KPMG

STATE OF VERMONT

Auditors' Report as Required by OMB Circular A-133
and Related Information

Year ended June 30, 2012

STATE OF VERMONT

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KPMG LLP
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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Speaker of the House of the Representatives
President Pro-Tempore of the Senate
Governor of the State of Vermont
General Assembly, State of Vermont
State House
Montpelier, Vermont:

We have audited the 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, 2012, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 27, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements and related disclosures of certain discretely presented component units identified in note 1A of the State's basic financial statements, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc. and the Tri-State Lotto Commission as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters did not include the University of Vermont, or the Vermont Economic Development Authority which are discretely presented component units. We have issued separate reports on our consideration of internal control over financial reporting and on tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the State's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as findings FS2012-01 and FS2012-02 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding FS2012-03 to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the State in a separate letter dated December 27, 2012.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Speaker of the House of Representatives, the President Pro-Tempore of the Senate, the Governor, the General Assembly, management, the cognizant federal agency, the Office of the Inspector General, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 27, 2012

Vt. Reg. No. 92-0000241

KPMG LLP
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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Speaker of the House of the Representatives
President Pro-Tempore of the Senate
Governor of the State of Vermont
General Assembly, State of Vermont
State House
Montpelier, Vermont:

Compliance

We have audited the State of Vermont's (the State) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each the State's major federal programs for the year ended June 30, 2012. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The schedule of expenditures of federal awards, the schedule of expenditures of federal awards by Vermont State Agency and our audit described below do not include expenditures of federal awards for those entities determined to be component units of the State for financial statement purposes. Each of these entities has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

As described below and in the accompanying schedule of findings and questioned costs, the State did not comply with certain requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major federal programs.

State agency/ department name	Federal program name	Compliance requirements	Finding number
Department of Education	Child Nutrition Cluster	Subrecipient Monitoring	12-01
Department of Education	Child Nutrition Cluster	Subrecipient Monitoring	12-02
Department of Labor	WIA Cluster	Allowability, Eligibility	12-06
Department of Labor	WIA Cluster	Allowability	12-07
Department of Education	Title I, Part A Cluster	Subrecipient Monitoring	12-11
Department of Education	Special Education Cluster	Subrecipient Monitoring	12-12
Department of Education	Special Education Cluster	Subrecipient Monitoring	12-13
Department of Education	IDEA, Part C Cluster	Subrecipient Monitoring	12-14
Department of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	12-16
Department of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	12-17
Department of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	12-18
Department of Education	SFSF Cluster	Subrecipient Monitoring	12-19
Department of Education	Education Jobs Fund	Subrecipient Monitoring	12-20
Agency of Human Services	TANF Cluster	Allowability, Eligibility	12-21
Agency of Human Services	Low Income Home Energy Assistance Program	Allowability, Eligibility	12-22
Agency of Human Services	Low Income Home Energy Assistance Program	Allowability	12-23
Agency of Human Services	Foster Care – Title IV-E	Eligibility	12-24
Agency of Human Services	Foster Care – Title IV-E	Allowability	12-25
Agency of Human Services	Foster Care – Title IV-E	Allowability	12-26
Agency of Human Services	Medicaid Cluster	Allowability	12-29
Agency of Human Services	Medicaid Cluster	Allowability, Eligibility	12-30
Agency of Human Services	Medicaid Cluster	Matching	12-31

In our opinion, except for the noncompliance described in the preceding table, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct or material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-03, 12-04, 12-05, 12-08, 12-09, 12-10, 12-15, 12-27, 12-28, 12-32 and 12-33.

Internal Control over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weaknesses in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-01, 12-02, 12-06, 12-07, 12-11, 12-12, 12-13, 12-14, 12-16, 12-17, 12-18, 12-19, 12-20, 12-21, 12-22, 12-23, 12-24, 12-25, 12-26, 12-29, 12-30, and 12-31, to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-03, 12-04, 12-05, 12-08, 12-09, 12-10, 12-15, 12-27, 12-28, 12-32 and 12-33 to be significant deficiencies.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses, and accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the 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 as of Vermont, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 27, 2012, which referred to the use of the reports of other auditors and which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to December 27, 2012. The accompanying schedule of expenditures of federal awards and schedule of expenditures of federal awards by Vermont State Agency are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the basic financial statements. Such information 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. The 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and schedule of expenditures of federal awards by Vermont State Agency are fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of the Speaker of the House of the Representatives, the President Pro-Tempore of the Senate, the Governor, the General Assembly, management, the cognizant federal agency, the Office of the Inspector General, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

KPMG LLP

March 21, 2013 (except for the schedule of expenditures of federal awards, which is as of December 27, 2012)

Vt. Reg. No. 92-0000241

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
	Direct grants:			
	Monetary awards:			
	U.S. Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$ 175,068	—	—
10.163	Marketing Protection and Promotion	7,591	—	—
10.169	Specialty Crop Block Grant Program	201,582	169,253	—
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	504,196	—	—
10.551	Supplemental Nutrition Assistance Program	24,571,884	—	—
10.553	School Breakfast Program	5,249,630	5,257,273	—
10.555	National School Lunch Program	14,291,141	14,267,508	29,931
10.556	Special Milk Program for Children	59,066	59,066	—
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	13,921,356	—	—
10.558	Child and Adult Care Food Program	5,339,367	5,246,652	14,612
10.559	Summer Food Service Program for Children	609,899	579,129	—
10.560	State Administrative Expenses for Child Nutrition	522,085	500	—
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10,256,263	1,470,344	—
10.565	Commodity Supplemental Food Program	214,209	211,709	—
10.568	Emergency Food Assistance Program (Administrative Costs)	74,074	73,808	—
10.572	WIC Farmers' Market Nutrition Program (FMNP)	66,441	—	—
10.574	Team Nutrition Grants	20,125	—	—
10.576	Senior Farmers Market Nutrition Program	64,993	—	—
10.578	ARRA – WIC Grants To States (WGS)	185,192	—	—
10.579	Child Nutrition Discretionary Grants Limited Availability	45,138	45,138	—
10.582	Fresh Fruit and Vegetable Program	1,077,590	1,156,633	—
10.664	Cooperative Forestry Assistance	1,517,889	567,008	—
10.665	Schools and Roads – Grants to States	339,626	339,626	—
10.672	Rural Development, Forestry, and Communities	215,199	157,885	—
10.676	Forest Legacy Program	1,464,141	—	—
10.688	ARRA – Recovery Act of 2009: Wildland Fire Management	214,986	—	—
10.776	Agriculture Innovation Center	627,771	522,183	—
10.912	Environmental Quality Incentive Program	77,528	—	—
10.999	Organic Certification – Procedures	262,681	—	—
10.999	Presidential Disaster in FY2008	63,085	61,655	—
		82,239,796	30,185,370	44,543
	U.S. Department of Commerce:			
11.113	ITA Special Projects	92,077	56,095	—
11.555	Public Safety Interoperable Communications Grant Program	1,995,731	1,507,557	—
		2,087,808	1,563,652	—
	U.S. Department of Defense:			
12.002	Procurement Technical Assistance For Business Firms	389,445	125,070	—
12.100	Aquatic Plant Control	443,311	171,792	—
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	23,258	—	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	17,104,503	—	—
12.404	National Guard ChalleNGe Program	497,243	—	—
		18,457,760	296,862	—
	U.S. Department of Housing and Urban Development:			
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	13,747,082	13,523,566	—
14.231	Emergency Solutions Grants Program	341,641	320,484	—
14.239	Home Investment Partnerships Program	4,042,680	3,988,611	—
14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	210,687	—	—
14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Recovery Act	94,769	12,152	—
14.257	ARRA – Homelessness prevention and Rapid Re-Housing Program	49,634	49,634	—
14.999	Office of Fair Housing-Assistance Grant	84,250	—	—
		18,570,743	17,894,447	—
	U.S. Department of Interior:			
15.605	Sport Fish Restoration Program	3,591,620	11,986	—
15.608	Fish and Wildlife Management Assistance	24,334	11,179	2,746
15.611	Wildlife Restoration and Basic Hunter Education	2,726,672	47,894	—
15.615	Cooperative Endangered Species Conservation Fund	183,069	—	—

(Continued)

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
15.622	Sportfishing and Boating Safety Act	$ 48,516	36,236	—
15.631	Partners for Fish and Wildlife	14,731	—	—
15.633	Landowner Incentive Program	93,688	—	—
15.634	State Wildlife Grants	635,557	94,642	—
15.810	National Cooperative Geologic Mapping Program	78,814	6,956	—
15.904	Historic Preservation Fund Grants-In-Aid	468,832	71,877	—
15.916	Outdoor Recreation – Acquisition, Development and Planning	291,177	212,331	—
15.929	Save America's Treasures	39,909	—	—
		8,196,919	493,101	2,746
	U.S. Department of Justice:			
16.017	Sexual Assault Services Formula Program	166,250	126,593	—
16.523	Juvenile Accountability Block Grants	137,483	—	—
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	827,920	582,285	—
16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	769,269	821,572	—
16.554	National Criminal History Improvement Program (NCHIP)	53,519	—	—
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	5,426	—	—
16.575	Crime Victim Assistance	1,198,307	415,695	524,275
16.576	Crime Victim Compensation	298,894	—	—
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	220,125	—	—
16.582	Crime Victim Assistance/Discretionary Grants	53,069	6,124	—
16.588	ARRA – Violence Against Women Formula Grants	109,934	55,000	54,934
16.588	Violence Against Women Formula Grants	719,325	335,465	383,860
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	411,521	278,298	91,848
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	354,364	200,112	154,252
16.606	State Criminal Alien Assistance Program (SCAAP)	29,747	—	—
16.607	Bulletproof Vest Partnership Program	8,144	—	—
16.609	Project Safe Neighborhoods	72,309	—	—
16.710	Public Safety Partnership and Community Policing Grants	948,328	37,143	—
16.727	Enforcing Underage Drinking Laws Program	465,568	282,791	—
16.738	Edward Byrne Memorial Justice Assistance Grant Program	366,877	154,233	—
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	57,984	—	—
16.741	DNA Backlog Reduction Program	63,094	—	—
16.742	Paul Coverdell Forensic Science Improvement Grants Program	158,128	—	39,000
16.744	Anti-Gang Initiatives	31,355	—	—
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	138,801	—	—
16.748	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	12,311	—	—
16.750	Support for Adam Walsh Act Implementation Grant Program	167,416	—	—
16.753	Congressionally Recommended Awards	882,423	—	94,153
16.801	ARRA – State Victim Assistance Formula Grant Program	24,437	2,000	22,437
16.803	ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	330,484	—	—
16.810	ARRA – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	216,469	—	—
16.812	Second Chance Act Prisoner Reentry Initiative	149,349	—	—
16.999	ATF Task Force	6,769	—	—
16.999	Drug Enforcement Administration – DEA	26,259	—	—
16.999	Marijuana Eradication	32,368	—	—
16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	12,371	—	—
16.999	FBI Joint Terrorism Task Force	13,789	—	—
16.999	FBI Special Investigations	65,024	—	—
16.999	Bordergap	15,928	—	—
16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice and Treasury)	424,756	1,685	—
		10,045,894	3,298,996	1,364,759
	U.S. Department of Labor:			
17.002	Labor Force Statistics	1,157,108	—	—
17.005	Compensation and Working Conditions	33,601	—	—
17.207	Employment Service/Wagner – Peyser Funded Activities	2,520,161	—	—
17.225	Unemployment Insurance	150,438,645	—	—
17.225	ARRA – Unemployment Insurance	227,617	—	—
17.235	Senior Community Service Employment Program (SCSEP)	492,786	482,452	—
17.245	Trade Adjustment Assistance	689,426	—	—
17.258	WIA Adult Program	1,620,534	66,890	—
17.259	WIA Youth Activities	1,735,987	71,668	—

(Continued)

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
17.260	WIA Dislocated Workers	$ 490,964	20,214	—
17.261	WIA Pilots, Demonstrations, and Research Projects	291,472	22,130	—
17.275	ARRA – Programs of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,035,334	1,419,264	—
17.277	Workforce Investment Act (WIA) National Emergency Grants	607,026	24,992	—
17.278	WIA Dislocated Worker Formula Grants	556,272	—	—
17.503	Occupational Safety and Health – State Program	764,176	—	—
17.504	Consultation Agreements	382,338	—	—
17.600	Mine Health and Safety Grants	86,415	63,482	—
17.801	Disabled Veterans' Outreach Program (DVOP)	133,337	—	—
17.804	Local Veterans' Employment Representative Program	292,260	—	—
		163,555,459	2,171,092	—
	U.S. Department of Transportation:			
20.106	Airport Improvement Program	3,182,723	114,826	—
20.106	ARRA – Airport Improvement Program	237,810	—	—
20.205	Highway Planning and Construction	286,498,277	30,638,327	195,120
20.205	ARRA – Highway Planning and Construction	2,058,040	—	—
20.218	National Motor Carrier Safety	973,141	—	—
20.219	Recreational Trails Program	1,428,402	1,057,057	—
20.314	Railroad Development	1,021,835	—	—
20.319	ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	28,109,048	—	—
20.500	Federal Transit – Capital Investment Grants	1,088,497	1,080,636	—
20.505	Metropolitan Transportation Planning	415,282	362,064	—
20.509	Formula Grants for Other Than Urbanized Areas	11,869,328	11,626,810	—
20.509	ARRA – Formula Grants for Other Than Urbanized Areas	62,917	62,917	—
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	206,790	176,767	—
20.514	Public Transportation Research	257,789	257,789	—
20.521	New Freedom Program	37,934	37,934	—
20.600	State and Community Highway Safety	1,588,011	695,282	259,081
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	589,996	92,449	114,168
20.602	Occupant Protection Incentive Grants	84,828	—	—
20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated	4,301,391	252,033	3,788,360
20.609	State Safety Belt Performance Grant	385,822	331,312	52,207
20.610	State Traffic Safety Information System Improvement Grants	533,934	—	320,864
20.612	Incentive Grant Program to Increase Motorcyclist Safety	114,884	—	114,884
20.613	Child Safety and Child Booster Seat Incentive Grants	111,143	74,163	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	100,474	55,821	—
20.720	State Damage Protection Programs	87,825	57,443	—
20.721	PHMSA Pipeline Safety Program One Call Grant	189,487	—	—
		345,535,608	46,973,630	4,844,684
	U.S. General Services Administration:			
39.011	Election Reform Payments	60,824	—	—
		60,824	—	—
	U.S. Institute of Museum and Library Service:			
45.310	Grants to States	846,357	62,819	—
		846,357	62,819	—
	U.S. Small Business Administration:			
59.061	State Trade and Export Promotion Pilot Grant Program	188,951	77,932	—
		188,951	77,932	—
	U.S. Environmental Protection Agency:			
66.032	State Indoor Radon Grants	136,015	7,000	—
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	237,363	—	—
66.040	State Clean Diesel Grant Program	98,906	60,757	—
66.040	ARRA-State Clean Diesel Grant Program	73,653	118,945	—
66.042	Office of Research and Development Consolidated Research	107,710	—	—
66.202	Congressionally Mandated Projects	308,092	—	—

(Continued)

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
66.454	Water Quality Management Planning	$ 96,882	35,072	—
66.454	ARRA-Water Quality Management Planning	5,668	4,553	—
66.458	Capitalization Grants for Clean Water State Revolving Funds	10,537,609	10,741,910	—
66.458	ARRA-Capitalization Grants for Clean Water State Revolving Funds	482,553	—	—
66.468	Capitalization Grants for Drinking Water State Revolving Funds	11,084,835	10,229,075	—
66.468	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	576,998	460,906	—
66.474	Water Protection Grants to the States	66,378	—	—
66.481	Lake Champlain Basin Program	476,462	215,278	—
66.605	Performance Partnership Grants	4,656,076	182,092	—
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	9,791	—	—
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	353,592	—	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	25,000	—	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	141,292	—	—
66.708	Pollution Prevention Grants Program	49,974	—	—
66.709	Multi-Media Capacity Building Grants for States and Tribes	39,417	—	—
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	37,198	—	—
66.804	Underground Storage Tank Prevention, Detection, and Compliance Program	335,154	—	—
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	754,495	—	—
66.805	ARRA Leaking Underground Storage Tank Trust Fund Corrective Action Program	305,656	—	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	107,276	—	—
66.817	State and Tribal Response Program Grants	754,676	5,953	—
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	282,435	282,435	—
66.818	ARRA – Brownfields Assessment and Cleanup Cooperative Agreements	474,211	463,165	—
		32,615,367	22,807,141	—
	U.S. Department of Energy:			
81.039	State Heating Oil and Propane Program	5,751	—	—
81.041	State Energy Program	280,745	—	—
81.041	ARRA-State Energy Program	13,877,512	3,806,028	3,706,643
81.042	Weatherization Assistance for Low – Income Persons	882,328	848,867	—
81.042	ARRA-Weatherization Assistance for Low – Income Persons	7,029,507	5,798,204	—
81.119	State Energy Program Special Projects	2,034	—	—
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	299,277	—	—
81.127	ARRA – Energy Efficient Appliance Rebate Program (EEARP)	154,330	—	—
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	4,225,772	2,890,746	—
81.999	Sustainable Energy for Homes and Businesses (Sanders)	254,114	254,114	—
		27,011,370	13,597,959	3,706,643
	U.S. Department of Education:			
84.002	Adult Education – Basic Grants to States	907,163	799,203	—
84.010	Title I Grants to Local Educational Agencies	34,120,976	33,967,501	—
84.011	Migrant Education – State Grant Program	771,277	650,154	—
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	599,659	37,659	555,194
84.027	Special Education – Grants to States	25,944,785	23,251,385	4,028
84.048	Career and Technical Education – Basic Grants to States	4,235,805	3,690,605	42,149
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	13,857,111	333,720	—
84.169	Independent Living – State Grants	276,964	151,599	—
84.173	Special Education – Preschool Grants	782,741	585,435	—
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	314,299	225,000	—
84.181	Special Education – Grants for Infants and Families	2,643,508	512,411	—
84.186	Safe and Drug-Free Schools and Communities – State Grants	249,893	147,280	—
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	371,646	—	—
84.196	Education for Homeless Children and Youth	178,854	144,689	—
84.213	Even Start – State Educational Agencies	29,890	20,009	—
84.224	Assistive Technology	455,011	—	—
84.243	Tech-Prep Education	12,292	12,292	—
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	53,816	—	—

(Continued)

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
84.287	Twenty-First Century Community Learning Centers	$ 6,221,668	6,082,971	—
84.318	Educational Technology State Grants	225,953	197,982	—
84.323	Special Education – State Personnel Development	516,574	430,788	—
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	30,096	—	—
84.365	English Language Acquisition Grants	590,343	391,856	—
84.366	Mathematics and Science Partnerships	959,375	941,971	—
84.367	Improving Teacher Quality State Grants	12,833,499	12,435,029	—
84.369	Grants for State Assessments and Related Activities	2,091,886	—	—
84.371	Striving Readers	142,972	142,972	—
84.377	School Improvement Grants	199,800	70,884	—
84.386	ARRA-Education Technology State Grants, Recovery Act	133,416	108,137	—
84.388	ARRA-School Improvement Grants, Recovery Act	2,114,132	2,114,132	—
84.389	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	867,588	701,997	—
84.390	ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	99,102	35,298	—
84.391	ARRA-Special Education – Grants to States, Recovery Act	2,208,246	2,208,246	—
84.392	ARRA-Special Education – Preschool Grants, Recovery Act	85,166	85,166	—
84.393	ARRA-Special Education – Grants for Infants and Families, Recovery Act	385,625	—	—
84.394	ARRA-State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act	2,077,820	—	2,077,820
84.397	ARRA-State Fiscal Stabilization Fund – Governmental Services, Recovery Act	13,634	6,121	7,512
84.398	ARRA-Independent Living State Grants, Recovery Act	115,513	115,513	—
84.410	Education Jobs Fund	8,375,382	8,375,382	—
		126,093,480	98,973,387	2,686,703
	U.S. National Archives and Records Administration:			
89.003	National Historical Publications and Records Grant	21,813	—	—
		21,813	—	—
	U.S. Election Assistance Commission:			
90.401	Help America Vote Act Requirements Payments	480,868	—	—
		480,868	—	—
	U.S. Department of Health and Human Services:			
93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	25,169	25,169	—
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	78,797	78,797	—
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	110,217	110,217	—
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	2,086,711	2,086,711	—
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services	3,444,492	3,444,492	—
93.048	Special Programs for the Aging – Title IV – and Title II – Discretionary Projects	216,140	—	—
93.051	Alzheimer's Disease Demonstration Grants to States	142,185	—	—
93.052	National Family Caregiver Support, Title III, Part E	654,562	392,591	—
93.053	Nutrition Services Incentive Program	774,788	774,788	—
93.069	Public Health Emergency Preparedness	6,279,956	875,474	—
93.070	Environmental Public Health and Emergency Response	1,505,484	9,250	—
93.071	Medicare Enrollment Assistance Program	918	918	—
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	114,405	49,900	—
93.103	Food and Drug Administration – Research	5,000	—	—
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,550,380	1,550,380	—
93.110	Maternal and Child Health Federal Consolidated Programs	579,770	196,274	21,250
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	123,361	—	—
93.127	Emergency Medical Services for Children	74,570	—	—
93.130	Cooperative Agreements to States/ Territories for the Coordination and Development of Primary Care Offices	125,227	—	—
93.136	Injury Prevention and Control Research and State and Community Based Programs Childhood Lead Poisoning Prevention Projects-State and Local Childhood	92,995	64,932	—
93.150	Projects for Assistance in Transition from Homelessness (PATH)	245,993	126,464	—
93.217	Family Planning – Services	836,221	828,637	—
93.230	Consolidated Knowledge Development and Application Program	183,529	—	—
93.241	State Rural Hospital Flexibility Program	337,372	271,772	—
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	2,303,103	1,094,712	—
93.251	Universal Newborn Hearing Screening	308,826	253,175	—
93.268	Immunization Cooperative Agreements	1,636,607	2,498	—
93.270	Adult Viral Hepatitis Prevention and Control	71,938	—	—

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	$ 4,656,940	364,780	—
93.296	State Partnership Grant Program to Improve Minority Health	89,268	9,048	—
93.301	Small Rural Hospital Improvement Grants Program	101,635	95,385	—
93.414	ARRA – State Primary Care Offices	26,190	26,190	—
93.500	Pregnancy Assistance Fund Program	1,205,158	1,096,774	—
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	463,661	—	—
93.507	PPHF 2012 National Public Health Improvement Initiative	852,764	198,702	—
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	345,248	—	—
93.517	Affordable Care Act – Aging and Disability Resource Center	244,235	—	—
93.518	Affordable Care Act – Medicare Improvements for Patients and Providers	48,447	48,447	—
93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants	81,178	—	—
93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work	39,039	38,998	—
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	643,936	36,961	—
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	1,966,906	—	—
93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by 2012 Prevention and Public Health Funds	30,289	—	—
93.539	PPHF 2012 – Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	88,719	—	—
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorize Coordinated Chronic Disease Prevention and Health Promotion Program	93,210	—	—
93.550	Transitional Living for Homeless Youth	116,007	114,096	—
93.556	Promoting Safe and Stable Families	377,623	277,336	—
93.558	Temporary Assistance for Needy Families	29,051,363	202,787	—
93.563	Child Support Enforcement	7,596,748	—	—
93.566	Refugee and Entrant Assistance – State Administered Programs	726,153	306,425	—
93.568	Low Income Home Energy Assistance Program	22,268,321	4,147,242	—
93.569	Community Services Block Grant	3,434,581	3,304,438	—
93.575	Child Care and Development Block Grant	12,796,565	1,334,775	—
93.576	Refugee and Entrant Assistance – Discretionary Grants	226,983	200,625	—
93.586	State Court Improvement Program	389,987	—	—
93.590	Community – Based Child Abuse Prevention Grants	153,476	153,476	—
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,298,578	730,917	—
93.597	Grants to States for Access and Visitation Programs	104,736	103,831	—
93.599	Chafee Education and Training Vouchers Program (ETV)	144,004	144,004	—
93.600	Head Start	146,213	—	—
93.617	Voting Access for Individuals with Disabilities – Grants to States	105,838	84,400	—
93.630	Developmental Disabilities Basic Support and Advocacy Grants	447,992	198,341	—
93.643	Children's Justice Grants to States	135,024	4,925	—
93.645	Stephanie Tubbs Jones Child Welfare Services Program	578,691	—	—
93.658	Foster Care – Title IV-E	8,710,313	—	—
93.659	Adoption Assistance	8,084,168	—	—
93.667	Social Services Block Grant	8,160,873	668,312	—
93.669	Child Abuse and Neglect State Grants	28,979	3,000	—
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters – Grants to States and Indian Tribes	718,490	716,816	—
93.674	Chafee Foster Care Independence Program	375,000	—	—
93.708	ARRA – Head Start	276,185	—	—
93.717	ARRA – Preventing Healthcare-Associated Infections	255,919	180,711	—
93.719	ARRA – State Grants to Promote Health Information Technology	2,864,861	—	—
93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands	483,756	54,500	—
93.725	ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	53,022	—	—
93.767	Children's Health Insurance Program	8,793,365	—	—
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	652,613	231,114	—
93.775	State Medicaid Fraud Control Units	622,835	—	—
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,497,536	—	—
93.778	Medical Assistance Program	774,672,559	982	—
93.778	ARRA-Medical Assistance Program	6	—	—
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	414,489	403,174	—

(Continued)

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
93.791	Money Follows the Person Rebalancing Demonstration	$ 226,790	—	—
93.889	National Bioterrorism Hospital Preparedness Program	1,311,733	666,385	—
93.913	Grants to States for Operation of Offices of Rural Health	188,150	89,573	—
93.917	HIV Care Formula Grants	1,183,981	—	—
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	181,440	33,082	—
93.940	HIV Prevention Activities – Health Department Based	1,551,867	530,541	—
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	77,485	—	—
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	160,854	—	—
93.958	Block Grants for Community Mental Health Services	725,344	55,559	—
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,381,970	1,094,703	—
93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	181,824	17,010	—
93.982	Mental Health Disaster Assistance and Emergency Mental Health	288,235	—	—
93.991	Preventive Health and Health Services Block Grant	69,714	20,000	—
93.994	Maternal and Child Health Services Block Grant to the States	1,679,247	587,641	—
		949,858,025	30,813,157	21,250
	U.S. Corporation for National Community Service:			
94.003	State Commissions	247,837	—	—
94.006	AmeriCorps	1,218,447	1,208,337	—
94.007	Program Development and Innovation Grants	20,936	—	—
94.009	Training and Technical Assistance	15,808	—	—
94.013	Volunteers in Service to America (VISTA)	37,295	—	—
		1,540,323	1,208,337	—
	U.S. Social Security Administration:			
96.001	Social Security – Disability Insurance	5,282,969	—	—
96.008	Social Security-Work Incentives Planning and Assistance Program	105,899	27,918	—
		5,388,868	27,918	—
	U.S. Department of Homeland Security:			
97.012	Boating Safety Financial Assistance	707,436	24,339	98,282
97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)	175,179	—	—
97.032	Crisis Counseling	297,972	277,109	—
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	77,299,695	62,306,787	1,475,485
97.039	Hazard Mitigation Grants	577,469	577,469	—
97.041	National Dam Safety Program	53,937	—	—
97.042	Emergency Management Performance Grants	3,018,584	609,521	28,533
97.043	State Fire Training Systems Grants	25,820	—	—
97.045	Cooperating Technical Partners	110,200	—	—
97.047	Pre Disaster Mitigation	29,528	29,924	—
97.052	Emergency Operations Center	243,290	—	243,290
97.055	Interoperable Emergency Communications	194,688	—	—
97.056	Port Security Grant Program	15,178	—	—
97.067	Homeland Security Grant Program	5,461,870	1,653,570	121,657
97.082	Earthquake Consortium	83,097	46,496	—
97.090	Law Enforcement Officer Reimbursement Agreement Program	61,680	—	—
97.999	FEMA Admin Training Procurement	354	—	—
		88,355,977	65,525,215	1,967,247
	Total direct monetary awards	1,881,152,210	335,971,015	14,638,575
	Nonmonetary programs:			
	U.S. Department of Agriculture:			
10.551	Supplemental Nutrition Assistance Program	114,876,511	—	—
10.555	National School Lunch Program Commodities	1,939,884	—	—
10.558	Child and Adult Care Food Program Commodities	9,052	—	—
10.560	State Administrative Expenses for Child Nutrition	1,942,480	—	—
10.565	Commodity Supplemental Food Program	730,379	—	—
10.569	Emergency Food Assistance Program (Food Commodities)	400,271	—	—
	Total U.S. Department of Agriculture	119,898,577	—	—
	Buildings and General Services:			
39.003	Donation of Federal Surplus Personal Property	1,004,760	—	—
		1,004,760	—	—
	U.S. Dept of Health and Human Services:			
93.268	Immunization Cooperative Agreements	5,856,616	—	—
		5,856,616	—	—
	Total direct nonmonetary federal assistance	126,759,953	—	—

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STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2012

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients	Amounts transferred to state agencies
	Indirect Federal Grants			
10.678	Forest Stewardship Program	$ 3,494	—	—
11.558	ARRA – State Broadband Data and Development Grant Program	106,753	—	—
14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	1,362	—	—
16.547	Victims Child Abuse	47,715	—	—
17.261	WIA Pilots, Demonstrations, and Research Projects	59,463	—	—
64.005	Grants to States for Construction of State Home Facilities	991,059	—	—
81.087	ARRA – Renewable Energy Research and Development	76,239	—	—
93.767	Children's Health Insurance Program	151,426	—	—
93.999	ADAP Data Collection	75,000	—	—
	Total indirect federal grants	1,512,511	—	—
	Total direct federal grants	2,007,912,163	335,971,015	14,638,575
	Total federal financial aid expended	$ 2,009,424,674	335,971,015	14,638,575

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures by Vermont State Agency.

STATE OF VERMONT

Schedule of Expenditures of Federal Awards
by Vermont State Agency

Year ended June 30, 2012

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Subgranted to non state of vermont entities	Subgranted to State of vermont agencies
Administration Secretary	84.394	ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recover Act	$ 2,077,820	—	2,077,820
Administration Secretary	84.397	ARRA – State Fiscal Stabilization Fund – Governmental Services, Recovery Act	13,634	6,121	7,512
Administration Secretary	84.410	Education Jobs Fund	8,375,382	8,375,382	—
Administration Secretary total			10,466,836	8,381,503	2,085,332
Agriculture	10.025	Plant and Animal Disease, Pest Control, and Animal Care	175,068	—	—
Agriculture	10.163	Marketing Protection and Promotion	7,591	—	—
Agriculture	10.169	Specialty Crop Block Grant Program	201,582	169,253	—
Agriculture	10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	504,196	—	—
Agriculture	10.776	Agriculture Innovation Center	627,771	522,183	—
Agriculture	10.912	Environmental Quality Incentive Program	77,528	—	—
Agriculture	10.999	Long Term Standing Agreements For Storage, Transportation and Lease	262,681	—	—
Agriculture	66.700	Consolidated Pesticide Enforcement Cooperative Agreements	353,592	—	—
Agriculture total			2,210,009	691,436	—
Attorney General	93.775	State Medicaid Fraud Control Units	622,835	—	—
Attorney General total			622,835	—	—
Financial Regulation	93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	345,248	—	—
Financial Regulation	93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants	81,178	—	—
Financial Regulation total			426,426	—	—
Buildings & General Services	14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	1,362	—	—
Buildings & General Services	39.003	Donation of Federal Surplus Personal Property	1,004,760	—	—
Buildings & General Services	64.005	Grants to States for Construction of State Home Facilities	991,059	—	—
Buildings & General Services total			1,997,181	—	—
Commerce	10.999	Presidential Disaster in FFY2008	63,085	61,655	—
Commerce	11.113	ITA Special Projects	92,077	56,095	—
Commerce	12.002	Procurement Technical Assistance For Business Firms	389,445	125,070	—
Commerce	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	13,747,082	13,523,566	—
Commerce	14.239	Home Investment Partnerships Program	423,616	369,547	—
Commerce	14.239	Home Investment Partnerships Program – VHCB	3,619,064	3,619,064	—
Commerce	14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	10,687	—	—
Commerce	14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Recovery Act	94,769	12,152	—
Commerce	15.904	Historic Preservation Fund Grants-In-Aid	468,832	71,877	—
Commerce	15.929	Save Americas Treasures	39,909	—	—
Commerce	59.061	State Trade and Export Promotion Pilot Grant Program	188,951	77,932	—
Commerce	66.818	Brownfields Assessment and Cleanup Cooperative Agreements	282,435	282,435	—
Commerce	66.818	ARRA – Brownfields Assessment and Cleanup Cooperative Agreements	474,211	463,165	—
Commerce total			19,894,163	18,662,558	—
Ctr. for Crime Victims Svcs.	16.017	Sexual Assault Services Formula Program	166,250	126,593	—
Ctr. for Crime Victims Svcs.	16.575	Crime Victim Assistance	1,198,307	415,695	524,275
Ctr. for Crime Victims Svcs.	16.576	Crime Victim Compensation	298,894	—	—
Ctr. for Crime Victims Svcs.	16.582	Crime Victim Assistance/Discretionary Grants	53,069	6,124	—
Ctr. for Crime Victims Svcs.	16.588	ARRA – Violence Against Women Formula Grants	109,934	55,000	54,934
Ctr. for Crime Victims Svcs.	16.588	Violence Against Women Formula Grants	719,325	335,465	383,860
Ctr. for Crime Victims Svcs.	16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	411,521	278,298	91,848
Ctr. for Crime Victims Svcs.	16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	354,364	200,112	154,252
Ctr. for Crime Victims Svcs.	16.801	Recovery Act – State Victim Assistance Formula Grant Program	24,437	2,000	22,437
Ctr. for Crime Victims Svcs.	93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters – Grants to States and Indian Tribes	718,490	716,816	—
Ctr. for Crime Victims Svcs. total			4,054,591	2,136,103	1,231,606
Education	10.553	School Breakfast Program	5,249,630	5,257,273	—
Education	10.555	National School Lunch Program	14,291,141	14,267,508	29,931
Education	10.555	National School Lunch Program – Commodities	1,939,884	—	—
Education	10.556	Special Milk Program for Children	59,066	59,066	—
Education	10.558	Child and Adult Care Food Program	5,339,367	5,246,652	14,612
Education	10.558	Child and Adult Care Food Program – Commodities	9,052	—	—
Education	10.559	Summer Food Service Program for Children	609,899	579,129	—
Education	10.560	State Administrative Expenses for Child Nutrition	459,517	500	—
Education	10.574	Team Nutrition Grants	20,125	—	—
Education	10.579	Child Nutrition Discretionary Grants Limited Availability	45,138	45,138	—
Education	10.582	Fresh Fruit & Vegetable Program	1,077,590	1,156,633	—
Education	16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	420,383	408,678	—
Education	84.002	Adult Education – Basic Grants to States	907,163	799,203	—
Education	84.010	Title I Grants to Local Educational Agencies	34,120,976	33,967,501	—
Education	84.011	Migrant Education _ State Grant Program	771,277	650,154	—
Education	84.013	Title I State Agency Program for Neglected and Delinquent Children	599,659	37,659	555,194
Education	84.027	Special Education _ Grants to States	25,944,785	23,251,385	4,028
Education	84.048	Career and Technical Education – Basic Grants to States	4,235,805	3,690,605	42,149
Education	84.173	Special Education _ Preschool Grants	782,741	585,435	—
Education	84.186	Safe and Drug-Free Schools and Communities – State Grants	43,849	42,540	—
Education	84.196	Education for Homeless Children and Youth	178,854	144,689	—
Education	84.213	Even Start – State Educational Agencies	29,890	20,009	—
Education	84.243	Tech-Prep Education	12,292	12,292	—
Education	84.287	Twenty First Century Community Learning Centers	6,221,668	6,082,971	—
Education	84.318	Education Technology State Grants	225,953	197,982	—
Education	84.323	Special Education – State Personnel Development	516,574	430,788	—
Education	84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	30,096	—	—
Education	84.365	English Language Acquisition Grants	590,343	391,856	—
Education	84.366	Mathematics and Science Partnerships	959,375	941,971	—
Education	84.367	Improving Teacher Quality State Grants	12,833,499	12,435,029	—

(Continued)

STATE OF VERMONT

Schedule of Expenditures of Federal Awards
by Vermont State Agency

Year ended June 30, 2012

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Subgranted to non state of vermont entities	Subgranted to State of vermont agencies
Education	84.369	Grants for State Assessments and Related Activities	$ 2,091,886	—	—
Education	84.371	Striving Readers	142,972	142,972	—
Education	84.377	School Improvement Grants	199,800	70,884	—
Education	84.386	ARRA-Enhancing Education Through Technology, Recovery Act	133,416	108,137	—
Education	84.388	ARRA-School Improvement Grants, Recovery Act	2,114,132	2,114,132	—
Education	84.389	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	867,588	701,997	—
Education	84.391	ARRA-Special Education – Grants to States, Recovery Act	2,208,246	2,208,246	—
Education	84.392	ARRA-Special Education – Preschool Grants, Recovery Act	85,166	85,166	—
Education	93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important,Health Problems	181,440	33,082	—
Education total			126,550,237	116,167,262	645,914
Human Rights Commission	14.999	Office of Fair Housing-Assistance Grant	84,250	—	—
Human Rights Commission total			84,250	—	—
Human Services	10.551	Supplemental Nutrition Assistance Program (Cash)	24,571,884	—	—
Human Services	10.551	Supplemental Nutrition Assistance Program (EBT)	114,876,511	—	—
Human Services	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	13,921,356	—	—
Human Services	10.560	State Administrative Expenses for Child Nutrition	62,568	—	—
Human Services	10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10,256,263	1,470,344	—
Human Services	10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program – Commodities	1,942,480	—	—
Human Services	10.565	Commodity Supplemental Food Program	214,209	211,709	—
Human Services	10.565	Commodity Supplemental Food Program – Commodities	730,379	—	—
Human Services	10.568	Emergency Food Assistance Program (Administrative Costs)	74,074	73,808	—
Human Services	10.569	Emergency Food Assistance Program (Food Commodities)	400,271	—	—
Human Services	10.572	ARRA – WIC Farmers' Market Nutrition Program (FMNP)	66,441	—	—
Human Services	10.576	Senior Farmers Market Nutrition Program	64,993	—	—
Human Services	10.578	WIC Grants To States (WGS)	185,192	—	—
Human Services	14.231	Emergency Shelter Grants Program	341,641	320,484	—
Human Services	14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	200,000	—	—
Human Services	14.257	ARRA-Homelessness Prevention and Rapid Re-Housing Program (HPRR)	49,634	49,634	—
Human Services	16.523	Juvenile Accountability Block Grants	137,483	—	—
Human Services	16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	827,920	582,285	—
Human Services	16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	348,886	412,894	—
Human Services	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	156,127	—	—
Human Services	16.606	State Criminal Alien Assistance Program (SCAAP)	29,747	—	—
Human Services	16.710	Public Safety Partnership and Community Policing Grants	362,373	—	—
Human Services	16.727	Enforcing Underage Drinking Laws Program	465,568	282,791	—
Human Services	16.740	Statewide Automated Victim Information Notification (SAVIN) Program	57,984	—	—
Human Services	16.750	Support for Adam Walsh Act Implementation Grant Program	18,916	—	—
Human Services	16.812	Second Chance Act Prisoner Reentry Initiative	149,349	—	—
Human Services	17.235	Senior Community Service Employment Program	492,786	482,452	—
Human Services	17.261	WIA Pilots, Demonstrations, and Research Projects	247,662	—	—
Human Services	66.032	State Indoor Radon Grants	136,015	7,000	—
Human Services	66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	25,000	—	—
Human Services	66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	141,292	—	—
Human Services	81.042	Weatherization Assistance for Low – Income Persons	882,328	848,867	—
Human Services	81.042	ARRA-Weatherization Assistance for Low – Income Persons	7,029,507	5,798,204	—
Human Services	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	13,857,111	333,720	—
Human Services	84.169	Independent Living – State Grants	276,964	151,599	—
Human Services	84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	314,299	225,000	—
Human Services	84.181	Special Education – Grants for Infants and Families	2,643,508	512,411	—
Human Services	84.186	Safe and Drug-Free Schools and Communities – State Grants	206,044	104,740	—
Human Services	84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	371,646	—	—
Human Services	84.224	Assistive Technology	455,011	—	—
Human Services	84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	53,816	—	—
Human Services	84.390	ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	99,102	35,298	—
Human Services	84.393	ARRA-Special Education – Grants for Infants and Families, Recovery Act	385,625	—	—
Human Services	84.398	ARRA-Independent Living State Grants, Recovery Act	115,513	115,513	—
Human Services	93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	25,169	25,169	—
Human Services	93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	78,797	78,797	—
Human Services	93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	110,217	110,217	—
Human Services	93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	2,086,711	2,086,711	—
Human Services	93.045	Special Programs for the Aging – Title III, Part C -Nutrition Services	3,444,492	3,444,492	—
Human Services	93.048	Special Programs for the Aging – Title IV – and Title II – Discretionary Projects	216,140	—	—
Human Services	93.051	Alzheimer's Disease Demonstration Grants to States	142,185	—	—
Human Services	93.052	National Family Caregiver Support, Title III, Part E	654,562	392,591	—
Human Services	93.053	Nutrition Services Incentive Program	774,788	774,788	—
Human Services	93.069	Public Health Emergency Preparedness	6,279,956	875,474	—
Human Services	93.070	Environmental Public Health and Emergency Response	1,505,484	9,250	—
Human Services	93.071	Medicare Enrollment Assistance Program	918	918	—
Human Services	93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	114,405	49,900	—
Human Services	93.103	Food and Drug Administration – Research	5,000	—	—
Human Services	93.104	Comprehensive Community Mental Health Services for Children with Emotional Disturbances (SED)	1,550,380	1,550,380	—
Human Services	93.110	Maternal and Child Health Federal Consolidated Programs	579,770	196,274	21,250
Human Services	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	123,361	—	—
Human Services	93.127	Emergency Medical Services for Children	74,570	—	—
Human Services	93.130	Cooperative Agreements to States/Territories for the Coordination and of Primary Care Offices	125,227	—	—

(Continued)

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Subgranted to non state of vermont entities	Subgranted to State of vermont agencies
Human Services	93.136	Injury Prevention and Control Research and State and Community Based Programs	$ 92,995	64,932	—
Human Services	93.150	Projects for Assistance in Transition from Homelessness (PATH)	245,993	126,464	—
Human Services	92.217	Family Planning – Services	836,221	828,637	—
Human Services	93.230	Consolidated Knowledge Development and Application Program	183,529	—	—
Human Services	93.241	State Rural Hospital Flexibility Program	337,372	271,772	—
Human Services	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	1,984,752	1,094,712	—
Human Services	93.251	Universal Newborn Hearing Screening	308,826	253,175	—
Human Services	93.268	Immunization Cooperative Agreements	1,636,607	2,498	—
Human Services	93.268	Immunization Cooperative Agreements – Vaccine	5,856,616	—	—
Human Services	93.270	Adult Viral Hepatitis Prevention and Control	71,938	—	—
Human Services	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	4,656,940	364,780	—
Human Services	93.296	State Partnership Grant Program to Improve Minority Health	89,268	9,048	—
Human Services	93.301	Small Rural Hospital Improvement Grants Program	101,635	95,385	—
Human Services	93.414	ARRA – State Primary Care Offices	26,190	26,190	—
Human Services	93.500	Pregnancy Assistance Fund Program	1,205,158	1,096,774	—
Human Services	93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	463,661	—	—
Human Services	93.507	PPHF 2012 National Public Health Improvement Initiative	852,764	198,702	—
Human Services	93.517	Affordable Care Act – Aging and Disability Resource Center	244,235	—	—
Human Services	93.518	Affordable Care Act – Medicare Improvements for Patients and Providers	48,447	48,447	—
Human Services	93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work	39,039	38,998	—
Human Services	93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	643,936	36,961	—
Human Services	93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	1,966,906	—	—
Human Services	93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by 2012 Prevention and Public Health Funds	30,289	—	—
Human Services	93.539	PPHF 2012 – Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	88,719	—	—
Human Services	93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorize Coordinated Chronic Disease Prevention and Health Promotion Program	93,210	—	—
Human Services	93.550	Transitional Living for Homeless Youth	116,007	114,096	—
Human Services	93.556	Promoting Safe and Stable Families	377,623	277,336	—
Human Services	93.558	Temporary Assistance for Needy Families	29,051,363	202,787	—
Human Services	93.563	Child Support Enforcement	7,596,748	—	—
Human Services	93.566	Refugee and Entrant Assistance – State Administered Programs	726,153	306,425	—
Human Services	93.568	Low-Income Home Energy Assistance	22,268,321	4,147,242	—
Human Services	93.569	Community Services Block Grant	3,434,581	3,304,438	—
Human Services	93.575	Child Care and Development Block Grant	12,796,565	1,334,775	—
Human Services	93.576	Refugee and Entrant Assistance – Discretionary Grants	226,983	200,625	—
Human Services	93.590	Community – Based Child Abuse Prevention Grants	153,476	153,476	—
Human Services	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,298,578	730,917	—
Human Services	93.597	Grants to States for Access and Visitation Programs	104,736	103,831	—
Human Services	93.599	Chafee Education and Training Vouchers Program (ETV)	144,004	144,004	—
Human Services	93.600	Head Start	146,213	—	—
Human Services	93.630	Developmental Disabilities Basic Support and Advocacy Grants	447,992	198,341	—
Human Services	93.630	Children's Justice Grants to States	135,024	4,925	—
Human Services	93.643	Stephanie Tubbs Jones Child Welfare Services Program	578,691	—	—
Human Services	93.645	Foster Care – Title IV-E	8,710,313	—	—
Human Services	93.658	Adoption Assistance	8,084,168	—	—
Human Services	93.667	Social Services Block Grant	8,160,873	668,312	—
Human Services	93.669	Child Abuse and Neglect State Grants	28,979	3,000	—
Human Services	93.674	Chafee Foster Care Independence Program	375,000	—	—
Human Services	93.708	ARRA – Head Start	276,185	—	—
Human Services	93.717	ARRA – Preventing Healthcare-Associated Infections	255,919	180,711	—
Human Services	93.719	ARRA – State Grants to Promote Health Information Technology	2,864,861	—	—
Human Services	93.723	ARRA – Prevention and Wellness-State, Territories and Pacific Islands	483,756	54,500	—
Human Services	93.725	ARRA – Communities Putting Prevention to Work: Chronic Disease Self-Management Program	53,022	—	—
Human Services	93.767	Children's Health Insurance Program	8,944,791	—	—
Human Services	93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	652,613	231,114	—
Human Services	93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,497,536	—	—
Human Services	93.778	Medical Assistance Program	774,672,559	982	—
Human Services	93.778	ARRA-Medical Assistance Program	6	—	—
Human Services	93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	414,489	403,174	—
Human Services	93.791	Money Follows the Person Rebalancing Demonstration	226,790	—	—
Human Services	93.889	National Bioterrorism Hospital Preparedness Program	1,311,733	666,385	—
Human Services	93.913	Grants to States for Operation of Offices of Rural Health	188,150	89,573	—
Human Services	93.917	HIV Care Formula Grants	1,183,981	—	—
Human Services	93.940	HIV Prevention Activities – Health Department Based	1,551,867	530,541	—
Human Services	93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	77,485	—	—
Human Services	93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	160,854	—	—
Human Services	93.958	Block Grants for Community Mental Health Services	725,344	55,559	—
Human Services	93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,381,970	1,094,703	—
Human Services	93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	181,824	17,010	—
Human Services	93.982	Mental Health Disaster Assistance and Emergency Mental Health	288,235	—	—
Human Services	93.991	Preventive Health and Health Services Block Grant	69,714	20,000	—
Human Services	93.994	Maternal and Child Health Services Block Grant to the States	1,679,247	587,641	—
Human Services	93.999	ADAP Data Collection	75,000	—	—
Human Services	94.003	State Commissions	247,837	—	—

STATE OF VERMONT

Schedule of Expenditures of Federal Awards
by Vermont State Agency

Year ended June 30, 2012

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Subgranted to non state of vermont entities	Subgranted to State of vermont agencies
Human Services	94.006	AmeriCorps	$ 1,218,447	1,208,337	—
Human Services	94.007	Program Development and Innovation Grants	20,936	—	—
Human Services	94.009	Training and Technical Assistance	15,808	—	—
Human Services	94.013	Volunteers in Service to America (VISTA)	37,295	—	—
Human Services	96.001	Social Security – Disability Insurance	5,282,969	—	—
Human Services	96.008	Social Security-Work Incentives Planning and Assistance Program	105,899	27,918	—
Human Services	97.032	Crisis Counseling	297,972	277,109	—
Human Services total			1,158,650,341	43,510,976	21,250
Judiciary	16.547	Victims Child Abuse	47,715	—	—
Judiciary	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	12,408	—	—
Judiciary	16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	138,801	—	—
Judiciary	16.753	Congressionally Recommended Awards	87,838	—	—
Judiciary	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	318,351	—	—
Judiciary	93.586	State Court Improvement Program	389,987	—	—
Judiciary total			995,100	—	—
Labor	17.002	Labor Force Statistics	1,157,108	—	—
Labor	17.005	Compensation and Working Conditions	33,601	—	—
Labor	17.207	Employment Service/Wagner – Peyser Funded Activities	2,520,161	—	—
Labor	17.225	Unemployment Insurance	150,438,645	—	—
Labor	17.225	ARRA-Unemployment Insurance	227,617	—	—
Labor	17.245	Trade Adjustment Assistance	689,426	—	—
Labor	17.258	WIA Adult Program	1,620,534	66,890	—
Labor	17.259	WIA Youth Activities	1,735,987	71,668	—
Labor	17.260	WIA Dislocated Workers	490,964	20,214	—
Labor	17.261	WIA Pilots, Demonstrations, and Research Projects	43,810	22,130	—
Labor	17.261	WIA Pilots, Demonstrations, and Research Projects – indirect	59,463	—	—
Labor	17.275	ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,035,334	1,419,264	—
Labor	17.277	Workforce Investment Act (WIA) National Emergency Grants	607,026	24,992	—
Labor	17.278	WIA Dislocated Worker Formula Grants	556,272	—	—
Labor	17.503	Occupational Safety and Health – State Program	764,176	—	—
Labor	17.504	Consultation Agreements	382,338	—	—
Labor	17.600	Mine Health and Safety Grants	86,415	63,482	—
Labor	17.801	Disabled Veterans' Outreach Program (DVOP)	133,337	—	—
Labor	17.804	Local Veterans' Employment Representative Program	292,260	—	—
Labor total			162,874,474	1,688,640	—
Libraries	45.310	Grants to States	846,357	62,819	—
Libraries total			846,357	62,819	—
Military	12.401	National Guard Military Operations and Maintenance (O&M) Projects	17,104,503	—	—
Military	12.404	National Guard ChalleNGe Program	497,243	—	—
Military total			17,601,746	—	—
Natural Resources-DEC	12.100	Aquatic Plant Control	443,311	171,792	—
Natural Resources-DEC	12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	23,258	—	—
Natural Resources-DEC	15.608	Fish and Wildlife Management Assistance	24,334	11,179	2,746
Natural Resources-DEC	15.631	Partners for Fish & Wildlife	14,731	—	—
Natural Resources-DEC	15.810	National Cooperative Geologic Mapping Program	78,814	6,956	—
Natural Resources-DEC	66.042	Office of Research and Development Consolidated Research	107,710	—	—
Natural Resources-DEC	66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	237,363	—	—
Natural Resources-DEC	66.040	State Clean Diesel Grant Program	98,906	60,757	—
Natural Resources-DEC	66.040	ARRA-State Clean Diesel Grant Program	73,653	118,945	—
Natural Resources-DEC	66.202	Congressionally Mandated Projects	308,092	—	—
Natural Resources-DEC	66.454	Water Quality Management Planning	96,882	35,072	—
Natural Resources-DEC	66.454	ARRA-Water Quality Management Planning	5,668	4,553	—
Natural Resources-DEC	66.458	Capitalization Grants for Clean Water State Revolving Funds	10,537,609	10,741,910	—
Natural Resources-DEC	66.458	ARRA-Capitalization Grants for Clean Water State Revolving Funds	482,553	—	—
Natural Resources-DEC	66.468	Capitalization Grants for Drinking Water State Revolving Funds	11,084,835	10,229,075	—
Natural Resources-DEC	66.468	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	576,998	460,906	—
Natural Resources-DEC	66.474	Water Protection Grants to the States	66,378	—	—
Natural Resources-DEC	66.481	Lake Champlain Basin Program	476,462	215,278	—
Natural Resources-DEC	66.605	Performance Partnership Grants	4,656,076	182,092	—
Natural Resources-DEC	66.608	Environmental Information Exchange Network Grant Program and Related Assistance	9,791	—	—
	66.708	Pollution Prevention Grants Program	49,974	—	—
Natural Resources-DEC	66.709	Multi-Media Capacity Building Grants for States and Tribes	39,417	—	—
Natural Resources-DEC	66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	37,198	—	—
Natural Resources-DEC	66.804	Underground Storage Tank Prevention, Detection, and Compliance Program	335,154	—	—
Natural Resources-DEC	66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	754,495	—	—
Natural Resources-DEC	66.805	ARRA Leaking Underground Storage Tank Trust Fund Corrective Action Program	305,656	—	—
Natural Resources-DEC	66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	107,276	—	—
Natural Resources-DEC	66.817	State and Tribal Response Program Grants	754,676	5,953	—
Natural Resources-DEC	81.087	ARRA – Renewable Energy Research and Development – Indirect	76,239	—	—
Natural Resources-DEC	97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)	175,179	—	—
Natural Resources-DEC	97.041	National Dam Safety Program	53,937	—	—
Natural Resources-DEC	97.045	Cooperating Technical Partners	110,200	—	—
Natural Resources-DEC	97.082	Earthquake Consortium	83,097	46,496	—
Natural Resources-DEC total			32,285,922	22,290,964	2,746
Natural Resources-F&W	15.605	Sport Fish Restoration Program	3,591,620	11,986	—
Natural Resources-F&W	15.611	Wildlife Restoration and Basic Hunter Education	2,726,672	47,894	—
Natural Resources-F&W	15.615	Cooperative Endangered Species Conservation Fund	183,069	—	—
Natural Resources-F&W	15.622	Sportfishing and Boating Safety Act	48,516	36,236	—
Natural Resources-F&W	15.633	Landowner Incentive Program	93,688	—	—
Natural Resources-F&W	15.634	State Wildlife Grants	635,557	94,642	—
Natural Resources-F&W total			7,279,122	190,758	—
Natural Resources-FPR	10.664	Cooperative Forestry Assistance	1,517,889	567,008	—
Natural Resources-FPR	10.672	Rural Development, Forestry, and Communities	215,199	157,885	—
Natural Resources-FPR	10.676	Forest Legacy Program	1,464,141	—	—
Natural Resources-FPR	10.678	Forest Stewardship Program	3,494	—	—

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STATE OF VERMONT

Schedule of Expenditures of Federal Awards
by Vermont State Agency

Year ended June 30, 2012

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Subgranted to non state of vermont entities	Subgranted to State of vermont agencies
Natural Resources-FPR	10.688	ARRA – Recovery Act of 2009: Wildland Fire Management	$ 214,986	—	—
Natural Resources-FPR	15.916	Outdoor Recreation – Acquisition, Development and Planning	291,177	212,331	—
Natural Resources-FPR	20.219	Recreational Trails Program	1,428,402	1,057,057	—
Natural Resources-FPR total			5,135,288	1,994,281	—
Public Safety	11.555	Public Safety Interoperable Communications Grant Program	1,995,731	1,507,557	—
Public Safety	16.554	National Criminal History Improvement Program (NCHIP)	53,519	—	—
Public Safety	16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	5,426	—	—
Public Safety	16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	51,590	—	—
Public Safety	16.607	Bulletproof Vest Partnership Program	8,144	—	—
Public Safety	16.609	Project Safe Neighborhoods	72,309	—	—
Public Safety	16.710	Public Safety Partnership and Community Policing Grants	585,955	37,143	—
Public Safety	16.738	Edward Byrne Memorial Justice Assistance Grant Program	366,877	154,233	—
Public Safety	16.741	DNA Backlog Reduction Program	63,094	—	—
Public Safety	16.742	Paul Coverdell Forensic Science Improvement Grants Program	158,128	—	39,000
Public Safety	16.744	Anti-Gang Initiatives	31,355	—	—
Public Safety	16.748	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	12,311	—	—
Public Safety	16.750	Support for Adam Walsh Act Implementation Grant Program	148,500	—	—
Public Safety	16.753	Congressionally Recommended Awards	737,823	—	94,153
Public Safety	16.803	Recovery Act – Eward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	330,484	—	—
Public Safety	16.810	Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	216,469	—	—
Public Safety	16.999	ATF Task Force	6,769	—	—
Public Safety	16.999	Drug Enforcement Administration – DEA	26,259	—	—
Public Safety	16.999	Marijuana Eradication	32,368	—	—
Public Safety	16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	12,371	—	—
Public Safety	16.999	FBI Joint Terrorism Task Force	13,789	—	—
Public Safety	16.999	FBI Special Investigations	65,024	—	—
Public Safety	16.999	Bordergap	15,928	—	—
Public Safety	16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice and Treasury)	409,071	1,685	—
Public Safety	20.600	State and Community Highway Safety	1,588,011	695,282	259,081
Public Safety	20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	589,996	92,449	114,168
Public Safety	20.602	Occupant Protection Incentive Grants	84,828	—	—
Public Safety	20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated	4,301,391	252,033	3,788,360
Public Safety	20.609	Safety Belt Performance Grant	385,822	331,312	52,207
Public Safety	20.610	State Traffic Safety Information System Improvement Grants	533,934	—	320,864
Public Safety	20.612	Incentive Grant Program to Increase Motorcyclist Safety	114,884	—	114,884
Public Safety	20.613	Child Safety and Booster Seat Incentive Grant	111,143	74,163	—
Public Safety	20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	100,474	55,821	—
Public Safety	97.999	FEMA Admin Training Procurement	354	—	—
Public Safety	97.012	Boating Safety Financial Assistance	707,436	24,339	98,282
Public Safety	97.039	Hazard Mitigation Grants	577,469	577,469	—
Public Safety	97.042	Emergency Management Performance Grants	3,018,584	609,521	28,533
Public Safety	97.043	State Fire Training Systems Grants	25,820	—	—
Public Safety	97.047	Pre Disaster Mitigation	29,528	29,924	—
Public Safety	97.520	Emergency Operations Center	243,290	—	243,290
Public Safety	97.055	Interoperable Emergency Communications	194,688	—	—
Public Safety	97.056	Port Security Grant Program	15,178	—	—
Public Safety	97.067	Homeland Security Grant Program	5,461,870	1,653,570	121,657
Public Safety total			23,503,994	6,096,501	5,274,479
Public Service	11.558	ARRA – State Broadband Data and Development Grant Program	106,753	—	—
Public Service	20.720	State Damage Protection Programs	87,825	57,443	—
Public Service	20.721	PHMSA Pipeline Safety Program One Call Grant	189,487	—	—
Public Service	81.039	SHOPP (State Heating Oil and Propane Program)	5,751	—	—
Public Service	81.041	State Energy Program	280,745	—	—
Public Service	81.041	ARRA-State Energy Program	13,877,512	3,806,028	3,706,643
Public Service	81.119	State Energy Program Special Projects	2,034	—	—
Public Service	81.122	ARRA – Electricity Delivery & Energy Reliability, Research, Development and Analysis	95,828	—	—
Public Service	81.127	ARRA – Energy Efficient Appliance Rebate Program (EEARP)	154,330	—	—
Public Service	81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	4,225,772	2,890,746	—
Public Service	81.999	Sustainable Energy for Homes and Businesses (Sanders)	254,114	254,114	—
Public Service total			19,280,151	7,008,331	3,706,643
Public Service Board	81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	203,449	—	—
Public Service Board total			203,449	—	—
Secretary of State's Office	39.011	Election Reform Payments	60,824	—	—
Secretary of State's Office	89.003	National Historical Publications and Records Grant	21,813	—	—
Secretary of State's Office	90.401	Help America Vote Act Requirements Payments	480,868	—	—
Secretary of State's Office	93.617	Voting Access for Individuals with Disabilities – Grants to States	105,838	84,400	—
Secretary of State's Office total			669,343	84,400	—
State Treasurer	10.665	Schools and Roads – Grants to States	339,626	339,626	—
State Treasurer total			339,626	339,626	—

STATE OF VERMONT

Schedule of Expenditures of Federal Awards
by Vermont State Agency

Year ended June 30, 2012

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Subgranted to non state of vermont entities	Subgranted to State of vermont agencies
State's Attorneys & Sheriffs	16.753	Congressionally Recommended Awards	$ 56,762	—	—
State's Attorneys & Sheriffs	16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice and Treasury)	15,685	—	—
State's Attorney's & Sheriffs total			72,447	—	—
Transportation	20.106	Airport Improvement Program	3,182,723	114,826	—
Transportation	20.106	ARRA-Airport Improvement Program	237,810	—	—
Transportation	20.205	Highway Planning and Construction	286,498,277	30,638,327	195,120
Transportation	20.205	ARRA-Highway Planning and Construction	2,058,040	—	—
Transportation	20.218	National Motor Carrier Safety	973,141	—	—
Transportation	20.314	Railroad Development	1,021,835	—	—
Transportation	20.319	ARRA-High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	28,109,048	—	—
Transportation	20.500	Federal Transit – Capital Investment Grants	1,088,497	1,080,636	—
Transportation	20.505	Metropolitan Transportation Planning	415,282	362,064	—
Transportation	20.509	Formula Grants for Other Than Urbanized Areas	11,869,328	11,626,810	—
Transportation	20.509	ARRA-Formula Grants for Other Than Urbanized Areas	62,917	62,917	—
Transportation	20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	206,790	176,767	—
Transportation	20.514	Public Transportation Research	257,789	257,789	—
Transportation	20.521	New Freedom Program	37,934	37,934	—
Transportation	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	77,299,695	62,306,787	1,475,485
Transportation	97.090	Law Enforcement Officer Reimbursement Agreement Program	61,680	—	—
Transportation total			413,380,786	106,664,857	1,670,605
Grand total			$ 2,009,424,674	335,971,015	14,638,575

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of federal awards by Vermont State Agency.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards and
Schedule of Expenditures of Federal Awards by Vermont State Agency

June 30, 2012

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont (the State) applied in the preparation of the schedule of expenditures of federal awards and the schedule of expenditures of federal awards by Vermont State Agency (the Schedules) are set forth below:

(a) Single Audit Reporting Entity

For purposes of complying with the Single Audit Act Amendments of 1996, the State includes all entities that are considered part of the primary government, as described in the basic financial statements as of and for the year ended June 30, 2012. The Schedules do not include component units identified in the notes to the basic financial statements.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2012. Each of these entities is subject to separate audits in compliance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The federal transactions of the following entities are not reflected in these Schedules:

Vermont Student Assistance Corporation
University of Vermont and State Agricultural College
Vermont State College System
Vermont Educational and Health Buildings Financing Agency
Vermont Housing and Conservation Board
Vermont Economic Development Authority
Vermont Municipal Bond Bank
Vermont Center for Geographic Information
Vermont Sustainable Jobs Fund, Inc
Vermont Transportation Authority
Vermont Veterans' Home
Vermont Rehabilitation Corporation
Vermont Telecommunications Authority
Vermont Housing Finance Agency
Vermont Information Technology Leaders, Inc.

(b) Basis of Presentation

The information in the accompanying Schedules is presented in accordance with OMB Circular A-133.

1. *Federal Awards* – Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal awards are defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations, or other assistance and, therefore, are reported on the Schedules. Federal awards do not include direct federal cash payments to individuals.

2. *Type A and Type B Programs* – OMB Circular A-133 establishes the levels of expenditures to be used in defining Type A and Type B federal programs. Type A programs for the State are those programs, or clusters of programs, which equal or exceed $ 6,028,274 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2012.

(c) ***Basis of Accounting***

The accompanying Schedules were prepared on the modified accrual basis of accounting.

(d) ***Matching Costs***

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedules.

(2) Categorization of Expenditures

The categorization of expenditures by program included in the Schedules is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based upon revisions to the CFDA.

(3) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency.

(4) Unemployment Insurance (CFDA #17.225)

State unemployment tax revenues must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State unemployment law. OMB *Circular A-133 Compliance Supplement* requires that State Unemployment Insurance Funds, as well as federal funds, be included in the total expenditures of CFDA #17.225. Unemployment insurance expenditures are classified as follows:

State	$ 104,905,365
Federal	45,760,897
	$ 150,666,262

(5) Airport Improvement Program (CFDA #20.106)

The State receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its schedule FAA funds received on behalf of the City of Burlington, Vermont (the City) because the State does not perform any program responsibilities or oversight of these funds. Rather, its sole function is to act as a conduit between the federal awarding agency and the City, who owns and operates the airport.

(6) Nonmonetary Federal Financial Assistance

Total federal expenditures included on the Schedules for the Supplemental Nutrition Assistance Program represent the Federal government's payment for monthly benefit subsidies paid directly to eligible participants through the electronic benefit transaction system.

(Continued)

The State is the recipient of federal programs that do not result in cash receipts or disbursements. Noncash awards included in the Schedules are as follows:

(a) ***Supplemental Nutrition Assistance Program (SNAP) (CFDA #10.551)***

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 16.55% of USDA's total expenditure for SNAP benefits in the federal fiscal year ended September 30, 2011.

(b) ***National School Lunch Program (CFDA #10.555)***

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat, and other commodities. Total federal expenditures included in the Schedules for the National School Lunch Program represent the federal government's acquisition value of the food commodities provided to the State.

(c) ***Child and Adult Care Food Program (CFDA #10.558)***

The Child and Adult Care Food Program assists states through grants-in-aid and other means to initiate and maintain nonprofit food service programs for children, elderly or impaired adults in nonresidential day care facilities, and children in emergency shelters. Total federal expenditures included in the Schedules for the Child and Adult Care Food Program represent the federal government's acquisition value of the food commodities provided to the State.

(d) ***State Administrative Expenses for Child Nutrition (CFDA #10.560)***

The State Administrative Expenses for Child Nutrition provides states with funds for administrative expenses in supervising and giving technical assistance to local schools, school districts and institutions in their conduct of child nutrition programs. States administer the distribution of USDA donated commodities to schools or child institutions which are also provided with these funds. Total federal expenditures included in the Schedules for the State Administrative Expenses for Child Nutrition represent the federal government's acquisition value of the food commodities provided to the State for distribution.

(Continued)

(e) ***Commodity Supplemental Food Program (CFDA #10.565)***

The Commodity Supplemental Food Program provides food and administrative grants to improve the health and nutritional status of low-income pregnant, postpartum and breastfeeding women, infants and children up to, and including, age 5, and elderly persons age 60 years and older through the donation of supplemental USDA foods. Total federal expenditures included in the Schedules for the Commodity Supplemental Food Program represent the federal government's acquisition value of the food commodities provided to the State.

(f) ***Emergency Food Assistance Program (Food Commodities) (CFDA #10.569)***

The Emergency Food Assistance Program helps supplement the diets of low-income Americans by providing them with food and nutrition assistance at no cost. Under this program, commodity foods are made available by the U.S. Department of Agriculture to States. States provide the food to locally agencies selected, usually food banks, which in turn distribute the food to soup kitchens and pantries that directly serve the public. Total federal expenditures included in the Schedules for the Emergency Food Assistance Program represent the federal government's acquisition value of the food commodities provided to the State.

(g) ***Donation of Federal Surplus Personal Property (CFDA #39.003)***

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedules for Donation of Federal Surplus Personal Property represent the federal government's acquisition value of the federal property sold by the State.

(h) ***Immunization Grants (CFDA #93.268)***

To assist in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases, the State provides vaccines to local healthcare providers throughout the year in an effort to ensure that all residents have been properly immunized. Total federal expenditures included in the Schedules for Immunization Grants represent the federal government's acquisition value of the vaccines provided to the State.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

June 30, 2012

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?	x	yes	____	no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	x	yes	____	none reported
Noncompliance material to the financial statements noted?	____	yes	x	no

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?	x	yes	____	no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	x	yes	____	none reported
Type of auditors' report issued on compliance for major programs:	Unqualified except for:			

Qualified Opinion

Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559)
WIA Cluster (CFDA #17.258, #17.259, #17.260, and #17.278)
Title 1, Part A Cluster (CFDA #84.010 and #84.389)
Special Education Cluster (CFDA #84.027, #84.173, #84.391, and #84.392)
IDEA, Part C Cluster (CFDA #84.181, and #84.393)
Twenty-First Century Community Learning Centers (CFDA #84.287)
Improving Teacher Quality State Grants (CFDA #84.367)
SFSF Cluster (CFDA #84.394 and #84.397)
Education Jobs Fund (CFDA #84.410)
TANF Cluster (CFDA #93.558, #93.714, and #93.716)
Low Income Home Energy Assistance Program (CFDA #93.568)
Foster Care – Title IV-E (CFDA #93.658)
Medicaid Cluster (CFDA #93.775 #93.777, and #93.778)

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	x	yes	____	no

STATE OF VERMONT

Schedule of Findings and Questioned Costs

June 30, 2012

Identification of Major Programs

CFDA number		Name of federal program
SNAP Cluster:		
	10.551	Supplemental Nutrition Assistance Program
	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Child Nutrition Cluster:		
	10.553	School Breakfast Program
	10.555	National School Lunch Program
	10.556	Special Milk Program for Children
	10.559	Summer Food Service Program for Children
Fish and Wildlife Cluster:		
	15.605	Sport Fish Restoration Program
	15.611	Wildlife Restoration and Basic Hunter Education
WIA Cluster:		
	17.258	WIA Adult Program
	17.259	WIA Youth Activities
	17.260	WIA Dislocated Workers
	17.278	WIA Dislocated Worker Formula Grants
Highway Planning and Construction Cluster:		
	20.205	Highway Planning and Construction
	20.205	ARRA – Highway Planning and Construction
	20.219	Recreational Trails Program
Highway Safety Cluster:		
	20.600	State and Community Highway Safety
	20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I
	20.602	Occupant Protective Incentive Grants
	20.609	State Safety Belt Performance Measures
	20.610	State Traffic Safety Information System Improvement Grants
	20.611	Incentive Grant Program to Prohibit Racial Profiling
	20.612	Incentive Grant Program to Increase Motorcyclist Safety
	20.613	Child Safety and Child Booster Seat Incentive Grants
Title I, Part A Cluster:		
	84.010	Title I Grants to Local Educational Agencies
	84.389	ARRA – Title I Grants to Local Educational Agencies, Recovery Act

STATE OF VERMONT

Schedule of Findings and Questioned Costs

June 30, 2012

CFDA number		Name of federal program
Special Education Cluster:		
	84.027	Special Education – Grants to States
	84.173	Special Education – Preschool Grants
	84.391	ARRA – Special Education – Grants to States, Recovery Act
	84.392	ARRA – Special Education – Preschool Grants, Recovery Act
IDEA, Part C Cluster:		
	84.181	Special Education – Grants for Infants and Families
	84.393	ARRA – Special Education – Grants for Infants and Families, Recovery Act
SFSF Cluster:		
	84.394	ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
	84.397	ARRA – State Fiscal Stabilization Fund – Government Services, Recovery Act
TANF Cluster:		
	93.558	Temporary Assistance for Needy Families
	93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs
	93.716	ARRA – Temporary Assistance for Needy Families Supplemental Grants
Medicaid Cluster:		
	93.775	State Medicaid Fraud Control Units
	93.777	State Survey and Certification of Health Care Providers and Suppliers
	93.778	Medical Assistance Program
	93.778	ARRA – Medical Assistance Program
Other programs:		
	17.275	ARRA – Programs of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
	20.319	ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
	81.041	State Energy Program
	81.041	ARRA – State Energy Program
	81.042	Weatherization Assistance for Low-Income Persons
	81.042	ARRA – Weatherization Assistance for Low-Income Persons
	81.128	ARRA – Energy Efficiency and Conservation Block Grant Program
	84.287	Twenty-First Century Community Learning Centers
	84.367	Improving Teacher Quality State Grants
	84.410	Education Jobs Fund
	93.069	Public Health Emergency Preparedness
	93.563	Child Support Enforcement
	93.568	Low Income Home Energy Assistance Program
	93.658	Foster Care – Title IV-E
	93.659	Adoption Assistance
	93.719	ARRA – State Grants to Promote Health Information Technology
	93.767	Children's Health Insurance Program
	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disaster)

(Continued)

STATE OF VERMONT

Schedule of Findings and Questioned Costs

June 30, 2012

Dollar threshold used to distinguish between type A and type B programs:	$6,028,274
Auditee qualified as low-risk auditee?	_____ yes __x__ no

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Over the past several years, the State has improved its financial accounting and reporting capabilities. As the State moves forward, however, maintaining focus on accountability, transparency and accuracy will continue to be difficult as state financial resources become scarce and key personnel retire. The State needs to be diligent about optimizing its current revenue streams, controlling costs, avoiding the temptation to use one-time revenues and ensuring key personnel close to retirement are identified and leveraged properly to ensure a smooth transition to the successor. The comments we identified as a result of the 2012 audit are presented below:

FS2012-01 – Review and Analysis of Financial Data

Background

The State's accounting process is very decentralized and relies heavily on the individual departments and agencies to properly and accurately record activity on a timely basis in the State's VISION accounting system as well as to provide year-end closing information to the Department of Finance and Management (Finance) in the form of the year end closing packages. Finance provides the individual departments and agencies with annual guidance on generally accepted accounting principles and the form and content of the information that is required in the year end closing packages; but relies on the individual departments and agencies to completely and accurately compile the data.

Finding

Finance has been working with individual departments and agencies for several years to improve the financial reporting process and reduce the number of data errors and adjustments. Although improvements have been made in this area, adjustments to the financial statements continue to be identified through the external audit. The cause of these adjustments is in part due to personnel changes in the individual departments and agencies, a lack of financial reporting knowledge in the individual departments and agencies, and departments and agencies not having adequate control procedures over the recording of financial data. The adjustments identified during the fiscal 2012 audit are as follows:

a. Federal Revenue Fund:

- $36 million reclassification to reduce deferred revenue and increase federal grant revenue as a result of the Department of Finance and Management not recording federal revenue in accordance with the proper accounting basis.

  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. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of year-end. However, federal receivables are treated differently within the governmental funds as federal receivables are amounts due from the federal government to reimburse the State's expenditures incurred pursuant to federally funded programs. Therefore, federal grant revenues are generally accrued for when the qualifying expenditure is incurred.

We noted that the Department of Finance and Management was not accruing federal revenue when the qualifying expenditure was incurred, but rather if the federal funds were received within July and August, which is inconsistent with the State's accounting policy as stated in the footnotes to the financial statements.

- Increase receivables by $2.9 million and revenue by $5.9 million and corresponding decrease of $3 million to payables. While we were reviewing the reconciling draw for the Global Commitment waiver it was determined that the Department of Finance and Management was using a draft report from the Agency of Human Services and not the final year end data which resulted in the above entry.

b. Transportation Fund: $5.9 million reclassification to reduce deferred revenue and increase federal grant revenue as a result of the Department of Finance and Management not recording federal revenue in accordance with the proper accounting basis. See Federal Revenue Fund item a above for additional details.

c. Special Fund: Decrease cash and revenue by $15,000, due to a correcting entry being recorded without reversing the original entry. The Catamount Heath Fund receipts are managed by the Department of Labor (DOL), who didn't notice that after the correcting entry was made the original entry was not reversed. The Office of the State Treasurer performs cash account reconciliations and we noted that this $15,000 was listed as a reconciling item and was not corrected during their reconciliation process.

d. Unemployment Compensation Trust Fund: Increase receivables and revenue by $481,243, due to data inadvertently being excluded from a spreadsheet calculation. This adjustment was the result of a new Program Integrity Chief within Unemployment performing the allowance for uncollectible taxes calculation at the Department of Labor and the lack of review over this calculation.

e. Workers Compensation (Internal Service) Fund: Decrease claims expense and claims payable by $223,518 as a result of incorrectly calculating the Incurred But Not Reported (IBNR) amount. This adjustment is the result of the Office of Workers' Compensation and Prevention within the Department of Buildings and General Services (BGS) not calculating the IBNR liability correctly and the lack of review over this calculation.

While Finance is primarily responsible for the preparation of the State's financial statements, responsibility for the underlying data and activity resides in the departments and agencies. These adjustments indicate the continued need for further training for business officers throughout the State on topics including financial accounting and reporting as well as internal controls and data analysis concepts.

Recommendation

Finance should continue to provide training to and work with State departments and agencies to provide them with the knowledge and guidance relating to financial accounting and reporting concepts, including internal controls, to help ensure that the State's financial statements are complete and accurate. Finance should also evaluate its procedures for spot-checking year end closing packages and for analyzing data for completeness.

(Continued)

Management's Response

The Department of Finance and Management has made significant progress in working with the individual departments and agencies on properly recording activity during the year and providing accurate information for closing at year-end, but we recognize we can continue to make improvements in this area. We plan to make the following changes to our procedures:

- Finance will review our year-end closing package to make sure that we are clear about the information that we are requesting and to provide more guidance on the accounting and reporting concepts that are applied to the various items we are asking departments and agencies to report.
- Finance will review the significant adjustments that were made during the last audit and review those changes with the responsible department to determine how they plan to improve their procedures to ensure similar adjustments are not required in the future.
- Finance will review the status of responsible personnel in each of the departments and agencies to determine which personnel might need additional assistance or training due to staff changes, and reach out to those personnel to ensure they better understand the needs of our department.
- Finance will be more proactive during our processes by performing more reviews of the information that has been submitted to our department; paying particular attention to areas of concern in the prior year audit or accounting and to reporting concepts that are new to a particular department or agency; and requesting supporting information and calculations for more significant items.

FS2012-02 – Liquor Control Fund - Inventory

Background

The Liquor Control Fund (the Fund) is a major enterprise fund reported in the State's financial statements. The financial activity for this fund is managed by the Department of Liquor Control (the DLC).

The DLC stocks inventory in a central warehouse in Montpelier, Vermont and throughout the State in the Agency retail locations. The majority of the inventory in the Montpelier warehouse is not State-owned, but rather held in bailment. The inventory shown on the financial statements consists of a small portion residing at the warehouse that is owned by the State, while the majority of the inventory is located across the state at the various Agency locations. At June 30, 2012, the State owned $5.2 million of liquor inventory.

Finding

We noted that the DLC does not appear to have sufficient internal knowledge relating to inventory accounting or any documented policies and/or procedures for the handling of its inventory, including annual physical inventory counts and year end cut off. Throughout the course of the audit, we received incomplete and contradictory information from various personnel at the DLC in response to our questions and requests for information. Specifically, the following matters related to inventory were noted:

a. The DLC does not maintain formal agreements with their vendors outlining the terms of ownership, but indicated that the terms are specified on quote sheets. These sheets contain boxes including State stock, bailment or special purchase, and the vendor checks the corresponding box to indicate the ownership.

- During our testwork we observed the ownership designations on the quote sheets were not consistent with the ownership designations reported from DLC's accounting system. Specifically, of the 50 items selected in our counts, 21 (or 42%) had conflicting ownership designations.
- The DLC does not appear to have any documentation beyond the price quotes to outline the terms of the custody of the bailment inventory. Any financial penalty due to losses from natural causes is ambiguous within the terms of the existing support.
- We further noted that the effective date on several of the quote sheets appeared to be very old, some dating back to 2008 and before.

b. During our inventory count of the warehouse on June 21, 2012, we noted differences between the inventory system report and the actual inventory counted. The differences primarily related to inventory that was loaded onto delivery trucks. We noted that the DLC leaves unattended inventory in these delivery vehicles overnight for deliveries to various agencies the following day. Due to the lack of formal vendor agreements outlining the bailment terms and when ownership transfers to the State, it is unclear if the inventory residing in the delivery trucks should be considered State-owned or vendor-owned. This also proposes a potential cut-off issue at year end, due to the fact that if this is considered to be State-owned inventory, there is a manual process for confirming the inventory within the DLC's inventory system (RIMS) to add it as State inventory and if not confirmed in the system on the day it is loaded on the truck, the inventory will be understated. During our warehouse inventory count, the inventory loaded onto the delivery trucks was not properly confirmed within the DLC's inventory system, which caused the majority of the differences noted between the DLC accounting system and the actual counts taken.

