VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Financial Statements and Management's Discussion and Analysis

June 30, 2017 and 2016

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O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Vermont State Colleges
Montpelier, Vermont

Report on the Financial Statements
We have audited the accompanying financial statements of the Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Colleges' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont State Colleges at June 30, 2017 and 2016 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-18 and the schedule of funding progress on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information
Our audits were conducted for the purpose of forming an opinion on the financial statements of Vermont State Colleges, taken as a whole. The accompanying schedule of expenditures of federal awards on pages 64 through 72 is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is not a required part of the basic financial statements. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017, on our consideration of Vermont State Colleges' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 audits.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 25, 2017

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

Introduction

The Management's Discussion and Analysis (MD&A) is required supplemental information due to the Governmental Accounting Standards Board (GASB) reporting model. It is designed to help the reader's understanding of the accompanying financial statements and notes. As this MD&A contains summarized information, tables and graphs, it should be read in conjunction with the accompanying financial statements and notes.

Vermont State College System

The Vermont State College System unites five distinctive public colleges in the common purpose of providing first-rate higher education at reasonable cost in order to improve the quality of life for the citizens of Vermont.

The colleges are:
Community College of Vermont (CCV)
Castleton University (CU)
Johnson State College (JSC)
Lyndon State College (LSC)
Vermont Technical College (VTC)

Significant Events Affecting These Financial Statements

Events that affect these statements during the past five years include:

- Enrollment trends over the past 5 years are down for all of the VSC institutions, counting by either FTE (full time equivalent) or by headcount. There was an uptick from FY16 to FY17 for Vermont Technical College, but the downward trend continued for the other colleges. The primary reason for this trend is the declining number of students graduating from high school in the state.
- Accrual of the costs of other post-employment benefits (OPEB) totaling $65 million through FY2017, which is not being pre-funded, but paid when incurred during retirement periods. Groups have been closed for all staff hired in the future which will reduce this liability over time.
- In FY2013, the System refinanced its bonds issued in FY2004 using publicly-traded, fixed rate bonds backed by the System's general obligation credit rating. In FY2017, the System refinanced its privately-placed, variable rate bank loans issued in FY2006, FY2008 and FY2009, terminated the related interest rate swaps, and amortized a balloon maturity associated with the FY2008 loan. The System structured the repayments to provide debt service relief from FY2018 through FY2021, followed by level debt service from FY2022 through FY2038. The FY2017 debt was issued through the Vermont Municipal Bond Bank, is publicly-traded and fixed rate, and is backed by the System's appropriation from the State of Vermont. In addition to the bonds issued in FY2013 and FY2017, the System's debt also includes publicly-traded fixed rate general obligation bonds issued in FY2011.

Using the Financial Statements

The following discussion and analysis provides an overview of the financial statements and activities of Vermont State Colleges (VSC) for the year ended June 30, 2017 and selected comparative information for the previous 4 years. Since this MD&A is designed to focus on current activities, resulting changes and currently known facts, please read in conjunction with the financial statements and notes that follow this section.

These financial statements have been prepared in accordance with GASB (Government Accounting Standards Board) principles. In June 1999, GASB released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis*. Changes in Statement No. 34 compared to prior GASB pronouncements require a comprehensive consolidated look at the entity as a whole, as well as capitalization and depreciation of assets. In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This essentially applies Statement No. 34 to public colleges and universities. Previously, the financial statements focused on the individual fund groups rather than VSC as a whole.

A brief explanation of each financial statement required by the GASB reporting model follows:

Financial Statements

The Vermont State College System's financial statements include three primary components:

- Statement of Net Position (SNP)
- Statement of Revenues, Expenses and Changes in Net Position (SRECNP)
- Statement of Cash Flow (SCF)

Statement of Net Position

The Statement of Net Position presents the financial position of VSC at one point in time - June 30, and includes all assets, liabilities, and the net position of the System. Net position represents the residual interest in the System's assets after liabilities are deducted. The change in net position is an indicator of whether the overall financial condition has improved or deteriorated during the year. Table 1 on page 6 shows the condensed Statement of Net Position for the past five years.

Assets are items of economic value owed by an institution. They include capital assets like land, buildings and equipment: cash and investments, and amounts owed to us by students or others. Total assets are categorized as either current or noncurrent.

Using the Financial Statements - Continued

Statement of Net Position - Continued

Current assets are available to satisfy current liabilities, which are those amounts expected to be payable within the next year. The major components of current assets are cash and accounts receivable, which are primarily funds due to the VSC by students and granting agencies.

