program..... | - | - | - | - | 22,539,000 | 22,539,000 |
| Project and program commitments..... | - | - | - | 2,193,000 | 28,046,233 | 30,239,233 |
| Loans receivable..... | - | - | - | - | 204,131,223 | 204,131,223 |
| Unrestricted..... | 74,367,000 | 12,165,000 | (43,671,317) | 6,302,000 | 47,858,892 | 97,021,575 |
| Total net position..... | \$ 179,094,000 | \$ 552,867,000 | \$ 40,809,681 | \$ 87,999,000 | \$ 321,785,141 | \$ 1,182,554,822 |

**STATE OF VERMONT
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2017**

| | 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..... | \$ 17,321,000 | \$ 432,458,000 | \$ 121,029,266 | \$ 3,454,000 | \$ 22,935,583 | \$ 597,197,849 |
| Other expenses..... | 14,741,000 | 158,792,000 | 46,316,249 | 1,517,000 | 32,624,572 | 253,990,821 |
| Scholarship, grants and fellowships..... | 25,885,000 | 17,198,000 | 7,353,585 | - | - | 50,436,585 |
| Depreciation..... | 932,000 | 29,931,000 | 9,722,037 | 80,000 | 1,539,193 | 42,204,230 |
| Interest on debt..... | 9,770,000 | 16,741,000 | 5,212,248 | 14,435,000 | 24,219,525 | 70,377,773 |
| Total expenses..... | 68,649,000 | 655,120,000 | 189,633,385 | 19,486,000 | 81,318,873 | 1,014,207,258 |
| Program Revenues | | | | | | |
| Charges for services..... | 44,989,000 | 440,391,000 | 119,893,206 | 1,178,000 | 49,362,347 | 655,813,553 |
| Operating grants and contributions..... | 32,377,000 | 242,279,000 | 59,327,157 | - | 16,790,518 | 350,773,675 |
| Capital grants and contributions..... | - | 2,344,000 | 2,002,199 | - | 5,136,636 | 9,482,835 |
| Total program revenues..... | 77,366,000 | 685,014,000 | 181,222,562 | 1,178,000 | 71,289,501 | 1,016,070,063 |
| Net revenue (expense)..... | 8,717,000 | 29,894,000 | (8,410,823) | (18,308,000) | (10,029,372) | 1,862,805 |
| General Revenues | | | | | | |
| Property transfer tax..... | - | - | - | - | 11,304,840 | 11,304,840 |
| Investment income..... | 532,000 | - | 2,792,082 | 14,553,000 | 5,340,875 | 23,217,957 |
| Additions to non-expendable endowments..... | - | - | 873,512 | - | - | 873,512 |
| Miscellaneous..... | - | 4,754,000 | - | 2,920,000 | 306,643 | 7,980,643 |
| Total general revenues..... | 532,000 | 4,754,000 | 3,665,594 | 17,473,000 | 16,952,358 | 43,376,952 |
| Changes in net position..... | 9,249,000 | 34,648,000 | (4,745,229) | (835,000) | 6,922,986 | 45,239,757 |
| Net position - beginning, as restated..... | 169,845,000 | 518,219,000 | 45,554,910 | 88,834,000 | 314,862,155 | 1,137,315,065 |
| Net position - ending..... | \$ 179,094,000 | \$ 552,867,000 | \$ 40,809,681 | \$ 87,999,000 | \$ 321,785,141 | \$ 1,182,554,822 |

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

**STATE OF VERMONT
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017**

| | |
|--|-----|
| I. Summary of Significant Accounting Policies | |
| A. Financial Reporting Entity..... | 70 |
| B. Basis of Presentation - Government-wide Financial Statements..... | 73 |
| C. Basis of Presentation - Fund Financial Statements..... | 74 |
| D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation..... | 77 |
| E. Assets and Deferred Outflows, Liabilities and Deferred Inflows, and Net Position/Fund Balance.... | 78 |
| F. Accounting and Reporting Changes..... | 83 |
| II. Reconciliation of Government-wide and Fund Financial Statements | |
| A. Net Position and Fund Balance..... | 84 |
| B. Activities and Revenues, Expenditures, and Changes in Fund Balances..... | 85 |
| III. Stewardship, Compliance and Accountability | |
| A. Budgetary Information..... | 86 |
| B. Deficit Fund Balance/Net Position..... | 87 |
| IV. Detail Notes on All Activities and Funds | |
| A. Cash and Cash Equivalents..... | 88 |
| B. Investments..... | 89 |
| C. Receivables..... | 102 |
| D. Interfund Balances | |
| 1. Due from/to Other Funds..... | 104 |
| 2. Advances to/from Other Funds..... | 105 |
| 3. Interfund Receivables/Payables..... | 105 |
| 4. Inter-Primary Government/Component Unit Balances..... | 106 |
| 5. Interfund Transfers..... | 106 |
| E. Capital Assets..... | 108 |
| F. Deferred Outflows and Deferred Inflows..... | 109 |
| G. Long-term Liabilities | |
| 1. Bonds Payable..... | 110 |
| 2. Bond Refundings..... | 112 |
| 3. Lease Commitments..... | 112 |
| 4. Retirement Plans and Other Postemployment Benefits..... | 114 |
| 5. Other Long-term Liabilities..... | 146 |
| H. Fund Balance/Net Position..... | 148 |
| V. Other Information | |
| A. Risk Management..... | 150 |
| B. Budget Stabilization Reserves..... | 152 |
| C. Contingent and Limited Liabilities | |
| 1. Contingent Liabilities..... | 153 |
| 2. Limited Liabilities..... | 153 |
| 3. Contractual Liabilities..... | 154 |
| 4. Grant Awards..... | 155 |
| D. Litigation..... | 156 |
| E. Joint Venture..... | 156 |
| F. Tax Abatements..... | 157 |
| G. Accounting Changes..... | 161 |
| H. Subsequent Events..... | 162 |

**STATE OF VERMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

Note I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the State of Vermont (State) have been prepared in accordance with generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles in the United States of America.

The basic 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 basic financial statements are presented as of and for the period ended June 30, 2017.

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

A. Financial Reporting Entity

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

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

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State such that exclusion would cause the State's financial statements to be misleading or incomplete. These component units are financially accountable to the State if the State appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, or if there is a potential for the organization to provide a financial benefit or financial burden to the State. Alternatively, for those organizations where the State does not appoint a voting majority, an organization is financially accountable to the State if the organization is fiscally dependent and the organization provides a financial benefit or financial burden to the State.

Component unit activity may be "blended" into the activity of the primary government or may be reported separately. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. If they are reported separately, they are called "discretely presented component units" and are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit's designation as either "major" or "non-major" has been determined by the entity's relative significance to the State. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

Discretely Presented Major Component Units

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

Vermont Student Assistance Corporation (VSAC) – The VSAC was established by the Vermont Legislature to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. The Governor of the State appoints five of the eleven members of the Board of Directors and the State Legislature appoints two additional members. The State of Vermont has the ability to impose its will upon VSAC through its ability to change or alter the organization, structure or programs. For audited financial statements and further information, contact their administrative offices at 10 East Allen Street, P.O. Box 2000, Winooski, Vermont 05404.

University of Vermont (UVM) (audited by KPMG, LLP) - The UVM's financial report includes both the University and the State Agricultural College. The State appoints twelve of the twenty-three voting members of the Board of trustees. The State has assumed an obligation to provide financial support through its annual appropriation and is obligated to maintain the University's debt service reserves. Audited financial statements and 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 University
- Johnson State College
- Lyndon State College
- Vermont Technical College
- Vermont Manufacturing Extension Center
- Small Business Development Center
- Vermont Tech Office of Continuing Education and Workforce Development

The Governor, with the advice and consent of the Senate, appoints nine of the fifteen members of the board of trustees, and the legislature appoints an additional four members. The State has assumed an obligation to provide financial support through its annual appropriations and has assumed an obligation to maintain VSC's debt service reserves. Audited financial statements and 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, P.O. Box 7, Montpelier VT 05601.

Vermont Housing Finance Agency (VHFA) – The VHFA was created in 1974 by an Act of the General Assembly of the State of Vermont for the purpose of financing and promoting affordable, safe and decent housing opportunities for low- and moderate-income Vermonters. The State appoints voting members of VHFA's board of commissioners. The State is able to impose its will on the organization as the Governor can remove any member of the board at will. The State also has an obligation to maintain the organization's debt reserves. Audited financial statements and additional information may be obtained by contacting the Agency's administrative offices at 164 Saint Paul Street, Burlington, VT 05401.

Discretely Presented Non-major Component Units

Vermont Economic Development Authority (VEDA) (audited by KPMG, LLP) – VEDA, a tax-exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital. The authority has 15 voting members consisting of the Secretary of the Agency of Commerce and Community Development; the State Treasurer; the Secretary of Agriculture, Food and Markets; the Commissioner of Forest, Parks, & Recreation; and the Commissioner of Public Service; or a designee of any of the above; and ten members, who are residents of the State of Vermont and appointed by the Governor with the advice and consent of the senate. The State has the ability to impose its will on the entity as the Governor can remove members at will and the

State can change the structure and activities of the organization at any time. The entity's services primarily benefit the Vermont citizenry.

VEDA also administers the State Infrastructure Bank (SIB), the Drinking Water State Revolving Loan Fund – Private Loans, the Brownfields Revitalization Fund, Clean Energy Development Fund, and the Windham County Economic Development Fund. These five funds are administered for the benefit of the State and are consolidated and reported in VEDA's agency fund. Audited financial statements and additional information may be obtained by contacting VEDA at 58 East State Street, Suite 5, Montpelier, Vermont 05602.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this organization with two goals: create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. The VHCB's Board of Directors is appointed by the Governor of the State of Vermont and there is a material financial relationship. Funding for the organization is provided by the Legislature, comprised of 50% of the revenue from the property transfer tax, plus other monies appropriated from time to time. Audited financial statements and additional information may be obtained by contacting them at 58 East State Street, Suite 5 Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. The Governor appoints the four directors, and can remove members at will. VMBB is authorized, with written consent of the Governor and the State Treasurer, to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. The State is obligated annually to appropriate any funds necessary to maintain required reserves of the bond bank. The VMBB has an annual fiscal year (December 31).

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 publishes 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. VMBB audited financial statements and additional information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Educational and Health Buildings Financing Agency (VEHBFA) – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible Vermont educational or health related entities. The majority of the Board of VEHBFA is appointed by the Governor of the State. The Board may appoint officers, agents, consultants and employees. Their compensation is subject to approval of the Governor. It has a December 31 (annual) year-end. Audited financial statements and additional information may be obtained by contacting VEHBFA at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Veterans' Home – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the Vermont Veterans' Home. The State can impose its will on the entity as directors serve at the pleasure of the Governor. The Vermont Veterans' Home is financially accountable to the State as the State provides all funding and controls the finances of the Home. Audited financial statements and additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

Vermont Transportation Authority (VTA) – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. All members of the authority are appointed by the Governor, and all resources revert to the State on termination of the authority. The VTA, currently inactive, has remained in the State Statutes in case it becomes necessary to reactivate it in the future. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

Joint Ventures

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

Jointly-governed Organizations

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

Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)

New England Board of Higher Education (16 V.S.A. 2692)

New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)

Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)

Related Organizations

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

Excluded Organizations

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statements No. 61.

Vermont Sustainable Jobs Fund, Inc.

Vermont Information Technology Leaders (VITL)

Vermont Council on the Humanities

Vermont Council on the Arts

Vermont Historical Society

Vermont Public Power Supply Authority

Connecticut River Atlantic Salmon Commission (10 V.S.A. 4654)

Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

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

B. Basis of Presentation—Government-wide Financial Statements

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

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

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

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

Net position (the amount by which assets and deferred outflows exceed liabilities and deferred inflows) are reported on the Statement of Net Position in three components:

- (1) Net investment in capital assets— total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are related to the acquisition or construction of those assets, including related deferred outflows of resources and deferred inflows of resources.
- (2) Restricted – for amounts when constraints placed on the net position are either externally imposed, or are imposed by constitutional provisions or enabling legislation.
- (3) Unrestricted – the total net position which do not fit the two preceding categories.

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

C. Basis of Presentation—Fund Financial Statements

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

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

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

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

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

Governmental Funds

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

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

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

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

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

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

Global Commitment (to Health) Fund – This fund is a major special revenue fund created in accordance with Section 16c of 33 V.S.A. 1901(e). 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, 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 Services (AHS) has contracted with the Department of Vermont Health Access (DVHA), which serves as a publicly sponsored managed care organization, and adheres to all Federal managed care organization regulations.

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

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

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

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

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

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

Proprietary Funds

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

Enterprise Funds – These nine funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State's unemployment compensation

program, the liquor control board, and the State's lottery program, are reported as "major funds" while the remaining six are reported as non-major funds.

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

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

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

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

Fiduciary Funds

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

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

Private Purpose Trust Fund – The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The Unclaimed Property Division in the State Treasurer's Office administers procedures for returning this property to its rightful owner if they can be located. In addition to monetary assets, from time to time, the Unclaimed Property Division may have custody of tangible property that has not been valued and therefore is not reported in the financial statements.

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. They have no net position and report items such as Federal income tax withholding, social security tax withholding, etc.

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

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Statewide education property taxes are recognized as revenues in the year for which the taxes are levied. This property tax is levied by the State on July 1, is included in the property tax bills levied by municipalities, and is collected by municipalities. The municipalities, by December 1 and June 1, must make payment to the State Treasurer in the amount specified by the Commissioner of Taxes.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. Expenditures generally are recorded when a liability is due and payable, with the following exceptions:

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

Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units – The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

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

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

Cash and Cash Equivalents

Cash balances for most funds are deposited with the State Treasurer. Except for the Pension and Vermont Municipal Employees Health Benefit Trust Funds, and Capital Projects Funds, cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

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

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

Investments

The investments are categorized at their fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on the valuation inputs used to measure fair value of the asset that prioritizes inputs into three levels: Level 1 - quoted prices for identical

instruments in active markets; Level 2 - significant inputs that are observable; Level 3 - significant inputs that are unobservable.

Also certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. For additional information regarding types of investments and basis of valuation, see Note IV.B. - Investments.

Receivables

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

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from drinking water and clean water special environmental loans. Other receivables include primarily fees, fines, and drug 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 other receivables that will be collected by the State within 60 days after year-end. Amounts estimated to be collected after the 60-day revenue recognition period are recorded as unavailable revenues. Federal receivables are amounts due from the federal government to reimburse the State's expenditures incurred pursuant to federally funded programs. Federal grant revenues are accrued when the qualifying expenditure is incurred. Notes and loans receivable in the General Fund consist primarily of loans to various non-profit organizations and a Vermont Economic Development Authority note held by the State. No allowances for uncollectible amounts have been recognized in these notes receivable. See Note V.C. - Contingent Liabilities for further information.

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 (enterprise fund), which are reported at the federal acquisition cost. Cost valuation methods used in the proprietary funds are weighted average method (enterprise funds - Liquor Control Fund and Vermont Life Magazine Fund, and internal service funds - Highway Garage Fund and Offender Work Programs Fund); specific identification method (enterprise funds - Vermont Lottery Commission, Federal Surplus Property Fund, and internal service funds - Communication & Information Technology Fund, and State Surplus Property Fund); and first-in, first-out method (internal service fund - Postage Fund).

Prepaid Expenses

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

Capital Assets and Depreciation

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

Capital assets, except as stated below, have an initial cost of at least \$5,000, and provide a future economic benefit for a minimum of 2 years. This includes buildings that are not considered to be part of an infrastructure asset. All land and land use rights, regardless of cost, are capitalized and are not depreciated. Infrastructure

assets are defined as long-lived economic resources that are normally stationary in nature, utilized primarily by the general public as opposed to State employees, cost at least \$50,000 and provide future economic benefit for a minimum of 3 years. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most capital assets. Software with a cost of at least \$50,000 and a useful life of more than two years, and internally generated intangible assets with a cost of at least \$150,000 and a useful life of more than one year are capitalized.

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Primary Government has six items that qualify for reporting in this category, five of which are related to pensions, the unamortized balance of losses on bond refunding, changes in proportional share, differences between projected and actual earnings on pension plan investments, changes of assumptions, differences between expected and actual experience, and pension contributions made subsequent to the measurement date, all reported in the government-wide Statement of Net Position. A loss on a bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Changes in proportional share, changes of assumptions, and differences between expected and actual experience are capitalized and recognized over a period equal to the expected remaining service lives of all employees. Net differences between projected and actual earnings on pension plan investments is capitalized and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has one type of item, which only arises under the modified accrual basis of accounting, that qualifies for reporting in this category, and that is unavailable revenue. Governmental funds report unavailable revenue in the balance sheet for revenue that is not available under the modified accrual basis. The amount is capitalized and recognized as revenue in the period that it becomes available. The Primary Government has three items that qualify for reporting in this category in the government-wide financial statements, both related to pensions. Net differences between projected and actual earnings on pension plan investments is capitalized and recognized over a five-year period. Changes in assumptions and changes in proportional share of pension related amounts are capitalized and recognized over a period equal to the expected remaining service lives of all employees.

Additional disclosures related to deferred outflows and inflows of resources are included in Notes IV. F. - Deferred Outflows and Deferred Inflows and IV. G. 4. - Retirement Plans and Other Postemployment Benefits.

Tax Refunds Payable

Tax refunds payable primarily represent amounts owed by the State to taxpayers because of overpayment of their income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2017 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2017. The amount reported as tax refunds payable at June 30, 2017 in the government-wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2017's tax liability that will be paid out in calendar year 2018.

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, 2017, the primary government had no outstanding arbitrage rebate obligation. The arbitrage rebate liabilities reported by the discretely-presented component units are included in "Other Long-term Liabilities" in the government-wide statement of net position.

Compensated Absences

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

Liabilities for compensated absences are recorded in the government-wide statement activity where the employees are assigned, and in the funds, where applicable. The amounts are calculated based on an employee's pay rate in effect as of year-end. Additional information including changes in balances may be found in Note IV. G. 5. - Changes in Long-term Liabilities.

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

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Encumbrances remaining at fiscal year-end are reported within the restricted, committed, or assigned fund balances of the governmental funds, as appropriate. The amount of the encumbrances remaining in the general fund is \$6,874,870.

Fund Balances

The fund balance amounts for governmental funds have been classified in accordance with GASB Statement No. 54 - *Fund Balance Reporting and Government Fund Type Definitions*. Fund balances are reported in

classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law by the legislature specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.
- Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed. In the General Fund, amounts are assigned by the Agency of Administration under authorization by the Legislature in the annual Budget Adjustment Act.
- Unassigned fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, generally it is the State's policy to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, it is generally the State's policy to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed. Additional information may be found in Note IV. H. - Fund Balance/Net Position.

Bond Discounts, Premiums and Issuance Costs

In the government-wide financial statements, bond discounts or premiums are capitalized and amortized over the term of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs other than prepaid insurance are reported as expenses.

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

Interfund Transactions

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

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

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

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

Use of Estimates

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

F. Accounting and Reporting Changes

Effective for fiscal year 2017 reporting, the State adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans establishes financial reporting standards for state and local government other post employment benefit (OPEB) plans other than pension plan. It also establishes financial reporting standards for governments that hold assets accumulated for purposes of proving OPEB through defined benefit OPEB plans that are not administered through trusts or equivalent arrangements.

Statement No. 77 Tax Abatement Disclosures establishes financial reporting standards for tax abatement agreements entered into by state and local governments. This Statement requires disclosure of tax abatements resulting from both agreements that are entered into by the reporting government and agreements that are entered into by other governments that reduce the reporting government’s tax revenues. The provisions of this Statement should be applied to all state and local governments subject to tax abatement agreements. See Note V. F. - Tax Abatements.

Statement No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans establishes accounting and financial reporting standards for defined benefit pension plans provided to the employees of state and local governmental employers through cost-sharing multiple-employer plans that meet the criteria of paragraph 4 of Statement No. 68 and that (a) are not state or local governmental pension plans, (b) are used to provide benefits to both employees of governmental employers and to employees of non-governmental employers, and (c) have no predominant governmental employers. This statement did not have an impact on the financial statements.

Statement No. 80 Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14 amends the blending requirements for the financial statement presentation of component units incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement did not have an impact on the financial statements.

Statement No. 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73 amends the definition of covered payroll for pensions reported in required supplemental information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based.

Note II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

One element of that reconciliation explains that “capital assets used in governmental activities (net of internal service funds’ capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds.” The details of this \$2,839,080,885 are as follows:

| | |
|--|-------------------------|
| Land | \$ 149,664,997 |
| Works of art | 127,803 |
| Construction in progress | 641,675,768 |
| Depreciable capital assets and infrastructure, net of \$1,485,480,030 of accumulated depreciation | <u>2,047,612,317</u> |
| Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | <u>\$ 2,839,080,885</u> |

Another element of that reconciliation explains that “amounts are presented in the Statement of Net Position but are not presented in fund balances due to a different basis of accounting.” The details of this \$646,093,799 are as follows:

| | |
|---|-----------------------|
| Long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds | \$ 167,606,520 |
| Deferred outflow for unamortized loss on sale of refunding bonds | 8,608,675 |
| Deferred outflow for pension related items | 583,718,025 |
| Deferred inflow for pension related items | <u>(113,839,421)</u> |
| Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | <u>\$ 646,093,799</u> |

The final element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds.” The details of this \$3,563,368,146 are as follows:

(Table on next page.)

| | |
|---|-------------------------------|
| Bonded and capital lease debt (net of internal service funds' liability) | \$ (638,373,240) |
| Accrued interest payable on bonds | (8,452,778) |
| Compensated absences (net of internal service funds' liability) | (32,844,778) |
| Tax refunds payable | (59,111,944) |
| Net pension liabilities | (1,955,150,806) |
| Net other postemployment benefits obligation | (853,994,137) |
| Other long-term liabilities | <u>(15,440,463)</u> |
| Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i> | <u>\$ (3,563,368,146)</u> |

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

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

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period, net of internal service funds.” The details of this \$111,213,488 difference are as follows:

| | |
|---|---------------------------|
| Capital outlay/functional expenditures | \$ 451,060,224 |
| Expensed net book value of disposed assets | (178,117,163) |
| Depreciation expense | <u>(161,729,573)</u> |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ 111,213,488</u> |

A second element of the reconciliation states that repayment of bond principal is reported as an expenditure in governmental funds. However, in the government wide statements, repayment of bond principal reduces long-term liabilities. The details of the \$51,520,000 difference are as follows:

| | |
|---|--------------------------|
| Principal repayment | <u>51,520,000</u> |
| Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ 51,520,000</u> |

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. The details of this \$6,802,965 difference are as follows:

| | |
|---|-------------------------|
| Bond premium is amortized over the life of the bonds in the statement of activities | \$ 8,056,422 |
| Refunding bonds deferred outflow amortized to interest expense over life of refunded bonds | (1,240,103) |
| Bond discount is amortized over the life of the bond in the statement of activities | <u>(13,354)</u> |
| Net adjustment to decrease <i>changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ 6,802,965</u> |

The final element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$151,073,611 difference are as follows:

| | |
|--|-------------------------|
| Decrease in accrued interest payable | \$ 1,530,540 |
| Increase in compensated absences | (1,024,283) |
| Increase in employer pension and other postemployment benefit related costs | (152,998,138) |
| Increase in pollution remediation related costs | (96,666) |
| Decrease in early retirement incentives | <u>1,514,936</u> |
| Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> | <u>\$ (151,073,611)</u> |

Note III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Vermont statutes require the head of every State department, board and commission, and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years, in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis and usually at the program level. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed \$50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts, including federal receipts, exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature.

B. Deficit Fund Balances/Net Position

The following funds report a deficit net position at June 30, 2017:

Proprietary Funds

Non-major Enterprise Funds:

| | | |
|------------------------------------|----|-------------|
| Federal Surplus Property Fund..... | \$ | (126,532) |
| Vermont Life Magazine Fund..... | | (3,535,487) |

Internal Service Funds:

| | | |
|---|--|--------------|
| Single Audit Revolving Fund..... | | (61,169) |
| Communications & Information Technology Fund..... | | (4,257,793) |
| Copy Center Fund..... | | (1,261,228) |
| Postage Fund..... | | (2,978,570) |
| Facilities Operations..... | | (1,307,866) |
| Property Management..... | | (24,895,700) |
| State Liability Insurance..... | | (2,167,454) |

Fiduciary Funds

Pension and OPEB Trust Funds:

| | | |
|--|--|--------------|
| Vermont Retired Teachers' Health and Medical Benefits..... | | (26,657,646) |
|--|--|--------------|

Non-major Enterprise Funds

The deficit in the Federal Surplus Property Fund is due mainly to the lack of inventory available for sale from the federal government that could in turn be retrieved for sale by the State. The plan going forward is to reduce the deficit by actively retrieving goods for sale to increase program sales.

Vermont Life Magazine Fund has operated in a deficit for most of its 70-plus years. In efforts to mitigate this shortfall trend, Vermont Life has operated as a contracted editorial and design agency for the State of Vermont. The Administration has requested proposals from outside entities to provide magazine publishing services for Vermont Life magazine, along with the option to purchase the magazine outright.

Internal Service Funds

The Single Audit Revolving Fund's deficit is caused by expense accruals that will be billed in fiscal year 2018. To eliminate the deficit future billings will include an estimate for expense accruals.

The Communications and Information Technology Fund's deficit is the result of investments from fiscal years 2016 - 2017 in Voice Over Internet Protocol phone system (VOIP) and an enterprise solution for the State's email and office suite ("O365 Solution") of products. Prior to fiscal year 2016 certain legacy deficit positions were caused by a combination of billing practices and financing strategies of the State. Beginning in fiscal year 2019 and forward, specific cost centers will be established to more closely match revenue and expenses with an emphasis on revenue strategies that are less variable in nature. In addition, billing will continue for the VOIP and O365 solution which will be geared at recapturing the deficit position.

The Copy Center Fund's deficit net position is the result of a decline in usage, driven by technology replacements of printed materials, limiting the fund's revenue potential without reducing fixed costs. To eliminate the deficit, Copy Center Management continues to aggressively pursue additional business opportunities including synergistic partnership with the Postal Center.

The deficit net position in the Postage Fund has been created because the marginal rate (% points saved off federal postal rates) in which to operate the program has not proven sufficient to cover the actual operating costs despite management initiated efficiencies. In addition, unbilled services (bomb screening and inter-office mail)

has not been fully funded in recent years. It is the intention that the current fund deficit will be recovered through business operations, while continuing to explore efficiencies gained through a partnership and co-location with the Copy Center.

The Facilities Operations Fund can experience major fluctuations due to many unpredictable factors (such as weather, building damage, equipment failure) and some predictable factors, such as employee advancements (pay act & reclassifications) which do not adjust the billing rate during the year. Continued investments in energy efficiency, strategic maintenance management, and regular review of all operations should help trend this fund toward surplus.

Much of the Property Management Fund's deficit is due to two buildings that have been financed over a twenty-year period but whose recovery of costs is fifty years. This part of the deficit should be eliminated gradually over the next thirty years. Additionally, the fund operated with staff and operating costs with no mechanism to bill back these costs. The Administration has added a surcharge to the existing leases to aid in covering the cost associated with the program operations.

The State Liability Insurance Fund's deficit is due to a large increase in the incurred but not reported (IBNR) liability which can shift year to year based on actuary analysis and projections. Program management will continue to evaluate administrative overhead allocations (staffing, space, etc.). A rate increase may be required if the operating loss trend continues.

Fiduciary Funds

The deficit net position in the Vermont Retired Teachers' Health and Medical Benefit's Fund is due to the recognition of the full liability of other post-employment benefits provided for members of the State Teacher's Retirement system. The statute creating this fund (16 V.S.A. 1944b) authorizes the State Treasurer to use interfund borrowings of up to \$30 million to finance any shortfalls in this fund, and it is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023.

NOTE IV. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash and Cash Equivalents

Deposits for the primary government are governed by State statutes. When depositing public monies, the State Treasurer must act in accordance with 32 V.S.A. Chapter 431. Although the statute provides requirements for the collateralization of deposits, it does not establish limits. These limits are set by published formal guidelines issued by the State Treasurer.

The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by the Federal Deposit Insurance Corporation (FDIC) insurance and are uncollateralized; or collateralized with securities held by the pledging financial institution's trust department or agent, that are not registered in the depositor – government's name. Although State statute does not require deposits to be collateralized, the Treasurer requires the State's cash deposits held in its primary bank to be collateralized with either United States Treasury securities or Vermont municipal securities or other approved money market instruments, or other collateral acceptable to the Treasurer. Certificates of deposit are collateralized, in whole or in part, on the basis of agreements with the bank, a protocol requiring periodic due diligence and review of bank capitalization and assets. Bank deposits in excess of the FDIC amounts and collateral agreements are uninsured and uncollateralized. Bank balances of deposits for the primary government, excluding pension, other post employment benefits, and investment trust funds, at June 30, 2017, were \$367,401,057. Of these, \$7,362,332 were exposed to custodial credit risk as uninsured and uncollateralized.

The Unemployment Compensation Trust Fund had \$353,539,432 on deposit with the U.S. Treasury at June 30, 2017. This amount is presented as cash and cash equivalents and is not included in the carrying amount of

deposits, nor is it categorized according to risk, because it is neither a deposit with a financial institution nor an investment.

The pension, other postemployment benefits, and investment trust funds' cash deposits, outside of the pension trust funds' custodian bank at June 30, 2017, totaled \$7,904,533 none of which was exposed to custodial credit risk.

B. Investments

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

Investments for the primary government are governed by State statutes. The State has an investment policy with an overriding goal of minimizing exposure to risk and maintaining liquidity necessary for future cash needs while maximizing the return on investments. Two sections of State statute govern the investment of the State's operating and restricted cash (i.e., non-pension funds).

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

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

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

Investments are stated at fair 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 fair value when published market prices and quotations are available, or for certain securities at amortized cost. 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) Fair Value Measurements

The State categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset as follows:

- Level 1: Inputs are quoted prices for identical investments in active markets.
- Level 2: Observable inputs other than quoted market prices.
- Level 3: Unobservable inputs.

