



FINANCIAL SECTION

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, 2018, 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 accounting principles generally accepted in the United States of America; 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 agencies and component units of the State, which represent the indicated percentages of total assets and total revenues of the opinion units as presented in the table below. Additionally, we did not audit the information disclosed in Note V-E. Those financial statements and information in Note V-E. were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it related to the amounts included for those funds and component units, is based solely on the reports of the other auditors.

	Percentage Audited by Other Auditors	
	Assets	Revenues
Governmental Activities	9%	2%
Business-type Activities	2%	39%
Aggregate Discretely Presented Component Units	100%	100%
Special Fund	6%	12%
Federal Revenue Fund	75%	6%
Vermont Lottery Commission Fund	100%	100%

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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 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 as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principle

As described in Note V-G. to the financial statements, during the year ended June 30, 2018 the State adopted GASB Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and No. 81 *Irrevocable Split-Interest Agreements*. As a result of the implementation of these standards, the State reported a restatement for the changes in accounting principle. Our opinion was not modified with respect to that matter.

Correction of Error

As described in Note V-G. to the financial statements, the State restated beginning balances resulting from the correction of accounting errors, related to the reporting entity, that occurred in the prior period. Our opinion was not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the accompanying 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

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context. We and other auditors have applied certain limited procedures to the required supplementary information 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.

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 introductory section, other supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, 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 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 by us and other auditors. In our opinion, based on our audit and the report of other auditors, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, 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 solely 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.



CliftonLarsonAllen LLP

Lexington, Massachusetts
December 21, 2018

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ended June 30, 2018. 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 2018. The following presentation is in summary form; 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 deficit net position of \$198.1 million, comprised of \$5.229 billion in total assets and \$757 million in deferred outflows offset by \$5.859 billion in total liabilities and \$325 million in deferred inflows at June 30, 2018 (Table 2). Of this deficit net position amount, \$2.593 billion represents the net investment in capital assets, \$1.042 billion is restricted for various purposes, and \$3.833 billion represents a deficit unrestricted net position. The reasons for the deficit unrestricted net position are discussed in the Government-wide Financial Analysis below.
- The primary government's net position has increased by \$95 million as a result of this year's operations. The net position for governmental activities increased \$15.7 million and net position for business activities increased by \$79.4 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

- Vermont's governmental funds reported a combined ending fund balance of \$1.072 billion, an increase of \$144.8 million or 15.6 percent above the prior year. Of this ending fund balance, \$80.6 million is non-spendable, \$574.8 million is restricted for specific purposes, and \$416.4 million is available for spending (committed, assigned, and unassigned fund balance). The increase in ending fund balance is primarily attributable to increases in fund balances of the General Fund (\$47.9 million), Special Revenue Funds (\$48.4 million), and Capital Projects Funds (\$48.7 million).
- Vermont's enterprise funds reported a combined net position of \$460.5 million, an increase of \$79 million over last year.
- Vermont's General Fund reported an ending fund balance of \$170.4 million, of which \$73.2 million is non-spendable, and \$97.2 million is available for spending (assigned and unassigned).

Capital assets

- The carrying amount of capital assets for the primary government increased to \$3.007 billion, an increase of \$111 million over last year. The increase is primarily due to \$155 million in infrastructure assets, offset by reductions in construction in process (\$22 million), and in buildings and improvements (\$18 million).

Long-term debt

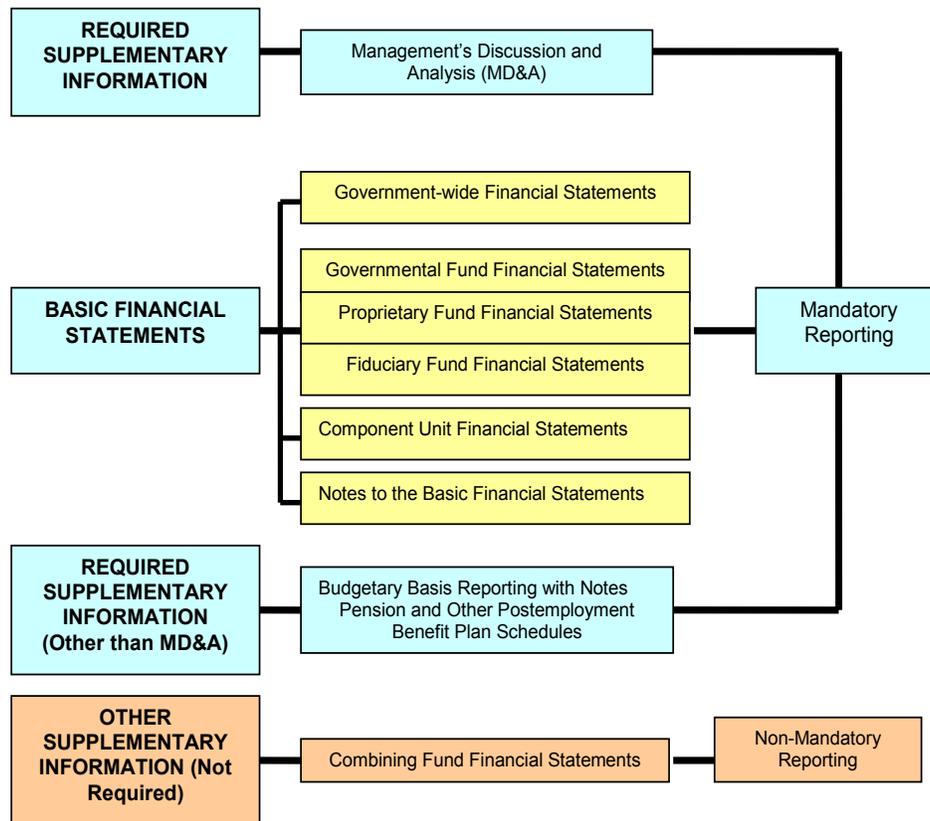
- Vermont's debt outstanding for general and special obligation bonds increased \$57.2 million as compared to fiscal year 2017. In 2018, Vermont issued \$106.1 million in general obligation bonds, and retired \$47.3 million in general obligation bonds and \$1.6 million in special obligation bonds.

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 Vermont’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 Vermont’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. Vermont prepares these statements using the “flow of economic resources” measurement focus and the accrual basis of

accounting. The methods utilized to prepare these statements are similar to those used by most private sector businesses. They consider 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 incur a financial burden due to the activities of the entity. Vermont'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 Vermont. 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 component units are presented in Note I to the financial statements.

Blended Component Units – Vermont has no blended component units.

Included with the basic financial statements are two schedules 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 is 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. In line with practices in 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 Vermont's funds 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 Vermont 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 help determine whether adequate financial resources are 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.

Vermont 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, all of which 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).

Vermont budgets and controls its financial activities on the cash basis of accounting. State law, requires financial transactions to be recorded 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. Vermont 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.

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

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. 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.

Vermont 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 Vermont 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 Vermont cannot use these assets to finance its operations. The fiduciary funds use the accrual basis of accounting.

Vermont'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 Vermont 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, Vermont 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 trusts 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, Schedule of Employer and Nonemployer Contributions, and the Schedule of the State's Proportionate Share of the Net OPEB Liability 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 Vermont's June 30, 2018 and 2017 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	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current assets.....	\$ 1,286.0	\$ 1,108.1	\$ 494.9	\$ 416.9	\$ 1,780.9	\$ 1,525.0
Other assets.....	439.3	430.4	1.9	2.0	441.2	432.4
Capital assets.....	3,004.9	2,895.7	2.4	0.9	3,007.3	2,896.6
Total assets.....	4,730.2	4,434.2	499.2	419.8	5,229.4	4,854.0
DEFERRED OUTFLOWS						
Total deferred outflows.....	754.1	592.3	2.5	2.5	756.6	594.8
LIABILITIES						
Other liabilities.....	659.3	584.1	23.2	23.3	682.5	607.4
Long-term liabilities.....	5,160.3	3,447.4	16.2	6.3	5,176.5	3,453.7
Total liabilities.....	5,819.6	4,031.5	39.4	29.6	5,859.0	4,061.1
DEFERRED INFLOWS						
Total deferred inflows.....	323.3	113.8	1.9	0.7	325.2	114.5
NET POSITION						
Net investment in capital assets.....	2,591.0	2,543.1	2.4	0.9	2,593.4	2,544.0
Restricted.....	582.0	601.2	459.6	384.4	1,041.6	985.6
Unrestricted (deficit).....	(3,831.6)	(2,263.2)	(1.5)	6.7	(3,833.1)	(2,256.5)
Total net position.....	\$ (658.6)	\$ 881.1	\$ 460.5	\$ 392.1	\$ (198.1)	\$ 1,273.2

Totals may not add due to rounding.

Vermont's combined deficit net position (governmental and business-type activities) totals \$198.1 million at the end of fiscal year 2018, as shown in Table 2. Approximately \$2.593 billion of the combined net position represents Vermont'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 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 \$111 million primarily due to a \$155 million increase in infrastructure assets, offset by a \$22 million decrease in construction in process and a \$18 million decrease in building and improvements.

An additional portion of the primary government's net position (\$1.042 billion) represents resources that are subject to external restrictions on how they may be used. This is an increase of \$56 million and is primarily a result of additional amounts that are restricted for unemployment compensation (\$75 million), natural resources (\$22 million), and in capital projects (\$49 million), offset by a decrease in human services (\$90 million).

Internally imposed designations of resources are not presented as restricted net position. The remaining balance of unrestricted net position is a deficit of \$3.833 billion. The governmental activities' negative unrestricted net position balance is mainly the result of three actions: 1) long-term debt issued by Vermont for municipal, non-profit or component unit capital purposes, \$215.7 million outstanding at June 30, 2018 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 net other postemployment benefit liabilities (see Note IV. G. 4.).

Current assets increased by \$255.9 million primarily due to increase in cash and cash equivalents (\$159.1 million) and investments (\$117.6 million), offset by decreases in federal grants receivable (\$16.4 million). Long term liabilities increased by \$1.723 billion primarily due to the increase in net pension liabilities and net other postemployment benefit liabilities (\$1.664 billion) and in bonds, notes, and leases payables (\$55 million).

At the end of fiscal year 2018, Vermont reported positive total net position balances in its business-type activities and its discretely presented component units, and a deficit net position in its governmental activities.

Changes in Net Position

Governmental type activities had an overall increase in net position of \$15.7 million, or a 2.3 percent reduction in the deficit net position, resulting from an operating loss of \$9.8 million offset by net transfers in from business-type activities of \$25.5 million, primarily from the Vermont Lottery Commission (\$27.2 million) to support education. The \$215.7 million increase in revenues over 2017 was due to a \$14.4 million increase in program revenues and an increase of \$201.3 million in general revenues.

Business-type activities had an overall increase in net position of \$79 million or 20.8 percent, resulting from an operating profit of \$104.9 million offset by net transfers out of \$25.5 million to governmental activities, primarily from the Lottery (\$27.2 million) to support education. Revenues increased from 2017, primarily due to an increase in ticket sales in the Vermont Lottery Commission (\$10 million), an increase in revenue in the Department of Liquor Control (\$2.4 million) and investment income in the Unemployment Compensation Trust Fund (\$1.8 million). The revenue increases were offset by an increase in expenses, primarily due to an increase in expenses in Vermont Lottery (\$8.6 million).

The primary government condensed financial statement information is derived from Vermont's June 30, 2018 and 2017 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.

The beginning net position as of July 1, 2017 for Governmental Activities and Business-type Activities was restated for the implemented Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* that require employers and non-employer contributing entities to report their net other postemployment benefit liability on their financial statements.

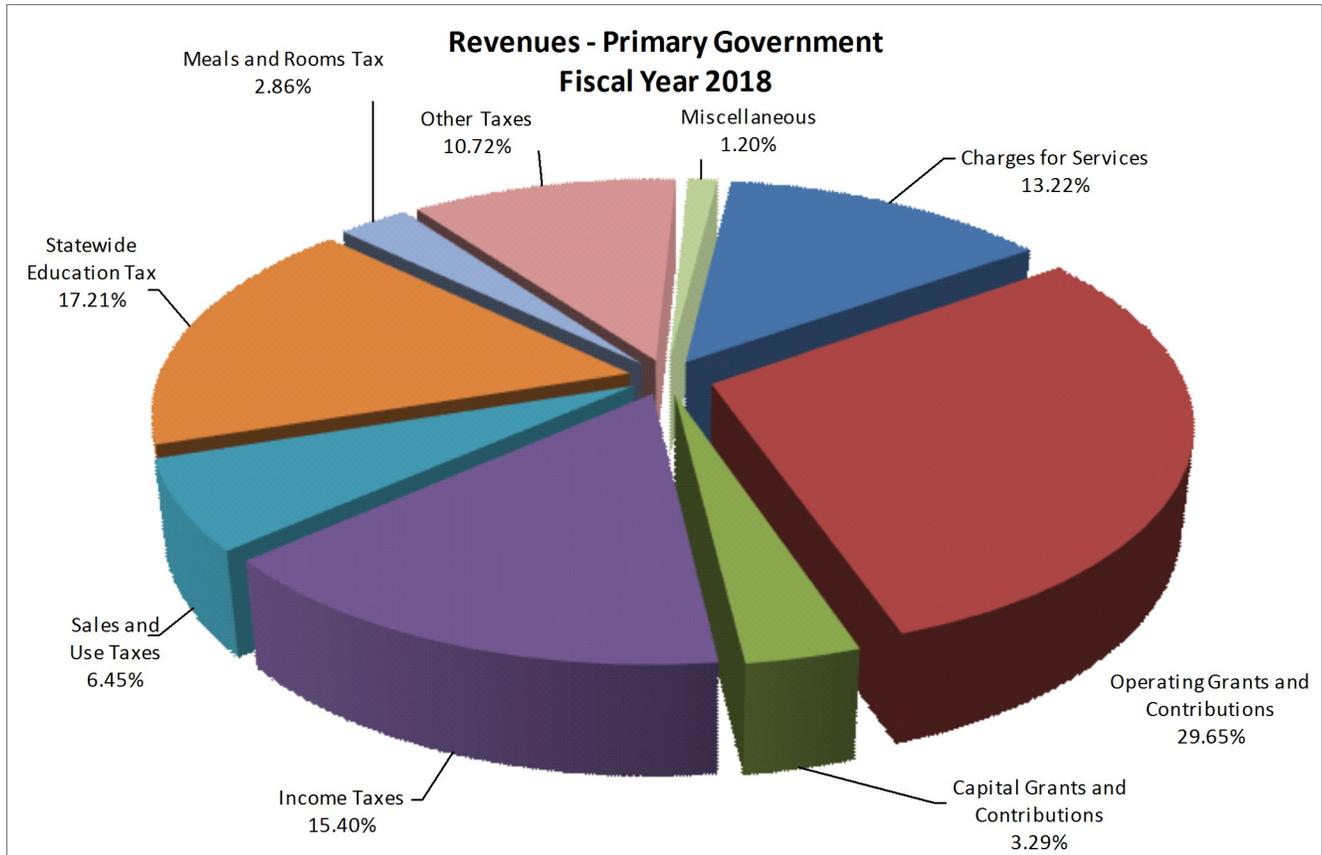
(Table on next page.)

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues						
Charges for services.....	\$ 479.4	\$ 473.8	\$ 333.8	\$ 334.2	\$ 813.2	\$ 808.0
Operating grants and contributions.....	1,823.6	1,838.5	0.5	0.8	1,824.1	1,839.3
Capital grants and contributions.....	202.5	178.8	-	-	202.5	178.8
General revenues						
Income taxes.....	947.6	830.8	-	-	947.6	830.8
Sales and use taxes.....	397.1	376.4	-	-	397.1	376.4
Statewide education tax						
Gross tax assessed.....	1,231.1	1,219.3	-	-	1,231.1	1,219.3
Income sensitivity adjustment.....	(172.1)	(170.2)	-	-	(172.1)	(170.2)
Meals and rooms tax.....	175.7	169.1	-	-	175.7	169.1
Other taxes.....	659.5	639.6	-	-	659.5	639.6
Miscellaneous.....	65.0	37.6	8.8	7.0	73.8	44.6
Total revenues.....	5,809.4	5,593.7	343.1	342.0	6,152.5	5,935.7
Expenses						
General government.....	158.6	137.9	-	-	158.6	137.9
Protection to persons and property.....	407.3	385.0	-	-	407.3	385.0
Human services.....	2,471.7	2,509.1	-	-	2,471.7	2,509.1
Labor.....	29.8	31.8	-	-	29.8	31.8
General education.....	2,092.4	1,995.5	-	-	2,092.4	1,995.5
Natural resources.....	135.0	112.2	-	-	135.0	112.2
Commerce and community development.....	43.4	48.3	-	-	43.4	48.3
Transportation.....	462.0	432.9	-	-	462.0	432.9
Interest on long-term debt.....	19.0	17.1	-	-	19.0	17.1
Unemployment compensation.....	-	-	64.1	68.8	64.1	68.8
Lottery commission.....	-	-	105.5	96.9	105.5	96.9
Liquor control.....	-	-	64.2	60.7	64.2	60.7
Other business type expenses.....	-	-	4.5	4.8	4.5	4.8
Total expenses.....	5,819.2	5,669.8	238.3	231.2	6,057.5	5,901.0
Change in net position						
before transfers.....	(9.8)	(76.1)	104.9	110.8	95.1	34.7
Transfers net in (out).....	25.5	27.5	(25.5)	(27.5)	-	-
Change in net position.....	15.7	(48.6)	79.4	83.3	95.1	34.7
Net position, beginning of year, as restated..	(674.3)	929.7	381.1	308.8	(293.1)	1,238.5
Net position, end of year.....	\$ (658.6)	\$ 881.1	\$ 460.5	\$ 392.1	\$ (198.1)	\$ 1,273.2

Totals may not add due to rounding.

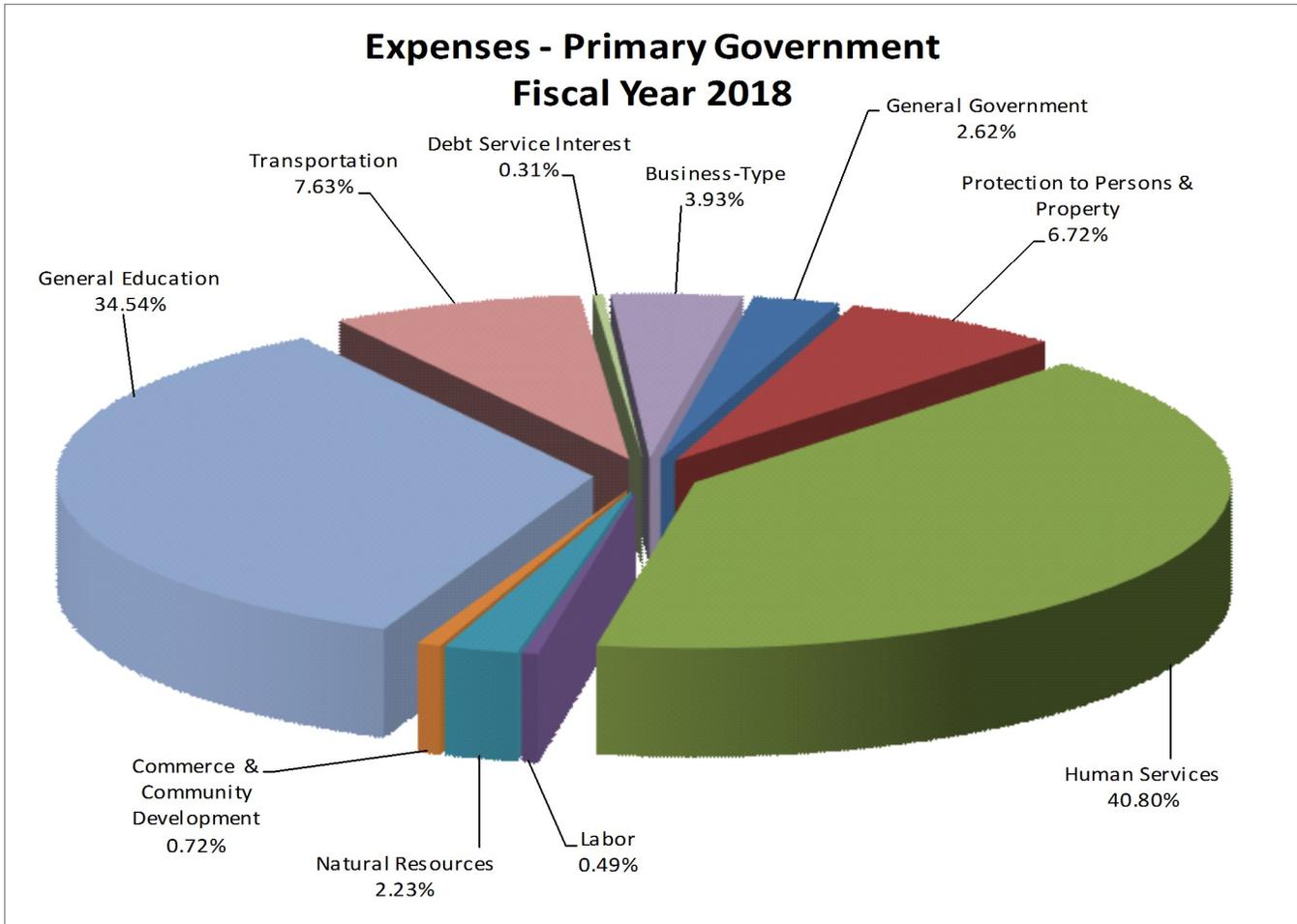
The following graph illustrates the revenues of Vermont’s primary government for fiscal year 2018. Approximately 32.94 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 32.61 percent of total 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 2018. The largest category of expense is for human services (40.80 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 (34.54 percent of total expenses) which provides for Vermont’s support to secondary and higher education.

(Chart on next page.)



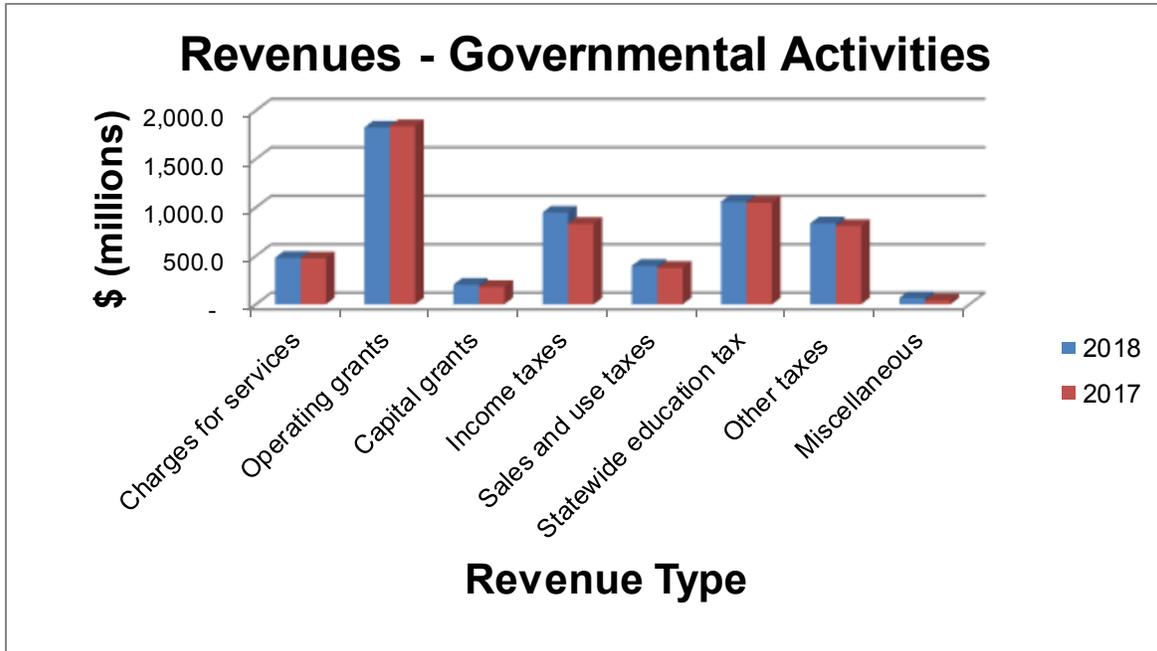
Percentages may not equal 100% due to rounding.

Governmental Activities

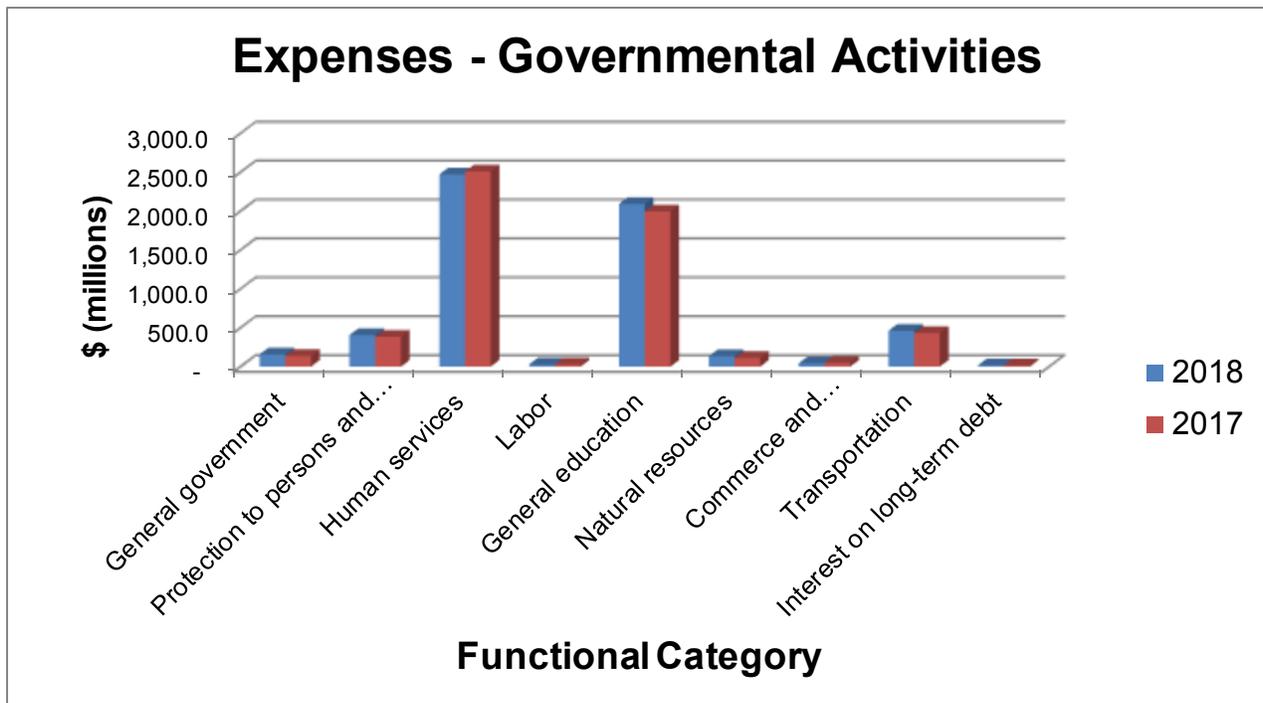
In 2018, governmental activities' expenses exceeded revenues by \$9.8 million and were offset by net transfers in of \$25.5 million from business activities, resulting in a increase of \$15.7 million, for a 2.3 percent decrease in deficit net position. Revenues increased by \$215.7 million, primarily due to an increase in program revenue (\$14.4 million) and an increase in general revenues (\$201.3 million). Spending increased for general government (\$20.7 million), protection to persons and property (\$22.3 million), general education (\$96.9 million), natural resources (\$22.8 million), and transportation (\$29.1 million).

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

(Chart on next page.)



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 2018, program revenues covered \$2.5 billion or 43.1 percent of \$5.8 billion in program expenses. The remaining \$3.3 billion or 56.9 percent of program expenses was paid for by state taxes and other general revenue.

(Chart on next page.)

TABLE 4
Net Program Revenue
For the years ended June 30, 2018 and 2017

Functions/programs	Program Expenses	Less Program Revenues	Net Program (Expense)/Revenue		Program Revenues as a Percentage of Program Expenses	
			2018	2017	2018	2017
General government	\$ 158,631,192	\$ 43,565,022	\$ (115,066,170)	\$ (103,971,258)	27.5%	24.6%
Protection to persons and property	407,264,163	264,956,810	(142,307,353)	(111,490,841)	65.1%	71.0%
Human services	2,471,653,289	1,475,530,527	(996,122,762)	(1,013,396,110)	59.7%	59.6%
Labor	29,757,653	36,453,189	6,695,536	16,402,297	122.5%	151.5%
General education	2,092,459,202	132,100,378	(1,960,358,824)	(1,855,838,492)	6.3%	7.0%
Natural resources	135,030,367	98,224,831	(36,805,536)	(35,494,405)	72.7%	68.4%
Commerce and community development	43,387,596	15,276,370	(28,111,226)	(27,734,026)	35.2%	42.6%
Transportation	461,987,716	438,357,323	(23,630,393)	(31,427,756)	94.9%	92.7%
Interest on long-term debt	18,997,714	1,131,942	(17,865,772)	(15,988,076)	6.0%	6.7%
	<u>\$ 5,819,168,892</u>	<u>\$ 2,505,596,392</u>	<u>\$ (3,313,572,500)</u>	<u>\$ (3,178,938,667)</u>	<u>43.1%</u>	<u>43.9%</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 2018, the unrestricted fund balance is 38.8 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at Vermont'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 Vermont's Permanent Funds, and other items that are nonspendable, such as advances and long-term receivables. At the end of fiscal year 2018, Vermont's governmental funds reported combined fund balances of \$1,071.8 million, a increase of \$144.8 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of Vermont. At the end of fiscal year 2018, the General Fund's total fund balance was \$170.4 million. The fund balance was made up of nonspendable amounts totaling \$73.2 million, and available amounts totaling \$97.2 million of which \$90.4 million is unassigned. During 2018, total revenues and other financing sources were greater than total expenditures and other financing uses by \$47.9 million.

General Fund revenues increased by \$96.7 million, or 6.65 percent, primarily due to a \$96 million increase in taxes. Expenditures increased by \$30.7 million or 3.43 percent, primarily due to a \$30.9 million increase in general education (a one-time additional \$26 million payment to state teachers' pension plan and \$4.6 million increase in grant expenditures). The General Fund's statutory reserve for budgetary stabilization increased by \$2.9 million to \$77 million, the statutory maximum.

Management's Discussion and Analysis
(Unaudited)

State of Vermont

Fiscal Year Ended June 30, 2018

The Transportation Fund's total fund balance was \$26.6 million at June 30, 2018, an increase of \$11.6 million from the fiscal year 2017's ending total fund balance. Transportation Fund revenues increased \$44.4 million or 7.88 percent, primarily due to an increase in Federal grant funding for state highway projects; offset by an increase in expenditures of \$29.3 million for transportation related projects. The Transportation Fund's statutory reserve for budget stabilization increased by \$215 thousand to \$13.5 million, the statutory maximum.

The Education Fund at June 30, 2018 had a total fund balance of \$103.5 million, which represents a \$33.1 million increase from fiscal year 2017's ending balance. General education costs increased by \$46.1 million, primarily due to an increase in grants to school districts of \$46.1 million. The statewide education tax increased \$9.7 million, sales and use taxes increased \$30.4 million, meals and rooms taxes increased \$4.0 million, and purchase and use tax increased \$2.1 million. Transfers in from the General Fund increased \$43.5 million. The Education Fund's statutory reserve for budget stabilization increased \$1.18 million to \$34.6 million, the statutory maximum.

