

VERMONT



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ending JUNE 30, 2004

The cover picture was provided by Linda Morse of Middlesex, VT.

STATE OF VERMONT

***COMPREHENSIVE
ANNUAL
FINANCIAL REPORT***

For the fiscal year ending JUNE 30, 2004



*James H. Douglas
Governor*

Prepared by the Department of Finance and Management

**STATE OF VERMONT
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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STATE OF VERMONT

DEPARTMENT OF FINANCE AND MANAGEMENT MONTPELIER, VERMONT 05609-0401

LETTER OF TRANSMITTAL

March 31, 2005

To the Honorable James H. Douglas, Governor
The Honorable Brian L. Dubie, 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

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of Vermont for the fiscal year ending June 30, 2004. The Department of Finance and Management prepared this report, which includes the Basic Financial Statements as required by Title 32, Vermont Statutes Annotated, Section 182(a)(8).

This CAFR's financial section contains two reporting features that I would like to direct your attention toward. First is the Management's Discussion and Analysis (MD&A) that follows the Auditor's report. This analysis is designed to give the reader an overview of the State's financial position, described in understandable terms, in order to help the reader better understand the results of operations of Vermont State government.

The second feature, which follows the MD&A, consists of the Basic Financial Statements (BFS), which were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (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 and component unit financial activity and note disclosures that follow and enhance these government-wide statements. We believe these basic financial statements and notes are fairly stated in all material respects and that they are presented in a manner designed to fairly report the State of Vermont's financial position and results of operations and changes in the net assets/fund balances. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the State of Vermont's Department of Finance and Management.

In addition to the MD&A and BFS, this CAFR includes a Required Supplementary Information (RSI) section and a Statistical section. The RSI section contains Budget vs. Actual Schedules; combining fund financial statements that include the State's non-major Governmental, Proprietary, and Fiduciary Funds, and combining statements for the State's non-major component units. The statistical section presents fiscal, social, and demographic information about the State of Vermont.

The General Fund

The General Fund, the State's largest operating fund, accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other funds and represents a significant portion of Vermont's financial activity. Tax revenues, principally personal income taxes, sales and use taxes and meals and room taxes constitute approximately 81.4% of the General Fund revenues. The functional assignments for the General Fund expenditures are: General Government, Protection to Persons and Property, Human Services, Employment and Training, General Education, Natural Resources, Commerce and Community Development and Debt Service.

Budget Adoption and Legal Compliance/Budgetary Results

Note 1 describes the State's budgeting process while schedules for the State's five major governmental funds (comparing each fund's original budget, final budget, actual expenditures incurred on a budgetary basis, and the variance between the final budget and actual expenditures) are included as Required Supplementary Information (RSI). As the adopted budget provides legal control over spending, expenditures cannot exceed amounts appropriated under Vermont law. Budgetary control is exercised by type of fund within appropriation.

Cash and Investments

Cash deposits are managed by the State in accordance with the provisions of Title 32, Vermont Statutes Annotated, Sections 431-434, which defines the requirements the Treasurer must adhere to when depositing public monies. The State Treasurer pools substantially all cash except that which is required to be maintained separately in accordance with legal restrictions. Note 2 provides more detail regarding this important area.

Risk Management

The State generally assumes substantially all risk associated with Workers' Compensation, Employee Liability, Employee Health and Life, and General Liability under state law. However, the State has minimized its exposure in several areas by either purchasing commercial insurance coverage or by limiting benefit claim amounts.

Independent Audit

An audit was performed by the independently elected State Auditor of Accounts whose "Independent Auditor's Report" is included in the financial section of this CAFR. The audit described 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.

Acknowledgements

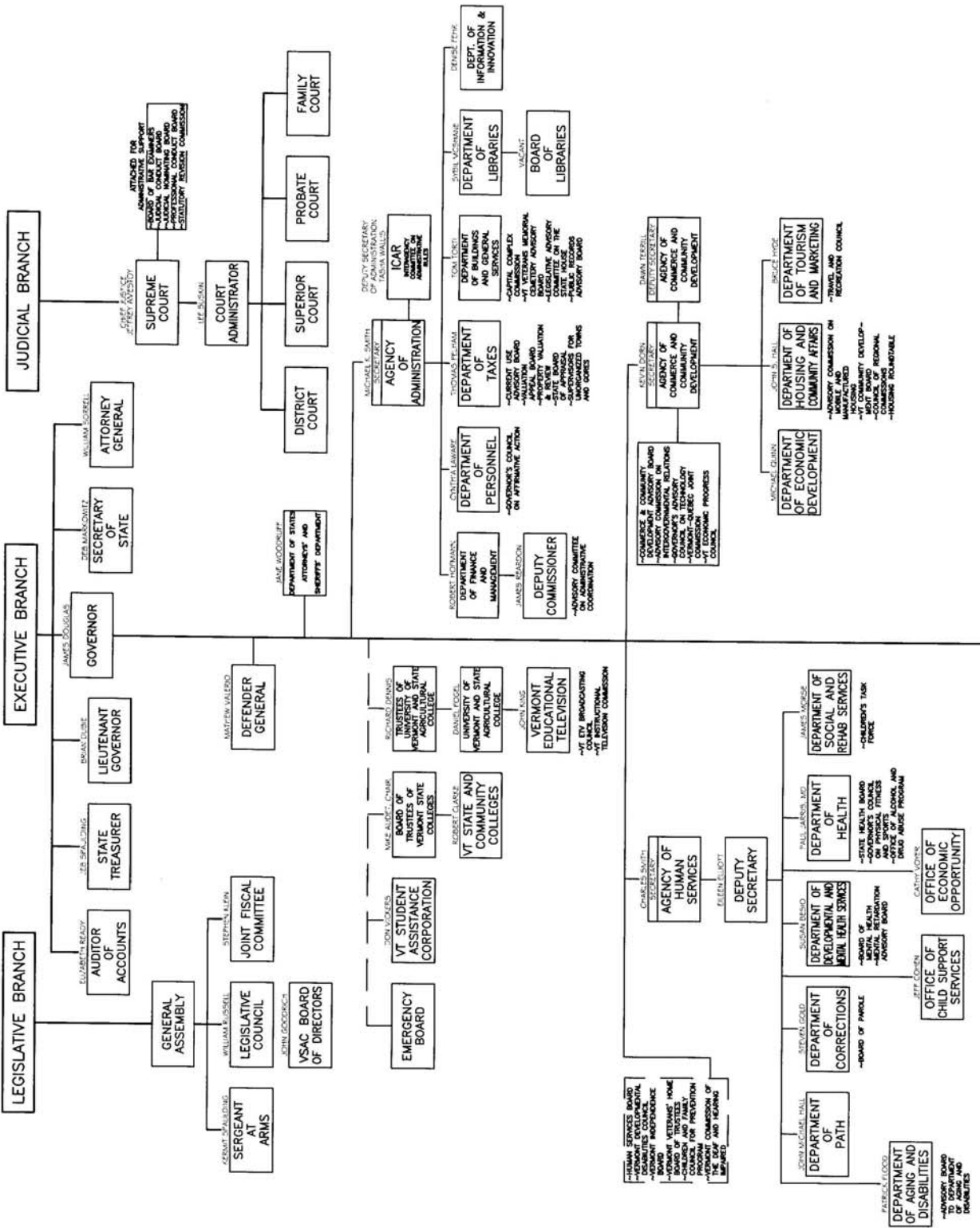
The preparation of this report involved the dedicated work of staff in the Department of Finance and Management, the Treasurer's Office, the Auditor of Accounts' Office and the support of all state agencies and component units, the Legislature, and the Judiciary. We welcome inquiries concerning this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

Sincerely,



James B. Reardon, CPA
Commissioner

AS OF JUNE 30, 2004



SELECTED STATE OFFICIALS
As of June 30, 2004

EXECUTIVE

James H. Douglas
Governor

Brian L. Dubie
Lieutenant Governor

Deborah L. Markowitz
Secretary of State

William H. Sorrell
Attorney General

Elizabeth M. Ready
Auditor of Accounts

Jeb Spaulding
State Treasurer

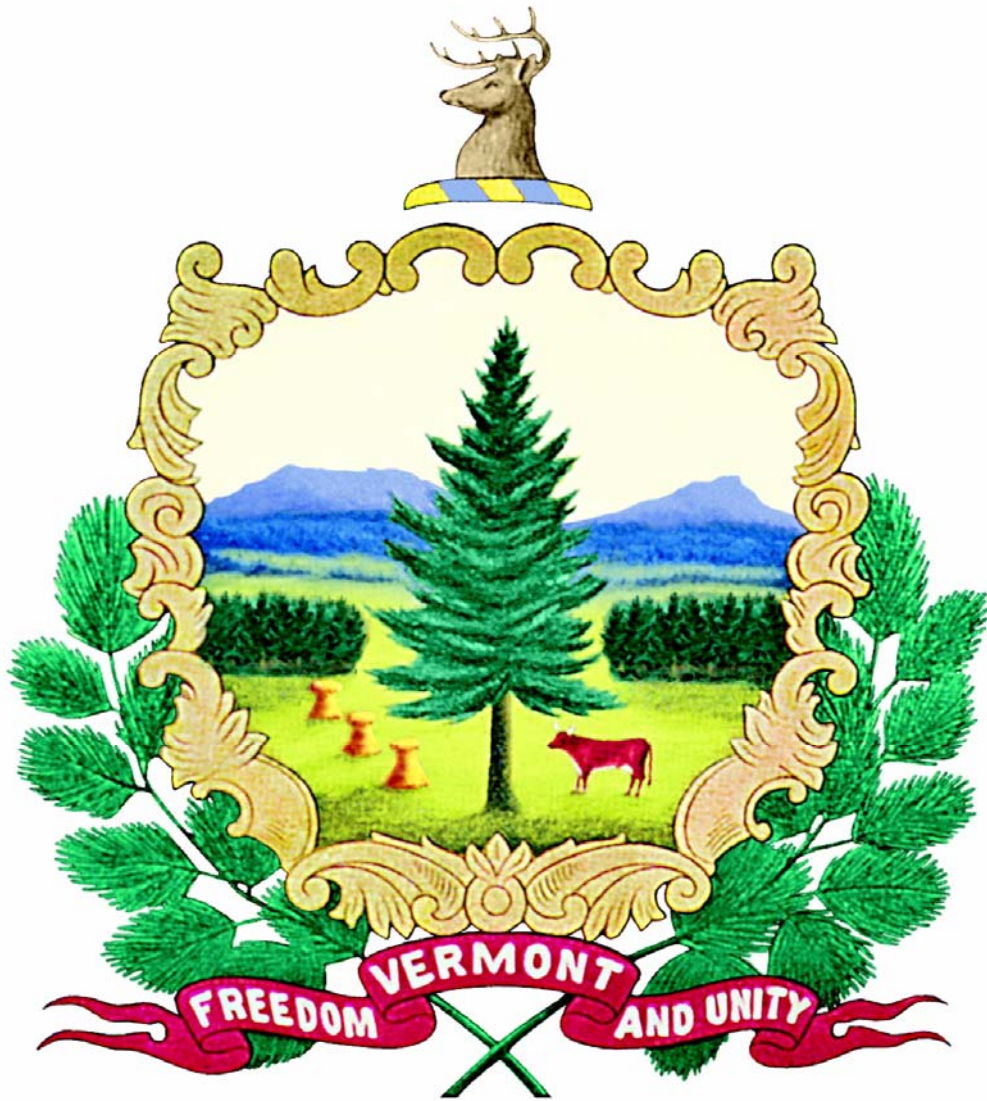
JUDICIAL

Jeffrey L. Amestoy
Chief Justice

LEGISLATIVE

Peter Welch
President Pro Tempore of the State Senate
(30 Senators)

Walter E. Freed
Speaker of the House of Representatives
(150 Representatives)



FINANCIAL SECTION

RANDOLPH D. BROCK
STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR
Independent Auditor's Report

Speaker of the House of Representatives Gaye Symington
President Pro-Tempore of the Senate Peter F. Welch
Governor James H. Douglas
State House
Montpelier, 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, as of and for the year ended June 30, 2004, 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 of Vermont'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 entities and funds that aggregate the following percentages of total assets and revenues:

<u>Opinion Unit</u>	<u>Percentage of Total Assets</u>	<u>Percentage of Total Revenues</u>
Business-Type Activities Aggregate Discretely Presented Component Units	95.2%	79.4%
Aggregate Remaining Funds	4.2%	0.8%

The financial statements of those entities and funds were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities and funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Special Environmental Revolving Fund (blended into the Federal Revenue Fund), the Vermont State Infrastructure Bank (blended into the Transportation Fund) and the Vermont Sustainable Jobs

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Fund (a discretely presented component unit) were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005 on our consideration of the State's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 12 through 25, and the budget to actual – budgetary basis schedules on pages 102 through 107 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Vermont's basic financial statements. The introductory and statistical sections, and the combining and individual fund statements and schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit by us and the other auditors of the basic financial statements and, accordingly, we express no opinion on them.

Randolph D. Brock



State Auditor
March 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (Unaudited)

We are pleased to present this analysis and discussion of the State of Vermont's financial performance for the fiscal year ending June 30, 2004. This MD&A section is meant to present an easily readable overview and highlights occurring within Vermont during fiscal year 2004. Please read this in conjunction with the transmittal letter found at the front of this report and the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Government-Wide Primary Government - Net assets (assets minus liabilities) of Vermont's primary government at June 30, 2004 totaled \$1.298 billion, an increase of \$179 million (16%) as compared to fiscal year 2003's restated net asset balance of \$1.119 billion.

The governmental activities total fiscal year 2004 net asset balance of \$1.056 billion represents an increase of \$205 million (24.1%) over restated fiscal year 2003's balance. This increase of \$205 million is attributed primarily to an increase of \$436.8 million in governmental revenues more than offsetting an increase in governmental expenditures of \$234.0 million. This increase resulted in a \$71.5 million increase in "Invested in Capital Assets," an increase in the budget stabilization reserve of \$34 million, a decrease in the "restricted for capital projects" of \$3 million and a decrease in the "unrestricted net asset" balance of \$102.3 million. Unrestricted net assets represent the amount available to be used to meet the State's ongoing obligations to citizens and creditors that has not previously been invested in fixed assets or externally restricted for specific purposes.

The business-type activities for fiscal year 2004 net asset balance declined \$26 million (9.7%) due primarily to expenses exceeding charges for services by \$20.5 million, investment earnings declining \$3.5 million from 2003 and "transfers to other funds" increasing by \$3.4 million as compared to 2003's activity.

Discretely Presented Component Units - reported net assets of \$803.8 million, an increase of \$65 million over fiscal year 2003's restated total of \$738.8 million. The greatest contributor to this increase was \$53.2 million in unrestricted investment earnings which represented an increase of \$26 million over 2003.

Fund Level - Governmental Funds – Fund Balances – As of the close of fiscal year 2004, the State's governmental funds reported a combined ending fund balance of \$398.7 million, an increase of \$147.3 million over a 2003 balance of \$251.4 million. Of this total amount, \$244.1 million represents "unreserved fund balances", with \$36.4 million categorized as "designated for specific purposes in the capital projects funds" and \$207.7 million categorized as "unreserved and undesignated." This \$207.7 million is the amount available for appropriation in the following year and represents 6.47% of FY2004 governmental expenditures. In comparison, fiscal year 2003's "unreserved and undesignated" amount was \$114.8 million which represented 3.75% of the total governmental fund expenditures for that year.

Long-term Liabilities

Vermont's primary government's total long-term liabilities increased by \$22 million during fiscal year 2004. Governmental activities increased by \$25.3 million while a decrease of \$3.2 million in business-type activities was the result of reclassifying lottery claims included in "claims and judgements" in 2003 to "lottery prize awards payable" in 2004. See Note 18 – Changes in Long-term Liabilities for more information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Vermont's Comprehensive Annual Financial Report (CAFR), which includes basic financial statements (BFS), required supplementary information (RSI) and other supplementary information and statistical information. Vermont's basic financial statements

consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. These components are described below.

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the **government-wide financial statements** and the **fund financial statements**, including **component units' 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 additional detail for both of the above type financial statements and are considered an integral part of the financial statements.

Government-Wide Financial Statements

Vermont's government-wide financial statements are designed to present a broad view of the State's operations and financial position in a manner somewhat analogous to a private-sector business. These 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 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 include two statements:

The *Statement of Net Assets* presents both the primary government's and its component units' assets and liabilities, 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 financial activity and hence, the reasons for the changes in net assets during the reported fiscal year. All changes in financial activities are recognized as soon as the underlying events 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 the following three different categories. The governmental activities and business-type activities are combined to report on what is termed primary government, which is separate and distinct from the activities of the discretely presented component units.

Primary Government

Governmental Activities – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, human services, and public transportation. Taxes, grants, fees, licenses and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – The business-type activities of the State include the operations of Vermont's enterprise activities. 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. Non-major activities include the federal surplus property program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. These 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

Discretely Presented Component Units – These are legally separate (incorporated) entities for which the elected officials of the primary government have financial accountability. 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 eight 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.

The government-wide financial statements can be found immediately following this management’s discussion and analysis.

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. Vermont’s government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on individual parts of the State government in more detail than the government-wide statements. All of the funds of the State can be divided into three categories: governmental, proprietary, and fiduciary. 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 Supplementary Information section present detailed non-major fund activity. Fiduciary Funds are reported by fiduciary type (pension trust, private purpose trusts and agency funds) with combining schedules or statements for the individual pension and agency funds presented in the Supplementary Information section. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

The three categories of funds are:

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 spendable 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 seventeen governmental funds of which five are classified as “major.” These major funds include the General Fund, Transportation Fund, Education Fund, Special Fund, and Federal Revenue Fund. Each major fund is presented in a separate column in the Governmental Fund 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, and nine Permanent Funds and are presented in

one column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the 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 and 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 account for services provided to the general public, federal government, and non-state government entities. They normally derive their revenue by charging fees in order to cover the costs of their services.

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 these funds' activities primarily benefit governmental activities, they have been combined with the governmental activities in the government-wide statements.

Proprietary funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting, hence there is no reconciliation needed between the government-wide financial statements for business-type activities and the enterprise fund financial statements.

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.

The State reports twenty-one internal service funds which are reported in one consolidated column entitled "Governmental Activities – Internal Service Funds Total" 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 supplementary information section.

Fiduciary Funds – These funds are used to account for resources held by the State for the benefit of parties outside of state government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. They use the accrual basis of accounting.

The State's fiduciary funds are divided into the following three basic categories: the Pension Trust Funds (six separate retirement plans for employees); the Private Purpose Trust Funds (which report only the Unclaimed Property Fund); and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals).

The fiduciary funds financial statements can be found immediately following the proprietary funds financial statements. Individual pension trust funds and agency funds financial statements are reported in the supplementary information section of this report.

Discretely Presented Component Units' Financial Statements

As mentioned previously, the State has included the net assets and activities of three major and nine non-major component units in a single column of such statements labeling them as discretely presented

component units. The component units' financial statements can be found immediately after the fiduciary funds. Combining non-major component units' financial statements can be found in the supplementary information of this report.

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:

Schedules for the General Fund and each major Special Revenue Fund 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.

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 (RSI). 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
- Non-major component units

Statistical Data

The data reported in this section includes the following:

- A ten-year comparison of revenues by source and expenditures by function- general and major special revenue funds
- A discussion of state indebtedness and procedure for authorization for issuing debt
- A ten-year comparison of general obligation bonded debt to assessed taxable property value and general obligation bonded debt per capita
- A ten-year comparison of annual debt service expenditures for bonded debt to fund expenditures – General Fund and Transportation Fund
- A ten-year comparison of property values and taxes in Vermont
- Demographic Statistics
- Income and Sales Tax Rates – ten-year comparison
- Vermont's largest employers as of September 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The primary government's (government and business-type activities) combined net assets totaled \$1.298 billion at the end of 2004, compared to a restated balance of \$1.119 billion at the end of the previous year, a 16% increase.

The largest portion of the primary government's net assets (77.1%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt still outstanding that was used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are 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 (19.08%) 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 governmental activities' negative unrestricted net assets balance is mainly the result of debt issued by the State for municipal, non-profit or component unit capital purposes that does not result in a governmental activities' capital asset and the statutorily mandated restricting of net assets for the budget stabilization reserves.

The business activities' positive unrestricted net asset balance may be used to meet the State's ongoing obligation to its citizens and creditors.

At the end of fiscal year 2004, the State reported positive total net asset balances in its governmental activities, business-type activities, and discretely presented component units.

The following financial statement information is derived from the State's government-wide June 30, 2004 and 2003 financial statements. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these statements.

TABLE 1
NET ASSETS
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current assets	\$ 677.4	\$ 519.5	\$ 252.8	\$ 282.7	\$ 930.2	\$ 802.2
Other assets	223.1	203.5	5.7	1.6	228.8	205.1
Capital assets	1,146.0	1,088.4	0.5	0.5	1,146.5	1,088.9
Total assets	<u>2,046.5</u>	<u>1,811.4</u>	<u>259.0</u>	<u>284.8</u>	<u>2,305.5</u>	<u>2,096.2</u>
Long-term liabilities	623.8	596.6	4.5	1.0	628.3	597.6
Other liabilities	367.1	366.0	11.9	15.1	379.0	381.1
Total liabilities	<u>990.9</u>	<u>962.6</u>	<u>16.4</u>	<u>16.1</u>	<u>1,007.3</u>	<u>978.7</u>
Net assets:						
Invested in capital assets, net of related debt	1,001.3	929.8	0.5	0.5	1,001.8	930.3
Restricted	121.4	90.2	238.6	265.0	360.0	355.2
Unrestricted (deficit)	(67.1)	(169.4)	3.5	3.1	(63.6)	(166.3)
Total net assets	<u>\$ 1,055.6</u>	<u>\$ 850.6</u>	<u>\$ 242.6</u>	<u>\$ 268.6</u>	<u>\$ 1,298.2</u>	<u>\$ 1,119.2</u>

Changes in Net Assets

Vermont's primary government's total net assets increased \$179 million (15.99%) during fiscal year 2004. Taxes provided 52.07% of the government's total revenue while 34.18% came from operating and capital grants and contributions (including federal aid). Charges for programs and general revenues other than taxes provided the remaining 13.75% of the total revenues. The primary government's expenses cover a range of services. The largest expenses were incurred in the areas of education (34.21%), human services (38.69%), and transportation (7.49%).

In 2004, governmental activities' expenses exceeded associated program revenues by \$1.69 billion, resulting in the use of approximately \$1.69 billion of \$1.9 billion in general revenues and transfers (mostly taxes) to cover the shortfall.

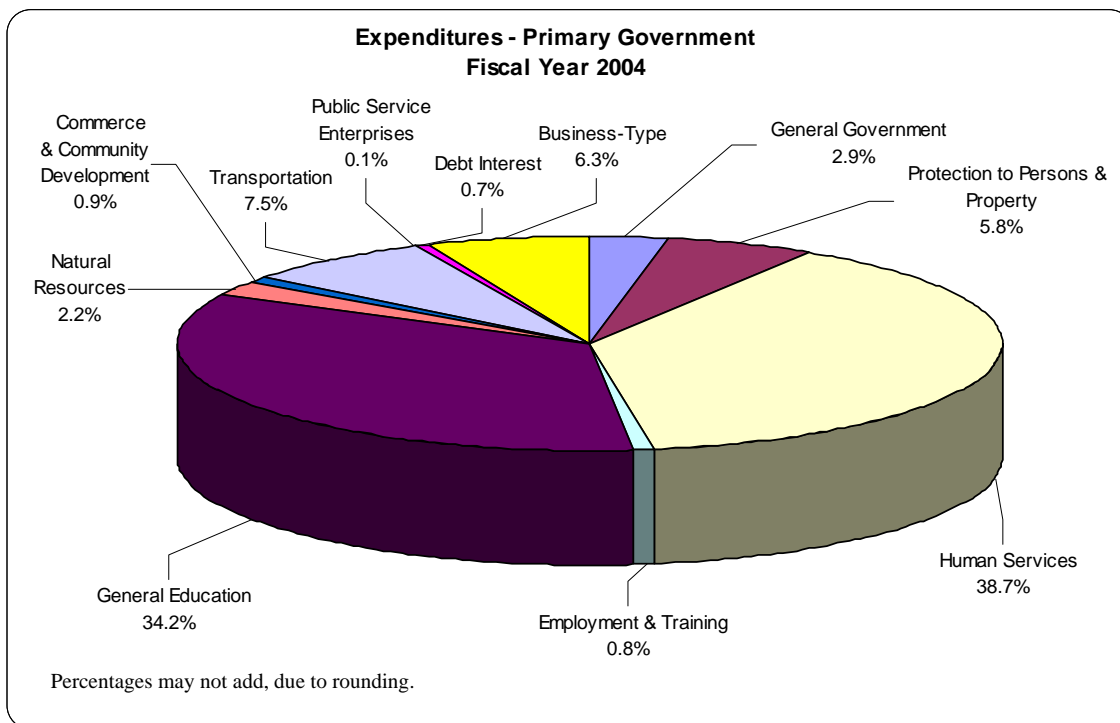
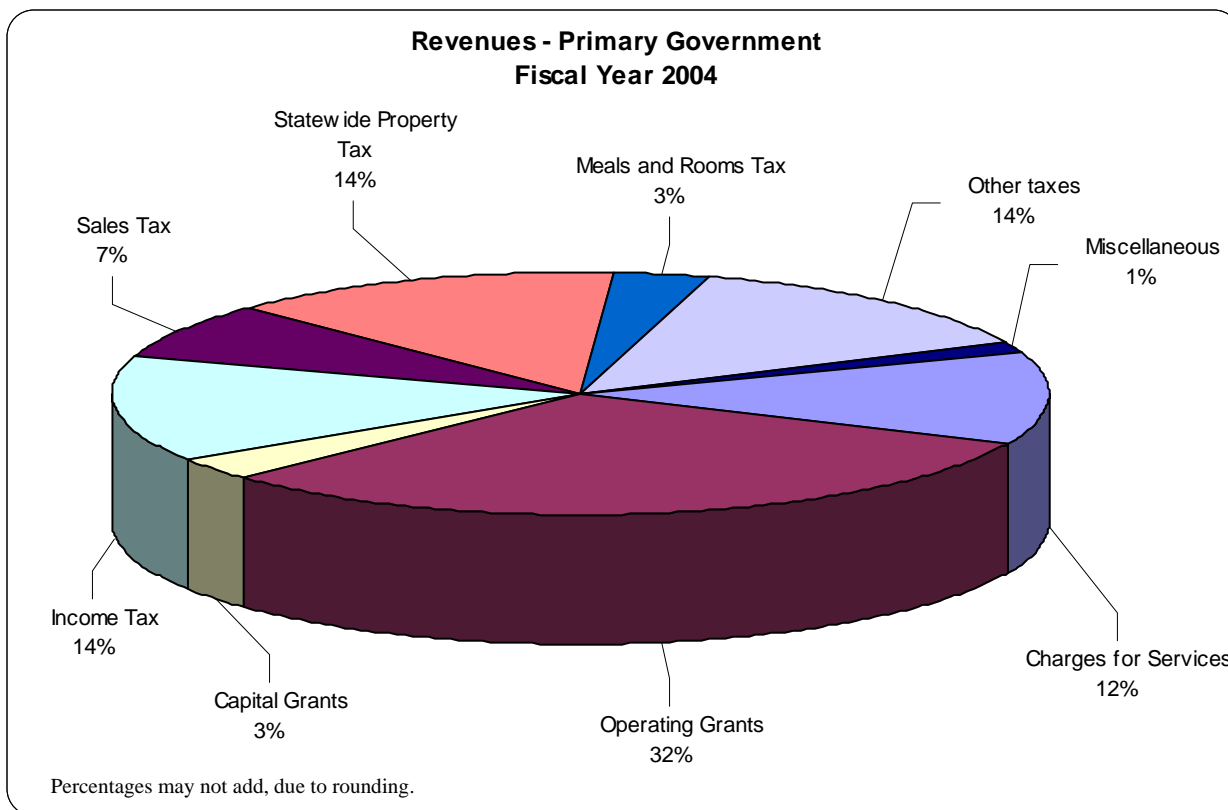
During fiscal year 2004, business-type activities' expenses (\$210.8 million) exceeded related program revenues (\$190.3 million) by \$20.5 million. Investment earnings of \$14.5 million partially offset the program revenue shortfall. However, this loss of \$6 million and transfers out of \$20 million resulted in a negative change in net assets of \$26 million.

The following table entitled "Changes In Net Assets" presents a comparison of activity for the fiscal years ended June 30, 2004 and 2003 and contains primary government data only.

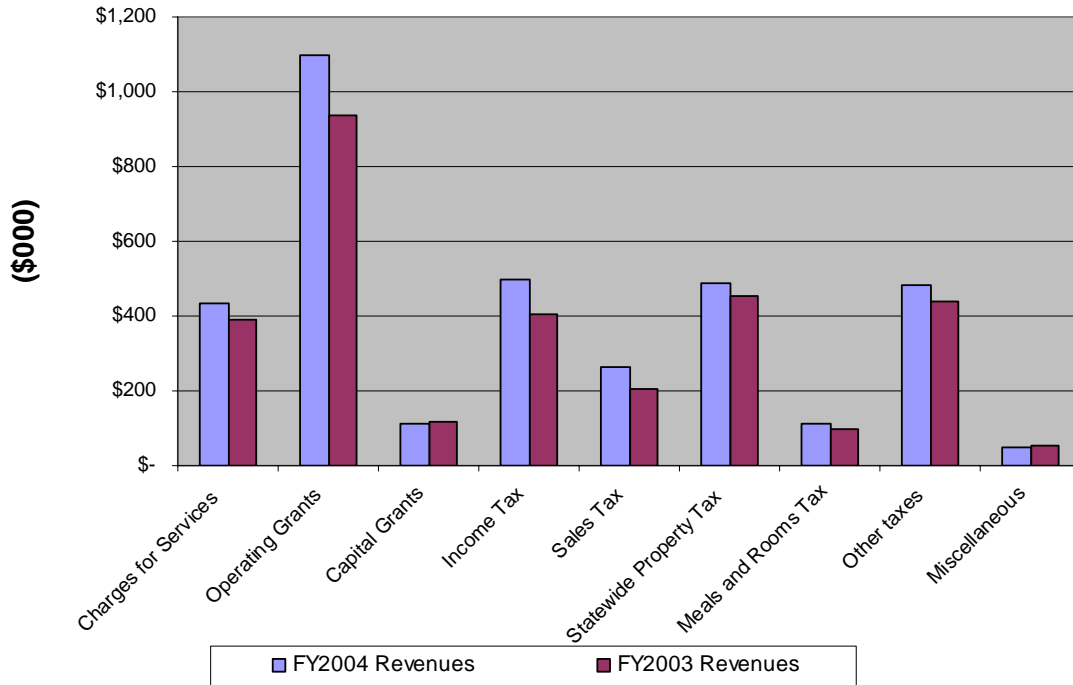
TABLE 2
CHANGES IN NET ASSETS
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues:						
Charges for services	\$ 245.7	\$ 211.6	\$ 190.3	\$ 180.2	\$ 436.0	\$ 391.8
Operating grants and contributions	1,096.8	935.2	-	-	1,096.8	935.2
Capital grants and contributions	113.0	116.0	-	-	113.0	116.0
General Revenues						
Income taxes	496.3	404.9	-	-	496.3	404.9
Sales taxes	264.3	205.2	-	-	264.3	205.2
Statewide property tax	487.5	453.9	-	-	487.5	453.9
Meals and rooms tax	109.9	95.4	-	-	109.9	95.4
Other taxes	484.6	437.7	-	-	484.6	437.7
Miscellaneous	36.1	37.5	14.5	18.0	50.6	55.5
Total Revenues	<u>3,334.2</u>	<u>2,897.4</u>	<u>204.8</u>	<u>198.2</u>	<u>3,539.0</u>	<u>3,095.6</u>
Expenses						
General government	98.4	51.6	-	-	98.4	51.6
Protection to persons and property	196.0	186.8	-	-	196.0	186.8
Human services	1,299.9	1,186.0	-	-	1,299.9	1,186.0
Employment and training	26.3	27.9	-	-	26.3	27.9
General education	1,149.5	1,097.0	-	-	1,149.5	1,097.0
Natural resources	72.9	69.5	-	-	72.9	69.5
Commerce and community development	29.9	33.8	-	-	29.9	33.8
Transportation	251.8	234.4	-	-	251.8	234.4
Public service enterprises	1.9	1.9	-	-	1.9	1.9
Interest on long-term debt	22.6	26.3	-	-	22.6	26.3
Business-type expenses	-	-	210.8	231.3	210.8	231.3
Total Expenses	<u>3,149.2</u>	<u>2,915.2</u>	<u>210.8</u>	<u>231.3</u>	<u>3,360.0</u>	<u>3,146.5</u>
Increase (decrease) in net assets before transfers	185.0	(17.8)	(6.0)	(33.1)	179.0	(50.9)
Transfers	20.0	16.6	(20.0)	(16.6)	-	-
Gain (loss) - extraordinary items	-	(7.5)	-	-	-	(7.5)
Change in net assets	<u>205.0</u>	<u>(8.7)</u>	<u>(26.0)</u>	<u>(49.7)</u>	<u>179.0</u>	<u>(58.4)</u>
Net assets, beginning of year (as restated)	<u>850.6</u>	<u>859.3</u>	<u>268.6</u>	<u>318.3</u>	<u>1,119.2</u>	<u>1,177.6</u>
Net assets, end of year	<u>\$ 1,055.6</u>	<u>\$ 850.6</u>	<u>\$ 242.6</u>	<u>\$ 268.6</u>	<u>\$ 1,298.2</u>	<u>\$ 1,119.2</u>

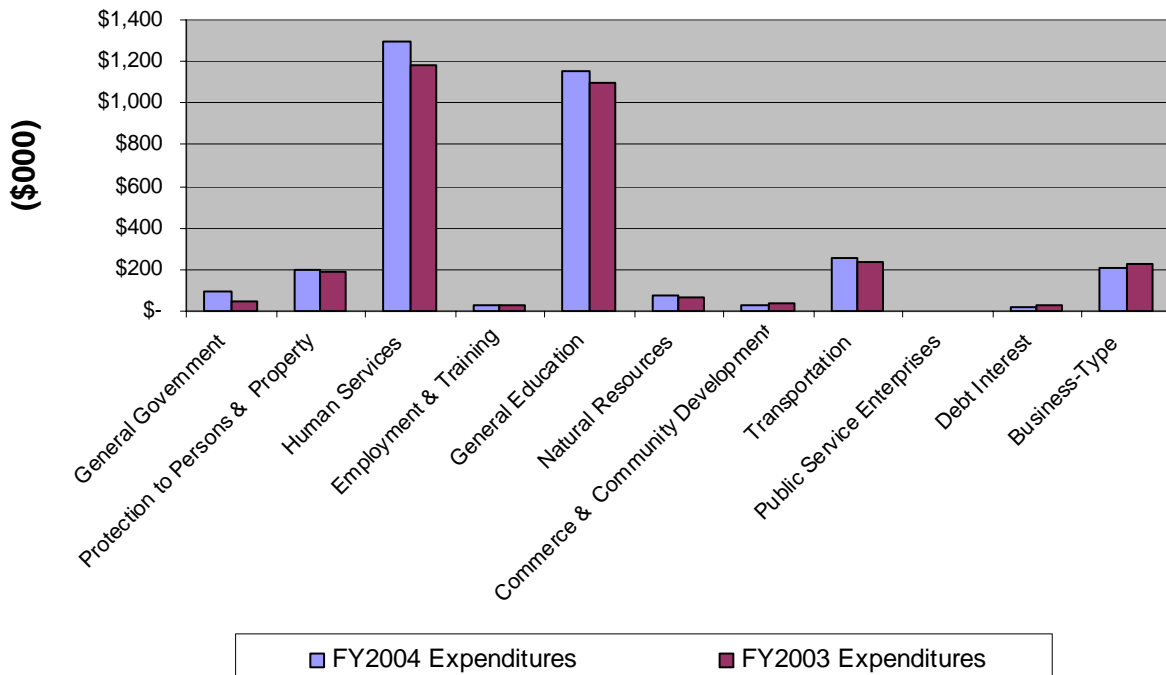
The following graphs illustrate the Primary Government of revenues and expenditures for Fiscal Year 2004 from the table titled "Changes In Net Assets". Also included is a comparison of revenues and expenditures for fiscal years 2004 and 2003. As indicated above, the activity for fiscal years ended June 30, 2004 and 2003 contains primary government data only.



Primary Government - Revenues Fiscal Year 2004 and 2003



Primary Government - Expenditures Fiscal Year 2004 and 2003



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State 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, unreserved fund balance may serve as a useful measure of a government's uncommitted net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2004, the State's governmental funds reported combined ending fund balances of \$398.7 million. The unreserved portion of this fund balance is \$244.1 million or 61.22%, which is available for spending in the coming year. The remainder of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior fiscal year (\$23.3 million); 2) for human caseload management (\$18.5 million), 3) to be held in permanent trust funds for education, wildlife and prevention of tobacco related health issues (\$7.4 million), 4) for budget stabilization purposes (\$77.8 million), or 5) for a variety of other restricted purposes (\$11.9 million).

General Fund

The general fund is the chief operating fund of the State. At the end of fiscal year 2004, the unreserved fund balance of the general fund was \$62 million which is a \$14.9 million (31.69%) increase compared to the \$47.1 million balance at the end of fiscal year 2003. The total fund balance at June 30, 2004 was \$154.7 million, an increase of \$55 million or 55.11% compared to the balance of \$99.8 million at June 30, 2003. Of this total fund balance, \$92.7 million is reserved for various purposes including \$44.5 million in the budget stabilization fund and \$18.5 million for human caseload management.

This increase in fund balance measurement can be attributed to an increase of \$146.5 million in total revenues, led by a \$64.9 million (17.56%) increase in personal income tax revenue. This increase in revenues was accompanied by a \$27.4 million (4.66%) decrease in general fund expenditures overall. Reduced human services function expenditures totaling \$36.7 million was the big contributor to this decrease.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. The unreserved portion of its fund balance (\$62 million) represents 11.05% of its total fund expenditures (\$560.8 million), up from 8% in 2003 while its total fund balance (\$154.7 million) represents 27.59% of its total expenditures (\$560.8 million) up from 16.96% in 2003, both measured on a GAAP basis.

Transportation Fund

The transportation fund experienced a \$24.7 million increase in total revenues from FY2003 to FY2004. Federal grant revenue increased \$16.3 million. Other revenue categories that realized increased revenue include purchase and use tax (\$3.4 million) and non-business licenses (\$2.4 million.)

Total expenditures increased \$4.4 million from FY2003 to FY2004 with an increase of \$3.9 million in the area of transportation function expenditures constituting the largest part of the increase.

Finally, transfers in to the transportation fund primarily from the general fund increased \$3.1 million while transfers out of the transportation fund to the general fund decreased \$5.4 million resulting in an \$8.6 million decrease in net "other financing uses" in the transportation fund. All of the above activity resulted in a net increase of \$17 million in the fund balance from FY2003 to FY2004.

Education Fund

The education fund experienced an increase in the unreserved portion of its fund balance amounting to \$22.3 million as well as an increase in its total fund balance of \$33.9 million. It also increased its budget stabilization reserve from \$11.1 million at the end of FY2003 to \$22.8 million at the end of FY2004.

The education fund's fiscal year 2004 revenues were up \$53.1 million due mostly to increases in both statewide and local property tax revenue totaling \$33.6 million and the assignment of a portion of the Sales and Use Tax revenue totaling \$10.1 million. Its educational expenditures also were up by \$36.5 million as the result of increased appropriations. All of these factors resulted in a reduction in operating loss of \$16.7 million as compared to fiscal year 2003. Net "transfers in" from other funding sources increased by \$27.5 million during fiscal year 2004.

The financial activity resulted in an overall increase in the education fund's fund balance of \$33.9 million at June 30, 2004 as compared to 2003. The budget stabilization reserve increased by \$11.7 million while the unreserved portion of its fund balance increased by \$22.3 million. These increases have resulted in the unreserved undesignated component of the fund balance being reported at \$18.2 million. This component of the fund balance represents assets that have not been designated for specific purposes by the legislature.

Special Fund

During fiscal year 2004, net revenue increased by \$14.6 million, primarily attributable to an increase in hospital assessment tax and nursing home assessment tax of \$12 million.

The special fund's total expenditures increased by \$31.1 million (8.99%) with the human services functional expenditures accounting for \$25.8 million of this increase, which included a \$18.6 million increase in the State's share of Medicaid (Vermont Health Access Trust Fund). Protection to persons and property function expenditures increased \$4.6 million.

The financial activity resulted in an overall increase of the special fund's fund balance of \$25.8 million at June 30, 2004 as compared to 2003.

Federal Revenue Fund

The activity in this fund reports all federal grant activity transacted in the State except for federal grants associated with transportation and fish and wildlife. Federal grant activity for these two areas is reported in the Transportation Fund and Fish and Wildlife Fund, respectively. For fiscal year 2004, total revenue increased \$143.4 million due primarily to an increase of \$142.5 million in Federal grant revenue. Total expenditures were up \$113.5 million with human services and education expenditures accounting for \$108.8 million and \$12 million, respectively. General government, Employment and Training, Natural Resources, and Commerce and Community Development also reported decreased expenditures in 2004 as compared to 2003. Net "Transfers Out" increased by \$13.5 million (from \$20 million to \$33.5 million) in FY2004. The effect of the above changes on the fund balance is an increase of \$16.4 million from FY2003 to FY2004.

Proprietary Funds

Enterprise Funds

The State's enterprise funds provide the same type of information found in the business-type activities section in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund is the largest of the enterprise type funds accounting for more than 98.4% of the total net assets reported by the enterprise funds. However, the Unemployment Compensation Trust Fund's total net assets decreased by \$26.4 million from \$265 million at June 30, 2003 to \$238.5 million at June 30, 2004. This decrease was the result of operating expenditures (\$99.5 million) being \$41 million more than the revenue received (\$58.5 million.) This operating deficit was moderated somewhat by the

receipt of \$14.6 million in investment income.