To ensure that year-end inventory was properly stated, KPMG requested that the DLC review its cut off procedures and verify that inventory loaded on the trucks was confirmed in the system and included in the June 30, 2012 balance. During this process KPMG received conflicting information from agency personnel on whether the inventory loaded on the delivery trucks, valued at $163,819 had been included in the year-end balance. KPMG notes that the DLC was not able to determine if the inventory on the trucks had been recorded in fiscal year 2012 and was not able to provide supporting documentation for the inventory.

c. We obtained a rollforward of the inventory balance from the prior year end to June 30, 2012. Included in this rollforward were adjustments valued at $275,365. The DLC management provided the following explanations for these adjustments:

- $176,000 from losses due to fire, flood and theft. We noted the DLC submitted a claim for the loss of inventory but has not booked a receivable for the amount of the claim.
- $26,000 in warehouse breakage. The DLC was unable to provide sufficient documentation to support the amount of breakage. Based on the average cost of a bottle of liquor, this represents approximately 1,000 broken bottles over the 12-month period.

- $71,000 in warehouse over and shorts. Per discussion with DLC personnel, they indicated that it was a common occurrence for there to be disagreements between what is shipped per vendor records and what was received per the Department, including disagreements on entire pallets of inventory. DLC was unable to provide sufficient documentation on how these disputes were handled and whether the State paid for inventory they did not receive.
- $18,000 variance from adjustments in the inventory system to adjustments in VISION. The DLC was unable to provide sufficient documentation to support the difference from VISION to RIMS.

d. We noted there were many variances between the inventory system and VISION, the State's accounting system. During our review of the reconciliation of differences prepared by the Department of Liquor Control, we noted there were multiple accounts for over and short adjustments as well as other adjustment accounts. Per discussion with management these accounts refer to over and shorts and breakage at Agency locations. We noted that there is insufficient supporting documentation to determine what is considered breakage, which the State assumes as the cost of doing business, and over and short items that must be reimbursed by the Agency. In addition there appears to be a lack of differentiation in the accounting system for the unsellable inventory resulting from breakage versus from over and shorts.

Recommendation

We recommend that the Department of Liquor Control review its internal control procedures over inventory including the safeguarding of those assets. We also recommend that the DLC update its policies and procedures documentation for the handling of its inventory, including annual physical inventory counts and year end cut off. Finally we recommend that the State set up formal vendor agreements, update the terms and conditions, and specifically define the 'bailment', which will help ensure that the transfer of ownership is clearly defined.

Management Response

a. DLC is currently in the process of generating agreements that will specify ownership with its vendors. DLC plans to have these agreements in place by the end of FY2013.

   - DLC uses quote sheets to obtain quote information on products and for no other reason. Ownership designations listed on the quote sheet are irrelevant. DLC is unsure what this finding is specifically addressing since quote sheets are not used for ownership designation.
   - DLC is currently in the process of generating agreements that will specify ownership with its vendors. DLC plans to have these agreements in place by the end of FY2013.
   - There is current availability in the warehouse to house six trucks. The trucks are not locked; however, they are housed in a locked building armed with a security system. It is extremely rare that DLC will have more than six trucks loaded, but if needed, trucks can also be loaded and stored outside the warehouse. If this happens, the trailer is padlocked.

b. Inventory is confirmed on the day of shipment, which indicates ownership of the inventory in DLC's current process. Per KPMG's request, an adjustment was made to include the inventory held on the truck in DLC's financials.

c. DLC has resolved this issue in FY2013.

   - A receivable was not booked due to the recovery not deemed realizable.
   - Supporting documentation was provided on December 21, 2012.
   - DLC has since resolved this issue and is documenting the process that relates to "overs and shorts" in the warehouse.
   - DLC has resolved this issue in FY2013

d. DLC provided breakage reports for one agency and the warehouse on December 21, 2012. These were examples of what could be generated to provide support for breakage. No further requests were made for reports. On December 20, 2012, DLC also provided an explanation of how Agencies are held responsible for their over and shorts.

FS2012-03 –Information Technology Controls

Background

The State relies heavily on its information technology (IT) systems to process, account for and report on its financial activities. The State's VISION system services as the State's principal financial system and is used to prepare the State's financial statements. Although the VISION system is the State's principal financial system, many of the actual financial activities are originated in other departmental managed systems. During the previous two fiscal year audits IT general controls (ITGC) reviews were performed over certain critical IT systems. The purpose of a review of IT controls is to gain an understanding of the controls that are in place and to the test the design and operating effectiveness of those controls. During the ITGC review the following control objectives were reviewed: access to programs and data; program changes; program development; and computer operations. These ITGC reviews indicated numerous control deficiencies of varying severity.

As part of the fiscal year 2012 audit the prior year findings were followed up on to ascertain if the identified control deficiencies had been corrected. The following computer systems were part of this follow up:

	Findings and Recommendations
1.	**Application Name**: State Network & Data Center **Responsible Agency**: Department of Innovation and Information (DII) **Purpose**: State-wide local area network.
	a. The initial control deficiency related to the fact that the complexity for password parameters was disabled. Weak password constructs increase the risk that computer application access will be compromised leading to a misuse or misappropriation of confidential and sensitive information. As of fiscal year 2012 they increased the minimum length to 8 alpha-numeric characters for all clients except the Agency of Human Services' ACCESS system. Currently the minimum password length is set to 8 alpha-numeric characters for all clients except for AHS ACCESS. We recommend that DII continue to work towards enabling the complexity for the RACF password parameters. b. The Agency/Department notifies DII when user access is to be removed. DII has written procedures requiring the DII RACF Administrator to acquire and review the HR termination list to determine if any access has inappropriately been retained. DII reviews a lock-out report for anomalies, such as hacking attempts, but does not distribute it to departmental RACF Administrators because it is not user friendly. A program has been written to address this problem, but it has not yet been implemented. Absence or lack of prompt communication to responsible IT staff regarding employee terminations could result in the continuance of unauthorized gateways into key systems or application and may lead to the compromise of

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	Findings and Recommendations
	key systems, application and data assets by unauthorized persons. We recommend that DII establish a review process, and determine a process to begin the lock out report process. c. The initial control deficiency related to the fact that backup restoration testing is periodically performed; however, no formal backup or restoration policy existed. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, applications and data assets in the event of an emergency. As of fiscal year 2012 a disaster recovery plan was in draft form, but had not been finalized, and no disaster recovery was performed to ensure the recoverability of the data. We recommend that DII create and implement a policy for backup restoration testing that includes the timing of restoration tests, the scope of the restoration, and the retention of the results of the restoration test. ***Management Response*** a. RACF Complex Password - Complex Password is planned for implementation after a few critical software upgrades. Target Date: 12/1/2013 b. RACF Report - We are in the process of implementing a new reporting system. Target Date: 04/30/2013 c. We have replaced the IBM Tape Backup System with an IBM Virtual Tape Library. We are updating our Backup/Restore & Disaster Recovery procedures. Target Date: 09/30/2013
2.	**Application Name**: VISION Financials **Responsible Agency**: Department of Finance and Management **Purpose**: State-wide accounting system
	a. The initial control deficiency related to a variety of segregation of duties issues, including: - users have superuser_no_sec, vendor processing, and manager roles that allow them to add a vendor, enter a voucher, and approve a voucher. - users have superuser_no_sec and manager roles. - users have been granted the manager role that allows them to enter a voucher and approve a voucher. In addition, there is no edit in VISION that would preclude a user from entering a voucher and approving this same voucher. This is particularly important since State employees are commonly listed as vendors in VISION in order to receive certain reimbursements. Ineffective segregation of duties may permit inappropriate access that leads to the creation and approval by a single individual of fraudulent transactions that compromise the financial

	Findings and Recommendations
	integrity of the system. We recommend that Finance, in conjunction with DII, establish and enforce a segregation of duties policy that restricts developers from having added and change access to data. If this policy allows for limited or emergency access, then such access should be monitored. Finance, in conjunction with DII, should reduce the access of certain staff that can perform each of the roles of adding a vendor, entering a voucher, and approving a voucher. Finance, in conjunction with DII, should expeditiously implement a control in VISION to preclude a user from both entering and approving the same voucher. Finance, in conjunction with DII, should evaluate the current role structure in VISION to ensure that the system enforces segregation of duties. b. The initial control deficiency related to the fact that a comprehensive change management policy for the VISION environment did not exist. Moreover, the VISION change management process is not fully documented. The lack of a change management policy with appropriate outlines of approval increase the risk that unauthorized and inappropriate software changes could be put into production leading to the compromise of key applications and data assets. As of the end of fiscal year 2012, a policy was in draft form and Finance & Management was working with DII to implement an overarching change management process with DII. We recommend that Finance, in conjunction with DII, expeditiously document its VISION change management policy and process. ***Management Response*** DII along with Finance have created a comprehensive Change Management process that will be finalized and fully operational by June, 2013. The Department of Finance and Management strongly agrees that segregation of duties is a powerful tool against fraudulent transactions. We have made segregation of duties a key element of our accounts payable and internal control guidance, emphasizing the importance of separating key functions within that process. We also have incorporated this concept into our annual self-assessment of internal controls survey. Although the current configuration of PeopleSoft security has the entry and approval process imbedded in the same role, we have always encouraged manual approval and sign off of invoices be someone different than the person that does the data entry. Additionally, within VISION, entering and approving a voucher does not make that voucher available for payment. To have a voucher move from an approved status to a payable status it still needs to be budget check. This is the process that actually commits the funds for payment. We strongly encourage that this final step also be performed by someone other than the person that enters and approves. Additionally, there are several accounts payable management reports that are available to departments and widely used that provide insight to payment being made and to whom. Monitoring through reports is a great way to identify fraudulent payments as well. Within the next several months we will be embarking on an upgrade of the VISION Financials

	Findings and Recommendations
	Application from version 8.8 to 9.2. During that upgrade we will review our security roles with an eye toward separating the function of data entry and approval within the same security level. We will also be reviewing the enhanced workflow functionality. Over the past several months we have also been in the process of implementing a new employee expense reimbursement module. We are expected to go live with this new module during May 2013. This module will allow us to remove all employees from our master vendor file and pay them as employees through our expense module, not the accounts payables module. This will eliminate the opportunity for employees to process checks to themselves or to co-workers through the account payable module
3	**Application Name**: ETM **Responsible Agency**: Department of Taxes **Purpose**: State Tax System.
	a. The State of Vermont's IT Security Policy has not been updated since May 2009. An updated or reviewed IT Security Policy provides the end user with comprehensive and up to date information related to IT policies and procedures in place. Lack of an updated policy could result in outdated information being provided to end users and consequently increase risk to security. We recommend that the IT Security policies and procedures be reviewed and updated at least on an annual basis to address all relevant systems and applications and to address new security threats. b. No formal user access review by the business owners of the ETM application is conducted to identify potential separation of duties conflicts. However, on a quarterly basis, Department of Tax reviews the inactive network accounts to determine that access to ETM was appropriately deactivated. The absence of periodic management reviews of the key application user access increases the risk that active staff may retain processing capability that exceeds their job requirements and undermines a prudent separation-of-duties. We recommend that Department of Taxation management: - Develop, publish and enforce a policy to require business application owners to limit staff access privileges to those necessary to perform their jobs and to ensure an appropriate separation of duties. - Review user access privileges on a periodic basis and take steps to identify and remove unnecessary or inappropriate application functionality or privileges. c. No formal change management policy/procedure exists for the ETM application environment. A generic change management policy for Department of Taxation exists that was last updated on September 13, 2007. The lack of a formal and enforced Change Management Policy that documents steps to be followed, approvals required, testing to be conducted and acceptance

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	sign-offs to be required for changes to ETM, increases the risk that unauthorized and/or inappropriate software changes could be intentionally or accidentally be placed into production. We recommend that an ETM specific Change Management policy and procedure be documented that describes the software change management process from initiation through migration to production and documents the roles and responsibilities of all parties including the business owners for development, testing and migration. d. While one (1) user has been designated as the primary migrator of software changes, currently ten (10) users have "SYSADM" level access that grants them access to develop and migrate changes to production. Of these 10 users, 2 are vendors from CGI/Oracle. Based on our discussion with the Department of Taxation, we noted that no mitigating or compensating controls exist that could be used to prevent or detect unauthorized changes being made to production. The risk of the introduction of inappropriate software changes is commensurate to the number of persons with the access privileges that support this activity. We recommend that Department of Taxation IT management review current support access and: - Limit privileged support access to the minimum needed to support the application in production. - Enforce an appropriate separation of duties between software development staff and those migrating software into. We further recommend that periodic reviews of changes moved to production be conducted to discourage and to identify any unauthorized changes. e. The initial control deficiency related to the fact that no restorations from tape have been conducted for ETM since it went live in August 2010. The lack of periodic restoration of data from backup tapes increases the risk that when needed critical data may not be available to restore business operations. During fiscal year 2012 the Tax Department stopped using tape backups for ETM and the systems are now backed up via Net Bankup to two data domains. A procedure document has been put in place detailing the steps and processes to follow for restoring data files from Net Backup and three restorations were done during FY 2012, however no documentation was provided evidencing that the restorations took place. We recommend that Taxation Department IT periodically test restoration of data from tape to ensure the integrity and completeness of the data and that the backup process and equipment is working as expected. f. ETM currently has no formal, documented or tested Disaster Recovery or Business Continuity Plan. The lack of a comprehensive and tested Disaster Recovery Plan (DRP) and complementary Business Continuity Plan (BCP) increases the risk that in the event of a serious environmental event affecting ETM's operations could be disrupted for an extended period of time.

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We recommend that Department of Taxation business and IT management take appropriate steps to bring the DRP up to date and augment it with an appropriate BCP and provide resources to ensure an appropriate recovery capability. We further recommend that the DRP and its associated BCP be treated as a living document subject to ongoing revision and that it be tested at least annually.

g. No daily operations log/checklist is maintained to capture information on daily production such as job processing, backups taken, abends and issues noted. Depending on the specific job schedule, a text message is sent to the Operations group and Department of Taxation notifying if a job ran successfully or not. If error/issues occurred, support personnel are required to follow up and may be required to raise a support ticket if necessary. A formal daily computer operations log/checklist provides evidence that all appropriate processes were completed and if error or abends occurred they were followed up and resolved in an appropriate manner. An appropriate log can also serve as the basis for conducting root cause analysis when dealing with reoccurring issues.

We recommend that a documented log/checklist of daily computer operations be introduced. The log should be retained to provide evidence that batch jobs and backups processed to completion and also as a means to identify recurring issues.

Management Response

In order to manage the system and promote to production there are different components requiring different ID's that need to be accessed. There is basically one ID for each component used for these purposes and known by a select few for the tasks they need to accomplish. Even fewer know how to migrate anything to production. We have not gotten to the point of setting up individual users ID's with all the combinations of roles needed.

The partition wall between DII and National Life was opened while National Life Technical people were removing equipment from their racks. The finding was to add camera while the duration of partition wall was open.

Action taken:

The partition wall was closed. Cameras were installed looking down the cold and hot aisles where the Tax racks are located.

Pursuant to the SAO / KPMG ETM Review and subsequent Audit Finding, DII will install an additional security camera in the National Life Data Center by February 29, 2012. The new security camera will be positioned in Row 1 where the ETM production server is located in order to monitor activity in the vicinity of the ETM production server as recommended below by KPMG.

a. VDT agrees. Will endeavor to review annually and update as needed and will distribute annually as well.

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	b. VDT will establish a process to review user access of ETM on a quarterly basis. c. VDT will review and update our current change management policy and within it call out any specific differences regarding ETM vs Advantage Revenue. d. VDT will review access and adjust access to those required to support the application. VDT will take separation of duties between software development staff and those migrating software under advisement for future implementation however given current resource constraints this separation is not feasible at this time. VDT agrees that periodic reviews of production changes is a good practice and will look into the feasibility of implementing this recommendation. e. VDT will strive to implement this recommendation however please note that multiple DB refreshes have been conducted from backups since ETM go live. f. VDT will review and update the business continuance plan within the next 12 months. g. VDT will take this under advisement to augment our current operational batch processing logs.
4.	**Application Name**: STARS **Responsible Agency**: Agency of Transportations **Purpose:** Project Cost Accounting System for Transportation Construction Projects
	a. The initial control deficiency related to the fact that assets from backup media are only restored when required for Operational reasons and there was no documented Disaster Recovery Plan or activity to restore systems to test recovery procedures. Restoration tests of off-site data backups are performed on a regular basis to determine the usability and integrity of the files. Documentation of the testing results is retained. During fiscal year 2012 AOT performed restorations from the main site using backup tapes successfully; however restores from the backup media at the disaster recovery site have not yet been performed successfully. We recommend that AOT continue to work towards successfully restoring the backup media at the disaster recovery site. ***Management Response*** The Agency does have a completed Disaster Recovery Plan that is available in both electronic and hard copy formats. The document is comprehensive and therefore rather large so I have not included it here but we can make it available upon request. With regards to the restoration tests of backup data at the DR facility this is something we have wanted but with DII's change from traditional tape to the VTL that has not occurred. On May 9, 2013, DII will be giving us access to the DR site in Barre. We will be performing a series of tests to determine if we are able to successfully restore our databases from backup media. We will also be testing STARS

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	functionality, both online and batch. In addition, we will be testing to ensure we are able to promote code through our environments. Given the May 9th testing is successful we should be able to satisfy this finding.
5.	**Application Name**: FARS, VABS and CATS **Responsible Agency**: Department of Labor (DOL) **Purpose:** FARS is the Department's financial accounting system; VABS is the Unemployment Insurance Benefit and Eligibility System; and CATS is the Employer Contribution Tax System.
	FARS: a. Reliance is placed on the policies established by the State of VT DII and no specific policies exist for DOL in regard to the FARS application and support. Lack of established information security function reduces focus on information security and results in inconsistencies with execution of statewide policies and processes. We recommend that the DOL develop a security policy in relation to the FARS application and support which is consistent with DII statewide policy. b. The initial control deficiency related to the fact that access to the computer room required knowledge of the key punch code to open either of the two doors. We observed that the door was left open by the admin desk for people to come and go instead of using the key punch access, as multiple people come into the room to pick up reports during the day and are not IT staff. Additionally, one of the two doors key punch lock was not functioning during our initial visit. Absence of controls over privileged access, powerful utilities and system manager facilities increases the risk of compromise to key IT systems, applications and data assets. As of the 2012 fiscal year end, we observed that the door was shut to access the computer room and clocked by slots that hold reports for employees and the other door requires a key to access. However the door was not open it was unlocked during working hours and a person could climb over the 3 foots cubicle wall. We recommend that the DOL ensure that the door is locked at all times and that key codes are restricted to appropriate personnel. c. Reviews of the access to the computer room are performed by the Manager of IT or their delegate and are completed on a quarterly basis, however this review is not documented. We recommend that DOL IT Management request and review on a quarterly basis a list of people/contractors with access to the computer room. d. No policy exists stating that a periodic review of FARS access should be performed and no periodic review is performed by Business on active users and their privileges. Currently, an ad hoc review is done as new employee or contractor is added or an existing person is changed. The absence of periodic reviews of system or application access by appropriate Business and/or IT management increases the risk that unauthorized individuals may retain

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	inappropriate access to key systems, applications and data assets. We recommend business management and IT management develop and implement a policy requiring a regular access review to the FARS application at a minimum of an annual basis. e. The initial control deficiency related to the lack of policies for changes to the infrastructure or the operating system as well as an emergency change management policy for the FARS Application, which has not been vendor supported since 1991 and updates are performed by Roger Lowe. The absence of authorization over the change management of application software changes may result in the intentional or unintentional migration of invalid application changes into production that lead to the compromise of key systems, applications and data assets. As of 2012 fiscal year end, the Change Management Policy is in draft form and is applicable for Emergency Changes as well as covering infrastructure and operating system changes. This policy is pending updated data and additional input from the Configuration and Change Management Board. We recommend that the DOL develop, introduce and monitor a comprehensive change management policy that include emergency changes and that is consistent with the statewide DII policy. f. Changes to the system are not consistently made until after an appropriate level of testing is performed and approved, which is not always in writing. An absence of formal testing and appropriate sign-off by both information systems and user personnel increases the risk that unauthorized or untested changes may be migrated into production. We recommend that the DOL develop, introduce and monitor a comprehensive change management policy that is consistent with the statewide DII policy. g. No segregation of duties exists for the FARS application as Roger Lowe and Joe Lucia have access to development and production. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production. We recommend that the DOL implement a process to segregate the migration of changes to production that would alternate between Roger Lowe and Joe Lucia. This would accomplish the segregation without adding another resource. h. Restoration of backup data is performed on an as needed basis; however, no regular tests or policy exists. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, application and data assets in the event of an emergency. We recommend that the DOL develop and document the process to test on a regular basis restoral of data from tapes. The regularity of the test should be documented and maintained for the State's retention period. **VABS and CATS:** i. DOL applications (VABS and CATS) had weak password syntax with a minimum of 3 and

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	maximum of 6 character required. Weak password parameters create weaknesses that can be exploited to gain unauthorized access leading to the compromise of key systems, applications and data assets. The current VSE/ESA system limits passwords from 3 to 6 characters in length. We recommend that the DOL IT upgrade to a newer version of IBM o/s that supports longer passwords. j. The initial control deficiency related to the fact that reviews of Access Lists indicated that there was no regular, periodic review of DOL user access rights to the IBM systems supporting VABS and CATS. The absence of periodic reviews of system or application access by appropriate Business and/or IT management increases the risk that unauthorized individuals may retain inappropriate access to key systems, applications and data assets. As of the 2012 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS. We recommend the DOL IBM Support Group (with input from DOL HR) conduct a quarterly review of VDOL staff with access to VDOL's IBM mainframe and deactivate inactive users pending further review with HR and should remove access from accounts for terminated employees and maintain documentation of this review. k. The initial control deficiency related to the fact that there was no periodic review of the DOL user access rights to the DOL network. The absence of periodic reviews of system or application access by appropriate Business and/or IT management increases the risk that unauthorized individuals may retain inappropriate access to key systems, applications and data assets. As of the 2012 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS. We recommend the DOL Network group (with input from HR) conduct a quarterly review of DOL staff with access to DOL's network assets and deactivate inactive users pending further review and should remove access from accounts for terminated employees and maintain documentation of this review. l. The initial control deficiency related to the fact that there is no periodic review by business management of functional VDOL user access to the VABS & CATS applications. The lack of a periodic review of functional access to applications by Business Management may result in the continued and inappropriate access to application functionality by individuals and increases the risk that inappropriate transactions can be processed. As of the 2012 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS. We recommend the DOL IT develop and generate every quarter a detailed report by User-ID

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	that lists Functional capability within both the VABS & CATS applications. We further recommend that the DOL UI Business Management review the report every quarter to ensure that user access is current and appropriate and the DOL IT take immediate steps to remove application access no longer authorized by UI Management. Documentation of the review by UI Business Management should be maintained.
	m. The initial control deficiency related to the fact that requests for VABS and/or CATS changes are informal and IT staff receive verbal requests and e-mails detailing small changes; however more complex requests may be discussed at staff meetings. The absence of authorization over the change management of application software changes may result in the intentional or unintentional migration of invalid application changes into production that lead to the compromise of key systems, applications and data assets. As of 2012 fiscal year end, the process for program changes has been documented within the Change Management Policy. However this policy is in draft form and is pending updated data and additional input from the Configuration and Change Management Board. We recommend that the DOL introduce a formal Change Request document that requires information on the change required and Management approval before work can be started.
	n. The initial control deficiency related to the fact that software development, modification or error correction changes were informally managed. While testing of changes was undertaken in a test environment by development staff, unless the changes are complex, there was generally no business user participation in testing. Business user/management sign-off was not required or solicited by IT development. Due to a lack of an IT manager, IT sign-off was not formally conducted. The absence of authorization over the change management of application software changes may result in the intentional or unintentional migration of invalid application changes into production that lead to the compromise of key systems, applications and data assets. As of 2012 fiscal year end, the process for program changes has been documented within the Change Management Policy. However this policy is in draft form and is pending updated data and additional input from the Configuration and Change Management Board. We recommend that one business signoff be required on an appropriately initiated Change Request form to confirm that testing was appropriate and successfully completed. We further recommend that the software change not be put into Production (by appropriate IT Operations staff) unless there is Business approval and sign-off.
	o. The initial control deficiency related to the fact that there was no DOL policy or procedure detailing with VABS and CATS Change Management. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production. As of 2012 fiscal year end, the Change Management Policy has been documented for the DOL. However this policy is in draft form and is pending updated data and additional input from the Configuration and Change Management Board. We recommend that the DOL develop, introduce, and monitor a comprehensive DOL Change

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	Findings and Recommendations
	Management Policy for application software which is consistent with any statewide DII policy on Change Management. p. Due to the small size of the DOL's IT staff, developers are permitted to migrate software into production. An ability of IT development staff to migrate application software into production risks the introduction of inappropriate code changes. We recommend that access to and migration of software into the production environment should be restricted to Production Control/Operations staff only. q. Business management is rarely involved in testing or authorizing of application changes including configuration changes. All VABS and CATS application configuration changes are tested by application development staff but are not required to be validated by the business. An absence of appropriate testing and approvals by IT and Business personnel over application configuration changes may lead to the introduction into production of inappropriate and unauthorized changes that could adversely affect the results of financial application processing. We recommend that all changes to production software including configuration changes should be formally approved and authorized by appropriate Business owners. r. There is no policy or procedure to handle Emergency Changes. A lack of emergency change procedures that document changes made to production applications and jobs makes follow-up and future avoidance difficult and increases the risk that inappropriate or incorrect changes go undetected. Written policies and procedures also provide for continuity of operation during times of staff transition. We recommend that the DOL develop, introduce, and monitor a comprehensive DOL Emergency Change Policy which is consistent with any statewide DII policy on Change Management. It is further recommended that a statewide policy on dealing with Emergency Production changes be written and introduced by DII. s. Notification of emergency changes to Management is informal and not mandatory. There is no requirement for retrospective review and authorization. The absence of management reviews of emergency changes risks that inappropriate or incorrect modifications to applications could be introduced and remain undetected. We recommend that all emergency changes to batch runs should be documented and notified to Business and appropriate IT management in a timely fashion. t. Assets from backup media are restored when required for Operational reasons. There is no documented Disaster Recovery Plan or activity to restore systems to test recovery procedures. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, applications and data assets in the event of an emergency. We recommend that VDOL IT should immediately develop and document a Disaster Recovery Plan for recovering its IBM and related applications in the event of a data center

	Findings and Recommendations
	disaster.

Management Response

a. DOL is in the process of creating a VABS/FARS/CATS specific security policy upon existing DII policy. Should have document and approvals by end 3rd QTR 2013.

b. DOL Central Office is card access entry on. Non employees are escorted when they are admitted. The access door to the data center with key punch is now working, has been reinforced with a magnetic lock mechanism. The unlocked door allowing staff access to pick up print outs is protected by the fact that the building is locked down and that non-employees are escorted. Defeating those two barriers an intruder could then if still undetected climb over the 3 foot barrier wall created behind the open door. Key codes to the key pad door are restricted and periodically reviewed and the door to print outs will remain unlocked to staff during normal working hours.

c. Quarterly review by DOL Director of Admin Service and sign off is now documented.

d. Will be referenced in VABS/CATS/FARS policy, see 5a response

e. Change Management Policy will address this issue

f. Change Management Policy will address this issue.

g. Change Management Policy will address this, but regardless of the role currently played by programmers Lowe or Lucia, production sign off resides with IT Manager Patrick McCabe.

h. DOL is developing this process and will have a formal policy.

i. DOL follows the State of Vermont password policy network access and maintains in house AD settings that exceed that requirement. You can't get to VABS/CATS password screen without first complying with these standards.

j. DOL runs a quarterly job for UI Director that prints as a 21 page green bar print out. It contains all employee names and lists their VABS/CATS access by category. We NOW require a sign off on this listing quarterly. We provided this file physically to KPMP in December 2012 at their request.

k. DOL removes individual users access as they leave the department. Physical access cards are recovered or deactivated, domain access is removed, any dept equipment is recovered through the office of the Director of Admin Services working with DHR. We consider the quarterly review by UI Director as back up to this process for VABS/CATS.

l. See response 5j., the quarterly review process and sign off serves this purpose. The list is provided by IT Administration to UI Business Management, signed off and returned.

m. Change Management Policy in draft form as noted and will resolve the concern in this finding.

n. Change Management Policy in draft form as noted and will resolve the concern in this finding.

	Findings and Recommendations
	o. Change Management Policy in draft form as noted and will resolve the concern in this finding. p. Change Management Policy in draft form as noted and will resolve the concern in this finding. q. DOL would argue that Business management is always involved but their involvement is not documented, we will correct that in Management Change Policy. r. DOL will review and consider Emergency Production Change policies when they are available. At this time, all emergency production changes are approved and documented by IT Manager Patrick McCabe. s. Management Change Policy will address notice to Business and IT Admin. t. IT Disaster contingency Review began in Sept 2012 and documentation letter from BerryDunn was provided to KPMG December 13, 2012. We intend to follow up with an annual review after December 2013.
6.	**Application Name:** Management System (WMS), Point of Sale (POS), and Sequoia **Responsible Agency:** Division of Liquor Control **Purpose:** Manages warehousing, inventory, purchasing, AP, tracking of sales/revenues, commission, licensing and GL. In addition, Point of Sale terminals which are owned by the State and are installed in each store.
	a. The Programmer and Developer have access to both the development and production environment for Sequoia and POS. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production. We recommend a clear separation of access be created to restrict developers from having production access. This can be implemented with different resources, or with a work around that logs changes made by a developer that require a Manager's review and approval. ***Management Response*** As noted in our IT Change Management Policy (Version 1.0) instituted in October 2012 in response to previous auditor recommendations, these procedures are already in effect. In each of the two systems for which in-house development is still possible, the developer does not put changes into production. Due to limitations in staff, the specific role depends on the system. For Sequoia, the Systems Developer does development; putting changes into production is done by the IT Systems Administrator. For Point of Sale, development is done by the IT Systems Administrator; putting changes into production is done by the Systems Developer. In addition, in both cases, changes are logged in the Help Desk for review and a permanent record. All change logs are visible to all DLC staff members, including both IT and other staff up to and including the Commissioner.

	Findings and Recommendations
	Development is not possible in the Warehouse Management System (WMS) since it is a commercial software package developed by a third party, so there is no development to manage or restrict. (Even there, the Help Desk is used to log issues, although those issues are resolved with calls to the software provider, since the Help Desk is used to log all IT activities, not just development).
7.	**Application Name:** BFIS **Responsible Agency:** Agency of Human Services (AHS) **Purpose:** A system for Human Services Child Care Subsidy Payments.
	a. Password parameters are weak with complexity disabled. We recommend that the Agency enable complexity of pass word parameters. b. No formalized policy or process exists to determine users who no longer require access to the application due to termination. We recommend that the Agency implement a process to utilize the State of VT HR listing on a scheduled basis (monthly/quarterly) to verify users that should be removed from BFIS. c. Although ad hoc reviews of user access were performed; the review is not formally documented or occurrence defined. We recommend that the Agency create and implement a formal process for a review of access rights to the application and appropriate sign off retention of the performance of the review should be retained. d. Without standard scheduled partial and full backups, data may be lost and not available for restoration should an event occur and data is lost. The Agency relies on DII to perform and store backup data; however, the Agency was not aware of what the backup schedules are. We recommend that the Agency document the backup schedule and periodically review to ensure that all data sets are being backed-up appropriately. e. The Agency does not have a formalized restoration process and testing schedule for ensuring that data from backups can be restored completely and accurately. We recommend that the Agency document the process and a standard testing cycle for restoral of data from backup tapes. f. No formalized process is defined or utilized to respond to problems and issues by receipt of an email or a helpdesk ticket. We recommend that the Agency develop and utilize a tool that allows them to identify and track all problems and issues for the application.

	Findings and Recommendations
	Management Response a. There is a BFIS Upgrades project currently underway that includes this as a requirement. This project is scheduled to be completed in spring 2013. b. Quarterly BFIS Users Account is reviewed by BFIS Help Desk. A tracking sheet has been developed to document this activity. Ref: BFIS User Account Management Tracking Checklist. Ref: BFIS Monitoring User Protocol, All BFIS Users are reminded about Users responsibilities. c. This has been implemented and is a current work in progress. Quarterly BFIS Users Account is reviewed by BFIS Help Desk. A tracking sheet has been developed to document this activity. Ref: BFIS User Account Management Tracking Checklist. d. There is documentation as of December 2012, and includes review of all data sets. e. With the new backup system, developers can now schedule regular restore/backup on servers. Documentation of this process and standard testing cycle will be developed and in place by December 2013. f. A tool is currently being researched (potentially JIRA) and will be set up to track issues and resolutions. This will be in place by December 2013.
8.	**Application Name:** SSMIS **Responsible Agency:** Agency of Human Services (AHS) **Purpose:** A benefit and eligibility system for Foster Care, Adoption Assistance and Social Services Block Grant Programs.
	a. Password parameters are weak with no policies other than recommendations of data dictionary words that should not be used. We recommend that the Agency create and implement a set of standard password parameters. b. SSMIS perform ad hoc reviews of user access; however, the review is not formally documented or occurrence defined. We recommend that the Agency create and implement a formal process for a review of access rights to the application and appropriate sign off retention of the performance of the review should be retained. c. The Agency does not have formalized change management policy that outlines the requirements for making changes, obtaining approvals and the retention of the documents. We recommend that the Agency create a change management policy should be developed and issued for SSMIS and communicated to the organization. d. There is no formalized change management policy that requires that testing and approvals are

(Continued)

	Findings and Recommendations
	obtained prior to migrating a change into production. We recommend that the Agency create a change management policy should be developed that defines the requirements for appropriate testing and approvals of testing prior to changes being migrated into production. e. SSMIS do not have a formalized restoration process and testing schedule for ensuring that data from backups can be restored completely and accurately. We recommend that the Agency document the process and a standard testing cycle for restoral of data from backup tapes. f. SSMIS respond to problems and issues by receipt of an email or a helpdesk ticket. No formalized process is defined or utilized. We recommend that the Agency develop and utilize a tool that allows them to identify and track all problems and issues for the application. ***Management Response*** a. Standard password parameters are being implemented as part of the SSMIS Upgrade project. This project is underway and is set for implementation in the Spring of 2013. b. A formal process for reviewing access rights to the application and appropriate sign off retention of the performance of the review is being created as part of the SSMIS Upgrade project. This project is underway and is set for implementation in the Spring of 2013. c. Currently, JIRA is being used as the Change Request mechanism. A formal change management policy will be created by the DCF ISD Standards Committee. Completion of this policy is planned for December 2013. d. A change management policy that defines the requirements for appropriate testing and approvals of testing prior to changes being migrated into production will be created by the DCF ISD Standards Committee. Completion of this policy is planned for December 2013. e. We do not use tape in our environment any longer, having recently converted to a solution that does replicated, versioning disk to disk (offsite) backups. We need to create new documentation of procedures and standard testing – this will be completed by December 2013. f. A tool is currently being researched (potentially JIRA) and will be set up to track issues and resolutions. This will be in place by December 2013.
9.	**Application Name:** ACCESS **Responsible Agency:** Agency of Human Services (AHS) **Purpose:** Benefit and Eligibility System for Human Service Cash Assistance Programs.

	Findings and Recommendations
	a. We noted that appropriate IT Security Policy exists and is communicated to employees via intranet. However, no evidence was provided to substantiate that the policies are reviewed periodically and updated by management. We noted that several of the policies have not been revised since more than a year. We recommend that IT Security Policies be reviewed on an annual basis to ensure compliance with new regulations as well as to address potential security threats. b. DII network Domain Administrator access should be appropriately restricted. KPMG was unable to obtain screens for the DII Domain Administrators. However, KPMG obtained and inspected the State of Vermont, Agency Department of Information and Innovation Organization chart to identify the Network and System Administrators. Without appropriate restrictions to the Domain Administrators group, applications and supporting infrastructure may be exposed to unauthorized access. We recommend that appropriate documentation is provided to identify the Domain Administrators for the ACCESS application and verify the job roles and responsibilities of the Domain Administrators to assure appropriateness of their access. c. Super User level access to the application should be limited to appropriate personnel and monitored to detect inappropriate activity. System access to add/change/delete user accounts should be limited to Security Administrators. KPMG noted that developers have Super User access to the production system. In addition, DBAs are allowed to create, edit and delete users and can grant roles. KPMG noted that a vacant account "D14" has both the "SSS" role and the "DBA" role which gives DBA an ability to add, modify or delete a user account or grant user role in the production system. KPMG also noted that there are 3 additional vacant accounts (D20, D70 and D80). No monitoring is in place over the use of these ids. KPMG was informed that if a worker tries to login with a RACF ID that is not associated with their user ID they cannot get into the system. However it was noted in the case of two (D14 and D80) out of the four vacant roles noted above, the RACF ID was tied to user ID We recommend that vacant accounts be removed to reduce the chance that the ID is misused. In addition, a monitoring process should be in place to assure against misuse of the super user capability. d. On a periodic basis, business management reviews user access rights to the application to verify that access is appropriately aligned with users' job responsibilities and that terminated employees have not retained access. We were unable to substantiate periodic access review to assure that access is not retained for terminated employees and that access is appropriate for current users based on their job responsibilities. We recommend that management perform periodic review of user access for the ACCESS

	Findings and Recommendations
	application. This will enable removal of inappropriate/inactive IDs in a timely manner and will reduce the possibility of malicious activity by unauthorized users. This review should be formally documented and evidence should be retained for audit purposes. e. A change management document was not provided for review. KPMG was notified that DCF ISD has formed a Standards Committee which will be working on the development of a formal written policy and procedure. These documents are to be completed by the end of calendar year 2013. We recommend that AHS develops processes and mechanisms to implement these policies as well. f. AHS does not have appropriate segregation of duties. Personnel who have development responsibilities currently have access to migrate changes to the production environment. KPMG was informed that AHS is currently going to a reorganization that will address the segregation of duties requirements. We recommend that conflicts of interest and concentration of power with any role be evaluated as part of the reorganization. g. No evidence was provided to substantiate that adequate backups were performed. Without appropriate backups, there is a risk that financially significant information may be lost in case of a disaster or hardware failure. We recommend that the Agency document the data backup and retention process and work with DII to monitor the effectiveness of backups. AHS should document the process and establish a standard testing cycle for restoral of data from backup tapes. h. We noted that no ticketing system is used to track issues. The current process is manual and the mainframe group keeps track of issues via a spreadsheet. In addition, there is no formally documented process for logging issues and tracking them to resolution. Without a formally documented process for logging issues as well as appropriate controls in place to ensure that all issues are logged and tracked through resolution, there is a risk that all issue may not be tracked or resolved in a timely manner. We recommend that the Agency utilize a ticketing system to manage the documentation of issues and problems to ensure proper management and resolution. A ticketing system provides appropriate structure and control to ensure that all problems are managed to resolution. Furthermore a formally documented policies and procedures should be in place to include process of tracking, categorizing and resolving issues in a timely manner. i. We noted that the ACCESS system is not capable of enforcing the password complexity requirements as required by AHS Security Plan and System/Service Password Policy. Even though complexity is not enabled, the multi layer authentication process mitigates some of the risk associated with not having strong password parameters. In addition, password lockout is

	Findings and Recommendations

enabled.

We recommend that the Agency investigate the possibility of enabling password complexity or a policy exception form should be obtained to document non-compliance with the AHS Security Policy requirements.

Management Response

a. Currently the position of AHS Security Director is vacant. Once this position is filled the task of reviewing security policies on an annual basis will be implemented by that position.

b. The ACCESS system is a mainframe application. Authentication is not handled by Active Directory; therefore, no Domain Administrators would have any access to the mainframe. There is full separation of duties and access between the Network/Active Directory environment and DII's hosted mainframe environment.

c. It is true that a RACF ID must be associated with an ACCESS ID. For a user to get into the ACCESS system there is a further level of security with the password being removed/scrambled and the user access is revoked at both the RACF and ACCESS level. In ISD when a person leaves, we revoke access and scramble the passwords until such time as the position is either filled or a decision is made not to fill the position. If the position is not filled, then deletes are done and positions are marked vacant.

d. The periodic review of user access for the ACCESS application will be conducted by the business. ESD is creating a Business Application Support Unit (BASU) and will have responsibility for creating and managing procedures for account review. This unit and the procedures will be in place by December 31, 2013.

e. The DCF ISD Standards Committee will be developing a change management policy for the Department. As part of this work, processes and mechanisms for implementing the policy will also be developed. This will include management and oversight by the newly implemented Business Application Support Unit (BASU) within ESD. All work has a planned implementation date of December 31, 2013.

f. Within our teams we strive to have separation of duties. A developer who has made changes to programming does not migrate those changes to production without another developer reviewing the code. This is not a formal process however, as our current staffing levels prevent us from having the level of separation that we would like. As we continue to improve or internal work processes we will strive to improve in this area and will evaluate conflicts of interest and concentration of power with any role as part of our continuous efforts toward improvement.

g. In the ACCESS system we have a full stand alone backup that is created every Sunday. In addition we have 3 parallel backups that run on Monday, Wednesday, and Friday nights. We also have running what is called 'protection logging'. All modifications to the database are logged in a separate file. This combination allows us to restore our databases back to any given point in time for the last week and to any backup time for a number of months in the

	Findings and Recommendations
	past. This restore capability is routinely used and tested in our test environments. The mainframe application also has a disaster site where the mainframe disc files are mirrored on a real time basis. In the event of a disaster at our main facility, we can immediately move to the disaster site where a complete and usable copy of our mainframe system is maintained. We also keep another copy of most of our data that is copied to a SQL database on a real time basis. This SQL database is used to feed a number of satellite applications such as data warehouses, voice response units, and web applications. This will be documented and monitored, per a Service Level Agreement with DII. h. A tool is currently being researched (potentially JIRA) and will be set up to track issues and resolutions. This will be in place by December 2013. i. Because the ACCESS application is not capable of providing the level of complexity required for passwords by our own policy, we will add to the existing AHS policy that the ACCESS application is exempt from this requirement. As efforts are underway to eventually move all programs off the ACCESS application in the next 5-10 years, requirements for password complexity will be considered on any new platforms the Agency may use.

Management Response

Responses are embedded in the above table.

FS2012-04 – Succession Planning

Background

Goal 8.4.1 of the Vermont Statewide Strategic Plan 2012, Version 4, December 2012, states "Develop and implement a comprehensive approach to workforce recruitment, hiring, retention, and planning resulting in a diverse, effective and efficient workforce to meet the present and future needs of Vermont State Government."

The State is a multi-billion dollar enterprise that has many diverse and complex business functions and decentralized operations. The State also operates in a dynamic environment and is exposed to many different risks and challenges. The average age of the State's workforce, like many other governments in the Country, continues to age and move towards retirement.

Finding

The issue of the pending retirement of the baby boomer generation has come to the forefront for businesses, including state government, as the first of the "boomers" have reached retirement age. Over the next decade, as more state employees reach retirement age, the State will be faced with a tremendous loss of institutional knowledge and possibly significant deficiencies in highly specialized areas and functions. The effects of this are already starting to be seen as evidenced by the types of financial statement and compliance findings noted for the current audit. The lack of critical resources highlights the need to immediately implement an appropriate personnel succession plan throughout the State.

In order to ensure continuity of service and minimize the loss of institutional knowledge, it is essential that the State develop and execute a succession plan that will address this inevitable challenge.

Recommendation

We recommend that the Department of Human Resources continue to work with individual agencies and departments to ensure that formal succession plans are developed for all key functional areas; that the plans are current; and that the plans are appropriately communicated and acted upon.

Management Response

DHR will conduct training in calendar year 2013 for members of the Governor's extended cabinet that will highlight the need for succession planning, given the pending retirement of the baby boom generation. At this training, DHR will provide tools and guidance to senior leaders to help them prepare formal succession plans for their Agencies and Departments. In addition, the Secretary of Administration will also review the need for and efforts made to date on succession planning, as part of the annual reporting process on each Agency and Department's strategic plan.

(Continued)

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 12-01

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

School Breakfast Program (CFDA #10.553)
National School Lunch Program (CFDA #10.555)
Special Milk Program for Children (CFDA #10.556)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2012CL160344	2012
2012IN109044	2012
2012IN109844	2012
2012IN202044	2012
2012IM253344	2012
2012IN109744	2012
2012IN254554	2012

Criteria

A pass-through entity is responsible for:

- *Award Identification* – At the time of the subaward, identifying to the subrecipient the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

The State Department of Education (the Department) grants funds to school food authorities to carry out the objectives of the Child Nutrition Cluster. During our testwork over the Department's programmatic monitoring process, we noted the following:

A. School food authorities are required to submit an annual application to be eligible to operate as a school food authority. During our review over the application process, we found that:

   - For 1 out of 25 applications reviewed, the school food authority had answered eligibility questions incorrectly and there was no follow up performed by the Department as part of its approval process.

(Continued)

- 22 out of 25 applications were modified by Department personnel but there was no corresponding documentation to show that the school food authority had approved any of the changes to its application.

B. For all 25 school food authorities tested, the grant agreements did not contain all the CFDA numbers awarded to the school food authorities. The only CFDA number listed in the agreement was the National School Lunch Program, CFDA #10.555.

C. 8 out of 25 programmatic monitoring visits contained missing documentation that was required as part of the Department's programmatic monitoring procedures.

Cause

The cause of the condition found is due to a lack of documentation to support programmatic monitoring procedures performed by the Department.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through its programmatic monitoring process on a timely basis.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing programmatic monitoring procedures and develop controls to ensure that all programmatic monitoring procedures performed are properly documented as it relates to awarding grants to school food authorities as well as its programmatic monitoring visits. The procedures should ensure that all required documentation is compiled and maintained to support each programmatic visit performed. A supervisory review should be conducted to ensure each file is complete prior to closure. In addition, the Department should review its existing policy for establishing grant agreements with the school food authorities to ensure that all award information is communicated properly.

Management's Response and Corrective Action Plan

A. The Program monitoring files are reviewed periodically through the monitoring process and at the end of the monitoring year. A second individual reviews the file to ensure that the review is closed and the documentation is complete. We can implement stricter review standards and have the reviewer sign off on the completed review file.

B. The online application and claiming system may be revised to include the appropriate CFDA Number for each of the appropriate programs, Lunch, Breakfast, Special Milk, Summer Food Service Program, and the Fresh Fruit and Vegetable Program. We will investigate the cost of this activity and develop a timeline for the corrections to the online and paper applications.

(Continued)

C. A thorough review of applications will be required of Program staff to ensure questions are complete and correct.

Child Nutrition Programs will work to develop written procedures for reviewing program applications, grant applications, and programmatic reviews.

Scheduled Completion Date of Corrective Action Plan

December 19, 2013

Contact for Corrective Action Plan

Deb Quackenbush, Division Director, 802-828-5877
Laurie Colgan, Child Nutrition Programs, 802-828-5133

Finding 12-02

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

School Breakfast Program (CFDA #10.553)
National School Lunch Program (CFDA #10.555)
Special Milk Program for Children (CFDA #10.556)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2012CL160344	2012
2012IN109044	2012
2012IN109844	2012
2012IN202044	2012
2012IM253344	2012
2012IN109744	2012
2012IN254554	2012

Criteria

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

(Continued)

Condition Found

The State Department of Education (the Department) grants funds to school food authorities to carry out the objectives of the Child Nutrition Cluster. During our testwork over the Department's fiscal monitoring process, we noted the following:

A. The Department performs fiscal monitoring visits over its grantees. During our review over the Department's fiscal monitoring visits we found that:

- For 3 out of 25 fiscal monitoring visits reviewed, the Department obtained a Corrective Action plan, however there was no indication that the corrective action plan had been accepted and there was no closure letter sent to the subrecipient.
- The Department did not perform a fiscal monitoring visit for 6 out of 25 subrecipients selected for testwork.
- For 1 out of 25 fiscal monitoring visits reviewed, the Department had obtained a corrective action plan based on the results of the visit. Per review of correspondence within the monitoring file, the Department would perform a follow up visit so that the fiscal monitoring visit could be closed. There was no evidence in the monitoring file that the follow up visit had occurred or that the fiscal monitoring visit had been closed.

B. During our review over the Department's monitoring of subrecipient A-133 audit reports, we found that:

- For 3 out of 25 school food authorities reviewed, the Department did not issue a management decision letter documenting its review of the A-133 audit report and had exceeded the 6 month time frame allotted to issue a management decision letter.
- For 9 out of 25 school food authorities reviewed, the school food authority was delinquent in submitting its A-133 audit report to the Department. We were unable to obtain documentation to support that the Department had followed up with the school food authorities concerning the delinquent reports.
- For 3 out of 25 school food authorities reviewed, the Department did not have any current information as to whether or not the school food authority was required to have an A-133 audit and there was no documentation to support that procedures had been performed to determine if an audit had been performed.

Cause

The cause of the condition found is due to a lack of documentation to support the fiscal monitoring procedures performed by the Department.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through its fiscal monitoring process on a timely basis.

(Continued)

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing fiscal monitoring procedures and develop controls to ensure that all fiscal monitoring procedures performed are properly documented for both fiscal monitoring reviews and its review over school food authorities A-133 audit reports. The procedures should ensure that all required documentation is compiled and maintained to support each visit performed. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Fiscal Monitoring

Condition A, Bullet 1: The AoE's fiscal monitoring staff acknowledges a need to provide better documentation of our monitoring work, acceptance of corrective action plans, and closeout. Beginning with the current year subrecipient fiscal monitoring work, the fiscal monitoring staff has developed a spreadsheet for tracking the status of each monitoring review, including the issuance of a report, receipt and acceptance of a corrective action plan, and the issuance of a closeout letter.

Condition A, Bullet 2: The current fiscal monitoring staff was not aware until a few months ago that our monitoring list was not complete and that, consequently, we had not scheduled monitoring visits for some AoE subrecipients. A complete list of grant subrecipients will be generated by the accounting staff and made available to the fiscal monitors.

Condition A, Bullet 3: The reason for this condition and the response is the same reason as Bullet #1.

A-133 Reviews

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date of Corrective Action Plan

Fiscal Monitoring

Condition A, Bullet 1: This action has already been completed.
Condition A, Bullet 2: This action will be completed by June 30, 2013.
Condition A, Bullet 3: This action has already been completed.

A-133 Reviews

June 30, 2013

Contact for Corrective Action Plan

Fiscal Monitoring

Cathy Hilgendorf, Assistant Division Director, 802-828-5402

A-133 Reviews

Aaron Brodeur, School Finance Manager, 802-828-0289

(Continued)

Finding 12-03

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

School Breakfast Program (CFDA #10.553)
National School Lunch Program (CFDA #10.555)
Special Milk Program for Children (CFDA #10.556)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2012CL160344	2012
2012IN109044	2012
2012IN109844	2012
2012IN202044	2012
2012IM253344	2012
2012IN109744	2012
2012IN254554	2012

Criteria

For grants and cooperative agreements, effective after October 1, 2010 for all discretionary and mandatory awards equal to or exceeding $25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date, grantees are required to file a report under the Federal Funding Accountability and Transparency Act related to subawards made that exceed $25,000 at the time the obligation is entered into.

Condition Found

During our testwork over federal reporting, we noted that the State Department of Education (the Department) had entered into agreements that were subjected to reporting under the Federal Funding Accountability and Transparency Act (FFATA) however no reports were filed or attempts to file the reports were made as of June 30, 2012.

Cause

The cause of the condition found is that the Department enters into operating agreements with school food authorities whereby the school food authorities operate a food service program under the Child Nutrition Cluster. As the program is an entitlement program, it was unclear to the Department whether or not these agreements represented reportable agreements for FFATA reporting.

Effect

The effect of the condition found is that subawards were not reported as required under the Federal Funding Accountability and Transparency Act.

(Continued)

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing policy for reporting items under the Federal Funding Accountability and Transparency Act to ensure that they are capturing and reporting subawards timely as required by the Act. Discussions with the awarding agency to discuss whether or not the existing funding arrangement currently used by the Department would qualify as a reportable subaward may be beneficial.

Management's Response and Corrective Action Plan

Because these are entitlement programs where monies are reimbursed after meal counts are reported, it is difficult to capture those that need to be entered. This will require us to look at cumulative activity by CFDA by entity and begin reporting once an entity has exceeded the $25,000 mark. To do that will require us to enter a "new grant" each month in FFATA for every reimbursement sent to an entity who has met the criteria. This is cumbersome at best. We are working to create a system that will most efficiently allow us to meet this requirement.

Scheduled Completion Date of Corrective Action Plan

We will be reporting child nutrition reimbursements in FFATA during SFY13.

Contact for Corrective Action Plan

Kathy Flanagan, Financial Director, 802-828-0482

(Continued)

Finding 12-04

U.S. Department of Interior

Program Name and CFDA Number

Fish and Wildlife Cluster:

Sport Fish Restoration Program (CFDA #15.605)
Wildlife Restoration and Basic Hunter Education (CFDA #15.611)

Program Award Number and Year

F-19-E-23	7/1/11 – 6/30/12

Criteria

The SF-425, *Financial Status Report*, is required to be filed annually for each grant award. As part of the reporting processes, entities are required to establish controls to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Condition Found

During our testwork over the SF-425 reports submitted for the period ending June 30, 2012, we noted that submitted reports are not consistently reviewed prior to submission. Additionally we noted that inaccurate amounts were reported on 1 of the 11 reports selected for testwork reviewed. Specifically, the SF-425 reported for federal grant number F-19-E-23 inaccurately reported the indirect expense in boxes 11d, 11e, and 11f. The federal agency had also identified the above noted errors and requested that the State Department of Fish and Wildlife (the Department) make the necessary changes and file amended reports.

Cause

The cause of the condition found is that the Department does not have adequate controls over the review and approval of the SF-425 reports before they are submitted.

Effect

The effect of the condition found is that the federal reports may be filed with inaccurate data.

The condition found appears to be systemic in nature and this is considered to be a significant deficiency in internal controls.

Questioned Costs

None noted.

Recommendation

We recommend that the Department review its existing federal reporting process and implement controls to ensure federal reports are prepared accurately.

Management's Response and Corrective Action

The auditor states that "The SF-425 report for federal grant number F-19-E-23 inaccurately reported the indirect expenses reported in boxes 11d, 11e, and 11f." The Department acknowledges this finding but disputes that this is a systematic in nature or that it is a significant deficiency in internal controls. The error identified represents 1 of the 11 reports reviewed by the auditor and had no impact on the amount of Federal funds that were drawn. This error was caused by entering the indirect information from the wrong grant onto the F-19-E-23 SF-425. During the time period that this report was filed the business office was going through a transition and was operating without its financial manager. This coupled with two new Federal aid coordinators created a unique situation, that is not systematic in nature but one of extenuating circumstances. The Department will institute a corrective action that all SF-425s will be reviewed prior to submission. The Financial Administrator will prepare all of the SF-425s and then submit them to either the Fish & Wildlife Grants Administrator or Financial Manager for review. The review will cover a reconciliation of all information entered on the form as well as the summary back-up information. The reviewer will initial and date a cover page once review is complete. The Department will resubmit a corrected SF-25 to the U.S. Fish & Wildlife Service. The Department will also work closely with U.S. Fish and Wildlife to remedy issues before submission of the SF-425s.

Scheduled Completion Date of Corrective Action Plan

July 1, 2013

Contact for Corrective Action Plan

Steven Gomez, Fish & Wildlife Grants Administrator, 802-828-1294

(Continued)

Finding 12-05

U.S. Department of Interior

Program Name and CFDA Number

Fish and Wildlife Cluster:

Sport Fish Restoration Program (CFDA #15.605)
Wildlife Restoration and Basic Hunter Education (CFDA #15.611)

Program Award Number and Year

January 1 – December 31, 2010

Criteria

The Director of each state fish and wildlife agency must certify annually the number of paid hunting and fishing license holders in the State using *Form 3-154A and 3-154B, Paid Hunting and Fishing License Certification.*

As part of the reporting processes, entities are required to establish controls to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Condition Found

During our testwork related to *Form 3-154A and 3-154B, Paid Hunting and Fishing License Certification*, we noted that submitted reports are not consistently reviewed prior to submission. Additionally, we noted the following discrepancies in the information reported:

A. Nonresidential combination licenses were missing from the total fishing licenses reported.

B. Duplicate licenses were added rather than subtracted in the State Department of Fish and Wildlife's (the Department) calculation. As such, fishing licenses reported were over stated by 1,162 licenses.

Cause

The cause of the condition found is that the Department does not have adequate controls over the review and approval of the *Form 3-154A and 3-154B, Paid Hunting and Fishing License Certification* before it is submitted.

Effect

The effect of the condition found is that the federal reports are filed inaccurately.

The condition found appears to be systemic in nature, and this is considered to be a significant deficiency in internal controls.

(Continued)

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing federal reporting process and implement controls to ensure federal reports are prepared accurately.

Management's Response and Corrective Action

A. The auditor states "Nonresidential Combination Licenses were missing from the total Fishing Licenses reported." The Department acknowledges this finding but disputes it is systematic in nature or a significant deficiency in internal controls. The error was the result of Nonresident Youth Combination licenses, a total of 61, not being included in the Fishing Licenses reported. The number of certified hunting and fishing licenses sold in the State result in the amount of Federal funding a State can receive through the Wildlife and Sport Fish Restoration grant programs. By not reporting these combination licenses the State underreported the number of certified fishing licenses sold which in theory reduces the amount of Federal funds available to the State. The Department will develop an internal review process for the license certification forms. The responsibility of preparing the license certification forms will be held by the F&W grants administrator and then be reviewed by the Financial Manager before submission. After the review is complete the Financial Manager will initial and date the cover page of the certifications.

B. The auditor states that "Duplicate licenses were added rather than subtracted in the Department's calculation. As such, Fishing Licenses reported were over stated by 1,162 licenses." The Department acknowledges this finding but disputes it is systematic in nature or a significant deficiency in internal controls. This error was the result of the duplicate license row being added instead of subtracted from the total reported. While the Department over stated the number of licenses reported this will have no impact on the amount of Federal funds available. The State of Vermont is a "minimum" state which means it receives the minimum amount of Federal funds apportioned through the Sport Fish and Wildlife Restoration programs. The Department will develop an internal review process for the license certification forms. The responsibility of preparing the license certification forms will be held by the F&W grants administrator and then be reviewed by the Financial Manager before submission. After the review is complete the Financial Manager will initial and date the cover page of the certifications.

Scheduled Completion Date of Corrective Action Plan

July 1, 2013

Contact for Corrective Action Plan

Steven Gomez, Fish & Wildlife Grants Administrator, 802-828-1294

Finding 12-06

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA #17.258)
WIA Youth Activities (CFDA #17.259)
WIA Dislocated Workers (CFDA #17.260)
WIA Dislocated Worker Formula Grants (CFDA #17.278)

Program Award Number and Award Year

AA-21428-11-55-A-50	4/1/11 – 6/30/14
AA-20226-10-55-A-50	4/1/10 – 6/30/13
AA-18774-09-55-A-50	4/1/09 – 6/30/12

Criteria

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This includes establishing controls to provide reasonable assurance that only eligible individuals receive assistance under federal awards and the amounts provided to or on behalf of eligible individuals were calculated and are allowable in accordance with program requirements.

Condition Found

During our testwork over the State Department of Labor's (the Department) eligibility determination and benefit payment processes for the WIA cluster, we noted the following:

A. 2 of 25 participants lacked sufficient documentation to support that they were eligible to receive adult program services.

B. 2 of 25 participants were determined to be eligible to receive services by passing the low-income eligibility test. For 1 of 2 participants, there was no documentation to support that the participant met this requirement. For the other participant, documentation within the file indicated that the participant earned more income than allowed in order to be eligible under this criteria.

C. 4 of 25 participants did not have a signed employment development plan within their case file.

D. 1 of 25 participants was required to submit a transcript or grade report from the college providing services under the program to show progress in meeting their employment development plan. Per review of the participants case file, it did not appear that the documentation was obtained from the participant.

(Continued)

E. 2 of 25 participants lacked documentation to support that they were eligible to receive youth activities services.

F. 5 of 25 participants received occupational skills training, which included tuition assistance. During our review of their case files, we noted that the Department did not seek alternative funding, such as student financial aid, to assist in paying for the occupational skills training in order to maximize the use of federal funds provided under this program.

Cause

The cause of the condition found is due to a lack of supervisory review to ensure that eligibility determinations are adequately documented and that the case file is complete.

Effect

The effect of the condition found is that payments could be made to participants that are not eligible to receive services resulting in unallowable costs being charged to the program.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

$11,235

Recommendation

We recommend that the Department review its existing eligibility determination procedures to ensure that all required documentation to support its determinations is maintained in the participant case file. In addition, we recommend that the Department implement a quality control review process to ensure that case files are reviewed for accuracy and completeness.

Management's Response and Corrective Action

Action 1

Recently, the Vermont Department of Labor Workforce Development Division has created and implemented the use of a new form, WIA-7. This form (attached) requires the Manager or Grant Manager (depending on the amount requested) to review the case file. The case justification is reviewed along with leveraged and non-leveraged training allocations. In order for the WIA-7 to be approved the case and its critical components must be verified in the system and file.

Action 2

Federal WIA regulations require the Division to conduct case "validations" on a regular basis. Those validations are conducted by trained staff who review files in funding streams and regions they do not work in. The information gathered through the validation process is than shared with management in order to correct short comings, or offer trainings to minimize or resolve issues in their entirety.

(Continued)

Action 3

We have hired an employee whose primary responsibility will focus on the division's performance levels inclusive of case file justifications and results. Based on information gathered from regular office reviews, validation, and changes in procedures that employee will assist in correcting errors and developing training tools for our staff.

We feel that the above three measures will support thorough reviews of case files prior to authorization and approval of expenditures. Also, we have put into place a framework of reviews that support quality case file management and provides a structure of checks and balances to our training system.

Scheduled Completion Date of Corrective Action Plan

Corrective action is completed.

Contact for Corrective Action Plan

Chad Wawrzyniak, Department of Labor, 802-828-4000

(Continued)

Finding 12-07

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA #17.258)
WIA Youth Activities (CFDA #17.259)
WIA Dislocated Workers (CFDA #17.260)
WIA Dislocated Worker Formula Grants (CFDA #17.278)

Program Award Number and Award Year

AA-21428-11-55-A-50	4/1/11 – 6/30/14
AA-20226-10-55-A-50	4/1/10 – 6/30/13
AA-18774-09-55-A-50	4/1/09 – 6/30/12

Criteria

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This includes establishing controls to provide reasonable assurance that federal awards are expended only for allowable activities and the costs of goods and services charged to federal award are allowable in accordance with the applicable cost principles.

Condition Found

During our testwork over allowability and allowable costs, we noted the following:

A. 1 of 40 transactions tested represented rental expense that was allocated to the program. The rental expense was composed of 6 invoices, of which 2 invoices were missing. As a result, we were unable to recalculate that the rental expense allocated to the program was reasonable.

B. 1 of 40 transactions tested represented a transfer of administrative costs incurred on behalf of another federal program (the Work Opportunity Tax Credit or WOTC) that was transferred into the WIA Cluster. The transfer was made as a result of excess costs incurred under the WOTC program and as the WIA Cluster had not yet met its 5% administrative allocation. It is unclear as to whether or not these costs were allowable under the WIA Cluster.

C. 11 of 40 transactions were composed of journal entries. During our review over the journal entries, we noted that each journal entry was prepared and approved by the same individual and there was no supervisory review to ensure that the journal entry was appropriate.

Cause

The cause of the condition found is due to a lack of supervisory review to ensure all costs are allowable and properly documented at the time they are processed for payment.

(Continued)

Effect

The effect of the condition found is that unallowable costs could be charged to the program.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

$67,772

Recommendation

We recommend that the State Department of Labor review its existing procedures and implement controls to ensure that adequate documentation exists to support all payments incurred under the program and that all transactions are properly reviewed and approved prior to payment.

Management's Response and Corrective Action

A. The Fiscal Division has looked in all of our files and we cannot relocate the 2 missing invoices. We have contacted State of VT BGS (the issuer of the invoices) and they have informed us that do not keep records of the invoices.

B. The transfer of administrative costs from the WOTC to the WIA admin 5% funding stream was done on recommendation and suggestion from the US DOL Boston office. In accordance with CFR 20 Chapter 5 part 667.210 these charges are appropriate and allowable.
http://www.dol.gov/dol/cfr/Title_20/

C. As with all of our transactions, all journal entries are now processed and approved by separate individuals. The approver of all journal entries is the immediate supervisor or higher in the chain of command of the preparer.

Scheduled Completion Date of Corrective Action Plan

Corrective action is completed.

Contact for Corrective Action Plan

Chad Wawrzyniak, Department of Labor, 802-828-4000

(Continued)

Finding 12-08

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA #17.258)
WIA Youth Activities (CFDA #17.259)
WIA Dislocated Workers (CFDA #17.260)
WIA Dislocated Worker Formula Grants (CFDA #17.278)

Program Award Number and Award Year

AA-21428-11-55-A-50 4/1/11 – 6/30/14

Criteria

For grants and cooperative agreements, effective after October 1, 2010 for all discretionary and mandatory awards equal to or exceeding $25,000 made with new Federal Assistance Identification Number (FAIN) on or after that date, grantees are required to file a report under the Federal Funding Accountability and Transparency Act related to subawards made that exceed $25,000 at the time the obligation is entered into.

Condition Found

During our testwork over federal reporting, we noted that the State Department of Labor (the Department) had not reported or attempted to file a report under the Federal Funding Accountability and Transparency Act (FFATA) for 1 out of 5 grants selected for testwork.

Cause

The cause of the condition found is that the Department does not have sufficient procedures in place to ensure all FFATA reports are filed and filed timely.

Effect

The effect of the condition found is that the FFATA report was not filed.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal controls.

Questioned Costs

None.

Recommendation

We recommend that the Department develop procedures to ensure FFATA reports are filed for all transactions subject to FFATA reporting requirements.

(Continued)

Management's Response and Corrective Action

This finding is due to a turnover of key staff personnel and the information, policies and procedures not being relayed to the replacement now responsible for the filing of these reports. We do have copies and printouts of some FFATA reports having been filed in the audited year FY '12; however we are not yet confident that all awards and grants that meet the threshold and requirements of the act have been filed.

VDOL is currently in the process of researching and establishing policies and procedures in regards to FFATA reporting. We are in contact with US DOL Boston for guidance on this reporting requirement and researching which grants and awards, past and present, are subject to FFATA reporting since its effective date of Oct 2010. Once all of these awards and grants are identified we will begin the process of filing and reporting all delinquent FFATA reports as well as staying current with any awards over the $25,000 threshold.

Scheduled Completion Date of Corrective Action Plan

March 31, 2013.

Contact for Corrective Action Plan

Chad Wawrzyniak, Department of Labor, 802-828-4000

(Continued)

Finding 12-09

U.S. Department of Transportation

Program Name and CFDA Number

ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (CFDA #20.319)

Program Award Number and Award Year

FR-HSR-0013-10-01-01 9/30/10 – 9/30/12

Criteria

The SF-425 report is filed on a quarterly basis, no later than 30 days after the month following the quarter end. As part of the reporting process, entities are required to establish controls to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Program income is gross income received that is directly generated by the federally funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds.

Condition Found

During our review over the reporting process, we noted the amounts reported for the SF-425 reports for the quarters ending March 31, 2012 and June 30, 2012 were not accurate. Specifically we noted the following:

A. Per review of the SF-425 reports filed for the quarter ending March 31, 2012, the amount reported for program income during the month was $1,465,990. Per review of the supporting documentation used to prepare the report, the amount of program income that should have been reported was $7,547,067, a difference of $6,081,077.

B. During our testwork over program income we noted that when the State Agency of Transportation (the Agency) incorrectly recorded within its accounting system, the STARS system, the salvage value associated with income generated by this program. The salvage amount (program income) per the invoice was $2,461,726 however the Agency incorrectly reported this amount within the STARS as the state match. The correct state match amount of $569,532 was recorded as salvage. Therefore program income was understated by $1,892,194 and the state match was overstated by $1,892,194 on the SF-425 for the quarters ending March 30, 2012 and June 30, 2012.

Cause

The cause of the condition found is due to insufficient controls surrounding the review and approval of federal reports before the reports are issued as well as the review and approval of journal entries before they are data entered into the accounting system.

Effect

The effect of the condition found is that inaccurate reports were filed.

The condition found appears to be systemic in nature and is considered to be significant deficiency in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its existing policies and control procedures for reviewing and approving journal entries and federal reports to ensure that they are consistently followed in order to prevent inaccuracies within its federal reports.

Management's Response and Corrective Action Plan

AOT believes adequate procedures and controls are in place. We have reemphasized the importance of following these procedures and will periodically monitor compliance. Additionally FRA now requires this form to be submitted electronically. It is anticipated that this will facilitate FRA review and timely feedback on our reports.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013

Contact for Corrective Action Plan

Terry Call, AOT Audit Supervisor, 802-828-2406

Finding 12-10

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

State and Community Highway Safety (CFDA #20.600)
Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
Occupant Protection Incentive Grants (CFDA #20.602)
State Safety Belt Performance Measures (CFDA #20.609)
State Traffic Safety Information System Improvement Grants (CFDA #20.610)
Incentive Grant Program to Prohibit Racial Profiling (CFDA #20.611)
Incentive Grant Program to Increase Motorcyclist Safety (CFDA #20.612)
Child Safety and Child Booster Seat Incentive Grants (CFDA #20.613)

Program Award Number and Year

K6-2012-00-00-00	2012
K6-2011-00-00-00	2011
K8-2012-00-00-00	2012
K8-2011-00-00-00	2011
K2-2012-00-00-00	2012
K2-2011-00-00-00	2011
K9-2012-00-00-00	2012
K9-2011-00-00-00	2011
K3-2012-00-00-00	2012
K3-2011-00-00-00	2011

Criteria

For *Incentive Grant Program to Increase Motorcyclist Safety* (CFDA 20.612), a State must maintain its aggregate expenditures from all other sources for motorcyclist safety training programs and motorcyclist awareness programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 CFR part 1350).

For *Alcohol Impaired Driving Countermeasures Incentive Grants I* (CFDA 20.601), a State must maintain its aggregate expenditures from all other sources for alcohol traffic safety programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 410(a)(2)).

For *Occupant Protection Incentive Grants* (CFDA 20.602), a State must maintain its aggregate expenditures from all other sources for programs to reduce highway deaths and injuries resulting from individuals riding unrestrained or improperly restrained in motor vehicles at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 405(a)(2)).

For *State Traffic Safety Information System Improvements Grants* (CFDA 20.610), a State must maintain its aggregate expenditures from all other sources for highway safety data programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 408(e)(3)).

For *Child Safety and Child Booster Seat Incentive Grants* (CFDA 20.613), a State must maintain its aggregate expenditures from all other sources for child safety seat and child restraint programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (Section 2011(b) of SAFETEA-LU).

Condition Found

During our testwork over the level of effort requirement, we noted that the Department of Public Safety (the Department) does not track to ensure that it has maintained aggregate expenditures from all other sources as required above to ensure that the expenditures are at or above the average level of such expenditures incurred in fiscal years 2003 and 2004.

Cause

The cause of the condition found is that the Department does not have a procedure in place track and monitor the level of effort requirement.

Effect

The effect of the condition found is that the Department may not meet its annual level of effort requirement and due to the lack of procedures would be unaware of the noncompliance.

The condition found appears to be systemic and is considered to be a significant deficiency in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement procedures to ensure it tracks and monitors expenditures annually each fiscal year for both state and local funds to ensure that it has met the annual level of effort requirements necessary to draw all federal funds awarded under this program.

Management's Response and Corrective Action Plan

DPS recognizes that tracking the Maintenance of Effort (MOE) is a requirement of the Highway Safety cluster. Highway Safety Programs cross many departments/agencies of State government, Municipal government, County Sheriffs, and non-profit organizations. It will be a labor intensive process to track the MOE of federal, state, local and in-kind sources across all of these entities in relation to Highway Safety Programs. In addition, it is difficult to establish a benchmark of the 2003-2004 level of expenditures of Highway Safety Programs that the MOE is measured against. We are currently in the process of working with our Federal Program Manager at the National Highway Traffic Safety Administration on MOE guidance so that we may become more compliant with this requirement.

Scheduled Completion Date of Corrective Action Plan

We are currently seeking guidance from our Federal Program Manager on best practices for monitoring MOE. We hope to have corrective action on this requirement by the close of the current federal fiscal year, 9/30/13.

Contact for Corrective Action Plan

Joanne Chadwick, Director of Administrative Services, 802-241-5496

Tracy O'Connell, Director of Grant Management Unit, 802-241-5574

Finding 12-11

U.S. Department of Education

Program Name and CFDA Number

Title I, Part A Cluster:

Title 1 Grants to Local Education Agencies (CFDA #84.010)
ARRA – Title I Grants to Local Educational Agencies, Recovery Act (CFDA #84.389)

Program Award Number and Year

S010A110045-11B	7/1/11 – 9/30/12
S010A100045A	7/1/10 – 9/30/11
S389A090045A (ARRA)	2/17/09 – 9/30/10

Criteria

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's fiscal monitoring process, we noted the following:

A. The Department performs fiscal monitoring visits over its subrecipients. During our review over the Department's fiscal monitoring visits, we found that:

   - For 4 out of 15 fiscal monitoring visits reviewed, the Department obtained a corrective action plan, however there was no indication that the corrective action plan had been accepted and there was no closure letter sent to the subrecipient.
   - For 11 out of 15 fiscal monitoring visits reviewed, the Department reviewed a sample of expenditures made by the subrecipient under each federal grant. However, it was unclear

based on the documentation maintained in the file what procedures were performed by the Department during its review of the expenditures selected.

- For 1 out of 15 fiscal monitoring visits reviewed, the Department had accepted a corrective action plan with one exception that required further documentation from the subrecipient. There was no documentation within the file to support that the Department had followed up on the open item.
- For 3 out of 15 fiscal monitoring visits reviewed, the Department had obtained a corrective action plan however it was not signed by the appropriate personnel.
- For 1 out of 15 fiscal monitoring visits reviewed, the monitoring file did not include a closure letter or any documentation indicating that the subrecipient had responded to the findings noted during the fiscal monitoring visit.

B. During our review over the Department's monitoring of subrecipient A-133 audit reports, we found that:

- For 1 out of 15 subrecipients reviewed, the Department did not issue a management decision letter documenting its review of the A-133 audit report and had exceeded the 6 month time frame allotted to issue a management decision letter.
- For 1 out of 15 subrecipients reviewed, the Department had incorrectly determined that the subrecipient did not need to have an A-133 audit and as a result did not obtain and review the subrecipients A-133 audit report.
- For 8 out of 15 subrecipients reviewed, the subrecipient was delinquent in submitting its A-133 audit report to the Department. We were unable to obtain documentation to support that the Department had followed up with the subrecipients concerning the delinquent reports.
- For 1 out of 15 subrecipients reviewed, the Department followed up on a finding noted during the A-133 audit report and requested a corrective action plan. There was no documentation within the file to support that the corrective action related to the finding had taken place and no further follow up was made by the Department.

Cause

The cause of the condition found is due to a lack of documentation to support the Departments overall fiscal monitoring procedures.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through the fiscal monitoring process on a timely basis.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing fiscal monitoring procedures and develop controls to ensure that all fiscal monitoring procedures performed are properly documented for both fiscal monitoring reviews and its review over subrecipient A-133 audit reports. The procedures should ensure that all required documentation is compiled and maintained to support each fiscal monitoring visit performed. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Fiscal Monitoring

Condition A, Bullet 1: The AoE's fiscal monitoring staff acknowledges a need to provide better documentation of our monitoring work, acceptance of corrective action plans, and closeout. Beginning with the current year subrecipient fiscal monitoring work, the fiscal monitoring staff has developed a spreadsheet for tracking the status of each monitoring review, including the issuance of a report, receipt and acceptance of a corrective action plan, and the issuance of a closeout letter.

Condition A, Bullet 2: An expenditure review checklist has been developed and is being used to document what procedures are performed during fiscal monitoring expenditure review.

Condition A, Bullet 3: The reason for this condition and the response is the same reason as Bullet #1.

A-133 Reviews

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date of Corrective Action Plan

Fiscal Monitoring

Condition A, Bullet 1: This action has already been completed.
Condition A, Bullet 2: This action has already been completed.
Condition A, Bullet 3: This action has already been completed.

A-133 Reviews

June 30, 2013

Contact for Corrective Action Plan

Fiscal Monitoring

Cathy Hilgendorf, Assistant Division Director, 802-828-5402

(Continued)

A-133 Reviews

Aaron Brodeur, School Finance Manager, 802-828-0289

Finding 12-12

U.S. Department of Education

Program Name and CFDA Number

Special Education Cluster:

Special Education – Grants to States (CFDA #84.027)
Special Education – Preschool Grants (CFDA #84.173)
ARRA – Special Education – Grants to States, Recovery Act (CFDA #84.391)
ARRA – Special Education – Preschool Grants, Recovery Act (CFDA #84.392)

Program Award Number and Year

H027A110098-11A	7/1/01 – 9/30/12
H173A110106	7/1/01 – 9/30/12
H027A100098A	7/1/10 – 9/30/11
H173A100106	7/1/10 – 9/30/11
H39209001056 (ARRA)	2/17/09 – 9/30/10
H391A090098A (ARRA)	2/17/09 – 9/30/10

Criteria

A pass-through entity is responsible for: (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's fiscal monitoring of subrecipient A-133 reports, we noted the following:

A. For 4 out of 13 subrecipients reviewed, the subrecipient was delinquent in submitting its A-133 audit report to the Department. We were unable to obtain documentation to support that the Department had followed up with the subrecipients concerning the delinquent reports.

B. For 1 out of 13 subrecipients reviewed, the Department did not issue a management decision letter documenting its review of the A-133 audit report and has exceeded the time frame allotted to issue a management decision letter.

Cause

The cause of the condition found is due to a lack of documentation to support its overall fiscal monitoring procedures.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through the fiscal monitoring process on a timely basis.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing fiscal monitoring procedures and develop controls to ensure that all fiscal monitoring procedures performed are properly documented related to its review over subrecipient A-133 audit reports.

Management's Response and Corrective Action Plan

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013

Contact for Corrective Action Plan

Aaron Brodeur, School Finance Manager, 802-828-0289

(Continued)

Finding 12-13

U.S. Department of Education

Program Name and CFDA Number

Special Education Cluster:

Special Education – Grants to States (CFDA #84.027)
Special Education – Preschool Grants (CFDA #84.173)
ARRA – Special Education – Grants to States, Recovery Act (CFDA #84.391)
ARRA – Special Education – Preschool Grants, Recovery Act (CFDA #84.392)

Program Award Number and Year

H027A110098-11A	7/01/01 – 9/30/12
H173A110106	7/01/01 – 9/30/12
H027A100098A	7/01/10 – 9/30/11
H173A100106	7/01/10 – 9/30/11
H39209001056 (ARRA)	2/17/09 – 9/30/10
H391A090098A (ARRA)	2/17/09 – 9/30/10

Criteria

A pass-through entity is responsible for monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's programmatic monitoring process, we noted the following:

A. For 2 out of 13 subrecipients selected for testwork that received discretionary funding, the Department did not perform any programmatic monitoring procedures.

B. For 1 out of 3 programmatic monitoring visits reviewed, the Department did not send a closure letter to the subrecipient indicating the results of the visit and the dates by which to resolve any outstanding issues.

Cause

The cause of the condition found is that programmatic reviews are not performed for discretionary funded grants as well as a lack of documentation to support the Departments overall programmatic monitoring procedures.

(Continued)

Effect

The effect of the condition found is that the Department would not be able to identify timely instances of noncompliance for discretionary funded grants or follow up timely on matters identified through the programmatic monitoring process.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing monitoring procedures and develop controls to ensure that all programmatic monitoring procedures are performed for discretionary funded grants. In addition, we recommend the Department review its existing programmatic monitoring procedures and develop controls to ensure that all programmatic monitoring procedures performed are properly documented. The procedures should ensure that all required documentation is compiled and maintained to support each visit performed. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

The Condition and Cause refer to programmatic monitoring, but that may be a typo. During her work, Marlene Bryant confirmed with Margaret and I that fiscal monitoring of so-called "IDEA discretionary" grants was not being done. Margaret thought I was doing it and I haven't monitored anything that falls under IDEA. It is the CFO's determination that AoE should not be granting these funds, so this condition should vanish.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013

Contact for Corrective Action Plan

Cathy Hilgendorf, Assistant Division Director, 802-828-5402

Finding 2012-14

U.S. Department of Education

Program Name and CFDA Number

IDEA, Part C Cluster:

Special Education – Grants for Infants and Families (CFDA #84.181)
ARRA – Special Education – Grants for Infants and Families, Recovery Act (CFDA #84.393)

Program Award Number and Year

H393A090031A (ARRA)	2/17/09 – 9/30/2010
H181A110031	7/1/11 – 9/30/12

Criteria

A primary pass-through entity is required to (1) ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Under the State of Vermont Agency of Administration Bulletin No. 5, Single Audit Policy for Subgrants (Bulletin 5), when several state agencies grant funds to the same subrecipient, the State Department of Finance and Management shall assign one pass-through entity as the primary pass-through entity responsible for receiving and reviewing the subrecipients annual A-133 audit. Bulletin 5 further indicates that any pass-through entity is entitled to request a copy of the single audit from its subrecipients and they should review the audit and communicate their comments to the primary pass-through entity to ensure they are properly recorded in the tracking system.