The Special Fund's total fund balance at the end of fiscal year 2018 was \$165.1 million, an increase of 72.1 percent compared to 2017. The Special Fund's total fund balance is comprised of \$10.9 million as restricted, \$154.2 million as committed and assigned. Special Fund revenues increased \$45.1 million or 7.46 percent, and expenditures increased \$19 million or 6.28 percent. The increase in expenditures was primarily in the protection to persons and property function (\$12.3 million), of which \$5 million was in the Energy Efficiency Utility program's grants; and natural resource function (\$13.1 million). This resulted in an increase in "excess of revenues over expenditures" of \$26.1 million from last fiscal year. Fiscal year 2018 transfers out to other funds exceeded transfers in from other funds by \$259.8 million. The Special Fund received transfers in of \$71.5 million, in part, consisting of Federal Revenue Fund monies for the earned income tax credit (\$18.5 million); earned federal receipts (\$16.9 million); matching funds for school-based Medicare services (\$27.7 million); the Next Generation Fund (\$2.9 million); and Federal Revenue Fund monies for Children's Health Insurance Claims fund (\$1.6 million). Transfers out of \$331 million consisted primarily of payments for a portion of Vermont's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver (\$321 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 2018 were \$783.8 million, a decrease of \$4.4 million compared to fiscal year 2017's federal grant revenues. Expenditures were \$719.7 million in fiscal year 2018, a decrease of \$9.2 million compared to 2017. The Federal Revenue Fund's total fund balance at the end of fiscal year 2018 (\$459.3 million) was an increase of \$800 thousand as compared to the total fund balance at the end of fiscal year 2017.

The fiscal year 2018 ending total fund balance for the Global Commitment Fund was \$41.1 million, a decrease of \$66.7 million. In 2018, the Global Commitment Fund's balance was reduced for Vermont's portion of incurred but not reported ("IBNR") reserve requirement for claims of \$58 million; in 2017, Vermont's portion of accrued claims liability was allocated to the General Fund and Special Fund. See Note I, Section C for more information regarding these funds.

Proprietary Funds

Vermont'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 \$384.4 million at June 30, 2017 to \$459.6 million at June 30, 2018, an increase of \$75.1 million in one year. Expenditures from the fund for unemployment benefits decreased by \$4.7 million from 2017.

Vermont's *internal service funds'* total net position at June 30, 2018 was \$35.6 million, a \$3.1 million increase from June 30, 2017. This change is primarily due to an increase in net position of \$13.4 million in the medical insurance fund, offset by a decrease in the workers compensation fund of \$7.2 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds

Vermont'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 5.55 percent to \$4.49 billion at June 30, 2018. For more information regarding the Vermont'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, 2018 is \$15.3 million, and total liabilities balance is \$9.8 million, including the escheat property claims liability estimated at \$9.8 million, resulting in ending net position of \$5.5 million. Net position of all fiduciary funds is reported as restricted for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

Vermont ended fiscal year 2018 with General Fund revenues of \$1.559 billion, expenditures of \$1.170 billion, and net transfers to other funds of \$355.6 million (non-GAAP budgetary basis). This was a \$101.9 million increase in revenues over the previous year. The fiscal year 2018 General Fund consensus revenue forecast initially approved by the Emergency Board in July 2017 was subsequently revised upward by the Emergency Board at their January 2018 and May 2018 meetings. Compared to target, the revenues were 4.96 percent above the July 2017 revenue forecast of \$1,486 million, and 1.39 percent over the May 2018 revised revenue forecast of \$1,538 million. Personal income tax receipts were \$38.3 million above target, corporate income tax receipts were \$17.0 million above target, sales and use tax receipts were \$4.3 million above target, and estate tax receipts were \$4.3 million above target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of \$77 million, representing the statutory maximum of 5 percent of the prior year appropriations level.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

Vermont's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2018 was \$3.007 billion, a total increase of 3.8 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	
	2018	2017	2018	2017	2018	2017
Land, Land Use Rights, and						
Land Improvements.....	\$ 153,117	\$ 149,691	\$ -	\$ -	\$ 153,117	\$ 149,691
Construction in Progress.....	621,476	645,525	1,843	237	623,319	645,762
Works of Art.....	136	136	-	-	136	136
Buildings and Improvements.....	429,437	447,648	-	1	429,437	447,649
Machinery and Equipment.....	269,902	276,838	571	659	270,473	277,497
Infrastructure.....	1,530,861	1,375,842	-	-	1,530,861	1,375,842
Totals.....	<u>\$ 3,004,928</u>	<u>\$ 2,895,679</u>	<u>\$ 2,414</u>	<u>\$ 897</u>	<u>\$ 3,007,342</u>	<u>\$ 2,896,577</u>

Totals may not add due to rounding.

Many component unit, municipal and non-profit organizations' capital construction projects and acquisitions are financed by Vermont, 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 Vermont to finance these capital assets are reported as a liability of the state's governmental activities. At June 30, 2018, Vermont had \$215.7 million of general obligation bonds outstanding related to capital assets of these other entities. Additional information on the Vermont's capital assets can be found in Note IV. E. of the notes to the financial statements.

Debt Administration

Bonded Indebtedness

Vermont 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 of Vermont, including the Vermont's power to levy additional taxes to ensure repayment of the debt.

During fiscal year 2018, the State of Vermont's outstanding general and special obligation bond debt increased by approximately \$57.2 million. This increase can be accounted for by issuances of general obligation bonds of \$106.1 million, and a redemption of \$47.3 million in general obligation bonds and \$1.6 million in special obligation bonds. Additional information on the Vermont's bonded debt is contained in Note IV. G. 1. of the notes to the financial statements.

Vermont's general obligation bond ratings are as follows: Aa1 by Moody's Investor Service (since October 2018), AA+ by Standard & Poor's Ratings Services (since September 2000), and AAA by Fitch Ratings (since April 2010). In October of 2018 Moody's Investor Service downgraded Vermont's general obligation bond ratings from Aaa to Aa1.

ECONOMIC OUTLOOK

Vermont's economy reflects modest growth, broadly in line with the rest of the country. The United States' economy is now in its 113th month of expansion. The current economic expansion is the second longest in business cycle history. If economic growth continues through July of 2019, it will be the longest ever. Vermont's labor market continues to be strong. As of October 2018, Vermont was tied with three other states for the 5th lowest unemployment rate in the nation at 2.8%, its lowest level in more than 18 years. For the 17th consecutive quarter, housing prices increased on a year over year basis in virtually every state. As of June 2018, 39 states equaled or exceeded their pre-recession peak levels, including Vermont.

The July 2018 Consensus Revenue Forecast for the General Fund calls for a modest \$33 million upgrade for fiscal year 2019 in comparison to last January's revenue forecast for \$1,238 million. For fiscal year 2020, the consensus forecast calls for General Fund revenue of \$1,291 million. Both the Transportation Fund and the Education Fund received small upgrades for fiscal years 2019 and 2020. The upgrades are largely attributable to external factors such as general improvement in the economy, and the expected increase in sales & use tax receipts from the recent Supreme Court decision allowing state taxation of internet sales, along with upbeat consumer sentiment and related retail spending.

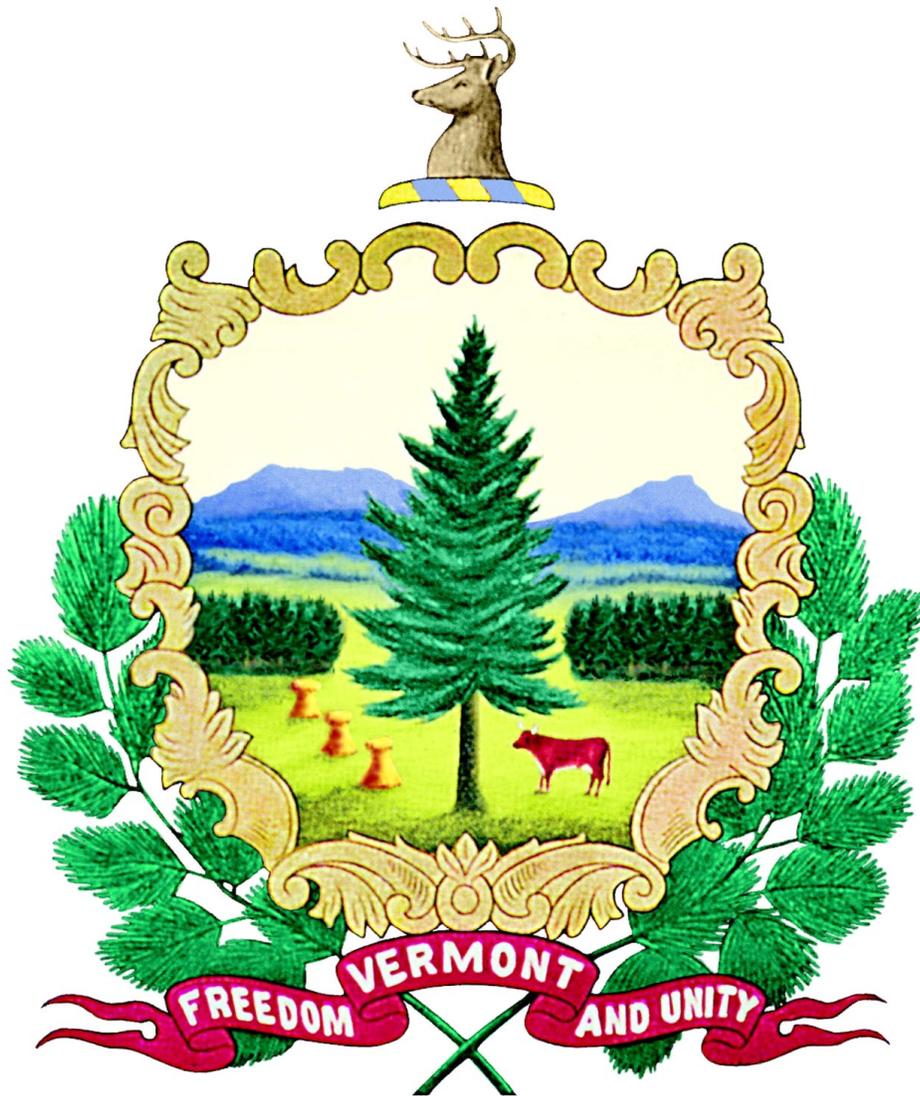
Vermont's three largest funds, in the aggregate, are above the consensus forecast by \$18.69 million over the first four months of fiscal year 2019. On a year-over-year basis, the three funds in aggregate continue to reflect solid gains in a broad range of tax categories. Personal income tax, the largest component of the General Fund, increased by 11.49% over the corresponding period in fiscal 2018.

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. It seeks to demonstrate the Vermont'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:

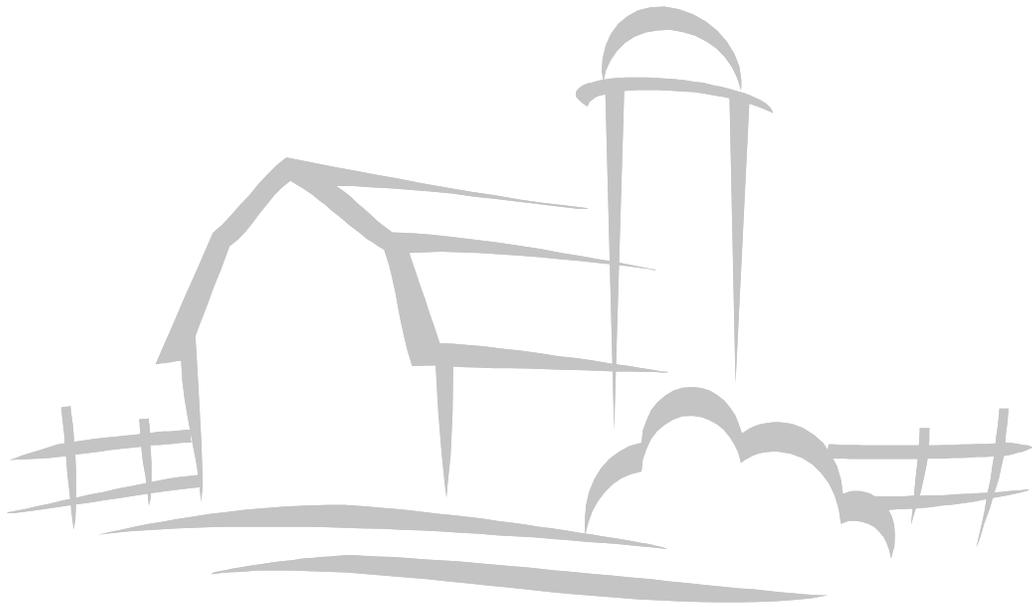
State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
Pavilion Building
Montpelier, Vermont 05609-0401

Component units of the State of Vermont 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 financial statements.



BASIC FINANCIAL STATEMENTS

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Vermont



***GOVERNMENT-WIDE
FINANCIAL STATEMENTS***

STATE OF VERMONT
STATEMENT OF NET POSITION
June 30, 2018

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents.....	\$ 664,767,765	\$ 444,763,707	\$ 1,109,531,472	\$ 270,114,966
Taxes receivable, net.....	117,244,361	35,039,712	152,284,073	-
Loans and notes receivable, net.....	34,326,895	365,015	34,691,910	211,611,553
Federal grants receivable.....	213,437,836	495,796	213,933,632	7,624,517
Other receivables, net.....	83,141,476	6,443,213	89,584,689	111,154,233
Investments.....	159,862,838	-	159,862,838	256,383,218
Inventories.....	2,613,333	8,418,704	11,032,037	272,521
Internal balances.....	650,824	(650,824)	-	-
Receivable from primary government.....	-	-	-	2,923,917
Receivable from component units.....	6,246,149	-	6,246,149	-
Other current assets.....	3,714,830	745	3,715,575	15,186,951
Total current assets.....	1,286,006,307	494,876,068	1,780,882,375	875,271,876
Noncurrent Assets				
Cash and equivalents.....	-	321,968	321,968	167,548,355
Taxes receivable.....	133,676,824	-	133,676,824	-
Other receivables.....	43,772,100	5,859	43,777,959	-
Loans and notes receivable.....	261,869,064	692,437	262,561,501	1,879,438,850
Investments.....	-	897,781	897,781	952,219,785
Other noncurrent assets.....	-	-	-	22,699,891
Capital assets				
Land.....	153,116,785	-	153,116,785	46,908,134
Construction in progress.....	621,475,676	1,843,493	623,319,169	50,024,588
Works of art.....	136,003	-	136,003	-
Capital assets being depreciated:				
Infrastructure.....	2,665,219,261	-	2,665,219,261	39,864,432
Property, plant and equipment.....	1,245,122,959	2,362,412	1,247,485,371	1,482,865,929
Less accumulated depreciation.....	(1,680,143,016)	(1,791,642)	(1,681,934,658)	(742,647,281)
Total capital assets, net of depreciation.....	3,004,927,668	2,414,263	3,007,341,931	877,015,802
Total noncurrent assets.....	3,444,245,656	4,332,308	3,448,577,964	3,898,922,683
Total assets.....	4,730,251,963	499,208,376	5,229,460,339	4,774,194,559
DEFERRED OUTFLOW OF RESOURCES				
Loss on refunding of bonds payable.....	7,439,970	-	7,439,970	42,753,821
Pension related outflows.....	684,539,039	2,127,416	686,666,455	5,292,843
OPEB related outflows.....	62,109,606	414,064	62,523,670	31,199,899
Interest rate swap.....	-	-	-	873,000
Total deferred outflow of resources.....	754,088,615	2,541,480	756,630,095	80,119,563

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.....	373,871,951	10,945,209	384,817,160	106,392,222
Income tax refunds payable.....	95,944,435	-	95,944,435	-
Payable to primary government.....	-	-	-	6,246,149
Payable to component units.....	2,923,917	-	2,923,917	-
Intergovernmental payable - due to federal government...	8,185,761	-	8,185,761	-
Accrued interest payable.....	9,313,810	-	9,313,810	5,979,921
Current portion of long-term liabilities.....	156,634,861	5,487,874	162,122,735	228,671,665
Unearned revenue.....	12,454,754	6,746,333	19,201,087	158,315,602
Total current liabilities.....	659,329,489	23,179,416	682,508,905	505,605,559
Long-term Liabilities				
Lottery prize awards payable.....	-	690,325	690,325	-
Bonds, notes and leases payable.....	647,949,072	-	647,949,072	2,466,625,586
Compensated absences.....	1,263,977	40,288	1,304,265	-
Claims and judgments.....	34,931,441	-	34,931,441	-
Net pension liabilities.....	2,146,135,825	4,936,884	2,151,072,709	11,667,765
Net other postemployment benefits liabilities.....	2,316,776,466	10,531,410	2,327,307,876	705,958,562
Other long-term liabilities.....	13,256,276	-	13,256,276	34,801,872
Total long-term liabilities.....	5,160,313,057	16,198,907	5,176,511,964	3,219,053,785
Total liabilities.....	5,819,642,546	39,378,323	5,859,020,869	3,724,659,344
DEFERRED INFLOW OF RESOURCES				
Deferred lease revenue.....	-	-	-	2,347,000
Gain on refunding of bonds payable.....	-	-	-	23,500,000
Service concession arrangement.....	-	-	-	1,826,000
Split interest arrangements.....	-	-	-	3,407,000
Pension related inflows.....	134,828,924	690,227	135,519,151	1,682,365
OPEB related inflows.....	188,466,233	1,190,760	189,656,993	2,811,847
Total deferred inflow of resources.....	323,295,157	1,880,987	325,176,144	35,574,212
NET POSITION				
Net investment in capital assets.....	2,591,000,344	2,414,264	2,593,414,608	199,287,439
Restricted for				
Unemployment compensation.....	-	459,552,638	459,552,638	-
Funds held in permanent investments				
Expendable.....	242,364	-	242,364	-
Nonexpendable.....	7,416,453	-	7,416,453	-
General government.....	-	-	-	13,214,818
Protection to persons and property.....	14,785,262	-	14,785,262	-
Human services.....	78,025,949	-	78,025,949	1,606,150
Labor.....	4,394,994	-	4,394,994	-
General education.....	2,900,181	-	2,900,181	764,584,579
Natural resources.....	403,746,777	-	403,746,777	-
Commerce and community development.....	7,244,348	-	7,244,348	365,230,787
Transportation.....	816,079	-	816,079	-
Capital projects.....	59,235,385	-	59,235,385	-
Debt service.....	3,213,078	-	3,213,078	-
Unrestricted (deficit).....	(3,831,618,339)	(1,476,356)	(3,833,094,695)	(249,843,207)
Total net position.....	\$ (658,597,125)	\$ 460,490,546	\$ (198,106,579)	\$ 1,094,080,566

**STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government.....	\$ 158,631,193	\$ 42,049,145	\$ 1,515,877	\$ -
Protection to persons and property.....	407,264,163	212,561,396	52,395,414	-
Human services.....	2,471,653,289	23,797,181	1,451,733,346	-
Labor.....	29,757,653	14,677,895	21,775,294	-
General education.....	2,092,459,202	3,318,868	128,781,510	-
Natural resources.....	135,030,367	53,058,019	44,906,307	260,505
Commerce and community development....	43,387,596	2,815,020	12,461,350	-
Transportation.....	461,987,716	127,163,492	108,910,195	202,283,636
Interest on long-term debt.....	18,997,713	-	1,131,942	-
Total governmental activities.....	5,819,168,892	479,441,016	1,823,611,235	202,544,141
Business-type activities				
Vermont Lottery Commission.....	105,505,132	132,424,624	-	-
Liquor Control.....	64,229,293	65,843,224	-	-
Unemployment Compensation.....	64,096,388	129,953,757	498,906	-
Other.....	4,465,280	5,557,920	-	-
Total business-type activities.....	238,296,093	333,779,525	498,906	-
Total primary government.....	\$ 6,057,464,985	\$ 813,220,541	\$ 1,824,110,141	\$ 202,544,141
Component Units				
Vermont Student Assistance Corporation.....	\$ 72,073,000	\$ 45,704,000	\$ 32,001,000	\$ -
University of Vermont and State Agricultural College.....	720,596,000	445,643,000	287,138,000	1,704,000
Vermont State Colleges.....	190,650,607	115,036,127	63,689,641	2,500,375
Vermont Housing Finance Agency.....	23,176,000	17,289,000	2,745,000	-
Other.....	85,278,448	57,394,736	55,899,866	5,940,159
Total component units.....	\$ 1,091,774,055	\$ 681,066,863	\$ 441,473,507	\$ 10,144,534

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.....

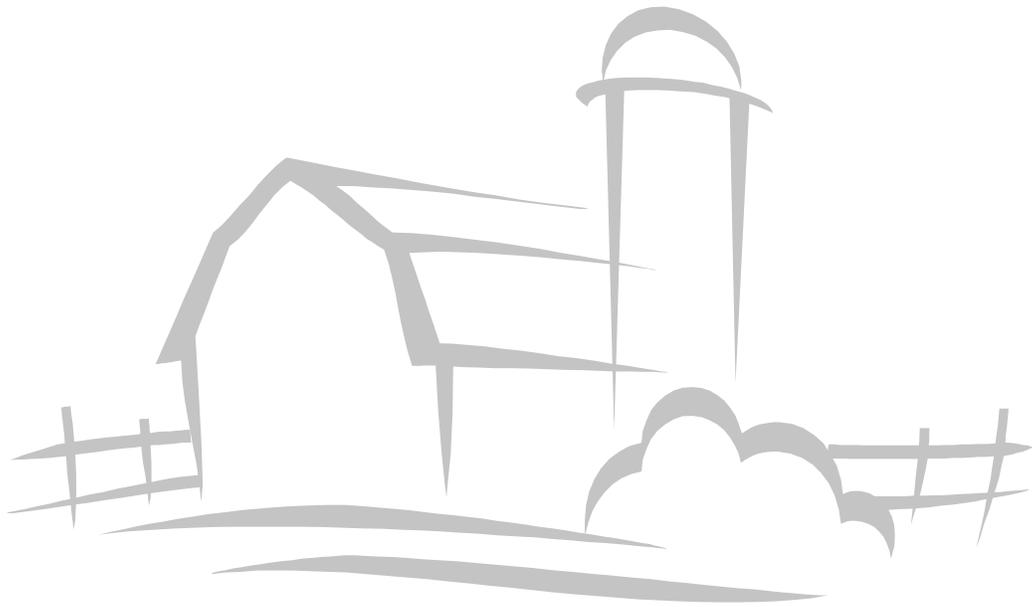
Net Position - Beginning, as restated.....

Net Position - Ending.....

Net (Expense) Revenue and Changes in Net Position

Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	
\$ (115,066,171)	\$ -	\$ (115,066,171)	\$ -
(142,307,353)	-	(142,307,353)	-
(996,122,762)	-	(996,122,762)	-
6,695,536	-	6,695,536	-
(1,960,358,824)	-	(1,960,358,824)	-
(36,805,536)	-	(36,805,536)	-
(28,111,226)	-	(28,111,226)	-
(23,630,393)	-	(23,630,393)	-
(17,865,771)	-	(17,865,771)	-
<u>(3,313,572,500)</u>	<u>-</u>	<u>(3,313,572,500)</u>	<u>-</u>
-	26,919,492	26,919,492	-
-	1,613,931	1,613,931	-
-	66,356,275	66,356,275	-
-	<u>1,092,640</u>	<u>1,092,640</u>	-
-	<u>95,982,338</u>	<u>95,982,338</u>	-
<u>(3,313,572,500)</u>	<u>95,982,338</u>	<u>(3,217,590,162)</u>	-
-	-	-	5,632,000
-	-	-	13,889,000
-	-	-	(9,424,464)
-	-	-	(3,142,000)
-	-	-	<u>33,956,313</u>
-	-	-	<u>40,910,849</u>
947,631,192	-	947,631,192	-
397,118,715	-	397,118,715	-
175,746,014	-	175,746,014	-
109,434,224	-	109,434,224	-
80,889,367	-	80,889,367	-
1,059,023,794	-	1,059,023,794	-
<u>469,206,962</u>	-	<u>469,206,962</u>	<u>9,804,840</u>
3,239,050,268	-	3,239,050,268	9,804,840
4,774,720	8,810,300	13,585,020	52,014,923
58,946,104	-	58,946,104	-
1,006,893	26,076	1,032,969	322,365
-	-	-	347,981
<u>25,467,949</u>	<u>(25,467,949)</u>	<u>-</u>	<u>-</u>
<u>3,329,245,934</u>	<u>(16,631,573)</u>	<u>3,312,614,361</u>	<u>62,490,109</u>
15,673,434	79,350,765	95,024,199	103,400,958
<u>(674,270,559)</u>	<u>381,139,781</u>	<u>(293,130,778)</u>	<u>990,679,608</u>
<u>\$ (658,597,125)</u>	<u>\$ 460,490,546</u>	<u>\$ (198,106,579)</u>	<u>\$ 1,094,080,566</u>

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Vermont



***GOVERNMENTAL FUNDS
FINANCIAL STATEMENTS***

**STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018**

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents.....	\$ 96,959,108	\$ 14,807,695	\$ 79,156,162	\$ 179,651,775
Investments.....	-	-	-	3,395,667
Receivables				
Taxes receivable, net.....	183,305,793	9,332,382	51,758,598	6,442,686
Accrued interest receivable.....	1,102,373	42,667	-	4,535
Notes and loans receivable.....	21,155,333	1,614,580	-	7,495,064
Other receivables, net.....	11,172,353	11,071,532	-	35,515,436
Intergovernmental receivables - federal				
government, net.....	-	42,671,377	-	-
Due from other funds.....	3,939,743	57,601	332,236	4,769,472
Due from component units.....	746,149	-	-	-
Interfund receivable.....	91,763,120	738,582	-	-
Advances to other funds.....	300,275	-	-	-
Advances to component units.....	5,500,000	-	-	-
Total assets.....	\$ 415,944,247	\$ 80,336,416	\$ 131,246,996	\$ 237,274,635
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
LIABILITIES				
Accounts payable.....	\$ 46,977,829	\$ 34,166,245	\$ 16,845,544	\$ 25,023,205
Accrued liabilities.....	20,763,518	7,944,497	-	11,124,244
Retainage payable.....	91,985	37,994	-	136,065
Due to other funds.....	5,215,772	2,644,842	17,553	13,567,212
Due to component units.....	-	-	-	-
Intergovernmental payable - federal government.....	-	-	-	-
Tax refunds payable.....	32,467,741	-	333,850	8,744
Unearned revenue.....	7,629,364	198,478	-	154,579
Total liabilities.....	113,146,209	44,992,056	17,196,947	50,014,049
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue.....	132,411,171	8,727,680	10,571,385	22,181,362
Total deferred inflow of resources.....	132,411,171	8,727,680	10,571,385	22,181,362
FUND BALANCES				
Nonspendable				
Advances.....	5,800,275	-	-	-
Long-term receivables.....	67,362,459	-	-	-
Permanent fund principal.....	-	-	-	-
Restricted.....	-	816,079	-	10,916,117
Committed.....	-	25,800,601	103,478,664	152,653,574
Assigned.....	6,830,373	-	-	1,509,533
Unassigned.....	90,393,760	-	-	-
Total fund balances.....	170,386,867	26,616,680	103,478,664	165,079,224
Total liabilities, deferred inflows and fund balances.....	\$ 415,944,247	\$ 80,336,416	\$ 131,246,996	\$ 237,274,635

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>
\$ 56,615,927	\$ 79,891,703	\$ 80,180,742	\$ -	\$ 587,263,112
116,781,252	-	39,685,919	-	159,862,838
-	-	81,726	-	250,921,185
13,279	-	-	-	1,162,854
262,302,266	-	-	-	292,567,243
929,138	26,091,397	4,386	-	84,784,242
94,396,038	76,359,485	10,936	-	213,437,836
786,644	6,063,323	13,037	(15,168,201)	793,855
-	-	-	-	746,149
-	-	-	-	92,501,702
-	-	-	-	300,275
-	-	-	-	5,500,000
<u>\$ 531,824,544</u>	<u>\$ 188,405,908</u>	<u>\$ 119,976,746</u>	<u>\$ (15,168,201)</u>	<u>\$ 1,689,841,291</u>
\$ 46,156,356	\$ 134,724,250	\$ 8,444,967	\$ -	\$ 312,338,396
9,594,178	2,372,931	1,029,056	-	52,828,424
1,652,256	18,286	1,194,601	-	3,131,187
3,679,914	3,832,655	562,932	(15,168,201)	14,352,679
-	-	2,923,917	-	2,923,917
8,181,396	-	4,365	-	8,185,761
-	-	-	-	32,810,335
3,238,256	-	9,693	-	11,230,370
<u>72,502,356</u>	<u>140,948,122</u>	<u>14,169,531</u>	<u>(15,168,201)</u>	<u>437,801,069</u>
-	6,360,024	4,389	-	180,256,011
-	6,360,024	4,389	-	180,256,011
-	-	-	-	5,800,275
-	-	-	-	67,362,459
-	-	7,416,453	-	7,416,453
459,322,188	41,097,762	62,690,827	-	574,842,973
-	-	35,695,546	-	317,628,385
-	-	-	-	8,339,906
-	-	-	-	90,393,760
<u>459,322,188</u>	<u>41,097,762</u>	<u>105,802,826</u>	<u>-</u>	<u>1,071,784,211</u>
<u>\$ 531,824,544</u>	<u>\$ 188,405,908</u>	<u>\$ 119,976,746</u>	<u>\$ (15,168,201)</u>	<u>\$ 1,689,841,291</u>

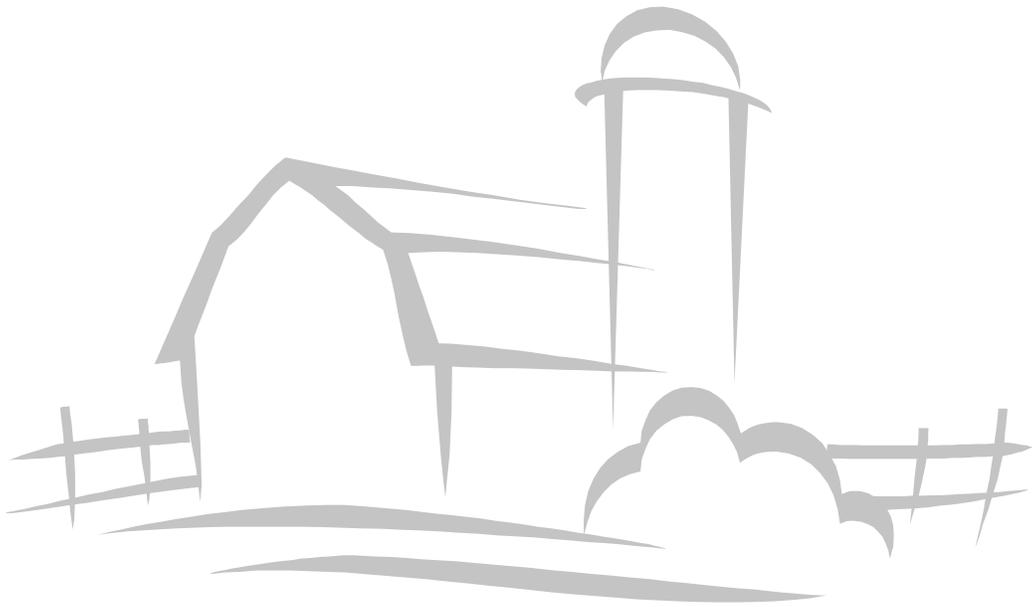
STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
June 30, 2018

Total fund balances from previous page	\$ 1,071,784,211
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⁾	2,948,251,391
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.....	35,533,323
Amounts presented in the statement of net position relating to, but not in fund balances due to a different basis of accounting ⁽¹⁾	611,049,469
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>(5,325,215,519)</u>
Net position of governmental activities	<u>\$ (658,597,125)</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, 2018

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax.....	\$ 827,342,948	\$ -	\$ -	\$ 4,105,672
Corporate income tax.....	106,592,204	-	-	1,370,555
Sales and use tax.....	234,442,353	-	163,091,120	-
Meals and rooms tax.....	170,055,330	-	4,017,805	2,501,605
Motor fuels tax.....	-	78,493,254	-	1,491,663
Purchase and use tax.....	-	72,957,178	36,477,046	-
Statewide education tax.....	-	-	1,059,023,794	-
Other taxes.....	147,937,315	20,662,577	1,893,196	298,691,776
Earnings of departments				
Fees.....	47,149,737	21,955,986	-	73,205,529
Rents and leases.....	-	2,263,402	-	3,613,221
Sales of services.....	2,878,945	34,147	-	13,781,228
Federal grants.....	-	311,193,831	-	-
Fines, forfeits and penalties.....	3,477,407	4,471,304	-	7,039,368
Investment income.....	2,817,676	264,174	489,718	2,091,499
Licenses				
Business.....	1,209,565	565,590	-	25,764,826
Non-business.....	73,031	93,848,805	-	2,949,392
Special assessments.....	-	-	-	89,510,585
Other revenues.....	7,402,418	1,781,195	-	123,744,760
Total revenues.....	1,551,378,929	608,491,443	1,264,992,679	649,861,679
EXPENDITURES				
General government.....	79,677,259	4,009,733	9,532,605	11,341,781
Protection to persons and property.....	149,643,251	20,647,944	-	163,104,241
Human services.....	422,741,459	-	2,965,366	60,721,365
Labor.....	3,163,000	-	-	5,641,494
General education.....	226,667,698	-	1,604,903,851	20,031,265
Natural resources.....	28,556,611	-	-	50,400,572
Commerce and community development.....	16,482,582	-	-	7,102,864
Transportation.....	-	565,911,038	-	2,544,576
Capital outlay.....	-	-	-	-
Debt service.....	-	-	-	-
Total expenditures.....	926,931,860	590,568,715	1,617,401,822	320,888,158
Excess of revenues over (under) expenditures.....	624,447,069	17,922,728	(352,409,143)	328,973,521
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds.....	-	-	-	-
Premium on sale of bonds.....	-	-	-	-
Transfers in.....	77,392,656	1,100,000	385,478,535	71,525,903
Transfers out.....	(653,890,821)	(7,464,570)	(11,599)	(331,364,454)
Total other financing sources (uses).....	(576,498,165)	(6,364,570)	385,466,936	(259,838,551)
Net change in fund balances.....	47,948,904	11,558,158	33,057,793	69,134,970
Fund balances, July 1	122,437,963	15,058,522	70,420,871	95,944,254
Fund balances, June 30.....	\$ 170,386,867	\$ 26,616,680	\$ 103,478,664	\$ 165,079,224

The accompanying notes are an integral part of these statements.