Internal Service Funds

The internal service funds' total net assets at June 30, 2004 were \$22 million, up \$6.7 million from \$15.3 million at June 30, 2003. The Facilities Operations Fund total net assets deficit balance declined \$7.7 million from a \$8.7 million loss at June 30, 2003 to a \$1 million loss at June 30, 2004 while the remaining funds had both positive and negative contributions.

Operating Revenue increased \$4.3 million to \$156.7 million during fiscal year 2004. The major contributor to this increase was the Facilities Operations Fund which increased \$4.4 million from FY2003 to FY2004.

Fiscal year 2004's operating expenses totaled \$157.8 million which was an increase of \$1.3 million over fiscal year 2003's operating expenses. The Medical Insurance Fund, the Property Management Fund and the Facilities Operations Funds reported increased expenses of \$1.6 million, \$1 million and \$1.9 million, respectively, while the Workers Compensation Fund and the Communications and Information Technology Fund reported a reduction in total expenditures of \$2.7 and \$1.3 million, respectively. The remaining funds reported both increases and decreases in total expenditures.

Finally, it should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

ANALYSIS OF GENERAL FUND BUDGET HIGHLIGHTS

During the year, actual budgetary-based revenues received exceeded the original and final budgetary estimates by \$42.6 million and \$26.7 million respectively with actual tax revenue received exceeding the final budgeted tax revenue estimate by \$31.8 million. The deficit (\$5.1 million) remaining after the difference in tax revenue received can be attributed almost entirely to a shortfall of \$5.1 million in interest and premium revenue received versus budgeted. The excess of total budgetary based actual revenue amounts received over total final budgetary revenue estimates was not only able to fund these additional appropriations but was also able to contribute to the increase in the budgetary based fund balance as well.

The surplus was used to fund one-time appropriations in fiscal year 2004 for various programs within State government. In addition, a significant portion was transferred to the Human Service Caseload Reserve in the General Fund, the Transportation Fund, the General Bond Fund, the Health Access Trust Fund (a component of the Special Fund), and to alleviate pending cash deficits in Internal Service Funds. A portion of this surplus was reserved for fiscal year 2005 appropriations.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the State's primary government reported a combined capital asset figure for its governmental and business-type activities of \$1.974 billion which included a "construction in progress" amount of \$392.6 million. Accumulated depreciation totaled \$827.5 million, which left a net book value of \$1.15 billion. 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.

Total additions to the State's primary government's investment in capital assets for fiscal year 2004 were \$202.3 million, with \$99.6 million being in construction in progress. Much of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$59 million. Additional

information on the State's capital assets can be found in Note 4 of the notes to the financial statements of this report.

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. The authorization and issuance of State debt including all the terms and other related terms are statutory. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, in the months of May and June preceding such fiscal year, or in subsequent fiscal years. 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.

The State of Vermont's outstanding bond debt decreased by a net \$4.7 million during fiscal year 2004. This decrease can be accounted for by the issuance of \$179.7 million worth of general obligation bonds and accretion of \$3 million in principal on the State's capital appreciation bonds offset by the redemption of \$50.5 million and the defeasance of \$136.9 million in outstanding debt. Additional information on the State's long-term indebtedness is contained in Note 8 of the notes to the financial statements. The State's bond ratings as of March 2005 are as follows: Moody's – Aa1; S&P – AA+; and Fitch – AA+.

ECONOMIC CONDITIONS

According to the economic forecast and opinions put forth by Economic and Policy Resources, Inc., of Williston, Vermont, which utilizes the underlying forecast contained in "The Economic.com National Forecast Assumptions" provided by Economy.com of West Chester, Pa. and which was completed in conjunction with the New England Economic Project (NEEP), the U.S economic recovery is continuing on a modest pace of recovery-expansion forecasted to last over the period 2004 - 2008. By most measures and economic indicators the U.S. economy may have finally crossed over from recovery to economic expansion as of January 2005. Volatile energy prices, moderating spending growth, rising personal tax bills, interest rates, and Federal Reserve credit tightening moves are expected to continue throughout 2005 and 2006. This will likely lead to higher inflation and interest rates, and hence moderate the rate of growth.

Vermont's economic outlook for the period 2004 – 2008 is expected to continue to improve but remain uneven and be only one-half to two-thirds of the historic rates of recovery Vermont has experienced in the past. This expected improvement is primarily due to the continued strength of Vermont's real estate markets and associated construction activity, an expected bottoming and possible increase in the number of factory jobs, and continued general improvement in the U.S. economy. The U.S. economy has the most significant impact of any factor on the Vermont economy.

It should be noted that Vermont's total economic picture including the economic facts and forecasts presented above are considered by legislative leaders and management in preparing the State's budget for both current and future years.

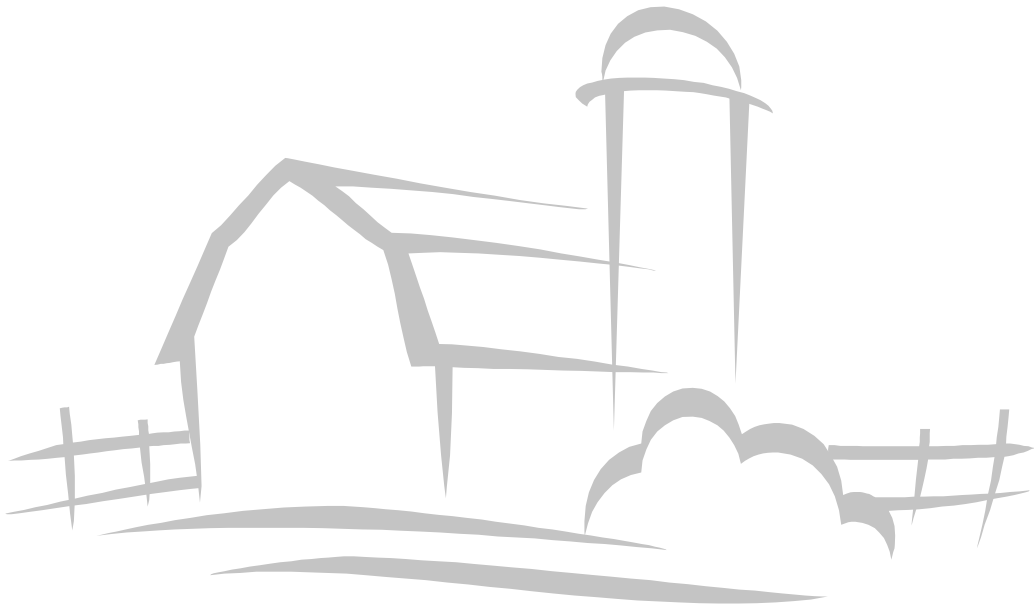
REQUESTS FOR INFORMATION

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, 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:

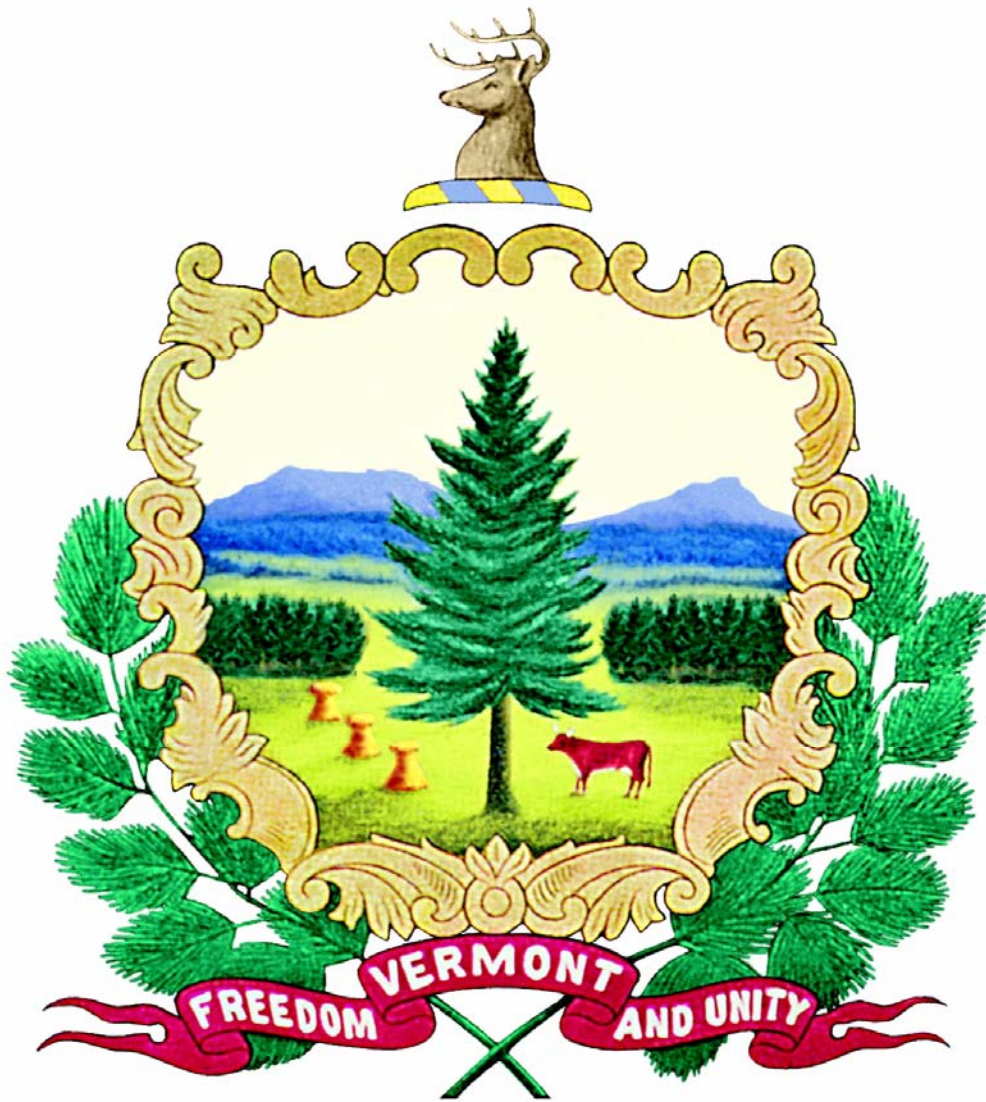
State of Vermont
Department of Finance and Management
109 State Street
Pavilion Building
Montpelier, Vermont 05609-0401

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.

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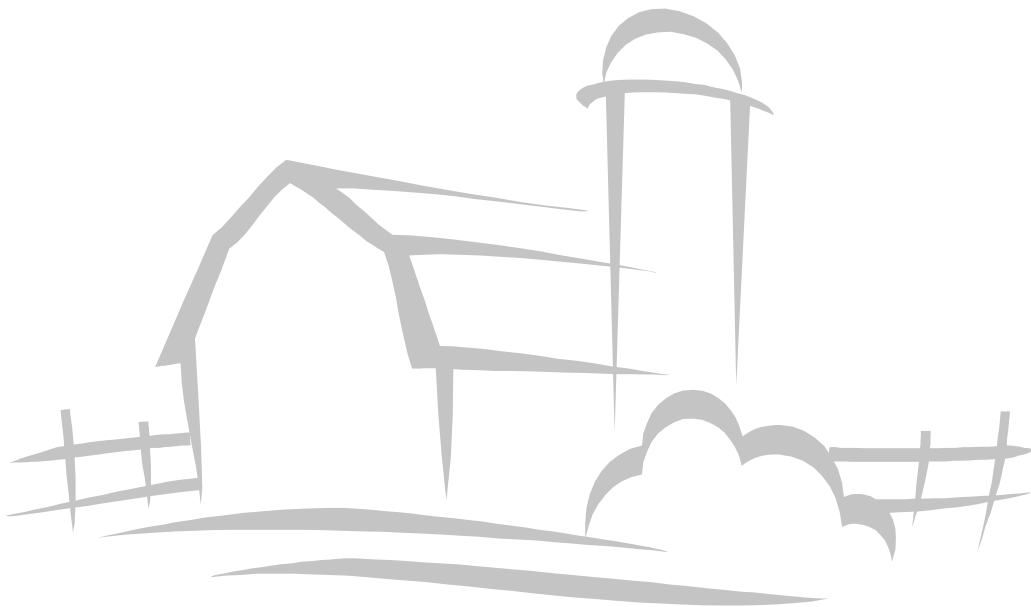


Vermont

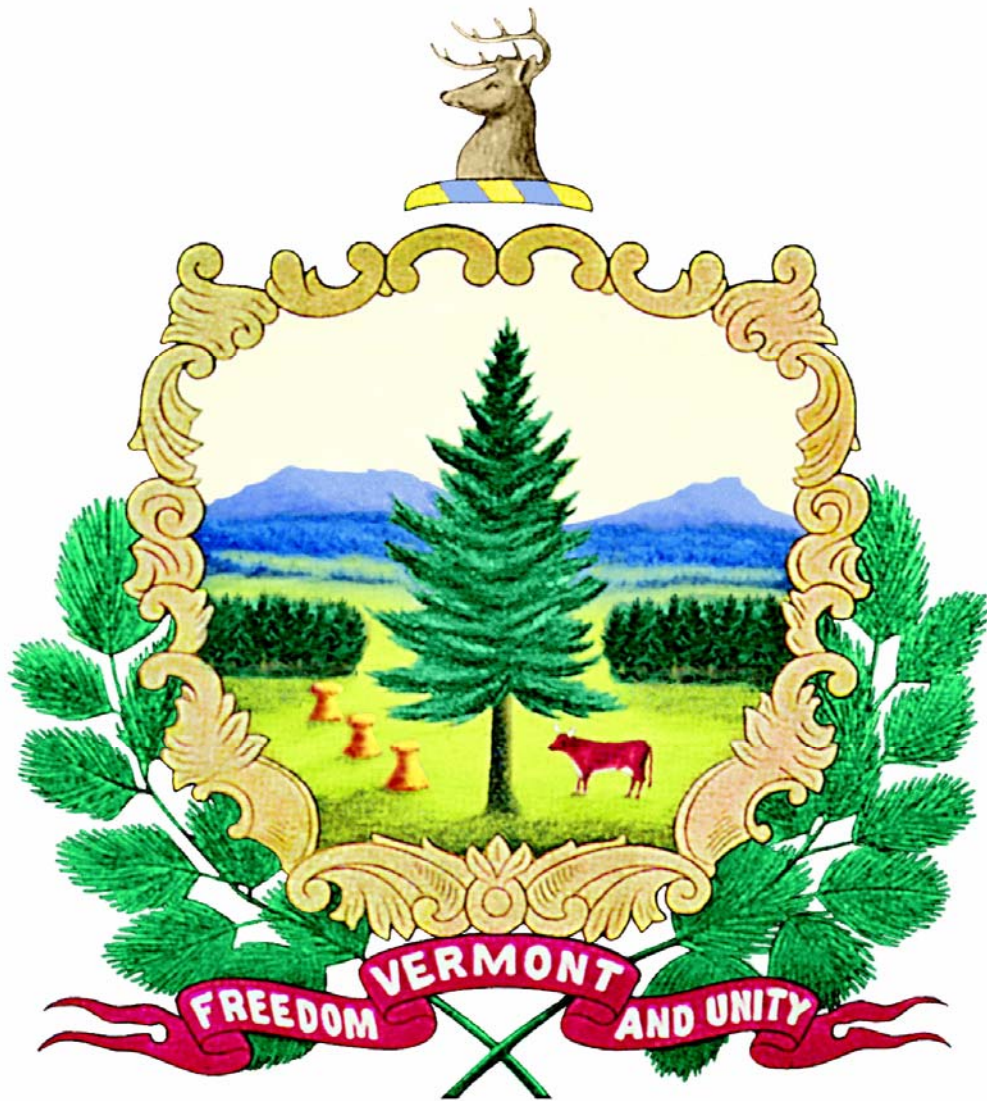


BASIC FINANCIAL STATEMENTS

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Vermont



**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

**STATE OF VERMONT
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 334,996,677	\$ 237,476,582	\$ 572,473,259	\$ 409,765,599
Taxes receivable.....	132,272,329	7,669,861	139,942,190	-
Loans and notes receivable-current.....	4,759,718	1,461,669	6,221,387	158,226,914
Federal grants receivable.....	139,633,540	128,149	139,761,689	15,278,920
Other receivables.....	37,669,604	1,580,111	39,249,715	80,130,854
Investments.....	13,482,156	-	13,482,156	106,471,759
Inventories.....	2,401,133	5,343,984	7,745,117	2,367,414
Internal balances.....	984,301	(984,301)	-	-
Receivable from primary government.....	-	-	-	10,098
Receivable from component units.....	10,275,818	-	10,275,818	-
Other current assets.....	885,512	91,478	976,990	13,755,138
Total current assets.....	<u>677,360,788</u>	<u>252,767,533</u>	<u>930,128,321</u>	<u>786,006,696</u>
Noncurrent assets:				
Cash and cash equivalents.....	-	947,048	947,048	10,650,345
Taxes receivable.....	41,579,912	-	41,579,912	-
Other receivables.....	10,640,973	43,127	10,684,100	-
Notes and loans receivable.....	136,556,469	872,111	137,428,580	1,708,333,695
Investments.....	24,901,256	3,835,239	28,736,495	385,840,563
Other noncurrent assets.....	9,459,018	-	9,459,018	28,313,450
Capital assets:				
Land.....	66,976,011	-	66,976,011	20,289,244
Construction in progress.....	392,642,653	-	392,642,653	20,302,336
Works of art.....	111,521	-	111,521	-
Capital assets being depreciated:				
Infrastructure.....	1,095,723,685	-	1,095,723,685	17,031,621
Property, plant and equipment.....	417,349,671	1,234,380	418,584,051	524,736,625
Less accumulated depreciation.....	<u>(826,772,264)</u>	<u>(739,762)</u>	<u>(827,512,026)</u>	<u>(277,558,795)</u>
Total capital assets, net of depreciation.....	<u>1,146,031,277</u>	<u>494,618</u>	<u>1,146,525,895</u>	<u>304,801,031</u>
Total noncurrent assets.....	<u>1,369,168,905</u>	<u>6,192,143</u>	<u>1,375,361,048</u>	<u>2,437,939,084</u>
Total assets.....	<u>2,046,529,693</u>	<u>258,959,676</u>	<u>2,305,489,369</u>	<u>3,223,945,780</u>

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities.....	210,989,623	10,217,774	221,207,397	68,781,740
Income tax refunds payable.....	56,468,069	-	56,468,069	-
Payable to primary government.....	-	-	-	10,275,818
Payable to component units.....	10,098	-	10,098	-
Accrued interest payable.....	7,751,878	-	7,751,878	3,332,929
Bonds, notes and leases payable.....	49,385,000	-	49,385,000	135,499,713
Compensated absences.....	16,167,178	181,122	16,348,300	-
Claims and judgments.....	10,266,283	-	10,266,283	-
Current portion of other long-term liabilities.....	958,131	-	958,131	3,033,757
Deferred revenue.....	15,138,264	1,513,553	16,651,817	22,147,959
Total current liabilities	<u>367,134,524</u>	<u>11,912,449</u>	<u>379,046,973</u>	<u>243,071,916</u>
Long-term liabilities:				
Lottery prize awards payable.....	-	4,350,870	4,350,870	-
Bonds, notes and leases payable.....	419,738,782	-	419,738,782	2,149,833,030
Compensated absences.....	11,933,465	124,252	12,057,717	-
Claims and judgments.....	22,221,141	-	22,221,141	-
Other long-term liabilities.....	169,859,426	-	169,859,426	27,204,871
Total long-term liabilities.....	<u>623,752,814</u>	<u>4,475,122</u>	<u>628,227,936</u>	<u>2,177,037,901</u>
Total liabilities.....	<u>990,887,338</u>	<u>16,387,571</u>	<u>1,007,274,909</u>	<u>2,420,109,817</u>
NET ASSETS				
Invested in capital assets, net of related debt.....	1,001,388,886	494,618	1,001,883,504	151,213,394
Restricted for:				
Unemployment compensation.....	-	238,547,672	238,547,672	-
Component unit net assets.....	-	-	-	446,997,871
Funds held in permanent investments:				
Expendable.....	1,790,948	-	1,790,948	-
Nonexpendable.....	7,416,453	-	7,416,453	-
Budget stabilization.....	77,789,126	-	77,789,126	-
Capital projects.....	34,355,901	-	34,355,901	-
Unrestricted.....	(67,098,959)	3,529,815	(63,569,144)	205,624,698
Total net assets.....	<u>\$ 1,055,642,355</u>	<u>\$ 242,572,105</u>	<u>\$ 1,298,214,460</u>	<u>\$ 803,835,963</u>

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

**STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 98,474,432	\$ 44,679,001	\$ 2,043,303	\$ -
Protection to persons & property.....	196,013,649	81,275,686	52,475,240	-
Human services.....	1,299,865,739	22,778,569	856,040,958	-
Employment & training.....	26,290,402	2,769,626	22,350,918	-
General education.....	1,149,533,015	2,917,617	102,709,514	-
Natural resources.....	72,892,394	20,829,414	18,982,416	7,167,976
Commerce & community development.....	29,862,767	139,562	9,530,158	-
Transportation.....	251,788,690	68,373,760	32,656,091	105,839,119
Public service enterprises.....	1,898,161	1,935,257	-	-
Interest on long-term debt.....	22,590,740	-	-	-
Total governmental activities.....	<u>3,149,209,989</u>	<u>245,698,492</u>	<u>1,096,788,598</u>	<u>113,007,095</u>
Business-type activities:				
Vermont Lottery Commission.....	72,319,680	92,389,082	-	-
Liquor Control.....	36,236,080	36,665,547	-	-
Unemployment Compensation.....	99,549,897	58,540,541	-	-
Other.....	2,726,827	2,603,675	-	-
Total business-type activities.....	<u>210,832,484</u>	<u>190,198,845</u>	<u>0</u>	<u>0</u>
Total primary government.....	<u>\$ 3,360,042,473</u>	<u>\$ 435,897,337</u>	<u>\$ 1,096,788,598</u>	<u>113,007,095</u>
Component Units:				
University of Vermont.....	\$ 406,661,000	\$ 201,196,000	\$ 190,164,000	\$ 6,602,000
Vermont State Colleges.....	118,800,228	69,421,442	46,485,878	3,255,101
Vermont Student Assistance Corporation.....	94,333,000	59,562,000	54,694,000	-
Other.....	61,499,406	37,404,981	11,570,386	-
Total component units.....	<u>\$ 681,293,634</u>	<u>\$ 367,584,423</u>	<u>\$ 302,914,264</u>	<u>\$ 9,857,101</u>

General Revenues:

Taxes:

Personal and corporate income.....
Sales and use.....
Meals and rooms.....
Purchase and use.....
Motor fuel.....
Statewide property.....
Other taxes.....
Total taxes.....
Unrestricted investment earnings.....
Tobacco litigation settlement.....
Additions to non-expendable endowments.....
Miscellaneous.....
Transfers.....
Total general revenues and transfers.....

Changes in net assets.....

Net Assets - Beginning, restated (see Note 10)....

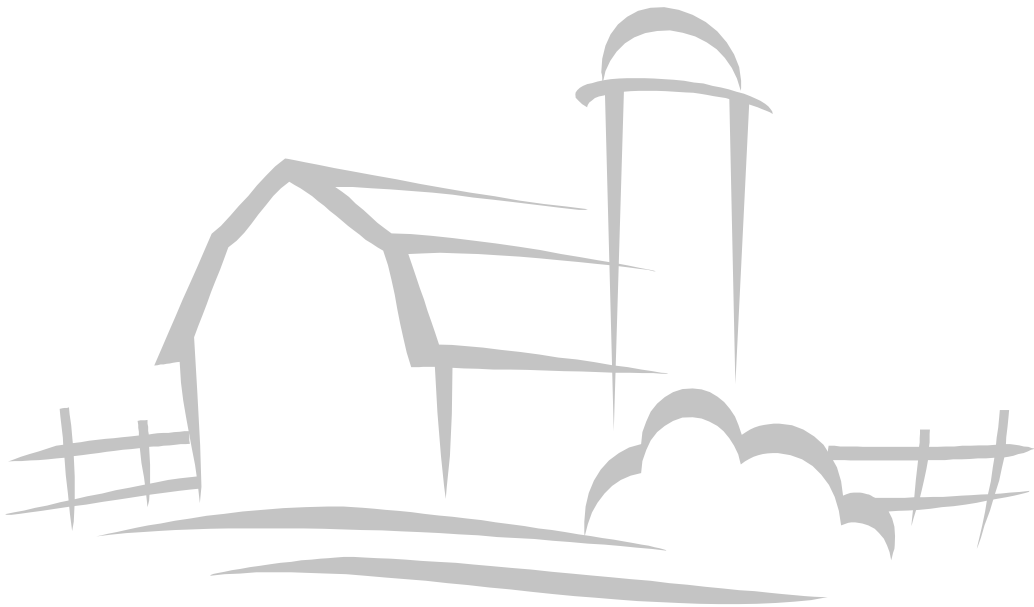
Net Assets - Ending.....

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

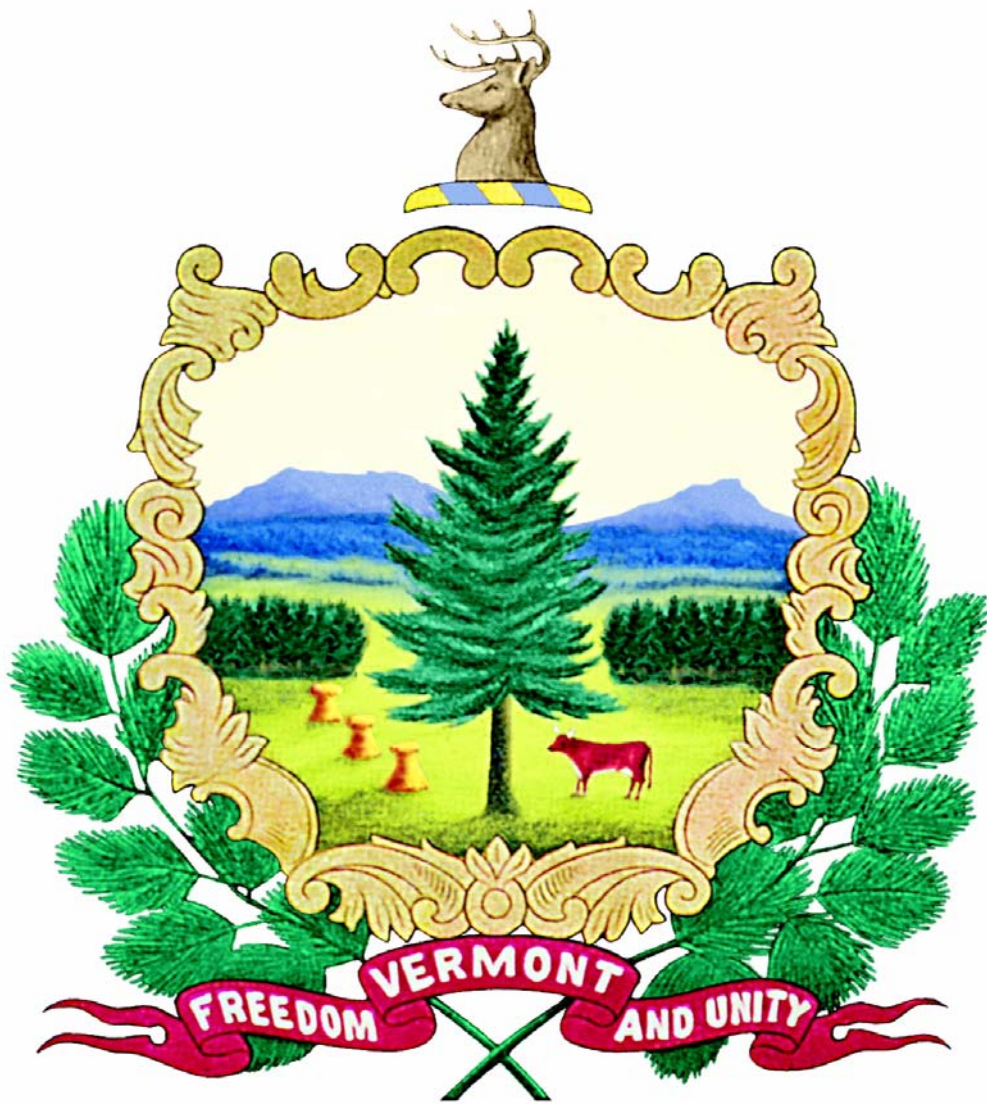
**Net (Expense) Revenue and
Changes in Net Assets**

Primary Government			Discretely Presented Component Units
Governmental Activities	Business-type Activites	Total	
\$ (51,752,128)	\$ -	\$ (51,752,128)	\$ -
(62,262,723)	-	(62,262,723)	-
(421,046,212)	-	(421,046,212)	-
(1,169,858)	-	(1,169,858)	-
(1,043,905,884)	-	(1,043,905,884)	-
(25,912,588)	-	(25,912,588)	-
(20,193,047)	-	(20,193,047)	-
(44,919,720)	-	(44,919,720)	-
37,096	-	37,096	-
(22,590,740)	-	(22,590,740)	-
<u>(1,693,715,804)</u>	<u>0</u>	<u>(1,693,715,804)</u>	<u>0</u>
-	20,069,402	20,069,402	-
-	429,467	429,467	-
-	(41,009,356)	(41,009,356)	-
-	(123,152)	(123,152)	-
<u>0</u>	<u>(20,633,639)</u>	<u>(20,633,639)</u>	<u>0</u>
<u>(1,693,715,804)</u>	<u>(20,633,639)</u>	<u>(1,714,349,443)</u>	<u>0</u>
-	-	-	(8,699,000)
-	-	-	362,193
-	-	-	19,923,000
-	-	-	(12,524,039)
<u>0</u>	<u>0</u>	<u>0</u>	<u>(937,846)</u>
496,301,917	-	496,301,917	-
264,336,818	-	264,336,818	-
109,914,847	-	109,914,847	-
86,363,011	-	86,363,011	-
68,654,068	-	68,654,068	-
487,535,603	-	487,535,603	-
329,543,672	-	329,543,672	12,604,000
<u>1,842,649,936</u>	<u>0</u>	<u>1,842,649,936</u>	<u>12,604,000</u>
3,130,140	14,502,200	17,632,340	53,154,281
25,819,716	-	25,819,716	-
-	-	-	116,197
7,194,789	15,899	7,210,688	89,043
19,957,578	(19,957,578)	-	-
<u>1,898,752,159</u>	<u>(5,439,479)</u>	<u>1,893,312,680</u>	<u>65,963,521</u>
205,036,355	(26,073,118)	178,963,237	65,025,675
<u>850,606,000</u>	<u>268,645,223</u>	<u>1,119,251,223</u>	<u>738,810,288</u>
<u>\$ 1,055,642,355</u>	<u>\$ 242,572,105</u>	<u>\$ 1,298,214,460</u>	<u>\$ 803,835,963</u>

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Vermont



**GOVERNMENTAL FUNDS
FINANCIAL STATEMENTS**

**STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Education Fund</u>
ASSETS:			
Cash and cash equivalents.....	\$ 78,070,095	\$ 13,433,971	\$ 39,567,648
Investments.....	-	-	-
Receivables:			
Taxes receivable (net).....	147,440,031	9,168,534	13,750,194
Notes and loans receivable.....	7,865,837	808,279	-
Other receivables (net).....	2,839,491	6,063,117	-
Intergovernmental receivable - federal government.....	-	17,860,665	-
Due from other funds.....	596,167	476,257	14,452
Due from component units.....	1,984,433	1,730,673	-
Interfund receivable.....	20,974,628	-	-
Advances to other funds.....	323,700	-	-
Advances to component units.....	1,954,533	-	-
Restricted cash.....	-	2,013,202	-
Total assets.....	\$ 262,048,915	\$ 51,554,698	\$ 53,332,294
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable.....	\$ 10,417,424	\$ 15,709,249	\$ 9,270,204
Accrued liabilities.....	10,017,439	5,129,126	-
Retainage payable.....	460,989	3,226,728	-
Accrued interest payable.....	109,738	8,398	-
Due to other funds.....	5,013,099	976,731	1,700
Due to component units.....	-	10,098	-
Tax refunds payable.....	784,912	-	-
Deferred revenue.....	80,519,518	5,051,056	3,089,081
Total liabilities.....	107,323,119	30,111,386	12,360,985
FUND BALANCES:			
Reserved for:			
Encumbrances.....	2,301,223	64,315	-
Budget stabilization.....	44,485,778	10,540,811	22,762,537
Debt service.....	1,746,819	130,717	-
Advances and notes receivable.....	10,044,070	-	-
General fund surplus.....	15,630,000	-	-
Human caseload management.....	18,543,422	-	-
Endowments.....	-	-	-
Unreserved:			
Designated for specific purposes.....	-	-	-
Undesignated.....	61,974,484	10,707,469	18,208,772
Total fund balances.....	154,725,796	21,443,312	40,971,309
Total liabilities and fund balances.....	\$ 262,048,915	\$ 51,554,698	\$ 53,332,294

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

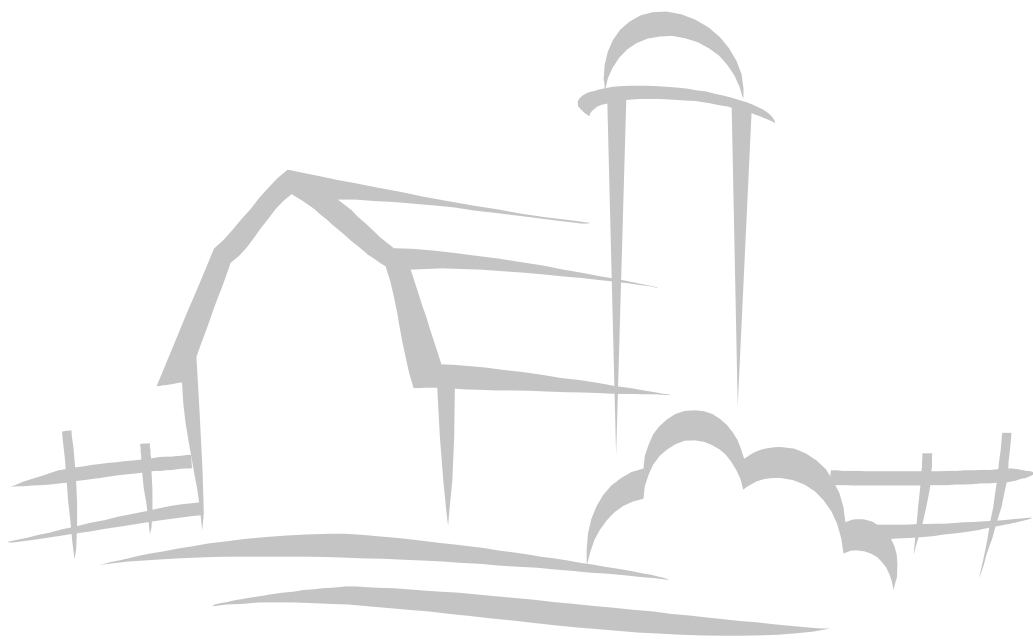
Special Fund	Federal Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 77,325,440	\$ 31,573,945	\$ 50,254,276	\$ 290,225,375
29,249,908	-	9,133,504	38,383,412
3,398,866	-	94,616	173,852,241
190,000	132,452,071	-	141,316,187
17,283,876	14,191,008	418,236	40,795,728
-	121,505,955	266,920	139,633,540
1,747,673	1,859,578	9,836	4,703,963
-	4,606,179	-	8,321,285
-	-	-	20,974,628
-	-	-	323,700
-	-	-	1,954,533
3,001,000	-	-	5,014,202
\$ 132,196,763	\$ 306,188,736	\$ 60,177,388	\$ 865,498,794
\$ 49,256,797	\$ 89,869,267	\$ 3,609,475	\$ 178,132,416
3,298,554	5,368,485	471,141	24,284,745
1,100	4,521	981,179	4,674,517
-	-	-	118,136
1,225,877	1,058,554	35,367	8,311,328
-	-	-	10,098
-	-	-	784,912
9,916,791	151,938,334	3,087	250,517,867
63,699,119	248,239,161	5,100,249	466,834,019
2,525,122	12,972,150	5,405,697	23,268,507
-	-	-	77,789,126
-	-	-	1,877,536
-	-	-	10,044,070
-	-	-	15,630,000
-	-	-	18,543,422
-	-	7,416,453	7,416,453
-	-	36,362,811	36,362,811
65,972,522	44,977,425	5,892,178	207,732,850
68,497,644	57,949,575	55,077,139	398,664,775
\$ 132,196,763	\$ 306,188,736	\$ 60,177,388	\$ 865,498,794

State of Vermont
Reconciliation of Governmental Fund Balances
to the Statement of Net Assets - Governmental Activities
June 30, 2004

Total fund balances from previous page		\$ 398,664,775
<p>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:</p>		
Land.....	66,949,855	
Construction in progress.....	392,642,653	
Depreciable capital assets and infrastructure, net of \$800,798,043 of accumulated depreciation.....	659,192,564	
Capital assets, net of accumulated depreciation.....		1,118,785,072
<p>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.....</p>		
		21,923,552
<p>Amount presented in the statement of net assets relating to, but not in fund balances due to different basis of accounting include:</p>		
Long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred revenues in the governmental funds.....		236,821,323
Deferred charge for unamortized bond issuance costs.....		1,168,269
Deferred for unamortized loss on sale of refunding bonds.....		8,290,749
<p>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:</p>		
Bonded debt.....	(469,123,782)	
Accrued interest payable on bonds.....	(7,633,742)	
Compensated absences (net of internal service funds' liability).....	(26,753,147)	
Tax refunds payable.....	(55,683,157)	
Other long-term liabilities.....	(170,817,557)	
Long-term liabilities.....		(730,011,385)
Net assets of governmental activities.....		\$ <u>1,055,642,355</u>

The accompanying notes are an integral part of the 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, 2004

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Education Fund</u>
REVENUES:			
Taxes:			
Personal income tax.....	\$ 434,394,509	\$ -	\$ -
Corporate income tax.....	46,739,747	-	10,288,726
Sales and use tax.....	254,106,531	-	10,083,771
Meals and rooms.....	90,735,193	-	18,332,694
Motor fuel tax.....	-	56,037,443	9,889,376
Purchase and use tax.....	-	72,022,408	14,340,603
Statewide property tax.....	-	-	487,535,603
Other taxes.....	119,919,948	17,963,273	58,840,836
Earnings of departments:			
Fees.....	8,863,792	3,676,595	2,490,600
Rents and leases.....	-	710,364	-
Sales of service.....	1,894,158	66,119	-
Federal grants.....	-	138,495,210	-
Fines, forfeits and penalties.....	7,418,283	9,262,770	-
Investment income.....	573,468	66,836	89,996
Licenses:			
Business.....	2,726,098	648,786	-
Non-business.....	118,799	56,952,573	-
Special assessments.....	40,112	-	-
Other revenues.....	446,405	582,878	214,660
Total revenues.....	<u>967,977,043</u>	<u>356,485,255</u>	<u>612,106,865</u>
EXPENDITURES:			
General government.....	37,236,726	11,090,230	-
Protection to persons and property.....	69,148,341	28,688,998	-
Human services.....	233,960,649	2,021,719	-
Employment & training.....	1,130,937	-	-
General education.....	121,774,603	4,860,452	874,787,183
Natural resources.....	15,990,746	1,162,056	-
Commerce and community development.....	15,509,814	-	-
Transportation.....	-	288,448,379	-
Public service enterprises.....	-	-	-
Debt service.....	66,043,674	2,407,287	-
Total expenditures.....	<u>560,795,490</u>	<u>338,679,121</u>	<u>874,787,183</u>
Excess of revenues over (under) expenditures.....	<u>407,181,553</u>	<u>17,806,134</u>	<u>(262,680,318)</u>
Other Financing Sources (Uses):			
Proceeds from the sale of bonds.....	-	-	-
Proceeds from the sale of refunding bonds.....	146,075,459	-	-
Premium on sale of bonds.....	1,708,033	130,717	-
Payment to bond escrow agent.....	(146,071,943)	-	-
Transfers in.....	14,651,287	4,773,000	296,609,409
Transfers out.....	(368,571,268)	(5,724,642)	-
Total other financing sources (uses).....	<u>(352,208,432)</u>	<u>(820,925)</u>	<u>296,609,409</u>
Net change in fund balances.....	54,973,121	16,985,209	33,929,091
Fund balances, July 1.....	<u>99,752,675</u>	<u>4,458,103</u>	<u>7,042,218</u>
Fund balances, June 30.....	<u>\$ 154,725,796</u>	<u>\$ 21,443,312</u>	<u>\$ 40,971,309</u>

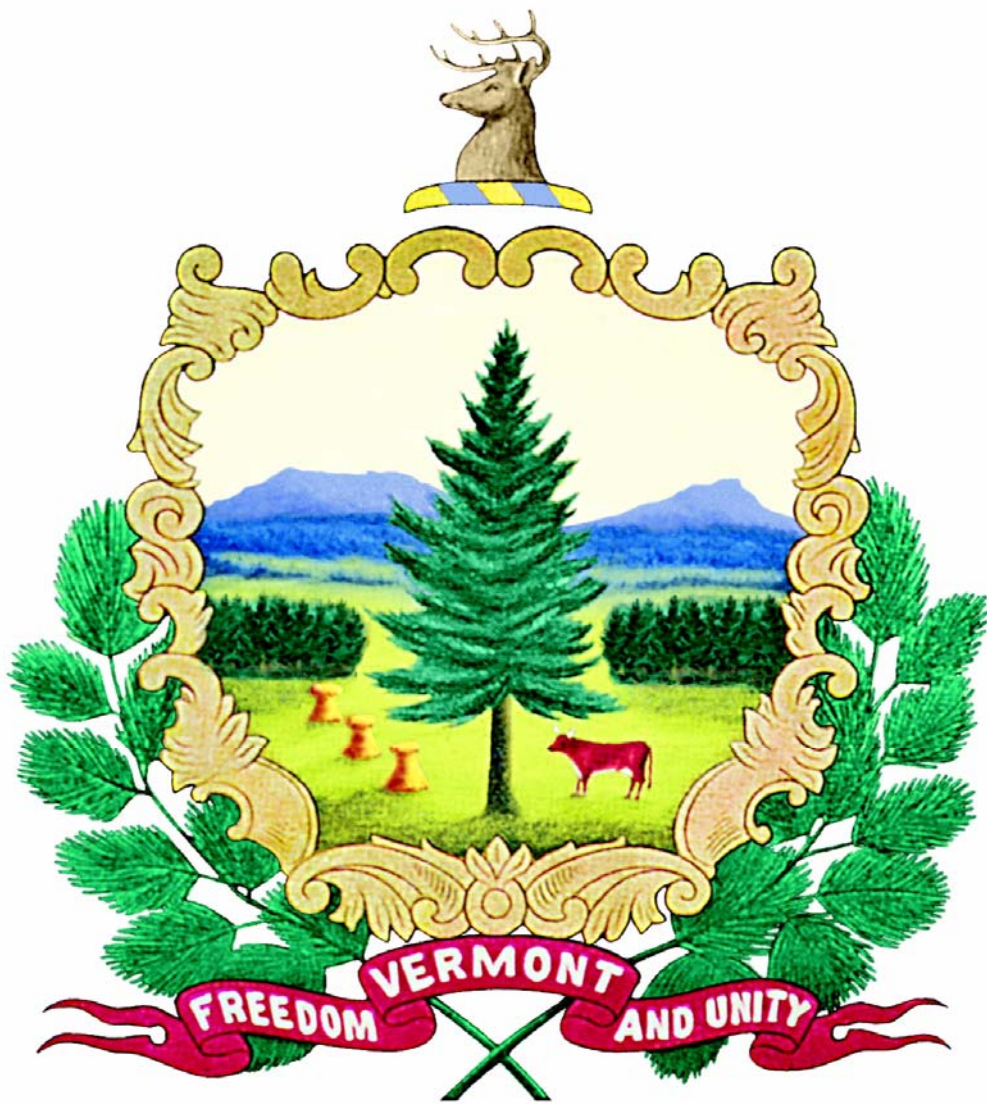
The accompanying notes are an integral part of the financial statements.