Total assets (including deferred outflows/inflows) of $260 million as of the end of the current fiscal year decreased by $8 million or 3% from prior year, the decrease was primarily in Capital Assets due to depreciation. This was offset by significant market value returns on investments during the year, as well as the elimination of the interest rate swap as part of the refinancing of the TD $72 million loan net the addition of the Swap Breakage Asset. Over the 5 years, assets have decreased by $28 million, $1 million in current assets plus investments, but mainly due to the $26 million reduction in capital assets.

Noncurrent assets consist primarily of endowment and other investments, in addition to capital assets. Investments were $46 million at June 30, 2017, an increase of $3 million or 7% since June 30, 2016 – this increase was a result of positive market conditions, as well as additions to investments, mainly in the way of new endowments. At the beginning of the 5-year period, current assets included a Certificate of Deposit which matured during FY2013. Some of these funds were invested and are now reflected in Long Term investments.

Liabilities are obligations owed by the institutions. They include funds owed to others like vendors, employees, taxing agencies, bondholders. Liabilities are also classified as current and long-term. Current liabilities are those that due during the next fiscal year.

Current liabilities of $23 million and $25 million as of June 30, 2017 and 2016, respectively, include primarily accounts payable, and unearned revenue related to the next fiscal year. Current liabilities have not changed significantly from FY2013.

Noncurrent liabilities decreased by $2 million to $196 million during FY2017. An increase in postemployment benefits (OPEB) liability of $5 million was offset by the elimination of the interest rate swap. During the 5-year period, the VSC has recorded an increase in this OPEB liability of $22 million, bringing the total OPEB liability to $65 million.

Using the Financial Statements - Continued

Statement of Net Position - Continued

TABLE 1: Condensed Statement of Net Position as of June 30

($ in millions)

	2017	% change	2016	% change	2015	% change	2014	2013
Current Assets	29	-3%	30	25%	24	14%	21	25
Noncurrent Assets								
Investments	46	7%	43	-14%	50	-9%	55	51
Capital assets, net	168	-3%	174	-4%	181	-3%	187	194
Other	6	0%	6	-19%	6	-19%	6	7
Deferred outflows/inflows	11	-27%	15	36%	11	0%	11	11
Total Assets and Def'd outflows/inflows	260	-3%	268	-1%	272	-3%	280	288
Current liabilities	23	-4%	25	4%	24	4%	23	23
Non current liabilities								
Post employm't benefit oblig	65	8%	60	9%	55	12%	49	43
Bonds and Notes payable	125	7%	117	-5%	123	-3%	127	131
Other	6	-71%	21	31%	16	-6%	17	17
Total Liabilities	219	-1%	223	2%	218	1%	216	214
Net investment in cap'l assets	55	0%	54	-5%	57	-5%	60	66
Restricted								
Nonexpendable	19	6%	18	6%	17	6%	16	15
Expendable	11	22%	9	0%	9	-10%	10	8
Unrestricted	-44	22%	-36	24%	-29	32%	-22	-15
Total Net Position	41	-11%	45	-17%	54	-16%	64	74
Total Liabilities and Net Position	260	-3%	268	-1%	272	-3%	280	288

Net Position

Net position is equal to the total assets minus the total liabilities, and represents the value of the institution at a point in time: for VSC financial statements on June 30.

Net investment in capital assets represents the historic cost of the System's capital assets reduced by total accumulated depreciation, plus the outstanding principal balances on debt used for the acquisition, construction, or improvement of those assets.

Net Position - Continued

Total net position decreased from $74 million to $41 million over the five years reported here, primarily from the recognition of post retirement costs totaling $22 million during the period. Without this OPEB cost, our net position for FY2017 would be $11 million less than our FY2013 net position. Changes in our net position from FY2016 to FY2017 include a decrease in capital assets (-$6M), the increase in unfunded post-retirement benefit obligations (-$5M) and increase in amount owed on debt (-$8M), as well as the elimination of the interest swap liability (+$15M).

Net investment in capital assets did not change significantly from June 30, 2016 to June 30, 2017 due to depreciation, offset partially by reduction in outstanding debt related to capital assets. Net investment in capital assets have steadily decreased over the five-year period reported here, with the exception of FY17, which increased somewhat from the prior year.

The restricted nonexpendable portion of the Net Position represents the permanent endowment funds for the system. These are donations to the colleges that cannot be spent without permission of the donor. They are invested and the earnings are used, based on the instructions of the donor. Most of the earnings on our endowment funds are used for scholarships. The increase of $1 million in FY2017 and $4 million over 5 years is due to gifts received for endowments during the period.