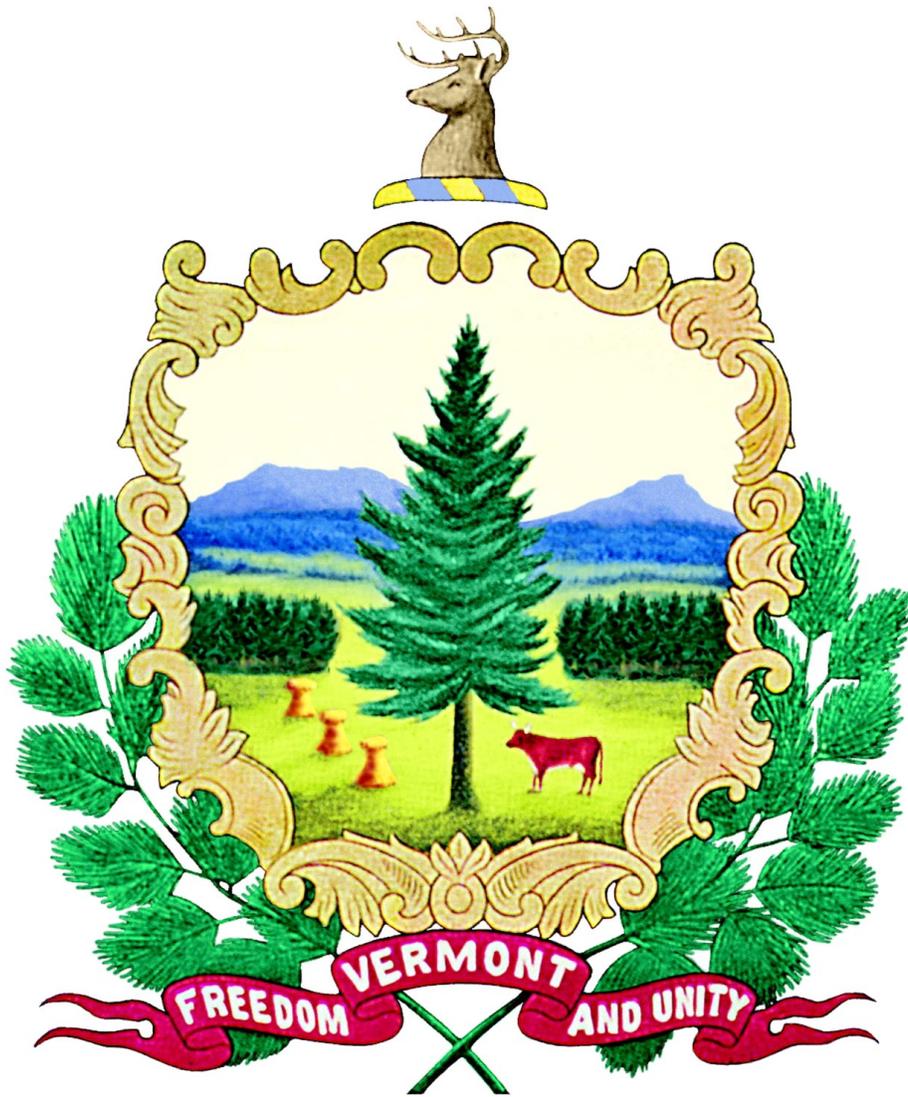
<u>Federal Revenue Fund</u>	<u>Global Commitment Fund</u>	<u>Non-major Governmental Funds</u>	<u>Eliminations</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 831,448,620
-	-	-	-	107,962,759
-	-	-	-	397,533,473
-	-	-	-	176,574,740
-	-	904,519	-	80,889,436
-	-	-	-	109,434,224
-	-	-	-	1,059,023,794
-	-	-	-	469,184,864
-	-	150,391	-	142,461,643
-	-	59,827	-	5,936,450
-	-	-	-	16,694,320
783,775,857	893,964,282	7,874,187	-	1,996,808,157
-	-	15,260	-	15,003,339
1,869,055	-	1,618,793	-	9,150,915
-	-	825	-	27,540,806
-	-	7,281,439	-	104,152,667
-	-	-	-	89,510,585
<u>2,670,363</u>	<u>13,884,750</u>	<u>1,651,545</u>	<u>-</u>	<u>151,135,031</u>
<u>788,315,275</u>	<u>907,849,032</u>	<u>19,556,786</u>	<u>-</u>	<u>5,790,445,823</u>
1,433,739	-	-	-	105,995,117
52,361,181	-	-	-	385,756,617
485,103,481	1,448,140,062	25,000	-	2,419,696,733
21,117,452	-	-	-	29,921,946
128,421,370	4,650,418	1,502,187	-	1,986,176,789
19,144,362	-	18,150,840	-	116,252,385
12,154,195	-	-	-	35,739,641
-	-	-	-	568,455,614
-	-	66,770,731	-	66,770,731
-	-	73,160,878	-	73,160,878
<u>719,735,780</u>	<u>1,452,790,480</u>	<u>159,609,636</u>	<u>-</u>	<u>5,787,926,451</u>
<u>68,579,495</u>	<u>(544,941,448)</u>	<u>(140,052,850)</u>	<u>-</u>	<u>2,519,372</u>
-	-	106,095,000	-	106,095,000
-	-	10,936,961	-	10,936,961
3,485,679	507,694,211	75,614,282	(1,092,187,317)	30,103,949
<u>(71,273,630)</u>	<u>(29,418,611)</u>	<u>(3,595,679)</u>	<u>1,092,187,317</u>	<u>(4,832,047)</u>
<u>(67,787,951)</u>	<u>478,275,600</u>	<u>189,050,564</u>	<u>-</u>	<u>142,303,863</u>
791,544	(66,665,848)	48,997,714	-	144,823,235
<u>458,530,644</u>	<u>107,763,610</u>	<u>56,805,112</u>	<u>-</u>	<u>926,960,976</u>
<u>\$ 459,322,188</u>	<u>\$ 41,097,762</u>	<u>\$ 105,802,826</u>	<u>\$ -</u>	<u>\$ 1,071,784,211</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, 2018**

Total net change in fund balances from the previous page.....	\$	144,823,235
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⁾		109,171,958
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⁾		48,935,000
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position ⁽¹⁾		(110,942,764)
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds.....		12,649,491
Estimated personal income tax refunds that are not due and payable are not reported as governmental fund liabilities.....		(4,022,156)
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⁾		(188,081,741)
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>3,140,411</u>
Total changes in net position of governmental activities as reported on the statement of activities.....	\$	<u>15,673,434</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, 2018**

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents.....	\$ 431,807,714	\$ 6,100,316	\$ 3,541,697
Receivables			
Taxes receivable, net of allowance for uncollectibles.....	34,216,517	-	-
Accounts receivable, net of allowance for uncollectibles.....	1,672,092	1,767,967	2,625,315
Loans receivable.....	-	-	-
Accrued interest receivable.....	-	-	-
Due from other funds.....	-	5,794	17,295
Intergovernmental receivables - federal government.....	495,796	-	-
Inventories, at cost.....	-	7,561,222	777,627
Prepaid expenses.....	-	-	-
Total current assets.....	468,192,119	15,435,299	6,961,934
Restricted and Noncurrent Assets			
Cash - subscription reserve fund.....	-	-	-
Investments.....	-	-	897,781
Loans receivable.....	-	-	-
Accounts receivable - subscriptions.....	-	-	-
Imprest cash and change fund - advances.....	-	75	300,000
Total restricted assets.....	-	75	1,197,781
Capital Assets			
Land.....	-	-	-
Construction in progress.....	-	1,843,493	-
Works of art.....	-	-	-
Capital assets being depreciated/amortized:			
Machinery, equipment and buildings.....	-	2,141,765	214,838
Less accumulated depreciation.....	-	(1,596,187)	(189,646)
Total capital assets, net of depreciation.....	-	2,389,071	25,192
Total restricted and capital assets.....	-	2,389,146	1,222,973
Total assets.....	468,192,119	17,824,445	8,184,907
DEFERRED OUTFLOW OF RESOURCES			
Pension related outflows.....	-	1,553,562	573,854
OPEB related outflows.....	-	347,344	66,720
Total deferred outflow of resources.....	-	1,900,906	640,574

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
\$ 3,013,705	\$ -	\$ 444,463,432	\$ 74,304,211
823,195	-	35,039,712	-
372,773	-	6,438,147	21,629,988
365,015	-	365,015	733,551
5,066	-	5,066	-
169,222	(169,222)	23,089	14,346,712
-	-	495,796	-
79,855	-	8,418,704	2,613,333
745	-	745	3,714,830
<u>4,829,576</u>	<u>(169,222)</u>	<u>495,249,706</u>	<u>117,342,625</u>
321,968	-	321,968	-
-	-	897,781	-
692,437	-	692,437	2,895,165
5,859	-	5,859	-
200	-	300,275	3,200,442
<u>1,020,464</u>	<u>-</u>	<u>2,218,320</u>	<u>6,095,607</u>
-	-	-	26,156
-	-	1,843,493	3,492,923
-	-	-	8,200
5,809	-	2,362,412	122,153,155
(5,809)	-	(1,791,642)	(69,004,157)
<u>-</u>	<u>-</u>	<u>2,414,263</u>	<u>56,676,277</u>
<u>1,020,464</u>	<u>-</u>	<u>4,632,583</u>	<u>62,771,884</u>
<u>5,850,040</u>	<u>(169,222)</u>	<u>499,882,289</u>	<u>180,114,509</u>
-	-	2,127,416	-
-	-	414,064	-
<u>-</u>	<u>-</u>	<u>2,541,480</u>	<u>-</u>

continued on next page

**STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018**

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
LIABILITIES			
Current Liabilities			
Accounts payable.....	-	6,906,278	711,717
Accrued salaries and benefits.....	-	434,491	147,378
Claims payable.....	1,206,244	-	-
Due to lottery winners.....	-	-	116,769
Due to agents.....	-	413,429	-
Due to other funds.....	169,222	326,046	6,494
Interfund payable.....	-	-	-
Future and unclaimed prizes payable.....	-	-	5,137,884
Unearned revenue.....	6,250,239	-	174,126
Capital leases payable.....	-	-	-
Other current liabilities.....	1,013,776	-	-
Total current liabilities.....	8,639,481	8,080,244	6,294,368
Long-term Liabilities			
Unexpired subscriptions.....	-	-	-
Due to lottery winners.....	-	-	690,325
Claims payable.....	-	-	-
Advances from other funds.....	-	75	300,000
Capital leases payable.....	-	-	-
Net pension liabilities.....	-	3,646,726	1,290,158
Net other postemployment benefits liabilities.....	-	7,783,696	2,747,714
Other noncurrent liabilities.....	-	30,606	9,340
Total long-term liabilities.....	-	11,461,103	5,037,537
Total liabilities.....	8,639,481	19,541,347	11,331,905
DEFERRED INFLOW OF RESOURCES			
Pension related inflows.....	-	498,702	191,525
OPEB related inflows.....	-	879,493	311,267
Total deferred inflow of resources.....	-	1,378,195	502,792
NET POSITION			
Net investment in capital assets.....	-	2,389,071	25,193
Restricted for unemployment compensation benefits.....	459,552,638	-	-
Unrestricted (deficit).....	-	(3,583,262)	(3,034,409)
Total net position.....	\$ 459,552,638	\$ (1,194,191)	\$ (3,009,216)

The accompanying notes are an integral part of these statements.

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
312,468	-	7,930,463	8,372,298
26,594	-	608,463	7,660,024
-	-	1,206,244	16,148,245
-	-	116,769	-
-	-	413,429	-
638	(169,222)	333,178	477,799
156,228	-	156,228	63,997,589
-	-	5,137,884	-
-	-	6,424,365	1,224,384
-	-	-	333,185
6,055	-	1,019,831	413,001
<u>501,983</u>	<u>(169,222)</u>	<u>23,346,854</u>	<u>98,626,525</u>
321,968	-	321,968	-
-	-	690,325	-
-	-	-	34,931,441
200	-	300,275	-
-	-	-	9,418,025
-	-	4,936,884	-
-	-	10,531,410	-
342	-	40,288	1,489,427
<u>322,510</u>	<u>-</u>	<u>16,821,150</u>	<u>45,838,893</u>
<u>824,493</u>	<u>(169,222)</u>	<u>40,168,004</u>	<u>144,465,418</u>
-	-	690,227	-
-	-	1,190,760	-
-	-	1,880,987	-
-	-	2,414,264	46,925,067
-	-	459,552,638	-
<u>5,025,547</u>	<u>-</u>	<u>(1,592,124)</u>	<u>(11,275,976)</u>
<u>\$ 5,025,547</u>	<u>\$ -</u>	<u>460,374,778</u>	<u>\$ 35,649,091</u>

Adjustment to reflect the consolidation of internal service activities related to enterprise funds..... 115,768

Net Position - Business-type Activities..... \$ 460,490,546

**STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services.....	\$ 129,953,757	\$ 59,843,099	\$ -
Ticket sales.....	-	-	132,420,000
Rental income.....	-	-	-
License fees.....	-	1,974,898	-
Federal donated properties.....	-	-	-
Advertising revenues.....	-	-	-
Other operating revenues.....	-	4,025,227	4,624
Total operating revenues.....	129,953,757	65,843,224	132,424,624
OPERATING EXPENSES			
Cost of sales and services.....	-	48,857,248	102,495,418
Claims expenses.....	64,096,388	-	-
Salaries and benefits.....	-	5,173,342	1,803,771
Insurance premium expenses.....	-	21,658	4,685
Contractual services.....	-	913,573	125,006
Repairs and maintenance.....	-	73,009	10,497
Depreciation.....	-	200,419	7,412
Rental expenses.....	-	63,041	208,873
Utilities and property management.....	-	408,019	102,477
Non-capital equipment purchased.....	-	124,463	20,522
Promotions and advertising.....	-	61,177	427,232
Administration expenses.....	-	144,586	34,708
Supplies and parts.....	-	180,256	30,349
Distribution and postage.....	-	60,783	19,570
Travel.....	-	15,266	23,253
Other operating expenses.....	-	7,867,055	208,084
Total operating expenses.....	64,096,388	64,163,895	105,521,857
Operating income (loss).....	65,857,369	1,679,329	26,902,767
NONOPERATING REVENUES (EXPENSES)			
Federal grants.....	498,906	-	-
Gain on disposal of capital assets.....	-	26,076	-
Investment income.....	8,764,930	-	(8,982)
Interest expense.....	-	-	-
Total nonoperating revenues (expenses).....	9,263,836	26,076	(8,982)
Income (loss) before other revenues, expenses, gains, losses, and transfers.....	75,121,205	1,705,405	26,893,785
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS			
Insurance recoveries.....	-	-	-
Transfers in.....	-	-	-
Transfers out.....	-	(1,075,106)	(27,153,843)
Total other revenues, expenses, gains, losses, and transfers.....	-	(1,075,106)	(27,153,843)
Changes in net position.....	75,121,205	630,299	(260,058)
Total net position, July 1, as restated.....	384,431,433	(1,824,490)	(2,749,158)
Total net position June 30.....	\$ 459,552,638	\$ (1,194,191)	\$ (3,009,216)

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
\$ 4,579,094	\$ 194,375,950	\$ 337,896,263
-	132,420,000	-
-	-	21,240,906
-	1,974,898	-
695,198	695,198	-
231,196	231,196	-
52,432	4,082,283	3,094,719
<u>5,557,920</u>	<u>333,779,525</u>	<u>362,231,888</u>
3,992,765	155,345,431	39,613,407
-	64,096,388	196,819,709
35,642	7,012,755	51,284,627
6,241	32,584	5,767,877
102,991	1,141,570	11,052,066
1,187	84,693	6,795,470
-	207,831	11,651,523
3,428	275,342	2,842,643
21,933	532,429	12,218,888
335	145,320	1,624,151
35,238	523,647	68,422
27,806	207,100	14,562,940
6,682	217,287	4,530,402
182,393	262,746	78,132
2,458	40,977	72,193
16,388	8,091,527	2,230,939
<u>4,435,487</u>	<u>238,217,627</u>	<u>361,213,389</u>
<u>1,122,433</u>	<u>95,561,898</u>	<u>1,018,499</u>
-	498,906	-
-	26,076	993,109
54,352	8,810,300	933,761
(43,845)	(43,845)	(49,410)
<u>10,507</u>	<u>9,291,437</u>	<u>1,877,460</u>
<u>1,132,940</u>	<u>104,853,335</u>	<u>2,895,959</u>
-	-	13,784
3,536,000	3,536,000	1,296,047
(775,000)	(29,003,949)	(1,100,000)
<u>2,761,000</u>	<u>(25,467,949)</u>	<u>209,831</u>
3,893,940	79,385,386	3,105,790
<u>1,131,607</u>	<u>380,989,392</u>	<u>32,543,301</u>
<u>\$ 5,025,547</u>	<u>\$ 460,374,778</u>	<u>\$ 35,649,091</u>

Total change in net position reported above..... \$ 79,385,386
Consolidation adjustment of internal service activities related to enterprise funds..... (34,621)
Change in net position - business type activities... \$ 79,350,765

**STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

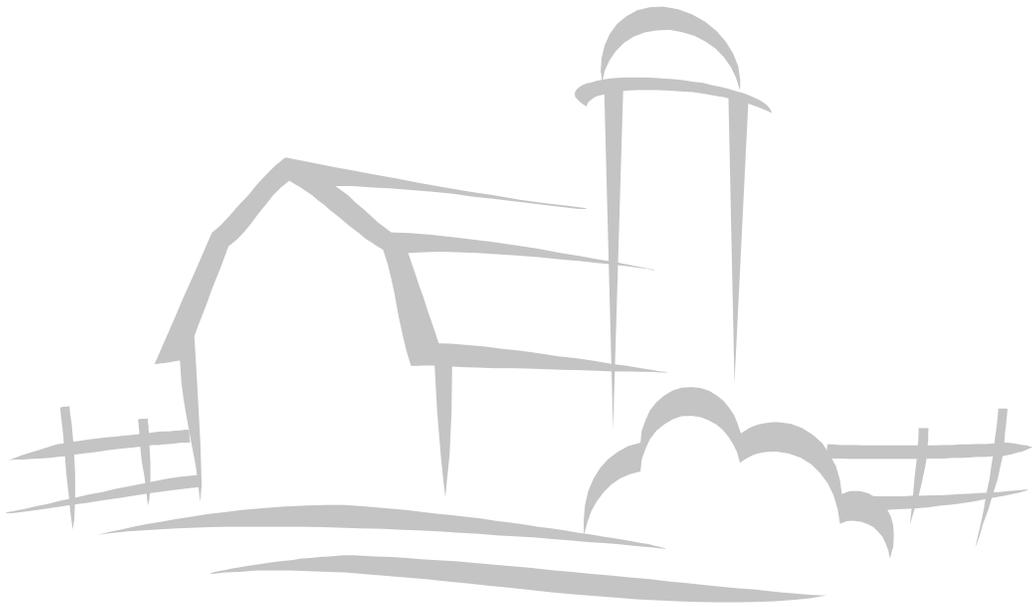
	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers.....	\$ 134,558,275	\$ 59,557,534	\$ 131,922,921
Cash paid to suppliers for goods and services.....	-	(48,448,693)	(7,794,349)
Cash paid to employees for services.....	-	(4,689,119)	(1,668,471)
Cash paid for prizes and commissions.....	-	-	(96,493,426)
Cash paid to claimants.....	(64,131,218)	-	-
Other operating revenues.....	-	6,000,125	4,624
Other operating expenses.....	-	(7,867,055)	(208,084)
Total cash provided (used) by operating activities.....	70,427,057	4,552,792	25,763,215
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in.....	-	-	-
Transfers out.....	-	(1,075,106)	(27,145,778)
Interest paid on interfund loans.....	-	-	-
Interfund loans and advances.....	-	-	-
Federal grants.....	(1,118,718)	-	-
Net cash provided (used) by noncapital financing activities.....	(1,118,718)	(1,075,106)	(27,145,778)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets.....	-	(1,704,236)	(21,089)
Payment of capital leases and loans.....	-	-	-
Interest paid on capital leases and loans.....	-	-	-
Insurance recoveries.....	-	-	-
Proceeds from capital loans.....	-	-	-
Proceeds from sale of capital assets.....	-	26,076	-
Net cash provided (used) by capital and related financing activities.....	-	(1,678,160)	(21,089)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments.....	8,764,930	-	43,761
Proceeds from sales/maturities of investments.....	-	-	74,183
Proceeds from loan repayments.....	-	-	-
Loans issued.....	-	-	-
Net cash provided (used) by investing activities.....	8,764,930	-	117,944
Net increase (decrease) in cash and cash equivalents.....	78,073,269	1,799,526	(1,285,708)
Cash and cash equivalents, July 1.....	353,734,445	4,300,865	5,127,405
Cash and cash equivalents, June 30.....	\$ 431,807,714	\$ 6,100,391	\$ 3,841,697
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss).....	\$ 65,857,369	\$ 1,679,329	\$ 26,902,767
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization.....	-	200,419	7,412
(Increase) decrease in accounts/taxes receivable.....	4,493,895	(288,087)	(485,389)
(Increase) decrease in due from other funds.....	-	(5,794)	-
(Increase) decrease in inventory.....	-	(42,289)	77,290
(Increase) decrease in prepaid expenses.....	-	-	-
(Increase) decrease in deferred outflows.....	-	(60,306)	(26,284)
Increase (decrease) in accounts payable.....	-	2,495,464	90,907
Increase (decrease) in accrued salaries and benefits.....	-	(20,724)	(5,771)
Increase (decrease) in claims payable.....	(96,765)	-	-
Increase (decrease) in due to lottery winners.....	-	-	(74,182)
Increase (decrease) in due to agents.....	-	21,211	-
Increase (decrease) in future and unclaimed prizes payable.....	-	-	(868,313)
Increase (decrease) in due to other funds.....	110,623	8,316	(10,882)
Increase (decrease) in unearned revenues.....	-	-	(11,693)
Increase (decrease) in other liabilities.....	61,935	-	-
Increase (decrease) in subscription reserves.....	-	-	-
Increase (decrease) in net pension liabilities.....	-	(2,802)	65,916
Increase (decrease) in net OPEB liabilities.....	-	(390,169)	(209,414)
Increase (decrease) in deferred inflows.....	-	958,224	310,851
Total adjustments.....	4,569,688	2,873,463	(1,139,552)
Net cash provided (used) by operating activities.....	\$ 70,427,057	\$ 4,552,792	\$ 25,763,215
Noncash investing, capital, and financing activities:			
Retirement of assets not fully depreciated.....	-	-	-
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.

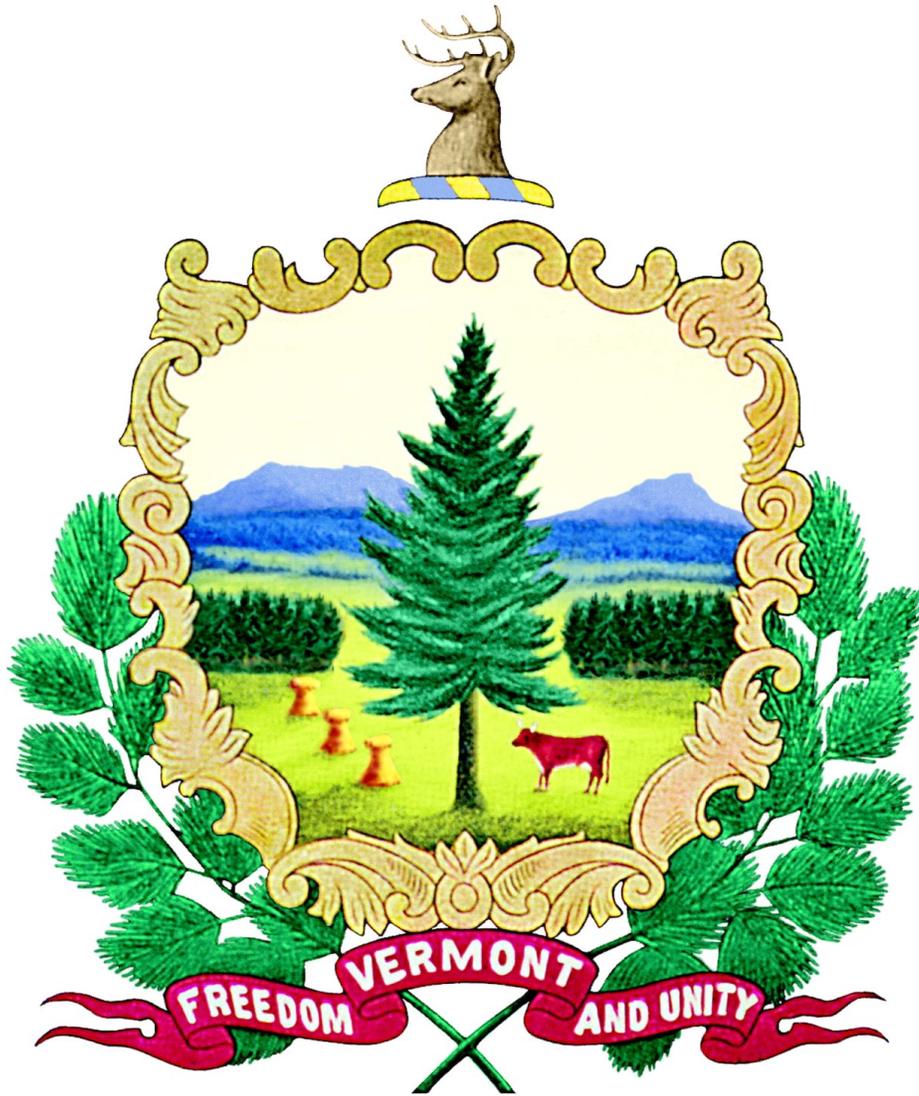
The accompanying notes are an integral part of these financial statements.