<u>Special Fund</u>	<u>Federal Revenue Fund</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 434,394,509
-	-	-	57,028,473
-	-	-	264,190,302
-	-	-	109,067,887
1,692,775	-	1,026,081	68,645,675
-	-	-	86,363,011
-	-	-	487,535,603
127,352,050	-	-	324,076,107
31,333,816	-	249,025	46,613,828
2,774,519	-	39,781	3,524,664
8,726,621	-	-	10,686,898
-	1,052,398,290	4,500,972	1,195,394,472
5,431,670	-	23,572	22,136,295
2,678,928	546,414	624,079	4,579,721
9,501,962	-	1,525	12,878,371
2,412,896	-	6,050,981	65,535,249
25,823,928	-	1,936	25,865,976
71,670,979	4,022,010	773,844	77,710,776
289,400,144	1,056,966,714	13,291,796	3,296,227,817
8,899,756	2,194,041	13,123,687	72,544,440
63,293,277	39,425,603	5,035,685	205,591,904
254,496,962	808,044,843	1,375,019	1,299,899,192
2,311,279	22,750,795	-	26,193,011
15,446,472	102,547,713	13,233,107	1,132,649,530
23,132,147	22,730,646	20,084,546	83,100,141
4,707,768	9,403,614	1,040,994	30,662,190
286,937	-	993,090	289,728,406
1,898,161	-	-	1,898,161
2,382,985	-	-	70,833,946
376,855,744	1,007,097,255	54,886,128	3,213,100,921
(87,455,600)	49,869,459	(41,594,332)	83,126,896
-	-	42,200,000	42,200,000
478,989	-	-	146,554,448
-	-	-	1,838,750
-	-	-	(146,071,943)
119,357,521	2,041,912	876,575	438,309,704
(6,559,544)	(35,557,144)	(2,232,392)	(418,644,990)
113,276,966	(33,515,232)	40,844,183	64,185,969
25,821,366	16,354,227	(750,149)	147,312,865
42,676,278	41,595,348	55,827,288	251,351,910
\$ 68,497,644	\$ 57,949,575	\$ 55,077,139	\$ 398,664,775

State of Vermont
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds to the
Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2004

Total net change in fund balances from the previous page	\$	147,312,865
<p>Governmental funds report capital outlay 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 outlay exceeded depreciation in the current period (net of internal service funds).</p>		
Capital outlay/functional expenditures and expensed net book value of disposed capital assets		107,529,166
Depreciation expense		(53,816,834)
<p>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.</p>		
Principal repayment.....		50,495,000
Payment to refunding bond escrow agent.....		146,071,943
<p>Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.</p>		
Bonds issued.....		(42,200,000)
Refunding bonds issued.....		(137,457,000)
Bond premium is amortized over the life of the bonds in the statement of activities.....		(9,978,067)
Refunding bonds gain amortized over the life of the refunded bonds.....		(1,810,407)
<p>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.....</p>		
		692,369
<p>Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds.....</p>		
		12,672,330
<p>Estimated personal income tax refunds that are not due and payable are not governmental fund liabilities.....</p>		
		(4,980,442)
<p>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.</p>		
Net decrease in accrued interest payable.....		1,636,390
Accreted interest on capital appreciation bonds.....		(3,035,908)
Increase in compensated absences.....		(2,524,312)
Increase in employer pension related costs.....		(18,203,605)
<p>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.....</p>		
		6,755,206
<p>Notes and loans issued by governmental funds are reported as an expenditure in governmental funds and repayments are reported as a revenue in the governmental funds, but the issuances and repayment increase or decrease notes and loans receivable in the statement of net assets.....</p>		
		5,877,661
Total changes in net assets of governmental activities as reported on the statement of activities	\$	205,036,355

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



**PROPRIETARY FUND
FINANCIAL STATEMENTS**

STATE OF VERMONT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation	Liquor Control	Vermont Lottery
	Trust Fund	Fund	Commission
ASSETS			
Current Assets:			
Cash and cash equivalents.....	\$ 232,098,142	\$ 2,786,430	\$ 1,233,023
Receivables:			
Taxes receivable (net of allowance for uncollectibles).....	7,669,861	-	-
Accrued interest receivable.....	-	-	-
Accounts receivable (net of allowance for uncollectibles).....	120,446	185,800	1,056,015
Loans receivable.....	-	-	-
Due from other funds.....	-	-	-
Intergovernmental receivable - federal.....	128,149	-	-
Inventories, at cost.....	-	3,878,957	686,929
Prepaid expenses.....	-	-	-
Total current assets.....	240,016,598	6,851,187	2,975,967
Restricted and Noncurrent Assets:			
Cash-subscription reserve fund.....	-	-	-
Investments.....	-	-	3,835,239
Loans receivable.....	-	-	-
Accounts receivable - subscriptions.....	-	-	-
Imprest cash and change fund - advances.....	-	5,700	300,000
Total restricted & noncurrent assets.....	0	5,700	4,135,239
Capital Assets:			
Land.....	-	-	-
Construction in Process	-	-	-
Machinery, equipment and buildings.....	-	905,909	298,182
Less accumulated depreciation.....	-	(501,951)	(213,396)
Total capital assets, net of depreciation	0	403,958	84,786
Total assets.....	240,016,598	7,260,845	7,195,992
LIABILITIES			
Current Liabilities:			
Accounts payable.....	1,448,194	6,629,453	1,075,756
Accrued salaries and benefits.....	-	341,950	116,139
Claims payable.....	-	-	-
Due to lottery winners.....	-	-	463,431
Due to agents.....	-	204,986	-
Due to other funds.....	20,732	342,907	14,452
Interfund payable.....	-	-	-
Future and unclaimed prizes payable.....	-	-	1,391,803
Deferred revenue.....	-	-	177,510
Total current liabilities.....	1,468,926	7,519,296	3,239,091
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions.....	-	-	-
Due to lottery winners.....	-	-	2,959,067
Advances from other funds.....	-	5,700	300,000
Total liabilities payable from restricted assets.....	0	5,700	3,259,067
Total liabilities.....	1,468,926	7,524,996	6,498,158
NET ASSETS			
Invested in capital assets.....	-	403,958	84,786
Restricted for unemployment compensation benefits.....	238,547,672	-	-
Unrestricted.....	-	(668,109)	613,048
Total net assets.....	\$ 238,547,672	\$ (264,151)	\$ 697,834

The notes to the financial statements are an integral part of this statement.

<u>Business-type Activities - Enterprise Funds</u>		<u>Governmental Activities</u>	
<u>Total Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Total Internal Service Funds</u>	
\$ 1,358,987	\$ 237,476,582	\$ 39,742,000	
-	7,669,861	-	
59,495	59,495	-	
158,355	1,520,616	11,620,789	
1,461,669	1,461,669	-	
21,073	21,073	626,058	
-	128,149	-	
778,098	5,343,984	2,401,133	
91,478	91,478	885,512	
<u>3,929,155</u>	<u>253,772,907</u>	<u>55,275,492</u>	
638,448	638,448	-	
-	3,835,239	-	
872,111	872,111	-	
43,127	43,127	-	
2,900	308,600	15,100	
<u>1,556,586</u>	<u>5,697,525</u>	<u>15,100</u>	
-	-	26,156	
-	-	-	
30,289	1,234,380	53,194,270	
(24,415)	(739,762)	(25,974,221)	
<u>5,874</u>	<u>494,618</u>	<u>27,246,205</u>	
<u>5,491,615</u>	<u>259,965,050</u>	<u>82,536,797</u>	
154,069	9,307,472	3,671,600	
89,170	547,259	2,453,215	
-	-	32,487,424	
-	463,431	-	
-	204,986	-	
-	378,091	684,319	
395,457	395,457	19,783,093	
-	1,391,803	-	
697,595	875,105	1,441,720	
<u>1,336,291</u>	<u>13,563,604</u>	<u>60,521,371</u>	
638,448	638,448	-	
-	2,959,067	-	
2,900	308,600	15,100	
<u>641,348</u>	<u>3,906,115</u>	<u>15,100</u>	
<u>1,977,639</u>	<u>17,469,719</u>	<u>60,536,471</u>	
5,874	494,618	27,246,205	
-	238,547,672	-	
3,508,102	3,453,041	(5,245,879)	
<u>\$ 3,513,976</u>	<u>\$ 242,495,331</u>	<u>\$ 22,000,326</u>	

Adjustment to reflect the consolidation
of internal service activities related to
enterprise funds

76,774
\$ 242,572,105

STATE OF VERMONT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Operating Revenues			
Charges for sales and services.....	\$ 40,190,153	\$ 35,278,985	\$ -
Ticket sales.....	-	-	92,380,975
Rental income.....	-	-	-
License fees.....	-	228,777	8,107
Federal donated property.....	-	-	-
Advertising revenue.....	-	-	-
Other operating revenues.....	18,350,388	1,157,785	-
Total operating revenues.....	58,540,541	36,665,547	92,389,082
Operating Expenses			
Cost of sales and services.....	93,216,498	28,722,753	-
Lottery ticket prizes.....	-	-	58,074,327
Agents commissions and fees.....	-	-	5,394,848
Megabucks expenses.....	-	-	2,505,744
Lottery tickets.....	-	-	613,330
Salaries and wages.....	-	-	1,068,069
Insurance premium expense.....	-	-	-
Transportation.....	-	-	161,564
Warehouse expense.....	-	899,355	-
Depreciation.....	-	141,785	33,783
Rentals.....	-	-	61,084
Utilities.....	-	-	-
Stores and agencies expense.....	-	3,795,373	-
Promotions and advertising.....	-	-	-
Administration.....	-	1,255,191	3,448,495
Inspection and enforcement expense.....	-	1,410,856	-
Supplies.....	-	-	31,896
Distribution and postage.....	-	-	-
Travel.....	-	-	-
Loss on bad debts.....	-	-	3,650
Other operating expenses.....	6,333,399	5,778	919,708
Total operating expenses.....	99,549,897	36,231,091	72,316,498
Operating income (loss).....	(41,009,356)	434,456	20,072,584
Non-Operating Revenues (Expenses)			
Gain (loss) on disposal of capital assets.....	-	15,647	-
Other.....	252	-	-
Investment income (expense).....	14,636,730	656	(151,754)
Total non-operating revenues (expenses).....	14,636,982	16,303	(151,754)
Income (loss) before contributions and transfers.....	(26,372,374)	450,759	19,920,830
Capital contributions from other funds.....	-	-	-
Transfer in.....	233,179	-	-
Transfer out.....	(302,503)	(337,051)	(19,620,527)
Changes in net assets.....	(26,441,698)	113,708	300,303
Total net assets July 1.....	264,989,370	(377,859)	397,531
Total net assets June 30.....	\$ 238,547,672	\$ (264,151)	\$ 697,834

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

Business-type Activities - Enterprise Funds		Governmental Activities	
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds	
\$ 1,665,480	\$ 77,134,618	\$ 143,821,338	
-	92,380,975	-	
-	0	10,186,940	
-	236,884	-	
232,549	232,549	-	
534,284	534,284	-	
171,362	19,679,535	2,663,046	
2,603,675	190,198,845	156,671,324	
869,269	122,808,520	102,165,373	
-	58,074,327	-	
-	5,394,848	-	
-	2,505,744	-	
-	613,330	-	
896,947	1,965,016	21,844,051	
-	0	5,024,784	
39,837	201,401	28,600	
-	899,355	-	
2,660	178,228	5,014,816	
33,913	94,997	2,079,933	
1,915	1,915	346,508	
-	3,795,373	-	
302,965	302,965	-	
208,467	4,912,153	7,104,073	
-	1,410,856	-	
23,129	55,025	2,000,001	
198,924	198,924	36,339	
13,989	13,989	-	
15,771	19,421	-	
110,907	7,369,792	12,149,555	
2,718,693	210,816,179	157,794,033	
(115,018)	(20,617,334)	(1,122,709)	
-	15,647	(527,504)	
-	252	(116,695)	
16,568	14,502,200	320,321	
16,568	14,518,099	(323,878)	
(98,450)	(6,099,235)	(1,446,587)	
-	0	55,104	
302,503	535,682	10,513,369	
(233,179)	(20,493,260)	(2,382,985)	
(29,126)	(26,056,813)	6,738,901	
3,543,102	268,552,144	15,261,425	
\$ 3,513,976	\$ 242,495,331	\$ 22,000,326	

Total change in net assets reported above (26,056,813)
Consolidation adjustment of internal service activities related to Enterprise Funds (16,305)
Change in Net Assets - Business-type Activities \$ (26,073,118)

**STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

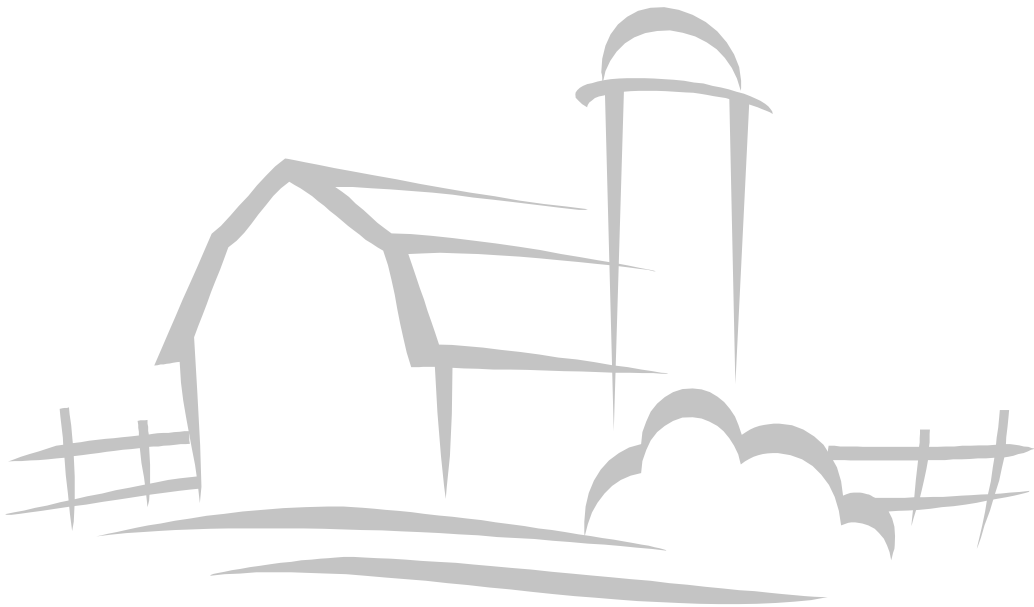
	Business-type Activities - Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
Cash Flows from Operating Activities:			
Cash received from customers.....	\$ 46,694,333	\$ 47,770,108	\$ 91,737,077
Cash paid to suppliers for goods and services.....	-	(32,573,802)	-
Loans received (made).....	-	-	-
Cash paid to employees for services.....	-	(2,900,326)	(1,062,274)
Cash paid for prizes and commissions.....	-	-	(62,302,910)
Cash paid to claimants.....	(88,984,195)	-	-
Liquor taxes and licenses paid.....	-	(12,217,762)	-
Cash paid for fees, operations and other.....	-	-	(7,654,301)
Other operating revenues (expenses).....	437,438	1,152,007	8,107
Net cash provided (used) by operating activities.....	(41,852,424)	1,230,225	20,725,699
Cash Flows from Noncapital Financing Activities:			
Operating transfers in (out).....	-	(337,051)	(20,122,128)
Other.....	-	-	-
Interfund loans and advances.....	-	-	-
Net cash provided (used) by noncapital financing activities.....	0	(337,051)	(20,122,128)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets.....	-	(100,737)	(38,903)
Proceeds from sale of capital assets.....	-	16,211	-
Net cash provided (used) by capital and related financing activities.....	0	(84,526)	(38,903)
Cash Flows From Investing Activities:			
Interest and dividends on investments.....	14,636,982	656	50,630
Proceeds from sales/maturities of investments.....	-	-	334,000
Interest & penalties received (paid).....	(310,646)	-	-
Excess cash transferred.....	233,179	-	-
Net cash provided (used) by investing activities.....	14,559,515	656	384,630
Net increase (decrease) in cash and cash equivalents.....	(27,292,909)	809,304	949,298
Cash and cash equivalents at July 1,	259,391,051	1,982,826	583,725
Cash and cash equivalents at June 30 (see note below).....	\$ 232,098,142	\$ 2,792,130	\$ 1,533,023
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss).....	\$ (41,009,356)	\$ 434,456	\$ 20,072,584
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization.....	-	141,785	33,783
(Increase) decrease in accounts/taxes receivable.....	685,529	44,584	(547,763)
(Increase) decrease in loans receivable.....	-	-	-
(Increase) decrease in accrued interest receivable.....	-	-	-
(Increase) decrease in due from other funds.....	-	-	-
(Increase) decrease in inventory.....	-	(539,731)	(248,850)
(Increase) decrease in prepaid expenses.....	-	-	-
(Increase) decrease in intergovernmental receivable - federal.....	590,196	-	-
Increase (decrease) in accounts payable.....	(1,944,835)	1,022,392	828,232
Increase (decrease) in accrued salaries and benefits.....	-	37,195	5,795
Increase (decrease) in claims payable.....	-	-	-
Increase (decrease) in due to lottery winners.....	-	-	165,965
Increase (decrease) in due to agents.....	-	32,759	-
Increase (decrease) in future and unclaimed prizes payable.....	-	-	512,088
Increase (decrease) in deferred income.....	-	-	(96,135)
Increase (decrease) in due to other funds.....	-	56,785	-
Increase (decrease) in other liabilities.....	(173,958)	-	-
Increase (decrease) in subscription reserves.....	-	-	-
Total adjustments.....	(843,068)	795,769	653,115
Net cash provided (used) by operating activities.....	\$ (41,852,424)	\$ 1,230,225	\$ 20,725,699

NOTE: Total cash/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.

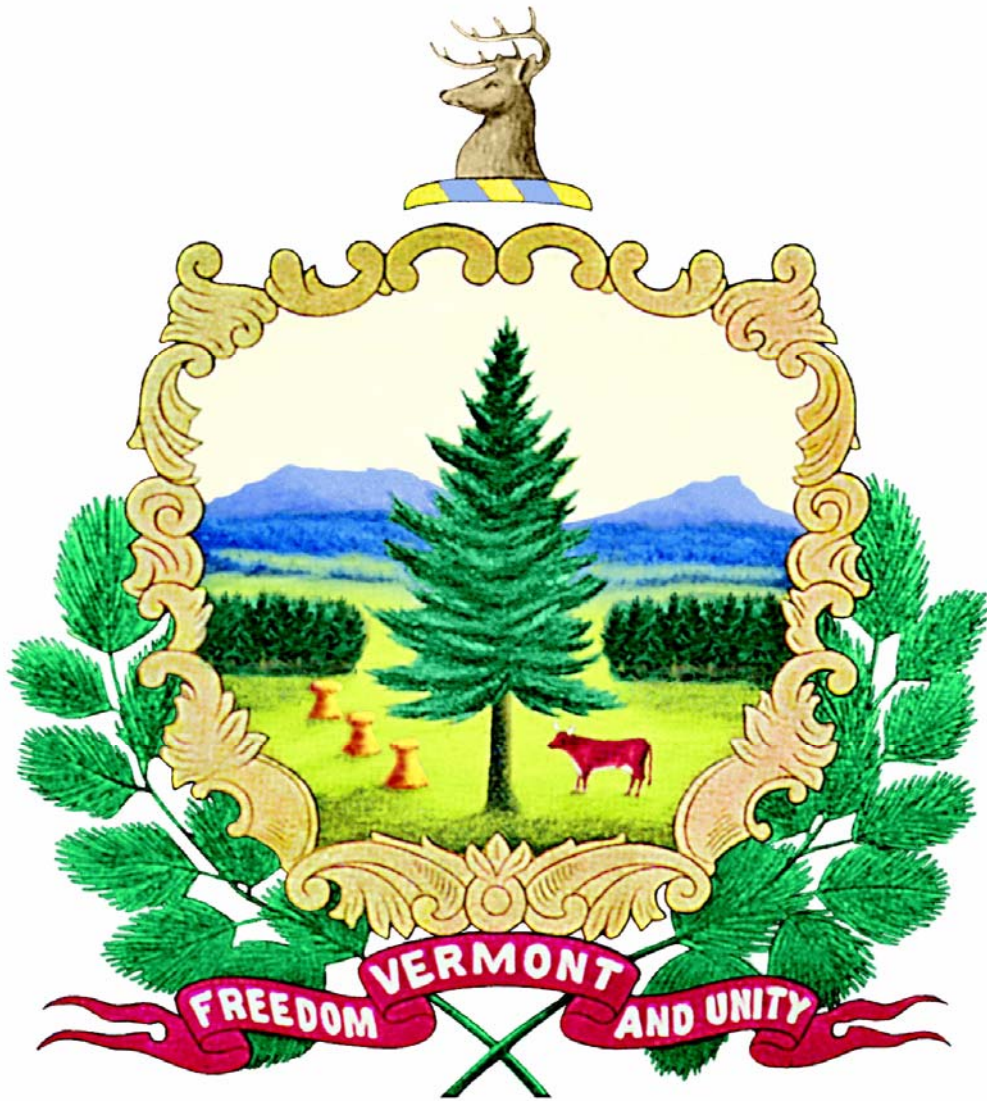
The accompanying notes are an integral part of the financial statements.

Business-type Activities - Enterprise Funds		Governmental Activities
Total Nonmajor Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
\$ 3,632,485	\$ 189,834,003	\$ 156,201,480
(2,670,675)	(35,244,477)	(53,348,972)
(18,626)	(18,626)	-
(823,165)	(4,785,765)	(24,054,174)
-	(62,302,910)	(75,389,729)
-	(88,984,195)	-
-	(12,217,762)	-
-	(7,654,301)	-
(7,980)	1,589,572	(78,785)
112,039	(19,784,461)	3,329,820
104,138	(20,355,041)	8,130,384
-	0	-
(133,703)	(133,703)	(4,512,379)
(29,565)	(20,488,744)	3,618,005
-	(139,640)	(8,091,561)
-	16,211	360,219
0	(123,429)	(7,731,342)
16,227	14,704,495	215,727
-	334,000	-
310,646	0	-
(233,179)	0	-
93,694	15,038,495	215,727
176,168	(25,358,139)	(567,790)
1,824,167	263,781,769	40,309,790
\$ 2,000,335	\$ 238,423,630	\$ 39,742,000
\$ (115,018)	\$ (20,617,334)	\$ (1,122,709)
2,660	178,228	5,014,816
(29,038)	153,312	229,191
143,363	143,363	-
10,490	10,490	-
-	0	(548,011)
223,097	(565,484)	601,982
31,977	31,977	35,977
-	590,196	-
105,764	11,553	(1,144,565)
15,640	58,630	376,726
-	0	(916,991)
-	165,965	-
-	32,759	-
-	512,088	-
(248,485)	(344,620)	127,985
-	56,785	675,419
-	(173,958)	-
(28,411)	(28,411)	-
227,057	832,873	4,452,529
\$ 112,039	\$ (19,784,461)	\$ 3,329,820

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Vermont



***FIDUCIARY FUNDS
FINANCIAL STATEMENTS***

**STATE OF VERMONT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004**

	Pension Trust Funds	Private Purpose Trust Fund	Agency Funds
	Unclaimed Property Fund		
ASSETS			
Cash and cash equivalents.....	\$ 85,598,541	\$ 9,615,706	\$ 5,298,409
Investments at fair value.....	2,560,104,705	-	-
Receivables:			
Taxes.....	-	-	1,561,093
Contributions.....	5,683,895	-	-
Investment principal and interest.....	13,640,402	-	-
Investments sold.....	224,108,081	94,470	-
Other.....	9,935,779	-	396,308
Due from other funds.....	4,000,000	-	562,972
Prepaid expenses.....	1,662,231	-	-
Total assets.....	2,904,733,634	9,710,176	7,818,782
LIABILITIES			
Liabilities:			
Accounts payable.....	2,227,803	12,369	-
Accrued liabilities.....	57,630	9,793	-
Claims payable.....	-	8,815,311	-
Due to other funds.....	-	10,716	529,612
Interfund loans payable.....	-	-	796,078
Due to depositories.....	-	-	83,142
Intergovernmental payable - other governments.....	-	-	2,423,076
Amounts held in custody for others.....	-	-	3,261,038
Payable for investments purchased.....	242,427,713	-	-
Other liabilities.....	-	-	725,836
Total liabilities.....	244,713,146	8,848,189	\$ 7,818,782
Net assets held in trust for benefits & other purposes...	\$ 2,660,020,488	\$ 861,987	
RECONCILIATION OF NET ASSETS HELD IN TRUST:			
Employees' pension benefits.....	\$ 2,660,020,488	\$ -	
Other purposes.....	-	861,987	
Net assets held in trust for benefits & other purposes...	\$ 2,660,020,488	\$ 861,987	

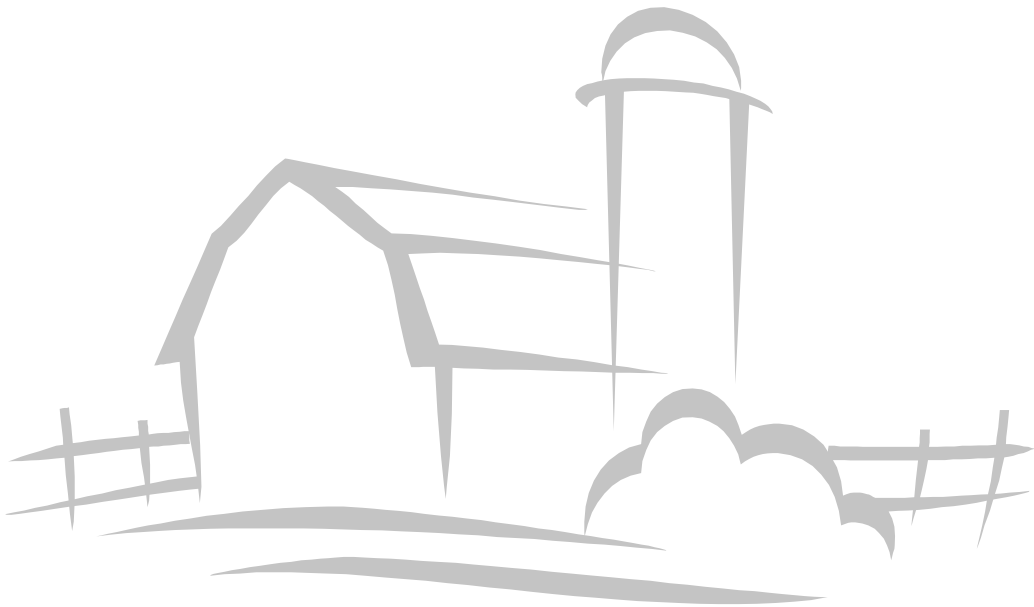
The accompanying notes are an integral part of the financial statements.

**STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

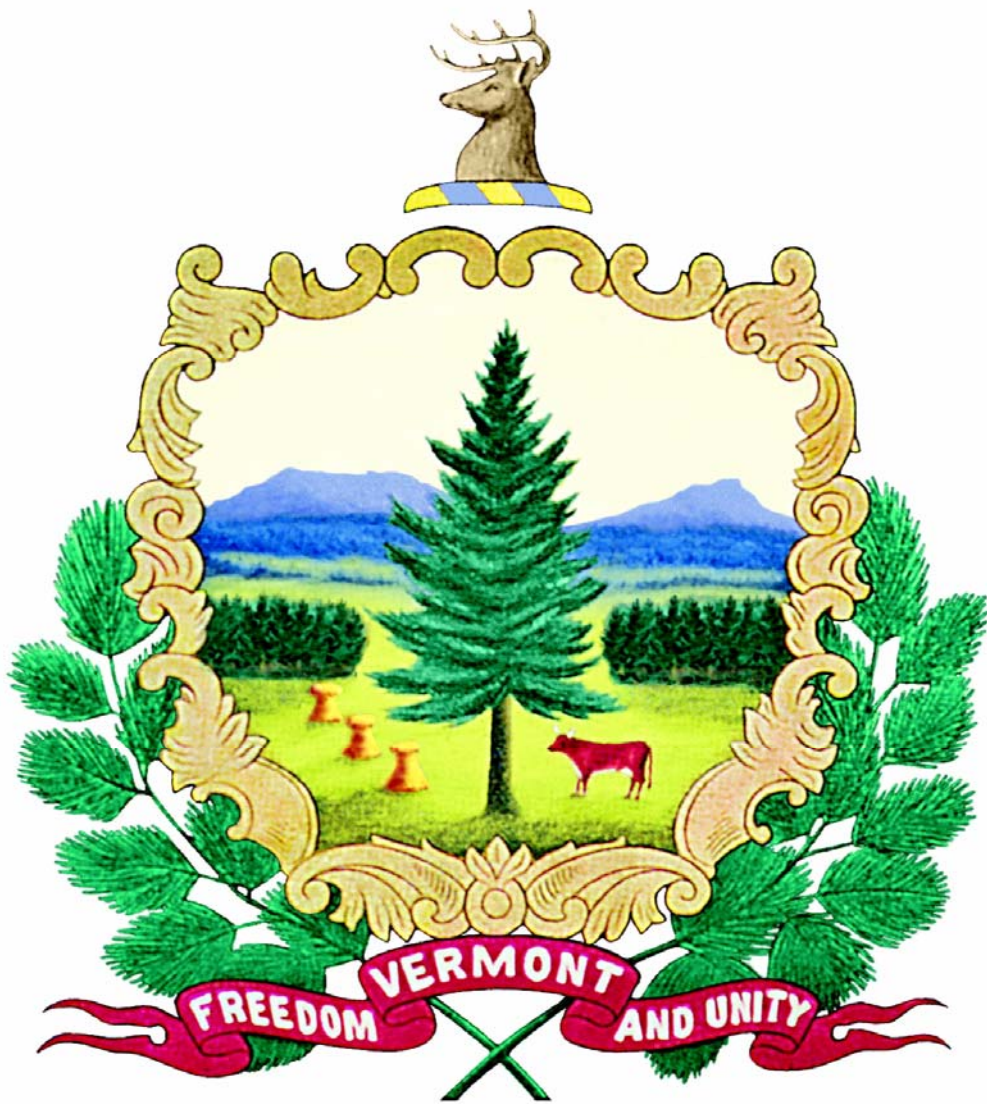
	Pension Trust Funds	Private Purpose Trust Fund
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employer.....	\$ 60,160,215	\$ -
Plan member.....	42,409,184	-
Transfers from non-state systems.....	2,195,732	-
Total contributions.....	<u>104,765,131</u>	<u>0</u>
Investment Income:		
Net appreciation in fair value of investments.....	282,266,417	-
Dividends.....	25,132,474	-
Interest income.....	39,110,345	106,222
Securities lending income.....	1,704,651	-
Other income.....	769,642	-
Less Investment Expenses:		
Investment managers and consultants.....	(9,481,225)	-
Securities lending expenses.....	(1,327,936)	-
Net investment income.....	<u>338,174,368</u>	<u>106,222</u>
Escheat property remittances.....	-	9,668,524
Total additions.....	<u>442,939,499</u>	<u>9,774,746</u>
DEDUCTIONS		
Retirement benefits.....	114,435,183	-
Refunds of contributions.....	2,515,926	-
Death claims.....	478,080	-
Operating expenses.....	19,346,129	1,365,470
Transfers out.....	-	7,837,520
Total deductions.....	<u>136,775,318</u>	<u>9,202,990</u>
Change in net assets.....	306,164,181	571,756
Net assets held in trust for benefits & other purposes:		
beginning of fiscal year	<u>2,353,856,307</u>	<u>290,231</u>
end of fiscal year.....	<u><u>\$ 2,660,020,488</u></u>	<u><u>\$ 861,987</u></u>

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

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Vermont



***Component Unit
Financial Statements***

STATE OF VERMONT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2004

	Vermont Student Assistance Corporation 06/30/2004	University of Vermont and State Agricultural College 06/30/2004	Vermont State Colleges 06/30/2004	Total Nonmajor Component Units	Total Component Units
ASSETS					
Current Assets:					
Cash and cash equivalents.....	\$ 341,276,000	\$ 29,520,000	\$ 9,783,463	\$ 29,186,136	\$ 409,765,599
Investments.....	95,000	79,268,000	15,475,542	11,633,217	106,471,759
Accounts receivable (net).....	-	23,155,000	7,807,582	102,313	31,064,895
Accrued interest receivable - loans.....	33,941,000	-	-	10,417,063	44,358,063
Accrued interest receivable - investments.....	218,000	-	-	-	218,000
Loans and notes receivable - current portion.....	104,380,000	3,107,000	-	50,739,914	158,226,914
Other receivables.....	1,073,000	3,381,000	-	35,896	4,489,896
Due from federal government.....	446,000	-	-	14,832,920	15,278,920
Due from primary government.....	-	-	-	10,098	10,098
Inventories (at cost).....	-	2,146,000	112,664	108,750	2,367,414
Prepaid expenses.....	-	11,061,000	-	8,934	11,069,934
Other current assets.....	1,389,000	-	994,882	301,322	2,685,204
Total current assets.....	482,818,000	151,638,000	34,174,133	117,376,563	786,006,696
Restricted and Non-Current Assets:					
Cash.....	-	7,086,000	763,557	2,800,788	10,650,345
Investments.....	-	302,664,000	25,124,829	58,051,734	385,840,563
Deferred bond issue costs.....	7,393,000	-	-	5,381,452	12,774,452
Loans and notes receivable (net).....	1,171,854,000	29,025,000	4,940,434	502,514,261	1,708,333,695
Other assets.....	-	15,534,000	-	4,998	15,538,998
Total restricted and noncurrent assets.....	1,179,247,000	354,309,000	30,828,820	568,753,233	2,133,138,053
Capital Assets:					
Land.....	3,150,000	13,660,000	3,306,683	172,561	20,289,244
Construction in process.....	725,000	12,325,000	7,240,179	12,157	20,302,336
Building and leasehold improvements.....	721,000	310,539,000	92,419,889	11,932,272	415,612,161
Equipment, furniture and fixtures.....	6,158,000	94,719,000	5,724,560	2,522,904	109,124,464
Infrastructure.....	-	-	17,031,621	-	17,031,621
Accumulated depreciation.....	(4,430,000)	(190,323,000)	(72,277,216)	(10,528,579)	(277,558,795)
Total capital assets, net of depreciation.....	6,324,000	240,920,000	53,445,716	4,111,315	304,801,031
Total assets.....	1,668,389,000	746,867,000	118,448,669	690,241,111	3,223,945,780
LIABILITIES					
Current Liabilities:					
Accounts payable.....	3,117,000	12,414,000	8,287,659	770,335	24,588,994
Accrued salaries and benefits.....	-	24,837,000	-	1,159,137	25,996,137
Accrued interest payable.....	-	-	-	323,764	323,764
Bond interest payable.....	1,307,000	-	-	1,702,165	3,009,165
Deferred revenue.....	3,297,000	12,870,000	5,540,596	440,363	22,147,959
Accrued arbitrage rebate.....	2,560,000	-	-	473,757	3,033,757
Current portion - bonds, notes and leases payable.....	30,400,000	3,707,000	1,141,705	100,251,008	135,499,713
Due to primary government.....	-	-	-	8,321,285	8,321,285
Escrowed cash deposits.....	-	-	-	131,891	131,891
Other current liabilities.....	-	5,828,000	-	12,236,718	18,064,718
Total current liabilities.....	40,681,000	59,656,000	14,969,960	125,810,423	241,117,383
Restricted and Non-Current Liabilities:					
Bonds, notes and leases payable.....	1,519,994,000	176,648,000	39,599,023	413,592,007	2,149,833,030
Accounts payable and accrued liabilities.....	-	-	1,207,647	-	1,207,647
Accrued arbitrage rebate.....	6,044,000	-	-	688,841	6,732,841
Other liabilities.....	-	13,017,000	6,216,738	30,645	19,264,383
Advances from primary government.....	-	-	-	1,954,533	1,954,533
Total liabilities payable from restricted assets.....	1,526,038,000	189,665,000	47,023,408	416,266,026	2,178,992,434
Total liabilities.....	1,566,719,000	249,321,000	61,993,368	542,076,449	2,420,109,817
NET ASSETS					
Invested in capital assets, (net of related debt).....	2,449,000	114,895,000	29,869,476	3,999,918	151,213,394
Restricted.....	48,405,000	286,780,000	9,544,030	102,268,841	446,997,871
Unrestricted - designated.....	-	-	-	30,000	30,000
Unrestricted.....	50,816,000	95,871,000	17,041,795	41,865,903	205,594,698
Total net assets.....	\$ 101,670,000	\$ 497,546,000	\$ 56,455,301	\$ 148,164,662	\$ 803,835,963

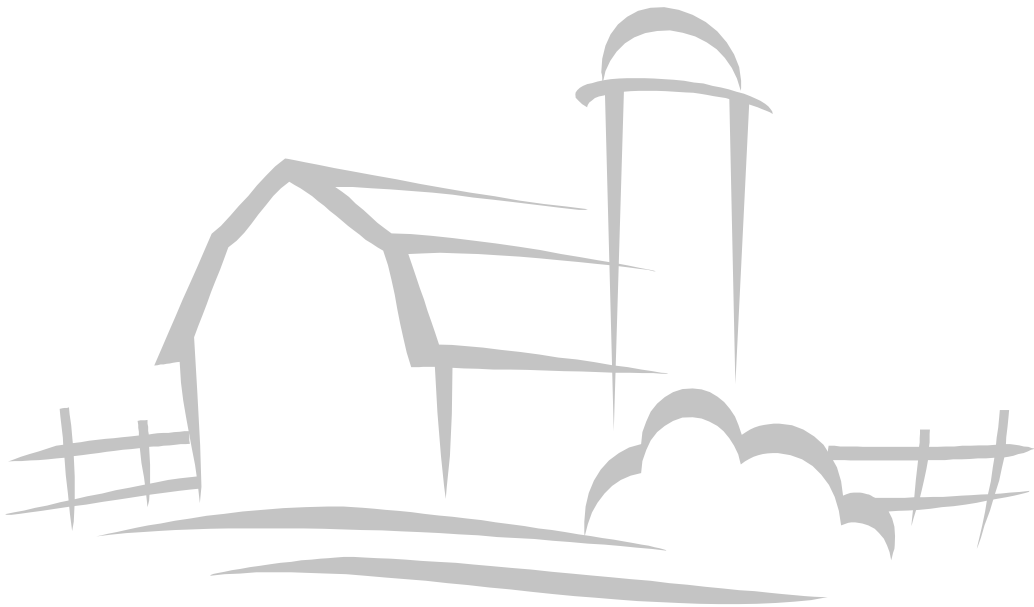
The accompanying notes are an integral part of the financial statements.

**STATE OF VERMONT
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Function/Program</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Vermont Student Assistance Corporation.....	\$ 94,333,000	\$ 59,562,000	\$ 54,694,000	\$ -	\$ 19,923,000
University of Vermont.....	406,661,000	201,196,000	190,164,000	6,602,000	(8,699,000)
Vermont State Colleges.....	118,800,228	69,421,442	46,485,878	3,255,101	362,193
Total nonmajor component units.....	61,499,406	37,404,981	11,570,386	-	(12,524,039)
Total component units.....	<u>\$ 681,293,634</u>	<u>\$ 367,584,423</u>	<u>\$ 302,914,264</u>	<u>\$ 9,857,101</u>	<u>(937,846)</u>
General Revenues:					
				Property transfer tax.....	12,604,000
				Investment income.....	53,154,281
				Additions to non-expendable endowments.....	116,197
				Miscellaneous.....	89,043
				Total general revenues.....	<u>65,963,521</u>
				Changes in net assets.....	65,025,675
				Net assets - beginning, restated.....	<u>738,810,288</u>
				Net assets - ending.....	<u>\$ 803,835,963</u>

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

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Vermont

**State of Vermont
Notes to the Financial Statements
Fiscal Year Ended June 30, 2004**

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**STATE OF VERMONT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004**

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the State of Vermont have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Newly implemented in these statements are the requirements of GASB Statement No. 39 – “Determining Whether Certain Organizations Are Component Units” – an amendment to GASB Statement No. 14.

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, 2004.

