

*STATE OF VERMONT*

**COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT**

*For the fiscal year ended JUNE 30, 2017*



*Phil Scott  
Governor*

*Prepared by the Department of Finance and Management*

**STATE OF VERMONT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	PAGE
<b>INTRODUCTION (Unaudited)</b>	
Title page.....	1
Table of Contents.....	2 - 4
Letter of Transmittal.....	5 - 8
Certificate of Achievement .....	9
Organization Chart.....	10
Selected State Officials.....	11
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report.....	13 -15
Management's Discussion and Analysis (Unaudited).....	16 - 33
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position.....	38 - 39
Statement of Activities.....	40 - 41
Governmental Funds Financial Statements	
Balance Sheet.....	44 - 45
Reconciliation of Governmental Fund Balances to the Statement of Net Position - Governmental Activities.....	46
Statement of Revenues, Expenditures and Changes in Fund Balances.....	48 - 49
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities - Governmental Activities.....	50
Proprietary Funds Financial Statements	
Statement of Net Position.....	52 - 55
Statement of Revenues, Expenses and Changes in Net Position.....	56 - 57
Statement of Cash Flows.....	58 - 59
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Position.....	62
Statement of Changes in Fiduciary Net Position.....	63
Discretely Presented Component Units Financial Statements	
Statement of Net Position.....	66 - 67
Statement of Activities.....	68
Notes to the Financial Statements Index.....	69
Notes to the Financial Statements.....	70 - 162

	<u>PAGE</u>
<b>Required Supplementary Information (Unaudited)</b>	
Defined Benefit Pension Plans-Schedule of Changes in Net Pension Liability and Related Ratios.....	164 - 166
Defined Benefit Pension Plans-Schedule of Employer and Nonemployer Contributions.....	167
Defined Benefit Pension Plans-Notes to Required Supplementary Information.....	168
Defined Benefit Pension Plans-Schedule of State's Proportionate Share of the Net Pension Liability.....	169
Defined Benefit Pension Plans-Schedule of Investment Returns.....	170
Other Postemployment Benefit Plans-Schedule of Changes in Net OPEB Liability and Related Ratios...	171
Other Postemployment Benefit Plans-Schedule of Investment Returns.....	172
Other Postemployment Benefit Plans-Schedule of Employer and Non-Employer Contributions.....	172
Other Postemployment Benefit Plans-Notes to Required Supplementary Information.....	173
Other Postemployment Benefit Plans-Schedule of Funding Progress.....	174
Other Postemployment Benefit Plans-Schedule of Employer and Non-Employer Contributions.....	175
Budgetary Comparison Schedule-General Fund.....	176 - 177
Budgetary Comparison Schedule-Transportation Fund.....	178
Budgetary Comparison Schedule-Education Fund.....	179
Budgetary Comparison Schedule-Special Fund.....	180 - 181
Budgetary Comparison Schedule-Federal Revenue Fund.....	182
Budgetary Comparison Schedule-Global Commitment Fund.....	183
Notes to Required Supplementary Information-Budgetary Reporting.....	184 -185
<b>Other Supplementary Information - Combining and Individual Fund Statements and Schedules</b>	
Governmental Funds	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	192 - 195
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances.....	196 - 199
Proprietary Funds	
Nonmajor Enterprise Funds	
Combining Statement of Net Position.....	202 - 203
Combining Statement of Revenues, Expenses and Changes in Net Position.....	204 - 205
Combining Statement of Cash Flows.....	206 - 207
Internal Service Funds	
Combining Statement of Net Position.....	210 - 214
Combining Statement of Revenues, Expenses and Changes in Net Position.....	216 - 220
Combining Statement of Cash Flows.....	222 - 226
Fiduciary Funds	
Pension and Other Postemployment Benefit Trust Funds	
Combining Statement of Plan Net Position.....	228 - 229
Combining Statement of Changes in Plan Net Position.....	230 - 231
Agency Funds	
Combining Statement of Changes in Assets and Liabilities.....	234 - 236
Discretely Presented Component Units	
Non-major Component Units	
Combining Statement of Net Position.....	238
Combining Statement of Activities.....	239