Business-type Activities-Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
\$ 5,073,763	\$ 331,112,493	\$ 358,784,904
(3,793,563)	(60,036,605)	(101,022,055)
(468,554)	(6,826,144)	(48,268,607)
-	(96,493,426)	-
-	(64,131,218)	(193,799,119)
52,432	6,057,181	3,094,719
(16,388)	(8,091,527)	(2,116,990)
<u>847,690</u>	<u>101,590,754</u>	<u>16,672,852</u>
3,536,000	3,536,000	1,296,047
(775,000)	(28,995,884)	(1,100,000)
(43,845)	(43,845)	-
(3,328,820)	(3,328,820)	1,745,878
-	(1,118,718)	-
<u>(611,665)</u>	<u>(29,951,267)</u>	<u>1,941,925</u>
-	(1,725,325)	(12,396,701)
-	-	(616,618)
-	-	(38,187)
-	-	35,734
-	-	786,792
-	26,076	1,639,321
-	<u>(1,699,249)</u>	<u>(10,589,659)</u>
33,539	8,842,230	933,761
-	74,183	-
460,052	460,052	422,789
(496,483)	(496,483)	(1,699,780)
<u>(2,892)</u>	<u>8,879,982</u>	<u>(343,230)</u>
233,133	78,820,220	7,681,888
<u>3,102,740</u>	<u>366,265,455</u>	<u>69,822,765</u>
<u>\$ 3,335,873</u>	<u>\$ 445,085,675</u>	<u>\$ 77,504,653</u>
<u>\$ 1,122,433</u>	<u>\$ 95,561,898</u>	<u>\$ 1,018,499</u>
-	207,831	11,651,523
164,853	3,885,272	(1,682,183)
135,963	130,169	1,474,308
(54,153)	(19,152)	83,349
16,443	16,443	574,186
271,674	185,084	-
(67,486)	2,518,885	(3,421,910)
(21,062)	(47,557)	3,025,965
-	(96,765)	3,020,590
-	(74,182)	-
-	21,211	-
-	(868,313)	-
(108)	107,949	68,043
-	(11,693)	864,433
6,055	67,990	(3,951)
(37,343)	(37,343)	-
(597,934)	(534,820)	-
-	(599,583)	-
(91,645)	1,177,430	-
<u>(274,743)</u>	<u>6,028,856</u>	<u>15,654,353</u>
<u>\$ 847,690</u>	<u>\$ 101,590,754</u>	<u>\$ 16,672,852</u>
-	-	(667,275)
695,198	695,198	108,859

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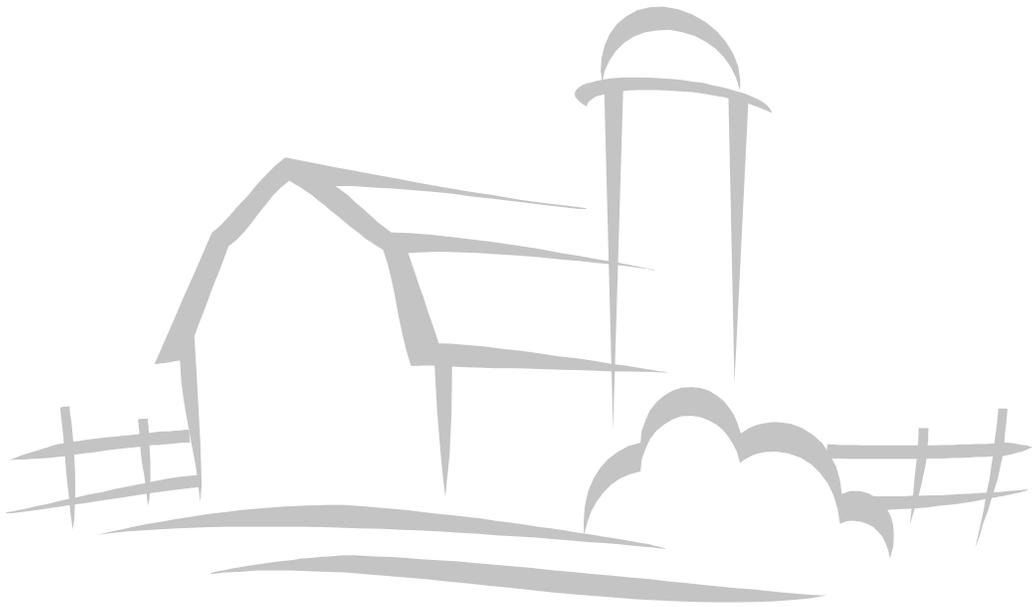
***FIDUCIARY FUNDS
FINANCIAL STATEMENTS***

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2018

	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.....	\$ 33,275,020	\$ 7,128,236	\$ 9,097,759
Investments			
Fixed income.....	572,515,322	-	-
Equities.....	641,445,565	2,860,702	-
Mutual and commingled funds.....	2,836,250,384	-	-
Real estate and private partnerships.....	420,182,283	-	-
Receivables:			
Taxes.....	-	-	2,045,379
Contributions - current.....	19,121,047	-	-
Contributions - non-current.....	6,679,457	-	-
Investments sold.....	139,156,293	-	-
Interest and dividends.....	5,688,329	-	-
Other.....	33,880,251	-	1,654,688
Prepaid expenses.....	231,862	-	-
Other assets.....	-	5,318,594	-
Capital assets:			
Capital assets being depreciated:			
Equipment.....	8,381,284	6,453	-
Less accumulated depreciation.....	<u>(4,348,742)</u>	<u>(5,098)</u>	<u>-</u>
Total capital assets, net of depreciation.....	<u>4,032,542</u>	<u>1,355</u>	<u>-</u>
Total assets.....	<u>4,712,458,355</u>	<u>15,308,887</u>	<u>12,797,826</u>
LIABILITIES			
Accounts payable.....	3,911,167	25,818	-
Accrued salaries and benefits.....	-	27,099	-
Claims payable.....	-	9,778,538	-
Investments purchased.....	194,854,396	-	-
Interest payable.....	278,356	-	-
Interfund loans payable.....	28,300,000	-	47,885
Due to depositories.....	-	-	99,010
Intergovernmental payable - other governments.....	-	-	7,172,998
Amounts held in custody for others.....	-	-	3,460,028
Other liabilities.....	<u>-</u>	<u>-</u>	<u>2,017,905</u>
Total liabilities.....	<u>227,343,919</u>	<u>9,831,455</u>	<u>\$ 12,797,826</u>
NET POSITION			
Restricted for employees' pension benefits.....	4,476,093,245	-	
Restricted for employees' other postemployment benefits.....	9,021,191	-	
Held in trust for individuals, organizations and other governments.....	<u>-</u>	<u>5,477,432</u>	
Net position restricted for benefits and other purposes.....	<u>\$ 4,485,114,436</u>	<u>\$ 5,477,432</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, 2018

	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.....	\$ 23,941,000	\$ 187,301,000	\$ 17,969,575	\$ 279,000	\$ 40,624,391	\$ 270,114,966
Investments.....	-	201,638,000	4,942,501	23,613,000	26,189,717	256,383,218
Accounts receivable, net.....	-	49,664,000	11,384,075	-	1,757,345	62,805,420
Accrued interest receivable - loans.....	13,277,000	-	-	2,796,000	2,500,291	18,573,291
Accrued interest receivable - investments.....	124,000	-	-	214,000	-	338,000
Loans and notes receivable - current portion.....	107,087,000	2,077,000	-	21,059,000	81,388,553	211,611,553
Other receivables.....	1,369,000	561,000	-	615,000	26,892,522	29,437,522
Due from federal government.....	143,000	6,420,000	-	-	1,061,517	7,624,517
Due from primary government.....	-	-	-	-	2,923,917	2,923,917
Inventories, at cost.....	-	173,000	-	-	99,521	272,521
Other current assets.....	737,000	12,159,000	1,193,508	-	1,097,443	15,186,951
Total current assets.....	146,678,000	459,993,000	35,489,659	48,576,000	184,535,217	875,271,876
Restricted and Noncurrent Assets						
Cash and cash equivalents.....	84,257,000	5,872,000	434,981	71,448,000	5,536,374	167,548,355
Investments.....	5,856,000	636,679,000	46,184,316	185,494,000	78,006,469	952,219,785
Loans and notes receivable, net.....	664,530,000	50,596,000	4,923,967	229,459,000	929,929,883	1,879,438,850
Other assets.....	2,670,000	-	169,308	314,000	19,546,583	22,699,891
Total restricted and noncurrent assets.....	757,313,000	693,147,000	51,712,572	486,715,000	1,033,019,309	3,021,906,881
Capital Assets						
Land.....	3,150,000	34,101,000	9,004,664	50,000	602,470	46,908,134
Construction in progress.....	-	49,066,000	908,493	-	50,095	50,024,588
Capital assets, being depreciated						
Buildings and leasehold improvements.....	17,197,000	938,121,000	263,437,445	1,932,000	35,870,504	1,256,557,949
Equipment, furniture and fixtures.....	4,708,000	178,202,000	35,411,937	1,451,000	6,535,043	226,307,980
Infrastructure.....	-	-	39,864,432	-	-	39,864,432
Less accumulated depreciation.....	(11,148,000)	(517,687,000)	(185,680,251)	(2,746,000)	(25,386,030)	(742,647,281)
Total capital assets, net of depreciation...	13,907,000	681,803,000	162,946,720	687,000	17,672,082	877,015,802
Total assets.....	917,898,000	1,834,943,000	250,148,951	535,978,000	1,235,226,608	4,774,194,559
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of bonds payable.....	-	5,215,000	9,824,025	-	27,714,796	42,753,821
Interest rate swaps.....	-	-	-	873,000	-	873,000
Pension related outflows.....	-	-	-	-	5,292,843	5,292,843
OPEB related outflows.....	-	12,617,000	17,904,148	-	678,751	31,199,899
Total deferred outflows of resources.....	-	17,832,000	27,728,173	873,000	33,686,390	80,119,563

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

	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.....	2,344,000	82,513,000	14,395,060	442,000	3,674,162	103,368,222
Accrued interest payable.....	-	-	-	2,778,000	287,000	3,065,000
Bond interest payable.....	771,000	-	-	-	2,143,921	2,914,921
Unearned revenue.....	6,517,000	141,814,000	9,943,657	-	40,945	158,315,602
Current portion of long-term liabilities.....	7,720,000	12,878,000	3,937,732	20,575,000	183,560,933	228,671,665
Due to primary government.....	-	-	-	-	746,149	746,149
Escrowed cash deposits.....	-	-	-	2,859,000	165,000	3,024,000
Advances from primary government.....	-	-	-	-	5,500,000	5,500,000
Total current liabilities.....	17,352,000	237,205,000	28,276,449	26,654,000	196,118,110	505,605,559
Noncurrent Liabilities						
Bonds, notes and leases payable.....	685,663,000	550,779,000	121,086,246	422,689,000	686,408,340	2,466,625,586
Accounts payable and accrued liabilities.....	-	23,662,000	-	-	-	23,662,000
Accrued arbitrage rebate.....	3,093,000	-	-	-	99,241	3,192,241
Net pension liabilities.....	-	-	-	-	11,667,765	11,667,765
Net other postemployment benefits liabilities.....	-	492,575,000	188,498,148	-	24,885,414	705,958,562
Other liabilities.....	-	-	6,284,761	1,494,000	168,870	7,947,631
Total noncurrent liabilities.....	688,756,000	1,067,016,000	315,869,155	424,183,000	723,229,630	3,219,053,785
Total liabilities.....	706,108,000	1,304,221,000	344,145,604	450,837,000	919,347,740	3,724,659,344
DEFERRED INFLOWS OF RESOURCES						
Deferred lease revenue.....	2,347,000	-	-	-	-	2,347,000
Gain on refunding of bonds payable.....	23,500,000	-	-	-	-	23,500,000
Service concession arrangement.....	-	1,826,000	-	-	-	1,826,000
Split interest arrangements.....	-	3,407,000	-	-	-	3,407,000
Pension related inflows.....	-	-	-	-	1,682,365	1,682,365
OPEB related inflows.....	-	-	-	-	2,811,847	2,811,847
Total deferred inflows of resources.....	25,847,000	5,233,000	-	-	4,494,212	35,574,212
NET POSITION						
Net investment in capital assets.....	13,907,000	119,809,000	49,065,357	687,000	15,819,082	199,287,439
Restricted						
Endowments - expendable.....	594,000	423,624,000	11,517,067	-	-	435,735,067
Endowments - nonexpendable.....	5,458,000	211,907,000	18,208,512	-	-	235,573,512
Grants and scholarships.....	699,000	-	-	-	-	699,000
Bond resolution.....	92,577,000	-	-	75,462,000	-	168,039,000
Investment in limited partnerships.....	-	-	-	-	3,343,000	3,343,000
Collateral for commercial paper program.....	-	-	-	-	21,909,000	21,909,000
Project and program commitments.....	-	-	-	2,838,000	62,839,867	65,677,867
Loans receivable.....	-	-	-	-	213,659,888	213,659,888
Unrestricted (deficit).....	72,708,000	(212,019,000)	(145,059,416)	7,027,000	27,500,209	(249,843,207)
Total net position.....	\$ 185,943,000	\$ 543,321,000	\$ (66,268,480)	\$ 86,014,000	\$ 345,071,046	\$ 1,094,080,566

STATE OF VERMONT
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2018

	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.....	\$ 15,780,000	\$ 440,510,000	\$ 121,875,487	\$ 3,633,000	\$ 24,638,766	\$ 606,437,253
Other expenses.....	15,776,000	214,211,000	46,080,254	5,966,000	32,697,912	314,731,166
Scholarship, grants and fellowships.....	24,646,000	16,799,000	7,346,293	-	-	48,791,293
Depreciation.....	931,000	31,697,000	9,842,721	78,000	1,430,129	43,978,850
Interest on debt.....	14,940,000	17,379,000	5,505,852	13,499,000	26,511,641	77,835,493
Total expenses.....	72,073,000	720,596,000	190,650,607	23,176,000	85,278,448	1,091,774,055
Program Revenues						
Charges for services.....	45,704,000	445,643,000	115,036,127	17,289,000	57,394,736	681,066,863
Operating grants and contributions.....	32,001,000	287,138,000	63,689,641	2,745,000	55,899,866	441,473,507
Capital grants and contributions.....	-	1,704,000	2,500,375	-	5,940,159	10,144,534
Total program revenues.....	77,705,000	734,485,000	181,226,143	20,034,000	119,234,761	1,132,684,904
Net revenue (expense).....	5,632,000	13,889,000	(9,424,464)	(3,142,000)	33,956,313	40,910,849
General Revenues						
Property transfer tax.....	-	-	-	-	9,804,840	9,804,840
Investment income.....	1,217,000	42,206,000	2,128,687	1,157,000	5,306,236	52,014,923
Additions to non-expendable endowments.....	-	-	347,981	-	-	347,981
Miscellaneous.....	-	-	-	-	322,365	322,365
Total general revenues.....	1,217,000	42,206,000	2,476,668	1,157,000	15,433,441	62,490,109
Changes in net position.....	6,849,000	56,095,000	(6,947,796)	(1,985,000)	49,389,754	103,400,958
Net position - beginning, as restated.....	179,094,000	487,226,000	(59,320,684)	87,999,000	295,681,292	990,679,608
Net position - ending.....	\$ 185,943,000	\$ 543,321,000	\$ (66,268,480)	\$ 86,014,000	\$ 345,071,046	\$ 1,094,080,566

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

**STATE OF VERMONT
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

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**STATE OF VERMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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, 2018.

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) - The UVM's financial report includes the University, the State Agricultural College, and UVM's two discretely presented component units; the University of Vermont and State Agricultural College Foundation, Inc. (UVMF), and the University Medical Education Associates, Inc. (UMEA). The State appoints thirteen of the twenty-five 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) 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 the VHCB 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. However, Interfund services provided and used are not eliminated in the process of consolidation. 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 eight funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State's unemployment compensation

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

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

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

Vermont Lottery Commission – accounts for the operations of the Vermont Lottery (31 V.S.A. Chapter 14). The net profits of the Vermont Lottery Commission 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 and business-type 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. The State uses a 60-day availability period for revenue recognition.

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 Other Post Employment Benefit Funds, and bond proceeds in the 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. - Receivables 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 and other postemployment benefits, the changes in proportional share, differences between projected and actual earnings on plan investments, changes of assumptions, differences between expected and actual experience, contributions made subsequent to the measurement date, and the unamortized balance of losses on bond refunding, are 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 deferred 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 plan investments is capitalized and recognized over a five-year period. Pension and other postemployment benefits contributions made subsequent to the measurement date will be recognized as a reduction of the net pension and other postemployment benefits 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, that are related to pensions and other postemployment benefits. Net differences between projected and actual earnings on plan investments is capitalized and recognized over a five-year period. Changes in assumptions and changes in proportional share 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, 2018 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2018. The amount reported as tax refunds payable at June 30, 2018 in the government-wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2018's tax liability that will be paid out in calendar year 2019.

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, 2018, 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 of Activities 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. - Other 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 \$6,830,373.

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 nor 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.

Interfund Services Provided and Used – 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 2018 reporting, the State adopted the following new standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* establishes accounting and financial reporting for other postemployment benefit (OPEB) plans other than pension plans that is provided to the employees of state and local governmental employers. The Statement requires employers and nonemployer contributing entities to report their net OPEB liability on their financial statements. See Note V. G. for cumulative effect of change in accounting principles.

Statement No. 81 *Irrevocable Split-Interest Agreements* establishes accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. See Note V. G. for cumulative effect of change in accounting principles.

Statement No. 85 *Omnibus 2017* establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This statement did not have an impact on the financial statements.

Statement No. 86 *Certain Debt Extinguishment Issues* establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished and establishes an additional disclosure requirement related to debt that is defeased in substance. This statement did not have an impact on the financial statements.

Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period* establishes accounting requirements for interest cost incurred before the end of a construction period. The Statement requires financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset; and in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This statement did not have an impact on the financial statements.

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 are as follows:

Land	\$ 153,090,629
Works of art	127,803
Construction in progress	617,982,753
Depreciable capital assets and infrastructure, net of \$1,611,138,854 of accumulated depreciation	<u>2,177,050,206</u>
Net adjustment to increase <i>fund balances - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 2,948,251,391</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 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	\$ 180,256,011
Deferred outflow for unamortized loss on sale of refunding bonds	7,439,970
Deferred outflow for pension related items	684,539,039
Deferred inflow for pension related items	(134,828,924)
Deferred outflow for OPEB related items	62,109,606
Deferred inflow for OPEB related items	<u>(188,466,233)</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 611,049,469</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 are as follows:

(Table on next page.)

Bonded debt	\$ (699,210,847)
Accrued interest payable on bonds	(9,313,810)
Compensated absences (net of internal service funds' liability)	(32,104,831)
Tax refunds payable	(63,134,100)
Net pension liabilities	(2,146,135,825)
Net other postemployment benefits liabilities	(2,358,893,830)
Other long-term liabilities	<u>(16,422,276)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ (5,325,215,519)</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 difference are as follows:

Capital outlay/functional expenditures	\$ 596,961,062
Expensed net book value of disposed assets	(301,114,896)
Depreciation expense	<u>(186,674,208)</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>\$ 109,171,958</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 this difference are as follows:

Principal repayment	<u>48,935,000</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>\$ 48,935,000</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 difference are as follows:

Bonds issued increases long-term debt in the statement of activities	\$ (106,095,000)
Bond premium is amortized over the life of the bonds in the statement of activities	(3,664,226)
Refunding bonds deferred outflow amortized to interest expense over life of refunded bonds	(1,168,705)
Bond discount is amortized over the life of the bond in the statement of activities	<u>(14,833)</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>\$ (110,942,764)</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 difference are as follows:

Increase in accrued interest payable	\$ (861,032)
Decrease in compensated absences	739,947
Increase in employer pension and other postemployment benefit related costs	(186,978,843)
Increase in pollution remediation related costs	<u>(981,813)</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>\$ (188,081,741)</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, 2018:

Proprietary Funds

Non-Major Enterprise Funds:

Federal Surplus Property Fund.....	\$	(149,391)
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Internal Service Funds:

Communications & Information Technology Fund.....	(6,758,149)
Copy Center Fund.....	(1,324,826)
Postage Fund.....	(3,250,769)
Facilities Operations.....	(1,188,892)
Property Management.....	(24,188,951)
State Liability Insurance.....	(3,180,518)
Risk Management - All Other Insurance.....	(87,715)
Human Resources.....	(182,401)

Fiduciary Funds

Pension and OPEB Trust Funds:

Vermont Retired Teachers' Health and Medical Benefits.....	(26,443,247)
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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. Program management will continue to evaluate the allocation of administrative expenses, making reductions where appropriate. Management will also continue to pursue increasing revenue by actively retrieving goods for sale.

Internal Service Funds

For fiscal year 2018, the statewide effect of the movement of information technology (IT) personnel to the Agency of Digital Services (ADS) was negligible. While the operating loss of \$2,500,356 in the Communications & Information Technology (CIT) Fund for fiscal year 2018 can be attributed to the movement of personnel, it is due to the accrual basis accounting treatment of payroll costs and compensated absences, and of their discreet capture in the CIT Fund for the first time. For fiscal years prior to the ADS consolidation of IT personnel, the accrued payroll expenses and the recognition of compensated absences among respective Departments and Agencies for IT personnel were presented in aggregate and imbedded within the Governmental Activities of the Government-wide Financial Statements, which are also prepared using the accrual basis of accounting. Beginning in fiscal year 2019 and going forward, both accounts receivable billing practices and budgeted rates for ADS services will closely match operating costs, account for payroll expenses accrued during fiscal year 2018, and begin to mitigate the cumulative fund deficit.

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 will implement modest rate increases, while continuing 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) have not been fully funded in recent years. Program management will attempt to address the fund deficit through improved business operations, while continuing to explore efficiencies gained through a partnership and co-location with the Copy Center. Additional structural changes may be required if operations management

cannot fully address the fund deficit.

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 elimination of the deficit.

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 initially operated with staff and operating costs but lacked associated revenue. The Administration has added a surcharge to the existing leases to cover the operating expenses and deficit. Program management has also addressed, via corrective agreements and billings, a few instances of tenant subsidization where invoicing did not recover the full cost of the leased space.

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 surcharge or rate increases may be required if operating experience continues to trend at a loss.

The Risk Management All Other Fund purchases commercial policies for state agencies and departments. The cost of the policies are charged back to departments, most with a 5% administrative premium. The property insurance portion of the program will fluctuate from year to year depending on how closely the annual billing was set relative to the actual net policy costs. FY18 ended in a deficit position, down from a FY17 surplus, due to actual net expenses exceeding program billings. This deficit will be addressed in future rates setting calculations.

The deficit balance in the Human Resources Services (HRS) Fund is associated with the creation of the Ethics Commission. The Commission was established during FY18, but associated revenue was not built into the HRS fund rate setting calculations until FY19. The resulting deficit will be addressed during future budgeting cycles.

Fiduciary Funds

In fiscal year 2018, the cost of other postemployment benefits for retired members of the Vermont Retired Teachers' Health and Benefits' Fund were in excess of the contributions paid to the fund, and the fund ended the year with a deficit net position. The statute creating this fund (16 V.S.A. 1944b) authorizes the State Treasurer to use interfund borrowings of up to \$28.5 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, and other post employment benefits funds, at June 30, 2018, were \$473,329,778. Of these, \$3,132,823 were exposed to custodial credit risk as uninsured and collateralized with securities held in the name of pledging financial institutions.

The Unemployment Compensation Trust Fund had \$431,606,230 on deposit with the U.S. Treasury at June 30, 2018. 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, 2018, totaled \$11,800,609 none of which was exposed to custodial credit risk.

B. Investments

Primary Government—Excluding All Pension, and Other Postemployment Benefits 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 Agency of Natural Resources 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, 2018 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.....	\$ 112,182	\$ 112,182	\$ -	\$ -
Commercial Paper.....	5,497	5,497	-	-
Total debt investments.....	<u>117,679</u>	<u>117,679</u>	-	-
Equities:				
Equity Securities.....	2,861	2,861	-	-
Total investments by fair value level.....	<u>120,540</u>	<u>\$ 120,540</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Investments measured by net asset value (NAV)</u>		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Money Market Mutual Funds.....	264,169	-	Daily	-
Fixed Income Mutual Funds.....	24,663	-	Daily, monthly	1-30 days
Equity Mutual Funds.....	18,417	-	Daily, monthly	1-60 days
Total investments by NAV.....	<u>307,249</u>			
Total investments.....	<u>\$ 427,789</u>			

\$264,167 of the above money market mutual funds 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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates for investments, other than pension and investment trust funds' investments. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2018 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.....	\$ 112,182	\$ 111,388	\$ 483	\$ 173	\$ 138
Money Market Mutual Funds.....	264,169	264,169	-	-	-
Fixed Income Mutual Funds.....	24,663	24,663	-	-	-
Commercial Paper.....	5,497	5,497	-	-	-
Total Debt Investments.....	<u>406,511</u>	<u>\$ 405,717</u>	<u>\$ 483</u>	<u>\$ 173</u>	<u>\$ 138</u>
Other Investments:					
Equity Securities.....	2,861				
Equity Mutual Funds.....	<u>18,417</u>				
Total Investments.....	<u>\$ 427,789</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, 2018, 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, 2018 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, 2018, 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>Aa3</u>	<u>Unrated</u>
Money Market Mutual Funds.....	\$ 264,169	\$ 264,169	\$ -	\$ -
Fixed Income Mutual Funds.....	24,663	-	-	24,663
Commercial Paper.....	5,497	-	5,497	-
Totals.....	<u>\$ 294,329</u>	<u>\$ 264,169</u>	<u>\$ 5,497</u>	<u>\$ 24,663</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, 2018, was \$0.

Primary Government—Pension, and Other Postemployment Benefits 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 VPIC. 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 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, 2018, for the Pension and OPEB trust funds.

Pension and Other Postemployment Benefits

Trust Funds' Investments

(Expressed in Thousands)

Investments by fair value level	Fair Value	Fair Value Measurement Level		
		Level 1	Level 2	Level 3
Debt securities:				
US Agencies/Treasuries.....	\$ 205,941	\$ -	\$ 205,941	\$ -
Corporate Debt.....	210,721	-	210,721	-
Certificates of Deposit.....	1,851	-	1,851	-
Municipals.....	6,013	-	6,013	-
Asset Backed Securities.....	27,421	-	27,421	-
Mortgage Backed Securities.....	100,804	-	100,804	-
Sovereign Debt.....	16,866	-	16,866	-
Repurchase Agreement.....	(3,368)	-	(3,368)	-
Total debt securities.....	<u>566,249</u>	-	<u>566,249</u>	-
Equity investments:				
Stock Securities.....	<u>641,446</u>	<u>641,282</u>	-	<u>164</u>
Investment derivatives:				
Swaps.....	2,918	-	2,918	-
Options.....	(19)	(10)	(9)	-
Total investment derivatives.....	<u>2,899</u>	<u>(10)</u>	<u>2,909</u>	-
Total investments by fair value level.....	<u>1,210,594</u>	<u>\$ 641,272</u>	<u>\$ 569,158</u>	<u>\$ 164</u>

Investments measured at the net asset value (NAV)

		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled Fixed Income Mutual Funds.....	816,250	-	Daily, monthly	1-30 days
Commingled Equity Mutual Funds.....	1,649,472	-	Daily, monthly	1-60 days
Mutual Funds.....	370,528	-	Monthly, quarterly	90 days
Money Market Mutual Fund.....	25,361	-	Daily	-
Real Estate Funds.....	216,991	100,000	-	-
Private Partnerships.....	203,191	348,722	-	-
Total investments measured at NAV.....	<u>3,281,793</u>			
Total investments.....	<u>\$ 4,492,387</u>			

(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.....	\$ 205,941	\$ -	\$ 119,983	\$ 64,410	\$ 21,548
Corporate Debt.....	210,721	6,429	106,932	78,367	18,993
Money Market Mutual Fund.....	25,361	25,361	-	-	-
Certificates of Deposit.....	1,851	1,851	-	-	-
Municipals.....	6,013	-	913	407	4,693
Asset Backed Securities.....	27,421	-	1,076	598	25,747
Collateralized Mortgage Obligations....	100,804	799	166	369	99,470
Sovereign Debt.....	16,866	4,801	3,772	3,905	4,388
Repurchase Agreement.....	(3,368)	(3,368)	-	-	-
Fixed Income Mutual Funds.....	816,250	816,250	-	-	-
Total Debt Investments.....	<u>1,407,860</u>	<u>\$ 852,123</u>	<u>\$ 232,842</u>	<u>\$ 148,056</u>	<u>\$ 174,839</u>
Other Investments:					
Equity Mutual Funds.....	1,649,472				
Equity Securities.....	641,446				
Mutual Funds.....	370,528				
Real Estate.....	216,991				
Private Partnerships.....	203,191				
Fixed Income - Derivatives.....	2,899				
Total.....	<u>\$ 4,492,387</u>				

The above money market mutual funds of \$25,361 and repurchase agreements of \$(3,368) 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, 2018, 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, 2018, 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	Quality Ratings		
	Value	Aaa	Aa	A
Corporate Debt.....	\$ 210,721	\$ -	\$ 3,434	\$ 30,359
Money Market Mutual Funds.....	25,361	-	-	-
Certificates of Deposit.....	1,851	-	-	-
Municipals.....	6,013	-	3,482	417
Asset Backed Securities.....	27,421	1,482	2,198	1,446
Collateralized Mortgage Obligations...	100,804	2,916	272	-
Sovereign Debt.....	16,866	639	3,112	3,921
Repurchase Agreement.....	(3,368)	-	-	-
Fixed Income Mutual Funds.....	816,250	-	-	-
Totals.....	<u>\$ 1,201,919</u>	<u>\$ 5,037</u>	<u>\$ 12,498</u>	<u>\$ 36,143</u>

Debt Investments	Quality Ratings			
	Baa	Ba	B and below	Unrated
Corporate Debt.....	\$ 51,882	\$ 26,281	\$ 61,599	\$ 37,166
Money Market Mutual Funds.....	-	-	-	25,361
Certificates of Deposit.....	-	-	-	1,851
Municipals.....	783	-	-	1,331
Asset Backed Securities.....	5,808	1,050	11,795	3,642
Collateralized Mortgage Obligations...	2,829	582	5,753	88,452
Sovereign Debt.....	1,450	696	718	6,330
Repurchase Agreement.....	-	-	-	(3,368)
Fixed Income Mutual Funds.....	-	-	-	816,250
Totals.....	<u>\$ 62,752</u>	<u>\$ 28,609</u>	<u>\$ 79,865</u>	<u>\$ 977,015</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>
Argentine Peso.....	\$ 1,093	\$ 110	\$ 990	\$ -	\$ (7)
Australian Dollar.....	13,475	24	-	13,446	5
Brazilian Real.....	(60)	-	-	-	(60)
Canadian Dollar.....	8,224	48	-	8,161	15
Danish Krone.....	4,671	-	-	4,671	-
Egyptian Pound.....	9	-	-	-	9
Euro.....	99,473	89	10,623	88,648	113
Hong Kong Dollar.....	9,552	404	-	9,148	-
Indonesian Rupiah	37	-	-	37	-
Israeli Shekel.....	990	16	-	974	-
Japanese Yen.....	55,317	1,089	-	54,539	(311)
Malaysian Ringgit.....	1,580	31	-	1,549	-
Mexican Peso.....	322	76	-	291	(45)
New Taiwan Dollar.....	11	-	-	-	11
New Turkish Lira.....	63	8	-	70	(15)
New Zealand Dollar.....	1,065	2	639	402	22
Norwegian Krone.....	1,215	47	-	1,168	-
Philippine Peso.....	1	1	-	-	-
Polish Zloty.....	44	25	-	19	-
Pound Sterling.....	49,826	794	5,177	44,015	(160)
Russian Ruble.....	(2)	-	-	-	(2)
Singapore Dollar.....	10,498	-	-	10,486	12
South African Rand.....	2,698	136	-	2,563	(1)
South Korean Won.....	3,777	48	-	3,729	-
Swedish Krona.....	10,522	(11)	-	10,533	-
Swiss Franc.....	13,345	-	-	13,345	-
Thai Baht.....	433	3	-	430	-
United Kingdom Pound.....	140	-	-	85	55
Yuan Renminbi.....	2,513	27	-	2,486	-
Totals.....	<u>\$ 290,832</u>	<u>\$ 2,967</u>	<u>\$ 17,429</u>	<u>\$ 270,795</u>	<u>\$ (359)</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, 2018, 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, 2018, 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, 2018		Notional
	Classification	Amount	Classification	Amount	
Investment derivatives					
Futures					
Fixed income futures.....	Investment revenue	\$ 364	Investment	\$ -	-
Options					
Fixed income options.....	Investment revenue	20	Investment	(10)	-
Other options.....	Investment revenue	33	Investment	(9)	(15,900)
Swaps					
Credit default swaps.....	Investment revenue	36	Investment	36	6,000
Credit index swaps.....	Investment revenue	(215)	Investment	(215)	4,611
Fixed interest rate swaps.....	Investment revenue	3,284	Investment	3,284	2,570,430
Swaptions					
Fixed income swaptions.....	Investment revenue	(177)	Investment	(187)	17,250
Currency forwards					
FX forwards.....	Investment revenue	(7)	Investment	-	(2,512) Argentine Peso
	Investment revenue	5	Investment	-	(380) Australian Dollar
	Investment revenue	(15)	Investment	-	(1,733) Brazilian Real
	Investment revenue	15	Investment	-	(1,328) Canadian Dollar
	Investment revenue	9	Investment	-	6,784 Egyptian Pound
	Investment revenue	79	Investment	-	(9,927) Euro
	Investment revenue	55	Investment	-	(4,100) Pound Sterling
	Investment revenue	-	Investment	-	(2,280) Hong Kong Dollar
	Investment revenue	10	Investment	-	(15,164) Japanese Yen
	Investment revenue	(2)	Investment	-	818 Mexican Peso
	Investment revenue	23	Investment	-	(835) New Zealand Dollar
	Investment revenue	(2)	Investment	-	53,819 Russian Rubble
	Investment revenue	-	Investment	-	(187) Swedish Krona
	Investment revenue	12	Investment	-	(636) Singapore Dollar
	Investment revenue	(15)	Investment	-	1,256 Turkish Lira
	Investment revenue	11	Investment	-	(13,942) New Taiwan Dollar
	Investment revenue	(1)	Investment	-	(4,019) South African Rand

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, 2018, 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, 2018, currency forward positions consisted of unrealized gains on pending foreign exchange sales of \$176,916.