A. Reporting Entity

The financial statements include the various agencies, boards, commissions, public trusts, and authorities of the State as well as legally separate entities over which the State’s executive, legislative, and judicial branches exercise oversight responsibility. Oversight responsibility as defined by GASB includes the following considerations:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

In addition, the following criteria were considered during the evaluation of the legally separate entities for inclusion in the CAFR as Component Units:

The scope of public services as to whether its activity benefits the State or its citizens, and whether the activity is conducted within the geographic boundaries of Vermont and is generally available to Vermont residents.

The existence of any special relationships regardless of whether the government exercises oversight responsibility that would cause the State’s financial statements to be misleading or incomplete if the entity’s financial activity were to be omitted.

Entities that may meet only one of the above criteria for inclusion in this report have not been included.

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and component units of the State of Vermont.

COMPONENT UNITS

Component Units are entities that are legally separate from the State, but which are either financially accountable to the State, or whose relationships with the State are 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.” Vermont does not report any blended component units in this CAFR but does report discretely presented component units that may report blended component units in their financial

statements (See the Vermont Municipal Bond Bank). 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 Component Units columns of the government-wide financial statements report the financial results of the following entities:

Major Component Units

Vermont Student Assistance Corporation (VSAC) – VSAC was established by the General Assembly 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. For further information, contact their administrative offices at the Champlain Mill, P.O. Box 2000, Winooski, Vermont 05404-2601.

University Of Vermont and State Agricultural College (UVM) - The University of Vermont's financial report includes both the university and the State Agricultural College. 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
- Practical Nursing Program
- Vermont Manufacturing Extension Center

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, Post Office Box 359, Waterbury, Vermont 05676.

Non-Major Component Units

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 educational or health related entities. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 133 State Street, Montpelier, Vermont 05633.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this non-profit 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. VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 149 Main Street, Montpelier, Vermont 05602.

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.

VEDA also administers the State Infrastructure Bank (SIB) and the Drinking Water State Revolving Loan Fund – Private Loans. These two 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 56 East State Street, Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purposes 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 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, which has a June 30 year-end and issues its own audited financial statements, was created by the General Assembly for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. 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 133 State Street, Montpelier, Vermont 05633.

Vermont Center For Geographic Information (VCGI) – The Vermont Legislature established VCGI and charged it with creating a comprehensive strategy for the development and use of a geographic information system. Audited financial statements or additional information may be obtained by contacting them at 58 South Main Street, Waterbury, Vermont 05671.

Vermont Sustainable Jobs Fund, Inc. – 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). Audited financial statements and additional information may be obtained by contacting them at 56 East State Street, Montpelier, Vermont 05602.

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. Its only current activity was managing the commuter rail line running from Shelburne to Burlington, Vermont whose operations were discontinued on February 28, 2003. Audited financial statements and additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

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 home. The 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. Additional information may be obtained by contacting the Vermont State Treasurer at 133 State Street, Montpelier, Vermont 05633-6200.

In fiscal year 2004, Vermont implemented the requirements of GASB Statement No. 39 Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14. This statement provides additional guidance for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government and to clarify reporting requirements for them. Additionally, the State required its component units reported under GASB Statement No. 14 to review any of their associated organizations for inclusion in their financial statements. The

results of their review can be seen in their individually audited financial statements.

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 following entities in which the State has been participating have been classified as joint ventures. The financial activities of these organizations have not been included in the State's financial statements; however, see Note 15 for a summary of the financial activity of the Tri-State Lotto Commission.

Connecticut River Atlantic Salmon Committee (10 V.S.A. 4654)
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)
Tri-State Lotto Commission (31 V.S.A. 673)
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

RELATED ORGANIZATIONS

Related organizations are separate legal entities for which the primary government is accountable only because it appoints a voting majority of the board but for which it is not financially accountable. The following entities have been classified as related organizations but their financial activity has not been included in the State's financial statements.

Vermont State Housing Authority (24 V.S.A. 4005)
Vermont Housing Finance Agency (10 V.S.A. 611)

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

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

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 are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources by management are not presented as restricted net assets. When both restricted and non-restricted 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 discretely presented 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 consolidated 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 the 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.

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. Principal revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes.

Expenditures generally are recorded when a liability is due and payable. See the "Tax Refunds" section of this footnote for the special consideration afforded the recognition of personal income tax refunds in this report.

Modifications to the modified accrual basis of accounting include:

Employees vested annual, personal, and compensated leave time is recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in

the government-wide financial statements and does not include any accruals for the State's share of any taxes due when the expenditures are actually paid. See the "Compensated Absences" section of this footnote for additional information.

Interest on general long-term debt is recognized when due to be paid.

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 proprietary 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 operation(s). Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

University of Vermont (UVM) and the Vermont State College System (VSC) – These entities account for their activity using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America set forth for public colleges and universities.

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 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 General Assembly 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.

Special Revenue Funds - These funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities 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 maintenance and staffing of highway rest areas, construction of transportation capital facilities, and to provide funding for transportation related debt service requirements. The principle 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 federal aid transportation projects.

Education Fund – This fund is a major special revenue fund. It was established by the Vermont Legislature to equalize statewide funding requirements. Expenditures authorized for funding are codified in 16 V.S.A. 4025(b) and may include only legitimate items of current education expense. Sources of funding are described in 16 V.S.A. 4025(a). A stabilization reserve for the Education Fund has also been established in accordance with 16 V.S.A. 4026.

Special Fund – This fund is a major special revenue fund. It consolidates many individual special revenue funds that account for proceeds or specific revenues not categorized above that are legally restricted to expenditures for specific purposes. These purposes cross the entire gamut 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 transportation or fish and wildlife purposes. Federal grants of these latter two types are recorded in the State's Transportation Fund or Fish and Wildlife Fund respectively.

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

Capital Projects Funds – These funds, consisting of the General Bond Fund and the Transportation Bond Fund, are non major governmental funds, account for capital improvement expenditures. These appropriations are primarily funded by the issuance of State capital bonds. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

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, monument preservation, etc. In previous years, these funds were reported as non-expendable trust funds.

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 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.

Internal Service Funds – These 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. 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, other governmental units, or other funds. These funds include the following:

Pension 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 System of Vermont, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, and the State's Single Deposit Investment Account.

Private Purpose Trust Fund – The State reports only one fund under this category, the *Unclaimed Property Fund* managed by the State Treasurer's Office. This fund accounts for all abandoned property in the State that is required to be reported and sent to the State for safekeeping. The State Treasurer is required to return this property to its rightful owner if he/she can be determined. If no one claims the property after a prescribed amount of time has passed, the Treasurer is required to transfer it to the General Fund where the Legislature will appropriate it. However, if a valid claim is submitted after the Legislature has appropriated this property, the State is still required to return this property or its equivalent value to the rightful owner.

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.

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 General Assembly 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 the November 1 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the General Assembly, 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 General Assembly then enacts into law an appropriations act that must be approved by the Governor before any 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 General Assembly 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 within limits established by statute. 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).

CASH AND CASH EQUIVALENTS

Cash balances for most funds are deposited with the State Treasurer, except for the Pension Trust Funds, 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 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 3 months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

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 receivable.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from component units. 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 sixty days. Amounts estimated to be collected after the sixty-day period are recorded as deferred revenues. Federal receivables are amounts due from the federal government to reimburse the State for 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 advances in the form of Vermont Economic Development Authority notes purchased by the State. See Note 12 – Contingent and Limited Liabilities for further information. No allowances for uncollectible amounts have been recognized in these notes receivable.

The “Investments Sold” receivable balance on the Statement of Fiduciary Net Assets – Pension Trust Funds represent monies due to the respective retirement funds for investments sold or matured prior to June 30, 2004, but for which the receipts were received subsequent to June 30, 2004.

The “Other” receivable balance in the Vermont Municipal Employees' Retirement Fund represents the remaining cash balance due from several municipal entities that recently joined this plan. Please see Note 5A – Retirement Plan Descriptions for further information regarding these new entities.

INVENTORIES

Inventories of materials and supplies reported in the governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are generally valued at the lower of average cost or market. However, inventories reported in the Federal Surplus Property Fund (an enterprise fund) are reported at the federal acquisition cost.

CAPITAL ASSETS AND DEPRECIATION

Capital assets, which include property, plant, equipment, and infrastructure assets are recorded in the Government-wide Statement of Net Assets at historical cost if available or, if donated or the actual cost is not known, at the estimated fair market value at the date the State acquired them. Interest incurred on debt issued for construction of these capital assets is not capitalized.

Vermont defines a Capital Asset as a physical resource that costs at least \$5,000 and provides a future economic benefit for a minimum of 2 years. This includes capital leases and buildings that are not considered to be part of an infrastructure asset. All land regardless of cost, is capitalized and is not depreciated.

Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature; utilized primarily by the general public as compared to state employees; cost at least \$50,000 and provide future economic benefit for at least 3 years. Normally, they can be preserved for a significantly greater number of years than most capital assets. They are generally much greater in value and have a longer economic life than capital assets.

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 and equipment are 3 to 24 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes 4 and 7, respectively.

Capital assets in the proprietary funds are capitalized at cost when acquired. Depreciation is calculated and recorded using the straight-line method with estimated useful lives being the same as those for the governmental capital assets.

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. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements.

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.

PAYABLES

The accounts payable balances contained in the financial statements consist of operating liabilities that were incurred and payment was due prior to year-end (usually June 30) 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.

The "payable for investments purchased" balance for the Pension Trust Funds represents amounts due for securities purchased prior to June 30, 2004, which were paid subsequent to June 30, 2004.

ACCRUED LIABILITIES

Accrued liabilities consist of employee wages and related fringe benefit accruals earned by employees as of June 30, 2004. Retainage payable consists of portions of progress payment amounts due to contractors that have been withheld and which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

TAX REFUNDS

Tax refunds primarily represent amounts owed by the State to taxpayers because of overpayment of their 2003 calendar year and first and second quarter 2004 calendar year personal 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, 2004 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2004. The amount reported as tax refunds payable at June 30, 2004 in the government-wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2004 tax liability as well as overpayments for calendar year 2003 and prior years' tax liabilities that have not been paid out as of June 30, 2004.

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. Un-liquidated encumbrances remaining at fiscal year-end are reported in the Reserved For Encumbrances account as a component of fund equity for the governmental fund types.

FUND BALANCES

Fund balances for governmental funds are either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation; (2) funds legally separated for a specific use such as "reserved for encumbrances;" or (3) funds segregated by legal restrictions.

Certain other reservations of the Governmental Funds' fund balances are described below.

Budget Stabilization Reserve – These reserves are established in the General, Transportation, and Education funds. They were created to reduce the effects of annual variations in state revenues by reserving certain surpluses of revenue. See Note 14 for a more complete disclosure of these reserves as it pertains to the current fiscal year.

Reserve For Debt Service – During fiscal year 1993, the State initiated a lawsuit to recover costs associated with asbestos removal. A settlement agreement between the contractor and the State was reached which resulted in net proceeds of \$1,734,543 being credited to and reserved in the General Fund to meet future debt obligations associated with issuance of bonds relating to asbestos removal. The reserved amount is reduced annually through fiscal year 2009 in proportion to the repayment schedule of the bonds issued to refinance the asbestos removal. The remaining reserved balance at June 30, 2004 is \$38,786. Also reported as reserve for debt service is the premium on sale of bonds for general obligation bonds sold during the fiscal year. This portion of the reserve will be appropriated in the following fiscal year to be used on the first payment of principal or interest due on the bonds.

Reserve For Human Caseload Management – The General Fund reserve for human caseload management, established pursuant to 32 V.S.A. Section 308b(a) was created to be available for appropriation to meet caseload-related needs at the Agency of Human Services. The Secretary of Administration may transfer to this reserve any general fund unexpended appropriations directly attributable to Aid To Needy Families With Children (ANFC) caseload reductions and the effective management of related federal receipts.

COMPENSATED ABSENCES

Compensated absences include accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees may 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 an accrual year or forfeited.

Liabilities for compensated absences are recorded in the fund where the employees are assigned. The amounts are calculated based on an employee's pay rate in effect on June 30, 2004. Additional information including changes in balances may be found in Note 18 – 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 straight-line 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.

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 Funding Sources (Uses)” in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

PREPAID EXPENSES

In governmental funds, all purchases are recorded as expenditures when paid. In the government-wide, proprietary and fiduciary funds’ statements, 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.

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 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:

The State pools substantially all cash and investments of governmental, proprietary, and agency funds, except those which are maintained separately in accordance with legal restrictions. Separate cash and investment accounts are generally maintained for pension funds and capital projects funds. Each fund's equity share of the total pooled cash and investments and restricted assets are included on the accompanying balance sheets.

Schedule of Deposit and Investment Disclosures

June 30, 2004

Primary Government and Component Units

Cash and Cash Equivalents	\$	1,077,722,212
Investments		3,094,635,678
Restricted Cash		<u>16,626,695</u>

Total **\$** **4,188,984,585**

Deposits, Investments, and Reconciling Items

Carrying Value of Deposits	\$	605,415,445
Carrying Value of Investments		3,350,018,305
Cash on Hand		584,755
U.S. Treasury - Unemployment Account		<u>232,966,080</u>

Total **\$** **4,188,984,585**

DEPOSITS:

The following statutory requirement and Treasury Department policy have been implemented to minimize risk associated with deposits. 32 V.S.A. Sec. 431 establishes the requirements the State Treasurer must adhere to when depositing public monies. The statute sets parameters regarding the amount of funds that may be on deposit with any particular institution at any one time. Although not statutorily required, the State Treasurer requires the State's cash deposits to be collateralized with either United States Treasury securities or Vermont Municipal securities or a combination of same with a current market value equal to at least 102% of the amount of the deposit.

Deposits are classified as to custodial credit risk by the three categories described below:

- Category 1 Fully insured or collateralized with securities held by the State or its agent in the State's name.
- Category 2 Collateralized with securities held by the pledging institution's trust department or its agent in the State's name.
- Category 3 Uncollateralized.

The U.S. Treasury - Unemployment Account balance of \$232,966,080 at June 30, 2004 is on deposit with the U.S. Treasury and is not categorized.

At June 30, 2004, the State's deposits, listed by custodial credit risk category, are shown in the following schedule:

	Categories			Bank Balance	Reported Amount
	1	2	3		
Primary Government	\$ 4,960,822	\$ 54,531,958	\$ 144,859,520	\$ 204,352,300	\$ 184,999,501
Component Units	<u>2,217,113</u>	<u>16,899,998</u>	<u>376,322,731</u>	<u>395,439,842</u>	<u>420,415,944</u>
Total	\$ 7,177,935	\$ 71,431,956	\$ 521,182,251	\$ 599,792,142	\$ 605,415,445

INVESTMENTS:

Effective July 1, 1997, the State adopted provisions of GASB No.31, "Accounting and Reporting for Certain Investments and for External Investment Pools." GASB No.31 requires investments to be reported at fair value in the balance sheet. Effective with fiscal year 2003, the State reports any derivatives at fair value in accordance with GASB TB 2003-1, "Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets."

The disclosure of carrying (book) amounts by type of investment are classified in the following three categories of custodial credit risk:

1. Insured, registered or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by counterparty's Trust Department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the State's name.

32 V.S.A. Section 433 defines the parameters the Treasurer must adhere to when investing State monies. Types of investments the Treasurer may utilize include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations; certificates of deposit issued by banks and savings and loan associations approved by the Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. The boards overseeing the various pension funds have adopted their own set of investment guidelines.

At June 30, 2004 the State's investments, categorized by the custodial credit risk categories listed above, are shown in the following schedule:

	INVESTMENTS			Carrying Amount
	Categories			
	1	2	3	
Primary Government				
Stocks	\$ 1,387,852,133	\$ -	\$ -	\$ 1,387,852,133
U.S. Government Securities	532,656,260	-	-	532,656,260
Corporate Bonds and Notes	535,421,517	-	-	535,421,517
Other Investments	-	-	34,955,555	34,955,555
Subtotals	2,455,929,910	-	34,955,555	2,490,885,465
Not Categorized:				
Real Estate/Venture Capital	-	-	-	196,010,970
Mutual Funds	-	-	-	170,047,390
Lottery Annuity	-	-	-	760,089
Mortgages	-	-	-	2,069
Totals - Primary Government	<u>\$ 2,455,929,910</u>	<u>\$ -</u>	<u>\$ 34,955,555</u>	<u>\$ 2,857,705,983</u>
Component Units				
Stocks	\$ 51,489,788	\$ -	\$ -	\$ 51,489,788
U.S. Government Obligations	76,955,987	9,412,000	-	86,367,987
Corporate Bonds	12,950,655	2,486,000	-	15,436,655
Other	8,574,465	237,303,427	85,885,000	331,762,892
Subtotals	149,970,895	249,201,427	85,885,000	485,057,322
Not Categorized:				
Partnerships	-	-	-	6,950,000
Other	-	-	-	305,000
Total Component Units	<u>\$ 149,970,895</u>	<u>\$ 249,201,427</u>	<u>\$ 85,885,000</u>	<u>492,312,322</u>
Total - Reporting Entity				<u>\$ 3,350,018,305</u>

Securities Lending Transactions:

State statutes and boards of trustees policies permit the Office of the Vermont State Treasurer to use investments of the three 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. The pension plans' securities dealer, State Street Bank and Trust Company (State Street), is the agent in lending the plans' domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. At year-end the pension plans have no credit risk exposure to borrowers because the amounts the plans owe the borrowers exceed the amounts the borrowers owe the plans. The lending agent indemnified Vermont by agreeing to purchase replacement securities or to return cash collateral in the event borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay Vermont for income distributions by the securities' issuers while the securities were on loan. There were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, Vermont and the borrowers maintained the right to terminate all securities loans on demand. The cash collateral received on each loan was invested in collective investment pools with an average duration of 52 days at June 30, 2004. Because loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. On June 30, 2004, the collateral held and the market value of the securities on loan for Vermont was \$149,501,330 and \$145,430,016, respectively.

Below are the statutory references that allow the pension plans to participate in the securities lending program.

Statute Reference

3 V.S.A. Section 471(m)
 16 V.S.A. Section 1942(q)
 24 V.S.A. Section 5062(o)

Retirement Plan

Vermont State Employees' Retirement Fund
 Vermont Teachers' Retirement Fund
 Vermont Municipal Employees' Retirement Fund

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, 2004, are as follows.

Due From Other Funds	Due To Other Funds					
	Governmental Funds					
	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Nonmajor Governmental Funds
General Fund	\$ -	\$ 13,894	\$ -	\$ 62,917	\$ 56,067	\$ 774
Transportation Fund	8,078	-	-	3,693	60,910	705
Education Fund	-	-	-	-	-	-
Special Fund	662,928	26,835	1,700	-	939,295	3,547
Federal Revenue Fund	140,405	569,742	-	1,149,431	-	-
Nonmajor Governmental Funds	-	-	-	9,836	-	-
Nonmajor Enterprise Funds	-	-	-	-	-	341
Internal Service Funds	20,000	-	-	-	-	30,000
Fiduciary Funds	4,181,688	366,260	-	-	2,282	-
Total	\$ 5,013,099	\$ 976,731	\$ 1,700	\$ 1,225,877	\$ 1,058,554	\$ 35,367

continues below

Due From Other Funds	Due To Other Funds					
	Enterprise Funds					
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission	Internal Service Funds	Fiduciary Funds	Total
General Fund	\$ -	\$ 342,907	\$ -	\$ -	\$ 119,608	\$ 596,167
Transportation Fund	-	-	-	-	402,871	476,257
Education Fund	-	-	14,452	-	-	14,452
Special Fund	-	-	-	108,346	5,022	1,747,673
Federal Revenue Fund	-	-	-	-	-	1,859,578
Nonmajor Governmental Funds	-	-	-	-	-	9,836
Nonmajor Enterprise Funds	20,732	-	-	-	-	21,073
Internal Service	-	-	-	575,973	85	626,058
Fiduciary Funds	-	-	-	-	497,366	5,047,596
Total	\$ 20,732	\$ 342,907	\$ 14,452	\$ 684,319	\$ 1,024,952	\$ 10,398,690

B. Advances To/From Other Funds

The General Fund has made cash advances to some proprietary funds for imprest petty cash disbursement needs. The General Fund advances to other funds at June 30, 2004, are summarized below.

Proprietary Funds	
Vermont Lottery Fund	\$ 300,000
Liquor Control Fund	5,700
Nonmajor Proprietary Funds	2,900
Internal Service Funds	15,100
Total	\$ 323,700

C. Interfund Receivables/Payables

Interfund receivables/payables represent amounts owed to the General Fund by the following funds at June 30, 2004, to eliminate negative cash balances in the State Treasurer's pooled cash.

Proprietary Funds	
Nonmajor Proprietary Funds	\$ 395,457
Internal Service Funds	19,783,093
Fiduciary Funds	
Agency Funds	796,078
Total	\$ 20,974,628

D. Inter - Primary Government/Component Unit Balances**Advances to Component Units/Advances from Primary Government**

The General Fund advances to component units consists of \$1,954,533 in advances to the Vermont Economic Development Authority.

Due from Component Units/Due to Primary Government

Due from component units consist of the amounts owed to the primary government for programs administered by component units in accordance with memorandums of understanding with State departments and for the elimination of negative balances in the State Treasurer's pooled cash.

	Due to	Due to Primary Government		
	Component Units	Vermont Housing & Conservation Trust Fund	Vermont Economic Development Authority	Total
	Transportation Fund			
Due from Component Units				
General Fund	\$ -	\$ 1,984,433	\$ -	\$ 1,984,433
Transportation Fund	-	-	1,730,673	1,730,673
Federal Revenue Fund	-	-	4,606,179	4,606,179
Due from Primary Government				
Vermont Transportation Authority	10,098	-	-	10,098
Total	\$ 10,098	\$ 1,984,433	\$ 6,336,852	\$ 8,331,383

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. Interfund transfers for the fiscal year ending June 30, 2004, are as follows.

Transfers In	Transfer Out				
	Governmental Funds				
	General Fund	Transportation Fund	Special Fund	Federal Revenue Fund	Nonmajor Governmental Funds
General Fund	\$ -	\$ -	\$ 6,466,093	\$ 10,570	\$ 53
Transportation Fund	4,773,000	-	-	-	-
Education Fund	268,400,000	-	-	8,628,882	-
Special Fund	86,510,461	3,268,028	-	26,917,692	238,355
Federal Revenue Fund	-	-	47,928	-	1,993,984
Nonmajor Governmental Funds	482,000	349,052	45,523	-	-
Unemployment Compensation Trust Fund	-	-	-	-	-
Nonmajor Enterprise Funds	-	-	-	-	-
Internal Service Funds	8,405,807	2,107,562	-	-	-
Total	\$ 368,571,268	\$ 5,724,642	\$ 6,559,544	\$ 35,557,144	\$ 2,232,392

continues below

Transfers In	Transfer Out				
	Enterprise Funds				
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission	Nonmajor Enterprise Funds	Internal Service Funds
General Fund	\$ -	\$ 337,051	\$ -	\$ -	\$ -
Transportation Fund	-	-	-	-	-
Education Fund	-	-	19,580,527	-	-
Special Fund	-	-	40,000	-	2,382,985
Federal Revenue Fund	-	-	-	-	-
Nonmajor Governmental Funds	-	-	-	-	-
Unemployment Compensation Trust Fund	-	-	-	233,179	-
Nonmajor Enterprise Funds	302,503	-	-	-	-
Internal Service Funds	-	-	-	-	-
Total	\$ 302,503	\$ 337,051	\$ 19,620,527	\$ 233,179	\$ 2,382,985

continues below

Transfers In	Transfer Out	
	Fiduciary Funds	Total
General Fund	\$ 7,837,520	\$ 14,651,287
Transportation Fund	-	4,773,000
Education Fund	-	296,609,409
Special Fund	-	119,357,521
Federal Revenue Fund	-	2,041,912
Nonmajor Governmental Funds	-	876,575
Unemployment Compensation Trust Fund	-	233,179
Nonmajor Enterprise Funds	-	302,503
Internal Service Funds	-	10,513,369
Total	\$ 7,837,520	\$ 449,358,755

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education and transfers from the Federal Revenue Fund for local school reimbursement of medicaid eligible costs.

The Special Fund received transfers from the General Fund for the State share of medicaid payments, and from the Federal Revenue Fund for the low income home energy assistance program and education medicaid reimbursements.

Note 4: Capital Assets:

Capital Assets activities for the fiscal year ended June 30, 2004 were as follows:

Primary Government

Governmental Activities	(Restated) Beginning Balance	Additions	Deletions	Adjustments and Reclas- sifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	\$ 66,560,594	\$ 415,417	\$ -	\$ -	\$ 66,976,011
Construction in process	379,792,940	99,601,752	(85,795,001)	(957,038)	392,642,653
Works of Art	111,521	-	-	-	111,521
Total capital assets, not being depreciated	<u>446,465,055</u>	<u>100,017,169</u>	<u>(85,795,001)</u>	<u>(957,038)</u>	<u>459,730,185</u>
Capital assets, being depreciated:					
Buildings and improvements	254,680,544	45,656,439	(19,250)	(389,911)	299,927,822
Machinery and equipment	108,400,187	14,994,176	(7,795,887)	1,823,373	117,421,849
Infrastructure	1,055,288,493	41,526,262	-	(1,091,070)	1,095,723,685
Total capital assets, being depreciated	<u>1,418,369,224</u>	<u>102,176,877</u>	<u>(7,815,137)</u>	<u>342,392</u>	<u>1,513,073,356</u>
Less accumulated depreciation for:					
Buildings and improvements	(110,620,942)	(7,340,377)	-	56,407	(117,904,912)
Machinery and equipment	(58,796,958)	(13,601,239)	6,704,948	(225,634)	(65,918,883)
Infrastructure	(605,224,865)	(37,890,034)	-	166,430	(642,948,469)
Total accumulated depreciation	<u>(774,642,765)</u>	<u>(58,831,650)</u>	<u>6,704,948</u>	<u>(2,797)</u>	<u>(826,772,264)</u>
Total capital assets, being depreciated, net	<u>643,726,459</u>	<u>43,345,227</u>	<u>(1,110,189)</u>	<u>339,595</u>	<u>686,301,092</u>
Governmental activities capital assets, net	<u>\$ 1,090,191,514</u>	<u>\$ 143,362,396</u>	<u>\$ (86,905,190)</u>	<u>\$ (617,443)</u>	<u>\$ 1,146,031,277</u>
Business-type Activities	Beginning Balance	Additions	Deletions	Adjustments and Reclas- sifications	Ending Balance
Capital assets, being depreciated:					
Buildings and improvements	\$ 41,850	\$ -	\$ -	\$ -	\$ 41,850
Machinery and equipment	1,142,379	139,640	(40,604)	(48,884)	1,192,531
Total capital assets, being depreciated	<u>1,184,229</u>	<u>139,640</u>	<u>(40,604)</u>	<u>(48,884)</u>	<u>1,234,381</u>
Less accumulated depreciation for:					
Buildings and improvements	(21,847)	(5,231)	-	-	(27,078)
Machinery and equipment	(628,612)	(172,997)	40,040	48,884	(712,685)
Total accumulated depreciation	<u>(650,459)</u>	<u>(178,228)</u>	<u>40,040</u>	<u>48,884</u>	<u>(739,763)</u>
Total capital assets, being depreciated, net	<u>533,770</u>	<u>(38,588)</u>	<u>(564)</u>	<u>-</u>	<u>494,618</u>
Business-type activities capital assets, net	<u>\$ 533,770</u>	<u>\$ (38,588)</u>	<u>\$ (564)</u>	<u>\$ -</u>	<u>\$ 494,618</u>

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

<u>Governmental Activities:</u>		<u>Business-type Activities:</u>	
General Government	\$ 10,461,332	Liquor Control	\$ 141,785
Protection to Persons and Property	2,725,648	Lottery Commission	33,783
Human Services	953,195	Federal Surplus Property	2,660
Employment & Training	131,591	Total	<u>\$ 178,228</u>
General Education	21,278		
Natural Resources	1,156,213		
Commerce and Community Development	53,422		
Transportation	38,314,155		
Depreciation on Capital Assets held by the Internal Service Funds	5,014,816		
Total	<u>\$ 58,831,650</u>		

Discretely Presented Component Units

	Beginning Balance	Additions	Deletions	Adjustments and Reclas- sifications	Ending Balance
Capital assets, not being depreciated:					
Land and land improvements	\$ 17,810,928	\$ 3,358,000	\$ (1,214,000)	\$ 334,316	\$ 20,289,244
Construction in process	652,886	21,900,080	-	(2,975,630)	19,577,336
Total capital assets, not being depreciated	<u>18,463,814</u>	<u>25,258,080</u>	<u>(1,214,000)</u>	<u>(2,641,314)</u>	<u>39,866,580</u>
Capital assets, being depreciated:					
Buildings and improvements	401,635,243	16,867,624	(2,102,000)	(279,016)	416,121,851
Machinery and equipment	100,563,276	9,717,289	(87,768)	(853,023)	109,339,774
Infrastructure	16,213,062	669,174	-	149,385	17,031,621
Total capital assets, being depreciated	<u>518,411,581</u>	<u>27,254,087</u>	<u>(2,189,768)</u>	<u>(982,654)</u>	<u>542,493,246</u>
Less accumulated depreciation	<u>(260,727,276)</u>	<u>(17,160,973)</u>	<u>66,103</u>	<u>263,351</u>	<u>(277,558,795)</u>
Total capital assets, being depreciated, net	<u>257,684,305</u>	<u>10,093,114</u>	<u>(2,123,665)</u>	<u>(719,303)</u>	<u>264,934,451</u>
Component unit capital assets, net	<u>\$ 276,148,119</u>	<u>\$ 35,351,194</u>	<u>\$ (3,337,665)</u>	<u>\$ (3,360,617)</u>	<u>\$ 304,801,031</u>

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS:

A. Retirement Plan Descriptions

Defined Benefit Retirement Plans

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.

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 5.1% of payroll (contributions cease upon attainment of 25 years of creditable service),
- state police, law enforcement positions and airport firefighters hired after July 1, 2000 (Group C) with a contribution rate of 6.28% of payroll,
- judges (Group D) with a contribution rate of 5.1% of payroll,
- terminated vested members of the non-contributory system (Group E), and
- all other general employees (Group F) with a contribution rate of 3.35% of payroll.

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost sharing multiple-employer public employee retirement system. 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 3.4% 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 elect to transfer their current memberships from a contributory to a non-contributory membership class (see Note 5 E. Single Deposit Investment Account). 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. Present law provides that each system's unfunded accrued liability will be amortized over 30 years. This amortization began July 1, 1988 and has 14 years remaining (the liability will be fully amortized in fiscal year 2018).

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 employers is required to join the system upon the completion of three years of continuous service.

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS's 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 evaluations.

Defined Contribution Retirement Plans

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.

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. There were 374 exempt employees representing approximately 45% of the eligible employees elected to transfer to the defined contribution plan. Assets totaling \$21 million were transferred from the defined benefit plan to the defined contribution plan on January 4, 1999 as a result of the election. As the attendant decrease in liabilities in the defined benefit plan was equal to \$21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. 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 equivalent to the contribution rate for Group F members of the VSRS. 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. For the fiscal year ended June 30, 2004, plan member contributions were \$592,028 and State employer contributions were \$1,454,751, while members transferred \$707,812 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2004, the Vermont State Defined Contribution Plan's net assets totaled \$31,300,521 and there were 577 participants.

The Legislature granted authority (24 V.S.A. Section 5070) to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that could be offered in lieu of the defined benefit plans currently available under the Municipal Retirement System. The board implemented a defined contribution plan that became available to new members effective July 1, 2000. 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 will have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective the following year's July 1.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Employees become vested in the plan after 12 months of service. For fiscal year ending June 30, 2004, plan participants and the municipalities each contributed \$505,279 and \$498,750 respectively, while members transferred \$229,927 into the defined contribution plan from other pension plans and non-state systems. As of June 30, 2004, the Municipal Employees' Defined Contribution Plan's net assets totaled \$7,649,735 and there were 479 participants.

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, 133 State Street, Montpelier, Vermont 05633-6901.

B. Plan Membership

At June 30, 2004, VSRS, STRS, and MERS membership consisted of:

	<u>VSRS</u>	<u>STRS</u>	<u>MERS</u>
Active employees:			
Vested	5,321	7,745	2,590
Non-vested	<u>2,758</u>	<u>2,570</u>	<u>3,043</u>
Total active employees	8,079	10,315	5,633
Retirees and beneficiaries of deceased retirees currently receiving benefits	3,833	4,386	1,099
Terminated employees entitled to benefits but not yet receiving them (vested)	819	3,084	210
Inactive members	<u>968</u>	<u>560</u>	<u>2,438</u>
Total participants	<u>13,699</u>	<u>18,345</u>	<u>9,380</u>

C. Schedules of Employer Contributions and Funding Progress

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions.

	<u>VSRS</u>	<u>STRS</u>	<u>MERS</u>
Valuation date	06/30/04	06/30/04	07/01/04
Actuarial cost method	Entry age normal cost with frozen initial liability	Entry age normal cost with frozen initial liability	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	14 years	14 years	15 years
Asset valuation method	Actuarial value of assets	Actuarial value of assets	Actuarial value of assets using a five year smoothing technique
<u>Actuarial assumptions</u>			
Investment rate of return	8.0%	8.0%	8.0%
Projected salary increases	4.5%-7.79%	4.41%-10.68%	5.6%
Cost-of-living adjustments	1.5%-3.0%	1.5%-3.0%	1.5%-1.8%
<u>Post Retirement Adjustments</u>			
Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C & D - 5%	Group A - 5%	N/A
Allowances in payment for at least one year adjusted for cost of living based on one-half of CPI but not in excess of percentage indicated	Group F - 5%	Group C - 5%	Group A - 2% Groups B, C & D - 3%

Schedule Of Employer Contributions

Year Ended 6/30	<u>VSRS</u>		<u>STRS</u>		<u>MERS</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1995	\$ 29,245,040	69.70%	\$27,451,926	65.86%	\$ 3,045,585	100.00%
1996	24,221,934	88.52%	28,711,597	39.98%	3,365,821	100.00%
1997	24,098,495	99.48%	30,721,768	58.85%	3,541,692	100.00%
1998	22,597,786	103.67%	26,927,205	67.24%	3,665,833	100.00%
1999	23,268,197	98.66%	20,723,874	87.24%	4,233,559	100.00%
2000	19,548,817	97.26%	19,936,345	93.23%	4,788,671	100.00%
2001	19,679,398	99.34%	20,970,278	91.29%	4,571,993	100.00%
2002	24,189,000	98.34%	22,146,880	92.32%	4,984,484	100.00%
2003	24,715,309	98.70%	28,279,810	72.30%	5,854,111	100.00%
2004	29,023,431	91.81%	41,658,946	58.68%	6,616,630	100.00%

Schedule of Funding Progress

(dollar amounts in 1000's)

Actuarial Valuation Date 6/30	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)
<u>VSRS</u>						
1995	\$ 480,049	\$ 679,427	\$ 199,378	70.7%	\$ 225,089	88.6%
1996	560,659	664,173	103,514	84.4%	226,792	45.6%
1997	639,128	753,883	114,755	84.8%	227,000	50.6%
1998	733,716	804,501	70,785	91.2%	235,956	30.0%
1999	804,970	876,412	71,442	91.8%	238,281	30.0%
2000	895,151	967,064	71,913	92.6%	266,519	27.0%
2001	954,821	1,026,993	72,172	93.0%	278,507	25.9%
2002	990,450	1,017,129	26,679	97.4%	300,994	8.9%
2003	1,025,469	1,052,004	26,535	97.5%	319,855	8.3%
2004	1,081,359	1,107,634	26,275	97.6%	336,615	7.8%
<u>STRS</u>						
1995	520,850	648,052	127,202	80.4%	346,975	36.7%
1996	570,776	700,377	129,601	81.5%	355,895	36.4%
1997	717,396	849,179	131,783	84.5%	364,695	36.1%
1998	821,977	955,694	133,717	86.0%	357,899	37.4%
1999	931,056	1,066,400	135,344	87.3%	372,299	36.4%
2000	1,037,466	1,174,087	136,621	88.4%	387,999	35.2%
2001	1,116,846	1,254,341	137,495	89.0%	403,258	34.1%
2002	1,169,294	1,307,202	137,908	89.5%	418,904	32.9%
2003	1,218,001	1,358,822	140,821	89.6%	437,239	32.2%
2004	1,284,833	1,424,662	139,829	90.2%	453,517	30.8%
<u>MERS</u>						
1995	70,082	67,039	(3,043)	104.5%	79,056	-3.8%
1996	81,396	73,401	(7,995)	110.9%	68,700	-11.6%
1997	96,196	85,686	(10,510)	112.3%	70,800	-14.8%
1998	113,678	102,005	(11,673)	111.4%	87,328	-13.4%
1999	137,454	114,481	(22,973)	120.1%	70,808	-32.4%
2000	161,900	138,697	(23,203)	116.7%	87,147	-26.6%
2001	177,928	158,786	(19,142)	112.1%	101,873	-18.8%
2002	193,278	176,109	(17,169)	109.7%	106,986	-16.0%
2003	222,854	218,533	(4,321)	102.0%	126,216	-3.4%
2004	232,890	225,092	(7,798)	103.5%	135,351	-5.8%

D. State of Vermont's 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, 2004 were as follows:

	<u>VSRS</u>	<u>STRS</u>
Annual Required Contribution (ARC)	\$29,023,431	\$41,658,946
Interest on NPO	3,078,035	7,587,412
Adjustment to ARC	<u>(3,375,039)</u>	<u>(8,677,279)</u>
Annual Pension Cost (APC)	28,726,427	40,569,079
Employer Contribution Made	<u>(26,645,619)</u>	<u>(24,446,282)</u>
Increase (Decrease) in NPO	2,080,808	16,122,797
NPO - Beginning of Year	<u>38,475,440</u>	<u>94,842,655</u>
NPO - End of Year	<u>\$40,556,248</u>	<u>\$110,965,452</u>
Percentage of APC contributed	92.76%	60.26%

E. Single Deposit Investment Account

Public Act 41 of the 1981 Session 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 Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Pension Trust Funds, was also established according to the provisions of this Act.

The STRS's members in the Group A contributory plan could elect 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:

- 1) have both their accumulated employee contributions and accumulated interest returned to them; or
- 2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- 3) 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 elect 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:

- 1) have both their accumulated employee contributions and accumulated interest returned to them; or
- 2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- 3) 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, 2004, there were 1,530 STRS members and 1,199 VSRS members, with net assets of \$99.8 million in the Single Deposit Investment Account.

F. Other Post Employment Benefits

The State offers both post employment medical insurance and life insurance benefits in addition to providing pension benefits.

Employees retiring for any reason (disability, early, or normal) including the State Police, are entitled to receive medical coverage for themselves and their dependents over the lifetime of the retiree, with 20% of the cost to be paid by the retiree. If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits also continue for the spouse, along with the pension. However, generally, the surviving spouse must pay 100% of the cost.

In the case of life insurance, if a state employee retires or terminates due to disability prior to age 60, and proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. At that time, if the retiree has a total of 20 years or more of active and retired (while receiving disability) service, life insurance automatically changes to \$5,000 fully paid and 100% of the premium is paid by the State.

Note 6: RESTRICTED NET ASSETS – Discretely Presented Component Units

Restricted net assets are those portions of total net assets that are not appropriable for expenditure or that are legally segregated for a specific future use. Net assets restricted at June 30, 2004 are as follows.

Discretely Presented Component Units	Vermont Student Assistance Corp	University Of Vermont	Vermont State Colleges	Non-major Component Units
Restricted for:				
Bond Resolution	\$ 47,773,000	\$ -	\$ -	-
Grants and Scholarships	632,000	-	-	-
Project Commitments	-	-	-	20,247,041
Restricted- Nonexpendable	-	57,200,000	8,576,009	-
Restricted- Expendable	-	229,580,000	968,021	6,327,344
Loans Receivable (1)	-	-	-	75,694,456
Total Component Units				
Restricted Net Assets	<u>\$ 48,405,000</u>	<u>\$ 286,780,000</u>	<u>\$ 9,544,030</u>	<u>\$ 102,268,841</u>

(1) Loans receivable for the Vermont Housing & Conservation Board include federally restricted funds.

Note 7: LEASE COMMITMENTS**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.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2004:

Fiscal Year	Non Cancelable Leases	Cancelable Leases	Primary Government Totals	Vermont State Colleges	Vermont Student Assistance Corporation	Non-major Component Units	Total Reporting Entity
2005	\$ 7,798,550	\$16,868	\$ 7,815,418	\$2,054,461	\$629,000	\$108,260	\$10,607,139
2006	6,132,874	13,268	6,146,142	1,883,783	181,000	108,260	8,319,185
2007	4,478,298	4,920	4,483,218	1,327,177	-	81,360	5,891,755
2008	3,615,605	3,052	3,618,657	904,982	-	81,360	4,604,999
2009	2,781,244	2,750	2,783,994	169,914	-	8,063	2,961,971
2010 to 2015	1,327,033	3,400	1,330,433	258,722	-	-	1,589,155
Totals	<u>\$26,133,604</u>	<u>\$44,258</u>	<u>\$26,177,862</u>	<u>\$6,599,039</u>	<u>\$810,000</u>	<u>\$387,303</u>	<u>\$33,974,204</u>

Capital Leases

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2004 are as follows:

Fiscal Year	Vermont State Colleges	Total Reporting Entity
2005	\$66,705	\$66,705
2006	55,372	55,372
2007	<u>26,505</u>	<u>26,505</u>
Total Minimum Lease Payments	148,582	148,582
Less: interest	<u>(7,000)</u>	<u>(7,000)</u>
Present value of minimum lease payments	<u>\$141,582</u>	<u>\$141,582</u>

The State of Vermont, acting through its Agency of Transportation (AOT) 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. The term of the lease was for a 20 year period and the entire 20 year rent of \$1,500,000 was prepaid in four equal installments beginning November 26, 1996 and ending in 1998. 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. The State has allowed the Vermont Transportation Authority (VTA) to utilize these premises under the terms of a Memorandum of Agreement between AOT and VTA.

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 and 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.