The restricted expendable portion of Net Position includes unexpended, but restricted gifts and grants, and unexpended endowment appreciation, subject to externally imposed conditions on their use. There was a $2 million increase from June 30, 2016 to June 30, 2017. Over the 5-year period, expendable net assets have increased by $3 million, as earnings have outpaced the 5% spending on endowments permitted by Board policy.

The unrestricted portion of the Net Position is largely affected by general operations, but the most significant impact to date has been the OPEB obligations, which are unfunded. That liability increased by $5 million in FY2017 to $65 million as of June 30, 2017. Since FY2013, the unrestricted net position has declined by $29 million as post-employment benefit obligations are recorded.

During FY2017 the system's total Net Position declined from $45 million to $41 million. This is due primarily to our unrestricted net assets being reduced from the annual booking of the VSC OPEB liability. The details of the change in net position are shown in the Statement of Revenues, Expenses, and Changes in Net Position beginning on page 9.

Capital Assets and Debt Administration

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment for educational, research, cultural programs and for residential life. Table 2 on page 8 provides detail from the past 5 years related to the Capital Assets held by the System.

Capital Assets and Debt Administration - Continued

Construction in Progress reflects amounts paid for buildings or other assets that were not completed at year end. When completed and placed in service, the total cost is moved to the appropriate capital asset category. Depreciation of that asset begins the month after it is placed in service.

During the 5-year period, there was significant construction done at all five colleges, funded by debt acquired in FY2008 and FY2010. Construction in Progress has tapered off as the significant construction phase ended in FY14. Building and Improvements increased throughout the period, reflecting the completed projects. Infrastructure includes water & sewer systems, heating & electrical systems, telecommunication systems, and roads. The increase in infrastructure over the five-year period is due to projects on the campuses as well as enhanced communications systems for the entire System. Table 2 provides detail about Capital Assets, including related information (depreciation expense and outstanding principal on construction loans).

Table 2: Capital Assets as of June 30

($ in millions)

	2017	% Change	2016	% Change	2015	% Change	2014	2013
Land	9	-10%	10	0%	10	67%	6	6
Construction in progress	1	-50%	2	0%	2	-33%	3	8
Infrastructure	39	3%	38	0%	38	0%	38	36
Buildings and improvements	257	1%	254	1%	252	1%	250	241
Leasehold improvements	4	0%	4	0%	4	0%	2	2
Equipment	34	3%	33	3%	32	0%	32	31
Total Capital Assets	344		341		338		331	324
Accumulated Depreciation	-176	5%	-167	6%	-157	9%	-144	-129
Capital Assets, Net	168		174		181		187	195
Related information								
Depreciation Expense	10	0%	10	-29%	14	0%	14	13
Outstanding Principal, Related Loans	129	5%	123	-3%	127	-3%	131	135

Capital Assets and Debt Administration - Continued

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position reports total operating revenues, operating expenses, non-operating revenues and expenses, and other changes in net position, showing the total change in net position for the fiscal year. Table 3 on page 9 shows the Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years.

Operating and Non-Operating Revenue

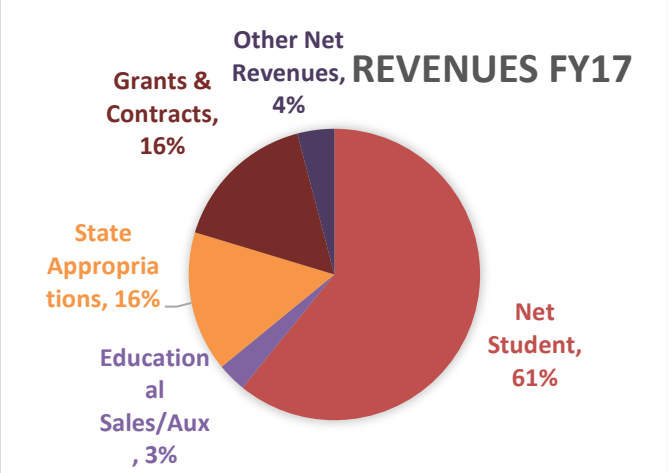
Accounting rules require that our audited financials include operating revenues, operating expenses and non-operating revenues and expenses. The following sections provide an analysis of the total operating and non-operating revenues and expenses. The VSC's primary source of revenue is from student tuition and fees. This accounts for 61% of operating and non-operating income. In addition, the System receives revenue from state appropriations, governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; and investment income.