	<u>PAGE</u>
<b>STATISTICAL SECTION (Unaudited)</b>	
Statistical Section Contents.....	241
Financial Trends Information	
Table 1 - Net position by component, last 10 fiscal years.....	242 - 243
Table 2 - Changes in net position, last 10 fiscal years.....	244 - 247
Table 3 - Fund balances, governmental funds - last 10 fiscal years.....	248 - 249
Table 4 - Changes in fund balances, governmental funds - last 10 fiscal years.....	250 - 251
Revenue Capacity Information	
Table 5 - Personal income and earnings by major industry, last 10 calendar years.....	252 - 253
Table 6 - Personal income tax rates and collections, last 10 calendar years.....	254
Table 7 - Personal income tax filers and liability by income level, calendar years 2016 and 2007.....	255
Debt Capacity Information	
Table 8 - Ratios of outstanding debt by type, last 10 years.....	256
Table 9 - Ratios of general obligation bonded debt outstanding, last 10 fiscal years .....	257
Demographic and Economic Information	
Table 10 - Demographic and economic statistics.....	258 - 259
Table 11 - Annual average non-farm employment by industry.....	260
Operating Information	
Table 12 - State government full-time equivalent employees by function/program.....	261
Table 13 - Operating indicators by function/program, last 10 years.....	262
Table 14 - Capital asset statistics by function, last 10 years.....	263
Table 15 - Tax increment financing districts revenues, last 10 years.....	264
Legend of Acronyms.....	265 - 266

**State of Vermont**

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

*Agency of Administration*

[phone] 802-828-2376

[fax] 802-828-2428

## LETTER OF TRANSMITTAL

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

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ended June 30, 2017. The Department of Finance and Management prepared this report as required by Title 32, Vermont Statutes Annotated, Section 182(a)(8). By issuing this report by December 31, 2017, the Department has met the State statutorily required issuance date. The Department prepared these financial statements and assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of this report in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Because the cost of internal controls should not outweigh their benefits, Vermont's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatement. I believe that the accompanying financial statements are accurate and fairly stated in all material respects, and presented in a manner designed to fairly report the State of Vermont's financial position, results of operations and changes in net position/fund balances.

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

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



data relating to financial trends, revenue and debt capacity, and demographic and operating information about the State of Vermont. It should be noted that the information contained in the MD&A, RSI and Statistical sections is unaudited.

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

## **State Profile**

Vermont, known as the Green Mountain State, was first settled by the French in 1666, then by the English in 1690, and joined the Union as the fourteenth State in 1791. Rural in character, the state measures 9,615 square miles of land and water area, ranking the State 45th in terms of land and water area among the 50 States. Vermont's population as measured by the last decennial Census on April 1, 2010, was 625,741, ranking the State 49th among the 50 States - unchanged from the 2000 and 1990 Censuses per the U.S. Bureau of the Census. The State capital is Montpelier, and the largest city is Burlington. As of calendar year 2015, 91.7% of Vermonters aged 25 or older are at least high school graduates (ranked number 7 in the country) while 36.9% have at least a college bachelor's degree (ranked number 8 in the country), per the U.S. Bureau of the Census.

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

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

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

## **The General Fund**

The General Fund accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds as well as the expenditures associated with these revenues. In fiscal year 2017, General Fund tax revenues accounted for 95.6% of total General Fund revenues. The three principal tax revenue contributors – the personal income tax, the General Fund's portion of the sales and use tax, and the meals and room tax – accounted for 83.8% of General Fund total tax revenues or approximately 80.1% of total General Fund revenues. General Fund expenditures used 61.6% of the total revenues, and these expenditures occurred in the following major governmental functional categories: General Government, Protection to Persons and Property, Human Services, Labor, General Education, Natural Resources, and Commerce and Community

Development. The majority of the remainder of the resources provided from the 2017 General Fund revenues were transferred out to other funds and used for various purposes. Please see Note IV.D. for a summary of these transfers.

## **Economic Condition**

The consensus revenue forecast for fiscal year 2017 was revised twice during the fiscal year based on an updated consensus national and State economic outlook at the time, technical re-specifications of the forecasting models, and updated analysis of the revenues associated with various revenue-fee changes enacted by the General Assembly in fiscal year 2017 that were incorporated into the various revenue forecast updates. During fiscal year 2017, the Vermont economy and its labor markets continued to rebound at a level somewhat below the U.S. average. This is expected to be followed by a period for calendar year 2018 and calendar year 2019 when the comparative performance of the State's output growth is expected to be lower. The relative performance by non-farm payroll job growth is expected to reflect the same slower-than-the-U.S. average, although the State's unemployment rate is expected to continue to track at a level significantly below the U.S. average. Vermont's comparative housing price performance is expected to continue to track below U.S. levels, largely due to the fact that the State's housing price decline during the "Great Recession" time period was not as pronounced as the U.S. average nor near the level of price declines experienced by most U.S. states during the housing market crash during this period.