Changes in bonds principal payable during fiscal year 2004 are summarized as follows:

		General Obligation Bonds
Balance, July 1, 2003		\$ 473,785,874
Additions:		
Issuances	179,657,000	
Accretions	3,035,908	
Total	<u>182,692,908</u>	182,692,908
Deductions:		
Redemptions	50,495,000	
Defeased	136,860,000	
Total	<u>(187,355,000)</u>	(187,355,000)
Balance, June 30, 2004		<u>\$ 469,123,782</u>

During fiscal years 1991, 1992, and 1994, the State issued zero coupon capital appreciation bonds. Zero coupon capital appreciation bonds are bonds issued at a discount to their face value. Instead of interest being paid on a periodic (i.e. semi-annual) basis, an increase in the principal due (accreted amount) is recognized on a regular basis. The total accreted amount at maturity will be the face value of the bonds.

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. Proceeds from these bonds totaled \$17,987,640 and have an accreted value of \$14,983,137 at June 30, 2004.

On October 30, 1991, capital appreciation bonds with a maturity value of \$20,575,000 were issued. These bonds mature on October 15 in the years 1996 through 2011. Proceeds from these bonds totaled \$9,999,837 and have an accreted value of \$8,033,632 at June 30, 2004.

During fiscal year 1991, capital appreciation bonds were issued with a maturity value of \$48,935,000 and are scheduled to mature on December 1 in the years 1995 through 2010. Proceeds from these bonds totaled \$19,310,002 and have an accreted value of \$22,820,014 at June 30, 2004.

Future general obligation debt service requirements at June 30, 2004 are as follows:

Fiscal Year	Current Interest Bonds		Capital Appreciation	Total
	Principal	Interest	Bonds	
2005	\$ 41,985,000	\$ 18,064,595	\$ 7,400,000	\$ 67,449,595
2006	39,852,000	16,547,679	7,410,000	63,809,679
2007	38,845,000	15,029,878	7,495,000	61,369,878
2008	37,355,000	13,455,736	7,500,000	58,310,736
2009	36,845,000	11,794,167	7,495,000	56,134,167
2010-2014	144,970,000	36,824,711	21,070,000	202,864,711
2015-2019	63,555,000	11,276,489	-	74,831,489
2010-2023	19,880,000	1,479,495	-	21,359,495
Totals	<u>\$ 423,287,000</u>	<u>\$124,472,750</u>	<u>\$ 58,370,000</u>	<u>\$ 606,129,750</u>

At June 30, 2004, there remains \$41,000,868 of authorized but unissued general obligation bonds.

See following page for a schedule of general obligation bonds outstanding at June 30, 2004.

Note 9: BOND REFUNDINGS:

A. Bonds Defeased Through Refunding

As authorized by Vermont statutes, the State advance refunded certain general obligation bonds through the issuance of \$137,457,000 of general obligation refunding bonds during fiscal year 2004. Net proceeds totaling \$146,071,943 were used to purchase U.S. Government securities that were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds, totaling \$136,860,000, are considered to be defeased, of which \$89,720,000 remain outstanding as of June 30, 2004. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from long-term obligations in the Statement of Net Assets. As a result of this refunding, the State decreased current year debt service payments; has taken advantage of lower interest rates; and has decreased its aggregate debt service payments by \$7,095,722 over the next 14 years (to February 1, 2018). Further, the State will experience an economic loss (the difference between the present values of the debt service payments to the refunded and refunding bonds) of \$5,966,555.

B. Prior Defeasance

During fiscal year 1998, the State of Vermont 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 will be utilized to make all future debt service payments on the old bonds. Accordingly, these trust assets and the liability for the old (now defeased) bonds are not included in the State's financial statements. As of June 30, 2004, \$28,080,000 of these defeased bonds remains outstanding.

General Obligation Bonds outstanding at June 30, 2004 are comprised of the following issues:

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value of Capital Appreciation Bonds	Maturity Value Sources of Payments			Maturity Value of Bonds Outstanding Total
					General Fund	Transportation Fund	Special Fund	
General Obligation Current Interest Bonds:								
8/1/1992	8/1/2008	3.0 to 5.75	\$71,280,000		\$ 13,795,000	\$ 310,000	\$	\$ 14,105,000
10/15/1993	4/15/2008	3.7 to 6.6	85,000,000		3,800,500	199,500		4,000,000
11/15/1994	1/15/2014	5.6 to 7.0	70,000,000		3,440,600	69,400		3,510,000
12/1/1995	1/15/2015	4.875 to 5.125	60,000,000		9,480,000			9,480,000
11/20/1996	1/15/2016	5.0 to 5.125	38,000,000		8,000,000			8,000,000
12/12/1996	1/15/2016	3.7 to 5.6	15,000,000		3,160,000			3,160,000
10/29/1997	1/15/2017	4.5 to 5.0	28,500,000		12,611,132	888,868		13,500,000
12/3/1997	1/15/2017	3.9 to 5.2	14,990,000		5,520,000			5,520,000
3/15/1998	1/15/2014	4.25 to 5.0	64,575,000		34,406,881	2,038,119	9,535,000	45,980,000
5/1/1998	1/15/2017	4.5 to 5.0	7,755,000				2,800,000	2,800,000
11/23/1998	1/15/2018	4.5 to 4.75	26,630,000		15,028,986	376,014		15,405,000
11/1/1999	2/1/2019	4.5 to 6.5	32,000,000		11,790,000			11,790,000
12/16/1999	2/1/2010	4.55 to 5.05	5,000,000		3,000,000			3,000,000
11/14/2001	8/1/2020	3.25 to 4.75	46,000,000		36,260,000			36,260,000
12/27/2001	8/1/2011	4.0 to 4.375	5,000,000		4,000,000			4,000,000
12/11/2002	8/1/2019	3.0 to 5.0	30,800,000		28,030,000			28,030,000
12/17/2002	8/1/2013	2.0 to 5.0	31,555,000		29,494,000	1,596,000		31,090,000
2/4/2003	8/1/2007	2.0 to 2.2	5,000,000		4,000,000			4,000,000
2/11/2004	2/1/2018	1.1 to 5.0	137,457,000		128,580,531	5,871,469	3,005,000	137,457,000
3/10/2004	3/1/2023	2.0 to 5.0	42,200,000		39,200,000	3,000,000		42,200,000
Total General Obligation Current Interest Bonds					393,597,630	14,349,370	15,340,000	423,287,000
General Obligation Capital Appreciation Bonds:								
12/13/90	12/01/10	N/A	19,310,002	48,935,000	28,780,000			28,780,000
10/30/91	10/15/11	N/A	9,999,837	20,575,000	10,280,000			10,280,000
12/01/93	08/01/13	N/A	17,987,640	32,625,000	19,310,000			19,310,000
Total Maturity Value					58,370,000			58,370,000
Less: Unaccreted Interest					12,533,218			12,533,218
Total General Obligation Capital Appreciation Bonds					45,836,782			45,836,782
Total General Obligation Bonds					\$ 439,434,412	\$ 14,349,370	\$ 15,340,000	\$ 469,123,782

Note 10: RESTATEMENT OF NET ASSETS

The Governmental Activities' June 30, 2003 net assets balance has been restated to correct an error in the prior year capital assets. The Agency of Transportation had included, net of depreciation, \$92,440,424 of construction in progress and infrastructure assets owned by municipalities of the State. The net asset balance has been restated to remove these assets. The Agency of Transportation also identified, net of depreciation, \$94,229,132 of construction in progress and infrastructure asset costs on projects that previously had not been classified as capital projects. The net asset balance has been restated to add these assets.

The Vermont State Colleges' June 30, 2003 net assets balance has been restated to correct an error in a prior year, in which the Federal Perkins refundable advance had been included with net assets for one of the Colleges. This correction resulted in a decrease of \$1,544,745 in the component unit's beginning net assets balance.

	<u>Governmental Activities</u>	<u>Vermont State Colleges</u>
Balance June 30, 2003	\$ 848,817,292	\$ 55,217,264
Removal of municipal capital assets	(\$92,440,424)	
Add capitalization of projects	<u>94,229,132</u> <u>1,788,708</u>	
Removal of Perkins refundable advance		<u>(1,544,745)</u>
Balance June 30, 2003, restated	<u>\$ 850,606,000</u>	<u>\$ 53,672,519</u>

Note 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

The State reports three major and six non-major enterprise funds relating to sales of lottery tickets, liquor, Vermont Life Magazine and related products, industrial homework products, federal surplus property, adaptive equipment loans, municipal equipment loans, and Unemployment Compensation Trust Funds. Segment Information for the year ended June 30, 2004 is as follows:

	Vermont Lottery Commission	Liquor Control Fund	Unemployment Compensation Trust Fund	Non-major Enterprise Funds	Total Enterprise Funds
Condensed Statement of Net Assets					
Due from other funds	\$ -	\$ -	\$ -	\$ 21,073	\$ 21,073
Total other current assets	2,975,967	6,851,187	240,016,598	3,908,082	253,751,834
Total capital assets (net)	84,786	403,958	-	5,874	494,618
Total noncurrent & restricted assets	4,135,239	5,700	-	1,556,586	5,697,525
Total Assets	<u>7,195,992</u>	<u>7,260,845</u>	<u>240,016,598</u>	<u>5,491,615</u>	<u>259,965,050</u>
Due to other funds	14,452	342,907	20,732	-	378,091
Total other current liabilities	3,224,639	7,176,389	1,448,194	1,336,291	13,185,513
Total liabilities payable for restricted assets	3,259,067	5,700	-	641,348	3,906,115
Total Liabilities	<u>6,498,158</u>	<u>7,524,996</u>	<u>1,468,926</u>	<u>1,977,639</u>	<u>17,469,719</u>
Invested in capital assets	84,786	403,958	-	5,874	494,618
Restricted	-	-	238,547,672	-	238,547,672
Unrestricted	613,048	(668,109)	-	3,508,102	3,453,041
Total Net Assets	<u>\$ 697,834</u>	<u>\$ (264,151)</u>	<u>\$ 238,547,672</u>	<u>\$ 3,513,976</u>	<u>\$ 242,495,331</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Charges for sales/service	\$ 92,380,975	\$ 35,278,985	\$ 40,190,153	\$ 1,665,480	\$ 169,515,593
Other operating revenues	8,107	1,386,562	18,350,388	938,195	20,683,252
Total Operating Revenues	<u>92,389,082</u>	<u>36,665,547</u>	<u>58,540,541</u>	<u>2,603,675</u>	<u>190,198,845</u>
Depreciation expense	33,783	141,785	-	2,660	178,228
Other operating expenses	72,282,715	36,089,306	99,549,897	2,716,033	210,637,951
Total Operating Expenses	<u>72,316,498</u>	<u>36,231,091</u>	<u>99,549,897</u>	<u>2,718,693</u>	<u>210,816,179</u>
Operating Income (Loss)	20,072,584	434,456	(41,009,356)	(115,018)	(20,617,334)
Non-operating revenues/(expenses)	(151,754)	16,303	14,636,982	16,568	14,518,099
Transfers in (out) - net	<u>(19,620,527)</u>	<u>(337,051)</u>	<u>(69,324)</u>	<u>69,324</u>	<u>(19,957,578)</u>
Changes in Net Assets	300,303	113,708	(26,441,698)	(29,126)	(26,056,813)
Beginning Net Assets	397,531	(377,859)	264,989,370	3,543,102	268,552,144
Ending Net Assets	<u>\$ 697,834</u>	<u>\$ (264,151)</u>	<u>\$ 238,547,672</u>	<u>\$ 3,513,976</u>	<u>\$ 242,495,331</u>

Condensed Statement Of Cash Flows

Net Cash Provided (Used) By:					
Operating activities	\$ 20,725,699	\$ 1,230,225	\$ (41,852,424)	\$ 112,039	\$ (19,784,461)
Noncapital financing activities	(20,122,128)	(337,051)	-	(29,565)	(20,488,744)
Capital and related financing activities	(38,903)	(84,526)	-	-	(123,429)
Investing activities	<u>384,630</u>	<u>656</u>	<u>14,559,515</u>	<u>93,694</u>	<u>15,038,495</u>
Net increase (decrease) in cash and cash equivalents	949,298	809,304	(27,292,909)	176,168	(25,358,139)
Cash and cash equivalent - July 1	583,725	1,982,826	259,391,051	1,824,167	263,781,769
Cash and cash equivalent - June 30	<u>\$ 1,533,023</u>	<u>\$ 2,792,130</u>	<u>\$ 232,098,142</u>	<u>\$ 2,000,335</u>	<u>\$ 238,423,630</u>

Note 12: CONTINGENT AND LIMITED LIABILITIES**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 or the Authority) in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Vermont Industrial Aid Board to it. Each of these original entities was relegated to a particular segment of industrial development. The Authority 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 Commerce & 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 Authority has the power to insure up to \$15 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 the Authority. As of June 30, 2004, the Authority had mortgage insurance contracts totaling \$10,614,367. The full faith and credit of the State is pledged to support these activities of the Authority.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lenders register with the Authority. 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 \$2 million at any one time. The State's contingent liability at June 30, 2004 was \$958,331. The State's net cash contribution since inception is \$298,484.

Federal Grants:

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

LIMITED LIABILITIES**Vermont Economic Development Authority:**

The State has a limited liability for the Vermont Economic Development Authority. The Authority may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, the Authority 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. It has not been necessary for the State to appropriate money to maintain the reserve.

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. Title 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.

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 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.

Note 13: 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, it is believed that any ultimate liability to the State resulting from these suits, not covered by various insurance policies, would not materially affect the State's overall financial condition.

Note 14: BUDGET STABILIZATION RESERVES

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

The reserves balances will consist of any unreserved undesignated 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 General Assembly. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. Pursuant to action taken by the Legislature, the Transportation Fund's Budget Stabilization Reserve at June 30, 2004 was \$10,540,811, the General Fund's Budget Stabilization Reserve was \$44,485,778 at June 30, 2004, and the Education Fund's Budget Stabilization Reserve at June 30, 2004, was \$22,762,537.

Note 15: 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 which is an interstate body, both corporate and politic, serving as a common agency of 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 commission 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 operate and administer Tri-State Lotto and to promulgate rules and regulations governing the establishment and operation of the 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 26, 2004, the commission had total assets of \$203,347,022 and total liabilities of \$183,895,636. For the fiscal year ended June 26, 2004, the commission had operating revenues of \$70,304,661; interest income of \$86,909; commissions, fees, and bonus expenses of \$8,620,552; prize awards of \$34,958,856; provision for prize contingencies for \$900,000; and other operating expenses of \$3,961,412. During the fiscal year, the commission made operating transfers to member states of \$22,850,750; which includes \$1,896,406 transferred to Vermont.

Note 16: RISK MANAGEMENT**A. Workers' Compensation and Liability Risk Management**

The Risk Management Division of the Department of Buildings and General Services administers all risk management 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 Risk Management Division sets aside assets and pays claims utilizing the following three Internal Service Funds for which settlements have not exceeded insurance coverage for the last three years:

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 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. This liability is reviewed annually by an outside actuary, including a review of incurred but not reported claims (IBNR). All claims are processed by Risk Management Division 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. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by the Risk Management Division utilizing departmental exposure and experience factors.

The State 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. Its exposure to 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 is potentially unlimited. It is self-insured for the first \$250,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to \$1,000,000 in Vermont and \$10,000,000 for claims that are not subject to the Vermont Tort Claims Act. 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 the Risk Management Division, utilizing departmental exposure and experience factors. A third-party administrator (TPA) administers all claims other than minor property damage claims, which are administered by division staff. The liability loss projections and the claims processing data are audited annually by outside claims adjusters.

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, robbery and burglary coverage for the federal food stamp program, errors and omissions coverage for judges, and various other miscellaneous coverage. The State's liability exposure is limited to the amount of the various deductibles associated with the respective coverage. Premium charges from the various insurers plus a 5% surcharge to cover administration costs are either assessed directly against the entity specifically requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Entities eligible for coverage are the same as those listed above for the other funds.

B. Health Care, Dental Insurance, Life Insurance, Employee Assistance, and Long Term Disability Funds For State Employee Benefit Plans

The Employee Benefits and Wellness Division of the Department of Personnel maintains medical, dental, life insurance, employee assistance, and long term disability program funds for the benefit of current State employees, retirees, retired former employees allowed participation by statute or labor agreement, legislators,

employees and certain former employees of outside groups which have been declared eligible to participate by statute. All or some of these named groups may participate in each plan depending upon the plan. Temporary and contractual employees are not eligible to participate in these plans.

Participating employees share in the premium cost of all of the medical plans. Premium rate setting is performed by an outside actuary in conjunction with the Employee Benefits and Fiscal and Information Management groups. 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.

The current medical plan offerings include four plan options. TotalChoice, HealthGuard PPO, and SafetyNet are "preferred provider organization" indemnity-type plans. There is a lifetime limit on coverage for a participant in these three plans. The SelectCare POS is a "point of service" plan option, similar to an open-ended HMO. Members may opt out of the network but must meet a deductible and coinsurance to do so. There is no lifetime coverage limit, however, 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 claim payment. To limit the State's large claims exposure, the State has purchased stop loss insurance.

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 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 Fiscal and Information Management group within the Department of Personnel 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.

The State of Vermont Employee Life Insurance Program consists of a 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 \$5,000 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 Fiscal and Information Management group 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 members of outside groups are eligible to participate.

A Flexible Spending Account 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.

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 issues, financial, drugs and 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 premium for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become permanently disabled. 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' union, the Vermont State Employees Association, are eligible for this benefit. There is a one-year eligibility waiting period 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 sick leave per year. Those eligible employees who are not covered by a leave plan have a one-time .2% salary reduction in their next cost-of-living increase.

Presented below is a table displaying three years' changes in the respective funds' claims liability amounts.

<u>Fund and Fiscal Year</u>	<u>Liability at Beginning of the Fiscal Year</u>	<u>Current FY Claims and Changes in Estimates</u>	<u>Current FY Claims Payments</u>	<u>Balance of Liability at End of Fiscal Year</u>
Workers' Compensation				
Fund				
FY 2002	\$11,990,898	\$ 6,258,621	\$ 5,296,358	\$12,953,161
FY 2003	12,953,161	10,014,881	7,479,065	15,488,977
FY 2004	15,488,977	4,778,463	5,796,437	14,471,003
State Liability				
Insurance Fund				
FY 2002	6,732,286	607,876	960,545	6,379,617
FY 2003	6,379,617	1,853,539	1,523,564	6,709,592
FY 2004	6,709,592	2,191,792	1,151,246	7,750,138
Medical				
Insurance Fund				
FY 2002	6,460,511	38,189,077	36,322,720	8,326,868
FY 2003	8,326,868	60,927,903	58,395,510	10,859,261
FY 2004	10,859,261	62,775,246	63,738,506	9,896,001
Dental Insurance Fund				
FY 2002	325,889	4,363,223	4,340,822	348,290
FY 2003	348,290	4,529,471	4,531,176	346,585
FY 2004	346,585	4,723,147	4,699,450	370,282

Medical Insurance Fund - The FY2004 Current FY Claims Payments column includes \$4,090 credited as a claims refund of expenditure from the carrier.

NOTE 17: DEFICIT NET ASSETS

The following individual funds had deficit total net assets or deficit unrestricted net assets at June 30, 2004:

Business-type Proprietary Funds

Liquor Control Fund: had a deficit unrestricted net asset balance of \$668,109 and a deficit total net asset balance of \$264,151 at June 30, 2004. It had a net income before contributions and transfers of \$450,759. Legislative transfer of \$337,051 to the General Fund reduced its total net asset change (net income) to \$113,708 at June 30, 2004. The June 30, 2003 total deficit of \$377,859 was partially covered by the net income, leaving a deficit of \$264,151.

This department has raised prices twice. The first increase was 1.5% in February 2004. The second price increase was 2% in November 2004. Sales are on the increase 8% for the first half of the 2005 fiscal year. There is a warehousing/distribution analysis study in the works by the Legislature that may highlight ways to be more cost effective. Management plans to have a positive fund balance by June 2005.

Federal Surplus Property: had a deficit unrestricted net asset balance of \$331,695 and a deficit total net asset balance of \$325,821 at June 30, 2004. The increase in the deficit in FY 2004 is not as large as the previous year due to lower operating costs. The fund deficit will be further reduced in future years through increased marketing of items available for sale at prices that will result in the fund breaking even.

Internal Service Funds

Financial & HR Information Fund: had a deficit unrestricted and a deficit total net asset balance of \$608,834 at June 30, 2004. The fund began its second year of operation with a deficit unrestricted net asset balance of \$559,697 and experienced an operating loss of \$49,137 in its second year of operation. This deficit will be extinguished over the next several years primarily through rate increases and cost reduction measures.

Communications & Information Technology: had a deficit unrestricted net asset balance of \$1,511,638 and a deficit total net asset balance of \$597,963 at June 30, 2004. The fund deficit was reduced in FY 2004 from FY 2003 due to a net operating profit being generated in FY 2004. It is the plan of the department to eliminate this fund deficit over the next three to five years through normal operations and adjustments to rates charged to customers.

GOVNET Fund: had a deficit unrestricted net asset balance of \$640,568 and a deficit total net asset balance of \$321,528 at June 30, 2004. The fund deficit was reduced in FY 2004 from FY 2003 due to net income in FY 2004. The deficit is the result of inadequate billing on the part of GovNet for customer connections and devices. Proper billing in FY 2006 should reduce this deficit from normal operations over the next three to five years.

Copy Center Fund: had a deficit unrestricted net asset balance of \$2,916,403 and a deficit total net asset balance of \$532,478 at June 30, 2004. The fund deficit at the end of FY 2004 was largely due to losses on disposal of fixed assets. Depreciation schedules for copiers were 5 years even though copiers are replaced on a three-year cycle. The depreciation schedules have been adjusted for new copiers added in FY 2005. The remainder of the deficit is the result of holding copy rates flat for three fiscal years. The deficit will be eliminated through normal operations as copy rates are being adjusted in FY 2006.

Postage Fund: had a deficit unrestricted net asset balance of \$432,017 and a deficit total net asset balance of \$148,652 at June 30, 2004. A large part of the fund deficit is the result of a one-time loss on the disposal of fixed assets not fully depreciated. In addition, postal rates have been held flat for several fiscal years. Costs and the associated amounts billed to users have been dropping as the postal center has become more efficient with pre-sorting and bar coding. In the past, 100% of these cost savings have been passed on to customers. Beginning in FY 2006, rates will be adjusted so that a lesser share of the savings is passed on. The deficit will be eliminated over the next three to five fiscal years through normal operations.

Facilities Operations Fund: had a deficit unrestricted net asset balance of \$1,444,983 and a deficit total net asset balance of \$1,017,727 at June 30, 2004. A transfer of \$8.4 million into the fund in FY 2004 reduced the outstanding deficit. The remaining deficit along with a current year loss resulted in the current deficit. Management plans to extinguish the deficit through normal operations over the next three to five fiscal years through aggressive management and requests to increase billings in future years.

Property Management Fund: had a deficit unrestricted net asset balance of \$6,103,864 and a deficit total net asset balance of \$6,089,484 at June 30, 2004. It had operating income of \$464,068 for fiscal year 2004 but transferred \$2,382,985 to the Special Fund for payment of bond principal and interest during fiscal year 2004 resulting in an increase in its total net asset deficit fund balance of \$1.9 million. The fund deficit is a structural one resulting from a mismatch between twenty-year life bonds being used as a funding source for the purchase of fifty-year life buildings. Tenants' annual rents cover 100% of the interest costs plus 2% of the bond principal even though the bonds will be extinguished in twenty years. As a result, the total net asset balance will continue to increase negatively until the bonds are paid off and then will become less negative each succeeding year as the 2% annual principal payments are received until the last building is amortized in fiscal year 2049.

Risk Management All-Other Plan: had a deficit unrestricted net asset balance of \$208,397 and a deficit total net asset balance of \$207,338 at June 30, 2004. This fund's deficit balance is due to lower sales caused by a reduction in premiums billed by Risk Management. The program rates are set to recover program costs. Through aggressive management, the deficit will be eliminated over the next three to five fiscal years through normal operations and rates charged to departments.

Worker's Compensation Plan: had a deficit unrestricted net asset balance of \$5,032,090 and a deficit total net asset balance of \$5,016,199 at June 30, 2004. Fund deficit improved by \$2.2 million due to a positive net income. The positive net income this year is mainly due to a change in actuarial estimates for the unfunded ultimate loss liability. The fund deficit is an actuarially derived figure. The General Assembly is currently looking how best to address the unfunded liability.

Note 18: CHANGES IN LONG-TERM LIABILITIES

During the year ended June 30, 2004, the following changes occurred in long-term liabilities:

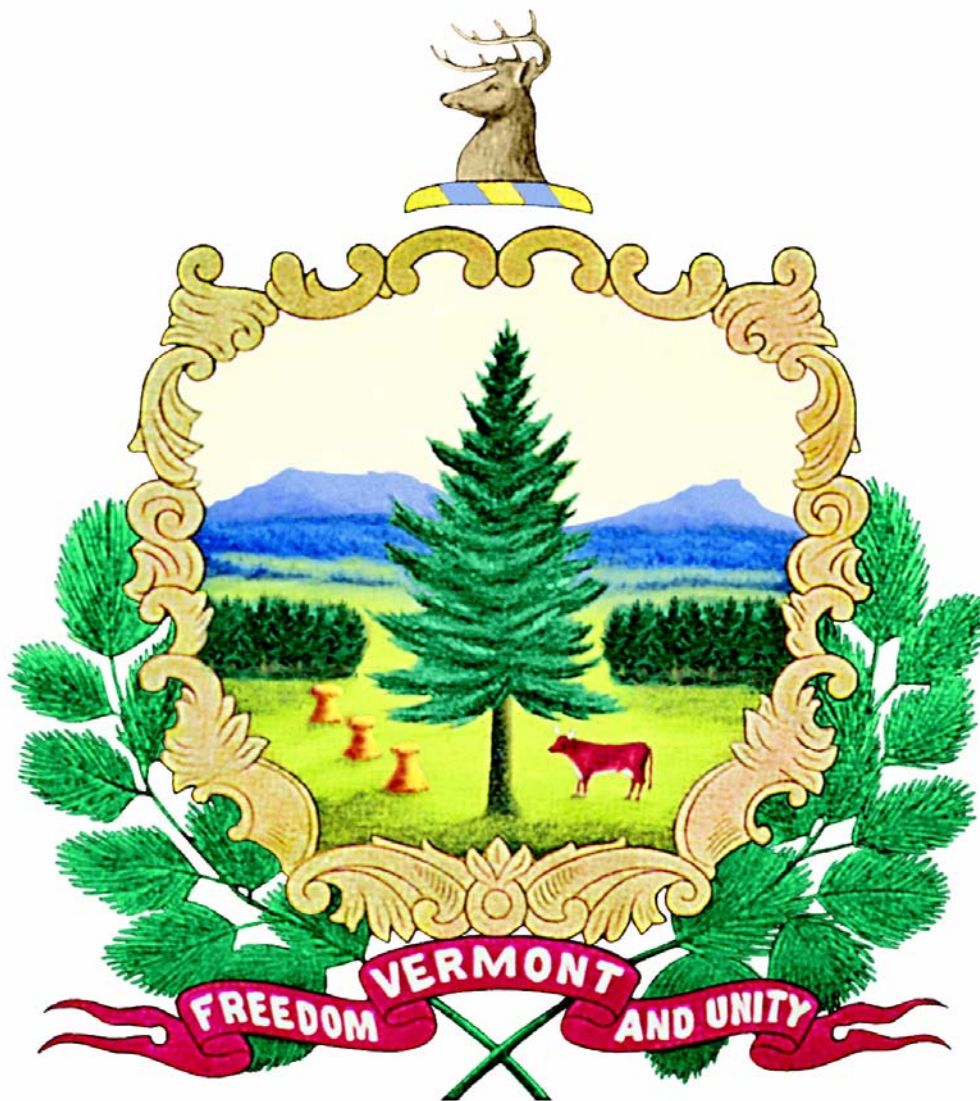
PRIMARY GOVERNMENT

	July 1, 2003	Additions	Reductions	June 30, 2004	Amounts due within one year
Governmental activities:					
Bonds payable (1)	\$ 473,785,874	\$182,692,908	\$187,355,000	\$ 469,123,782	\$ 49,385,000
Compensated absences	25,431,970	30,712,639	28,043,966	28,100,643	16,167,178
Claims and judgements	33,404,415	74,468,648	75,385,639	32,487,424	10,266,283
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension obligation	133,318,095	18,203,605	-	151,521,700	-
Other liabilities	2,317,790	10,936,198	958,131	12,295,857	958,131
Total governmental activities long-term liabilities	<u>\$ 675,258,144</u>	<u>\$317,013,998</u>	<u>\$291,742,736</u>	<u>\$ 700,529,406</u>	<u>\$ 76,776,592</u>
Business-type activities:					
Compensated absences	\$ 281,199	292,611	\$ 268,436	\$ 305,374	\$ 181,122
Claims and judgements	3,256,533	-	3,256,533	-	-
Total business-type activities long-term liabilities	<u>\$ 3,537,732</u>	<u>\$ 292,611</u>	<u>\$ 3,524,969</u>	<u>\$ 305,374</u>	<u>\$ 181,122</u>
Fiduciary:					
Compensated absences	\$ 4,685	8,571	\$ 8,434	\$ 4,822	\$ 3,048
Total fiduciary long-term liabilities	<u>\$ 4,685</u>	<u>\$ 8,571</u>	<u>\$ 8,434</u>	<u>\$ 4,822</u>	<u>\$ 3,048</u>
COMPONENT UNITS					
Bonds and notes payable	\$ 2,007,946,999	\$501,134,018	\$223,889,856	\$ 2,285,191,161	\$135,433,008
Capital leases payable	81,721	94,199	34,338	141,582	66,705
Accrued arbitrage rebate	14,058,515	764,166	5,056,083	9,766,598	3,033,757
Other liabilities	22,817,523	4,372,801	890,294	26,300,030	5,828,000
Total component units long-term liabilities	<u>\$ 2,044,904,758</u>	<u>\$506,365,184</u>	<u>\$229,870,571</u>	<u>\$ 2,321,399,371</u>	<u>\$144,361,470</u>

(1) Governmental activities bonds payable additions include \$3,035,908 of accretions on capital appreciation bonds.

Note 19: SUBSEQUENT EVENTS**Debt Issuance**

The State issued \$26,000,000 of 2005 Series A General Obligation Bonds dated March 2, 2005. Interest rates on these bonds vary from 3.0% to 4.0%. Payments to the bondholders are scheduled to commence March 1, 2006 and terminate March 1, 2025. The proceeds from this issuance will be used to fund capital improvements of the State authorized by the Legislature in Act 121 of 2004.



SUPPLEMENTARY INFORMATION

*Required Supplementary Information
(Unaudited)*

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes.....	\$ 880,948,000	\$ 897,286,400	\$ 929,080,648	\$ 31,794,248
Licenses.....	2,500,000	2,400,000	2,850,717	450,717
Fines, Forfeits and Penalties.....	6,300,000	7,200,000	7,400,301	200,301
Earnings of Departments.....	10,500,000	10,500,000	10,467,439	(32,561)
Interest and Premiums.....	6,500,000	5,600,000	393,617	(5,206,383)
Other.....	1,252,000	913,600	365,788	(547,812)
Total Revenues.....	908,000,000	923,900,000	950,558,510	26,658,510
Expenditures:				
General Government.....	50,148,302	58,454,921	37,173,083	21,281,838
Protection to Persons and Property.....	65,685,228	70,195,499	68,388,700	1,806,799
Human Services.....	296,954,282	308,915,506	232,951,646	75,963,860
Employment and Training.....	1,107,259	1,625,005	1,187,426	437,579
General Education.....	117,617,228	120,607,730	117,314,072	3,293,658
Natural Resources.....	15,772,804	18,873,723	15,709,231	3,164,492
Commerce and Community Development.....	14,334,433	16,958,767	15,253,529	1,705,238
Debt Service.....	65,902,206	66,222,212	66,077,580	144,632
Total Expenditures.....	627,521,742	661,853,363	554,055,267	107,798,096
Excess of Revenues over Expenditures.....	280,478,258	262,046,637	396,503,243	134,456,606
Other Financing Sources (Uses):				
Proceeds from Sale Refunding Bonds.....	-	146,075,459	146,075,459	-
Operating Transfers In.....	-	20,591,456	20,591,456	-
Payment to Escrow Agent.....	-	(146,071,943)	(146,071,943)	-
Premium on Sale of Bonds.....	-	1,708,033	1,708,033	-
Operating Transfers Out.....	(345,414,643)	(368,571,271)	(368,571,271)	-
Total Other Financing Sources (Uses).....	(345,414,643)	(346,268,266)	(346,268,266)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(64,936,385)	(84,221,629)	50,234,977	134,456,606
Fund Balance, July 1.....	60,918,932	60,918,932	60,918,932	-
Fund Balance, June 30.....	\$ (4,017,453)	\$ (23,302,697)	\$ 111,153,909	\$ 134,456,606

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, 2004
(Unaudited)**

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes.....	\$ 139,200,000	\$ 143,353,000	\$ 143,991,576	\$ 638,576
Licenses.....	54,500,000	54,700,000	57,241,786	2,541,786
Fines, Forfeits and Penalties.....	-	-	9,218,077	9,218,077
Earnings of Departments.....	-	-	4,438,646	4,438,646
Federal.....	173,463,052	178,217,521	129,769,796	(48,447,725)
Interest and Premiums.....	-	-	916	916
Other.....	19,512,000	16,300,000	6,156,127	(10,143,873)
Total Revenues.....	386,675,052	392,570,521	350,816,924	(41,753,597)
Expenditures:				
General Government.....	10,089,826	10,548,746	10,224,188	324,558
Protection to Persons and Property.....	29,007,815	29,664,048	29,280,434	383,614
Human Services.....	2,021,702	2,509,497	2,509,497	-
General Education.....	5,033,171	5,278,683	5,025,094	253,589
Natural Resources.....	1,119,543	1,452,289	1,096,498	355,791
Transportation.....	337,124,236	353,444,296	287,420,919	66,023,377
Debt Service.....	2,407,287	2,407,287	2,407,287	-
Total Expenditures.....	386,803,580	405,304,846	337,963,917	67,340,929
Excess of Revenues over (Under) Expenditures.....	(128,528)	(12,734,325)	12,853,007	25,587,332
Other Financing Sources (Uses):				
Operating Transfers In.....	-	4,773,000	4,773,000	-
Operating Transfers Out.....	(3,646,924)	(5,724,642)	(5,724,642)	-
Premium on Sale of Bonds.....	-	130,717	130,717	-
Total Other Financing Sources (Uses).....	(3,646,924)	(820,925)	(820,925)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(3,775,452)	(13,555,250)	12,032,082	25,587,332
Fund Balance, July 1.....	1,400,201	1,400,201	1,400,201	-
Fund Balance, June 30.....	\$ (2,375,251)	\$ (12,155,049)	\$ 13,432,283	\$ 25,587,332

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, 2004
(Unaudited)**

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes.....	\$ 567,684,000	\$ 588,328,600	\$ 603,772,960	\$ 15,444,360
Earnings of Departments.....	2,600,000	2,400,000	2,490,600	90,600
Interest and Premiums.....	-	-	(231,996)	(231,996)
Total Revenues.....	570,284,000	590,728,600	606,031,564	15,302,964
Expenditures:				
General Education.....	875,390,069	876,959,536	875,093,495	1,866,041
Total Expenditures.....	875,390,069	876,959,536	875,093,495	1,866,041
Excess of Revenues over (Under) Expenditures..	(305,106,069)	(286,230,936)	(269,061,931)	17,169,005
Other Financing Sources (Uses):				
Operating Transfers In.....	296,609,409	297,325,670	297,325,670	-
Total Other Financing Sources (Uses)..	296,609,409	297,325,670	297,325,670	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(8,496,660)	11,094,734	28,263,739	17,169,005
Fund Balance, July 1.....	11,214,692	11,214,692	11,214,692	-
Fund Balance, June 30.....	\$ 2,718,032	\$ 22,309,426	\$ 39,478,431	\$ 17,169,005

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, 2004
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Taxes.....	\$ -	\$ -	\$ 130,841,505	\$ 130,841,505
Licenses.....	-	-	11,918,256	11,918,256
Fines, Forfeits and Penalties.....	-	-	5,343,134	5,343,134
Earnings of Departments.....	-	-	55,459,848	55,459,848
Interest and Premiums.....	-	-	3,468,737	3,468,737
Other.....	-	-	100,018,430	100,018,430
Special Fund Revenues.....	315,153,325	352,305,151	-	(352,305,151)
Total Revenues.....	315,153,325	352,305,151	307,049,910	(45,255,241)
Expenditures:				
General Government.....	8,256,651	17,526,199	11,386,143	6,140,056
Protection to Persons and Property.....	48,023,414	57,194,957	51,059,488	6,135,469
Human Services.....	269,126,020	286,530,125	260,050,302	26,479,823
Employment and Training.....	3,123,723	3,418,201	2,499,482	918,719
General Education.....	16,582,432	16,699,175	15,058,038	1,641,137
Natural Resources.....	28,732,543	30,515,534	27,617,947	2,897,587
Commerce and Community Development.....	6,123,035	8,597,323	4,978,767	3,618,556
Transportation.....	1	810,958	286,937	524,021
Public Service Enterprises.....	10,792	2,009,543	1,931,855	77,688
Debt Service.....	2,382,985	2,382,985	2,382,985	-
Total Expenditures.....	382,361,596	425,685,000	377,251,944	48,433,056
Excess of Revenues over (Under) Expenditures.	(67,208,271)	(73,379,849)	(70,202,034)	3,177,815
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds.....	-	478,989	478,989	-
Operating Transfers In.....	78,162,953	139,210,491	139,210,491	-
Operating Transfers Out.....	(45,189)	(23,238,468)	(23,238,468)	-
Total Other Financing Sources (Uses)..	78,117,764	116,451,012	116,451,012	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	10,909,493	43,071,163	46,248,978	3,177,815
Fund Balance, July 1.....	61,340,629	61,340,629	61,340,629	-
Fund Balance, June 30.....	\$ 72,250,122	\$ 104,411,792	\$ 107,589,607	\$ 3,177,815

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, 2004
(Unaudited)**

	Original Budget	Final Budget	Actual (Budgetary Based)	Variance- Favorable (Unfavorable)
Revenues:				
Federal.....	\$ 894,797,734	\$ 1,046,728,908	\$ 992,201,611	\$ (54,527,297)
Interest and Premiums.....	-	-	74,627	74,627
Other.....	-	-	4,041,725	4,041,725
Total Revenues.....	894,797,734	1,046,728,908	996,317,963	(50,410,945)
Expenditures:				
General Government.....	2,175,142	2,593,482	2,083,565	509,917
Protection to Persons and Property.....	41,758,841	55,531,842	38,578,959	16,952,883
Human Services.....	709,005,433	811,775,533	771,494,178	40,281,355
Employment and Training.....	25,063,952	25,154,624	23,769,703	1,384,921
General Education.....	93,891,391	105,835,359	104,032,132	1,803,227
Natural Resources.....	12,842,023	23,954,723	20,511,511	3,443,212
Commerce and Community Development.....	10,060,952	21,883,345	9,399,945	12,483,400
Total Expenditures.....	894,797,734	1,046,728,908	969,869,993	76,858,915
Excess of Revenues over Expenditures.....	-	-	26,447,970	26,447,970
Other Financing Sources (Uses):				
Operating Transfers In.....	-	47,928	47,928	-
Operating Transfers Out.....	-	(35,557,144)	(35,557,144)	-
Total Other Financing Sources (Uses)...	-	(35,509,216)	(35,509,216)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	-	(35,509,216)	(9,061,246)	26,447,970
Fund Balance, July 1.....	26,378,268	26,378,268	26,378,268	-
Fund Balance, June 30.....	\$ 26,378,268	\$ (9,130,948)	\$ 17,317,022	\$ 26,447,970

The accompanying notes are an integral part of the required supplementary information.

Notes to Required Supplementary Information - Budgetary Reporting
For the fiscal year ended June 30, 2004
(Unaudited)

RECONCILIATION OF BUDGETARY TO GAAP

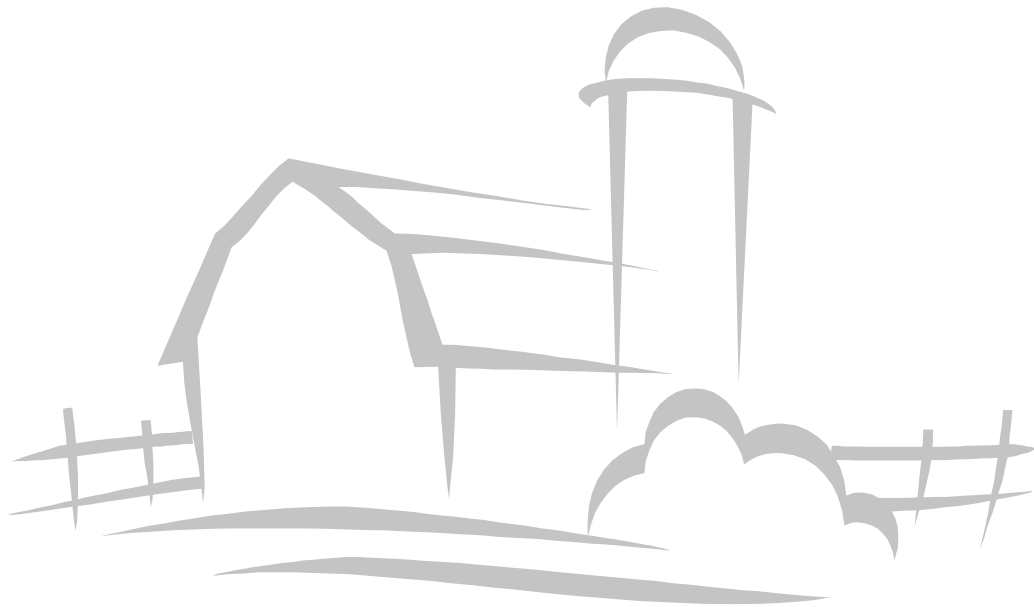
The State's annual budget is prepared on a basis (cash) other than GAAP. The actual results column of the "Budget and Actual" non-GAAP budgetary schedules are presented on a modified cash basis to provide a meaningful comparison to budget. The General and major Special Revenue Funds' statements are prepared on a modified accrual basis (GAAP). The major differences between the modified cash basis and the modified accrual basis are:

- 1 Expenditures are recognized when cash is paid or committed (budgetary) rather than when the obligation is incurred.
- 2 On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order not to double count revenues and expenditures.