Condition Found

During our testwork over subrecipient monitoring, we noted that the State Agency of Human Services (the Agency) does not obtain and review subrecipient annual A-133 audit reports for those entities in which the Agency is not the designated primary pass-through entity, nor did they review the grant tracking system to review the results of the review conducted by the designated primary pass-through entity. Per review of the grant tracking system, we noted that for 1 out of 2 subrecipients tested that the Agency was not the designated primary pass-through entity. The entity that had been designated did not review the subrecipients A-133 and therefore no results were data entered into the grants tracking database. As the Agency does not perform its own independent review, this error was not detected.

Cause

The cause of the condition found is that the Agency does not have a procedure in place to review subrecipient annual A-133 audit reports in which they have not been designated the primary pass-through entity.

Effect

The effect of the condition found is that the Agency may be unaware of material noncompliance or internal control deficiencies reported within a subrecipients annual A-133 audit report and as a result, the Agency will not be able to follow up timely to seek corrective action from its subrecipient as necessary.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency implement procedures to ensure it obtains and reviews all of its subrecipients annual A-133 audit reports. Once the A-133 audit reports are obtained, they should be reviewed to determine whether or not there are any material compliance findings or internal control deficiencies related to programs funded by the Agency and seek corrective actions from the subrecipient as necessary.

Management's Response and Corrective Action Plan

AHS concurs with the finding and recommendation.

The AHS Internal Audit Group (IAG) has developed a procedure to identify sub-recipient audit reports for which the agency and its departments are not the primary pass-through but are still required to review in accordance with its grantor to grantee relationship. Specifically, the IAG will review quarterly VISION accounting queries by department that identify payments having a class code of 0001 (subrecipient). The recipients of these payments will be compared to the IAG A-133 sub recipient audit listing used to review reports. Any recipient not on the sub recipient audit listing will be added to it and reviewed according to standard AIG procedures.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, Agency of Human Services, 802-871-3006

(Continued)

Finding 12-15

U.S. Department of Education

Program Name and CFDA Number

IDEA, Part C Cluster:

Special Education – Grants for Infants and Families (CFDA #84.181)
ARRA – Special Education – Grants for Infant and Families, Recovery Act (CFDA #84.393)

Program Award Number and Year

H181A110031 7/1/11 – 9/30/12

Criteria

The total amount of State and local funds budgeted for expenditure in the current fiscal year for early intervention services for children eligible under Part C and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowances may be made for: (a) decreases in the number of children who are eligible to receive Part C early intervention services and (b) unusually large amounts of funds expended for such long-term purposes such as the acquisition of equipment and the construction of facilities (20 USC 1437(b)(5); 34 CFR section 303.225(b)).

Condition Found

During our testwork over the level of effort requirement, we noted that the State Department for Children and Families (the Department) does not track the funds budgeted for expenditure in the current fiscal year for early intervention services to ensure that the funds at least equal the total amount of state and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal years.

Cause

The cause of the condition found is that the Department does not have any procedures in place to track and monitor the level of effort requirement.

Effect

The effect of the condition found is that the Department may not meet its annual level of effort requirement and due to the lack of procedures would be unaware of the noncompliance.

This condition found appears to be systemic in nature and is considered to be a significant deficiency in internal controls.

Questioned Costs

Not determinable.

(Continued)

Recommendation

We recommend that the Department implement procedures to ensure it tracks and monitors all budgeted expenditures annually each fiscal year for both state and local funds to ensure that it has met the annual level of effort requirements necessary to draw all federal funds awarded under this program.

Management's Response and Corrective Action Plan

The Department concurs with the finding and recommendation.

Prior year actual state and local revenues for grantees providing Early Intervention Services will be obtained and analyzed each year. Current year budgets for these grantees will be tracked and monitored by the Part C administrator to compare prior year actual State and Local revenues to ensure meeting the level of effort requirements in aggregate. Insufficient State and Local revenues budgeted to meet the Federal requirement, in aggregate, except when allowed by regulation, will be rectified with required submission of revised budgets. In summary, the department will take the following steps:

- Grantee's will submit a proposed budget with the fiscal year for review by the Part C administrator
- Grantee's will submit a final budget with actual expenditures by July 20th of the next fiscal year for review by the Part C administrator and submission to the business office
- This information will be included in the analysis of the statewide of Part C MOE federal requirements.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013

Contact for Corrective Action Plan

Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006

(Continued)

Finding 12-16

U.S. Department of Education

Program Name and CFDA Number

Twenty-First Century Community Learning Centers (CFDA #84.287)

Program Award Number and Year

S287C110046 7/1/11 – 9/30/12

Criteria

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's fiscal monitoring process, we noted the following:

A. The Department performs fiscal monitoring visits over its subrecipients. During our review over the Department's fiscal monitoring visits we noted that:

    - For 1 out of 10 fiscal monitoring visits reviewed, the Department sent a draft follow up letter after completing the fiscal monitoring visit. There was no final letter or correspondence with the subrecipient after the initial letter was mailed. We further noted that the Department has a policy which states subrecipients expending more than $50,000 per year must be monitored within a 4 year time period and the subrecipient has not been monitored since 2006 and has expended more than the maximum amount to not have a monitoring visit.
    - For 1 out of 10 subrecipients reviewed, the Department has never performed a fiscal monitoring visit even though required under the Department's policy.

- For 1 out of 10 fiscal monitoring visits reviewed, we noted that the Departments last review took place in 2007, and is out of compliance with the Department's policy to monitoring subrecipients that expend more than $50,000 per year is monitored within a 4 year time period.

B. We noted that 5 out of 10 subrecipients were delinquent in submitting their A-133 reports to the Department. We were unable to obtain documentation to support that the Department had followed up with the subrecipients concerning the delinquent reports.

Cause

The cause of the condition found is due to a lack of documentation to support its overall fiscal monitoring procedures.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through the fiscal monitoring process.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing fiscal monitoring procedures and develop controls to ensure that all fiscal monitoring procedures performed are properly documented for both fiscal monitoring reviews and its review over subrecipient A-133 audit reports. The procedures should ensure that all required documentation is compiled and maintained to support each fiscal monitoring visit performed and A-133 audit reports are reviewed. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Fiscal Monitoring

The AoE fell behind in monitoring grant subrecipients, not adhering to our policy of monitoring each subrecipient that expends more than $50,000 per year be monitored at least once every four years. Some grant subrecipients have not been monitored in a long time. This year, AoE has scheduled more than a third more monitoring visits than in previous years, attempting to catch up. It is beyond our capacity at this time to complete a monitoring review of every grant subrecipient once in every four years.

A-133 Reviews

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

(Continued)

Scheduled Completion Date of Corrective Action Plan

Fiscal Monitoring

By June 30, 2013, AoE will identify all subrecipients and have a complete list (see #12-02, Bullet #2 above). AoE will review its risk assessment matrix and its fiscal monitoring policy to determine if the policy needs to be updated and to determine the best approach to subrecipient monitoring frequency.

A-133 Reviews

June 30, 2013

Contact for Corrective Action Plan

Fiscal Monitoring

Cathy Hilgendorf, Assistant Division Director, 802-828-5402

A-133 Reviews

Aaron Brodeur, School Finance Manager, 802-828-0289

Finding 12-17

U.S. Department of Education

Program Name and CFDA Number

Twenty-First Century Community Learning Centers (CFDA #84.287)

Program Award Number and Year

S287C110046 7/1/11 – 9/30/12

Criteria

A pass-through entity is responsible for monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's programmatic monitoring process, we noted the following:

A. During our review over the Department's review of subrecipient grant applications, we noted that:

- 1 out of 10 applications was not signed by the subrecipient and there was no follow up made by the Department to obtain the required signed certifications.
- For 2 out of 10 applications there was no acceptance letter from the Department indicating that the application had been accepted.

B. During our review over the Departments programmatic monitoring visits, we noted the that:

- For 2 out of 10 programmatic monitoring visits reviewed, the Department noted on their tracking log that a follow up to the review was still in progress. We noted that these reviews were conducted in 2009 and 2010 and it is unclear as to why the reviews were not finalized.
- For 2 out of 10 programmatic monitoring visits reviewed, the Department had included the monitoring visits on their tracking log; however the tracking log was incomplete and contained no information as to whether or not the Department had accepted the subrecipients corrective action plans.
- For 1 out of 10 programmatic monitoring visits reviewed, the review was not included on the Department's tracking log to ensure any matters were followed up on.
- For 1 out of 10 programmatic monitoring visits reviewed, the Department had received additional information as part of the review from the subrecipient; however there was no indication that this information had been accepted by the Department.

(Continued)

- For 1 out of 10 programmatic monitoring visits reviewed, the Department noted a draft report had been issued, but we were unable to verify whether or not a final report had been issued.

Cause

The cause of the condition found is due to a lack of documentation to support its overall programmatic monitoring procedures.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through the programmatic monitoring process on a timely basis.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing programmatic monitoring procedures and develop controls to ensure that all programmatic monitoring procedures performed are properly documented for awarding grants to subrecipients and its programmatic monitoring visits. The procedures should ensure that all required documentation is compiled and maintained to support each programmatic monitoring visit performed. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

A. The recommendation above will be instituted to tighten procedures and documentation. The monitoring tracking sheets will be revised to reflect more clarity when monitoring findings are complete and when the entire process is complete for each grantee (new columns have been added in the tracking spreadsheet). When drafts and final monitoring reports are the same document, more diligence will be paid to ensuring that final is accepted and that that is reflected in the documentation spreadsheet (new columns have been added).

B. The finding is a result of the 21c office going to an electronic system for all documents. Procedures have been implemented as a result of this process whereby only one electronic application with all signatures will be accepted. In the past, electronic applications were accepted, and applicants were allowed to send signatures under separate cover. Signatures will also be tracked in the application process spreadsheet. This is new. The issue of missing two letters is also a result of going to all electronic process. Separate folders will hold each letter to ensure 100% compliance with this item in coming competitions.

Scheduled Completion Date of Corrective Action Plan

Corrective Action has already been put into place.

(Continued)

Contact for Corrective Action Plan

Emanuel Betz, Education Consultant, 802-828-0557
Karin Edwards, Director of Integrated Support for Learning, PreK-Middle, 802-828-1622

Finding 12-18

U.S. Department of Education

Program Name and CFDA Number

Improving Teacher Quality State Grants (CFDA #84.367)

Program Award Number and Year

S367A110043-11B 7/1/11 – 9/30/12

Criteria

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's fiscal monitoring process, we noted the following:

A. The Department performs a fiscal monitoring review over its subrecipients. During our review over the Department's fiscal monitoring visits we found that:

   - For 1 out of 15 fiscal monitoring visits reviewed, the Department obtained a corrective action plan, however there was no indication that the corrective action plan had been accepted and there was no closure letter sent to the subrecipient.
   - For 2 out of 15 fiscal monitoring visits reviewed, the Department had received and accepted a corrective action plans via e-mail. The Department requested and performed a standard follow up visit in the fall and requested further documentation from the subrecipient. However, after the summary of the follow-up visit, there was no indication that the subrecipient had provided the requested documentation and no closure letter was issued by the Department.

(Continued)

B. During our review over the Department's monitoring over subrecipient A-133 audit reports, we noted that:

- For 3 out of 15 subrecipients reviewed, the Department did not issue a management decision letter documenting its review of the A-133 audit report and has exceeded the 6 month time frame allotted to issue a management decision letter.
- For 1 out of 15 subrecipients reviewed, the Department issued a management decision letter that it had reviewed the A-133 audit report and that there were no findings reported within the audit. During our review of the A-133 audit report, we found that this was incorrect and the A-133 audit report did include audit findings.
- For 10 out of 15 subrecipients reviewed, the subrecipient was delinquent in submitting their A-133 audit reports to the Department. We were unable to obtain documentation to support that the Department had followed up with the subrecipients concerning the delinquent reports.
- For 1 out of 15 subrecipients reviewed, the Department followed up on a finding noted during the A-133 audit report over the telephone and there was no documentation within the file to support that the corrective action related to the finding had taken place.

Cause

The cause of the condition found is due to a lack of documentation to support its overall fiscal monitoring procedures.

Effect

The effect of the condition found is that the Department may be unable to follow up on matters identified through the fiscal monitoring process on a timely basis.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing fiscal monitoring procedures and develop controls to ensure that all fiscal monitoring procedures performed are properly documented for both fiscal monitoring reviews and its review over subrecipient A-133 audit reports. The procedures should ensure that all required documentation is compiled and maintained to support each fiscal monitoring visit performed. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Fiscal Monitoring

Condition A, Bullet 1: The AoE's fiscal monitoring staff acknowledges a need to provide better documentation of our monitoring work, acceptance of corrective action plans, and closeout. Beginning

(Continued)

with the current year subrecipient fiscal monitoring work, the fiscal monitoring staff has developed a spreadsheet for tracking the status of each monitoring review, including the issuance of a report, receipt and acceptance of a corrective action plan, and the issuance of a closeout letter.

Condition A, Bullet 2: Although the fiscal monitoring staff had satisfactorily followed up on the monitoring visit and report, AoE staff did not issue a closure letter to indicate that conditions were satisfied. Beginning with the current year, the fiscal monitoring staff has developed a tracking spreadsheet which includes the issuance of a closeout letter.

A-133 Reviews

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date of Corrective Action Plan

Fiscal Monitoring

Condition A, Bullet 1: This action has already been completed.
Condition A, Bullet 2: This action has already been completed. AoE fiscal monitoring staff expects that greater emphasis on organization and followup will result in ongoing correction of this condition.

A-133 Reviews

June 30, 2013

Contact for Corrective Action Plan

Fiscal Monitoring

Cathy Hilgendorf, Assistant Division Director, 802-828-5402

A-133 Reviews

Aaron Brodeur, School Finance Manager, 802-828-0289

Finding 12-19

U.S. Department of Education

Program Name and CFDA Number

SFSF Cluster:

ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund) (CFDA #84.394)
ARRA – State Fiscal Stabilization Fund – Government Services, Recovery Act (CFDA #84.397)

Program Award Number and Year

539A090046A 7/6/09 – 9/30/10

Criteria

A pass-through entity is responsible for monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

During our testwork over subrecipient monitoring, we noted that the Vermont Department of Education (the Department) did not perform any during the award monitoring procedures to ensure that grantees used funds awarded under this program for allowable purposes. While the Department did obtain a summary report from each school district to show the types of costs incurred and support that the funds awarded under this program are tracked in a separate expense account as part of the request for reimbursement submitted by each grantee, there was no supporting documentation obtained and reviewed by the Department to ensure that the grantee had used the funds for allowable purposes and that the amount submitted by the grantee was accurate.

Cause

The cause of the condition found is that the Department focuses its monitoring efforts at the supervisory union level for this program and not at the individual school district, which is how the funds are disbursed.

Effect

The effect of the condition found is that grantees could have used federal funding for unallowable purposes and the Department does not have any procedures in place to monitor for areas of noncompliance.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend that the Department implement controls and procedures to ensure that programmatic and fiscal monitoring is being performed over subrecipients to ensure federal funding is being used for allowable purposes.

Management's Response and Corrective Action Plan

We believe the Condition Statement to be incorrect. The summary report data from the districts' accounting system as provided to DOE (now AOE) not only showed these SFSF funds as being tracked in separate accounts as required but also what the funds were used for. Payments to districts of these funds were on a reimbursement basis. Funds were not released until appropriate and acceptable documentation was provided. The same statements hold true for Education Jobs Funds. This method of monitoring for phase II SFSF funds was set up through discussion with US ED during their desk monitoring of Vermont's phase I SFSF funds. Our process as approved by the federal folks is akin to desk monitoring.

Scheduled Completion Date of Corrective Action Plan

No corrective action plan is considered necessary.

Contact for Corrective Action Plan

Brad James, School Finance Manager, 802-828-0471

Rejoinder

As noted above under the condition found, we acknowledged that the Department does obtain a summary report with each request for reimbursement submitted by the grantee that does identify the types of costs incurred. However, no documentation is obtained or reviewed by the Department to ensure that the information submitted by the grantee is accurate, such as reviewing the documentation to support the transactions incurred by the grantee. There was no evidence provided by the Department to support that any during the award monitoring had been performed by the Department beyond approving the request for reimbursement for payment.

(Continued)

Finding 12-20

U.S. Department of Education

Program Name and CFDA Number

Education Jobs Fund (CFDA #84.410)

Program Award Number and Year

S410A100046-10A 08/1010 – 9/30/11

Criteria

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

The State Department of Education (the Department) grants funds to subrecipients or local educational agencies to carry out the objectives of the program. During our testwork over the Department's subrecipient monitoring process, we noted the following:

A. The Department did not perform any during the award monitoring procedures to ensure that grantees used funds awarded under this program for allowable purposes. While the Department did obtain a summary report from each school district to show the types of costs incurred and to support that the funds awarded under this program are tracked in a separate expense account as part of the request for reimbursement submitted by each grantee, there was no supporting documentation obtained and reviewed by the Department to ensure that the grantee had used the funds for allowable purposes and that the amount submitted by the grantee was accurate.

B. During our testwork over the Department's monitoring of subrecipient A-133 audit reports, we noted the following:

   A. 4 out of 23 A-133 audit reports reviewed, the subrecipient was delinquent in submitting its A-133 audit report to the Department. We were unable to obtain documentation to support that the Department had followed up with the subrecipients concerning the delinquent reports.

   B. 3 out of 23 A-133 audit reports reviewed, the Department did not issue a report documenting the results of its review and therefore did not issue a closure letter within the 6 month time period allowed.

   C. 1 out of 23 A-133 audit reports reviewed, the Department noted that the A-133 audit report had been received but it could not be located and there was no indication that the report had been reviewed.

Cause

The cause of the condition found is due to a lack of documentation to support its overall subrecipient monitoring procedures.

Effect

The effect of the condition found is that the Department may be unable to follow up timely on matters identified through the subrecipient monitoring process.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing monitoring procedures and develop controls to ensure that all monitoring procedures performed are properly documented for both fiscal monitoring reviews and its review over subrecipient A-133 audit reports. The procedures should ensure that all required documentation is compiled and maintained to support each visit performed and that a Departmental supervisory review is conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

A. We believe the underlined statement is incorrect. The summary report data from the districts' accounting system as provided to DOE (now AOE) not only showed these EJF funds as being tracked in separate accounts as required but also what the funds were used for. Payments to districts of these funds were on a reimbursement basis. Funds were not released until appropriate and acceptable documentation was provided. This method of monitoring for phase II SFSF funds was set up through discussion with US ED during their desk monitoring of Vermont's phase I SFSF funds. Our process as approved by the federal folks is akin to desk monitoring.

(Continued)

B. The Education Finance Manager assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013.

Contact for Corrective Action Plan

Brad James, School Finance Manager, 802-828-0471
Aaron Brodeur, School Finance Manager, 802-828-0289

Rejoinder

As noted above under the condition found, we acknowledged that the Department does obtain a summary report with each request for reimbursement submitted by the grantee that does identify the types of costs incurred. However, no documentation is obtained or reviewed by the Department to ensure that the information submitted by the grantee is accurate, such as reviewing the documentation to support the transactions incurred by the grantee. There was no evidence provided by the Department to support that any during the award monitoring had been performed by the Department beyond approving the request for reimbursement for payment.

Finding 12-21

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster:

Temporary Assistance for Needy Families (CFDA #93.558)
ARRA- Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs (CFDA #93.714)
ARRA- Temporary Assistance for Needy Families Supplemental Grants (CFDA #93.716)

Program Award Number and Year

1202VTTANF	10/1/11 – 9/30/12
1102VTTANF	10/1/10 – 9/30/11

Criteria

The State or Tribal Plan provides the specifics on how eligibility is determined in each State or tribal service area. Whenever used in this section, "assistance," has the meaning in 45 CFR section 260.31(a) of the TANF regulations for States and 45 CFR section 286.10 of the Tribal TANF regulations for federally recognized Tribes operating an approved Tribal TANF program.

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This includes establishing controls to provide reasonable assurance that only eligible individuals receive assistance under federal awards and the amounts provided to or on behalf of eligible individuals were calculated and are allowable in accordance with program requirements.

Condition Found

The State Department for Children and Families (the Department) uses the ACCESS system to store information concerning eligibility determination and benefit amounts paid under the TANF program. In order to ensure that the data maintained by the ACCESS system is accurate and that eligibility was determined in accordance with the State plan, we selected a sample of 40 cases and agreed the information contained in the ACCESS system to the documentation maintained in each cases paper file that was used as part of the eligibility determination process. During our testwork, we noted the following:

A. 4 out of 40 cases selected for testwork lacked documentation to support the amount of shelter expense that was used in the eligibility process and to calculate the participants eligible benefit payment.

B. 1 out of 40 cases selected for testwork had inaccurate documentation to support the shelter allowance used to calculate the participant's allowable benefit, resulting in an underpayment of benefits for the month selected of $42.

C. 3 out of 40 cases selected for testwork did not include a signed "Child and Medical Support Authorization and Application for Services from the Office of Child Support" which is a form filed by participants who have an absent parent that owes child support for children that reside in their household. This form authorizes the state to offset the grant amount by child support received. As a result, we were unable to conclude that the benefit amount paid for these participants was accurate.

D. 1 out of 40 cases selected for testwork did not include a signed application and as a result we were unable to conclude that the calculation of the participant's benefit payment was accurate. The amount paid during the claim month selected was $334.

E. 1 out of 40 cases selected for testwork did not include documentation to support that a Family Development Plan was in place and that the participant was in compliance with the terms of the Plan. As a result we were unable to conclude that the calculation of the participant's benefit payment was accurate. The amount paid during the claim month was $1,204.

Cause

The cause of the condition found is due to a large increase in the caseload being reviewed by the State while the case managers that review the case load for eligibility decreased in numbers during the same period.

Effect

The effect of the condition found is that benefit payments made may not be accurate and in accordance with federal regulations.

This finding appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its existing procedures and controls for reviewing and approving eligibility determinations to ensure that the information used to support the monthly calculations is accurate and consistent to ensure that benefit amounts paid are in compliance with federal regulations.

Management's Response and Corrective Action Plan

AHS concurs with the finding and recommendation.

The corrective action plan for this finding is being addressed by making staff aware of the exceptions noted in the audit finding, additional training and awareness of proper procedure. More specifically, we will take certain actions as follows.

1. A reminder to all staff that we must verify shelter expenses for TANF will be issued in February 2013 and discussed with Supervisors and Managers at our February 8th meeting and Team

(Continued)

Leaders at the team leaders meeting on February, 18th. The department also now allows documented collateral contacts to verify shelter.

2. The lack of "Child and Medical Support Authorization" forms (137's) will be addressed by joint procedures being written by the Office of Child Support and Economic Services. These procedures outlining when child support forms must be obtained and how they should be kept for documentation will be completed by May 2013.

3. Lack of applicant signature on the application (202). A reminder to all staff will be issued in February 2013 that an applicant must sign the application (202) for it to be a valid application.

4. Lack of family development plan. A reminder to Case Managers and Team Leaders will be issued in February 2013 stating that every case must have a current family development plan with signature. Team leaders are currently conducting case reviews and look for this and Central Office Assistant Operations staff will also be looking to ensure that all cases they review also have current family development plans.

Scheduled Completion Date of Corrective Action Plan

May 31, 2013

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, Agency of Human Services, 802-871-3006

(Continued)

Finding 12-22

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance Program (CFDA #93.568)

Program Award Number and Year

12B1VTLIEA	10/1/11 – 9/30/13
11B1VTLIEA	10/1/10 – 9/30/12

Criteria

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This includes establishing controls to provide reasonable assurance that only eligible individuals receive assistance under federal awards and the amounts provided to or on behalf of eligible individuals were calculated and are allowable in accordance with program requirements.

Condition Found

As part of the eligibility process, the State Economic Services Division (ESD) data enters participants eligibility information into the ACCESS system, the State of Vermont's benefit eligibility maintenance system. After the information is data entered, ESD relies on the ACCESS system to determine whether or not the participant is eligible to receive assistance under the Low Income Home Energy Assistance Program (LIHEAP) and to calculate the benefit amount that the participant is eligible to receive. During our testwork over eligibility determination, we noted the following:

A. 1 out of 40 cases selected for testwork, the household size was incorrectly entered into the ACCESS system and as a result, the benefit amount paid to the participant was less than what it should have been.

B. 1 out of 40 cases selected for testwork did not include sufficient documentation to support that the participant met the required income level in order to be eligible for benefits. As a result, we were unable to determine whether or not the participant was eligible to receive benefits.

We also noted that there is no supervisor review or approval of the eligibility determination to ensure that the determination and payment amount is accurate.

Cause

The cause of the condition found is due to human error and the lack of controls to establish a quality control review system to ensure that benefits are properly determined, that benefits are calculated correctly and the required documentation to support the determination is maintained.

(Continued)

Effect

The effect of the condition found is that benefit determinations and benefit payment calculations are inaccurate.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

$280 – the benefit amount paid in item B above.

Recommendation

We recommend that the ESD review its procedures over obtaining and validating documentation reported by applicants that is used to determine program eligibility. This process of review would ensure that all information is accurate and complete. In addition ESD should implement controls to ensure that a quality control review is performed over the determinations made by the ACCESS system that is relied upon by OEO to ensure that the determination is accurate and the benefit payment amount is appropriate.

Management's Response and Corrective Action Plan

The ESD concurs with the finding and recommendation.

ESD considers that the 2 case errors out of 40 cases reviewed to be training issues. The fuel (LIHEAP) program training already includes household composition and verification, but since these are error prone areas we will make sure that the training places more emphasis on these two areas of eligibility.

Since our 3SquaresVT and Fuel (LIHEAP) program rules and caseloads are so closely related, these two program teams are working together to incorporate a LIHEAP "guest appearance" at the new worker 3SquaresVT program training. The Fuel Program will spend an hour at the training specifically addressing the key differences between the two programs, including household composition. Discussions are also taking place about scheduling new worker LIHEAP training one week after the 3SquaresVT training.

The Fuel Program team is also working on Fuel Household Composition desk aid that will be posted on the ESD Intranet for staff to access, and will also be incorporated into the Fuel (LIHEAP) new worker training.

These findings will also be brought to the attention of the Regional Managers and eligibility Supervisors at the February District Leadership Team meeting with the expectation that they review these areas in their eligibility team meetings.

Scheduled Completion Date of Corrective Action

June 30, 2013

Contact

Rob Roberts, AHS Audit Chief, 802-871-3006

Finding 12-23

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance Program (CFDA #93.568)

Program Award Number and Year

12B1VTLIEA	10/1/11 – 9/30/13
11B1VTLIEA	10/1/10 – 9/30/12

Criteria

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This includes establishing controls to provide reasonable assurance that federal awards are expended only for allowable activities and the costs of goods and services charged to federal award are allowable in accordance with the applicable cost principles.

Condition Found

As part of the benefit payment process related to fuel assistance, the State Economic Services Division (ESD) will make payments directly to fuel vendors for the purchase of fuel (i.e., oil, propane) on behalf of eligible participants. At the end of the fuel season, a report is obtained from the fuel vendor to ensure that the amount provided on behalf of each participant was fully utilized. If the fuel vendor did not provide fuel at an amount equal to the benefit payment received, a refund is requested from the fuel vendor. To obtain the information, the fuel dealer is sent a report that shows by participant the amount of benefits paid. The fuel dealer will then write on the report the dollar value of the fuel received. During our review over the payment process, we noted that the ESD does not verify that the information provided by the fuel dealer is accurate by request documentation to support the amount of fuel delivered to the participant.

Cause

The cause of the condition found is that the ESD does not have procedures in place to review delivery documentation to ensure that the information reported by the fuel dealer is accurate.

Effect

The effect of the condition found is that excess fuel benefit payments could be charged to the federal program and ESD would not have procedures in place to identify the error.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

(Continued)

Recommendation

We recommend that the ESD review its procedures over obtaining and validating the information provided by the fuel dealers to ensure it is accurate.

Management's Response and Corrective Action Plan

ESD agrees with the finding and recommendation. Beginning with the June 2013 fuel dealer reports, ESD's Office of Home Heating Fuel Assistance will begin a random selection of 5% of oil, propane and kerosene dealers (10 dealers out of 195+/-). From those dealers the Fuel Office will randomly select 3 to 5 clients (depending on each dealer's fuel client base) but never less than 40 clients. The Fuel Office will undertake a review of dealer delivery documents in comparison to selected dealers' reports. Should anomalies, errors or questionable invoices be identified, the Fuel Office will consult with ESD "Quality Control and Fraud" unit for best practices to advance a more detailed investigation.

At the direction of the Administration, DCF is investigating the feasibility, cost and timing needed to implement a "fuel dealer online web portal" to make benefit payments to certified fuel suppliers after a delivery is made and date, cost and quantity date from the delivery "ticket" is submitted in the web portal. Delivery tickets are an industry standard and contain a unique tracking or identification number. A web portal after delivery payment system would eliminate the need for an end of season report and refunds (where necessary) and provide easily searchable data regarding dealer cost and client consumption.

Scheduled Completion Date of Corrective Action

Completed annually by October 1 for the review dealer documentation on random client cases.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, Agency of Human Services, 802-871-3006

Finding 12-24

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1201VT1401	10/1/11 – 9/30/12
11-1VT1401	10/1/10 – 9/30/11

Criteria

Foster care maintenance payments can be made only if all compliance requirements are met and the child is placed in a licensed foster home or child-care institution (45 CFR 1355.20(a)(2), 45 CFR 1356.30(f) and 45 CFR 1356.71(d)(1)(iv)).

Condition Found

During our testwork over eligibility related to foster care subsidy maintenance payments, we noted the following:

A. 6 out of 40 foster care providers selected for testwork did not have a current license on file. Each of the 6 providers had submitted a renewal application but the State Department for Children and Families (the Department) and not completed its review of the application or relicensed each provider. For these providers, the licenses expiration dates ranged from 3 to 15 months as of June 30, 2012.

B. 4 out of 40 foster care providers selected for testwork lacked documentation to support that background checks of staff or safety assessments of the living arrangements had been made for out-of-state facilities.

C. 1 out of 40 foster care providers selected for testwork lacked documentation to support that a recent background check had been completed for an in-state provider.

Cause

The cause of the condition found is that the Department considers the provider to be in good standing even if the Department has not acted upon the renewal of the license as long as a renewal application has been submitted. In addition, the Department only receives license certifications from out of state providers and no documentation to support that the required background checks or safety assessments have been made is obtained. The Department assumes that if the license has been issued that the required checks have been made.

Effect

The effect of the condition found is children could be placed with foster care providers that no longer meet the eligible criteria to serve as a provider if renewal applications are not reviewed and followed up on a timely basis. A similar finding was noted during a Department of Health and Human Services Office of Inspector General Review conducted the week of June 6, 2011.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its controls and procedures to ensure that all renewal applications submitted by foster care providers are reviewed and licenses are reissued in a timely basis to ensure compliance with the above stated requirement. In addition documentation should be obtained to support that required background checks and safety assessments are performed for all providers, including out-of-state providers. Such documentation could include but is not limited to official material as a checklist or monitoring report completed by the licensing authority, a letter or report signed by appropriate title IV-E agency staff or licensing staff that details the background check results as outlined in the Office of Inspector General review.

Management's Response and Corrective Action Plan

The Department disagrees with the effect described concerning the compliance issue in Condition A above and cites the following ACYF Title IV-E guide and Vermont Statute.

Issue A: Timely renewal of licenses

Excerpt from the Title IV-E Foster Care Eligibility Review Guide, issued by ACYF in December 2012 (page 49)

"The title IV-E agency's policy regarding when and how licenses expire is applied when considering whether a foster care placement is fully licensed during the period that falls between the license end date and license renewal date. If the policy of the applicable licensing agency is that a foster family home or childcare institution is fully licensed (i.e., the license is not provisionally issued, suspended, revoked, or otherwise invalidated), even when the licensing renewal process is not completed timely, then the home is considered fully licensed for purposes of title IV-E eligibility."

3 V.S.A. § 814 (b)

(b) When a licensee has made timely and sufficient application for the renewal of a license or a new license with reference to any activity of a continuing nature, the existing license does not expire until the application has been finally determined by the agency, and, in case the application is denied or the terms of the new license limited, until the last day for seeking review of the agency order or a later date fixed by order of the reviewing court. Per Vermont statute, as long as timely application is made the license is not "lapsed." It is still in full effect.

Region 1 is aware of this statute and regularly has found us in compliance in regards to these situations. Therefore, we dispute this finding, as it relates to IV-E claims.

(Continued)

The Department concurs with Conditions B and C and will address them in the following manner:

Issue B: Documentation of Background Checks for Out of State Providers

We are addressing this finding as part of our Title IV-E Program Improvement Plan, which will be completed in October 2013.

Issue C: Documentation of Background Checks for In State Providers

DCF acknowledges that there was a four month delay in running the background checks on a foster care reapplication. It is anticipated that this finding will be corrected by June 30, 2013. We are also including this issue as part of our Title IV-E Program Improvement Plan which will be completed in October 2013.

Scheduled Completion Date of Corrective Action

October 30, 2013

Contact

Rob Roberts, AHS Audit Chief, 802-871-3006

Rejoinder

We acknowledge the statue cited above related to license renewal and agree that all 6 providers identified in item A above had completed an application. It is unclear however why the Department had not reviewed and approved the license renewal application on a timely basis as the license expiration dates ranged from 3 to 15 months as of June 30, 2012.

Finding 12-25

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1201VT1401	10/1/11 – 9/30/12
11-1VT1401	10/1/10 – 9/30/11

Criteria

Costs of social services provided to a child that provides counseling or treatment to ameliorate or remedy personal problems or behaviors are unallowable (45 CFR section 1356.60(c)(3)).

Condition Found

During our testwork over foster care subsidy maintenance payments, we noted that 5 out of 40 payments were made to residential treatment facilities that provided counseling and other treatment services. Per review of the residential treatment facility contracts, the State Department for Children and Families (the Department) agreed to pay a daily rate to the facility that was to reimburse the facility for costs associated with room and board as well as treatment services. The costs associated with treatment services that was charged to the foster care program is unallowable per federal regulations.

Cause

The cause of the condition found is that the Department utilized one daily rate to pay for services rendered by the residential treatment facility that covered both treatment and room and board costs.

Effect

The effect of the condition found is that unallowable costs were charged to the foster care program.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its controls and procedures related to development of contracts with residential treatment providers and ensure that the separate daily rates are used to reimburse the provider for treatment and room and board services. Only those costs related to room and board services should be charged to the foster care program.

(Continued)

Management's Response and Corrective Action Plan

The Department concurs with the finding and recommendation.

The division will work with the AHS division of rate setting to determine how to break out room and board from treatment costs for programs that are not rate set. We will determine an appropriate methodology by April 1, 2013. We will work with providers to apply this methodology and ensure that treatment costs are not allocated to Title IV-E but reimbursed with the appropriate funding source. This may require revision of contract language for specification and will require changes in our computer applications.

Scheduled Completion Date of Corrective Action

July 1, 2013

Contact

Rob Roberts, AHS Audit Chief, 802-871-3006

Finding 12-26

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1201VT1401	10/1/11 – 9/30/12
11-1VT1401	10/1/10 – 9/30/11

Criteria

Judicial permanency plans are required to be completed timely within a 12 month timeframe (45 CFR 1356.21(b)(2)).

Condition Found

During our testwork over eligibility we found that 3 of 40 participants selected for testwork had a judicial permanency plan that exceeded the 12 month timeframe allowed under federal regulations. In these cases, the time period between the custody date and judicial permanency date was ranged from 14 to 15 months.

Cause

The cause of the condition found is due to a lack of resources to ensure that the Court meets the required 12 month time period.

Effect

The effect of the condition found is that if a judicial permanency plan is not made timely, the child becomes ineligible from the beginning of the first month after it is due and remains ineligible until the judicial determination is made. A similar finding was noted during a Department of Health and Human Services Office of Inspector General Review conducted the week of June 6, 2011.

This finding is considered to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the State Department for Children and Families review its controls and procedures to ensure that all judicial permanency reviews are completed within a 12 month time period. If such reviews are not completed timely, procedures should be implemented to ensure that maintenance payments are not charged to the foster care program until the judicial permanency plan is made.

(Continued)

Management's Response and Corrective Action Plan

We concur with the finding and the recommendation.

It should be noted that the department is not in total control of these timelines. The part we control is the submission of the necessary paperwork to the courts and not court timeliness. Therefore, we are currently working with the courts to provide feedback to them to inform their systems improvements. The department's data system also excludes claims in cases in which the permanency reasonable efforts finding has not been made timely.

Some problems with claiming may be also due to late data entry. We are addressing this as part of our IV-E program improvement. In addition, we have requested refresher training by the Region I office on IV-E eligibility issues. That training will occur on January 29, 2013. All staff who are involved in IV-E eligibility are required to attend.

It should be noted that, under federal rules, if a child is eligible for IV-E payments for part of the month, he or she is eligible for the whole month. This means that children whose finding is made during the 13th month do not lose their eligibility.

Scheduled Completion Date of Corrective Action

June 30, 2013

Contact

Rob Roberts, AHS Audit Chief, 802-871-3006

Finding 12-27

U.S. Department of Health and Human Services

Program Name and CFDA Number

Adoption Assistance (CFDA #93.659)

Program Award Number and Year

1201VT1407	10/1/11 – 9/30/12
1101VT1407	10/1/10 – 9/30/11

Criteria

A child is considered eligible to receive monthly Adoption Assistance subsidy payments until the age of 18, or until the child has finished high school.

Condition Found

During our testwork over eligibility and allowability over adoption subsidy payments we noted the following:

A. 1 of 40 participants selected for testwork was over the age of 18 and still receiving subsidy payments on a monthly basis. Per review of the documentation within the participants file, although the participant was over the age of 18, due to a lifelong disability the participants benefit payments were going to be extended until the participant turned 21. Upon further review of the amendment however, we noted that the amendment was not signed by the State Department for Children and Families (the Department) until approximately 1 year after the extension to the benefits had been applied instead of when the participant became ineligible to receive benefits.

B. 1 of 40 participants selected for testwork was over the age of 18 and still receiving subsidy payments on a monthly basis. Per review of the participants adoption assistance agreement, the Department manually handwrote on the original agreement that the subsidy payments were going to be extended until the participant turned 21 and no formal amendment was issued or signed by the Deputy Commissioner as required by the Department.

Cause

The cause of the condition found is due to a lack of procedures to timely review participants file to ensure that any required amendments are done timely to document modifications to original adoption subsidy agreements.

Effect

The effect of the condition found is that unallowable benefits could be paid to participants that are not eligible to receive subsidy payments as they have exceeded the required age restrictions.

This finding is considered to be systemic in nature and is considered to be a significant deficiency in internal control.

(Continued)

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its controls and procedures to ensure that cases are reviewed timely throughout the year to ensure that benefits are not paid on behalf of children that have either reached the age of 18 or have graduated high school. As determinations are made that original adoption assistance subsidy agreements should be modified, formal amendments should be created and approved as outlined by the Departments policies and procedures.

Management's Response and Corrective Action Plan

Management does not question the accuracy of the findings and agrees with the recommendation.

It is noted that new controls were put in place during the year to address the issue. Due to the impact of extraordinary disaster events on state offices, the two cases noted did occur. Adoption Assistance is confident that all cases are now in compliance and that controls will prevent further errors. All amendments and modified agreements will be formal and timely signed as outlined by Department policy and procedure. The department will continue to be vigilant, to ensure timely and accurate attention in adhering to department policies and procedures. No further corrective action considered necessary.

Scheduled Completion Date of Corrective Action

June 30, 2012

Contact

Rob Roberts, AHS Audit Chief, 802-871-3006

Finding 12-28

U.S. Department of Health and Human Services

Program Name and CFDA Number

Children's Health Insurance Program (CFDA #93.767)

Program Award Number and Year

05-0705VT5021 July 1, 2011 to June 30, 2012

Criteria

States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds, within guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning the individual eligibility requirements (42 USC 1397bb(b)).

Condition Found

We noted that for 1 out of 40 payments selected for testwork the participant was incorrectly coded to be eligible to receive benefits under the Children's Health Insurance Program (CHIP). The participant should have been coded as eligible to the Medicaid/Dr. Dynasaur program (Non-CHIP) based on their federal poverty level percentage, which had declined in August of 2011 after the participants initial eligibility determination had been made for the CHIP program. When the participants income level changed, the benefit eligibility specialist was prompted by the ACCESS system, the States benefit eligibility management system, to alter the participants approved eligibility code, however this prompt was overlooked and ACCESS was not updated to reflect the correct coverage. The State Department for Children and Families (the Department) discovered the error in February 2012 and was subsequently corrected. However, it is unclear as to whether or not the State reimbursed the CHIP program for benefits that were incorrectly charged to the program during the 7 month time period in which the participant was incorrectly coded as eligible for CHIP benefits.

Cause

The condition found above was an oversight by the benefit eligibility specialist by not responding to the change in eligibility status. In addition, there appears to a lack of procedures for ensuring that errors noted in eligibility are reviewed timely to determine if unallowable costs are charged to the program and ensure that those costs are refunded to the program on a timely basis.

Effect

The effect of the condition found is that unallowable benefits were charged to the program. As part of our discussion with the State as to whether or not the unallowable costs had been refunded to the CHIP program, it was noted that other errors had been identified by the State and payments had not been refunded to the CHIP program or the request to refund the benefits was not initiated timely.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures for reviewing eligibility determinations to ensure that they are accurate. In addition, procedures and internal controls should be developed to ensure that as errors are identified, the Department reviews whether or not any medical benefits were paid on behalf of the ineligible participant and that those costs identified are refunded to the federal program on a timely basis.

Management's Response and Corrective Action Plan

The Department concurs with finding and the recommendation. Steps to correct the case in error were taken in the current year.

The Department will bring this issue to the attention of supervisors so they can discuss it with eligibility workers. Procedures will be reviewed and accuracy of eligibility will be verified. Program trainers will also emphasize this issue in upcoming trainings to help ensure this error is avoided in the future. The Department expects to replace our 30+ year old Legacy System with a new Integrated Eligibility System (IES) in the near future. The new IES is being developed for the new Health Insurance Exchange and federal health care reform. The IES is expected to be incrementally developed and implemented from October 2013 through the end of 2014. Once the fully developed IES is functional, the enhanced eligibility system is expected to catch prevent this type of worker error.

Scheduled Completion Date of Corrective Action Plan

June 30, 2013

Contact for Corrective Action Plan

Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006

(Continued)

Finding 12-29

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

Medical Assistance Program (CFDA #93.778)
ARRA – Medical Assistance Program (CFDA #93.778)
State Medicaid Fraud Control Units (CFDA #93.775)
State Survey and Certification of Healthcare Providers and Suppliers (CFDA #93.777)

Program Award Number and Year

11-W00194/1	1/1/11 – 12/21/13
11-W-00191/1	10/1/10 – 09/30/15
75X0512	9/30/09 – 6/30/12

Criteria

As required by the 1115 Demonstration Waiver, Global Commitment to Health (the Waiver), once the Managed Care Organization's (MCO) contractual obligation to the population covered under the Waiver is met, any excess revenue from capitated payments received under the Waiver must be used to (1) reduce the rate of uninsured and, or underinsured in Vermont; (2) increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries, (3) provide public health approaches to improve the health outcomes and the quality of life for the uninsured, underinsured and Medicaid beneficiaries; and (4) encourage the formation and maintenance of public-private partnerships in health care. This revenue is referred to as MCO investments.

Condition Found

During our testwork over the allowability of MCO Investment payments, we selected approximately $77.2 million of the total MCO investments of $89.9 million MCO Investment payments made for the year ended June 30, 2012 and noted the following:

A. MCO Investments totaling $1,897,997 were paid to the Vermont Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) to fund various health care related activities. The funds paid were to have met the MCO Investment category of 2 as defined above. Per review of the expenditure detail, we noted that approximately $435,000 of this MCO Investment was used to pay for salary expenses incurred at BISHCA. During our review over payroll transactions charged to the MCO investment, we noted that 47% of the gross salary cost was charged to the MCO Investment. The 47% allocation rate was utilized by BISCHA as 47% of total contract expenses incurred by BISCHA is charged to this MCO Investment. While we were able to recalculate this percentage, we are unable to conclude that applying this percentage to salary costs is reasonable.

B. MCO Investments totaling $1,410,956 were paid to the Vermont Veterans Home, which is a skilled nursing facility that serves veterans, spouses, and Gold Star parents (parents of soldiers killed in action). This program is directly appropriated money by the Vermont State Legislature as part of the annual budget process. The funds paid were to have met the MCO Investment category of 2 as defined above. We were unable to obtain any evidence to support what types of costs were incurred by the Vermont Veterans Home or who received services under the MCO Investment payments.

C. MCO Investments totaling $4,006,156 were paid to the University of Vermont to provide services under the Vermont Physician Training program. This program is directly appropriated money by the Vermont State Legislature. The funds paid under this program were to have met the MCO Investment category of 2 as defined above. The University of Vermont indicated that the funds had been used to support the University's College of Medicine's educational programs, however, the University did not maintain any detailed accounting records, effort reports or other documentation to support how the funds were spent, nor are they required to by the MOU that the State of Vermont enters into with the University of Vermont. Accordingly, we were unable to determine if the University of Vermont had spent the funds in accordance with the waiver agreement.

D. MCO Investments totaling $2,563,226 were used to fund payments made for Aid to the Aged, Blind and Disabled CCL III program, administered by the Department of Children and Families. Funds paid under this program were to have met the MCO Investment categories of 2, defined above. The costs incurred under this program represented additional payments made to individuals who receive Social Supplemental Income (SSI) and live in a level III home. A level III home provides services to people in need of a residence for reasons of health status. The payments made under this program are paid directly to the participant. We were unable to obtain evidence to support that the participant used this payment for healthcare related services. As such, these costs do not appear to be healthcare related and, accordingly, do not meet the definition of MCO Investment category 2.

E. MCO Investments totaling $2,242,871 were used to fund the Community Rehabilitative Care Program administered by the Department of Corrections. Funds incurred under this program were to have met the MCO Investment category of 2, as defined above. The services under this program represented salary costs of Probation and Parole Officers that provide case management services and construct and implement case plans to address criminogenic behaviors. Costs were allocated to this program using a rate of 38%, which is an estimate made by the Department of Corrections as to the percentage of Vermont residents who are uninsured, underinsured or Medicaid eligible and then by an additional rate of 62.5%, which is the estimated time that Probation and Parole Officers spend providing these services. We were unable to obtain evidence to support that the case management services provided by the Probation and Parole Officers met the definition of health care services, nor were we able to obtain evidence to support that the service rendered met the definition of MCO Investment category 2. In addition, we were unable to obtain evidence to support the reasonableness of the allocation rates used by the Department of Corrections to allocate the payroll cost to this program.

F. MCO Investments totaling $1,425,017 were paid to help fund the Vermont Information Technology administered by the Department of Vermont Health Access. The funds paid under this program were to have met MCO Investment category 2, as defined above. The payroll total costs incurred under this program were allocated to the MCO Investment using a rate of approximately 60.9%, which is an estimate of the Vermont population that is Medicaid eligible, underinsured or uninsured based on the 2009 Vermont Household Healthy Insurance Survey (VHHIS) Results provided to the State Legislature on January 15, 2010. While the individual costs selected for test work under this program appeared to be health care related, we were unable to determine whether or not the 60.9% allocation rate is reasonable to appropriately allocate the costs to meet the MCO Investment definition.

G. MCO Investments totaling $1,841,690 were paid to help fund the Vermont Blue Print for Health administered by the Department of Vermont Health Access. The funds paid under this program were to have met MCO Investment category 2, as defined above. The payroll total costs incurred under this program were allocated to the MCO Investment using a rate of approximately 60.9%, which is an estimate of the Vermont population that is Medicaid eligible, underinsured or uninsured based on the 2009 Vermont Household Healthy Insurance Survey (VHHIS) Results provided to the State Legislature on January 15, 2010. While the individual costs selected for test work under this program appeared to be health care related, we were unable to determine whether or not the 60.9% allocation rate is reasonable to appropriately allocate the costs to meet the MCO Investment definition.

H. MCO Investments totaling $775,278 were paid to help fund the Essential Persons Program administered by the Department for Children and Families. Costs incurred under this program relate to payments made to individual to assist the individual in obtain health care or to pay for premiums for current health insurance. During our testwork there was no documentation to substantiate that the participants actually used the money to pay for health care related costs. Accordingly, we are unable to determine if the funds were spent on appropriately to meet the MCO Investment definition. Due to a lack of documentation to support that these payments were used for health care related purposes, it is unclear as to whether or not this is an allowable MCO investment.

While the AHS and the Department of Vermont Health Access have developed procedures for defining how they interpret the types of costs that are allowable under each MCO Investment category, we were unable to conclude that each of the costs selected above was allowable under the narrow definition provided within the Waiver. Based on the lack of documentation to support the rationale for how these costs were allocated to the program, we consider this to be a material weakness in internal controls.

Cause

The cause of the condition found is the lack of documentation to support how costs are determined to be an allowable MCO Investment and documentation to support the methodologies used to allocate costs to an MCO Investment.

Effect

The effect of the condition found is that costs may be charged to this program that are not allowable under federal regulations.

This condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that AHS implement policies and procedures for documenting what a MCO Investment is and arriving at adequate documentation to support how costs are allocated to this program.

Management's Response and Corrective Action Plan

AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation.

As noted under "conditions found" several MCO investments are allocated using a rate that represents the percentage of Vermonters that are uninsured, underinsured, or Medicaid eligible. This rate is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Banking, Insurance, and Health Care Administration (BISHCA). BISHCA contracted with experts in the field of survey methodology to complete the surveys and prepare the report. We are confident that it is unnecessary for AHS to assess the accuracy of the work completed by national experts when AHS does not share this expertise.

The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs.

Scheduled Completion Date of Corrective Action Plan

No further corrective action considered necessary.

Contact for Corrective Action Plan

Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

Rejoinder

During our testwork over MCO investments, we requested documentation to support that CMS had reviewed the MCO investment expenditures as part of the waiver renewal process, however no documentation could be provided that the review had taken place or that CMS was satisfied with the documentation presented. In addition, we were unable to obtain any evidence to support that the results of the 2010 Vermont Household Health Insurance Survey was relevant and reasonable to use to support costs allocated to the Medicaid program for the year ended June 30, 2012.

Finding 12-30

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

Medical Assistance Program (CFDA #93.778)
ARRA – Medical Assistance Program (CFDA #93.778)
State Medicaid Fraud Control Units (CFDA #93.775)
State Survey and Certification of Healthcare Providers and Suppliers (CFDA #93.777)

Program Award Number and Year

11-W00194/1	1/1/11-12/21/13
11-W-00191/1	10/1/10-09/30/15
75X0512	9/30/09-6/30/12

Criteria

Each State shall document qualified alien status if the applicant or recipient is not a U.S. citizen (42 USC 1320b-7d). Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five-year bar under the terms of 8 USC 1613. States must provide Medicaid to certain qualified aliens in accordance with the terms of 8 USC 1612(b)(2), provided that they meet all other eligibility requirements. States may provide Medicaid to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (the five-year bar). All aliens who otherwise meet the Medicaid eligibility requirements are eligible for treatment of an emergency medical condition under Medicaid, as defined in 8 USC 1611(b)(1)(A), regardless of immigration status or date of entry.

Condition Found

During our eligibility testwork over the IEVS system and citizenship verification, KPMG noted the following:

A. For 1 out of 65 cases, the Medicaid participant did not have a citizenship code within ACCESS, the States benefit eligibility management system, and as a result we were unable to determined whether or not the individual met the eligibility requirements for this program. On further investigation, it was discovered that the individual had in fact gone through the citizenship verification process. It was after this discussion that the citizenship code was properly entered into ACCESS.

B. For 5 out of 65 cases, the participant did not have a citizenship code within ACCESS and as a result, we were unable to determine whether or not these individuals met the eligibility requirements for this program.

Cause

The cause of the condition noted above can be attributed to human error. It does not appear that there are adequate controls in place to ensure that the proper information is obtained to support an applicant's eligibility for Medicaid.

Effect

The effect of the condition found is that the Department for Children and Families maintains inaccurate or inconsistent information within its case files. This incorrect information is then used to erroneously support an applicant's eligibility for Medicaid. If benefits were provided to ineligible applicants, it would incur unallowable costs.

This condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures over obtaining and validating documentation reported by applicants, as it is used to determine Medicaid eligibility. This process of review would ensure that all information is correct, thus supporting an applicant's eligibility. The collection and verification of accurate information would make certain that the State is in compliance with all federal regulations.

Management's Response and Corrective Action Plan

The Department concurs with the finding and recommendation.

The Department will review its procedures and continue to verify C&I information via an interface with Vermont's vital statistics database.

In preparation for the launch of the New Vermont Health Insurance Exchange, department policy analysts and systems development staff are currently working with contractors to develop a new Integrated Eligibility System (IES) which will have numerous federal and state interfaces. One of the interfaces will be with SSA and will satisfy the CMS C&I verification requirements. Because the SSA interface is a core component of the new IES, it is expected to be operational in the second half of calendar year 2013.

Scheduled Completion Date of Corrective Action Plan

December 31, 2013

Contact for Corrective Action Plan

Rob Roberts, Audit Chief, Agency of Human Services, 802-871–3006

(Continued)

Finding 12-31

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

Medical Assistance Program (CFDA #93.778)
ARRA – Medical Assistance Program (CFDA #93.778)
State Medicaid Fraud Control Units (CFDA #93.775)
State Survey and Certification of Healthcare Providers and Suppliers (CFDA #93.777)

Program Award Number and Year

11-W00194/1	1/1/11 – 12/21/13
11-W-00191/1	10/1/10 – 09/30/15
75X0512	9/30/09 – 6/30/12

Criteria

As required by the 1115 Demonstration Waiver, Global Commitment to Health (the Waiver), once the Managed Care Organization(MCO)'s contractual obligation to the population covered under the Waiver is met, any excess revenue from capitated payments received under the Waiver must be used to (1) reduce the rate of uninsured and, or underinsured in Vermont; (2) increase the access of quality healthcare to uninsured, underinsured and Medicaid beneficiaries, (3) provide public health approaches to improve the health outcomes and the quality of life for the uninsured, underinsured and Medicaid beneficiaries; or (4) encourage the formation and maintenance of public-private partnerships in healthcare. The excess revenue is referred to as MCO investments.

Matching or cost sharing includes requirements to provide contributions (usually nonfederal) of a specified amount or percentage to match federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions). Entities are required to provide reasonable assurance that matching requirements are met using only allowable funds or costs that are properly calculated or valued. Additionally, under the standard terms and conditions of the Waiver, unless specified otherwise, all requirements of the Medicaid program apply to the Waiver, which includes the requirement that all sources of nonfederal funding be compliant with section 1903(w) of the Social Security Act and applicable regulations.

Condition Found

The Agency of Human Services (AHS) used school-based health service expenditures to fund a portion of the State's share of the Medicaid program. To determine the amount of school based health service expenditures that AHS will use annually to fund the State share of the Medicaid program, the Vermont Department of Education reports to AHS the total cost of school nursing and occupational therapy services provided to all students free of charge. The Vermont Department of Education collects information from each school district that reports the costs associated with the school based health services which is then submitted to AHS. AHS then multiplies the total cost incurred by the school districts by the estimated percentage of uninsured, underinsured or Medicaid eligible children in the State of Vermont in order to

(Continued)

determine the state matching expenditures. The estimated percentage used in the calculation has been developed, in part, from data contained in the 2010 Vermont Household Health Insurance Survey.

During our testwork, we noted that for the period ending June 30, 2012 AHS utilized approximately \$2.8 million in expenditures related to school nurse services to secure federal matching funds of approximately \$6.7 million. The amount of school nurse expenditures were calculated based using amounts reported, as incurred, by Vermont school districts and reported by them to the Vermont Department of Education and then to AHS. In arriving at the \$2.8 million, the amount provided by the school districts was multiplied by a percentage estimate of uninsured, underinsured or Medicaid eligible children in the state. This percentage was developed, in part, from data contained in the 2010 Vermont Household Health Insurance Survey.

The school nurse expenditure data and the data supporting the percentage are not audited or reviewed for accuracy and AHS does not have any procedures to validate that the completeness or accuracy of either of these data sources. Accordingly, we were unable to determine whether the \$2.8 million of school nurse expenditures used to support the state match were allowable or whether the related federal matching funds of approximately \$6.7 million should have been drawn down.

Cause

The cause of the condition found is that AHS believed that if the funds were paid as an MCO investment, that it would represent an allowable Medicaid expenditure and therefore a valid source of matching funds under this program.

Effect

The State may not have provided the necessary required state match under this program. As a result, the State may have inappropriately drawn down federal funds due to a lack of required state match being made available at the time of the federal draw.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not Determinable.

Recommendation

We recommend that AHS implement policies and procedures for documenting how it has provided the required state match for the Medicaid program and that the source of the match is allowable and accurate. We also recommend that AHS review its existing procedures for documenting the allowability of all MCO investments to ensure that all such investments are properly accounted for within the Global Commitment Fund.

Management's Response and Corrective Action Plan

The finding states that AHS has not audited the school nurse expenditure data and AHS does not have any procedures to validate that the completeness or accuracy. AHS believes that it can appropriately rely on

(Continued)

work of other State agencies. The Department of Education annually conducts the nurse expenditure survey. DOE provides instructions for the Supervisory Unions to complete the information request. DOE compiles the results and submits the information to AHS. AHS does not audit or otherwise verify this information because we believe we can rely on schools to correctly report their expenditures to the Department of Education. The finding states that data supporting the percentage were not audited and AHS does not have any procedures to validate that the completeness or accuracy. As made known to the auditors, this rate is based on the results of the Vermont Household Health Insurance Survey performed by Vermont Department of Banking, Insurance, and Health Care Administration (BISHCA). BISHCA contracts with experts in the field of survey methodology to complete the surveys and prepare the report. We have reviewed the BISHCA's contract for the survey and do not believe it is necessary or appropriate for AHS to assess the accuracy of the work completed by national experts in the field.

Scheduled Completion Date of Corrective Action Plan

No further corrective action considered necessary.

Contact for Corrective Action Plan

Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

Rejoinder

We acknowledge above within the condition found that the State Department of Education compiles the school nurse expenditure data based upon a survey completed by each school. We were unable to find any evidence that either the Department of Education or the Agency of Human Services performed procedures to ensure the data collected by each school is complete and accurate. In addition, we were unable to obtain any evidence to support that the results of the 2010 Vermont Household Health Insurance Survey was relevant and reasonable to use to support costs allocated to the Medicaid program for the year ended June 30, 2012.

(Continued)

Finding 12-32

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

Medical Assistance Program (CFDA #93.778)
ARRA – Medical Assistance Program (CFDA #93.778)
State Medicaid Fraud Control Unites (CFDA #93.775)
State Survey and Certification of Healthcare Providers and Suppliers (CFDA #93.777)

Program Award Number and Year

11-W00194/1 1/1/11 – 12/21/13

Criteria

For grants and cooperative agreements, effective after October 1, 2010 for all discretionary and mandatory awards equal to or exceeding $25,000 made with new Federal Assistance Identification Number (FAIN) on or after that date, grantees are required to file a report under the Federal Funding Accountability and Transparency Act related to subawards made that exceed $25,000 at the time the obligation is entered into.

Condition Found

During our test work over federal reporting, we noted that the State Department of Health (the Department) had entered into grant agreements that would have been subjected to reporting under the Federal Funding Accountability and Transparency Act (FFATA) however no reports were filed or attempts to file the reports were made as of June 30, 2012 for all 3 grants selected for testwork.

Cause

The cause of the condition found is due to error as the Department had incorrectly believed that another Department within the Vermont Agency of Human Services was going to complete the required reporting.

Effect

The effect of the condition found is FFATA reports were not filed.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal controls.

Questioned Costs

None.

Recommendation

We recommend that the Department review the federal FFATA reporting requirements and its existing procurement policy to ensure that all grant agreements entered into by the Department are properly reported as required under FFATA.

Management's Response and Corrective Action Plan

The Vermont Department of Health (VDH) concurs with the finding and recommendation.

The VDH Grants and Contract Administration Unit will review all grants in a timely manner to ascertain whether they are required to be reported in the FSRS system. Procedures are in place to ensure that all sub-recipient grants will then be entered as required under FFATA.

Scheduled Completion Date of Corrective Action Plan

July 1, 2013

Contact for Corrective Action Plan

Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006

(Continued)

Finding 2012–33

U.S. Department of Homeland Security

Program Name and CFDA Number

Disaster Grants – Public Assistance (Presidentially Declared Disaster) (CFDA #97.036)

Program Award Number and Year

FEMA-1951-DR-VT	December 1, 2010
FEMA-1995-DR-VT	June 1, 2011
FEMA-4001-DR-VT	July 8, 2011
FEMA-4043-DR-VT	November 8, 2011

Criteria

In accordance with the Federal Emergency Management Administration (FEMA) – State Agreement, the grantee shall submit Federal Financial Reports, SF-425, on a quarterly basis, no later than 30 days after the end of each quarter.

In compliance with 44 CFR 13.20(b)(1), Financial Reporting, Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant and subgrantees.

Condition Found

During our testwork over the Agency of Transportation's (the Agency) reporting process, we noted discrepancies between the amounts reported on the SF-425 reports and the amounts recorded in the accounting system. Specifically:

A. During our testwork on the September 30, 2011 and June 30, 2012 SF-425 reports for the FEMA-1951-DR-VT grant we noted that the Agency reported an unobligated balance on line 10h of $187.84 when the grant had actually been overspent and the full authorized amount could be reported as Federal expenditures.

B. During our testwork on the September 30, 2011 SF-425 report for the FEMA-1995-DR-VT grant we noted that the Agency had not reported any Federal expenditures even though $46,003 had been incurred.

C. During our testwork on the September 30, 2011 SF-425 report for the FEMA-4001-DR-VT grant we noted that the Agency had not reported any Federal expenditures even though $16,097 had been incurred.

D. During our testwork on the June 30, 2012 SF-425 report for the FEMA-4043-DR-VT grant we noted that the Agency reported and drew down $3,571 of administrative costs within the amount reported for Federal share of expenditures; however administrative costs had not been obligated for this grant and are therefore unallowable. We further noted that as of the reporting period the Agency had cost overruns of $4,636 resulting in a new unallowed draw of $1,065.

E. We further noted that the Agency was not reporting any information on the "Recipient Share" lines of the reports. The recipient share lines are to include all matching and cost sharing provided by recipients and third party providers to meet the level required by the Federal agency. The federal agency had also identified this error and requested that the Agency begin reporting these amounts with the December 2012 quarter.

Cause

The cause of the condition found appears to be a result of the Agency's control procedures and documentation supporting the submitted reports.

Effect

The effect of the condition found is that inaccurate reports were filed.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal controls.

Questioned Costs

$1,065

Recommendation

We recommend that the Agency review its procedures for preparing Federal reports to ensure that accurate and timely information is reported as required under Federal regulations.

Management's Response and Corrective Action Plan

AOT will review procedures for the data capture and report preparation. Timely communication between department units will be emphasized and results will be monitored.

Scheduled Completion Date of Corrective Action Plan

These actions will be implemented by June 30, 2013.

Contact for Corrective Action Plan

Terry Call, AOT Audit Supervisor, 802-828-2406

Exhibit I

STATE OF VERMONT

Summary Schedule of Prior Single Audit Findings

June 30, 2012

Ref.	CFDA Number	Description	Questioned Costs	Current Status
Agency of Human Services:				
11-03 10-01 09-05	10.551 10.561	Missing or inconsistent documentation to support eligibility determinations	ND	Corrected
11-04	14.257	Lack of documentation over review of award monitoring for subrecipients	None	Corrected
11-14 10-17	93.558 93.716	Missing or inconsistent documentation to support eligibility determinations	ND	In Progress See page I-4
11-15 10-19 09-17 08-12 07-11	93.563	Control and compliance deficiencies related to support enforcement actions	None	Corrected
11-16 10-20 09-18 08-13 07-10	93.563	Control and compliance deficiencies related to support interstate reporting activities	ND	Corrected
11-17 10-22 09-20	93.659	Lack of controls to detect data entry errors in adoption assistance system	$2,853	Corrected
11-18 10-23 09-24 08-18 07-18	93.778	Lack of compliance with biennial ADP review requirement	ND	Corrected
11-19 10-24 09-26 08-19 07-15	93.778	Lack of documentation to support compliance with Global Commitment Waiver and MCO Agreement	ND	In Progress See page I-4
11-20 10-27 09-27	93.778	Lack of documentation to support State Certified Match related to school-based health expenditures	ND	In Progress See page I-5
11-21 10-28 09-22	93.778	Lack of or inconsistent documentation to support eligibility determinations or compliance with IEVS	ND	In Progress See page I-6

STATE OF VERMONT

Summary Schedule of Prior Single Audit Findings

June 30, 2012

Ref.	CFDA Number	Description	Questioned Costs	Current Status
Agency of Human Services, continued:				
09-19	93.568	Eligibility requirements not properly confirmed for fuel assistance	None	In Progress See page I-6
Agency of Transportation:				
11-07	20.319	Lack of documentation to support compliance with the Davis-Bacon Act	None	Corrected
11-08	20.319	Errors noted in the data reported in the Section 1512 and SF-425 reports	None	In Progress See page I-7
11-22	97.036	Lack of monitoring the subrecipient to verify the subrecipient provided an eligible source of matching funds	ND	Corrected
11-23 10-30 09-30 08-22	97.036	Noncompliance with federal reporting requirements	ND	In Progress See page I-7
10-29 09-29 08-21	97.036	Lack of procedures over monitoring project grants	ND	Corrected
Department of Labor:				
11-05	17.258 17.259 17.260 17.278	Lack of documentation over review of award monitoring for subrecipients	None	Corrected
11-06	17.275	Lack of documentation over review of award monitoring for subrecipients	None	Corrected
Department of Education:				
11-01 10-02	10.553 10.555 10.556 10.559	Lack of documentation over review of award monitoring for subrecipients	None	In Progress See page I-7

STATE OF VERMONT

Summary Schedule of Prior Single Audit Findings

June 30, 2012

Ref.	CFDA Number	Description	Questioned Costs	Current Status
Department of Education, continued:				
11-02	10.553 10.555 10.556 10.559	Noncompliance with federal reporting requirements	None	In Progress See page I-8
11-11	84.010 84.389	Insufficient documentation to support monitoring of subrecipients	None	In Progress See page I-9
11-12 10-17	84.394 84.397	Insufficient documentation to support monitoring of subrecipients	None	In Progress. See page I-19
11-13	84.027 84.173 84.391 84.392	Lack of monitoring over receipt of certified payroll reports as required by the Davis-Bacon Act	None	Corrected
Department of Public Service:				
11-09	81.041	Loan application excluded suspension and debarment certification	None	Corrected
11-10	81.128	Lack of employee certifications stating hours charged to the grant are accurate.	$36,919.60	Corrected

STATE OF VERMONT

Summary Schedule of Prior Audit Findings

June 30, 2012

Agency of Human Services

Finding Number – 11-14, 10-17

Steps to Correct:

The corrective action plan for this finding is being addressed by making staff aware of the exceptions noted in the audit finding, additional training and awareness of proper procedure. More specifically, we will take certain actions as follows.

1. A reminder to all staff that we must verify shelter expenses for TANF will be issued in February 2013 and discussed with Supervisors and Managers at our February 8th meeting and Team Leaders at the team leaders meeting on February, 18th. The department also now allows documented collateral contacts to verify shelter.

2. The lack of "Child and Medical Support Authorization" forms (137's) will be addressed by joint procedures being written by the Office of Child Support and Economic Services. These procedures outlining when child support forms must be obtained and how they should be kept for documentation will be completed by May 2013.

3. Lack of applicant signature on the application (202). A reminder to all staff will be issued in February 2013 that an applicant must sign the application (202) for it to be a valid application.

4. Lack of family development plan. A reminder to Case Managers and Team Leaders will be issued in February 2013 stating that every case must have a current family development plan with signature. Team leaders are currently conducting case reviews and look for this and Central Office Assistant Operations staff will also be looking to ensure that all cases they review also have current family development plans.

Scheduled Completion Date: May 31, 2013.

Contact Person: Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

Finding Number – 11-19, 10-24, 09-26, 08-19, 07-15, 2006-31

Steps to Correct:

AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation.

STATE OF VERMONT

Summary Schedule of Prior Audit Findings

June 30, 2012

As noted under “conditions found” several MCO investments are allocated using a rate that represents the percentage of Vermonters that are uninsured, underinsured, or Medicaid eligible. This rate is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Banking, Insurance, and Health Care Administration (BISHCA). BISHCA contracted with experts in the field of survey methodology to complete the surveys and prepare the report. We are confident that it is unnecessary for AHS to assess the accuracy of the work completed by national experts when AHS does not share this expertise.

The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs.

Scheduled Completion Date: No further corrective action considered necessary.

Contact Person: Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

Auditor Response: As part of the June 30, 2012 single audit, a similar finding was noted and as such the steps taken to correct the action do not appear to be sufficient. See finding 12-29 for further information.

<u>Finding Number – 11-20, 10-27, 09-27</u>

Steps to Correct:

The finding states that AHS has not audited the school nurse expenditure data and AHS does not have any procedures to validate that the completeness or accuracy. AHS believes that it can appropriately rely on work of other State agencies. The Department of Education annually conducts the nurse expenditure survey. DOE provides instructions for the Supervisory Unions to complete the information request. DOE compiles the results and submits the information to AHS. AHS does not audit or otherwise verify this information because we believe we can rely on schools to correctly report their expenditures to the Department of Education. The finding states that data supporting the percentage were not audited and AHS does not have any procedures to validate that the completeness or accuracy. As made known to the auditors, this rate is based on the results of the Vermont Household Health Insurance Survey performed by Vermont Department of Banking, Insurance, and Health Care Administration (BISHCA). BISHCA contracts with experts in the field of survey methodology to complete the surveys and prepare the report. We have reviewed the BISHCA’s contract for the survey and do not believe it is necessary or appropriate for AHS to assess the accuracy of the work completed by national experts in the field.

Scheduled Completion Date: No further corrective action considered necessary.

Contact Person: Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

Auditor Response: As part of the June 30, 2012 single audit, a similar finding was noted and as such the steps taken to correct the action do not appear to be sufficient. See finding 12-31 for further information.

STATE OF VERMONT

Summary Schedule of Prior Audit Findings

June 30, 2012

Finding Number – 11-21, 10-28, 09-22, 08-16

Steps to Correct:

The Department will review its procedures and continue to verify C&I information via an interface with Vermont's vital statistics database.

In preparation for the launch of the New Vermont Health Insurance Exchange, department policy analysts and systems development staff are currently working with contractors to develop a new Integrated Eligibility System (IES) which will have numerous federal and state interfaces. One of the interfaces will be with SSA and will satisfy the CMS C&I verification requirements. Because the SSA interface is a core component of the new IES, it is expected to be operational in the second half of calendar year 2013.

Scheduled Completion Date: December 31, 2013.

Contact Person: Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

Finding Number - 09-19

Steps to Correct:

The fuel (LIHEAP) program training already includes household composition and verification, but since these are error prone areas we will make sure that the training places more emphasis on these two areas of eligibility.

Since our 3SquaresVT and Fuel (LIHEAP) program rules and caseloads are so closely related, these two program teams are working together to incorporate a LIHEAP "guest appearance" at the new worker 3SquaresVT program training. The Fuel Program will spend an hour at the training specifically addressing the key differences between the two programs, including household composition. Discussions are also taking place about scheduling new worker LIHEAP training one week after the 3SquaresVT training.

The Fuel Program team is also working on Fuel Household Composition desk aid that will be posted on the ESD Intranet for staff to access, and will also be incorporated into the Fuel (LIHEAP) new worker training.
These findings will also be brought to the attention of the Regional Managers and eligibility Supervisors at the February District Leadership Team meeting with the expectation that they review these areas in their eligibility team meetings.

Scheduled Completion Date: June 30, 2013.

Contact Person: Rob Roberts, Audit Chief, Agency of Human Services, 802-871-3006.

STATE OF VERMONT

Summary Schedule of Prior Audit Findings

June 30, 2012

Agency of Transportation

Finding Number – 11-08

Steps to Correct

AOT believes adequate procedures and controls are in place. We have reemphasized the importance of following these procedures and will periodically monitor compliance. Additionally FRA now requires this form to be submitted electronically. It is anticipated that this will facilitate FRA review and timely feedback on our reports.

Scheduled Completion Date: June 30, 2013.

Contact Persons: Terry Call, Audit Supervisor, Agency of Transportation, 802-828-2406

Finding Number – 11-23, 10-30, 09-30, 08-22

Steps to Correct

AOT will review procedures for the data capture and report preparation. Timely communication between department units will be emphasized and results will be monitored.

Scheduled Completion Date: June 30, 2013.

Contact Persons: Terry Call, Audit Supervisor, Agency of Transportation, 802-828-2406

Department of Education

Finding Number – 11-01, 10-02

Steps to Correct:

A. The Program monitoring files are reviewed periodically through the monitoring process and at the end of the monitoring year. A second individual reviews the file to ensure that the review is closed and the documentation is complete. We can implement stricter review standards and have the reviewer sign off on the completed review file.
B. The online application and claiming system may be revised to include the appropriate CFDA Number for each of the appropriate programs, Lunch, Breakfast, Special Milk, Summer Food Service Program, and the Fresh Fruit and Vegetable Program. We will investigate the cost of this activity and develop a timeline for the corrections to the online and paper applications.

C. A thorough review of applications will be required of Program staff to ensure questions are complete and correct.

Child Nutrition Programs will work to develop written procedures for reviewing program applications, grant applications, and programmatic reviews.

STATE OF VERMONT

Summary Schedule of Prior Audit Findings

June 30, 2012

D. **Fiscal Monitoring**

1 The AoE's fiscal monitoring staff acknowledges a need to provide better documentation of our monitoring work, acceptance of corrective action plans, and closeout. Beginning with the current year subrecipient fiscal monitoring work, the fiscal monitoring staff has developed a spreadsheet for tracking the status of each monitoring review, including the issuance of a report, receipt and acceptance of a corrective action plan, and the issuance of a closeout letter.

2 The current fiscal monitoring staff was not aware until a few months ago that our monitoring list was not complete and that, consequently, we had not scheduled monitoring visits for some AoE subrecipients. A complete list of grant subrecipients will be generated by the accounting staff and made available to the fiscal monitors.

E. **A-133 Reviews**

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date: A-C: December 19, 2013
D1: This action has already been completed.
D2: June 30, 2013.
E: June 30, 2013.

Contact Person: A-C: Deb Quackenbush, Division Director, 802-828-5877
A- C: Laurie Colgan, Child Nutrition Programs, 802-828-5133
D: Cathy Hilgendorf, Assistant Division Director, 802-828-5402
E: Aaron Brodeur, School Finance Manager, 802-828-0289

Finding Number – 11-02

Steps to Correct:

Because these are entitlement programs where monies are reimbursed after meal counts are reported, it is difficult to capture those that need to be entered. This will require us to look at cumulative activity by CFDA by entity and begin reporting once an entity has exceeded the $25,000 mark. To do that will require us to enter a "new grant" each month in FFATA for every reimbursement sent to an entity who has met the criteria. This is cumbersome at best. We are working to create a system that will most efficiently allow us to meet this requirement.

Scheduled Completion Date: We will be reporting child nutrition reimbursements in FFATA during SFY13.

Contact Person: Kathy Flanagan, Financial Director, Department of Education, 802-828-0482

STATE OF VERMONT

Summary Schedule of Prior Audit Findings

June 30, 2012

Finding Number – 11-11

Steps to Correct:

The AoE's fiscal monitoring staff acknowledges a need to provide better documentation of our monitoring work, acceptance of corrective action plans, and closeout. Beginning with the current year subrecipient fiscal monitoring work, the fiscal monitoring staff has developed a spreadsheet for tracking the status of each monitoring review, including the issuance of a report, receipt and acceptance of a corrective action plan, and the issuance of a closeout letter.

An expenditure review checklist has been developed and is being used to document what procedures are performed during fiscal monitoring expenditure review.

A-133 Reviews

The Education Finance Manager who is assigned audit review responsibilities will review and update the Audit Unit Policy last revised in April of 2006. This policy will reflect updated procedures that comply with current State and Federal requirements.

Scheduled Completion Date: Corrective action has already been completed with the exception of A-133 Reviews, which will be implemented as of June 30, 2013

Contact Person: Fiscal Monitoring**:** Cathy Hilgendorf, Assistant Division Director, 802-828-5402
A-133 Reviews: Aaron Brodeur, School Finance Manager, 802-828-0289

Finding Number – 11-12, 10-17

Steps to Correct:

We believe the Condition Statement to be incorrect. The summary report data from the districts' accounting system as provided to DOE (now AOE) not only showed these SFSF funds as being tracked in separate accounts as required but also what the funds were used for. Payments to districts of these funds were on a reimbursement basis. Funds were not released until appropriate and acceptable documentation was provided. This method of monitoring for phase II SFSF funds was set up through discussion with US ED during their desk monitoring of Vermont's phase I SFSF funds. Our process as approved by the federal folks is akin to desk monitoring.

Scheduled Completion Date: No corrective action plan is considered necessary.

Contact Person: Brad James, School Finance Manager, 802-828-0471

Auditor Response: As part of the June 30, 2012 single audit, a similar finding was noted and as such the steps taken to correct the action do not appear to be sufficient. See finding 12-19 for further information.

VERMONT










COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ending JUNE 30, 2012

STATE OF VERMONT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ending JUNE 30, 2012

Peter Shumlin
Governor

Prepared by the Department of Finance and Management

STATE OF VERMONT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

PAGE

STATISTICAL SECTION (Unaudited)

State of Vermont *Agency of Administration*
Department of Finance & Management
109 State Street, Pavilion Building [phone] 802-828-2376
Montpelier, VT 05620-0401 [fax] 802-828-2428

LETTER OF TRANSMITTAL

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

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ended June 30, 2012. The Department of Finance and Management prepared this report as required by Title 32, Vermont Statutes Annotated, Section 182(a)(8). By issuing this report by December 31, 2012, the Department has met the State statutorily required issuance date. The Department prepared these financial statements and assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of this report in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Because the cost of internal controls should not outweigh their benefits, Vermont's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free of material misstatement. I believe that the accompanying financial statements are accurate and fairly stated in all material respects, and presented in a manner designed to fairly report the State of Vermont's financial position, results of operations and changes in net assets/ fund balances.

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

In addition to the MD&A and BFS, this CAFR includes a Required Supplementary Information (RSI) section, an Other Supplementary Information section, and a Statistical section. The RSI section contains a Schedule of Funding Progress for the State's defined benefit pension and other postemployment benefits plans, and Budget to Actual comparison schedules for the State's major governmental funds with Notes reconciling budgetary fund balance to the governmental funds GAAP fund balance. The Other Supplementary Information section contains combining fund financial statements for the State's non-major Governmental, Proprietary, and Fiduciary Funds, and for the State's non-major component units. The Statistical section presents data relating to financial trends, revenue and debt capacity, and demographic and operating information about the State of Vermont. It should be noted that the information contained in the MD&A, RSI and Statistical sections is unaudited.

This CAFR includes the funds and entities for which the State is accountable based on GASB's criteria for defining the financial reporting entity. The criteria include fiscal dependence, financial accountability and legal standing. Please refer to Note 1, for more information regarding the reporting entity and the component units.

State Profile

Vermont, known as the Green Mountain State, was first settled by the French in 1666, then by the English in 1690, and joined the Union as the fourteenth State in 1791. Rural in character, the state measures 9,249 square miles of land area, and, as of July 1, 2011, had an estimated population of 626,431. The State capital is Montpelier, and the largest city is Burlington. As of calendar year 2011, 93.7% of Vermonters aged 25 or older are at least high school graduates while 37.2% have at least a college bachelor's degree .

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; Agriculture, Food and Markets; and Human Services, as well as other departments – through which the functions of the State government are carried out. The Judicial branch of the state is made up of a Supreme and Superior Courts, and the Judicial Bureau. The judges are appointed by the Governor with the advice and consent of the Senate, and serve six-year terms.