The fair value measurement at June 30, 2017 for the primary government, with the exception of the Pension and OPEB trust funds is as follows:

**Primary Government Investments - Excluding
Pension and Other Postemployment Benefits Trust Funds**

(Expressed in Thousands)

| <u>Investments by fair value level</u> | <u>Fair Value Measurement Level</u> | | | |
|---|-------------------------------------|------------------|----------------|----------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Debt investments: | | | | |
| US Agencies/Treasuries..... | \$ 1,025 | \$ 1,025 | \$ - | \$ - |
| Fixed Income Mutual Funds..... | <u>24,319</u> | <u>24,319</u> | - | - |
| Total debt investments..... | <u>25,344</u> | <u>25,344</u> | - | - |
| Equities: | | | | |
| Equity Securities..... | 2,308 | 2,208 | - | 100 |
| Equity Mutual Funds..... | <u>17,892</u> | <u>17,892</u> | - | - |
| Total equity securities..... | <u>20,200</u> | <u>20,100</u> | - | 100 |
| Total investments by fair value level..... | <u>45,544</u> | <u>\$ 45,444</u> | <u>\$ -</u> | <u>\$ 100</u> |
| <u>Investments measured by net asset value (NAV)</u> | | | | |
| Money Market Mutual Funds..... | <u>266,853</u> | | | |
| Total investments by NAV..... | <u>266,853</u> | | | |
| Total investments..... | <u>\$ 312,397</u> | | | |

The above money market mutual funds of \$266,853 are classified as cash and short-term investments on the financial statements.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2017 are presented as follows:

(Table on next page.)

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

| Investment Type | Fair Value | Investment Maturities (in years) | | | |
|--------------------------------|-------------------|----------------------------------|---------------|---------------|---------------|
| | | Less Than 1 | 1 to <6 | 6 to 10 | More Than 10 |
| Debt Investments: | | | | | |
| US Agencies/Treasuries..... | \$ 1,025 | \$ 106 | \$ 530 | \$ 212 | \$ 177 |
| Money Market Mutual Funds..... | 266,853 | 266,853 | - | - | - |
| Fixed Income Mutual Funds..... | 24,319 | 24,319 | - | - | - |
| Total Debt Investments..... | 292,197 | <u>\$ 291,278</u> | <u>\$ 530</u> | <u>\$ 212</u> | <u>\$ 177</u> |
| Other Investments: | | | | | |
| Equity Securities..... | 2,308 | | | | |
| Equity Mutual Funds..... | 17,892 | | | | |
| Total Investments..... | <u>\$ 312,397</u> | | | | |

(c) 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, 2017, no single issuer exceeded 5% for the primary government portfolios.

(d) 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, 2017 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.

(e) Credit Risk

Credit risk is the possibility that the issuer or other counterparty to an investment may default on their obligations. In non-pension funds this risk has been mitigated by implementing statutory guidelines on credit quality and further restricted by formal investment guidelines and the use of low-risk money market instruments. The credit risk associated with the State's debt securities, money market funds, bond mutual funds, and other pools of fixed income securities, exclusive of pension fund investments, as of June 30, 2017, is presented as follows using the Moody's rating scale:

(Table on next page.)

Primary Government Rated Debt Instruments
Excluding Pension and Other Postemployment Benefits Trust Funds
(Expressed in Thousands)

| <u>Debt Investments</u> | <u>Fair Value</u> | <u>Quality Ratings</u> | |
|--------------------------------|-------------------|------------------------|------------------|
| | | <u>Aaa</u> | <u>Unrated</u> |
| US Agencies/Treasuries..... | \$ 1,025 | \$ 1,025 | \$ - |
| Money Market Mutual Funds..... | 266,853 | 266,853 | - |
| Fixed Income Mutual Funds..... | 24,319 | - | 24,319 |
| Totals..... | <u>\$ 292,197</u> | <u>\$ 267,878</u> | <u>\$ 24,319</u> |

(f) Foreign Currency Risk

Foreign currency risk is the extent to which changes in exchange rates affect the value of an investment. Vermont's operating funds are restricted, through statute and formal guidelines, to specific money market instruments and money market funds who only invest in domestic instruments. In the Trust Investment Account portfolio, total exposure to foreign currency risk as of June 30, 2017, was \$0.

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

The State has three defined benefit plans (Vermont State Retirement System (VSRS), State Teachers Retirement System (STRS), and Vermont Municipal Employees' Retirement System (MERS)); three defined contribution plans (VSRS, MERS, and Single Deposit Investment Account); and three other postemployment benefit funds. Additional information on these plan benefit and actuarial valuations may be found in Note IV.G.4. - Pension and Other Postemployment Benefits.

By statute, the assets of the three defined benefit plans are invested on behalf of each plan's Trustees through the Vermont Pension Investment Committee (VPIC), which was established by the Vermont Legislature (Title 3 V.S.A. Chapter 17), effective July 1, 2005, to combine the assets of the VSRS, STRS and MERS defined benefit plans for the purpose of (i) investment in a manner that is more cost and resource-efficient; (ii) improving the effectiveness of the oversight and management of the assets of the Retirement Systems; and (iii) maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems. The majority of these assets have been pooled for investment purposes.

All three defined benefit plans managed by the State have adopted a common asset allocation as determined by the Vermont Pension Investment Committee. As of October 29, 2009, the VPIC adopted a set of investment policies and guidelines common to all three defined benefit plans. These are used by VPIC with the objective of maximizing returns within acceptable risk parameters.

The State's Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, is invested in a commingled stable bond fund. The investment policy governing the SDIA portfolios includes a minimum average credit quality of double-A, no bonds rated below investment grade, and limitations on asset-backed, mortgage-backed, collateralized mortgage obligations, corporate bonds, and single issuers of non-treasury/government agency backed bonds.

The Vermont State Retirement's defined contribution plan's trustee is the State Treasurer. The Vermont Municipal Employees' Retirement System Board of Trustees is the trustee for the Vermont Municipal Employees' defined contribution plan. Both plans are administered by Fidelity Investments Institutional Operations Company. Investment choices are made by participants from a range of funds approved by the trustees' for the plans. Investment options are Fidelity and non-Fidelity mutual funds including large and small market

capitalization equities (actively managed and indexed), international equities, fixed income securities, balanced funds, target retirement date age based funds, and a stable value fund. Funds included in the plans were selected based on consideration of fund performance for one and multi-year periods, performance ranked against peer group funds in asset class, management fee expense ratios, fund asset class and investment objectives, historical annual returns, Morningstar ratings, performance in various stages of the capital market cycle, and consultant recommendations as to the optimal number of funds and appropriate asset classes. Fidelity provides quarterly investment reports and analysis that are reviewed by Treasury staff, the State Treasurer and Vermont Municipal Employees' Retirement's Board.

The State has three other postemployment benefit funds, the Vermont State Postemployment Benefits Trust Fund (State OPEB), the Retired Teachers' Health and Medical Benefit Fund (RTHMB) and the Vermont Municipal Employees Health Benefit Fund (Muni OPEB). The State OPEB is invested in the Trust Investment Account utilized as an investment vehicle by many of the State's primary funds. The RTHMB has no investments. The Muni OPEB is invested under the authority of the Municipal Retirement Board of Trustees and utilizes an outside administrator, ICMA-RC employing collective investment trust funds.

Investments are stated at fair 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 fair value when published market prices and quotations are available, or for certain securities at amortized cost. Real estate is carried at the net asset value of each retirement system's real estate fund investments, which net asset value is further based on the fair market value of the real properties. Properties' fair market values in each of the retirement systems' fund investments are established quarterly by real estate fund manager appraisals and are validated at least yearly by third-party property appraisals. Nonmarketable securities include alternative investments such as private equity and private partnerships, which are valued using current estimates of fair value obtained from the Investment Manager (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) Fair Value Measurements

The Pension and OPEB Trust Funds categorize the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset that prioritizes inputs into three levels. The level is determined based on the lowest level of input significant to the measurement in its entirety.

- Level 1: Securities traded in an active market, on an exchange that have quoted unadjusted prices such as Exchange-traded equities, and exchange-traded derivatives.
- Level 2: Inputs other than quoted prices that are observable. These inputs are derived from market data through correlation or by other means, e.g., "market corroborated". These are primarily fixed income prices using an evaluated price provided by an independent pricing vendor or broker/dealer.
- Level 3: Inputs to the valuation methodology that are unobservable and significant to the fair value measurement. Instruments are often based on internally developed models in which there are few, if any, external observation.

(Table on next page.)

Below is the fair value measurement table at June 30, 2017, for the Pension and OPEB trust funds.

Pension and Other Postemployment Benefits

Trust Funds' Investments

(Expressed in Thousands)

| <u>Investments by fair value level</u> | <u>Fair Value</u> | <u>Fair Value Measurement Level</u> | | |
|--|-------------------|-------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Debt securities: | | | | |
| US Agencies/Treasuries..... | \$ 161,495 | \$ - | \$ 161,495 | \$ - |
| Corporate Debt..... | 286,827 | - | 286,827 | - |
| Certificates of Deposit..... | 8,916 | - | 8,916 | - |
| Municipals..... | 4,671 | - | 4,671 | - |
| Asset Backed Securities..... | 9,435 | - | 9,435 | - |
| Mortgage Backed Securities..... | 112,139 | - | 112,139 | - |
| Sovereign Debt..... | 13,866 | - | 13,866 | - |
| Fixed Income Mutual Funds..... | 93,566 | 93,566 | - | - |
| Total debt securities..... | 690,915 | 93,566 | 597,349 | - |
| Equity investments: | | | | |
| Stock Securities..... | 728,149 | 728,061 | - | 88 |
| Equity Mutual Funds..... | 8,756 | 8,756 | - | - |
| Total equity securities..... | 736,905 | 736,817 | - | 88 |
| Investment derivatives: | | | | |
| Options..... | (8) | (7) | (1) | - |
| Swaps..... | 2,295 | - | 2,295 | - |
| Total investment derivatives..... | 2,287 | (7) | 2,294 | - |
| Total investments by fair value level..... | 1,430,107 | \$ 830,376 | \$ 599,643 | \$ 88 |

Investments measured at the net asset value (NAV)

| | <u>Unfunded</u> | <u>Redemption</u> | <u>Redemption</u> |
|--|---------------------|----------------------|----------------------|
| | <u>Commitments</u> | <u>Frequency</u> | <u>Notice Period</u> |
| Commingled Fixed Income Mututal Funds..... | 885,852 | - Daily, monthly | 1-30 days |
| Commingled Equity Mututal Funds..... | 1,113,550 | - Daily, monthly | 1-60 days |
| Mutual Funds..... | 241,915 | - Monthly, quarterly | 90 days |
| Money Market Mutual Fund..... | 137,642 | - Daily | - |
| Real Estate Funds..... | 102,069 | - - | - |
| Private Partnerships..... | 397,050 | 119,029 - | - |
| Total investments measured at NAV..... | 2,878,078 | | |
| Total investments..... | \$ 4,308,185 | | |

(b) Interest Rate Risk

As pension trust funds have a different investment term horizon based on a long average liability term, the VPIC manages exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities with Core, Core Plus and Global Fixed Income 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 Other Postemployment Benefits**Trust Funds' Investments***(Expressed in Thousands)*

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1 to <6</u> | <u>6 to 10</u> | <u>More Than 10</u> |
|---|----------------------------|---------------------|-------------------|-------------------|---------------------|
| Debt Investments: | | | | | |
| US Agencies/Treasuries..... | \$ 161,495 | \$ - | \$ 36,713 | \$ 107,648 | \$ 17,134 |
| Corporate Debt..... | 286,827 | 13,723 | 150,864 | 108,594 | 13,646 |
| Money Market Mutual Fund..... | 137,642 | 137,642 | - | - | - |
| Certificates of Deposit..... | 8,916 | 8,916 | - | - | - |
| Municipals..... | 4,671 | - | 973 | 424 | 3,274 |
| Asset Backed Securities..... | 9,435 | - | 858 | 5,000 | 3,577 |
| Collateralized Mortgage Obligations.... | 112,139 | - | 774 | 1,911 | 109,454 |
| Sovereign Debt..... | 13,866 | 3,246 | 5,785 | 3,345 | 1,490 |
| Fixed Income Mutual Funds..... | <u>979,418</u> | <u>979,418</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Debt Investments..... | 1,714,409 | <u>\$ 1,142,945</u> | <u>\$ 195,967</u> | <u>\$ 226,922</u> | <u>\$ 148,575</u> |
| Other Investments: | | | | | |
| Equity Mutual Funds..... | 1,122,306 | | | | |
| Equity Securities..... | 728,149 | | | | |
| Mutual Funds..... | 241,915 | | | | |
| Real Estate..... | 102,069 | | | | |
| Private Partnerships..... | 397,050 | | | | |
| Fixed Income - Derivatives..... | <u>2,287</u> | | | | |
| Total..... | <u>\$ 4,308,185</u> | | | | |

The above money market mutual funds of \$137,642 are classified as cash and short-term investments on the financial statements.

(c) Concentration of Credit Risk

Formal guidelines for pension funds state that no more than 5% of the fair 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, 2017, no issuer exceeded 5%.

(d) Custodial Credit Risk

Custodial credit risk for investments is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The VPIC manages exposure to custodial credit risk by requiring all relevant 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, 2017, 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.

(e) Credit Risk

Detailed pension guidelines by asset class and supplemental requirements by Manager are used to set risk parameters and are stated in written contracts. These guidelines are reviewed and adopted by VPIC. Treasury staff and independent investment consultants are utilized to assure compliance. The credit risks associated with these securities are as follows:

Pension and Other Postemployment Benefits

Trust Funds' Investments

(Expressed in Thousands)

| Debt Investments | Fair Value | Quality Ratings | | |
|--|---------------------|------------------------|-----------------|------------------|
| | | Aaa | Aa | A |
| US Agencies/Treasuries..... | \$ 161,495 | \$ 161,495 | \$ - | \$ - |
| Corporate Debt..... | 286,827 | 756 | 2,073 | 28,958 |
| Money Market Mutual Funds..... | 137,642 | - | - | - |
| Certificates of Deposit..... | 8,916 | - | - | - |
| Municipals..... | 4,671 | - | 1,996 | 448 |
| Asset Backed Securities..... | 9,435 | 5,016 | 392 | 515 |
| Collateralized Mortgage Obligations... | 112,139 | 5,588 | 797 | 27 |
| Sovereign Debt..... | 13,866 | 2,995 | 1,731 | 1,702 |
| Fixed Income Mutual Funds..... | 979,418 | - | - | - |
| Totals..... | <u>\$ 1,714,409</u> | <u>\$ 175,850</u> | <u>\$ 6,989</u> | <u>\$ 31,650</u> |

| Debt Investments | Quality Ratings | | | |
|--|------------------------|------------------|--------------------|---------------------|
| | Baa | Ba | B and below | Unrated |
| US Agencies/Treasuries..... | \$ - | \$ - | \$ - | \$ - |
| Corporate Debt..... | 44,182 | 54,681 | 93,174 | 63,003 |
| Money Market Mutual Funds..... | - | - | - | 137,642 |
| Certificates of Deposit..... | - | - | - | 8,916 |
| Municipals..... | 862 | - | - | 1,365 |
| Asset Backed Securities..... | 857 | - | 849 | 1,806 |
| Collateralized Mortgage Obligations... | 6,292 | 4,409 | 19,202 | 75,824 |
| Sovereign Debt..... | 1,922 | 682 | 468 | 4,366 |
| Fixed Income Mutual Funds..... | - | - | - | 979,418 |
| Totals..... | <u>\$ 54,115</u> | <u>\$ 59,772</u> | <u>\$ 113,693</u> | <u>\$ 1,272,340</u> |

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

| <u>Currency</u> | <u>Total</u> | <u>Short Term</u> | <u>Debt</u> | <u>Equity</u> | <u>Derivatives</u> |
|---------------------------|-------------------|-------------------|------------------|-------------------|--------------------|
| Australian Dollar..... | \$ 16,755 | \$ 209 | \$ 2,760 | \$ 13,108 | \$ 678 |
| Brazilian Real..... | (26) | - | - | - | (26) |
| Canadian Dollar..... | 9,131 | 9 | 693 | 8,455 | (26) |
| Columbian Peso..... | (15) | - | - | - | (15) |
| Danish Krone..... | 6,499 | - | - | 6,499 | - |
| Euro..... | 123,543 | 139 | 6,496 | 117,046 | (138) |
| Hong Kong Dollar..... | 6,353 | 41 | - | 6,312 | - |
| Israeli Shekel..... | 1,015 | 1 | - | 1,014 | - |
| Japanese Yen..... | 67,869 | 1,147 | 1,331 | 65,565 | (174) |
| Malaysian Ringgit..... | 233 | 9 | - | 224 | - |
| Mexican Peso..... | 1,176 | 58 | 878 | 276 | (36) |
| New Turkish Lira..... | 88 | 2 | - | 86 | - |
| New Zealand Dollar..... | 977 | 31 | 662 | 306 | (22) |
| Norwegian Krone..... | 3,770 | 2 | - | 3,768 | - |
| Philippine Peso..... | 39 | 1 | - | 38 | - |
| Polish Zloty..... | 527 | 1 | - | 526 | - |
| Pound Sterling..... | 55,090 | 70 | 2,451 | 52,590 | (21) |
| Preuvian Nuevo Sol..... | 1 | - | - | - | 1 |
| Russian Ruble..... | (19) | - | - | - | (19) |
| Singapore Dollar..... | 12,395 | 79 | - | 12,319 | (3) |
| South African Rand..... | 3,602 | 55 | - | 3,547 | - |
| South Korean Won..... | 5,249 | 51 | - | 5,194 | 4 |
| Swedish Krona..... | 12,187 | - | - | 12,187 | - |
| Swiss Franc..... | 24,461 | 2 | - | 24,459 | - |
| Thai Baht..... | 249 | 1 | - | 248 | - |
| United Kingdom Pound..... | 564 | - | 529 | 39 | (4) |
| Yuan Renminbi..... | (4) | - | - | - | (4) |
| Totals..... | <u>\$ 351,709</u> | <u>\$ 1,908</u> | <u>\$ 15,800</u> | <u>\$ 333,806</u> | <u>\$ 195</u> |

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

Derivative Financial Instruments

Vermont Pension Investment Committee (VPIC) policy authorizes certain Managers to invest in derivative financial investments. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. Disclosures related to derivatives positions required under Governmental Accounting Standards Board Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments* (GASB No. 53) apply only to those derivative instruments held directly by the VPIC on behalf of the defined benefit plans and the external investment trust and not those held within commingled fund investment vehicles. The Pension and Other Postemployment Benefit Trust Funds do not have hedgeable assets or liabilities, and all derivative instruments are considered investment derivatives, with corresponding changes in fair value reported in investment income. The fair value of all derivative financial instruments are reported in the Statement of Fiduciary Net Position. All of the derivatives reported at June 30, 2017, are at fair value.

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

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

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (in thousands):

| | Changes in Fair Value | | Fair Value at June 30, 2017 | | Notional |
|--------------------------------|-----------------------|--------|-----------------------------|--------|----------------------------|
| | Classification | Amount | Classification | Amount | |
| Investment derivatives | | | | | |
| Futures | | | | | |
| Fixed income futures..... | Investment revenue | \$ 122 | Investment | \$ - | - |
| Options | | | | | |
| Fixed income options..... | Investment revenue | 8 | Investment | (7) | - |
| Swaps | | | | | |
| Credit default swaps..... | Investment revenue | (8) | Investment | (8) | 20,720 |
| Inflation linked swaps..... | Investment revenue | (15) | Investment | (15) | 705 |
| Fixed interest rate swaps..... | Investment revenue | 2,318 | Investment | 2,318 | 834,070 |
| Swaptions | | | | | |
| Fixed income swaptions..... | Investment revenue | 42 | Investment | (1) | (1,800) |
| Currency forwards | | | | | |
| FX forwards..... | Investment revenue | (80) | Investment | - | (3,564) Australian Dollar |
| | Investment revenue | (26) | Investment | - | 2,490 Brazilian Real |
| | Investment revenue | (26) | Investment | - | (912) Canadian Dollar |
| | Investment revenue | (4) | Investment | - | - Yuan Renminbi |
| | Investment revenue | (15) | Investment | - | 923,895 Colombian Pesco |
| | Investment revenue | (120) | Investment | - | (6,594) Euro |
| | Investment revenue | (4) | Investment | - | (2,171) Pound Sterling |
| | Investment revenue | 14 | Investment | - | (145,900) Japanese Yen |
| | Investment revenue | 4 | Investment | - | (280,765) South Koren Won |
| | Investment revenue | (36) | Investment | - | (16,292) Mexican Peso |
| | Investment revenue | (22) | Investment | - | (855) New Zealand Dollar |
| | Investment revenue | 1 | Investment | - | (18) Peruvian Nuevo Sol |
| | Investment revenue | (19) | Investment | - | 29,119 Russian Rubble |
| | Investment revenue | (3) | Investment | - | (1,132) Singapore Dollar |
| | Investment revenue | - | Investment | - | (22,412) New Taiwan Dollar |

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Fiduciary Net Position.

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the VPIC receives a premium at the outset of the agreement and bears the risk of an

unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the VPIC pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2017, the VPIC had three different types of swap arrangements; interest rate swaps, inflation linked swaps, and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert long term variable interest investments into fixed interest rate investments. Credit default swaps are used to manage credit exposure without buying securities outright. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Fiduciary Net Position.

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency related transactions in the Statement of Changes in Fiduciary Net Position. Only forward currency contracts are defined as derivatives per GASB No. 53 are reported above; currency spot contracts are not included. Risk of loss arises from changes in currency exchange rates. At June 30, 2017, currency forward positions consisted of unrealized losses on pending foreign exchange sales of \$335,677.

Counter-party creditworthiness, for non-exchange traded derivatives, shall be at a minimum of "A3" as defined by Moody's Investor Service, "A-" by Standard & Poor's, and "A-" by Fitch. The use of counter-parties holding a split rating with one of the ratings below A3/A- is prohibited. The use of unrated counter-parties is prohibited. Individual counter-party exposure, for non-exchange traded commodity derivatives, is limited to 50% of the notional amount of the VPIC Portfolio commodity derived exposure. An exception is allowed if the total commodity derivative exposure is less than \$3 million. Any entity acting as counter-party must be regulated in either the United States or the United Kingdom. All other uses of derivatives are prohibited unless specifically approved by the VPIC. Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC portfolio. For fiscal year 2017 all counterparties for derivatives met the VPIC counterparty risk rating requirements.

The following shows the market value of credit exposure per Moody's ratings at June 30, 2017:

| <u>Moody's Rating</u> | <u>Market Value</u> |
|-----------------------|---------------------|
| Aa3..... | \$ 14,243 |
| A1..... | 858,323 |
| A2..... | 334,190 |
| A3..... | 52,748 |
| Not rated..... | 1,477,519 |
| Total..... | <u>\$ 2,737,023</u> |

In addition, Manager credit research teams are tasked with evaluating potential counterparties for their creditworthiness as counterparties, not relying on ratings agencies alone. Managers evaluate individual counterparties using various methods of credit analysis: company visits, reports, earnings updates and take into account other factors, including the broker's/dealer's reputation for sound management, the past experience of the Manager with the broker/dealer, market levels for its debt and equity, its quality of liquidity provided and its share of market participation. At June 30, 2017, risk concentrations are as shown on the following page:

| <u>Counterparty Name</u> | <u>Percentage of Net Exposure</u> | <u>Moody's Rating</u> | <u>S&P Rating</u> | <u>Fitch Rating</u> |
|---|-----------------------------------|-----------------------|-----------------------|---------------------|
| Bank of America NA..... | 5.41% | A1 | A+ | A+ |
| Barclays Bank PLC..... | 1.12% | A1 | A- | A |
| BNP Paribas S.A..... | 0.06% | A2 | A | A+ |
| Citibank NA..... | 3.99% | A1 | A+ | A+ |
| Citigroup Global Markets, Inc..... | 12.15% | A2 | A+ | A+ |
| Credit Suisse International..... | 0.14% | A1 | A | A- |
| Credit Suisse Securities (USA) LLC..... | 0.15% | A1 | A | A- |
| Goldman Sachs Bank USA..... | 0.43% | A1 | A+ | A+ |
| HSBC Bank USA, N.A..... | 0.52% | Aa3 | AA- | AA- |
| Merril Lynch Pierce Fenner & Smith..... | 53.98% | - | A+ | A+ |
| Morgan Stanley Capital Services..... | 1.93% | A3 | BBB+ | A |
| RBC Capital Markets LLC..... | 20.11% | A1 | AA- | AA |

VPIC's Managers use master agreements and may receive additional protection through the collateralization requirements, which helps to mitigate a party's exposure to another party in the event of a default or termination event by requiring the pledging/posting of assets to the other party to secure any outstanding obligations under certain transactions. By regular, generally daily, movement of collateral on forward settling trades, VPIC's exposure to any particular counterparty can be reduced. Collateral movement threshold for securities under the master forward agreements typically ranges from \$0 to \$250,000 per account, depending on the particular counterparty. Managers require daily posting of collateral with many of our counterparties.

VPIC does not have a formal policy regarding master netting arrangements. As a general practice, Managers use industry standardized contracts, generally known as "master agreements" or "netting agreements," counterparty risk is reduced by providing parties to a transaction the ability to close out and net its total exposure to a counterparty in event of a default with respect to all transactions governed under that particular agreement. These agreements (ISDA Master Agreement and Credit Support Annex, Master OTC Options Agreement, Master Securities Forward Transaction Agreement, Global/Master Repurchase Agreement) allow parties to a transaction to know their legal rights and obligations, in addition to an ability to net. Managers generally put master agreements in place on behalf of each account it manages and each separate counterparty legal entity with which it transacts. The maximum amount of loss VPIC would face in case of default of all counterparties as of June 30, 2017, consists of the aggregated fair value of OTC positions in the amount of \$2,485,678.

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

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

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

Asset-backed securities are collateralized by a loan, lease, or receivable other than real estate. Payments are collected by a servicer through 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 prepayment varies with the underlying assets. Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk.

C. Receivables

Accounts receivable at June 30, 2017 are summarized as follows:

| | Enterprise Funds | | Total Business-type Activities |
|---|-----------------------------|--------------------------|--------------------------------------|
| | Major | Non-major | |
| Business-type activities | | | |
| Taxes | | | |
| Unemployment..... | \$ 44,658,776 | \$ 2,027,760 | \$ 46,686,536 |
| Allowance for uncollectibles..... | (6,078,847) | (1,058,549) | (7,137,396) |
| Taxes receivable, net..... | <u>\$ 38,579,929</u> | <u>\$ 969,211</u> | <u>\$ 39,549,140</u> |
| | | | |
| Loans and notes receivable..... | <u>\$ -</u> | <u>\$ 999,348</u> | <u>\$ 999,348</u> |
| | | | |
| Current receivable..... | | | \$ 436,324 |
| Non-current receivable..... | | | 563,024 |
| Total loans and notes receivable, net..... | | | <u>\$ 999,348</u> |
| | | | |
| Federal grants..... | <u>\$ 513,779</u> | <u>\$ -</u> | <u>\$ 513,779</u> |
| | | | |
| Other | | | |
| Accrued interest and other receivables.... | \$ 5,575,843 | \$ 405,762 | \$ 5,981,605 |
| Allowance for uncollectibles..... | (153,463) | (1,974) | (155,437) |
| Other receivables, net | <u>\$ 5,422,380</u> | <u>\$ 403,788</u> | <u>\$ 5,826,168</u> |
| | | | |
| Current receivable..... | | | \$ 5,819,916 |
| Non-current receivable..... | | | 6,252 |
| Total other receivable, net..... | | | <u>\$ 5,826,168</u> |

continued on following page

| | Governmental Funds | | Internal Service Funds | Total Governmental Activities |
|--|-----------------------|-------------------|---------------------------|---|
| | Major | Non-major | | |
| Governmental activities | | | | |
| Taxes | | | | |
| Personal and corporate income..... | \$ 207,196,449 | \$ - | \$ - | \$ 207,196,449 |
| Sales and use..... | 70,991,741 | - | - | 70,991,741 |
| Meals and rooms..... | 44,023,980 | - | - | 44,023,980 |
| Purchase and use..... | 453,481 | - | - | 453,481 |
| Motor Fuel..... | 3,233,544 | 77,999 | - | 3,311,543 |
| Other taxes..... | 28,338,111 | - | - | 28,338,111 |
| Subtotal..... | 354,237,306 | 77,999 | - | 354,315,305 |
| Allowance for uncollectibles..... | (115,888,713) | - | - | (115,888,713) |
| Taxes receivable, net..... | \$ 238,348,593 | \$ 77,999 | \$ - | \$ 238,426,592 |
| | | | | Current receivable..... |
| | | | | \$ 117,405,138 |
| | | | | Non-current receivable..... |
| | | | | 121,021,454 |
| | | | | Total taxes receivable, net..... |
| | | | | \$ 238,426,592 |
| Loans and notes | | | | |
| Loans and notes receivable..... | \$ 291,347,216 | \$ - | \$ 2,256,620 | \$ 293,603,836 |
| Allowance for uncollectibles..... | (780,800) | - | - | (780,800) |
| Loans and notes receivable, net... | \$ 290,566,416 | \$ - | \$ 2,256,620 | \$ 292,823,036 |
| | | | | Current receivable..... |
| | | | | \$ 26,012,886 |
| | | | | Non-current receivable..... |
| | | | | 266,810,150 |
| | | | | Total loans and notes receivable, net..... |
| | | | | \$ 292,823,036 |
| Federal grants | | | | |
| Human services..... | \$ 152,254,577 | \$ - | \$ - | \$ 152,254,577 |
| General education..... | 14,495,820 | - | - | 14,495,820 |
| Transportation..... | 41,518,005 | - | - | 41,518,005 |
| Other..... | 21,409,041 | 138,336 | - | 21,547,377 |
| Federal grants..... | \$ 229,677,443 | \$ 138,336 | \$ - | \$ 229,815,779 |
| Other | | | | |
| Accrued interest and other receivables.... | \$ 160,455,418 | \$ 54,049 | \$ 19,971,786 | \$ 180,481,253 |
| Allowance for uncollectibles..... | (68,050,469) | (9,460) | (12,921) | (68,072,850) |
| Other receivables, net..... | \$ 92,404,949 | \$ 44,589 | \$ 19,958,865 | 112,408,403 |
| | | | | Interfund loans receivable and due from other funds from Fiduciary Funds..... |
| | | | | 29,335,522 |
| | | | | Less Internal Service Funds' receivables from Governmental Funds..... |
| | | | | (9,001,848) |
| Other receivables, net..... | | | | \$ 132,742,077 |
| | | | | Current receivable..... |
| | | | | \$ 90,151,661 |
| | | | | Non-current receivable..... |
| | | | | 42,590,416 |
| | | | | Total other receivable, net..... |
| | | | | \$ 132,742,077 |