Table 3: Condensed Statements of Revenues, Expenses, and Changes in Net Position

($ in millions)

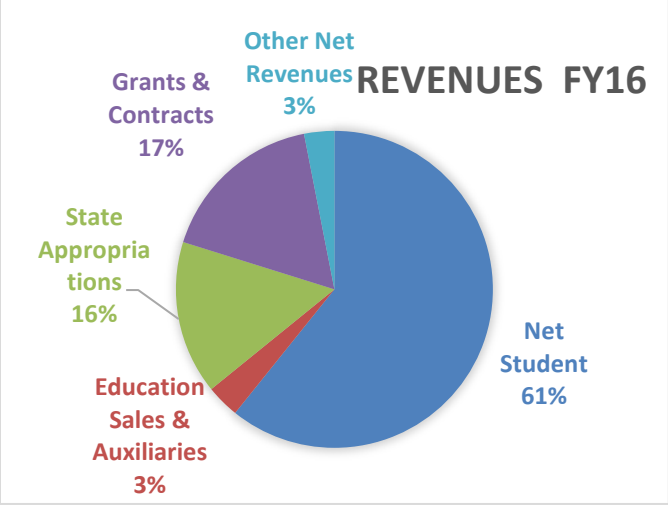
	2017	% Change	2016	% Change	2015	2014	2013
Net Student Fees	112	1%	112	2%	110	112	112
Grants and contracts	14	-7%	15	0%	15	15	15
Other Operating Revenues	7	-13%	8	0%	8	8	8
Operating Revenues	133	-1%	135	2%	133	135	135
Operating Expenses	184	-1%	186	-2%	190	195	194
Operating Loss	-51	0%	-51	-11%	-57	-60	-59
Nonoperating Revenues (Expenses)							
Non-Capital Appropriations	27	4%	26	-4%	27	27	26
Federal Grants & Contracts	16	-6%	17	-6%	18	20	20
Gifts currently expendable	2	-33%	3	-25%	4	3	3
Investment Income & Interest	3	0%	1	0%	0	4	2
Interest Expense	-5	-17%	-6	50%	-4	-6	-6
Other nonoperating revenues	0	0%	-1	0%	0	0	0
Net Nonoperating Revenues	43	8%	40	-11%	45	48	45
Total Change before other Revenues	-8	-27%	-11	-8%	-12	-12	-14
Other Changes in Net Position							
Capital Appropriation	2	-33%	3	50%	2	2	4
Capital gifts and grants	0	0%	0	0%	0	0	13
Endowment gifts	1	0%	0	0%	0	1	0
Change in Net Position	-5	-38%	-8	-20%	-10	-9	3

Operating and Non-Operating Revenue - Continued



FY17 Revenues
($ in thousands)

Net Student	$112,533	61%
Educational Sales/Aux	5,969	3%
State Appropriations	28,831	16%
Grants & Contracts	30,006	16%
Other Net Revenues	7,580	4%
TOTAL	$184,919	100%



FY2016 Revenues
($ in thousands)

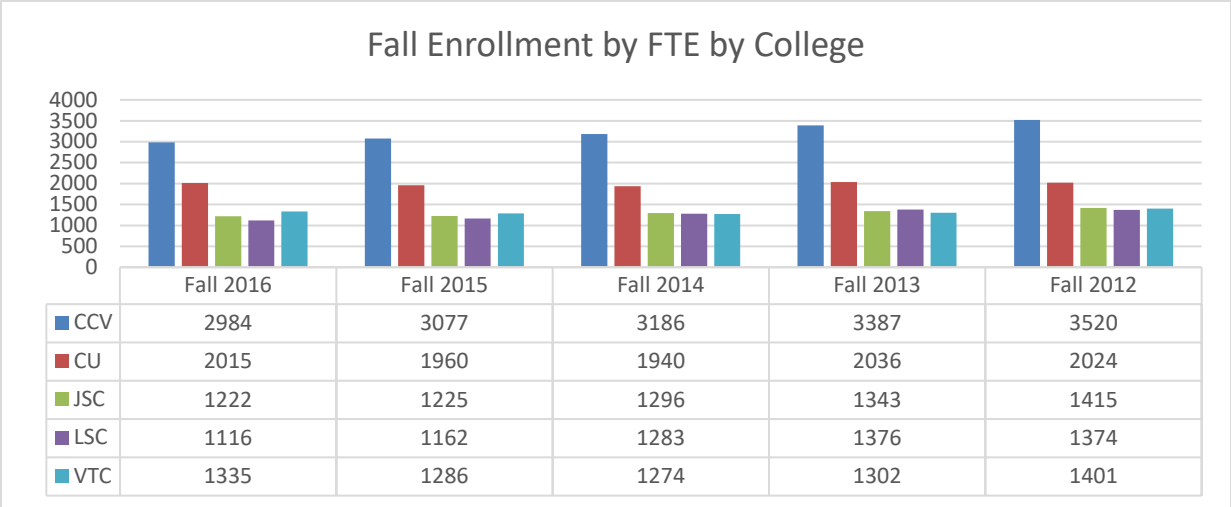
Net Student	$111,340
Educational Sales/Aux	6,207
State Appropriations	28,709
Grants & Contracts	31,329
Other Net Revenues	5,636
TOTAL	$183,221