Budget Adoption and Legal Compliance/Budgetary Results

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

The General Fund

The General Fund accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds as well as the expenditures associated with these revenues. In fiscal year 2012, General Fund tax revenues accounted for 96.9% of total General Fund revenues. The three principal tax revenue contributors – the personal income tax, the General Fund's portion of the sales and use tax, and the meals and room tax – accounted for 81.7% of General Fund total tax revenues or approximately 79.2% of total General Fund revenues. General Fund expenditures used 63.4% of the total revenues, and these expenditures occurred in the following major governmental functional categories: General Government, Protection to Persons and Property, Human Services, Labor, General Education, Natural Resources, and Commerce and Community Development. The majority of the remainder of the resources provided from the 2012 General Fund revenues were transferred out to other funds and used for various purposes. Please see Note 3E for a summary of these transfers.

Economic Condition

The consensus revenue forecast for fiscal year 2012 was revised twice during the fiscal year as the economic and revenue environment began to stabilize. During fiscal year 2012, the Vermont economy began a slow and sometimes uneven recovery with the modest upgrade in the consensus revenue forecast in July, 2011, offset partially by a small downgrade in July for fiscal year 2012, and actual year end revenue collections in the General Fund exceeded the final revised consensus forecast target.

The consensus economic forecast for the Vermont economy reflects a slow pace of growth during the next nine to twelve months, with moderate growth expected over the subsequent five years.   Unless derailed by the continuing European financial crisis or the "fiscal cliff" negotiations in Washington, DC, the U.S. economic recovery is expected to begin to pick up momentum and begin to become more broad -based over the next sixty months, so too will the pace and character of the Vermont economic recovery. The State's unemployment rate is expected to remain well below both the U.S. and New England regional averages. The most recent consensus economic forecast has the State job growth to continue to improve into 2013 and 2014, although at an unsteady pace.

Long-term Financial Planning

As part of the State's long term financial planning, the Legislature created a Capital Debt Affordability Advisory Committee who is required to present to the Governor and General Assembly, no later than September 30 of each year, a recommendation as to the maximum amount of net tax-supported debt that the State may prudently issue for the ensuing fiscal year and which complies with the State's triple-A debt rating guidelines. The recommendation is calculated and presented in accordance with certain debt affordability guidelines and other matters that may be relevant to the proposed debt to be authorized. The current recommendation contains two recommendations for maximum debt, one for fiscal year 2013 alone and one for fiscal years 2013 and 2014 taken as a unit. This report may be viewed on the State Treasurer's website under Debt Management – Capital Debt Affordability Advisory Committee.

In the 2012 legislative session, the 2012 Capital Act was an amendment of the 2011 Capital Act. The amount previously authorized for fiscal year 2012 was reduced to $87.7 million and $70.3 million for fiscal year 2013 appropriations for capital construction and capital grants, with $158.0 million funded with general obligation bonds, and the remaining amount funded through transfers and reallocations from prior capital appropriations. Please see Note 8 for addition information of the State's bonded debt.

Independent Audit of These Financial Statements

KPMG LLP, an independent certified public accounting firm, performed an independent audit of the State's basic financial statements for the fiscal year ended June 30, 2012, with the assistance of the State Auditor's Office. The auditors have issued an unqualified opinion, the most favorable outcome of the audit process. The audit described in the auditors' report is not intended to meet all requirements of the Federal Single Audit Act of 1996. Rather, the Single Audit Report for the State is issued under separate cover.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Vermont for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the fourth year that Vermont has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Sincerely,

James B. Reardon

James B. Reardon, CPA
Commissioner

December 27, 2012

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Vermont

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

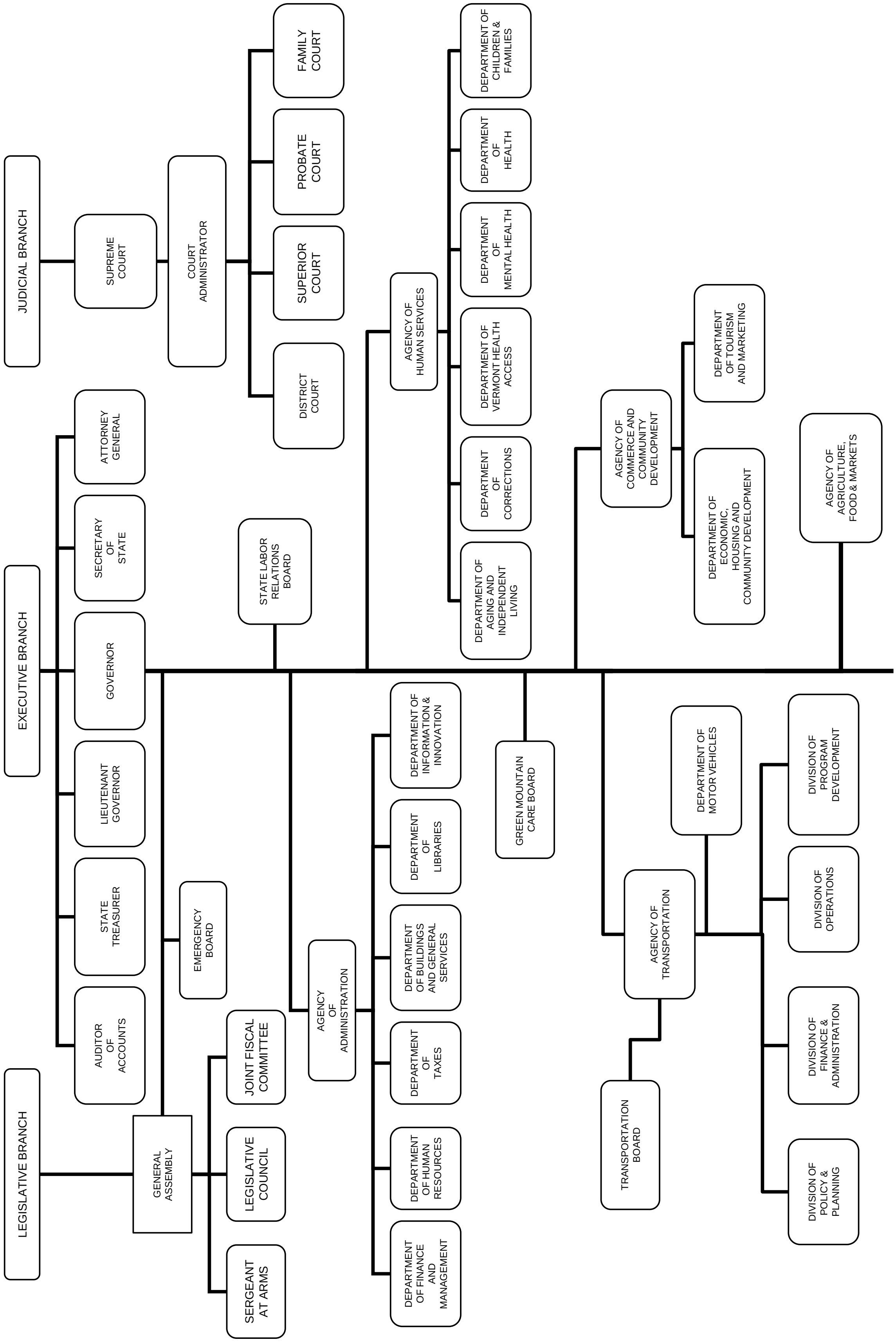
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

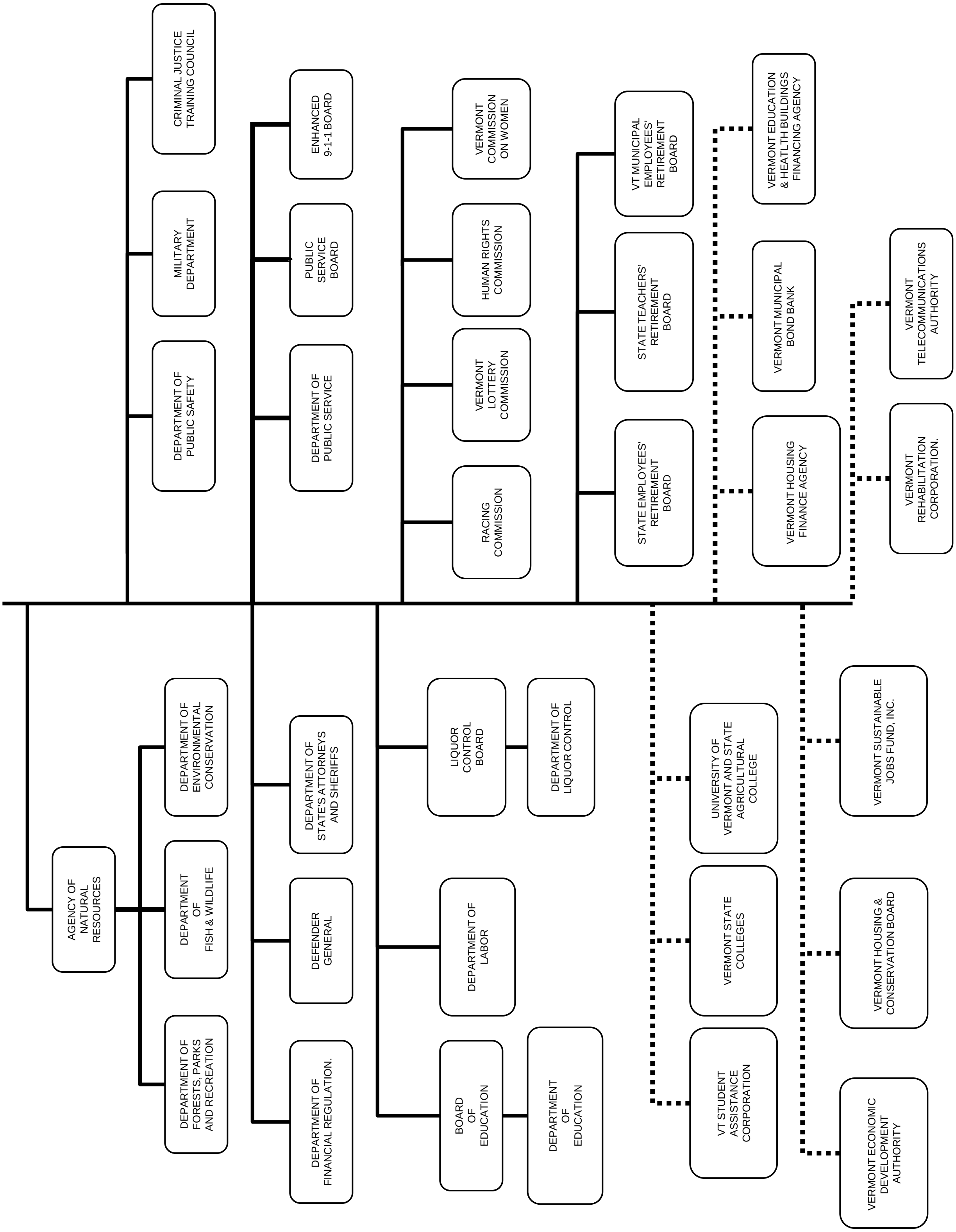
Linda C. Davison

President

Jeffrey R. Esser

Executive Director


LEGISLATIVE BRANCH
EXECUTIVE BRANCH
JUDICIAL BRANCH
GENERAL ASSEMBLY
SERGEANT AT ARMS
LEGISLATIVE COUNCIL
JOINT FISCAL COMMITTEE
AUDITOR OF ACCOUNTS
STATE TREASURER
LIEUTENANT GOVERNOR
GOVERNOR
SECRETARY OF STATE
ATTORNEY GENERAL
EMERGENCY BOARD
STATE LABOR RELATIONS BOARD
SUPREME COURT
COURT ADMINISTRATOR
DISTRICT COURT
SUPERIOR COURT
PROBATE COURT
FAMILY COURT
AGENCY OF ADMINISTRATION
DEPARTMENT OF FINANCE AND MANAGEMENT
DEPARTMENT OF HUMAN RESOURCES
DEPARTMENT OF TAXES
DEPARTMENT OF BUILDINGS AND GENERAL SERVICES
DEPARTMENT OF LIBRARIES
DEPARTMENT OF INFORMATION & INNOVATION
AGENCY OF HUMAN SERVICES
DEPARTMENT OF AGING AND INDEPENDENT LIVING
DEPARTMENT OF CORRECTIONS
DEPARTMENT OF VERMONT HEALTH ACCESS
DEPARTMENT OF MENTAL HEALTH
DEPARTMENT OF HEALTH
DEPARTMENT OF CHILDREN & FAMILIES
GREEN MOUNTAIN CARE BOARD
AGENCY OF COMMERCE AND COMMUNITY DEVELOPMENT
DEPARTMENT OF ECONOMIC, HOUSING AND COMMUNITY DEVELOPMENT
DEPARTMENT OF TOURISM AND MARKETING
AGENCY OF TRANSPORTATION
TRANSPORTATION BOARD
DEPARTMENT OF MOTOR VEHICLES
DIVISION OF POLICY & PLANNING
DIVISION OF FINANCE & ADMINISTRATION
DIVISION OF OPERATIONS
DIVISION OF PROGRAM DEVELOPMENT
AGENCY OF AGRICULTURE, FOOD & MARKETS



CRIMINAL JUSTICE TRAINING COUNCIL
MILITARY DEPARTMENT
DEPARTMENT OF PUBLIC SAFETY
ENHANCED 9-1-1 BOARD
PUBLIC SERVICE BOARD
DEPARTMENT OF PUBLIC SERVICE
VERMONT COMMISSION ON WOMEN
HUMAN RIGHTS COMMISSION
VERMONT LOTTERY COMMISSION
RACING COMMISSION
VT MUNICIPAL EMPLOYEES' RETIREMENT BOARD
STATE TEACHERS' RETIREMENT BOARD
STATE EMPLOYEES' RETIREMENT BOARD
VERMONT EDUCATION & HEATLTH BUILDINGS FINANCING AGENCY
VERMONT MUNICIPAL BOND BANK
VERMONT HOUSING FINANCE AGENCY
VERMONT TELECOMMUNICATIONS AUTHORITY
VERMONT REHABILITATION CORPORATION.
AGENCY OF NATURAL RESOURCES
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
DEPARTMENT OF FISH & WILDLIFE
DEPARTMENT OF FORESTS, PARKS AND RECREATION
DEPARTMENT OF STATE'S ATTORNEYS AND SHERIFFS
DEFENDER GENERAL
DEPARTMENT OF FINANCIAL REGULATION.
LIQUOR CONTROL BOARD
DEPARTMENT OF LIQUOR CONTROL
DEPARTMENT OF LABOR
BOARD OF EDUCATION
DEPARTMENT OF EDUCATION
UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE
VERMONT STATE COLLEGES
VT STUDENT ASSISTANCE CORPORATION
VERMONT SUSTAINABLE JOBS FUND, INC.
VERMONT HOUSING & CONSERVATION BOARD
VERMONT ECONOMIC DEVELOPMENT AUTHORITY

SELECTED STATE OFFICIALS
As of June 30, 2012

EXECUTIVE

Peter Shumlin
Governor

Phil Scott
Lieutenant Governor

James C. Condos
Secretary of State

William H. Sorrell
Attorney General

Thomas M. Salmon
Auditor of Accounts

Elizabeth Pearce
State Treasurer

JUDICIAL

Paul L. Reiber
Chief Justice

LEGISLATIVE

John F. Campbell
President Pro Tempore of the State Senate
(30 Senators)

Shap Smith
Speaker of the House of Representatives
(150 Representatives)

FINANCIAL SECTION

KPMG

KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

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

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, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of certain discretely presented component units identified in note 1A. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., or the Tri-State Lotto Commission. The discretely presented component units identified in note 1A represent 74% of the total assets and 42% of the total revenues of the aggregate discretely presented component units. The Vermont Lottery Commission represents 100% of the total assets and total revenues of the Vermont Lottery Commission Fund and 6% of the total assets and 30% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 69% of the total assets and 5% of the total revenues of the Federal Revenue Fund. The Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund and the Vermont Information Technology Leaders, Inc., collectively represent 8% of the total assets and 11% of the total revenues of the Special Fund and collectively represent 9% of the total assets and 2% of the total revenues of the governmental activities. The Tri-State Lotto Commission represents 100% of the information disclosed in note 13. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, the Vermont Information Technology Leaders, Inc., and the Tri-State Lotto Commission is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

KPMG

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

financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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 of Vermont as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2012, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 17-30 and the budgetary comparison information on pages 144-161 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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.

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

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

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information-Combining and Individual Fund Statements and Schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The Introduction and Statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

December 27, 2012

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ending June 30, 2012. 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 2012. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide

- Vermont reported net assets of $1.677 billion, comprised of $3.447 billion in total assets offset by $1.770 billion in total liabilities at June 30, 2012 (Table 1).

- The primary government's net assets have increased by $88.6 million as a result of this year's operations. The net assets for governmental activities increased $50.8 million and net assets for business activities increased by $37.8 million (Table 2).

Fund level

- The State's governmental funds reported a combined ending fund balance of $867.1 million, a decrease of 0.2 percent over last year. Of this amount, $374.9 million is available for spending at the State's discretion (committed, assigned, and unassigned fund balance).

- The State's General Fund reported an operating deficit this year of $36.0 million which decreased the accumulated fund balance to $178.4 million, of which $2.1 million is nonspendable and $18.5 million is committed for specific purposes.

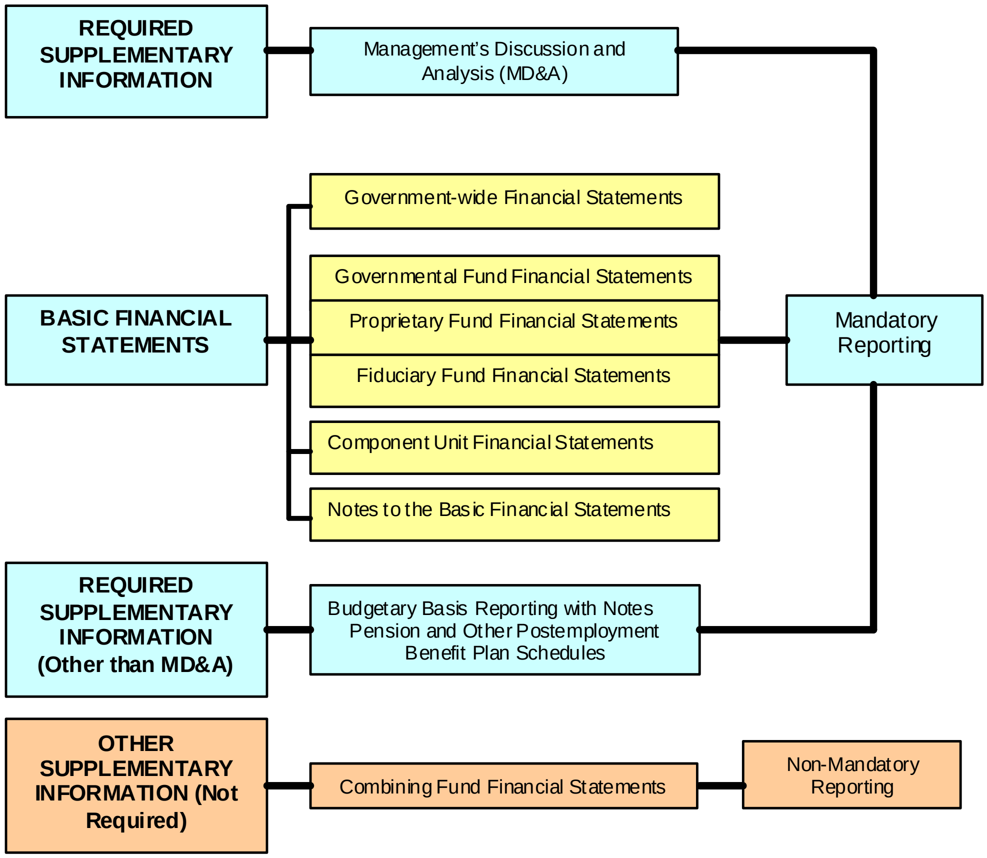
Long-term debt

- The State's debt outstanding for General and Special Obligation Bonds increased $9.9 million as compared to fiscal year 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The layout and 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.

1) Government-Wide Financial Statements

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

The government-wide statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. The State prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid. The government-wide financial statements present two statements:

The *Statement of Net Assets* presents a snapshot of both the primary government's and its component units' assets and liabilities, as of the date of this report, with the difference between the assets and liabilities reported as "net assets". Over time, increases or decreases in the primary government's net assets 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 assets included on the Statement of Net Assets. 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. For more information regarding discretely presented component units, please see Note 1 to the financial statements.

Primary Government Activities

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

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

Component Units' Activities

Discretely Presented Component Units – These are legally separate (incorporated) entities for which the primary government has the ability to impose its will on the entity, receive a benefit from activities of the entity, or could receive a financial burden due to the activities of the entity. The State's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of three major and ten non-major component units. This categorization is determined by the relative size of the entities' assets, liabilities, revenues and expenses in relation to the total of all component units. Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and additional information about the State's component units are presented in Note 1 to the financial statements.

Blended Component Units – The State has one blended component unit, *Vermont Information Technology Leaders, Inc. (VITL)*, which provides services almost exclusively to the State. The financial position of VITL has been blended within the Statement of Net Assets and Statement of Activities in the governmental activities column and in the special funds.

2) Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Similar to other state and local governments, Vermont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on the State's activities in more detail than the government-wide statements. All of the funds of the State have been divided into three categories for reporting purposes: governmental, proprietary, and fiduciary. In turn, 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, investment 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. It is important to note that these fund categories use different accounting methods and should be interpreted differently as described below.

The three categories of funds are Governmental Funds, Proprietary Funds, and Fiduciary Funds. Following is a brief overview of these three major categories of funds.

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

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

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

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 Assets;* a *Statement of Revenues, Expenses and Changes in Net Assets*; and a *Statement of Cash Flows*.

Enterprise funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail and at the fund level. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting. Enterprise funds account for services provided to the general public, government, and non-State government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

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

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. Because the activities in these funds primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

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

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

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

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

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

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net assets and activities of four major component units in individual columns and ten 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. 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 Funding Progress for the three defined benefit pension trust funds and the Schedule of Employer Contributions for the past six years are included in the required supplementary information section. Also, this section includes the Schedule of Funding Progress and the Schedule of Employer Contributions for the other postemployment benefit plans.

Schedules for the General Fund and major 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 1, Section E 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 each major governmental fund.

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 selected financial, debt capacity, operating, economic and demographic information is presented immediately following the combining financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
The State's (governmental and business-type activities) combined net assets total $1.677 billion at the end of 2012, as shown in Table 1. Approximately $1.728 billion of these combined net assets consist of the State's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This investment in capital assets, net of related debt, represents resources used to provide services to citizens, and therefore is not available for future spending. Although the State's

investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the primary government's net assets (31.3 percent) represents resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The remaining balance of unrestricted net assets is a deficit of $577.0 million.

The governmental activities' negative unrestricted net assets balance is mainly the result of three actions: 1) long-term debt issued by the State for municipal, non-profit or component unit capital purposes, $217.2 million outstanding at June 30, 2012, that does not result in a governmental activities' capital asset, 2) the amount of net assets that are restricted for various purposes, and 3) the net Pension and OPEB liabilities (See Note 5).

At the end of fiscal year 2012, the State reported positive total net asset balances in its governmental activities, its business-type activities, and its discretely presented component units.

The following primary government condensed financial statement information is derived from the State's June 30, 2012 and 2011 government-wide Statement of Net Assets. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 1
State of Vermont's Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current assets	$ 916.4	$ 916.4	$ 130.6	$ 82.0	$ 1,047.0	$ 998.4
Other assets	444.9	396.7	3.7	4.2	448.6	400.9
Capital assets	1,950.6	1,837.1	0.8	0.9	1,951.4	1,838.0
Total assets	3,311.9	3,150.2	135.1	87.1	3,447.0	3,237.3
LIABILITIES						
Long-term liabilities	1,239.3	1,143.7	59.3	79.5	1,298.6	1,223.2
Other liabilities	427.8	412.5	43.6	13.2	471.4	425.7
Total liabilities	1,667.1	1,556.2	102.9	92.7	1,770.0	1,648.9
NET ASSETS						
Invested in capital assets, net of related debt	1,727.6	1,607.9	0.8	0.9	1,728.4	1,608.8
Restricted	499.4	491.2	26.2	-	525.6	491.2
Unrestricted (deficit)	(582.2)	(505.1)	5.2	(6.5)	(577.0)	(511.6)
Total net assets	$ 1,644.8	$ 1,594.0	$ 32.2	$ (5.6)	$ 1,677.0	$ 1,588.4

Totals may not add due to rounding.

In 2012, governmental activities' revenues exceeded expenses by $27.8 million, received transfers of $23.0 million from business activities, resulting in a 3.2 percent increase in net assets. Business-type activities had an overall increase in net assets of 675.0 percent, resulting from an operating profit of $60.8 million and by transfers out of $23.0 million to governmental activities, primarily from the Lottery ($22.3 million) to support education.

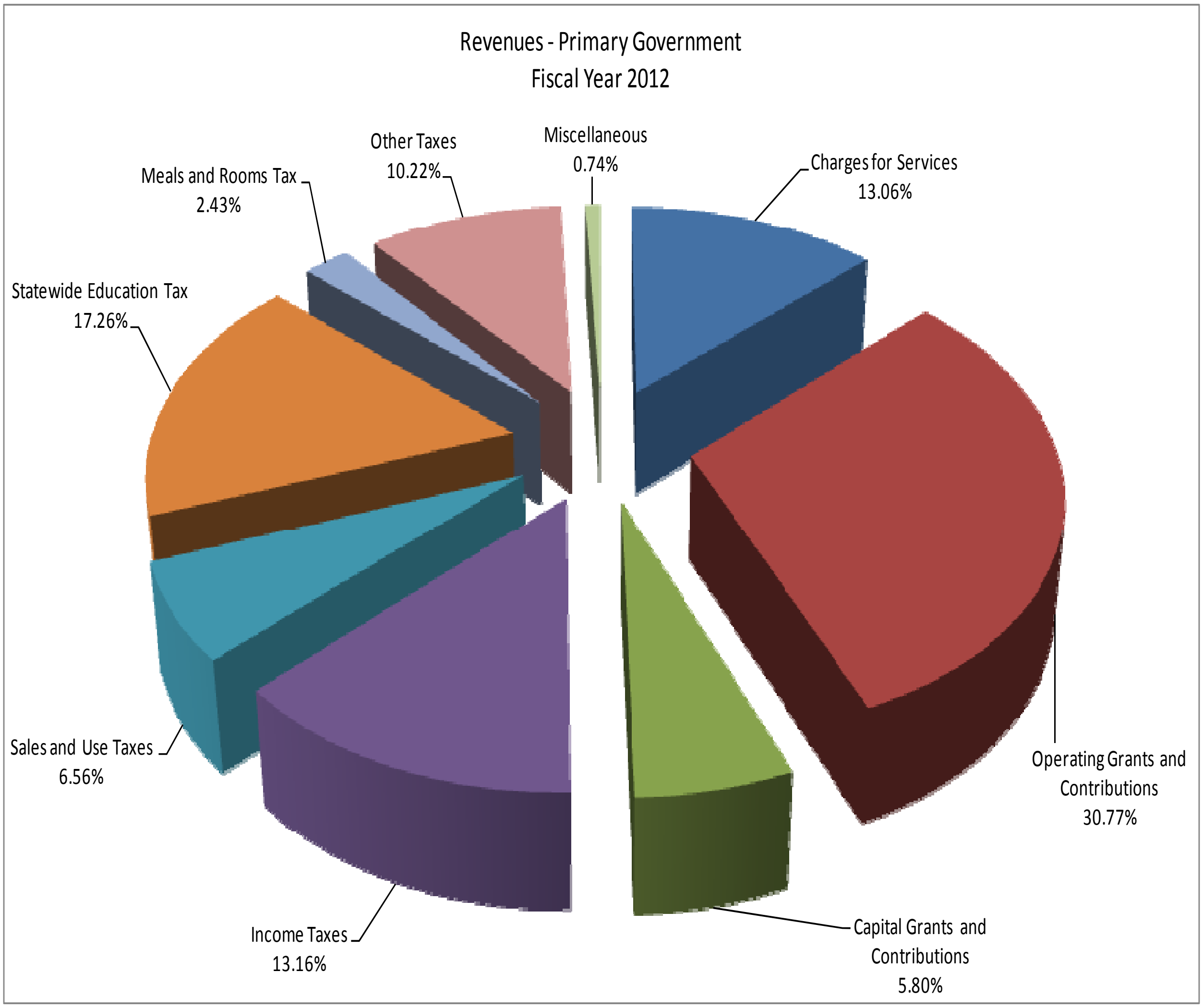
The following condensed table presents a comparison of activity for the fiscal years ended June 30, 2012 and 2011, and contains primary government data only.

TABLE 2
State of Vermont's Changes in Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	394.9	357.0	296.2	266.5	691.1	623.5
Operating grants and contributions	1,590.3	1,703.9	38.2	62.5	1,628.5	1,766.4
Capital grants and contributions	307.0	314.6	-	-	307.0	314.6
General revenues						
Income taxes	696.7	677.9	-	-	696.7	677.9
Sales and use taxes	347.3	323.4	-	-	347.3	323.4
Statewide education tax						
Gross tax assessed	1,063.8	1,065.4	-	-	1,063.8	1,065.4
Income sensitivity adjustment	(150.2)	(147.5)	-	-	(150.2)	(147.5)
Meals and rooms tax	128.6	122.6	-	-	128.6	122.6
Other taxes	540.7	520.0	-	-	540.7	520.0
Miscellaneous	38.7	40.9	0.2	-	38.9	40.9
Total revenues	4,957.8	4,978.2	334.6	329.0	5,292.4	5,307.2
Expenses						
General government	185.5	161.2	-	-	185.5	161.2
Protection to persons and property	328.3	326.0	-	-	328.3	326.0
Human services	2,013.6	1,969.3	-	-	2,013.6	1,969.3
Labor	30.0	32.2	-	-	30.0	32.2
General educaton	1,680.4	1,670.5	-	-	1,680.4	1,670.5
Natural resources	91.5	106.9	-	-	91.5	106.9
Commerce and community development	38.8	48.2	-	-	38.8	48.2
Transportation	542.1	390.8	-	-	542.1	390.8
Interest on long-term debt	19.8	20.9	-	-	19.8	20.9
Unemployment compensation	-	-	139.3	190.7	139.3	190.7
Lottery commission	-	-	78.6	74.1	78.6	74.1
Liquor control	-	-	50.5	47.9	50.5	47.9
Other business type expenses	-	-	5.4	4.8	5.4	4.8
Total expenses	4,930.0	4,726.0	273.8	317.5	5,203.8	5,043.5
Increase (decrease) in net assets before transfers	27.8	252.2	60.8	11.5	88.6	263.7
Transfers net in (out)	23.0	22.0	(23.0)	(22.0)	-	-
Change in net assets	50.8	274.2	37.8	(10.5)	88.6	263.7
Net assets, beginning of year	1,594.0	1,319.8	(5.6)	4.9	1,588.4	1,324.7
Net assets, end of year	$ 1,644.8	$ 1,594.0	$ 32.2	$ (5.6)	$ 1,677.0	$ 1,588.4

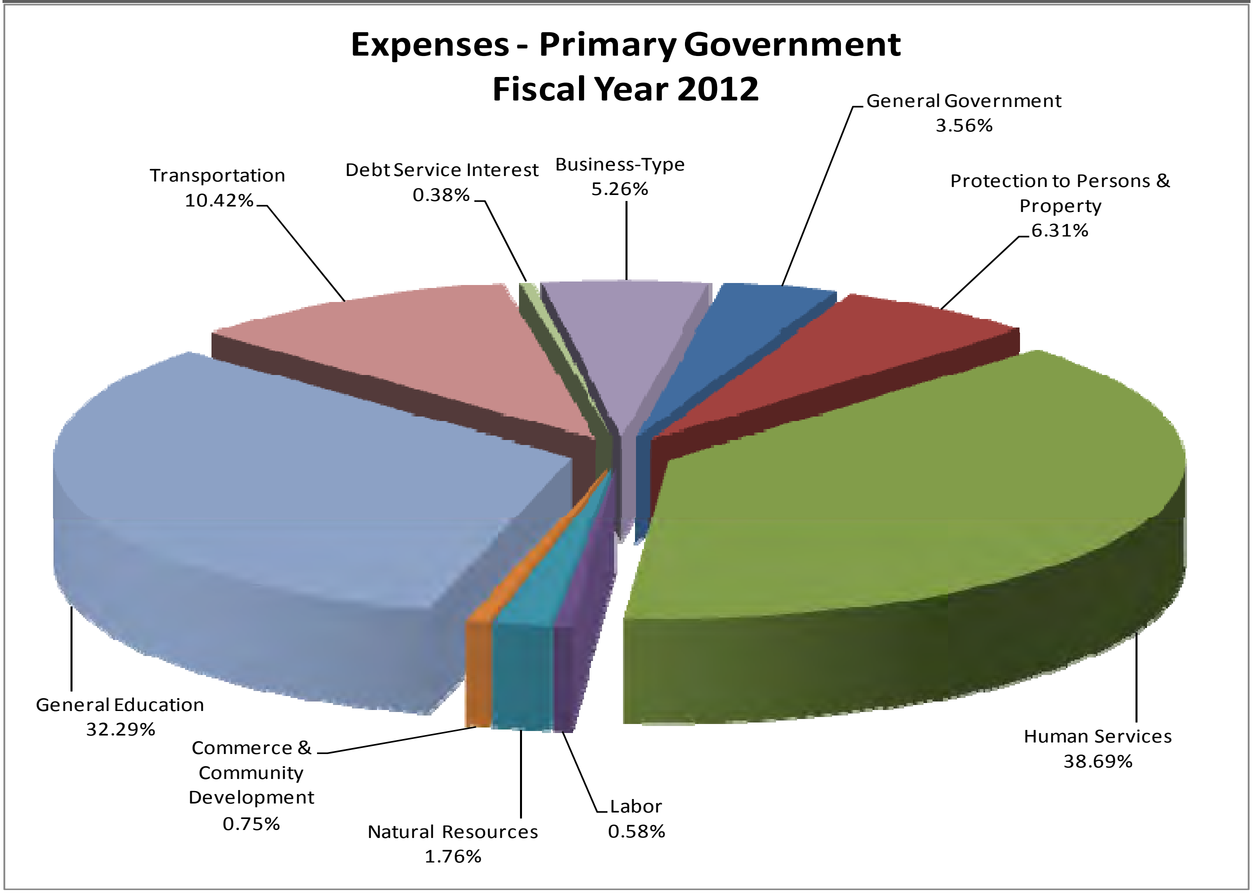
Totals may not add due to rounding.

The following graph illustrates the revenues of Vermont's primary government for fiscal year 2012. Approximately 36.57 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 30.42 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 2012. The largest category of expense is for human services (38.69 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 (32.29 percent of total expenses) which provides for Vermont's support to secondary and higher education.



Percentages may not equal 100% due to rounding.

FINANCIAL ANALYSIS OF THE STATE'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 2012, the unrestricted fund balance is 43.23 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance is restricted or nonspendable to indicate that it is not available for new spending such as the principal of the State's Permanent Funds, and other items that are nonspendable, such as advances and prepaid items and long-term receivables. At the end of fiscal year 2012, the State's governmental funds reported combined fund balances of $867.1 million, a decrease of $2.0 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2012, the General Fund's total fund balance was $178.4 million and the unassigned portion of this fund balance was $151.0 million. Its remaining fund balance was made up of nonspendable amounts totaling $2.1 million, and committed and assigned amounts totaling $25.3 million. During 2012, total expenditures and other financing uses exceeded total revenues and other financing sources by $36.0 million.

The Special Fund's total fund balance at the end of fiscal year 2012 was $88.8 million, an increase of 4.3 percent in comparison with 2011. The Special Fund's total fund balance is comprised of $4.8 million as restricted and $85.8 million as committed or assigned. Special Fund revenues increased $71.1 million and expenditures increased $48.9 million compared to 2011 resulting in an increase in "excess of revenues over expenditures" of $22.1 million from last fiscal year. Fiscal year 2012 transfers out to other funds exceeded transfers in from other funds by $239.4 million. The Special Fund transferred $292.0 million to the Global Commitment Fund for a portion of the State's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver.

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 Agency of Human Services (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 2012 were $845.4 billion, a 6.3 percent decrease over fiscal year 2011's federal grant revenues. The majority of this decrease is for federal grants for the payment of the Federal share of Medicaid expenditures under the Global Commitment to Health Medicaid waiver. That amount is now reported as revenue in the Global Commitment Fund. The Federal Revenue Fund's total fund balance at the end of fiscal year 2012 ($351.8 million) was a increase of $30.4 million as compared to the total fund balance at the end of fiscal year 2011.

The fiscal year 2012 ending total fund balance for the Global Commitment Fund was $89.5 million. Expenditures of $1,036.6 million exceeded revenues and net transfers in of $1,018.0 million by $18.6 million.

The Education Fund at June 30, 2012, had a total fund balance of $65.8 million, which represents a $17.1 million increase over fiscal year 2011's ending balance. Prior to fiscal year 2008, the State appropriated property tax relief payments directly to taxpayers based on taxpayer income levels and property taxes (income sensitivity). Beginning with fiscal year 2009, the State changed the methodology it used to implement income sensitivity as applied to property taxes. Now the State determines the amount each taxpayer is to receive based on their personal income tax return submissions and notifies each municipality of the amount each taxpayer is to have applied against their gross property tax bill. The municipality then applies this amount against the homeowner's gross property tax. The State pays the sensitivity amount to the municipality directly. The Education Fund's reserve for budget stabilization decreased $0.4 million to $29.8 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $18.4 million at June 30, 2012, a decrease of $1.9 million from the fiscal year 2011 ending total fund balance. This decrease was primarily the result of revenue exceeding expenditures by $10.8 million offset by transfers to other funds of $12.7 million. The Transportation Fund's reservation for budget stabilization increased from $10.4 million to $10.8 million, the maximum allowed by statute.

See Note 1, Section E for more information regarding these funds.

Proprietary Funds

The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund's total net asset balance increased from a negative $11.2 million at June 30, 2011 to a $26.2 million at June 30, 2012, an increase of $37.4 million in one year. The fund received an Unemployment Insurance Modernization Grant of $38 million. In addition, the Legislature enacted an increase in the Taxable Wage Base Assessment to cover unemployment benefit distributions and pay down the $78 million Title XII cash advance from the U.S. Treasury.

The State's *internal service funds'* total net assets at June 30, 2012 were $17.8 million, an $8.4 million increase from June 30, 2011. This increase is primarily due to operating income totaling $1.9 million, net non-operating expenses of $0.4 million and net transfers in from other funds of $6.9 million. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside State government. The *pension and other postemployment benefit trust funds'* net assets decreased by 0.57 percent to $3.45 billion at June 30, 2012. For more information regarding the State's retirement and other postemployment benefit plans, see Note 5 to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2012 is $9.6 million, and total liabilities balance is $6.7 million, including the escheat property claims liability estimated at $6.65 million, resulting in ending net assets of $2.9 million. The Investment Trust Fund's total net assets at June 30, 2012, were $124.7 million. Net assets of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The State ended fiscal year 2012 with General Fund revenues of $1.197 billion, expenditures of $888.0 million, and net transfers to other funds of $338.7 million (non-GAAP budgetary basis). This was a $29.3 million increase in revenues over the previous year. The fiscal year 2012 General Fund consensus revenue forecast initially approved by the Emergency Board in July, 2011 was subsequently revised upward by the Emergency Board at their January 2012 meeting. Compared to target, the revenues were 0.5 percent above the July, 2011 revised revenue forecast of $1,191.2 million, and 0.6 percent above the January 2012 revenue forecast of $1,189.4 million. The higher than projected General Fund revenues were attributable to higher than expected Personal Income Tax receipts ($2.4 million above target), Corporate Income Tax receipts ($8.6 million above target), and Sales & Use Tax receipts ($1.4 million above target). Receipts from the Inheritance and Estate Tax was $6.2 million below target. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $58.1 million, representing the statutory maximum of 5 percent of the prior year appropriations level.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2012, was $1.951 billion, a total increase of 6.2 percent (Table 3). 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.

Many component unit, municipal and non-profit organizations' capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other organizations. Therefore, these capital assets are recorded on the financial statements of these owning organizations and are not listed on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2012, the State had $217.2 million of general obligation bonds outstanding related to capital assets of these other organizations. Additional information on the State's capital assets can be found in Note 4 of the notes to the financial statements.

TABLE 3
Capital Assets at Fiscal Year End
(Net of depreciation, amounts in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land, Land Use Rights, and Land Improvements……………	$ 117,465	$ 114,141	$ -	$ -	$ 117,465	$ 114,141
Construction in Progress…………	490,630	439,533	-	-	490,630	439,533
Works of Art……………………….	136	136	-	-	136	136
Buildings and Improvements……..	242,487	245,633	16	23	242,503	245,656
Machinery and Equipment……….	58,663	54,138	729	834	59,392	54,972
Infrastructure……………………….	1,041,216	983,474	-	-	1,041,216	983,474
Totals…………………………….	$ 1,950,597	$ 1,837,055	$ 745	$ 857	$ 1,951,342	$ 1,837,912

Totals may not add due to rounding.

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

During fiscal year 2012, the State of Vermont's outstanding general and special obligation bond debt increased by approximately $9.9 million. This increase can be accounted for by the issuance of $132.1 million of general obligation bonds and accretion of $0.3 million in principal on the State's capital appreciation bonds offset by the redemption of $52.1 million and defeasance of $70.3 million. Additional information on the State's bonded debt is contained in Note 8 of the notes to the financial statements.

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

ECONOMIC FACTORS AFFECTING THE STATE

Capital Debt Affordability
Annually the Capital Debt Affordability Advisory Committee (CDAAC) completes a review of the size and affordability of the State tax-supported general obligation debt. By October 1, the CDAAC submits to the Governor and to the General Assembly an estimate of the maximum amount of new long-term general obligation debt that prudently may be authorized for the next fiscal year. In September 2011, the CDAAC issued its recommendation by presenting two proposals, one for fiscal year 2012 alone and one for fiscal years 2012 and 2013 as a unit. The CDAAC proposed that the maximum amount of long-term general obligation debt authorized to be issued by the State in each of fiscal year 2013 and 2014 be $76.58 million or a total of $153.16 million for the two year period.

Economic Outlook

Recent data on Vermont economic conditions indicate that the performance of the Vermont economy has generally outperformed the developments in the U.S. economy overall during the past 12 to18 months since the State's last period of economic recession ended, although there has been little change in the economic and revenue outlook over the previous six months to a year. The primary downside risks continue to be related to potential economic policy errors in Washington and the European Union, although the situation in Europe is better than it was six months ago. Job market data shows that Vermont labor markets have continued to outpace the U.S. average, with the lowest unemployment rate in New England, and the eighth lowest unemployment rate in the nation in November, 2012. Construction and real estate markets continue to struggle, although market imbalances have almost run their course. Total revenues for the General Fund, Transportation Fund, and Education Fund currently show a variance from target of less than one percent. The large consumption taxes (meals and rooms, sales and use, and motor vehicle purchase and use) are right on target, and corporate taxes remain strong at about 4% above target. Such growth is expected to continue into fiscal year 2013.

REQUESTS FOR INFORMATION

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

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

The State's component units issue their own separately issued financial statements. Their statements may be obtained by directly contacting them at the addresses found in Note 1 to the State's financial statements.

BASIC FINANCIAL STATEMENTS

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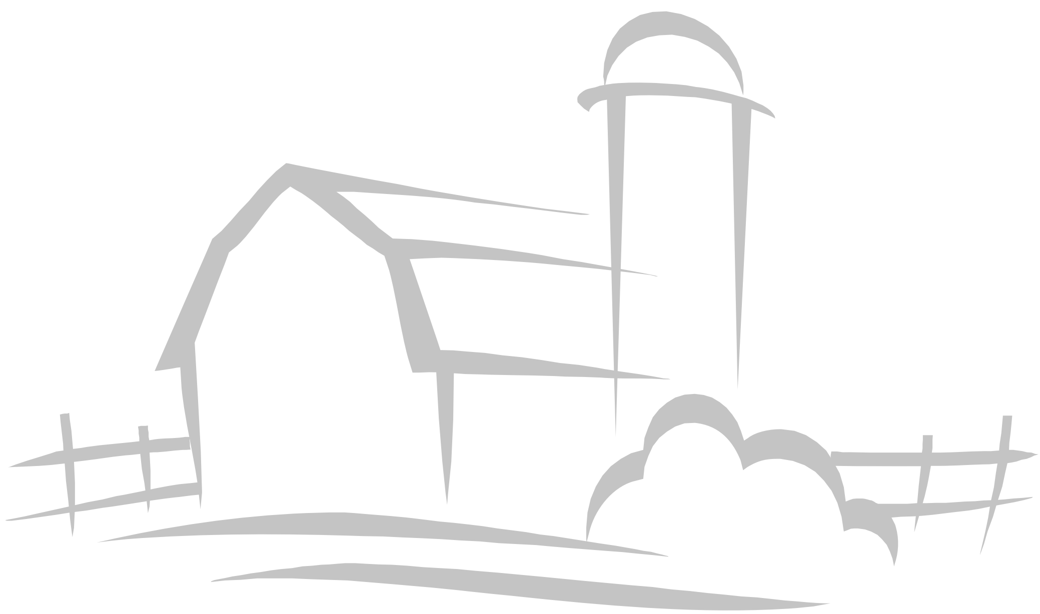

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current Assets				
Cash and cash equivalents	$ 537,882,533	$ 82,376,472	$ 620,259,005	$ 169,774,896
Taxes receivable, net	89,465,132	38,544,255	128,009,387	-
Loans and notes receivable, net	25,601,990	993,093	26,595,083	248,786,611
Federal grants receivable	195,338,930	645,530	195,984,460	30,380,145
Other receivables, net	37,519,934	4,668,156	42,188,090	78,336,301
Investments	22,190,306	-	22,190,306	165,236,213
Inventories	2,266,225	6,012,600	8,278,825	1,973,037
Internal balances	2,671,962	(2,671,962)	-	-
Receivable from primary government	-	-	-	54,871
Receivable from component units	2,276,581	-	2,276,581	-
Other current assets	1,224,354	77,341	1,301,695	18,845,440
Total current assets	916,437,947	130,645,485	1,047,083,432	713,387,514
Noncurrent Assets				
Cash and equivalents	-	488,880	488,880	456,130,496
Taxes receivable	136,540,209	-	136,540,209	-
Other receivables	41,615,402	8,747	41,624,149	-
Loans and notes receivable	216,387,501	1,205,309	217,592,810	2,687,116,404
Investments	36,107,442	2,045,324	38,152,766	541,851,499
Other noncurrent assets	14,303,171	-	14,303,171	58,330,247
Capital assets				
Land	117,465,089	-	117,465,089	36,057,033
Construction in progress	490,629,998	-	490,629,998	7,343,287
Works of art	136,003	-	136,003	-
Capital assets being depreciated				
Infrastructure	1,792,146,281	-	1,792,146,281	34,420,140
Property, plant and equipment	618,572,800	2,203,061	620,775,861	1,200,806,173
Less accumulated depreciation	(1,068,352,857)	(1,457,793)	(1,069,810,650)	(514,735,731)
Total capital assets, net of depreciation	1,950,597,314	745,268	1,951,342,582	763,890,902
Total noncurrent assets	2,395,551,039	4,493,528	2,400,044,567	4,507,319,548
Total assets	3,311,988,986	135,139,013	3,447,127,999	5,220,707,062

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

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities……………	248,495,912	9,304,613	257,800,525	104,371,504
Income tax refunds payable…………………………………	64,020,569	-	64,020,569	-
Payable to primary government……………………………	-	-	-	2,331,452
Intergovernmental payable - due to federal government…	12,307,203	-	12,307,203	-
Accrued interest payable……………………………………	7,164,990	-	7,164,990	8,014,672
Current portion of long-term liabilities………………………	91,922,217	24,229,860	116,152,077	313,779,341
Unearned revenue……………………………………………	3,916,760	10,085,700	14,002,460	32,287,394
Total current liabilities……………………………….	427,827,651	43,620,173	471,447,824	460,784,363
Long-term liabilities				
Lottery prize awards payable………………………………	-	1,435,101	1,435,101	-
Bonds, notes and leases payable…………………………	469,784,072	-	469,784,072	3,464,713,548
Compensated absences……………………………………	11,891,076	146,406	12,037,482	-
Claims and judgments………………………………………	31,840,200	-	31,840,200	-
Other long-term liabilities……………………………………	725,819,511	57,731,861	783,551,372	222,844,169
Total long-term liabilities…………………………….	1,239,334,859	59,313,368	1,298,648,227	3,687,557,717
Total liabilities…………………………………………….	1,667,162,510	102,933,541	1,770,096,051	4,148,342,080
NET ASSETS				
Invested in capital assets, net of related debt……………….	1,727,652,353	745,268	1,728,397,621	142,583,900
Restricted for				
Unemployment compensation	-	26,216,418	26,216,418	-
Component unit net assets…………………………………	-	-	-	803,220,725
Funds held in permanent investments				
Expendable…………………………………………………	342,340	-	342,340	-
Nonexpendable……………………………………………	7,416,453	-	7,416,453	-
General government…………………………………………	23,547,051	-	23,547,051	-
Protection to persons and property…………………………	13,656,816	-	13,656,816	-
Human services………………………………………………	140,217,686	-	140,217,686	-
Labor……………………………………………………………	6,337,550	-	6,337,550	-
General education……………………………………………	1,756,117	-	1,756,117	-
Natural resources ……………………………………………	302,825,433	-	302,825,433	-
Commerce and community development…………………	263,036	-	263,036	-
Transportation…………………………………………………	5,678	-	5,678	-
Debt service……………………………………………………	3,009,094	-	3,009,094	-
Unrestricted (deficit)……………………………………………	(582,203,131)	5,243,786	(576,959,345)	126,560,357
Total net assets…………………………………………..	$ 1,644,826,476	$ 32,205,472	$ 1,677,031,948	$ 1,072,364,982

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government..............................	$ 185,483,918	$ 50,734,333	$ 13,110,732	$ -
Protection to persons and property...........	328,292,534	144,070,587	65,598,999	-
Human services...................................	2,013,616,477	34,764,977	1,196,193,489	-
Labor..	30,003,709	14,606,017	22,069,942	-
General education................................	1,680,443,175	2,006,883	126,071,066	-
Natural resources.................................	91,451,936	26,914,537	23,550,258	20,738,390
Commerce and community development....	38,781,699	435,030	16,066,475	-
Transportation....................................	542,054,684	121,345,117	126,173,274	286,217,828
Interest on long-term debt......................	19,775,783	-	1,437,142	-
Total governmental activities.............	4,929,903,915	394,877,481	1,590,271,377	306,956,218
Business-type activities				
Vermont Lottery Commission..................	78,555,648	100,930,520	-	-
Liquor Control....................................	50,519,182	51,700,444	-	-
Unemployment Compensation................	139,339,697	138,550,415	38,238,794	-
Other	5,394,045	5,010,829	-	-
Total business-type activities............	273,808,572	296,192,208	38,238,794	-
Total primary government......................	$ 5,203,712,487	$ 691,069,689	$ 1,628,510,171	$ 306,956,218
Component Units				
Vermont Student Assistance Corporation.......	$ 101,216,000	$ 59,239,000	$ 45,227,000	$ -
University of Vermont and State Agricultural College......................	614,136,000	359,596,000	217,771,000	6,687,000
Vermont State Colleges.............................	191,327,165	117,848,254	63,393,587	2,157,985
Vermont Housing Finance Agency................	37,065,000	704,000	-	-
Other..	88,972,974	47,462,467	35,411,681	991,058
Total component units............................	$ 1,032,717,139	$ 584,849,721	$ 361,803,268	$ 9,836,043

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...................
Additions to non-expendable endowments.
Miscellaneous.......................................
Transfers..

Total general revenues and transfers......

Changes in net assets........................

Net Assets - Beginning, as restated...........

Net Assets - Ending................................

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activities	Total	
$ (121,638,853)	$ -	$ (121,638,853)	$ -
(118,622,948)	-	(118,622,948)	-
(782,658,011)	-	(782,658,011)	-
6,672,250	-	6,672,250	-
(1,552,365,226)	-	(1,552,365,226)	-
(20,248,751)	-	(20,248,751)	-
(22,280,194)	-	(22,280,194)	-
(8,318,465)	-	(8,318,465)	-
(18,338,641)	-	(18,338,641)	-
(2,637,798,839)	-	(2,637,798,839)	-
-	22,374,872	22,374,872	-
-	1,181,262	1,181,262	-
-	37,449,512	37,449,512	-
-	(383,216)	(383,216)	-
-	60,622,430	60,622,430	-
(2,637,798,839)	60,622,430	(2,577,176,409)	-
			3,250,000
-	-	-	(30,082,000)
-	-	-	(7,927,339)
-	-	-	(36,361,000)
-	-	-	(5,107,768)
-	-	-	(76,228,107)
696,663,745	-	696,663,745	-
347,282,654	-	347,282,654	-
128,591,786	-	128,591,786	-
81,908,566	-	81,908,566	-
61,791,172	-	61,791,172	-
913,639,504	-	913,639,504	-
397,011,589	-	397,011,589	8,047,500
2,626,889,016	-	2,626,889,016	8,047,500
998,095	160,297	1,158,392	44,141,917
34,519,359	-	34,519,359	-
-	-	-	990,077
3,254,299	-	3,254,299	9,599,087
22,958,162	(22,958,162)	-	-
2,688,618,931	(22,797,865)	2,665,821,066	62,778,581
50,820,092	37,824,565	88,644,657	(13,449,526)
1,594,006,384	(5,619,093)	1,588,387,291	1,085,814,508
$ 1,644,826,476	$ 32,205,472	$ 1,677,031,948	$ 1,072,364,982

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents	$ 87,539,602	$ 4,420,936	$ 63,524,019	$ 117,377,763
Investments	750,000	-	-	22,466,044
Receivables				
Taxes receivable, net	196,530,132	9,435,074	15,852,053	4,084,279
Accrued interest receivable	263	1,165	-	2,469
Notes and loans receivable	728,749	399,550	-	4,388,278
Other receivables, net	9,548,148	13,033,363	-	25,545,755
Intergovernmental receivables - federal government, net	376,775	43,575,043	-	-
Due from other funds	4,080,951	456,609	-	3,028,115
Due from component units	2,016,835	-	-	42,530
Interfund receivable	70,665,000	-	-	-
Advances to other funds	301,275	-	-	-
Advances to component units	1,028,960	-	-	1,259,962
Total assets	$ 373,566,690	$ 71,321,740	$ 79,376,072	$ 178,195,195
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$ 25,730,391	$ 36,388,417	$ 9,221,831	$ 18,516,702
Accrued liabilities	9,027,271	4,711,354	128,945	2,514,486
Retainage payable	10,633	44,854	-	67,689
Due to other funds	15,350,581	1,151,070	10,976	55,372,639
Due to component units	-	-	-	-
Intergovernmental payable - federal government	-	-	-	-
Tax refunds payable	6,633,326	-	86,713	26,045
Deferred revenue	138,433,824	10,637,651	4,123,291	12,886,300
Total liabilities	195,186,026	52,933,346	13,571,756	89,383,861
FUND BALANCES				
Nonspendable				
Advances	1,330,235	-	-	-
Long-term notes and loans receivable	728,749	-	-	-
Permanent Fund principal	-	-	-	-
Restricted	-	-	-	4,757,664
Committed	18,501,930	18,388,394	65,804,316	85,822,913
Assigned	6,833,852	-	-	-
Unassigned	150,985,898	-	-	(1,769,243)
Total fund balances	178,380,664	18,388,394	65,804,316	88,811,334
Total liabilities and fund balances	$ 373,566,690	$ 71,321,740	$ 79,376,072	$ 178,195,195

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

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ 68,505,669	$ 87,095,424	$ 47,120,429	$ -	$ 475,583,842
227,314	-	34,854,390	-	58,297,748
-	-	103,803	-	226,005,341
6,650	-	-	-	10,547
236,472,914	-	-	-	241,989,491
2,376,968	20,856,800	998,379	-	72,359,413
102,617,627	48,332,483	437,002	-	195,338,930
3,275,554	37,341,879	6,669	(47,554,997)	634,780
-	-	-	-	2,059,365
-	-	-	-	70,665,000
-	-	-	-	301,275
-	-	-	-	2,288,922
$ 413,482,696	$ 193,626,586	$ 83,520,672	$ (47,554,997)	$ 1,345,534,654
$ 41,047,020	$ 83,441,296	$ 5,576,133	$ -	$ 219,921,790
4,301,135	2,209,038	441,399	-	23,333,628
273,636	275,077	910,812	-	1,582,701
1,286,318	6,602,727	135,699	(47,554,997)	32,355,013
-	-	2,071,706	-	2,071,706
10,368,896	-	-	-	10,368,896
-	-	-	-	6,746,084
4,356,706	11,616,145	-	-	182,053,917
61,633,711	104,144,283	9,135,749	(47,554,997)	478,433,735
-	-	-	-	1,330,235
-	-	-	-	728,749
-	-	7,416,453	-	7,416,453
351,848,985	89,482,303	36,654,320	-	482,743,272
-	-	30,610,432	-	219,127,985
-	-	-	-	6,833,852
-	-	(296,282)	-	148,920,373
351,848,985	89,482,303	74,384,923	-	867,100,919
$ 413,482,696	$ 193,626,586	$ 83,520,672	$ (47,554,997)	$ 1,345,534,654

STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE
STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
JUNE 30, 2012

Total Fund balances from previous page		$ 867,100,919
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. Those assets consist of:		
Land	117,438,933	
Works of Art	127,803	
Construction in progress	489,414,650	
Depreciable capital assets and infrastructure net of $1,018,429,741 of accumulated depreciation	1,306,619,336	
Capital assets, net of accumulated depreciation		1,913,600,722
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 assets		17,724,719
Amounts presented in the statement of net assets relating to, but not in fund balances due to a different basis of accounting include:		
Long-term assets are not available to pay for current period expenditures and therefore are reported as deferred revenues in the governmental funds		178,155,612
Deferred charge for unamortized bond issuance costs and discounts on sale of bonds		4,090,135
Deferred for unamortized gain on sale of refunding bonds		10,213,036
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. These liabilities include:		
Bonded and capital lease debt (net of internal service funds' liability)	(519,540,294)	
Accrued interest payable on bonds	(7,164,990)	
Intergovernmental payable - federal government	(1,938,307)	
Compensated absences (net of internal service funds' liability)	(31,492,044)	
Tax refunds payable	(57,274,485)	
Other long-term liabilities	(728,648,547)	
Long-term liabilities		(1,346,058,667)
Net assets of governmental activities		$ 1,644,826,476

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

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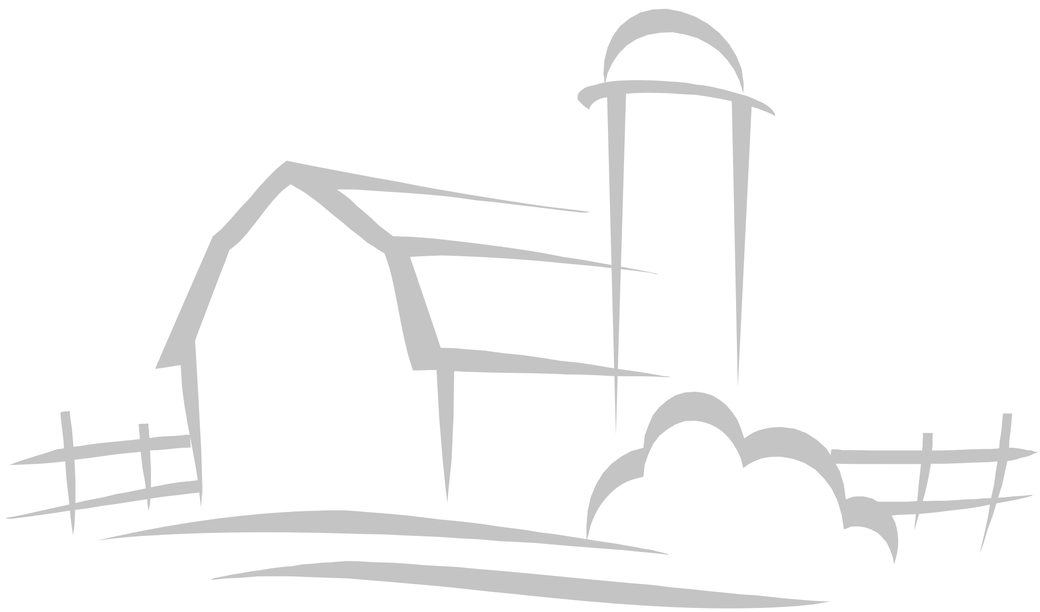

Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax	$ 593,009,113	$ -	$ -	$ 1,851,012
Corporate income tax	83,931,528	-	-	-
Sales and use tax	229,156,815	-	114,534,722	-
Meals and rooms tax	127,388,883	-	-	-
Motor fuels tax	-	59,335,840	-	1,528,505
Purchase and use tax	-	54,606,185	27,302,381	-
Statewide education tax	-	-	913,639,504	-
Other taxes	128,905,063	17,431,927	2,308,239	248,327,494
Earnings of departments				
Fees	20,906,404	28,679,181	-	66,878,403
Rents and leases	-	1,568,540	-	3,133,906
Sales of services	2,638,754	89,560	-	13,525,412
Federal grants	-	416,274,926	-	-
Fines, forfeits and penalties	7,390,456	4,993,669	-	9,909,847
Investment income	356,392	45,156	48,267	830,747
Licenses				
Business	3,048,422	662,426	-	13,693,584
Non-business	72,555	78,142,262	-	2,944,010
Special assessments	-	-	-	69,746,876
Other revenues	2,584,071	4,578,651	1,509	91,679,032
Total revenues	1,199,388,456	666,408,323	1,057,834,622	524,048,828
EXPENDITURES				
General government	75,847,347	44,720	9,043,752	55,349,814
Protection to persons and property	107,330,032	25,819,205	-	115,085,599
Human services	398,566,976	-	4,238,891	53,692,193
Labor	4,493,989	-	-	3,427,888
General education	141,830,842	-	1,333,780,611	17,706,202
Natural resources	19,306,116	-	-	28,638,251
Commerce and community development	13,474,915	-	-	4,742,373
Transportation	-	629,767,465	-	2,722,460
Debt service	-	-	-	-
Total expenditures	760,850,217	655,631,390	1,347,063,254	281,364,780
Excess of revenues over (under) expenditures	438,538,239	10,776,933	(289,228,632)	242,684,048
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	9,962,616	-	-	437,125
Proceeds from the sale of refunding bonds	69,060,000	-	-	-
Payment to bond escrow agent	(79,022,616)	-	-	-
Transfers in	41,177,548	370,705	306,432,101	80,222,286
Transfers out	(515,711,141)	(13,095,790)	(147,747)	(319,644,961)
Total other financing sources (uses)	(474,533,593)	(12,725,085)	306,284,354	(238,985,550)
Net change in fund balances	(35,995,354)	(1,948,152)	17,055,722	3,698,498
Fund balances, July 1	214,376,018	20,336,546	48,748,594	85,112,836
Fund balances, June 30	$ 178,380,664	$ 18,388,394	$ 65,804,316	$ 88,811,334

The accompanying notes are an integral part of these statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 594,860,125
-	-	-	-	83,931,528
-	-	-	-	343,691,537
-	-	-	-	127,388,883
-	-	926,827	-	61,791,172
-	-	-	-	81,908,566
-	-	-	-	913,639,504
-	-	-	-	396,972,723
		-		
-	220	172,002	-	116,636,210
-	-	48,537	-	4,750,983
-	-	4,200	-	16,257,926
845,394,646	618,312,802	7,173,586	-	1,887,155,960
-	-	8,448	-	22,302,420
588,056	-	1,124,635	-	2,993,253
-	-	980	-	17,405,412
-	-	6,539,729	-	87,698,556
-	-	2,767	-	69,749,643
777,106	-	831,983	-	100,452,352
846,759,808	618,313,022	16,833,694	-	4,929,586,753
12,790,283	789,438	25,657,378	-	179,522,732
68,171,280	1,999,853	2,706,701	-	321,112,670
523,534,329	1,028,422,339	3,546,545	-	2,012,001,273
21,333,878	-	-	-	29,255,755
125,923,293	5,406,166	12,795,298	-	1,637,442,412
21,006,632	-	24,940,728	-	93,891,727
16,117,503	-	4,058,902	-	38,393,693
-	-	622,855	-	633,112,780
-	-	72,390,391	-	72,390,391
788,877,198	1,036,617,796	146,718,798	-	5,017,123,433
57,882,610	(418,304,774)	(129,885,104)	-	(87,536,680)
-	-	63,000,000	-	63,000,000
-	-	2,321,565	-	12,721,306
-	-	-	-	69,060,000
-	-	-	-	(79,022,616)
4,687,564	423,191,991	72,977,491	(901,069,711)	27,989,975
(32,166,985)	(23,474,553)	(5,072,917)	901,069,711	(8,244,383)
(27,479,421)	399,717,438	133,226,139	-	85,504,282
30,403,189	(18,587,336)	3,341,035	-	(2,032,398)
321,445,796	108,069,639	71,043,888	-	869,133,317
$ 351,848,985	$ 89,482,303	$ 74,384,923	$ -	$ 867,100,919

STATE OF VERMONT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITUES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Total net change in fund balances from the previous page	**$**	**(2,032,398)**
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).		
Capital outlay/functional expenditures		360,884,801
Expensed net book value of disposed capital		(158,031,780)
Depreciation expense		(89,975,849)
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayment		52,120,000
Payment to refunding bond escrow agent		79,022,616
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Bonds issued		(63,000,000)
Refunding bonds issued		(69,060,000)
Bond premium is amortized over the life of the bonds in the statement of activities		(10,816,185)
Refunding bonds gain is amortized over the life of the refunding bonds in the statement of activities		(2,167,041)
Bond issuance costs are reported as expenditures in the governmental funds, but this cost is amortized over the life of the bonds in the statement of activities		632,983
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds		25,740,655
Estimated personal income tax refunds and retirement incentives that are not due and payable are not reported as expenditures in the governmental funds		(5,013,633)
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.		
Net decrease in accrued interest payable		1,037,173
Accreted interest on capital appreciation bonds		(280,645)
Increase in compensated absences		(374,987)
Increase in employer pension and other postemployment related costs		(75,029,116)
Increase in pollution remediation related costs		(432,250)
Increase in intergovernment payable - federal government		(621,060)
Increase in early retirement incentives		(162,750)
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		8,379,558
Total changes in net asets of governmental activities as reported on the statement of activities	**$**	**50,820,092**

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents	$ 75,283,681	$ 2,192,735	$ 3,180,721
Receivables			
Taxes receivable, net of allowance for uncollectibles	38,544,255	-	-
Accrued interest receivable	-	-	-
Accounts receivable, net of allowance for uncollectibles	1,192,595	1,152,022	1,821,371
Loans receivable	-	-	-
Due from other funds	-	161	-
Intergovernmental receivables - federal government	645,530	-	-
Inventories, at cost	-	5,240,510	497,831
Prepaid expenses	-	-	5,819
Total current assets	115,666,061	8,585,428	5,505,742
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	-
Investments	-	-	2,045,324
Loans receivable	-	-	-
Accounts receivable - subcriptions	-	-	-
Imprest cash and change fund - advances	-	75	300,000
Total restricted assets	-	75	2,345,324
Capital Assets			
Land	-	-	-
Construction in progress	-	-	-
Works of art	-	-	-
Capital assets being depreciated/amortized			
Machinery, equipment and buildings	-	1,944,866	252,386
Less accumulated depreciation	-	(1,219,855)	(234,469)
Total capital assets, net of depreciation	-	725,011	17,917
Total restricted and capital assets	-	725,086	2,363,241
Total assets	115,666,061	9,310,514	7,868,983
LIABILITIES			
Current Liabilities			
Accounts payable	628,616	4,833,323	905,682
Accrued salaries and benefits	-	355,402	149,353
Claims payable	-	-	-
Due to lottery winners	-	-	249,057
Due to agents	-	523,113	-
Due to other funds	91,828	406,476	-
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	3,791,589
Unearned revenue	9,278,599	1,650	162,537
Capital leases payable	-	-	-
Other current liabilities	21,718,739	39,927	-
Total current liabilities	31,717,782	6,159,891	5,258,218
Long-term Liabilities			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	1,435,101
Claims payable	-	-	-
Advances from other funds	-	75	300,000
Capital leases payable	-	-	-
Other noncurrent liabilities	57,731,861	-	-
Total long-term liabilities	57,731,861	75	1,735,101
Total liabilities	89,449,643	6,159,966	6,993,319
NET ASSETS			
Invested in capital assets, net of related debt	-	725,011	17,917
Restricted for unemployment compensation benefits	26,216,418	-	-
Unrestricted (deficit)	-	2,425,537	857,747
Total net assets	$ 26,216,418	$ 3,150,548	$ 875,664

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
	$ 1,418,060	$ -	$ 82,075,197	$ 62,298,691
	-	-	38,544,255	-
	17,649	-	17,649	-
	484,519	-	4,650,507	15,882,973
	993,093	-	993,093	-
	91,828	(91,828)	161	31,982,797
	-	-	645,530	-
	274,259	-	6,012,600	2,266,225
	71,522	-	77,341	1,224,354
	3,350,930	(91,828)	133,016,333	113,655,040
	488,880	-	488,880	-
	-	-	2,045,324	-
	1,205,309	-	1,205,309	-
	8,747	-	8,747	-
	1,200	-	301,275	-
	1,704,136	-	4,049,535	-
	-	-	-	26,156
	-	-	-	1,215,348
	-	-	-	8,200
	5,809	-	2,203,061	85,670,002
	(3,469)	-	(1,457,793)	(49,923,114)
	2,340	-	745,268	36,996,592
	1,706,476	-	4,794,803	36,996,592
	5,057,406	(91,828)	137,811,136	150,651,632
	421,241	-	6,788,862	11,527,849
	64,738	-	569,493	3,105,856
	-	-	-	14,287,534
	-	-	249,057	-
	-	-	523,113	-
	4,559	(91,828)	411,035	228,465
	2,033,224	-	2,033,224	68,249,564
	-	-	3,791,589	-
	154,034	-	9,596,820	18,455
	-	-	-	494,233
	99	-	21,758,765	-
	2,677,895	(91,828)	45,721,958	97,911,956
	488,880	-	488,880	-
	-	-	1,435,101	-
	-	-	-	31,840,200
	1,200	-	301,275	-
	-	-	-	3,101,346
	-	-	57,731,861	-
	490,080	-	59,957,117	34,941,546
	3,167,975	(91,828)	105,679,075	132,853,502
	2,340	-	745,268	33,401,013
	-	-	26,216,418	-
	1,887,091	-	5,170,375	(15,602,883)
	$ 1,889,431	$ -	32,132,061	$ 17,798,130
Adjustment to reflect the consolidation of internal service activities related to enterprise funds..................................			73,411	
Net Assets - Business-type Activities..........			$ 32,205,472	

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services	$ 138,550,415	$ 48,274,581	$ -
Ticket sales	-	-	100,927,079
Rental income	-	-	-
License fees	-	1,241,195	-
Federal donated properties	-	-	-
Advertising revenues	-	-	-
Other operating revenues	-	2,184,668	3,441
Total operating revenues	138,550,415	51,700,444	100,930,520
OPERATING EXPENSES			
Cost of sales and services	-	38,822,523	75,664,961
Claims expense	139,339,697	-	-
Salaries and benefits	-	3,738,554	1,480,387
Insurance premium expense	-	15,977	3,902
Contractual services	-	999,009	122,514
Repairs and maintenance	-	59,940	7,709
Depreciation	-	299,597	13,140
Rental expense	-	52,210	193,407
Utilities and property management	-	325,230	99,951
Non-capital equipment purchased	-	74,416	8,311
Promotions and advertising	-	69,057	687,950
Administration expenses	-	62,544	51,070
Supplies and parts	-	265,127	35,430
Distribution and postage	-	41,241	18,426
Travel	-	30,106	15,293
Other operating expenses	-	5,691,692	169,918
Total operating expenses	139,339,697	50,547,223	78,572,369
Operating income (loss)	(789,282)	1,153,221	22,358,151
NONOPERATING REVENUES (EXPENSES)			
Federal grants	38,238,794	-	-
Gain on disposal of capital assets	-	-	-
Investment income	11,275	-	147,771
Total nonoperating revenues (expenses)	38,250,069	-	147,771
Income (loss) before contributions, and transfers	37,460,787	1,153,221	22,505,922
Capital contributions to other funds	-	-	-
Transfers in	771,006	-	-
Transfers out	(815,785)	(880,066)	(22,328,096)
Changes in net assets	37,416,008	273,155	177,826
Total net assets, July 1	(11,199,590)	2,877,393	697,838
Total net assets, June 30	$ 26,216,418	$ 3,150,548	$ 875,664

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

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
$ 3,472,621	$ -	$ 190,297,617	$ 256,111,298
-	-	100,927,079	-
-	-	-	13,306,677
-	-	1,241,195	-
1,004,760	-	1,004,760	-
373,898	-	373,898	-
159,550	-	2,347,659	4,477,866
5,010,829	-	296,192,208	273,895,841
3,819,100	-	118,306,584	30,163,411
-	-	139,339,697	144,668,123
681,944	-	5,900,885	34,411,952
7,150	-	27,029	4,343,017
268,750	-	1,390,273	5,377,958
477	-	68,126	8,732,833
1,936	-	314,673	7,896,880
9,246	-	254,863	2,574,599
19,060	-	444,241	11,013,004
9,720	-	92,447	2,329,519
136,416	-	893,423	36,170
42,715	-	156,329	7,472,880
5,183	-	305,740	10,108,627
366,779	-	426,446	88,354
2,900	-	48,299	123,745
32,889	-	5,894,499	2,676,799
5,404,265	-	273,863,554	272,017,871
(393,436)	-	22,328,654	1,877,970
-	-	38,238,794	-
-	-	-	(470,790)
1,251	-	160,297	94,556
1,251	-	38,399,091	(376,234)
(392,185)	-	60,727,745	1,501,736
-	-	-	(4,855)
1,065,785	(1,586,791)	250,000	7,994,383
(771,006)	1,586,791	(23,208,162)	(1,056,724)
(97,406)	-	37,769,583	8,434,540
1,986,837	-	(5,637,522)	9,363,590
$ 1,889,431	$ -	$ 32,132,061	$ 17,798,130

Total change in net assets reported above..........	$ 37,769,583
Consolidation adjustment of internal service activities related to enterprise funds......	54,982
Change in net assets - business type activities...	$ 37,824,565

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 129,507,725	$ 64,371,163	$ 100,509,754
Cash paid to suppliers for goods and services	-	(46,401,055)	-
Cash paid to employees for services	-	(3,700,445)	(1,467,809)
Cash paid for prizes and commissions	-	-	(69,375,094)
Cash paid to claimants	(140,265,935)	-	-
Liquor taxes and licenses paid	-	(17,130,307)	-
Cash paid for fees, operations and other	-	-	(6,298,142)
Other operating revenues	-	3,425,863	3,441
Other operating expenses	-	(1,074)	-
Total cash provided (used) by operating activities	(10,758,210)	564,145	23,372,150
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	(65,751)	(880,066)	(22,328,096)
Other nonoperating (expenses)	-	-	-
Interfund loans and advances	-	(425)	-
Federal grants	48,262,957	-	-
Temporary loan from federal government	-	-	-
Net cash provided (used) by noncapital financing activities	48,197,206	(880,491)	(22,328,096)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(203,037)	-
Proceeds from capital leases	-	-	-
Proceeds from sale of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	-	(203,037)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	-	-	(64,660)
Proceeds from sales/maturities of investments	-	-	247,077
Interest and penalties received (paid)	11,275	-	-
Net cash provided (used) by investing activities	11,275	-	182,417
Net increase (decrease) in cash and cash equivalents	37,450,271	(519,383)	1,226,471
Cash and cash equivalents, July 1	37,833,410	2,712,193	2,254,250
Cash and cash equivalents, June 30	$ 75,283,681	$ 2,192,810	$ 3,480,721
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ (789,282)	$ 1,153,221	$ 22,358,151
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	299,597	13,140
(Increase) decrease in accounts/taxes receivable	(9,042,690)	(723,952)	(414,506)
(Increase) decrease in loans receivable	-	-	-
(Increase) decrease in accrued interest receivable	-	-	-
(Increase) decrease in due from other funds	-	(161)	-
(Increase) decrease in inventory	-	(115,260)	(12,695)
(Increase) decrease in prepaid expenses	-	-	(5,819)
Increase (decrease) in accounts payable	-	88,709	456,373
Increase (decrease) in accrued salaries and benefits	-	38,109	12,577
Increase (decrease) in claims payable	(496,772)	-	-
Increase (decrease) in due to lottery winners	-	-	(170,017)
Increase (decrease) in due to agents	-	93,567	-
Increase (decrease) in future and unclaimed prizes payable	-	-	1,131,946
Increase (decrease) in due to other funds	-	(311,262)	-
Increase (decrease) in deferred revenues	-	1,650	3,000
Increase (decrease) in other liabilities	(429,466)	39,927	-
Increase (decrease) in subscription reserves	-	-	-
Total adjustments	(9,968,928)	(589,076)	1,013,999
Net cash provided (used) by operating activities	$ (10,758,210)	$ 564,145	$ 23,372,150
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	-	-	-
Retirement of assets not fully depreciated	-	-	-
Receipt of inventory from other funds on consignment	-	-	-

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 Assets.