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 2018 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, 2018:

<u>Moody's Rating</u>	<u>Market Value</u>
Aa3.....	\$ 115,397
A2.....	27,702
A1.....	124,065
Not rated.....	86,418
Total.....	<u>\$ 353,582</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, 2018, risk concentrations are as shown in the following table:

<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.....	30.94%	Aa3	A+	AA-
Barclays Bank PLC.....	7.45%	A2	A	A
BNP Paribas S.A.....	0.05%	Aa3	A	A+
Citibank NA.....	8.78%	A1	A+	A+
Citigroup Global Markets, Inc.....	0.38%	A2	A+	A+
Goldman Sachs Bank USA.....	26.23%	A1	A+	A+
Goldman Sachs International.....	0.08%	A1	A+	A
HSBC Bank USA, N.A.....	0.05%	Aa3	AA-	AA
JP Morgan Chase Bank, N.A.....	1.58%	Aa3	A+	AA-
Merrill Lynch Pierce Fenner & Smith....	0.96%	-	A+	AA-
Morgan Stanley Capital Services LLC...	21.55%	-	A+	-
SG Americas Securities LLC.....	1.93%	-	-	-

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, 2018, consists of the aggregated fair value of OTC positions in the amount of \$384.

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, 2018 are summarized as follows:

	<u>Enterprise Funds</u>		<u>Total Business-type Activities</u>
	<u>Major</u>	<u>Non-major</u>	
Business-type activities			
Taxes			
Unemployment.....	\$ 40,611,907	\$ 2,127,637	\$ 42,739,544
Allowance for uncollectibles.....	(6,395,390)	(1,304,442)	(7,699,832)
Taxes receivable, net.....	<u>\$ 34,216,517</u>	<u>\$ 823,195</u>	<u>\$ 35,039,712</u>
Loans and notes receivable.....	<u>\$ -</u>	<u>\$ 1,057,452</u>	<u>\$ 1,057,452</u>
Current receivable.....			\$ 365,015
Non-current receivable.....			692,437
Total loans and notes receivable, net.....			<u>\$ 1,057,452</u>
Federal grants.....	<u>\$ 495,796</u>	<u>\$ -</u>	<u>\$ 495,796</u>
Other			
Accrued interest and other receivables....	\$ 6,204,426	\$ 406,476	\$ 6,610,902
Allowance for uncollectibles.....	(139,052)	(22,778)	(161,830)
Other receivables, net	<u>\$ 6,065,374</u>	<u>\$ 383,698</u>	<u>\$ 6,449,072</u>
Current receivable.....			\$ 6,443,213
Non-current receivable.....			5,859
Total other receivable, net.....			<u>\$ 6,449,072</u>

continued on following page

	Governmental Funds		Internal Service Funds	Total Governmental Activities
	Major	Non-major		
Governmental activities				
Taxes				
Personal and corporate income.....	\$ 148,551,007	\$ -	\$ -	\$ 148,551,007
Sales and use.....	73,745,714	-	-	73,745,714
Meals and rooms.....	44,564,371	-	-	44,564,371
Purchase and use.....	456,735	-	-	456,735
Motor Fuel.....	3,388,056	81,726	-	3,469,782
Other taxes.....	103,455,930	-	-	103,455,930
Subtotal.....	374,161,813	81,726	-	374,243,539
Allowance for uncollectibles.....	(123,322,354)	-	-	(123,322,354)
Taxes receivable, net.....	\$ 250,839,459	\$ 81,726	\$ -	\$ 250,921,185
				Current receivable..... \$ 117,244,361
				Non-current receivable..... 133,676,824
				Total taxes receivable, net..... \$ 250,921,185
Loans and notes				
Loans and notes receivable.....	\$ 293,426,443	\$ -	\$ 3,628,716	\$ 297,055,159
Allowance for uncollectibles.....	(859,200)	-	-	(859,200)
Loans and notes receivable, net...	\$ 292,567,243	\$ -	\$ 3,628,716	\$ 296,195,959
				Current receivable..... \$ 34,326,895
				Non-current receivable..... 261,869,064
				Total loans and notes receivable, net.... \$ 296,195,959
Federal grants				
Human services.....	\$ 131,455,108	\$ -	\$ -	\$ 131,455,108
General education.....	12,147,957	-	-	12,147,957
Transportation.....	42,671,376	-	-	42,671,376
Other.....	27,152,459	10,936	-	27,163,395
Federal grants.....	\$ 213,426,900	\$ 10,936	\$ -	\$ 213,437,836
Other				
Accrued interest and other receivables....	\$ 125,992,517	\$ 11,975	\$ 21,797,271	\$ 147,801,763
Allowance for uncollectibles.....	(40,049,807)	(7,589)	(167,283)	(40,224,679)
Other receivables, net.....	\$ 85,942,710	\$ 4,386	\$ 21,629,988	107,577,084
Interfund loans receivable and due from other funds from Fiduciary Funds.....				28,347,885
Less Internal Service Funds' receivables from Governmental Funds.....				(9,011,393)
Other receivables, net.....				\$ 126,913,576
				Current receivable..... \$ 83,141,476
				Non-current receivable..... 43,772,100
				Total other receivable, net..... \$ 126,913,576

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, 2018, are as follows:

Due From Other Funds	Due to Other Funds			
	Governmental Funds			
	General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	\$ -	\$ 12,231	\$ -	\$ 158,833
Transportation Fund	4,064	-	-	7,851
Education Fund	-	-	-	16,180
Special Fund	705,264	555,420	-	-
Federal Revenue Fund	345,757	-	-	331,474
Global Commitment Fund	2,932,315	-	-	2,873,989
Non-major Governmental Funds	368	-	-	-
Liquor Control Fund	-	-	-	5,794
Vermont Lottery Commission	-	-	17,295	-
Internal Service Funds	1,228,004	2,077,191	258	10,173,091
Total	\$ 5,215,772	\$ 2,644,842	\$ 17,553	\$ 13,567,212

continued below

Due From Other Funds	Due to Other Funds				
	Governmental Funds			Proprietary Funds	
	Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Internal Service Funds	Unemployment Compensation Trust Fund
General Fund	\$ 96,031	\$ 3,590,999	\$ 3,947	\$ 77,702	\$ -
Transportation Fund	2,512	190	80	42,904	-
Special Fund	2,659,582	30,074	474,616	344,516	-
Federal Revenue Fund	-	109,405	-	8	-
Global Commitment Fund	257,019	-	-	-	-
Non-major Governmental Funds	-	-	-	12,669	-
Non-major Enterprise Funds	-	-	-	-	169,222
Internal Service Funds	664,770	101,987	84,289	-	-
Total	\$ 3,679,914	\$ 3,832,655	\$ 562,932	\$ 477,799	\$ 169,222

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Due From Other Funds	Due to Other Funds			Total
	Proprietary Funds			
	Liquor Control Fund	Vermont Lottery Fund	Non-major Enterprise Funds	
General Fund	\$ -	\$ -	\$ -	\$ 3,939,743
Transportation Fund	-	-	-	57,601
Education Fund	316,056	-	-	332,236
Special Fund	-	-	-	4,769,472
Federal Revenue Fund	-	-	-	786,644
Global Commitment Fund	-	-	-	6,063,323
Non-major Governmental Funds	-	-	-	13,037
Liquor Control Fund	-	-	-	5,794
Vermont Lottery Commission	-	-	-	17,295
Non-major Enterprise Funds	-	-	-	169,222
Internal Service Funds	9,990	6,494	638	14,346,712
Total	\$ 326,046	\$ 6,494	\$ 638	\$ 30,501,079

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, 2018, 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 Transportation Fund reports the corresponding interfund receivable for the cash borrowed from the Highway Garage Internal Service Fund. The General Fund reports the corresponding interfund receivable for the cash borrowed from the rest of the pool. The following funds at June 30, 2018, reported interfund payables. It is expected that certain amounts due the General Fund and Transportation Fund from the Internal Service Funds will not be repaid within one year. It is expected that these interfund payable amounts will be reduced in future years through changes to billing rates and management of operations.

	General Fund	Transportation Fund	Totals
Proprietary Funds			
Non-major Enterprise Funds	\$ 156,228	\$ -	\$ 156,228
Internal Service Funds	63,259,007	738,582	63,997,589
Fiduciary Funds			
Pension and OPEB Trust Funds	28,300,000	-	28,300,000
Agency Funds	47,885	-	47,885
Total	\$ 91,763,120	\$ 738,582	\$ 92,501,702

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, 2018, 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.

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, 2018, these account balances are as follows:

	<u>Vermont Housing & Conservation Board</u>
Due from Component Units	
General Fund	\$ 746,149
Due to Component Units	
Non-major Governmental Funds	<u>(2,923,917)</u>
Total	<u>\$ (2,177,768)</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 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, 2018, are as follows:

(Table on next page.)

Transfers Out				
Governmental Funds				
Transfers in	Transportation			
	General Fund	Fund	Education Fund	Special Fund
General Fund	\$ -	\$ -	\$ -	\$ 41,666,314
Education Fund	348,165,753	-	-	10,158,939
Special Fund	4,212,405	1,506,040	11,599	-
Global Commitment Fund	230,159,121	-	-	277,535,090
Non-major Governmental Funds	67,817,542	4,662,483	-	2,004,111
Non-major Enterprise Funds	3,536,000	-	-	-
Internal Service Funds	-	1,296,047	-	-
Total	\$ 653,890,821	\$ 7,464,570	\$ 11,599	\$ 331,364,454

continued below

Transfers Out				
Governmental Funds				Proprietary Funds
Transfers in	Federal Revenue	Global Commitment	Non-major	Liquor Control
	Fund	Funds	Governmental	Fund
	Fund	Funds	Funds	Fund
General Fund	\$ 32,971,342	\$ 1,700,000	\$ -	\$ 1,055,000
Special Fund	37,172,142	27,718,611	110,000	20,106
Federal Revenue Fund	-	-	3,485,679	-
Non-major Governmental Funds	1,130,146	-	-	-
Total	\$ 71,273,630	\$ 29,418,611	\$ 3,595,679	\$ 1,075,106

continued below

Transfers Out				
Proprietary Funds				
Transfers in	Vermont Lottery	Non-major	Internal Service	Total
	Commission	Enterprise Funds	Funds	
General Fund	\$ -	\$ -	\$ -	\$ 77,392,656
Transportation Fund	-	-	1,100,000	1,100,000
Education Fund	27,153,843	-	-	385,478,535
Special Fund	-	775,000	-	71,525,903
Federal Revenue Fund	-	-	-	3,485,679
Global Commitment Fund	-	-	-	507,694,211
Non-major Governmental Funds	-	-	-	75,614,282
Non-major Enterprise Funds	-	-	-	3,536,000
Internal Service Funds	-	-	-	1,296,047
Total	\$ 27,153,843	\$ 775,000	\$ 1,100,000	\$ 1,127,123,313

E. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, 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	\$ 149,691,153	\$ 3,425,632	\$ -	\$ -	\$ 153,116,785
Construction in process	645,524,647	282,347,875	(290,900,104)	(15,496,742)	621,475,676
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	<u>795,351,803</u>	<u>285,773,507</u>	<u>(290,900,104)</u>	<u>(15,496,742)</u>	<u>774,728,464</u>
Capital assets, being depreciated					
Buildings and improvements	707,010,104	5,602,267	(3,480,950)	-	709,131,421
Machinery and equipment	494,159,892	55,801,490	(14,024,944)	55,100	535,991,538
Infrastructure	<u>2,448,652,417</u>	<u>269,652,884</u>	<u>(53,086,040)</u>	<u>-</u>	<u>2,665,219,261</u>
Total capital assets, being depreciated	<u>3,649,822,413</u>	<u>331,056,641</u>	<u>(70,591,934)</u>	<u>55,100</u>	<u>3,910,342,220</u>
Less accumulated depreciation for					
Buildings and improvements	(259,362,888)	(22,775,586)	2,443,803	-	(279,694,671)
Machinery and equipment	(217,322,119)	(61,429,261)	12,661,383	-	(266,089,997)
Infrastructure	<u>(1,072,809,951)</u>	<u>(114,120,884)</u>	<u>52,572,487</u>	<u>-</u>	<u>(1,134,358,348)</u>
Total accumulated depreciation	<u>(1,549,494,958)</u>	<u>(198,325,731)</u>	<u>67,677,673</u>	<u>-</u>	<u>(1,680,143,016)</u>
Capital assets, being depreciated, net	<u>2,100,327,455</u>	<u>132,730,910</u>	<u>(2,914,261)</u>	<u>55,100</u>	<u>2,230,199,204</u>
Governmental activities capital assets, net	<u>\$ 2,895,679,258</u>	<u>\$ 418,504,417</u>	<u>\$ (293,814,365)</u>	<u>\$ (15,441,642)</u>	<u>\$ 3,004,927,668</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	\$ 237,143	\$ 1,606,350	\$ -	\$ -	\$ 1,843,493
Total capital assets, not being depreciated	<u>237,143</u>	<u>1,606,350</u>	<u>-</u>	<u>-</u>	<u>1,843,493</u>
Capital assets, being depreciated					
Buildings and improvements	59,935	-	-	-	59,935
Machinery and equipment	<u>2,296,850</u>	<u>118,975</u>	<u>(113,348)</u>	<u>-</u>	<u>2,302,477</u>
Total capital assets, being depreciated	<u>2,356,785</u>	<u>118,975</u>	<u>(113,348)</u>	<u>-</u>	<u>2,362,412</u>
Less accumulated depreciation for					
Buildings and improvements	(58,862)	(1,030)	-	-	(59,892)
Machinery and equipment	<u>(1,638,297)</u>	<u>(206,801)</u>	<u>113,348</u>	<u>-</u>	<u>(1,731,750)</u>
Total accumulated depreciation	<u>(1,697,159)</u>	<u>(207,831)</u>	<u>113,348</u>	<u>-</u>	<u>(1,791,642)</u>
Capital assets, being depreciated, net	<u>659,626</u>	<u>(88,856)</u>	<u>-</u>	<u>-</u>	<u>570,770</u>
Business-type activities capital assets, net	<u>\$ 896,769</u>	<u>\$ 1,517,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,414,263</u>

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, being depreciated					
Machinery and equipment	\$ 8,367,639	\$ 20,098	\$ -	\$ -	\$ 8,387,737
Total capital assets, being depreciated	8,367,639	20,098	-	-	8,387,737
Less accumulated depreciation for					
Machinery and equipment	(3,547,074)	(806,766)	-	-	(4,353,840)
Total accumulated depreciation	(3,547,074)	(806,766)	-	-	(4,353,840)
Fiduciary activities capital assets, net	\$ 4,820,565	\$ (786,668)	\$ -	\$ -	\$ 4,033,897

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

Governmental Activities

General Government	\$ 25,579,537
Protection to Persons and Property	8,868,088
Human Services	35,346,709
Labor	121,142
General Education	309,510
Natural Resources	2,623,235
Commerce & Community Development	324,310
Transportation	113,501,677
Depreciation on capital assets held by Internal Service Funds	<u>11,651,523</u>

Total \$ 198,325,731

Business-type Activities

Liquor Control	\$ 200,419
Vermont Lottery Commission	<u>7,412</u>
Total	<u>\$ 207,831</u>

Fiduciary Activities

Pension Trust Funds	\$ 806,385
Private Purpose Trust Fund	<u>381</u>

Total \$ 806,766

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, 2017	\$ 8,608,675
Current year amortization	<u>(1,168,705)</u>
Balance, June 30, 2018	<u>\$ 7,439,970</u>

Additional information regarding governmental and business-type activities' deferred outflows of resources and deferred inflows of resources related to pension and OPEB 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 2018 are summarized in the following schedule:

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2017	\$ 577,060,000	\$ 28,340,000	\$ 605,400,000
Additions:			
Issuances	106,095,000	-	106,095,000
Total	106,095,000	-	106,095,000
Deductions:			
Redemptions	(47,345,000)	(1,590,000)	(48,935,000)
Total	(47,345,000)	(1,590,000)	(48,935,000)
Balance, June 30, 2018	\$ 635,810,000	\$ 26,750,000	\$ 662,560,000

General obligation and special obligation transportation infrastructure bonds outstanding at June 30, 2018, are shown on the following page:

General Obligation and Special Obligation Transportation Infrastructure Bonds Outstanding at June 30, 2018

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:						
3/11/2009	3/1/2029	2.0 to 5.0	\$ 50,500,000	\$ 1,265,000	\$ 1,260,000	\$ 2,525,000
2/3/2010	8/15/2029	3.75 to 5.2	40,800,000	39,200,000	-	39,200,000
3/11/2010	8/15/2019	2.0 to 2.8	20,000,000	4,000,000	-	4,000,000
3/11/2010	8/15/2021	2.0 to 5.0	29,155,000	13,105,000	-	13,105,000
3/11/2010	8/15/2021	2.0 to 5.0	9,675,000	6,815,000	-	6,815,000
10/26/2010	8/15/2030	1.45 to 4.7	46,250,000	41,250,000	-	41,250,000
11/30/2010	8/15/2020	1.5 to 5.0	25,000,000	7,500,000	-	7,500,000
3/21/2012	8/15/2022	0.6 to 3.0	25,000,000	12,950,000	-	12,950,000
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	48,610,901	789,099	49,400,000
10/11/2012	8/15/2024	2.0 to 5.0	26,765,000	17,030,000	-	17,030,000
10/11/2012	8/15/2032	2.0 to 5.0	66,420,000	52,855,000	-	52,855,000
11/14/2013	8/15/2028	2.0 to 5.0	25,000,000	14,770,000	-	14,770,000
11/14/2013	8/15/2033	2.0 to 5.0	42,810,000	39,470,000	-	39,470,000
11/14/2013	8/15/2024	3.0 to 5.0	18,935,000	3,945,000	-	3,945,000
12/9/2014	8/15/2029	0.14 to 5.0	20,310,000	15,255,000	-	15,255,000
12/9/2014	8/15/2034	5.0	53,245,000	47,260,000	-	47,260,000
12/9/2014	8/15/2027	3.0 to 5.0	36,205,000	27,875,000	-	27,875,000
10/22/2015	8/15/2030	2.0 to 5.0	28,515,000	25,715,000	-	25,715,000
10/22/2015	8/15/2035	2.625 to 5.0	61,345,000	55,155,000	-	55,155,000
10/22/2015	8/15/2028	2.0 to 4.0	25,720,000	23,040,000	2,600,000	25,640,000
9/13/2017	8/15/2037	2.0 to 5.0	34,700,000	34,700,000	-	34,700,000
9/13/2017	8/15/2037	2.25 to 5.0	71,395,000	71,395,000	-	71,395,000
Total General Obligation Current Interest Bonds				631,160,901	4,649,099	635,810,000
Special Obligation Transportation Infrastructure Bonds:						
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000	-	9,555,000	9,555,000
8/9/2012	6/15/2032	2.0 to 3.0	10,820,000	-	8,065,000	8,065,000
8/8/2013	6/15/2033	3.0 to 4.25	11,165,000	-	9,130,000	9,130,000
Total Special Obligation Transportation Bonds				-	26,750,000	26,750,000
Total General Obligation and Special Obligation Bonds				\$ 631,160,901	\$ 31,399,099	\$ 662,560,000

At June 30, 2018, there remains \$109,170,583 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2018 are as follows:

Fiscal Year	General Obligation Current Interest Bonds		Special Obligation Current Interest Bonds		Total
	Principal	Interest	Principal	Interest	
2019	\$ 51,760,000	\$ 23,832,779	\$ 1,635,000	\$ 869,688	\$ 78,097,467
2020	50,045,000	21,796,934	1,675,000	822,663	74,339,597
2021	50,110,000	19,760,226	1,730,000	772,613	72,372,839
2022	47,340,000	17,766,344	1,785,000	720,863	67,612,207
2023	45,505,000	15,923,688	1,835,000	667,363	63,931,051
2024-2028	202,395,000	53,900,006	10,020,000	2,486,688	268,801,694
2029-2033	137,925,000	20,333,719	8,070,000	762,547	167,091,266
2034-2038	50,730,000	3,257,577	-	-	53,987,577
Totals	<u>\$ 635,810,000</u>	<u>\$ 176,571,273</u>	<u>\$ 26,750,000</u>	<u>\$ 7,102,425</u>	<u>\$ 846,233,698</u>

2. Bond Refundings

During fiscal year 2016, 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, 2018, is \$25,250,000.

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 2018 was \$9,995,944 for operating leases of which \$9,803,490 was paid for property leases, \$158,304 for equipment leases, \$30,804 for non-cancellable land leases and \$3,346 for cancellable 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, 2018:

(Table on next page.)

<u>Fiscal Year</u>	<u>Primary Government</u>		
	<u>Non-Cancelable Leases</u>	<u>Cancelable Leases</u>	<u>Total</u>
2019.....	\$ 12,730,377	\$ 3,387	\$ 12,733,764
2020.....	11,330,355	3,387	11,333,742
2021.....	10,654,043	2,187	10,656,230
2022.....	9,448,257	446	9,448,703
2023.....	6,214,865	446	6,215,311
2024 - 2028....	9,538,429	2,230	9,540,659
2029 - 2033....	5,000	2,230	7,230
2034 - 2038....	3,000	2,230	5,230
Totals	<u>\$ 59,924,326</u>	<u>\$ 16,543</u>	<u>\$ 59,940,869</u>

B. Capital Leases

The State's future minimum lease obligations are commitments under the following two agreements. The State leases office facilities for various State Agencies and Departments under an agreement which is one piece of a multi-part downtown redevelopment strategy for the City of Saint Albans. 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. In addition, the State has one lease agreement which expires on September 1, 2018 for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex.

Capital lease payments for the primary government in 2018 totaled \$1,218,975 with \$1,948 for machinery and equipment and \$418,296 for building improvements, and \$798,731 for the building lease in Saint Albans.

As of June 30, 2018, the historical cost of the primary government's assets acquired through capital leases was \$13,028,832 for buildings and improvements, less accumulated depreciation of \$4,503,985 results in a net amount of \$8,524,847 for primary government's assets acquired through capital leases.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2018 are as follows:

<u>Fiscal Year</u>	<u>Primary Government</u>
2019.....	\$ 922,040
2020.....	835,079
2021.....	853,868
2022	873,080
2023	892,724
2024 - 2028	4,774,108
2029 - 2033	5,335,914
2034 - 2038	<u>1,619,802</u>
Total minimum lease payments.....	16,106,615
Less interest.....	<u>(6,355,405)</u>
Present value of minimum lease payments....	<u>\$ 9,751,210</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 three 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 and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the pension and OPEB plans and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by the pension and OPEB 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, 2018. Securities without an established market are reported at estimated fair value. Additional information on the plans' investments may be found in Note IV. B. - Investments.

The State annually establishes a state defined benefit retirement contribution rate. The fiscal year 2018 employer contribution rate was 17.47% of payroll and consists of the following two components: 10.35% for Vermont State Retirement System defined benefit pension plan (VSRS) and 7.12% for the Vermont State Postemployment Benefits Trust Fund defined benefit OPEB plan (VSPB). The rates reflect estimates to fund the VSRS actuarially determined contribution and the VSPB pay-as-you-go amounts. These amounts are estimates and may differ from the funding required to meet VSPB pay-as-you-go amounts. Currently, contributions in excess of VSPB pay-as-you-go amounts are deposited directly to VSRS. Contributions to VSRS and VSPB totaled \$64.6 million and \$33.0 million, respectively, for the fiscal year ended June 30, 2018.

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 (NPL), 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, 2018 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, 2018.

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 Vermont 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, 2018, the retirement system consisted of 225 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, 2018, the retirement system consisted of 402 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, 2018, the State Treasurer's Office reports the following membership of each of the defined benefit plans by status and group:

	Vermont State Retirement System	Vermont State Teachers Retirement System	Vermont Municipal Employees Retirement System
Total Active Members	8,530	9,892	7,452
Retirees and beneficiaries currently receiving benefits	6,974	9,269	3,189
Terminated employees entitled to benefits but not yet receiving them (vested)	753	787	798
Inactive members	1,267	2,613	2,516
Total Members	<u>17,524</u>	<u>22,561</u>	<u>13,955</u>

(Notes continue on next page.)

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, 2018 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	10.35% 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, 2018 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 2016 actuarial recommendation of amount needed to fund benefits earned during the year (1.33% of projected payroll), plus amount needed to liquidate the accrued liability over the remaining amortization period (\$80,063,176).		

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, 2018, 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 Cost of Living Adjustment (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 **NOTES TO THE FINANCIAL STATEMENTS**

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 98.2850% of the VSRS net pension liability. The Vermont Veterans' Home (a discrete component unit) is responsible for 1.7150% 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, 2018) and for the State's reporting period (the year ended June 30, 2018). 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, 2018, the State has chosen to use the end of the prior fiscal year (June 30, 2017) as the measurement date, and the year ended June 30, 2017 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, 2016, to the measurement date of June 30, 2017.

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, 2016	\$ 2,271,588	\$ 1,609,650	\$ 661,938	\$ 2,930,423	\$ 1,620,900	\$ 1,309,523
Changes for the year:						
Service cost	42,704	-	42,704	35,383	-	35,383
Interest	178,959	-	178,959	228,939	-	228,939
Difference between expected and actual experience	19,283	-	19,283	12,523	-	12,523
Changes of assumptions	42,725	-	42,725	185,849	-	185,849
Contributions - employer	-	60,280	(60,280)	-	-	-
Contributions - non-employer	-	-	-	-	78,664	(78,664)
Contributions - employee	-	35,967	(35,967)	-	36,142	(36,142)
Net investment income	-	170,358	(170,358)	-	173,167	(173,167)
Benefit payments, including refunds of contributions	(126,480)	(126,480)	-	(172,156)	(172,156)	-
Administrative expenses	-	(1,777)	1,777	-	(2,214)	2,214
Other changes	-	444	(444)	-	4,055	(4,055)
Net changes	<u>157,191</u>	<u>138,792</u>	<u>18,399</u>	<u>290,538</u>	<u>117,658</u>	<u>172,880</u>
Balances - June 30, 2017	<u>\$ 2,428,779</u>	<u>\$ 1,748,442</u>	<u>\$ 680,337</u>	<u>\$ 3,220,961</u>	<u>\$ 1,738,558</u>	<u>\$ 1,482,403</u>
Plan fiduciary net position as a percentage of total pension liability			71.99%			53.98%

Proportionate Share of Net Pension Liability

	VSRS			
	Amount	Proportionate Share		
		2017	2016	Change
Governmental activities	\$ 663,732	97.5593%	97.5359%	0.0235%
Business type activities	4,937	0.7257%	0.8266%	-0.1010%
Discrete component unit	11,668	1.7150%	1.6375%	0.0775%
Total net pension liability	<u>\$ 680,337</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, 2018 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, 2019. As of June 30, 2018, 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	\$ 34,164	\$ -	\$ 596	\$ -
Changes of assumptions	65,583	14,319	1,144	250
Net differences between projected and actual earnings on plan investments	119,588	56,400	2,087	984
Change in proportion and the effect of certain employer contributions on the employer's net pension liability	696	564	316	448
Employer contributions made subsequent to the measurement date	63,414	-	1,150	-
Total	\$ 283,445	\$ 71,283	\$ 5,293	\$ 1,682

Source	State Teachers' Retirement System	
	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,199	\$ -
Changes of assumptions	153,759	3,612
Net differences between projected and actual earnings on plan investments	122,910	60,625
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	110,354	-
Total	\$ 403,222	\$ 64,237

The amounts reported as deferred pension outflows of resources resulting from employer contributions made subsequent to the measurement date (VSRS - \$63.414 million Primary Government and \$1.15 million Component Units; and STRS - \$110.354 million Primary Government), will be recognized as a reduction of the net pension liability at June 30, 2019. 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	Discrete Component Units
2019	\$ 85,849	\$ 39,956	\$ 597
2020	89,891	62,039	983
2021	62,194	34,584	576
2022	(9,303)	2,074	64
2023	-	10,095	241
Total	\$ 228,631	\$ 148,748	\$ 2,461

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, 2018, is as follows (amounts are in thousands):

(Table on next page.)

	State Teachers' Retirement System			Vermont State Retirement System		
	Primary Government	Primary Government	Discrete Component Units	Primary Government	Primary Government	Discrete Component Units
Service cost.....	\$ 35,383	\$ 41,972	\$ 732			
Interest on total pension liability.....	228,939	175,890	3,069			
Employee contributions.....	(36,142)	(35,350)	(617)			
Plan administrative costs.....	2,214	1,746	31			
Other changes.....	(4,055)	(436)	(8)			
Projected earnings on plan investments.....	(126,656)	(124,539)	(2,173)			
Recognition (amortization) of deferred pension outflows of resources:						
Difference between expected and actual experience.....	3,131	3,159	55			
Change in assumptions.....	46,462	6,999	122			
Recognition of deferred outflows from prior periods.....	70,780	63,942	1,116			
Changes in proportional share of contributions.....	-	245	100			
Recognition (amortization) of deferred pension inflows of resources:						
Net difference between projected and actual investment earnings.....	(9,302)	(8,579)	(150)			
Recognition of deferred inflows from prior periods.....	(25,222)	(25,663)	(448)			
Changes in proportional share of contributions.....	-	(184)	(161)			
Total Pension Expense.....	\$ 185,532	\$ 99,202	\$ 1,668			

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, 2016 for VSRS and STRS.

(Table on next page.)

	VSRS	STRS
Valuation date	6/30/2016	6/30/2016
Inflation assumptions	2.50%	2.50%
Investment rate of return	7.50%	7.50%
Projected salary increases	3.50% - 7.04%	3.75% - 9.09%
Cost of living adjustments	Groups A, C & D: 2.55%; Group F: 1.4% and Group F retiring after 7/1/09: 2.55%	Group A: 2.55%; Group C: 1.4%
<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 - 2.55%	For those eligible for increases of 100% of CPI change - 2.55%
	For those eligible for increases of 50% of CPI change - 1.4%	For those eligible for increases of 50% of CPI change - 1.4%
<u>Census Data for 2016 Valuation</u>		
Retired members or beneficiaries currently receiving benefits	6,542	8,763
Inactive members	1,012	2,454
Active members	8,436	9,919
Terminated vested members	728	747

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

Vermont State Retirement System

- *Pre-retirement Mortality:* Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group C were based on RP-2014 Blue Collar Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group D were based on RP-2014 Healthy Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group C were based on RP-2014 Blue Collar Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group D were based on RP-2014 Healthy Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* Groups A, C, D, and F were based on RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont State Teachers' Retirement System

- *Pre-retirement Mortality:* All Groups were based on 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017.