Tuition and Fee Revenue

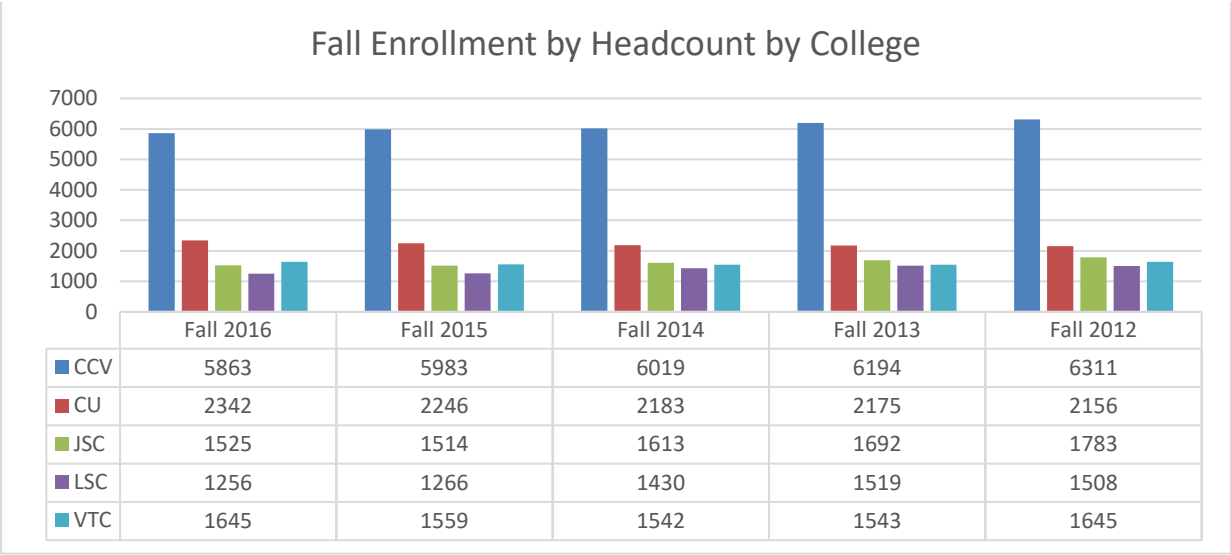
Net Tuition and fees includes tuition and fees plus residence and dining fees less scholarship allowances. Table 3 shows the trend for Tuition and Fee Revenue from FY2013 through FY2017. For the System, student-based revenue has been flat during the five-year period, despite increases in tuition. Enrollments in a time of decreasing high school graduates in the state have created a challenge for the colleges in our system.

Tuition and Fee Revenue - Continued

The following Charts show enrollments and student revenues for each college during this 5-year period. Enrollments are displayed by both FTE and by Headcount. FTE (Full Time Equivalent) provides better comparative information and Headcount shows the total number of individuals who have benefited from VSC education. These charts show the decline in enrollment for CCV, JSC and LSC from FY2013 to FY2017, with the exception of the Fall 2013 term for LSC. Both Castleton University and Vermont Technical College had increases since FY2015, showing a two-year positive trend.



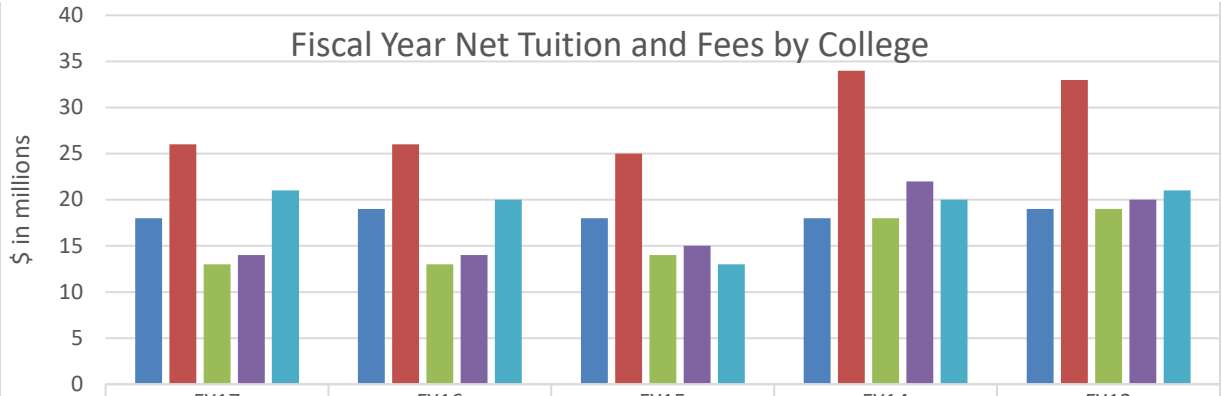
	Fall 2016	Fall 2015	Fall 2014	Fall 2013	Fall 2012
CCV	2984	3077	3186	3387	3520
CU	2015	1960	1940	2036	2024
JSC	1222	1225	1296	1343	1415
LSC	1116	1162	1283	1376	1374
VTC	1335	1286	1274	1302	1401