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
$ 4,860,013	$ 299,248,655	$ 258,766,462
(4,278,729)	(50,679,784)	(79,490,304)
(674,590)	(5,842,844)	(33,986,243)
-	(69,375,094)	-
-	(140,265,935)	(140,284,046)
-	(17,130,307)	-
-	(6,298,142)	-
105,091	3,534,395	4,477,866
(62,341)	(63,415)	(2,676,799)
(50,556)	13,127,529	6,806,936
315,751	(22,958,162)	6,937,659
-	-	-
58,923	58,498	4,592,529
-	48,262,957	-
-	-	-
374,674	25,363,293	11,530,188
-	(203,037)	(10,753,426)
-	-	(502,646)
-	-	1,498,032
-	(203,037)	(9,758,040)
1,251	(63,409)	94,556
-	247,077	-
-	11,275	-
1,251	194,943	94,556
325,369	38,482,728	8,673,640
1,582,771	44,382,624	53,625,051
$ 1,908,140	$ 82,865,352	$ 62,298,691
$ (393,436)	$ 22,328,654	$ 1,877,970
1,936	314,673	7,896,880
(153,870)	(10,335,018)	(6,736,579)
322,118	322,118	-
(3,199)	(3,199)	-
195	34	(5,095,130)
(102,234)	(230,189)	266,443
65,733	59,914	(40,427)
71,581	616,663	4,677,970
3,497	54,183	432,402
-	(496,772)	4,384,077
-	(170,017)	-
-	93,567	-
-	1,131,946	-
3,857	(307,405)	(847,504)
120,300	124,950	(9,166)
(115)	(389,654)	-
13,081	13,081	-
342,880	(9,201,125)	4,928,966
$ (50,556)	$ 13,127,529	$ 6,806,936
-	-	(4,855)
-	-	(1,257,956)
-	-	9,097

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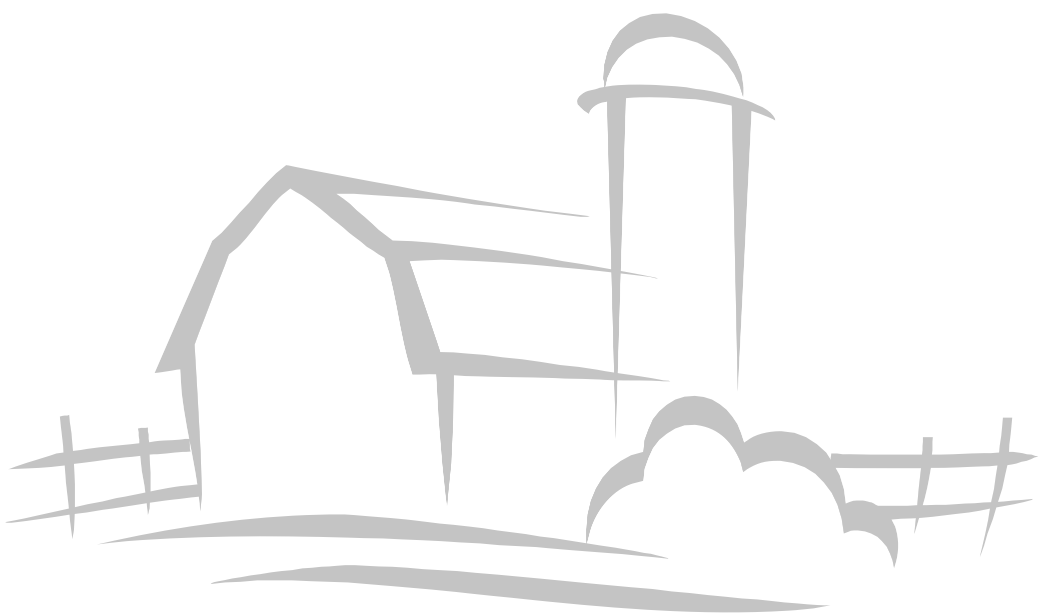

Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 13,429,702	$ -	$ 5,701,500	$ 8,015,999
Investments at fair value				
Pooled investments	3,264,255,973	124,988,200	-	-
Fixed income	7,177,476	-	-	-
Equities	3,051,156	-	1,245,925	-
Mutual funds	145,113,215	-	-	-
Receivables				
Taxes	-	-	-	1,779,747
Contributions - current	10,192,510	-	-	-
Contributions - noncurrent	6,774,199	-	-	-
Interest and dividends	350,606	-	-	-
Due from other funds	376,775	-	-	-
Other	551,086	-	-	1,753,439
Prepaid expenses	-	-	-	-
Other assets	-	-	2,641,662	-
Capital assets				
Construction in progress	3,495,776	-	-	-
Capital assets being depreciated				
Equipment	2,173,383	-	1,627	-
Less accumulated depreciation	(796,511)	-	(619)	-
Total capital assets, net of depreciation	4,872,648	-	1,008	-
Total assets	3,456,145,346	124,988,200	9,590,095	11,549,185
LIABILITIES				
Accounts payable	4,965,569	112,915	24,457	-
Accrued liabilities	-	-	29,405	-
Claims payable	-	-	6,646,394	-
Retainage payable	608,733	-	-	-
Interfund loans payable	-	132,458	-	249,754
Due to depositories	-	-	-	1,839
Intergovernmental payable - other governments	-	-	-	7,263,681
Amounts held in custody for others	-	-	-	2,895,603
Other liabilities	-	-	-	1,138,308
Total liabilities	5,574,302	245,373	6,700,256	$ 11,549,185
NET ASSETS HELD IN TRUST FOR				
Employees' pension benefits	3,426,405,831	-	-	
Employees' other postemployment benefits	24,165,213	-	-	
Pool participants	-	124,742,827	-	
Individuals, organizations and other governments	-	-	2,889,839	
Net assets held in trust for benefits and other purposes	$ 3,450,571,044	$ 124,742,827	$ 2,889,839	

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

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions			
Employer - pension benefit	$ 95,539,776	$ -	$ -
Employer - healthcare benefit	36,365,470	-	-
Plan member	72,174,075	-	-
Transfers from non-state systems	19,494	-	-
Medicare part D drug subsidy	3,459,142	-	-
Early retiree reinsurance program	2,747,713	-	-
Total contributions	210,305,670	-	-
Investment Income			
Net depreciation in fair value of investments	(1,296,994)	-	-
Income from pooled investments	67,797,878	2,868,718	-
Dividends	4,123,018	-	-
Interest income	729,527	-	448,451
Securities lending income	1,384,902	-	-
Other income	74,289	-	-
Total investment income	72,812,620	2,868,718	448,451
Less Investment Expenses			
Investment managers and consultants	13,978,639	508,341	-
Securities lending expenses	325,384	-	-
Total investment expenses	14,304,023	508,341	-
Net investment income	58,508,597	2,360,377	448,451
Pool participant deposits	-	2,000,000	-
Escheat property remittances	-	-	5,707,558
Total additions	268,814,267	4,360,377	6,156,009
DEDUCTIONS			
Retirement benefits	232,178,946	-	-
Other postemployment benefits	46,697,659	-	-
Refunds of contributions	5,094,538	-	-
Death claims	856,260	-	-
Depreciation	237,413	-	219
Operating expenses	3,496,824	8,487	853,713
Pool participant withdrawal	-	2,500,000	-
Transfers out	-	-	3,725,089
Total deductions	288,561,640	2,508,487	4,579,021
Change in net assts held in trust for			
Employees' pension benefits	(21,702,195)	-	-
Employees' other postemployment benefits	1,954,822	-	-
Pool participants	-	1,851,890	-
Individuals, organizations and other governments	-	-	1,576,988
Net Assets, July 1	3,470,318,417	122,890,937	1,312,851
Net Assets, June 30	$ 3,450,571,044	$ 124,742,827	$ 2,889,839

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

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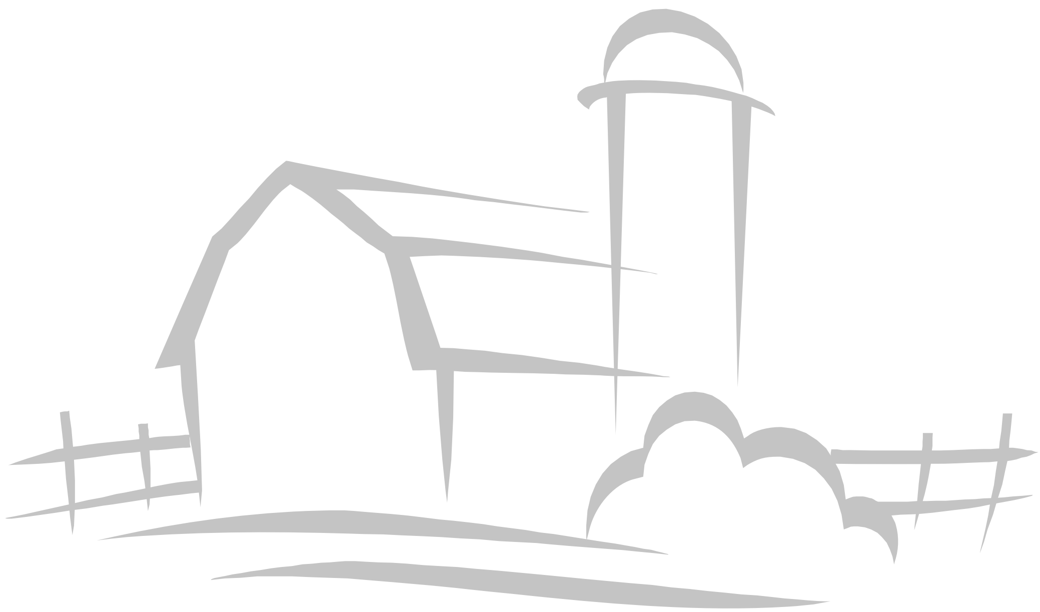

COMPONENT UNITS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2012

	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	$ 33,471,000	$ 71,649,000	$ 38,682,802	$ 3,890,000	$ 22,082,094	$ 169,774,896
Investments	3,126,000	130,608,000	15,072,756	2,093,000	14,336,457	165,236,213
Accounts receivable, net	-	14,581,000	10,091,212	-	2,583,901	27,256,113
Accrued interest receivable - loans	19,505,000	-	-	3,323,000	20,536,636	43,364,636
Accrued interest receivable - investments	26,000	-	-	604,000	-	630,000
Loans and notes receivable - current portion	170,290,000	3,004,000	-	14,117,000	61,375,611	248,786,611
Other receivables	1,178,000	3,359,000	-	2,354,000	194,552	7,085,552
Due from federal government	262,000	13,849,000	-	-	16,269,145	30,380,145
Due from primary government	-	-	-	-	54,871	54,871
Inventories, at cost	-	1,574,000	253,839	-	145,198	1,973,037
Other current assets	1,347,000	8,638,000	1,058,338	-	7,802,102	18,845,440
Total current assets	229,205,000	247,262,000	65,158,947	26,381,000	145,380,567	713,387,514
Restricted and Noncurrent Assets						
Cash and cash equivalents	297,265,000	8,220,000	854,558	146,669,000	3,121,938	456,130,496
Investments	-	315,188,000	22,327,478	127,385,000	76,951,021	541,851,499
Deferred bond issue costs	-	-	-	6,779,000	6,201,211	12,980,211
Loans and notes receivable, net	1,465,593,000	27,122,000	5,207,715	423,543,000	765,650,689	2,687,116,404
Other assets	-	5,818,000	17,777,999	21,748,000	6,037	45,350,036
Total restricted and noncurrent assets	1,762,858,000	356,348,000	46,167,750	726,124,000	851,930,896	3,743,428,646
Capital Assets						
Land	3,150,000	25,667,000	6,368,565	50,000	821,468	36,057,033
Construction in progress	-	-	7,075,650	-	267,637	7,343,287
Capital assets, being depreciated						
Buildings and leasehold improvements	16,981,000	732,885,000	233,694,257	1,747,000	30,887,686	1,016,194,943
Equipment, furniture and fixtures	9,070,000	153,173,000	16,581,175	1,227,000	4,560,055	184,611,230
Infrastructure	-	-	34,420,140	-	-	34,420,140
Less accumulated depreciation	(11,514,000)	(367,714,000)	(116,791,424)	(2,214,000)	(16,502,307)	(514,735,731)
Total capital assets, net of depreciation	17,687,000	544,011,000	181,348,363	810,000	20,034,539	763,890,902
Total assets	2,009,750,000	1,147,621,000	292,675,060	753,315,000	1,017,346,002	5,220,707,062
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	4,853,000	54,135,000	14,124,206	731,000	4,184,019	78,027,225
Accrued interest payable	-	-	-	4,977,000	107,584	5,084,584
Bond interest payable	944,000	-	-	-	1,986,088	2,930,088
Unearned revenue	6,341,000	16,363,000	6,484,210	65,000	3,034,184	32,287,394
Other current liabilities	-	-	-	491,000	19,862,172	20,353,172
Current portion of long-term liabilities	25,450,000	7,839,000	4,940,334	87,317,000	188,233,007	313,779,341
Due to primary government	-	-	-	-	42,530	42,530
Escrowed cash deposits	-	-	-	5,873,000	118,107	5,991,107
Advances from primary government	-	-	-	-	2,288,922	2,288,922
Total current liabilities	37,588,000	78,337,000	25,548,750	99,454,000	219,856,613	460,784,363
Noncurrent liabilities						
Bonds, notes and leases payable	1,794,552,000	465,281,000	136,258,923	549,445,000	519,176,625	3,464,713,548
Accounts payable and accrued liabilities	-	13,300,000	92,178	-	-	13,392,178
Accrued arbitrage rebate	22,663,000	-	-	-	513,309	23,176,309
Other liabilities	-	109,178,000	59,345,098	17,747,000	5,584	186,275,682
Total noncurrent liabilities	1,817,215,000	587,759,000	195,696,199	567,192,000	519,695,518	3,687,557,717
Total liabilities	1,854,803,000	666,096,000	221,244,949	666,646,000	739,552,131	4,148,342,080
NET ASSETS						
Invested in capital assets, net of related debt	677,000	72,272,000	51,786,211	810,000	17,038,689	142,583,900
Restricted	113,884,000	357,943,000	20,638,547	81,300,000	229,455,178	803,220,725
Unrestricted	40,386,000	51,310,000	(994,647)	4,559,000	31,300,004	126,560,357
Total net assets	$ 154,947,000	$ 481,525,000	$ 71,430,111	$ 86,669,000	$ 277,793,871	$ 1,072,364,982

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

STATE OF VERMONT
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2012

	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	$ 19,821,000	$ 373,829,000	$ 120,814,241	$ 2,863,000	$ 19,604,738	$ 536,931,979
Other expenses	42,083,000	174,298,000	48,581,832	7,012,000	66,353,122	338,327,954
Scholarship, grants and fellowships	26,053,000	16,245,000	7,908,653	-	-	50,206,653
Depreciation	1,296,000	28,721,000	7,624,758	112,000	1,268,350	39,022,108
Interest on debt	11,963,000	21,043,000	6,397,681	27,078,000	1,746,764	68,228,445
Total expenses	101,216,000	614,136,000	191,327,165	37,065,000	88,972,974	1,032,717,139
Program Revenues						
Charges for services	59,239,000	359,596,000	117,848,254	704,000	47,462,467	584,849,721
Operating grants and contributions	45,227,000	217,771,000	63,393,587	-	35,411,681	361,803,268
Capital grants and contributions	-	6,687,000	2,157,985	-	991,058	9,836,043
Total program revenues	104,466,000	584,054,000	183,399,826	704,000	83,865,206	956,489,032
Net revenue (expense)	3,250,000	(30,082,000)	(7,927,339)	(36,361,000)	(5,107,768)	(76,228,107)
General Revenues						
Property transfer tax	-	-	-	-	8,047,500	8,047,500
Investment income	458,000	-	1,334,768	33,816,000	8,533,149	44,141,917
Additions to non-expendable endowments	-	-	990,077	-	-	990,077
Miscellaneous	4,881,000	-	-	3,941,000	777,087	9,599,087
Total general revenues	5,339,000	-	2,324,845	37,757,000	17,357,736	62,778,581
Changes in net assets	8,589,000	(30,082,000)	(5,602,494)	1,396,000	12,249,968	(13,449,526)
Net assets - beginning, as restated	146,358,000	511,607,000	77,032,605	85,273,000	265,543,903	1,085,814,508
Net assets - ending	$ 154,947,000	$ 481,525,000	$ 71,430,111	$ 86,669,000	$ 277,793,871	$ 1,072,364,982

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

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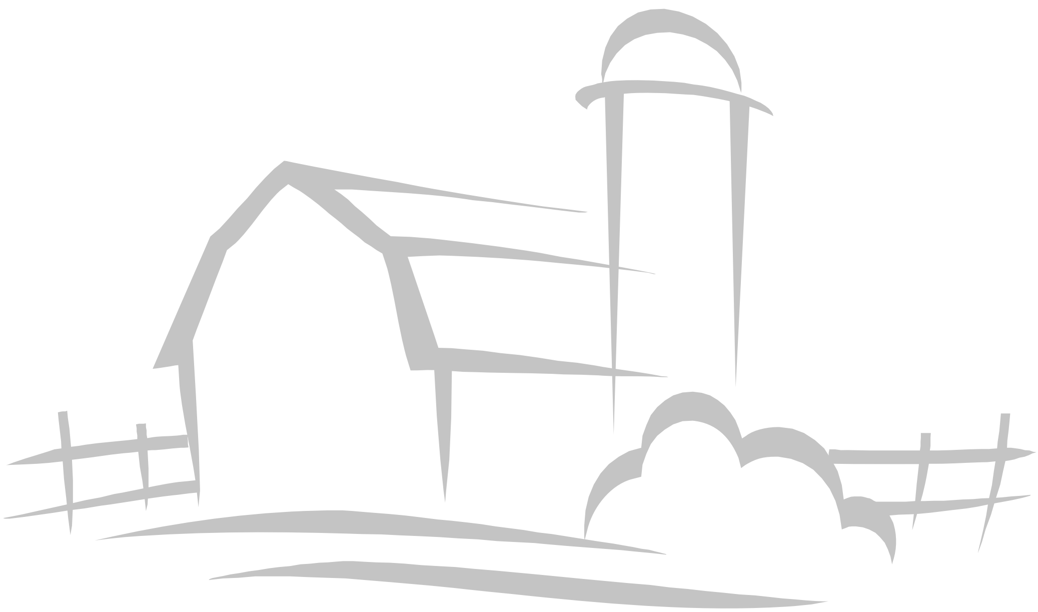

Vermont

State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2012

INDEX

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Vermont (State) have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying 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 financial statements are presented as of and for the period ending June 30, 2012.

A. Reporting Entity

The basic financial statements include all funds 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. Their activity may be "blended" into the activity of the primary government or may be reported separately. If they are reported separately, they are called "discretely presented component units." Each discretely presented Component Unit's designation as either "major" or "non-major" has been determined by applying the criteria of GASB Statement No. 34. See Section C – Fund Financial Statements – for definitions of major and non-major funds. 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.

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

Discretely Presented Major Component Units

Vermont Student Assistance Corporation (VSAC) – 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 of Vermont has the ability to impose its will upon VSAC through its ability to change or alter the organization, structure or programs. For further information, contact their administrative offices at 10 East Allen Street, P.O. Box 2000, Winooski, Vermont 05404.

*University of Vermont (UVM)** - The University of Vermont's financial report includes both the University and the State Agricultural College. The State appoints thirteen of the fifteen members of the Board of trustees. Currently, 36% of UVM's budget comes from State and Federal appropriations, and private grants. 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 State College
- Johnson State College

Lyndon State College
Vermont Technical College
Vermont Interactive Television
Allied Health Nursing Program
Vermont Manufacturing Extension Center

The Governor, with the advice and consent of the Senate, appoints all 15 members of the board of directors. VSC also has a fiscal dependency on the State of Vermont. 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, PO 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. VHFA is legally separate from the State. The State appoints the majority of the VHFA's board of commissioners. VHFA has a fiscal dependency on the State of Vermont. Further 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 12 voting members consisting of the secretary of the agency of commerce and community development, the State treasurer, the secretary of agriculture, food and markets, or a designee of any of the above; and nine 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. 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 Brownsfield Revitalization Fund, and the Clean Energy Development Fund. These four 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. The VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 58 East State Street,, Suite 5 Montpelier, Vermont 05602.

Vermont Sustainable Jobs Fund, Inc. (VSJF) – The Vermont Legislature established a jobs program and directed VEDA to set up a non-profit 503(c)(3) corporation to implement the program and to establish policies and procedures in order to fulfill the goals of the jobs program as listed in 10 V.S.A. 326(a). The majority of the voting members of the Board are indirectly appointed by the State. Additionally, the VSJF program works collaboratively with the agency of agriculture, food and markets to assist the Vermont slaughterhouse industry in supporting its efforts at productivity and sustainability. Audited financial statements and additional information may be obtained by contacting them at 58 East State Street, Suite 5, Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. VMBB is authorized, with written consent of the Governor or 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. It has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

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 issues 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. Further 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 and fix their compensation, subject to approval of the governor. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Center For Geographic Information (VCGI) –VCGI is a public non-profit chartered by the State of Vermont to assist the Vermont GIS Community with creating a comprehensive strategy for the development and use of a geographic information system. The State has the ability to impose its will on the entity as directors serve at the pleasure of the governor. Audited financial statements or additional information may be obtained by contacting them at 58 South Main Street, Suite 2, Waterbury, Vermont 05676.

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 Vermont Veterans' Home is financially accountable to the State, and is therefore included as a discretely presented component unit in Vermont's CAFR. The Vermont Veterans' Home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

Vermont Rehabilitation Corporation – The Vermont Rehabilitation Corporation is a non-profit quasi-public corporation that was incorporated in 1935 in accordance with 10 V.S.A. 272-277. Its main purpose is to provide a limited source of loan funds to family farmers or prospective family farmers under terms and conditions which will reduce their investment costs to an extent that offers them a reasonable chance to succeed. The Vermont Rehabilitation Corporation is fiscally dependent on the State as its primary source of funding is from the Agency of Natural Resources. Additional information may be obtained by contacting the Vermont State Treasurer at 109 State Street, 4th Floor, Montpelier, Vermont 05609-6200.

Vermont Film Corporation – The legislature repealed the statutes that created this corporation, and net assets were transferred to the Department of Tourism and Marketing.

Vermont Telecommunications Authority – The Vermont Telecommunications Authority was created in June 2007 pursuant to 30 V.S.A. 8061, for the purposes of ensuring that all regions of the State have access to affordable broadband and mobile telecommunications services and promoting and facilitating ongoing upgrades in statewide telecommunications infrastructure in the most efficient and economically feasible manner. The Vermont Telecommunications Authority is considered a component unit of the State as the State has the ability to impose its will on this legally separate entity. Additional information may be obtained by contacting the corporation at 100 State Street, Suite 342, Montpelier VT 05620-3205.

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. 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.

* - Indicates entity was audited by KPMG LLP.

Blended Component Unit

Vermont Information Technology Leaders, Inc. (VITL) – VITL is a legally separate non-profit public corporation whose vision is a health care system where health information is secure and readily available. VITL is a multi-stakeholder partnership facilitating participation in the process by providers, payers, employers, patients, and State agencies. VITL provides services almost entirely to the State of Vermont and therefore is reported as part of the primary government as a blended component unit. The financial statements for this component unit have been blended into the State's Special Fund. For further information, contact their administrative offices at 144 Main Street, Suite 1, Montpelier, Vermont 05602.

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 13 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."

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. Government-wide Financial Statements

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

(1) Invested in capital assets, net of related debt – total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that is related to the acquisition or construction of those assets;

(2) Restricted – for amounts when constraints placed on the net assets are either externally imposed, or are imposed by constitutional provisions or enabling legislation.

(3) Unrestricted – the total net assets 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. Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and major 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 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, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, 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.

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

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. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of year-end. Major revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. See special consideration for personal income tax revenue recognition under the "Receivables" section of this footnote.

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. The State's enterprise funds have elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

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. Fund Accounting

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. The financial activities of the State that are 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, and to provide funding for transportation related debt service requirements. 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, 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 Section16c of 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal Government. The original waiver agreement was amended on January 1, 2011, and will expire on December 31, 2013. 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 Resources (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 managed care organization within 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 managed care organization within the DVHA and departments delivering eligible services under the waiver. These resources paid to the Global Commitment Fund are adjusted by the AHS each quarter to the actual expenditures paid.

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

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

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

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

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

PROPRIETARY FUNDS

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

Enterprise Funds – These nine funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State's unemployment compensation program, the liquor control board, and the State's lottery program, are reported as "major funds" while the remaining six are reported as non-major funds.

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

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

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

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

FIDUCIARY FUNDS

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

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

Investment Trust Fund – Under the authority granted in 3 V.S.A. 523, beginning in Fiscal Year 2009, the State Treasurer created and began accepting deposits into the Vermont Pension Investment Committee (VPIC) Investment Pool, an external investment pool. The investment trust fund is used to account for the investments of the external participants in the Pool.

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. Each year, the fund retains the greater of $100,000 or fifty percent of the amount received during the previous year, and the balance, after deduction for the Unclaimed Property Division's operating expenses, is transferred to the General Fund. Additionally, amounts which have been held by the Unclaimed Property Division for at least 10 years and which are less than $100 are transferred to the Vermont Higher Education Endowment Fund (a permanent fund). It should be noted that any of the funds so transferred above will be returned to their rightful owners upon request at any time in the future.

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

CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer. Except for the Pension Trust Funds, Investment Trust Fund, Capital Projects Funds, and the Single Deposit Investment Account Fund, 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

Investments are stated at fair value. Fair values of investments are based on quoted market prices. Additional information regarding types of investments and basis of valuation, see Note 2.

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 6—Accounts Receivable for further information.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from drinking water and clean water special environmental loans. Other receivables include primarily fees, fines, and 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 notes receivable from component units 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 deferred 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 receivable in the General Fund consist primarily of Vermont Economic Development Authority notes purchased by the State. See Note 11 – Contingent Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

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 (an enterprise fund) are reported at the federal acquisition cost. Cost valuation methods used in the various funds are as follows: weighted average method – Liquor Control enterprise fund, Vermont Life Magazine enterprise fund, Highway Garage internal service fund, and Offender Work Programs internal service fund; specific identification method – Vermont Lottery Commission enterprise fund, Federal Surplus Property enterprise fund, and State Surplus Property internal service fund; and first-in, first-out method – Postage internal service 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 Assets, 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 estimated fair market value on the date donated to the State.

Capital assets, except as stated below, have an initial cost of at least $5,000, and that provide a future economic benefit for more than 1 year. This includes capital leases and 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 more than 1 year. 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 $150,000 and a useful life of more than one year is capitalized.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 20 to 50 years, equipment is 3 to 24 years, software is 3 to 10 years, and infrastructure assets are 6 to 80 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes 4 and 7, 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 REVENUE

Revenues in the government-wide financial statements and the proprietary fund financial statements are deferred if cash has been received prior to being earned. In governmental fund statements deferred revenues are recognized when revenues are unearned or unavailable.

ACCOUNTS PAYABLE

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred prior to year-end, and where payment was actually made subsequent to year-end. When paying its liabilities, it is the policy of the State to apply restricted resources first to situations where either restricted or unrestricted net assets may be used.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of the statement date. Retainage payable consists of withheld portions of progress payment amounts made to contractors which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

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, 2012 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2012. The amount reported as tax refunds payable at June 30, 2012 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2012's tax liability as well as overpayments for calendar year 2011 and prior years' tax liabilities that have not been paid out as of June 30, 2012.

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, 2012, 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 assets.

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, reported as assigned fund balances, is $6,833,852.

FUND BALANCES

The fund balance amounts for governmental funds have been classified in accordance with GASB Statement No. 54—"Fund Balance Reporting and Government Fund Type Definitions." Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

· Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

· Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

· Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law by the legislature specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.

· Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed. In the General Fund, amounts are assigned by the Agency of Administration under authorization by the Legislature in the annual Budget Adjustment Act.

· Unassigned fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, generally it is the State's policy to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, it is generally the State's policy to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed.

The composition of the fund balances of the governmental funds for the fiscal year ended June 30, 2012 are shown on the following page.

Governmental Funds' Fund Balances

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable								
Advances	$ 1,330,235	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,330,235
Long-term Notes Receivable	728,749	-	-	-	-	-	-	728,749
Permanent Fund Principal	-	-	-	-	-	-	7,416,453	7,416,453
Total Nonspendable	2,058,984	-	-	-	-	-	7,416,453	9,475,437
Restricted								
General Government	-	-	-	-	2,753,415	-	20,801,987	23,555,402
Protection to Persons and Property	-	-	-	509,747	9,313,294	-	2,567,832	12,390,873
Human Services	-	-	-	-	39,697,745	89,482,303	2,442,689	131,622,737
Labor	-	-	-	-	7,007,183	-	-	7,007,183
Education	-	-	-	-	1,802,039	-	-	1,802,039
Natural Resources	-	-	-	4,247,917	290,962,278	-	7,824,331	303,034,526
Commerce and Community Development	-	-	-	-	313,031	-	2,709	315,740
Transportation	-	-	-	-	-	-	5,678	5,678
Debt Service	-	-	-	-	-	-	3,009,094	3,009,094
Total Restriced	-	-	-	4,757,664	351,848,985	89,482,303	36,654,320	482,743,272
Committed								
Protection to Persons and Property	-	-	-	57,466,482	-	-	-	57,466,482
Human Services	18,501,930	-	-	6,979,708	-	-	-	25,481,638
Labor	-	-	-	2,226,348	-	-	-	2,226,348
Education	-	-	65,804,316	1,048,495	-	-	23,549,137	90,401,948
Natural Resources	-	-	-	16,315,111	-	-	4,739,728	21,054,839
Commerce and Community Development	-	-	-	1,785,643	-	-	-	1,785,643
Transportation	-	18,388,394	-	-	-	-	-	18,388,394
Debt Service	-	-	-	1,126	-	-	2,321,567	2,322,693
Total Committed	18,501,930	18,388,394	65,804,316	85,822,913	-	-	30,610,432	219,127,985
Assigned								
General Government	840,076	-	-	-	-	-	-	840,076
Protection to Persons and Property	1,358,689	-	-	-	-	-	-	1,358,689
Human Services	974,082	-	-	-	-	-	-	974,082
Education	294,673	-	-	-	-	-	-	294,673
Natural Resources	1,386,128	-	-	-	-	-	-	1,386,128
Commerce and Community Development	1,980,204	-	-	-	-	-	-	1,980,204
Total Assigned	6,833,852	-	-	-	-	-	-	6,833,852
Unassigned	150,985,898	-	-	(1,769,243)	-	-	(296,282)	148,920,373
Total Fund Balance	$ 178,380,664	$ 18,388,394	$ 65,804,316	$ 88,811,334	$ 351,848,985	$ 89,482,303	$ 74,384,923	$ 867,100,919

COMPENSATED ABSENCES

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

Liabilities for compensated absences are recorded in the government-wide statement activity where the employees are assigned, and in the funds, where applicable. The amounts are calculated based on an employee's pay rate in effect as of year-end. Additional information including changes in balances may be found in Note 16 – Changes in Long-term Liabilities.

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

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS

In the government-wide financial statements, bond discounts/premiums and issuance costs are deferred 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 are reported as deferred charges.

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

INTERFUND TRANSACTIONS

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

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

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

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

USE OF ESTIMATES

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

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Primary Government – Excluding All Pension Trust Funds

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

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

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

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

Deposits - Custodial Credit Risk
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 depository (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 trust funds, as of June 30, 2012, (including certificates of deposits) were $341,322,529. Of these, $2,068,034 was exposed to custodial credit risk as uninsured and uncollateralized.

Investments
Investments are stated at market 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 market value when published market prices and quotations are available, or at amortized cost, which approximates

fair value. 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) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2012 are presented below.

Primary Government Investments - Excluding Pension and Investment Trust Funds

(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to <6**	**6 to 10**	**More Than 10**
Debt Investments					
US Agencies/Treasuries	$ 45,299	$ 208	$ 915	$ 470	$ 43,706
Money Market Mutual Fund	253,400	253,400	-	-	-
Other	264	31	114	69	50
Total Debt Investments	298,963	$ 253,639	$ 1,029	$ 539	$ 43,756
Other Investments					
Mutual Funds	370				
Equity Securities	19,844				
US Unemployment Trust Pool	75,114				
Total Investments	$ 394,291				

The above includes instruments that are classified as cash and short-term investments for balance sheet purposes. The following is a reconciliation of the investment types to the financial statement presentation (*in Thousands*).

Primary Government - Excluding Pension and Investment Trust Funds

Investments per maturity schedule	$ 394,291
Included in cash & cash equivalents:	
Money market mutual fund	(248,276)
Certificates of deposit	978
US Unemployment trust pool	(75,114)
Financial statement investments total	$ 71,879
Governmental activities total	$ 58,298
Business activities total	2,045
Fiduciary - OPEB trust	10,290
Fiduciary - private purpose trust fund	1,246
Total	$ 71,879

(b) 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, 2012, no single issuer exceeded 5% for the primary government portfolios.

(c) 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, 2012 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.

(d) 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, 2012, is presented as follows using the Moody's rating scale.

Primary Government Rated Debt Instruments
Excluding Pension and Investment Trust Funds
(Expressed in Thousands)

		Quality Ratings	
Debt Investments	**Fair Value**	**Aaa**	**Unrated**
US Agencies/Treasuries	$ 45,299	$ 45,299	$ -
Money Market Mutual Fund	253,400	253,400	-
Other	264	-	264
Totals	$ 298,963	$ 298,699	$ 264

(e) 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, 2012, valued in US dollars, is $99,125, consisting of Canadian Dollar investments.

B. Primary Government – Pension Trust Funds and the Vermont Municipal Employees Health Benefit Fund

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 two other post employment benefit funds.

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. Effective May 31, 2006, legislation amended VPIC’s authority allowing VPIC to enter into agreements with municipalities administering their own retirement systems to invest retirement funds for those municipal plans.

On November 1, 2007, the City of Burlington, Vermont pooled its investments with the majority of the assets of the State, Teachers and Municipal defined benefit plans pursuant to a change in State statute permitting Vermont municipalities to pool their funds with the VPIC thereby creating an “external investment pool.” An "external investment pool" is defined by GASB 31 as the commingling and investing of the monies of more than one legally separate entity, on the participants' behalf, in an investment portfolio. In this case, one of the participants, the City of Burlington, is not part of the State’s reporting entity. Each of the participating funds has an equity position in the external pool and individual investment securities are not specifically identified to any of the participating funds. As a result, the “pooled investment” is a net equity position, incorporating the results of the underlying securities, receivables and liabilities. Earnings in each pooled investment are allocated based on the month-end balances of each of the respective systems.

The three defined benefit plans and the City of Burlington’s assets managed by VPIC are externally managed in the pool established July 1, 2005 with a startup share price of $1,000. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction.

The pool’s net assets and statement of changes in net assets are as follows.

VERMONT PENSION INVESTMENT COMMITTEE
INVESTMENT POOL
STATEMENTS OF NET ASSETS
June 30, 2012
(Expressed in Thousands)

Assets	
Cash and short term investments	$ 51,975
Receivables	
Interest and dividends	7,732
Investments sold	94,427
Total receivables	102,159
Investments at Fair Value	
Fixed income	742,883
Equities	727,770
Mutual funds	1,511,090
Real estate and venture capital	395,486
Total investments	3,377,229
Total assets	3,531,363
Liabilities	
Accounts payable	113
Other liabilities	132
Payable for investments purchased	142,119
Total liabilities	142,364
Net assets held in trust for investment pool participants	$ 3,388,999

VERMONT PENSION INVESTMENT COMMITTEE

INVESTMENT POOL

STATEMENTS OF CHANGES IN NET ASSETS

June 30, 2012

(Expressed in Thousands)

Additions	
Investment income	
Net appreciation (depreciation) in fair value of investments	$ (7,621)
Dividends	44,845
Interest income	35,370
Securities lending income	58
Other income	872
Total investment gain	73,524
Total additions	73,524
Deductions	
Net pool participant withdrawals	85,462
Operating expenses	1,383
Total deductions	86,845
Change in net assets	(13,321)
Net assets held in trust for pool participants	
July 1, 2011	3,402,320
June 30, 2012	$ 3,388,999
Pool participants	
Vermont State Retirement System	$ 1,370,105
State Teacher's Retirement System	1,483,892
Vermont Municipal Employees' Retirement System	410,259
City of Burlington	124,743
Totals - June 30, 2012	$ 3,388,999

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

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

The Vermont State Retirement's defined contribution plan's trustee is the State Treasurer. The Vermont Municipal Employees' Retirement System Board of Trustees is the trustee for the Vermont Municipal Employees' defined contribution plan. Both plans are administered by Fidelity Investments Institutional Operations Company. Investment choices are made by participants from a range of funds approved by the trustees' for the plans. Investment options are Fidelity and non-Fidelity mutual funds including large and small market capitalization equities (actively managed and indexed), international equities, fixed income securities, balanced funds, target retirement date age based funds, and a stable value fund. Funds included in the plans were selected based on consideration of fund performance for one and multi-year periods, performance ranked against peer group funds in asset class, management fee expense ratios, fund asset class and investment objectives, historical annual returns, Morningstar ratings, performance in various stages of the capital market cycle, and consultant recommendations as to the optimal number of funds and appropriate asset classes. Fidelity provides quarterly investment reports and analysis that are reviewed by Treasury staff, the State Treasurer and Vermont Municipal Employees' Retirement's Board.

The State has two other post employment benefit funds, the Vermont State Post Employment Benefits Trust Fund (State OPEB) and the Vermont Municipal Employees health benefit Fund (Muni OPEB). These are described in Note 5. The "State OPEB" is invested in the Trust Investment Account utilized as an investment vehicle by many of the State's primary funds, exclusive of pension funds, and is included in the cash and investment disclosures for the primary government as is its cash deposits. The "Muni OPEB" in invested under the authority of the Municipal Retirement Board of Trustees and utilizes an outside administrator, ICMA-RC employing mutual funds. Disclosures related to its cash and investments are included below.

Deposits - Custodial Credit Risk

The pension trust funds' cash deposits, outside of the pension trust funds' custodian bank, totaled $8,882,267, none of which was exposed to custodial credit risk.

Investments

Investments are stated at market 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 market value when published market prices and quotations are available, or at amortized cost, which approximates fair value. 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 venture capital, which are valued using current estimates of fair value obtained from the investment 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) Interest Rate Risk – Investments

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 investment 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, Vermont Municipal Employees Health Benefit and Investment Trust Funds investments are as follows:

Pension, Vermont Municipal Employees Health Benefit and Investment Trust Funds Investments
(Expressed in Thousands)

Investment Type	Fair Value	Less Than 1	1 to <6	6 to 10	More Than 10
Debt Investments					
US Agencies/Treasuries	$ 298,175	$ 50,296	$ 15,825	$ 123,332	$ 108,722
Corporate Debt	240,029	11,419	123,144	94,043	11,423
Money Market Mutual Fund	46,640	46,640	-	-	-
Municipals	23,760	-	1,446	213	22,101
Asset Backed Securities	5,348	-	1,187	-	4,161
Mortgage Backed Securities	63,693	-	-	1,994	61,699
Sovereign Debt	88,882	8,824	29,647	35,500	14,911
Bank Loans	24,284	-	15,574	8,710	-
Total Debt Investments	790,811	$ 117,179	$ 186,823	$ 263,792	$ 223,017
Other Investments					
Mutual Funds	1,665,025				
Equity Securities	727,770				
Real Estate - Venture Capital	395,486				
Fixed Income - Derivatives	(1,288)				
Total	$ 3,577,804				

(b) Concentration of Credit Risk
Formal guidelines for pension funds state that no more than 5% of the market 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, 2012, no issuer exceeded 5%.

(c) 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 investment 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, 2012, 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.

(d) Credit Risk of Debt Investment
Detailed pension guidelines by asset class and supplemental requirements by investment 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 the Pension Trust securities are as follows:

Pension, Vermont Municipal Employees Health Benefit and Investment Trust Funds Investments
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Aa	A
US Agencies/Treasuries	$ 298,175	$ 298,175	$ -	$ -
Corporate Debt	240,029	5,792	4,250	12,187
Money Market Mutual Fund	46,640	-	-	-
Municipals	23,760	846	11,412	10,020
Asset Backed Securities	5,348	894	360	1,699
Mortgage Backed Securities	63,693	25,953	1,381	428
Sovereign Debt	88,882	20,873	48,259	8,714
Bank Loans	24,284	-	-	-

continued below

Debt Investments	Quality Ratings Baa	Ba	B and below	Unrated
US Agencies/Treasuries	$ -	$ -	$ -	$ -
Corporate Debt	36,977	62,399	110,523	7,901
Money Market Mutual Fund	-	-	-	46,640
Municipals	-	-	-	1,482
Asset Backed Securities	1,008	-	36	1,351
Mortgage Backed Securities	2,805	2,066	9,792	21,268
Sovereign Debt	11,036	-	-	-
Bank Loans	-	-	-	24,284

d) 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 investment 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 relative 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, Vermont Municipal Employees Health Benefit and Investment Trust Funds Investments
Foreign Currency Risk - International Securities at Fair Value
(Expressed in Thousands)

Currency	Total	Short Term	Debt	Equity
Australian Dollar	$ 13,123	$ 93	$ -	$ 13,030
Brazilian Real	737	-	737	-
Canadian Dollar	5,121	(48)	1,567	3,602
Danish Krone	2,043	51	-	1,992
Euro Currency	113,248	479	29,676	83,093
Hong Kong Dollar	2,438	40	-	2,398
Israeli Shekel	65	-	-	65
Japanese Yen	106,510	792	43,833	61,885
Malaysian Ringgit	120	4	-	116
Mexican Peso	11,024	433	10,542	49
New Zealand Dollar	203	6	-	197
Norwegian Krone	2,193	40	-	2,153
Philippine Peso	1	1	-	-
Polish Zloty	9,106	17	8,606	483
Pound Sterling	42,083	91	-	41,992
Singapore Dollar	10,784	142	-	10,642
South African Rand	9	9	-	-
South Korean Won	5,247	10	-	5,237
Swedish Krona	2,273	-	-	2,273
Swiss Franc	14,025	205	-	13,820
Thailand Baht	890	3	-	887
Total	$ 341,243	$ 2,368	$ 94,961	$ 243,914

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.

Securities Lending Transactions

State statutes and boards of trustees' policies permit the Office of the Vermont State Treasurer to use investments of the three defined benefit pension plans to enter into securities lending transactions/loans of securities to broker dealers and other entities for collateral, with a simultaneous agreement to return the collateral for the same securities in the future. Pursuant to a Securities Lending Authorization Agreement, State Street Bank and Trust Company (State Street) was authorized to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street loaned, on behalf of the State, certain securities held by State Street as custodian, and received United States and foreign currency cash, or securities issued or guaranteed by the United States government as collateral. Borrowers were required to deliver collateral for each loan equal to not less than one hundred percent (100%) of the market value of the loaned security.

The State did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. Pursuant to the Securities Lending Authorization Agreement, State Street had an obligation to provide a form of indemnification to the State in the event of default by a borrower. On June 30, 2012 Vermont had no credit risk exposure to borrowers.

During the fiscal year, VPIC exercised its rights to terminate the securities lending program on February 28, 2012. No securities were on loan as of June 30, 2012.

Authority to enter into securities lending transactions for the 3 retirement plans is as follows:
3 V.S.A. 471(m) Vermont State Employees' Retirement Fund
16 V.S.A. 1942(q) Vermont Teachers' Retirement Fund
24 V.S.A. 5062(o) Vermont Municipal Employees' Retirement Fund

Derivative Financial Instruments

The State does not have any derivatives associated with issuance of debt. Certain investment managers (Managers) for the Vermont Pension Investment Committee (VPIC) invest in derivative financial investments as authorized by the VPIC policy. 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 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 Assets. All of the derivatives reported at June 30, 2012, are at fair market 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 CFTC approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC).

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 Assets. The net gain for the year was $1,864,972. At June 30, 2012 and 2011, the VPIC's investments had the following values:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Fixed Income Futures:				
Long.......................................	$ -	$ -	$ -	$ 207,150,000

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 Assets. The net gain for the year was $3,510,999. At June 30, 2012 and 2011, the VPIC's investments included the following currency forwards balances:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
FX Forwards..................................	$ 451,237	$ 72,202,058	$ (1,168,389)	$ 112,059,204

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. Below is a listing of currency forward positions as of June 30, 2012, and the associated currencies.

Transaction Type	Base Current Value	Open Buy Equivalent Value	Open Sell Equivalent Value	Currency	Unrealized Gain/Loss
Cross deals between two foreign currencies					
	$ 6,297,269	$ 6,203,833	$ 6,203,833	SOLD EUR/BOUGHT GBP	$ 93,436
			Sub-Total		**$ 93,436**
Pending foreign exchange purchases					
	8,809,315	8,870,000	8,870,000	BOUGHT CNY/SOLD USD	(60,685)
	8,621,969	8,732,308	8,732,308	BOUGHT CNY/SOLD USD	(110,339)
	1,218,288	1,224,168	1,224,168	BOUGHT EUR/SOLD USD	(5,880)
	1,218,289	1,222,908	1,222,908	BOUGHT EUR/SOLD USD	(4,619)
	125,481	125,589	125,589	BOUGHT CNY/SOLD USD	(108)
	187,259	186,252	186,252	BOUGHT BRL/SOLD USD	1,007
	201,131	200,049	200,049	BOUGHT BRL/SOLD USD	1,082
	250,552	250,000	250,000	BOUGHT BRL/SOLD USD	552
	208,492	207,829	207,829	BOUGHT BRL/SOLD USD	663
	5,260,403	5,100,786	5,100,786	BOUGHT AUD/SOLD USD	159,617
	77,420	80,778	80,778	BOUGHT EUR/SOLD USD	(3,358)
	507,672	501,430	501,430	BOUGHT EUR/SOLD USD	6,242
	2,437,152	2,396,794	2,396,794	BOUGHT EUR/SOLD USD	40,358
	1,259,273	1,251,082	1,251,082	BOUGHT CAD/SOLD USD	8,191
	5,894,758	5,894,812	5,894,812	BOUGHT AUD/SOLD USD	(54)
			Sub-Total		**32,669**
Pending foreign exchange sales					
	5,904,783	5,899,771	5,899,771	SOLD AUD/BOUGHT USD	5,012
	5,030,740	5,026,470	5,026,470	SOLD AUD/BOUGHT USD	4,270
	684,799	660,035	660,035	SOLD BRL/BOUGHT USD	24,764
	578,144	557,237	557,237	SOLD BRL/BOUGHT USD	20,907
	117,388	119,267	119,267	SOLD AUD/BOUGHT USD	(1,879)
	1,739,169	1,726,974	1,726,974	SOLD EUR/BOUGHT USD	12,195
	104,823	110,940	110,940	SOLD AUD/BOUGHT USD	(6,117)
	2,355,744	2,396,160	2,396,160	SOLD EUR/BOUGHT USD	(40,416)
	1,293,496	1,240,090	1,240,090	SOLD EUR/BOUGHT USD	53,406
	937,793	911,206	911,206	SOLD EUR/BOUGHT USD	26,587
	4,323,333	4,206,950	4,206,950	SOLD EUR/BOUGHT USD	116,383
	81,138	82,452	82,452	SOLD EUR/BOUGHT USD	(1,314)
	48,684	49,091	49,091	SOLD EUR/BOUGHT USD	(407)
	218,862	211,600	211,600	SOLD EUR/BOUGHT USD	7,262
	336,618	341,552	341,552	SOLD EUR/BOUGHT USD	(4,934)
	2,555,725	2,487,519	2,487,519	SOLD MXN/BOUGHT USD	68,206
	2,423,235	2,351,816	2,351,816	SOLD MXN/BOUGHT USD	71,419
	1,344,101	1,374,313	1,374,313	SOLD AUD/BOUGHT USD	(30,212)
			Sub-Total		**325,132**
				Total	**$ 451,237**

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. The net gain for the year was $1,207,571. At June 30, 2012 and 2011, the VPIC's investments had the following option balances:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Fixed Income Options:				
Bought……………………………	$ 270,316	$ 11,100,000	$ -	$ -
Written……………………………	(1,166,102)	(159,900,000)	(1,258,241)	(170,100,000)
Foreign Currency Options				
Bought……………………………	172,722	13,959,550	-	-

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2012, the VPIC had two different types of swap arrangements; interest rate 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 Assets. The net loss for the year was $7,072,275. At June 30, 2012 and 2011, the VPIC's investments had the following swap market value balances:

	June 30, 2012		June 30, 2011	
Investment Derivatives	**Fair value**	**Notional**	**Fair value**	**Notional**
Credit default swaps bought	$ 1,856,164	$ 31,241,068	$ -	$ -
Credit default swaps written	32,895	2,550,000	-	-
Pay fixed interest rate swaps	(2,999,294)	81,200,000	(180,126)	6,000,000
Receive fixed interest rate swaps	545,717	28,277,657	107,023	18,600,000

The following swaps are in place as of June 30, 2012.

Asset ID	Asset Description	Fair Value at June 30, 2012	Notional
Pay Fixed Interest Rate Swaps:			
99S0BNJ83/	BWU0830U7 IRS USD R V 03MLIBOR /	$ (253,891)	$ 4,800,000
99S0BNJ91	BWU0830U7 IRS USD P F 2.75000		
99S0BXJZ1/	BWU0640U7 IRS USD R V 03MLIBOR /	(1,786,005)	40,000,000
99S0BXK06	BWU0640U7 IRS USD P F 2.25000		
99S0BYB87/	BWU0695U1 IRS USD R V 03MLIBOR /	(959,398)	36,400,000
99S0BYB95	BWU0695U1 IRS USD P F 1.50000		
Receive Fixed Interest Rate Swaps:			
99S0AQB51/	SWU002W08 IRS BRL R F 10.58000 /	83,523	2,378,062
99S0AQB69	SWU002W08 IRS BRL P V 12MBRDCI		
99S0AQS53/	SWU026R29 IRS BRL R F 10.53000 /	345,054	10,106,765
99S0AQS61	SWU026R29 IRS BRL P V 00MBZDIO		
99S0CHEZ0/	SWU0083W7 IRS CAD R F 2.00000 /	100,025	14,027,172
99S0CHF06	SWU0083W7 IRS CAD P V 03MCDOR		
99S0CKO58/	SWU0006O9 IRS CAD R F 2.25000 /	17,115	1,765,658
99S0CKO66	SWU0006O9 IRS CAD P V 03MCDOR		

Asset ID	Asset Description	Fair Value at June 30, 2012	Notional
Credit Default Swaps Bought:			
99S0BENH8/	BWPC274Q9 CDS USD R V 00MEVENT /	138,600	5,760,000
99S0BENI6	BWPC274Q9 CDS USD P F 5.00000		
99S0BYUN3/	SWPC979K0 CDS USD R V 01MEVENT /	666,676	1,111,888
99S0BYUO1	SWPC979K0 CDS USD P F .09000		
99S0BZNZ1/	SWPC616R4 CDS EUR R V 03MEVENT /	301,899	10,786,925
99S0BZO07	SWPC616R4 CDS EUR P F 1.00000		
99S0C9A25/	BWPC1CME6 CDS USD R V 03MEVENT	10,586	1,800,000
99S0C9A33	BWPC1CME6 CDS USD P F 1.00000		
99S0CBDT8/	SWPC059S6 CDS EUR R V 03MEVENT /	89,970	1,269,050
99S0CBDU5	SWPC059S6 CDS EUR P F 1.00000		
99S0CCLW0/	SWPC075S6 CDS EUR R V 00MEVENT /	548,814	7,741,205
99S0CCLX8	SWPC075S6 CDS EUR P F 1.00000		
99S0CCRT1/	BWPC133S6 CDS USD R V 00MEVENT /	99,619	2,772,000
99S0CCRU8	BWPC133S6 CDS USD P F 5.00000		
Credit Default Swaps Written:			
99S0AGYK5/	SWPC627N0 CDS USD R F 1.00000 /	16,173	800,000
99S0AGYL3	SWPC627N0 CDS USD P V 03MEVENT		
99S0ALDH4/	SWPC861N5 CDS USD R F 1.00000 /	22,238	1,100,000
99S0ALDI2	SWPC861N5 CDS USD P V 03MEVENT		
99S0AW589/	SWPC635P5 CDS USD R F 1.00000 /	951	400,000
99S0AW597	SWPC635P5 CDS USD P V 03MEVENT		
99S0B6PT7/	SWPC995P9 CDS USD R F 1.00000 /	(6,467)	250,000
99S0B6PU4	SWPC995P9 CDS USD P V 00MEVENT		

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 2012 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, 2012.

Moody's Rating	Market Value
Aa2	$ 12,195
Aa3	373,982
A1	945,634
A2	808,850
A3	928,034
Baa1	83,523
Baa2	10,586
Total	$ 3,162,804

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, 2012, risk concentrations are as follows.

Counterparty Name	Percentage of Net Exposure	S&P Rating	Fitch Rating	Moody's Rating
CITIBANK N.A.	28%	A	A	A3
BARCLAYS BANK PLC	17%	A+	A	A2
JPMORGAN CHASE BANK	12%	A+	AA-	Aa3
HSBC BANKUSA	11%	AA-	AA-	A1
CREDIT SUISSE FOB CME	11%	A+	A	A1
STATE STREET BANK LONDON	8%	A+	A+	A1
UBS AG	4%	A	A	A2
MORGAN STANLEY CO INC	3%	A-	A	Baa1
BARCLAYS CAPITAL	2%	A+	A	A2
BNP PARIBAS SA	1%	AA-	A+	A2
BANK OF AMERICA N.A.	1%	A	A	A3
ROYAL BANK OF SCOTLAND PLC	1%	A	A	A3
BARCLAYS BANK CME	1%	A+	A	A2
UBS AG STAMFORD	1%	A	A	A2
STATE STREET BANK AND TRUST CO	0%	AA-	A+	Aa2
CITIGROUP GLOBAL MARKETS CME	0%	A-	A	Baa2

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 thousand 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.

Maximum Loss Before and After Netting and Collateral

Maximum amount of loss VPIC would face in case of default of all counterparties i.e. aggregated (positive) fair value of OTC positions as of June 30, 2012…………………………	$ 3,162,804
Resulting net exposure………………………………………………………………………………	**$ 3,162,804**

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 though 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 pre-payment varies with the underlying assets. Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk.

Note 3: INTERFUND BALANCES

A. 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, 2012, are as follows.

	Due to Other Funds			
	Governmental Funds			
Due From Other Funds	**General Fund**	**Transportation Fund**	**Education Fund**	**Special Fund**
General Fund	$ -	$ 11,627	$ 85	$ 40,196
Transportation Fund	41,953	-	-	13,501
Special Fund	699,015	1,137,676	10,891	-
Federal Revenue Fund	69,376	-	-	181,765
Global Commitment Fund	14,122,471	-	-	23,195,407
Non-major Governmental Funds	2,345	-	-	3,945
Liquor Control Fund	-	-	-	-
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	38,646	1,767	-	31,937,825
Fiduciary Funds	376,775	-	-	-
Total	$ 15,350,581	$ 1,151,070	$ 10,976	$ 55,372,639

continued below

	Due to Other Funds			
	Governmental Funds			
Due From Other Funds	**Federal Revenue Fund**	**Global Commitment Fund**	**Non-major Governmental Funds**	**Internal Service Funds**
General Fund	$ 29,459	$ 3,592,742	$ 211	$ 155
Transportation Fund	400,965	-	100	90
Special Fund	831,514	-	135,388	213,631
Federal Revenue Fund	-	3,009,985	-	14,428
Global Commitment Fund	24,001	-	-	-
Non-major Governmental Funds	379	-	-	-
Liquor Control Fund	-	-	-	161
Non-major Enterprise Funds	-	-	-	-
Internal Service Funds	-	-	-	-
Fiduciary Funds	-	-	-	-
Total	$ 1,286,318	$ 6,602,727	$ 135,699	$ 228,465

continued below

	Due to Other Funds			
	Enterprise Funds			
Due From Other Funds	**Unemployment Compensation Trust Fund**	**Liquor Control Fund**	**Non-major Enterprise Funds**	**Total**
General Fund	$ -	$ 406,476	$ -	$ 4,080,951
Transportation Fund	-	-	-	456,609
Special Fund	-	-	-	3,028,115
Federal Revenue Fund	-	-	-	3,275,554
Global Commitment Fund	-	-	-	37,341,879
Non-major Governmental Funds	-	-	-	6,669
Liquor Control Fund	-	-	-	161
Non-major Enterprise Funds	91,828	-	-	91,828
Internal Service Funds	-	-	4,559	31,982,797
Fiduciary Funds	-	-	-	376,775
Total	$ 91,828	$ 406,476	$ 4,559	$ 80,641,338

B. 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, 2012, are summarized below.

Proprietary Funds		
Vermont Lottery Fund	$	300,000
Liquor Control Fund		75
Non-major Proprietary Funds		1,200
Total	$	301,275

C. Interfund Receivables/Payables

The primary government cash in most funds is pooled in the State Treasurer's accounts. When a fund has a deficit cash balance, this amount is reclassified to a liability account - interfund payable. The General Fund reports the corresponding interfund receivable for the cash borrowed from the pool. The following funds at June 30, 2012, reported interfund payables. It is expected that certain amounts due the General Fund from the Internal Service Funds will not be repaid within one year. It is expected that these interfund payables will be reduced in future years through changes to billing rates and management of operations.

Proprietary Funds		
Non-major Enterprise Funds	$	2,033,224
Internal Service Funds		68,249,564
Fiduciary Funds		
Investment Trust Fund		132,458
Agency Funds		249,754
Total	$	70,665,000

D. Inter - Primary Government/Component Unit Balances

Advances to component units consist of the amounts advanced under various agreements with component units to use the funds for specific programs. As the component unit uses the funds, the advance is reduced and expenditures are recognized by the State. At June 30, 2012, the General Fund advances to component units was $1,028,960 advanced to the Vermont Development Authority for interest rate subsidies and grants to be issued at the direction of State agencies. The Special Fund advance was $1,259,962 to VEDA for emergency flood relief loans.

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

At June 30, 2012, these account balances are as follows.

	Due to Primary Government/(Component Units)		
	Vermont Housing & Conservation Board	**Vermont Economic Development Authority**	**Total**
Due from Component Units			
General Fund	$ 2,016,835	$ -	$ 2,016,835
Special Fund	-	42,530	42,530
Due from Primary Government			
Non-major Governmental Funds	(2,071,706)	-	(2,071,706)
Total	$ (54,871)	$ 42,530	$ (12,341)

E. 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 Emergency Relief Assistance and Home Heating Fuel Assistance Funds, from the Federal Revenue Fund for the earned income tax credit for the year, and from the Global Commitment Fund for education Medicaid reimbursements. 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.

Interfund transfers for the fiscal year ending June 30, 2012, are on the following page.

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	Transfers Out				
	Governmental Funds				
Transfers in	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund
General Fund	$ -	$ 4,739,288	$ -	$ 18,506,660	$ 13,087,120
Transportation Fund	-	-	-	185,352	-
Education Fund	276,240,000	-	-	7,864,005	-
Special Fund	36,569,536	1,431,003	147,747	-	17,642,723
Federal Revenue Fund	-	-	-	-	-
Global Commitment Fund	131,201,429	-	-	291,990,562	-
Non-major Governmental Funds	64,575,793	5,805,499	-	1,098,382	1,437,142
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	250,000	-	-	-	-
Internal Service Funds	6,874,383	1,120,000	-	-	-
Total	$ 515,711,141	$ 13,095,790	$ 147,747	$ 319,644,961	$ 32,166,985

continued below

	Transfers Out				
	Governmental Funds		Proprietary Funds		
Transfers in	Global Commitment Funds	Non-major Governmental Funds	Unemployment Compensation Trust Funds	Liquor Control Fund	Vermont Lottery Commission
General Fund	$ -	$ -	$ -	$ 880,066	$ -
Transportation Fund	-	185,353	-	-	-
Education Fund	-	-	-	-	22,328,096
Special Fund	23,474,553	200,000	-	-	-
Federal Revenue Fund	-	4,687,564	-	-	-
Global Commitment Fund	-	-	-	-	-
Non-major Governmental Funds	-	-	-	-	-
Unemployment Compensation Trust Fund	-	-	-	-	-
Non-major Enterprise Funds	-	-	815,785	-	-
Internal Service Funds	-	-	-	-	-
Total	$ 23,474,553	$ 5,072,917	$ 815,785	$ 880,066	$ 22,328,096

continued below

	Transfers Out			
Transfers in	Non-major Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
General Fund	$ -	$ 300,000	$ 3,664,414	$ 41,177,548
Transportation Fund	-	-	-	370,705
Education Fund	-	-	-	306,432,101
Special Fund	-	756,724	-	80,222,286
Federal Revenue Fund	-	-	-	4,687,564
Global Commitment Fund	-	-	-	423,191,991
Non-major Governmental Funds	-	-	60,675	72,977,491
Unemployment Compensation Trust Fund	771,006	-	-	771,006
Non-major Enterprise Funds	-	-	-	1,065,785
Internal Service Funds	-	-	-	7,994,383
Total	$ 771,006	$ 1,056,724	$ 3,725,089	$ 938,890,860

Note 4: CAPITAL ASSETS

A. Capital Asset Activity

Capital assets activities for the fiscal year ended June 30, 2012, were as follows:

Primary Government

Governmental Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated					
Land, land use rights, and land improvements	$ 114,140,562	$ 3,324,527	$ -	$ -	$ 117,465,089
Construction in process	439,533,473	205,953,057	(151,419,224)	(3,437,308)	490,629,998
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	553,810,038	209,277,584	(151,419,224)	(3,437,308)	608,231,090
Capital assets, being depreciated					
Buildings and improvements	432,779,041	14,739,968	(2,313,238)	99,313	445,305,084
Machinery and equipment	163,705,445	21,318,527	(11,656,943)	(99,313)	173,267,716
Infrastructure	1,686,052,884	133,188,918	(27,095,521)	-	1,792,146,281
Total capital assets, being depreciated	2,282,537,370	169,247,413	(41,065,702)	-	2,410,719,081
Less accumulated depreciation for					
Buildings and improvements	(187,146,206)	(12,020,641)	(3,651,379)	-	(202,818,226)
Machinery and equipment	(109,566,672)	(15,100,980)	10,062,547	-	(114,605,105)
Infrastructure	(702,579,206)	(70,751,108)	22,400,788	-	(750,929,526)
Total accumulated depreciation	(999,292,084)	(97,872,729)	28,811,956	-	(1,068,352,857)
Capital assets, being depreciated, net	1,283,245,286	71,374,684	(12,253,746)	-	1,342,366,224
Governmental activities capital assets, net	$ 1,837,055,324	$ 280,652,268	$ (163,672,970)	$ (3,437,308)	$ 1,950,597,314

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, being depreciated					
Buildings and improvements	$ 59,935	$ -	$ -	$ -	$ 59,935
Machinery and equipment	2,119,998	203,037	(179,909)	-	2,143,126
Total capital assets, being depreciated	2,179,933	203,037	(179,909)	-	2,203,061
Less accumulated depreciation for					
Buildings and improvements	(37,212)	(6,293)	-	-	(43,505)
Machinery and equipment	(1,285,817)	(308,380)	179,909	-	(1,414,288)
Total accumulated depreciation	(1,323,029)	(314,673)	179,909	-	(1,457,793)
Capital assets, being depreciated, net	856,904	(111,636)	-	-	745,268
Business-type activities capital assets, net	$ 856,904	$ (111,636)	$ -	$ -	$ 745,268

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications & Donations	Ending Balance
Capital assets, not being depreciated					
Construction in process	$ 3,072,370	$ 423,406	$ -	$ -	$ 3,495,776
Total capital assets, not being depreciated	3,072,370	423,406	-	-	3,495,776
Capital assets, being depreciated					
Machinery and equipment	2,189,187	16,222	(30,399)	-	2,175,010
Total capital assets, being depreciated	2,189,187	16,222	(30,399)	-	2,175,010
Less accumulated depreciation for					
Machinery and equipment	(589,897)	(237,632)	30,399	-	(797,130)
Total accumulated depreciation	(589,897)	(237,632)	30,399	-	(797,130)
Capital assets, being depreciated, net	1,599,290	(221,410)	-	-	1,377,880
Fiduciary activities capital assets, net	$ 4,671,660	$ 201,996	$ -	$ -	$ 4,873,656

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

Governmental Activities		
General Government	$	10,512,509
Protection to Persons and Property		5,052,248
Human Services		873,783
Labor		9,750
General Education		13,552
Natural Resources		1,741,069
Commerce & Community Development		150,655
Transportation		71,622,283
Depreciation on capital assets held by Internal Service Funds		7,896,880
Total	$	97,872,729

Business-type Activities		
Liquor Control	$	299,597
Vermont Lottery Commission		13,140
Vermont Life Magazine		1,936
Total	$	314,673

Fiduciary Activities		
Pension Trust Funds	$	237,413
Privat Purpose Trust Funds		219
Total	$	237,632

B. **Impairment of Capital Assets**

State capital assets have been impaired as a result of physical damage caused by Tropical Storm Irene. An impairment loss has been calculated for this damage as required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The amount of the impairment loss for damaged capital assets is based on calculations using the Restoration Cost Approach, in which a ratio of either (a) the estimated costs to restore the impaired assets' service utility divided by the replacement costs, or (b) the deflated estimated restoration costs divided by the historical costs, is multiplied by the carrying value of each impaired asset. As a result, assets fully depreciated prior to the tropical storm would have an impairment loss of zero, regardless of the damage. Actual repairs to damaged capital assets are expected to far exceed the calculated impairment loss.

Insurance recoveries received during the year that were related to those impaired assets have been used to offset the impairment loss, in accordance with the guidelines of GASB 42. Insurance recoveries were also recognized during the year to the extent the amounts were determined to be realizable. Insurance recoveries received in excess of the calculated impairment losses would result in a gain being recorded. The impairment loss net of insurance recoveries received during the year is reported as a program expense in the Government -wide Statement of Activities, and as a nonoperating expense in the Statement of Revenues, Expenses and Changes in Net Assets for Proprietary Funds. Governmental funds do not report capital assets or losses associated with capital assets. Accordingly, insurance recoveries received during the year are reported as nonoperating revenue in the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds. Insurance recoveries that will be received or recognized in subsequent year(s) will be recorded as program revenue in the Government-wide Statement of Activities and as nonoperating revenue in the Statement of Revenues, Expenses and Changes in Net Assets for Proprietary Funds.

Reimbursements from the Federal Emergency Management Agency (FEMA), the Federal Highway Administration (FHWA) and similar agencies are not treated in the same manner as insurance recoveries. Unlike insurance, which transfers the risk of loss to a third party, under these programs the risk of loss is not transferred to the federal government; rather the government provides emergency grant assistance to help cope with losses. These reimbursements are recognized as program revenue in the Government-wide Statement of Activities and in the Statement of Activities for Component Units, and as nonoperating revenue in the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds and the Statement of Revenues, Expenses and Changes in Net Assets for Proprietary Funds, when all applicable grant requirements have been met.

The impairment loss for capital assets is based on a threshold for restoration costs of the greater of $100,000 or 20% of the capitalized cost of the asset.

Impairment losses calculated for Governmental Activities assets, net of insurance recoveries, are $4,790,250 for buildings, $17,060 for machinery and equipment, and $4,532,432 for infrastructure (including $2,020,836 for assets that have been completely destroyed and $7,540,632 for assets that have been damaged and will be repaired). The carrying value of impaired assets that were idle at the end of the year is $17,903,330 for buildings and $1,202,293 for infrastructure.

The State has recognized $238,786 in insurance recoveries related to machinery and equipment. Insurance coverage is not available for the State's infrastructure. Recoveries are reported as an offset to the impairment loss.

Net losses after recoveries for assets carried in Internal Service Funds total $1,097,077. This amount is included as nonoperating revenue on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets. Net losses after recoveries for assets carried in Governmental Funds total $8,242,665. No amount related to capital assets is displayed in Governmental Fund financial statements. On the Statement of Activities, losses relating to Internal Service Funds are included in miscellaneous revenues, and losses relating to Governmental Activities are included in the applicable functional expenses.

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension 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 due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the 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, 2012. Securities without an establish market are reported at estimated fair value.

A. Defined Benefit Retirement Plans

Retirement Plan Descriptions

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer public employee defined benefit retirement system 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. The membership consists of:

- general employees who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 6.4% of payroll (contributions cease upon attainment of 25 years of creditable service);
- State police, law enforcement positions, and airport firefighters (Group C), with a contribution rate of 8.28% of payroll;
- judges (Group D), with a contribution rate of 6.4% of payroll;
- terminated vested members of the non-contributory system (Group E); and
- all other general employees (Group F), with a contribution rate of 6.4% of payroll.

Effective July 1, 2011, the contribution rate for all State employees was raised, through legislation enacted in fiscal year 2011. The rate for Group A and D employees was increased from 5.10% to 6.40% through June 30,

2016. The rate for Group C employees was increased from 6.98% to 8.28% through June 30, 2016. The rate for Group F employees was increased from 5.10% to 6.40% through June 30, 2016, and will then decrease to 5.10% through June 30, 2019, then 4.85% thereafter.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost-sharing public employee defined benefit retirement system 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. The membership is made up of:

- general teachers who did not join the non-contributory system on July 1, 1981 (Group A), with a contribution rate of 5.5% of payroll (contributions cease upon attainment of 25 years of creditable service);
- terminated vested members of the non-contributory system (Group B); and
- all other general teachers (Group C), with a contribution rate of 5.0% of covered payroll.

The State appropriates funding for pension costs associated with the above two plans. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could have elected to transfer their memberships from a contributory to a non-contributory membership class. However, in 1990, the Legislature again made both systems contributory effective July 1, 1990, for the STRS and January 1, 1991, for the VSRS. The State's contribution to each system is based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are calculated based upon the liabilities of each system as determined by actuarial valuations.

The Vermont Municipal Employees' Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost-sharing, multiple-employer public employees' retirement system that is administered by the State Treasurer and its Board of Trustees. It is 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.

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS' pension accumulation fund. Effective July 1, 1987, and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, information describing each defined benefit plan's provisions including vesting requirements, benefits provided, post retirement adjustments, etc., and information relating to the two defined contribution plans are available for inspection at the Retirement Division, Office of the State Treasurer, 109 State Street, Montpelier, Vermont 05609-6901.

The defined benefit plans' financial statement are as follows:

Statement of Plan Net Assets

Defined Benefit Plans

June 30, 2012

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets			
Cash and short term investments	$ 4,858,969	$ 3,930,254	$ 428,733
Receivables			
Contributions - current	3,782,623	3,896,583	2,379,816
Contributions - non-current	-	-	6,774,199
Interest and dividends	2,430	4,702	343,349
Due from other funds	64,614	-	48,607
Other	729	491,774	58,583
Investments at Fair Value			
Pooled investments	1,370,104,804	1,483,892,279	410,258,890
Capital assets, net of depreciation	1,906,486	2,243,052	723,110
Total assets	1,380,720,655	1,494,458,644	421,015,287
Liabilities			
Accounts payable	2,007,016	2,561,646	362,881
Retainage payable	224,143	273,261	111,329
Due to other funds	-	3,836	1,007
Total liabilities	2,231,159	2,838,743	475,217
Net assets held in trust for employees' pension benefits	$ 1,378,489,496	$ 1,491,619,901	$ 420,540,070

Statement of Changes in Plan Net Assets
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2012

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit	$ 40,302,433	$ 41,231,875	$ 11,532,230
Employer - healthcare benefit	-	10,500,000	-
Plan member	27,708,009	31,827,995	11,337,926
Transfers from other pension trust funds	377,562	85,110	118,191
Medicare part D drug subsidy	-	1,672,423	-
Early retiree reinsurance program	-	2,747,713	-
Total contributions	68,388,004	88,065,116	22,988,347
Investment Income			
Net appreciation in fair value of investments	251,957	11,718	-
Income from pooled investments	28,591,705	30,472,513	8,733,660
Dividends	-	5,194	-
Interest income	13,702	20,304	453,851
Securities lending income	576,926	634,424	173,514
Other income	32,431	38,157	3,701
Total investment income	29,466,721	31,182,310	9,364,726
Less Investment Expenses			
Investment managers and consultants	5,726,752	6,305,871	1,652,847
Securities lending expenses	135,195	149,774	40,415
Total investment expenses	5,861,947	6,455,645	1,693,262
Net investment income	23,604,774	24,726,665	7,671,464
Total additions	91,992,778	112,791,781	30,659,811
Deductions			
Retirement benefits	90,170,209	117,801,002	14,214,160
Other post employment benefits	-	20,620,144	-
Refunds of contributions	1,908,752	1,521,099	1,664,687
Death claims	482,483	186,384	187,393
Transfers to other pension trust funds	219,653	205,448	282,206
Depreciation	86,854	108,139	42,420
Operating expenses	1,242,065	1,496,596	630,431
Total deductions	94,110,016	141,938,812	17,021,297
Change in net assets	(2,117,238)	(29,147,031)	13,638,514
Net assets held in trust for employees' pension benefits			
July 1, 2011	1,380,606,734	1,520,766,932	406,901,556
June 30, 2012	$ 1,378,489,496	$ 1,491,619,901	$ 420,540,070

Plan membership

At June 30, 2012, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Active employees			
Vested	5,735	7,941	3,985
Non-vested	2,143	2,321	2,621
Total active employees	7,878	10,262	6,606
Retirees and beneficiaries of deceased retirees currently receiving benefits	5,600	7,376	1,991
Terminated employees entitled to benefits but not yet receiving them (vested)	767	793	623
Inactive members	835	2,193	1,653
Total participants	15,080	20,624	10,873

Actuarial Valuation - Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial method for both the STRS and the VSRS plans is set by State statute. Through fiscal year 2005, the method used was entry age normal (EAN) with frozen initial liability (FIL). The Legislature enacted a statute change revising the method to entry age normal without FIL for the actuarial valuation for the year ending June 30, 2006, which effectively restated the starting balance.

Under the previous method, set by State statute, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the “freezing” of the liability in 1988 falls to normal cost instead of being added to the unfunded liability as in more conventional funding methods. If funding levels approximate the actuarially required contribution (ARC), as in the case of the funding of VSRS, the effect of changing from EAN-FIL to EAN is attributable to variances between the actuarial assumptions and experience.

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 ARC. 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.

At the same time there has been significant discussion on the national level relative to the appropriate interest rate assumptions used by public pension plans. The Vermont retirement systems, in concert with its investment and actuarial consultants, determined that rather than dealing with the interest rate as an isolated calculation, it should be viewed as part of an interrelated set of actuarial assumptions through a formal experience study and accelerated the schedule and completed these studies in fiscal year 2011 for the four year period ending June 30, 2010 (prior studies were completed in 2006 for the state system, 2007 for the teacher system and 2008 for the municipal system).

In fiscal year 2011, all three systems adopted a new method of developing interest rate assumptions called “select-and-ultimate”. Under this method, differences between near-term and long-term expectations of rates of return on assets may be incorporated in the assumed rate of return by setting it on a select-and-ultimate basis. The most recent asset allocation established by the Vermont Pension Investment Committee (VPIC) was the basis of the data inputs into the model.

A select-and-ultimate rate structure can be used to reflect expectations of unusually strong or weak returns in near-term years followed by a trending to a long-term equilibrium. In this sense, it is a more elaborate and complete specification of future return assumptions than is a single rate used in all future years. This interest rate set is restarted every year. All three systems adopted a uniform interest rate assumption based on the application of this model:

· Year 1:	6.25%
· Year 2:	6.75%
· Year 3:	7.00%
· Year 4:	7.50%
· Year 5:	7.75%
· Year 6 through year 8:	8.25%
· Year 9 through year 15:	8.50%
· Year 16:	8.75%
· Year 17 and later:	9.00%

Over a 20-year period, the 50th percentile rate of return forecast for such a portfolio is approximately 7.9%. Since the cash flows associated with each system varies, however, for computational or administrative ease, it is preferable to set the assumed interest rate equal to the single rate that produces the same result as the select-and-ultimate rate set. The effective rate, based on assumed cash flows, for VSRS and MERSis 8.1% and 7.9% for STRS. These changes, reflecting a more conservative approach to actuarial assumptions have had the effect of shifting costs upward.

The recent experience for STRS updated the mortality assumptions for service retirees and beneficiaries to the RP-2000 Mortality Tables for Employees and Healthy Annuitants projected with Scale AA to 2010 (The unadjusted RP-2000 Mortality Tables for Employees and Healthy Annuitants were used for these participants in the prior valuation). The VSRS experience study also incorporated a change in the assumptions for separation from services. The representative values of the assumed annual rates of for withdrawal, and vested retirement were increased for the first ten years of service.

For the STRS, representative values of the assumed annual rates of future salary increases were reduced across all age groups. Disability incidence rates were reduced at certain ages. For post-retirement mortality for Group C in STRS, the age setback was changed from one year for males and females to three years for males and one year for females. Disabled retiree mortality was changed to reflect morality improvement projection to 2016.

In the municipal system, mortality assumptions for active participants, the assumptions were changed from 70% of the Buck mortality tables to 50%.

Under legislation enacted in Fiscal Year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the average final compensation (AFC). Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to a “rule of 87”. This “Rule of 87” refers to the sum of the employee’s age and years of service. Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6% per year to one determined on a service based schedule. Due to the relatively small number of participants affected by the hire date incorporated in these changes, the actuary reports a minimal impact on the normal cost and accrued liability. The remaining significant provision of the same legislation makes changes to retiree cost of living (COLA) adjustments. The annual-cost-of living adjustment (COLA) applicable to the benefits of group F members retiring after July 1, 2008, rose from 50% of the annual increase of the Consumer Price Index (CPI) to 100% of the annual increase in the CPI index, up to a ceiling of 5%, effective January 1, 2014. Only current group F members who were actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008 will be eligible for the enhanced COLA in 2014. Group F members who terminated service or transferred to another group plan prior to June 30, 2008 are not eligible for the new COLA unless they return to active group F service after July 1, 2008 and prior to retirement. The COLA provisions were reflected in the 2008 valuation as well as the valuation for the period ending June 30, 2012.

Effective July 1, 2010 a number of changes were made to the STRS based on changes enacted by the Legislature. There were no new changes in fiscal year 2012. For Group C members who are within five years of normal retirement as of July 1, 2010, the maximum allowable benefit will increase from 50% of Average Final Compensation (AFC) to 53.34%, provided that service needed to earn a benefit in excess of 50% of AFC is rendered after July 1, 2010. For Group C members who are not within five years of normal retirement as of July 1, 2010, eligibility for normal retirement is changed from age 62 or completion of 30 years of service, to attainment of age 65 or satisfaction of the “rule of 90.” Reductions for early retirement are changed from 6% per year by which commencement of benefits precedes age 62 to factors based on the System’s definition of actuarial equivalence. Maximum benefits for members of this group are increased from 50% to 60% of the AFC, and the benefit multiplier is increased from 1.67% per year to 2% per year of service in excess of 20.

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS.

	VSRS	STRS	MERS
Valuation date	06/30/12	06/30/12	07/01/12
Actuarial cost method	Entry Age Normal	Entry Age Normal	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Installments increasing 5% per year
Remaining amortization period [1] All closed basis	26 years	26 years	26 years
Asset valuation method [2]	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 [3]	6.25%-9.00%	6.25%-9.00%	6.25%-9.00%
Projected salary increases	4.50%-7.79%	4.25%-8.40%	5%
Cost of living adjustments	1.5%-3.0%	1.5%-3.0%	Group A - 1.5% Groups B, C & D - 1.8%
Post Retirement Adjustments			
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%	N/A
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in CPI but not in excess of percentage indicated	Group F - 5% [4]	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: 3.0% For those eligible for increases of 50% of CPI change: 1.5%	For those eligible for increases of 100% of CPI change: 3.0% For those eligible for increases of 50% of CPI change: 1.5%	

(1) The 30-year period for amortization of the unfunded actuarial accrued liability was restarted effective 7/1/08 for STRS, and VSRS.
(2) The preliminary asset value is equal to the previous year's asset value (for valuation purposes) adjusted for contributions less benefit payments and expenses and expected income.
(3) Effective 6/30/11, a select-and ultimate interest rate assumption was used, as described earlier in the note.
(4) Effective January 1, 2014, the Group F employees who were actively contributing into the system on June 30, 2008, and retire on or after July 1, 2008, will be eligible for the enhanced cost of living adjustment, which will increase to equal the full CPI change.

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2011 and June 30, 2012, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2011…	$ 346,537,738	$ 845,107,880
Normal cost…………………………………………………	41,517,079	35,205,405
Contributions………………………………………………	(68,388,004)	(88,065,116)
Interest on unfunded liability, normal cost and contributions………………………………………	22,148,689	52,309,253
Restart of select-and-ultimate interest structure……….	31,587,726	43,012,727
Actuarial (gains)/losses experience:		
Salary experience……………………………………	10,916,553	(18,940,673)
COLA experience……………………………………...	2,278,408	2,591,239
Mortality experience…………………………………	4,809,926	4,238,443
Retirement and disability experience…………………	7,723,400	17,997,922
Termination experience………………………………	3,006,875	54,234,810
New members and rehires……………………………	2,645,456	2,751,161
Investment and other expenses………………………	7,412,175	23,121,145
Investment experience……………………………….	(274,598)	6,447,642
Other (data corrections, purchased services, etc.)…	(10,096,678)	(34,509,522)
Unfunded actuarial accrued liability, June 30, 2012……	$ 401,824,745	$ 945,502,316

Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation (NPO) to the Vermont State Retirement System and the State Teachers' Retirement System at June 30, 2012 were as shown on the following page.

	VSRS	STRS
Annual Required Contribution (ARC)……	$ 28,748,401	$ 51,241,932
Interest on NPO……	3,926,266	11,454,583
Adjustment to ARC……	(3,531,192)	(10,301,984)
Annual Pension Cost (APC)……	29,143,475	52,394,531
Employer Contribution Made……	(40,302,433)	(56,152,011)
Increase (Decrease) in NPO……	(11,158,958)	(3,757,480)
NPO - July 1, 2011……	62,820,259	183,273,322
NPO - June 30, 2012……	$ 51,661,301	$ 179,515,842
Percentage of APC contributed	138.29%	107.17%

Three-Year Trend Information

Year Ended 6/30	Annual Pension Cost	Percentage Contributed	NPO Balance
VSRS			
2010	$ 38,795,109	81.12%	$ 54,374,109
2011	46,018,749	81.65%	62,820,259
2012	29,143,475	138.29%	51,661,301
STRS			
2010	46,220,068	103.23%	180,245,609
2011	53,295,844	94.32%	183,273,322
2012	52,394,531	107.17%	179,515,842

Funded Status and Funding Progress

The following is funded status information for the three defined benefit plans as the most recent valuation date, with amounts in thousands:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS						
6/30/12	$ 1,400,779	$ 1,802,604	$ 401,825	77.7%	$ 385,526	104.2%
STRS						
6/30/12	1,517,410	2,462,913	945,503	61.6%	561,179	168.5%
MERS						
7/1/12	417,443	488,572	71,129	85.4%	215,075	33.1%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

B. Defined Contribution Retirement Plans

Vermont State Defined Contribution Plan

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional defined contribution 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 ending June 30, 2012, member contributions totaled $649,488 with State employer contributions at $1,813,629. As of June 30, 2012, the Vermont State Defined Contribution Plan's net assets totaled $45,140,497 and there were 434 participants.

Vermont Municipal Employees' Defined Contribution Plan

The Vermont Municipal Employees' Defined Contribution Plan (24 V.S.A. 5070) 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 and their employers are required to contribute at the rate of 5% of earnable compensation. Effective July 1, 2008, employers began contributing 5.125% while employee contribution percentages remain unchanged. Employees become vested in the plan after 12 months of service. During the fiscal year ending June 30, 2012, member contributions totaled $659,609 and employer contributions at $605,657. As of June 30, 2012, the Municipal Employees' Defined Contribution Plan's net assets totaled $16,540,973, and there were 351 participants.