The consensus economic forecast for the U.S. and Vermont economies reflect a continued moderate pace to the economy's forward progress and improvements in labor markets. The pace of output growth for the U.S. economy is expected to strengthen in calendar year 2017 and 2018, and this should also be reflected in the pace of output growth in the Vermont economy - although perhaps not at the same rate as the U.S. average. Payroll job growth in Vermont is expected to be .9% in calendar year 2017, followed by increases of 1.0% in calendar year 2018, and .8% in calendar year 2019. The Vermont economy continues to demonstrate an "up-and-down" or saw-toothed pattern to monthly payroll job changes. These uneven month-to-month changes occur around a modest but positive improving trend for payroll jobs growth. The State's Labor force has been flat in recent years although it has increased over much of the past year. That, in combination with modest rates of job growth, has resulted in a low rate of unemployment in the State. Vermont's 3.1% average unemployment rate over the first six months of calendar year 2017 remains significantly below both the six-month average unemployment rate for the New England region (3.9%) and the nation overall 4.5% over the same period.

Progress also continues to be made on the other areas of the Vermont economy. By calendar 2016, Vermont's per capita Personal Income had risen to \$50,321 or 101.5% of the U.S. average of \$49,571. Vermont's per capita personal income increased by 3.6%, matching the New England regional average increase and exceeding the national average improvement of 2.9%, in calendar year 2016. Housing prices in Vermont, as measured by the Federal Housing Finance Agency's housing price index, declined by only 1.2% from their price peak in 2008 to the fourth quarter of calendar year 2016. This was the second lowest price decline experienced among the six New England states, after Massachusetts, and among the lowest among the 50 states from the pre-recession peak to the most recent quarter where comparable data from all 50 states are available.

Although the State's economic performance is expected to be moderate over the calendar year 2017 through 2019 period, the forecast for Vermont also includes the expectation that labor market conditions will remain "tight." The State's annual average unemployment rate is expected to remain low through the forecast period, from a 3.1% annual average rate in calendar year 2017 to an annual average rate of 3.0% for both calendar years 2018 and 2019. This forecast, if achieved, would result in a Vermont unemployment rate at the end of calendar year 2019 that is 0.9 percentage points below the forecasted U.S. unemployment rate for that year.

## Long-term Financial Planning

As part of the State's long term financial planning, the Legislature created a Capital Debt Affordability Advisory Committee which is required to present to the Governor and General Assembly, no later than September 30 of each year, a recommendation as to the maximum amount of net tax-supported debt that the State may prudently issue for the ensuing fiscal year while maintaining the State's triple-A debt rating. The recommendation is calculated and presented in accordance with certain debt affordability guidelines and other matters that may be relevant to the proposed debt to be authorized.

At its September 2017 meeting the Committee reaffirmed its 2016 recommendation to maintain the current authorization not to exceed \$132.5 million for the 2018-2019 fiscal year biennium. This represents an 8% reduction from the previous biennium's recommendation of \$144 million. In the 2017 legislative session, the General Assembly authorized capital appropriations totaling \$147.3 million, with funding of \$132.5 million in general obligation bonds and \$14.8 million in funding from transfers and reallocations from prior years.

## Independent Audit of These Financial Statements

KPMG LLP, an independent certified public accounting firm, performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2017. The auditors have issued unmodified opinions, the most favorable outcome of the audit process. The audit described in the auditors' report is not intended to meet all requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* rule (commonly called "Uniform Guidance") implemented in December 2014. Rather, the Uniform Guidance Audit Report for the State is issued under separate cover.

