

*STATE OF VERMONT*

**COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT**

*For the fiscal year ended JUNE 30, 2019*



*Philip B. Scott*  
Governor

*Prepared by the Department of Finance and Management*

**STATE OF VERMONT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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*Adam Greshin, Commissioner*

## LETTER OF TRANSMITTAL

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

Pursuant to 32 VSA § 182 (a)(8), the Department of Finance and Management is pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ended June 30, 2019. The Department prepared these financial statements and assumes responsibility for the completeness and reliability of the information presented. To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework designed to protect the state's assets from loss, theft, or misuse and to compile sufficient, reliable information for the presentation of this report in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The cost of internal controls should not outweigh their benefits. Vermont's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatement. I believe the accompanying financial statements are accurate and fairly stated in all material respects and presented in a manner designed to report fairly the State of Vermont's financial position, results of operations and changes in net position/fund balances.

Please pay particular attention to two important items contained in this CAFR. The first item is the Management Discussion and Analysis (MD&A) that follows the Independent Auditors' Report. This analysis is designed to provide, in understandable terms, an overview of the state's financial position. The Basic Financial Statements (BFS) follow the MD&A. The BFS were prepared in conformity with GAAP as prescribed by the GASB. The BFS contain government-wide statements that present the state's financial activities in a manner similar to that of a private corporation. Fund statements report governmental, proprietary, and fiduciary fund financial activity; discretely presented component unit financial activity; and note disclosures that explain and enhance the basic financial statements.

In addition to the MD&A and BFS, this CAFR includes a Required Supplementary Information (RSI) section, Other Supplementary Information section, and a Statistical section. The RSI section contains various schedules relating to the state's defined benefit pension and other postemployment benefits plans, and Budget to Actual comparison schedules for the state's General and major special revenue funds with Notes reconciling budgetary fund balance to the governmental funds' GAAP fund balance. The Other Supplementary Information section contains combined fund financial statements for the state's Non-major Governmental, Proprietary, and Fiduciary Funds, and discretely presented Component Units. The Statistical section presents data relating to financial trends, revenue and debt capacity, and demographic and operating information about the State of Vermont. Please note the information contained in the MD&A, RSI and Statistical sections is unaudited.

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

## **State Profile**

Vermont, known as the Green Mountain State, was first settled by the French in 1666, then by the English in 1690, and joined the Union as the fourteenth state in 1791. Rural in character, the state measures 9,615 square miles of land and water area, ranking the state 45th in terms of land and water area among the 50 states. Vermont's population, as measured by the last decennial Census on April 1, 2010, was 625,741, ranking the state 49th among the 50 states - unchanged from the 2000 and 1990 Censuses per the U.S. Bureau of the Census. The state capital is Montpelier and the largest city is Burlington. As of calendar year 2017, 92.6 percent of Vermonters aged 25 or older were at least high school graduates (ranked number 6 in the country) while 38.3 percent had at least a college bachelor's degree (ranked number 8 in the country), per the U.S. Bureau of the Census.

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

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

The Required Supplementary Information section includes Budget to Actual comparison schedules for the General Fund and the five budgeted special revenue funds. The state's budgeting process is described in the Notes to the Budget to Actual comparison schedules. These schedules present each fund's original budget, final budget, actual expenditures incurred on a budgetary basis, and the variance between the final budget and actual expenditures incurred. The adopted budget provides legal control over spending. Vermont law prohibits expenditures in excess of amounts appropriated. Budgetary control is exercised by fund within appropriation.

## **The General Fund**

The General Fund accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds, as well as the expenditures associated with these revenues. In fiscal year 2019, General Fund tax revenues accounted for 94.6 percent of total General Fund revenues. The two principal tax revenue contributors – the personal income tax and the meals and rooms tax – accounted for 66 percent of General Fund total tax revenues, or approximately 62.4 percent of total General Fund revenues. General Fund expenditures used 62.7 percent of the total revenues, and these expenditures occurred in the following major governmental functional categories: General Government, Protection to Persons and Property, Human Services, Labor, General Education, Natural Resources, and Commerce and Community Development. Most of the remainder of the resources provided by 2019 General Fund revenues was transferred to other funds and used for various purposes. Please see Note IV.D. for a summary of these transfers.