D. Interfund Balances**1. Due From/To Other Funds**

Due from/to other funds represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2017, are as follows:

| <u>Due From Other Funds</u> | <u>Due to Other Funds</u> | | | |
|------------------------------|---------------------------|----------------------------|-----------------------|----------------------|
| | <u>Governmental Funds</u> | | | |
| | <u>General Fund</u> | <u>Transportation Fund</u> | <u>Education Fund</u> | <u>Special Fund</u> |
| General Fund | \$ - | \$ 7,808 | \$ - | \$ 88,480 |
| Transportation Fund | 6,741 | - | - | 4,965 |
| Special Fund | 670,113 | 465,997 | - | - |
| Federal Revenue Fund | 295,898 | - | - | 399,744 |
| Global Commitment Fund | 30,297,468 | - | - | 38,549,258 |
| Non-major Governmental Funds | - | - | - | 128 |
| Vermont Lottery Commission | - | - | 25,360 | - |
| Non-major Enterprise Funds | - | - | - | 246,586 |
| Internal Service Funds | 912,890 | 1,927,440 | 12,211 | 11,965,947 |
| Total | \$ 32,183,110 | \$ 2,401,245 | \$ 37,571 | \$ 51,255,108 |

continued below

| <u>Due From Other Funds</u> | <u>Due to Other Funds</u> | | | | |
|------------------------------|-----------------------------|-------------------------------|-------------------------------------|-------------------------------|---|
| | <u>Governmental Funds</u> | | | <u>Proprietary Funds</u> | |
| | <u>Federal Revenue Fund</u> | <u>Global Commitment Fund</u> | <u>Non-major Governmental Funds</u> | <u>Internal Service Funds</u> | <u>Unemployment Compensation Trust Fund</u> |
| General Fund | \$ 114,052 | \$ 410,472 | \$ 4,754 | \$ 18,640 | \$ - |
| Transportation Fund | 683 | 28 | 156 | 1,264 | - |
| Special Fund | 2,565,269 | 11,927 | 21,058 | 786,366 | - |
| Federal Revenue Fund | - | 7,448 | - | 59 | - |
| Global Commitment Fund | - | - | - | - | - |
| Non-major Governmental Funds | - | - | - | - | - |
| Vermont Lottery Commission | - | - | - | - | - |
| Non-major Enterprise Funds | - | - | - | - | 58,599 |
| Internal Service Funds | 1,206,618 | 88,618 | 56,616 | - | - |
| Total | \$ 3,886,622 | \$ 518,493 | \$ 82,584 | \$ 806,329 | \$ 58,599 |

continued on following page

continued from previous page

| Due From Other Funds | Due to Other Funds | | | | | Total |
|------------------------------|---------------------|----------------------|----------------------------|-------------------|-----------------|----------------------|
| | Proprietary Funds | | | | Fiduciary Funds | |
| | Liquor Control Fund | Vermont Lottery Fund | Non-major Enterprise Funds | | | |
| General Fund | \$ 295,270 | \$ - | \$ 72 | \$ - | \$ - | \$ 939,548 |
| Transportation Fund | - | - | - | - | - | 13,837 |
| Special Fund | 1,100 | - | - | 107,416 | - | 4,629,246 |
| Federal Revenue Fund | - | - | - | - | - | 703,149 |
| Global Commitment Fund | - | - | - | - | - | 68,846,726 |
| Non-major Governmental Funds | - | - | - | - | - | 128 |
| Vermont Lottery Commission | - | - | - | - | - | 25,360 |
| Non-major Enterprise Funds | - | - | - | - | - | 305,185 |
| Internal Service Funds | 21,360 | 17,376 | 674 | - | - | 16,209,750 |
| Total | \$ 317,730 | \$ 17,376 | \$ 746 | \$ 107,416 | \$ - | \$ 91,672,929 |

2. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursements needs. The General Fund advances to other funds at June 30, 2017, are summarized below:

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

3. Interfund Receivables/Payables

The primary government cash in most funds is pooled in the State Treasurer's accounts. When a fund has a deficit cash balance, this amount is reclassified to a liability account - interfund payable. The General Fund reports the corresponding interfund receivable for the cash borrowed from the pool. The following funds at June 30, 2017, reported interfund payables. It is expected that certain amounts due to 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 | \$ 3,485,048 |
| Internal Service Funds | 62,099,803 |
| Total | \$ 65,584,851 |

| Fiduciary Funds | |
|------------------------------|----------------------|
| Pension and OPEB Trust Funds | 29,200,000 |
| Agency Funds | 28,106 |
| Total | \$ 29,228,106 |

4. Inter - Primary Government/Component Unit Balances

Advances to component units consist of the amounts advanced under various agreements with the Vermont Economic Development Authority (VEDA) for specific programs. At June 30, 2017, the advances to component units reported in the General Fund (\$5,500,000) are advances to Vermont Economic Development Authority. The advance funded a loan for a portion of a project to build a State office building. The terms of the agreement require the principal repayments on the loan be held by VEDA until the funds are requested by the State. At June 20, 2017, the advances to component units reported in the Special Fund (\$13,332) are advances to VEDA for interest rate subsidies for emergency flood relief loans.

Due from component units/Due to primary government consist of the amounts owed to the primary government for programs administered by component units, in accordance with memoranda of understanding with State departments, and for the elimination of negative balances in the State Treasurer's pooled cash. Due from primary government/Due to component units consist of amounts appropriated from the primary government's funds to the component units that had not been disbursed by fiscal year end.

At June 30, 2017, these account balances are as follows:

| | <u>Vermont Housing & Conservation Board</u> | <u>Vermont Veteran's Home</u> | <u>Total</u> |
|---------------------------------|---|-----------------------------------|---------------------|
| Due from Component Units | | | |
| General Fund | \$ 1,203,944 | \$ - | \$ 1,203,944 |
| Non-major Governmental Funds | - | 437,174 | 437,174 |
| Due to Component Units | | | |
| Non-major Governmental Funds | <u>(2,448,020)</u> | <u>-</u> | <u>(2,448,020)</u> |
| Total | <u>\$ (1,244,076)</u> | <u>\$ 437,174</u> | <u>\$ (806,902)</u> |

5. Interfund Transfers

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

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education. The Special Fund received transfers from the General Fund for the Next Generation Fund, from the Transportation Fund for FEMA related projects, from the Federal Revenue Fund for the earned income tax credit for the year, and from the Global Commitment Fund for special education school-based Medicaid services. The Global Commitment Fund received transfers from the General and Special Funds for Medicaid related services provided under the Vermont Global Commitment to Health Medicaid waiver. The Non-major Governmental Funds received transfers from the General, Transportation, Special, and Federal Revenue Funds for debt service payments.

Interfund transfers for the fiscal year ended June 30, 2017, are as follows:

(Table on next page.)

| Transfers Out | | | | |
|------------------------------|-----------------------|--------------------------------|-----------------------|---------------------------------|
| Governmental Funds | | | | |
| Transfers in | General Fund | Transportation Fund | Special Fund | Federal Revenue Fund |
| General Fund | \$ - | \$ - | \$ 43,036,855 | \$ 38,040,542 |
| Education Fund | 305,902,634 | - | 10,596,982 | - |
| Special Fund | 7,033,190 | 1,428,871 | - | 21,493,312 |
| Federal Revenue Fund | - | - | - | - |
| Global Commitment Fund | 278,481,870 | - | 320,809,781 | - |
| Non-major Governmental Funds | 71,120,080 | 4,787,582 | 535,961 | 2,007,909 |
| Internal Service Funds | 196,169 | 1,283,215 | - | - |
| Total | \$ 662,733,943 | \$ 7,499,668 | \$ 374,979,579 | \$ 61,541,763 |

continued below

| Transfers Out | | | | |
|---------------------------|------------------------------------|---|--------------------------------|---------------------------------------|
| Governmental Funds | | | Proprietary Funds | |
| Transfers in | Global Commitment Funds | Non-major Governmental Funds | Liquor Control Fund | Vermont Lottery Commission |
| General Fund | \$ 5,287,591 | \$ - | \$ 955,000 | \$ - |
| Education Fund | - | - | - | 25,501,795 |
| Special Fund | 27,232,302 | - | 108,630 | - |
| Federal Revenue Fund | - | 4,103,005 | - | - |
| Total | \$ 32,519,893 | \$ 4,103,005 | \$ 1,063,630 | \$ 25,501,795 |

continued below

| Transfers Out | | | |
|------------------------------|---------------------------------------|-----------------------------------|-------------------------|
| Transfers in | Non-major Enterprise Funds | Internal Service Funds | Total |
| General Fund | \$ 76,378 | \$ - | \$ 87,396,366 |
| Transportation Fund | - | 588,000 | 588,000 |
| Education Fund | - | - | 342,001,411 |
| Special Fund | 855,000 | 336,000 | 58,487,305 |
| Federal Revenue Fund | - | - | 4,103,005 |
| Global Commitment Fund | - | - | 599,291,651 |
| Non-major Governmental Funds | - | - | 78,451,532 |
| Internal Service Funds | - | - | 1,479,384 |
| Total | \$ 931,378 | \$ 924,000 | \$ 1,171,798,654 |

E. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, was as follows:

Primary Government

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
|--|------------------------------|-----------------------|-------------------------|--------------------------|---------------------------|
| Capital assets, not being depreciated | | | | | |
| Land, land use rights, and land improvements | \$ 146,360,735 | \$ 3,330,418 | \$ - | \$ - | \$ 149,691,153 |
| Construction in process | 576,570,552 | 253,155,444 | (180,554,061) | (3,647,288) | 645,524,647 |
| Works of art | 136,003 | - | - | - | 136,003 |
| Total capital assets, not being depreciated | <u>723,067,290</u> | <u>256,485,862</u> | <u>(180,554,061)</u> | <u>(3,647,288)</u> | <u>795,351,803</u> |
| Capital assets, being depreciated | | | | | |
| Buildings and improvements | 669,259,518 | 37,092,622 | (799,201) | 1,457,165 | 707,010,104 |
| Machinery and equipment | 456,189,254 | 58,389,163 | (20,439,209) | 20,684 | 494,159,892 |
| Infrastructure | 2,360,918,189 | 120,027,670 | (32,226,936) | (66,506) | 2,448,652,417 |
| Total capital assets, being depreciated | <u>3,486,366,961</u> | <u>215,509,455</u> | <u>(53,465,346)</u> | <u>1,411,343</u> | <u>3,649,822,413</u> |
| Less accumulated depreciation for | | | | | |
| Buildings and improvements | (236,986,972) | (22,977,613) | 601,697 | - | (259,362,888) |
| Machinery and equipment | (179,127,965) | (54,703,484) | 16,509,330 | - | (217,322,119) |
| Infrastructure | (1,009,657,633) | (95,205,918) | 32,053,600 | - | (1,072,809,951) |
| Total accumulated depreciation | <u>(1,425,772,570)</u> | <u>(172,887,015)</u> | <u>49,164,627</u> | <u>-</u> | <u>(1,549,494,958)</u> |
| Capital assets, being depreciated, net | <u>2,060,594,391</u> | <u>42,622,440</u> | <u>(4,300,719)</u> | <u>1,411,343</u> | <u>2,100,327,455</u> |
| Governmental activities capital assets, net | <u>\$ 2,783,661,681</u> | <u>\$ 299,108,302</u> | <u>\$ (184,854,780)</u> | <u>\$ (2,235,945)</u> | <u>\$ 2,895,679,258</u> |
| | | | | | |
| <u>Business-type Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
| Capital assets, not being depreciated | | | | | |
| Construction in process | \$ 282,506 | \$ - | \$ - | \$ (45,363) | \$ 237,143 |
| Total capital assets, not being depreciated | <u>282,506</u> | <u>-</u> | <u>-</u> | <u>(45,363)</u> | <u>237,143</u> |
| Capital assets, being depreciated | | | | | |
| Buildings and improvements | 59,935 | - | - | - | 59,935 |
| Machinery and equipment | 2,283,199 | 294,446 | (280,795) | - | 2,296,850 |
| Total capital assets, being depreciated | <u>2,343,134</u> | <u>294,446</u> | <u>(280,795)</u> | <u>-</u> | <u>2,356,785</u> |
| Less accumulated depreciation for | | | | | |
| Buildings and improvements | (57,832) | (1,030) | - | - | (58,862) |
| Machinery and equipment | (1,708,764) | (208,589) | 279,056 | - | (1,638,297) |
| Total accumulated depreciation | <u>(1,766,596)</u> | <u>(209,619)</u> | <u>279,056</u> | <u>-</u> | <u>(1,697,159)</u> |
| Capital assets, being depreciated, net | <u>576,538</u> | <u>84,827</u> | <u>(1,739)</u> | <u>-</u> | <u>659,626</u> |
| Business-type activities capital assets, net | <u>\$ 859,044</u> | <u>\$ 84,827</u> | <u>\$ (1,739)</u> | <u>\$ (45,363)</u> | <u>\$ 896,769</u> |

| <u>Fiduciary Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|------------------|--------------------------|---------------------------|
| Capital assets, being depreciated | | | | | |
| Machinery and equipment | \$ 8,361,854 | \$ 5,785 | \$ - | \$ - | \$ 8,367,639 |
| Total capital assets, being depreciated | <u>8,361,854</u> | <u>5,785</u> | <u>-</u> | <u>-</u> | <u>8,367,639</u> |
| Less accumulated depreciation for | | | | | |
| Machinery and equipment | <u>(2,639,177)</u> | <u>(907,897)</u> | <u>-</u> | <u>-</u> | <u>(3,547,074)</u> |
| Total accumulated depreciation | <u>(2,639,177)</u> | <u>(907,897)</u> | <u>-</u> | <u>-</u> | <u>(3,547,074)</u> |
| Fiduciary activities capital assets, net | <u>\$ 5,722,677</u> | <u>\$ (902,112)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,820,565</u> |

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

| <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|--|------------------------------|---------------------------------|--------------------------|
| General Government | \$ 24,069,679 | Liquor Control | \$ 205,835 |
| Protection to Persons and Property | 9,260,082 | Vermont Lottery Commission | <u>3,784</u> |
| Human Services | 30,628,245 | | |
| Labor | 179,952 | Total | <u>\$ 209,619</u> |
| General Education | 29,052 | | |
| Natural Resources | 2,655,293 | | |
| Commerce & Community Development | 328,384 | <u>Fiduciary Activities</u> | |
| Transportation | 94,578,884 | Pension Trust Funds | \$ 907,446 |
| Depreciation on capital assets held by Internal Service Funds | <u>11,157,444</u> | Private Purpose Trust Fund | <u>451</u> |
| Total | <u>\$ 172,887,015</u> | Total | <u>\$ 907,897</u> |

F. Deferred Outflows and Deferred Inflows

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

The change in deferred outflows of resources for the loss on refunding of bonds payable is as follows:

| | |
|---------------------------|---------------------|
| Balance, July 1, 2016 | \$ 9,848,778 |
| Current year amortization | <u>(1,240,103)</u> |
| Balance, June 30, 2017 | <u>\$ 8,608,675</u> |

Additional information regarding governmental and business-type activities' deferred outflows of resources and deferred inflows of resources related to pension liabilities can be found in Note IV. G. 4.

Deferred inflows in the governmental funds Balance Sheet consist of unavailable amounts related to revenue recognition. Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both available and measurable. When an asset is recorded in governmental fund financial

statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

G. Long-term Liabilities

1. General Obligation & Special Obligation Bonds Payable

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

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

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

The changes in bonds principal payable for fiscal year 2017 are summarized in the following schedule:

| | General Obligation Bonds | Special Obligation Bonds | Total Obligation Bonds |
|------------------------|-----------------------------|-----------------------------|---------------------------|
| Balance, July 1, 2016 | \$ 627,035,000 | \$ 29,885,000 | \$ 656,920,000 |
| Additions: | | | |
| Issuances | - | - | - |
| Total | - | - | - |
| Deductions: | | | |
| Redemptions | (49,975,000) | (1,545,000) | (51,520,000) |
| Total | (49,975,000) | (1,545,000) | (51,520,000) |
| Balance, June 30, 2017 | \$ 577,060,000 | \$ 28,340,000 | \$ 605,400,000 |

General obligation and special obligation transportation infrastructure bonds outstanding at June 30, 2017, are shown on the following page:

General Obligation and Special Obligation Transportation Infrastructure Bonds Outstanding at June 30, 2017

| Date Issued | Date Series Matures | Interest Rates % | Amount of Original Issue | Maturity Value | | Maturity Value |
|--|---------------------|------------------|--------------------------|-----------------------|----------------------|-----------------------|
| | | | | Sources of Payments | | of Bonds |
| | | | | General Fund | Transportation Fund | Outstanding Total |
| General Obligation Current Interest Bonds: | | | | | | |
| 11/28/2007 | 7/15/2027 | 3.50 to 5.25 | \$ 35,000,000 | \$ 1,200,000 | \$ - | \$ 1,200,000 |
| 12/20/2007 | 7/15/2017 | 3.0 to 4.0 | 11,000,000 | 1,100,000 | - | 1,100,000 |
| 12/20/2007 | 7/15/2017 | 3.0 to 5.0 | 29,195,000 | 1,400,828 | 34,172 | 1,435,000 |
| 3/11/2009 | 3/1/2029 | 2.0 to 5.0 | 50,500,000 | 2,530,000 | 2,520,000 | 5,050,000 |
| 2/3/2010 | 8/15/2029 | 3.75 to 5.2 | 40,800,000 | 40,800,000 | - | 40,800,000 |
| 3/11/2010 | 8/15/2019 | 2.0 to 2.8 | 20,000,000 | 6,000,000 | - | 6,000,000 |
| 3/11/2010 | 8/15/2021 | 2.0 to 5.0 | 29,155,000 | 15,675,000 | - | 15,675,000 |
| 3/11/2010 | 8/15/2021 | 2.0 to 5.0 | 9,675,000 | 9,145,000 | - | 9,145,000 |
| 10/26/2010 | 8/15/2030 | 1.45 to 4.7 | 46,250,000 | 42,500,000 | - | 42,500,000 |
| 11/30/2010 | 8/15/2020 | 1.5 to 5.0 | 25,000,000 | 10,000,000 | - | 10,000,000 |
| 3/21/2012 | 8/15/2022 | 0.6 to 3.0 | 25,000,000 | 16,100,000 | - | 16,100,000 |
| 3/21/2012 | 8/15/2030 | 3.0 to 3.5 | 28,000,000 | 28,000,000 | - | 28,000,000 |
| 3/21/2012 | 8/15/2025 | 0.6 to 5.0 | 69,060,000 | 54,948,081 | 946,919 | 55,895,000 |
| 10/11/2012 | 8/15/2024 | 2.0 to 5.0 | 26,765,000 | 19,465,000 | - | 19,465,000 |
| 10/11/2012 | 8/15/2032 | 2.0 to 5.0 | 66,420,000 | 55,080,000 | - | 55,080,000 |
| 11/14/2013 | 8/15/2028 | 2.0 to 5.0 | 25,000,000 | 16,685,000 | - | 16,685,000 |
| 11/14/2013 | 8/15/2033 | 2.0 to 5.0 | 42,810,000 | 40,945,000 | - | 40,945,000 |
| 11/14/2013 | 8/15/2024 | 3.0 to 5.0 | 18,935,000 | 5,075,000 | - | 5,075,000 |
| 12/9/2014 | 8/15/2029 | 0.14 to 5.0 | 20,310,000 | 17,505,000 | - | 17,505,000 |
| 12/9/2014 | 8/15/2034 | 5 | 53,245,000 | 48,690,000 | - | 48,690,000 |
| 12/9/2014 | 8/15/2027 | 3.0 to 5.0 | 36,205,000 | 29,630,000 | - | 29,630,000 |
| 10/22/2015 | 8/15/2030 | 2.0 to 5.0 | 28,515,000 | 27,635,000 | - | 27,635,000 |
| 10/22/2015 | 8/15/2035 | 2.625 to 5.0 | 61,345,000 | 57,730,000 | - | 57,730,000 |
| 10/22/2015 | 8/15/2028 | 2.0 to 4.0 | 25,720,000 | 23,120,000 | 2,600,000 | 25,720,000 |
| Total General Obligation Current Interest Bonds | | | | 570,958,909 | 6,101,091 | 577,060,000 |
| Special Obligation Transportation Infrastructure Bonds: | | | | | | |
| 8/3/2010 | 6/15/2030 | 2.0 to 4.0 | 14,400,000 | - | 10,205,000 | 10,205,000 |
| 8/9/2012 | 6/15/2032 | 2.0 to 3.0 | 10,820,000 | - | 8,555,000 | 8,555,000 |
| 8/8/2013 | 6/15/2033 | 3.0 to 4.25 | 11,165,000 | - | 9,580,000 | 9,580,000 |
| Total Special Obligation Transportation Bonds | | | | - | 28,340,000 | 28,340,000 |
| Total General Obligation and Special Obligation Bonds | | | | \$ 570,958,909 | \$ 34,441,091 | \$ 605,400,000 |

At June 30, 2017, there remains \$141,717,923 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2017 are as follows:

| Fiscal Year | General Obligation Current Interest Bonds | | Special Obligation Current Interest Bonds | | Total |
|----------------|--|-----------------------|--|---------------------|-----------------------|
| | Principal | Interest | Principal | Interest | |
| 2018 | \$ 47,345,000 | \$ 21,595,941 | \$ 1,590,000 | \$ 913,738 | \$ 71,444,679 |
| 2019 | 46,455,000 | 19,844,098 | 1,635,000 | 869,688 | 68,803,786 |
| 2020 | 44,740,000 | 18,000,978 | 1,675,000 | 822,663 | 65,238,641 |
| 2021 | 44,805,000 | 16,198,670 | 1,730,000 | 772,613 | 63,506,283 |
| 2022 | 42,035,000 | 14,455,088 | 1,785,000 | 720,863 | 58,995,951 |
| 2023-2027 | 184,755,000 | 49,327,756 | 9,725,000 | 2,785,700 | 246,593,456 |
| 2028-2032 | 126,505,000 | 18,463,325 | 9,420,000 | 1,097,750 | 155,486,075 |
| 2033-2037 | 40,420,000 | 2,318,462 | 780,000 | 33,148 | 43,551,610 |
| Totals | <u>\$ 577,060,000</u> | <u>\$ 160,204,318</u> | <u>\$ 28,340,000</u> | <u>\$ 8,016,163</u> | <u>\$ 773,620,481</u> |

2. Bond Refundings

During fiscal years 2016, 2015, and 2012, the State defeased "in-substance" certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets are utilized to make all debt service payments on the defeased bonds. Accordingly, these trust assets and the liability for the defeased bonds are not included in the State's financial statements.

The total amount of defeased bonds remaining outstanding at June 30, 2017, is \$48,250,000.

3. Lease Commitments

A. Operating Leases

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

Total lease payments paid by the primary government in fiscal year 2017 was \$15,693,965 for operating leases of which \$15,530,699 was paid for property leases, \$121,395 for equipment leases and \$38,503 for non-cancelable land rentals, and \$3,368 for cancelable land rentals.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2017:

(Table on next page.)

| <u>Fiscal Year</u> | <u>Primary Government</u> | | |
|--------------------|------------------------------|--------------------------|----------------------|
| | <u>Non-Cancelable Leases</u> | <u>Cancelable Leases</u> | <u>Total</u> |
| 2018..... | \$ 14,097,535 | \$ 3,376 | \$ 14,100,911 |
| 2019..... | 11,982,059 | 3,376 | 11,985,435 |
| 2020..... | 10,693,560 | 3,376 | 10,696,936 |
| 2021..... | 10,098,084 | 2,176 | 10,100,260 |
| 2022..... | 8,922,374 | 976 | 8,923,350 |
| 2023 - 2027.... | 14,983,286 | 2,175 | 14,985,461 |
| Totals | <u>\$ 70,776,898</u> | <u>\$ 15,455</u> | <u>\$ 70,792,353</u> |

B. Capital Leases

The State has entered into capital lease arrangements to acquire additional office space and to make energy efficiency improvements with a present value of minimum lease payments totaling \$14,035,315. The majority of this total is from a building lease between ReArch Company, LLC and the State of Vermont. The agreement is one piece of a multi-part downtown redevelopment strategy for the City of Saint Albans. Various State Agencies and Departments commenced leasing the new office space in December, 2014. The lease commitment assumes a 20 year term, however, the agreement has an option that would allow the State to purchase the property on the tenth anniversary of the lease. The present value of the minimum lease payments for this building lease is \$10,235,199. In addition, the State continues to lease from HLFB, Inc., for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex. The present value of the minimum lease payments from the HLFB agreement is \$3,776,619.

Capital lease payments for the primary government in 2017 totaled \$1,196,649 with \$5,339 for machinery and equipment and \$410,155 for building improvements, and \$781,155 for the building lease in Saint Albans.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2017 are as follows:

| <u>Fiscal Year</u> | <u>Primary Government</u> |
|---|---------------------------|
| 2018..... | \$ 1,218,029 |
| 2019..... | 922,040 |
| 2020..... | 835,079 |
| 2021..... | 853,868 |
| 2022 | 873,080 |
| 2023 - 2027 | 4,669,054 |
| 2028 - 2032 | 5,218,498 |
| 2033 - 2035 | <u>2,734,995</u> |
| Total minimum lease payments..... | 17,324,643 |
| Less interest..... | <u>(6,966,091)</u> |
| Present value of minimum lease payments.... | <u>\$ 10,358,552</u> |

4. Retirement Plans and Other Postemployment Benefits

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. In addition to providing pension benefits, the State also offers other postemployment medical insurance benefit plans to retirees of the Vermont State Retirement System and State Teachers' Retirement System. Disclosures relating to defined benefit pension plans are included in 4. A. below, those relating to defined contribution pension plans are included in 4. B. below, and those relating to other postemployment benefits (OPEB) are included in 4. C. below.

These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension and other postemployment benefit trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

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

The financial statements for the pension and other postemployment benefit trust funds are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are due. The employers' contributions are recognized when legally due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by the pension 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, 2017. Securities without an establish market are reported at estimated fair value. Additional information on the plans' investments may be found in Note IV. B. - Investments.

A. Defined Benefit Retirement Plans

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into three sections. The first section (Disclosures about the Defined Benefit Retirement Plans) offers disclosures about the plans themselves - descriptions of the plans and who is covered; an analysis of the membership of the various groups of the various plans as of the end of the fiscal year; a discussion of benefits provided by each of the plans, and the financial statements of each of the three defined benefit plans.

The second section (Financial Reporting of Net Pension Liability and Pension Expense by the Employer as required by GASB Statement No. 68) provides funding information regarding the pension plans that are required by GASB Statement No. 68 - changes in net pension liability, balances of deferred pension outflows of resources and deferred pension inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of pension expense for the year.

The third section (Net Pension Liability and Disclosures required by GASB Statement No. 67) provides the information that is required by GASB Statement No. 67 - the calculation of the net pension liability; the actuarial assumptions and census data that were used in calculating that NPL; the discount rate that was used in the calculations; and the sensitivity of the NPL to changes in the discount rate. The Statement of Plan Net Position and the Statement of Changes in Plan Net Position for the fiscal year ended June 30, 2017 are included at the end of this section.

1. Disclosures about the Defined Benefit Retirement Plans

This first section provides the disclosures about the defined benefit retirement plans required by GASB Statement No. 67, including the plan descriptions, benefits and membership at June 30, 2017.

Plan Descriptions

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer defined benefit pension plan 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.

Management of the plan is vested in the VSRS Retirement Board, which consists of an appointee of the governor; state treasurer; commissioner of human resources; commissioner of finance and management; three members of the Vermont State Employees' Association who are active members of the system (each chosen by such association in accordance with its articles of association) and one retired state employee who is a beneficiary of the system (to be elected by the Vermont Retired State Employees' Association).

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost-sharing multiple-employer defined benefit pension plan 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. During the year ended June 30, 2017, the retirement system consisted of 269 participating employers.

Management of the plan is vested in the STRS Board of Trustees, which consists of the secretary of education (ex-officio); the state treasurer (ex-officio); the commissioner of financial regulation (ex-officio); two trustees and one alternate who are members of the system (each elected by the members of the system under rules adopted by the board) and one trustee and one alternate who are retired members of the system receiving retirement benefits (who are elected by the Association of Retired Teachers of Vermont).

The Vermont Municipal Employees' Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost-sharing, multiple-employer defined benefit pension plan 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. During the year ended June 30, 2017, the retirement system consisted of 431 participating employers.

Management of the plan is vested in the MERS Retirement Board of Trustees, which consists of the state treasurer; two employee representatives who at all times during their term of office are contributing members and have completed five years of creditable service (each elected by the membership of the system); one employer representative who shall at all times during their term of office be a member of the governing body, chief executive officer or supervisor of a participating employer (elected by the membership of the system) and one employer representative who shall at all times during their term of office be a member of the governing body, chief executive officer or supervisor of a participating employer (appointed by the governor from candidates jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association).

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, and information describing each defined benefit plan's provisions in greater detail, are available for inspection at the Retirement Division, Office of the State Treasurer, 109 State Street, Montpelier, Vermont 05609-6901.

Membership of the Vermont State Retirement System is made up of the following:

- General employees who did not join the non-contributory system on July 1, 1981 (Group A);
- State police, law enforcement positions, and airport firefighters (Group C);
- Judges (Group D); and
- Terminated vested members of the non-contributory system and all other general employees (Group F).

Membership of the State Teachers' Retirement System is made up of the following:

- General teachers who did not join the non-contributory system on July 1, 1981 (Group A); and
- Terminated vested members of the non-contributory system and all other general teachers (Group C).