	Fall 2016	Fall 2015	Fall 2014	Fall 2013	Fall 2012
CCV	5863	5983	6019	6194	6311
CU	2342	2246	2183	2175	2156
JSC	1525	1514	1613	1692	1783
LSC	1256	1266	1430	1519	1508
VTC	1645	1559	1542	1543	1645

Tuition and Fee Revenue - Continued

The chart below displays Net Tuition and Fees for each college during the five-year period. It is notable that CCV has by far the largest number of students – both FTE and Headcount, but their net tuition is consistently outpaced by Castleton, and generally on par with the other three colleges. CCV, as a Community College has the lowest tuition cost and charges for courses on a per credit basis, while the residential schools charge on a semester basis. However, CCV's net tuition has remained much more stable during the more recent years than the other colleges.



	FY17	FY16	FY15	FY14	FY13
CCV	18	19	18	18	19
CU	26	26	25	34	33
JSC	13	13	14	18	19
LSC	14	14	15	22	20
VTC	21	20	13	20	21

Operating and Non-Operating Expenses

Table 4 on page 13 shows the total Operating and Non-Operating Expenses for the past 5 years, and the charts on pages 13-14 provide a quick view of the percent of expenses by type for FY2017 and FY2016.

The largest percentage of VSC expenses are for salary and benefits (about 64%). Those expenses had continued to grow through FY2014, but staff reductions have created a decline since FY2015. Positive trends in health care in FY17 resulted in far less expense; however, annual accruals related to post-employment benefits are also included in this salary and benefit expense category.

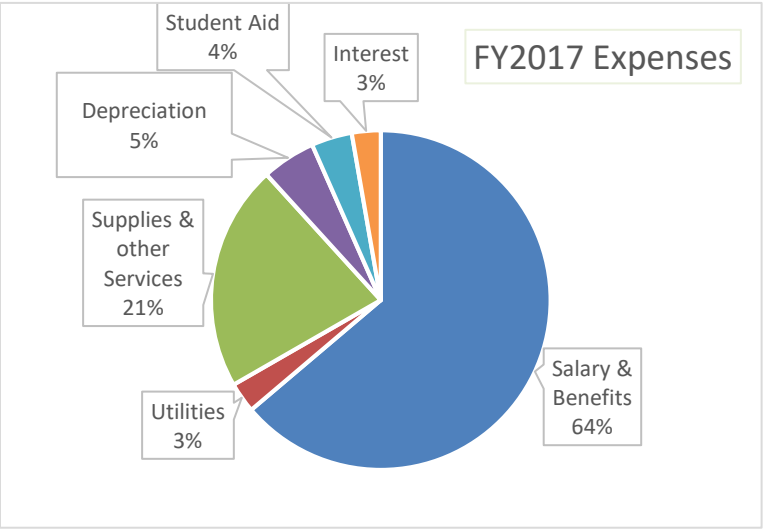
Across the board, expenses have generally declined over the five years reported. A decline in utility expenses has been a direct result of solar energy efforts across all the colleges. Supplies and services is the second largest expense (21%). Keeping this expense constant has been the result of good work at the colleges to contain costs in response to the enrollment declines.

Operating and Non-Operating Expenses - Continued

Table 4: Total Operating and Non-operating Expenses for Years Ended June 30

($ in millions)