Single Deposit Investment Account

The Single Deposit Investment Account (SDIA), a non-contributory defined contribution 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, 2012 there were 1,788 members, with net assets of $74,074,894 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows:

Statement of Plan Net Assets
Defined Contribution Plans
June 30, 2012

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Assets			
Cash and short term investments	$ 75,165	$ 1,020,170	$ 83,233
Receivables			
Contributions - current	120,382	-	13,106
Interest and dividends	-	125	-
Investments at fair value			
Mutual funds	44,994,420	73,054,599	16,493,804
Total assets	45,189,967	74,074,894	16,590,143
Liabilities			
Accounts payable	4,266	-	563
Due to other funds	45,204	-	48,607
Total liabilities	49,470	-	49,170
Net assets held in trust for employees' pension benefits	$ 45,140,497	$ 74,074,894	$ 16,540,973

Statement of Changes in Plan Net Assets
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2012

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit	$ 1,813,629	$ -	$ 659,609
Plan member	694,488	-	605,657
Transfers from other pension trust funds	110,673	-	15,771
Transfers from non-state systems	5,009	-	14,485
Total contributions	2,623,799	-	1,295,522
Investment Income			
Net appreciation (depreciation) in fair value of investments	(1,131,683)	1,040	(529,722)
Dividends	1,151,379	2,414,165	453,412
Interest income	124	862	335
Securities lending income	-	38	-
Total investment income	19,820	2,416,105	(75,975)
Less Investment Expenses			
Investment managers and consultants	-	234,679	-
Total investment expenses	-	234,679	-
Net investment income	19,820	2,181,426	(75,975)
Total additions	2,643,619	2,181,426	1,219,547
Deductions			
Retirement benefits	2,578,550	6,734,383	680,642
Operating expenses	46,432	-	81,025
Total deductions	2,624,982	6,734,383	761,667
Change in net assets	18,637	(4,552,957)	457,880
Net assets held in trust for employees' pension benefits			
July 1, 2011	45,121,860	78,627,851	16,083,093
June 30, 2012	$ 45,140,497	$ 74,074,894	$ 16,540,973

C. Other Post Employment Benefits
In addition to providing pension benefits, the State offers post employment medical insurance, dental insurance, and life insurance benefits to retirees of the VSRS and STRS.

Medical Insurance Plan Descriptions

Vermont State Retirement System
Employees Hired Prior To July 1, 2008
Employees hired prior to July 1, 2008, and retiring directly from active State service for any reason (disability, early, or normal), including the State Police, 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.

If an employee, other than a group C member, does not retire directly from State service, they are not eligible to participate in the State's medical insurance 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. 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.

Employees Hired After June 30, 2008
Based on legislation enacted during fiscal year 2008, 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.

As of June 30, 2012, 4,132 of the 12,404 participants in the plan were retirees enrolled in the single, spousal, or family plan options. Of the $142.0 million in premiums received by the Medical Insurance Fund (internal service fund) during 2012, retirees contributed $6.3 million. Of the $125.6 million in claims expense incurred by the Medical Insurance Fund during 2012, $34.8 million was attributable to retiree claims.

The Vermont State Postemployment Benefits Trust Fund (3 V.S.A. 479a) 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 VSRS. By definition this is a fund required to follow the reporting requirements of the Governmental Accounting Standards Board Statement No. 43 - "Financial Reporting for Postemployment Benefit Plans Other Than Pensions." The State's fiscal year 2012 contributions to this trust fund totaled $27.7 million which included a $1.8 million Medicare D reimbursement received from the Federal Government. The trust fund then paid premium payments of $25.9 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2012, the trust fund has total net assets of $13,378,884 being held in trust for postemployment benefits other than pension benefits.

State Teachers Retirement System
Retirees in the STRS plan 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.

Members of the STRS have access to three medical benefit plans in retirement. The plans are identical to those offered to active teachers in public school systems in Vermont. Members may pick up medical coverage under one of the plans offered for themselves and all eligible dependents at the time of retirement, or anytime thereafter during one of the semi-annual open enrollment periods. Current employees with ten or more years of service as of July 1, 2010, receive a premium subsidy of 80%, and have a tiered years of service requirement to be eligible for an 80% spousal insurance premium subsidy. For new hires and those with less than 10 years of service as of July 1, 2010, there is no premium subsidy for those retiring with less than 15 years of service at retirement, 60% single premium subsidy at 15 years, 70% single premium subsidy at 20 years ,and 80% single and spousal premium subsidy at 25 years. The retiree must pick up the full cost of the premium for all covered dependents. No plan changes were made in fiscal year 2012.

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.

As of June 30, 2012, 4,751 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $7.6 million in premiums, the State contributed $10.5 million to the STRS pension trust fund for medical benefit premiums, and the STRS pension trust fund paid $20.6 million in premiums to VEHI on a pay-as-you-go basis, during fiscal year 2012. VEHI incurred $33.1 million in retiree claims expense for the fiscal year ending June 30, 2012.

Medicare Part D - Prescription Drug Subsidy
Under the Medicare, Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), employer sponsors of retiree prescription drug plans can apply for a 28% subsidy for the qualified prescription drug costs of their retirees. To be eligible for the subsidy, the employer coverage must be actuarially equivalent to the new Medicare Part D coverage and the employer must provide notices of creditable prescription drug coverage to individuals entitled to Medicare Part D.

The State Teachers' Retirement System Board of Trustees agreed that they would continue to offer the same prescription drug coverage program that has been available to active and retired teachers for the past several years. The Retirement Division has received an attestation from its actuaries that the prescription drug program offered to retired teachers is equivalent, and in fact, better than the drug program offered through Medicare Part D. The State system has also agreed to offer the same prescription drug coverage program that has been available to active and retired State employees for the past several years. The Department of Human Resources has received an attestation from its actuaries that the prescription drug program offered to retired members is equivalent, and in fact, better than the drug program offered through Medicare Part D

The systems will continue to evaluate the results of the Medicare Part D Program and its impact on the post-age 65 health care benefits marketplace and prescription drug pricing. The Vermont Teachers' Retirement Board of Trustees and the State will need to determine in future years whether it is in their best interest to continue to offer the same prescription drug program, or whether it should be modified or discontinued. If the determination is to continue to offer the same coverage, the estimated annual subsidy will fluctuate depending on the number of retirees and covered dependents that actually sign up for the Medicare Part D Program. If it is determined that the prescription coverage should either be modified or discontinued, then the savings will be realized by a decrease in medical premiums.

For the fiscal year ending June 30, 2012, the subsidy for the VSRS system was $1,786,719. The State has elected to place this revenue in the Vermont State Postemployment Benefits Trust Fund, an OPEB trust fund to fund future post employment health benefit liabilities. In the case of STRS, the subsidy for fiscal year 2012 was $1,672,423 and was deposited into the STRS Pension Trust Fund.

Plan Membership

At June 30, 2012, the number of participants included in the OPEB valuations is as follows:

	VSRS	STRS
Active employees (1)	8,272	10,262
Terminated vested	-	793
Retired employees	4,132	5,185
Total participants	12,404	16,240

(1) Number of active employees includes participants in the defined contribution plan.

OPEB Actuarial Valuation- Methods and Assumptions

The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2012. This is the sixth annual OPEB valuation for each system. Both the VSRS and STRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. Since the VSRS has accumulated some assets, a third blended calculation is also included. The 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 post employment 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. 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 health care trend cost rate assumption was modified to extend the period until the ultimate trend rate is reached from 2 years to 8 years in order to reflect general market expectations. Age morbidity factors were adjusted, eliminating the assumed increase in cost for ages above 65 for prescription drug costs for Medicare-eligible participants in light of recent internal studies of claims experience for credible retiree populations comparable to the population covered by the System. Assumed costs for pre-65 medical and prescription drug and Medicare-eligible medical costs continue to reflect age adjustments. All other assumptions, including the assumed discount rate, were the same as those used in 2011.

An OPEB trust has been established for VSRS funded in part, as required by statute, through the deposit of Medicare-D subsidies received for State employees' prescription programs. Therefore the VSRS system reflects a "blended rate" reflecting some level of prefunding, resulting in an assumed discount of 4.25% instead of the pay-as-you-go liability calculated at 4%.

An OPEB valuation was also completed for STRS. An OPEB trust has not been created for STRS and no prefunding has been made. As noted above, an experience study was completed for the STRS retirement system. Valuation assumptions were updated to reflect the postretirement benefit plans changes and the effects of changes to pension benefits adopted concurrently. As a result of the study, the disability incidence and post-retirement mortality assumptions were revised.

In the case of VSRS, health care administrative expenses are appropriated in an administrative budget. The State's contribution for the payment of these administrative expenses is paid into the State Employee Postemployment Benefit Trust Fund which pays the health care expenses. Since these expenses are expressly funded in the State's budget, they have not been included in the VSRS defined benefit pension actuarial contribution calculations.

In the case of STRS, the health care administrative expenses are paid through the pension fund but are not explicitly appropriated. Since these expenses are not expressly funded in the State's budget, they have been included in the STRS defined benefit pension actuarial contribution calculation.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following list contains the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSRS and STRS OPEB plans.

	VSRS	**STRS**
Valuation date	6/30/2012	6/30/2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Closed basis for prefunded Open basis for pay-as-you-go	Closed basis for prefunded Open basis for pay-as-you-go
Remaining amortization period	30 years starting in 2012	30 years starting in 2012
<u>Actuarial assumptions</u>		
Investment rate of return - pay-as-you-go	4.25% (1)	4.00%
Medical Care and State Share inflation	6.50% in 2013 6.25% in 2014 6.00% in 2015 5.75% in 2016 declining to 5% in 2020	5.00%
Coverage	80% of current active employees will elect retiree medical coverage and 70% of terminated vested will elect coverage	60% of current active employees will elect retiree medical coverage and 30% of terminated vested will elect coverage

(1) In fiscal year 2012, partial prefunding resulted in a blended rate of 4.25%

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2011 and June 30, 2012, as follows:

	VSRS	STRS
Unfunded actuarial accrued liability, June 30, 2011	$ 998,576,325	$ 780,032,155
End of year service cost	41,635,535	21,690,053
Interest cost	41,723,540	30,750,867
Benefit payments	(34,046,208)	(22,743,953)
Expected increase in assets	(3,129,835)	-
Impact of recent year demographic experience	4,411,084	31,795,420
New per capita costs	(12,734,566)	(20,221,328)
Other refinements	(38,998,395)	5,876,884
Asset loss	966,487	-
Unfunded actuarial accrued liability, June 30, 2012	$ 998,403,967	$ 827,180,098

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. GASB Statement 45 was implemented in fiscal year 2008 prospectively with a zero net OPEB Obligation (NOO) beginning balance for both the VSRS and STRS OPEB defined benefit plans.

The following table shows the component of the State's annual OPEB cost for the year ended June 30, 2012 the amount actually contributed, and the changes in the State's net OPEB obligation.

	VSRS	STRS
Annual Required Contribution (ARC)	$69,880,277	$43,410,732
Interest on NOO	$6,200,180	$8,952,692
Amortization of NOO	($4,374,380)	($6,471,758)
Annual OPEB Cost (AOC)	71,706,077	45,891,666
Employer Contribution Made	(27,652,189)	-
Increase in NOO	44,053,888	45,891,666
NOO - July 1, 2011	145,886,587	223,817,296
NOO - June 30, 2012	$ 189,940,475	$ 269,708,962
Percentage of ARC contributed	38.56%	0.00%

Three-Year Trend Information

OPEB Fund/Plan	Year Ended 6/30	Annual OPEB Cost*	Percentage Contributed	NOO Balance
State Employees' Postemployment Benefit Trust Fund				
	2010	$ 58,856,739	38.28%	$ 104,937,441
	2011	68,343,620	40.08%	145,886,587
	2012	71,706,077	38.56%	189,940,475
Postemployment Benefits for State Teachers Retirement System				
	2010	60,296,524	0.00%	180,309,205
	2011	43,508,091	0.00%	223,817,296
	2012	45,891,666	0.00%	269,708,962

* Determined on a pay-as-you-go basis

Funded Status and Funding Progress

The funding status of the plans as of June 30, 2012, was as follows *(expressed in thousands)*:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS [1]						
6/30/12	$ 13,379	$ 1,011,783	$ 998,404	1.3%	$ 406,929	245.4%
STRS [2]						
6/30/12	-	827,180	827,180	0.0%	561,026	147.4%

(1) Reflects blended discount rate of 4.25% in 2012
(2) Discount rate for 2012 at 4.0%, reflecting no prefunding

The schedule of funding progress, presented as required supplementary information immediately following these notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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, it will continue into retirement, but, up until July 1, 2008, was reduced to $5,000. As of July 1, 2008, this benefit was increased to $10,000 for all State employees. 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 (increase from $5,000 effective July 1, 2008) 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 MERS RHS Plan 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 post employment 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 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, 2012, there were 5,238 active and retired members participating in the MERS RHS plan. Investments in member accounts as of June 30, 2012 totaled $10,786,329.

The financial statements for the OPEB Funds are as follows:

Statement of Plan Net Assets
Other Postemployment Benefit Funds
June 30, 2012

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Assets		
Cash and short term investments................	$ 2,756,174	$ 277,004
Receivables		
Due from other funds............................	376,775	-
Investments at Fair Value		
Fixed income.....................................	7,177,476	-
Equities..	3,051,156	-
Mutual funds.....................................	61,067	10,509,325
Total assets.......................................	13,422,648	10,786,329
Liabilities		
Accounts payable...................................	14,567	-
Due to other funds	43,764	-
Total liabilities.................................	58,331	-
Net assets held in trust for employee's other postemployment benefits...............	$ 13,364,317	$ 10,786,329

Statement of Changes in Plan Net Assets
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2012

	Vermont State Postemployment Benefits Trust Fund	Vermont Municipal Employees' Health Benefit Fund
Additions		
Contributions		
Employer - healthcare benefit	$ 25,865,470	$ -
Medicare part D drug subsidy	1,786,719	-
Total contributions	27,652,189	-
Investment Income		
Net appreciation in fair value of investments	37,144	62,552
Dividends	98,868	-
Interest income	239,411	938
Total investment income	375,423	63,490
Less Investment Expenses		
Investment managers and consultants	-	58,490
Total investment expenses	-	58,490
Net investment income	375,423	5,000
Total additions	28,027,612	5,000
Deductions		
Other postemployment benefits	25,863,989	213,526
Operating expenses	275	-
Total deductions	25,864,264	213,526
Change in net assets	2,163,348	(208,526)
Net assets held in trust for employees postemployment benefits		
July 1, 2011	11,215,536	10,994,855
June 30, 2012	$ 13,378,884	$ 10,786,329

Note 6: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 are summarized as follows:

	Governmental Funds		Internal	Total Governmental
	Major	Non-major	Service Funds	Activities
Governmental activities				
Taxes				
Personal and corporate income	$ 230,700,997	$ -	$ -	$ 230,700,997
Sales and use	66,898,290	-	-	66,898,290
Meals and rooms	31,753,610	-	-	31,753,610
Purchase and use	372,071	-	-	372,071
Motor Fuel	7,180,630	103,803	-	7,284,433
Other taxes	13,009,960	-	-	13,009,960
Subtotal	349,915,558	103,803	-	350,019,361
Allowance for uncollectibles	(124,014,020)	-	-	(124,014,020)
Taxes receivable, net	$ 225,901,538	$ 103,803	$ -	$ 226,005,341
		Current receivable		$ 89,465,132
		Non-current receivable		136,540,209
		Total taxes receivable, net		$ 226,005,341
Loans and notes				
Loans and notes receivable	$ 242,498,491	$ -	$ -	$ 242,498,491
Allowance for uncollectibles	(509,000)	-	-	(509,000)
Loans and notes receivable, net	$ 241,989,491	$ -	$ -	$ 241,989,491
		Current receivable		$ 25,601,990
		Non-current receivable		216,387,501
		Total loans and notes receivable, net		$ 241,989,491
Federal grants	$ 194,901,928	$ 437,002	$ -	$ 195,338,930
Other				
Accrued interest and other receivables	$ 110,553,370	$ 998,379	$ 15,931,401	$ 127,483,150
Allowance for uncollectibles	(39,181,789)	-	(48,428)	(39,230,217)
Other receivables, net	$ 71,371,581	$ 998,379	$ 15,882,973	88,252,933
Interfund loans receivable from Fiduciary Funds				382,212
Less Internal Service Funds' receivables from Governmental Funds				(9,499,809)
Other receivables, net				$ 79,135,336
		Current receivable		$ 37,519,934
		Non-current receivable		41,615,402
		Total other receivable, net		$ 79,135,336

	Enterprise Funds Major	Enterprise Funds Non-major	Total Business-type Activities
Business-type activities			
Taxes			
Unemployment	$ 42,876,273	$ -	$ 42,876,273
Allowance for uncollectibles	(4,332,018)	-	(4,332,018)
Taxes receivable, net	$ 38,544,255	$ -	$ 38,544,255
Loans and notes receivable	$ -	$ 2,198,402	$ 2,198,402
	Current receivable		$ 993,093
	Non-current receivable		1,205,309
	Total loans and notes receivable, net		$ 2,198,402
Federal grants	$ 645,530	$ -	$ 645,530
Other			
Accrued interest and other receivables	$ 4,224,944	$ 536,326	$ 4,761,270
Allowance for uncollectibles	(58,956)	(25,411)	(84,367)
Other receivables, net	$ 4,165,988	$ 510,915	$ 4,676,903
	Current receivable		$ 4,668,156
	Non-current receivable		8,747
	Total other receivable, net		$ 4,676,903

Note 7: 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 2012 was $8,939,590 for operating leases of which $8,876,589 was paid for property leases, $36,325 for equipment leases and $26,676 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, 2012.

	Primary Government		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total
2013…………	$ 8,017,735	$ 14,611	$ 8,032,346
2014…………	5,354,896	4,955	5,359,851
2015…………	4,002,242	3,754	4,005,996
2016…………	2,960,768	2,494	2,963,262
2017…………	2,018,269	2,385	2,020,654
2018 - 2022….	4,973,057	9,640	4,982,697
2023 - 2026….	319,711	5,212	324,923
Totals	$ 27,646,678	$ 43,051	$ 27,689,729

B. Capital Leases

The State has entered into capital lease arrangements to acquire various items of machinery and equipment and building improvements with a gross asset value totaling $5,046,983. The majority of the gross value total is from a lease with the Banc of America Public Capital Corp, for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex. The total cost of the equipment to be funded by the lessee under the agreement is $4,538,059. In 2012, the lease payment schedule was revised to show a reduction in the principal balance of $190,407. The revised principal reflects these two adjustments: the actual project costs and the cumulative interest compensation on the differential between the actual amount funded and the initial payment schedule dated August 1, 2008. The interest compensation component is calculated at the three-year Treasury Bill rate. The agreement term consists of 120 payments, based on 10 years using a simple interest rate of 3.089% and a compound interest rate of 3.133%. Lease payments for fiscal year 2012 were $598,095.

Capital lease payments for the primary government in 2012 totaled $622,023, with $23,928 for machinery and equipment, and $598,095 for building improvements.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2012 are as follows:

Fiscal Year	Primary Government
2013………………………………………………	$ 614,066
2014………………………………………………	617,812
2015………………………………………………	631,167
2016………………………………………………	643,060
2017………………………………………………	655,258
2018 - 2019………………………………………	836,434
Total minimum lease payments…………………	3,997,797
Less interest………………………………………	(378,489)
Present value of minimum lease payments….	$ 3,619,308

The State, acting through its Agency of Transportation entered into a capital lease with Main Street Landing Company, for premises in and adjacent to Union Station at 1 Main Street, Burlington, Vermont, on January 20, 1998 and amended on December 16, 1999. The term of the lease was for a 20 year period and the entire 20 year rent was prepaid. The original agreement’s rent was $1,500,000 in four equal installments beginning November 26, 1996 and ending in 1998. The amendment included an additional payment of $250,000 for a total rent deposit of $1,750,000.The terms of the lease give the State the right to purchase a condominium interest in their leased property at the end of the lease term for $500,000 subject to certain terms and conditions. The State is also required to pay its share of certain annual operating costs throughout the terms of the lease.

Note 8: GENERAL 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. Also, bonds have been authorized and issued to refund outstanding general obligation bonds.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. Except for zero coupon capital appreciation 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 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 five State bridges, construction of one roadway capacity project, and rehabilitation and reconstruction of two interstate bridges.

The changes in bonds principal payable for fiscal year 2012 are summarized in the following schedule.

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2011	$ 495,740,920	$ 13,835,000	$ 509,575,920
Additions:			
Issuances	132,060,000	-	132,060,000
Accretions	280,645	-	280,645
Total	132,340,645	-	132,340,645
Deductions:			
Redemptions	(51,545,000)	(575,000)	(52,120,000)
Defeasance	(70,280,000)	-	(70,280,000)
Total	(121,825,000)	(575,000)	(122,400,000)
Balance, June 30, 2012	$ 506,256,565	$ 13,260,000	$ 519,516,565

On December 1, 1993, the State issued capital appreciation bonds with a maturity value of $32,625,000 maturing on August 1 in the years 1999 through 2013. The proceeds from these bonds totaled $17,987,640. These bonds have a remaining maturity value of $3,750,000 and an accreted value of $3,541,565 at June 30, 2012.

General obligation and special obligation transportation infrastructure bonds outstanding at June 20, 2012, are as follows:

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value of Capital Appreciation Bonds	Maturity Value Sources of Payments General Fund	Transportation Fund	Special Fund	Maturity Value of Bonds Outstanding Total
General Obligation Current Interest Bonds:								
12/11/2002	8/1/2021	3.0 to 5.0	30,800,000		$ 1,885,000	$ -	$ -	$ 1,885,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		7,311,000	399,000	-	7,710,000
2/11/2004	2/1/2018	1.1 to 5.0	137,457,000		39,721,237	98,763	1,625,000	41,445,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		4,124,360	315,640	-	4,440,000
3/2/2005	3/1/2025	3.0 to 4.0	26,000,000		5,750,000	-	-	5,750,000
4/13/2005	3/1/2015	2.4 to 4.0	15,000,000		4,200,000	300,000	-	4,500,000
6/7/2005	3/1/2020	2.65 to 5.0	20,805,000		19,109,087	565,913	880,000	20,555,000
11/22/2005	7/15/2025	3.5 to 5.0	30,000,000		3,000,000	-	-	3,000,000
12/13/2005	7/15/2015	3.1 to 4.0	15,000,000		6,000,000	-	-	6,000,000
2/21/2007	7/15/2026	4.0 to 5.0	30,000,000		12,750,000	-	-	12,750,000
3/15/2007	7/15/2016	3.375 to 4.0	9,500,000		4,750,000	-	-	4,750,000
3/15/2007	7/15/2016	3.375 to 4.0	5,000,000		2,500,000	-	-	2,500,000
11/28/2007	7/15/2027	3.50 to 5.25	35,000,000		23,300,000	-	-	23,300,000
12/20/2007	7/15/2017	3.0 to 4.0	11,000,000		6,600,000	-	-	6,600,000
12/20/2007	7/15/2017	3.0 to 5.0	29,195,000		7,590,641	159,359	-	7,750,000
3/11/2009	3/1/2029	2.0 to 5.0	50,500,000		31,505,000	11,420,000	-	42,925,000
2/3/2010	8/15/2016	2.0 to 5.0	11,200,000		8,000,000	-	-	8,000,000
2/3/2010	8/15/2029	3.75 to 4.5	40,800,000		40,800,000	-	-	40,800,000
3/11/2010	8/15/2019	2.0 to 2.8	20,000,000		16,000,000	-	-	16,000,000
3/11/2010	8/15/2021	2.0 to 5.0	29,155,000		29,155,000	-	-	29,155,000
3/11/2010	8/15/2021	2.0 to 5.0	9,675,000		9,590,000	-	-	9,590,000
10/26/2010	8/15/2013	3	3,750,000		2,500,000	-	-	2,500,000
10/26/2010	8/15/2030	1.45 to 4.7	46,250,000		46,250,000	-	-	46,250,000
11/30/2010	8/15/2020	1.5 to 5.0	25,000,000		22,500,000	-	-	22,500,000
3/21/2012	8/15/2022	0.6 to 3.0	25,000,000		25,000,000	-	-	25,000,000
3/21/2012	8/15/2030	3.0 to 3.5	28,000,000		28,000,000	-	-	28,000,000
3/21/2012	8/15/2016	1.0 to 2.0	10,000,000		10,000,000	-	-	10,000,000
3/21/2012	8/15/2025	0.6 to 5.0	69,060,000		67,639,621	1,420,379	-	69,060,000
Total General Obligation Current Interest Bonds					**485,530,946**	**14,679,054**	**2,505,000**	**502,715,000**
General Obligation Capital Appreciation Bonds:								
12/01/1993	08/01/2013	N/A	17,987,640	32,625,000	3,750,000	-	-	3,750,000
Total Maturity Value					**3,750,000**	**-**	**-**	**3,750,000**
Less: Unaccreted Interest					208,435	-	-	208,435
Total General Obligation Capital Appreciation Bonds					**3,541,565**	**-**	**-**	**3,541,565**
Total General Obligation Bonds					**489,072,511**	**14,679,054**	**2,505,000**	**506,256,565**
Special Obligation Transportation Infrastructure Bonds:								
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000		**-**	**13,260,000**	**-**	**13,260,000**
Total General Obligation and Special Obligation Bonds					**$ 489,072,511**	**$ 27,939,054**	**$ 2,505,000**	**$ 519,516,565**

At June 30, 2012, there remains $102,790,860 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2012 are as follows:

Fiscal Year	General Obligation Current Interest Bonds Principal	General Obligation Current Interest Bonds Interest	Special Obligation Current Interest Bonds Principal	Special Obligation Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2013	$ 50,510,000	$ 18,092,776	$ 585,000	$ 405,063	$ 1,750,000	$ 71,342,839
2014	47,145,000	16,767,474	600,000	393,363	2,000,000	66,905,837
2015	40,320,000	14,992,749	610,000	381,363	-	56,304,112
2016	37,080,000	13,562,561	625,000	369,163	-	51,636,724
2017	33,855,000	12,312,799	635,000	356,663	-	47,159,462
2018-2022	143,965,000	44,305,185	3,440,000	1,521,411	-	193,231,596
2023-2027	104,090,000	20,201,756	4,005,000	962,124	-	129,258,880
2028-2032	45,750,000	3,360,713	2,760,000	216,788	-	52,087,501
Totals	$ 502,715,000	$ 143,596,013	$ 13,260,000	$ 4,605,938	$ 3,750,000	$ 667,926,951

Note 9: BOND REFUNDINGS

During the 2012 fiscal year, the State issued general obligation refunding bonds Series D in the amount of $69,060,000 to be used solely to refund portions of the State’s general obligation bonds. Through advanced refunding, the 2004 Series B Bonds, 2005 Series A Bonds, 2005 Series D Bonds, 2007 Series A Bonds, and the 2007 Series D Bonds, with current basis of $70,280,000, will be refunded with proceeds from the 2012 Series D Bonds. The total refunded amount results in defeasance of debt and the liabilities have been removed from the State’s financial statements. Total proceeds inclusive of premium for the 2012 Series D Bonds are $79,459,741, less $437,125 paid for refunding bond issuance costs, the remaining $79,022,616 was paid to the bond escrow agent. The State has taken advantage of lower interest rates and has decreased its aggregate debt service payments by $5,361,440 over the fourteen years ending June 30, 2026. The economic gain (the present value of the debt service savings) for the State through this transaction is $4,416,043, using a discount rate of 2.0%.

During fiscal years 2004, 2005, and 2010, 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, 2012, is $96,230,000.

Note 10: BUDGET STABILIZATION ARRANGEMENTS

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 2012, 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, 2012 are as follows: $10,766,086 in the Transportation Fund's Budget Stabilization Reserve; $58,114,034 in the General Fund's Budget Stabilization Reserve; and $29,842,632 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. This is a reporting change. 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.

Note 11: CONTINGENT AND LIMITED LIABILITIES

A. Contingent Liabilities

Vermont Economic Development Authority:
In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority (VEDA) in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Aid Board to it. Each of these original entities was relegated to a particular segment of commercial development. VEDA was established as a body corporate and politic and a public instrumentality of the State. It is governed by a twelve member board which consists of the Secretary of the Agency of Commerce and Community Development, the State Treasurer, the Secretary of Agriculture, Food and Markets, and nine public members appointed by the Governor with the advice and consent of the Senate. The full faith and credit of the State is pledged to support the activities of VEDA.

VEDA has the power, under its two insurance programs (the Mortgage Insurance Program – MIP and the Financial Access program – FAP), to insure various types of loans.

Under the MIP, VEDA has the power to insure up to $9 million of loans made by financial institutions for the purchase of land and construction of industrial building facilities in the State; to finance the purchase of machinery and equipment; and to provide working capital. The refinancing of existing loans is also possible under the act that created VEDA. As of June 30, 2012, the State's contingent liability for mortgage insurance contracts insured under its MIP is $1,484,000.

VEDA is authorized to reimburse lenders participating in its other insurance program (FAP) for losses incurred on loans that the lenders register with VEDA. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed $1 million at any one time. The State's contingent liability for the FAP at June 30, 2012 is $559,928. The State has no recorded payable to VEDA in the Governmental Funds for fiscal 2012.

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.

B. Limited Liabilities

Vermont 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.

C. Contractual Liabilities

At June 30, 2012, the State of Vermont had long-term contracts outstanding of approximately $255,337,563 funded from federal sources, and $699,459,089 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 liabilities by agency, department or office at June 30, 2012.

Agency, Department, or Office	Total Contractual Obligation	Funded by Federal Sources	Funded by Other Sources
Agency of Administration	$ 162,780,855	$ 697,760	$ 162,083,095
Agency of Agriculture, Food & Markets	1,242,127	940,553	301,574
Agency of Commerce & Community Development	1,512,025	180,690	1,331,335
Agency of Human Services	140,667,232	27,720,964	112,946,268
Agency of Natural Resources	11,983,484	1,963,962	10,019,522
Agency of Transportation	404,335,042	202,951,839	201,383,203
Auditor of Account's Office	5,371,481	-	5,371,481
Criminal Justice Training Council	78,468	-	78,468
Department of Education	5,857,722	4,261,409	1,596,313
Department of Labor	3,138,599	3,033,174	105,425
Department of Liquor Control	163,162	-	163,162
Department of Public Safety	7,866,809	5,395,586	2,471,223
Enhanced 911 Board	6,767,755	-	6,767,755
Financial Regulation	8,969,987	401,704	8,568,283
Joint Fiscal Office	514,100	-	514,100
Judiciary	3,186,143	11,750	3,174,393
Legislative Council	6,225,997	5,710,354	515,643
Military Department	685,658	82,044	603,614
Office of the Attorney General	1,030,651	-	1,030,651
Public Service Board	334,255	-	334,255
Public Service Department	9,688,618	663,619	9,024,999
Secretary of State's Office	1,587,983	1,322,155	265,828
State Treasurer's Office	152,156,344	-	152,156,344
State's Attorneys and Sheriffs	36,501	-	36,501
Vermont Lottery Commission	18,615,654	-	18,615,654
Total	$ 954,796,652	$ 255,337,563	$ 699,459,089

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 68% have end dates of June 30, 2013 or earlier. Of the Agency of Human Services contract liability balance, 20% is for contracts in the Department of Corrections, 44% is Department of Vermont Health Access, and 20% is Department of Mental Health. Of the contracts in the Agency of Administration, 70% have end dates during fiscal year 2013, and are primarily for human resource benefit administration services, information technology services, and capital construction. The State Treasurer's Office contracts are mostly investment management services for the retirement plans which consist of 97% of the total, with 27% having end dates during fiscal year 2013.

D. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. During fiscal year 2012, the State awarded over 7,100 grants. The chart below shows the funding sources for these awards, the fiscal year 2012 payments issued to grantees on both these awards and prior year grant awards, and the remaining unexpended award amounts and June 30, 2012.

	Award Balances at June 30, 2011	Current Year Awards	Award Adjustments	Current Year Expended	Award Balances at June 30, 2012	Expended from Federal Funding Sources
Higher education/student assistance grants	$ 1,478,223	$ 91,312,214	$ (2,061)	$ (92,183,194)	$ 605,182	$ 675,675
ARRA grants	31,762,306	13,722,879	(5,544,207)	(26,859,381)	13,081,597	14,816,393
Mental health programs	5,515,556	114,178,718	(1,942,597)	(110,071,014)	7,680,663	2,752,798
Public health grants	8,062,008	32,282,000	-	(31,809,379)	8,534,629	20,951,991
Alcohol and drug abuse programs	2,786,412	27,723,823	(1,055,626)	(27,405,067)	2,049,542	15,232,107
Other education grants	13,238,330	110,136,333	(10,176,076)	(101,152,330)	12,046,257	86,089,123
Labor and training programs	3,366,409	2,923,651	-	(3,884,258)	2,405,802	2,557,094
Community/economic development grants	22,184,811	13,151,655	-	(18,345,465)	16,991,001	14,287,252
Vermont Crime Victims grants	886,539	2,585,903	(24,019)	(1,698,257)	1,750,166	1,698,257
Transportation grants	108,190,883	219,865,320	(3,989,420)	(147,125,657)	176,941,126	102,468,187
Aged and independent living programs	6,033,989	24,564,847	(174,336)	(25,078,122)	5,346,378	14,708,272
Public safety grants	5,806,572	3,783,560	(2,182,239)	(4,715,590)	2,692,303	4,696,821
Human services grants	4,919,952	44,904,604	(250,374)	(36,719,541)	12,854,641	22,042,017
All other grants	34,893,115	107,999,123	(2,607,829)	(95,332,755)	44,951,654	17,148,211
	$ 249,125,105	$ 809,134,630	$ (27,948,784)	$ (722,380,010)	$ 307,930,941	$ 320,124,198

A partial summary of the 2012 grant activity is provided below.

During fiscal year 2012, over 378 federal ARRA grants were awarded in the areas of general education, loan funds, training, tourism, Vermont economic development and public safety programs.

During fiscal year 2012, programs under mental health for adults and children were awarded 104 grants. Programs managed under mental health are youth in transition, success beyond six, children's upstream and Vermont child trauma.

Public health grants are awarded for prevention of diseases, public awareness programs like tobacco cessation, HIV prevention and family planning, vaccinations and inspection programs. During fiscal year 2012, there were 123 grants awarded.

During fiscal year 2012 over 166 grants were awarded by the State to alcohol and drug abuse programs which includes DUI enforcement grants.

Other Educational grants have been awarded for school improvements, Title I, II, III and V as well as head start and technology advances. During fiscal year 2012, 1,009 education grants were awarded.

Under labor and training programs, 63 grants have been awarded in fiscal year 2012 to outreach programs, individuals with disabilities, work training programs, workforce education, career exploration and apprenticeship programs.

During fiscal year 2012, 212 grant awards for community and economic development provided funding for energy savings programs and feasibility studies utilizing wind power, solar panels and geothermal projects.

During fiscal year 2012, the United States Department of Justice awarded the Vermont Crime Victims 46 federal grants for crime victim assistance, and domestic and family violence services' programs.

Transportation grants mainly consists of town highway projects like bridge replacement and rehabilitation, culvert repair and state aid to towns; state and FTA funded projects; FEMA emergency projects, state paving projects, enhancement projects and various roadway projects. In fiscal year 2012, 919 grants were awarded.

During fiscal year 2012, 147 grants were awarded to the aged and independent living programs. The majority of the grants were for training, work based learning and supported education, abuse prevention, caregiver programs and grants for home delivered meals.

Public Safety grants are made up of safety programs like homeland security, motorcycle safety, bicycle safety, traffic safety, seatbelt safety and boating safety. During fiscal year 2012, 294 safety grants were awarded.

During fiscal year 2012, 337 human services grants were awarded from the Department of Children and Families for child care programs, economic and family services, economic opportunities and weatherization programs.

Note 12: 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.

Note 13: 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. Fifty percent of the gross sales from each State are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each State remain in that particular State.

At June 30, 2012, the Commission had total assets of $68,782,197, and total liabilities of $55,170,776, representing decreases of $5.1 million and $6.2 million respectively, compared to June 30, 2011 figures. For the fiscal year ended June 30, 2012, the Commission had operating revenues of $61,311,844, a decrease of $6.8 million; interest income of $42,648, a decrease of $5,370; commissions, fees, and bonus expenses of $6,116,586, a decrease of $676,185; prize awards of $30,862,047 a decrease of $3.4 million; and other operating expenses of $4,155,077 a decrease of $167,642; all activity as compared to the fiscal year ended June 30, 2011.

During fiscal year 2012, the Commission made operating transfers to member states of $20,220,782 versus $22,826,190 during fiscal year 2011. This total included $3,210,805 transferred to Vermont during the fiscal year, a decrease of $420,533 as compared to fiscal year 2011.

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.

Note 14: RISK MANAGEMENT

A. Workers' Compensation and Risk Management

The Agency of Administration Financial Operations Division of the Department of Buildings and General Services 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:

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

The Workers' Compensation Fund covers all State employees who are injured on the job, pursuant to State statute. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. All claims are processed by Workers' Compensation personnel and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's workers' compensation exposure is reliable. Liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The Liability Insurance Fund covers general and employment practices liability, discrimination, and auto liability risk. The coverage is comparable to standard private commercial policies. It offers coverage to the same group of participants as those covered by the workers' compensation program described above. The State's exposure to tort risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. Exposure outside of Vermont and to federal suit and other non-tort suit is potentially unlimited. The State is self-insured (SIR) for the first $500,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to $1,500,000 ($2,000,000 total) in Vermont and $10,000,000 in excess of the $500,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by Risk Management personnel (prior to 2006, claims were processed by a third-party administrator), and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's liability exposure is reliable. This liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

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

With the exception of significant reductions in flood coverage (as a result in part following the claims generated from Tropical Storm Irene), there have been no significant reductions in insurance coverage from the prior year. Insurance settlements have never exceeded the coverage disclosed above.

In addition to the three internal service funds above, effective July 1, 2007, the General Assembly established the Sarcoidosis Benefit Trust Fund (a program in the Special Fund) to cover specific claims arising from an outbreak of Sarcoidosis at the impaired State office building in Bennington, Vermont (Act 53 of 2007). Claims are reviewed and processed under rules established that mirror the rules for the Workers' Compensation Fund claims. Funding was established as a special fund and not a proprietary fund as funding will only be available by the General Assembly as claims arise and funding needs are determined. The Fund is managed by Workers' Compensation personnel. There are three accepted ACT 53 claims; one was settled and closed in fiscal year 2011, one in fiscal year 2012, and the third is anticipated to settle in fiscal year 2013. In fiscal year 2012 and 2011 respectively, approved claims paid were $186,924 and $473,239. Total payments issued from fiscal year 2008 through fiscal year 2012 are $1,380,726.

B. Health Care Insurance, Dental Assistance Plan, Life Insurance, Employee Assistance Program, and Long Term Disability Funds for State Employee Benefit Plans

The Employee Benefits Division of the Department of Human Resources maintains medical/behavioral health insurance, dental assistance plan, life insurance, employee assistance program, and long term disability program 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 medical insurance plan offerings have been in place since 2001 and include four plan options. TotalChoice and HealthGuard options are "preferred provider organization" indemnity-type plans. The SafetyNet option is a high-deductible catastrophic plan. The SelectCare plan is a "point of service" plan, similar to an open-ended HMO. 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. All four health plan options are self-insured by the State. The State employs 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 plan operates with a schedule of benefits which is bargained under the labor contract and has not been updated since 2001. 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.

A Flexible Spending Account (FSA) Program is available to active State employees only. This account allows pre-tax salary deductions to be used to reimburse eligible medical and dependent care expenses. The FSA Program administrator is paid a monthly fee based on the number of enrolled employees. No claims costs are incurred under this plan by the State. The State pays 100% of the fee for this plan.

An Employee Assistance Program (EAP) is provided for the benefit of State employees and members of their immediate household. This program assists employees and family members in addressing problems that impact their lives including stress, family, financial, substance abuse, and other issues. Active State employees and their families are eligible for this program. The EAP Program Manager is paid a monthly fee based on the number of employees who work for the State. The plan provides up to 5 counseling sessions per case through a network of providers. No claims costs, or claims liabilities are incurred under this plan by the State. The State pays 100% of the fee for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become disabled due to non-occupational injury or illness, and the disability is expected to be long term or permanent. The plan provides financial protection for State employees and their families by continuing a portion of their income while disabled. Only State employees who are not eligible to be represented by the employees' unions (the Vermont State Employees Association and the Vermont Troopers Association) are eligible for this benefit. Employees must be employed for one (1) year before coverage is effective. This plan is fully insured through an insurance company, so there is no liability to the State for claims. The premium is based on a percentage of the salaries of eligible participants. The State issues payment to the insurance company for the premium and the cost is then recovered from eligible employees in the following manner: Those eligible employees who are covered by a leave plan forfeit one day of compensated absence leave per year. Those eligible employees who are not covered by a leave plan have a one-time 0.2% salary reduction in their next cost-of-living increase following eligibility. During 2012, departments were given a 17 pay-period rate holiday and normal premium recovery from employees was not processed.

Presented on the following page is a table displaying three years' changes in the respective funds' claims liability amounts.

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Liability at End of the Fiscal Year
Workers' Compensation Fund				
2010	$ 20,752,711	$ 9,958,945	$ 6,374,876	$ 24,336,780
2011	24,336,780	5,850,317	6,983,306	23,203,791
2012	23,203,791	10,095,099	7,235,542	26,063,348
State Liability Insurance Fund				
2010	6,281,814	1,983,164	1,347,076	6,917,902
2011	6,917,902	400,884	891,905	6,426,881
2012	6,426,881	4,015,135	3,274,882	7,167,134
Medical Insurance Fund				
2010	10,838,470	109,027,749	108,961,398	10,904,821
2011	10,904,821	116,845,994	115,834,579	11,916,236
2012	11,916,236	125,624,972	124,857,795	12,683,413
Dental Insurance Fund				
2010	276,407	4,972,853	4,974,032	275,228
2011	275,228	4,972,179	5,050,658	196,749
2012	196,749	4,932,917	4,915,827	213,839

Note 15: DEFICIT FUND BALANCES AND NET ASSETS

Business-type Proprietary Funds

Federal Surplus Property Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset balance of $498,247. The program continues to suffer from a lack of inventory for sale from the federal government that could be in turn be retrieved for sale by the State. In 2012, the fund received additional capital from the General Fund in the amount of $250,000. The plan going forward is to reduce the deficit by actively retrieving goods for sale to increase program sales in 2013. Given the program is popular with local governments further recapitalization from the General Fund would be required if sales continue to keep the program in a deficit position.

Vermont Life Magazine Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $1,351,675 and a deficit total net asset balance of $1,349,335. Vermont Life Enterprise has experienced operating losses in 17 of the past 28 years. In mid-fiscal 2012, the Vermont Agency of Commerce & Community Development hired a publisher with business turn-around experience. The publisher advised the Agency in February of his intent to work with staff and the Vermont Life Advisory Board to balance Vermont Life Enterprise's operating budget by the end of fiscal 2015. In May, the Legislature gave Vermont Life Enterprise authority to generate revenues from additional sources. Vermont Life Enterprise's consolidated loss in fiscal 2012 was $36,000 less than in fiscal 2011, even after taking $67,000 in write-offs for several years of unsold product inventory and advertising bad debt. The fiscal 2012 consolidated loss increased the deficit total net asset balance to $1,349,335. The Vermont Life Advisory Board discussed a wide-range of budget-balancing and new business initiatives at summer and autumn meetings. On October 1, the publisher submitted a document to the Secretary of Commerce & Community Development outlining Vermont Life's strategies to balance the budget by the end of fiscal 2015. On October 16, the publisher and editor translated these strategies into two dozen specific projects, some of which are starting immediately.

Internal Service Funds

Single Audit Revolving Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset balance of $460,242. In part, the deficit can be attributed to fiscal year 2009 budget rescissions resulting in a transfer to the General Fund of $196,000. The remaining deficit is due to estimated billing costs that were understated in fiscal year 2012, but should be recovered through normal billing for services in fiscal year 2013 and 2014.

Communications & Information Technology Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $1,139,023. The fund is made up of three different programs. The mainframe program has a large surplus that was reduced during fiscal year 2012 by $730,000. The allocation program had an increase in its deficit; while telecom program had a small increase in its surplus. The programs in total resulted in a deficit balance. Fiscal year 2013 should continue to see a reduction in the surplus from the mainframe program due to rate holidays, while the allocation program should see a reduction of its deficit through increased efficiencies.

Fleet Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $4,876,821. The unrestricted deficit balance of $4,876,821 is the result of the rolling annual replacement schedule for vehicles that are financed through the inter-fund payables. More importantly, the total net asset is positive and is expected to remain in that position. A rate holiday or a possible payback of unused mileage charges is possible in 2013 to help reduce the overall program fund surplus $1,305,149.

Copy Center Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $3,073,735 and a deficit total net asset balance of $1,588,265. The total fund deficit was reduced in 2012 due to increased efficiencies in the Print Shop program. The Copy Center anticipates an increase in business activity in 2013 and beyond with the goal of saving the State resources as a result of new printing mandates being implemented by the Administration directing more businesses to utilize print shop services. The fund deficit should be recovered through normal operations.

Postage Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset of $2,046,307. The Postage fund continues to see a loss from year to year; the loss for fiscal year 2012 was in part due to the increase in the State's footprint shaped by Tropical Storm Irene. It is the intention that the current fund deficit will be recovered through business operations although a General Fund subsidy may be required to cover the increasing cost of internal mail delivery and bomb screening.

Facilities Operations Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $1,618,738 and a deficit total net asset balance of $2,859,538. Fiscal year 2012 was a very dramatic year for this program because of Tropical Storm Irene. Most of the Waterbury State Office Complex was inoperable for 10 months of the year. This meant reduced expenses coupled with reduced billings, as well as a loss on the disposal of capital assets. Capital lease agreements on disposed capital assets runs until September, 2018. All in all the fund came out $375,000 short for the year. If the deficit cannot be recovered through normal operations, the fund will seek financial support from the General Fund.

Property Management Fund ended fiscal year 2012 with a deficit unrestricted net asset balance of $21,805,018 and a deficit total net asset balance of $21,800,835. The fund deficit continues to expand due to the 20-year bonding of the three buildings in the program and the 50-year recovery period of the bond principle. The fund will begin to recover after the 20-year bond period has ended. Two of the three buildings have completed their 20 year bond period. It is anticipated that the fund will begin to recover soon afterwards. Another reason for the increasing deficit is that the work the leasing program does to secure leased space does not get added into the cost of the lease. Adding a surcharge to leased space billing to recover these costs is currently under consideration.

Workers' Compensation Fund ended fiscal year 2012 with both a deficit unrestricted net asset and a total net asset of $4,635,079. The rates for fiscal year 2013 include an additional $1 million to help alleviate part of this deficit fund balance. In 2014, the fund deficit will be addressed in the rate setting process for departments and agencies. The workers' compensation program has an aggressive medical case management team that is striving to return injured employees back to work at the earliest possible signs of recovery. This goal should result in an improvement in the claims expense going forward.

Human Resources Fund ended fiscal year with both a deficit unrestricted net asset and total net assets of $306,625. The fiscal year results reflect startup considerations with creating a new program such as rate structure and program services. The program grew from its original concept as new service needs were discovered during the year. For instance, part of the current year deficit includes a nearly $200,000 compensated absence liability for the inherited positions that was not considered in the calculation of the 2012 rate. Planned rate increases and program efficiencies will be used to offset the deficit.

Governmental Fund Types

Transportation Infrastructure Bond Projects Fund ended the year with a negative unassigned fund balance. Spending authority for this fund is done through appropriations, while the bonds to pay for these expenses are not issued until the next fiscal year.

Special Fund ended the year with a negative unassigned fund balance of $1,769,243. This is due to payment of expenses for Tropical Storm Irene, while reimbursements are expected in later fiscal years.

Note 16: CHANGES IN 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. Other liabilities include the unamortized premium on the sale of bonds. During the year ended June 30, 2012, the following changes occurred in the long-term liabilities:

	Total Liability July 1, 2011	Additions	Reductions	Total Liability June 30, 2012	Amounts due within one year
Governmental activities					
Bonds payable	$ 509,575,920	$ 132,340,645	$ 122,400,000	$ 519,516,565	$ 52,845,000
Capital leases payable	4,340,005	35,823	756,520	3,619,308	506,801
Compensated absences	32,788,551	32,151,976	31,595,605	33,344,922	21,453,846
Claims and judgments	41,743,657	144,668,123	140,284,046	46,127,734	14,287,534
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligations	246,093,581	81,538,006	96,454,444	231,177,143	-
Net other postemployment obligations	369,703,883	117,597,743	27,652,189	459,649,437	-
Other liabilities	15,615,746	12,884,056	3,319,916	25,179,886	2,312,432
Pollution remediation obligations	5,209,831	2,247,212	1,814,962	5,642,081	516,604
Total governmental activities long-term liabilities	$ 1,232,071,174	$ 523,463,584	$ 424,277,682	$ 1,331,257,076	$ 91,922,217

Governmental activities bonds payable additions of $132,340,645 include $63,000,000 in general obligation bonds, $69,060,000 in refunding bonds, and $280,645 of accretions on capital appreciation bonds.

The reduction in capital leases payable include an amendment to the lease for energy efficiency projects for State owned buildings. The lease obligation was reduced to $190,407 to reflect the cost of equipment that was not completed under the terms of the original agreement.

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 five sites in Vermont in various stages of cleanup, from initial assessment to cleanup activities. The Pollution Remediation Obligation (PRO) at June 30,2012 is $5,062,272, which includes a net reduction of $51,708 from last year. These liabilities were measured using the actual contract cost, where 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. The State does not anticipate recovering reimbursements from the parties who caused the pollution.

The State has identified another site for cleanup for which estimated costs (liabilities) have not been recognized. The site, which is a mine, has been identified as having significant erosion. Currently, costs for its remediation and long term maintenance have not been determined at this time as the evaluation processes have just begun. The State is in the process of determining who is responsible and if there is a potential to recover cleanup funds from former owners. The case has been referred to the USEPA for consideration as a Superfund site. The PRO is $71,207 as of June 30, 2012.

The State's Waterbury Office Complex was flooded during Tropical Storm Irene on August 28, 2011. Asbestos removal in order to prevent public exposure has been identified as part of the building demolition and possible renovation efforts. In addition, two other State buildings are undergoing similar asbestos abatement measures during their renovations. The pollution remediation obligation is $508,602 as of June 30, 2012.

	Total Liability July 1, 2011	Additions	Reductions	Total Liability June 30, 2012	Amounts due within one year
Business-type activities					
Unemployment compensation trust fund federal account loan	$ 77,731,861	$ -	$ -	$ 77,731,861	$ 20,000,000
Compensated absences	336,175	270,299	270,854	335,620	189,214
Lottery prize awards payable	4,513,818	64,409,376	63,447,447	5,475,747	4,040,646
Total business-type activities long term liabilities	$ 82,581,854	$ 64,679,675	$ 63,718,301	$ 83,543,228	$ 24,229,860
Fiduciary					
Compensated absences	$ 14,620	$ 16,635	$ 12,988	$ 18,267	$ 10,355
Total fiduciary long-term liabilities	$ 14,620	$ 16,635	$ 12,988	$ 18,267	$ 10,355

During the fiscal year, the Unemployment Compensation Trust Fund drew advances from the U. S. Treasury's Unemployment Trust Fund (UTF), The American Recovery and Reinvestment Act of 2009 provided that these State advances be interest free through December 31, 2010. Subsequent to that date, accrued interest is payable annually each September, from the General Fund. Principal payments are also due annually each September. The amount of the payment depends on the health of the trust fund. A payment of $20,000,000 was made in September, 2012.

Note 17: ACCOUNTING CHANGES

Vermont Student Assistance Corporation (a Component Unit of the State of Vermont)

In March, 2012, GASB issued Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities; and recognizes as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

VSAC implemented this new statement during the year ended June 30, 2012, resulting in a restatement of the Statement of Net Position as of June 30, 2011, and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended. The effects of this change on the statements were as follows:

	Net Assets as of June 30, 2011
As originally reported	$ 154,125,000
Restatements	
Alternative loan fee revenue	3,568,000
Lender paid federal origination/default fees	(2,899,000)
Bond issuance costs	(8,436,000)
Restated amount	$ 146,358,000

Vermont Telecommunications Authority (a Component Unit of the State of Vermont)

Management of the authority identified an overstatement of accounts receivable due from Vermont Telecommunications Corporation that requires restatement of its audited financial statements for the year ended June 30, 2011. The overstatement of accounts receivable resulted from excess amounts of accounts receivable carried forward from the fiscal year ended June 30, 2011.

There is no effect on the change in net assets for the year ended June 30, 2012 , as a result of the restatement. The restatement decreased total assets as of June 30, 2011, by $4,000 and decreased net assets as of June 30, 2011 by $4,000.

Note 18: RESTRICTED NET ASSETS – Discretely Presented Component Units

Restricted net assets are those portions of total net assets that are not available for appropriation for expenditure or that are legally segregated for a specific future use. Restricted net assets at June 30, 2012 are as follows:

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units
Restricted for					
Endowments					
Expendable	$ 218,000	$ 260,777,000	$ 6,191,758	$ -	$ -
Nonexpendable	3,285,000	97,166,000	14,446,789	-	-
Grants and scholarships	1,272,000	-	-	-	-
Bond resolution	109,109,000	-	-	81,300,000	-
Interest rate subsidies	-	-	-	-	2,731,958
Investment - Vermont Capital Partners, LP	-	-	-	-	14,537
Investment - Vermont Seed Capital, LP	-	-	-	-	4,040,000
Collateral for commercial paper program	-	-	-	-	20,046,208
Infrastructure investments	-	-	-	-	5,022,629
Project and program commitments	-	-	-	-	33,183,423
Loans receivable (1)	-	-	-	-	164,416,423
Total Component Units Restricted Net Assets	$ 113,884,000	$ 357,943,000	$ 20,638,547	$ 81,300,000	$ 229,455,178

(1) Loans receivable for the Vermont Housing and Conservation Board include federally restricted funds.

Note 19: SUBSEQUENT EVENTS

Debt Issuances

2012 Series A - Special Obligation Transportation Infrastructure Bonds

The State issued $10,820,000 of 2012 Series A - Special Obligation Transportation Infrastructure Bonds, dated August 9, 2012. The interest rates on these bonds vary from 2% to 3%, and payment to the bondholders is scheduled to commence on December 15, 2012, and terminate on June 15, 2032.

These bonds are not general obligations of the State, and are not secured by the full faith and credit of the State but are payable only from Pledged Funds held in Trust by the Peoples United Bank (Trustee) in accordance with the terms of a Trust Agreement between the State and Peoples United Bank dated July 1, 2010, as amended and supplemented, and a Second Supplemental Agreement dated August 1, 2012. Funding sources for the Pledged Funds are funds to be received from 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 ten State bridges and four town highway bridges, reconstruction of two roadways, and rehabilitation and reconstruction of two interstate bridges.

2012 Series E (Vermont Citizens Bonds) – General Obligation Bonds and 2012 Series F – General Obligation Bonds

The State issued $26,765,000 of 2012 Series E - General Obligation Bonds, dated October 11, 2012. The bonds are general obligations of the State of Vermont, and the full faith and credit of the State are pledged to the payment of principle and interest on these bonds. The interest rates on these bonds vary from 2% to 5%, and payment to bondholders is scheduled to commence on August 15, 2013, and terminate on August 15, 2024.

The State issued $66,420,000 of Series F - General Obligation Bonds, dated October 1, 2012. The bonds are general obligations of the State of Vermont, and the full faith and credit of the State are pledged to the payment of principle and interest on these bonds. The interest rates on these bonds vary from 2% to 5%, and payment to bondholders is scheduled to commence on August 15, 2013, and terminate on August 15, 2032.

The issuance of these bonds is authorized by capital acts from legislative sessions: Act 161 (2010), Act 43 (2009), and Act 40 (2011) as amended by Act 104 (2012). The proceeds are to be used for various purposes including capital projects, major maintenance at the State buildings, Vermont State Colleges, Vermont school construction, cellular and broadband telecommunications improvements, various projects in the areas of human services, natural resources, public safety, agriculture, various grant purposes, and other projects.

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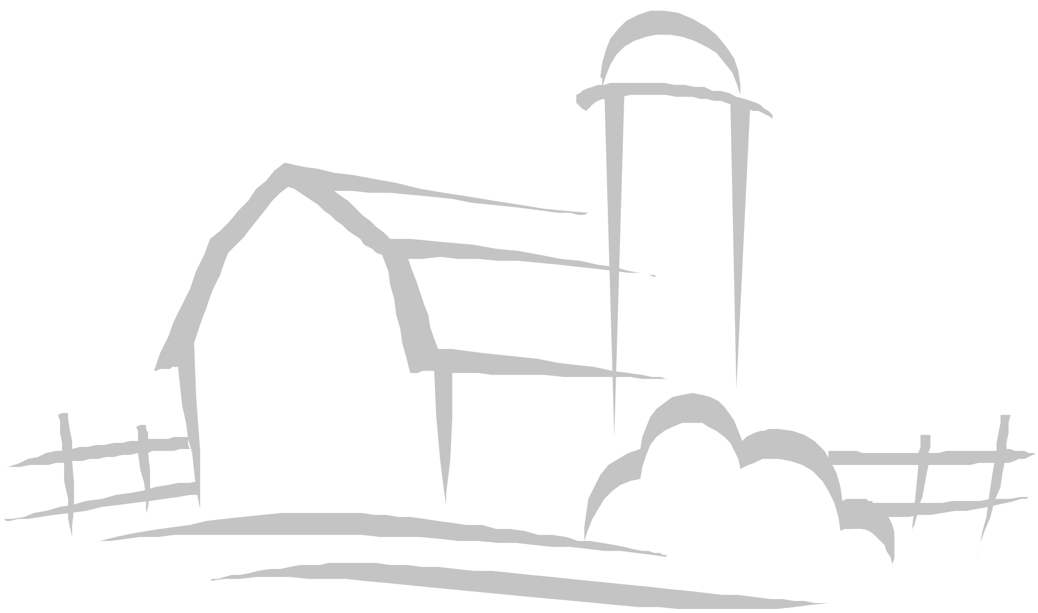

Vermont

Required Supplementary Information

(Unaudited)

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

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS						
2012	$ 1,400,779	$ 1,802,604	$ 401,825	77.71%	$ 385,526	104.23%
2011	1,348,763	1,695,301	346,538	79.56%	398,264	87.01%
2010	1,265,404	1,559,324	293,920	81.15%	393,829	74.63%
2009	1,217,638	1,544,144	326,506	78.86%	404,516	80.72%
2008	1,377,101	1,464,202	87,101	94.05%	404,938	21.51%
2007	1,318,687	1,307,643	(11,044)	100.84%	386,917	-2.85%
STRS						
2012	$ 1,517,410	$ 2,462,913	$ 945,503	61.61%	$ 561,179	168.49%
2011	1,486,698	2,331,806	845,108	63.76%	547,748	154.29%
2010	1,410,368	2,122,191	711,823	66.46%	562,150	126.63%
2009	1,374,079	2,101,838	727,759	65.38%	561,588	129.59%
2008	1,605,462	1,984,967	379,505	80.88%	535,807	70.83%
2007	1,541,860	1,816,650	274,790	84.87%	515,573	53.30%
MERS						
2012	$ 417,443	$ 488,572	$ 71,129	85.44%	$ 215,075	33.07%
2011	402,550	436,229	33,679	92.28%	205,589	16.38%
2010	376,153	409,022	32,869	91.96%	202,405	16.24%
2009	331,407	366,973	35,566	90.31%	191,521	18.57%
2008	348,740	343,685	(5,055)	101.47%	175,894	-2.87%
2007	325,774	309,853	(15,921)	105.14%	162,321	-9.81%

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

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
Vermont State	2012[1]	$ 28,748	140.19%
Retirement System	2011	44,491	84.45%
	2010	37,418	84.10%
	2009	28,998	86.68%
	2008	42,375	92.49%
	2007	40,190	97.78%
State Teachers'	2012	$ 51,242	109.58%
Retirement System	2011	48,233	104.22%
	2010	41,503	101.01%
	2009	37,077	100.74%
	2008	40,749	100.51%
	2007	38,200	100.77%
Vermont Municipal Employees'	2012	$ 11,532	100.00%
Retirement System	2011	11,117	100.00%
	2010	10,593	100.00%
	2009	-	N/A
	2008	-	N/A
	2007	8,546	100.00%

[1] Fiscal year 2012 the annual required contribution had been adjusted by $5 million due to the provisions contained in Act 63 of the 2011 legislative session, and by $5.4 million to correct prior year contribution true-ups that were erroneously categorized as expenses.

N/A - not applicable.
For fiscal years 2009 and 2008, the Vermont Municipal Employees' Retirement System required no employer contributions for the defined benefit pension plan. Instead, employer contributions were directed to the OPEB defined contribution plan's Vermont Municipal Employees' Health Benefit Fund.

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

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

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
State Employees' Postemployment Benefit Trust Fund [1]						
2012	$ 13,379	$ 1,011,783	$ 998,404	1.32%	$ 406,929	245.35%
2011	11,216	1,009,792	998,576	1.11%	420,321	237.57%
2010	7,897	925,183	917,286	0.85%	414,936	221.07%
2009	5,749	780,748	774,999	0.74%	426,827	181.57%
2008	3,364	754,690	751,326	0.45%	404,937	185.54%

[1] Based on a discount rate of 4.00% for 2008, and 4.25% for 2009 - 2012.

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
State Teachers Retiree Medical Benefit Plan [2]						
2012	$ -	$ 827,180	$ 827,180	0.00%	$ 561,026	147.44%
2011	-	780,032	780,032	0.00%	547,748	142.41%
2010	-	703,751	703,751	0.00%	560,763	125.50%
2009	-	872,236	872,236	0.00%	561,588	155.32%
2008	-	863,555	863,555	0.00%	535,807	161.17%

[2] Based on a discount rate of 3.75% prior to 2008, and 4.00% for 2008 - 2012.

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 BEEFIT PLANS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
State Employees' Postemployment Benefit Trust Fund			
	2012	$ 69,880	39.57%
	2011	67,030	40.87%
	2010	57,998	38.84%
	2009	58,994	33.72%
	2008	47,285	37.59%
Postemployment Benefits for State Teachers' Retirement System			
	2012	$ 43,411	0.00%
	2011	41,509	0.00%
	2010	58,966	0.00%
	2009	59,712	0.00%
	2008	60,221	0.00%

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
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,159,600,000	$ 1,158,000,000	$ 1,162,077,698	$ 4,077,698
Earnings of Departments	21,100,000	20,100,000	20,899,181	799,181
Other	10,500,000	11,300,000	14,024,094	2,724,094
Total revenues	1,191,200,000	1,189,400,000	1,197,000,973	7,600,973
Expenditures				
General Government				
Agency of Administration	38,916,921	74,105,287	42,234,362	(31,870,925)
Executive Office	1,423,544	1,493,475	1,363,192	(130,283)
Legislative Council	10,189,626	11,106,679	9,570,024	(1,536,655)
Joint Fiscal Office	1,465,429	1,731,883	1,498,168	(233,715)
Sergeant at Arms	511,664	651,783	525,974	(125,809)
Lieutenant Governor's Office	170,402	174,132	165,310	(8,822)
Auditor of Accounts	396,853	387,482	384,010	(3,472)
State Treasurer	1,065,828	1,202,782	740,044	(462,738)
State Labor Relations Board	203,879	201,457	198,820	(2,637)
VOSHA Review Board	25,614	48,983	26,971	(22,012)
Homeowner Property Tax Assistance	15,190,000	14,206,983	13,699,762	(507,221)
Renter Rebate Tax Assistance	2,500,000	2,803,675	2,794,206	(9,469)
Protection to Persons and Property				
Attorney General	5,146,635	5,799,685	5,526,557	(273,128)
Defender General	11,725,840	11,961,654	11,493,549	(468,105)
Judiciary	31,331,211	31,109,715	31,085,459	(24,256)
State's Attorneys and Sheriffs	13,089,140	13,388,889	12,278,660	(1,110,229)
Department of Public Safety	30,176,837	31,715,659	30,093,616	(1,622,043)
Military Department	3,522,791	4,352,502	4,183,498	(169,004)
Center Crime Victim Services	1,154,480	1,154,480	1,154,480	-
Criminal Justice Training Council	2,324,636	2,366,550	2,237,446	(129,104)
Agency of Agriculture, Food and Markets	5,881,788	7,010,651	5,752,166	(1,258,485)
Secretary of State	1,529,127	1,507,178	1,506,287	(891)
Public Service Department	-	250,000	-	(250,000)
Human Rights Commission	332,882	356,948	356,948	-
Human Services				
Agency of Human Services	551,650,429	559,757,588	529,249,143	(30,508,445)
Governor's Commission on Women	299,058	311,180	291,697	(19,483)
Human Services Board	114,505	113,416	113,416	-
Labor				
Department of Labor	2,425,316	6,350,639	4,466,251	(1,884,388)
General Education				
Department of Education	9,639,157	10,237,988	9,743,545	(494,443)
State Teacher's Retirement	51,672,307	51,672,307	51,672,307	-
Higher Education	80,339,790	80,339,798	80,339,789	(9)

continued on next page

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	18,696,415	20,887,033	18,608,494	(2,278,539)
Natural Resources Board	757,494	720,918	720,918	-
Commerce and Community Development				
Agency of Commerce and Community Development	11,662,218	14,858,639	12,279,193	(2,579,446)
Cultural Development	1,601,792	1,601,792	1,601,792	-
Transportation				
Agency of Transportation	-	108,440	-	(108,440)
Total expenditures	907,133,608	966,048,250	887,956,054	(78,092,196)
Excess of revenues over expenditures	284,066,392	223,351,750	309,044,919	85,693,169
Other Financing Sources (Uses)				
Transfers in	15,116,053	45,804,001	45,804,001	-
Transfers out	(348,768,240)	(384,509,712)	(384,509,712)	-
Refunding bonds issued	-	79,022,616	79,022,616	-
Payment to escrow agent	-	(79,022,616)	(79,022,616)	-
Total other financing sources (uses)	(333,652,187)	(338,705,711)	(338,705,711)	-
Excess of revenues and other sources over (under) expenditures and other uses	(49,585,795)	(115,353,961)	(29,660,792)	85,693,169
Fund balance, July 1	188,491,321	188,491,321	188,491,321	-
Fund balance, June 30	$ 138,905,526	$ 73,137,360	$ 158,830,529	$ 85,693,169

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 132,500,000	$ 131,700,000	$ 131,576,127	$ (123,873)
Motor vehicle fees	74,700,000	74,400,000	73,544,143	(855,857)
Federal	265,359,630	448,505,142	367,516,376	(80,988,766)
Other	38,800,000	41,600,000	49,295,312	7,695,312
Total revenues	511,359,630	696,205,142	621,931,958	(74,273,184)
Expenditures				
Protection to Persons and Property				
Department of Public Safety	25,238,498	25,556,041	25,556,041	-
Transportation				
Agency of Transportation	495,665,659	703,379,501	606,678,430	(96,701,071)
Total expenditures	520,904,157	728,935,542	632,234,471	(96,701,071)
Excess of revenues over (under) expenditures	(9,544,527)	(32,730,400)	(10,302,513)	22,427,887
Other financing sources (uses)				
Transfers in	-	370,705	370,705	-
Transfers out	(12,327,358)	(13,095,790)	(13,095,790)	-
Total other financing sources (uses)	(12,327,358)	(12,725,085)	(12,725,085)	-
Excess of revenues and other sources over (under) expenditures and other uses	(21,871,885)	(45,455,485)	(23,027,598)	22,427,887
Fund balance, July 1	20,630,224	20,630,224	20,630,224	-
Fund balance, June 30	$ (1,241,661)	$ (24,825,261)	$ (2,397,374)	$ 22,427,887

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,056,981,104	$ 1,057,181,104	$ 1,057,244,243	$ 63,139
Interest and premiums	-	100,000	48,267	(51,733)
Other	-	-	1,509	1,509
Total revenues	1,056,981,104	1,057,281,104	1,057,294,019	12,915
Expenditures				
General Government				
Grand List	3,240,000	3,260,000	3,243,752	(16,248)
Renter Rebates	5,800,000	5,800,000	5,800,000	-
Human Services				
Agency of Human Services	4,321,425	4,307,984	4,189,136	(118,848)
General Education				
Department of Education	1,338,766,589	1,351,932,937	1,336,175,187	(15,757,750)
Total expenditures	1,352,128,014	1,365,300,921	1,349,408,075	(15,892,846)
Excess of revenues over (under) expenditures	(295,146,910)	(308,019,817)	(292,114,056)	15,905,761
Other financing sources (uses)				
Transfers in	306,432,101	306,432,101	306,432,101	-
Total other financing sources (uses)	306,432,101	306,432,101	306,432,101	-
Excess of revenues and other sources over (under) expenditures and other uses	11,285,191	(1,587,716)	14,318,045	15,905,761
Fund balance, July 1	49,124,655	49,124,655	49,124,655	-
Fund balance, June 30	$ 60,409,846	$ 47,536,939	$ 63,442,700	$ 15,905,761

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Special Fund Revenues	$ 222,747,409	$ 304,641,175	$ 279,108,528	$ (25,532,647)
Total revenues	222,747,409	304,641,175	279,108,528	(25,532,647)
Expenditures				
General Government				
Agency of Administration	13,710,672	44,063,806	31,388,663	(12,675,143)
Executive Office	193,500	193,500	193,500	-
Auditor of Accounts	53,099	53,099	53,099	-
State Treasurer	1,860,840	2,609,295	2,586,912	(22,383)
State Labor Relations Board	5,576	16,373	16,373	-
VOSHA Review Board	25,614	30,614	27,449	(3,165)
Unorganized Towns and Gores	-	226,000	183,480	(42,520)
Protection to Persons and Property				
Attorney General	3,618,599	4,125,311	3,853,349	(271,962)
Defender General	638,552	642,492	642,424	(68)
Judiciary	6,848,577	6,857,896	5,417,792	(1,440,104)
State's Attorneys and Sheriffs	2,246,019	2,319,456	2,205,995	(113,461)
Department of Public Safety	11,435,983	16,475,798	14,537,515	(1,938,283)
Military Department	84,049	1,654,000	1,644,430	(9,570)
Center Crime Victim Services	5,931,945	6,007,818	5,339,027	(668,791)
Criminal Justice Training Council	252,672	286,130	286,043	(87)
Agency of Agriculture, Food and Markets	7,407,176	7,956,165	5,806,580	(2,149,585)
Financial Regulation	14,820,737	15,492,863	13,900,751	(1,592,112)
Secretary of State	5,208,456	5,679,740	5,426,497	(253,243)
Public Service Department	12,341,218	13,718,454	11,038,341	(2,680,113)
Public Service Board	3,001,980	3,001,980	2,509,171	(492,809)
Enhanced 911 Board	5,845,256	6,820,186	4,961,536	(1,858,650)
Human Rights Commission	-	9,193	9,193	-
Department of Liquor Control	250,000	374,437	246,619	(127,818)
Human Services				
Agency of Human Services	85,917,096	100,596,557	85,383,033	(15,213,524)
Governor's Commission on Women	5,000	5,000	2,014	(2,986)
Human Services Board	85,843	85,843	85,843	-
Vermont Veterans Home	10,635,885	11,591,392	10,988,684	(602,708)
Labor				
Department of Labor	6,419,295	6,636,282	5,136,637	(1,499,645)
General Education				
Department of Education	17,289,117	37,387,359	27,470,688	(9,916,671)
Higher Education	2,644,500	2,644,500	2,644,500	-

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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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	33,407,608	39,404,368	30,917,265	(8,487,103)
Natural Resources Board	1,965,886	1,985,640	1,875,959	(109,681)
Commerce and Community Development				
Agency of Commerce and Community Development	4,709,165	9,540,591	5,331,576	(4,209,015)
Cultural Development	-	64,000	64,000	-
Transportation				
Agency of Transportation	100,000	3,085,098	2,733,993	(351,105)
Public Service Enterprises				
Public Service Department	-	6,000,000	2,296,432	(3,703,568)
Total expenditures	258,959,915	357,641,236	287,205,363	(70,435,873)
Excess of revenues over expenditures	(36,212,506)	(53,000,061)	(8,096,835)	44,903,226
Other Financing Sources (Uses)				
Proceeds on Sale of Refunding Bonds	-	437,125	437,125	-
Transfers in	51,352,901	80,969,990	80,969,990	-
Transfers out	(15,140,395)	(28,407,054)	(28,407,054)	-
Total other financing sources (uses)	36,212,506	53,000,061	53,000,061	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	44,903,226	44,903,226
Fund balance, July 1	82,345,851	82,345,851	82,345,851	-
Fund balance, June 30	$ 82,345,851	$ 82,345,851	$ 127,249,077	$ 44,903,226

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 1,316,519,954	$ 1,123,082,859	$ 1,278,794,686	$ 155,711,827
Interest and premiums	-	71,550	71,550	-
Other	-	62,566	62,566	-
Total revenues	1,316,519,954	1,123,216,975	1,278,928,802	155,711,827
Expenditures				
General Government				
Agency of Administration	1,199,586	18,289,780	9,223,102	(9,066,678)
State Treasurer	-	339,626	339,626	-
Protection to Persons and Property				
Attorney General	685,000	685,000	640,539	(44,461)
Judiciary	1,129,259	1,129,259	947,359	(181,900)
State's Attorneys and Sheriffs	131,000	172,467	72,447	(100,020)
Department of Public Safety	28,109,587	31,024,729	23,440,440	(7,584,289)
Military Department	18,769,454	18,806,278	17,663,210	(1,143,068)
Center Crime Victim Services	3,968,964	3,968,964	3,925,350	(43,614)
Criminal Justice Training Council	-	200,000	-	(200,000)
Agency of Agriculture, Food and Markets	2,006,057	3,344,640	2,519,978	(824,662)
Financial Regulation	527,702	2,108,825	435,822	(1,673,003)
Secretary of State	2,000,000	2,054,427	738,962	(1,315,465)
Public Service Department	1,157,800	1,157,800	765,746	(392,054)
Human Rights Commission	145,000	145,000	84,250	(60,750)
Human Services				
Agency of Human Services	1,043,794,351	1,083,753,197	1,007,145,302	(76,607,895)
Developmental Disabilities Council	542,643	542,643	424,344	(118,299)
Human Services Board	150,844	150,844	115,759	(35,085)
Vermont Veterans' Home	6,881,635	6,881,635	6,881,635	-
Labor				
Department of Labor	23,888,739	23,888,739	19,094,843	(4,793,896)
General Education				
Department of Education	134,449,434	134,468,853	119,890,445	(14,578,408)
Natural Resources				
Agency of Natural Resources	15,796,383	40,885,735	35,134,700	(5,751,035)
Commerce and Community Development				
Agency of Commerce and Community Development	19,583,790	33,442,486	15,940,243	(17,502,243)
Total expenditures	1,304,917,228	1,407,440,927	1,265,424,102	(142,016,825)
Excess of revenues over expenditures	11,602,726	(284,223,952)	13,504,700	297,728,652
Other Financing Sources (Uses)				
Transfers out	(17,642,723)	(30,729,843)	(30,729,843)	-
Total other financing sources (uses)	(17,642,723)	(30,729,843)	(30,729,843)	-
Excess of revenues and other sources over (under) expenditures and other uses	(6,039,997)	(314,953,795)	(17,225,143)	297,728,652
Fund balance, July 1	36,367,835	36,367,835	36,367,835	-
Fund balance (deficit), June 30	$ 30,327,838	$ (278,585,960)	$ 19,142,692	$ 297,728,652

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, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums	$ 1,079,140,000	$ 1,130,010,000	$ 1,061,421,839	$ (68,588,161)
Total revenues	1,079,140,000	1,130,010,000	1,061,421,839	(68,588,161)
Expenditures				
General Government				
Agency of Administration	-	789,438	789,438	-
Protection to Persons and Property				
Agency of Agriculture, Food & Markets	90,278	90,278	90,278	-
Financial Regulation	1,898,824	1,898,824	1,897,997	(827)
Human Services				
Agency of Human Services	1,095,443,226	1,107,071,031	1,028,346,329	(78,724,702)
Vermont Veterans' Home	1,410,956	1,410,956	1,410,956	-
General Education				
Higher Education	4,411,563	4,411,563	4,411,563	-
Department of Education	941,971	1,076,971	1,011,542	(65,429)
Total expenditures	1,104,196,818	1,116,749,061	1,037,958,103	(78,790,958)
Excess of revenues over (under) expenditures	(25,056,818)	13,260,939	23,463,736	10,202,797
Other financing sources (uses)				
Transfers out	(23,474,553)	(23,474,553)	(23,474,553)	-
Total other financing sources (uses)	(23,474,553)	(23,474,553)	(23,474,553)	-
Excess of revenues and other sources over (under) expenditures and other uses	(48,531,371)	(10,213,614)	(10,817)	10,202,797
Fund balance, July 1	86,673,267	86,673,267	86,673,267	-
Fund balance, June 30	$ 38,141,896	$ 76,459,653	$ 86,662,450	$ 10,202,797

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
AMERICAN RECOVERY AND REINVESTMENT ACT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 77,410,430	$ 103,894,289	$ 80,871,574	$ (23,022,715)
Interest and principal	55,702	74,759	58,193	(16,566)
Other	282,524	379,182	295,156	(84,026)
Total revenues	77,748,656	104,348,230	81,224,923	(23,123,307)
Expenditures				
General Government				
Agency of Administration	-	2,172,339	2,172,337	(2)
Protection to Persons and Property				
Department of Public Safety	702,727	812,104	552,732	(259,372)
Center for Crime Victim Services	-	217,616	211,710	(5,906)
Public Service Department	15,873,935	19,576,705	17,084,702	(2,492,003)
Public Service Board	245,385	245,385	197,909	(47,476)
Human Services				
Agency of Human Services	6,592,649	20,344,562	16,705,878	(3,638,684)
Labor				
Department of Labor	-	2,787,407	2,182,495	(604,912)
General Education				
Department of Education	10,613,000	10,613,000	5,213,177	(5,399,823)
Natural Resources				
Agency of Natural Resources	698,686	4,014,232	1,935,625	(2,078,607)
Commerce and Community Development				
Agency of Commerce and Community Development	1,002,416	1,154,935	568,980	(585,955)
Transportation				
Agency of Transportation	40,582,716	40,972,803	30,547,314	(10,425,489)
Total expenditures	76,311,514	102,911,088	77,372,859	(25,538,229)
Excess of revenues over expenditures	1,437,142	1,437,142	3,852,064	2,414,922
Other financing sources (uses)				
Transfers out	(1,437,142)	(1,437,142)	(1,437,142)	-
Total other financing sources (uses)	(1,437,142)	(1,437,142)	(1,437,142)	-
Excess of revenues and other sources over (under) expenditures and other uses	-	-	2,414,922	2,414,922
Fund balance (deficit), July 1	(1,610,452)	(1,610,452)	(1,610,452)	-
Fund balance (deficit), June 30	$ (1,610,452)	$ (1,610,452)	$ 804,470	$ 2,414,922

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
STATE HEALTH CARE RESOURCES FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
State Health Care Resources Fund Revenues................	$ 217,420,000	$ 227,700,000	$ 221,379,739	$ (6,320,261)
Total revenues...	217,420,000	227,700,000	221,379,739	(6,320,261)
Expenditures				
Human Services				
Agency of Human Services....................................	221,579,040	246,847,524	226,331,517	(20,516,007)
Total expenditures...	221,579,040	246,847,524	226,331,517	(20,516,007)
Excess of revenues over (under) expenditures..............	(4,159,040)	(19,147,524)	(4,951,778)	14,195,746
Fund balance, July 1...	5,093,198	5,093,198	5,093,198	-
Fund balance (deficit), June 30....................................	$ 934,158	$ (14,054,326)	$ 141,420	$ 14,195,746

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
TOBACCO TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Tobacco Trust Funds Revenue	$ 42,608,297	$ 42,821,801	$ 35,033,983	$ (7,787,818)
Total revenues	42,608,297	42,821,801	35,033,983	(7,787,818)
Expenditures				
General Government				
Agency of Administration	58,000	58,000	58,000	-
Protection to Persons and Property				
Attorney General	625,000	640,837	383,012	(257,825)
Judiciary	39,871	39,871	39,871	-
Department of Liquor Control	291,945	291,945	285,284	(6,661)
Human Services				
Agency of Human Services	40,611,537	40,809,204	40,532,607	(276,597)
General Education				
Department of Education	981,944	981,944	897,530	(84,414)
Total expenditures	42,608,297	42,821,801	42,196,304	(625,497)
Excess of revenues over (under) expenditures	-	-	(7,162,321)	(7,162,321)
Fund balance, July 1	17,104,498	17,104,498	17,104,498	-
Fund balance, June 30	$ 17,104,498	$ 17,104,498	$ 9,942,177	$ (7,162,321)

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
CATAMOUNT BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Catamount Fund Revenues	$ 26,290,000	$ 25,580,000	$ 27,772,696	$ 2,192,696
Total revenues	26,290,000	25,580,000	27,772,696	2,192,696
Expenditures				
Human Services				
Agency of Human Services	23,948,700	25,226,979	25,226,979	-
Labor				
Department of Labor	401,993	-	-	-
Total expenditures	24,350,693	25,226,979	25,226,979	-
Excess of revenues over (under) expenditures	1,939,307	353,021	2,545,717	2,192,696
Fund balance, July 1	2,212,330	2,212,330	2,212,330	-
Fund balance, June 30	$ 4,151,637	$ 2,565,351	$ 4,758,047	$ 2,192,696

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

Note 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 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).