Membership of the Vermont Municipal Employees' Retirement System is made up of the following:

- General employees whose legislative bodies have not elected to become a member of Group B or Group C (Group A);
- General employees whose legislative bodies have elected to become members of Group B or Group C (Group B & C); and
- Sworn police officers, firefighters and emergency medical personnel (Group D);

At June 30, 2017, the State Treasurer's Office reports the following membership of each of the defined benefit plans by status and group:

| Vermont State | | | | | |
|---|----------------------|-------------------|-------------------|-------------------|----------------------|
| Retirement System | Total | Group A | Group C | Group D | Group F |
| Total Active Members | 8,620 | 3 | 453 | 53 | 8,111 |
| Retirees and beneficiaries currently receiving benefits | 6,727 | 173 | 443 | 64 | 6,047 |
| Terminated employees entitled to benefits but not yet receiving them (vested) | 742 | 3 | 26 | 1 | 712 |
| Inactive Members | <u>1,098</u> | <u>-</u> | <u>28</u> | <u>-</u> | <u>1,070</u> |
| Total Members | <u><u>17,187</u></u> | <u><u>179</u></u> | <u><u>950</u></u> | <u><u>118</u></u> | <u><u>15,940</u></u> |

| Vermont State Teachers | | | |
|---|----------------------|-------------------|----------------------|
| Retirement System | Total | Group A | Group C |
| Total Active Members | 10,028 | 4 | 10,024 |
| Retirees and beneficiaries currently receiving benefits | 9,018 | 321 | 8,697 |
| Terminated employees entitled to benefits but not yet receiving them (vested) | 763 | 2 | 761 |
| Inactive Members | <u>2,381</u> | <u>1</u> | <u>2,380</u> |
| Total Members | <u><u>22,190</u></u> | <u><u>328</u></u> | <u><u>21,862</u></u> |

**Vermont Municipal
Employees Retirement**

| System | Total | Group A | Group B | Group C | Group D |
|---|---------------|----------------|----------------|----------------|----------------|
| Total Active Members | 7,302 | 2,701 | 3,583 | 857 | 161 |
| Retirees and beneficiaries currently receiving benefits | 2,942 | 1,158 | 1,410 | 338 | 36 |
| Terminated employees entitled to benefits but not yet receiving them (vested) | 797 | 449 | 315 | 27 | 6 |
| Inactive Members | 2,221 | 1,158 | 962 | 88 | 13 |
| Total Members | 13,262 | 5,466 | 6,270 | 1,310 | 216 |

Contributions

Vermont State Retirement System. Title 3 VSA Chapter 16 of Vermont Statutes grant the authority to the retirement board to review annually the amount of state contribution recommended by the actuary of the retirement system as necessary to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. Employee contributions are established in Chapter 16. Contribution rates for the fiscal year ended June 30, 2017 for the various groups are as follows:

| Vermont State Retirement System | Group A | Group C | Group D | Group F |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| Employee Contributions | 6.65% of gross payroll | 8.53% of gross payroll | 6.65% of gross payroll | 6.65% of gross payroll |
| Employer Contributions | 10.39% of gross payroll |

State Teachers' Retirement System. Title 16 VSA Chapter 55 of Vermont Statutes grant the authority to the board of trustees of the system to annually review the amount of State contribution recommended by the actuary of the retirement system to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. The board of trustees also certifies the rates of contribution payable by employees. Contribution rates for the fiscal year ended June 30, 2017 for the various groups are as follows:

| Vermont State Teachers Retirement System | Group A | Group C - Group #1 | Group C - Group #2 |
|---|---|---------------------------|---|
| Employee Contributions | 5.50% of gross salary | 5.00% of gross salary | 5.00% of gross salary for members with at least 5 years of service as of 7/1/2014, and 6.00% of gross salary for members with less than 5 years of service as of 7/1/2014 |
| Non-employer Contributions | Appropriation based on June 2015 actuarial recommendation of amount needed to fund benefits earned during the year (1.39% of projected payroll), plus amount needed to liquidate the accrued liability over the remaining amortization period (\$70,792,693). | | |

Vermont Municipal Employees Retirement System. Title 24 VSA Chapter 125 of Vermont Statutes grant the authority to the retirement board to annually review the amount of municipalities contribution recommended by the actuary of the retirement system to achieve and preserve the financial integrity of the fund, and certify the

rates of contributions payable by employers. The board of trustees also certifies the rates of contribution payable by employees. Contribution rates for the fiscal year ended June 30, 2017, for the various groups are as follows:

| Vermont Municipal Employees Retirement System | Group A | Group B | Group C | Group D |
|--|----------------------|------------------------|-----------------------|------------------------|
| Employee Contributions | 2.5% of gross salary | 4.875% of gross salary | 10.0% of gross salary | 11.35% of gross salary |
| Employer Contributions | 4% of gross salary | 5.50% of gross salary | 7.25% of gross salary | 9.85% of gross salary |

Benefits provided

Benefit terms are established or amended in accordance with 3 V.S.A. Chapter 16 for the Vermont State Retirement System, in accordance with 16 V.S.A. Chapter 55 for the Vermont State Teachers Retirement System, and in accordance with 24 V.S.A Chapter 125 for the Vermont Municipal Employees Retirement System.

Details of the pension benefits provided by each of the retirement plans are included on the next 3 pages:

(Notes continue on next page.)

| VERMONT | | NOTES TO THE FINANCIAL STATEMENTS | | | |
|----------------------------------|--|---|--|---|--|
| Vermont State Retirement System | Group A | Group C | Group D | Group F Hired Before 7/1/08 | Group F Hired On or After 7/1/08 |
| Average Final Compensation (AFC) | Highest 3 consecutive years, including unused annual leave payoff | Highest 2 consecutive years, including unused annual leave payoff | Final salary at retirement | Highest 3 consecutive years, excluding unused annual leave payoff | Same |
| Benefit Formula | 1.67% X AFC x creditable service | 2.5% X AFC x creditable service up to 20 years | 3.33% X AFC x creditable service (after 12 years in Group D) | 1.25% X AFC x service prior to 12/31/90 + 1.67% X AFC x service after 1/1/91 | Same |
| Maximum Benefit Payable | 100% of AFC | 50% of AFC | 100% of Final Salary | 50% of AFC | 60% of AFC |
| Normal Retirement (no reduction) | Age 65 with 5 years of service or 62 with 20 years of service | Age 55 (mandatory) with 5 years of service | Age 62 with 5 years of service | Age 62 or with 30 years of service | Age 65 or a combination of age & service credit that equals 87 |
| Early Retirement Eligibility | Age 55 with 5 years of service or 30 years of service (any age) | Age 50 with 20 years of service | Age 55 with 5 years of service or 30 years of service (any age) | Age 55 with 5 years of service | Same |
| Early Retirement Reduction | Actuarially reduced benefit if under 30 years of service | No reduction | 3% per year from age 62 | No reduction if 30 years of service; otherwise, 6% per year preceding age 62 | No reduction if age 65 with 5 years of service, or if combination of age and service equal to 87; otherwise, monthly reduction preceding age 65 based on years of service: 35+ years - 1/8th of 1%; 30-34 years - 1/4th of 1%; 25-29 years - 1/3rd of 1%; 20-24 years - 5/12th of 1%; less than 20 years - 5/9th of 1% |
| Post-Retirement COLA* | Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement | Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement | Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement | For members retiring on or after 07/01/2008, 100% of a fiscal year CPI increase. For members who retired before 07/01/2008, 50% of a fiscal year CPI increase. Annual COLA adjustments have a minimum of 1% and maximum of 5% | Annual COLA adjustments are 100% of a fiscal year CPI increase, with a minimum of 1% and maximum of 5% |
| Disability Benefit | Unreduced, accrued benefit with minimum of 25% of AFC | Unreduced, accrued benefit with minimum of 25% of AFC, with children's benefit of 10% of AFC to maximum of three concurrently | Unreduced, accrued benefit with minimum of 25% of AFC | Unreduced, accrued benefit with minimum of 25% of AFC | Same |
| Death-in-Service Benefit | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently | 70% of accrued benefit with no actuarial reduction applied, plus children's benefit | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently | Same |

* Note: Annual post-retirement COLA applies beginning the first January after receiving at least 12 pension payments and reaching normal retirement age.

| Vermont State Teachers Retirement System | Group A | Group C - Group #1 * | Group C - Group #2 ++ |
|--|--|---|--|
| Average Final Compensation (AFC) | Highest 3 consecutive years, including unused annual leave, sick leave, and bonus/incentives | Highest 3 consecutive years, excluding all payments for anything other than service actually performed | Highest 3 consecutive years, excluding all payments for anything other than service actually performed |
| Benefit Formula | 1.67% X creditable service X AFC | 1.25% X service prior to 6/30/90 X AFC + 1.67% X service after 7/1/90 X AFC | 1.25% X service prior to 6/30/90 X AFC + 1.67% X service after 7/1/90 X AFC, 2% X AFC after attaining 20.0 years |
| Maximum Benefit Payable | 100% of AFC | 53.34% of AFC | 60% of AFC |
| Normal Retirement (no reduction) | Age 60 or with 30 years of service | Age 62 or with 30 years of service | Age 65 or when the sum of age and service credit equals 90 |
| Early Retirement Eligibility | Age 55 with 5 years of service | Age 55 with 5 years of service | Age 55 with 5 years of service |
| Early Retirement Reduction | Actuarial reduction | 6% per year from age 62 | Actuarial reduction |
| Post-Retirement COLA | Full CPI, up to a maximum of 5%, after 12 months of retirement; minimum of 1% | 50% CPI, up to a maximum of 5% after 12 months of retirement or with 30 years; minimum of 1% | 50% CPI, up to a maximum of 5% minimum of 1% after 12 months of normal retirement or age 65 |
| Disability Benefit | Unreduced, accrued benefit with minimum of 25% of AFC | Unreduced, accrued benefit with minimum of 25% of AFC | Unreduced, accrued benefit with minimum of 25% of AFC |
| Death-in-Service Benefit | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefit up to maximum of three concurrently | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently |

* Group #1 are members who were within 5 years of normal retirement (age 62 or 30 years of service) on June 30, 2010.

++ Group #2 members who were under 57 years of age or had less than 25 years of service on June 30, 2010.

(Notes continue on next page.)

| Vermont Municipal Employees Retirement System | Group A | Group B | Group C | Group D |
|---|---|---|---|--|
| Average Final Compensation (AFC) | Highest 5 consecutive years | Highest 3 consecutive years | Highest 3 consecutive years | Highest 2 consecutive years |
| Benefit Formula | 1.4% X creditable service X AFC | 1.7% X creditable service X AFC + previous service: 1.4% X Group A X AFC | 2.5% X creditable service X AFC + previous service: 1.4% X Group A X AFC; 1.7% X Group B X AFC | 2.5% X creditable service X AFC + previous service: 1.4% X Group A X AFC; 1.7% X Group B X AFC; 2.5% X Group C X AFC |
| Maximum Benefit Payable | 60% of AFC | 60% of AFC | 50% of AFC | 50% of AFC |
| Normal Retirement (no reduction) | Age 65 with 5 years of service or 55 with 35 years of service | Age 62 with 5 years of service or 55 with 30 years of service | Age 55 with 5 years of service | Age 55 with 5 years of service |
| Early Retirement Eligibility | Age 55 with 5 years of service | Age 55 with 5 years of service | N/A | Age 50 with 20 years of service |
| Early Retirement Reduction | 6% per year from age 65 ** | 6% per year from age 62 ** | N/A | No reduction |
| Post-Retirement COLA | 50 % of CPI, up to 2% per year | 50 % of CPI, up to 3% per year | 50 % of CPI, up to 3% per year | 50 % of CPI, up to 3% per year |
| Disability Benefit | Unreduced, accrued benefit | Unreduced, accrued benefit | Unreduced, accrued benefit | Unreduced, accrued benefit plus children's benefit representing 10% of AFC to maximum of three concurrently |
| Death-in-Service Benefit | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied | Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied | 70% of accrued benefit with no actuarial reduction applied, plus children's benefit |

** A special early retirement factor of 3% per year only for municipal police officers who have attained age 60.

2. Employer Reporting of Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension Plans as required by GASB Statement No. 68

This section includes the information that is required to be reported by employers per GASB Statement No. 68. It reports information regarding the calculation of the State's net pension liability, including changes during the measurement period in both total pension liability and plan net position; balances in the various components of deferred pension outflows of resources and deferred pension inflows of resources and the amounts to be recognized in pension expense in future periods; and the calculation of pension expense. In addition to presenting the NPL, this section also includes information on the actuarial assumptions and census data used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

The State is responsible for 98.3625% of the VSRS net pension liability. The Vermont Veterans' Home (a discrete component unit) is responsible for 1.6375% of the VSRS net pension liability. The State is responsible for 100% of the STRS net pension liability as a non-employer contributing entity. The information is presented in this section is for those two plans. The State does not participate in the MERS plan, so no employer information is presented for that plan.

Reporting Date, Measurement Date, and Valuation Date (Employer Reporting)

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the State's reporting date (June 30, 2017) and for the State's reporting period (the year ended June 30, 2017). These amounts are measured as of the measurement date and for the

measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of June 30, 2017, the State has chosen to use the end of the prior fiscal year (June 30, 2016) as the measurement date, and the year ended June 30, 2016 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2015, to the measurement date of June 30, 2016.

Net Pension Liabilities (Employer Reporting)

The net pension liability (NPL) is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the pension plan's fiduciary net position. The changes in the components for the measurement period are as follows (amounts are in thousands):

| | Vermont State Retirement System | | | State Teachers' Retirement System | | |
|---|---------------------------------|--------------------------|--------------------------------|-----------------------------------|--------------------------|--------------------------------|
| | Increase (Decrease) | | | Increase (Decrease) | | |
| | Total Pension Liability (a) | Plan Net Position (b) | Net Pension Liability (a-b) | Total Pension Liability (a) | Plan Net Position (b) | Net Pension Liability (a-b) |
| Balances - June 30, 2015 | \$ 2,169,909 | \$ 1,624,861 | \$ 545,048 | \$ 2,839,621 | \$ 1,653,116 | \$ 1,186,505 |
| Changes for the year: | | | | | | |
| Service cost | 47,012 | - | 47,012 | 34,979 | - | 34,979 |
| Interest | 171,563 | - | 171,563 | 222,185 | - | 222,185 |
| Benefit changes | - | - | - | - | - | - |
| Difference between expected and actual experience | 25,051 | - | 25,051 | 3,613 | - | 3,613 |
| Changes of assumptions | (21,853) | - | (21,853) | (7,224) | - | (7,224) |
| Contributions - employer | - | 54,347 | (54,347) | - | 73,225 | (73,225) |
| Contributions - employee | - | 34,055 | (34,055) | - | 35,409 | (35,409) |
| Net investment income | - | 17,962 | (17,962) | - | 19,877 | (19,877) |
| Benefit payments, including refunds of contributions | (120,094) | (120,094) | - | (162,751) | (162,751) | - |
| Administrative expenses | - | (1,467) | 1,467 | - | (1,797) | 1,797 |
| Other changes | - | (14) | 14 | - | 3,821 | (3,821) |
| Net changes | <u>101,679</u> | <u>(15,211)</u> | <u>116,890</u> | <u>90,802</u> | <u>(32,216)</u> | <u>123,018</u> |
| Balances - June 30, 2016 | \$ <u>2,271,588</u> | \$ <u>1,609,650</u> | \$ <u>661,938</u> | \$ <u>2,930,423</u> | \$ <u>1,620,900</u> | \$ <u>1,309,523</u> |
| Plan fiduciary net position as a percentage of total pension liability | | | 70.86% | | | 55.31% |

Proportionate Share of Net Pension Liability

| | VSRS | | | |
|-----------------------------|-------------------|---------------------|------------------|----------|
| | Amount | Proportionate Share | | |
| | | 2016 | 2015 | Change |
| Governmental activities | \$ 645,627 | 97.5359% | 97.4949% | 0.0410% |
| Business type activities | 5,472 | 0.8266% | 0.8340% | -0.0074% |
| Discrete component unit | 10,839 | 1.6375% | 1.6711% | -0.0337% |
| Total net pension liability | \$ <u>661,938</u> | <u>100.0000%</u> | <u>100.0000%</u> | |

Additional information regarding the changes in the net pension liability for the year ended June 30, 2017 can be found in the Required Supplementary information immediately following these notes to the financial statements.

Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources (Employer Reporting)

Most changes in the net pension liability are included in pension expense during the year of change. Changes resulting from current-period service cost, interest on the total pension liability, and changes in benefit terms are required to be included in pension expense immediately. Similarly, projected earnings on the pension plan's investments are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods, depending on the nature of the change.

The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that these changes result from the use of estimates, where probabilities of events range from 0 to 100 percent, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that pensions arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related pension measurements are viewed in the context of ongoing, career-long employment relationships.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources, and will be recognized as a reduction of the net pension liability at June 30, 2018. As of June 30, 2017, the State reported the following deferred pension outflows of resources and deferred pension inflows of resources (amounts are in thousands):

| Source | Vermont State Retirement System | | | |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | Primary Government | | Discrete Component Units | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 23,144 | \$ - | \$ 385 | \$ - |
| Changes of assumptions | 40,818 | 17,913 | 680 | 298 |
| Net differences between projected and actual earnings on plan investments | 168,710 | 44,199 | 2,809 | 736 |
| Change in proportion and the effect of certain employer contributions on the employer's net pension liability | 791 | 181 | - | 610 |
| Employer contributions made subsequent to the measurement date | 59,210 | - | 1,070 | - |
| Total | \$ 292,673 | \$ 62,293 | \$ 4,944 | \$ 1,644 |

| Source | State Teachers' Retirement System | |
|--|-----------------------------------|----------------------------------|
| | Primary Government | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 12,711 | \$ - |
| Changes of assumptions | 28,744 | 5,418 |
| Net differences between projected and actual earnings on plan investments | 173,413 | 46,831 |
| Change in proportion and the effect of certain employer contributions on the employer's net pension liability | - | - |
| Employer contributions made subsequent to the measurement date | 78,664 | - |
| Total | \$ 293,532 | \$ 52,249 |

The amounts reported as deferred pension outflows of resources resulting from employer contributions made subsequent to the measurement date (VSRS - \$59.210 million Primary Government and \$1.070 million Component Units; and STRS - \$78.664 million Primary Government), will be recognized as a reduction of the net pension liability at June 30, 2018. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in pension expense as follows (amounts are in thousands):

| Year Ended June 30 | State Teachers' Retirement System | | Vermont State Retirement System | |
|-----------------------|--------------------------------------|-----------------------|---------------------------------|-----------------------------|
| | Primary Government | Primary Government | Primary Government | Discrete Component Units |
| 2018 | \$ 45,558 | \$ 38,472 | \$ 38,472 | \$ 476 |
| 2019 | 45,558 | 38,472 | 38,472 | 476 |
| 2020 | 49,601 | 60,571 | 60,571 | 844 |
| 2021 | 21,902 | 33,096 | 33,096 | 459 |
| 2022 | - | 560 | 560 | (26) |
| Total | <u>\$ 162,619</u> | <u>\$ 171,171</u> | <u>\$ 171,171</u> | <u>\$ 2,229</u> |

Pension Expense (Employer Reporting)

As discussed above, most changes in the net pension liability are included in pension expense in the year of change, including changes resulting from current-period service cost, interest on the total pension liability, changes in benefit terms, and projected earnings on the pension plan's investments. Other changes in net pension liability are recorded as deferred pension outflows of resources and deferred pension inflows of resources, and included in pension expense on a systematic and rational manner over current and future periods. Pension expense for the year ended June 30, 2017, is as follows (amounts are in thousands):

| | State Teachers' Retirement System | | |
|---|-----------------------------------|--------------------|--------------------------|
| | Primary Government | Primary Government | Discrete Component Units |
| Service cost..... | \$ 34,979 | \$ 46,242 | \$ 770 |
| Interest on total pension liability..... | 222,185 | 168,754 | 2,809 |
| Employee contributions..... | (35,409) | (33,497) | (558) |
| Plan administrative costs and other changes..... | (2,023) | 1,458 | 25 |
| Projected earnings on plan investments..... | (129,391) | (125,788) | (2,094) |
| Recognition (amortization) of deferred pension outflows of resources: | | | |
| Difference between expected and actual experience..... | 903 | 4,107 | 68 |
| Net difference between projected and actual investment earnings..... | 21,903 | 21,624 | 360 |
| Recognition of deferred outflows from prior periods..... | 47,973 | 38,261 | 637 |
| Changes in proportional share of contributions..... | - | 209 | - |
| Recognition (amortization) of deferred pension inflows of resources: | | | |
| Change in assumptions..... | (1,806) | (3,583) | (60) |
| Recognition of deferred inflows from prior periods..... | (23,416) | (22,100) | (368) |
| Changes in proportional share of contributions..... | - | (48) | (161) |
| Total Pension Expense..... | \$ 135,898 | \$ 95,639 | \$ 1,428 |

Actuarial Methods and Assumptions (Employer Reporting)

Methods and assumptions used to determine pension expense and total pension liability are based on a valuation date of June 30, 2015 for VSRS and STRS.

Mortality rates are based as follows for the various retirement systems:

Vermont State Retirement System

- Mortality rates for active employees in Groups A, D and F were based on RP-2000 Tables for Healthy Employees projected by 10 years from the valuation date using Scale BB. 30% of the employees in Groups A and F are assumed to be blue-collar for purposes of the application of the table. Mortality rates for active employees in Group C were based on RP-2000 Tables for Healthy Employees projected by 10 years from the valuation date using Scale BB.
- Mortality rates for retirees and beneficiaries in Groups A and F were based on RP-2000 Tables for Employees and Healthy Annuitants projected by 10 years from the valuation date by Scale BB with a 30% blue-collar adjustment. Mortality rates for retirees and beneficiaries in Group D were based on RP-2000 Tables for Employees and Healthy Annuitants projected by 10 years from the valuation date by Scale BB. Mortality rates for retirees and beneficiaries in Group C were based on RP-2000 Combined Mortality Tables for Employees and Healthy Annuitants projected by 10 years from the valuation with Scale BB with a blue-collar adjustment.
- Mortality rates for disabled retirees in Groups A, D, and F were based on the RP-2000 Combined Mortality Tables for Employees and Healthy Annuitants with a five-year set-forward. Mortality rates for disabled retirees in Group C were based on the RP-2000 Combined Mortality Tables for Employees and Healthy Annuitants projected 10 years from the valuation date with Scale BB with a five-year set-forward.

State Teachers' Retirement System

- Mortality rates for active employees were based on the RP-2000 Mortality Table for Employees, with adjustments for mortality improvements based on Scale BB, to 2029.

- Mortality rates for retirees, terminated vested members and beneficiaries were based on the RP-2000 Tables Projected to 2029, using Scale BB.
- Mortality rates for disabled retirees were based on the RP-2000 Disabled Life Table projected to 2020 using Scale AA for disabled retirees.

| | VSRS | STRS |
|--|--|--|
| Valuation date | 6/30/2015 | 6/30/2015 |
| Inflation assumptions | 3.00% | 3.00% - 3.25% |
| Investment rate of return | 7.95% | 7.95% |
| Projected salary increases | 3.50% - 6.21% | 4.12% - 8.15% |
| Cost of living adjustments | Groups A, C & D: 3%; Group F: 1.5% and Group F retiring after 7/1/09: 3% | Group A: 3%; Group C: 1.5% |
| <u>Post Retirement Adjustments</u> | | |
| 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% |
| Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in the CPI but not in excess of percentage indicated | Group F - 5% | Group C - 5% |
| Assumed annual rate of cost-of-living increases | For those eligible for increases of 100% of CPI change - 3% | For those eligible for increases of 100% of CPI change - 3% |
| | For those eligible for increases of 50% of CPI change - 1.5% | For those eligible for increases of 50% of CPI change - 1.5% |
| <u>Census Data for 2015 Valuation</u> | | |
| Retired members or beneficiaries currently receiving benefits | 6,204 | 8,484 |
| Inactive members | 891 | 2,260 |
| Active members | 8,446 | 9,585 |
| Terminated vested members | 735 | 1,163 |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2014. Actuarial valuations attempt to estimate costs associated with the pension system based on a number of demographic, economic, and retirement experience assumptions. To the extent assumptions are at variance to experience, this can result in actuarial gains and losses ultimately impacting contribution rates and the development of the actuarially required contribution. Experience studies are required by statute to be conducted every five years to review actual experience in comparison to these assumptions and to provide recommended changes to assumptions.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the

asset classes. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------|--|---|
| Equity | 35.00% | 8.54% |
| Fixed Income | 32.00% | 2.36% |
| Alternatives | 16.00% | 8.35% |
| Multi-Strategy | 17.00% | 4.90% |

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.0%.

Discount Rate (Employer Reporting)

The discount rate used to measure the total pension liability as of June 30, 2016 was 7.95% for the VSRS and STRS. The discount rate used for the prior year was 7.95% for the VSRS and STRS. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 68.

The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expenses for the year ended June 30, 2016 was 1.44% for VSRS, and 1.69% for STRS. Amounts for the prior year were (0.50%), and (0.40%) respectively. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Employer Reporting)

The following presents the net pension liability of the various retirement systems (at the June 30, 2016 measurement date), calculated using the discount rates determined above, as well as what the systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (amounts are in thousands):

| | <u>VSRS</u> | <u>STRS</u> |
|------------------------------------|-------------|--------------|
| One-percent decrease | | |
| Discount rate | 6.95% | 6.95% |
| Net pension liability | \$ 938,167 | \$ 1,638,648 |
| Net pension liability, as reported | | |
| Discount rate | 7.95% | 7.95% |
| Net pension liability | \$ 661,938 | \$ 1,309,523 |
| One-percent increase | | |
| Discount rate | 8.95% | 8.95% |
| Net pension liability | \$ 430,863 | \$ 1,033,302 |

3. Net Pension Liability and Disclosures required by GASB Statement No. 67 (Plan Reporting)

This section includes the information that is required to be presented by GASB Statement No. 67, reporting on the financial statements for the defined benefit plans for the year ended June 30, 2017. Separate valuations were performed by the State's actuary to calculate the total pension liability in accordance with this standard for financial reporting by pension plans and calculates the net pension liability (NPL). The plans elected to base the valuations on plan data as of June 30, 2016 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year end of June 30, 2017. In addition to presenting the NPL, this section also includes information on the actuarial assumptions used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

Net Pension Liabilities (Plan Reporting)

The components of the net pension liabilities of the defined benefit retirement plans at June 30, 2017, are shown as follows with amounts in thousands:

| | Vermont State Retirement System | Vermont State Teachers' Retirement System | Vermont Municipal Employees Retirement System |
|---|--|---|---|
| Total pension liability | \$ 2,428,779 | \$ 3,220,961 | \$ 740,666 |
| Plan fiduciary net position | <u>(1,748,442)</u> | <u>(1,738,558)</u> | <u>(619,510)</u> |
| Net pension liability | <u>\$ 680,337</u> | <u>\$ 1,482,403</u> | <u>\$ 121,156</u> |
| Plan fiduciary net position as a percentage of total pension liability | 71.99% | 53.98% | 83.64% |

Actuarial Assumptions (Plan Reporting)

The June 30, 2017 total pension liability was determined by rolling forward the total pension liability as of June 30, 2016 to June 30, 2017, using the actuarial assumptions and methods used in the June 30, 2016 actuarial valuation of the plans.

Additional information regarding changes in the net pension liability for the year ended June 30, 2017 can be found in the Required Supplementary Information section immediately following these notes to the financial statements.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are summarized in the following table:

(Table on next page.)

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|--------------------|--|---|
| US Equity | 16.00% | 6.07% |
| Non-US Equity | 16.00% | 7.42% |
| Global Equity | 9.00% | 6.85% |
| Fixed Income | 24.00% | 2.41% |
| Real Estate | 8.00% | 4.62% |
| Private Markets | 15.00% | 7.80% |
| Hedge Funds | 8.00% | 3.95% |
| Risk Parity | 4.00% | 4.84% |

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 2.50%.

Discount Rate (Plan Reporting)

The discount rate used to measure the total pension liability was 7.50% for the VSRS, STRS, and MERS. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 67.

The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expenses for the year ended June 30, 2017 was 10.33% for VSRS, 10.17% for STRS, and 10.88% for MERS. Amounts for the prior year were 1.44%, 1.69% and 1.56% respectively. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Plan Reporting)

The following presents the net pension liability of the various retirement systems, calculated using the discount rates determined above, as well as what the systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (amounts are in thousands):

| | <u>VSRS</u> | <u>STRS</u> | <u>MERS</u> |
|------------------------------------|-------------|--------------|-------------|
| One-percent decrease | | | |
| Discount rate | 6.50% | 6.50% | 6.50% |
| Net pension liability | \$ 979,072 | \$ 1,836,911 | \$ 216,315 |
| Net pension liability, as reported | | | |
| Discount rate | 7.50% | 7.50% | 7.50% |
| Net pension liability | \$ 680,337 | \$ 1,482,403 | \$ 121,156 |
| One-percent increase | | | |
| Discount rate | 8.50% | 8.50% | 8.50% |
| Net pension liability | \$ 432,059 | \$ 1,186,516 | \$ 42,236 |

The defined benefit financial statements are on the following two pages:

Statement of Plan Net Position
Defined Benefit Plans
June 30, 2017

| | Vermont State Retirement Fund | State Teachers' Retirement Fund | Vermont Municipal Employees' Retirement Fund |
|--|--|--|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets | | | |
| Cash and short term investments..... | \$ 54,322,860 | \$ 63,122,592 | \$ 17,975,439 |
| Receivables | | | |
| Contributions - current..... | 4,579,163 | 6,346,417 | 4,495,306 |
| Contributions - non-current..... | - | - | 6,740,553 |
| Investments sold..... | 87,043,050 | 86,336,954 | 32,170,070 |
| Interest and dividends..... | 2,361,121 | 2,261,449 | 1,236,565 |
| Due from other funds..... | 72,381 | - | 78,139 |
| Other..... | 1,208,319 | 2,428,450 | 494,594 |
| Investments | | | |
| Fixed income..... | 256,421,944 | 249,017,955 | 94,195,542 |
| Equities..... | 316,808,823 | 295,879,610 | 115,460,190 |
| Mutual and commingled funds..... | 933,509,690 | 919,995,492 | 324,479,956 |
| Real estate and private partnerships..... | 207,794,191 | 225,983,069 | 65,210,166 |
| Prepaid expenses..... | 37,519 | 45,857 | 21,000 |
| Capital assets, net of depreciation..... | <u>1,838,117</u> | <u>2,185,051</u> | <u>796,487</u> |
| Total assets..... | <u>1,865,997,178</u> | <u>1,853,602,896</u> | <u>663,354,007</u> |
| Liabilities | | | |
| Accounts payable..... | 2,234,021 | 2,681,918 | 464,351 |
| Investments purchased..... | 115,281,119 | 112,310,620 | 43,357,833 |
| Due to other funds..... | <u>39,744</u> | <u>52,784</u> | <u>21,483</u> |
| Total liabilities..... | <u>117,554,884</u> | <u>115,045,322</u> | <u>43,843,667</u> |
| Net position held in trust for employees' pension benefits..... | <u>\$ 1,748,442,294</u> | <u>\$ 1,738,557,574</u> | <u>\$ 619,510,340</u> |

(Notes continue on next page.)