## **Economic Condition**

The consensus economic forecast includes a Vermont economy that is expected, for the most part, to follow a similar path as the U.S. economy throughout calendar year 2019 through calendar year 2021. The U.S. data corresponds to the most recent Administration-Legislative Joint Fiscal Office (JFO) consensus forecast of the macroeconomic environment for the Vermont economy for the upcoming three calendar year period. The forecast was developed in the winter of 2018 and was subsequently adjusted as needed for the January 2019 consensus revenue forecast process. The updated forecast calls for the current state economic upturn to continue for real output (as measured by Gross State Product), for inflation-adjusted or real personal income, and for most labor market indicators throughout the period. It is also expected that the pace of forward progress in Vermont will continue at a historically moderate pace, due, in part, to a combination of the state's demographic situation and the late-cycle dynamics of a maturing expansion.

Vermont has recently experienced reduced population growth due to historically low birth rates and a slowdown in domestic migration following the Great Recession. This period of reduced population growth has coincided with a roughly five-year period when the state's labor force was declining or flat. This demographic situation may impact future workforce growth and Vermont's economic growth potential. Domestic out-migration has decreased in recent years, however, which may be attributable to the recovery of housing prices throughout the country and in New England. Coupled with increased international in-migration, the state has experienced a return to modest population growth over the last two years according to mid-year population estimates from the U.S. Census Bureau.

As of Spring 2019, housing prices in the state were well above the peak price levels experienced prior to the Great Recession. Vermont was the second state in New England to complete its full housing market price recovery from the mid-2000s, following Massachusetts. This is a particularly noteworthy development because with very low birth rates in Vermont, migratory inflows into the state are an important component of population change.

The State's annual average unemployment rate is expected to average 2.7 percent for calendar year 2019 and then rise to 3.2 percent in calendar year 2020 and 3.6 percent in calendar year 2021. If estimates are correct, Vermont's unemployment rate as of the end of calendar year 2021 would be 0.9 percentage points below the forecasted U.S. unemployment rate for the same period. The rate of payroll job growth is expected to increase by 0.2 percent in calendar years 2020 and 2021. For calendar year 2019 through 2021, Vermont's nominal dollar personal income is expected to increase between 2.5 percent per year and 2.8 percent per year. Housing prices, as measured by the Federal Housing Finance Agency, for calendar year 2019 are expected to increase by 5.3 percent, representing the first time housing prices have increased by over 5.0 percent since the mid-2000s. Housing prices in Vermont are then expected to increase by 6.2 percent and 6.1 percent in calendar years 2020 and 2021, respectively.

## **Long-term Financial Planning**

As part of the state's long-term financial planning, the Legislature created a Capital Debt Affordability Advisory Committee which is required to present to the Governor and General Assembly, no later than September 30th of each year, a recommendation as to the maximum amount of net tax-supported debt the state may prudently issue for the ensuing fiscal year while maintaining the state's Aa1/AA+ debt rating. The recommendation is calculated and presented in accordance with certain debt affordability guidelines and other matters that may be relevant to the proposed debt to be authorized.

At its September 2019 meeting the Committee made a recommendation of net tax-supported debt not to exceed \$123.2 million for the 2020-2021 fiscal year biennium. This represents a 7 percent reduction from the previous biennium's recommendation of \$132.5 million. In the 2019 legislative session, the General Assembly authorized \$123.2 million in total capital project spending in new general obligation debt and \$1.4 million in transfers and reallocations.

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

CliftonLarsonAllen LLP, an independent certified public accounting firm, performed an independent audit of the state's basic financial statements for the fiscal year ended June 30, 2019. The auditors have issued unmodified opinions, the most favorable outcome of the audit process. The audit described in the auditor's report is not intended to meet all requirements of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards rule (commonly called "Uniform Guidance") implemented in December 2014. Rather, the Uniform Guidance Audit Report for Vermont is issued under separate cover.