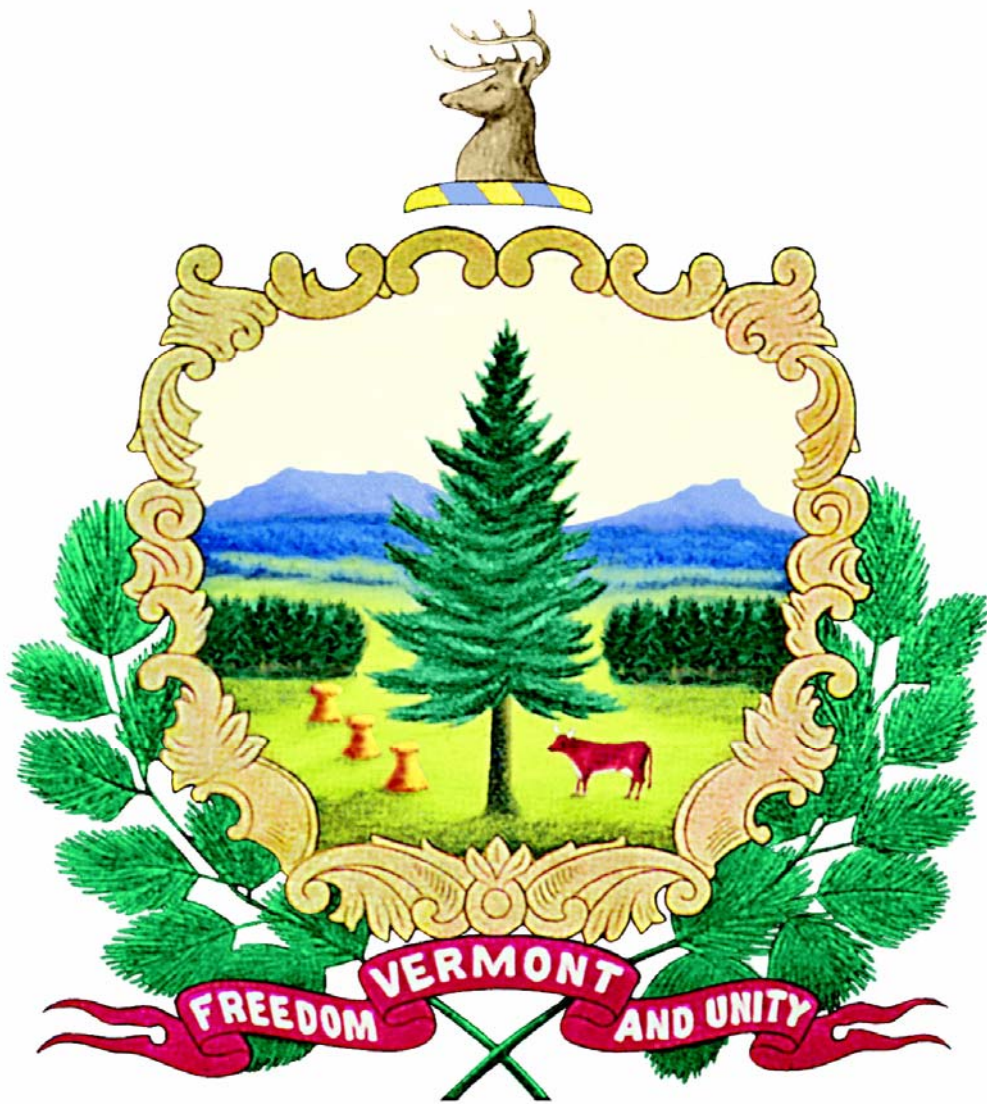
The following schedule reconciles the general and special revenue funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the fiscal year ended June 30, 2004.

	<u>General Fund</u>	<u>Transportation Fund</u>	<u>Education Fund</u>	<u>Special Fund</u>	<u>Federal Revenue Fund</u>
Fund Balance - Budgetary Basis	\$ 111,153,909	\$ 13,432,283	\$ 39,478,431	\$ 107,589,607	\$ 17,317,022
<u>Basis of accounting and reporting entity differences:</u>					
To record cash on hand, restricted cash, market value of investments	-	2,013,202	-	225,671	4,058
To record taxes receivable	147,440,031	9,168,534	13,750,194	3,398,866	-
To record loans/notes receivable, due from other funds, and other receivables	2,073,272	6,537,915	14,452	15,531,325	13,872,415
To record due from federal government	-	17,860,665	-	-	119,909,006
To record accounts and retainage payable, accrued liabilities, deferred revenue	(100,315,116)	(29,119,592)	(12,270,068)	(59,515,094)	(113,624,837)
To record tax refunds payable	(784,912)	-	-	-	-
To record due to other funds	(5,013,099)	(976,731)	(1,700)	(1,225,877)	(1,058,554)
To record due to component units	-	(10,098)	-	-	-
To record effects of blended component units	-	2,537,134	-	3,525,000	21,263,349
To record removal of discretely presented component unit	171,711	-	-	(1,031,854)	267,116
Fund Balance - GAAP Basis	<u>\$ 154,725,796</u>	<u>\$ 21,443,312</u>	<u>\$ 40,971,309</u>	<u>\$ 68,497,644</u>	<u>\$ 57,949,575</u>

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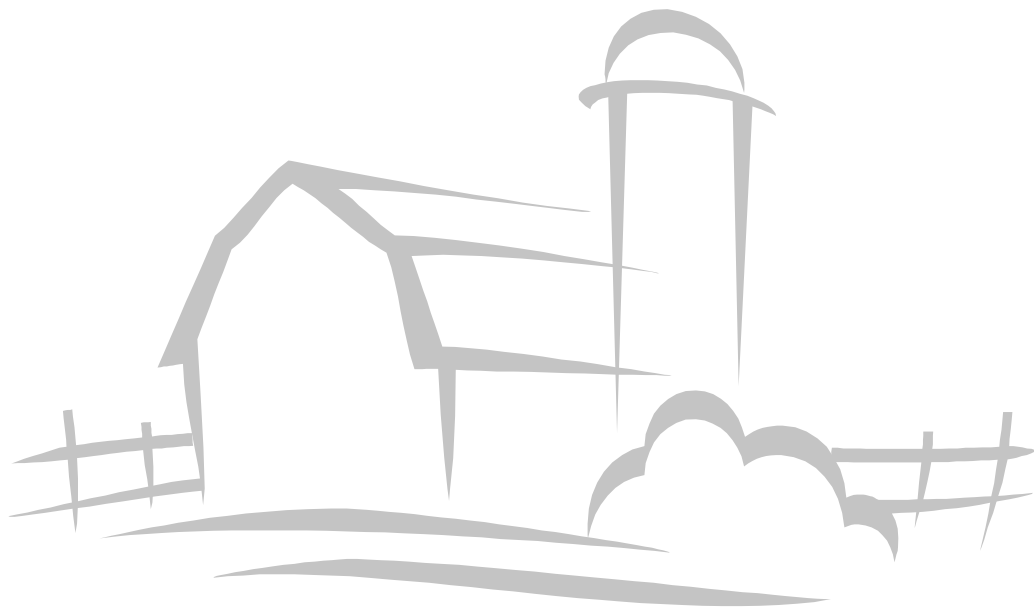


Vermont

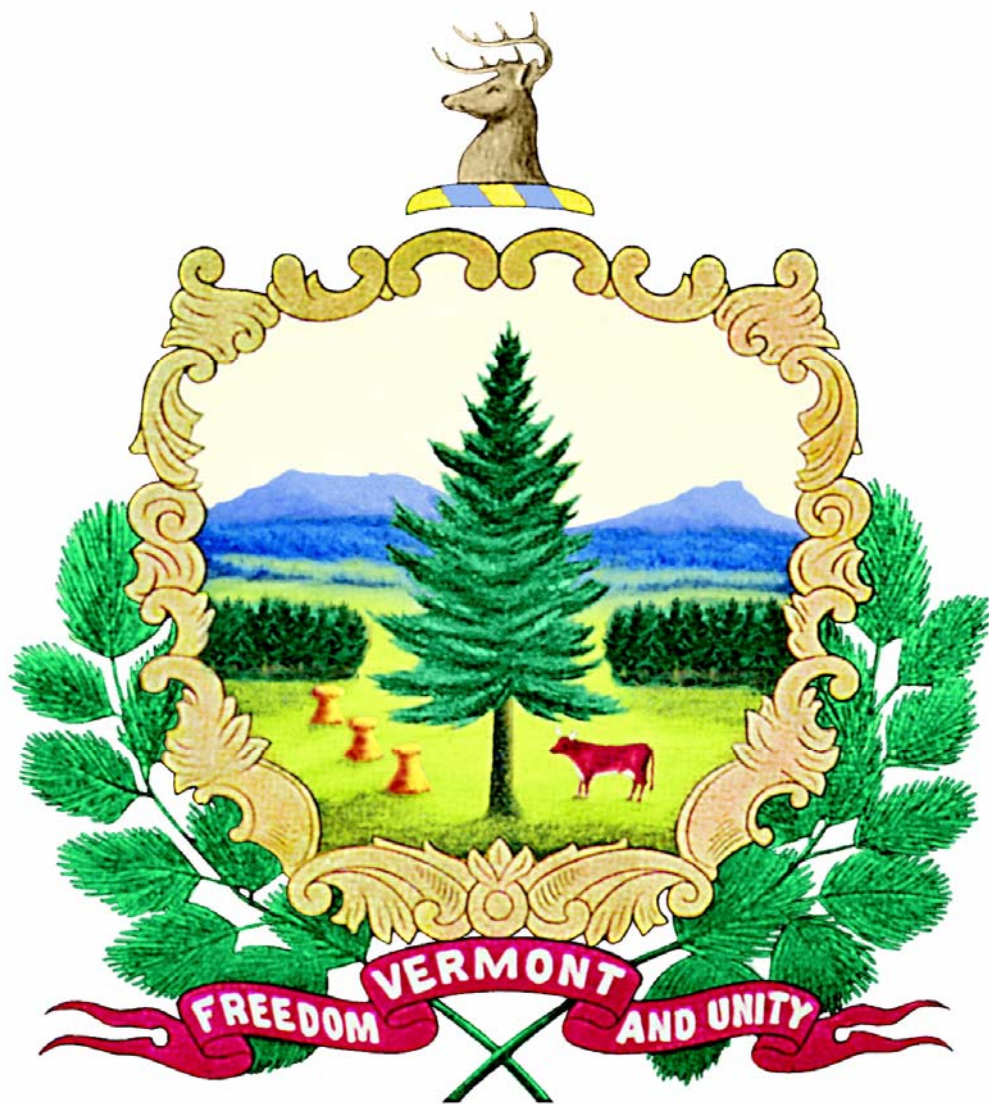


COMBINING FINANCIAL STATEMENTS

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Vermont



**NONMAJOR
GOVERNMENTAL FUNDS**

**State of Vermont
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Fish & Wildlife Fund</u>	<u>General Bond Fund</u>	<u>Transportation Bond Fund</u>
ASSETS:			
Cash and cash equivalents.....	\$ 4,297,137	\$ 43,629,863	\$ 2,253,038
Investments.....	-	-	-
Receivables:			
Taxes receivable.....	94,616	-	-
Other receivables.....	398,436	19,800	-
Intergovernmental receivable - federal government.....	266,920	-	-
Due from other funds.....	9,836	-	-
Total assets.....	<u>\$ 5,066,945</u>	<u>\$ 43,649,663</u>	<u>\$ 2,253,038</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable.....	\$ 410,747	\$ 2,952,600	\$ 246,128
Accrued liabilities.....	467,853	3,288	-
Due to other funds.....	4,321	30,705	-
Retainage payable.....	250	980,929	-
Deferred revenue.....	3,087	-	-
Total Liabilities.....	<u>886,258</u>	<u>3,967,522</u>	<u>246,128</u>
FUND BALANCES:			
Reserved for:			
Encumbrances.....	79,457	5,326,240	-
Endowments.....	-	-	-
Unreserved:			
Designated for specific purposes.....	-	34,355,901	2,006,910
Undesignated.....	4,101,230	-	-
Total fund balances.....	<u>4,180,687</u>	<u>39,682,141</u>	<u>2,006,910</u>
Total liabilities and fund balances.....	<u>\$ 5,066,945</u>	<u>\$ 43,649,663</u>	<u>\$ 2,253,038</u>

See Independent Auditor's Report.

Permanent Funds

Higher Education Endowment Fund	Vermont Sanitorium Fund	Albert C. Lord Trust Fund	Lumberjack Fund
\$ (826)	\$ 16,657	\$ 25,138	\$ 11,901
8,625,717	251,791	223,399	11,131
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
\$ 8,624,891	\$ 268,448	\$ 248,537	\$ 23,032
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
0	0	0	0
-	-	-	-
7,000,000	206,502	183,217	9,129
-	-	-	-
1,624,891	61,946	65,320	13,903
8,624,891	268,448	248,537	23,032
\$ 8,624,891	\$ 268,448	\$ 248,537	\$ 23,032

Continued on next page---->

State of Vermont
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Permanent Funds		
	Couching Lion Farm Cemetery Fund	Carrie P. Underwood Fund	Laura H. Morgan Fund
ASSETS:			
Cash and cash equivalents.....	\$ 17,537	\$ 2,866	\$ 184
Investments.....	2,354	13,546	3,048
Receivables:			
Taxes receivable.....	-	-	-
Other receivables.....	-	-	-
Intergovernmental receivable - federal government.....	-	-	-
Due from other funds.....	-	-	-
Total assets.....	\$ 19,891	\$ 16,412	\$ 3,232
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable.....	\$ -	\$ -	\$ -
Accrued liabilities.....	-	-	-
Due to other funds.....	-	-	-
Retainage payable.....	-	-	-
Deferred revenue.....	-	-	-
Total Liabilities.....	0	0	0
FUND BALANCES:			
Reserved for:			
Encumbrances.....	-	-	-
Endowments.....	1,930	11,110	2,500
Unreserved:			
Designated for specific purposes.....	-	-	-
Undesignated.....	17,961	5,302	732
Total fund balances.....	19,891	16,412	3,232
Total liabilities and fund balances.....	\$ 19,891	\$ 16,412	\$ 3,232

Permanent Funds		Total Nonmajor Governmental Funds
Bennington Battle Monument Fund	Zenus H. Ellis Fund	
\$ 570	\$ 211	\$ 50,254,276
1,299	1,219	9,133,504
-	-	94,616
-	-	418,236
-	-	266,920
-	-	9,836
\$ 1,869	\$ 1,430	\$ 60,177,388
\$ -	\$ -	\$ 3,609,475
-	-	471,141
341	-	35,367
-	-	981,179
-	-	3,087
341	0	5,100,249
-	-	5,405,697
1,065	1,000	7,416,453
-	-	36,362,811
463	430	5,892,178
1,528	1,430	55,077,139
\$ 1,869	\$ 1,430	\$ 60,177,388

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Special Revenue</u>	<u>Capital Projects</u>	
	<u>Fish & Wildlife Fund</u>	<u>General Bond Fund</u>	<u>Transportation Bond Fund</u>
REVENUES:			
Taxes:			
Motor fuel tax.....	\$ 1,026,081	\$ -	\$ -
Earnings of departments:			
Fees.....	249,025	-	-
Rents and leases.....	39,781	-	-
Federal grants.....	4,500,972	-	-
Fines, forfeits and penalties.....	23,572	-	-
Investment income.....	24,557	-	-
Licenses:			
Business.....	1,525	-	-
Non-business.....	6,050,981	-	-
Special assessments.....	1,936	-	-
Other revenues.....	773,844	-	-
Total revenues.....	<u>12,692,274</u>	<u>0</u>	<u>0</u>
EXPENDITURES:			
General government.....	-	13,123,687	-
Protection to persons and property.....	-	5,035,685	-
Human services.....	-	1,375,019	-
General education.....	-	12,721,843	-
Natural resources.....	13,176,430	6,905,222	-
Commerce and community development.....	-	1,040,994	-
Transportation.....	-	-	993,090
Total expenditures.....	<u>13,176,430</u>	<u>40,202,450</u>	<u>993,090</u>
Excess of revenues over (under) expenditures.....	<u>(484,156)</u>	<u>(40,202,450)</u>	<u>(993,090)</u>
Other Financing Sources (Uses):			
Proceeds from the sale of bonds.....	-	39,200,000	3,000,000
Transfers in.....	876,215	360	-
Transfers out.....	-	(2,232,392)	-
Total other financing sources (uses).....	<u>876,215</u>	<u>36,967,968</u>	<u>3,000,000</u>
Net change in fund balances.....	<u>392,059</u>	<u>(3,234,482)</u>	<u>2,006,910</u>
Fund balances, July 1.....	<u>3,788,628</u>	<u>42,916,623</u>	<u>0</u>
Fund balances, June 30.....	<u>\$ 4,180,687</u>	<u>\$ 39,682,141</u>	<u>\$ 2,006,910</u>

See Independent Auditor's Report.

Permanent Funds

Higher Education Endowment Fund	Vermont Sanitorium Fund	Albert C. Lord Trust Fund	Lumberjack Fund
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
564,000	17,412	15,552	903
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
564,000	17,412	15,552	903
-	-	-	-
-	-	-	-
-	-	-	-
511,264	-	-	-
-	-	-	2,894
-	-	-	-
-	-	-	-
511,264	0	0	2,894
52,736	17,412	15,552	(1,991)
-	-	-	-
-	-	-	-
-	-	-	-
0	0	0	0
52,736	17,412	15,552	(1,991)
8,572,155	251,036	232,985	25,023
\$ 8,624,891	\$ 268,448	\$ 248,537	\$ 23,032

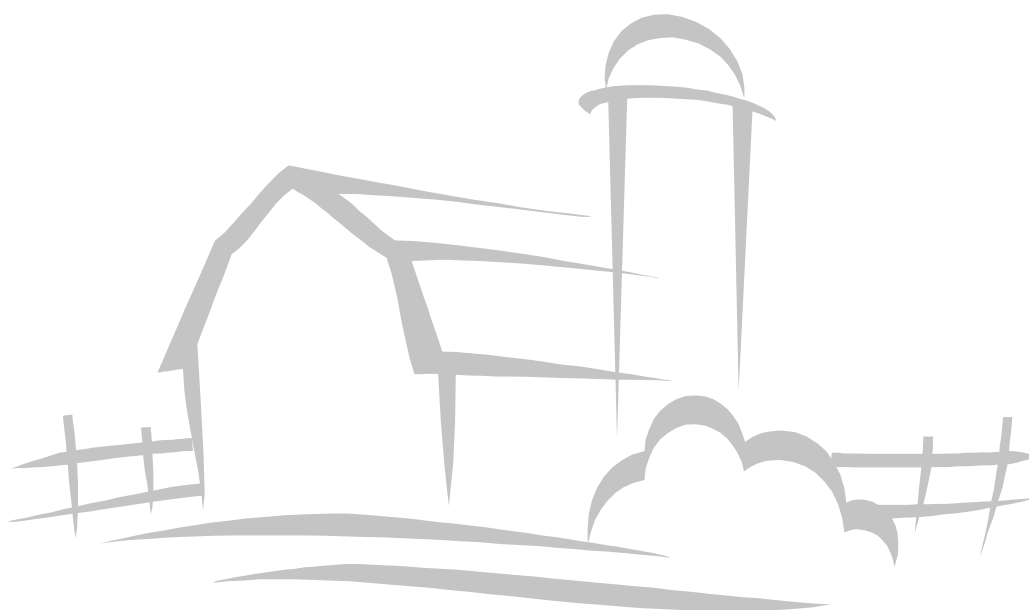
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STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

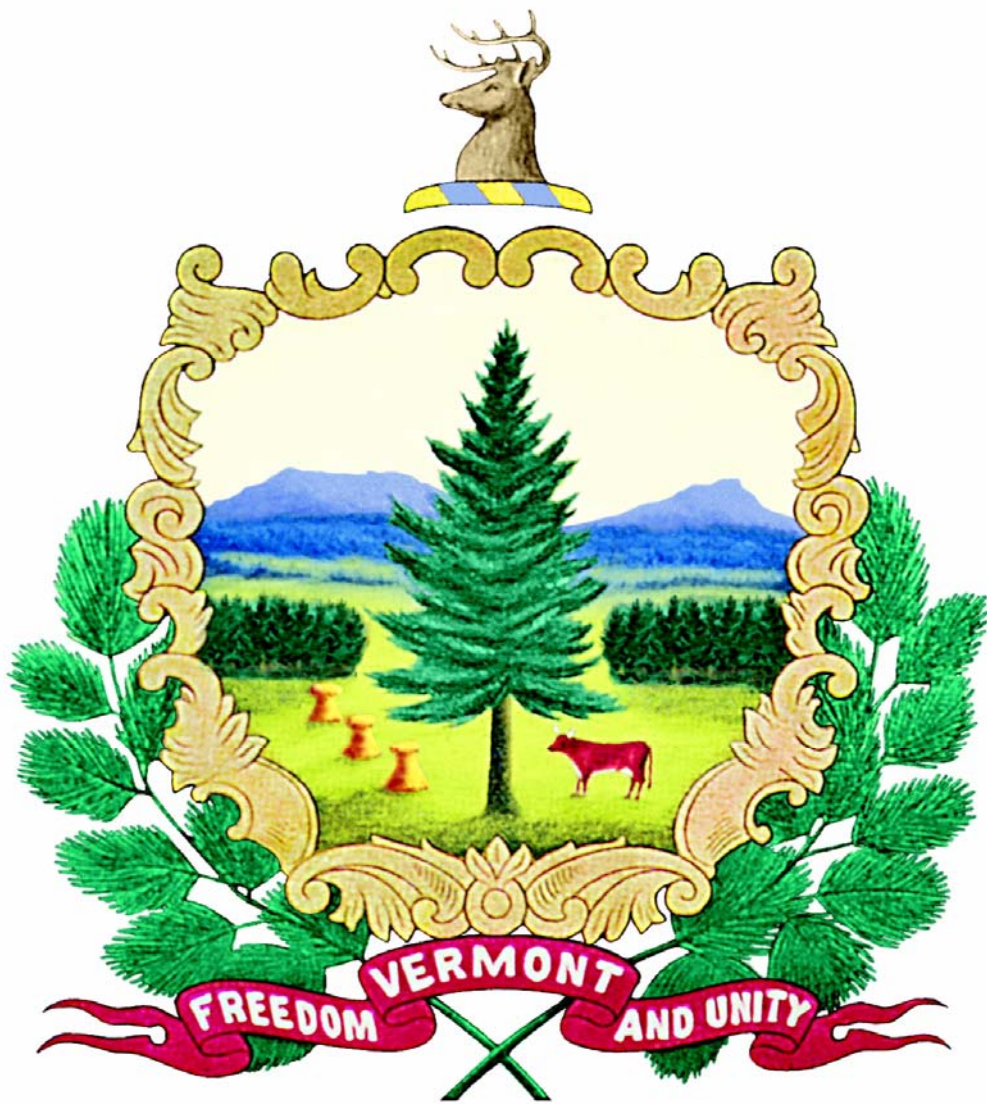
	Permanent Funds		
	Couching Lion Farm Cemetery Fund	Carrie P. Underwood Fund	Laura H. Morgan Fund
REVENUES:			
Taxes:			
Motor fuel tax.....	\$ -	\$ -	\$ -
Earnings of departments:			
Fees.....	-	-	-
Rents and leases.....	-	-	-
Federal grants.....	-	-	-
Fines, forfeits and penalties.....	-	-	-
Investment income.....	316	954	210
Licenses:			
Business.....	-	-	-
Non-business.....	-	-	-
Special assessments.....	-	-	-
Other revenues.....	-	-	-
Total revenues.....	316	954	210
EXPENDITURES:			
General government.....	-	-	-
Protection to persons and property.....	-	-	-
Human services.....	-	-	-
General education.....	-	-	-
Natural resources.....	-	-	-
Commerce and community development.....	-	-	-
Transportation.....	-	-	-
Total expenditures.....	0	0	0
Excess of revenues over (under) expenditures.....	316	954	210
Other Financing Sources (Uses):			
Proceeds from the sale of bonds.....	-	-	-
Transfers in.....	-	-	-
Transfers out.....	-	-	-
Total other financing sources (uses).....	0	0	0
Net change in fund balances.....	316	954	210
Fund balances, July 1	19,575	15,458	3,022
Fund balances, June 30.....	\$ 19,891	\$ 16,412	\$ 3,232

Permanent Funds			
Bennington Battle Monument Fund	Zenus H. Ellis Fund	Total Nonmajor Governmental Funds	
\$ -	\$ -	\$ 1,026,081	
-	-	249,025	
-	-	39,781	
-	-	4,500,972	
-	-	23,572	
90	85	624,079	
-	-	1,525	
-	-	6,050,981	
-	-	1,936	
-	-	773,844	
90	85	13,291,796	
-	-	13,123,687	
-	-	5,035,685	
-	-	1,375,019	
-	-	13,233,107	
-	-	20,084,546	
-	-	1,040,994	
-	-	993,090	
0	0	54,886,128	
90	85	(41,594,332)	
-	-	42,200,000	
-	-	876,575	
-	-	(2,232,392)	
0	0	40,844,183	
90	85	(750,149)	
1,438	1,345	55,827,288	
\$ 1,528	\$ 1,430	\$ 55,077,139	

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Vermont



**NONMAJOR
ENTERPRISE FUNDS**

STATE OF VERMONT
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 June 30, 2004

	Industrial Homework Office Fund	Federal Surplus Property Fund	Vermont Life Magazine Fund
ASSETS			
Current Assets:			
Cash and cash equivalents.....	\$ 49,020	\$ -	\$ -
Accrued interest receivable.....	22,901	25,049	-
Accounts receivable (net of allowance for uncollectibles).....	-	-	111,097
Loans receivable.....	-	-	-
Due from other funds.....	-	-	-
Inventories, at cost.....	-	675,165	102,933
Prepaid expenses.....	-	-	91,478
Total current assets.....	71,921	700,214	305,508
Restricted and Noncurrent Assets:			
Cash - subscription reserve fund.....	-	-	638,448
Loans receivable.....	-	-	-
Accounts receivable - subscriptions.....	-	-	43,127
Imprest cash and change fund - advances.....	1,700	-	1,200
Total restricted & noncurrent assets.....	1,700	0	682,775
Capital Assets:			
Machinery, equipment and buildings.....	-	13,300	16,989
Less accumulated depreciation.....	-	(7,426)	(16,989)
Total capital assets, net of depreciation.....	0	5,874	0
Total assets.....	73,621	706,088	988,283
LIABILITIES			
Current Liabilities:			
Accounts payable.....	-	4,189	118,932
Accrued salaries and benefits.....	5,016	6,206	77,948
Interfund payable.....	-	346,349	49,108
Deferred revenue.....	-	675,165	22,430
Total current liabilities.....	5,016	1,031,909	268,418
Liabilities Payable From Restricted Assets:			
Unexpired subscriptions.....	-	-	638,448
Advances from other funds.....	1,700	-	1,200
Total liabilities payable from restricted assets.....	1,700	0	639,648
Total liabilities.....	6,716	1,031,909	908,066
NET ASSETS			
Invested in Capital Assets.....	-	5,874	-
Unrestricted.....	66,905	(331,695)	80,217
Total Net Assets.....	\$ 66,905	\$ (325,821)	\$ 80,217

See Independent Auditor's Report.

Municipal Equipment Loan Fund	Vermont Adaptive Equipment Revolving Fund	Unemployment Compensation Contingency Fund	Total Nonmajor Enterprise Funds
\$ 926,784	\$ 231,656	\$ 151,527	\$ 1,358,987
9,273	2,272	-	59,495
-	47,258	-	158,355
896,085	565,584	-	1,461,669
341	-	20,732	21,073
-	-	-	778,098
-	-	-	91,478
1,832,483	846,770	172,259	3,929,155
-	-	-	638,448
872,111	-	-	872,111
-	-	-	43,127
-	-	-	2,900
872,111	0	0	1,556,586
-	-	-	30,289
-	-	-	(24,415)
0	0	0	5,874
2,704,594	846,770	172,259	5,491,615
-	30,948	-	154,069
-	-	-	89,170
-	-	-	395,457
-	-	-	697,595
0	30,948	0	1,336,291
-	-	-	638,448
-	-	-	2,900
0	0	0	641,348
0	30,948	0	1,977,639
-	-	-	5,874
2,704,594	815,822	172,259	3,508,102
\$ 2,704,594	\$ 815,822	\$ 172,259	\$ 3,513,976

STATE OF VERMONT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Industrial Homework Office Fund	Federal Surplus Property Fund	Vermont Life Magazine Fund
Operating Revenues			
Charges for sales and services.....	\$ 134,109	\$ 91,765	\$ 1,439,606
Advertising revenue.....	-	-	534,284
Federal donated property.....	-	232,549	-
Other operating revenues.....	-	-	92,296
Total operating revenues.....	134,109	324,314	2,066,186
Operating Expenses			
Cost of sales and services.....	-	268,022	601,247
Salaries and wages.....	132,300	59,577	705,070
Transportation.....	-	-	39,837
Depreciation.....	-	2,660	-
Rentals.....	-	33,913	-
Utilities.....	-	1,915	-
Promotions and advertising.....	-	-	302,965
Administration.....	-	25,994	157,621
Supplies.....	-	3,344	19,785
Distribution and postage.....	-	59	198,865
Travel.....	-	1,727	12,262
Loss on bad debts.....	-	-	10,751
Other operating expenses.....	-	12,380	20,697
Total operating expenses.....	132,300	409,591	2,069,100
Operating income (loss).....	1,809	(85,277)	(2,914)
Non-Operating Revenues (Expenses)			
Investment income.....	-	-	4,055
Total non-operating revenues (expenses).....	0	0	4,055
Income (loss) before transfers.....	1,809	(85,277)	1,141
Transfers			
Transfer in.....	-	-	-
Transfer out.....	-	-	-
Total transfers in (out).....	0	0	0
Changes in net assets.....	1,809	(85,277)	1,141
Total net assets July 1	65,096	(240,544)	79,076
Total net assets June 30.....	\$ 66,905	\$ (325,821)	\$ 80,217

See Independent Auditor's Report.

Municipal Equipment Loan Fund	Vermont Adaptive Equipment Revolving Fund	Unemployment Compensation Contingency Fund	Total Nonmajor Enterprise Funds
\$ -	\$ -	\$ -	\$ 1,665,480
-	-	-	534,284
-	-	-	232,549
37,533	41,533	-	171,362
37,533	41,533	0	2,603,675
-	-	-	869,269
-	-	-	896,947
-	-	-	39,837
-	-	-	2,660
-	-	-	33,913
-	-	-	1,915
-	-	-	302,965
-	24,852	-	208,467
-	-	-	23,129
-	-	-	198,924
-	-	-	13,989
-	5,020	-	15,771
-	-	77,830	110,907
0	29,872	77,830	2,718,693
37,533	11,661	(77,830)	(115,018)
9,145	2,396	972	16,568
9,145	2,396	972	16,568
46,678	14,057	(76,858)	(98,450)
-	-	302,503	302,503
-	-	(233,179)	(233,179)
0	0	69,324	69,324
46,678	14,057	(7,534)	(29,126)
2,657,916	801,765	179,793	3,543,102
\$ 2,704,594	\$ 815,822	\$ 172,259	\$ 3,513,976

**STATE OF VERMONT
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

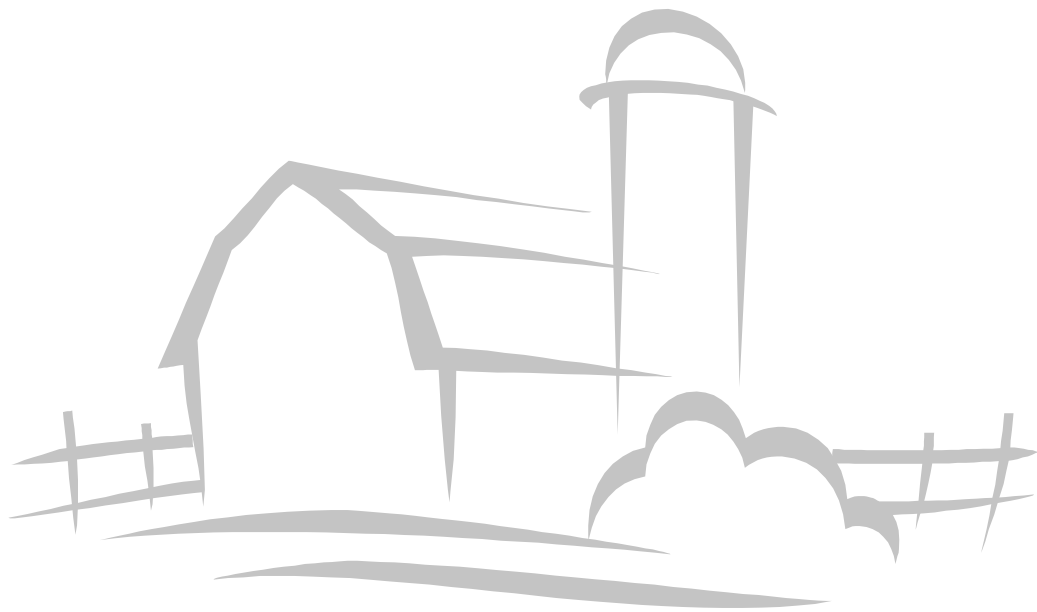
	Industrial Homework Office Fund	Federal Surplus Property Fund	Vermont Life Magazine Fund
Cash Flows from Operating Activities:			
Cash received from customers.....	\$ 135,420	\$ 71,799	\$ 1,934,674
Cash paid to suppliers for goods and services.....	-	(117,785)	(1,235,280)
Loans received (made).....	-	(58,152)	-
Cash paid to employees for services.....	(132,712)	-	(690,453)
Other operating revenues (expenses).....	10	-	92,296
Net cash provided (used) by operating activities.....	2,718	(104,138)	101,237
Cash Flows from Noncapital Financing Activities:			
Operating/equity transfers.....	-	104,138	-
Interfund loans and advances.....	-	-	(133,703)
Net cash (used) by noncapital financing activities.....	0	104,138	(133,703)
Cash Flows from Investing Activities:			
Interest earned on investments.....	-	-	4,055
Interest & penalties received (paid).....	-	-	-
Excess cash transferred.....	-	-	-
Net cash provided (used) by investing activities.....	0	0	4,055
Net increase (Decrease) in cash and cash equivalents....	2,718	0	(28,411)
Cash and cash equivalents at July 1.....	48,002	-	668,059
Cash and cash equivalents at June 30 (see note below)...	\$ 50,720	\$ -	\$ 639,648
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss).....	\$ 1,809	\$ (85,277)	\$ (2,914)
Adjustments to reconcile operating income to Net cash provided (used) by operating activities:			
Depreciation.....	-	2,660	-
(Increase) decrease in accounts/taxes receivable.....	1,310	(19,966)	15,061
(Increase) decrease in loans receivable.....	-	-	-
(Increase) decrease in accrued interest receivable.....	-	-	-
(Increase) decrease in inventories.....	-	232,549	(9,452)
(Increase) decrease in prepaid expenses.....	-	-	31,977
Increase (decrease) in accounts payable.....	-	(2,980)	96,296
Increase (decrease) in accrued salaries and benefits.....	(401)	1,425	14,616
Increase (decrease) in deferred revenue.....	-	(232,549)	(15,936)
Increase (decrease) in subscription reserves.....	-	-	(28,411)
Total adjustments.....	909	(18,861)	104,151
Net cash provided (used) by operating activities.....	\$ 2,718	\$ (104,138)	\$ 101,237

NOTE: Total cash/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.

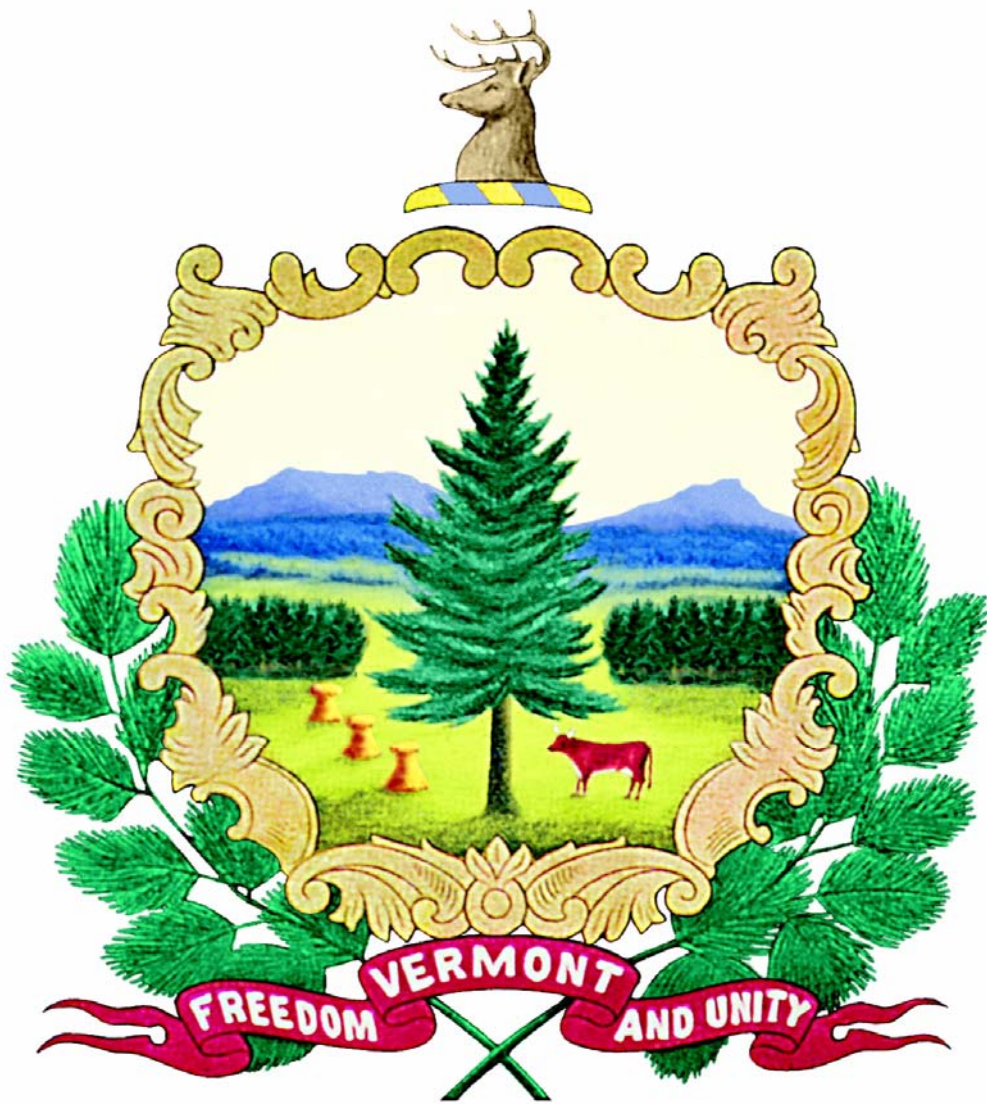
See Independent Auditor's Report.

Municipal Equipment Loan Fund	Adaptive Equipment Revolving Fund	Unemployment Compensation Contingency Fund	Total Nonmajor Enterprise Funds
\$ 1,296,927	\$ 193,665	\$ -	\$ 3,632,485
(1,012,071)	(305,539)	-	(2,670,675)
-	39,526	-	(18,626)
-	-	-	(823,165)
-	(22,456)	(77,830)	(7,980)
284,856	(94,804)	(77,830)	112,039
-	-	-	104,138
-	-	-	(133,703)
0	0	0	(29,565)
8,804	2,396	972	16,227
-	-	310,646	310,646
-	-	(233,179)	(233,179)
8,804	2,396	78,439	93,694
293,660	(92,408)	609	176,168
633,124	324,064	150,918	1,824,167
\$ 926,784	\$ 231,656	\$ 151,527	\$ 2,000,335
\$ 37,533	\$ 11,661	\$ (77,830)	\$ (115,018)
-	-	-	2,660
-	(25,443)	-	(29,038)
236,265	(92,902)	-	143,363
11,058	(568)	-	10,490
-	-	-	223,097
-	-	-	31,977
-	12,448	-	105,764
-	-	-	15,640
-	-	-	(248,485)
-	-	-	(28,411)
247,323	(106,465)	-	227,057
\$ 284,856	\$ (94,804)	\$ (77,830)	\$ 112,039

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Vermont



INTERNAL SERVICE FUNDS

STATE OF VERMONT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 JUNE 30, 2004

	Highway Garage Fund	Offender Work Programs	Single Audit Revolving Fund	Financial & HR Information Fund
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ -	\$ 28,137	\$ 98,995	\$ -
Accounts receivable.....	9,938	542,326	6,037	14,757
Due from other funds.....	-	-	-	-
Inventories, at cost.....	1,008,771	540,030	-	-
Prepaid expenses.....	14,277	-	-	-
Total current assets.....	1,032,986	1,110,493	105,032	14,757
Restricted and Other Assets:				
Imprest fund-advances from state treasurer.....	-	15,100	-	-
Total restricted and other assets.....	0	15,100	0	0
Capital Assets:				
Machinery, equipment and buildings.....	41,814,429	1,443,872	-	-
Accumulated depreciation.....	(19,525,331)	(894,943)	-	-
Net machinery, equipment and buildings.....	22,289,098	548,929	0	0
Land.....	26,156	-	-	-
Total capital assets.....	22,315,254	548,929	0	0
Total assets.....	23,348,240	1,674,522	105,032	14,757
LIABILITIES				
Current Liabilities:				
Accounts payable.....	113,063	231,235	105,032	67,404
Claims payable.....	-	-	-	-
Deferred income.....	-	-	-	-
Due to other funds.....	-	-	-	101,370
Interfund payable.....	259,003	-	-	145,557
Accrued salaries and benefits.....	239,491	119,010	-	309,260
Total current liabilities.....	611,557	350,245	105,032	623,591
Liabilities Payable from Restricted Assets:				
Advances from other funds.....	-	15,100	-	-
Total liabilities.....	611,557	365,345	105,032	623,591
NET ASSETS				
Invested in capital assets.....	22,315,254	548,929	-	-
Unrestricted (deficit).....	421,429	760,248	-	(608,834)
Total net assets.....	\$ 22,736,683	\$ 1,309,177	\$ -	\$ (608,834)

See Independent Auditor's Report.