Statement of Changes in Plan Net Position
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2017

| | Vermont State Retirement Fund | State Teachers' Retirement Fund | Vermont Municipal Employees' Retirement Fund |
|---|--|--|---|
| Additions | | | |
| Contributions | | | |
| Employer - pension benefit..... | \$ 60,280,480 | \$ - | \$ 16,481,881 |
| Non-employer - pension benefit..... | - | 78,663,674 | - |
| Plan member..... | 35,966,987 | 36,142,411 | 25,210,413 |
| Transfers from other pension trust funds..... | 785,504 | 241,526 | 149,556 |
| Other revenues..... | - | 4,223,500 | - |
| Total contributions..... | 97,032,971 | 119,271,111 | 41,841,850 |
| Investment Income | | | |
| Net appreciation in fair value of investments..... | 149,375,386 | 151,103,612 | 51,943,098 |
| Dividends..... | 15,757,934 | 16,676,182 | 5,153,238 |
| Interest income..... | 9,278,874 | 9,282,940 | 3,782,467 |
| Other income..... | 795,335 | 1,081,645 | 232,945 |
| Total investment income..... | 175,207,529 | 178,144,379 | 61,111,748 |
| Less Investment Expenses | | | |
| Investment managers and consultants..... | 4,849,513 | 4,977,765 | 1,624,820 |
| Total investment expenses..... | 4,849,513 | 4,977,765 | 1,624,820 |
| Net investment income..... | 170,358,016 | 173,166,614 | 59,486,928 |
| Total additions..... | 267,390,987 | 292,437,725 | 101,328,778 |
| Deductions | | | |
| Retirement benefits..... | 122,139,440 | 169,369,143 | 24,915,886 |
| Refunds of contributions..... | 3,640,086 | 2,067,039 | 1,858,831 |
| Death claims..... | 392,819 | 465,981 | 259,827 |
| Transfers to other pension trust funds..... | 307,456 | 253,901 | 768,846 |
| Depreciation..... | 342,391 | 409,603 | 155,452 |
| Administration expenses..... | 1,776,653 | 2,214,233 | 874,709 |
| Total deductions..... | 128,598,845 | 174,779,900 | 28,833,551 |
| Change in net position..... | 138,792,142 | 117,657,825 | 72,495,227 |
| Net position held in trust for employees' pension benefits | | | |
| July 1, 2016..... | 1,609,650,152 | 1,620,899,749 | 547,015,113 |
| June 30, 2017..... | \$ 1,748,442,294 | \$ 1,738,557,574 | \$ 619,510,340 |

B. Defined Contribution Retirement Plans

Retirement Plan Descriptions

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional single employer defined contribution pension plan for exempt State employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds. Exempt employees hired after January 1, 1999, have a one-time opportunity to elect either the defined benefit or defined contribution plan. Employees are required to contribute at the rate of 2.85%. The State is required to contribute to each employee's account at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. During the fiscal year ended June 30, 2017, member contributions totaled \$715,726 with State employer contributions at \$1,758,063. As of June 30, 2017, the Vermont State Defined Contribution Plan's net position totaled \$63,824,559 and there were 611 participants.

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

Participating municipal employees are required to contribute at the rate of 5% of earnable compensation. Employers are required to contribute at the rate of 5.125%. Employees become vested in the plan after 12 months of service. During the fiscal year ended June 30, 2017, member contributions totaled \$503,938 and employer contributions at \$561,199. As of June 30, 2017, the Municipal Employees' Defined Contribution Plan's net position totaled \$22,292,896 and there were 496 participants.

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

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

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

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

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

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2017 there were 1,391 members, with net position of \$47,539,318 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows:

**Statement of Plan Net Position
Defined Contribution Plans
June 30, 2017**

| | Vermont State Defined Contribution Fund | Single Deposit Investment Account | Vermont Municipal Employees' Defined Contribution Fund |
|--|--|--|---|
| | <u> </u> | <u> </u> | <u> </u> |
| Assets | | | |
| Cash and short term investments..... | \$ 74,519 | \$ 1,042,736 | \$ 126,197 |
| Receivables | | | |
| Contributions..... | 135,847 | - | 5,552 |
| Interest and dividends..... | - | 231 | - |
| Investments | | | |
| Mutual and commingled funds..... | 63,683,607 | 46,496,351 | 22,239,524 |
| Prepaid expenses..... | <u>1,871</u> | <u>-</u> | <u>-</u> |
| Total assets..... | <u>63,895,844</u> | <u>47,539,318</u> | <u>22,371,273</u> |
| Liabilities | | | |
| Accounts payable..... | 5,499 | - | 238 |
| Due to other funds..... | <u>65,786</u> | <u>-</u> | <u>78,139</u> |
| Total liabilities..... | <u>71,285</u> | <u>-</u> | <u>78,377</u> |
| Net position held in trust for employees' pension benefits..... | | | |
| | <u>\$ 63,824,559</u> | <u>\$ 47,539,318</u> | <u>\$ 22,292,896</u> |

**Statement of Changes in Plan Net Position
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2017**

| | Vermont State Defined Contribution Fund | Single Deposit Investment Account | Vermont Municipal Employees' Defined Contribution Fund |
|---|--|--|---|
| Additions | | | |
| Contributions | | | |
| Employer - pension benefit..... | \$ 1,758,063 | \$ - | \$ 561,199 |
| Plan member..... | 715,726 | - | 503,938 |
| Transfers from other pension trust funds.... | 140,988 | - | 12,629 |
| Transfers from non-state systems..... | 57,427 | - | - |
| Total contributions..... | 2,672,204 | - | 1,077,766 |
| Investment Income | | | |
| Net appreciation (depreciation) in fair value of investments..... | 5,606,016 | (19) | 2,285,773 |
| Dividends..... | 2,430,998 | 1,141,836 | 751,764 |
| Interest income..... | 699 | 990 | 891 |
| Other income..... | 24,585 | 50,751 | 8,315 |
| Total investment income..... | 8,062,298 | 1,193,558 | 3,046,743 |
| Less Investment Expenses | | | |
| Investment managers and consultants..... | - | 165,932 | - |
| Total investment expenses..... | - | 165,932 | - |
| Net investment income..... | 8,062,298 | 1,027,626 | 3,046,743 |
| Total additions..... | 10,734,502 | 1,027,626 | 4,124,509 |
| Deductions | | | |
| Retirement benefits..... | 3,853,396 | 6,519,178 | 2,200,013 |
| Refund of contributions..... | - | - | 72,788 |
| Transfers to other pension trust funds..... | 174,190 | - | - |
| Operating expenses..... | 66,234 | - | 122,782 |
| Total deductions..... | 4,093,820 | 6,519,178 | 2,395,583 |
| Change in net position..... | 6,640,682 | (5,491,552) | 1,728,926 |
| Net position held in trust for employees' pension benefits | | | |
| July 1, 2016..... | 57,183,877 | 53,030,870 | 20,563,970 |
| June 30, 2017..... | \$ 63,824,559 | \$ 47,539,318 | \$ 22,292,896 |

C. Other Postemployment Benefits (OPEB)

In addition to providing pension benefits, the State offers postemployment medical insurance, dental insurance, and life insurance benefits to retirees of the VSRS and STRS. 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 State has implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* for the fiscal year ending June 30, 2017. This statement replaces the requirements of GASB Statement No. 43, *Financial Reporting for Post-employment Benefits Other Than Pension Plans*. GASB Statement No. 74 requires plans to calculate a net OPEB liability to be measured as the total OPEB liability less the amount of the OPEB plan's fiduciary net position.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for periods beginning after June 15, 2017. This Statement will be implemented in fiscal year 2018, and will require employers and nonemployer contributing entities to report their net OPEB liability on their financial statements. Under current standards (GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*), the employer and nonemployer contributing entity reports a net OPEB obligation which allows the employer to amortize the past service cost of the OPEB liability over a period of time.

Defined Benefit OPEB Plans

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into three sections. The first section (Disclosures about the Defined Benefit OPEB Plans) offers disclosures about the plans themselves - descriptions of the plans and who is covered; a discussion of benefits provided by each of the plans.

The second section (Net OPEB Liability and Disclosures required by GASB Statement No. 74) provides the information that is required by GASB Statement No. 74 - the calculation of the net OPEB liability (NOL); the actuarial assumptions and census data that were used in calculating that NOL; the discount rate that was used in the calculations; and the sensitivity of the NOL to changes in the discount rate.

The third section (Funding the Plans and Net OPEB Obligation) provides the funding information based on the actuarial determined contribution, the calculation of the annual OPEB cost and net OPEB obligation (NOO); including current year calculations and three year trend information, actuarial assumptions and census data that were used in calculating that NOO; and the funded status and funding progress of the plans.

1. Disclosures about the Defined OPEB Plans**Plan Descriptions**Vermont State Postemployment Benefits Trust Fund

The Vermont State Postemployment Benefits Trust Fund (VSPB) (3 V.S.A. 479a), a single employer defined benefit OPEB plan, was established in fiscal year 2007 as an irrevocable trust fund for the purpose of accumulating and providing reserves to support retiree postemployment benefits other than pension benefits for members of the Vermont State Retirement System (VSRS).

The VSPB is managed by the VSRS Retirement Board (see STRS in 4.A.1 above). Title 3 V.S.A. Chapters 16 and 21 provides the authority to establish and amend the benefit provisions of the plan, and to establish and amend contribution requirements. Contributions are actuarially determined, however, the State has elected to pay State contributions to fund current year retiree health care expenses on a pay-as-you-go basis. State contributions for the fiscal year ended June 30, 2017, were \$33,122,887, which is 6.66% of covered payroll.

Benefits are provided through the State's self-insured Medical Insurance Fund (an internal service fund). VSPB plan members have access to the same 2 benefit plans as active employees. As of June 30, 2017, there were

4,860 retiree participants enrolled in the single, spouse or family plan options. Of the \$189.9 million in premiums received by the Medical Insurance Fund during 2017, retirees contributed \$8.2 million.

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

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

Vermont State Retirement System's defined benefit plan Group C members who terminate with 20 or more years of service, but are not yet 50 years old, may elect to receive medical coverage at the time they begin receiving their retirement benefits. For all other Vermont State Retirement System's active employees, if the employee does not retire directly from State service (inactive members), they are not eligible to participate in the State's medical insurance plan. If the insurance is terminated at any time after retirement benefits have been received, coverage will not be able to be obtained again at a later date.

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

Retired Teachers' Health and Medical Benefit Fund

The Retired Teachers' Health and Medical Benefit Fund (RTHMB) (16 V.S.A. 1944b), a cost-sharing multiple employer defined benefit OPEB plan with a special funding situation, was created by the legislature on July 1, 2014, to explicitly appropriate State contributions to the fund for health care expenses separate from the State's contribution to the State Teachers' Retirement System (STRS) pension trust fund. Prior to fiscal year 2015, the health care expenses for the STRS's retirees were paid through a sub-fund of the defined benefit pension trust fund and no State contribution was explicitly budgeted or funded. The State Treasurer is authorized to use interfund borrowings of up to \$30 million to finance any funding shortfalls, and it is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023. At June 30, 2017 the balance on this loan was \$29.2 million.

The RTHMB is managed by the STRS Retirement Board (see STRS in 4.A.1 above). Title 16 V.S.A. Chapter 55 provides the authority to establish and amend the benefit provisions of the plan, and to establish and amend contribution requirements. Contributions are actuarially determined, however, the State has elected to appropriate State contributions to fund current year retiree health care expenses on a pay-as-you-go basis. State contributions for the fiscal year ended June 30, 2017, were \$23,838,958, which is 4.07% of covered payroll.

Retirees of the STRS 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.

STRS's members 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 system 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. Once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the Teacher's medical plans become the secondary insurer. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes the primary insurer.

During fiscal year 2017 there were 269 participating employers. As of June 30, 2017, 6,331 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed \$18.7 million in premiums.

2. Net OPEB Liability and Disclosures required by GASB Statement No. 74 (Plan Reporting)

This section includes information the is required to be presented by GASB Statement No. 74. The plans elected to base the valuations on plan data as of June 30, 2016 and used update procedures to roll forward the total OPEB liability to the OPEB plans' fiscal year end. In addition to presenting the net OPEB liability (NOL), this section also includes information on the actuarial assumptions and census data used in the valuation, the discount rate that was used to calculate the NOL, and disclosures as to the sensitivity of the NOL to changes in the discount rate.

GASB Statement No, 74 requires that OPEB plans disclose the NOL and other related disclosures; however, the reporting of the NOL in the financial statements of the employer and noncontributing entity are not required until implementation of GASB Statement No. 75 in fiscal year 2018.

Net OPEB Liabilities

The components of the net OPEB liabilities at June 30, 2017, were as follows (amounts in thousands):

| | <u>VSRS - VSPB</u> | <u>STRS - RTHMB</u> |
|--|---------------------|---------------------|
| Total OPEB liability..... | \$ 1,484,522 | \$ 905,632 |
| Plan fiduciary net position (deficit)..... | <u>22,502</u> | <u>(26,658)</u> |
| Net OPEB liability..... | <u>\$ 1,462,020</u> | <u>\$ 932,290</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 1.52% | -2.94% |

Additional information regarding changes in net OPEB liability for the year ended June 30, 2017 can be found in the Required Supplementary Information section of these financial statements.

Actuarial Assumptions (Plan Reporting)

Total OPEB liability at June 30, 2017 was determined using an the June 30, 2016 actuarial valuation and applying roll forward procedures. The actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified were as follows:

| | <u>VSRS - VSPB</u> | <u>STRS - RTHMB</u> |
|--|---|---|
| Discount rate | 3.58% | 3.58% |
| Salary increase rate | Varies by age from age 20 - 7.04%, to age 60 - 3.50%. | Varies by age from age 20 - 9.09%, to age 60 - 3.75%. |
| Health care cost trend rate | | |
| Non-Medicare | 7.50% graded to 4.50% over 12 years | 7.50% graded to 4.50% over 12 years |
| Medicare | 8.00% graded to 4.50% over 10 years | 7.75% graded to 4.50% over 11 years |
| Retiree contributions | Equal to health trend | Equal to health trend |
| <u>Plan membership - 6/30/2016</u> | | |
| Retired members or beneficiaries currently receiving benefits | 4,795 | 6,355 |
| Retired members or beneficiaries not receiving benefits | - | 2,265 |
| Vested terminated members entitled to but not yet receiving benefits | - | 1,824 |
| Active members | <u>8,813</u> | <u>9,919</u> |
| Total | <u>13,608</u> | <u>20,363</u> |

Mortality rates are based on the following:

Vermont State Retirement System

Pre-retirement and Post-retirement Mortality: Groups A and F (including defined contribution pension plan members) - 101% of RP-2014 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Group C - RP-2014 Blue Collar Employee with generational projection using Scale SSA-2017. Group D - RP-2014 Healthy Employee with generational projection using Scale SSA-2017.

Disabled Post-retirement Mortality: RP-2014 Disabled Mortality Table with generational projections using Scale SSA-2017.

State Teachers' Retirement System

Pre-retirement and Post-retirement Mortality: 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017.

Disabled Post-retirement Mortality: RP-2014 Disabled Mortality Table with generational projections using Scale SSA-2017.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best estimate ranges of expected future rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding the expected inflation. The following table contains the target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate or return assumption:

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|-------------------------------|--------------------------------|---|
| Large cap equity | 20.00% | 5.92% |
| International equity | 15.00% | 6.71% |
| Emerging international equity | 5.00% | 9.70% |
| Core bonds | 60.00% | 1.38% |
| Inflation | | 2.75% |

Discount Rate

The projection of cash flow used to determine the discount rate assumed that the plans' contributions would be made at rates equal to the projected benefit payments for the upcoming year. Based on these assumptions, the OPEB plans' fiduciary net position was projected to be exhausted within the first year. Therefore, the short-term bond rate expected rate of return of 3.58% on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate used in the prior year was 2.85%. For the year ended June 30, 2017, the VSPB annual money-weighted rate return of investments, net of investment expense, was 6.5%.

Sensitivity

The following presents the NOL of the plans, as well as what the plans' NOL would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (amounts in thousands):

| | <u>VSRS - VSPB</u> | <u>STRS - RTHMB</u> |
|---------------------------------|--------------------|---------------------|
| One-percent decrease | | |
| Discount rate | 2.58% | 2.58% |
| Net OPEB liability | 1,723,871 | 1,071,120 |
| Net OPEB liability, as reported | | |
| Discount rate | 3.58% | 3.58% |
| Net OPEB liability | \$ 1,462,020 | \$ 932,290 |
| One-percent increase | | |
| Discount rate | 4.58% | 4.58% |
| Net OPEB liability | \$ 1,252,908 | \$ 817,506 |

The following presents the NOL of the plans, as well as what the plans' NOL would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (amounts in thousands).

(Table on next page.)

| | <u>VSRS - VSPB</u> | <u>STRS - RTHMB</u> |
|---------------------------------|--------------------------|--------------------------|
| One-percent decrease | | |
| Healthcare cost trend rate | | |
| Non-medicare | 6.50% decreasing to 3.5% | 6.50% decreasing to 3.5% |
| Medicare | 7.00% decreasing to 3.5% | 6.75% decreasing to 3.5% |
| Net OPEB liability | \$ 1,237,397 | \$ 800,022 |
| Net OPEB liability, as reported | | |
| Healthcare cost trend rate | | |
| Non-medicare | 7.50% decreasing to 4.5% | 7.50% decreasing to 4.5% |
| Medicare | 8.00% decreasing to 4.5% | 7.75% decreasing to 4.5% |
| Net OPEB liability | \$ 1,462,020 | \$ 932,290 |
| One-percent increase | | |
| Healthcare cost trend rate | | |
| Non-medicare | 8.50% decreasing to 5.5% | 8.50% decreasing to 5.5% |
| Medicare | 9.00% decreasing to 5.5% | 8.75% decreasing to 5.5% |
| Net OPEB liability | \$ 1,751,784 | \$ 1,099,519 |

3. Funding the Plans and Net OPEB Obligation (Employer Reporting)

This section includes information on the funding valuation prepared by the State's actuary for the June 30, 2016 valuation. Roll forward procedures were used to determine the annual OPEB cost and net OPEB obligation as of June 30, 2017, as well as funded status and funding progress of the unfunded actuarial accrued liability for the VSPB and RTHMB plans that the State is required to fund.

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.

The following table shows the component of the State's annual OPEB cost for the year ended June 30, 2017, the amount actually contributed, and the changes in the State's net OPEB obligation (NOO):

| | <u>VSPB</u> | <u>RTHMB</u> |
|---|-----------------------|-----------------------|
| Annual Required Contribution (ARC)..... | \$ 71,832,832 | \$ 35,918,126 |
| Interest on NOO..... | 14,525,812 | 17,250,164 |
| Amortization of NOO..... | <u>(10,500,478)</u> | <u>(12,469,868)</u> |
| Annual OPEB Cost (AOC)..... | 75,858,166 | 40,698,422 |
| Employer Contribution Made..... | <u>(33,122,887)</u> | <u>(23,838,958)</u> |
| Increase in NOO..... | 42,735,279 | 16,859,464 |
| NOO - July 1, 2016..... | <u>363,145,299</u> | <u>431,254,095</u> |
| NOO - June 30, 2017..... | <u>\$ 405,880,578</u> | <u>\$ 448,113,559</u> |
| Percentage of AOC contributed | 43.66% | 58.57% |

Three-Year Trend Information

| OPEB Fund/Plan | Year Ended 6/30 | Annual OPEB Cost ⁽¹⁾ | Percentage Contributed | NOO Balance |
|---|-----------------------|---------------------------------------|---------------------------|----------------|
| Vermont State Postemployment Benefit Trust Fund | | | | |
| | 2015 | \$ 74,572,092 | 38.93% | \$ 323,065,971 |
| | 2016 | 72,602,019 | 44.80% | 363,145,299 |
| | 2017 | 75,858,166 | 43.66% | 405,880,578 |
| Retired Teachers' Health and Medical Benefits Fund | | | | |
| | 2015 | \$ 44,989,059 | 32.60% | \$ 391,245,903 |
| | 2016 | 56,442,613 | 29.12% | 431,254,095 |
| | 2017 | 40,698,422 | 58.57% | 448,113,559 |

⁽¹⁾ Determined on a pay-as-you-go basis.

Funded Status and Funding Progress

The funding status of the plans as of June 30, 2017 was as follows (*expressed in thousands*):

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| <u>VSPB</u> | | | | | | |
| 6/30/2017 | \$ 22,502 | \$ 1,457,615 | \$ 1,435,113 | 1.5% | \$ 497,201 | 288.6% |
| <u>RTHMB</u> | | | | | | |
| 6/30/2017 | (26,658) | 864,801 | 891,459 | -3.1% | 586,397 | 152.0% |

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 VSPB and RTHMB OPEB plans:

(Table on next page.)

| | VSPB | RTHMB |
|---------------------------------------|-----------------------------------|----------------------------------|
| Valuation date | 6/30/2016 | 6/30/2016 |
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit |
| Amortization method | Open basis, level percent of pay | Open basis, level percent of pay |
| Amortization period | 30 years as of 7/1/2016 | 30 years as of 7/1/2016 |
| <u>Actuarial Assumptions</u> | | |
| Discount rate | 4.00% | 4.00% |
| Payroll growth | 5.00% | 5.00% |
| Health care cost trend rate | | 5.00% |
| Non-Medicare | 8% graded to 4.5% over 12 years | |
| Medicare | 6.00% graded to 4.5% over 6 years | |
| <u>Plan membership</u> | | |
| Retired members or beneficiaries | | |
| currently receiving benefits | 4,795 | 6,355 |
| Retired members or beneficiaries | | |
| not currently receiving benefits | | 2,265 |
| Vested terminated members entitled to | | |
| but not yet receiving benefits | | 1,824 |
| Active members | <u>8,813</u> | <u>9,919</u> |
| Total | <u>13,608</u> | <u>20,363</u> |

Dental Insurance

Dental plans are available to retired State employees, retired teachers, retired municipal employees and their eligible dependents. The dental plan must be elected at the time of retirement. The retiree pays the full premium for all covered lives. There is no cost to the State.

Life Insurance

In the case of life insurance, if a State employee retires with 20 or more years of service and was participating in the life insurance program, a \$10,000 benefit will continue into retirement. If a State employee retires due to disability prior to age 60, and if proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. When the retiree reaches the age of 65 and if they have a total of 20 years or more of active and retired (while receiving disability) service, life insurance coverage will automatically change to the \$10,000 level with 100% of the premium being paid by the State. In addition, a retiree may convert their insurance coverage in effect at their time of retirement to an individual policy within 30 days of their retirement date without a physical exam.

Vermont Municipal Employees Health Benefit Fund

The Vermont Municipal Employees Retirement System (MERS), a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated State health care benefit or liability. While the Vermont Municipal Employees Health Benefit Fund is classified as a postemployment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability.

The MERS Retirement Health Savings Plan (RHS) established on July 1, 2007, is a tax-advantaged savings plan that assists retirees in paying for healthcare costs after retirement. Contributions to this fund are deposited into the RHS Plan member accounts on a tax-free basis, accumulate interest on a tax-free basis, and are drawn

out during retirement on a tax-free basis to reimburse health care expenses, including out-of-pocket expenses, deductibles and premiums.

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

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

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

At June 30, 2017, there were 4,151 active and retired members participating in the MERS RHS plan. Investments in member accounts as of June 30, 2017 totaled \$13,314,642. The financial statements for the OPEB Funds on the following two pages:

**Statement of Plan Net Position
Other Postemployment Benefit Funds
June 30, 2017**

| | Vermont State Postemployment Benefits Trust Fund | Vermont Retired Teachers' Health and Medical Benefits Fund | Vermont Municipal Employees' Health Benefit Fund |
|---|---|---|---|
| Assets | | | |
| Cash and short term investments..... | \$ 306,007 | \$ 107,793 | \$ 606,377 |
| Receivables | | | |
| Contributions..... | 1,559,828 | - | - |
| Other receivables..... | 13,014 | 3,258,801 | - |
| Investments | | | |
| Mutual funds..... | 20,658,222 | - | 12,708,265 |
| Prepaid expenses..... | - | 39,760 | - |
| Total assets..... | 22,537,071 | 3,406,354 | 13,314,642 |
| Liabilities | | | |
| Accounts payable..... | 35,199 | 574,344 | - |
| Accrued interest payable..... | - | 289,656 | - |
| Interfund loans..... | - | 29,200,000 | - |
| Total liabilities..... | 35,199 | 30,064,000 | - |
| Net position held in trust for employee's other postemployment benefits..... | \$ 22,501,872 | \$ (26,657,646) | \$ 13,314,642 |

**Statement of Changes in Plan Net Position
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2017**

| | Vermont State Postemployment Benefits Trust Fund | Vermont Retired Teachers' Health and Medical Benefits Fund | Vermont Municipal Employees' Health Benefit Fund |
|---|--|--|---|
| Additions | | | |
| Contributions | | | |
| Employer - healthcare benefit..... | \$ 32,948,697 | \$ - | \$ - |
| Non-employer - healthcare benefit..... | - | 23,838,958 | - |
| Transfers from other pension trust funds.... | 174,190 | - | - |
| Total contributions..... | 33,122,887 | 23,838,958 | - |
| Investment Income | | | |
| Net appreciation (depreciation) in fair value of investments..... | 848,859 | - | 1,178,149 |
| Dividends..... | 501,379 | - | - |
| Interest income..... | 24,664 | 40,923 | 4,149 |
| Other income..... | - | - | - |
| Total investment income..... | 1,374,902 | 40,923 | 1,182,298 |
| Less Investment Expenses | | | |
| Investment managers and consultants..... | 2,456 | - | 45,442 |
| Total investment expenses..... | 2,456 | - | 45,442 |
| Net investment income..... | 1,372,446 | 40,923 | 1,136,856 |
| Total additions..... | 34,495,333 | 23,879,881 | 1,136,856 |
| Deductions | | | |
| Other postemployment benefits..... | 33,346,196 | 29,347,561 | 323,566 |
| Operating expenses..... | 82 | 228,894 | - |
| Total deductions..... | 33,346,278 | 29,576,455 | 323,566 |
| Change in net position..... | 1,149,055 | (5,696,574) | 813,290 |
| Net position held in trust for employees postemployment benefits | | | |
| July 1, 2016..... | 21,352,817 | (20,961,072) | 12,501,352 |
| June 30, 2017..... | \$ 22,501,872 | \$ (26,657,646) | \$ 13,314,642 |

5. Other Long-term Liabilities

Governmental activities long-term liabilities are generally liquidated by payments from the governmental and internal service funds' programs, including all major governmental fund types except for the Education Fund. Bonds payable are liquidated by transfers of resources from the General, Transportation, Special and Federal Funds. During the year ended June 30, 2017, the following changes occurred in the governmental activities long-term liabilities:

| | <u>Total Liability</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Liability</u> <u>June 30, 2017</u> | <u>Amounts due</u> <u>within one</u> <u>year</u> |
|--|---|-----------------------|-----------------------|--|--|
| Governmental activities | | | | | |
| Bonds payable | | | | | |
| Bonds | \$ 656,920,000 | \$ - | \$ 51,520,000 | \$ 605,400,000 | \$ 48,935,000 |
| Bond premium | 41,166,049 | - | 8,056,423 | 33,109,626 | 6,547,109 |
| Bond discount | (151,192) | - | (13,354) | (137,838) | (14,833) |
| | | | | | |
| Total bonds payable | 697,934,857 | - | 59,563,069 | 638,371,788 | 55,467,276 |
| Capital leases payable | 10,920,471 | - | 561,919 | 10,358,552 | 607,341 |
| Compensated absences | 33,993,664 | 43,816,120 | 42,999,815 | 34,809,969 | 33,505,352 |
| Claims and judgments | 58,523,604 | 178,626,973 | 189,091,481 | 48,059,096 | 17,108,305 |
| Contingent liabilities | 7,000,000 | - | - | 7,000,000 | - |
| Net pension liability | 1,717,898,492 | 435,917,960 | 198,665,646 | 1,955,150,806 | - |
| Net other postemployment obligations | 794,399,394 | 116,556,588 | 56,961,845 | 853,994,137 | - |
| Pollution remediation obligations | 8,343,797 | 1,342,956 | 1,246,290 | 8,440,463 | 2,082,944 |
| | | | | | |
| Total governmental activities long-term liabilities | <u>\$ 3,329,014,279</u> | <u>\$ 776,260,597</u> | <u>\$ 549,090,065</u> | <u>\$ 3,556,184,811</u> | <u>\$ 108,771,218</u> |

The Pollution Remediation Obligation (PRO) liabilities were measured using the actual contract cost when no changes in cost are expected, or a method that is materially close to the expected cash flow technique. Liability estimates are subject to change due to cost increases or reductions, or changes in technology or applicable laws or regulations governing the remediation efforts. Overall, the state has recorded a pollution remediation liability of \$8,440,463 of which \$2,082,944 is due within one year. Pollution remediation liability activity in fiscal year 2017 was as follows:

Department of Environmental Conservation

Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the United States Environmental Protection Agency (USEPA) expends resources from the superfund trust for cleanup. Currently, there are seven sites where the state has referred the matter to federal Superfund jurisdiction, and has executed a contract, or legal obligation, to share in the cost for cleanup and long term operations and maintenance. These obligations are reflected in a State Superfund Contract.

There are two Superfund sites where no liability has been reported because obligations are not yet reasonably estimable. These sites include an abandoned copper mine requiring cleanup of acid mine drainage and a former manufacturing facility of capacitors, transformers, and motors used in household appliances requiring cleanup of hazardous groundwater waste.

The remaining five Superfund sites in Vermont are in various stages of cleanup, from initial assessment to cleanup activities and required monitoring of the remediation effort. There are no viable potentially responsible parties or insurance available to reduce the remediation costs for the superfund sites listed as follows:

- Cleanup of acidic discharges from one formal copper mine is nearly complete under the first phase. An additional phase of remedial work commenced in fiscal year 2017 and under the agreement the state is obligated to cover 10% of the site remedy, not to exceed \$1,105,000. The PRO as of June 30, 2017 is \$1,211,000. The current amount due for remedial activities and maintenance is \$616,000.
- Another former copper mine is currently under remedial investigation and the state's cost share will eventually be included in a State Superfund Contract. The estimated cost of the cleanup to address the most significant sources of acid mine drainage is \$22 million which would result in a cost to the state of \$2.2 million estimated to begin in 2019. Additional cleanup under a separate Record of Decision will address the release of acid mine drainage and create groundwater use restrictions to prevent consumption of contaminated groundwater. These measures will result in a cost to the state of approximately \$400,000. The PRO as of June 30, 2017 is \$2,600,000.
- There are two superfund sites under the oversight of the USEPA which have been remediated, and under the superfund site agreement, the State is responsible for long-term operation and maintenance costs of the facilities constructed by the USEPA. The PRO as of June 30, 2017 is \$150,000, and the current amount due is \$30,000.
- One former industrial facility's manufacturing and electroplating processes contaminated soil, sediment and groundwater with metals and industrial solvents. Site investigation and long-term cleanup planning are ongoing. In fiscal year 2018, the state's cost share is estimated to be \$60,000 for removal of contaminated soil and vapor intrusion. PRO as of June 30, 2017 is \$829,000.