- *Post-retirement Mortality:* All Groups were based on 98% of RP-2014 White Collar Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* All Groups were based on the RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

The actuarial assumptions used in the June 30, 2016 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, 2017 are summarized in the following table:

<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%
Total	<u>100.00%</u>	

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 2.5%.

Discount Rate (Employer Reporting)

The discount rate used to measure the total pension liability as of June 30, 2017 was 7.50% 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, 2017 was

10.33% for VSRS, and 10.17% for STRS. Amounts for the prior year were 1.44%, and 1.69% 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, 2017 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	6.50%	6.50%
Net pension liability	\$ 979,072	\$ 1,836,911
Net pension liability, as reported		
Discount rate	7.50%	7.50%
Net pension liability	\$ 680,337	\$ 1,482,403
One-percent increase		
Discount rate	8.50%	8.50%
Net pension liability	\$ 432,059	\$ 1,186,516

Payable to the Defined Benefit Pension Plan (Employer Reporting)

At June 30, 2018, the State reported a payable of \$5,381,587 for the outstanding amount of contributions to the VSRS pension plan required for the year ended June 30, 2018.

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, 2018. 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, 2017 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year end of June 30, 2018. 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, 2018, are shown as follows with amounts in thousands:

(Table on next page.)

	Vermont State Retirement System	Vermont State Teachers' Retirement System	Vermont Municipal Employees Retirement System
Total pension liability	\$ 2,608,559	\$ 3,343,078	\$ 808,525
Plan fiduciary net position	<u>(1,841,500)</u>	<u>(1,832,373)</u>	<u>(667,849)</u>
Net pension liability	<u>\$ 767,059</u>	<u>\$ 1,510,705</u>	<u>\$ 140,676</u>

Plan fiduciary net position as a percentage of total pension liability

70.59%	54.81%	82.60%
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Additional information regarding changes in the net pension liability for the year ended June 30, 2018 can be found in the Required Supplementary Information section immediately following these notes to the financial statements.

Actuarial Assumptions (Plan Reporting)

The June 30, 2018 total pension liability was determined by rolling forward the total pension liability as of June 30, 2017 to June 30, 2018, using the actuarial assumptions and methods used in the June 30, 2017 actuarial valuation of the plans.

(Table on next page.)

VERMONT	NOTES TO THE FINANCIAL STATEMENTS		
	VSRS	STRS	MERS
Valuation date	6/30/2017	6/30/2017	6/30/2017
Inflation assumptions	2.50%	2.50%	2.50%
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	3.50% - 7.04%	3.75% - 9.09%	5%
Cost of living adjustments	Groups A, C & D and F (retiring on or after 7/1/2008): 2.55%; Group F (retiring before 7/1/2008): 1.5%	Group A: 2.55%; Group C: 1.4%	Group A: 1.15%; Groups B, C, & D: 1.3%
<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, F (retired on or after 7/1/2008) - 5%	Group A - 5%	N/A
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 (retired before 7/1/2008) - 5%	Group C - 5%	Group A - 2%, Groups B, C & D - 3%
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 2017 Valuation</u> Retired members or beneficiaries currently receiving benefits	6,727	9,021	2,942
Inactive members	1,098	2,381	2,221
Active members	8,620	10,028	7,302
Terminated vested members	742	762	797

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

Vermont State Retirement System

- *Pre-retirement Mortality:* Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group C were based on RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group D were based on RP-2006 Healthy Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group C were based on RP-2006 Blue Collar Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group D were based on RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* Groups A, C, D, and F were based on RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont State Teachers' Retirement System

- *Pre-retirement Mortality:* All Groups were based on 98% of RP-2006 White Collar Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* All Groups based on 98% of RP-2006 White Collar Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* All Groups were based on the RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont Municipal Employees Retirement System

- *Pre-retirement Mortality:* Groups A, B, and C were based on 98% of RP-2006 blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using Scale SSA-2017. Mortality rates for active employees in Group D were based on 100% of RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* Groups A, B, and C were based on 98% of RP-2006 blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017. Mortality rates for retirees and beneficiaries in Group D were based on 100% of RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* Groups A, B, C, and D were based on 100% of RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2014.

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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equity	18.00%	6.10%
Non-US Equity	16.00%	7.45%
Global Equity	9.00%	6.74%
Fixed Income	26.00%	2.25%
Real Estate	8.00%	5.11%
Private Markets	15.00%	7.60%
Hedge Funds	8.00%	3.86%
Total	<u>100.00%</u>	

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, 2018 was 6.73% for VSRS, 6.99% for STRS, and 6.75% for MERS. Amounts for the prior year were 10.33%, 10.17% and 10.88% 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	\$ 1,068,903	\$ 1,824,257	\$ 238,273
Net pension liability, as reported			
Discount rate	7.50%	7.50%	7.50%
Net pension liability	\$ 767,059	\$ 1,510,705	\$ 140,676
One-percent increase			
Discount rate	8.50%	8.50%	8.50%
Net pension liability	\$ 521,239	\$ 1,196,832	\$ 61,302

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

(Notes continue on next page.)

Statement of Plan Net Position
Defined Benefit Plans
June 30, 2018

	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.....	\$ 11,677,231	\$ 14,709,699	\$ 4,984,955
Receivables			
Contributions - current.....	7,971,656	6,183,733	4,748,230
Contributions - non-current.....	-	-	6,679,457
Investments sold.....	60,239,387	54,439,469	24,477,437
Interest and dividends.....	2,360,523	2,024,683	1,301,836
Due from other funds.....	72,349	6,659	83,931
Other.....	1,236,653	29,361,572	502,081
Investments			
Fixed income.....	250,284,237	220,506,378	101,724,707
Equities.....	275,418,951	267,620,098	98,406,516
Mutual and commingled funds.....	1,143,801,623	1,117,905,351	406,576,249
Real estate and private partnerships.....	171,489,045	196,393,546	52,299,692
Prepaid expenses.....	42,957	85,472	24,381
Capital assets, net of depreciation.....	1,539,288	1,827,930	665,324
Total assets.....	<u>1,926,133,900</u>	<u>1,911,064,590</u>	<u>702,474,796</u>
Liabilities			
Accounts payable.....	1,814,229	913,156	377,462
Investments purchased.....	82,819,388	77,778,880	34,242,128
Due to other funds.....	-	-	6,302
Total liabilities.....	<u>84,633,617</u>	<u>78,692,036</u>	<u>34,625,892</u>
Net position restricted for employees' pension benefits.....	<u>\$ 1,841,500,283</u>	<u>\$ 1,832,372,554</u>	<u>\$ 667,848,904</u>

**Statement of Changes in Plan Net Position
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2018**

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit.....	\$ 64,564,323	\$ -	\$ 17,519,690
Non-employer - pension benefit.....	-	110,353,599	-
Plan member.....	40,423,239	37,888,566	19,166,537
Transfers from other pension trust funds.....	392,557	468,500	271,784
Other revenues.....	-	4,245,322	-
Total contributions.....	105,380,119	152,955,987	36,958,011
Investment Income			
Net appreciation in fair value of investments.....	104,715,339	106,705,442	36,752,627
Dividends.....	13,272,844	13,724,926	4,432,293
Interest income.....	10,050,109	9,256,918	4,227,863
Other income.....	150,636	178,978	54,824
Total investment income.....	128,188,928	129,866,264	45,467,607
Less Investment Expenses			
Investment managers and consultants.....	4,556,759	4,299,983	1,578,557
Net investment income.....	123,632,169	125,566,281	43,889,050
Total additions.....	229,012,288	278,522,268	80,847,061
Deductions			
Retirement benefits.....	129,699,506	179,504,941	28,480,667
Refunds of contributions.....	3,172,033	2,149,962	2,124,414
Death claims.....	693,500	334,966	161,291
Transfers to other pension trust funds.....	363,021	269,054	678,091
Depreciation.....	305,987	365,105	135,293
Administration expenses.....	1,720,252	2,083,260	928,741
Total deductions.....	135,954,299	184,707,288	32,508,497
Change in net position.....	93,057,989	93,814,980	48,338,564
Net position restricted for employees' pension benefits			
July 1, 2017.....	1,748,442,294	1,738,557,574	619,510,340
June 30, 2018.....	\$ 1,841,500,283	\$ 1,832,372,554	\$ 667,848,904

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, 2018, member contributions totaled \$743,036 with State employer contributions at \$1,825,001. As of June 30, 2018, the Vermont State Defined Contribution Plan's net position totaled \$67,799,284 and there were 601 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, 2018, member contributions totaled \$511,096 and employer contributions at \$546,409. As of June 30, 2018, the Municipal Employees' Defined Contribution Plan's net position totaled \$22,909,670 and there were 481 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, 2018 there were 1,153 members, with net position of \$42,662,550 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, 2018**

	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.....	\$ -	\$ 855,834	\$ 107,365
Receivables			
Contributions.....	146,516	-	6,951
Interest and dividends.....	-	1,287	-
Investments			
Mutual and commingled funds.....	67,721,855	41,819,429	23,879,990
Prepaid expenses.....	<u>4,610</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>67,872,981</u>	<u>42,676,550</u>	<u>23,994,306</u>
Liabilities			
Accounts payable.....	1,348	-	705
Investments purchased.....	-	14,000	-
Due to other funds.....	<u>72,349</u>	<u>-</u>	<u>83,931</u>
Total liabilities.....	<u>73,697</u>	<u>14,000</u>	<u>84,636</u>
Net position restricted			
for employees' pension benefits.....	<u>\$ 67,799,284</u>	<u>\$ 42,662,550</u>	<u>\$ 23,909,670</u>

**Statement of Changes in Plan Net Position
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2018**

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit.....	\$ 1,825,001	\$ -	\$ 546,409
Plan member.....	743,036	-	511,096
Transfers from other pension trust funds....	162,284	-	15,041
Transfers from non-state systems.....	51,061	-	-
Total contributions.....	2,781,382	-	1,072,546
Investment Income			
Net appreciation (depreciation) in fair value of investments.....	1,844,036	(37)	1,158,575
Dividends.....	4,172,138	1,073,078	1,281,907
Interest income.....	3,496	9,162	3,354
Other income.....	18,364	505	6,261
Total investment income.....	6,038,034	1,082,708	2,450,097
Less Investment Expenses			
Investment managers and consultants.....	-	175,174	-
Net investment income.....	6,038,034	907,534	2,450,097
Total additions.....	8,819,416	907,534	3,522,643
Deductions			
Retirement benefits.....	3,577,770	5,784,302	1,325,363
Transfers to non-state systems.....	1,117,451	-	471,222
Operating expenses.....	149,470	-	109,284
Total deductions.....	4,844,691	5,784,302	1,905,869
Change in net position.....	3,974,725	(4,876,768)	1,616,774
Net position restricted for employees' pension benefits			
July 1, 2017.....	63,824,559	47,539,318	22,292,896
June 30, 2018.....	\$ 67,799,284	\$ 42,662,550	\$ 23,909,670

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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ending June 30, 2018. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 requires employers and nonemployer contributing entities to report their net OPEB liability on their financial statements.

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 (Financial Reporting of Net OPEB Liability and OPEB Expense by the Employer as required by GASB Statement No. 75) provides funding information regarding the OPEB plans that are required by GASB Statement No. 75 - changes in net OPEB liability, balances of deferred OPEB outflows of resources and deferred OPEB inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of OPEB expense for the year.

The third 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.

1. Disclosures about the Defined OPEB Plans

This first section provides the disclosures about the defined benefit retirement plans required by GASB Statement No. 74, including the plan descriptions, contribution information, benefits and membership at June 30, 2018.

Plan Descriptions and Contribution InformationVermont 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 VSRS 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, 2018, were \$32,956,898, which is 6.20% of covered payroll. Employees are not required to contribute to the OPEB plan.

Benefits are provided through the State's self-insured Medical Insurance Fund (an internal service fund). VSPB plan members have access to the same benefit plans as active employees.

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 \$28.5 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, 2018 the balance on this loan was \$28.3 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, 2018, were \$29,802,725, which is 4.91% of covered payroll. Employees are not required to contribute to the OPEB plan.

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 medical benefit plans in retirement as offered by VEHI. 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 2018 there were 225 participating employers in the STRS - RTHMB plan.

Membership in the plans consisted of the following at June 30, 2018:

	<u>VSRS - VSPB</u>	<u>STRS - RTHMB</u>
Retired members or beneficiaries currently receiving benefits	4,958	6,715
Retired members or beneficiaries not receiving benefits	-	2,499
Vested terminated members entitled to but not yet receiving benefits	-	1,906
Active members	<u>8,886</u>	<u>9,892</u>
Total	<u><u>13,844</u></u>	<u><u>21,012</u></u>

2. Employer Reporting of OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB Plans as required by GASB Statement No. 75

This section includes the information that is required to be reported by employers per GASB Statement No. 75. It reports information regarding the calculation of the State's net OPEB liability, including changes during the measurement period in both total OPEB liability and plan net position; balances in the various components of deferred OPEB outflows of resources and deferred OPEB inflows of resources and the amounts to be recognized in OPEB expense in future periods; and the calculation of OPEB expense. In addition to presenting the 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.

The State is responsible for 98.2979% of the VSPB net OPEB liability. The Vermont Veterans' Home (a discrete component unit) is responsible for 1.7021% of the VSPB net OPEB liability. The State is responsible for 100% of the RTHMB net OPEB liability as a non-employer contributing entity. The information is presented in this section is for those two plans.

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

Net OPEB liabilities, deferred OPEB outflows of resources, deferred OPEB inflows of resources, and OPEB expense are all presented as of the State's reporting date (June 30, 2018) and for the State's reporting period (the year ended June 30, 2018). 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. 75 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, 2018, the State has chosen to use the end of the prior fiscal year (June 30, 2017) as the measurement date, and the year ended June 30, 2017 as the measurement period.

The total OPEB 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, 2016, to the measurement date of June 30, 2017.

Net OPEB Liabilities (Employer Reporting)

The net OPEB liability (NOL) 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 OPEB plan's fiduciary net position. The changes in the components for the measurement period are as follows (amounts are in thousands):

	VSRS - VSPB			STRS - RTHMB		
	Increase (Decrease)			Increase (Decrease)		
	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB Liability (a-b)	Total OPEB Liability (a)	Plan Net Position (b)	Net OPEB Liability (a-b)
Balances - June 30, 2016	\$ 1,594,310	\$ 21,353	\$ 1,572,957	\$ 909,465	\$ (20,961)	\$ 930,426
Changes for the year:						
Service cost	66,841	-	66,841	32,511	-	32,511
Interest	46,868	-	46,868	26,425	-	26,425
Changes of assumptions	(190,151)	-	(190,151)	(33,192)	-	(33,192)
Contributions - non-employer	-	-	-	-	23,839	(23,839)
Contributions - employer	-	32,949	(32,949)	-	-	-
Contributions - transfers from other pension trust funds	-	174	(174)	-	-	-
Net investment income	-	1,372	(1,372)	-	41	(41)
Benefit payments, including refunds of contributions	(33,346)	(33,346)	-	(29,577)	(29,577)	-
Net changes	(109,788)	1,149	(110,937)	(3,833)	(5,697)	1,864
Balances - June 30, 2017	\$ 1,484,522	\$ 22,502	\$ 1,462,020	\$ 905,632	\$ (26,658)	\$ 932,290
Plan fiduciary net position as a percentage of total OPEB liability			1.52%			-2.94%

Proportionate Share of Net OPEB Liability

	VSRS - VSPB			
	Amount	Proportionate Share		
		2017	2016	Change
Governmental activities	\$ 1,426,604	97.5775%	97.5970%	-0.0194%
Business type activities	10,531	0.7203%	0.7076%	0.0127%
Discrete component unit	24,885	1.7021%	1.6954%	0.0067%
Total net OPEB liability	\$ 1,462,020	100.0000%	100.0000%	

Additional information regarding the changes in the net OPEB liability for the year ended June 30, 2018 can be found in the Required Supplementary information immediately following these notes to the financial statements.

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

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

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

The effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEBs. 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 OPEB 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 OPEB 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 OPEB plan (active employees and inactive employees), beginning with the current period. Changes in the net OPEB liability not included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEBs. This treatment arises from the concept that OPEBs arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related OPEB measurements are viewed in the context of ongoing, career-long employment relationships.

Employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources, and will be recognized as a reduction of the net OPEB liability at June 30, 2019. As of June 30, 2018, the State reported the following deferred OPEB outflows of resources and deferred OPEB inflows of resources (amounts are in thousands):

Source	VSRS - VSPB		VSRS - VSPB	
	Primary Government		Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 162,385	\$ -	\$ 2,812
Net differences between projected and actual earnings on plan investments	174	-	3	-
Change in proportion and the effect of certain employer contributions on the employer's net OPEB liability	174	266	92	-
Employer contributions made subsequent to the measurement date	32,373	-	584	-
Total	\$ 32,721	\$ 162,651	\$ 679	\$ 2,812

Source	STRS - RTHMB	
	Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 25,544
Net differences between projected and actual earnings on plan investments	-	1,462
Employer contributions made subsequent to the measurement date	29,803	-
Total	\$ 29,803	\$ 27,006

The amounts reported as deferred OPEB outflows of resources resulting from employer contributions made subsequent to the measurement date (VSRS-VSPB - \$32.37 million Primary Government and \$0.584 million Component Units; and STRS - RTHMB - \$29.803 million Primary Government), will be recognized as a reduction of the net OPEB liability at June 30, 2019. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs, will be recognized in OPEB expense as follows (amounts are in thousands):

Year Ended June 30	STRS - RTHMB		VSRS - VSPB			
	Primary Government		Primary Government	Discrete Component Units		
2019	\$	(8,013)	\$	(24,500)	\$	(410)
2020		(8,013)		(24,500)		(410)
2021		(8,013)		(24,500)		(410)
2022		(2,967)		(24,500)		(410)
2023		-		(24,543)		(411)
Thereafter		-		(39,760)		(666)
Total	\$	<u>(27,006)</u>	\$	<u>(162,303)</u>	\$	<u>(2,717)</u>

OPEB Expense (Employer Reporting)

As discussed above, most changes in the net OPEB liability are included in OPEB expense in the year of change, including changes resulting from current-period service cost, interest on the total OPEB liability, changes in benefit terms, and projected earnings on the OPEB plan's investments. Other changes in net OPEB liability are recorded as deferred OPEB outflows of resources and deferred OPEB inflows of resources, and included in OPEB expense on a systematic and rational manner over current and future periods. OPEB expense for the year ended June 30, 2018, is as follows (amounts are in thousands):

	Primary Government		Component Units			
	STRS - RTHMB	VSRS - VSPB	VSRS - VSPB			
Service cost	\$	32,511	\$	65,703	\$	1,138
Interest on total OPEB liability		26,425		46,070		798
Projected earnings on plan investments		1,788		(1,566)		(27)
Recognition (amortization) of deferred OPEB outflows of resources:						
Difference between projected and actual investment earnings		-		43		1
Changes in Proportions		-		26		14
Recognition (amortization) of deferred OPEB inflows of resources:						
Change in assumptions		(7,648)		(24,529)		(426)
Difference between projected and actual investment earnings		(366)		-		-
Changes in Proportions		-		(40)		-
Total OPEB Expense	\$	<u>52,710</u>	\$	<u>85,707</u>	\$	<u>1,498</u>

Actuarial Methods and Assumptions (Employer Reporting)
Actuarial Assumptions (Employer Reporting)

Total OPEB liability at the June 30, 2017 measurement date was determined using 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>
Inflation	2.75%	2.75%
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation	7.50%, net of OPEB plan investment expense, including inflation
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>

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the following actuarial experience studies:

Vermont State Retirement System

Experience Study: July 1, 2010 – June 30, 2014, dated October 29, 2015 completed by Buck Consultants

Vermont State Teachers' Retirement System

Experience Study: July 1, 2010 – June 30, 2014, dated March 2, 2016 completed by Buck Consultants

Mortality rates are based on the following:

Vermont State Retirement System

- *Pre-retirement Mortality:* Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Group C were based on RP-2014 Blue Collar Employee with generational projection using Scale SSA-2017. Group D were based on RP-2014 Healthy Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* Groups A and F were based on 101% of RP-2014 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Group C were based on RP-2014 Blue Collar Annuitant with generational projection using Scale SSA-2017. Group D were based on RP-2014 Healthy Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* A, C, D, and F were based on RP-2014 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont State Teachers' Retirement System

- *Pre-retirement Mortality:* 98% of RP-2014 White Collar Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* 98% of RP-2014 White Collar Annuitant with generational projection using Scale SSA-2017.
- *Disabled 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%
Total	<u>100.00%</u>	

Discount Rate (Employer Reporting)

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 long-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 3.58% is based on the 20-year Bond Buyer GO index at June 30, 2017. The discount rate used in the prior year was 2.85%

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

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

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate
(Employer Reporting)**

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):

	<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

Payable to the OPEB Plans (Employer Reporting)

At June 30, 2018, the State reported a payable of \$63,493 for the outstanding amount of contributions to the VSPB plan required for the year ended June 30, 2018.

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

This section includes information that is required to be presented by GASB Statement No. 74. The plans elected to base the valuations on plan data as of June 30, 2017 and used update procedures to roll forward the total OPEB liability to the OPEB plans' fiscal year end. In addition to presenting the 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.

Net OPEB Liabilities (Plan Reporting)

The components of the net OPEB liabilities at June 30, 2018, were as follows (amounts in thousands):

(Table on next page.)

	<u>VSRS - VSPB</u>	<u>STRS - RTHMB</u>
Total OPEB liability.....	\$ 1,240,275	\$ 927,843
Plan fiduciary net position (deficit).....	<u>21,771</u>	<u>(26,443)</u>
Net OPEB liability.....	<u>\$ 1,218,504</u>	<u>\$ 954,286</u>
Plan fiduciary net position as a percentage of total OPEB liability	1.76%	-2.85%

Additional information regarding changes in net OPEB liability for the year ended June 30, 2018 can be found in the Required Supplementary Information section of these financial statements.

Actuarial Assumptions (Plan Reporting)

The total OPEB liability at June 30, 2018 was determined using the June 30, 2017 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>
Inflation	2.75%	2.75%
Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation	7.50%, net of OPEB plan investment expense, including inflation
Discount rate	3.87%	3.87%
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	7.15% graded to 4.50% over 12 years	7.15% graded to 4.50% over 12 years
Medicare	7.30% graded to 4.50% over 13 years	7.15% graded to 4.50% over 12 years
Retiree contributions	Equal to health trend	Equal to health trend
<u>Plan membership - 6/30/2017</u>		
Retired members or beneficiaries currently receiving benefits	4,878	6,543
Retired members or beneficiaries not receiving benefits	-	2,351
Vested terminated members entitled to but not yet receiving benefits	-	1,764
Active members	<u>8,941</u>	<u>10,028</u>
Total	<u>13,819</u>	<u>20,686</u>

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of the following actuarial experience studies:

Vermont State Retirement System

Experience Study: July 1, 2010 – June 30, 2014, dated October 29, 2015 completed by Buck Consultants

Vermont State Teachers' Retirement System

Experience Study: July 1, 2010 – June 30, 2014, dated March 2, 2016 completed by Buck Consultants

Mortality rates are based on the following:

Vermont State Retirement System

- *Pre-retirement Mortality:* Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Employee, 70% Healthy Employee with generational projection using Scale SSA-2017. Group C were based on RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017. Group D were based on RP-2006 Healthy Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* Groups A and F were based on 101% of RP-2006 blended 30% Blue Collar Annuitant, 70% Healthy Annuitant with generational projection using Scale SSA-2017. Group C were based on RP-2006 Blue Collar Annuitant with generational projection using Scale SSA-2017. Group D were based on RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* A, C, D, and F were based on RP-2006 Disabled Mortality Table with generational projection using Scale SSA-2017.

Vermont State Teachers' Retirement System

- *Pre-retirement Mortality:* 98% of RP-2006 White Collar Employee with generational projection using Scale SSA-2017.
- *Post-retirement Mortality:* 98% of RP-2006 White Collar Annuitant with generational projection using Scale SSA-2017.
- *Disabled Mortality:* RP-2006 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%	7.50%
International equity	15.00%	7.75%
Emerging international equity	5.00%	9.25%
Core bonds	60.00%	3.75%
Total	<u>100.00%</u>	

Discount Rate (Plan Reporting)

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 long-term bond rate expected rate of return of 3.87% on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The 3.87% is based on the 20-year Bond Buyer GO index at June 30, 2018. The discount rate used in the prior year was 3.58%. For the year ended June 30, 2018, the VSPB annual money-weighted rate return of investments, net of investment expense, was 4.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

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	2.87%	2.87%
Net OPEB liability	\$ 1,416,159	\$ 1,106,574
Net OPEB liability, as reported		
Discount rate	3.87%	3.87%
Net OPEB liability	\$ 1,218,504	\$ 954,286
One-percent increase		
Discount rate	4.87%	4.87%
Net OPEB liability	\$ 1,058,595	\$ 830,493

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (Plan Reporting)

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	6.15% decreasing to 3.5%	6.15% decreasing to 3.5%
Medicare	6.30% decreasing to 3.5%	6.15% decreasing to 3.5%
Net OPEB liability	\$ 1,044,626	\$ 811,075
Net OPEB liability, as reported		
Healthcare cost trend rate		
Non-medicare	7.15% decreasing to 4.5%	7.15% decreasing to 4.5%
Medicare	7.30% decreasing to 4.5%	7.15% decreasing to 4.5%
Net OPEB liability	\$ 1,218,504	\$ 954,286
One-percent increase		
Healthcare cost trend rate		
Non-medicare	8.15% decreasing to 5.5%	8.15% decreasing to 5.5%
Medicare	8.30% decreasing to 5.5%	8.15% decreasing to 5.5%
Net OPEB liability	\$ 1,440,292	\$ 1,136,993

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, 2018, there were 4,098 active and retired members participating in the MERS RHS plan. The net position of the MERS RHS plan at June 30, 2018 was \$13,693,523.

The financial statements for the OPEB Funds on the following two pages:

Statement of Plan Net Position
Other Postemployment Benefit Funds
June 30, 2018

	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.....	\$ 220,164	\$ 86,451	\$ 633,321
Receivables			
Contributions.....	63,961	-	-
Other receivables.....	13,805	2,751,064	15,076
Investments			
Mutual funds.....	21,497,073	-	13,048,814
Prepaid expenses.....	-	74,442	-
Total assets.....	21,795,003	2,911,957	13,697,211
Liabilities			
Accounts payable.....	24,088	776,491	3,688
Accrued interest payable.....	-	278,356	-
Due to other funds.....	-	357	-
Interfund loans.....	-	28,300,000	-
Total liabilities.....	24,088	29,355,204	3,688
Net position restricted for employee's other postemployment benefits.....	\$ 21,770,915	\$ (26,443,247)	\$ 13,693,523

**Statement of Changes in Plan Net Position
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2018**

	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.....	\$ 32,956,898	\$ -	\$ -
Non-employer - healthcare benefit.....	-	29,802,725	-
Transfers from other pension trust funds....	-	-	-
Total contributions.....	32,956,898	29,802,725	-
Investment Income			
Net appreciation (depreciation) in fair value of investments.....	307,068	-	711,901
Dividends.....	534,702	-	18,043
Interest income.....	33,537	19,935	9,266
Other income.....	-	-	2,119
Total investment income.....	875,307	19,935	741,329
Less Investment Expenses			
Investment managers and consultants.....	2,648	-	26,724
Net investment income.....	872,659	19,935	714,605
Total additions.....	33,829,557	29,822,660	714,605
Deductions			
Other postemployment benefits.....	34,559,465	29,328,814	335,724
Operating expenses.....	1,049	279,447	-
Total deductions.....	34,560,514	29,608,261	335,724
Change in net position.....	(730,957)	214,399	378,881
Net position restricted for employees postemployment benefits			
July 1, 2017.....	22,501,872	(26,657,646)	13,314,642
June 30, 2018.....	\$ 21,770,915	\$ (26,443,247)	\$ 13,693,523

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, 2018, the following changes occurred in the governmental activities long-term liabilities:

	Total Liability			Total Liability	Amounts due
	July 1, 2017 Restated	Additions	Reductions	June 30, 2018	within one
					year
Governmental activities					
Bonds payable					
Bonds	\$ 605,400,000	\$ 106,095,000	\$ 48,935,000	\$ 662,560,000	\$ 53,395,000
Bond premium	33,109,626	10,936,961	7,272,735	36,773,852	7,302,969
Bond discount	(137,838)	-	(14,833)	(123,005)	(18,169)
	<u>638,371,788</u>	<u>117,031,961</u>	<u>56,192,902</u>	<u>699,210,847</u>	<u>60,679,800</u>
Capital leases payable	10,358,552	-	607,342	9,751,210	333,185
Compensated absences	34,809,969	44,772,677	44,128,402	35,454,244	34,190,267
Claims and judgments	48,059,096	196,819,709	193,799,119	51,079,686	16,148,245
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension liabilities	1,955,150,806	743,544,013	552,558,994	2,146,135,825	-
Net other postemployment liabilities	2,465,584,579	169,890,094	276,580,843	2,358,893,830	42,117,364
Pollution remediation obligations	<u>8,440,463</u>	<u>1,422,474</u>	<u>440,661</u>	<u>9,422,276</u>	<u>3,166,000</u>
Total governmental activities long-term liabilities	<u>\$ 5,167,775,253</u>	<u>\$ 1,273,480,928</u>	<u>\$ 1,124,308,263</u>	<u>\$ 5,316,947,918</u>	<u>\$ 156,634,861</u>

The beginning balance was restated for the implementation of GASB Statement No. 75 to recognize the beginning balance of the Net other postemployment liabilities.

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 \$9,422,276 of which \$3,166,000 is due within one year.

Pollution remediation liability activity in fiscal year 2018 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 obligation are not yet reasonably estimable. One of the sites include an abandoned copper mine requiring cleanup of acid mine drainage, the other site is from a former manufacturing facility of capacitors, transformers, and motors used in household appliances.

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 below.

- Cleanup of acidic discharges from this former copper mine are nearly complete under the first phase. An additional phase of remedial work commenced in fiscal year 2017 and under the State Superfund Contract the state is obligated to cover 10% of the site remedy, not to exceed \$1,105,000. Long term operation and monitoring costs will likely be reduced by installation of a passive rather than active treatment system. The PRO as of June 30, 2018 is \$1,211,000. The current amount due within the next year for remedial activities and maintenance is estimated at \$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, which should be finalized by the end of September 2018. 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, with major construction planned in 2021. 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, 2018 is \$2,600,000.
- There are two superfund sites under the oversight of the USEPA which have been remediated, and under superfund site agreement, the State is responsible for long term operation and maintenance costs of the facilities constructed by the USEPA. During the 5-year review with USEPA in fall 2018, the State will petition USEPA to reduce monitoring frequency from annual to every five years for one of the sites. The PRO as of June 30, 2018 is \$150,000, and the current amount due for annual sampling is \$105,000.
- One former industrial facility's manufacturing and electroplating operations contaminated soil, sediment and groundwater with metals and industrial solvents. Site investigation and long-term cleanup planning are ongoing. Soil removal work was completed in fiscal year 2018, reducing remaining liability by another \$40,000. A State Superfund Contract will be executed before October 2018 for the residential vapor intrusion and the required groundwater reclassification. Mitigation of the vapor intrusion is now estimated at \$350,000 rather than \$20,000 to fix the area residence impact. Fortunately, this will not increase the state's total liability as the USEPA in turn is lowering state liability for the groundwater remedy by \$350,000. The final design for the groundwater remedy is scheduled for July 2019 with a State Superfund Contract before October 2019. In fiscal year 2019, the state's liability is estimated to be \$365,000 (\$350,00 for vapor intrusion and \$15,000 for reclassification). PRO as of June 30, 2018 is \$789,000.