Communcations & Information Technology	GOVNET Fund	Supply Center Fund	Copy Center Fund	Postage Fund	Facilities Operations Fund	Property Management Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403,211	\$ -
2,579,974	230,682	413,748	867,085	377,420	756,598	250,999
95,000	-	-	-	-	41,000	9,000
161,785	-	-	82,930	600,083	-	-
303,511	-	-	6,769	43,088	-	516,216
3,140,270	230,682	413,748	956,784	1,020,591	1,200,809	776,215
-	-	-	-	-	-	-
0	0	0	0	0	0	0
2,466,441	1,382,978	129,645	3,885,401	579,259	1,412,914	38,072
(1,552,766)	(1,063,938)	(117,006)	(1,501,476)	(295,894)	(985,658)	(23,692)
913,675	319,040	12,639	2,383,925	283,365	427,256	14,380
-	-	-	-	-	-	-
913,675	319,040	12,639	2,383,925	283,365	427,256	14,380
4,053,945	549,722	426,387	3,340,709	1,303,956	1,628,065	790,595
20,624	102,137	12,270	79,849	24,261	1,584,309	101,385
-	-	-	-	-	-	-
212,730	-	-	-	-	-	-
-	95,000	-	-	-	-	-
4,155,754	616,504	234,615	3,730,531	1,374,122	-	6,664,860
262,800	57,609	18,517	62,807	54,225	1,061,483	113,834
4,651,908	871,250	265,402	3,873,187	1,452,608	2,645,792	6,880,079
-	-	-	-	-	-	-
4,651,908	871,250	265,402	3,873,187	1,452,608	2,645,792	6,880,079
913,675	319,040	12,639	2,383,925	283,365	427,256	14,380
(1,511,638)	(640,568)	148,346	(2,916,403)	(432,017)	(1,444,983)	(6,103,864)
\$ (597,963)	\$ (321,528)	\$ 160,985	\$ (532,478)	\$ (148,652)	\$ (1,017,727)	\$ (6,089,484)

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STATE OF VERMONT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 June 30, 2004

	Equipment Revolving Fund	State Surplus Property Fund	State Liability Insurance Fund	Risk Management All -Other Fund
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ -	\$ 110,415	\$ 9,028,826	\$ -
Accounts receivable.....	1,857,099	12,852	15,903	646,446
Due from other funds.....	-	-	-	-
Inventories, at cost.....	-	7,534	-	-
Prepaid expenses.....	-	-	-	-
Total current assets.....	1,857,099	130,801	9,044,729	646,446
Restricted and Other Assets:				
Imprest fund-advances from state treasurer.....	-	-	-	-
Total restricted and other assets.....	0	0	0	0
Capital Assets:				
Machinery, equipment and buildings.....	-	8,800	6,492	1,623
Accumulated depreciation.....	-	(2,246)	(2,254)	(564)
Net machinery, equipment and buildings.....	0	6,554	4,238	1,059
Land.....	-	-	-	-
Total capital assets.....	0	6,554	4,238	1,059
Total assets.....	1,857,099	137,355	9,048,967	647,505
LIABILITIES				
Current Liabilities:				
Accounts payable.....	57,169	3,838	4,604	42,342
Claims payable.....	-	-	7,750,138	-
Deferred income.....	-	7,534	-	-
Due to other funds.....	6,976	-	477,665	3,308
Interfund payable.....	1,792,954	-	-	809,193
Accrued salaries and benefits.....	-	5,822	-	-
Total current liabilities.....	1,857,099	17,194	8,232,407	854,843
Liabilities Payable from Restricted Assets:				
Advances from other funds.....	-	-	-	-
Total liabilities.....	1,857,099	17,194	8,232,407	854,843
NET ASSETS				
Invested in capital assets.....	-	6,554	4,238	1,059
Unrestricted (deficit).....	-	113,607	812,322	(208,397)
Total net assets.....	\$ 0	\$ 120,161	\$ 816,560	\$ (207,338)

Workers' Compensation Fund	Medical Insurance Fund	Dental Insurance Fund	Life Insurance Fund	Long-Term Disability Fund	Employees' Assistance Fund	Total Internal Service Funds
\$ 9,108,909	\$ 19,534,261	\$ 819,044	\$ 540,329	\$ 22,050	\$ 47,823	\$ 39,742,000
22,270	2,718,461	217,600	59,157	6,474	14,963	11,620,789
480,973	-	-	85	-	-	626,058
-	-	-	-	-	-	2,401,133
1,651	-	-	-	-	-	885,512
9,613,803	22,252,722	1,036,644	599,571	28,524	62,786	55,275,492
-	-	-	-	-	-	15,100
0	0	0	0	0	0	15,100
24,344	-	-	-	-	-	53,194,270
(8,453)	-	-	-	-	-	(25,974,221)
15,891	0	0	0	0	0	27,220,049
-	-	-	-	-	-	26,156
15,891	0	0	0	0	0	27,246,205
9,629,694	22,252,722	1,036,644	599,571	28,524	62,786	82,536,797
88,927	575,208	22,822	365,981	13,794	55,346	3,671,600
14,471,003	9,896,001	370,282	-	-	-	32,487,424
-	1,221,456	-	-	-	-	1,441,720
-	-	-	-	-	-	684,319
-	-	-	-	-	-	19,783,093
85,963	57,828	3,424	1,142	-	-	2,453,215
14,645,893	11,750,493	396,528	367,123	13,794	55,346	60,521,371
-	-	-	-	-	-	15,100
14,645,893	11,750,493	396,528	367,123	13,794	55,346	60,536,471
15,891	-	-	-	-	-	27,246,205
(5,032,090)	10,502,229	640,116	232,448	14,730	7,440	(5,245,879)
\$ (5,016,199)	\$ 10,502,229	\$ 640,116	\$ 232,448	\$ 14,730	\$ 7,440	\$ 22,000,326

STATE OF VERMONT
 COMBINING STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Highway Garage Fund	Offender Work Programs	Single Audit Revolving Fund	Financial & HR Information Fund
Operating Revenues:				
Charges for sales and services.....	\$ 9,762,176	\$ 2,956,109	\$ 1,153,359	\$ 3,470,525
Rental income.....	206,938	-	-	-
Other operating revenues.....	61,398	1,775	-	-
Total operating revenues.....	10,030,512	2,957,884	1,153,359	3,470,525
Operating Expenses:				
Cost of sales and services.....	4,950,497	1,117,747	1,269,731	-
Claims expense.....	-	-	-	-
Salaries and benefits.....	495,630	1,128,201	-	2,189,174
Supplies and parts.....	-	38,226	-	7,965
Data processing charges.....	-	-	-	59,951
Transportation.....	-	-	-	4,051
Telephone/telegraph.....	-	7,037	-	48,603
Postage.....	-	267	-	3,389
Printing and duplicating.....	-	-	-	5,820
Rental of data processing equipment.....	-	-	-	-
Other equipment rentals.....	-	-	-	407
Non-capital equipment purchased.....	-	-	-	1,344
Repairs and maintenance.....	1,000,146	67,998	-	938,586
Administrative services costs.....	-	-	-	-
Operating overhead.....	454,435	-	-	-
Office rent.....	-	17,368	-	98,053
Depreciation.....	3,520,141	56,398	-	-
Contractual fees.....	-	-	-	139,050
Insurance premium expense.....	-	-	-	5,917
Other operating expenses.....	26,499	235,479	-	17,352
Total operating expenses.....	10,447,348	2,668,721	1,269,731	3,519,662
Operating Income(Loss).....	(416,836)	289,163	(116,372)	(49,137)
Non-Operating Revenues(Expenses):				
Gain(loss) on disposal of capital assets.....	136,203	-	-	-
Interest income.....	-	-	-	-
Non-operating revenue (expense).....	-	-	-	-
Total non-operating revenues(expenses).....	136,203	0	0	0
Income (Loss) Before Contributions and Transfers.....	(280,633)	289,163	(116,372)	(49,137)
Capital contributions from other funds.....	55,104	-	-	-
Transfers in.....	2,107,562	-	-	-
Transfers out.....	-	-	-	-
Change in net assets.....	1,882,033	289,163	(116,372)	(49,137)
Total Net Assets - Beginning.....	20,854,650	1,020,014	116,372	(559,697)
Total Net Assets - Ending.....	\$ 22,736,683	\$ 1,309,177	\$ 0	\$ (608,834)

See Independent Auditor's Report.

Communcations & Information Technology	GOVNET Fund	Supply Center Fund	Copy Center Fund	Postage Fund	Facilities Operations Fund	Property Management Fund
\$ 9,758,735	\$ 1,871,341	\$ 3,115,436	\$ 2,489,711	\$ 2,883,505	\$ 16,453,317	\$ -
-	-	-	-	-	-	9,980,002
-	-	-	-	-	2,462,085	-
9,758,735	1,871,341	3,115,436	2,489,711	2,883,505	18,915,402	9,980,002
4,018,441	1,046,302	2,900,113	484,985	2,200,540	-	6,953,692
-	-	-	-	-	-	-
3,251,222	494,505	247,325	658,834	391,561	9,579,158	1,010,020
107,396	242	7,456	16,501	19,454	1,600,125	119,258
3,351	-	-	-	-	-	-
604	-	417	223	1,499	4,088	-
71,367	-	13,107	12,012	12,794	153,723	5,893
2,538	61	391	2,329	(342)	2,670	366
11,988	-	664	3,245	308	6,841	623
295,208	-	-	-	-	-	-
308	-	-	-	-	-	-
225,998	8,422	1,237	11,201	785	38,336	24,434
872,537	69,518	6,973	580,855	129,121	1,262,232	147,840
-	95,000	127,955	94,659	92,799	221,616	61,194
-	-	-	-	-	-	-
180,229	15,729	68,082	39,189	32,331	110,249	1,163,097
327,178	101,826	32,496	680,470	143,233	134,656	6,498
-	-	-	-	-	-	-
11,813	967	4,047	4,047	4,047	630,424	3,481
53,055	1,347	28,886	59,178	21,416	5,846,906	19,538
9,433,233	1,833,919	3,439,149	2,647,728	3,049,546	19,591,024	9,515,934
325,502	37,422	(323,713)	(158,017)	(166,041)	(675,622)	464,068
(91,604)	-	-	(494,505)	(50,233)	(27,365)	-
-	-	-	-	-	-	-
-	-	-	(125,956)	9,261	-	-
(91,604)	0	0	(620,461)	(40,972)	(27,365)	0
233,898	37,422	(323,713)	(778,478)	(207,013)	(702,987)	464,068
-	-	-	-	-	-	-
-	-	-	-	-	8,405,807	-
-	-	-	-	-	-	(2,382,985)
233,898	37,422	(323,713)	(778,478)	(207,013)	7,702,820	(1,918,917)
(831,861)	(358,950)	484,698	246,000	58,361	(8,720,547)	(4,170,567)
\$ (597,963)	\$ (321,528)	\$ 160,985	\$ (532,478)	\$ (148,652)	\$ (1,017,727)	\$ (6,089,484)

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STATE OF VERMONT
 COMBINING STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Equipment Revolving Fund	State Surplus Property Fund	State Liability Insurance Fund	Risk Management All -Other Fund
Operating Revenues:				
Charges for sales and services.....	\$ 451,436	\$ 966,289	\$ 2,892,498	\$ 1,251,490
Rental income.....	-	-	-	-
Other operating revenues.....	-	-	-	-
Total operating revenues.....	451,436	966,289	2,892,498	1,251,490
Operating Expenses:				
Cost of sales and services.....	-	869,174	469,250	1,416,253
Claims expense.....	-	-	2,191,792	-
Salaries and benefits.....	-	51,308	640,670	43,463
Supplies and parts.....	-	6,204	2,991	645
Data processing charges.....	-	-	-	-
Transportation.....	-	-	132	40
Telephone/telegraph.....	-	2,012	975	132
Postage.....	-	469	552	474
Printing and duplicating.....	-	99	1,139	1,763
Rental of data processing equipment.....	-	-	-	-
Other equipment rentals.....	-	-	-	-
Non-capital equipment purchased.....	309,311	1,224	1,121	280
Repairs and maintenance.....	-	994	119	29
Administrative services costs.....	1,343	25,994	34,776	10,420
Operating overhead.....	-	-	-	-
Office rent.....	-	5,170	3,782	4,319
Depreciation.....	-	1,100	2,164	541
Contractual fees.....	140,782	-	-	-
Insurance premium eExpense.....	-	326	721	-
Other operating expenses.....	-	21,068	6,818	2,492
Total operating expenses.....	451,436	985,142	3,357,002	1,480,851
Operating Income(Loss).....	0	(18,853)	(464,504)	(229,361)
Non-Operating Revenues(Expenses):				
Gain(loss) on disposal of capital assets.....	-	-	-	-
Interest income.....	-	-	69,875	-
Non-operating revenue (expense).....	-	-	-	-
Total non-operating revenues(expenses).....	0	0	69,875	0
Income (Loss) Before Contributions and Transfers.....	0	(18,853)	(394,629)	(229,361)
Capital contributions from other funds.....	-	-	-	-
Transfers in.....	-	-	-	-
Transfers out.....	-	-	-	-
Change in net assets.....	0	(18,853)	(394,629)	(229,361)
Total Net Assets - Beginning.....	0	139,014	1,211,189	22,023
Total Net Assets - Ending.....	\$ 0	\$ 120,161	\$ 816,560	\$ (207,338)

Workers' Compensation Fund	Medical Insurance Fund	Dental Insurance Fund	Life Insurance Fund	Long-Term Disability Fund	Employees' Assistance Fund	Total Internal Service Funds
\$ 8,565,616	\$ 68,653,347	\$ 5,355,282	\$ 1,381,211	\$ 161,517	\$ 228,438	\$ 143,821,338
-	-	-	-	-	-	10,186,940
-	137,188	600	-	-	-	2,663,046
8,565,616	68,790,535	5,355,882	1,381,211	161,517	228,438	156,671,324
-	-	-	-	-	-	27,696,725
4,778,463	62,775,246	4,723,147	-	-	-	74,468,648
795,218	779,306	66,337	22,119	-	-	21,844,051
8,866	64,432	181	59	-	-	2,000,001
-	25,104	5,687	182	-	-	94,275
496	16,967	63	20	-	-	28,600
6,142	11,109	1,140	381	-	81	346,508
2,282	18,849	1,513	531	-	-	36,339
5,841	20,848	395	105	-	-	59,679
-	-	-	-	-	-	295,208
-	-	-	-	-	-	715
4,235	291	55	18	-	-	628,292
445	1,187	47	9	-	-	5,078,636
171,639	3,992,276	257,033	-	-	221,145	5,407,849
-	5,903	127	42	-	-	460,507
10,062	29,080	5,452	1,818	-	-	1,784,010
8,115	-	-	-	-	-	5,014,816
569,448	200,186	6,803	-	105	25,389	1,081,763
2,706	2,617,802	-	1,580,584	157,902	-	5,024,784
79,977	18,289	2,254	669	-	1,404	6,442,627
6,443,935	70,576,875	5,070,234	1,606,537	158,007	248,019	157,794,033
2,121,681	(1,786,340)	285,648	(225,326)	3,510	(19,581)	(1,122,709)
-	-	-	-	-	-	(527,504)
80,231	159,690	6,179	4,346	-	-	320,321
-	-	-	-	-	-	(116,695)
80,231	159,690	6,179	4,346	0	0	(323,878)
2,201,912	(1,626,650)	291,827	(220,980)	3,510	(19,581)	(1,446,587)
-	-	-	-	-	-	55,104
-	-	-	-	-	-	10,513,369
-	-	-	-	-	-	(2,382,985)
2,201,912	(1,626,650)	291,827	(220,980)	3,510	(19,581)	6,738,901
(7,218,111)	12,128,879	348,289	453,428	11,220	27,021	15,261,425
\$ (5,016,199)	\$ 10,502,229	\$ 640,116	\$ 232,448	\$ 14,730	\$ 7,440	\$ 22,000,326

STATE OF VERMONT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Highway Garage Fund	Offender Work Programs	Single Audit Revolving Fund	Financial & HR Information Fund
Cash Flows From Operating Activities:				
Cash received from customers.....	\$ 9,967,662	\$ 2,981,516	\$ 1,155,242	\$ 3,555,156
Cash paid to suppliers for goods and services.....	(4,031,790)	(1,010,255)	(1,164,699)	(1,164,376)
Cash paid to employees for services.....	(2,834,667)	(1,314,965)	-	(2,228,778)
Cash paid to claimants.....	-	-	-	-
Other operating revenues.....	61,398	1,775	-	-
Other operating expenses.....	-	(260,151)	-	-
Net cash provided(used) by operating activities.....	3,162,603	397,920	(9,457)	162,002
Cash Flows From Noncapital Financing Activities:				
Interfund loans.....	(106,118)	(350,445)	-	(162,002)
Operating transfers.....	2,107,562	-	-	-
Net cash provided (used) by noncapital financing activities.....	2,001,444	(350,445)	0	(162,002)
Cash Flows From Capital and Related Financing Activities:				
Proceeds from sale of capital assets.....	356,575	-	-	-
Acquisition and construction of capital assets.....	(5,520,622)	(19,338)	-	-
Net cash provided(used) by capital & related financing activities.....	(5,164,047)	(19,338)	0	0
Cash Flows From Investing Activities:				
Interest earned on investments.....	-	-	-	-
Net cash provided by investing activities.....	0	0	0	0
Net increase(decrease) in cash and cash equivalents.....	0	28,137	(9,457)	0
Cash and cash equivalents at July 1.....	0	0	108,452	0
Cash and cash equivalents at June 30.....	\$ 0	\$ 28,137	\$ 98,995	\$ 0
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss).....	\$ (416,836)	\$ 289,163	\$ (116,372)	\$ (49,137)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation.....	3,520,141	56,398	-	-
(Increase)decrease in accounts receivable.....	4,717	25,408	1,845	84,631
(Increase)decrease in due from other funds.....	-	-	38	-
(Increase)decrease in prepaid expenses.....	4,357	-	-	-
(Increase)decrease in inventory.....	(6,436)	24,300	-	-
Increase(decrease) in accounts payable.....	9,969	(9,783)	105,032	3,200
Increase(decrease) in claims payable.....	-	-	-	-
Increase(decrease) in due to other funds.....	-	-	-	101,370
Increase(decrease) in accrued salaries and benefits.....	46,691	12,434	-	21,938
Increase(Decrease) in deferred Income.....	-	-	-	-
Total adjustments.....	3,579,439	108,757	106,915	211,139
Net cash provided(used) by operating activities.....	\$ 3,162,603	\$ 397,920	\$ (9,457)	\$ 162,002

See Independent Auditor's Report.

Communcations & Information Technology	GOVNET Fund	Supply Center Fund	Copy Center Fund	Postage Fund	Facilities Operations Fund	Property Management Fund
\$ 9,735,453	\$ 1,673,056	\$ 3,376,701	\$ 2,239,576	\$ 2,893,947	\$ 19,455,273	\$ 10,168,673
(6,253,844)	(1,136,312)	(3,026,166)	(1,350,808)	(2,130,700)	(9,513,120)	(9,283,194)
(3,223,336)	(451,902)	(216,610)	(649,084)	(385,661)	(9,424,627)	(966,147)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
258,273	84,842	133,925	239,684	377,586	517,526	(80,668)
174,664	111,912	(133,925)	1,162,345	(35,333)	(8,346,138)	2,463,653
-	-	-	-	-	8,405,807	(2,382,985)
174,664	111,912	(133,925)	1,162,345	(35,333)	59,669	80,668
-	-	-	-	-	3,644	-
(432,937)	(196,754)	-	(1,402,029)	(342,253)	(177,628)	-
(432,937)	(196,754)	0	(1,402,029)	(342,253)	(173,984)	0
-	-	-	-	-	-	-
0	0	0	0	0	0	0
0	0	0	0	0	403,211	0
0	0	0	0	0	0	0
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 403,211	\$ 0
\$ 325,502	\$ 37,422	\$ (323,713)	\$ (158,017)	\$ (166,041)	\$ (675,622)	\$ 464,068
327,178	101,826	32,496	680,470	143,233	134,656	6,498
15,528	(201,035)	262,742	(250,135)	10,442	580,871	197,671
(95,000)	-	-	-	-	(41,000)	(9,000)
68,905	-	-	15,989	6,876	-	(58,499)
7,080	-	256,126	(39,514)	357,560	-	-
(474,996)	39,710	(97,760)	(18,859)	19,616	364,090	(725,279)
-	-	-	-	-	-	-
-	95,000	-	-	-	-	-
27,886	11,919	4,034	9,750	5,900	154,531	43,873
56,190	-	-	-	-	-	-
(67,229)	47,420	457,638	397,701	543,627	1,193,148	(544,736)
\$ 258,273	\$ 84,842	\$ 133,925	\$ 239,684	\$ 377,586	\$ 517,526	\$ (80,668)

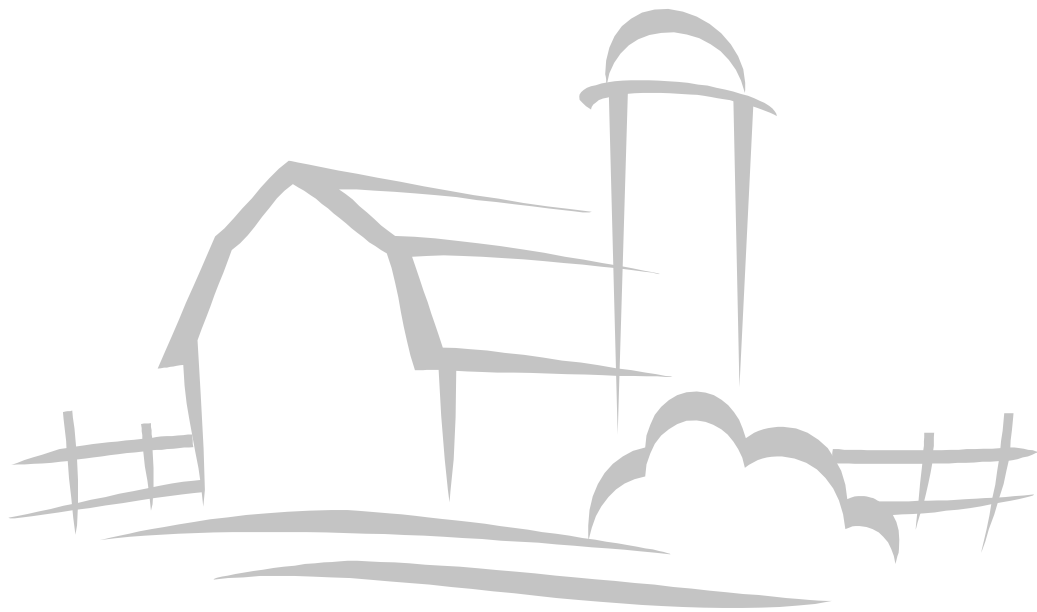
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STATE OF VERMONT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

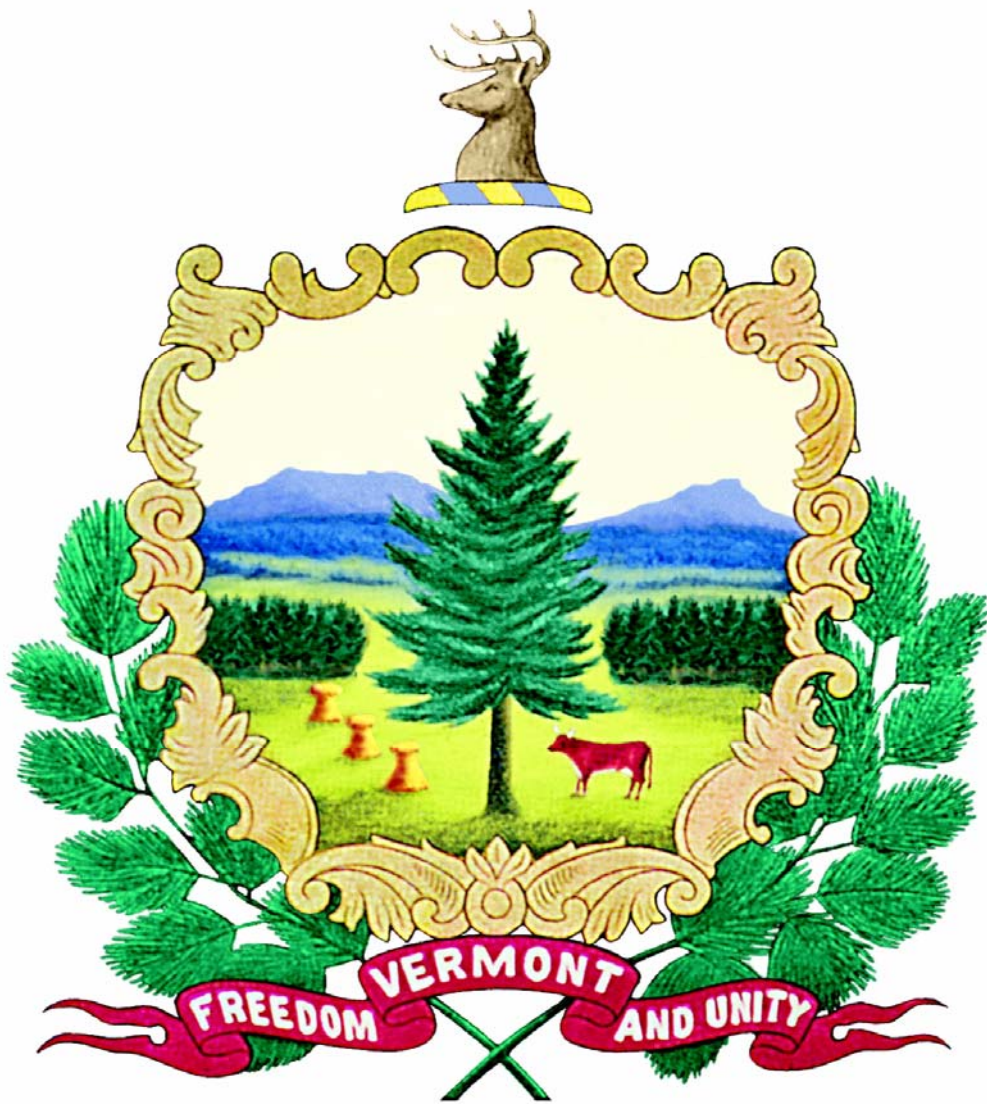
	Equipment Revolving Fund	State Surplus Property Fund	State Liability Insurance Fund	Risk Management All -Other Fund
Cash Flows From Operating Activities:				
Cash received from customers.....	\$ 418,019	\$ 879,666	\$ 3,030,924	\$ 787,938
Cash paid to suppliers for goods and services.....	(442,697)	(849,564)	(85,522)	(1,429,840)
Cash paid to employees for services.....	-	(49,276)	(640,670)	(42,428)
Cash paid to claimants.....	-	-	(1,151,246)	-
Other operating revenues.....	-	-	-	-
Other operating expenses.....	-	-	-	-
Net cash provided(used) by operating activities.....	(24,678)	(19,174)	1,153,486	(684,330)
Cash Flows From Noncapital Financing Activities:				
Interfund loans.....	24,678	-	-	684,330
Operating transfers.....	-	-	-	-
Net cash provided (used) by noncapital financing activities.....	24,678	0	0	684,330
Cash Flows From Capital and Related Financing Activities:				
Proceeds from sale of capital assets.....	-	-	-	-
Acquisition and construction of capital assets.....	-	-	-	-
Net cash provided(used) by capital & related financing activities.....	0	0	0	0
Cash Flows From Investing Activities:				
Interest earned on investments.....	-	-	69,875	-
Net cash provided by investing activities.....	0	0	69,875	0
Net increase(decrease) in cash and cash equivalents.....	0	(19,174)	1,223,361	0
Cash and cash equivalents at July 1.....	0	129,589	7,805,465	0
Cash and cash equivalents at June 30.....	\$ 0	\$ 110,415	\$ 9,028,826	\$ 0
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss).....	\$ 0	\$ (18,853)	\$ (464,504)	\$ (229,361)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation.....	-	1,100	2,164	541
(Increase)decrease in accounts receivable.....	(33,417)	(12,852)	67,839	(466,977)
(Increase)decrease in due from other funds.....	-	-	70,587	-
(Increase)decrease in prepaid expenses.....	-	-	-	-
(Increase)decrease in inventory.....	-	2,866	-	-
Increase(decrease) in accounts payable.....	3,241	218	(36,553)	11,323
Increase(decrease) in claims payable.....	-	-	1,040,546	-
Increase(decrease) in due to other funds.....	5,498	-	473,407	144
Increase(decrease) in accrued salaries and benefits.....	-	813	-	-
Increase(Decrease) in Deferred Income.....	-	7,534	-	-
Total adjustments.....	(24,678)	(321)	1,617,990	(454,969)
Net cash provided(used) by operating activities.....	\$ (24,678)	\$ (19,174)	\$ 1,153,486	\$ (684,330)

Workers Compensation Fund	Medical Insurance Fund	Dental Insurance Fund	Life Insurance Fund	Long-Term Disability Fund	Employees' Assistance Fund	Total Internal Service Funds
\$ 8,273,669	\$ 68,492,591	\$ 5,347,308	\$ 1,379,872	\$ 161,021	\$ 228,217	\$ 156,201,480
(952,434)	(7,192,863)	(278,188)	(1,678,590)	(156,974)	(217,036)	(53,348,972)
(773,396)	(765,061)	(65,670)	(21,896)	-	-	(24,054,174)
(5,796,437)	(63,742,596)	(4,699,450)	-	-	-	(75,389,729)
-	137,188	600	-	-	-	200,961
-	(16,672)	(2,254)	(669)	-	-	(279,746)
751,402	(3,087,413)	302,346	(321,283)	4,047	11,181	3,329,820
-	-	-	-	-	-	(4,512,379)
-	-	-	-	-	-	8,130,384
0	0	0	0	0	0	3,618,005
-	-	-	-	-	-	360,219
-	-	-	-	-	-	(8,091,561)
0	0	0	0	0	0	(7,731,342)
(24,363)	159,690	6,179	4,346	-	-	215,727
(24,363)	159,690	6,179	4,346	0	0	215,727
727,039	(2,927,723)	308,525	(316,937)	4,047	11,181	(567,790)
8,381,870	22,461,984	510,519	857,266	18,003	36,642	40,309,790
\$ 9,108,909	\$ 19,534,261	\$ 819,044	\$ 540,329	\$ 22,050	\$ 47,823	\$ 39,742,000
\$ 2,121,681	\$ (1,786,340)	\$ 285,648	\$ (225,326)	\$ 3,510	\$ (19,581)	\$ (1,122,709)
8,115	-	-	-	-	-	5,014,816
181,604	(223,652)	(7,973)	(1,254)	(496)	(6,316)	229,191
(473,551)	-	-	(85)	-	-	(548,011)
(1,651)	-	-	-	-	-	35,977
-	-	-	-	-	-	601,982
(88,644)	(192,667)	307	(94,841)	1,033	37,078	(1,144,565)
(1,017,974)	(963,260)	23,697	-	-	-	(916,991)
-	-	-	-	-	-	675,419
21,822	14,245	667	223	-	-	376,726
-	64,261	-	-	-	-	127,985
(1,370,279)	(1,301,073)	16,698	(95,957)	537	30,762	4,452,529
\$ 751,402	\$ (3,087,413)	\$ 302,346	\$ (321,283)	\$ 4,047	\$ 11,181	\$ 3,329,820

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Vermont



PENSION TRUST FUNDS

**STATE OF VERMONT
PENSION TRUST FUNDS
COMBINING STATEMENTS OF PLAN NET ASSETS
June 30, 2004**

Assets:	Vermont State Retirement System	Vermont State Defined Contribution Plan	State Teachers' Retirement Fund
Cash and short term investments.....	\$ 32,511,135	\$ 207,512	\$ 33,894,083
Receivables:			
Contributions.....	2,191,439	100,583	1,833,865
Investment.....	5,276,219	-	5,230,371
Investments sold.....	170,479,718	-	52,675,756
Due from other funds.....	29,317	-	4,000,000
Other.....	32,816	-	-
Total receivables.....	178,009,509	100,583	63,739,992
Investments at Fair value:			
Fixed income.....	304,509,779	-	347,955,665
Common and preferred stock.....	574,113,513	-	766,760,685
Mortgages.....	2,069	-	-
Real estate and venture capital.....	75,907,034	-	105,226,341
Mutual funds.....	24,143,785	31,016,205	-
Total investments.....	978,676,180	31,016,205	1,219,942,691
Prepaid expenses.....	943,569	2,323	716,339
Total assets.....	1,190,140,393	31,326,623	1,318,293,105
Liabilities:			
Payable for investments purchased.....	148,303,891	-	71,165,337
Accounts payable.....	884,310	2,544	1,114,668
Accrued liabilities.....	24,205	-	27,662
Due to other funds.....	-	23,558	335,333
Total liabilities.....	149,212,406	26,102	72,643,000
Net assets held in trust for employees' pension benefits.....	\$ 1,040,927,987	\$ 31,300,521	\$ 1,245,650,105

See Independent Auditor's Report.

Single Deposit Investment Account	Vermont Municipal Employees' Retirement Fund	Vermont Municipal Employees' Defined Contribution Fund	Total Pension Trust Funds
\$ 12,151,276	\$ 6,773,986	\$ 60,549	\$ 85,598,541
-	1,558,008	-	5,683,895
962,090	2,171,722	-	13,640,402
-	952,607	-	224,108,081
-	455,307	-	4,484,624
-	9,902,963	-	9,935,779
962,090	15,040,607	0	257,852,781
100,960,340	60,729,270	-	814,155,054
-	39,015,024	-	1,379,889,222
-	-	-	2,069
-	14,877,595	-	196,010,970
-	107,176,516	7,710,884	170,047,390
100,960,340	221,798,405	7,710,884	2,560,104,705
-	-	-	1,662,231
114,073,706	243,612,998	7,771,433	2,905,218,258
12,471,125	10,487,360	-	242,427,713
-	224,557	1,724	2,227,803
-	5,763	-	57,630
-	5,759	119,974	484,624
12,471,125	10,723,439	121,698	245,197,770
\$ 101,602,581	\$ 232,889,559	\$ 7,649,735	\$ 2,660,020,488

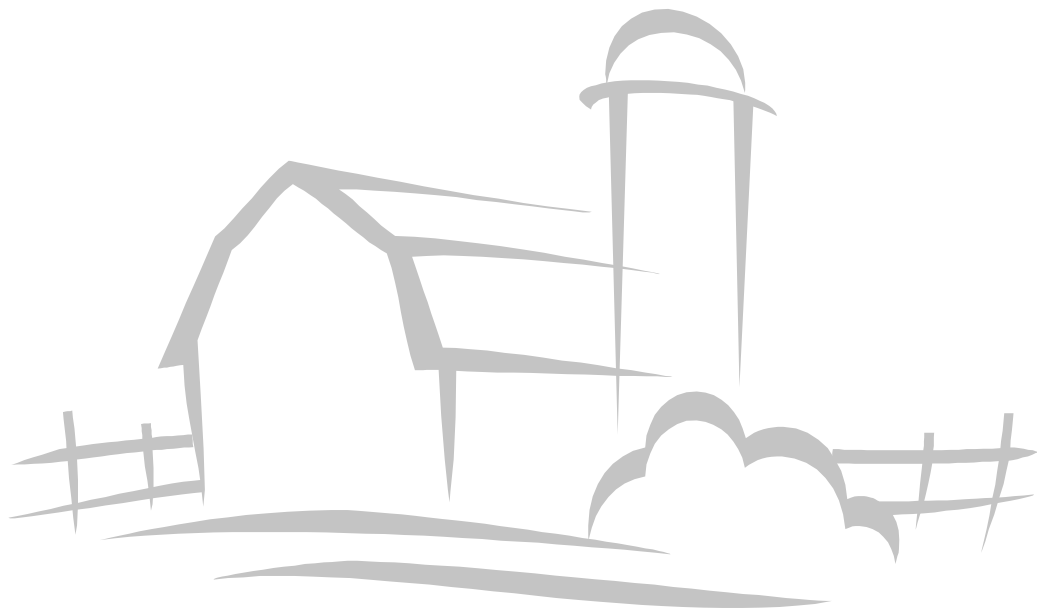
**STATE OF VERMONT
PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Fiscal Year Ended June 30, 2004**

	Vermont State Retirement System	Vermont State Defined Contribution Plan	State Teachers' Retirement System
Additions :			
<u>Contributions</u>			
Employer.....	\$ 26,645,619	\$ 1,454,751	\$ 24,446,282
Plan member.....	13,716,264	592,028	21,088,345
Transfers from other pension trust funds...	695,397	484,329	267,330
Transfers from non-state systems.....	-	223,483	-
Total contributions.....	41,057,280	2,754,591	45,801,957
<u>Investment Income:</u>			
Net appreciation (depreciation) in fair value of investments.....	116,454,897	2,893,810	142,232,006
Dividends.....	10,532,919	751,811	12,121,207
Interest income.....	14,600,150	2,149	16,411,433
Securities lending income.....	755,140	-	944,301
Other income.....	190,321	-	526,692
Total investment income.....	142,533,427	3,647,770	172,235,639
Less Investment Expenses			
Investment managers and consultants....	3,528,718	3,510	5,165,240
Securities lending expenses.....	578,157	-	745,354
Total investment expenses.....	4,106,875	3,510	5,910,594
Net investment income.....	138,426,552	3,644,260	166,325,045
Total additions.....	179,483,832	6,398,851	212,127,002
Deductions:			
Retirement benefits.....	44,637,116	1,858,099	55,246,342
Refunds of contributions.....	942,700	-	574,113
Death claims.....	229,257	-	137,693
Transfers to other pension trust funds.....	617,658	-	543,746
Operating expenses.....	9,895,973	161,174	9,084,827
Total deductions.....	56,322,704	2,019,273	65,586,721
Change in net assets.....	123,161,128	4,379,578	146,540,281
Net assets held in trust for employees' pension benefits:			
Beginning of year	917,766,859	26,920,943	1,099,109,824
End of year.....	\$ 1,040,927,987	\$ 31,300,521	\$ 1,245,650,105

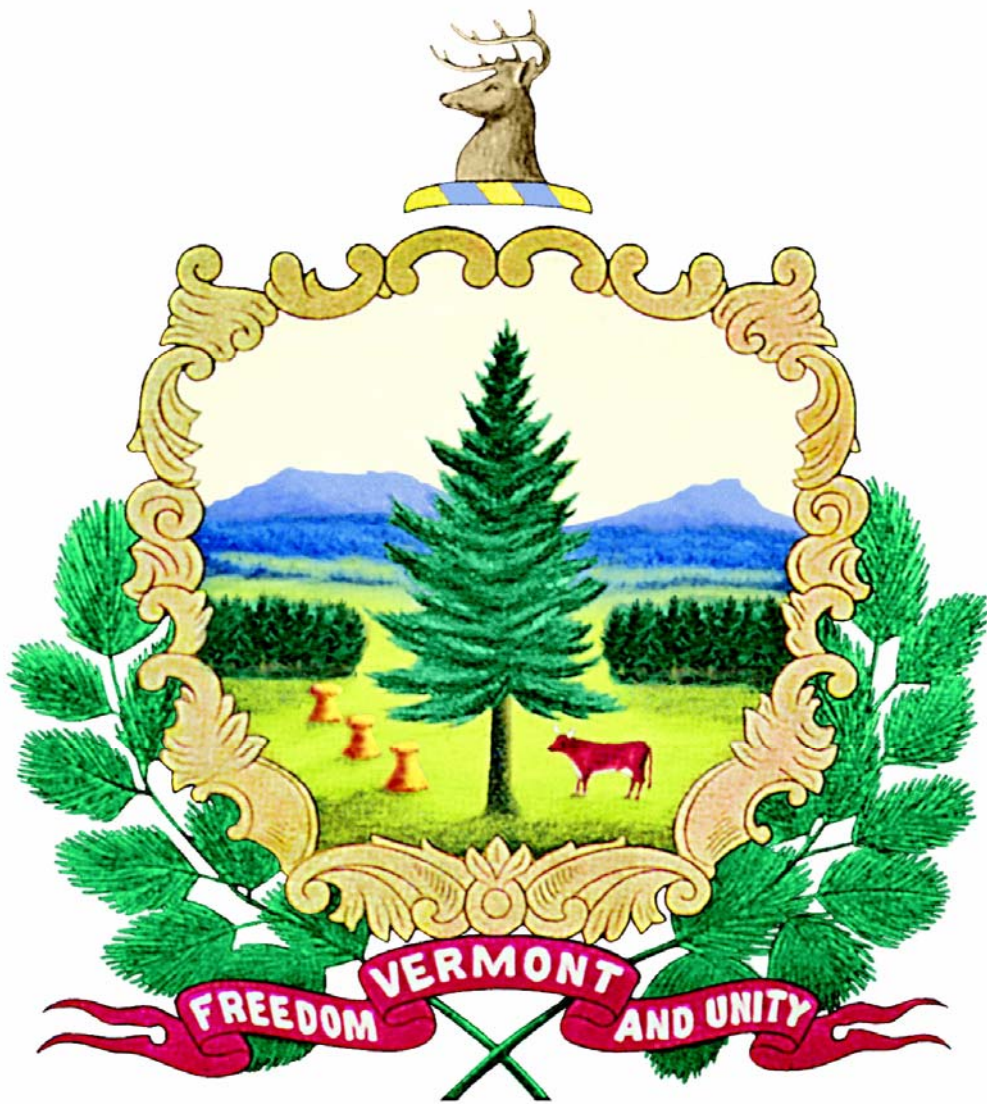
See Independent Auditor's Report.