Sites not included under the federal Superfund trust, include a former mining facility with significant ground contamination. The State has been working with potential responsible parties (PRP) and the USEPA to address the environmental contamination but so far, a remedy for the site's cleanup, including an estimate of the cost of cleanup, has not been determined due to the potential magnitude and the various options that are being investigated. In 2009, the USEPA completed interim erosion control measures at the site and PRP has been reimbursing the State. Current payments for the ongoing operation and maintenance required by the PRP are delinquent, therefore, the State is assuming the cost starting in 2018. The monitoring will result in a cost to the state of approximately \$75,000. The PRO as of June 30, 2017 is \$2,000,000.

In 2016, the State learned of perfluorooctanoic acid (PFOA) contaminants impacting hundreds of private drinking water wells and public water systems in an area surrounding a former manufacturing plant. The State is currently working on addressing the health, safety, and environmental concerns resulting from the detection of PFOA in the drinking water of residents. In 2017, under a Consent Order, the responsible party agreed to pay \$20 million of planned water extensions to replace impacted supply wells in one area. The Area 2 water line extensions would require an additional \$20 million, and that is under additional investigation by the parties. The PRO as of June 30, 2017 is \$500,000 which will be used to cover the estimated cost for the point-of-entry treatment system being installed to effectively treat PFOA contaminated groundwater being used by residences.

The State's monitoring and treatment performance evaluations for cleanup of ground water contamination resulting from a chemical spill at a former dry cleaner facility are ongoing. The total PRO reported at June 30, 2017 is \$677,000 for source removal of contamination, if dictated by annual monitoring. The amount due in 2018 for operation and maintenance is \$15,000.

Agency of Transportation

The Agency of Transportation has recorded liabilities totaling \$106,519 at June 30, 2017 for petroleum cleanup and restoration of contaminated soil at two locations. The cost of cleanup has been estimated based on the contractors' anticipated cost to complete the work. There are no expected recoveries that have reduced the liability.

Military Department

The Vermont State Military Department's multi-phase renovation plan of their historic Armory includes USEPA's imposed cleanup of paint and building materials containing polychlorinated biphenyls (PCBs). The \$1.3 million

cost of cleanup has been estimated based on the contractors' anticipated cost to complete the work. The department expended \$934,512 in 2017 and anticipates completing the cleanup in 2018. The PRO as of June 30, 2017 is \$366,944.

During the year ended June 30, 2017, the changes occurred in the business-type activities and fiduciary funds long-term liabilities are as follows:

| | <u>Total Liability July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Liability June 30, 2017</u> | <u>Amounts due within one year</u> |
|--|---|----------------------|----------------------|--|--|
| Business-type activities | | | | | |
| Compensated absences | \$ 297,701 | \$ 320,696 | \$ 307,930 | \$ 310,467 | \$ 261,955 |
| Lottery prize awards payable | 6,739,109 | 79,648,891 | 79,500,527 | 6,887,473 | 6,122,978 |
| Net pension liabilities | <u>4,545,559</u> | <u>1,696,874</u> | <u>770,729</u> | <u>5,471,704</u> | <u>-</u> |
| Total business-type activities long term liabilities | <u>\$ 11,582,369</u> | <u>\$ 81,666,461</u> | <u>\$ 80,579,186</u> | <u>\$ 12,669,644</u> | <u>\$ 6,384,933</u> |
| Fiduciary | | | | | |
| Compensated absences | \$ 6,301 | \$ 13,604 | \$ 12,652 | \$ 7,253 | \$ 6,905 |
| Total fiduciary long-term liabilities | <u>\$ 6,301</u> | <u>\$ 13,604</u> | <u>\$ 12,652</u> | <u>\$ 7,253</u> | <u>\$ 6,905</u> |

The compensated absences for the business-type activities are included as part of accrued salaries and benefits on the propriety funds' Statement of Net Position. The compensated absences for the fiduciary funds are included as part of accrued liabilities on the fiduciary funds Statement of Net Position.

H. Fund Balance/Net Position

Governmental Funds

The composition of the summarized fund balances reported on the governmental funds' Balance Sheet for the fiscal year ended June 30, 2017, are shown below and continues on the following page:

| | <u>Restricted Purposes</u> | <u>Committed Purposes</u> | <u>Assigned Purposes</u> |
|---|--------------------------------|-------------------------------|------------------------------|
| General Fund | | | |
| Health and Human Services..... | \$ - | \$ - | \$ 336,229 |
| Economic and Community Development..... | - | - | 350,906 |
| Total General Fund..... | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 687,135</u> |
| Transportation Fund | | | |
| Transportation..... | \$ - | \$ 15,058,522 | \$ - |
| Total Transportation Fund..... | <u>\$ -</u> | <u>\$ 15,058,522</u> | <u>\$ -</u> |
| Education Fund | | | |
| Educational Services..... | \$ - | \$ 70,420,871 | \$ - |
| Total Education Fund..... | <u>\$ -</u> | <u>\$ 70,420,871</u> | <u>\$ -</u> |

| | <u>Restricted Purposes</u> | <u>Committed Purposes</u> | <u>Assigned Purposes</u> |
|--|--------------------------------|-------------------------------|------------------------------|
| Special Fund | | | |
| Government Operations | | | |
| Governor and Other Elected Officials..... | \$ - | \$ 269,349 | \$ - |
| Legislature..... | 342 | 13,899 | - |
| Administrative Services..... | 1,557,540 | 2,473,074 | - |
| Public Safety and Regulatory Services..... | 1,469,969 | 38,708,956 | - |
| Courts..... | - | 4,552,847 | - |
| Correctional Services..... | 5 | 443,821 | - |
| Employment and Training..... | - | 11,854,095 | - |
| Educational Services..... | - | 914,558 | - |
| Natural Resources Protection and Preservation... | 4,336,530 | 29,491,787 | - |
| Economic and Community Development..... | 4,624,295 | 3,573,974 | - |
| Tourism and Marketing..... | - | 511,318 | - |
| Total Special Fund..... | <u>\$ 11,988,681</u> | <u>\$ 92,807,678</u> | <u>\$ -</u> |
| Federal Revenue Fund | | | |
| Government Operations | | | |
| Governor and Other Elected Officials..... | \$ 59,579 | \$ - | \$ - |
| Administrative Services..... | 46,991 | - | - |
| Public Safety and Regulatory Services..... | 14,485,377 | - | - |
| Courts..... | 3,164 | - | - |
| Health and Human Services..... | 57,573,659 | - | - |
| Employment and Training..... | 4,426,307 | - | - |
| Educational Services..... | 2,638,786 | - | - |
| Natural Resources Protection and Preservation... | 377,771,138 | - | - |
| Economic and Community Development..... | 1,525,643 | - | - |
| Total Federal Revenue Funds..... | <u>\$ 458,530,644</u> | <u>\$ -</u> | <u>\$ -</u> |
| Global Commitment Fund | | | |
| Health and Human Services..... | <u>\$ 107,763,610</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total Global Commitment Fund..... | <u>\$ 107,763,610</u> | <u>\$ -</u> | <u>\$ -</u> |
| Non-major Governmental Funds | | | |
| Government Operations | | | |
| Administrative Services..... | \$ 15,897 | \$ - | \$ - |
| Health and Human Services..... | 54,181 | - | - |
| Educational Services..... | - | 24,212,360 | - |
| Natural Resources Protection and Preservation... | 245,990 | 11,148,845 | - |
| Economic and Community Development..... | 4,077 | - | - |
| Capital Outlays..... | 10,494,548 | - | - |
| Debt Service..... | 3,212,128 | 633 | - |
| Total Non-major Governmental Funds..... | <u>\$ 14,026,821</u> | <u>\$ 35,361,838</u> | <u>\$ -</u> |

Note V. OTHER INFORMATION**A. Risk Management****1. Workers' Compensation and Risk Management**

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

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

The State Employees' 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 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 workers' compensation exposure is reliable. Workers' Compensation is reviewed annually by an outside auditor and an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by the outside actuary. Allocation to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The State Liability Insurance Fund covers general and employment practices liability, discrimination, bodily injury and auto liability risk. The coverage is comparable to standard private commercial policies. This liability coverage is offered to the same group of participants described in the workers' compensation program paragraph above. The State's exposure to tort risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. Exposure outside of Vermont and to federal suit and other non-tort suit is potentially unlimited. The State holds a self-insured retention (SIR) for the first \$500,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to \$1,500,000 (\$2,000,000 total) in Vermont and \$10,000,000 in excess of the \$500,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by Risk Management personnel and/or the Vermont Attorney General's Office 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 IBNR. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The Risk-Management – All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self-insured. This coverage provides insurance for State-owned real property, bonds for various categories of employees, errors and omissions coverage for judges, workers' compensation coverage for non-state employees on contract with the Agency of Human Services, and various other miscellaneous coverages. The State's liability exposure is limited to the amount of the various deductibles associated with the respective policies and potentially for any claims in excess of the purchased limits. Premium charges from the various insurers are either assessed directly against the entity requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Risk Management also assesses a surcharge of up to 5% of the premium to cover administrative costs. Entities eligible for coverage are the same as those listed above for the other funds.

Insurance settlements have never exceeded the coverage disclosed above.

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

The Employee Benefits Division of the Department of Human Resources maintains medical/behavioral health insurance, dental assistance plan, and life insurance funds for the benefit of current State employees, retired former employees, and legislators as well as employees and certain former employees of outside "special" groups which have been declared eligible to participate by statute or labor agreement. Not all of these named groups may participate in every plan. Detailed eligibility information for each group listed above can be found in the plan summaries that follow. Temporary and contractual employees are not eligible to participate in these plans.

Enrolled plan participants share in the premium cost of the medical/behavioral health plan. Prescription drug coverage is included in the medical/behavioral health plan. Premium rate setting is performed by an outside actuary in conjunction with the Administrative Services Division of the Department of Human Resources. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience. Special Groups covered under the health insurance plan remit premium to the State for their members. Retirees covered under the health plan pay premium through the Retirement Division of the Treasurer's Office.

The plan options are: TotalChoice which is a "preferred provider organization" indemnity-type plan; and the SelectCare plan which is a "point of service" plan similar to an open-ended Health Maintenance Organization (members may opt out of the SelectCare network but must meet a deductible and coinsurance to do so). Benefits are administered under a managed care arrangement. Both health plan options are self-insured by the State. The State uses a third-party administrator to provide administrative services, including claims payment. To limit the State's large claims exposure, the State has purchased a stop loss insurance policy.

The self-funded State of Vermont Employee Dental Assistance Plan provides up to \$1,000 regular dental benefits annually and up to \$1,750 lifetime benefit for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Administrative Services Division within the Department of Human Resources sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents. Special Groups covered under the dental assistance plan remit premium to the State for their members.

The State of Vermont Employee Life Insurance Program consists of a Term-Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times a participant's base salary rounded down to the nearest \$100. Retirees who work for the State for at least twenty years and who have life insurance at the time of retirement receive a retiree life benefit of \$10,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Administrative Services Division calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees' premiums and 100% of retirees' premium costs. Only current State employees, retired State employees, and current active employees of outside special groups are eligible to participate. Special Groups covered under the life insurance plan remit premium to the State for their members.

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

| <u>Fund and Fiscal Year</u> | <u>Liability at Beginning of the Fiscal Year</u> | <u>Current FY Claims and Changes in Estimates</u> | <u>Current FY Claims Payments</u> | <u>Liability at End of the Fiscal Year</u> |
|---------------------------------------|--|---|---|--|
| Workers' Compensation Fund | | | | |
| 2015 | \$ 31,336,692 | \$ 8,659,714 | \$ 8,448,751 | \$ 31,547,655 |
| 2016 | 31,547,655 | 3,746,748 | 7,817,044 | 27,477,359 |
| 2017 | 27,477,359 | 3,462,704 | 7,415,011 | 23,525,052 |
| State Liability Insurance Fund | | | | |
| 2015 | 5,796,937 | 2,698,167 | 1,639,611 | 6,855,493 |
| 2016 | 6,855,493 | 2,383,401 | 1,652,519 | 7,586,375 |
| 2017 | 7,586,375 | 2,862,604 | 2,113,748 | 8,335,231 |
| Medical Insurance Fund | | | | |
| 2015 | 13,459,088 | 148,100,652 | 144,930,860 | 16,628,880 |
| 2016 | 16,628,880 | 158,289,586 | 151,768,273 | 23,150,193 |
| 2017 | 23,150,193 | 166,104,728 | 173,369,708 | 15,885,213 |
| Dental Insurance Fund | | | | |
| 2015 | 260,498 | 6,139,185 | 6,076,607 | 323,076 |
| 2016 | 323,076 | 6,111,147 | 6,124,546 | 309,677 |
| 2017 | 309,677 | 6,196,937 | 6,193,014 | 313,600 |

B. Budget Stabilization Reserves

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

The reserves balances consist of any budgetary basis surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the Vermont Legislature. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. For fiscal year 2017, 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, 2017 are as follows: \$74,101,586 in the General Fund's Budget Stabilization Reserve; \$13,255,200 in the Transportation Fund's Budget Stabilization Reserve; and \$33,457,837 in the Education Fund's Budget Stabilization Reserve.

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

C. Limited Liabilities**1. Contingent Liabilities**Federal Grants:

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

Due to functionality challenges with its eligibility system for the Medicaid and Children's Health Insurance Programs, the State requested and received in November 2015 approval from the Centers for Medicare and Medicaid Services (CMS) a waiver, under section 1902(e)(14)(A) of the Social Security Act of certain Medicaid redetermination requirements.

The waiver established a February 29, 2016 deadline for completing non-MAGI and legacy MAGI redeterminations, and a November 30, 2016 deadline for completing Vermont Health Connect (VHC) MAGI redeterminations. The State had not fully complied with the terms of the waiver as it did not fully meet the February 29, 2016 or November 30, 2016 deadlines and the waiver deadlines were not extended. Thus the State has not fully complied with the redetermination requirements a) from March 1, 2016 through June 30, 2017 for completing non-MAGI and legacy MAGI redeterminations and b) from December 1, 2016 through June 30, 2017 for completing VHC MAGI redeterminations.

The State submitted and CMS approved a Mitigation Plan for the State to work towards full compliance with the Medicaid eligibility provisions of the Affordable Care Act. CMS has been monitoring and will continue to monitor the State's compliance with the Mitigation Plan in accordance with the agreed upon timeline. In a letter dated September 13, 2017, CMS confirmed that as of that date, the State was in compliance with the Mitigation Plan.

The State has assessed the impact of noncompliance with the waiver through June 30, 2017, including the potential for disallowance of Federal reimbursement and potential return of Federal funds. Based on this assessment, the State does not believe it to be material to the accompanying financial statements.

2. Limited LiabilitiesVermont Economic Development Authority:

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

Vermont Municipal Bond Bank:

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

Vermont Housing Finance Agency:

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

Vermont Student Assistance Corporation:

The State has a limited liability for the VSAC. VSAC may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 2867. Annually, VSAC must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

University of Vermont:

The State has a limited liability for the UVM. UVM may create one or more debt service reserve funds in accordance with 16 V.S.A. Section 2363. Annually, UVM must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont State Colleges:

The State has a limited liability for the VSC. VSC may create one or more debt service reserve funds in accordance with 16 V.S.A. Section 286. Annually, VSC must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

3. Contractual Liabilities

At June 30, 2017, the State of Vermont had long-term contracts outstanding of approximately \$469,534,996 funded from federal sources, and \$685,058,068 funded from all other funding sources. Contracts such as retainer contracts and contracts for commodities have not been included since the nature of these on-going contracts are tracked statewide to insure the best prices for supplies and some professional services.

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 75% have end dates of June 30, 2018 or earlier. Of the Agency of Human Services contractual obligations, 49% is in the Department of Vermont Health Access. Of the contracts in the Agency of Administration, 74% have end dates during fiscal year 2018 and are primarily for human resource benefit administration services, information technology services (including an electronic integrated tax system), capital construction, and an upgrade to the State of Vermont's ERP finance system. The State Treasurer's Office contracts are mostly investment management services and health insurance for the retirement plans of which 65% having end dates during fiscal year 2018.

Following is a summary of contractual obligations by agency, department or office at June 30, 2017:

(Table on next page.)

| Agency, Department, or Office | Total Contractual Obligation | Funded by Federal Sources | Funded by Other Sources |
|--|------------------------------------|---------------------------------|----------------------------|
| Agency of Administration | \$ 143,333,958 | \$ 728,966 | \$ 142,604,992 |
| Agency of Agriculture, Food & Markets | 1,031,240 | 26,508 | 1,004,732 |
| Agency of Commerce & Community Development | 1,701,302 | 253,354 | 1,447,948 |
| Agency of Education | 7,593,003 | 5,282,467 | 2,310,536 |
| Agency of Human Services | 378,065,127 | 215,678,587 | 162,386,540 |
| Agency of Natural Resources | 18,071,758 | 4,525,348 | 13,546,410 |
| Agency of Transportation | 416,951,158 | 203,173,220 | 213,777,938 |
| Auditor of Accounts' Office | 1,384,367 | - | 1,384,367 |
| Center Crime Victim Services | 440,330 | - | 440,330 |
| Criminal Justice Training Council | 704,615 | - | 704,615 |
| Department of Labor | 7,243,259 | 7,186,141 | 57,118 |
| Department of Liquor Control | 826,345 | - | 826,345 |
| Department of Public Safety | 8,041,675 | 1,001,383 | 7,040,292 |
| Enhanced 911 Board | 6,150,454 | - | 6,150,454 |
| Financial Regulation | 4,611,190 | - | 4,611,190 |
| Green Mountain Care Board | 5,634,380 | - | 5,634,380 |
| Joint Fiscal Office | 496,305 | - | 496,305 |
| Judiciary | 1,487,234 | - | 1,487,234 |
| Military Department | 27,321,420 | 21,534,498 | 5,786,922 |
| Office of the Attorney General | 1,009,541 | 50,676 | 958,865 |
| Office of the Defender General | 14,464 | - | 14,464 |
| Public Service Board | 1,087,296 | - | 1,087,296 |
| Public Service Department | 6,971,881 | - | 6,971,881 |
| Secretary of State's Office | 18,657,859 | 10,093,848 | 8,564,011 |
| State Treasurer's Office | 82,055,454 | - | 82,055,454 |
| State's Attorneys and Sheriffs | 352,559 | - | 352,559 |
| Vermont Commission on Women | 798 | - | 798 |
| Vermont Life Magazine | 1,109,257 | - | 1,109,257 |
| Vermont Lottery Commission | 12,244,835 | - | 12,244,835 |
| Total | \$ 1,154,593,064 | \$ 469,534,996 | \$ 685,058,068 |

4. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. The grant table summarizes the grant activity by agency, department or office. The award balance represents the total grant obligation outstanding at the beginning of the fiscal year rolled forward to the end of the fiscal year. The awards to grantees in the current fiscal year totaled \$579,822,319. The award adjustments column includes a reduction of \$29,221,479 for amendments to grants that commenced in prior fiscal years and a reduction of \$13,704,000 to the current year awards balance under Human Services for the contribution received from the University of Vermont Medical Center for the Graduate Medical Education program. The grants expended in the amount of \$535,247,477 include payments issued to grantees on both current year awards and prior year grant awards. The award balances at June 30, 2017 represent the remaining unexpended award amounts.

(Table on next page.)

| | Number of Grants Awarded in 2017 | Total Grant Obligation | | | | | Award Balances at June 30, 2017 |
|--|---|---------------------------------------|------------------------|----------------------|--------------------|----------------|---------------------------------------|
| | | Award Balances at June 30, 2016 | Current Year Awards | Award Adjustments | Grants Expended | | |
| | | | | | | | |
| Agency of Administration | 360 | \$ - | \$ 97,256,366 | \$ - | \$ 97,256,366 | \$ - | |
| Agency of Agriculture, Food & Markets | 191 | 3,235,185 | 7,945,707 | 422,516 | 6,125,008 | 5,478,400 | |
| Agency of Commerce & Community Development | 196 | 28,675,014 | 15,973,669 | (4,435,784) | 20,243,432 | 19,969,467 | |
| Agency of Education | 1,249 | 17,911,290 | 112,263,940 | (17,324,921) | 93,677,522 | 19,172,787 | |
| Agency of Human Services | 688 | 94,700,666 | 225,602,227 | (67,729,381) | 171,905,230 | 80,668,282 | |
| Agency of Natural Resources | 274 | 17,978,703 | 23,774,655 | 17,596,603 | 25,966,707 | 33,383,254 | |
| Agency of Transportation | 791 | 161,544,133 | 77,912,793 | 28,460,808 | 97,275,066 | 170,642,668 | |
| Center Crime Victim Services | 110 | 3,826,748 | 5,035,414 | - | 5,516,694 | 3,345,468 | |
| Department of Labor | 76 | 6,298,413 | 3,027,342 | - | 2,934,731 | 6,391,024 | |
| Department of Public Safety | 136 | 14,003,114 | 6,376,669 | (952,679) | 8,288,044 | 11,139,060 | |
| Enhanced 911 Board | 1 | - | 1,199 | - | - | 1,199 | |
| Judiciary | 1 | - | 70,000 | - | 70,000 | - | |
| Military Department | 11 | - | 79,100 | - | 79,100 | - | |
| Office of the Attorney General | 15 | 14,882 | 1,791,245 | (4,151) | 1,801,976 | - | |
| Public Service Department | 14 | 4,604,953 | 642,628 | 1,055,933 | 2,038,236 | 4,265,278 | |
| State Treasurer's Office | 57 | 57,290 | 172,459 | - | 172,459 | 57,290 | |
| State's Attorneys and Sheriffs | 54 | - | 1,746,906 | - | 1,746,906 | - | |
| Vermont Lottery Commission | 1 | 14,423 | 150,000 | (14,423) | 150,000 | - | |
| Total | 4,225 | \$ 352,864,814 | \$ 579,822,319 | \$ (42,925,479) | \$ 535,247,477 | \$ 354,514,177 | |

The Agency of Administration includes the Department of Libraries which awarded 315 grants in the amount of \$252,985 to public libraries throughout the State. The Agency also awarded approximately \$94 million to help fund higher education in Vermont, and \$2 million to promote cultural development. The Agency of Education awarded 1,249 grants or 30% of the total number of grants issued by the State. The Agency of Human Services issued 688 awards and expended \$156 million to improve the conditions and wellbeing of Vermonters. In addition, the agency paid \$30 million to the University of Vermont Medical Center, Inc. for the Graduate Medical Education program (GME). The GME program helps ensure access to quality essential professional health services for Medicaid beneficiaries through the care provided by teaching physicians and teaching hospitals. The University of Vermont contributed \$13.7 million to the State to support the GME programs; this support is listed as other revenue in the Global Commitment Fund. The Agency of Transportation awarded 791 grants, and expended \$97 million, providing funding to communities around the State that focus on safety, preservation and maintenance of existing transportation system, economic development, and energy efficient transportation choices.

D. Litigation

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

E. Joint Venture

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery

Commission (Commission) which is an interstate body, both corporate and politic, serving as a common agent for the party states and representing them both collectively and individually in the exercise of its powers and duties. The Commission is composed of one member from each of the party states. Each State's lottery appoints one of its members to this position. The three-member Commission annually elects a chairperson from among its members. The Commission is empowered to promulgate rules and regulations governing the establishment and to administer the operation of the Tri-State Lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the Commission. A proportional share of revenue and expenses is allocated to each state based on the ticket sales made by that state. The exceptions to the proportional allocation include: (1) the facilities management fee and agent commissions, which are based on a contracted percentage of operating revenue that varies from state to state; and (2) per diem charges, advertising, and certain printing, travel and miscellaneous costs, which are allocated based on actual charges generated by each state. Comparative financial information for fiscal years ending June 30, 2017 and 2016 are as follows:

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> | <u>Increase (Decrease)</u> |
|--|----------------------|----------------------|--------------------------------|
| Comparative Financial Information | | | |
| Assets | \$ 42,932,483 | \$ 42,768,415 | \$ 164,068 |
| Liabilities | 35,784,516 | 33,936,529 | 1,847,987 |
| Operating revenues | 57,463,385 | 58,458,832 | (995,447) |
| Interest income | 116,582 | 98,396 | 18,186 |
| Commissions, fees and bonus expense | 4,492,718 | 4,599,980 | (107,262) |
| Prize awards | 30,365,164 | 31,013,682 | (648,518) |
| Other operating expenses | 3,518,801 | 3,509,931 | 8,870 |
| Total transfers to member states | 19,203,284 | 19,433,635 | (230,351) |
| Transfer to Vermont | 3,313,088 | 3,516,545 | (203,457) |

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

F. Tax Abatements

The State of Vermont provides tax abatements through various programs subject to the requirements of GASB Statement No. 77. A tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity through which the government promises to forgo tax revenues to which they are otherwise entitled, and the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefit the government or its citizens. As of June 30, 2017, the State provided tax abatements through the following programs:

Vermont Affordable Housing Tax Credit

| | |
|--------------------------|--|
| Purpose of program | The program encourages construction or rehabilitation of affordable housing projects in the State. |
| Tax being abated | Personal income, corporate income, bank franchise, and insurance premium taxes |
| Authority to abate taxes | 32 V.S.A. 5930u |

| | |
|--|---|
| Criteria to be eligible to receive abatements and commitment of the taxpayer | Any municipality, private sector developer, State agency as defined in 10 V.S.A. 6301a, the Vermont Housing Finance Agency, or a nonprofit organization qualifying under 26 U.S.C. 501(c)(3), or a cooperative housing organization, the purpose of which is to create and retain affordable housing for Vermonters with lower income and which has in its bylaws a requirement that the housing the organization creates be maintained as affordable housing for Vermonters with lower income on a perpetual basis. The taxpayer applies to and must be approved by the allocating agency to receive the credit. In return, the taxpayer agrees to construct or rehabilitate affordable housing projects as specified in the application submitted. Vermont's designated allocating agency for this tax credit is the Vermont Housing Finance Agency. The participant is required to ensure that eligible housing is maintained as affordable housing by subsidy covenant, as defined in 27 V.S.A. 610 on a perpetual basis. |
| How taxes are reduced | Taxpayer will claim credit on tax return. Unused credits may be carried forward for fourteen years. |
| How is the amount of the tax abatement determined | The amount of the credit is determined by the allocating agency based on the amount of eligible investment in the affordable housing project. |
| Provisions for recapturing abated taxes | N/A |
| Type of commitments other than taxes | N/A |
| Dollar amount of taxes abated during reporting period | \$3,395,620 |

Downtown Sales Tax Reallocation Credit

| | |
|--|---|
| Purpose of program | The program encourages new construction projects, and the improvement and rehabilitation of existing properties in Vermont's designated downtowns. |
| Tax being abated | Sales tax |
| Authority to abate taxes | 32 V.S.A. 9819 |
| Criteria to be eligible to receive abatements and commitment of the taxpayer | An expansion or rehabilitation of real property in a designated downtown development district, or new construction of real property in a designated downtown development district but only to the extent that the new construction is compatible with the buildings that contribute to the integrity of the district in terms of materials, features, size, scale and proportion, and massing of buildings. The municipality and the developer of the qualified project jointly apply and must be approved by the Vermont Downtown Development Board to receive the credit. In return, the taxpayer agrees to complete their project as specified in the application submitted, and the municipality agrees to use the reallocated tax revenue only for expenditures related to the support of the qualified project. |
| How taxes are reduced | Refund of sales taxes paid |

| <i>VERMONT</i> | <i>NOTES TO THE FINANCIAL STATEMENTS</i> |
|---|---|
| How is the amount of the tax abatement determined | 6% of taxable cost of construction materials |
| Provisions for recapturing abated taxes | N/A |
| Type of commitments other than taxes | N/A |
| Dollar amount of taxes abated during reporting period | Dollar amount not disclosed. Due to fewer than 10 taxpayers receiving this tax abatement for the year the dollar amount cannot be disclosed to ensure the amount cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer in accordance with 32 V.S.A. 3102. |

Agricultural and Managed Forest Land Use Program

| | |
|--|---|
| Purpose of program | The program goal is to preserve the working landscape and the rural character of Vermont. |
| Tax being abated | Education Property Tax |
| Authority to abate taxes | 32 V.S.A 3756 |
| Criteria to be eligible to receive abatements and commitment of the taxpayer | A property must be at least 25 contiguous acres in size to be eligible for enrollment in the program, with limited exceptions for actively farmed land, and conservation land owned by a qualified organization as defined in 10 V.S.A 6301a. The property owner applies to and must be approved by the Department of Taxes to receive the tax abatement. In return, the owners of agricultural land and/or farm buildings are required to certify annually that their agricultural land and farm buildings meet the requirements to be eligible for the program; and for forested and conservation land (non-agricultural) the property must be managed according to the approved forest or conservation management plan and according to state standards and be inspected at least once every 10 years. |
| How taxes are reduced | Reduction of assessed value |
| How is the amount of the tax abatement determined | Land is valued at fixed price per acre as determined by the Current Use Advisory Board |
| Provisions for recapturing abated taxes | Once enrolled in the program land is subject to a lien, if this land is ever developed or removed from the program, the owner at the time of development must pay a land use change tax of 10% tax on the full fair market value of the changed land determined without regard to the use value appraisal. |
| Type of commitments other than taxes | As part of the Land Use Program, is a municipal hold harmless payment that reimburses municipalities for property tax revenue not collected due to the reduction in assessed value from property enrolled in the Land Use Program. Fiscal year 2017 payments are \$15,021,057. |
| Dollar amount of taxes abated during reporting period | \$45,247,428 |

Vermont Downtown and Village Center Tax Credit Program

| | |
|--|--|
| Purpose of program | The program encourages the improvement and rehabilitation of historic properties in designated downtowns and village centers. It includes three tax credits: The Historic Rehabilitation Tax Credit, the Façade Improvement Tax Credit, and the Code or Technology Improvement Tax Credit. |
| Tax being abated | Personal income, corporate income, bank franchise, and insurance premium taxes |
| Authority to abate taxes | 32 V.S.A. 5930cc |
| Criteria to be eligible to receive abatements and commitment of the taxpayer | Commercial buildings and non-profit owned buildings constructed before 1983 located within designated downtown or village centers are eligible for the credit. The taxpayer applies to and must be approved by the Vermont Downtown Development Board to receive the credit. In return, the taxpayer agrees to improve or rehabilitate their historic property in designated downtowns and village centers as specified in the application submitted. |
| How taxes are reduced | Taxpayer will claim credit on tax return. Unused credits may be carried forward for nine years. |
| How is the amount of the tax abatement determined | <p>Historic Rehabilitation Tax Credit is 10% of qualified expenditures up to a maximum tax credit of \$75,000.</p> <p>Façade Improvement Tax Credit is 25% of qualified expenditures up to a maximum tax credit of \$25,000.</p> <p>Code or Technology Improvement Tax Credit is 50% of qualified expenditures up to a maximum tax credit of \$50,000 for sprinklers, \$50,000 for elevators, \$12,000 for platform lifts, \$50,000 for other qualified code improvements, and \$30,000 for technology improvements.</p> |
| Provisions for recapturing abated taxes | If, within five years after completion of the qualified project the applicant shall be liable for a recapture penalty in an amount equal to the total tax credit claimed if the Vermont Downtown Development Board finds that any work performed on the qualified project is inconsistent with the approved application; or the applicant knowingly failed to supply any information, or supplied incorrect or untrue information or failed to comply with any award condition; or in the case of the Historic Rehabilitation Tax Credit, the National Park Service revokes certification for unapproved alterations or for work not done as described in the historic preservation certification application. |
| Type of commitments other than taxes | N/A |
| Dollar amount of taxes abated during reporting period | \$1,232,032 |