Sites not included under federal Superfund trust, include a former mining facility with large eroding mining tailings and waste rock piles that are discharging asbestos into downstream waters. This site is one of the state's largest potential obligations for cleanup. The State has been working with potential responsible parties to address the environmental contamination. A long-term remedy for the site has not been pursued due to the magnitude and limited resources. Currently, one of the potential responsible parties performs the annual operation and maintenance of the erosion control features. The erosion control measures at the site will ultimately need to be replaced. The PRO as of June 30, 2018 is \$2,000,000 for the estimated cost of reconstruction measures not yet scheduled but likely to occur within the next five years.

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 30th, 2018 is \$850,000. The area remediation includes the following: \$590,000 for the estimated operations and maintenance cost for 140 point-of-entry treatment systems (this will be lower every other year

when carbon replacement is not needed); \$110,000 estimated for semiannual sampling of 110 homes with detections of per- and polyfluoroalkyl substances (PFAS) below the health advisory; and \$150,000 for a contractor to assist with Natural Resource Damage assessment.

Similarly, the State is responsible for the monitoring and treatment performance evaluations for the cleanup of ground water contamination resulting from a chemical spill at a former dry cleaner facility. The total PRO reported at June 30, 2018 of \$677,000 for source removal of contamination, if dictated by annual monitoring. The amount due in 2019 for operation and maintenance is \$10,000.

Agency of Transportation

In fiscal year 2018, the State began investigating detections of PFAS in groundwater in and around the Rutland-Southern Vermont Regional Airport in Clarendon. The State is planning an initial site investigation at the airport to assess potential source areas of PFAS contamination which may stem from aqueous film-forming foams (AFFF) required to be available at airports with specific operating certificates. AFFF is used to extinguish fires of flammable liquids such as gasoline or jet fuel. The PRO as of June 30, 2018 is \$738,757 which includes \$500,000 to be expended in the current year. The cost estimates are based on work scopes and individual tasks being assessed for treatment of existing contamination.

The ongoing site investigation of petroleum cleanup of contaminated soil at two locations continues and the work may be expanded to include ground water monitoring of at least one additional site in 2019. The Agency of Transportation has recorded liabilities totaling \$106,519 at June 30, 2018 for site investigation with \$20,000 due within current year. The cost estimates are based on knowledge of site history and past performance requirements.

Military

The USEPA's imposed cleanup of paint and building materials containing polychlorinated biphenyls (PCBs) at the Military Department's historic Armory was completed in fiscal year 2018. The decrease due to payments and other adjustments during the year totaled \$389,418, leaving the PRO as of June 30, 2018 at \$0.

Building and General Services

The Waste Management and Prevention Division of Vermont's Department of Environmental Conservation identified the State's Department of Building and General Services as the responsible party for the remediation of contaminated soil at a state-owned parking lot. Liability for remediation is established for an owner or operator of a property under 10 V.S.A. §6615(1). Remediation includes removing soils contaminated with metal and dyes and disposing of them at an appropriate off-site waste treatment facility. Remedial plans will be to bury any excess soils generated during construction of retaining wall and capping all site soils under the new on-site parking lot. The State will continue to monitor groundwater quality at the property to determine if remediation or long-term monitoring is warranted. The PRO as of June 30, 2018 is \$300,000 and will be expended in the current fiscal year.

During the year ended June 30, 2018, the changes occurred in the business-type activities and fiduciary funds long-term liabilities are as follows:

(Table on next page.)

	Total Liability			Total Liability	Amounts due
	July 1, 2017 Restated	Additions	Reductions	June 30, 2018	within one year
Business-type activities					
Compensated absences	\$ 310,467	\$ 278,303	\$ 315,261	\$ 273,509	\$ 233,221
Lottery prize awards payable	6,887,473	87,436,351	88,378,846	5,944,978	5,254,653
Net pension liabilities	5,471,704	2,102,382	2,637,202	4,936,884	-
Net other postemployment liabilities	11,130,993	1,019,533	1,619,116	10,531,410	-
Total business-type activities long term liabilities	\$ 23,800,637	\$ 90,836,569	\$ 92,950,425	\$ 21,686,781	\$ 5,487,874
Fiduciary					
Compensated absences	\$ 7,253	\$ 17,189	\$ 16,641	\$ 7,801	\$ 7,801

The beginning balance of the Business-type activities was restated for the implementation of GASB Statement No. 75 to recognize the beginning balance of the Net other postemployment liabilities. The compensated absences for the business-type activities are included as part of accrued salaries and benefits on the proprietary 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, 2018, are shown below and continues on the following page:

	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund			
Government Operations			
Governor and other Elected Officials.....	\$ -	\$ -	\$ 16,635
Public Safety and Regulatory Services.....	-	-	1,055,706
Courts.....	-	-	891,849
Health and Human Services.....	-	-	1,071,952
Correctional Services.....	-	-	170,123
Educational Services.....	-	-	153,996
Natural Resources Protection and Preservation...	-	-	452,034
Economic and Community Development.....	-	-	2,640,489
Tourism and Marketing.....	-	-	377,589
Total General Fund.....	\$ -	\$ -	\$ 6,830,373
Transportation Fund			
Transportation.....	\$ 816,079	\$ 25,800,601	\$ -

	<u>Restricted Purposes</u>	<u>Committed Purposes</u>	<u>Assigned Purposes</u>
Education Fund			
Educational Services.....	\$ -	\$ 103,478,664	\$ -
Special Fund			
Government Operations			
Governor and Other Elected Officials.....	\$ -	\$ 269,042	\$ 1,201,908
Legislature.....	-	250,984	3,381
Administrative Services.....	612,891	9,267,101	190,217
Public Safety and Regulatory Services.....	1,409,022	31,873,542	104,070
Courts.....	-	4,781,004	-
Health and Human Services.....	2,077,952	47,999,892	9,823
Correctional Services.....	5	571,140	-
Employment and Training.....	-	12,314,652	-
Educational Services.....	-	4,116,742	-
Natural Resources Protection and Preservation...	1,167,133	36,552,664	134
Economic and Community Development.....	5,649,114	4,072,879	-
Tourism and Marketing.....	-	583,932	-
Total Special Fund.....	<u>\$ 10,916,117</u>	<u>\$ 152,653,574</u>	<u>\$ 1,509,533</u>
Federal Revenue Fund			
Government Operations			
Governor and Other Elected Officials.....	\$ 77,207	\$ -	\$ -
Administrative Services.....	6,896	-	-
Public Safety and Regulatory Services.....	13,988,005	-	-
Courts.....	4,252	-	-
Health and Human Services.....	32,540,975	-	-
Employment and Training.....	5,084,148	-	-
Educational Services.....	2,998,927	-	-
Natural Resources Protection and Preservation...	403,002,388	-	-
Economic and Community Development.....	1,619,390	-	-
Total Federal Revenue Funds.....	<u>\$ 459,322,188</u>	<u>\$ -</u>	<u>\$ -</u>
Global Commitment Fund			
Health and Human Services.....	<u>\$ 41,097,762</u>	<u>\$ -</u>	<u>\$ -</u>
Non-major Governmental Funds			
Government Operations			
Administrative Services.....	\$ 16,612	\$ -	\$ -
Health and Human Services.....	39,186	-	-
Educational Services.....	-	24,009,645	-
Natural Resources Protection and Preservation...	182,239	11,685,268	-
Economic and Community Development.....	4,327	-	-
Capital Outlays.....	59,235,385	-	-
Debt Service.....	3,213,078	633	-
Total Non-major Governmental Funds.....	<u>\$ 62,690,827</u>	<u>\$ 35,695,546</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 excess workers' compensation insurance to limit this exposure. All claims are processed by a third-party administrator. Two types of claims audits are conducted annually. One is a claims management audit by an independent outside claims consulting company to ensure that the claims operations and claims adjusting follow leading industry practice. The second is a complete actuarial review of Workers' Compensation claims and fund to review and recommend reasonable reserve and funding levels. Reserve fund allocated charges 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 automobile liability risk. The coverage is comparable to standard private commercial policies. This liability coverage is offered to state agencies and certain quasi-governmental agencies. 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. The current sovereign immunity limits are \$500,000 per person and \$2,000,000 per occurrence. 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 purchases excess commercial liability insurance up to \$1,500,000 (\$2,000,000 total) per occurrence in Vermont and \$10,000,000 per occurrence in excess of the \$500,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by the third-party administrator and/or the Vermont Attorney General's Office. Two types of claims audits are conducted annually. One is a claims management audit by an independent outside claims consulting company to ensure that the claims operations and claims adjusting follow leading industry practice. The second is a complete actuarial review of liability claims and fund to review and recommend reasonable reserve and funding levels. Reserve fund allocated charges 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 by the above funds. 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 state agencies and certain quasi-governmental agencies.

Insurance settlements have never exceeded the above commercial insurance limits.

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				
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
2018	23,525,052	14,332,986	9,110,153	28,747,885
State Liability Insurance Fund				
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
2018	8,335,231	2,556,475	2,122,367	8,769,339
Medical Insurance Fund				
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
2018	15,885,213	173,608,576	176,217,265	13,276,524
Dental Insurance Fund				
2016	323,076	6,111,147	6,124,546	309,677
2017	309,677	6,196,937	6,193,014	313,600
2018	313,600	6,321,672	6,349,334	285,938

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 2018, 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, 2018 are as follows: \$76,995,070 in the General Fund's Budget Stabilization Reserve; \$13,470,018 in the Transportation Fund's Budget Stabilization Reserve; and \$34,636,439 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.

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, 2018, the State of Vermont had long-term contracts outstanding of approximately \$444,156,442 funded from federal sources, and \$533,365,106 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. Following is a summary of contractual obligations by agency, department or office at June 30, 2018.

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 75% have end dates of June 30, 2019 or earlier. Of the Agency of Human Services contractual obligations, 32% is in the Department of Vermont Health Access. Of the contracts in the Agency of Administration, 61% have end dates during fiscal year 2019 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 75% having end dates during fiscal year 2019.

Following is a summary of contractual obligations by agency, department or office at June 30, 2018:

(Table on next page.)

<u>Agency, Department, or Office</u>	<u>Total Contractual Obligation</u>	<u>Funded by Federal Sources</u>	<u>Funded by Other Sources</u>
Agency of Administration	\$ 178,273,675	\$ 2,854,304	\$ 175,419,371
Agency of Agriculture, Food & Markets	1,359,413	-	1,359,413
Agency of Commerce & Community Development	915,934	64,456	851,478
Agency of Education	16,978,342	14,257,312	2,721,030
Agency of Human Services	291,027,544	144,605,366	146,422,178
Agency of Natural Resources	11,746,100	3,337,527	8,408,573
Agency of Transportation	297,343,853	240,144,924	57,198,929
Auditor of Accounts' Office	4,027,633	-	4,027,633
Center Crime Victim Services	311,719	-	311,719
Criminal Justice Training Council	281,411	-	281,411
Department of Labor	4,736,541	4,636,740	99,801
Department of Liquor Control	7,239,804	-	7,239,804
Department of Public Safety	8,602,078	2,057,256	6,544,822
Enhanced 911 Board	4,325,335	-	4,325,335
Financial Regulation	5,679,800	-	5,679,800
Green Mountain Care Board	6,272,856	-	6,272,856
Joint Fiscal Office	271,340	-	271,340
Judiciary	7,918,788	-	7,918,788
Military Department	27,487,112	21,384,989	6,102,123
Office of the Attorney General	1,699,166	70,027	1,629,139
Office of the Defender General	6,040,975	-	6,040,975
Public Service Department	6,036,973	-	6,036,973
Public Utility Commission	82,833	-	82,833
Secretary of State's Office	19,730,253	10,743,541	8,986,712
State Treasurer's Office	62,474,052	-	62,474,052
State's Attorneys and Sheriffs	60,000	-	60,000
Vermont Life Magazine	1,729,486	-	1,729,486
Vermont Lottery Commission	4,868,532	-	4,868,532
Total	<u>\$ 977,521,548</u>	<u>\$ 444,156,442</u>	<u>\$ 533,365,106</u>

4. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. The grant table below 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. The awards to grantees in the current fiscal year totaled \$635,389,473. The award adjustments column includes a increase of \$18,507,744 for amendments to grants that commenced in prior fiscal years offset by a reduction of \$13,884,750 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 amount of \$594,503,771 includes payments issued to grantees on both current year awards and prior year grant awards. The award balances at June 30, 2018 represents the remaining unexpended award amounts.

(Table on next page.)

	Number of Grants Awarded in 2018	Total Grant Obligation				
		Award		Award		
		Balances at June 30, 2017	Current Year Awards	Award Adjustments	Grants Expended	Balances at June 30, 2018
Agency of Administration	470	\$ -	\$ 102,681,923	\$ -	\$ 102,681,923	\$ -
Agency of Agriculture, Food & Markets	279	5,478,400	11,821,213	(719,389)	9,299,943	7,280,281
Agency of Commerce & Community Development	218	19,969,468	13,318,517	433,437	18,521,716	15,199,706
Agency of Education	1,498	19,172,787	134,788,623	1,318,101	141,736,735	13,542,776
Agency of Human Services	892	80,668,282	220,795,466	(6,547,955)	154,471,234	140,444,559
Agency of Natural Resources	412	33,383,254	29,554,378	22,271,627	42,975,714	42,233,545
Agency of Transportation	955	170,642,667	103,775,777	(12,774,677)	102,780,934	158,862,833
Center Crime Victim Services	141	3,345,468	6,692,432	-	7,534,925	2,502,975
Department of Labor	80	6,391,024	1,898,323	-	2,966,772	5,322,575
Department of Liquor Control	2	-	15,838	-	15,838	-
Department of Public Safety	92	11,139,060	4,124,805	(26,525)	5,121,832	10,115,508
Enhanced 911 Board	30	1,199	182,433	-	58,937	124,695
Judiciary	2	-	100,000	-	100,000	-
Military Department	14	-	92,700	-	92,700	-
Office of the Attorney General	15	-	1,794,626	6,390	1,736,862	64,154
Public Service Department	7	4,265,279	1,475,500	662,290	2,146,609	4,256,460
State Treasurer's Office	17	57,290	276,519	(304)	260,697	72,808
State's Attorneys and Sheriffs	54	-	1,850,400	-	1,850,400	-
Vermont Lottery Commission	1	-	150,000	-	150,000	-
Total	5,179	\$ 354,514,178	\$ 635,389,473	\$ 4,622,995	\$ 594,503,771	\$ 400,022,875

The Agency of Administration includes the Department of Libraries which awarded 406 grants in the amount of \$361,733 to public libraries throughout the state. The agency also awarded approximately \$99 million to help fund higher education in Vermont, and \$2.3 million to promote cultural development. The Agency of Education awarded 1,498 grants totaling or 29% of the total number of grants issued by the state. The Agency of Human Services issued 892 awards and expended \$138 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 \$13.9 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 955 grants, totaling \$102.8 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, 2018 and 2017 are as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Increase (Decrease)</u>
Comparative Financial Information			
Assets	\$ 43,236,412	\$ 42,932,483	\$ 303,929
Liabilities	37,207,467	35,784,516	1,422,951
Operating revenues	68,559,048	57,463,385	11,095,663
Interest income	163,839	116,582	47,257
Commissions, fees and bonus expense	5,354,543	4,492,718	861,825
Prize awards	37,575,845	30,365,164	7,210,681
Other operating expenses	3,293,365	3,518,801	(225,436)
Total transfers to member states	22,499,134	19,203,284	3,295,850
Transfer to Vermont	3,762,890	3,313,088	449,802

Tri-State Lotto Commission issues separately audited financial statements. 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, 2018, the State provided tax abatements through the following programs:

(Table on next page.)

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	\$4,110,970

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
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	\$204,567

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 2018 payments are \$15,259,309.
Dollar amount of taxes abated during reporting period	\$45,360,286

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	\$1,075,684

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	\$3,608,848

G. Accounting Changes

Accounting changes related to changes in Other Postemployment Benefit Plans (OPEB) reporting

During the year ended June 30, 2018, the State implemented Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* that require employers and nonemployer contributing entities to report their net OPEB liability on their financial statements. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for OPEB plans. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Previously, GASB Statement No. 45, required employers to report a net OPEB obligation on their financial statements.

Implementation of this standard had no effect on the beginning fund balances of governmental funds. However, the beginning net positions of governmental and business activities, certain enterprise funds and a discretely presented component unit have been restated. The restatement eliminated the previously reported net OPEB obligation and recognizes the newly required net OPEB liability and deferred outflow of resources. The effect of the restatement is shown below.

Accounting changes related to changes in Irrevocable Split-Interest Agreements reporting

A prior period restatement of net position was made for University of Vermont (UVM) implementing GASB Statement No. 81 *Irrevocable Split-Interest Agreements*. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements, defined as "a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments". This Statement requires that resources received pursuant to an irrevocable split-interest agreement are recognized as assets, liabilities, and deferred inflows of resources at the inception of the agreement. The effect of the restatement is shown below.

Accounting changes related to changes in reporting entity

A prior period restatement of net position was made for a correction to the reporting entity of UVM to include the beginning net position for two discretely presented components units that are part of UVM's reporting entity. The two discretely presented components units included in UVM's reporting entity are the University of Vermont and State Agricultural College Foundation, Inc. (UVMF), and the University Medical Education Associates, Inc. (UMEA). The effect of the restatement is shown below.

Restatement of net position

The effects of accounting changes on net position were as follows:

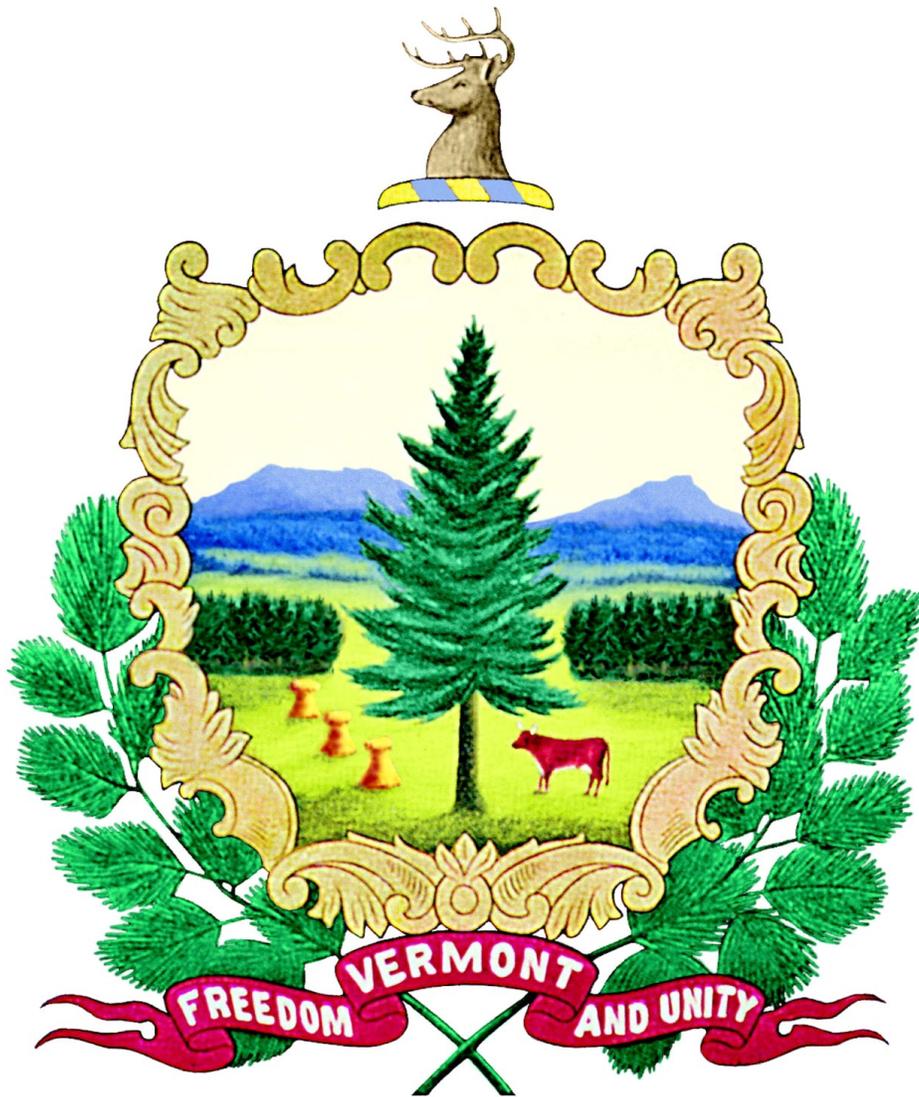
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Liquor Control Fund</u>	<u>Vermont Lottery Commission</u>
As originally reported, July 1	\$ 881,160,426	\$ 392,032,179	\$ 6,173,031	\$ 145,719
Restatements				
Elimination of opening net OPEB obligation as of June 30, 2017	853,994,137	-	-	-
Recognition of opening net OPEB liability as of July 1, 2017	(2,465,584,579)	(11,130,993)	(8,173,865)	(2,957,128)
Recognition of deferred outflow of resources for OPEB contributions made during the year ended June 30, 2017	<u>56,159,457</u>	<u>238,595</u>	<u>176,344</u>	<u>62,251</u>
Restated amount	<u>\$ (674,270,559)</u>	<u>\$ 381,139,781</u>	<u>\$ (1,824,490)</u>	<u>\$ (2,749,158)</u>

The effects of accounting changes on net position of component units were as follows:

	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Veterans' Home	Non-major Component Units
As originally reported	\$ 552,867,000	\$ 40,809,681	\$ 9,442,464	\$ 321,785,141
Restatements				
Prior period restatement to report discretely presented component units	164,819,000	-	-	-
Prior period restatement to report irrevocable split interest agreements	(117,000)	-	-	-
Elimination of opening net OPEB obligation as of June 30, 2017	232,590,000	64,914,056	-	-
Recognition of opening net OPEB liability as of July 1, 2017	(471,201,000)	(171,508,646)	(26,667,642)	(26,667,642)
Recognition of deferred outflow of resources for OPEB contributions made during the year ended June 30, 2017	<u>8,268,000</u>	<u>6,464,225</u>	<u>563,793</u>	<u>563,793</u>
Restated amount	<u>\$ 487,226,000</u>	<u>\$ (59,320,684)</u>	<u>\$ (16,661,385)</u>	<u>\$ 295,681,292</u>

H. Subsequent Events

The State has evaluated whether any events have occurred subsequent to June 30, 2018, that would require disclosure and has determined that no such events have occurred through the date which these financial statements were available to be issued.



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 FIVE FISCAL YEARS**
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017	2016	2015	2014
Total pension liability					
Service cost.....	\$ 49,744	\$ 42,704	\$ 47,012	\$ 41,786	\$ 39,369
Interest.....	180,860	178,959	171,563	164,405	156,635
Differences between expected and actual experience.....	83,266	19,283	25,051	3,979	-
Changes of assumptions.....	-	42,725	(21,853)	62,247	-
Benefit payments, including refunds of member contributions...	(134,090)	(126,480)	(120,094)	(111,396)	(104,493)
Net change in total pension liability.....	179,780	157,191	101,679	161,021	91,511
Total pension liability, July 1.....	2,428,779	2,271,588	2,169,909	2,008,888	1,917,377
Total pension liability, June 30.....	2,608,559	2,428,779	2,271,588	2,169,909	2,008,888
Plan fiduciary net position					
Contributions - employer.....	64,564	60,280	54,347	55,881	56,483
Contributions - member.....	40,423	35,967	34,055	33,296	31,746
Net investment income (loss).....	123,632	170,358	17,962	(8,485)	203,722
Benefit payments, including refunds of member contributions...	(134,090)	(126,480)	(120,094)	(111,396)	(104,493)
Administrative expenses.....	(1,720)	(1,777)	(1,467)	(1,858)	(1,158)
Other.....	249	444	(14)	177	454
Net change in fiduciary net position.....	93,058	138,792	(15,211)	(32,385)	186,754
Plan fiduciary net position, beginning of year.....	1,748,442	1,609,650	1,624,861	1,657,246	1,470,492
Plan fiduciary net position, end of year.....	1,841,500	1,748,442	1,609,650	1,624,861	1,657,246
Net pension liability, June 30.....	\$ 767,059	\$ 680,337	\$ 661,938	\$ 545,048	\$ 351,642
Plan fiduciary net position as a percentage of the total pension liability.....	70.59%	71.99%	70.86%	74.88%	82.50%
Covered payroll.....	\$ 504,553	\$ 471,268	\$ 462,057	\$ 437,676	\$ 416,766
Net pension liability as a percentage of covered payroll.....	152.03%	144.36%	143.26%	124.53%	84.37%

Notes to Schedule

Change in assumptions:

Discount rate.....	7.50%	7.50%	7.95%	7.95%	8.22%
Assumed inflation.....	2.50%	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%	2.55%	3.00%	3.00%	3.00%
Group F (retired before 7/1/2008).....	1.40%	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-2006 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 FIVE FISCAL YEARS**
*(Dollar amounts expressed in thousands)
(Unaudited)*

	2018	2017	2016	2015	2014
Total pension liability					
Service cost.....	\$ 40,117	\$ 35,383	\$ 34,979	\$ 33,614	\$ 33,144
Interest.....	237,747	228,939	222,185	215,447	206,150
Differences between expected and actual experience.....	59,469	12,523	3,613	20,003	-
Changes of assumptions.....	(32,957)	185,849	(7,224)	57,489	-
Benefit payments, including refunds of member contributions..	(182,259)	(172,156)	(162,751)	(150,734)	(140,846)
Net change in total pension liability.....	122,117	290,538	90,802	175,819	98,448
Total pension liability, July 1.....	3,220,961	2,930,423	2,839,621	2,663,802	2,565,354
Total pension liability, June 30.....	3,343,078	3,220,961	2,930,423	2,839,621	2,663,802
Plan fiduciary net position					
Contributions - non-employer.....	110,354	78,664	73,225	72,909	72,668
Contributions - member.....	37,889	36,142	35,409	34,864	32,559
Net investment income (loss).....	125,566	173,167	19,877	(7,567)	212,338
Benefit payments, including refunds of member contributions..	(182,259)	(172,156)	(162,751)	(150,734)	(140,847)
Administrative expenses.....	(2,084)	(2,214)	(1,797)	(2,259)	(26,116)
Other.....	4,349	4,055	3,821	538	411
Net change in fiduciary net position.....	93,815	117,658	(32,216)	(52,249)	151,013
Plan fiduciary net position, beginning of year.....	1,738,558	1,620,900	1,653,116	1,705,365	1,554,352
Plan fiduciary net position, end of year.....	1,832,373	1,738,558	1,620,900	1,653,116	1,705,365
Net pension liability, June 30.....	\$ 1,510,705	\$ 1,482,403	\$ 1,309,523	\$ 1,186,505	\$ 958,437
Plan fiduciary net position as a percentage of total pension liability.....	54.81%	53.98%	55.31%	58.22%	64.02%
Covered payroll.....	\$ 607,355	\$ 586,397	\$ 557,708	\$ 567,074	\$ 563,623
Net pension liability as a percentage of covered payroll.....	248.74%	252.80%	234.80%	209.23%	170.05%

Notes to Schedule

Change in assumptions:

Discount rate.....	7.50%	7.50%	7.95%	7.95%	8.15%
Assumed inflation.....	2.50%	2.50%	3.00%	3.00%	3.00%
Assumed COLA increase					
Group A.....	2.55%	2.55%	3.00%	3.00%	3.00%
Group C.....	1.40%	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-2006 White Collar Table with generational improvement for healthy participants and the RP-2006 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 FIVE FISCAL YEARS**

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

	2018	2017	2016	2015	2014
Total pension liability					
Service cost.....	\$ 28,434	\$ 27,246	\$ 25,264	\$ 24,366	\$ 22,519
Interest.....	56,504	54,780	49,744	46,058	42,139
Differences between expected and actual experience.....	14,172	(3,749)	1,088	3,046	-
Changes of assumptions.....	-	14,481	12,204	19,192	-
Changes of benefit terms.....	194	-	-	-	-
Benefit payments, including refunds of member contributions..	(31,445)	(27,803)	(25,589)	(23,314)	(20,601)
Net change in total pension liability.....	67,859	64,955	62,711	69,348	44,057
Total pension liability, July 1.....	740,666	675,711	613,000	543,652	499,595
Total pension liability, June 30.....	808,525	740,666	675,711	613,000	543,652
Plan fiduciary net position					
Contributions - employer.....	17,520	16,482	15,236	14,136	12,806
Contributions - member.....	19,167	25,210	15,227	13,588	13,234
Net investment income (loss).....	43,889	59,487	6,777	(2,359)	64,346
Benefit payments, including refunds of member contributions..	(31,445)	(27,803)	(25,589)	(23,315)	(20,601)
Administrative expenses.....	(929)	(875)	(755)	(950)	(588)
Other.....	137	(6)	215	279	2,143
Net change in fiduciary net position.....	48,339	72,495	11,111	1,379	71,340
Plan fiduciary net position, beginning of year.....	619,510	547,015	535,904	534,525	463,186
Plan fiduciary net position, end of year.....	667,849	619,510	547,015	535,904	534,526
Net pension liability, June 30.....	\$ 140,676	\$ 121,156	\$ 128,696	\$ 77,096	\$ 9,126
Plan fiduciary net position as a percentage of the total pension liability.....	82.60%	83.64%	80.95%	87.42%	98.32%
Covered payroll.....	\$ 274,814	\$ 256,730	\$ 249,811	\$ 230,969	\$ 220,372
Net pension liability as a percentage of covered payroll.....	51.19%	47.19%	51.52%	33.38%	4.14%

Notes to Schedule

Changes in assumptions and methods:

Discount rate.....	7.50%	7.50%	7.95%	7.95%	8.23%
Assumed inflation.....	2.50%	2.50%	3.00%	3.00%	3.00%
Assumed COLA increase					
Group A.....	1.15%	1.15%	1.50%	1.50%	1.50%
Group B, C, and D.....	1.30%	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-2006 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 FIVE YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

<u>Retirement System</u>	<u>Year Ended 6/30</u>	<u>Actuarially Determined Contribution⁽¹⁾ (ADC)</u>	<u>Contributions in Relation to ADC</u>	<u>Contribution (Excess) Deficiency</u>	<u>Covered Payroll (CP)</u>	<u>Contribution as a Percent of CP</u>
Vermont State Retirement System	2018	\$ 52,065	\$ 64,564	\$ (12,499)	\$ 504,553	12.80%
	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⁾	2018	\$ 88,409	\$ 114,599	\$ (26,190)	\$ 607,355	18.87%
	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	2018	\$ 15,067	\$ 17,520	\$ (2,453)	\$ 274,814	6.38%
	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

⁽¹⁾ADC for a given fiscal year are based on results from the June 30 actuarial valuation two years prior for STRS and VTRS, and one year prior for MERS.