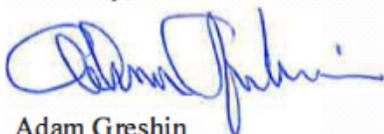
## Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Vermont for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the eighth year that Vermont has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Sincerely,



Adam Greshin  
Commissioner

December 21, 2017



Government Finance Officers Association

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

Presented to

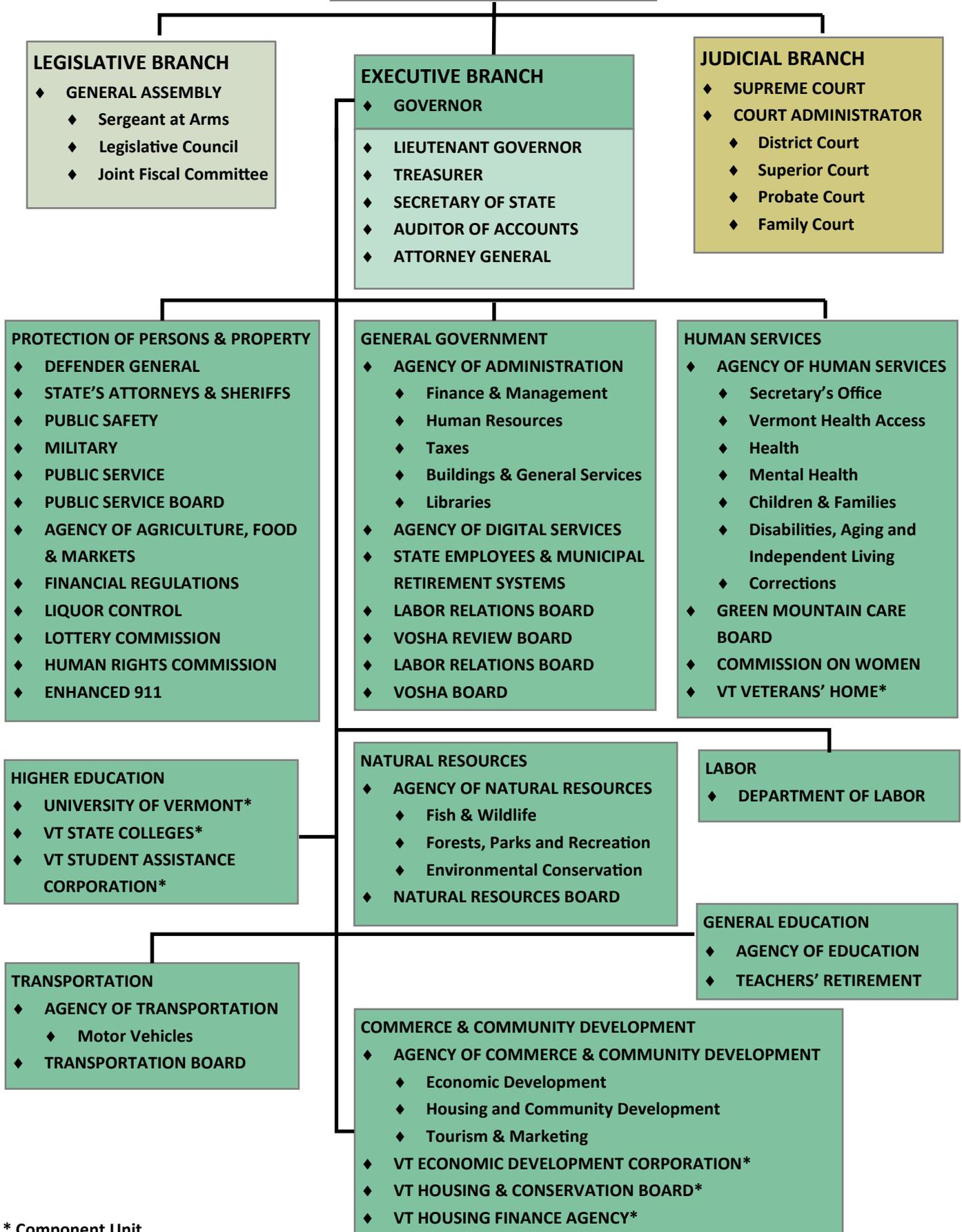
**State of Vermont**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

# VERMONT CITIZENS



\* Component Unit

***SELECTED STATE OFFICIALS***

*As of June 30, 2017*

***EXECUTIVE***

*Phil Scott*  
*Governor*

*David Zuckerman*  
*Lieutenant Governor*

*James C. Condos*  
*Secretary of State*

*Thomas J. Donovan Jr.*  
*Attorney General*

*Douglas R. Hoffer*  
*Auditor of Accounts*

*Elizabeth Pearce*  
*State Treasurer*

***JUDICIAL***

*Paul L. Reiber*  
*Chief Justice*

***LEGISLATIVE***

*Tim Ashe*  
*President Pro Tempore of the State Senate*  
*(30 Senators)*

*Mitzi Johnson*  
*Speaker of the House of Representatives*  
*(150 Representatives)*