Single Deposit Investment Account	Vermont Municipal Employees' Retirement System	Vermont Municipal Employees' Defined Contribution Fund	Total Pension Funds
\$ -	\$ 7,114,813	\$ 498,750	\$ 60,160,215
-	6,507,268	505,279	42,409,184
-	156,373	226,599	1,830,028
-	1,968,921	3,328	2,195,732
0	15,747,375	1,233,956	106,595,159
(3,271,092)	23,251,537	705,259	282,266,417
-	1,566,090	160,447	25,132,474
5,191,670	2,904,408	535	39,110,345
-	5,210	-	1,704,651
-	52,629	-	769,642
1,920,578	27,779,874	866,241	348,983,529
280,129	503,628	-	9,481,225
-	4,425	-	1,327,936
280,129	508,053	0	10,809,161
1,640,449	27,271,821	866,241	338,174,368
1,640,449	43,019,196	2,100,197	444,769,527
6,826,052	5,694,080	173,494	114,435,183
-	999,113	-	2,515,926
-	111,130	-	478,080
-	668,624	-	1,830,028
-	151,228	52,927	19,346,129
6,826,052	7,624,175	226,421	138,605,346
(5,185,603)	35,395,021	1,873,776	306,164,181
106,788,184	197,494,538	5,775,959	2,353,856,307
\$ 101,602,581	\$ 232,889,559	\$ 7,649,735	\$ 2,660,020,488

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Vermont



AGENCY FUNDS

**STATE OF VERMONT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
RETIREMENT SYSTEM CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ 11,000	\$ 40,429,520	\$ 40,413,388	\$ 27,132
Accounts receivable.....	19,979	19,370	19,979	19,370
Total assets.....	<u>\$ 30,979</u>	<u>\$ 40,448,890</u>	<u>\$ 40,433,367</u>	<u>\$ 46,502</u>
LIABILITIES				
Due to depositories.....	\$ 10,543	\$ 40,429,520	\$ 40,412,931	\$ 27,132
Due to other funds.....	457	-	457	-
Interfund payable.....	19,979	19,370	19,979	19,370
Total liabilities.....	<u>\$ 30,979</u>	<u>\$ 40,448,890</u>	<u>\$ 40,433,367</u>	<u>\$ 46,502</u>
FEDERAL INCOME TAX WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ -	\$ 42,948,101	\$ 42,948,101	\$ -
Accounts receivable.....	25,453	49,884	25,453	49,884
Total assets.....	<u>\$ 25,453</u>	<u>\$ 42,997,985</u>	<u>\$ 42,973,554</u>	<u>\$ 49,884</u>
LIABILITIES				
Due to depositories.....	\$ (1,048)	\$ 42,948,101	\$ 42,947,053	\$ -
Due to other funds.....	1,048	14,185	1,048	14,185
Interfund payable.....	25,453	35,699	25,453	35,699
Total liabilities.....	<u>\$ 25,453</u>	<u>\$ 42,997,985</u>	<u>\$ 42,973,554</u>	<u>\$ 49,884</u>
STATE INCOME TAX WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ 11,513	\$ 12,639,164	\$ 12,640,085	\$ 10,592
Due from other funds.....	-	1,851	-	1,851
Total assets.....	<u>11,513</u>	<u>12,641,015</u>	<u>12,640,085</u>	<u>12,443</u>
LIABILITIES				
Due to depositories.....	\$ 11,145	\$ 12,641,015	\$ 12,639,717	\$ 12,443
Due to other funds.....	368	-	368	-
Total liabilities.....	<u>\$ 11,513</u>	<u>\$ 12,641,015</u>	<u>\$ 12,640,085</u>	<u>\$ 12,443</u>
SOCIAL SECURITY TAX CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ -	\$ 57,669,906	\$ 57,669,906	\$ -
Accounts receivable.....	97,068	87,524	97,068	87,524
Due from other funds.....	-	12,689	-	12,689
Total assets.....	<u>\$ 97,068</u>	<u>\$ 57,770,119</u>	<u>\$ 57,766,974</u>	<u>\$ 100,213</u>
LIABILITIES				
Due to depositories.....	\$ (849)	\$ 57,677,214	\$ 57,669,057	\$ 7,308
Due to other funds.....	849	-	849	-
Interfund payable.....	97,068	92,905	97,068	92,905
Total liabilities.....	<u>\$ 97,068</u>	<u>\$ 57,770,119</u>	<u>\$ 57,766,974</u>	<u>\$ 100,213</u>
EMPLOYEES CREDIT UNION WITHHOLDING FUND				
ASSETS				
Cash.....	\$ 949	\$ 42,877,647	\$ 42,878,042	\$ 554
LIABILITIES				
Due to depositories.....	\$ 949	\$ 42,877,647	\$ 42,878,042	\$ 554

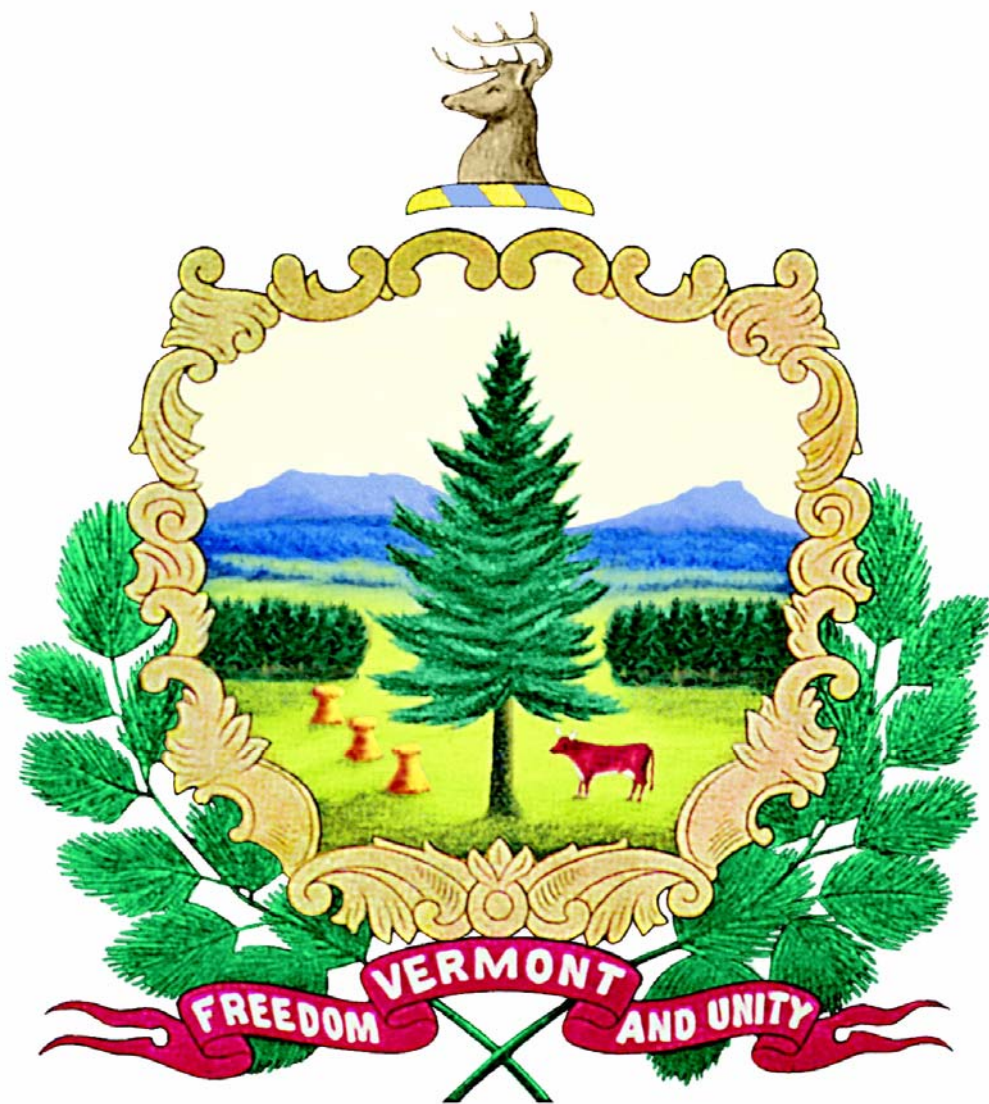
See Independent Auditor's Report.

**STATE OF VERMONT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
EMPLOYEES INSURANCE CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ 50,204	\$ 62,733,664	\$ 62,769,181	\$ 14,687
Accounts receivable.....	15,644	23,271	15,644	23,271
Due from other funds.....	-	53	-	53
Total assets.....	<u>\$ 65,848</u>	<u>\$ 62,756,988</u>	<u>\$ 62,784,825</u>	<u>\$ 38,011</u>
LIABILITIES				
Due to depositories.....	\$ 48,562	\$ 62,733,632	\$ 62,767,539	\$ 14,655
Due to other funds.....	1,642	85	1,642	85
Interfund payable.....	15,644	23,271	15,644	23,271
Total liabilities.....	<u>\$ 65,848</u>	<u>\$ 62,756,988</u>	<u>\$ 62,784,825</u>	<u>\$ 38,011</u>
EMPLOYEES DEFERRED INCOME WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ -	\$ 13,194,007	\$ 13,194,007	\$ -
Accounts receivable.....	2,308	1,614	2,308	1,614
Total assets.....	<u>\$ 2,308</u>	<u>\$ 13,195,621</u>	<u>\$ 13,196,315</u>	<u>\$ 1,614</u>
LIABILITIES				
Due to depositories.....	\$ -	\$ 13,194,007	\$ 13,194,007	\$ -
Interfund payable.....	2,308	1,614	2,308	1,614
Total liabilities.....	<u>\$ 2,308</u>	<u>\$ 13,195,621</u>	<u>\$ 13,196,315</u>	<u>\$ 1,614</u>
OTHER EMPLOYEE CONTRIBUTIONS AND WITHHOLDINGS FUND				
ASSETS				
Cash.....	\$ 19,719	\$ 5,369,512	\$ 5,368,181	\$ 21,050
Accounts receivable.....	82,460	31,555	82,460	31,555
Due from other funds.....	219,745	4,563	219,745	4,563
Total assets.....	<u>\$ 321,924</u>	<u>\$ 5,405,630</u>	<u>\$ 5,670,386</u>	<u>\$ 57,168</u>
LIABILITIES				
Due to depositories.....	\$ 258,562	\$ 5,369,512	\$ 5,607,024	\$ 21,050
Due to other funds.....	10	-	10	-
Interfund payable.....	63,352	36,118	63,352	36,118
Total liabilities.....	<u>\$ 321,924</u>	<u>\$ 5,405,630</u>	<u>\$ 5,670,386</u>	<u>\$ 57,168</u>
UNIDENTIFIED RECEIPTS FUND				
ASSETS				
Cash.....	\$ -	\$ 173,123,390	\$ 173,025,147	\$ 98,243
Accounts receivable.....	175,727	1,000	175,727	1,000
Due from other funds.....	2,150	292,969	2,150	292,969
Total assets.....	<u>\$ 177,877</u>	<u>\$ 173,417,359</u>	<u>\$ 173,203,024</u>	<u>\$ 392,212</u>
LIABILITIES				
Due to other funds.....	\$ 2,150	\$ 173,125,445	\$ 173,027,297	\$ 100,298
Interfund payable.....	175,727	291,914	175,727	291,914
Total liabilities.....	<u>\$ 177,877</u>	<u>\$ 173,417,359</u>	<u>\$ 173,203,024</u>	<u>\$ 392,212</u>

**STATE OF VERMONT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
VENDOR AND OTHER DEPOSITS FUND				
ASSETS				
Cash.....	\$ 4,106,168	\$ 29,803,454	\$ 29,604,246	\$ 4,305,376
Taxes receivable.....	1,392,976	168,117	-	1,561,093
Accounts receivable.....	28,945	182,090	28,945	182,090
Due from other funds.....	-	250,847	-	250,847
Total assets.....	<u>\$ 5,528,089</u>	<u>\$ 30,404,508</u>	<u>\$ 29,633,191</u>	<u>\$ 6,299,406</u>
LIABILITIES				
Amounts held in custody for others.....	\$ 2,111,974	\$ 11,565,727	\$ 11,232,416	\$ 2,445,285
Due to other funds.....	6,012	410,022	6,012	410,022
Intergovernmental payable other governments.....	2,464,176	15,517,465	15,558,565	2,423,076
Other liabilities.....	916,982	2,616,107	2,807,253	725,836
Interfund payable.....	28,945	295,187	28,945	295,187
Total liabilities.....	<u>\$ 5,528,089</u>	<u>\$ 30,404,508</u>	<u>\$ 29,633,191</u>	<u>\$ 6,299,406</u>
CHILD SUPPORT COLLECTIONS FUND				
ASSETS				
Cash.....	\$ 12,577,407	\$ 55,203,174	\$ 66,959,806	\$ 820,775
Due from other funds.....	2,367	-	2,367	-
Total assets.....	<u>\$ 12,579,774</u>	<u>\$ 55,203,174</u>	<u>\$ 66,962,173</u>	<u>\$ 820,775</u>
LIABILITIES				
Due to other funds.....	\$ 4,677,439	\$ 5,022	\$ 4,677,439	\$ 5,022
Amount Held in Custody for Others.....	7,902,335	55,198,152	62,284,734	815,753
Total liabilities.....	<u>\$ 12,579,774</u>	<u>\$ 55,203,174</u>	<u>\$ 66,962,173</u>	<u>\$ 820,775</u>
TOTALS - ALL AGENCY FUNDS				
ASSETS				
Cash.....	\$ 16,776,960	\$ 535,991,539	\$ 547,470,090	\$ 5,298,409
Accounts receivable.....	447,584	396,308	447,584	396,308
Taxes receivable.....	1,392,976	168,117	-	1,561,093
Due from other funds.....	224,262	562,972	224,262	562,972
Total assets.....	<u>\$ 18,841,782</u>	<u>\$ 537,118,936</u>	<u>\$ 548,141,936</u>	<u>\$ 7,818,782</u>
LIABILITIES				
Due to depositories.....	\$ 327,864	\$ 277,870,648	\$ 278,115,370	\$ 83,142
Due to other funds.....	4,689,975	173,554,759	177,715,122	529,612
Amounts held in custody for others.....	10,014,309	66,763,879	73,517,150	3,261,038
Intergovernmental payable other governments.....	2,464,176	15,517,465	15,558,565	2,423,076
Other liabilities.....	916,982	2,616,107	2,807,253	725,836
Interfund payable.....	428,476	796,078	428,476	796,078
Total liabilities.....	<u>\$ 18,841,782</u>	<u>\$ 537,118,936</u>	<u>\$ 548,141,936</u>	<u>\$ 7,818,782</u>



**NONMAJOR
COMPONENT UNITS**

STATE OF VERMONT
STATEMENT OF NET ASSETS
NONMAJOR COMPONENT UNITS
June 30, 2004

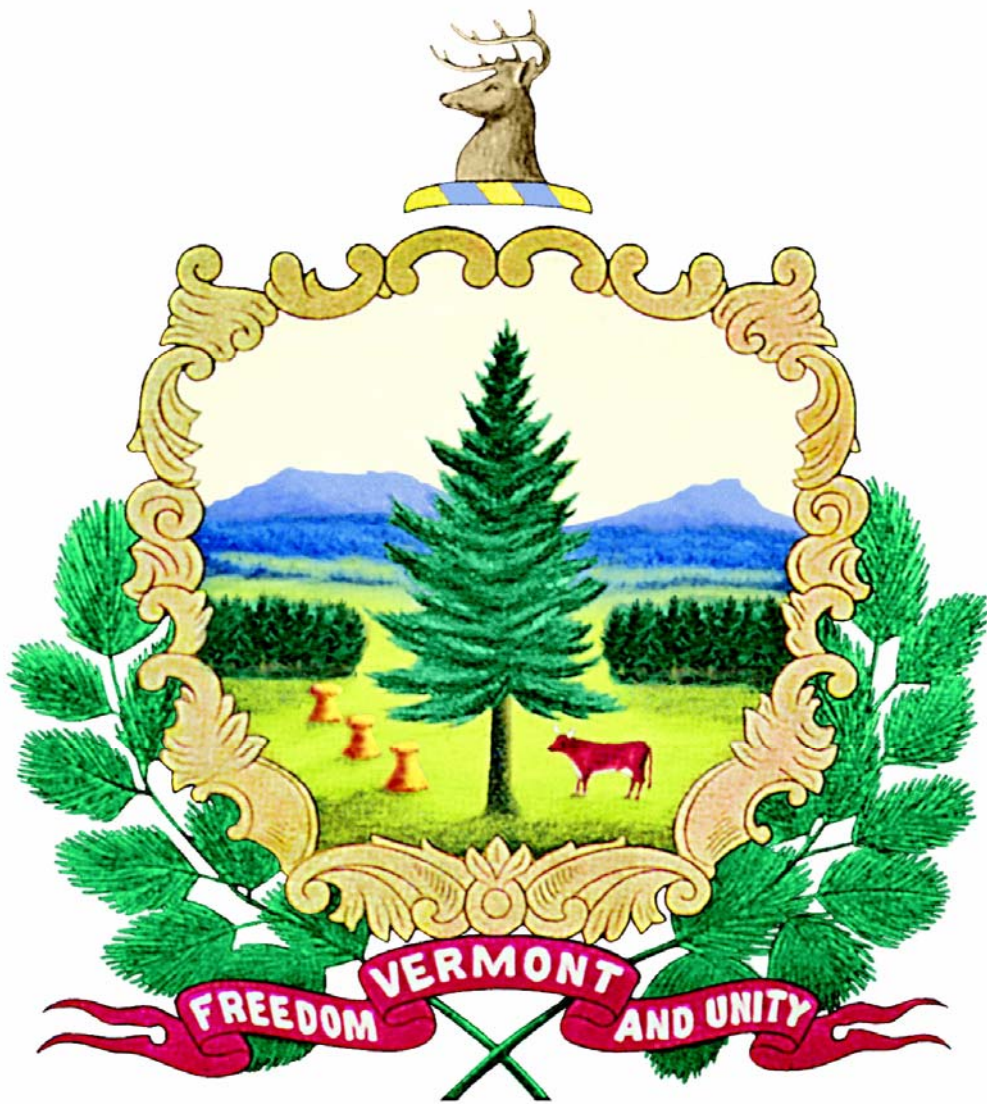
ASSETS	Vermont Economic Development Authority 06/30/2004	Vermont Housing & Conservation Board 06/30/2004	Vermont Sustainable Jobs Fund 06/30/2004	Vermont Municipal Bond Bank 12/31/2003
Current Assets:				
Cash and cash equivalents.....	\$ 9,083,853	\$ 12,315,916	\$ 215,307	\$ 5,847,256
Investments.....	5,641,511	-	-	5,691,944
Accounts receivable (net).....	-	-	-	11,351
Accrued interest receivable - loans.....	207,877	7,909,720	-	2,299,466
Loans and notes receivable - current portion.....	17,053,765	36,019	-	33,640,844
Other receivables.....	-	16,445	19,451	-
Due from federal government.....	-	12,721,208	-	-
Due from primary government.....	-	-	-	-
Inventories (at cost).....	-	-	-	-
Prepaid expenses.....	-	-	1,771	-
Other current assets.....	300,642	-	680	-
Total current assets.....	32,287,648	32,999,308	237,209	47,490,861
Restricted and Non-Current Assets:				
Cash.....	-	-	-	2,800,788
Investments.....	17,743,815	-	-	40,307,919
Deferred bond issue costs.....	-	-	-	5,381,452
Loans and notes receivable (net).....	68,429,893	67,748,716	-	366,189,938
Other assets.....	-	-	-	-
Total restricted & noncurrent assets.....	86,173,708	67,748,716	0	414,680,097
Capital Assets:				
Land.....	-	-	-	-
Construction in process.....	-	-	-	-
Building and leasehold improvements.....	-	-	-	-
Equipment, furniture and fixtures.....	405,659	110,791	6,056	-
Accumulated depreciation.....	(301,456)	(110,791)	(6,056)	-
Total capital assets, net of depreciation.....	104,203	0	0	0
Total assets.....	118,565,559	100,748,024	237,209	462,170,958
LIABILITIES				
Current Liabilities:				
Accounts payable.....	364,323	59,829	21,384	84,247
Accrued salaries and benefits.....	-	128,778	-	-
Accrued interest payable.....	323,764	-	-	-
Bond interest payable.....	-	-	-	1,702,165
Deferred revenue.....	-	-	160,754	-
Accrued arbitrage rebate.....	-	-	-	473,757
Current portion - bonds and notes payable.....	63,871,008	-	-	36,380,000
Due to primary government.....	6,336,852	1,984,433	-	-
Escrowed cash deposits.....	131,891	-	-	-
Other current liabilities.....	1,610,238	10,617,638	-	-
Total current liabilities.....	72,638,076	12,790,678	182,138	38,640,169
Restricted and Non-Current Liabilities:				
Bonds and notes payable.....	7,561,771	398,950	-	405,631,286
Accrued arbitrage rebate.....	-	-	-	688,841
Other liabilities.....	-	-	-	26,100
Advances from primary government.....	1,954,533	-	-	-
Total liabilities payable from restricted assets.....	9,516,304	398,950	0	406,346,227
Total liabilities.....	82,154,380	13,189,628	182,138	444,986,396
NET ASSETS				
Invested in capital assets, (net of related debt).....	-	-	-	-
Restricted.....	6,327,344	87,114,220	-	8,827,277
Unrestricted - designated.....	-	-	-	-
Unrestricted.....	30,083,835	444,176	55,071	8,357,285
Total net assets.....	\$ 36,411,179	\$ 87,558,396	\$ 55,071	\$ 17,184,562

Vermont Educational and Health Buildings Financing Agency 12/31/2003	Vermont Center For Geographic Information 06/30/2004	Vermont Transportation Authority 06/30/2004	Vermont Veteran's Home 06/30/2004	Vermont Rehabilitation Corporation 06/30/2004	Total Nonmajor Component Units
\$ 917,110	\$ 71,174	\$ -	\$ 676,361	\$ 59,159	\$ 29,186,136
299,762	-	-	-	-	11,633,217
-	27,583	-	63,379	-	102,313
-	-	-	-	-	10,417,063
-	-	-	-	9,286	50,739,914
-	-	-	-	-	35,896
-	-	-	2,111,712	-	14,832,920
-	-	10,098	-	-	10,098
-	-	-	108,750	-	108,750
-	7,163	-	-	-	8,934
-	-	-	-	-	301,322
1,216,872	105,920	10,098	2,960,202	68,445	117,376,563
-	-	-	-	-	2,800,788
-	-	-	-	-	58,051,734
-	-	-	-	-	5,381,452
-	-	-	-	145,714	502,514,261
-	-	-	4,998	-	4,998
0	0	0	4,998	145,714	568,753,233
-	-	-	172,561	-	172,561
-	-	-	12,157	-	12,157
-	-	-	11,932,272	-	11,932,272
-	117,670	-	1,882,728	-	2,522,904
-	(110,476)	-	(9,999,800)	-	(10,528,579)
0	7,194	0	3,999,918	0	4,111,315
1,216,872	113,114	10,098	6,965,118	214,159	690,241,111
11,885	449	10,098	218,120	-	770,335
-	20,936	-	1,009,423	-	1,159,137
-	-	-	-	-	323,764
-	-	-	-	-	1,702,165
-	12,919	-	266,690	-	440,363
-	-	-	-	-	473,757
-	-	-	-	-	100,251,008
-	-	-	-	-	8,321,285
-	-	-	-	-	131,891
-	-	-	8,842	-	12,236,718
11,885	34,304	10,098	1,503,075	0	125,810,423
-	-	-	-	-	413,592,007
-	-	-	-	-	688,841
-	-	-	4,545	-	30,645
-	-	-	-	-	1,954,533
0	0	0	4,545	0	416,266,026
11,885	34,304	10,098	1,507,620	0	542,076,449
-	-	-	3,999,918	-	3,999,918
-	-	-	-	-	102,268,841
-	30,000	-	-	-	30,000
1,204,987	48,810	-	1,457,580	214,159	41,865,903
\$ 1,204,987	\$ 78,810	\$ 0	\$ 5,457,498	\$ 214,159	\$ 148,164,662

**STATE OF VERMONT
STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Vermont Economic Development Authority.....	\$ 4,262,485	\$ 2,963,958	\$ 127,965	\$ -	\$ (1,170,562)
Vermont Housing & Conservation Trust.....	15,068,740	-	9,494,542	-	(5,574,198)
Vermont Sustainable Jobs Fund.....	592,505	-	491,966	-	(100,539)
Vermont Municipal Bond Bank.....	24,107,730	20,655,178	-	-	(3,452,552)
Vermont Educational and Health Buildings Financing Agency.....	169,048	123,170	-	-	(45,878)
Vermont Center for Geographic Information.....	467,743	165,382	286,992	-	(15,369)
Vermont Transportation Authority.....	2,516,258	-	174,216	-	(2,342,042)
Vermont Veterans' Home.....	14,294,877	13,497,293	994,685	-	197,101
Vermont Rehabilitation Corporation.....	20,020	-	20	-	(20,000)
Total nonmajor component units.....	\$ 61,499,406	\$ 37,404,981	\$ 11,570,386	\$ 0	(12,524,039)

General Revenues:	
Property transfer tax.....	12,604,000
Investment income.....	4,331,889
Miscellaneous.....	89,043
Total general revenues.....	<u>17,024,932</u>
Changes in net assets.....	4,500,893
Net assets - beginning.....	<u>143,663,769</u>
Net assets - ending.....	<u>\$ 148,164,662</u>



**STATISTICAL INFORMATION
(UNAUDITED)**

STATE OF VERMONT
REVENUES BY SOURCE
MAJOR GOVERNMENTAL FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)
FOR THE YEAR ENDED JUNE 30

<u>SOURCE</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Taxes.....	\$ 1,830,275	\$ 1,614,229	\$ 1,599,103	\$ 1,590,023
Licenses, Fees and Fines.....	140,839	128,391	109,914	115,679
Interest on Investments.....	3,956	4,848	6,273	12,814
Federal.....	1,190,893	1,032,080	960,321	849,191
Departmental Services.....	14,172	13,966	15,528	10,862
Other.....	102,801	107,122	99,858	56,032
Total General and Special				
Revenue Fund Revenues.....	\$ 3,282,936	\$ 2,900,636	\$ 2,790,997	\$ 2,634,601

STATE OF VERMONT
EXPENDITURES BY FUNCTION
MAJOR GOVERNMENTAL FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)
FOR THE YEAR ENDED JUNE 30

<u>FUNCTION</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Government.....	\$ 59,421	\$ 56,610	\$ 71,395	\$ 80,716
Protection.....	200,556	184,258	174,438	137,703
Human Services.....	1,298,524	1,200,621	1,064,296	909,237
Employment and Training.....	26,193	27,905	26,285	25,999
General Education.(1).....	1,119,416	1,066,772	1,020,679	883,908
Natural Resources.....	63,016	70,935	73,883	79,497
Development.....	29,621	32,964	34,095	33,747
Transportation.....	288,735	284,978	311,109	294,266
Debt Service.....	70,834	73,214	69,215	73,896
Other.....	1,898	1,898	2,002	13,390
Total General and Special				
Revenue Fund Expenditures.....	\$ 3,158,214	\$ 3,000,155	\$ 2,847,397	\$ 2,532,359

- (1) Beginning in fiscal year 1995, payments for higher education have been reclassified from expenditures to transfers to component units.
- (2) Beginning with fiscal year 1996, all figures are reported on the modified accrual basis as compared to the cash basis for fiscal years 1990 through 1995.
- (3) Beginning in 1999, the new Education Fund is included in the above schedules.
- (4) Beginning with fiscal year 2002, the Fish & Wildlife fund is not included as it is not reported as a major governmental fund.

2000	1999	1998	1997	1996	1995
\$ 1,529,513	\$ 1,092,581	\$ 981,170	\$ 867,845	\$ 794,815	\$ 741,639
112,416	105,770	99,334	94,709	93,207	88,076
11,549	9,410	7,217	9,524	8,105	7,066
847,345	752,470	690,679	599,699	551,037	536,122
17,276	15,821	18,156	17,899	23,829	42,510
48,706	51,179	66,979	63,293	63,426	79,119
\$ 2,566,805	\$ 2,027,231	\$ 1,863,535	\$ 1,652,969	\$ 1,534,419	\$ 1,494,532

2000	1999	1998	1997	1996	1995
\$ 65,444	\$ 57,953	\$ 111,280	\$ 74,550	\$ 72,068	\$ 68,552
128,521	125,349	113,118	101,657	99,908	93,235
909,481	822,652	770,663	717,400	670,388	655,767
27,631	25,998	23,927	19,193	21,530	21,893
884,919	486,572	304,217	289,016	272,189	271,502
81,006	71,088	57,898	48,842	48,163	50,072
30,167	40,296	32,366	24,274	22,518	20,316
266,797	245,902	228,550	189,366	192,241	180,768
74,855	72,067	69,952	68,335	66,519	58,672
6,063	2,823	7,135	15,609	11,535	29,997
\$ 2,474,884	\$ 1,950,700	\$ 1,719,106	\$ 1,548,242	\$ 1,477,059	\$ 1,450,774

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institution Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June proceeding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's Public Improvement bonds and the State's Transportation and Highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State, however, also has established certain statewide authorities which have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes, or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general obligation notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated state deficits, and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and,

except for zero coupon bonds or capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including, but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of \$1 million before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by the General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due "without further order or authority" and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due "without further order or authority." To the extent not otherwise provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriation bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State. The provisions of the General Obligation Bond Law above recited do not constitute, in the opinion of Bond Counsel, express consent by the State to be sued by a bondholder or a noteholder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the Bonds and on other bonds and notes when due, either from the General Fund or from the Transportation Fund or from amounts appropriated therefore by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefore if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2004, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State. The following table and the Selected Debt Statistics that follow it do not reflect the issuance of the Bonds or the expected issuance of the 2005 Series B Bonds.

**State of Vermont
Debt Statement
As of June 30, 2004
(\$ in thousands)**

<u>General Obligation Bonds⁽¹⁾:</u>	
General Fund	\$414,993
Transportation Fund	14,349
Special Fund	15,340
<u>Contingent Liabilities:</u>	
VEDA Mortgage Insurance Program	10,614
VEDA Financial Access Program	958
<u>Reserve Fund Commitments:</u>	
Vermont Municipal Bond Bank	446,455
Vermont Housing Finance Agency	92,160
VEDA Indebtedness	<u>55,000</u>
Gross Direct and Contingent Debt	<u>\$1,049,870</u>
<u>Less:</u>	
Contingent Liabilities	(11,572)
Reserve Fund Commitments	<u>(593,615)</u>
Net Tax-Supported Debt	<u>\$ 444,683</u>

¹ Does not include (i) general obligation bonds which were refunded and (ii) the accretion in the value of capital appreciation bonds.

RATIO OF GENERAL OBLIGATION BONDED DEBT TO ASSESSED TAXABLE PROPERTY
VALUE AND GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

Year	Population (1000's) (1)	Assessed Value (Billions) (2)	Bonded Debt (1000's) (3)	Bonded Debt	
				Ratio To Assessed Value	Per Capita
2004	621	\$ 44.50	\$ 469,124	1.05%	\$ 755
2003	619	41.57	473,786	1.14%	765
2002	617	38.99	486,465	1.25%	788
2001	613	37.41	480,443	1.28%	784
2000	610	36.27	527,300	1.45%	864
1999	594	35.50	537,791	1.51%	905
1998	592	35.99	581,990	1.62%	983
1997	589	34.80	555,905	1.60%	944
1996	586	34.30	543,800	1.59%	928
1995	585	34.23	536,625	1.57%	917

(1) U.S. Department of Commerce - Bureau of Economic Analysis

(2) Vermont Tax Department, Division of Property Valuation and Review, Annual Report

(3) Annual Report of Commissioner of Finance and Management

NOTE: Since 1987, the State's property values have been equalized annually as of January 1 for property values as of April 1 of the previous year for purposes of distributions to and assessments upon municipalities.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES

Fiscal Year	Total Principal and Interest Paid	Total General Fund Expenditures	Percent of Debt Service to General Fund Expenditures
2004	\$ 66,077,580	\$ 554,195,102	11.9%
2003	67,902,550	588,984,890	11.5%
2002	63,899,370	650,765,001	9.8%
2001	68,376,276	554,819,262	12.3%
2000	68,617,331	531,022,437	12.9%
1999	66,056,281	483,978,505	13.6%
1998	66,073,612	674,868,655	9.8%
1997	64,049,337	632,767,461	10.1%
1996	61,494,937	624,733,701	9.8%
1995	53,018,022	614,895,686	8.6%

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
TRANSPORTATION BONDED DEBT TO TOTAL TRANSPORTATION FUND EXPENDITURES

Fiscal Year	Total Principal and Interest Paid	Total Transportation Fund Expenditures	Percent of Debt Service to Transportation Fund Expenditures
2004	\$ 2,407,287	\$ 337,095,329	0.7%
2003	2,820,399	337,098,500	0.8%
2002	2,910,054	370,338,943	0.8%
2001	3,131,320	345,005,330	0.9%
2000	3,789,207	318,156,255	1.2%
1999	3,844,747	273,670,237	1.4%
1998	3,903,053	257,410,313	1.5%
1997	4,422,889	227,054,831	1.9%
1996	5,109,202	221,500,451	2.3%
1995	5,653,983	212,260,877	2.7%

The figures shown above are actual cash paid out, which are different than the GAAP based figures reported on the financial statements.

PROPERTY VALUES AND TAXES IN VERMONT
Last Ten Fiscal Years

Property Valuation

From 1987 to 1992, the State's property values were equalized annually on January 1 for property values as of April 1 of the previous calendar year by the Vermont Tax Department, Division of Property Valuation and Review, for purposes of distributions to and assessments upon, municipalities. Prior to 1987 and during the years 1992 through 1996, values were equalized on an annual basis. With the passage of Act 60 of the 1997 Legislative session, the values will continue to be equalized on an annual basis which will make available more current data for the calculations of municipalities' school tax liabilities and school aid.

The following table sets forth an abbreviated history of property values and taxes in Vermont for the period April, 1995 to the present (in millions of dollars.)

Years	Equalized Grand List (1)	Grand List (2)	Total Taxes (3)	School Taxes (4)	Total Effective Tax Rate (5)	School Effective Tax Rate (6)
2004	\$ 551.60	\$ 455.50	\$ 1,018.40	\$ 733.80	\$ 1.85	\$ 1.33
2003	499.60	423.20	1,010.70	741.60	2.03	1.52
2002	457.70	397.90	945.90	687.20	2.08	1.54
2001	429.30	386.50	869.60	621.30	2.05	1.50
2000	404.90	375.40	816.00	580.40	2.06	1.50
1999	381.70	359.90	712.30	493.20	1.93	1.37
1998	376.30	348.00	704.10	499.90	1.85	1.33
1997	376.30	343.00	678.70	483.40	1.85	1.33
1996	-	342.00	661.10	460.20	1.76	1.22
1995	376.00	335.00	634.30	435.50	1.76	1.22

(1) Equalized Municipal Grand List formerly called Aggregate Fair Market Value: 1% of equalized value.

(2) Municipal Grand List used for tax assessments: 1% of the listed value.

(3) Total Taxes: Total taxes assessed.

(4) School Taxes: portion of total taxes assessed raised for schools.

(5) Total Effective Tax Rate: estimate of what total tax rate per \$100 of equalized value would be if all property was assessed at 100% of value.

(6) School Effective Tax Rate: estimate of what school tax rate per \$100 of equalized value would be if all property was assessed at 100% of value.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Demographic Statistics
Last Ten Years
Employment Statistics

Year	Population (000) (2)	Per Capita Income (a) Year Ended 12/31 (1)	Average Labor Force (000) (3)	Employment (000) (3)	Average Annual Unemployment Rate (3)
2004	621	\$ 32,377	353	340	3.7%
2003	619	30,740	351	334	4.8%
2002	617	29,764	346	333	3.8%
2001	613	28,594	344	329	4.3%
2000	610	27,376	335	323	3.6%
1999	594	25,705	332	322	3.0%
1998	591	24,547	330	319	3.4%
1997	589	23,026	327	313	4.4%
1996	586	22,019	324	309	4.6%
1995	585	21,135	319	305	4.2%

Sources:

- (1) U.S. Department of Commerce - Bureau of Economic Analysis
- (2) U.S. Department of Commerce - Bureau of Labor Statistics
- (3) Vermont Department of Employment and Training

The following table sets forth the State's non-agricultural wage and salary employment by industry for calander years 2002 through 2004.

Vermont Non-Agricultural Wage and Salary Employment by Industry (1)

	2002 Employment	Percent Of Total	2003 Employment	Percent Of Total	2004 Employment	Percent Of Total
GOODS PRODUCING:						
Manufacturing Durable Goods	29,300	9.8%	26,850	9.0%	26,800	8.6%
Manufacturing Non-Durable Goods	11,300	3.8%	10,750	3.6%	10,700	3.4%
Construction	14,850	5.0%	15,300	5.1%	16,700	5.3%
Natural Resouces & Mining	1,000	0.3%	950	0.3%	900	0.3%
SERVICE PROVIDING:						
Wholesale	10,050	3.4%	10,250	3.4%	10,100	3.2%
Retail	40,100	13.4%	39,200	13.1%	42,200	13.5%
Utilities	1,700	0.6%	1,750	0.6%	1,700	0.5%
Transporation & Warehousing	6,950	2.3%	6,800	2.3%	7,050	2.3%
Information	6,700	2.2%	6,500	2.2%	6,300	2.0%
Financial Activities	13,200	4.4%	13,200	4.4%	13,500	4.3%
Professional and Business Services	20,400	6.8%	20,300	6.8%	21,250	6.8%
Educational Services	12,350	4.1%	12,550	4.2%	12,950	4.1%
Healthcare & Social Assistance	37,950	12.7%	39,800	13.3%	41,750	13.4%
Leisure & Hospitality	33,100	11.0%	32,650	10.9%	34,250	11.0%
Other Services	10,100	3.4%	10,100	3.4%	10,350	3.3%
Government	50,850	17.0%	51,900	17.4%	55,800	17.9%
TOTAL NONFARM	299,900	100.0%	298,850	100.0%	312,300	100.0%

SOURCE: U.S. Bureau of Labor Statistics, Vermont Department of Employment & Training, Current Employment Statistics Series.

(1) This data is compiled using the North American Industry Classification System (NAICS) which has replaced the U.S. Standard Industrial Classification System.

According to the latest data from the U.S. Bureau of the Census (December 2004) Vermont's population has a higher level of educational attainment than the U.S. population as a whole. The table below shows that a total of 89% of Vermont's residents aged 25 years and over have completed a high school education, a level which ranks Vermont above the 85% that have done so nationally. In addition, this data indicates that 31% of Vermont residents in that same age category have received a four-year college degree. That percentage compares favorably to the 27% of residents aged 25 years and older who have received such a 4-year degree nationally.

**Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of December 2004**

Level of Education	Percent of Vermont Population	Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More.....	89%	11	85%
COLLEGE:			
Bachelor's Degree or More.....	31%	10	27%

SOURCE: Bureau of the Census, Educational Attainment in the U.S., Current Population Report, December 2004.

Data from the 2000 Census indicate that Vermont's population is primarily rural. A total of 72.2% of the State's population lived outside of the State's single metropolitan area - the highest percentage among the 50 states. Vermont's percentage was nearly 3 1/2 times the national average percentage of persons living outside a metropolitan area (19.7%), and was almost seven times the average for the northeast U.S.

INCOME AND SALES TAX RATES*
Last Ten Fiscal Years

Fiscal Year Ended June 30	Individual Income Tax (1)	Corporate Income Tax (2)	Retail Sales Tax	Meals & Rooms Tax (3)
2004	3.6% - 9.5%	7.0% - 9.75%	6%	9%
2003	3.6% - 9.5%	7.0% - 9.75%	5%	9%
2002	3.6% - 9.5%	7.0% - 9.75%	5%	9%
2001	3.6% - 9.5%	7.0% - 9.75%	5%	9%
2000	24%	7.0% - 9.75%	5%	9%
1999	25%	7.0% - 9.75%	5%	9%
1998	25%	7.0% - 9.75%	5%	9%
1997	25%	7.0% - 9.75%	5%	9%
1996	25%	5.5% - 8.25%	5%	7%
1995	25%	5.5% - 8.25%	5%	7%

* Source: Vermont Department of Taxes

- (1) From 1993 to 2000, the tax rate presented above was applied to an individual's federal tax liability with some adjustments. Beginning in 2001, the individual rate range presented above is applied to a calculated Vermont taxable income instead of being applied to the federal tax liability. This methodology change was enacted to maintain the State's effective tax rate that was in effect prior to the recently enacted federal tax cuts.
- (2) Corporate Tax Rate is Graduated - Only the Upper and Lower Rates are shown- Minimum Corporate Tax amount = \$250.00.
- (3) Beginning June, 1989, Alcoholic Beverages are taxed at 10% rate.

Largest Employers

The following table sets forth, as of September 2004, the ten largest employers in Vermont and the nature of their business, exclusive of the State itself and the University of Vermont.

Ranking of Vermont's Ten Largest Private Sector Employers
As of September 2004*

<u>Firm</u>	<u>Nature of Business</u>	<u>Size Code (Number of Employees)**</u>
International Business Machines	Semiconductors and Related Devices	3
Fletcher-Allen Health Care	Health Care	3
Hannaford Bros.	Retail Food	1
Price Chopper Stores	Retail Food	1
General Electric Company	Jet Engine Blades	1
Shaw's Supermarkets Inc.	Retail Food	1
Middlebury College	Post-Secondary Education	1
Rutland Hospital	Hospital	1
Chittenden Trust Company	Financial Services	1
Vermont Subacute LLC	Nursing Care Facilities	0

SOURCE: Vermont Department of Employment and Training.

* Data is for employees covered under Vermont's unemployment law. As such, contract employees are not included.

** <u>Size Code</u>	<u># of Employees</u>
0	500-999
1	1000-2999
2	3000-4999
3	5000+