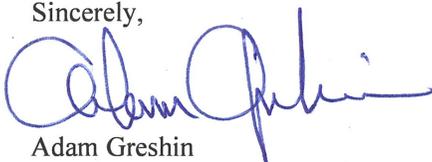
### **Awards and Acknowledgments**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Vermont for its CAFR for the fiscal year ended June 30, 2018. This was the tenth year Vermont has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Sincerely,



Adam Greshin  
Commissioner  
Department of Finance and Management

December 19, 2019



Government Finance Officers Association

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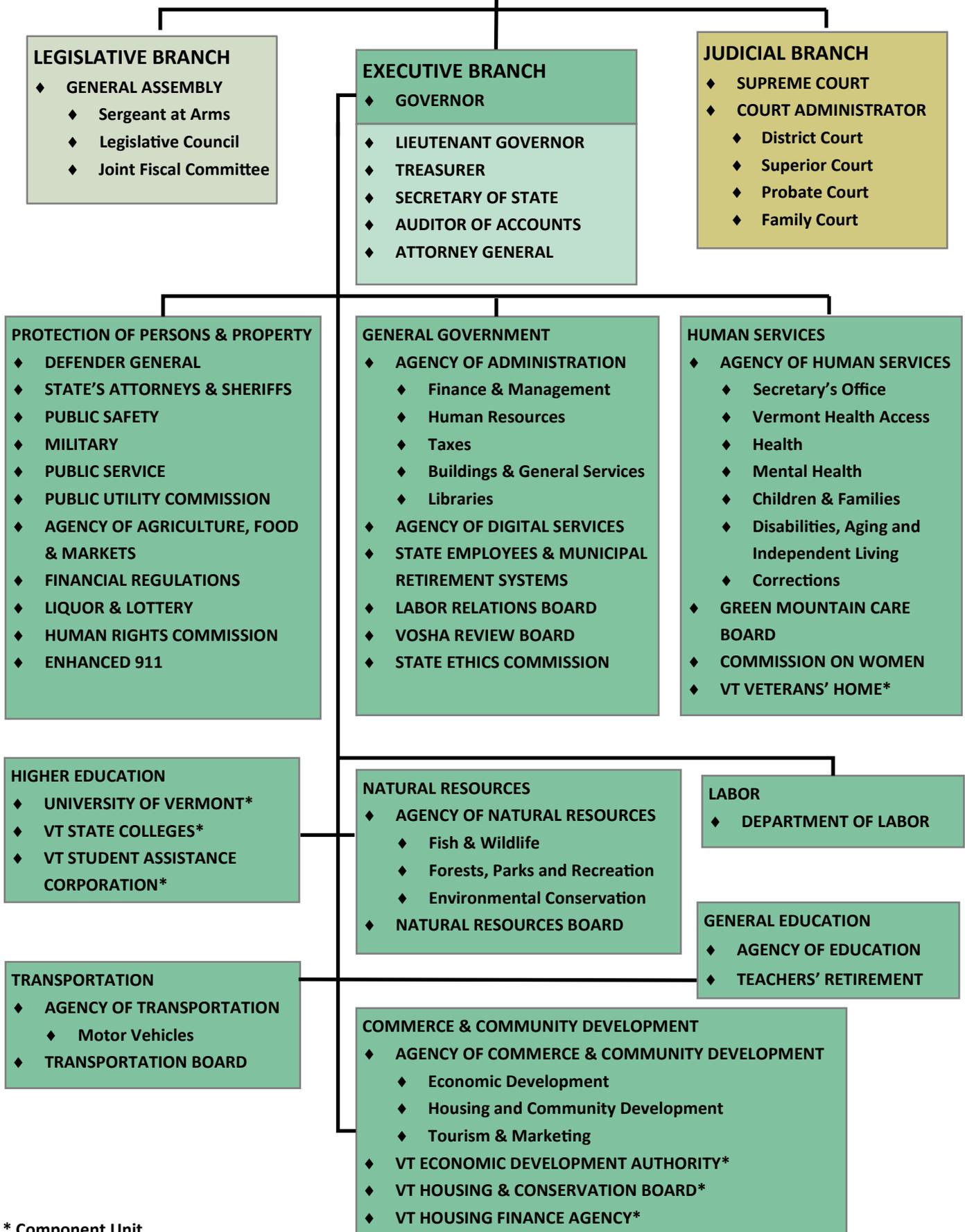
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO

# VERMONT CITIZENS



\* Component Unit

***SELECTED STATE OFFICIALS***  
***As of June 30, 2019***

***EXECUTIVE***

*Philip B. Scott*  
*Governor*

*David Zuckerman*  
*Lieutenant Governor*

*James C. Condos*  
*Secretary of State*

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

*Douglas R. Hoffer*  
*Auditor of Accounts*

*Elizabeth Pearce*  
*State Treasurer*

***JUDICIAL***

*Paul L. Reiber*  
*Chief Justice*

***LEGISLATIVE***

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

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