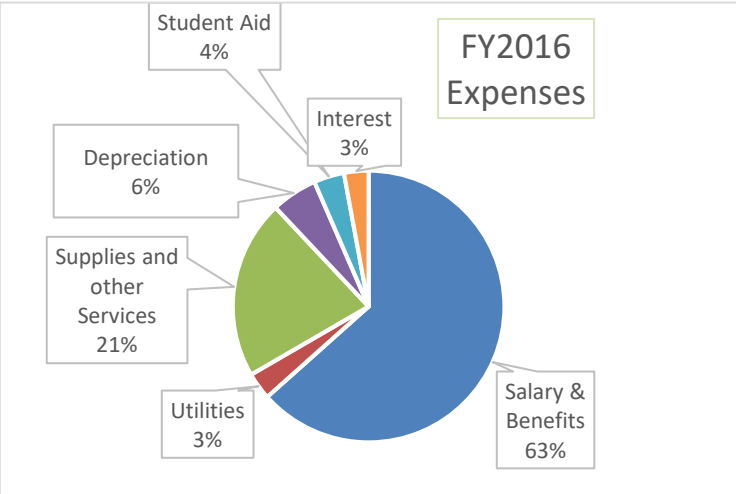
	2017	% change	2016	% change	2015	2014	2013
Operating							
Salaries & Benefits	121	0%	121	-2%	123	125	123
Utilities	5	-17%	6	-14%	7	7	7
Supplies and Svcs	41	0%	41	5%	39	42	43
Depreciation	10	-9%	11	-21%	14	14	13
Student Aid	7	0%	7	0%	7	7	8
Total Operating	184		186		190	195	194
Nonoperating							
Interest on Debt	5	0%	5	-17%	6	6	6
TOTAL Expenses	189	-1%	191	-3%	196	201	200



FY2017 Expenses
($ in thousands)

Salary/Benefits	$121,029
Utilities	5,475
Supplies/Services	40,871
Depreciation	9,722
Student Aid	7,354
Interest on Debt	5,212
TOTAL	$189,663

Operating and Non-Operating Expenses - Continued



FY2016 Expenses ($ in thousands)

Salary/Benefits	$121,329
Utilities	6,176
Supplies/Services	40,861
Depreciation	10,489
Student Aid	6,920
Interest on Debt	5,569
TOTAL	$191,344

Student Financial Aid

Student financial aid awards are made from a variety of sources including federal, state, private, and system funds. Aid received from third parties is recognized as grants and contracts revenue, and aid funded with endowments is recognized as investment income on the Statements of Revenues, Expenses, and Changes in Net Position while the distribution of aid from all sources is shown as one of two components:

- Scholarship Allowances – financial aid retained by the System to cover students' tuition, fees, and on-campus housing and meals. These amounts are reported as a direct offset to operating revenues.
- Scholarships and Fellowships Expense – financial aid refunded to students to cover off-campus living costs, books, and other personal living expenses. These amounts are reported as operating expense.

Total student financial aid including both the amounts reported in net tuition revenue and scholarship expenses over the past five years is shown below.

($ in millions)

	FY17	FY16	FY15	FY14	FY13
Scholarship Allowances (included in revenue)	25	25	25	25	23
Scholarship Expenses (included in expenses)	7	7	7	7	8
Total Student Aid	32	32	32	32	31

Student Financial Aid - Continued

Statement of Cash Flows

The Statement of Cash Flows shows inflows and outflows of cash excluding both revenue and expense that is accrued to comply with accounting rules. The Condensed Statement of Cash Flows for VSC is in Table 6 on page 16.

Cash Flows from Operating Activities

Cash flows from operating activities on the Statement of Cash Flows will always be different from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) because of the inclusion of noncash items, such as depreciation expenses on the SRECNP. Also, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows both revenues earned and expenses incurred though cash has not yet exchanged hands. The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing, food service and bookstore operations. Cash outlays include payment of wages and benefits; operating expenses such as utilities, supplies, insurance and repairs; and scholarships awarded to students. During the last five fiscal years operating cash flow has been fairly consistent.

Cash Flows from Noncapital Financing Activities

There are two primary sources of noncapital financing: state appropriations and non-operating federal grants that fund PELL student grants. Accounting standards require that we reflect these sources of revenue as non-operating, even though each of the colleges depends on them to continue the current level of operations. Both the state operating appropriations and PELL grant funds from the federal government have been fairly consistent over the last 5 fiscal years.

Cash Flows from Capital and Related Financial Activities

Cash flows from capital and related financing activities include all capital plant funds and related long-term debt activities (excluding depreciation and amortization of bond premiums, since these are non-cash transactions), as well as capital gifts, grants and appropriations.

Cash Flows from Investing Activities

Purchase or sale of investments and income earned on investments are included in cash flows from investing activities. An item on the cash flow statement belongs in the investing activities section if it results from any gains (or losses) from investments in financial markets and operating subsidiaries. The activity from the last three fiscal years reflect the activity surrounding the VSC CD being liquidated in FY12 and reinvested into other instruments, as well as activity related to endowment investments.