Budgetary Funds

Vermont's annual Appropriation Act, the State's legally adopted budget, does not present budgets using the same fund structure as what is used for reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). The GAAP basis Special Fund is represented in the Appropriation Act as program-level budgets for the Special, State Health Care Resources, Tobacco Trust and Catamount Funds. These funds are presented separately in the accompanying schedules. The budgetary basis American Recovery and Reinvestment Act Fund includes certain portions of the GAAP basis Transportation and Federal Revenue Funds. These funds are presented on a budgetary basis in the accompanying schedules.

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, Catamount, State Health Care Resources, and Global Commitment Funds. The Emergency Board then has 10 days to determine the original revenue estimates for the fiscal year. For the Special, Federal Revenue, and American Recovery and Reinvestment Act 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.

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, 2012:

	General Fund	Transportation Fund	Education Fund	Federal Revenue Fund	Global Commitment Fund	ARRA Fund
Fund Balance - Budgetary Basis……………	$ 158,830,529	$ (2,397,374)	$ 63,442,700	$ 19,142,692	$ 86,662,450	$ 804,470
Basis differences						
Cash not in budget balances……………………	20,546	9,765	374	(621,056)	-	1,501,974
Taxes receivable…………………………………	196,530,132	9,435,074	14,965,825	-	-	-
Notes and loans receivable……………………	528,749	-	-	(1,768,792)	-	1,768,792
Other receivables………………………………	9,235,299	12,964,601	886,228	(6,214,829)	20,856,801	(376,988)
Interest receivable………………………………	263	45	-	2,830	-	1,910
Due from other funds……………………………	4,080,950	456,609	-	3,275,554	37,341,879	-
Due from federal government…………………	376,775	43,575,043	-	95,460,698	48,332,483	8,403,735
Due from component units……………………	-	-	-	-	-	-
Accounts payable………………………………	(21,767,852)	(32,632,365)	(9,140,886)	(37,926,122)	(83,008,323)	(3,897,147)
Accrued liabilities………………………………	(9,026,891)	(4,711,354)	(128,945)	(4,266,459)	(2,209,038)	(31,485)
Retainage payable………………………………	(10,633)	(44,854)	-	(255,128)	(275,077)	(18,509)
Deferred revenue………………………………	(138,433,824)	(10,637,651)	(4,123,291)	(3,011,936)	(11,616,145)	(1,344,770)
Tax refunds payable……………………………	(6,633,326)	-	(86,713)	-	-	-
Intergovernment payables………………………	-	-	-	(8,344,321)	-	(2,024,575)
Due to other funds………………………………	(15,350,678)	(1,151,070)	(10,976)	(1,286,318)	(6,602,727)	-
Due to component units………………………	-	-	-	-	-	-
Entity differences						
Blended non-budgeted funds…………………	-	3,647,221	-	288,888,611	-	-
Blended component unit………………………	625	-	-	-	-	-
Perspective differences						
Component unit included in budgeted funds…	-	-	-	3,860,858	-	-
Budgeted funds reclassified to GAAP basis major governmental fund……………………	-	(125,296)	-	4,912,703	-	(4,787,407)
Fund Balance - GAAP Basis……………………	$ 178,380,664	$ 18,388,394	$ 65,804,316	$ 351,848,985	$ 89,482,303	$ -

	Budget Basis Funds				GAAP Basis
	Special Fund	State Health Care Resource Fund	Tobacco Trust Fund	Catamount Fund	Special Fund
Fund Balance - Budgetary Basis.................	$ 127,249,077	$ 141,420	$ 9,942,177	$ 4,758,047	$ -
Basis differences					
Cash not in budget balances.......................	310,190	-	-	-	310,190
Preferred stock investment.........................	100,000	-	-	-	100,000
Taxes receivable.......................................	2,772,533	1,311,746	-	-	4,084,279
Notes and loans receivable.........................	1,067,337	-	-	-	1,067,337
Other receivables......................................	11,479,858	171,186	-	-	11,651,044
Due from other funds.................................	3,028,116	-	-	-	3,028,116
Due from component units..........................	42,530	-	-	-	42,530
Accounts payable......................................	(9,629,138)	(939)	(88,286)	-	(9,718,363)
Accrued liabilities.....................................	(2,493,417)	-	(21,069)	-	(2,514,486)
Retainage payable....................................	(67,691)	-	-	-	(67,691)
Deferred revenue......................................	(12,005,527)	(518,056)	-	-	(12,523,583)
Tax refunds payable..................................	(990)	(25,055)	-	-	(26,045)
Due to other funds....................................	(32,447,780)	(20,511,736)	(2,413,162)	-	(55,372,678)
Due to component units.............................	(61,955)	-	-	-	(61,955)
Entity differences					
Blended non-budgeted funds.......................	10,721,795	-	-	-	10,721,795
Blended component unit............................	477,663	-	-	-	477,663
Perspective differences					
Component unit included in budgeted funds...	(4,677,379)	-	-	-	(4,677,379)
Budgeted funds reclassified to GAAP basis enterprise fund......................................	199,839	-	-	-	199,839
Budgeted funds reclassified to GAAP basis major governmental fund..........................	(96,065,061)	19,431,434	(7,419,660)	(4,758,047)	142,090,721
Fund Balance - GAAP Basis.........................	$ -	$ -	$ -	$ -	$ 88,811,334

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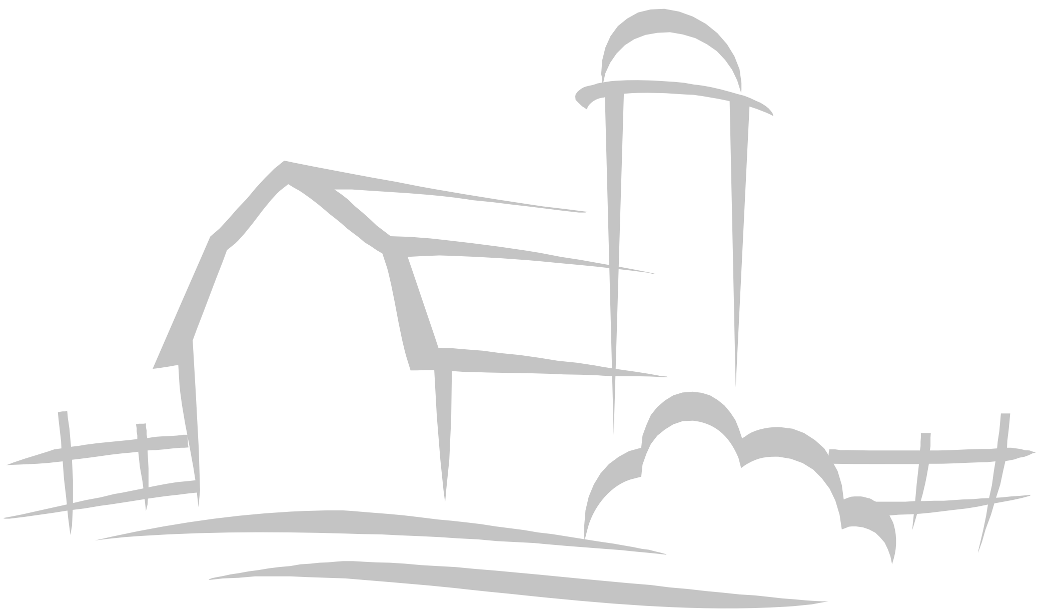

Other Supplementary Information

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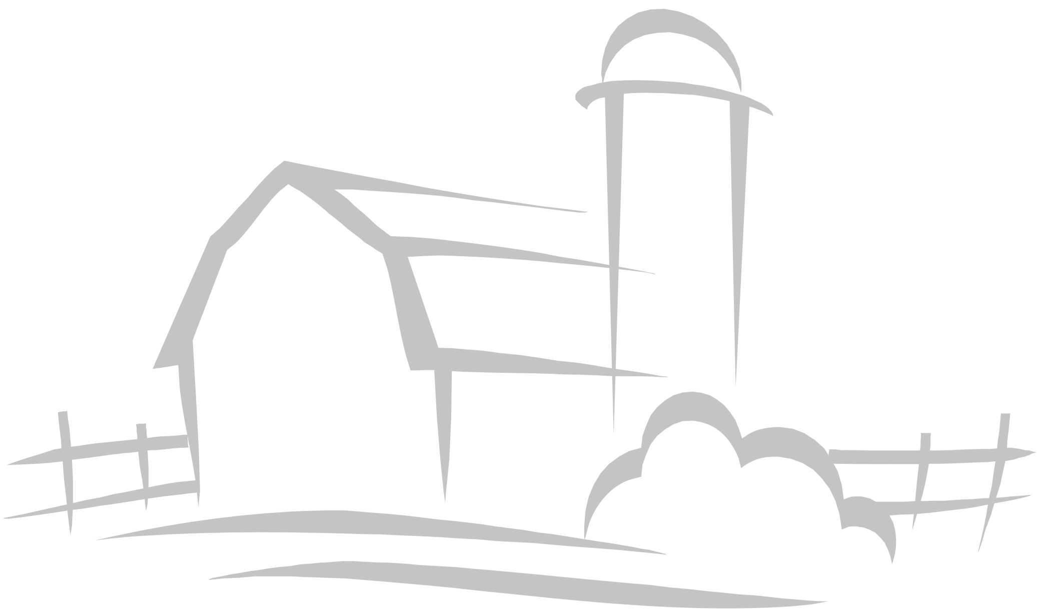

Vermont

COMBINING FINANCIAL STATEMENTS

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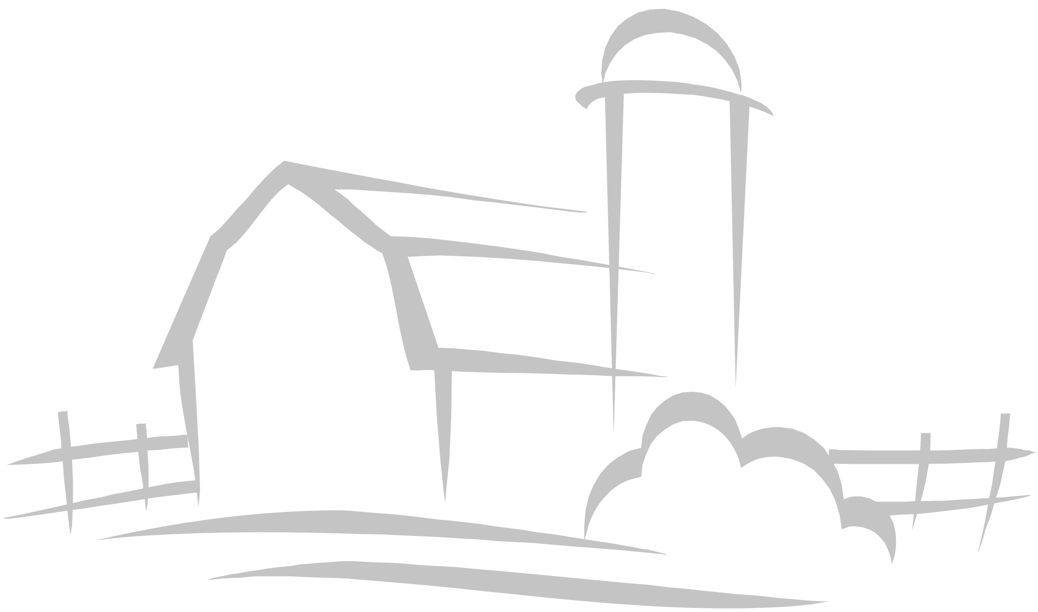

Fish & Wildlife Fund – This fund is used to account for the activities of the Fish and Wildlife Department. The Fish and Wildlife Department's mission is to protect and conserve the State's fish, wildlife, plants and their habitats for the people of Vermont.

General Obligation Bond Projects Fund – This fund accounts for general capital improvement expenditures funded by the issuance of State general obligation bonds.

Transportation Infrastructure Bond Projects Fund – This fund accounts for transportation capital improvement expenditures funded by the issuance of Transportation Infrastructure Special Obligation bonds.

General Obligation Debt Service Fund—This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for general obligation bond principal and interest.

Transportation Infrastructure Debt Service Fund—This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditures for transportation infrastructure special obligation bond principal and interest.

Higher Education Endowment Fund – This is a permanent fund whose revenue is used by the University of Vermont and Vermont State Colleges to provide non loan financial assistance to Vermont students attending their institutions and by the Vermont Student Assistance Corporation to provide non loan financial assistance to Vermont students attending a Vermont postsecondary institution.

Vermont Sanitorium Fund – This is a permanent fund whose income is to be used for the treatment and cure of respiratory diseases.

Albert C. Lord Trust Fund – This is a permanent fund whose income is to be used for demonstrations, lectures and instruction in the care of woodlots and restoration.

Lumberjack Fund – This is a permanent fund whose income is to strengthen annual workshops for educators interested in enhancing classroom skills in the area of fish and wildlife management.

Couching Lion Farm Cemetery Fund – This is a permanent fund whose income is to provide for the care of a private cemetery in Camel's Hump State Park.

Carrie P. Underwood Fund – This is a permanent fund whose income is to used to provide aid to poor libraries and to otherwise promote the library interests of the State.

Laura H. Morgan Fund— This is a permanent fund whose income is to be used to benefit the Brandon Training School.

Bennington Battle Monument Fund – This is a permanent fund whose revenue is to be used to repair and maintain the Bennington Battle Monument.

Zenus H. Ellis Fund – This is a permanent fund whose income is to be used to maintain the iron fence and flagpole at the Hubbardton battlefield.

STATE OF VERMONT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue	Capital Projects	
	Fish & Wildlife Fund	General Obligation Bond Projects Fund	Transportation Infrastructure Bond Projects Fund
ASSETS			
Cash and cash equivalents	$ 803,940	$ 40,651,523	$ 348
Investments	3,880,417	-	-
Receivables			
Taxes receivable	103,803	-	-
Other receivables	998,379	-	-
Intergovernmental receivables - federal government	437,002	-	-
Due from other funds	5,460	1,209	-
Total assets	$ 6,229,001	$ 40,652,732	$ 348
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	$ 934,898	$ 4,614,903	$ 26,332
Accrued liabilities	440,312	1,087	-
Retainage payable	18,074	892,738	-
Due to other funds	95,989	39,710	-
Due to component units	-	2,071,706	-
Total liabilities	1,489,273	7,620,144	26,332
FUND BALANCES			
Nonspendable			
Permanent Fund principal	-	-	-
Restricted	-	33,302,886	-
Committed	4,739,728	-	-
Unassigned	-	(270,298)	(25,984)
Total fund balances	4,739,728	33,032,588	(25,984)
Total liabilities and fund balances	$ 6,229,001	$ 40,652,732	$ 348

See Independent Auditors' Report.

Debt Service		Permanent Funds		
General Obligation Debt Service Fund	Transportation Infrastructure Debt Service Fund	Higher Education Endowment Fund	Vermont Sanitorium Fund	Albert C. Lord Trust Fund
$ 2,321,567	$ 3,009,094	$ 53,910	$ 86,053	$ 140,147
-	-	30,495,227	236,194	209,561
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
$ 2,321,567	$ 3,009,094	$ 30,549,137	$ 322,247	$ 349,708
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	7,000,000	206,502	183,217
-	3,009,094	-	115,745	166,491
2,321,567	-	23,549,137	-	-
-	-	-	-	-
2,321,567	3,009,094	30,549,137	322,247	349,708
$ 2,321,567	$ 3,009,094	$ 30,549,137	$ 322,247	$ 349,708

continued on next page

STATE OF VERMONT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Permanent Funds		
	Lumberjack Fund	Couching Lion Farm Cemetery Fund	Carrie P. Underwood Fund
ASSETS			
Cash and cash equivalents	$ 19,789	$ 21,223	$ 10,904
Investments	10,442	2,207	12,708
Receivables			
Taxes receivable	-	-	-
Other receivables	-	-	-
Intergovernmental receivables - federal government	-	-	-
Due from other funds	-	-	-
Total assets	$ 30,231	$ 23,430	$ 23,612
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	$ -	$ -	$ -
Accrued liabilities	-	-	-
Retainage payable	-	-	-
Due to other funds	-	-	-
Due to component units	-	-	-
Total liabilities	-	-	-
FUND BALANCES			
Nonspendable			
Permanent Fund principal	9,129	1,930	11,110
Restricted	21,102	21,500	12,502
Committed	-	-	-
Unassigned	-	-	-
Total fund balances	30,231	23,430	23,612
Total liabilities and fund balances	$ 30,231	$ 23,430	$ 23,612

See Independent Auditors' Report.

Laura H. Morgan Fund	Bennington Battle Monument Fund	Zenus H. Ellis Fund	Total Non-major Governmental Funds
Permanent Funds			
$ 1,931	$ -	$ -	$ 47,120,429
2,860	2,466	2,308	34,854,390
-	-	-	103,803
-	-	-	998,379
-	-	-	437,002
-	-	-	6,669
$ 4,791	$ 2,466	$ 2,308	$ 83,520,672
$ -	$ -	$ -	$ 5,576,133
-	-	-	441,399
-	-	-	910,812
-	-	-	135,699
-	-	-	2,071,706
-	-	-	9,135,749
2,500	1,065	1,000	7,416,453
2,291	1,401	1,308	36,654,320
-	-	-	30,610,432
-	-	-	(296,282)
4,791	2,466	2,308	74,384,923
$ 4,791	$ 2,466	$ 2,308	$ 83,520,672

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Special Revenue	Capital Projects	
	Fish & Wildlife Fund	General Obligation Bond Projects Fund	Transportation Infrastructure Bond Projects Fund
REVENUES			
Taxes			
Motor fuels tax	$ 926,827	$ -	$ -
Earnings of departments			
Fees	172,002	-	-
Rents and leases	48,537	-	-
Sales of services	4,200	-	-
Federal grants	7,173,586	-	-
Fines, forfeits and penalties	8,448	-	-
Investment income	121,778	-	171
Licenses			
Business	980	-	-
Non-business	6,539,729	-	-
Special assessments	2,767	-	-
Other revenues	831,983	-	-
Total revenues	15,830,837	-	171
EXPENDITURES			
General government	-	25,657,378	-
Protection to persons and property	-	2,706,701	-
Human services	-	3,521,545	-
General education	-	11,527,418	-
Natural resources	17,383,190	7,557,538	-
Commerce and community development	-	4,058,902	-
Transportation	-	-	622,855
Debt service	-	-	-
Total expenditures	17,383,190	55,029,482	622,855
Excess of revenues over (under) expenditures	(1,552,353)	(55,029,482)	(622,684)
OTHER FINANCING SOURCES (USES)			
Proceeds from the sale of bonds	-	63,000,000	-
Premium on sale of bonds	-	-	-
Transfers in	456,366	435,659	-
Transfers out	(185,353)	(4,887,564)	-
Total other financing sources (uses)	271,013	58,548,095	-
Net change in fund balances	(1,281,340)	3,518,613	(622,684)
Fund balances, July 1	6,021,068	29,513,975	596,700
Fund balances, June 30	$ 4,739,728	$ 33,032,588	$ (25,984)

See Independent Auditors' Report.

Debt Service		Permanent Funds		
General Obligation Debt Service Fund	Transportation Infrastructure Bonds Debt Service Fund	Higher Education Endowment Fund	Vermont Sanitorium Fund	Albert C. Lord Trust Fund
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	987,304	7,515	6,745
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	987,304	7,515	6,745
-	-	-	-	-
-	-	-	-	-
-	-	-	25,000	-
-	-	1,267,880	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
71,398,829	991,562	-	-	-
71,398,829	991,562	1,267,880	25,000	-
(71,398,829)	(991,562)	(280,576)	(17,485)	6,745
-	-	-	-	-
2,321,565	-	-	-	-
70,010,710	2,014,081	60,675	-	-
-	-	-	-	-
72,332,275	2,014,081	60,675	-	-
933,446	1,022,519	(219,901)	(17,485)	6,745
1,388,121	1,986,575	30,769,038	339,732	342,963
$ 2,321,567	$ 3,009,094	$ 30,549,137	$ 322,247	$ 349,708

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STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Permanent Funds		
	Lumberjack Fund	**Couching Lion Farm Cemetery Fund**	**Carrie P. Underwood Fund**
REVENUES			
Taxes			
Motor fuels tax	$ -	$ -	$ -
Earnings of departments			
Fees	-	-	-
Rents and leases	-	-	-
Sales of services	-	-	-
Federal grants	-	-	-
Fines, forfeits and penalties	-	-	-
Investment income	359	106	413
Licenses			
Business	-	-	-
Non-business	-	-	-
Special assessments	-	-	-
Other revenues	-	-	-
Total revenues	359	106	413
EXPENDITURES			
General government	-	-	-
Protection to persons and property	-	-	-
Human services	-	-	-
General education	-	-	-
Natural resources	-	-	-
Commerce and community development	-	-	-
Transportation	-	-	-
Debt service	-	-	-
Total expenditures	-	-	-
Excess of revenues over (under) expenditures	359	106	413
OTHER FINANCING SOURCES (USES)			
Proceeds from the sale of bonds	-	-	-
Premium on sale of bonds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources	-	-	-
Net change in fund balances	359	106	413
Fund balances, July 1	29,872	23,324	23,199
Fund balance, June 30	$ 30,231	$ 23,430	$ 23,612

See Independent Auditors' Report.

Permanent Funds			
Laura H. Morgan Fund	Bennington Battle Monument Fund	Zenus H. Ellis Fund	Total Non-major Governmental Funds
$ -	$ -	$ -	$ 926,827
-	-	-	172,002
-	-	-	48,537
-	-	-	4,200
-	-	-	7,173,586
-	-	-	8,448
93	78	73	1,124,635
-	-	-	980
-	-	-	6,539,729
-	-	-	2,767
-	-	-	831,983
93	78	73	16,833,694
-	-	-	25,657,378
-	-	-	2,706,701
-	-	-	3,546,545
-	-	-	12,795,298
-	-	-	24,940,728
-	-	-	4,058,902
-	-	-	622,855
-	-	-	72,390,391
-	-	-	146,718,798
93	78	73	(129,885,104)
-	-	-	63,000,000
-	-	-	2,321,565
-	-	-	72,977,491
-	-	-	(5,072,917)
-	-	-	133,226,139
93	78	73	3,341,035
4,698	2,388	2,235	71,043,888
$ 4,791	$ 2,466	$ 2,308	$ 74,384,923

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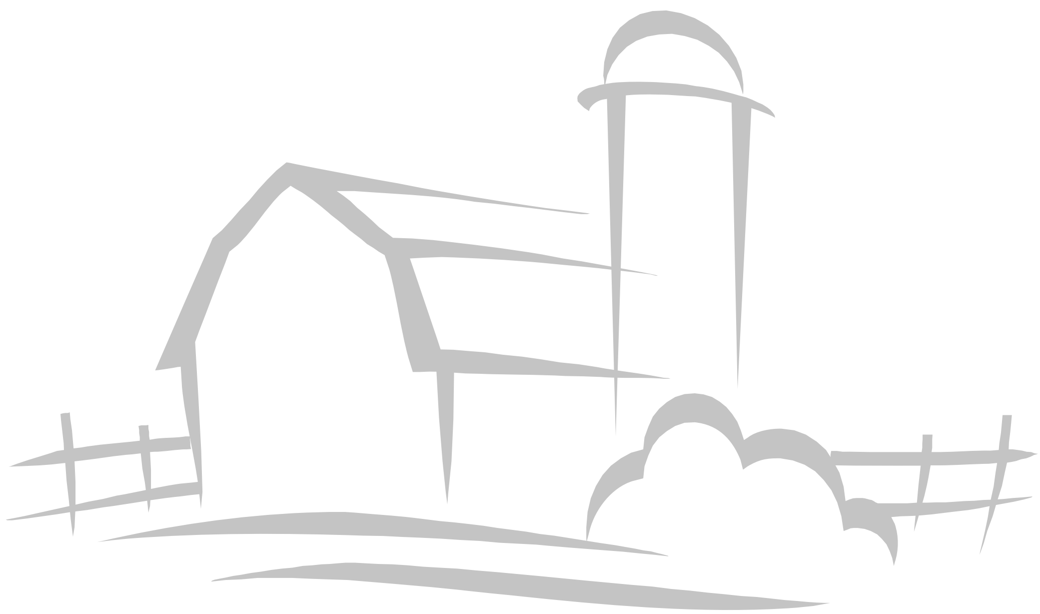

Vermont

Industrial Homework Office Fund – This fund is used to account for a program that arranges industrial work for blind and otherwise handicapped citizens at their home of a subcontract nature.

Federal Surplus Property Fund – This fund is used to account for a program that acquires and distributes surplus property from various military and federal sources. Public entities (towns, schools, districts, volunteer fire departments, etc) and non-profit organizations conducting educational and health care programs may apply for eligibility.

Vermont Life Magazine Fund – This fund is used to account for the activities of the Vermont Life Magazine. *Vermont Life* is a quarterly magazine published by the State of Vermont. It explores and celebrates the State's people, places and rich heritage.

Municipal Equipment Loan Fund – This fund is used to account for a program that was created for the purpose of providing loans on favorable terms to municipalities for the purchase of construction, fire, emergency or heavy equipment or vehicles.

Unemployment Compensation Contingency Fund – This fund is used to account for the interest, fines and penalties collected under the unemployment compensation law as well as the administrative costs not chargeable to federal grants.

Electric Power Sales Fund—This fund is used to account for the revenues and expenses for the purchase of wholesale electric power for resale to Vermont’s utilities.

STATE OF VERMONT
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2012

	Industrial Homework Office Fund	Federal Surplus Property Fund	Vermont Life Magazine Fund
ASSETS			
Current Assets			
Cash and cash equivalents	$ 76,378	$ -	$ -
Accrued interest receivable	-	-	-
Accounts receivable (net of allowances for uncollectibles)	-	28,000	170,559
Loans receivable	-	-	-
Due from other funds	-	-	-
Inventories, at cost	-	98,803	175,456
Prepaid expenses	-	-	71,522
Total current assets	76,378	126,803	417,537
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	488,880
Loans receivable	-	-	-
Accounts receivable - subscriptions	-	-	8,747
Imprest cash and change fund - advances	-	-	1,200
Total restricted and noncurrent assets	-	-	498,827
Capital Assets			
Capital assets being depreciated			
Machinery, equipment and buildings	-	-	5,809
Less accumulated depreciation	-	-	(3,469)
Total capital assets, net of depreciation	-	-	2,340
Total restricted and noncurrent assets	-	-	501,167
Total assets	76,378	126,803	918,704
LIABILITIES			
Current Liabilities			
Accounts payable	-	19,029	139,748
Accrued salaries and benefits	-	257	64,481
Due to other funds	-	4,559	-
Interfund payable	-	502,582	1,518,400
Unearned revenue	-	98,803	55,231
Other current liabilities	-	-	99
Total current liabilities	-	625,230	1,777,959
Long-term Liabilities			
Unexpired subscriptions	-	-	488,880
Advances from other funds	-	-	1,200
Total long-term liabilities	-	-	490,080
Total liabilities	-	625,230	2,268,039
NET ASSETS			
Invested in capital assets, net of related debt	-	-	2,340
Unrestricted (deficit)	76,378	(498,427)	(1,351,675)
Total net assets	$ 76,378	$ (498,427)	$ (1,349,335)

See Independent Auditors' Report.

Municipal Equipment Loan Fund	Unemployment Compensation Contingency Fund	Electric Power Sales Fund	Total Non-major Enterprise Funds
$ 953,431	$ 388,251	$ -	$ 1,418,060
17,649	-	-	17,649
-	-	285,960	484,519
993,093	-	-	993,093
-	91,828	-	91,828
-	-	-	274,259
-	-	-	71,522
1,964,173	480,079	285,960	3,350,930
-	-	-	488,880
1,205,309	-	-	1,205,309
-	-	-	8,747
-	-	-	1,200
1,205,309	-	-	1,704,136
-	-	-	5,809
-	-	-	(3,469)
-	-	-	2,340
1,205,309	-	-	1,706,476
3,169,482	480,079	285,960	5,057,406
-	-	262,464	421,241
-	-	-	64,738
-	-	-	4,559
-	-	12,242	2,033,224
-	-	-	154,034
-	-	-	99
-	-	274,706	2,677,895
-	-	-	488,880
-	-	-	1,200
-	-	-	490,080
-	-	274,706	3,167,975
-	-	-	2,340
3,169,482	480,079	11,254	1,887,091
$ 3,169,482	$ 480,079	$ 11,254	$ 1,889,431

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Industrial Homework Office Fund	Federal Surplus Property Fund	Vermont Life Magazine Fund
OPERATING REVENUES			
Charges for sales and services	$ -	$ 120,585	$ 1,204,825
Federal donated property	-	1,004,760	-
Advertising revenue	-	-	373,898
Other operating revenues	-	-	105,091
Total operating revenues	-	1,125,345	1,683,814
OPERATING EXPENSES			
Cost of sales and services	-	1,004,760	661,488
Salaries and benefits	-	35,146	627,084
Insurance premium expense	-	360	6,790
Contractual services	-	-	265,725
Repairs and maintenance	-	320	157
Depreciation	-	-	1,936
Rental expense	-	7,042	814
Utilities and property management	-	2,479	16,198
Non-capital equipment purchased	-	136	9,565
Promotions and advertising	-	-	136,416
Administrative expenses	-	12,178	1,085
Supplies and parts	-	161	4,914
Distribution and postage	-	105,223	261,556
Travel	-	41	2,859
Other operating expenses	-	10	32,879
Total operating expenses	-	1,167,856	2,029,466
Operating income (loss)	-	(42,511)	(345,652)
NONOPERATING REVENUES (EXPENSES)			
Investment income (expense)	-	-	(1,690)
Total nonoperating revenues (expenses)	-	-	(1,690)
Income (loss) before transfers	-	(42,511)	(347,342)
TRANSFERS			
Transfers in	-	250,000	-
Transfers out	-	-	-
Total transfers	-	250,000	-
Change in net assets	-	207,489	(347,342)
Total net assets (deficit), July 1	76,378	(705,916)	(1,001,993)
Total net assets (deficit), June 30	$ 76,378	$ (498,427)	$ (1,349,335)

See Independent Auditors' Report.

Municipal Equipment Loan Fund	Unemployment Compensation Contingency Fund	Electric Power Sales Fund	Total Non-major Enterprise Funds
$ -	$ -	$ 2,147,211	$ 3,472,621
-	-	-	1,004,760
-	-	-	373,898
54,459	-	-	159,550
54,459	-	2,147,211	5,010,829
-	-	2,152,852	3,819,100
-	-	19,714	681,944
-	-	-	7,150
-	-	3,025	268,750
-	-	-	477
-	-	-	1,936
-	-	1,390	9,246
-	-	383	19,060
-	-	19	9,720
-	-	-	136,416
-	29,452	-	42,715
-	-	108	5,183
-	-	-	366,779
-	-	-	2,900
-	-	-	32,889
-	29,452	2,177,491	5,404,265
54,459	(29,452)	(30,280)	(393,436)
848	2,093	-	1,251
848	2,093	-	1,251
55,307	(27,359)	(30,280)	(392,185)
-	815,785	-	1,065,785
-	(771,006)	-	(771,006)
-	44,779	-	294,779
55,307	17,420	(30,280)	(97,406)
3,114,175	462,659	41,534	1,986,837
$ 3,169,482	$ 480,079	$ 11,254	$ 1,889,431

STATE OF VERMONT
COMBINING STATEMENT OFCASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Industrial Homework Office Fund	Federal Surplus Property Fund	Vermont Life Magazine Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ -	$ 93,525	$ 1,588,229
Cash paid to suppliers for goods and services	-	(108,854)	(1,334,891)
Cash paid to employees for services	-	(31,368)	(623,508)
Other operating revenues	-	-	105,091
Other operating expenses	-	(10)	(32,879)
Net cash provided (used) by operating activities	-	(46,707)	(297,958)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	-	250,000	-
Interfund loans and advances	(1,700)	(203,293)	251,674
Net cash provided by noncapital financing activities	(1,700)	46,707	251,674
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	-	-	(1,690)
Net cash provided (used) by investing activities	-	-	(1,690)
Net increase (decrease) in cash and cash equivalents	(1,700)	-	(47,974)
Cash and cash equivalents, July 1	78,078	-	538,054
Cash and cash equivalents, June 30	$ 76,378	$ -	$ 490,080
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ -	$ (42,511)	$ (345,652)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	-	1,936
(Increase)/decrease in accounts/taxes receivable	-	(27,060)	(27,171)
(Increase)/decrease in loans receivable	-	-	-
(Increase)/decrease in acrued interest receivable	-	-	-
(Increase)/decrease in due from other funds	-	195	-
(Increase)/decrease in inventories	-	(96,704)	(5,530)
(Increase)/decrease in prepaid expenses	-	-	65,733
Increase/(decrease) in accounts payable	-	18,891	(27,412)
Increase/(decrease) in accrued salaries and benefits	-	(79)	3,576
Increase/(decrease) in due to other funds	-	3,857	-
Increase/(decrease) in deferred revenue	-	96,704	23,596
Increase/(decrease) in other liabilities	-	-	(115)
Increase/(decrease) in subscription reserves	-	-	13,081
Total adjustments	-	(4,196)	47,694
Net cash provided (used) by operating activities	$ -	$ (46,707)	$ (297,958)

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 impress cash on the Statement of Net Assets.

See Independent Auditors' Report.

Municipal Equipment Loan Fund	Unemployment Compensation Contingency Fund	Electric Power Sales Fund	Total Non-major Enterprise Funds
$ 1,130,687	$ -	2,047,572	$ 4,860,013
(757,309)	-	(2,077,675)	(4,278,729)
-	-	(19,714)	(674,590)
-	-	-	105,091
-	(29,452)	-	(62,341)
373,378	(29,452)	(49,817)	(50,556)
-	65,751	-	315,751
-	-	12,242	58,923
-	65,751	12,242	374,674
848	2,093	-	1,251
848	2,093	-	1,251
374,226	38,392	(37,575)	325,369
579,205	349,859	37,575	1,582,771
$ 953,431	$ 388,251	-	$ 1,908,140
$ 54,459	$ (29,452)	(30,280)	$ (393,436)
-	-	-	1,936
-	-	(99,639)	(153,870)
322,118	-	-	322,118
(3,199)	-	-	(3,199)
-	-	-	195
-	-	-	(102,234)
-	-	-	65,733
-	-	80,102	71,581
-	-	-	3,497
-	-	-	3,857
-	-	-	120,300
-	-	-	(115)
-	-	-	13,081
318,919	-	(19,537)	342,880
$ 373,378	$ (29,452)	$ (49,817)	$ (50,556)

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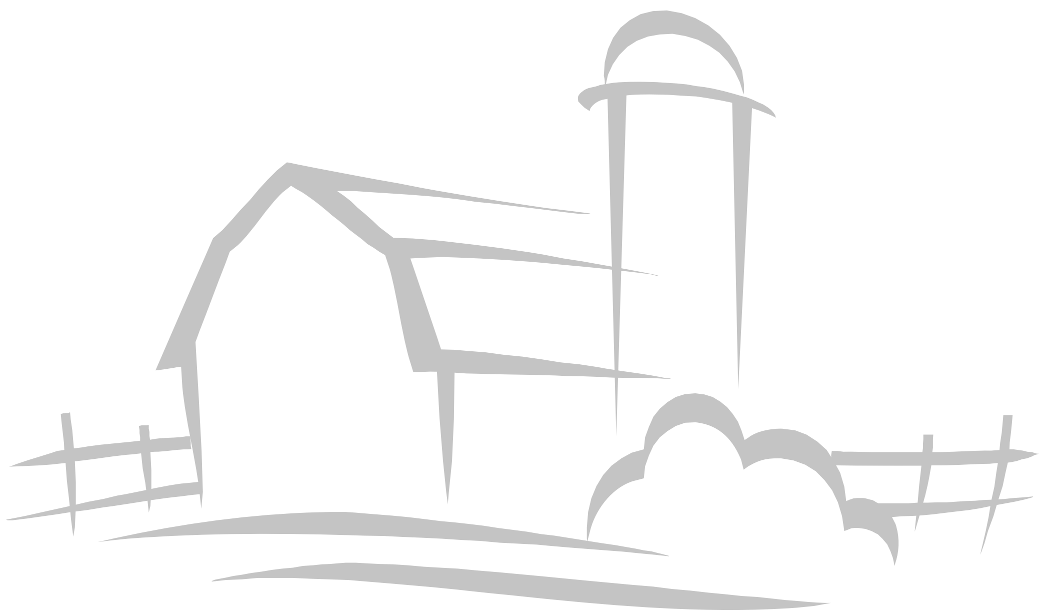

Vermont

Highway Garage Fund – This fund accounts for the maintenance and rental of equipment to the Agency of Transportation for use in construction, maintenance and operation of the State's transportation infrastructure.

Offender Work Programs – This fund accounts for the activities of the print shop, sign shop and furniture shop run by the Department of Corrections.

Single Audit Revolving Fund – The purpose of this fund is to account for the costs attributable to the Auditor of Accounts Office's performance of the annual Single Audit .

Financial & HR Information Fund – The activities of this fund account for the costs of the support of the State's financial and human capital management ERP systems.

Communications & Information Technology Fund – This fund accounts for the activities of the Department of Information and Innovation's communications and information technology services.

Fleet Fund – This fund accounts for the Department of Buildings and General Services' vehicle management activities including the daily and long-term leasing of vehicles for employees use in travel on State business.

E-Procurement Fund - The purpose of the Purchasing Card Program is to establish a more efficient, cost-effective method of purchasing and paying for small dollar transactions and high-volume, repetitive purchases.

Copy Center Fund – This fund's activities include the Department of Buildings and General Services Print Shop and copier leasing services.

Postage Fund – This fund accounts for the mail services for the Montpelier and Waterbury state complexes including mail collection and delivery, sorting, and applying postage.

Facilities Operations Fund – This fund's purpose is to provide operating expenses, maintenance, renovations and acquisitions of buildings, grounds and support facilities.

Property Management Fund – This fund's purpose is to provide State Agencies with safe, comfortable, and efficient space through leasing; purchasing; and planning which enables them to carry out their mission.

Equipment Revolving Fund – This fund is used as an internal lease purchase mechanism of equipment for State agencies and departments.

State Resource Management Fund – This fund accounts for the costs of energy resource conservation measures implemented by departments anticipated to generate a life cycle cost benefit to the state.

State Surplus Property Fund – This fund accounts for the sale of all items that are no longer needed by the State's agencies and departments.

State Liability Insurance Fund – This fund provides liability insurance coverage for the actions performed by the State's employees in the course of performing their assigned duties.

Risk Management-All Other Fund – This fund is used to purchase insurance protection for state property and other miscellaneous risks that are specific to certain departments or types of employees, such as judicial liability, liability related to maintenance of railroad tracks, and required bonds for certain state officials.

Workers' Compensation Fund – This fund provides workers' compensation coverage for all state employees.

Medical Insurance Fund – This fund provides health coverage for current state employees, retirees, legislators and other groups eligible to participate.

Dental Insurance Fund – This fund provides dental coverage for current state employees, legislators and other groups eligible to participate.

Life Insurance Fund – This fund provides a life insurance policy for current state employees, retirees and other groups eligible to participate.

Long-term Disability Fund – This fund provides an income replacement benefit for state employees that are not eligible to be represented by the employees' union should they have a long term or permanent disability.

Employees' Assistance Fund – This fund provides a program that assists state employees and members of their immediate household assistance in addressing problems that impact their lives.

Human Resources Fund - This fund provides centralized human resources management services for agencies and departments of the State.

STATE OF VERMONT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	Highway Garage Fund	Offender Work Programs	Single Audit Revolving Fund
ASSETS			
Current Assets			
Cash and cash equivalents	$ 492,402	$ 282,273	$ -
Accounts receivable	1,549,334	624,443	4,296
Due from other funds	-	-	-
Inventories, at cost	1,297,053	485,073	-
Prepaid expenses	-	-	-
Total current assets	3,338,789	1,391,789	4,296
Capital Assets			
Land	26,156	-	-
Construction in progress	1,215,348	-	-
Works of art	-	-	-
Capital assets being depreciated			
Machinery, equipment and buildings	55,553,052	1,519,259	-
Less accumulated depreciation	(32,330,344)	(1,098,737)	-
Total capital assets, net of depreciation	24,464,212	420,522	-
Total assets	27,803,001	1,812,311	4,296
LIABILITIES			
Current Liabilities			
Accounts payable	1,923,840	200,598	150,820
Accrued salaries and wages	283,201	126,851	-
Claims payable	-	-	-
Due to other funds	-	154	-
Interfund payable	-	-	313,718
Unearned revenue	-	-	-
Capital leases payable	-	-	-
Total current liabilities	2,207,041	327,603	464,538
Long-term Liabilities			
Claims payable	-	-	-
Capital leases payable	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	2,207,041	327,603	464,538
NET ASSETS			
Invested in capital assets, net of related debt	24,464,212	420,522	-
Unrestricted net assets (deficit)	1,131,748	1,064,186	(460,242)
Total net assets	$ 25,595,960	$ 1,484,708	$ (460,242)

See Independent Auditors' Report.

Financial & HR Information Fund	Communication & Information Technology Fund	Fleet Fund	E-Procurement Fund
$ 985,314	$ -	$ -	$ -
-	1,301,599	960,202	992,346
31,047	1,157,660	159,836	-
-	-	-	-
45,357	403,227	-	-
1,061,718	2,862,486	1,120,038	992,346
-	-	-	-
-	-	-	-
-	-	-	-
31,140	7,570,777	12,256,092	-
(31,140)	(5,488,928)	(6,074,122)	-
-	2,081,849	6,181,970	-
1,061,718	4,944,335	7,302,008	992,346
309,417	3,030,243	466,383	532,843
400,755	490,663	37,969	-
-	-	-	-
41,836	200,000	161	-
-	280,603	5,492,346	459,503
-	-	-	-
-	-	-	-
752,008	4,001,509	5,996,859	992,346
-	-	-	-
-	-	-	-
-	-	-	-
752,008	4,001,509	5,996,859	992,346
-	2,081,849	6,181,970	-
309,710	(1,139,023)	(4,876,821)	-
$ 309,710	$ 942,826	$ 1,305,149	$ -

Continued on next page

STATE OF VERMONT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	Copy Center Fund	Postage Fund	Facilities Operations Fund
ASSETS			
Current Assets			
Cash and cash equivalents	$ -	$ -	$ -
Accounts receivable	252,475	312,195	2,851,010
Due from other funds	-	-	26,698,009
Inventories, at cost	-	465,813	-
Prepaid expenses	28,434	-	-
Total current assets	280,909	778,008	29,549,019
Capital Assets			
Land	-	-	-
Construction in progress	-	-	-
Works of art	-	-	8,200
Capital assets being depreciated			
Machinery, equipment and buildings	3,675,020	460,079	4,573,565
Less accumulated depreciation	(2,189,550)	(460,079)	(2,226,986)
Total capital assets, net of depreciation	1,485,470	-	2,354,779
Total assets	1,766,379	778,008	31,903,798
LIABILITIES			
Current Liabilities			
Accounts payable	200,353	10,151	2,485,599
Accrued salaries and wages	38,538	50,876	1,043,332
Claims payable	-	-	-
Due to other funds	4,559	4,559	1,426
Interfund payable	3,111,194	2,758,729	27,637,400
Unearned revenue	-	-	-
Capital leases payable	-	-	494,233
Total current liabilities	3,354,644	2,824,315	31,661,990
Long-term Liabilities			
Claims payable	-	-	-
Capital leases payable	-	-	3,101,346
Total long-term liabilities	-	-	3,101,346
Total liabilities	3,354,644	2,824,315	34,763,336
NET ASSETS			
Invested in capital assets, net of related debt	1,485,470	-	(1,240,800)
Unrestricted net assets (deficit)	(3,073,735)	(2,046,307)	(1,618,738)
Total net assets	$ (1,588,265)	$ (2,046,307)	$ (2,859,538)

See Independent Auditors' Report.

Property Management Fund	Equipment Revolving Fund	State Resource Management Fund	State Surplus Property Fund	State Liabilty Insurance Fund	Risk Management - All Other Fund
$ -	$ -	$ -	$ 261,588	$ 8,837,655	$ -
282,839	675,410	324,009	2,049	-	1,135,996
3,949,132	-	-	13,678	3,139	-
-	-	-	18,286	-	-
738,647	-	-	-	-	-
4,970,618	675,410	324,009	295,601	8,840,794	1,135,996
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,684	-	-	-	6,334	-
(20,501)	-	-	-	(2,727)	-
4,183	-	-	-	3,607	-
4,974,801	675,410	324,009	295,601	8,844,401	1,135,996
327,163	-	-	22,824	805	178,500
95,328	-	-	24,282	26,830	-
-	-	-	-	1,241,262	-
18,040	-	-	-	-	3,139
26,335,105	675,410	324,009	-	-	861,547
-	-	-	18,286	-	-
-	-	-	-	-	-
26,775,636	675,410	324,009	65,392	1,268,897	1,043,186
-	-	-	-	5,925,872	-
-	-	-	-	-	-
-	-	-	-	5,925,872	-
26,775,636	675,410	324,009	65,392	7,194,769	1,043,186
4,183	-	-	-	3,607	-
(21,805,018)	-	-	230,209	1,646,025	92,810
$ (21,800,835)	$ -	$ -	$ 230,209	$ 1,649,632	$ 92,810

Continued on next page

STATE OF VERMONT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	Workers' Compensation Fund	Medical Insurance Fund	Dental Insurance Fund
ASSETS			
Current Assets			
Cash and cash equivalents	$ 21,534,755	$ 29,052,062	$ 364,514
Accounts receivable	-	4,305,595	210,643
Due from other funds	3,232	10,625	571
Inventories, at cost	-	-	-
Prepaid expenses	8,689	-	-
Total current assets	21,546,676	33,368,282	575,728
Capital Assets			
Land	-	-	-
Construction in progress	-	-	-
Works of art	-	-	-
Capital assets being depreciated			
Machinery, equipment and buildings	-	-	-
Less accumulated depreciation	-	-	-
Total capital assets, net of depreciation	-	-	-
Total assets	21,546,676	33,368,282	575,728
LIABILITIES			
Current Liabilities			
Accounts payable	45,699	1,343,732	51,841
Accrued salaries and wages	72,708	101,556	3,021
Claims payable	149,020	12,683,413	213,839
Due to other funds	-	-	-
Interfund payable	-	-	-
Unearned revenue	-	169	-
Capital leases payable	-	-	-
Total current liabilities	267,427	14,128,870	268,701
Long-term Liabilities			
Claims payable	25,914,328	-	-
Capital leases payable	-	-	-
Total long-term liabilities	25,914,328	-	-
Total liabilities	26,181,755	14,128,870	268,701
NET ASSETS			
Invested in capital assets, net of related debt	-	-	-
Unrestricted net assets (deficit)	(4,635,079)	19,239,412	307,027
Total net assets	$ (4,635,079)	$ 19,239,412	$ 307,027

See Independent Auditors' Report.

Life Insurance Fund	Long-Term Disability Fund	Employees' Assistance Fund	Human Resources Fund	Eliminations	Total Internal Service Fund
$ 360,347	$ 26,736	$ 64,581	$ 36,464	$ -	$ 62,298,691
80,963	7,969	9,600	-	-	15,882,973
228	-	-	1,049	(45,409)	31,982,797
-	-	-	-	-	2,266,225
-	-	-	-	-	1,224,354
441,538	34,705	74,181	37,513	(45,409)	113,655,040
-	-	-	-	-	26,156
-	-	-	-	-	1,215,348
-	-	-	-	-	8,200
-	-	-	-	-	85,670,002
-	-	-	-	-	(49,923,114)
-	-	-	-	-	36,996,592
441,538	34,705	74,181	37,513	(45,409)	150,651,632
131,584	17,195	62,860	35,399	-	11,527,849
1,207	-	-	308,739	-	3,105,856
-	-	-	-	-	14,287,534
-	-	-	-	(45,409)	228,465
-	-	-	-	-	68,249,564
-	-	-	-	-	18,455
-	-	-	-	-	494,233
132,791	17,195	62,860	344,138	(45,409)	97,911,956
-	-	-	-	-	31,840,200
-	-	-	-	-	3,101,346
-	-	-	-	-	34,941,546
132,791	17,195	62,860	344,138	(45,409)	132,853,502
-	-	-	-	-	33,401,013
308,747	17,510	11,321	(306,625)	-	(15,602,883)
$ 308,747	$ 17,510	$ 11,321	$ (306,625)	$ -	$ 17,798,130

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Highway Garage Fund	Offender Work Programs	Single Audit Revolving Fund
OPERATING REVENUES			
Charges for sales and services	$ 16,316,232	$ 3,510,452	$ 2,916,478
Rental income	223,756	-	-
Other operating revenues	17,197	-	-
Total operating revenues	16,557,185	3,510,452	2,916,478
OPERATING EXPENSES			
Cost of sales and services	-	1,577,802	-
Claims expense	-	-	-
Salaries and benefits	3,678,993	899,785	1,135,267
Insurance premium expense	244,710	1,000	-
Contractual services	27,379	22,435	1,809,835
Repairs and maintenance	1,184,034	107,839	-
Depreciation	4,680,607	51,773	-
Rental expense	3,693	161,337	23,804
Utilities and property management	198,675	62,628	15,314
Non-capital equipment purchased	122,752	64,279	3,670
Promotions and advertising	281	845	125
Administrative expenses	24,652	1,248	12,761
Supplies and parts	6,439,523	22,913	7,035
Distribution and postage	2,152	24,916	46
Travel expenses	1,599	18,573	2,458
Other operating expenses	14,547	161,993	-
Total operating expenses	16,623,597	3,179,366	3,010,315
Operating income (loss)	(66,412)	331,086	(93,837)
NONOPERATING REVENUES			
Gain (loss) on disposal of capital assets	465,349	(3,193)	-
Investment income (expense)	-	-	-
Total nonoperating revenues (expenses)	465,349	(3,193)	-
Income (loss) before contributions, and transfers	398,937	327,893	(93,837)
Capital contributions from other funds	(665)	-	-
Transfers in	1,120,000	-	-
Transfers out	-	-	-
Change in net assets	1,518,272	327,893	(93,837)
Total net assets (deficit), July 1	24,077,688	1,156,815	(366,405)
Total net assets (deficit), June 30	$ 25,595,960	$ 1,484,708	$ (460,242)

See Independent Auditor's Report.

Financial & HR Information Fund	Communication & Information Technology Fund	Fleet Fund	E-Procurement Fund	Copy Center Fund
$ 5,478,824	$ 15,667,708	$ 4,637,196	$ 6,771,205	$ 2,085,296
-	-	-	-	-
-	-	258,208	-	-
5,478,824	15,667,708	4,895,404	6,771,205	2,085,296
-	4,561,216	-	6,771,205	292,981
-	-	-	-	-
3,515,279	5,123,468	528,522	-	567,573
8,586	12,451	133,773	-	3,177
6,461	998,933	-	-	9,364
1,173,130	1,917,751	405,798	-	323,090
5,450	397,201	1,683,379	-	673,668
164,134	839,355	8,236	-	46,586
135,677	1,772,511	24,016	-	21,824
120,898	1,376,765	8,775	-	18,102
5,448	3,285	6,747	-	-
225,971	97,133	79,502	-	53,109
10,904	20,580	1,456,278	-	4,240
4,123	5,882	119	-	26
8,002	37,651	77	-	762
184	906,416	5,554	-	1,378
5,384,247	18,070,598	4,340,776	6,771,205	2,015,880
94,577	(2,402,890)	554,628	-	69,416
-	-	294,588	-	25,554
-	-	-	-	-
-	-	294,588	-	25,554
94,577	(2,402,890)	849,216	-	94,970
-	-	(4,190)	-	-
-	900,000	-	-	-
-	-	-	-	-
94,577	(1,502,890)	845,026	-	94,970
215,133	2,445,716	460,123	-	(1,683,235)
$ 309,710	$ 942,826	$ 1,305,149	$ -	$ (1,588,265)

Continued on next page

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Postage Fund	Facilities Operations Fund	Property Management Fund
OPERATING REVENUES			
Charges for sales and services	$ 3,202,405	$ 23,582,188	$ -
Rental income	-	-	13,082,921
Other operating revenues	-	3,498,199	85,838
Total operating revenues	3,202,405	27,080,387	13,168,759
OPERATING EXPENSES			
Cost of sales and services	2,637,037	27	10,084,894
Claims expense	-	-	-
Salaries and benefits	619,475	11,612,831	1,179,627
Insurance premium expense	3,484	416,476	41,195
Contractual services	-	1,212,805	164,339
Repairs and maintenance	81,902	3,423,798	90,781
Depreciation	18,367	383,245	1,079
Rental expense	55,200	972,144	59,761
Utilities and property management	23,243	7,384,216	1,245,466
Non-capital equipment purchased	3,201	259,747	48,854
Promotions and advertising	65	8,410	-
Administrative expenses	19,183	547,647	291,881
Supplies and parts	20,535	1,973,595	110,441
Distribution and postage	8,083	24,915	830
Travel expenses	92	27,437	2,549
Other operating expenses	28	627,931	150,185
Total operating expenses	3,489,895	28,875,224	13,471,882
Operating income (loss)	(287,490)	(1,794,837)	(303,123)
NONOPERATING REVENUES			
Gain (loss) on disposal of capital assets	-	(1,254,763)	-
Investment income (expense)	-	-	-
Total nonoperating revenues (expenses)	-	(1,254,763)	-
Income (loss) before contributions, and transfers	(287,490)	(3,049,600)	(303,123)
Capital contributions from other funds	-	-	-
Transfers in	-	2,974,383	-
Transfers out	-	(300,000)	(625,950)
Change in net assets	(287,490)	(375,217)	(929,073)
Total net assets (deficit), July 1	(1,758,817)	(2,484,321)	(20,871,762)
Total net assets (deficit), June 30	$ (2,046,307)	$ (2,859,538)	$ (21,800,835)

See Independent Auditor's Report.

	Equipment Revolving Fund	State Resource Management Fund	State Surplus Property Fund	State Liabilty Insurance Fund	Risk Management - All Other Fund
	$ 36,661	$ 144,191	$ 1,517,037	$ 3,300,997	$ 2,537,814
	-	-	-	-	-
	-	-	195,281	-	-
	36,661	144,191	1,712,318	3,300,997	2,537,814
	-	-	1,455,072	391,369	2,391,808
	-	-	-	4,015,135	-
	-	-	108,006	263,859	23,873
	-	-	360	861	61
	-	24,228	38,438	648,085	3,390
	-	20,332	958	-	-
	-	-	-	2,111	-
	-	-	63,294	9,509	2,863
	-	-	4,693	8,746	702
	36,381	98,894	2,758	29,345	5,155
	-	20	2,469	-	-
	280	717	20,884	37,493	18,279
	-	-	2,485	373	-
	-	-	392	1,217	203
	-	-	388	653	150
	-	-	1,494	18	11
	36,661	144,191	1,701,691	5,408,774	2,446,495
	-	-	10,627	(2,107,777)	91,319
	-	-	1,675	-	-
	-	-	-	12,147	-
	-	-	1,675	12,147	-
	-	-	12,302	(2,095,630)	91,319
	-	-	-	-	-
	-	-	-	3,000,000	-
	-	-	-	-	-
	-	-	12,302	904,370	91,319
	-	-	217,907	745,262	1,491
	$ -	$ -	$ 230,209	$ 1,649,632	$ 92,810

Continued on next page

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Workers' Compensation Fund	Medical Insurance Fund	Dental Insurance Fund
OPERATING REVENUES			
Charges for sales and services	$ 11,000,004	$ 142,015,638	$ 5,622,905
Rental income	-	-	-
Other operating revenues	-	423,093	50
Total operating revenues	11,000,004	142,438,731	5,622,955
OPERATING EXPENSES			
Cost of sales and services	-	-	-
Claims expense	10,095,099	125,624,972	4,932,917
Salaries and benefits	1,194,655	691,259	17,465
Insurance premium expense	4,613	854,756	148
Contractual services	86,755	244,529	30,934
Repairs and maintenance	1,006	528	10
Depreciation	-	-	-
Rental expense	48,066	41,970	1,496
Utilities and property management	33,832	18,992	538
Non-capital equipment purchased	73,246	46,737	10
Promotions and advertising	-	398	2,139
Administrative expenses	182,680	5,453,699	352,765
Supplies and parts	6,136	19,669	136
Distribution and postage	5,115	8,736	441
Travel expenses	5,569	7,499	7
Other operating expenses	4,869	801,977	46
Total operating expenses	11,741,641	133,815,721	5,339,052
Operating income (loss)	(741,637)	8,623,010	283,903
NONOPERATING REVENUES			
Gain (loss) on disposal of capital assets	-	-	-
Investment income (expense)	40,525	40,104	463
Total nonoperating revenues (expenses)	40,525	40,104	463
Income (loss) before contributions, and transfers	(701,112)	8,663,114	284,366
Capital contributions from other funds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Change in net assets	(701,112)	8,663,114	284,366
Total net assets (deficit), July 1	(3,933,967)	10,576,298	22,661
Total net assets (deficit), June 30	$ (4,635,079)	$ 19,239,412	$ 307,027

See Independent Auditor's Report.

Life Insurance Fund	Long-Term Disability Fund	Employees' Assistance Fund	Human Resources Fund	Total Internal Service Fund
$ 2,080,152	$ 72,654	$ 253,725	$ 3,361,536	$ 256,111,298
-	-	-	-	13,306,677
-	-	-	-	4,477,866
2,080,152	72,654	253,725	3,361,536	273,895,841
-	-	-	-	30,163,411
-	-	-	-	144,668,123
6,959	-	-	3,245,056	34,411,952
2,153,533	194,879	249,697	19,257	4,343,017
13	-	-	50,035	5,377,958
4	-	-	1,872	8,732,833
-	-	-	-	7,896,880
598	-	-	72,553	2,574,599
214	-	-	61,717	11,013,004
4	-	-	9,946	2,329,519
2,115	-	-	3,823	36,170
5,005	-	-	47,991	7,472,880
54	-	-	13,730	10,108,627
177	-	-	981	88,354
3	-	-	10,276	123,745
18	-	-	150	2,676,799
2,168,697	194,879	249,697	3,537,387	272,017,871
(88,545)	(122,225)	4,028	(175,851)	1,877,970
-	-	-	-	(470,790)
1,317	-	-	-	94,556
1,317	-	-	-	(376,234)
(87,228)	(122,225)	4,028	(175,851)	1,501,736
-	-	-	-	(4,855)
-	-	-	-	7,994,383
-	-	-	(130,774)	(1,056,724)
(87,228)	(122,225)	4,028	(306,625)	8,434,540
395,975	139,735	7,293	-	9,363,590
$ 308,747	$ 17,510	$ 11,321	$ (306,625)	$ 17,798,130

STATE OF VERMONT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Highway Garage Fund	Offender Work Programs	Single Audit Revolving Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 17,269,296	$ 3,390,144	$ 2,920,195
Cash paid to suppliers for goods and services	(7,696,311)	(2,089,361)	(1,725,099)
Cash paid to employees for services	(3,620,483)	(895,708)	(1,135,267)
Cash paid to claimants	-	-	-
Other operating revenues	17,197	-	-
Other operating expenses	(14,547)	(161,993)	-
Net cash provided (used) by operating activities	5,955,152	243,082	59,829
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	1,120,000	-	-
Interfund loans and advances	(2,373,717)	-	(59,829)
Net cash provided (used) by noncapital financing activities	(1,253,717)	-	(59,829)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acqusition and construction of capital assets	(5,012,658)	(40,304)	-
Payment of capital leases	-	-	-
Proceeds from sale of capital assets	803,625	-	-
Net cash (used) by capital and related financing activities	(4,209,033)	(40,304)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	-	-	-
Net cash provided by investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	492,402	202,778	-
Cash and cash equivalents, July 1	-	79,495	-
Cash and cash equivalents, June 30	$ 492,402	$ 282,273	$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ (66,412)	$ 331,086	$ (93,837)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	4,680,607	51,773	-
(Increase)/decrease in accounts receivable	729,308	(120,308)	3,717
(Increase)/decrease in due from other funds	-	-	-
(Increase)/decrease in inventories	(3,197)	(71,800)	-
(Increase)/decrease in prepaid expenses	-	-	-
Increase/(decrease) in accounts payable	556,336	48,100	149,949
Increase/(decrease) in accrued salaries and benefits	58,510	4,077	-
Increase/(decrease) in claims payable	-	-	-
Increase/(decrease) in due to other funds	-	154	-
Increase/(decrease) in deferred revenue	-	-	-
Total adjustments	6,021,564	(88,004)	153,666
Net cash provided (used) by operating activities	$ 5,955,152	$ 243,082	$ 59,829
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	(665)	-	-
Retirement of assets not fully depreciated	-	(3,193)	-
Receipt of inventory from other funds on consignment	-	-	-

See Independent Auditors' Report.

Financial & HR Information Fund	Communications & Information Technology Fund	Fleet Fund	E-Procurement Fund	Copy Center Fund
$ 5,461,068	$ 15,448,570	$ 4,251,914	$ 6,333,824	$ 2,014,659
(1,881,428)	(10,749,280)	(2,172,667)	(6,615,285)	(719,314)
(3,507,617)	(5,069,766)	(529,506)	-	(558,770)
-	-	-	-	-
-	-	258,208	-	-
(184)	(906,416)	(5,554)	-	(1,378)
71,839	(1,276,892)	1,802,395	(281,461)	735,197
-	900,000	-	-	-
-	280,603	581,312	281,461	23,193
				-
-	1,180,603	581,312	281,461	23,193
-	(1,805,903)	(2,997,185)	-	(837,644)
-	-	-	-	-
-	-	613,478	-	79,254
-	(1,805,903)	(2,383,707)	-	(758,390)
-	-	-	-	-
-	-	-	-	-
71,839	(1,902,192)	-	-	-
913,475	1,902,192	-	-	-
$ 985,314	$ -	$ -	$ -	$ -
$ 94,577	$ (2,402,890)	$ 554,628	$ -	$ 69,416
5,450	397,201	1,683,379	-	673,668
-	(219,138)	(231,302)	(437,381)	(70,637)
(31,047)	(1,157,660)	(153,980)	-	-
-	-	-	-	-
(45,357)	22,277	-	-	(22,207)
11,758	1,829,616	(49,507)	155,920	81,925
5,447	53,702	(984)	-	13,362
-	-	-	-	-
31,011	200,000	161	-	(10,330)
-	-	-	-	-
(22,738)	1,125,998	1,247,767	(281,461)	665,781
$ 71,839	$ (1,276,892)	$ 1,802,395	$ (281,461)	$ 735,197
-	-	(4,190)	-	-
-	-	-	-	-
-	-	-	-	-

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STATE OF VERMONT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Postage Fund	Facilities Operations Fund	Property Management Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 3,185,679	$ 22,132,478	$ 9,041,457
Cash paid to suppliers for goods and services	(2,564,521)	(15,453,470)	(13,126,692)
Cash paid to employees for services	(612,264)	(11,661,281)	(1,162,222)
Cash paid to claimants	-	-	-
Other operating revenues	-	3,498,199	85,838
Other operating expenses	(28)	(627,931)	(150,185)
Net cash provided (used) by operating activities	8,866	(2,112,005)	(5,311,804)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	-	2,674,383	(625,950)
Interfund loans and advances	(8,866)	-	5,937,754
Net cash provided (used) by noncapital financing activities	(8,866)	2,674,383	5,311,804
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acqusition and construction of capital assets	-	(59,732)	-
Payment of capital leases	-	(502,646)	-
Proceeds from sale of capital assets	-	-	-
Net cash (used) by capital and related financing activities	-	(562,378)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	-	-	-
Net cash provided by investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	-	-	-
Cash and cash equivalents, July 1	-	-	-
Cash and cash equivalents, June 30	$ -	$ -	$ -
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ (287,490)	$ (1,794,837)	$ (303,123)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	18,367	383,245	1,079
(Increase)/decrease in accounts receivable	(16,726)	(1,660,793)	(92,332)
(Increase)/decrease in due from other funds	-	211,083	(3,949,132)
(Increase)/decrease in inventories	332,343	-	-
(Increase)/decrease in prepaid expenses	-	-	(16,510)
Increase/(decrease) in accounts payable	(44,839)	800,107	38,994
Increase/(decrease) in accrued salaries and benefits	2,652	(48,450)	17,405
Increase/(decrease) in claims payable	-	-	-
Increase/(decrease) in due to other funds	4,559	(2,360)	(1,008,185)
Increase/(decrease) in deferred revenue	-	-	-
Total adjustments	296,356	(317,168)	(5,008,681)
Net cash provided (used) by operating activities	$ 8,866	$ (2,112,005)	$ (5,311,804)
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	-	-	-
Retirement of assets not fully depreciated	-	(1,254,763)	-
Receipt of inventory from other funds on consignment	-	-	-

See Independent Auditor's Report.

Equipment Revolving Fund	State Resource Management Fund	State Surplus Property Fund	State Liability Insurance Fund	Risk Management - All Other Fund
$ 608,271	$ 58,719	$ 1,517,340	$ 3,300,997	$ 1,907,764
(93,725)	(144,191)	(1,573,533)	(1,127,448)	(2,244,173)
-	-	(99,702)	(258,466)	(23,272)
-	-	-	(3,274,882)	-
-	-	195,281	-	-
-	-	(1,494)	(18)	(11)
514,546	(85,472)	37,892	(1,359,817)	(359,692)
-	-	-	3,000,000	-
(514,546)	85,472	-	-	359,692
				-
(514,546)	85,472	-	3,000,000	359,692
-	-	-	-	-
-	-	-	-	-
-	-	1,675	-	-
-	-	1,675	-	-
-	-	-	12,147	-
-	-	-	12,147	-
-	-	39,567	1,652,330	-
-	-	222,021	7,185,325	-
$ -	$ -	$ 261,588	$ 8,837,655	$ -
$ -	$ -	$ 10,627	$ (2,107,777)	$ 91,319
-	-	-	2,111	-
571,610	(85,472)	303	-	(630,050)
-	-	1,912	(601)	-
-	-	9,097	-	-
-	-	-	-	-
-	-	18,658	203	178,438
-	-	6,587	5,994	-
-	-	-	740,253	-
(57,064)	-	(195)	-	601
-	-	(9,097)	-	-
514,546	(85,472)	27,265	747,960	(451,011)
$ 514,546	$ (85,472)	$ 37,892	$ (1,359,817)	$ (359,692)
-	-	-	-	-
-	-	-	-	-
-	-	9,097	-	-

Continued on next page

STATE OF VERMONT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Workers' Compensation Fund	Medical Insurance Fund	Dental Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 10,996,772	$ 137,836,031	$ 5,414,374
Cash paid to suppliers for goods and services	(448,149)	(5,846,232)	(364,697)
Cash paid to employees for services	(1,202,222)	(688,884)	(17,517)
Cash paid to claimants	(7,235,542)	(124,857,795)	(4,915,827)
Other operating revenues	-	423,093	50
Other operating expenses	(4,869)	(801,977)	(46)
Net cash provided (used) by operating activities	2,105,990	6,064,236	116,337
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in (out)	-	-	-
Interfund loans and advances	-	-	-
Net cash provided (used) by noncapital financing activities	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acqusition and construction of capital assets	-	-	-
Payment of capital leases	-	-	-
Proceeds from sale of capital assets	-	-	-
Net cash (used) by capital and related financing activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned on investments	40,525	40,104	463
Net cash provided by investing activities	40,525	40,104	463
Net increase (decrease) in cash and cash equivalents	2,146,515	6,104,340	116,800
Cash and cash equivalents, July 1	19,388,240	22,947,722	247,714
Cash and cash equivalents, June 30	$ 21,534,755	$ 29,052,062	$ 364,514
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	$ (741,637)	$ 8,623,010	$ 283,903
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	-	-	-
(Increase)/decrease in accounts receivable	-	(4,179,538)	(207,960)
(Increase)/decrease in due from other funds	(3,232)	(10,625)	(571)
(Increase)/decrease in inventories	-	-	-
(Increase)/decrease in prepaid expenses	2,098	19,272	-
Increase/(decrease) in accounts payable	2,627	832,009	23,927
Increase/(decrease) in accrued salaries and benefits	(7,567)	13,000	(52)
Increase/(decrease) in claims payable	2,859,557	767,177	17,090
Increase/(decrease) in due to other funds	(5,856)	-	-
Increase/(decrease) in deferred revenue	-	(69)	-
Total adjustments	2,847,627	(2,558,774)	(167,566)
Net cash provided (used) by operating activities	$ 2,105,990	$ 6,064,236	$ 116,337
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	-	-	-
Retirement of assets not fully depreciated	-	-	-
Receipt of inventory from other funds on consignment	-	-	-

See Independent Auditor's Report.

	Life Insurance Fund	Long-Term Disability Fund	Employees' Assistance Fund	Human Resources Fund	Total Internal Service Fund
	$ 2,007,613	$ 64,685	$ 244,125	$ 3,360,487	$ 258,766,462
	(2,160,170)	(193,223)	(244,553)	(256,782)	(79,490,304)
	(6,979)	-	-	(2,936,317)	(33,986,243)
	-	-	-	-	(140,284,046)
	-	-	-	-	4,477,866
	(18)	-	-	(150)	(2,676,799)
	(159,554)	(128,538)	(428)	167,238	6,806,936
	-	-	-	(130,774)	6,937,659
	-	-	-	-	4,592,529
	-	-	-	(130,774)	11,530,188
	-	-	-	-	(10,753,426)
	-	-	-	-	(502,646)
	-	-	-	-	1,498,032
	-	-	-	-	(9,758,040)
	1,317	-	-	-	94,556
	1,317	-	-	-	94,556
	(158,237)	(128,538)	(428)	36,464	8,673,640
	518,584	155,274	65,009	-	53,625,051
	$ 360,347	$ 26,736	$ 64,581	$ 36,464	$ 62,298,691
	$ (88,545)	$ (122,225)	$ 4,028	$ (175,851)	$ 1,877,970
	-	-	-	-	7,896,880
	(72,311)	(7,969)	(9,600)	-	(6,736,579)
	(228)	-	-	(1,049)	(5,095,130)
	-	-	-	-	266,443
	-	-	-	-	(40,427)
	1,550	1,656	5,144	35,399	4,677,970
	(20)	-	-	308,739	432,402
	-	-	-	-	4,384,077
	-	-	-	-	(847,504)
	-	-	-	-	(9,166)
	(71,009)	(6,313)	(4,456)	343,089	4,928,966
	$ (159,554)	$ (128,538)	$ (428)	$ 167,238	$ 6,806,936
	-	-	-	-	(4,855)
	-	-	-	-	(1,257,956)
	-	-	-	-	9,097

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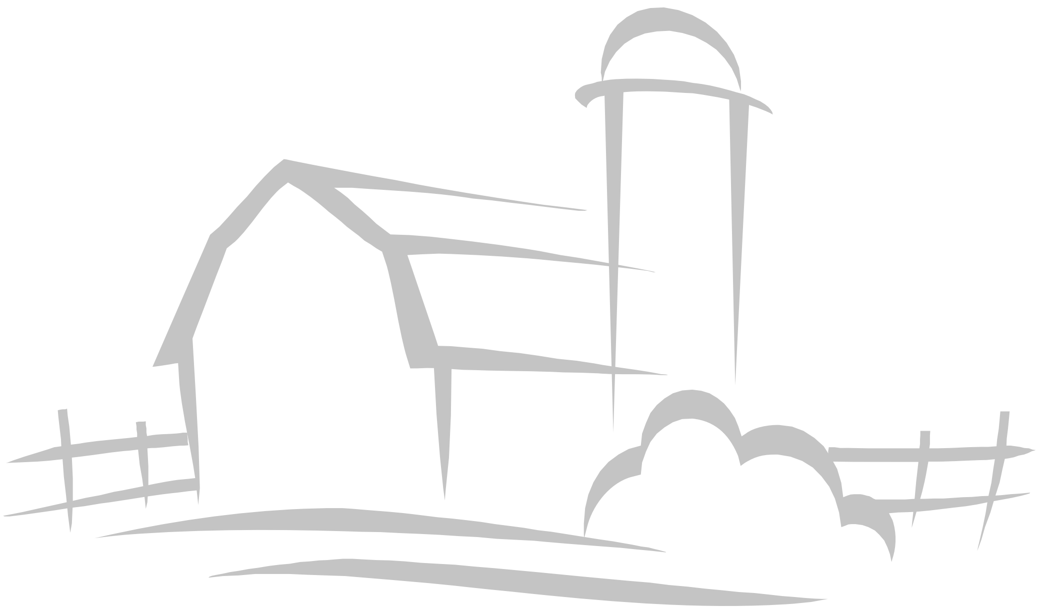

Vermont

Vermont State Retirement Fund – This is the public defined benefit pension plan provided by the State of Vermont for State employees.

State Teachers' Retirement Fund – This is the public defined benefit pension plan provided by the State of Vermont for State teachers.

Vermont Municipal Employees' Retirement Fund – This is the public pension plan administered by the State of Vermont for participating municipalities' employees.

Vermont State Defined Contribution Fund – This is a retirement plan for those exempt State employees that elected to participate in the defined contribution plan for the Vermont State Retirement System.

Single Deposit Investment Account Fund – This is a tax sheltered account funded through employee transfers from a non-contributing system years ago.

Vermont Municipal Employees' Defined Contribution Fund – This is a retirement plan for those participating municipalities' employees that elected to participate in the defined contribution plan for the Vermont Municipal Employees' Retirement Fund.

Vermont State Postemployment Benefits Trust Fund – This fund's purpose is to accumulate and provide reserves to support retiree postemployment benefits for members of the Vermont state employees' retirement system.

Vermont Municipal Employees' Health Benefit Fund – This is a fund established by the Vermont Municipal Employees' Retirement System's Board of Directors as a tax-advantaged savings plan that assists retirees in paying for healthcare costs after retirement.

STATE OF VERMONT
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS
JUNE 30, 2012

	Defined Benefit Plans		
	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
ASSETS			
Cash and short-term investments	$ 4,858,969	$ 3,930,254	$ 428,733
Investments at fair value			
Pooled investments	1,370,104,804	1,483,892,279	410,258,890
Fixed income	-	-	-
Equities	-	-	-
Mutual funds	-	-	-
Total investments	1,370,104,804	1,483,892,279	410,258,890
Receivables			
Contributions - current	3,782,623	3,896,583	2,379,816
Contributions - non-current	-	-	6,774,199
Interest and dividends	2,430	4,702	343,349
Due from other funds	64,614	-	48,607
Other	729	491,774	58,583
Total receivables	3,850,396	4,393,059	9,604,554
Prepaid expenses	-	-	-
Capital assets			
Construction in progress	1,397,090	1,621,844	476,842
Capital assets being depreciated			
Equipment	804,568	975,979	392,836
Less accumulated depreciation	(295,172)	(354,771)	(146,568)
Total capital assets, net of depreciation	1,906,486	2,243,052	723,110
Total assets	1,380,720,655	1,494,458,644	421,015,287
LIABILITIES			
Accounts payable	2,007,016	2,561,646	362,881
Retainage payable	224,143	273,261	111,329
Due to other funds	-	3,836	1,007
Total liabilities	2,231,159	2,838,743	475,217
NET ASSETS HELD IN TRUST FOR EMPLOYEES' PENSION AND OTHER POSTEMPLOYMENT BENEFITS	$ 1,378,489,496	$ 1,491,619,901	$ 420,540,070

See Independent Auditors' Report.

Defined Contribution Plans			Other Postemployment Benefit Funds			
Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund	Vermont State Postemployment Benefits Trust Fund	Municipal Employees' Health Benefit Fund	Eliminations	Total
$ 75,165	$ 1,020,170	$ 83,233	$ 2,756,174	$ 277,004	$ -	$ 13,429,702
-	-	-	-	-	-	3,264,255,973
-	-	-	7,177,476	-	-	7,177,476
-	-	-	3,051,156	-	-	3,051,156
44,994,420	73,054,599	16,493,804	61,067	10,509,325	-	145,113,215
44,994,420	73,054,599	16,493,804	10,289,699	10,509,325	-	3,419,597,820
120,382	-	13,106	-	-	-	10,192,510
-	-	-	-	-	-	6,774,199
-	125	-	-	-	-	350,606
-	-	-	376,775	-	(113,221)	376,775
-	-	-	-	-	-	551,086
120,382	125	13,106	376,775	-	(113,221)	18,245,176
-	-	-	-	-	-	-
-	-	-	-	-	-	3,495,776
-	-	-	-	-	-	2,173,383
-	-	-	-	-	-	(796,511)
-	-	-	-	-	-	4,872,648
45,189,967	74,074,894	16,590,143	13,422,648	10,786,329	(113,221)	3,456,145,346
4,266	-	563	29,197	-	-	4,965,569
-	-	-	-	-	-	608,733
45,204	-	48,607	14,567	-	(113,221)	-
49,470	-	49,170	43,764	-	(113,221)	5,574,302
$ 45,140,497	$ 74,074,894	$ 16,540,973	$ 13,378,884	$ 10,786,329	$ -	$ 3,450,571,044

STATE OF VERMONT
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Defined Benefit Plans		
	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
ADDITIONS			
Contributions			
Employer - pension benefit	$ 40,302,433	$ 41,231,875	$ 11,532,230
Employer - healthcare benefit	-	10,500,000	-
Plan member	27,708,009	31,827,995	11,337,926
Transfers from other pension trust funds	377,562	85,110	118,191
Transfers from non-state systems	-	-	-
Medicare part D drug subsidy	-	1,672,423	-
Early retiree reinsurance program	-	2,747,713	-
Total contributions	68,388,004	88,065,116	22,988,347
Investment Income			
Net appreciation (depreciation) in fair value of investments	251,957	11,718	-
Income from pooled investments	28,591,705	30,472,513	8,733,660
Dividends	-	5,194	-
Interest	13,702	20,304	453,851
Securities lending income	576,926	634,424	173,514
Other income	32,431	38,157	3,701
Total investment income	29,466,721	31,182,310	9,364,726
Less Investment Expenses			
Investment managers and consultants	5,726,752	6,305,871	1,652,847
Securities lending expenses	135,195	149,774	40,415
Total investment expenses	5,861,947	6,455,645	1,693,262
Net investment income	23,604,774	24,726,665	7,671,464
Total additions	91,992,778	112,791,781	30,659,811
DEDUCTIONS			
Retirement benefits	90,170,209	117,801,002	14,214,160
Other postemployment benefits	-	20,620,144	-
Refund of contributions	1,908,752	1,521,099	1,664,687
Death claims	482,483	186,384	187,393
Transfers to other pension trust funds	219,653	205,448	282,206
Depreciation	86,854	108,139	42,420
Operating expenses	1,242,065	1,496,596	630,431
Total deductions	94,110,016	141,938,812	17,021,297
Change in net assets	(2,117,238)	(29,147,031)	13,638,514
Net assets held in trust for employees' pension and postemployment benefits			
July 1	1,380,606,734	1,520,766,932	406,901,556
June 30	$ 1,378,489,496	$ 1,491,619,901	$ 420,540,070

See Independent Auditors' Report.