Vermont Employment Growth Incentive (VEGI)

| | |
|--|--|
| Purpose of program | The program is designed to encourage business recruitment, growth and expansion. |
| Tax being abated | Personal income taxes |
| Authority to abate taxes | 32 V.S.A. 3330 |
| Criteria to be eligible to receive abatements and commitment of the taxpayer | Any size business can apply, to be eligible to receive abatements. The Vermont Economic Progress Council (VEPC) must find for the project that the total estimated incremental tax revenues from all sources generated to the State by the proposed economic activity exceeds the revenue costs of the activity to the State, including the cost of the incentive. The host municipality must welcome the new business. The proposed economic activity must conform to applicable town and regional plans. If the business proposes to expand within a limited local market, an incentive must not give the business an unfair competitive advantage over other Vermont businesses in the same or similar line of business and in the same limited local market. Applicants must assert in writing and VEPC must agree that, but for the incentive, the proposed economic activity: would not occur; or would occur in a significantly different manner that is significantly less desirable to the State. The taxpayer applies to and must be approved by the VEPC to receive the tax abatement. In return, the taxpayer agrees to meet their performance requirements for new qualifying employment, new qualifying payroll, and new qualifying capital investments as specified in the application submitted. |
| How taxes are reduced | Refund of taxes paid |
| How is the amount of the tax abatement determined | The total amount of abatement is determined by a cost-benefit model analysis that calculates the estimated revenue benefits and costs to the State, based on the qualifying jobs, payroll, and capital investments projected by the applicant. |
| Provisions for recapturing abated taxes | For three years from the last day of the utilization period if the business experiences a 90% or greater reduction in base employment, or if the business fails to file required claim forms. In addition, if the business fails to meet its capital investment performance requirements by the end of the award period the abatements paid may be recaptured. |
| Type of commitments other than taxes | N/A |
| Dollar amount of taxes abated during reporting period | \$3,931,546 |

G. Accounting Changes

The Vermont Veterans' Home (Home), a discrete non-major component unit has restated the net position at June 30, 2016. Previously the Home had classified and reported contribution and donation balances as separate fiduciary funds. After a review of donor agreements and other relevant documentation, it was

determined that these amounts were incorrectly classified as fiduciary funds and were not presented as required in the business-type activities of the Home at June 30, 2016. Accordingly, the Home's business-type activities at June 30, 2016 were restated as follows:

| | |
|---|---------------------|
| Net position as originally stated, June 30 2016... | \$ 6,400,978 |
| Addition of expendable restricted net position..... | <u>1,530,801</u> |
| Net position as restated June 30 2016..... | <u>\$ 7,931,779</u> |

H. Subsequent Events

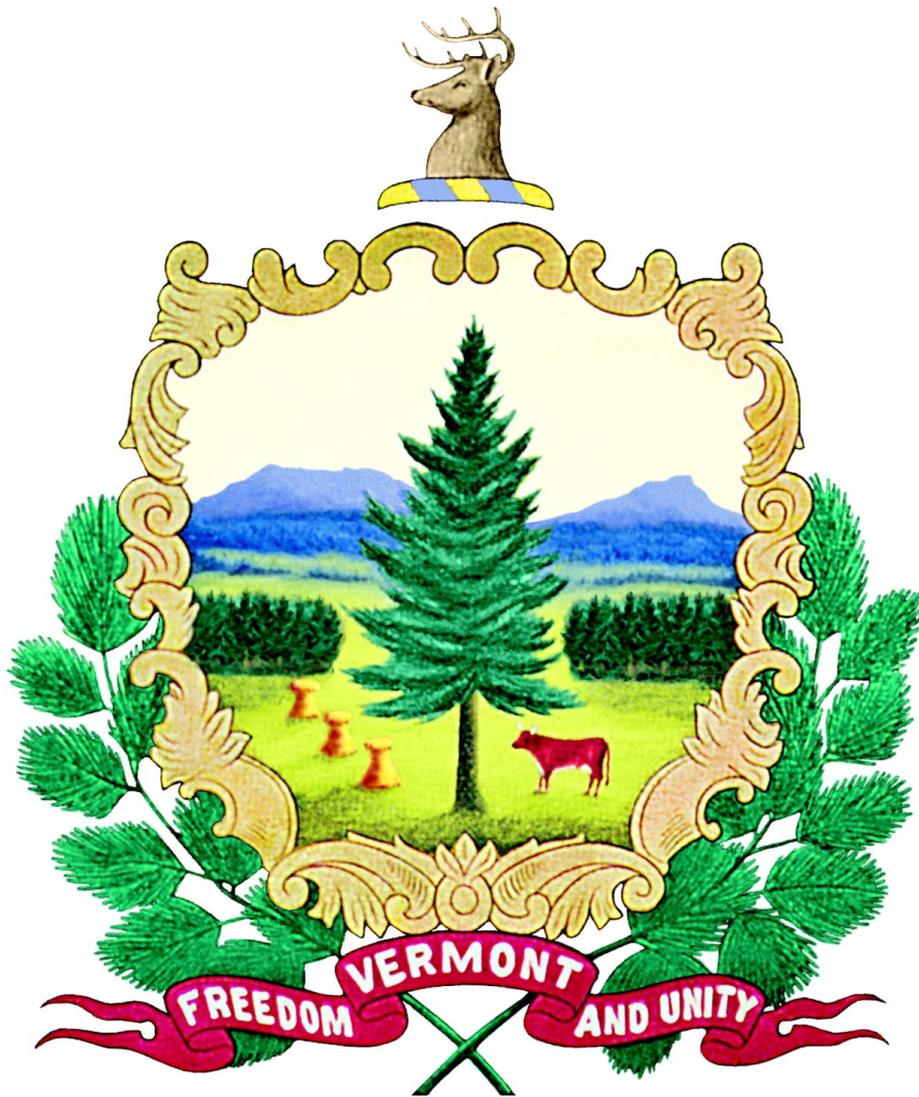
1. Debt Issuance

2017 Series A (Vermont Citizen Bonds) - General Obligation Bonds and 2017 Series B - General Obligation Bonds

The State issued \$34,700,000 of 2017 Series A - General Obligation Bonds, dated September 13, 2017. The bonds are general obligations of the State of Vermont, and the full faith and credit of the State are pledged to the payment of principal and interest on these bonds. The interest rates on these bonds vary from 2% to 5%, and payment to bondholders is scheduled to commence on August 15, 2018, and terminate on August 15, 2037.

The State issued \$71,395,000 of 2017 Series B - General Obligation Bonds, dated September 13, 2017. The bonds are general obligations of the State of Vermont, and the full faith and credit of the State are pledged to the payment of principal and interest on these bonds. The interest rates on these bonds vary from 2.25% to 5%, and payment to bondholders is scheduled to commence on August 15, 2018, and terminate on August 15, 2037.

The issuance of these bonds is authorized by capital acts from legislative sessions: Act 26 (2015) as amended by Act 160 (2016), and Act 84 (2017). The proceeds are to be used for various purposes including capital projects, major maintenance at the State buildings, Vermont State Colleges, University of Vermont, various projects in the areas of natural resources, public safety, agriculture, clean water initiatives, various grant purposes, and other projects.



Required Supplementary Information
(Unaudited)

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT STATE RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST FOUR FISCAL YEARS**

*(Dollar amounts expressed in thousands)
(Unaudited)*

| | 2017 | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|-------------------|-------------------|
| Total pension liability | | | | |
| Service cost..... | \$ 42,704 | \$ 47,012 | \$ 41,786 | \$ 39,369 |
| Interest..... | 178,959 | 171,563 | 164,405 | 156,635 |
| Differences between expected and actual experience..... | 19,283 | 25,051 | 3,979 | - |
| Changes of assumptions..... | 42,725 | (21,853) | 62,247 | - |
| Benefit payments, including refunds of member contributions... | (126,480) | (120,094) | (111,396) | (104,493) |
| Net change in total pension liability..... | 157,191 | 101,679 | 161,021 | 91,511 |
| Total pension liability, July 1..... | 2,271,588 | 2,169,909 | 2,008,888 | 1,917,377 |
| Total pension liability, June 30..... | 2,428,779 | 2,271,588 | 2,169,909 | 2,008,888 |
| Plan fiduciary net position | | | | |
| Contributions - employer..... | 60,280 | 54,347 | 55,881 | 56,483 |
| Contributions - member..... | 35,967 | 34,055 | 33,296 | 31,746 |
| Net investment income (loss)..... | 170,358 | 17,962 | (8,485) | 203,722 |
| Benefit payments, including refunds of member contributions... | (126,480) | (120,094) | (111,396) | (104,493) |
| Administrative expenses..... | (1,777) | (1,467) | (1,858) | (1,158) |
| Other..... | 444 | (14) | 177 | 454 |
| Net change in fiduciary net position..... | 138,792 | (15,211) | (32,385) | 186,754 |
| Plan fiduciary net position, beginning of year..... | 1,609,650 | 1,624,861 | 1,657,246 | 1,470,492 |
| Plan fiduciary net position, end of year..... | 1,748,442 | 1,609,650 | 1,624,861 | 1,657,246 |
| Net pension liability, June 30..... | \$ 680,337 | \$ 661,938 | \$ 545,048 | \$ 351,642 |
| Plan fiduciary net position as a percentage of the total pension liability..... | 71.99% | 70.86% | 74.88% | 82.50% |
| Covered employee payroll..... | \$ 471,268 | \$ 462,057 | \$ 437,676 | \$ 416,766 |
| Net pension liability as a percentage of covered-employee payroll..... | 144.36% | 143.26% | 124.53% | 84.37% |

Notes to Schedule

Change in assumptions:

| | | | | |
|--|-------|-------|-------|-------|
| Discount rate..... | 7.50% | 7.95% | 7.95% | 8.22% |
| Assumed inflation..... | 2.50% | 3.00% | 3.00% | 3.00% |
| Assumed COLA increase | | | | |
| Groups A, C, D and F (retired on or after 7/1/2008)..... | 2.55% | 3.00% | 3.00% | 3.00% |
| Group F (retired before 7/1/2008)..... | 1.40% | 1.50% | 1.50% | 1.50% |

Effective 6/30/2017 mortality tables updated from variations of RP-2000 with static projection to variations of RP-2014 with generational improvement.

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Benefit changes since June 30, 2014: None

Plan Type: single employer

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
STATE TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST FOUR FISCAL YEARS**

*(Dollar amounts expressed in thousands)
(Unaudited)*

| | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|-------------------|
| Total pension liability | | | | |
| Service cost..... | \$ 35,383 | \$ 34,979 | \$ 33,614 | \$ 33,144 |
| Interest..... | 228,939 | 222,185 | 215,447 | 206,150 |
| Differences between expected and actual experience..... | 12,523 | 3,613 | 20,003 | - |
| Changes of assumptions..... | 185,849 | (7,224) | 57,489 | - |
| Benefit payments, including refunds of member contributions... | (172,156) | (162,751) | (150,734) | (140,846) |
| Net change in total pension liability..... | 290,538 | 90,802 | 175,819 | 98,448 |
| Total pension liability, July 1..... | 2,930,423 | 2,839,621 | 2,663,802 | 2,565,354 |
| Total pension liability, June 30..... | 3,220,961 | 2,930,423 | 2,839,621 | 2,663,802 |
| Plan fiduciary net position | | | | |
| Contributions - non-employer..... | 78,664 | 73,225 | 72,909 | 72,668 |
| Contributions - member..... | 36,142 | 35,409 | 34,864 | 32,559 |
| Net investment income (loss)..... | 173,167 | 19,877 | (7,567) | 212,338 |
| Benefit payments, including refunds of member contributions... | (172,156) | (162,751) | (150,734) | (140,847) |
| Administrative expenses..... | (2,214) | (1,797) | (2,259) | (26,116) |
| Other..... | 4,055 | 3,821 | 538 | 411 |
| Net change in fiduciary net position..... | 117,658 | (32,216) | (52,249) | 151,013 |
| Plan fiduciary net position, beginning of year..... | 1,620,900 | 1,653,116 | 1,705,365 | 1,554,352 |
| Plan fiduciary net position, end of year..... | 1,738,558 | 1,620,900 | 1,653,116 | 1,705,365 |
| Net pension liability, June 30..... | \$ 1,482,403 | \$ 1,309,523 | \$ 1,186,505 | \$ 958,437 |
| Plan fiduciary net position as a percentage of the total pension liability..... | 53.98% | 55.31% | 58.22% | 64.02% |
| Covered employee payroll..... | \$ 586,397 | \$ 557,708 | \$ 567,074 | \$ 563,623 |
| Net pension liability as a percentage of covered-employee payroll..... | 252.80% | 234.80% | 209.23% | 170.05% |

Notes to Schedule

Change in assumptions:

| | | | | |
|------------------------|-------|-------|-------|-------|
| Discount rate..... | 7.50% | 7.95% | 7.95% | 8.15% |
| Assumed inflation..... | 2.50% | 3.00% | 3.00% | 3.00% |
| Assumed COLA increase | | | | |
| Group A..... | 2.55% | 3.00% | 3.00% | 3.00% |
| Group C..... | 1.40% | 1.50% | 1.50% | 1.50% |

Effective 6/30/2017 mortality tables updated from RP-2000 with static projection to 98% of the RP-2014 White Collar Table with generational improvement for healthy participants and the RP-2014 Disabled Mortality Table with generational improvement for disabled participants.

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Benefit changes since June 30, 2014: None

Plan Type: cost sharing multiple employer with a special funding situation

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST FOUR FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

| | 2017 | 2016 | 2015 | 2014 |
|--|-------------------|-------------------|------------------|-----------------|
| Total pension liability | | | | |
| Service cost..... | \$ 27,246 | \$ 25,264 | \$ 24,366 | \$ 22,519 |
| Interest..... | 54,780 | 49,744 | 46,058 | 42,139 |
| Differences between expected and actual experience..... | (3,749) | 1,088 | 3,046 | - |
| Changes of assumptions..... | 14,481 | 12,204 | 19,192 | - |
| Benefit payments, including refunds of member contributions.. | (27,803) | (25,589) | (23,314) | (20,601) |
| Net change in total pension liability..... | 64,955 | 62,711 | 69,348 | 44,057 |
| Total pension liability, July 1..... | 675,711 | 613,000 | 543,652 | 499,595 |
| Total pension liability, June 30..... | 740,666 | 675,711 | 613,000 | 543,652 |
| Plan fiduciary net position | | | | |
| Contributions - employer..... | 16,482 | 15,236 | 14,136 | 12,806 |
| Contributions - member..... | 25,210 | 15,227 | 13,588 | 13,234 |
| Net investment income (loss)..... | 59,487 | 6,777 | (2,359) | 64,346 |
| Benefit payments, including refunds of member contributions.. | (27,803) | (25,589) | (23,315) | (20,601) |
| Administrative expenses..... | (875) | (755) | (950) | (588) |
| Other..... | (6) | 215 | 279 | 2,143 |
| Net change in fiduciary net position..... | 72,495 | 11,111 | 1,379 | 71,340 |
| Plan fiduciary net position, beginning of year..... | 547,015 | 535,904 | 534,525 | 463,186 |
| Plan fiduciary net position, end of year..... | 619,510 | 547,015 | 535,904 | 534,526 |
| Net pension liability, June 30..... | \$ 121,156 | \$ 128,696 | \$ 77,096 | \$ 9,126 |
| Plan fiduciary net position as a percentage of the total pension liability..... | 83.64% | 80.95% | 87.42% | 98.32% |
| Covered employee payroll..... | \$ 256,730 | \$ 249,811 | \$ 230,969 | \$ 220,372 |
| Net pension liability as a percentage of covered-employee payroll..... | 47.19% | 51.52% | 33.38% | 4.14% |

Notes to Schedule

Changes in assumptions and methods:

| | | | | |
|------------------------|-------|-------|-------|-------|
| Discount rate..... | 7.50% | 7.95% | 7.95% | 8.23% |
| Assumed inflation..... | 2.50% | 3.00% | 3.00% | 3.00% |
| Assumed COLA increase | | | | |
| Group A..... | 1.15% | 1.50% | 1.50% | 1.50% |
| Group B, C, and D..... | 1.30% | 1.80% | 1.80% | 1.80% |

Effective 6/30/2017 mortality tables updated from variations of RP-2000 with static projection to variations of RP-2014 with generational improvement.

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Benefit changes since June 30, 2014: None

Plan Type: cost sharing multiple employer

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
LAST FOUR FISCAL YEARS
(dollar amounts expressed in thousands)
(Unaudited)**

| <u>Retirement System</u> | <u>Year Ended 6/30</u> | <u>Actuarially Determined Contribution¹ (ADC)</u> | <u>Contributions in Relation to ADC</u> | <u>Contribution (Excess) Deficiency</u> | <u>Covered Employee Payroll (CEP)</u> | <u>Contribution as a Percent of CEP</u> |
|--|--------------------------------|--|---|---|---|---|
| Vermont State Retirement System | 2017 | \$ 48,503 | \$ 60,280 | \$ (11,777) | \$ 471,268 | 12.79% |
| | 2016 | 46,238 | 54,347 | (8,109) | 462,057 | 11.76% |
| | 2015 | 44,652 | 55,881 | (11,229) | 437,676 | 12.77% |
| | 2014 | 42,786 | 56,483 | (13,697) | 416,766 | 13.55% |
| State Teachers' Retirement System ² | 2017 | \$ 82,660 | \$ 82,887 | \$ (227) | \$ 586,397 | 14.13% |
| | 2016 | 76,103 | 76,948 | (845) | 557,708 | 13.80% |
| | 2015 | 72,858 | 72,909 | (51) | 567,074 | 12.86% |
| | 2014 | 68,353 | 72,668 | (4,315) | 563,623 | 12.89% |
| Vermont Municipal Employees' Retirement System | 2017 | \$ 12,896 | \$ 16,482 | \$ (3,586) | \$ 256,730 | 6.42% |
| | 2016 | 15,236 | 15,236 | - | 249,811 | 6.10% |
| | 2015 | 14,136 | 14,136 | - | 230,969 | 6.12% |
| | 2014 | 12,806 | 12,806 | - | 220,372 | 5.81% |

Notes to Schedule

¹ADC for a given fiscal year are based on results from the June 30 actuarial valuation two years prior.

²Included in the ADC is an actuarially determined contribution rate that is applied to the total earnable compensation for teachers whose funding is provided by federal grants and is paid by the employer to the STRS.

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

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

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

| | <u>VSRS</u> | <u>STRS</u> | <u>MERS</u> |
|---|--|--|---|
| Valuation date | | | |
| Actuarially determined contributions rates are calculated as of June 30 (VSRS and STRS) and July 1 (MERS), two years prior to the end of the fiscal year in which contributions are reported. | | | |
| Actuarial cost method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization method | Level percentage of payroll | Level percentage of payroll | Level percentage of payroll |
| Remaining amortization period | 21 years | 21 years | 21 years |
| All closed basis | | | |
| Asset valuation method | Preliminary Asset Value plus 20% of difference between market and preliminary asset values | Preliminary Asset Value plus 20% of difference between market and preliminary asset values | Actuarial value of assets using a five year smoothing technique |
| <u>Actuarial assumptions</u> | | | |
| Investment rate of return ⁽¹⁾ | 7.50% | 7.50% | 7.50% |
| Projected salary increases | 3.50%-7.04% | 3.75%-9.09% | 5.00% |
| Cost of living adjustments | Groups A, C & D - 2.55% Group F - 1.40% Group F retiring after 7/1/2008 - 2.55% | Group A - 2.55% Group C - 1.40% | Group A - 1.15% Groups B, C & D - 1.30% |
| <u>Post Retirement Adjustments</u> | | | |
| 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 - 5.00% | Group A - 5.00% | N/A |
| Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in CPI but not in excess of percentage indicated | Group F - 5.00% ⁽²⁾ | Group C - 5.00% | Group A - 2.00% Groups B, C & D - 3.00% |
| Assumed annual rate of cost-of-living increases | For those eligible for increases of 100% of CPI change: 2.55% | For those eligible for increases of 100% of CPI change: 2.55% | Group A - 1.15% Groups B, C, & D - 1.30% |
| | For those eligible for increases of 50% of CPI change: 1.4% | For those eligible for increases of 50% of CPI change: 1.4% | |

⁽¹⁾Through the 2014 valuations, a select-and-ultimate interest rate set was used ranging from 6.25% in year 1 to 9% in years 17 and later. For 2015 - 2016 a 7.95% rate was used.

⁽²⁾Effective January 1, 2014, the Group F employees who were actively contributing into the system on June 30, 2008, and retired on or after July 1, 2008, are eligible for 100% of CPI.

See Independent Auditor's Report.

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST FOUR FISCAL YEARS⁽¹⁾
(dollar amounts expressed in thousands)
(unaudited)**

| | Vermont State Retirement System | | | |
|--|--|--------------|------------|--------------|
| | 2017 | 2016 | 2015 | 2014 |
| State's proportion of net pension liability | 98.3625% | 98.3289% | 98.2355% | 98.1400% |
| State's proportionate share of the net pension liability | \$ 651,099 | \$ 535,939 | \$ 345,437 | \$ 438,573 |
| Plan fiduciary net position as a percentage of the total pension liability | 70.86% | 74.88% | 82.50% | 76.69% |
| | State Teachers' Retirement System⁽²⁾ | | | |
| | 2017 | 2016 | 2015 | 2014 |
| State's proportion of net pension liability | 100% | 100% | 100% | 100% |
| State's proportionate share of the net pension liability | \$ 1,309,523 | \$ 1,186,505 | \$ 958,437 | \$ 1,011,002 |
| Plan fiduciary net position as a percentage of the total pension liability | 55.31% | 58.22% | 64.02% | 60.59% |

⁽¹⁾The amounts presented for each fiscal year were determined by an actuarial valuation on June 30 two years prior to the fiscal year. The measurement period and measurement date is one year prior to the fiscal year.

⁽²⁾The State Teacher's Retirement System has a special funding situation where the State, as the non-employer contributing entity, is responsible for the net pension liability.

GASB No. 68 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

**STATE OF VERMONT
 REQUIRED SUPPLEMENTARY INFORMATION
 DEFINED BENEFIT PLANS
 SCHEDULE OF INVESTMENT RETURNS
 LAST FOUR FISCAL YEARS
 (Unaudited)**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|
| VERMONT STATE RETIREMENT SYSTEM | | | | |
| Annual money-weighted rate of return, net of investment expense | 10.33% | 1.44% | -0.50% | 14.05% |
| STATE TEACHERS' RETIREMENT SYSTEM | | | | |
| Annual money-weighted rate of return, net of investment expense | 10.17% | 1.69% | -0.40% | 13.83% |
| VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM | | | | |
| Annual money-weighted rate of return, net of investment expense | 10.88% | 1.56% | -0.51% | 14.13% |

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014.
 Data for future years will be added prospectively.

See Independent Auditor's Report.

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
LAST FISCAL YEAR**

*(Dollar amounts expressed in thousands)
(Unaudited)*

| | <u>Vermont State Postemployment Benefit Trust Fund</u> | <u>Retired Teachers' Health and Medical Benefits Trust Fund</u> |
|--|--|---|
| Total OPEB liability | | |
| Service cost..... | \$ 66,841 | \$ 32,511 |
| Interest..... | 46,868 | 26,425 |
| Changes of assumptions..... | (190,151) | (33,192) |
| Benefit payments, net of retiree contributions, including administrative expense.... | <u>(33,346)</u> | <u>(29,577)</u> |
| | | |
| Net change in total OPEB liability..... | (109,788) | (3,833) |
| Total OPEB liability, July 1..... | <u>1,594,310</u> | <u>909,465</u> |
| | | |
| Total OPEB liability, June 30..... | <u>1,484,522</u> | <u>905,632</u> |
| | | |
| Plan fiduciary net position | | |
| Contributions - employer..... | 33,123 | - |
| Contributions - non-employer..... | | 23,839 |
| Net investment income (loss)..... | 1,372 | 41 |
| Benefit payments, including refunds of member contributions..... | (33,346) | (29,348) |
| Administrative expenses..... | <u>-</u> | <u>(229)</u> |
| | | |
| Net change in fiduciary net position..... | 1,149 | (5,697) |
| Plan fiduciary net position, beginning of year..... | <u>21,353</u> | <u>(20,961)</u> |
| | | |
| Plan fiduciary net position, end of year..... | <u>22,502</u> | <u>(26,658)</u> |
| | | |
| Net OPEB liability, June 30..... | <u>\$ 1,462,020</u> | <u>\$ 932,290</u> |
| | | |
| Plan fiduciary net position as a percentage of the total OPEB liability..... | 1.52% | -2.94% |
| Covered employee payroll..... | \$ 497,201 | \$ 586,397 |
| Net OPEB liability as a percentage of covered-employee payroll..... | 294.05% | 158.99% |

Notes to Schedule

Plan Type: single employer cost sharing multiple employer with a special funding situation

Benefit changes since June 30, 2016: None

GASB No. 74 required supplementary information is not available for fiscal years prior to 2017. Data for future years will be added prospectively.

See Independent Auditor's Report.

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF INVESTMENT RETURNS
LAST FISCAL YEAR
(Unaudited)**

2017

Vermont State Postemployment Benefit Trust Fund

Annual money-weighted rate of return,
net of investment expense 6.50%

Retired Teachers' Health and Medical Benefits Fund *

Annual money-weighted rate of return,
net of investment expense N/A

* The Retired Teachers' Health and Medical Benefits Fund has no investments.

GASB No. 74 required supplementary information is not available for fiscal years prior to 2017.
Data for future years will be added prospectively.

See Independent Auditor's Report.

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
LAST FISCAL YEAR
(dollar amounts expressed in thousands)
(Unaudited)**

| <u>Retirement System</u> | <u>Year Ended 6/30</u> | <u>Actuarially Determined Contribution (ADC)</u> | <u>Contributions in Relation to ADC</u> | <u>Contribution (Excess) Deficiency</u> | <u>Covered Employee Payroll (CEP)</u> | <u>Contribution as a Percent of CEP</u> |
|---|--------------------------------|--|---|---|---|---|
| Vermont State Postemployment Benefit Trust Fund (VSPB) | 2017 | \$ 71,833 | \$ 33,123 | \$ 38,710 | \$ 497,201 | 6.66% |
| Retired Teachers' Health and Medical Benefits Fund (RTHMB) | 2017 | \$ 35,918 | \$ 23,839 | \$ 12,079 | \$ 586,397 | 4.07% |

GASB No. 74 required supplementary information is not available for fiscal years prior to 2017. Data for future years will be added prospectively.

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

**STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)**

VSPB

RTHMB

Valuation date:

Actuarially determined contributions rates are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are reported.

| | | |
|-------------------------------|---|---|
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit |
| Amortization method | Level percentage of payroll, open basis | Level percentage of payroll, open basis |
| Remaining amortization period | 30 years | 30 years |
| Asset valuation method | Market Value | Market Value |
| <u>Actuarial assumptions</u> | | |
| Investment rate of return | 7.50% | 7.50% |
| Discount rate | 3.58% | 3.58% |
| Projected salary increases | 3.50% - 7.04% | 3.75% - 9.09% |
| Inflation | 2.75% | 2.75% |

Health care cost trend rates

| <u>Year Ending June 30.</u> | <u>Pre-Medicare</u> | <u>Medicare</u> | <u>Pre-Medicare</u> | <u>Medicare</u> |
|-----------------------------|---------------------|-----------------|---------------------|-----------------|
| 2018 | 7.50% | 8.00% | 7.50% | 7.75% |
| 2019 | 7.25 | 7.65 | 7.25 | 7.45 |
| 2020 | 7.00 | 7.30 | 7.00 | 7.15 |
| 2021 | 6.75 | 6.95 | 6.75 | 6.85 |
| 2022 | 6.50 | 6.60 | 6.50 | 6.55 |
| 2023 | 6.25 | 6.25 | 6.25 | 6.25 |
| 2024 | 6.00 | 5.90 | 6.00 | 5.95 |
| 2025 | 5.75 | 5.55 | 5.75 | 5.65 |
| 2026 | 5.50 | 5.20 | 5.50 | 5.35 |
| 2027 | 5.25 | 4.85 | 5.25 | 5.05 |
| 2028 | 5.00 | 4.50 | 5.00 | 4.75 |
| 2029 | 4.75 | 4.50 | 4.75 | 4.50 |
| 2030+ | 4.50 | 4.50 | 4.50 | 4.50 |

Mortality Rates

| | | |
|--------------------------|---|--|
| Death in Active Service | Group A/F/DC - 101% of RP-2014 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017 Group C - RP-2014 Blue Collar Employee with generational projection using Scale SSA-2017 Group D - RP-2014 Healthy Employee with generational projection using Scale SSA-2017 | 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017 |
| Healthy Post-retirement | Group A/F/DC - 101% of RP-2014 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017 Group C - RP-2014 Blue Collar Annuitant with generational projection using Scale SSA-2017 Group D - RP-2014 Healthy Annuitant with generational projection using Scale SSA-2017 | 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017 |
| Disabled Post-retirement | RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017 | RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017 |

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF FUNDING PROGRESS
(dollar amounts expressed in thousands)
(Unaudited)

| Actuarial Valuation Date <u>June 30</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) <u>(b)</u> | Unfunded AAL (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u> |
|---|---|--|---|---------------------------------|----------------------------------|--|
| Vermont State Postemployment Benefit Trust Fund ⁽¹⁾ | | | | | | |
| 2017 | \$ 22,502 | \$ 1,457,615 | \$ 1,435,113 | 1.54% | \$ 497,201 | 288.64% |
| 2016 | 21,353 | 1,165,803 | 1,144,450 | 1.83% | 497,222 | 230.17% |
| 2015 | 19,904 | 1,113,023 | 1,093,119 | 1.79% | 488,949 | 223.57% |
| 2014 | 18,904 | 1,092,728 | 1,073,824 | 1.73% | 464,517 | 231.17% |
| 2013 | 15,663 | 947,864 | 932,201 | 1.65% | 436,949 | 213.34% |
| 2012 | 13,379 | 1,011,783 | 998,404 | 1.32% | 406,929 | 245.35% |
| Retired Teachers' Medical and Health Benefit Fund ⁽²⁾ | | | | | | |
| 2017 | \$ (26,658) | \$ 864,801 | \$ 891,459 | -3.08% | \$ 586,397 | 152.02% |
| 2016 | (20,961) | 656,937 | 677,898 | -3.19% | 606,843 | 111.71% |
| 2015 ⁽³⁾ | (10,056) | 993,037 | 1,003,093 | -1.01% | 576,255 | 174.07% |
| 2014 | - | 766,775 | 766,775 | 0.00% | 565,658 | 135.55% |
| 2013 | - | 712,666 | 712,666 | 0.00% | 563,534 | 126.46% |
| 2012 | - | 827,180 | 827,180 | 0.00% | 561,026 | 147.44% |

⁽¹⁾ Based on a discount rate of 4.25% for 2010 - 2013, and 4.00% for 2014 - 2017.