⁽²⁾ Included 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 two years prior for VSRS and STRS and one year prior for MERS to the end of the fiscal year in which contributions are reported. Assumptions values listed below were used in determining the actuarially determined contributions rates calculated as of that date.		
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 All closed basis	22 years	22 years	21 years
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
Actuarial assumptions			
Investment rate of return ⁽¹⁾	7.95%	7.95%	7.50%
Inflation rate	3.00% to 3.25%	3.00% to 3.25%	2.50%
Projected salary increases	3.50%-7.04%	4.12%-9.46%	5.00%
Cost of living adjustments ⁽²⁾	Groups A, C & D - 3.00% Group F - 1.50% Group F retiring after 7/1/2008 - 3.00%	Group A - 3.00% Group C - 1.50%	Group A - 1.15% Groups B, C & D - 1.30%

Mortality Rates

VSRS

Pre-retirement:

Group A/F/D - RP-2000 Custom Table
Group C - RP-2000 Table for Employees using Scale BB to 2026

Healthy Retiree:

Group A/F - RP-2000 Mortality Tables for Employees and Healthy Annuitants projected with Scale BB to 2026 with a 30% Blue Collar adjustment
Group C - RP-2000 Tables for Employees and Healthy Annuitants projected with Scale BB to 2026 with a Blue Collar adjustment
Group D - RP-2000 Tables for Employees and Healthy Annuitants projected with Scale BB to 2026

Disabled Retiree:

All Groups - RP-2000 Combined Mortality Tables for Employees and Healthy Annuitants with a five-year set-forward

STRS

Pre-retirement:

All Groups - RP-2000 Custom Table

Healthy Retiree:

All Groups - RP-2000 Projected to 2029 using Scale BB

Disabled Retiree:

All Groups - RP-2000 Projected to 2020 using Scale AA

MERS

Pre-retirement:

Groups A/B/C - 98% of RP-2006 tables, blended 60% Blue Collar Employee, 40% Healthy Employee with generational projection using Scale SSA-2017
Group D - 100% of RP-2006 Blue Collar Employee with generational projection using Scale SSA-2017

Healthy Retiree:

Groups A/B/C - 98% of RP-2006 tables, blended 60% Blue Collar Annuitant, 40% Healthy Annuitant with generational projection using Scale SSA-2017
Group D - 100% of RP-2006 Healthy Annuitant with generational projection using Scale SSA-2017

Disabled Retiree:

All Groups - 2006 Disabled Mortality Table with generational projection using Scale SSA-2017

⁽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 2016 a 7.95% rate was used for MERS.

⁽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 FIVE YEARS⁽¹⁾
(Dollar amounts expressed in thousands)
(Unaudited)**

	Vermont State Retirement System				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
State's proportion of net pension liability	98.2850%	98.3625%	98.3289%	98.2355%	98.1400%
State's proportionate share of the net pension liability	\$ 668,669	\$ 651,099	\$ 535,939	\$ 345,437	\$ 438,573
Plan fiduciary net position as a percentage of the total pension liability	71.99%	70.86%	74.88%	82.50%	76.69%
	State Teachers' Retirement System⁽²⁾				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
State's proportion of net pension liability	100%	100%	100%	100%	100%
State's proportionate share of the net pension liability	\$ 1,482,403	\$ 1,309,523	\$ 1,186,505	\$ 958,437	\$ 1,011,002
Plan fiduciary net position as a percentage of the total pension liability	53.98%	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 FIVE YEARS
(Unaudited)**

	<u>2018</u>	<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	6.73%	10.33%	1.44%	-0.50%	14.05%
STATE TEACHERS' RETIREMENT SYSTEM					
Annual money-weighted rate of return, net of investment expense	6.99%	10.17%	1.69%	-0.40%	13.83%
VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM					
Annual money-weighted rate of return, net of investment expense	6.75%	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
VERMONT STATE POSTEMPLOYMENT BENEFIT TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
LAST TWO FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2018	2017
Total OPEB liability		
Service cost.....	\$ 52,326	\$ 66,841
Interest.....	54,401	46,868
Changes of benefit terms.....	(20,233)	-
Differences between expected and actual experience.....	7,140	-
Changes of assumptions.....	(303,322)	(190,151)
Benefit payments, net of retiree contributions, including administrative expense....	(34,559)	(33,346)
Net change in total OPEB liability.....	(244,247)	(109,788)
Total OPEB liability, July 1.....	1,484,522	1,594,310
Total OPEB liability, June 30.....	1,240,275	1,484,522
Plan fiduciary net position		
Contributions - employer.....	32,957	33,123
Net investment income (loss).....	872	1,372
Benefit payments, including refunds of member contributions.....	(34,559)	(33,346)
Administrative expenses.....	(1)	-
Net change in fiduciary net position.....	(731)	1,149
Plan fiduciary net position, beginning of year.....	22,502	21,353
Plan fiduciary net position, end of year.....	21,771	22,502
Net OPEB liability, June 30.....	\$ 1,218,504	\$ 1,462,020
Plan fiduciary net position as a percentage of the total OPEB liability.....	1.76%	1.52%
Covered payroll.....	\$ 531,543	\$ 497,201
Net OPEB liability as a percentage of covered-payroll.....	229.24%	294.05%

Notes to Schedule

Plan Type: single employer

Benefit changes in 2018: Medical copays were modified, and pharmacy deductible and maximum out of pocket expenses were increased

In 2018 the discount rate was increased from 3.58% to 3.87%

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
RETIRED TEACHERS' HEALTH AND MEDICAL BENEFITS TRUST FUND
SCHEDULE OF CHANGES IN NET OPEB LIABILITY
AND RELATED RATIOS
LAST TWO FISCAL YEARS**

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

	2018	2017
Total OPEB liability		
Service cost.....	\$ 26,273	\$ 32,511
Interest.....	32,838	26,425
Differences between expected and actual experience.....	42,621	-
Changes of assumptions.....	(50,192)	(33,192)
Benefit payments, net of retiree contributions, including administrative expense....	(29,329)	(29,577)
 Net change in total OPEB liability.....	 22,211	 (3,833)
Total OPEB liability, July 1.....	905,632	909,465
 Total OPEB liability, June 30.....	 927,843	 905,632
 Plan fiduciary net position		
Contributions - non-employer.....	29,803	23,839
Net investment income (loss).....	20	41
Benefit payments, including refunds of member contributions.....	(29,329)	(29,348)
Administrative expenses.....	(279)	(229)
 Net change in fiduciary net position.....	 215	 (5,697)
Plan fiduciary net position, beginning of year.....	(26,658)	(20,961)
 Plan fiduciary net position, end of year.....	 (26,443)	 (26,658)
 Net OPEB liability, June 30.....	 \$ 954,286	 \$ 932,290
 Plan fiduciary net position as a percentage of the total OPEB liability.....	 -2.85%	 -2.94%
Covered payroll.....	\$ 607,355	\$ 586,397
Net OPEB liability as a percentage of covered payroll.....	157.12%	158.99%

Notes to Schedule

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

Benefit changes since June 30, 2016: None

In 2018 the discount rate was increased from 3.58% to 3.87%

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 TWO FISCAL YEARS
(Unaudited)**

	2018	2017
Vermont State Postemployment Benefit Trust Fund		
Annual money-weighted rate of return, net of investment expense	4.00%	6.50%
Retired Teachers' Health and Medical Benefits Fund *		
Annual money-weighted rate of return, net of investment expense	N/A	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 TWO FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)**

<u>Retirement System</u>	<u>Year Ended 6/30</u>	<u>Actuarially Determined Contribution⁽¹⁾ (ADC)</u>	<u>Contributions in Relation to ADC</u>	<u>Contribution (Excess) Deficiency</u>	<u>Covered Payroll (CP)</u>	<u>Contribution as a Percent of CP</u>
Vermont State Postemployment Benefit Trust Fund (VSPB)	2018	\$ 74,760	\$ 32,957	\$ 41,803	\$ 531,543	6.20%
	2017	71,833	33,123	38,710	497,201	6.66%
Retired Teachers' Health and Medical Benefits Fund (RTHMB)	2018	\$ 37,317	\$ 29,803	\$ 7,514	\$ 607,355	4.91%
	2017	35,918	23,839	12,079	586,397	4.07%

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

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 supplementary 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. Assumptions values listed below were used in determining the actuarially determined contributions rates calculated as of that date.

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	7.95%	7.95%
Discount rate	4.00%	4.00%
Projected salary increases	5.00%	5.00%
Inflation	3.00% to 3.25%	3.00% to 3.25%
<u>Health care cost trend rates</u>		
Non-Medicare	8.00% graded to 4.50% over 12 years	5%
Medicare	6.00% graded to 4.50% over 6 years	5%

Mortality Rates

VSPB

Pre-retirement:

- Group A/F - RP-2000 Mortality Tables for Healthy Annuitants projected with Scale BB to 2026 with a 30% Blue Collar adjustment
- Group C - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026 with a Blue Collar adjustment
- Group D - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026

Healthy Retiree:

- Group A/F - RP-2000 Mortality Tables for Healthy Annuitants projected with Scale BB to 2026 with a 30% Blue Collar adjustment
- Group C - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026 with a Blue Collar adjustment
- Group D - RP-2000 Tables for Healthy Annuitants projected with Scale BB to 2026

Disabled Retiree:

- All Groups - The RP-2000 Mortality Tables for Healthy Annuitants for retirees and beneficiaries with a five-year set-forward, with mortality improvements projected to 2026 with Scale BB.

RTHMB

Pre-retirement:

- All Groups - RP-2000 Mortality Tables for Healthy Annuitants with mortality improvements projected to 2029 with Scale BB

Healthy Retiree:

- All Groups - RP-2000 Mortality Tables for Healthy Annuitants with mortality improvements projected to 2029 with Scale BB

Disabled Retiree:

- All Groups - RP-2000 Disabled Life Mortality Tables are used with mortality improvements projected to 2020 with Scale AA

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
LAST FISCAL YEAR⁽¹⁾
(Dollar amounts expressed in thousands)
(Unaudited)

Vermont State Postemployment Benefit Trust Fund

	2018
State's proportion of net OPEB liability	98.2979%
State's proportionate share of the net OPEB liability	\$ 1,437,135
Plan fiduciary net position as a percentage of the total OPEB liability	1.52%

Retired Teachers' Health and Medical Benefits Fund⁽²⁾

	2018
State's proportion of net OPEB liability	100%
State's proportionate share of the net OPEB liability	\$ 932,290
Plan fiduciary net position as a percentage of the total OPEB liability	-2.94%

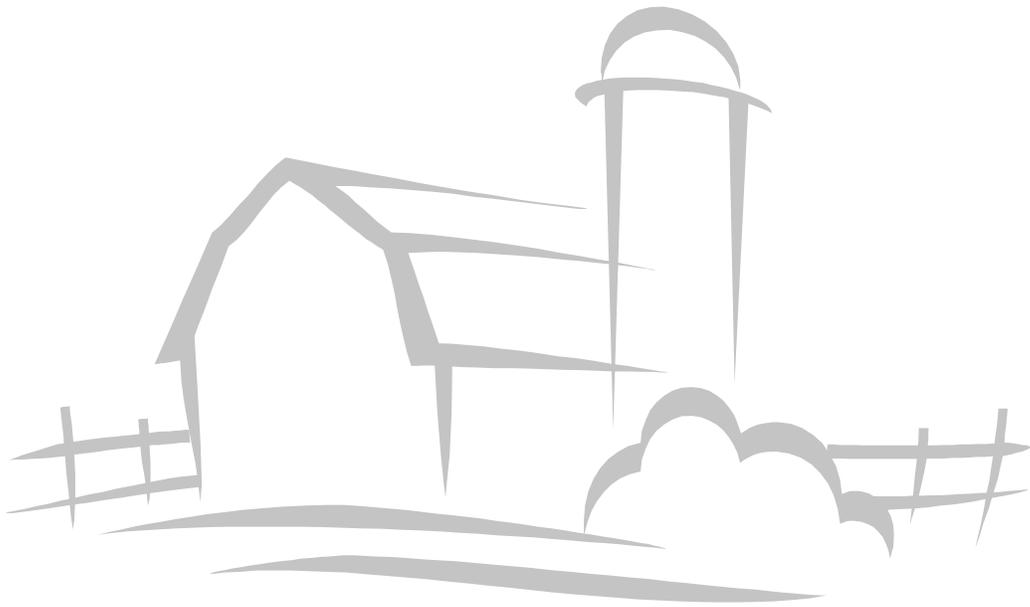
⁽¹⁾The amounts presented for each fiscal year were determined as of the measurement date. The measurement period and measurement date is one year prior to the fiscal year.

⁽²⁾The Retired Teachers' Health and Medical Benefits Fund has a special funding situation where the State, as the non-employer contributing entity, is responsible for the net OPEB liability.

GASB No. 75 required supplementary information is not available for fiscal years prior to 2018. Data for future years will be added prospectively.

See Independent Auditor's Report.

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Vermont

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(Unaudited)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Over (Under)</u>
Revenues				
Taxes.....	\$ 1,424,900,000	\$ 1,478,000,000	\$ 1,499,879,433	\$ 21,879,433
Earnings of Departments.....	49,800,000	47,800,000	47,059,301	(740,699)
Other.....	10,800,000	12,000,000	12,296,571	296,571
Total revenues.....	<u>1,485,500,000</u>	<u>1,537,800,000</u>	<u>1,559,235,305</u>	<u>21,435,305</u>
Expenditures				
General Government				
Agency of Administration.....	51,982,386	47,723,480	42,395,343	(5,328,137)
Executive Office.....	1,695,176	1,799,648	1,655,389	(144,259)
Legislative Council.....	12,534,497	13,203,499	12,200,596	(1,002,903)
Joint Fiscal Office.....	1,757,736	2,577,019	1,762,443	(814,576)
Sergeant at Arms.....	741,345	795,140	738,250	(56,890)
Lieutenant Governor's Office.....	238,955	251,408	250,344	(1,064)
Auditor of Accounts.....	400,371	408,180	393,320	(14,860)
State Treasurer.....	1,006,452	1,185,523	857,706	(327,817)
State Labor Relations Board.....	247,014	256,494	251,431	(5,063)
VOSHA Review Board.....	44,103	56,316	36,213	(20,103)
Homeowner Property Tax Assistance.....	16,600,000	16,155,896	16,052,117	(103,779)
Renter Rebate Tax Assistance.....	3,150,000	3,296,817	2,700,552	(596,265)
Protection to Persons and Property				
Attorney General.....	7,032,895	8,004,888	7,399,439	(605,449)
Defender General.....	16,965,014	17,389,258	17,181,328	(207,930)
Judiciary.....	43,288,131	44,034,331	41,975,395	(2,058,936)
State's Attorneys and Sheriffs.....	18,227,336	19,894,949	17,591,946	(2,303,003)
Department of Public Safety.....	46,646,494	49,640,990	48,260,318	(1,380,672)
Military Department.....	4,071,400	5,014,133	4,425,874	(588,259)
Center for Crime Victim Services.....	1,264,140	1,264,140	1,236,055	(28,085)
Criminal Justice Training Council.....	2,298,555	2,442,772	2,434,516	(8,256)
Agency of Agriculture, Food and Markets.....	8,488,392	12,572,694	8,984,529	(3,588,165)
Secretary of State.....	-	400,000	-	(400,000)
Public Service Department.....	-	96,056	88,501	(7,555)
Human Rights Commission.....	490,527	511,769	489,265	(22,504)
Human Services				
Agency of Human Services.....	682,081,853	701,478,894	683,319,759	(18,159,135)
Green Mountain Care Board.....	2,119,482	2,801,801	2,126,600	(675,201)
Governor's Commission on Women.....	371,061	528,551	376,913	(151,638)
Human Services Board.....	409,989	409,582	409,582	-
Vermont Veterans' Home.....	6,365,116	7,140,522	5,940,522	(1,200,000)
Labor				
Department of Labor.....	3,282,129	4,690,165	3,102,605	(1,587,560)
General Education				
Agency of Education.....	9,794,752	10,313,263	9,598,623	(714,640)
State Teacher's Retirement.....	103,473,782	103,473,782	103,173,782	(300,000)
Higher Education.....	86,710,244	87,940,246	87,590,246	(350,000)

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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.....	27,418,713	28,999,744	27,907,253	(1,092,491)
Natural Resources Board.....	607,606	606,998	606,998	-
Commerce and Community Development				
Agency of Commerce and Community Development.....	14,011,627	20,196,027	14,485,394	(5,710,633)
Cultural Development.....	2,031,425	2,067,523	2,067,523	-
Total expenditures.....	<u>1,177,848,698</u>	<u>1,219,622,498</u>	<u>1,170,066,670</u>	<u>(49,555,828)</u>
Excess of revenues over expenditures.....	<u>307,651,302</u>	<u>318,177,502</u>	<u>389,168,635</u>	<u>70,991,133</u>
Other Financing Sources (Uses)				
Transfers in.....	57,451,153	94,359,668	94,359,668	-
Transfers out.....	(394,904,840)	(449,963,160)	(449,963,160)	-
Total other financing sources (uses).....	<u>(337,453,687)</u>	<u>(355,603,492)</u>	<u>(355,603,492)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses.....	<u>(29,802,385)</u>	<u>(37,425,990)</u>	<u>33,565,143</u>	<u>70,991,133</u>
Fund balance, July 1.....	<u>148,716,202</u>	<u>148,716,202</u>	<u>148,716,202</u>	<u>-</u>
Fund balance, June 30.....	<u>\$ 118,913,817</u>	<u>\$ 111,290,212</u>	<u>\$ 182,281,345</u>	<u>\$ 70,991,133</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, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes.....	\$ 167,400,000	\$ 168,100,000	\$ 171,776,355	\$ 3,676,355
Motor vehicle fees.....	88,000,000	88,000,000	85,994,424	(2,005,576)
Federal.....	325,648,972	340,325,422	308,641,525	(31,683,897)
Other.....	35,300,000	36,400,000	40,819,457	4,419,457
Total revenues.....	616,348,972	632,825,422	607,231,761	(25,593,661)
Expenditures				
General Government				
Agency of Administration.....	5,736,230	3,925,671	3,909,200	(16,471)
Protection to Persons and Property				
Department of Public Safety.....	20,250,000	20,251,941	19,828,818	(423,123)
Transportation				
Agency of Transportation.....	588,852,109	616,833,871	568,729,353	(48,104,518)
Total expenditures.....	614,838,339	641,011,483	592,467,371	(48,544,112)
Excess of revenues over (under) expenditures	1,510,633	(8,186,061)	14,764,390	22,950,451
Other financing sources (uses)				
Transfers in.....	-	1,100,000	1,100,000	-
Transfers out.....	(7,464,570)	(7,464,570)	(7,464,570)	-
Total other financing sources (uses).....	(7,464,570)	(6,364,570)	(6,364,570)	-
Excess of revenues and other sources over (under) expenditures and other uses.....	(5,953,937)	(14,550,631)	8,399,820	22,950,451
Fund balance, July 1.....	4,984,545	4,984,545	4,984,545	-
Fund balance (deficit), June 30.....	\$ (969,392)	\$ (9,566,086)	\$ 13,384,365	\$ 22,950,451

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, 2018
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes.....	\$ 1,233,468,724	\$ 1,233,968,724	\$ 1,236,575,763	\$ 2,607,039
Interest and premiums.....	400,000	500,000	489,718	(10,282)
Total revenues.....	1,233,868,724	1,234,468,724	1,237,065,481	2,596,757
Expenditures				
General Government				
Grand List.....	3,460,000	3,861,945	3,234,852	(627,093)
Renter Rebates.....	7,350,000	7,684,263	6,301,289	(1,382,974)
Human Services				
Agency of Human Services.....	3,189,163	3,189,163	3,189,163	-
General Education				
Agency of Education.....	1,606,992,222	1,618,569,464	1,597,302,044	(21,267,420)
State Teachers' Retirement.....	7,896,621	7,896,621	7,896,621	-
Total expenditures.....	1,628,888,006	1,641,201,456	1,617,923,969	(23,277,487)
Excess of revenues over (under) expenditures.....	(395,019,282)	(406,732,732)	(380,858,488)	25,874,244
Other financing sources (uses)				
Transfers in.....	355,270,471	385,470,471	385,470,471	-
Transfers out.....	(11,599)	(11,599)	(11,599)	-
Total other financing sources (uses).....	355,258,872	385,458,872	385,458,872	-
Excess of revenues and other sources over (under) expenditures and other uses.....	(39,760,410)	(21,273,860)	4,600,384	25,874,244
Fund balance, July 1.....	74,529,930	74,529,930	74,529,930	-
Fund balance, June 30.....	\$ 34,769,520	\$ 53,256,070	\$ 79,130,314	\$ 25,874,244

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, 2018
(Unaudited)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Over (Under)</u>
Revenues				
Special Fund Revenues.....	\$ 647,659,473	\$ 767,552,967	\$ 682,559,245	\$ (84,993,722)
Total revenues.....	<u>647,659,473</u>	<u>767,552,967</u>	<u>682,559,245</u>	<u>(84,993,722)</u>
Expenditures				
General Government				
Agency of Administration.....	16,703,463	36,701,909	23,993,730	(12,708,179)
Executive Office.....	186,500	186,500	186,500	-
Joint Fiscal Office.....	-	469,438	98,275	(371,163)
Sergeant at Arms.....	-	20,000	4,247	(15,753)
Auditor of Accounts.....	53,145	73,440	73,440	-
State Treasurer.....	2,705,022	3,240,022	2,711,129	(528,893)
State Labor Relations Board.....	9,576	9,576	3,540	(6,036)
VOSHA Review Board.....	44,102	44,102	36,213	(7,889)
Unorganized Towns and Gores.....	-	480,000	324,645	(155,355)
Ethics Commission.....	-	115,323	52,370	(62,953)
Protection to Persons and Property				
Attorney General.....	5,343,893	5,904,286	5,380,557	(523,729)
Defender General.....	589,653	589,653	574,662	(14,991)
Judiciary.....	4,992,732	12,272,463	4,623,063	(7,649,400)
State's Attorneys and Sheriffs.....	2,834,262	2,850,905	2,510,745	(340,160)
Department of Public Safety.....	18,768,131	23,480,401	20,122,914	(3,357,487)
Military Department.....	335,310	997,809	919,352	(78,457)
Center for Crime Victim Services.....	5,132,559	5,282,272	4,781,862	(500,410)
Criminal Justice Training Council.....	40,386	125,386	125,381	(5)
Agency of Agriculture, Food and Markets.....	10,623,304	13,786,819	10,560,697	(3,226,122)
Department of Financial Regulation.....	15,344,986	16,064,986	14,702,531	(1,362,455)
Secretary of State.....	11,082,000	11,082,000	10,877,602	(204,398)
Public Service Department.....	13,898,084	16,512,427	13,449,289	(3,063,138)
Public Utility Commission.....	3,647,838	3,647,838	3,567,907	(79,931)
Enhanced 911 Board.....	4,842,364	4,842,364	4,836,990	(5,374)
Human Rights Commission.....	-	6,000	-	(6,000)
Department of Liquor Control.....	233,843	478,161	337,944	(140,217)
Human Services				
Agency of Human Services.....	454,468,659	467,339,346	434,138,614	(33,200,732)
Green Mountain Care Board.....	3,805,953	5,086,980	3,417,551	(1,669,429)
Governor's Commission on Women.....	-	2,000	2,000	-
Human Services Board.....	46,800	46,800	10,574	(36,226)
Labor				
Department of Labor.....	6,730,380	7,373,380	6,902,406	(470,974)
General Education				
Agency of Education.....	28,227,045	30,505,984	20,886,898	(9,619,086)
Higher Education.....	494,500	994,500	494,500	(500,000)

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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.....	50,089,054	81,818,059	53,763,946	(28,054,113)
Natural Resources Board.....	2,459,044	2,459,044	2,238,346	(220,698)
Commerce and Community Development				
Agency of Commerce and Community Development.....	10,079,147	19,283,768	7,637,071	(11,646,697)
Cultural Development.....	-	28,500	28,500	-
Transportation				
Agency of Transportation.....	4,193,999	7,193,623	2,549,229	(4,644,394)
Total expenditures.....	<u>678,005,734</u>	<u>781,396,064</u>	<u>656,925,220</u>	<u>(124,470,844)</u>
Excess of revenues over expenditures.....	<u>(30,346,261)</u>	<u>(13,843,097)</u>	<u>25,634,025</u>	<u>39,477,122</u>
Other Financing Sources (Uses)				
Transfers in.....	52,325,494	70,530,797	70,530,797	-
Transfers out.....	(21,979,233)	(56,687,700)	(56,687,700)	-
Total other financing sources (uses).....	<u>30,346,261</u>	<u>13,843,097</u>	<u>13,843,097</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses.....	-	-	39,477,122	39,477,122
Fund balance, July 1.....	<u>147,266,262</u>	<u>147,266,262</u>	<u>147,266,262</u>	<u>-</u>
Fund balance, June 30.....	<u>\$ 147,266,262</u>	<u>\$ 147,266,262</u>	<u>\$ 186,743,384</u>	<u>\$ 39,477,122</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, 2018
(Unaudited)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Over (Under)</u>
Revenues				
Federal.....	\$ 1,725,653,561	\$ 1,797,115,015	\$ 1,610,158,750	\$ (186,956,265)
Interest and premiums.....	-	153,321	153,321	-
Other.....	-	118,220	118,220	-
Total revenues.....	<u>1,725,653,561</u>	<u>1,797,386,556</u>	<u>1,610,430,291</u>	<u>(186,956,265)</u>
Expenditures				
General Government				
Agency of Administration.....	820,514	1,294,409	1,203,530	(90,879)
State Treasurer.....	-	260,697	260,697	-
Protection to Persons and Property				
Attorney General.....	1,113,091	1,122,205	1,121,831	(374)
Judiciary.....	556,455	556,455	492,460	(63,995)
State's Attorneys and Sheriffs.....	31,000	31,000	5,865	(25,135)
Department of Public Safety.....	19,064,842	21,208,109	13,320,313	(7,887,796)
Military Department.....	19,451,199	30,431,200	22,604,696	(7,826,504)
Center for Crime Victim Services.....	7,367,796	7,367,796	6,445,680	(922,116)
Agency of Agriculture, Food and Markets.....	3,273,245	3,584,279	3,455,889	(128,390)
Secretary of State.....	1,207,000	4,207,000	1,052,796	(3,154,204)
Public Service Department.....	2,354,279	2,354,279	1,000,586	(1,353,693)
Human Rights Commission.....	70,101	70,101	69,112	(989)
Department of Liquor Control.....	312,503	312,503	149,861	(162,642)
Human Services				
Agency of Human Services.....	1,400,213,607	1,386,294,772	1,293,088,591	(93,206,181)
Green Mountain Care Board.....	226,574	226,574	102,401	(124,173)
Human Services Board.....	314,044	314,044	124,750	(189,294)
Labor				
Department of Labor.....	31,891,593	31,891,593	22,055,677	(9,835,916)
General Education				
Agency of Education.....	136,958,720	136,958,720	127,508,861	(9,449,859)
Natural Resources				
Agency of Natural Resources.....	36,808,022	42,638,095	30,801,930	(11,836,165)
Commerce and Community Development				
Agency of Commerce and Community Development.....	9,377,628	54,917,553	11,848,721	(43,068,832)
Total expenditures.....	<u>1,671,412,213</u>	<u>1,726,041,384</u>	<u>1,536,714,247</u>	<u>(189,327,137)</u>
Excess of revenues over expenditures.....	<u>54,241,348</u>	<u>71,345,172</u>	<u>73,716,044</u>	<u>2,370,872</u>
Other Financing Sources (Uses)				
Transfers out.....	(54,241,348)	(71,073,630)	(71,073,630)	-
Total other financing sources (uses).....	<u>(54,241,348)</u>	<u>(71,073,630)</u>	<u>(71,073,630)</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses.....	-	271,542	2,642,414	2,370,872
Fund balance, July 1.....	<u>35,154,310</u>	<u>35,154,310</u>	<u>35,154,310</u>	<u>-</u>
Fund balance, June 30.....	<u>\$ 35,154,310</u>	<u>\$ 35,425,852</u>	<u>\$ 37,796,724</u>	<u>\$ 2,370,872</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, 2018
(Unaudited)**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums.....	\$ 1,545,800,000	\$ 1,543,700,000	\$ 1,512,050,355	\$ (31,649,645)
Total revenues.....	1,545,800,000	1,543,700,000	1,512,050,355	(31,649,645)
Expenditures				
Human Services				
Agency of Human Services.....	1,538,170,765	1,505,187,003	1,477,303,887	(27,883,116)
Green Mountain Care Board.....	2,567,518	2,729,418	1,966,456	(762,962)
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.....	260,000	260,000	194,740	(65,260)
Total expenditures.....	1,545,864,947	1,513,043,085	1,484,331,747	(28,711,338)
Excess of revenues over (under) expenditures.....	(64,947)	30,656,915	27,718,608	(2,938,307)
Other financing sources (uses)				
Transfers out.....	(29,418,611)	(29,418,611)	(29,418,611)	-
Total other financing sources (uses).....	(29,418,611)	(29,418,611)	(29,418,611)	-
Excess of revenues and other sources over (under) expenditures and other uses.....	(29,483,558)	1,238,304	(1,700,003)	(2,938,307)
Fund balance, July 1.....	81,561,151	81,561,151	81,561,151	-
Fund balance, June 30.....	\$ 52,077,593	\$ 82,799,455	\$ 79,861,148	\$ (2,938,307)

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, 2018:

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Education Fund</u>	<u>Special Fund</u>	<u>Federal Revenue Fund</u>	<u>Global Commitment Fund</u>
Fund Balance - Budgetary Basis.....	\$ 182,281,345	\$ 13,384,365	\$ 79,130,314	\$ 186,743,384	\$ 37,796,724	\$ 79,861,148
Basis differences						
Cash not in budget balances.....	366,795	(50,191)	23,219	781,966	3,129,819	(18,120)
Taxes receivable.....	183,305,793	9,332,382	51,758,598	6,442,686	-	-
Notes and loans receivable.....	353,249	-	-	3,167,862	-	-
Other receivables.....	10,730,588	11,022,736	-	16,100,757	(2,021,097)	26,091,397
Interest receivable.....	1,102,373	-	-	-	-	-
Due from other funds.....	3,939,743	57,601	332,236	4,769,472	786,644	6,063,323
Due from federal government.....	-	42,671,376	-	-	91,977,508	76,359,485
Due from component units.....	5,500,000	-	-	(12,971)	-	-
Interfund Receivable.....	147,211	-	-	-	-	-
Accounts payable.....	(18,760,679)	(34,030,995)	(16,842,915)	(19,413,422)	(45,237,671)	(134,675,575)
Accrued liabilities.....	(20,763,518)	(7,944,497)	-	(5,765,334)	(9,567,846)	(2,372,931)
Retainage payable.....	(91,985)	(37,994)	-	(136,065)	(1,652,256)	(18,286)
Unearned revenue.....	(7,629,364)	(198,478)	-	(154,579)	(3,238,256)	-
Tax refunds payable.....	(32,467,741)	-	(333,850)	267,644	-	-
Intergovernment payables.....	-	-	-	-	(8,181,396)	-
Due to other funds.....	(5,215,772)	(2,644,844)	(17,553)	(13,567,212)	(3,679,914)	(3,832,655)
Unavailable revenue.....	(132,411,171)	(8,727,680)	(10,571,385)	(22,181,362)	-	(6,360,024)
Entity differences						
Blended non-budgeted funds.....	-	3,782,899	-	8,118,281	399,450,600	-
Perspective differences						
Component unit included in budgeted funds...	-	-	-	(81,883)	(240,671)	-
Fund Balance - GAAP Basis.....	<u>\$ 170,386,867</u>	<u>\$ 26,616,680</u>	<u>\$ 103,478,664</u>	<u>\$ 165,079,224</u>	<u>\$ 459,322,188</u>	<u>\$ 41,097,762</u>