Defined Contribution Plans			Other Postemployment Benefit Funds			
Vermont State Defined Contribution Fund	Single Deposit Investment Account Fund	Vermont Municipal Employees' Defined Contribution Fund	Vermont State Postemployment Benefits Trust Fund	Municipal Employees' Health Benefit Fund	Eliminations	Total
$ 1,813,629	$ -	$ 659,609	$ -	$ -	$ -	$ 95,539,776
-	-	-	25,865,470	-	-	36,365,470
694,488	-	605,657	-	-	-	72,174,075
110,673	-	15,771	-	-	(707,307)	-
5,009	-	14,485	-	-	-	19,494
-	-	-	1,786,719	-	-	3,459,142
-	-	-	-	-	-	2,747,713
2,623,799	-	1,295,522	27,652,189	-	(707,307)	210,305,670
(1,131,683)	1,040	(529,722)	37,144	62,552	-	(1,296,994)
-	-	-	-	-	-	67,797,878
1,151,379	2,414,165	453,412	98,868	-	-	4,123,018
124	862	335	239,411	938	-	729,527
-	38	-	-	-	-	1,384,902
-	-	-	-	-	-	74,289
19,820	2,416,105	(75,975)	375,423	63,490	-	72,812,620
-	234,679	-	-	58,490	-	13,978,639
-	-	-	-	-	-	325,384
-	234,679	-	-	58,490	-	14,304,023
19,820	2,181,426	(75,975)	375,423	5,000	-	58,508,597
2,643,619	2,181,426	1,219,547	28,027,612	5,000	(707,307)	268,814,267
2,578,550	6,734,383	680,642	-	-	-	232,178,946
-	-	-	25,863,989	213,526	-	46,697,659
-	-	-	-	-	-	5,094,538
-	-	-	-	-	-	856,260
-	-	-	-	-	(707,307)	-
-	-	-	-	-	-	237,413
46,432	-	81,025	275	-	-	3,496,824
2,624,982	6,734,383	761,667	25,864,264	213,526	(707,307)	288,561,640
18,637	(4,552,957)	457,880	2,163,348	(208,526)	-	(19,747,373)
45,121,860	78,627,851	16,083,093	11,215,536	10,994,855	-	3,470,318,417
$ 45,140,497	$ 74,074,894	$ 16,540,973	$ 13,378,884	$ 10,786,329	$ -	$ 3,450,571,044

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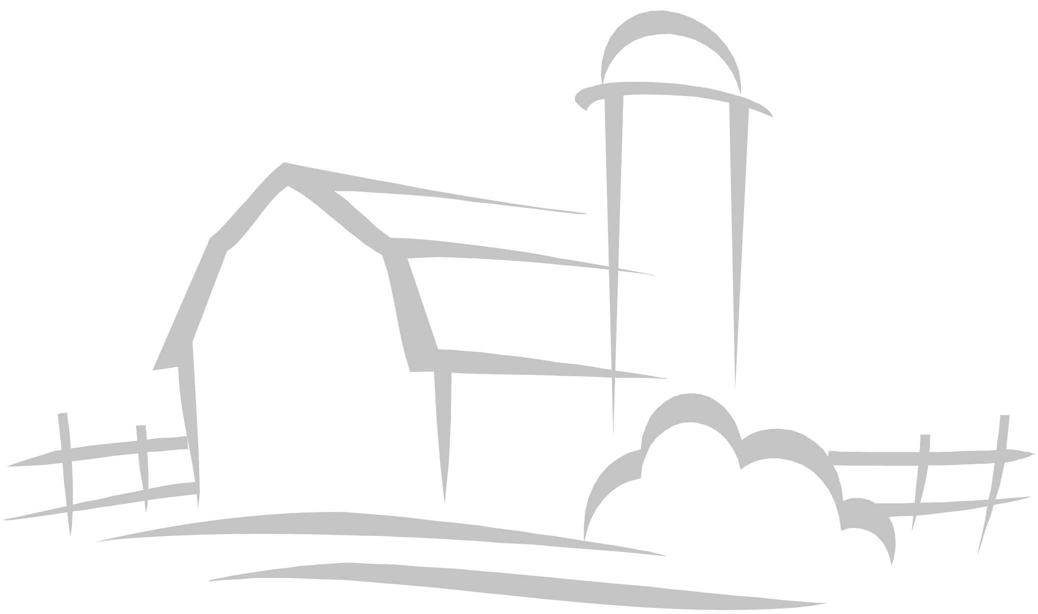

Vermont

Agency Funds' Descriptions

Retirement System Contributions and Withholdings Fund – This fund holds the employees' retirement contributions and withholdings until distribution to the appropriate pension fund.

Federal Income Tax Withholdings Fund – This fund holds employees' federal income tax withholdings until they are paid to the Federal Government.

State Income Tax Withholdings Fund – This fund holds employees' state income tax withholdings are held until they are paid to the State.

Social Security Tax Contributions and Withholdings Fund – This is the fund where employees' FICA withholdings are held until they are paid to the Federal Government.

Employees Credit Union Withholding Fund – This is the fund where employees voluntary withholdings to pay off Vermont State Employees' Credit Union (VSECU) loans or deposits to VSECU accounts (other than net pay) are held until paid to the VSECU.

Employees Insurance Contributions and Withholdings Fund – This is the fund where the State and the State's employees' share of the insurance premiums is held until distribution to the appropriate internal service fund.

Employees Deferred Income Withholdings Fund – This is the fund where the employees' voluntary deferred income withholdings are held until paid to the program administrator.

Other Employee Contributions and Withholdings Fund – This is the fund where other withholdings and contributions (charitable, savings bonds, flexible spending, etc) are held until paid to the appropriate depository.

Vendor and Other Deposits Fund – This is the fund where escrow amounts, advances, garnishments and other miscellaneous agency funds are reported.

Child Support Collections Fund – This is the fund where child support receipts are held until paid to the correct recipient.

STATE OF VERMONT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
RETIREMENT SYSTEM CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash	$ -	$ 93,403,222	$ 93,403,222	$ -
Accounts receivable	1,647	1,836	1,647	1,836
Total assets	$ 1,647	$ 93,405,058	$ 93,404,869	$ 1,836
LIABILITIES				
Due to depositories	$ -	$ 93,403,222	$ 93,403,222	$ -
Interfund payable	1,647	1,836	1,647	1,836
Total liabilities	$ 1,647	$ 93,405,058	$ 93,404,869	$ 1,836
FEDERAL INCOME TAX WITHHOLDING FUND				
ASSETS				
Cash	$ -	$ 47,806,087	$ 47,805,014	$ 1,073
Accounts receivable	2,860	-	2,860	-
Total assets	$ 2,860	$ 47,806,087	$ 47,807,874	$ 1,073
LIABILITIES				
Due to depositories	$ -	$ 47,806,087	$ 47,805,014	$ 1,073
Interfund payable	2,860	-	2,860	-
Total liabilities	$ 2,860	$ 47,806,087	$ 47,807,874	$ 1,073
STATE INCOME TAX WITHHOLDING FUND				
ASSETS				
Cash	$ -	$ 13,199,364	$ 13,199,067	$ 297
Accounts receivable	783	-	783	-
Total assets	$ 783	$ 13,199,364	$ 13,199,850	$ 297
LIABILITIES				
Due to depositories	$ -	$ 13,199,364	$ 13,199,067	$ 297
Interfund payable	783	-	783	-
Total liabilities	$ 783	$ 13,199,364	$ 13,199,850	$ 297
SOCIAL SECURITY TAX CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash	$ 366	$ 57,134,263	$ 57,134,347	$ 282
Total assets	$ 366	$ 57,134,263	$ 57,134,347	$ 282
LIABILITIES				
Due to depositories	$ 366	$ 57,134,263	$ 57,134,347	$ 282
Total liabilities	$ 366	$ 57,134,263	$ 57,134,347	$ 282
EMPLOYEES CREDIT UNION WITHHOLDING FUND				
ASSETS				
Cash	$ -	$ 34,137,585	$ 34,137,585	$ -
Total assets	$ -	$ 34,137,585	$ 34,137,585	$ -
LIABILITIES				
Due to depositories	$ -	$ 34,137,585	$ 34,137,585	$ -
Total liabilities	$ -	$ 34,137,585	$ 34,137,585	$ -
EMPLOYEES INSURANCE CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash	$ 183	$ 111,532,256	$ 111,532,252	$ 187
Total assets	$ 183	$ 111,532,256	$ 111,532,252	$ 187
LIABILITIES				
Due to depositories	$ 183	$ 111,532,256	$ 111,532,252	$ 187
Total liabilities	$ 183	$ 111,532,256	$ 111,532,252	$ 187

See Independent Auditors' Report.

Continued on next page

STATE OF VERMONT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
EMPLOYEES DEFERRED INCOME WITHHOLDINGS FUND				
ASSETS				
Cash	$ -	$ 13,653,992	$ 13,653,992	$ -
Total assets	$ -	$ 13,653,992	$ 13,653,992	$ -
LIABILITIES				
Due to depositories	$ -	$ 13,653,992	$ 13,653,992	$ -
Total liabilities	$ -	$ 13,653,992	$ 13,653,992	$ -
OTHER EMPLOYEE CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash	$ 69,456	$ 8,149,306	$ 8,218,762	$ -
Accounts receivable	40,257	162,143	38,942	163,458
Total assets	$ 109,713	$ 8,311,449	$ 8,257,704	$ 163,458
LIABILITIES				
Due to depositories	$ 69,469	$ 8,147,991	$ 8,217,460	$ -
Interfund payable	40,244	163,458	40,244	163,458
Total liabilities	$ 109,713	$ 8,311,449	$ 8,257,704	$ 163,458
VENDOR AND OTHER DEPOSITS FUND				
ASSETS				
Cash	$ 5,300,642	$ 41,126,470	$ 39,437,667	$ 6,989,445
Taxes receivable	2,639,380	1,779,747	2,639,380	1,779,747
Accounts receivable	1,630,143	2,147,734	2,225,885	1,551,992
Total assets	$ 9,570,165	$ 45,053,951	$ 44,302,932	$ 10,321,184
LIABILITIES				
Amounts held in custody for others	$ 1,731,630	$ 10,531,183	$ 10,428,078	$ 1,834,735
Intergovernmental payables	6,652,452	28,271,232	27,660,003	7,263,681
Other liabilities	1,027,859	5,333,616	5,223,167	1,138,308
Interfund payable	158,224	84,460	158,224	84,460
Total liabilities	$ 9,570,165	$ 44,220,491	$ 43,469,472	$ 10,321,184
CHILD SUPPORT COLLECTIONS FUND				
ASSETS				
Cash	$ 1,383,910	$ 54,747,211	$ 55,106,406	$ 1,024,715
Accounts receivable	2,963	33,190	-	36,153
Total assets	$ 1,386,873	$ 54,780,401	$ 55,106,406	$ 1,060,868
LIABILITIES				
Amounts held in custody for others	$ 1,386,873	$ 54,780,401	$ 55,106,406	$ 1,060,868
Total liabilities	$ 1,386,873	$ 54,780,401	$ 55,106,406	$ 1,060,868
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash	$ 6,754,557	$ 474,889,756	$ 473,628,314	$ 8,015,999
Taxes receivable	2,639,380	1,779,747	2,639,380	1,779,747
Accounts receivable	1,678,653	2,344,903	2,270,117	1,753,439
Total assets	$ 11,072,590	$ 479,014,406	$ 478,537,811	$ 11,549,185
LIABILITIES				
Due to depositories	$ 70,018	$ 379,014,760	$ 379,082,939	$ 1,839
Amounts held in custody for others	3,118,503	65,311,584	65,534,484	2,895,603
Intergovernmental payables	6,652,452	28,271,232	27,660,003	7,263,681
Other liabilities	1,027,859	5,333,616	5,223,167	1,138,308
Interfund payable	203,758	249,754	203,758	249,754
Total liabilities	$ 11,072,590	$ 478,180,946	$ 477,704,351	$ 11,549,185

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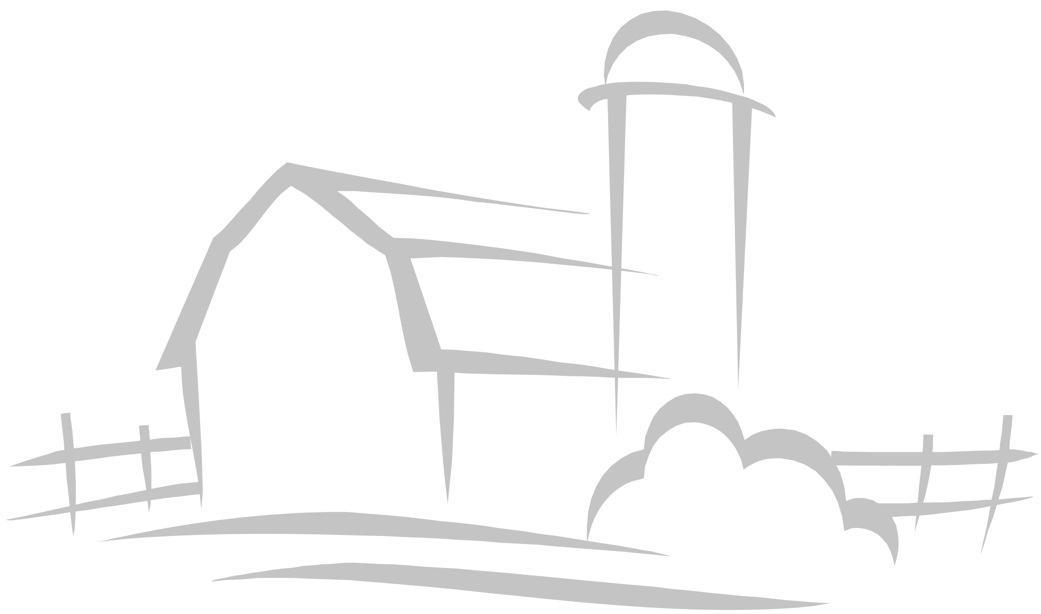

Vermont

Vermont Economic Development Authority – This is a tax-exempt entity whose purpose is to promote economic prosperity within the State of Vermont by providing capital and direct financing to eligible borrowers.

Vermont Housing & Conservation Board – This is a not for profit entity whose mission is to create affordable housing for Vermonters and to conserve and protect agricultural, historic, natural and recreational sites within Vermont.

Vermont Sustainable Jobs Fund – This is a not for profit entity set up to implement a jobs program.

Vermont Municipal Bond Bank – The Bond Bank's purpose is to create large bond issues on behalf of the States' municipalities and loan the proceeds back to the participating municipalities.

Vermont Educational and Health Buildings Financing Agency – This purpose of this agency is to provide tax -exempt financing to libraries, educational and healthcare providers to assist in the purchase and construction of real and personal property.

Vermont Center for Geographic Information, Inc. – This not for profit organization was created to implement and maintain a geographic information system.

Vermont Veterans' Home – The Vet's home provides care to those that have given to their country and the State of Vermont.

Vermont Rehabilitation Corporation – This not for profit organization's purpose is to provide funding to farmers to reduce their investment costs in an effort to help them be successful.

Vermont Film Corporation - This is a non-profit public corporation, created for the purpose of promoting the state as a location for commercial film and television production, and to facilitate the participation of local individuals and companies in such productions.

STATE OF VERMONT
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED NON-MAJOR COMPONENT UNITS
JUNE 30, 2012

	Vermont Economic Development Authority 6/30/2012	Vermont Housing & Conservation Board 6/30/2012	Vermont Sustainable Jobs Fund 6/30/2012	Vermont Municipal Bond Bank 12/31/2011	Vermont Educational and Health Buildings Financing Agency 12/31/2011
ASSETS					
Current Assets					
Cash and cash equivalents	$ 3,289,898	$ 7,669,310	$ 524,148	$ 3,428,387	$ 156,500
Investments	3,015,963	-	-	10,308,764	1,011,730
Accounts receivable, net	-	-	-	25,251	-
Accrued interest receivable - loans	372,669	18,020,276	-	2,135,658	-
Loans and notes receivable - current portion	15,592,974	600,788	-	45,151,849	-
Other receivables	-	78,126	99,353	-	-
Due from federal government	-	15,019,829	-	-	-
Due from primary government	-	54,871	-	-	-
Inventories, at cost	-	-	-	-	-
Other current assets and deferred outflows	711,043	7,073,202	1,000	-	-
Total current assets	22,982,547	48,516,402	624,501	61,049,909	1,168,230
Restricted and Noncurrent Assets					
Cash	2,751,128	-	-	370,810	-
Investments	24,040,000	-	382,743	52,528,278	-
Deferred bond issue costs	-	-	-	6,201,211	-
Loans and notes receivable, net	145,958,625	145,228,366	-	474,373,698	-
Other assets	-	-	-	-	-
Total restricted and noncurrent assets	172,749,753	145,228,366	382,743	533,473,997	-
Capital Assets					
Land	500,000	-	-	-	-
Construction in progress	-	-	-	-	-
Capital assets being depreciated					
Buildings and leasehold improvements	5,317,979	225,145	-	-	-
Equipment, furniture and fixtures	852,483	38,037	21,760	-	-
Less accumulated depreciation	(1,154,187)	(93,639)	(16,760)	-	-
Total capital assets, net of depreciation	5,516,275	169,543	5,000	-	-
Total assets	201,248,575	193,914,311	1,012,244	594,523,906	1,168,230
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	535,582	184,951	85,819	78,595	11,758
Accrued interest payable	107,584	-	-	-	-
Bond interest payable	-	-	-	1,986,088	-
Unearned revenue	2,544,991	27,383	410,556	-	-
Other current liabilities	-	19,850,999	-	-	-
Current portion of long-term liabilities	142,100,100	-	-	46,132,907	-
Due to primary government	42,530	-	-	-	-
Escrowed cash deposits	118,107	-	-	-	-
Advances from primary government	2,288,922	-	-	-	-
Total current liabilities	147,737,816	20,063,333	496,375	48,197,590	11,758
Noncurrent Liabilities					
Bonds and notes payable	8,575,279	271,695	-	510,329,651	-
Accrued arbitrge rebate	-	-	-	513,309	-
Other noncurrent liabilities	-	-	-	-	-
Total noncurrent liabilities	8,575,279	271,695	-	510,842,960	-
Total liabilities	156,313,095	20,335,028	496,375	559,040,550	11,758
NET ASSETS					
Invested in capital assets, net of related debt	2,520,425	169,543	5,000	-	-
Restricted	26,832,703	173,275,444	-	24,324,402	-
Unrestricted	15,582,352	134,296	510,869	11,158,954	1,156,472
Total net assets	$ 44,935,480	$ 173,579,283	$ 515,869	$ 35,483,356	$ 1,156,472

See Independent Auditors' Report.

Vermont Center For Geographic Information, Inc. 6/30/2012	Vermont Veterans' Home 6/30/2012	Vermont Rehabilitation Corporation 6/30/2012	Vermont Telecommunications Authority 6/30/2012	Total Non-major Component Units
$ 161,622	$ 868,349	$ 99,922	$ 5,883,958	$ 22,082,094
-	-	-	-	14,336,457
90,247	2,468,403	-	-	2,583,901
-	-	8,033	-	20,536,636
-	-	30,000	-	61,375,611
-	-	-	17,073	194,552
-	258,195	-	991,121	16,269,145
-	-	-	-	54,871
-	145,198	-	-	145,198
10,773	-	-	6,084	7,802,102
262,642	3,740,145	137,955	6,898,236	145,380,567
-	-	-	-	3,121,938
-	-	-	-	76,951,021
-	-	-	-	6,201,211
-	-	90,000	-	765,650,689
-	6,037	-	-	6,037
-	6,037	90,000	-	851,930,896
-	321,468	-	-	821,468
-	44,305	-	223,332	267,637
-	25,344,562	-	-	30,887,686
141,188	3,449,765	-	56,822	4,560,055
(99,815)	(15,121,737)	-	(16,169)	(16,502,307)
41,373	14,038,363	-	263,985	20,034,539
304,015	17,784,545	227,955	7,162,221	1,017,346,002
80,291	1,400,426	-	1,806,597	4,184,019
-	-	-	-	107,584
-	-	-	-	1,986,088
273	50,981	-	-	3,034,184
-	11,173	-	-	19,862,172
-	-	-	-	188,233,007
-	-	-	-	42,530
-	-	-	-	118,107
-	-	-	-	2,288,922
80,564	1,462,580	-	1,806,597	219,856,613
-	-	-	-	519,176,625
-	-	-	-	513,309
-	5,584	-	-	5,584
-	5,584	-	-	519,695,518
80,564	1,468,164	-	1,806,597	739,552,131
41,373	14,038,363	-	263,985	17,038,689
-	-	-	5,022,629	229,455,178
182,078	2,278,018	227,955	69,010	31,300,004
$ 223,451	$ 16,316,381	$ 227,955	$ 5,355,624	$ 277,793,871

STATE OF VERMONT
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2012

	Vermont Economic Development Authority 6/30/2012	Vermont Housing & Conservation Board 6/30/2012	Vermont Sustainable Jobs Fund 6/30/2012	Vermont Municipal Bond Bank 12/31/2011	Vermont Educational and Health Buildings Financing Agency 12/31/2011
Expenses					
Salaries and benefits	$ 2,797,027	$ 2,101,928	$ 451,200	$ 92,603	$ 45,990
Other expenses	2,522,834	16,028,014	1,086,946	23,769,824	149,827
Depreciation	242,737	16,278	-	-	-
Interest on debt	1,746,764	-	-	-	-
Total expenses	7,309,362	18,146,220	1,538,146	23,862,427	195,817
Program Revenues					
Charges for services	6,646,363	-	93,076	22,427,347	154,329
Operating grants and contributions	2,457,676	15,634,970	1,582,172	-	-
Capital grants and contributions	-	-	-	-	-
Total program revenues	9,104,039	15,634,970	1,675,248	22,427,347	154,329
Net revenue (expense)	1,794,677	(2,511,250)	137,102	(1,435,080)	(41,488)
General revenues					
Property transfer tax	-	8,047,500	-	-	-
Investment income	488,979	2,278,318	-	5,747,232	-
Miscellaneous	-	41,131	-	-	-
Total general revenues	488,979	10,366,949	-	5,747,232	-
Changes in net assets	2,283,656	7,855,699	137,102	4,312,152	(41,488)
Net assets (deficit) - beginning, as restated	42,651,824	165,723,584	378,767	31,171,204	1,197,960
Net assets - ending	$ 44,935,480	$ 173,579,283	$ 515,869	$ 35,483,356	$ 1,156,472

See Independent Auditor's Report

Vermont Center For Geographic Information, Inc. 6/30/2012	Vermont Veterans' Home 6/30/2012	Vermont Rehabilitation Corporation 6/30/2012	Vermont Film Corporation 6/30/2012	Vermont Telecommunications Authority 6/30/2012	Total Non-major Component Units
$ 513,162	$ 12,839,711	$ -	$ -	$ 763,117	$ 19,604,738
654,518	6,617,175	-	-	15,523,984	66,353,122
9,695	993,232	-	-	6,408	1,268,350
-	-	-	-	-	1,746,764
1,177,375	20,450,118	-	-	16,293,509	88,972,974
784,657	17,356,695	-	-	-	47,462,467
378,700	1,944,603	-	-	13,413,560	35,411,681
-	991,058	-	-	-	991,058
1,163,357	20,292,356	-	-	13,413,560	83,865,206
(14,018)	(157,762)	-	-	(2,879,949)	(5,107,768)
-	-	-	-	-	8,047,500
-	68	287	-	18,265	8,533,149
-	733,796	-	2,160	-	777,087
-	733,864	287	2,160	18,265	17,357,736
(14,018)	576,102	287	2,160	(2,861,684)	12,249,968
237,469	15,740,279	227,668	(2,160)	8,217,308	265,543,903
$ 223,451	$ 16,316,381	$ 227,955	$ -	$ 5,355,624	$ 277,793,871

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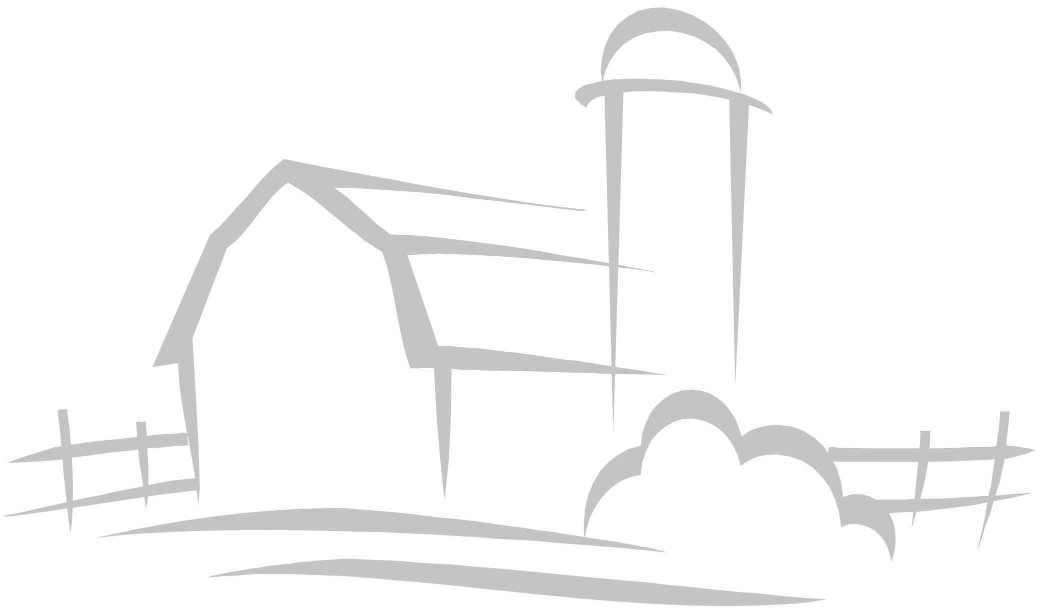

Vermont

STATISTICAL SECTION CONTENTS
JUNE 30, 2012

The Statistical Section of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information indicates about the State of Vermont's overall financial health. Below is a summary of the components and purpose of the tables provided in this section.

Financial Trends – Tables 1 through 4
These schedules contain trend information extracted from the State's financial statements, to help the reader understand how the State's financial performance and financial position have changed over time.

Revenue Capacity – Tables 5 through 7
These schedules contain information to help the reader assess the State's most significant revenue source – the personal income tax.

Debt Capacity – Tables 8 and 9
These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt, the State's ability to issue additional debt in the future, and related historical trend data.

Demographic and Economic Information – Tables 10 and 11
These schedules contain demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.

Operating Indicators – Tables 12 through 14
These schedules contain service levels and capital asset data to help the reader understand how the information in the State's financial report relates to the services the State provides to its citizens and visitors.

This information is unaudited.

STATE OF VERMONT
Statistical Section - Table 1
Financial Trends
Net Assets by Component, Last Ten Fiscal Years
(accrual basis of accounting)
(expressed in thousands)

	2012	2011	2010	2009
Primary Government				
Governmental Activities				
Invested in capital assets, net of related debt……	$ 1,727,652	$ 1,607,970	$ 1,456,846	$ 1,318,708
Restricted……………………………………………	499,377	491,166	117,250	121,701
Unrestricted…………………………………………	(582,203)	(505,129)	(254,502)	(280,552)
Total governmental activities net assets…………….	1,644,826	1,594,007	1,319,594	1,159,857
Business-type Activities				
Invested in capital assets, net of related debt……	745	857	944	937
Restricted……………………………………………	26,216	-	963	78,452
Unrestricted…………………………………………	5,244	(6,476)	3,057	3,656
Total business-type activities net assets……………	32,205	(5,619)	4,964	83,045
Primary Government Totals				
Invested in capital assets, net of related debt……	1,728,397	1,608,827	1,457,790	1,319,645
Restricted……………………………………………	525,593	491,166	118,213	200,153
Unrestricted…………………………………………	(576,959)	(511,605)	(251,445)	(276,896)
Total primary government net assets…………………	$ 1,677,031	$ 1,588,388	$ 1,324,558	$ 1,242,902
Discretely Presented Component Units				
Invested in capital assets, net of related debt……	$ 142,584	$ 145,157	$ 139,623	$ 190,955
Restricted……………………………………………	803,221	807,031	728,751	610,237
Unrestricted…………………………………………	126,560	141,397	130,072	116,630
Total discretely presented units net assets…………	$ 1,072,365	$ 1,093,585	$ 998,446	$ 917,822

See Independent Auditor's Report

2008	2007	2006	2005	2004	2003
$ 1,245,908	$ 1,161,200	$ 1,080,092	$ 1,055,464	$ 1,001,389	$ 928,021
117,117	143,355	167,490	111,943	121,352	90,218
(112,440)	(27,414)	(85,684)	(69,649)	(67,099)	(169,421)
1,250,585	1,277,141	1,161,898	1,097,758	1,055,642	848,818
584	412	372	484	465	534
169,206	194,832	209,321	227,856	238,548	264,989
3,328	3,743	4,015	3,846	3,530	3,122
173,118	198,987	213,708	232,186	242,543	268,645
1,246,492	1,161,612	1,080,464	1,055,948	1,001,854	928,555
286,323	338,187	376,811	339,799	359,900	355,207
(109,112)	(23,671)	(81,669)	(65,803)	(63,569)	(166,299)
$ 1,423,703	$ 1,476,128	$ 1,375,606	$ 1,329,944	$ 1,298,185	$ 1,117,463
$ 171,918	$ 165,901	$ 165,431	$ 171,459	$ 151,213	$ 154,068
605,214	606,080	516,629	470,245	446,998	404,227
180,870	231,293	239,323	215,839	205,625	182,060
$ 958,002	$ 1,003,274	$ 921,383	$ 857,543	$ 803,836	$ 740,355

STATE OF VERMONT
Statistical Section - Table 2
Financial Trends
Changes in Net Assets, Last Ten Fiscal Years
(accrual basis of accounting)
(expressed in thousands)

	2012	2011	2010	2009
Governmental activities				
Expenses				
General government	$ 185,484	$ 161,192	$ 169,294	$ 116,802
Protection to persons and property	328,292	325,959	266,916	280,434
Human services	2,013,616	1,969,294	1,861,517	1,750,911
Labor	30,004	32,194	35,774	29,071
General education	1,680,443	1,670,517	1,688,315	1,657,335
Natural resources	91,452	106,875	73,004	98,136
Commerce and community development	38,782	48,206	71,762	33,310
Transportation	542,055	390,837	324,660	308,457
Public service enterprises	-	-	2,732	3,894
Interest on long-term debt	19,776	20,888	18,599	18,714
Total expenses	4,929,904	4,725,962	4,512,573	4,297,064
Program revenues				
Charges for services				
General government	50,734	22,092	22,037	23,076
Protection to persons and property	144,071	150,756	137,883	151,730
Human services	34,765	22,759	20,498	22,311
Natural resources	26,915	24,974	23,934	23,749
Transportation	121,345	119,422	108,229	81,435
Other	17,048	16,956	15,330	15,838
Operating grants and contributions	1,590,271	1,703,947	1,669,593	1,315,550
Capital grants and contributions	306,956	314,577	232,155	165,844
Total program revenues	2,292,105	2,375,483	2,229,659	1,799,533
Total governmental activities net program expense	(2,637,799)	(2,350,479)	(2,282,914)	(2,497,531)
General revenues and other changes in net assets				
Taxes				
Personal and corporate income	696,664	677,862	563,170	572,032
Sales and use	347,283	323,353	316,755	317,599
Meals and rooms	128,592	122,558	118,926	117,842
Purchase and use	81,909	76,994	69,828	65,862
Motor fuel	61,791	63,712	64,061	64,303
Statewide property	913,639	917,936	909,758	876,408
Other taxes	397,012	379,269	333,770	326,519
Unrestricted investment earnings	998	2,966	3,448	2,636
Tobacco litigation settlement	34,519	33,864	36,216	42,879
Miscellaneous	3,254	4,159	3,364	2,178
Transfers	22,958	22,026	23,355	21,945
Extraordinary item				
Gain (loss) on forgiveness of debt	-	-	-	-
Total general revenues and other changes in net assets	2,688,619	2,624,699	2,442,651	2,410,203
Total governmental activities change in net assets	$ 50,820	$ 274,220	$ 159,737	$ (87,328)

See Independent Auditor's Report

2008	2007	2006	2005	2004	2003
$ 101,536	$ 114,688	$ 110,055	$ 130,521	$ 98,474	$ 51,574
259,691	255,621	233,163	213,426	196,014	186,818
1,652,680	1,518,969	1,445,868	1,392,266	1,299,866	1,185,924
28,020	24,740	21,154	20,583	26,290	27,907
1,614,447	1,622,441	1,555,674	1,446,411	1,149,533	1,096,988
95,657	85,901	82,814	78,422	72,892	69,460
36,954	31,947	32,252	35,651	29,863	33,849
310,702	307,899	301,626	269,066	251,789	236,214
4,503	1,890	1,994	1,650	1,898	1,898
19,361	20,072	21,047	19,307	22,591	26,358
4,123,551	3,984,168	3,805,647	3,607,303	3,149,210	2,916,990
20,973	52,384	46,749	59,498	44,679	11,603
112,100	115,546	97,700	78,017	81,276	79,397
15,683	14,807	33,475	20,717	22,778	30,391
25,514	23,078	23,868	24,438	20,829	18,963
86,370	86,295	74,646	69,299	68,374	63,779
12,857	7,511	4,789	4,355	7,762	7,518
1,182,605	1,083,832	1,072,042	1,032,577	1,096,789	935,183
151,735	167,181	128,658	130,646	113,007	116,023
1,607,837	1,550,634	1,481,927	1,419,547	1,455,494	1,262,857
(2,515,714)	(2,433,534)	(2,323,720)	(2,187,756)	(1,693,716)	(1,654,133)
698,305	679,886	612,566	568,059	496,302	404,948
336,164	332,314	327,075	312,395	264,337	205,206
119,758	116,888	111,570	111,980	109,915	95,355
79,084	80,591	80,987	84,047	86,363	82,089
65,080	65,427	67,580	67,335	68,654	71,258
798,905	878,714	813,588	732,330	487,535	453,868
317,438	331,017	317,187	294,257	329,544	284,253
8,732	11,286	7,426	6,664	3,130	4,602
38,236	24,986	24,057	26,206	25,820	30,545
3,555	3,432	2,277	5,875	7,195	2,447
23,900	24,236	23,548	20,723	19,957	16,582
-	-	-	-	-	(7,500)
2,489,157	2,548,777	2,387,861	2,229,871	1,898,752	1,643,653
$ (26,557)	$ 115,243	$ 64,141	$ 42,115	$ 205,036	$ (10,480)

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STATE OF VERMONT
Statistical Section - Table 2
Financial Trends
Changes in Net Assets, Last Ten Fiscal Years
(accrual basis of accounting)
(expressed in thousands)

	2012	2011	2010	2009
Business-type activities				
Expenses				
Vermont Lottery Commission	$ 78,556	$ 74,147	$ 75,940	$ 74,895
Liquor Control	50,519	47,928	47,059	46,377
Unemployment Compensation	139,340	190,679	293,674	214,561
Other	5,394	4,761	1,943	2,471
Total expenses	273,809	317,515	418,616	338,304
Program revenues				
Charges for services				
Vermont Lottery Commission	100,931	95,543	97,485	95,983
Liquor Control	51,700	50,249	47,986	47,789
Unemployment Compensation	138,550	116,323	215,334	117,920
Other	5,011	4,423	1,738	2,341
Operating grants and contributions	38,239	62,445	-	-
Total program revenues	334,431	328,983	362,543	264,033
Total busines-type activities net program expense	60,622	11,468	(56,073)	(74,271)
General revenues and other changes in net assets				
Unrestricted investment earnings	160	(23)	1,417	6,035
Miscellaneous	-	12	-	9
Capital asset transfers	-	-	-	-
Transfers	(22,958)	(22,026)	(23,355)	(21,945)
Total general revenues and other changes in net assets	(22,798)	(22,037)	(21,938)	(15,901)
Total business-type activities change in net assets	$ 37,824	$ (10,569)	$ (78,011)	$ (90,172)
Total primary government change in net assets	$ 88,644	$ 263,651	$ 81,726	$ (177,500)
Component units				
Expenses				
Vermont Student Assistance Corporation	$ 101,216	$ 111,490	$ 123,148	$ 153,088
University of Vermont and State Agricultural College	614,136	609,156	581,900	577,357
Vermont State Colleges	191,327	184,785	179,282	165,975
Vermont Housing Finance Agency	37,065	40,224	43,487	51,877
Other	88,973	69,851	64,479	74,103
Total expenses	1,032,717	1,015,506	992,296	1,022,400
Program revenues				
Charges for services				
Vermont Student Assistance Corporation	59,239	63,072	63,758	82,628
University of Vermont and State Agricultural College	359,596	344,995	331,072	314,917
Vermont State Colleges	117,848	113,624	111,308	105,179
Vermont Housing Finance Agency	704	1,153	1,121	728
Other	47,462	47,990	46,144	44,077
Operating grants and contributions	361,803	379,585	372,492	337,110
Capital grants and contributions	9,836	17,535	59,243	11,847
Total program revenues	956,489	967,954	985,138	896,486
Total component units net program expense	(76,228)	(47,552)	(7,158)	(125,914)
General revenues and other changes in net assets				
Taxes	8,048	6,102	6,101	12,464
Unrestricted investment earnings	44,142	117,674	49,250	(13,250)
Other	10,589	18,916	32,381	2,263
Extraordinary items				
Gain (loss) on forgiveness of debt	-	-	-	-
Loss on extinguishment of debt	-	-	-	-
Total general revenues and other changes in net assets	62,779	142,692	87,732	1,477
Total component units changes in net assets	$ (13,450)	$ 95,140	$ 80,574	$ (124,437)

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2008	2007	2006	2005	2004	2003
$ 79,596	$ 81,225	$ 82,263	$ 71,720	$ 72,320	$ 63,651
45,312	43,187	40,512	38,155	36,236	34,357
98,955	94,396	85,483	79,968	99,550	130,316
3,140	2,937	2,948	3,873	2,727	3,026
227,003	221,745	211,206	193,716	210,833	231,350
102,001	104,551	104,879	92,600	92,389	79,413
45,927	43,994	41,480	39,209	36,666	34,254
65,327	70,821	57,428	57,250	58,541	63,633
3,027	2,599	2,649	2,919	2,604	2,920
-	-	-	-	-	-
216,282	221,965	206,436	191,978	190,200	180,220
(10,721)	220	(4,770)	(1,738)	(20,633)	(51,130)
8,740	9,286	9,832	12,389	14,502	18,011
11	9	8	(275)	16	3
-	-	-	(40)	-	-
(23,900)	(24,236)	(23,548)	(20,723)	(19,958)	(16,583)
(15,149)	(14,941)	(13,708)	(8,649)	(5,440)	1,431
$ (25,870)	$ (14,721)	$ (18,478)	$ (10,387)	$ (26,073)	$ (49,699)
$ (52,427)	$ 100,522	$ 45,663	$ 31,728	$ 178,963	$ (60,179)
$ 199,476	$ 176,918	$ 154,884	$ 130,083	$ 94,333	$ 93,829
559,961	505,403	453,127	423,317	406,661	379,503
154,615	141,662	135,103	125,540	118,800	106,498
NA	NA	NA	NA	NA	NA
65,527	70,646	61,848	58,683	61,499	61,390
979,579	894,629	804,962	737,623	681,293	641,220
106,106	106,540	84,537	65,044	59,562	57,775
290,105	262,342	241,837	215,925	201,196	182,705
95,772	91,035	83,361	76,557	69,422	58,679
NA	NA	NA	NA	NA	NA
45,211	44,386	41,441	41,326	37,405	37,124
344,598	343,609	335,395	317,304	302,914	285,898
14,506	19,094	10,651	16,618	9,857	12,350
896,298	867,006	797,222	732,774	680,356	634,531
(83,281)	(27,623)	(7,740)	(4,849)	(937)	(6,689)
15,483	13,764	15,671	12,604	12,604	11,088
19,393	93,754	55,018	45,837	53,154	27,195
2,048	1,504	891	65	205	62
-	-	-	-	-	7,500
-	-	-	-	-	(756)
36,924	109,022	71,580	58,506	65,963	45,089
$ (46,357)	$ 81,399	$ 63,840	$ 53,657	$ 65,026	$ 38,400

STATE OF VERMONT
Statistical Section - Table 3
Financial Trends
Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(expressed in thousands)

	2012	2011	2010	2009
General Fund (GASB 54)				
Nonspendable……	$ 2,059	$ 2,204	$ -	$ -
Restricted……	-	-	-	-
Committed……	18,502	60,165	-	-
Assigned……	6,834	5,364	-	-
Unassigned……	150,986	146,642	-	-
General Fund (before GASB 54)				
Reserved……	-	-	67,159	103,187
Unreserved……	-	-	72,503	46,713
Total General Fund……	$ 178,381	$ 214,376	$ 139,662	$ 149,900
All Other Governmental Funds (GASB 54)				
Nonspendable……	$ 7,416	$ 7,416	$ -	$ -
Restricted……	482,743	468,530	-	-
Committed……	200,626	179,819	-	-
Assigned……	-	323	-	-
Unassigned……	(2,065)	(1,331)	-	-
All Other Governmental Funds (before GASB 54)				
Reserved……	-	-	78,692	71,115
Unreserved, reported in				
Special revenue funds……	-	-	215,804	98,211
Capital projects funds……	-	-	21,850	24,758
Permanent funds……	-	-	12,389	11,900
Total All Other Governmental Funds……	$ 688,720	$ 654,757	$ 328,735	$ 205,984

In 2011 the State implemented GASB Statement No. 54. Under GASB Statement No. 54, fund balances are classified as Nonspendable, Reserved, Committed, Assigned or Unassigned. Prior to GASB 54, fund balances were classified as Reserved or Unreserved. Amounts for fiscal years 2010 and earlier have not been restated to reclassify these balances.

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2008	2007	2006	2005	2004	2003
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
101,265	94,973	93,133	95,058	92,751	52,691
54,458	68,057	68,317	68,610	61,975	47,062
$ 155,723	$ 163,030	$ 161,450	$ 163,668	$ 154,726	$ 99,753
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
75,076	70,650	79,808	63,821	61,818	46,533
145,881	160,166	156,102	127,909	143,967	66,061
32,616	26,294	22,097	20,817	36,363	37,300
11,269	11,547	9,637	4,414	1,791	1,705
$ 264,842	$ 268,657	$ 267,644	$ 216,961	$ 243,939	$ 151,599

STATE OF VERMONT
Statistical Section - Table 4
Financial Trends
Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(expressed in thousands)

	2012	2011	2010	2009
Revenues				
Taxes	$ 2,604,185	$ 2,539,488	$ 2,370,547	$ 2,372,150
Fees	116,636	105,503	85,052	82,561
Sales of services, rents and leases	21,009	18,218	21,002	23,723
Federal grants	1,887,156	2,008,105	1,926,853	1,426,347
Fines, forfeits and penalties	22,302	17,729	21,446	27,089
Investment income	2,993	6,337	5,553	4,056
Licenses	105,104	103,479	102,449	94,517
Special assessments	69,750	60,474	65,675	59,196
Other revenues	100,452	90,179	79,185	86,115
Total revenues	4,929,587	4,949,512	4,677,762	4,175,754
Expenditures				
General government	153,865	140,016	139,166	96,344
Protection to persons and property	318,406	302,765	265,368	265,402
Human services	2,008,480	1,956,180	1,857,822	1,717,878
Labor	17,728	19,551	19,781	13,565
General education	1,629,885	1,618,734	1,623,796	1,583,191
Natural resources	89,833	100,830	95,142	111,567
Commerce and community development	37,771	35,435	70,515	19,941
Transportation	633,113	536,660	448,047	379,344
Public service enterprises	-	-	2,732	3,893
Capital outlay	55,652	78,421	73,584	56,289
Debt service				
Interest	22,293	23,754	22,727	23,369
Principal	50,098	48,158	48,015	48,090
Total expenditures	5,017,124	4,860,504	4,666,695	4,318,873
Excess of revenues over (under) expenditures	(87,537)	89,008	11,067	(143,119)
Other financing sources (uses)				
Proceeds from the sale of bonds	63,000	89,400	72,000	50,500
Proceeds from the sale of refunding bonds	69,060	-	42,310	-
Premium on the sale of bonds	12,721	1,602	1,457	1,850
Payment to bond escrow agent	(79,023)	-	(42,230)	-
Premium on the sale of short-term notes	-	-	-	-
Transfers in	929,060	783,696	1,332,246	1,328,985
Transfers out	(909,314)	(758,137)	(1,304,333)	(1,302,897)
Total other financing sources (uses)	85,505	116,561	101,450	78,438
Extraordinary item				
Loss on forgiveness of debt	-	-	-	-
Net change in fund balances	$ (2,032)	$ 205,569	$ 112,517	$ (64,681)
Debt service as a percentage of noncapital expenditures	1.51%	1.57%	1.54%	1.68%

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2008	2007	2006	2005	2004	2003
$ 2,409,101	$ 2,460,571	$ 2,337,341	$ 2,160,131	$ 1,831,302	$ 1,615,245
61,444	70,221	52,813	58,291	46,613	47,770
17,697	13,724	13,455	13,251	14,212	14,032
1,317,932	1,243,958	1,195,619	1,149,687	1,195,394	1,036,189
21,972	19,315	19,172	19,383	22,136	15,151
11,994	17,317	11,469	7,906	4,580	5,562
96,079	92,593	82,772	79,897	78,414	71,827
44,802	29,062	27,320	25,154	25,866	22,454
80,021	71,338	58,328	69,137	77,711	85,138
4,061,042	4,018,099	3,798,289	3,582,837	3,296,228	2,913,368
85,545	66,605	63,455	69,638	59,421	56,610
250,028	247,732	227,085	222,239	200,556	184,258
1,637,940	1,521,057	1,433,190	1,397,574	1,298,524	1,200,629
27,056	24,488	21,090	20,946	26,193	27,905
1,533,340	1,609,653	1,513,712	1,414,259	1,119,928	1,067,249
97,321	97,456	93,673	82,298	76,195	84,602
35,465	30,608	30,843	35,026	28,628	32,964
369,815	379,347	321,421	310,061	289,728	284,979
4,502	1,890	1,994	1,650	1,898	1,898
37,208	37,035	43,063	52,774	41,196	40,702
22,083	23,033	21,959	22,005	27,213	23,688
46,615	46,097	45,272	45,348	43,621	49,526
4,146,918	4,085,001	3,816,757	3,673,818	3,213,101	3,055,010
(85,876)	(66,902)	(18,468)	(90,981)	83,127	(141,642)
46,000	44,500	45,000	41,000	42,200	35,800
29,195	-	-	23,267	146,554	31,555
798	305	744	93	1,839	2,414
(29,375)	-	-	(22,432)	(146,072)	(33,778)
-	-	-	-	-	679
1,212,740	1,092,593	1,155,078	478,210	438,310	401,290
(1,184,603)	(1,067,903)	(1,133,889)	(447,193)	(418,645)	(382,223)
74,755	69,495	66,933	72,945	64,186	55,737
-	-	-	-	-	(2,205)
$ (11,121)	$ 2,593	$ 48,465	$ (18,036)	$ 147,313	$ (88,110)
1.67%	1.71%	1.78%	1.86%	2.23%	2.43%

STATE OF VERMONT
Statistical Section - Table 5
Revenue Capacity
Personal Income and Earnings by Major Industry
Last Ten Fiscal Years
(expressed in thousands)

	2012 (1)	2011	2010	2009
Total personal income	$ 26,717,000	$ 26,041,860	$ 24,870,824	$ 24,074,284
Earnings	*18,089,000*	*17,774,547*	*17,179,187*	*16,597,550*
Farm earnings	205,000	227,953	164,785	112,904
Non-farm earnings	17,884,000	17,546,594	17,014,402	16,484,646
Private earnings	*14,489,000*	*14,198,187*	*13,709,753*	*13,260,534*
Forestry, fishing and related activities	99,000	86,785	83,094	64,324
Mining	41,000	42,554	42,127	45,646
Utilities	277,000	259,827	257,515	230,574
Construction	1,279,000	1,235,892	1,198,678	1,118,346
Manufacturing	*2,144,000*	*2,141,585*	*2,090,254*	*2,064,521*
Durable goods	1,604,000	1,609,474	1,581,717	1,578,985
Nondurable goods	540,000	532,111	508,537	485,536
Wholesale trade	686,000	671,765	637,967	625,335
Retail trade	1,481,000	1,429,967	1,374,312	1,343,083
Transportation and warehousing	392,000	398,477	380,521	371,396
Information	303,000	323,039	318,269	326,265
Finance and insurance	772,000	787,396	770,300	741,202
Real estate, rental and leasing	237,000	253,905	250,409	237,894
Professional and technical services	1,443,000	1,370,831	1,333,919	1,247,431
Management of companies and enterprises	124,000	133,992	84,816	72,513
Administrative and waste services	455,000	429,110	386,413	385,749
Education services	551,000	541,723	524,080	548,104
Healthcare and social assistance	2,593,000	2,545,245	2,499,024	2,423,707
Arts, entertainment and recreation	161,000	146,302	140,929	133,476
Accomodations and food services	767,000	741,555	702,338	667,886
Other services, except public administration	684,000	658,237	634,788	613,082
Government and government enterprises	*3,395,000*	*3,348,407*	*3,304,649*	*3,224,112*
Federal, civilian	678,000	656,462	639,093	614,217
Military	196,000	201,609	211,627	209,357
State and local	*2,521,000*	*2,490,336*	*2,453,929*	*2,400,538*
State	NA	1,028,124	1,014,080	1,007,098
Local	NA	1,462,212	1,439,849	1,393,440
Other personal income (2)	8,628,000	8,267,313	7,691,637	7,476,734
Averge effective tax rate (3)	NA	2.17%	2.11%	2.11%

(1) Data for 2012 are projected annual estimates based on information through 2012 second quarter. The estimates for 2011 and forward are based on the 2012 North American Industry Classification Systemt ("NAICS"). Prior years are based on the 2002 NAICS.
(2) Includes non-earned income, such as interest and dividends, rental income, and government transfers to individuals.
(3) Total direct tax rate is not available. Average effective tax rate equals personal income tax collections (see Statistical Section Table 6) divided by total personal income. Source of collections data: Vermont Department of Taxes

Source: U.S. Department of Commerce, Bureau of Economic Analysis

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2008	2007	2006	2005	2004	2003
$ 24,612,413	$ 23,580,349	$ 22,341,107	$ 20,696,717	$ 20,234,033	$ 19,129,031
16,925,350	*16,635,681*	*16,209,792*	*15,604,465*	*15,058,428*	*14,164,416*
179,609	219,773	118,967	200,205	190,269	145,052
16,745,741	16,415,908	16,090,825	15,404,260	14,868,159	14,019,364
13,629,921	*13,470,864*	*13,238,000*	*12,665,189*	*12,276,011*	*11,584,570*
65,139	65,336	68,742	65,246	65,014	63,919
52,542	58,173	58,027	39,253	41,761	42,300
233,223	211,256	204,133	190,808	191,118	166,481
1,217,990	1,336,623	1,384,515	1,285,834	1,241,858	1,127,566
2,239,164	*2,274,079*	*2,219,880*	*2,207,583*	*2,163,479*	*2,131,815*
1,726,329	1,754,857	1,708,263	1,695,901	1,655,889	1,632,028
512,835	519,222	511,617	511,682	507,590	499,787
654,113	663,943	645,792	608,201	592,574	579,787
1,374,205	1,371,704	1,382,141	1,360,249	1,316,921	1,253,146
383,217	397,446	397,537	392,375	377,651	349,083
331,413	333,813	327,035	325,381	328,028	318,081
762,910	781,647	739,131	713,348	680,963	668,380
212,750	177,988	202,756	215,215	219,464	203,610
1,321,017	1,236,940	1,220,683	1,079,625	1,014,508	937,569
71,111	12,902	13,676	22,934	21,207	19,875
386,838	374,412	372,252	354,077	348,224	305,073
526,169	496,188	483,037	453,851	447,378	402,999
2,353,945	2,185,319	2,068,180	1,941,376	1,844,917	1,729,302
134,062	139,114	140,271	129,705	129,032	114,681
699,502	715,684	675,177	668,308	663,212	628,827
610,611	638,297	635,035	611,820	588,702	542,076
3,115,820	*2,945,044*	*2,852,825*	*2,739,071*	*2,592,148*	*2,434,794*
578,611	535,648	518,821	503,975	489,482	443,828
183,082	158,788	152,450	164,108	149,139	139,802
2,354,127	*2,250,608*	*2,181,554*	*2,070,988*	*1,953,527*	*1,851,164*
1,016,430	967,162	936,489	884,420	833,564	781,997
1,337,697	1,283,446	1,245,065	1,186,568	1,119,963	1,069,167
7,687,063	6,944,668	6,131,315	5,092,252	5,175,605	4,964,615
2.23%	2.50%	2.48%	2.45%	2.29%	2.17%

STATE OF VERMONT
Statistical Section - Table 6
Revenue Capacity
Personal Income Tax Rates and Tax Calculations
Last Ten Calendar Years

Calendar Year		Tax Rates for Taxable Income Within Range, Single Filing Status (1) 3.6%	7.0%	8.3%	8.9%	9.4%	Tax Collections (000's)	Personal Income (3) (000's)	Average Effective Tax Rate
2012		$ 0 - $34,000	$34,001 - $83,600	$83,601 - $174,000	$174,001 - $379,150	> $379,150	$ 565,022	$ 26,041,860	2.17%
2011		$ 0 - $34,000	$34,001 - $82,400	$82,401 - $171,850	$171,851 - $373,650	> $373,650	$ 524,170	$ 24,870,824	2.11%
2010	(2)	$ 0 - $33,950	$33,951 - $82,250	$82,251 - $171,550	$171,551 - $372,950	> $372,950	$ 507,525	$ 24,074,284	2.11%
2009	(3)	$ 0 - $32,550	$32,551 - $78,850	$78,851 - $164,550	$164,551 - $357,700	>$357,700	$ 548,983	$ 24,612,413	2.23%
2008	(3)	$ 0 - $31,850	$31,851 - $77,100	$77,101 - $160,850	$160,851 - $349,700	>$349,700	$ 588,335	$ 23,580,349	2.50%
2007	(3)	$ 0 - $30,650	$30,651 - $74,200	$74,201 - $154,800	$154,810 - $336,550	>$336,550	$ 553,846	$ 22,341,107	2.48%
2006	(3)	$ 0 - $29,700	$29,701 - $71,950	$71,951 - $150,150	$150,151 - $326,450	>$326,450	$ 507,701	$ 20,696,717	2.45%
2005	(3)	$ 0 - $29,050	$29,051 - $70,350	$70,351 - $146,750	$146,751 - $319,100	>$319,100	$ 463,755	$ 20,234,033	2.29%
2004	(3)	$ 0 - $28,400	$28,401 - $68,800	$68,801 - $143,500	$143,501 - $311,951	>$311,950	$ 415,020	$ 19,129,031	2.17%
2003	(3)	$ 0 - $27,950	$27,951 - $67,700	$67,701 - $141,250	$141,251 - $307,050	>$307,050	$ 400,120	$ 18,459,720	2.17%

(1) Different taxable income ranges apply to these rates for other filing statuses, including Married Filing Jointly, Married Filing Separately, Head of Household, etc.

(2) For 2010, the tax rates applied to the five income ranges for single status filers were 3.55%, 6.80%, 7.80%, 8.80% and 8.95% respectively.

(3) For 2003 - 2009, the tax rates applied to the five income ranges for single status filers were 3.6%, 7.0%, 8.3%, 8.9%, and 9.4% respectively.

(3) See Statistical Section Table 5 for additional detail regarding personal income.

Source: Vermont Department of Taxes

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STATE OF VERMONT
Statistical Section - Table 7
Revenue Capacity
Personal Income Tax Filers and Liability by Income Level
Calendar Years 2011 and 2002

	Calendar Year 2011 (1)				
Income Level	Number of Filers	Percentage of Total Filers	State Taxable Income (2)	State Personal Income Tax (net) (3)	Percentage of Total State
$300,000 and higher	2,294	0.64%	$ 1,905,910,231	$ 132,825,051	23.51%
$150,000 - $299,999	5,985	1.66%	1,199,189,131	69,527,115	12.31%
$100,000 - $149,999	10,734	2.98%	1,287,241,464	64,639,664	11.44%
$75,000 - $99,999	15,296	4.24%	1,313,375,112	59,219,475	10.48%
$50,000 - $74,999	32,810	9.10%	2,005,862,938	78,635,524	13.92%
$25,000 - $49,999	60,967	16.91%	2,202,541,164	78,293,698	13.86%
$10,000 - $24,999	58,302	16.17%	1,000,342,871	34,097,049	6.03%
$9,999 and lower	124,248	34.45%	244,253,995	9,200,353	1.63%
Out of State	49,992	13.85%	17,765,873,457	38,584,525	6.82%
Totals	360,628	100.00%	$ 28,924,590,363	$ 565,022,454	100.00%

	Calendar Year 2002				
Income Level	Number of Filers	Percentage of Total Filers	State Taxable Income (2)	State Personal Income Tax (net) (3)	Percentage of Total State
$300,000 and higher	1,124	0.34%	$ 777,004,986	$ 57,565,747	14.39%
$150,000 - $299,999	2,968	0.89%	597,819,782	38,501,571	9.62%
$100,000 - $149,999	5,470	1.64%	654,181,128	36,580,318	9.14%
$75,000 - $99,999	8,213	2.47%	701,562,116	35,360,849	8.84%
$50,000 - $74,999	25,216	7.58%	1,520,508,813	66,231,784	16.55%
$25,000 - $49,999	61,892	18.61%	2,223,260,352	81,571,288	20.40%
$10,000 - $24,999	66,563	20.01%	1,135,597,636	39,365,473	9.84%
$9,999 and lower	118,857	35.73%	284,261,588	9,856,595	2.45%
Out of State	42,333	12.73%	7,188,912,765	35,086,354	8.77%
Totals	332,636	100.00%	$ 15,083,109,166	$ 400,119,979	100.00%

(1) Information for Tax Year 2011 is preliminary data for returns processed through November 24, 2012

(2) State Taxable Income is the total taxable income reported on line 15 of tax returns for an income class.

(3) State Personal Income Tax is net of taxable income adjustments, Vermont credits and other tax credits.

Source: Vermont Department of Taxes

See Independent Auditor's Report

STATE OF VERMONT
Statistical Section - Table 8
Debt Capacity
Ratios of Outstanding Debt by Type, Last Ten Years
(Expressed in Thousands, Except per Capita)

	Governmental Activities							
Fiscal Year	General Obligation Current Interest Bonds	Special Obligation Current Interest Bonds	General Obligation Capital Appreciation Bonds (1)	Total Bonds	Capital Leases	Total Primary Government	Ratio of Debt to Personal Income (2)	Debt Per Capita (3)
2012	502,715	13,260	3,542	519,517	3,619	523,136	1.96%	N/A
2011	489,445	13,835	6,296	509,576	4,340	513,916	1.97%	820
2010	459,935	-	12,856	472,791	4,820	477,611	1.92%	763
2009	433,975	-	19,007	452,982	4,908	457,890	1.90%	733
2008	429,360	-	25,110	454,470	384	454,854	1.85%	729
2007	426,415	-	30,840	457,255	600	457,855	1.94%	734
2006	425,060	-	36,214	461,274	741	462,015	2.07%	742
2005	422,212	-	41,178	463,390	694	464,084	2.24%	747
2004	423,287	-	45,836	469,123	-	469,123	2.32%	757
2003	422,755	-	51,030	473,785	-	473,785	2.48%	767

(1) Net of Unaccreted Interest

(2) See Statistical Section Table 5 for additional detail regarding personal income.

(3) See Statistical Section Table 10 for population statistics.

Note: The State has no constitutional or other limit on its power to issue obligations or incur indebtedness except for the requirement that borrowing only be for public purposes.

See Independent Auditor's Report

STATE OF VERMONT
Statistical Section - Table 9
Debt Capacity
Ratios of General Obligation Bonded Debt Outstanding
Last Ten Fiscal Years*
(Expressed in Thousands, Except Per Capita)

Fiscal Year	General Obligation Bonded Debt	State Taxable Personal Income (1)	Ratio of General Bonded Debt to Taxable Personal Income	General Bonded Debt Per Capita (2)
2011	495,741	28,924,590	1.71%	791
2010	472,791	28,082,699	1.68%	755
2009	452,982	25,484,590	1.78%	725
2008	454,470	25,999,711	1.75%	728
2007	457,255	33,389,272	1.37%	733
2006	461,274	25,154,425	1.83%	741
2005	463,390	23,609,221	1.96%	746
2004	469,123	19,956,789	2.35%	757
2003	473,785	16,395,915	2.89%	767
2002	480,443	15,083,109	3.19%	790

* State Taxable Personal Income is not available for the 2012 year, so the data reported here is for the ten years 2002-2011.

(1) Source: Vermont Department of Taxes.

(2) See Statistical Section Table 10 for population statistics.

See Independent Auditor's Report

STATE OF VERMONT
Statistical Section - Table 10
Demographic and Economic Statistics
Population, Per Capita Personal Income, Civilian Labor Force,
Public School Enrollment, and Motor Vehicle Registration Data
Last Ten Years*

	Population (1)				Per Capita Personal Income (1)		
Year	U.S.	Change From Prior Period	State of Vermont	Change From Prior Period	U.S.	State of Vermont	Vermont as a Percentage of U.S.
2011	311,591,917	0.73%	626,431	0.08%	$ 41,663	$ 41,832	100.41%
2010	309,330,219	0.83%	625,909	0.17%	39,937	40,134	100.49%
2009	306,771,529	0.88%	624,817	0.11%	38,846	38,879	100.08%
2008	304,093,966	0.95%	624,151	0.11%	40,947	39,433	96.30%
2007	301,231,207	0.96%	623,481	0.09%	39,506	37,820	95.73%
2006	298,379,912	0.97%	622,892	0.27%	37,725	35,867	95.07%
2005	295,516,599	0.93%	621,215	0.21%	35,452	33,317	93.98%
2004	292,805,298	0.93%	619,920	0.33%	33,909	32,640	96.26%
2003	290,107,933	0.86%	617,858	0.39%	32,295	30,960	95.87%
2002	287,625,193	0.89%	615,442	0.54%	31,481	29,994	95.28%

* Most of the information for this table is not available for the 2012 year, so the data reported here is for the ten years 2002-2011.

(1) Source: Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce. Date release date 3/28/12

(2) Source: Local Area Unemployment Statistics, Vermont Department of Labor, Economic & Labor Market Information; Not Seasonally Adjusted. Data release date 8/17/12

(3) Source: Vermont Department of Education, "Elementary/Secondary Public School Enrollment.

(4) Source: Vermont Department of Motor Vehicles, All Registered Vehicle Types; includes autos, trucks, motorcycles, buses, state & municipal, and dealer vehicles; data is on a calendar year basis.

See Independent Auditor's Report

Civilian Labor Force (2)					
State Employed	State Unemployed	State Total	State Unemploy-ment Rate	Public School Enrollment (3)	Motor Vehicles Registered (4)
339,100	20,100	359,200	5.6%	90,289	615,608
336,800	23,100	359,900	6.4%	91,239	619,610
335,100	24,700	359,800	6.9%	92,572	583,813
341,800	16,200	358,000	4.5%	94,114	601,675
341,300	14,000	355,300	3.9%	95,481	619,459
343,100	13,300	356,400	3.7%	96,636	620,144
336,600	12,200	348,800	3.5%	98,361	617,476
334,200	12,900	347,100	3.7%	99,104	611,158
331,300	15,500	346,800	4.5%	99,978	602,759
331,800	13,900	345,700	4.0%	101,180	588,859

STATE OF VERMONT
Statistical Section - Table 11
Demographic and Economic Information
Annual Average Non-Farm Employment by Industry
For the Years 2011 and 2002

	2011			2002		
	Employees	**Rank**	**Percent of Total**	**Employees**	**Rank**	**Percent of Total**
Total non-farm employment	299,600		100.0%	299,400		100.0%
Private total	246,400		82.2%	248,550		83.1%
Natural resources and mining	750		0.3%	1,000		0.3%
Construction	13,650	7	4.6%	14,850	6	5.0%
Manufacturing						
Durable goods	21,700	5	7.2%	29,250	4	9.8%
Nondurable goods	9,200		3.1%	11,300	9	3.8%
Wholesale trade	9,650		3.2%	10,150		3.4%
Retail trade	37,900	2	12.6%	40,000	1	13.3%
Transportation, warehousing and utilities	8,900		3.0%	8,700		2.9%
Information	5,000		1.7%	6,650		2.2%
Financial activities						
Finance and insurance	9,150		3.1%	10,150		3.4%
Real estate and rental and leasing	2,950		1.0%	3,050		1.0%
Professional and business services						
Professional and technical services	13,800	6	4.6%	12,250	7	4.1%
Management of companies and enterprises	-		0.0%	-		0.0%
Administrative and waste services	9,700	10	3.2%	7,700		2.6%
Educational and health services						
Education services	13,000	8	4.3%	12,200	8	4.1%
Healthcare and social assistance	47,150	1	15.7%	37,950	2	12.7%
Leisure and hospitality						
Arts, entertainment and recreation	3,900		1.3%	3,650		1.2%
Accomodations and food services	28,800	3	9.6%	29,350	3	9.8%
Other services, except public administration	11,200	8	3.7%	10,350	10	3.5%
Government total	53,200		17.8%	50,850		16.9%
Federal	6,450		2.2%	5,950		2.0%
State government education	8,600		2.9%	7,300		2.4%
Local government education	21,900	4	7.3%	21,650	5	7.2%
Other state government	8,900		2.9%	9,100		3.0%
Other local government	7,350		2.5%	6,850		2.3%

Source: Vermont Department of Labor, Labor Market Information, data release date 8/17/12

Note - Data for specific businesses that comprise the top employers in the state is not available due to confidentiality regulations; thus information by industry is presented.

Totals may not add due to rounding.

See Independent Auditor's Report

STATE OF VERMONT
Statistical Section - Table 12
Operating Information
Full-Time Equivalent State Government Employees by Function/Program
Last Ten Years

Function/Program	2012 (7)	2011	2010	2009	2008	2007	2006	2005	2004	2003
General Government										
Administration	6	4	5	6	5	4	4	4	3	11
Auditor of Accounts	13	14	12	12	12	11	11	11	12	12
Buildings & General Services	340	355	353	380	424	417	424	396	399	419
Finance & Management	35	33	31	40	47	37	39	36	38	32
Executive (Governor's) Office	13	14	10	13	18	18	17	17	17	16
Green Mountain Care Board [5]	17	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Information & Innovation [1]	75	70	72	53	61	57	50	49	51	0
Libraries	25	26	26	29	32	31	34	34	34	34
Lieutenant Governor	2	2	2	2	2	2	2	2	2	2
Human Resources	73	72	37	47	51	59	57	56	56	54
State Treasurer	32	30	34	35	35	36	37	34	33	29
Taxes	157	159	155	169	181	176	183	184	183	179
Vermont Labor Relations Board	2	1	2	2	2	2	2	2	2	2
VOSHA Review Board	1	0	0	1	1	1	1	1	1	1
Protection to Persons and Property										
Agriculture, Food & Markets	90	85	83	90	98	96	95	89	87	81
Attorney General	73	73	69	69	71	69	72	68	67	62
Financial Regulation	105	107	107	109	110	108	105	99	93	89
Criminal Justice Training Council	10	9	7	12	10	10	10	11	8	6
Defender General	69	65	62	62	64	63	61	62	60	55
Enhanced 911 Board [5]	11	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Labor & Industry [2,3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43	85	82
Liquor Control	50	52	51	54	56	54	56	54	55	54
Military	122	123	121	126	126	117	118	109	111	104
Public Safety [3]	577	561	562	584	592	599	602	568	511	480
Public Service Department	49	55	53	50	50	52	49	47	51	51
Public Service Board	25	25	24	25	25	24	27	25	25	24
Secretary of State	64	61	63	63	52	52	51	48	50	46
State's Attorneys & Sheriffs	150	149	151	155	156	155	154	153	154	145
Vermont Human Rights Commission	5	5	5	5	5	5	5	5	5	5
Vermont Lottery Commission	20	20	20	21	19	18	19	19	19	19
VT Fire Service Training Council [2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7	8
Human Services [2]										
Children & Families	935	944	918	970	960	947	941	932	n/a	n/a
PATH	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	414	406
Office of Child Care	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	124	119
Social & Rehabilitation Services	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	400	377
Vermont Office of Health Access	124	116	89	91	93	79	65	43	n/a	n/a
Aging & Independent Living	269	254	251	279	298	288	275	268	216	201
Corrections	1,035	1,003	1,011	1,045	1,115	1,150	1,146	1,129	1,101	947
Economic Opportunity	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6	8
Health	458	441	439	484	525	753	749	715	496	483
Developmental and Mental Health Services [6]	140	235	243	233	237	n/a	n/a	n/a	96	102
Vermont State Hospital	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	178	173
Human Services	104	93	106	98	99	95	89	59	54	52
Governor's Commission on Women	3	3	3	3	3	3	3	3	3	3
Veteran's Home (discrete component unit)	203	193	200	206	200	204	190	188	195	192
Employment & Training										
Department of Labor [3]	266	271	286	276	277	276	281	250	290	315
General Education										
Department of Education	156	151	156	181	184	194	196	182	181	174
Natural Resources										
Environmental Board	26	27	27	30	31	29	30	29	31	30
Environmental Conservation	259	250	250	262	283	285	286	273	264	256
Fish & Wildlife	125	124	122	126	130	124	119	121	118	117
Forsts, Parks & Recreation	99	98	98	108	114	113	113	111	119	115
Natural Resources	33	30	39	52	59	56	58	52	48	48
Water Resources Board	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3	4	4
Commerce & Community Development										
Agency of Commerce & Community Development	75	76	80	86	96	97	93	101	95	92
Transportation										
Agency of Transportation	1,222	1,190	1,216	1,233	1,253	1,255	1,242	1,255	1,287	1,261
	7,743	7,669	7,651	7,977	8,262	8,221	8,161	7,943	7,940	7,577

[1] New department formed from consolidating GOVNet program (previously in Administration) and Communication & Information Technology program (previously in Buildings and General Services.

[2] In 2005 the Agency of Human Services reorganized with some department consolidations and other new departments established. Also in 2005, the Vermont Fire Service Training Council and portions of the Department of Labor and Industry were merged into the Department of Public Safety.

[3] In 2006 portions of the Department of Labor and Industry merged with the Department of Employment and Training and the new consolidated department was named the Department of Labor.

[4] Executive Order No. 01-10 consolidated human resource services statewide by transferring certain human resource positions within state government to the Department of Human Resources. The effective date of this consolidation was July 1, 2010.

[5] In 2012 Act 64 of 2011 Session established the Enhanced 911 Board as an independent entity. Act 48 of the 2011 Session established the Green Mountain Care Board as an independent entity.

[6] The reduction in employees in 2012 is the result of the Vermont State Hospital in Waterbury being forced to close due to Tropical Storm Irene.

[7] In 2012 FTE's employees by function/program were provided by the Department of Human Resources.

Source: Vermont Department of Human Resources - State of Vermont Workforce Report

See Independent Auditor's Report

STATE OF VERMONT
Statistical Section - Table 13
Operating Information
Operating Indicators by Function
Last Nine Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Function									
General Government									
Square feet of State owned facilities [1]	3,288,254	3,272,199	3,339,135	3,377,312	3,941,153	3,928,255	3,377,476	3,035,161	3,118,618
State Pension Plan membership [2]	46,577	45,936	45,507	45,354	44,947	44,015	43,171	42,097	41,424
Number of State employees (full-time and part-time) [3]	7,805	7,743	7,732	8,075	8,383	8,352	8,292	8,069	7,935
Protections to Persons and Property [4]									
Number of State Agency law enforcement officers	n/a	408	413	405	397	399	399	405	393
Number of Sheriff's Department law enforcement officers	n/a	114	136	122	117	119	132	133	117
Human Services [5]									
Total Corrections population	10,718	10,814	11,262	11,215	11,148	11,703	12,303	13,528	13,824
Immunization coverage, ages 19-35 months	n/a	0.73	64%	60%	65%	67%	75%	n/a	n/a
Bed nights in homeless shelters	154,129	133,355	130,939	120,464	100,473	112,715	98,786	101,647	100,028
Employment & Training [6]									
Number of Unemployment Compensation payments	n/a	390,035	499,360	629,794	374,278	318,235	304,612	295,674	309,121
General Education [7]									
Statewide average expenditure per student	16,024	15,789	15,475	14,903	14,076	13,287	12,624	11,759	11,113
Total local education agencies	n/a	346	348	349	352	352	353	351	349
Natural Resources									
Gallons of maple syrup produced [8]	750,000	1,140,000	890,000	920,000	700,000	450,000	460,000	410,000	500,000
Number of moose permit applications [9]	n/a	11,217	12,028	14,228	13,839	13,199	11,987	13,091	13,382
Commerce and Community Development									
Net change in employer businesses [10]	n/a	15	(95)	159	(258)	(249)	(18)	n/a	n/a
Median purchase price of a new home [11]	n/a	195,000	195,000	190,000	200,000	201,000	197,000	182,000	165,000
Number of skier visits [12]	3.9 Million	4.4 Million	4.1 million	4.0 million	4.3 million	3.8 million	4.1 million	4.4 million	4.2 million
Transportation [13]									
Total snowplowing hours	n/a	165,173	73,734	110,770	144,488	174,022	123,674	339,987	182,690
Structurally deficient bridges	n/a	91	107	178	190	192	197	193	187
Paving projects (miles)	208	156	330	169	109	113	122	90	117

n/a - Information not available at time of printing.

Note: Information for these statistics is not available for years prior to 2004, when the State began compiling this data.

Sources:

[1] Vermont Department of Buildings & General Services, Space Book
[2] Vermont Office of the State Treasurer
[3] Vermont Department of Human Resources
[4] Vermont Department of Public Safety
[5] Vermont Agency of Human Services
[6] Vermont Department of Labor
[7] Vermont Department of Education
[8] US Department of Agriculture
[9] Vermont Agency of Natural Resources
[10] bls.gov
[11] Vermont Housing Finance Agency
[12] skivermont.com
[13] Vermont Agency of Transportation

See Independent Auditor's Report

STATE OF VERMONT
Statistical Section - Table 14
Operating Information
Capital Asset Statistics by Function
Last Nine Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004
Function									
General Government									
Department of Buildings & General Services									
Land holdings (acres)	2,807.13	2,809.13	2,809.13	2,874.86	2,923.90	2,923.90	2,915.90	2,851.12	2,981.68
State-owned space (square feet)	3,288,254	3,272,199	3,339,135	3,377,312	3,941,153	3,928,255	3,377,476	3,035,161	3,118,618
Protection to Persons and Property									
Number of state police vehicles	511	515	490	405	420	412	413	383	376
Number of armory locations	22	22	22	22	20	20	20	20	20
Number of agriculture research stations	29	31	30	31	28	27	25	23	20
Human Services									
Department of Health - Number of lab instruments (analyzer, module, counters, meters, etc.)	108	178	182	122	103	105	85	71	n/a
Department of Children and Families - number of vans	27	29	25	26	30	25	23	23	23
Department of Corrections - number of vehicles	0	0	0	2	3	11	11	11*	85
Employment and Training									
Department of Labor - number of capitalized computer assets	12	14	17	19	19	10	29	27	27
General Education									
Department of Education - number of capitalized computer assets	27	27	27	20	21	16	16	12	10
Natural Resources									
Number of dams	92	90	90	81	99	96	94	93	88
Agency of Natural Resources									
Number of vehicles	228	216	218	224	214	221	204	309	345
Number of building and improvement assets	459	452	442	429	441	430	423	410	405
Commerce and Community Development									
Number of historic sites	20	21	21	21	18	17	16	17	17
Number of covered bridges	7	7	7	7	6	6	7	6	6
Number of underwater preserves	100+	100+	100+	100+	100+	100+	100+	100+	100+
Transportation									
Number of bridges over 20 feet	1,080	1,078	1,078	1,077	1,077	1,077	1,077	1,077	1,072
State highway miles	2,703	2,703	2,704	2,704	2,707	2,708	2,708	2,708	2,704
Agency of Transportation buildings (square feet)	1,361,017	1,349,017	1,328,717	1,326,407	1,307,415	1,289,171	1,250,673	1,233,099	1,226,781

* During FY 05 most vehicles were transferred to the new Fleet Program.
Note: Information for these statistics is not available for years prior to 2004, when the state began compiling this data.

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STATE OF VERMONT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

LEGEND OF ACRONYMS

Acronym	Description
AAL	Actuarial Accrued Liability
AD&D	Accidental Death and Dismemberment
AFC	Average Final Compensation
AHS	Agency of Human Services
ANFC	Aid to Needy Families With Children
AOC	Annual OPEB Cost
APC	Annual Pension Cost
ARC	Annual Required Contribution
ARRA	American Recovery and Reinvestment Act
BFS	Basic Financial Statements
CAFR	Comprehensive Annual Financial Report
CDAAC	Capital Debt Affordability Advisory Committee
DFTC	Commodity Futures Trading Commission
CMO's	Collateralized Mortgage Obligations
CMS	Center for Medicaid and Medicare Services
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
DVHA	Department of Vermont Health Access
EAN	Entry Age Normal
EAP	Employee Assistance Program
FAP	Financial Access Program
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FHWA	Federal Highway Administration
FICA	Federal Insurance Contributions Act
FIL	Frozen Initial Liability
FSA	Flexible Spending Account
FTA	Federal Transit Administration
FX	Foreign Exchange
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association of the United States and Canada
GIS	Geographic Information Systems
HMO	Health Maintenance Organization
HR	Human Resources
IBNR	Incurred But Not Reported
ICMA-RC	International City/County Management Association - Retirement Corporation
ISDA	International Swaps and Deriviatives Association
MD&A	Management's Discussion and Analysis

See Independent Auditor's Report

LEGEND OF ACRONYMS

Acronym	Description
MERS	Vermont Municipal Employees Retirement System
MIP	Mortgage Insurance Program
MMA	Medicare, Prescription Drug, Improvement, and Modernization Act of 2003
NOO	Net OPEB Obligation
NPO	Net Pension Obligation
OPEB	Other Post Employment Benefits
OTC	Over The Counter
PAC	Planned Amortization Classes
PRO	Pollution Remediation Obligation
RHS	Retirement Health Savings
RSI	Required Supplementary Information
S&P	Standard & Poor's
SDIA	Single Deposit Investment Account
SIB	State Infrastructure Bank
STC	Standard Terms and Conditions
STRS	State Teachers Retirement System
UAAL	Unfunded Actuarial Accrued Liability
USD	United States Dollar
USEPA	United States Environmental Protection Agency
UTF	Unemployment Trust Fund
UVM	University of Vermont and State Agricultural College
V.S.A.	Vermont Statutes Annotated
VCGI	Vermont Center for Geographic Information
VEDA	Vermont Economic Development Authority
VEHBFA	Vermont Educational and Health Buildings Financing Agency
VEHI	Vermont Education Health Initiative
VHCB	Vermont Housing and Conservation Board
VHFA	Vermont Housing Finance Agency
VITL	Vermont Information Technology Leaders, Inc.
VMBB	Vermont Municipal Bond Bank
VPIC	Vermont Pension Investment Committee
VSAC	Vermont Student Assistance Corporation
VSC	Vermont State College System
VSECU	Vermont State Employees' Credit Union
VSJF	Vermont Sustainable Jobs Fund, Inc.
VSRS	Vermont State Retirement System
VTA	Vermont Transportation Authority

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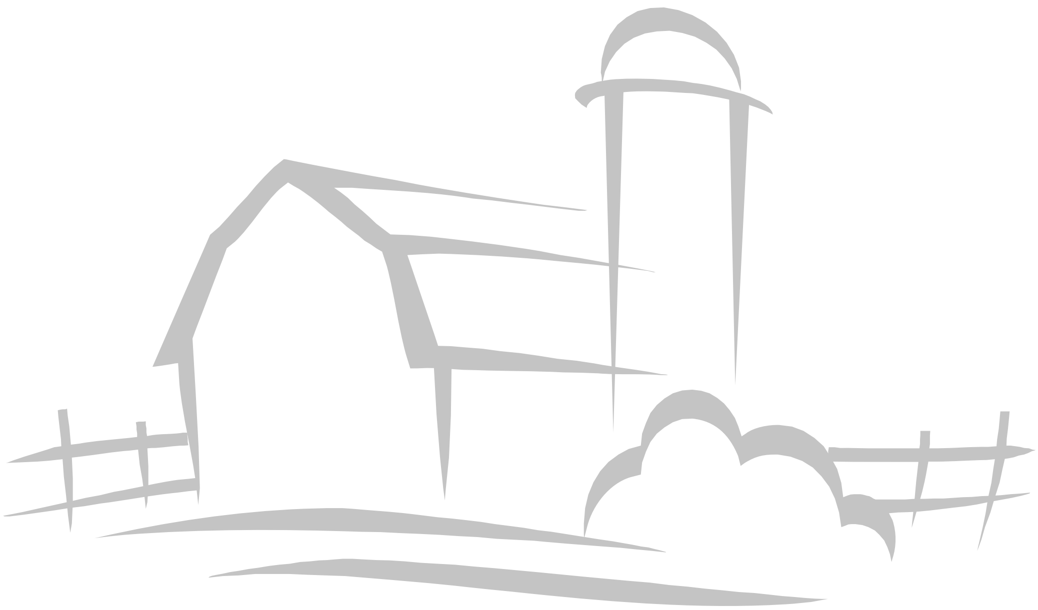

Vermont