⁽²⁾ Based on a discount rate of 4.00%.

⁽³⁾ For years prior to 2015 there was no explicit funding for these benefits. Effective 7/1/2014, Act 179 of 2014 section E.514.1 created this fund and provided for explicit contributions for funding these benefits on a pay-as-you-go basis.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
(dollar amounts expressed in thousands)
(Unaudited)

| | <u>Year Ended 6/30</u> | | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|--|--------------------------------|----|---|-----------------------------------|
| Vermont State Postemployment Benefit Trust Fund | | | | |
| | 2017 | \$ | 71,833 | 46.11% |
| | 2016 | | 69,021 | 44.80% |
| | 2015 | | 71,496 | 40.60% |
| | 2014 | | 64,119 | 37.85% |
| | 2013 | | 67,977 | 37.60% |
| | 2012 | | 69,880 | 39.57% |
| Retired Teachers' Health and Medical Benefits Fund ⁽¹⁾ | | | | |
| | 2017 | \$ | 35,918 | 66.37% |
| | 2016 | | 52,106 | 29.12% |
| | 2015 | | 40,988 | 35.78% |
| | 2014 | | 39,239 | NA |
| | 2013 | | 45,458 | NA |
| | 2012 | | 43,411 | NA |

⁽¹⁾ For years prior to 2015 there was no explicit funding for these benefits. Effective 7/1/2014, Act 179 of 2014 section E.514.1 created this fund and provided for explicit contributions for funding these benefits on a pay-as-you-go basis.

See Independent Auditor's Report.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Over (Under)</u> |
|--|----------------------------|-------------------------|---|-------------------------|
| Revenues | | | | |
| Taxes..... | \$ 1,422,600,000 | \$ 1,395,000,000 | \$ 1,395,389,783 | \$ 389,783 |
| Earnings of Departments..... | 45,100,000 | 47,600,000 | 48,451,569 | 851,569 |
| Other..... | 12,800,000 | 13,300,000 | 12,754,588 | (545,412) |
| Total revenues..... | 1,480,500,000 | 1,455,900,000 | 1,456,595,940 | 695,940 |
| Expenditures | | | | |
| General Government | | | | |
| Agency of Administration..... | 50,564,320 | 45,785,536 | 40,774,975 | (5,010,561) |
| Executive Office..... | 1,695,176 | 1,749,538 | 1,661,128 | (88,410) |
| Legislative Council..... | 11,691,973 | 12,295,468 | 11,351,880 | (943,588) |
| Joint Fiscal Office..... | 1,648,880 | 2,199,205 | 2,032,133 | (167,072) |
| Sergeant at Arms..... | 671,374 | 754,404 | 698,592 | (55,812) |
| Lieutenant Governor's Office..... | 194,487 | 233,185 | 211,761 | (21,424) |
| Auditor of Accounts..... | 418,307 | 434,157 | 364,768 | (69,389) |
| State Treasurer..... | 1,022,452 | 1,208,148 | 986,761 | (221,387) |
| State Labor Relations Board..... | 237,743 | 243,221 | 233,337 | (9,884) |
| VOSHA Review Board..... | 36,611 | 48,895 | 37,233 | (11,662) |
| Homeowner Property Tax Assistance..... | 16,200,000 | 16,131,371 | 15,815,475 | (315,896) |
| Renter Rebate Tax Assistance..... | 3,120,000 | 3,419,865 | 2,643,048 | (776,817) |
| Protection to Persons and Property | | | | |
| Attorney General..... | 5,734,906 | 7,452,923 | 6,528,884 | (924,039) |
| Defender General..... | 16,446,969 | 16,945,705 | 16,778,402 | (167,303) |
| Judiciary..... | 40,372,072 | 41,466,361 | 40,421,881 | (1,044,480) |
| State's Attorneys and Sheriffs..... | 17,147,504 | 18,739,778 | 17,362,191 | (1,377,587) |
| Department of Public Safety..... | 44,669,015 | 48,911,905 | 45,787,723 | (3,124,182) |
| Military Department..... | 4,009,150 | 4,692,971 | 3,802,745 | (890,226) |
| Center for Crime Victim Services..... | 1,264,140 | 1,264,629 | 1,264,140 | (489) |
| Criminal Justice Training Council..... | 2,317,482 | 2,415,377 | 2,294,537 | (120,840) |
| Agency of Agriculture, Food and Markets..... | 8,403,525 | 11,160,637 | 7,976,860 | (3,183,777) |
| Secretary of State..... | 425,000 | 425,000 | 392,079 | (32,921) |
| Public Service Department..... | - | 151,169 | 55,112 | (96,057) |
| Human Rights Commission..... | 455,632 | 509,279 | 477,740 | (31,539) |
| Human Services | | | | |
| Agency of Human Services..... | 696,753,524 | 693,491,329 | 679,575,141 | (13,916,188) |
| Green Mountain Care Board..... | 1,243,276 | 1,464,723 | 763,752 | (700,971) |
| Governor's Commission on Women..... | 352,011 | 403,318 | 367,298 | (36,020) |
| Human Services Board..... | 208,383 | 300,788 | 300,788 | - |
| Vermont Veterans' Home..... | 5,923,637 | 7,313,564 | 6,813,564 | (500,000) |
| Labor | | | | |
| Department of Labor..... | 3,314,311 | 5,389,593 | 3,953,162 | (1,436,431) |
| General Education | | | | |
| Agency of Education..... | 9,326,652 | 9,866,292 | 9,716,837 | (149,455) |
| State Teacher's Retirement..... | 100,982,160 | 100,982,160 | 100,982,160 | - |
| Higher Education..... | 83,981,346 | 85,881,346 | 85,001,344 | (880,002) |

continued on next page

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Over (Under)</u> |
|---|----------------------------|-------------------------|---|-------------------------|
| Expenditures | | | | |
| Natural Resources | | | | |
| Agency of Natural Resources..... | 26,499,201 | 28,814,693 | 27,586,067 | (1,228,626) |
| Natural Resources Board..... | 606,932 | 606,932 | 606,932 | - |
| Commerce and Community Development | | | | |
| Agency of Commerce and Community Development..... | 13,862,707 | 18,745,349 | 13,736,948 | (5,008,401) |
| Cultural Development..... | 1,988,834 | 2,031,694 | 2,031,694 | - |
| Total expenditures..... | <u>1,173,789,692</u> | <u>1,193,930,508</u> | <u>1,151,389,072</u> | <u>(42,541,436)</u> |
| Excess of revenues over expenditures..... | <u>306,710,308</u> | <u>261,969,492</u> | <u>305,206,868</u> | <u>43,237,376</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in..... | 19,543,253 | 102,322,967 | 102,322,967 | - |
| Transfers out..... | <u>(381,396,180)</u> | <u>(384,252,073)</u> | <u>(384,252,073)</u> | <u>-</u> |
| Total other financing sources (uses)..... | <u>(361,852,927)</u> | <u>(281,929,106)</u> | <u>(281,929,106)</u> | <u>-</u> |
| Excess of revenues and other sources over (under) expenditures and other uses..... | <u>(55,142,619)</u> | <u>(19,959,614)</u> | <u>23,277,762</u> | <u>43,237,376</u> |
| Fund balance, July 1..... | <u>125,438,440</u> | <u>125,438,440</u> | <u>125,438,440</u> | <u>-</u> |
| Fund balance, June 30..... | <u>\$ 70,295,821</u> | <u>\$ 105,478,826</u> | <u>\$ 148,716,202</u> | <u>\$ 43,237,376</u> |

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Over (Under) |
|---|----------------------------|-------------------------|---|-------------------------|
| Revenues | | | | |
| Taxes..... | \$ 167,900,000 | \$ 166,200,000 | \$ 165,751,328 | \$ (448,672) |
| Motor vehicle fees..... | 90,000,000 | 89,000,000 | 86,227,085 | (2,772,915) |
| Federal..... | 326,665,494 | 330,796,270 | 279,433,955 | (51,362,315) |
| Other..... | 34,500,000 | 33,900,000 | 37,618,229 | 3,718,229 |
| Total revenues..... | 619,065,494 | 619,896,270 | 569,030,597 | (50,865,673) |
| Expenditures | | | | |
| General Government | | | | |
| Agency of Administration..... | 5,864,502 | 4,014,502 | 3,975,061 | (39,441) |
| Protection to Persons and Property | | | | |
| Department of Public Safety..... | 21,150,000 | 21,150,000 | 21,148,060 | (1,940) |
| Transportation | | | | |
| Agency of Transportation..... | 590,324,065 | 606,489,630 | 535,792,431 | (70,697,199) |
| Total expenditures..... | 617,338,567 | 631,654,132 | 560,915,552 | (70,738,580) |
| Excess of revenues over (under) expenditures | 1,726,927 | (11,757,862) | 8,115,045 | 19,872,907 |
| Other financing sources (uses) | | | | |
| Transfers in..... | - | 588,000 | 588,000 | - |
| Transfers out..... | (7,499,668) | (7,499,668) | (7,499,668) | - |
| Total other financing sources (uses)..... | (7,499,668) | (6,911,668) | (6,911,668) | - |
| Excess of revenues and other sources over (under) expenditures and other uses..... | (5,772,741) | (18,669,530) | 1,203,377 | 19,872,907 |
| Fund balance, July 1..... | 3,781,168 | 3,781,168 | 3,781,168 | - |
| Fund balance (deficit), June 30..... | \$ (1,991,573) | \$ (14,888,362) | \$ 4,984,545 | \$ 19,872,907 |

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Over (Under)</u> |
|---|----------------------------|-------------------------|---|-------------------------|
| Revenues | | | | |
| Taxes..... | \$ 1,220,683,653 | \$ 1,219,783,653 | \$ 1,217,195,906 | \$ (2,587,747) |
| Interest and premiums..... | <u>200,000</u> | <u>300,000</u> | <u>375,918</u> | <u>75,918</u> |
| Total revenues..... | <u>1,220,883,653</u> | <u>1,220,083,653</u> | <u>1,217,571,824</u> | <u>(2,511,829)</u> |
| Expenditures | | | | |
| General Government | | | | |
| Grand List..... | 3,425,000 | 3,811,447 | 3,487,662 | (323,785) |
| Renter Rebates..... | 7,280,000 | 7,973,998 | 6,169,735 | (1,804,263) |
| Human Services | | | | |
| Agency of Human Services..... | 3,109,463 | 3,311,324 | 3,311,324 | - |
| General Education | | | | |
| Agency of Education..... | <u>1,561,989,715</u> | <u>1,566,667,297</u> | <u>1,554,554,279</u> | <u>(12,113,018)</u> |
| Total expenditures..... | <u>1,575,804,178</u> | <u>1,581,764,066</u> | <u>1,567,523,000</u> | <u>(14,241,066)</u> |
| Excess of revenues over (under) expenditures..... | <u>(354,920,525)</u> | <u>(361,680,413)</u> | <u>(349,951,176)</u> | <u>11,729,237</u> |
| Other financing sources (uses) | | | | |
| Transfers in..... | <u>342,021,262</u> | <u>342,021,262</u> | <u>342,021,262</u> | <u>-</u> |
| Total other financing sources (uses)..... | <u>342,021,262</u> | <u>342,021,262</u> | <u>342,021,262</u> | <u>-</u> |
| Excess of revenues and other sources over (under) expenditures and other uses..... | <u>(12,899,263)</u> | <u>(19,659,151)</u> | <u>(7,929,914)</u> | <u>11,729,237</u> |
| Fund balance, July 1..... | <u>82,459,844</u> | <u>82,459,844</u> | <u>82,459,844</u> | <u>-</u> |
| Fund balance, June 30..... | <u>\$ 69,560,581</u> | <u>\$ 62,800,693</u> | <u>\$ 74,529,930</u> | <u>\$ 11,729,237</u> |

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Over (Under)</u> |
|--|----------------------------|-------------------------|---|-------------------------|
| Revenues | | | | |
| Special Fund Revenues..... | \$ 624,264,904 | \$ 729,030,772 | \$ 650,835,602 | \$ (78,195,170) |
| Total revenues..... | <u>624,264,904</u> | <u>729,030,772</u> | <u>650,835,602</u> | <u>(78,195,170)</u> |
| Expenditures | | | | |
| General Government | | | | |
| Agency of Administration..... | 17,841,979 | 31,941,151 | 20,418,348 | (11,522,803) |
| Executive Office..... | 186,500 | 186,500 | 186,500 | - |
| Joint Fiscal Office..... | - | 173,438 | 104,000 | (69,438) |
| Sergeant at Arms..... | - | 20,000 | 5,307 | (14,693) |
| Auditor of Accounts..... | 53,145 | 53,145 | 53,145 | - |
| State Treasurer..... | 2,579,981 | 3,176,319 | 2,928,551 | (247,768) |
| State Labor Relations Board..... | 9,576 | 9,576 | 3,252 | (6,324) |
| VOSHA Review Board..... | 36,611 | 46,903 | 37,236 | (9,667) |
| Unorganized Towns and Gores..... | - | 480,000 | 347,388 | (132,612) |
| Protection to Persons and Property | | | | |
| Attorney General..... | 5,571,682 | 6,380,752 | 5,280,551 | (1,100,201) |
| Defender General..... | 588,552 | 588,552 | 512,886 | (75,666) |
| Judiciary..... | 5,031,762 | 5,118,397 | 3,332,663 | (1,785,734) |
| State's Attorneys and Sheriffs..... | 2,614,541 | 2,683,041 | 2,331,430 | (351,611) |
| Department of Public Safety..... | 18,007,431 | 19,725,859 | 17,768,473 | (1,957,386) |
| Military Department..... | 269,718 | 384,365 | 329,290 | (55,075) |
| Center for Crime Victim Services..... | 5,072,158 | 5,097,158 | 4,627,155 | (470,003) |
| Criminal Justice Training Council..... | 78,333 | 78,333 | 41,019 | (37,314) |
| Agency of Agriculture, Food and Markets..... | 10,647,011 | 12,297,951 | 9,338,777 | (2,959,174) |
| Department of Financial Regulation..... | 14,727,063 | 14,939,063 | 14,210,795 | (728,268) |
| Secretary of State..... | 10,619,858 | 11,319,858 | 11,151,256 | (168,602) |
| Public Service Department..... | 14,593,536 | 17,775,063 | 10,596,330 | (7,178,733) |
| Public Service Board..... | 3,545,000 | 3,547,516 | 3,377,793 | (169,723) |
| Enhanced 911 Board..... | 4,304,830 | 4,761,608 | 4,643,278 | (118,330) |
| Human Rights Commission..... | - | 18,863 | 18,776 | (87) |
| Department of Liquor Control..... | 364,962 | 550,682 | 365,194 | (185,488) |
| Human Services | | | | |
| Agency of Human Services..... | 433,328,725 | 459,396,281 | 433,659,649 | (25,736,632) |
| Green Mountain Care Board..... | 3,598,488 | 4,761,639 | 2,539,743 | (2,221,896) |
| Governor's Commission on Women..... | 5,000 | 5,000 | - | (5,000) |
| Human Services Board..... | 72,480 | 72,480 | 7,949 | (64,531) |
| Vermont Veterans Home..... | 8,655,269 | 8,655,269 | 8,056,010 | (599,259) |
| Labor | | | | |
| Department of Labor..... | 6,449,872 | 6,449,872 | 5,275,190 | (1,174,682) |
| General Education | | | | |
| Agency of Education..... | 22,523,162 | 27,302,821 | 21,441,713 | (5,861,108) |
| Higher Education..... | 494,500 | 514,500 | 494,500 | (20,000) |

continued on next page

STATE OF VERMONT
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
 SPECIAL FUND (Continued)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017
 (Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Over (Under)</u> |
|---|----------------------------|-------------------------|---|-------------------------|
| Expenditures | | | | |
| Natural Resources | | | | |
| Agency of Natural Resources..... | 49,267,535 | 58,814,110 | 44,578,614 | (14,235,496) |
| Natural Resources Board..... | 2,300,512 | 2,300,512 | 2,274,883 | (25,629) |
| Commerce and Community Development | | | | |
| Agency of Commerce and Community Development..... | 9,791,318 | 14,357,127 | 9,373,681 | (4,983,446) |
| Transportation | | | | |
| Agency of Transportation..... | 2,518,566 | 4,850,074 | 2,284,343 | (2,565,731) |
| Total expenditures..... | <u>655,749,656</u> | <u>728,833,778</u> | <u>641,995,668</u> | <u>(86,838,110)</u> |
| Excess of revenues over expenditures..... | <u>(31,484,752)</u> | <u>196,994</u> | <u>8,839,934</u> | <u>8,642,940</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in..... | 54,614,565 | 57,273,674 | 57,273,674 | - |
| Transfers out..... | (22,793,814) | (57,134,668) | (57,134,668) | - |
| Total other financing sources (uses)..... | <u>31,820,751</u> | <u>139,006</u> | <u>139,006</u> | <u>-</u> |
| Excess of revenues and other sources over (under) expenditures and other uses..... | <u>335,999</u> | <u>336,000</u> | <u>8,978,940</u> | <u>8,642,940</u> |
| Fund balance, July 1..... | <u>138,287,322</u> | <u>138,287,322</u> | <u>138,287,322</u> | <u>-</u> |
| Fund balance, June 30..... | <u>\$ 138,623,321</u> | <u>\$ 138,623,322</u> | <u>\$ 147,266,262</u> | <u>\$ 8,642,940</u> |

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FEDERAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual (Budgetary Basis)</u> | <u>Over (Under)</u> |
|---|----------------------------|-------------------------|---|-------------------------|
| Revenues | | | | |
| Federal..... | \$ 1,706,967,919 | \$ 1,801,475,433 | \$ 1,523,071,693 | \$ (278,403,740) |
| Interest and premiums..... | - | 104,786 | 104,786 | - |
| Other..... | - | 342,389 | 342,389 | - |
| Total revenues..... | <u>1,706,967,919</u> | <u>1,801,922,608</u> | <u>1,523,518,868</u> | <u>(278,403,740)</u> |
| Expenditures | | | | |
| General Government | | | | |
| Agency of Administration..... | 861,098 | 1,061,098 | 1,005,259 | (55,839) |
| State Treasurer..... | - | 172,459 | 172,459 | - |
| Protection to Persons and Property | | | | |
| Attorney General..... | 1,067,909 | 1,074,928 | 992,750 | (82,178) |
| Judiciary..... | 556,455 | 556,455 | 494,311 | (62,144) |
| State's Attorneys and Sheriffs..... | 31,000 | 31,000 | 3,843 | (27,157) |
| Department of Public Safety..... | 25,228,193 | 26,251,229 | 15,790,720 | (10,460,509) |
| Military Department..... | 24,974,722 | 37,455,223 | 30,937,483 | (6,517,740) |
| Center for Crime Victim Services..... | 6,758,593 | 6,758,593 | 5,697,007 | (1,061,586) |
| Agency of Agriculture, Food and Markets..... | 2,973,257 | 3,637,488 | 2,775,072 | (862,416) |
| Secretary of State..... | 1,661,704 | 1,661,704 | 639,936 | (1,021,768) |
| Public Service Department..... | 1,652,268 | 2,040,150 | 476,058 | (1,564,092) |
| Human Rights Commission..... | 75,767 | 75,767 | 74,272 | (1,495) |
| Department of Liquor Control..... | 312,503 | 312,503 | 311,771 | (732) |
| Human Services | | | | |
| Agency of Human Services..... | 1,394,942,520 | 1,432,363,532 | 1,307,484,008 | (124,879,524) |
| Green Mountain Care Board..... | 448,808 | 480,519 | 20,594 | (459,925) |
| Governor's Commission on Women..... | - | 173,794 | 173,744 | (50) |
| Human Services Board..... | 112,844 | 205,248 | 114,997 | (90,251) |
| Vermont Veterans' Home..... | 7,375,975 | 7,375,975 | 7,375,975 | - |
| Labor | | | | |
| Department of Labor..... | 32,805,942 | 32,805,942 | 24,472,833 | (8,333,109) |
| General Education | | | | |
| Agency of Education..... | 136,221,887 | 136,221,887 | 128,750,546 | (7,471,341) |
| Natural Resources | | | | |
| Agency of Natural Resources..... | 36,105,615 | 41,150,415 | 29,076,184 | (12,074,231) |
| Commerce and Community Development | | | | |
| Agency of Commerce and Community Development..... | 10,407,024 | 46,358,304 | 17,126,143 | (29,232,161) |
| Total expenditures..... | <u>1,684,574,084</u> | <u>1,778,224,213</u> | <u>1,573,965,965</u> | <u>(204,258,248)</u> |
| Excess of revenues over expenditures..... | <u>22,393,835</u> | <u>23,698,395</u> | <u>(50,447,097)</u> | <u>(74,145,492)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers out..... | (22,393,835) | (61,291,762) | (61,291,762) | - |
| Total other financing sources (uses)..... | <u>(22,393,835)</u> | <u>(61,291,762)</u> | <u>(61,291,762)</u> | <u>-</u> |
| Excess of revenues and other sources over (under) expenditures and other uses..... | <u>-</u> | <u>(37,593,367)</u> | <u>(111,738,859)</u> | <u>(74,145,492)</u> |
| Fund balance, July 1..... | <u>146,893,169</u> | <u>146,893,169</u> | <u>146,893,169</u> | <u>-</u> |
| Fund balance, June 30..... | <u>\$ 146,893,169</u> | <u>\$ 109,299,802</u> | <u>\$ 35,154,310</u> | <u>\$ (74,145,492)</u> |

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

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GLOBAL COMMITMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Over (Under) |
|---|----------------------------|-------------------------|---|-------------------------|
| Revenues | | | | |
| Global Commitment Premiums..... | \$ 1,622,500,000 | \$ 1,546,000,000 | \$ 1,554,411,574 | \$ 8,411,574 |
| Total revenues..... | 1,622,500,000 | 1,546,000,000 | 1,554,411,574 | 8,411,574 |
| Expenditures | | | | |
| Protection to Persons and Property | | | | |
| Agency of Agriculture, Food & Markets..... | 90,278 | 90,278 | 90,278 | - |
| Human Services | | | | |
| Agency of Human Services..... | 1,612,279,147 | 1,554,939,675 | 1,518,921,272 | (36,018,403) |
| Green Mountain Care Board..... | 4,281,832 | 4,593,447 | 2,795,198 | (1,798,249) |
| Vermont Veterans' Home..... | 410,986 | 410,986 | 410,986 | - |
| General Education | | | | |
| Higher Education..... | 4,455,678 | 4,455,678 | 4,455,678 | - |
| Agency of Education..... | 958,735 | 618,735 | 501,333 | (117,402) |
| Total expenditures..... | 1,622,476,656 | 1,565,108,799 | 1,527,174,745 | (37,934,054) |
| Excess of revenues over (under) expenditures..... | 23,344 | (19,108,799) | 27,236,829 | 46,345,628 |
| Other financing sources (uses) | | | | |
| Transfers out..... | (27,232,302) | (32,519,893) | (32,519,893) | - |
| Total other financing sources (uses)..... | (27,232,302) | (32,519,893) | (32,519,893) | - |
| Excess of revenues and other sources over (under) expenditures and other uses..... | (27,208,958) | (51,628,692) | (5,283,064) | 46,345,628 |
| Fund balance, July 1..... | 86,844,215 | 86,844,215 | 86,844,215 | - |
| Fund balance, June 30..... | \$ 59,635,257 | \$ 35,215,523 | \$ 81,561,151 | \$ 46,345,628 |

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

Notes to the Required Supplementary Information—Budgetary Reporting (unaudited)

Budgetary Comparison Schedules

The budgetary schedules provide a comparison of the original and final adopted budget with actual data on a budgetary basis for the Governmental Funds. The State compiles a separate legal basis budgetary report, which shows the legal compliance with the budget. Budgetary comparison schedules showing legal level detail may be obtained by contacting the State of Vermont, Department of Finance and Management, 109 State Street, 5th Floor, Pavilion Building, Montpelier, Vermont 05609-0401.

Budgetary Process

Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis and usually at the program level. The Governor may amend appropriations or transfer appropriations within limits established by 32 V.S.A. Chapter 9. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

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, and Global Commitment Funds. The Emergency Board then has 10 days to determine the original revenue estimates for the fiscal year. For the Special and Federal Revenue Funds the original budget for revenues is based on the amount appropriated for expenditures. By January 15, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues and the Emergency Board determines any revision to the July revenue estimates.

Expenditure and Transfer Budgets

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed \$50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts including federal receipts exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature. The full faith and credit of the

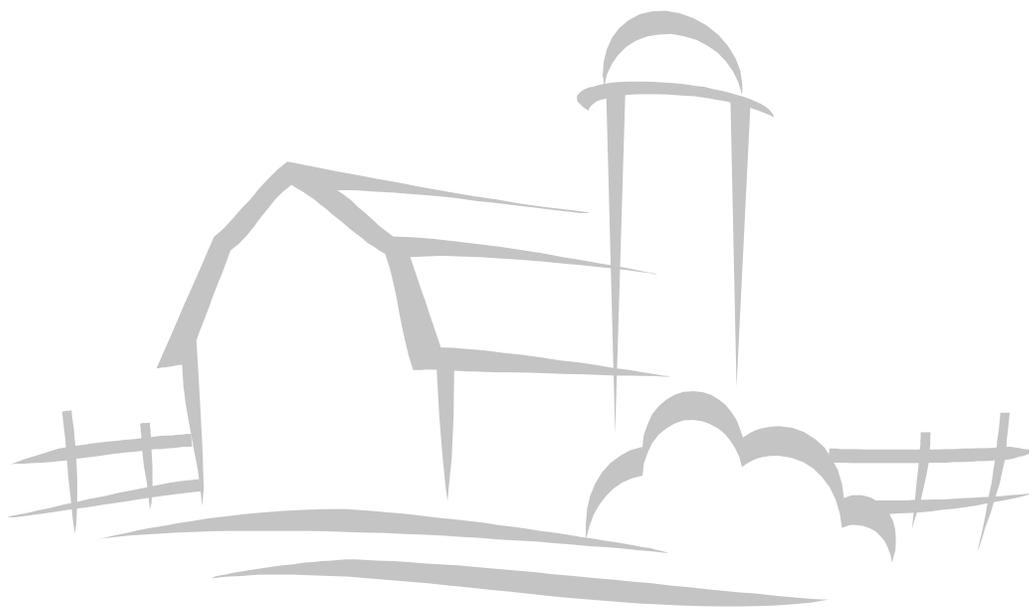
State has been pledged to support various programs. Any payments that are required to be made by the Treasurer are paid in accordance with Vermont Statutes and do not require an appropriation by the Legislature.

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, 2017:

| | General Fund | Transportation Fund | Education Fund | Special Fund | Federal Revenue Fund | Global Commitment Fund |
|--|-----------------------|------------------------|----------------------|----------------------|----------------------------|------------------------------|
| Fund Balance - Budgetary Basis..... | \$ 148,716,202 | \$ 4,984,545 | \$ 74,529,930 | \$ 147,266,262 | \$ 35,154,310 | \$ 81,561,151 |
| Basis differences | | | | | | |
| Cash not in budget balances..... | 19,425 | 223,401 | 708 | 532,424 | (26,740) | (9,881) |
| Preferred stock investment..... | - | - | - | 100,000 | - | - |
| Taxes receivable..... | 205,678,296 | 8,880,484 | 16,784,183 | 7,005,630 | - | - |
| Notes and loans receivable..... | 382,499 | - | - | 2,514,983 | - | - |
| Other receivables..... | 7,788,010 | 9,543,166 | 90 | 15,204,033 | 2,218,812 | 35,337,297 |
| Interest receivable..... | 675,644 | - | - | - | - | - |
| Due from other funds..... | 939,548 | 13,837 | - | 4,629,246 | 703,149 | 68,846,726 |
| Due from federal government..... | - | 41,518,005 | - | - | 106,493,165 | 79,914,527 |
| Due from component units..... | 5,500,000 | - | - | - | - | - |
| Accounts payable..... | (35,480,801) | (36,691,873) | (17,166,164) | (16,546,253) | (44,652,415) | (145,541,468) |
| Accrued liabilities..... | (19,978,141) | (7,116,092) | (187,034) | (5,324,742) | (9,542,975) | (2,703,038) |
| Retainage payable..... | (555,603) | (34,960) | - | (402,668) | (1,159,844) | (4,441) |
| Unearned revenue..... | - | (156,860) | - | (407,411) | (209,070) | - |
| Tax refunds payable..... | (34,480,032) | - | (140,308) | (37,762) | - | - |
| Intergovernment payables..... | - | - | - | - | (1,307,921) | (306,901) |
| Due to other funds..... | (32,183,110) | (2,401,245) | (37,571) | (51,255,108) | (3,886,622) | (518,493) |
| Unavailable revenue..... | (124,583,974) | (7,433,223) | (3,362,963) | (21,848,539) | (1,561,492) | (8,811,869) |
| Entity differences | | | | | | |
| Blended non-budgeted funds..... | - | 3,729,337 | - | 14,594,252 | 376,545,156 | - |
| Perspective differences | | | | | | |
| Component unit included in budgeted funds... | - | - | - | (80,093) | (236,869) | - |
| Fund Balance - GAAP Basis..... | <u>\$ 122,437,963</u> | <u>\$ 15,058,522</u> | <u>\$ 70,420,871</u> | <u>\$ 95,944,254</u> | <u>\$ 458,530,644</u> | <u>\$ 107,763,610</u> |

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