Statement of Cash Flows - Continued

($ in millions)

Cash flows from:	2017	% change	2016	% change	2015	2014	2013
Operating	-35	-8%	-38	9%	-35	-41	-43
Non capital financing	45	0%	45	-6%	48	49	49
Capital and related financing	-10	-17%	-12	-8%	-13	-10	-12
Investing	0	-100%	7	17%	6	1	-29
Net increase (decrease)	0	-100%	2	-67%	6	-1	-35
Cash, Beginning of Year	11	22%	9	200%	3	4	39
Cash, End of Year	11	0%	11	22%	9	3	4
Operating cash flows if noncapital appropriations and PELL grants were included							
Operating	-35	-8%	-38	9%	-35	-41	-43
Non capital appropriations	27	4%	26	-4%	27	26	26
Non operating federal grants	16	-6%	17	-15%	20	21	20
Operating cash flows including appropriation and fed grants	8	60%	5	-58%	12	6	3

Consistent with accounting standards, cash flows from state operating appropriations and federal PELL grant revenue are included in noncapital financing activities, even though they provide funding for operating activities. The bottom section of Table 6 shows that with these revenue sources added to the operating cash flows, the result is positive cash flows in all years.

Economic Factors That Will Affect the Future

Demographic Trend

Consistent with national trends, Vermont continues to experience a demographic decline in the overall number of graduating high school students. This is expected to result in lower enrollments for the foreseeable future. Additionally, free college initiatives in neighboring states is a newer trend that is certain to negatively impact VSC enrollments, especially at Castleton as it borders New York State. All of the colleges have adopted programs and strategies to better recruit in this shrinking market. In addition, the State of Vermont has been initiating programs that permit high school students to attend college, and receive both high school and college credits for courses. The VSC has taken a lead in participating in these programs that will benefit the students by reducing their overall cost of college, as well as provide some additional revenue for the colleges.

Economic Factors That Will Affect the Future - Continued

Demographic Trend - Continued

In order to respond to these demographic changes, the VSC has also begun some structural changes that are expected to reduce costs, and at the same time enhance our ability to provide high quality services to our students. Beginning in the Fall of 2016, some administrative functions that do not impact student experience are being created as shared services at the Chancellor's Office. Secondly, the system is unifying Lyndon State College and Johnson State College into a single institution, Northern Vermont University, effective at the beginning of the 2018-2019 academic year. Both campuses will be maintained, but administrative functions will be combined to reduce costs, and students from both campuses will be able to attend courses, and participate in student activities at either campus. The goal is to continue to provide high quality educational services to students, to increase both academic and campus life opportunities for students at both the campuses in Johnson and Lyndon, and create a financial model that is sustainable over time for the new unified college and for the system as a whole. The expectation is that both of these initiatives: shared services of administrative functions for all colleges in the system, and unification of Lyndon and Johnson will reduce administrative costs, enable the colleges to align resources with the academic mission of serving students, and strengthen the Vermont State College system as a whole.

Vermont State Appropriations

For FY2017, State Appropriations were $28,831,000, or 16% of total operating and non-operating revenues. VSC continues to rely on this important revenue source from the State of Vermont to help keep tuition as low as possible.

Post-Employment Benefits

A ruling of the Government Accounting Standards Board (GASB) that became effective in FY2008 requires that we recognize the future costs of retirement benefits on our books. For VSC, this includes employer costs of medical, prescription, dental and life insurance plans for all current employees who have already become eligible to receive retirement benefits, and those employees who may become eligible before they retire. The cost of these benefits must be recognized during the period of active employment rather than when they are paid during retirement. Because of VSC's unique early retirement wages benefit for the full-time faculty, VSC must also account for this liability under GASB ruling.

The annual cost to VSC includes the actuarially calculated costs for the year, less payments made during the year to our self-insurance plan for current retirees and early retirement benefits paid to retired full-time faculty.

Economic Factors That Will Affect the Future - Continued

Post-Employment Benefits - Continued

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with total eligible employees (active, retirees and beneficiaries) of 200 or more.

VSC's current actuarial study estimated that the accumulated value of prior benefits liability for the current list of employees as of July 1, 2015, was approximately $145,672,000 for post-retirement health, dental and life insurance benefits and for early retirement benefits. The present value of all benefits (past and future obligations) is estimated to be $157,886,000. The VSC has come to agreement with all of the bargaining units representing eligible staff, to close the groups of staff eligible for this benefit. This is reducing the increase in the liability and will over time reduce the liability itself.

Other Factors

As a result of positive market conditions during both FY2017 and FY2016, VSC had net realized and unrealized gains on the endowments, and other investments.

VSC has contractual commitments for various construction projects currently under way. The funds have been set aside for these projects.

Approximately 709 of the 1,006 full-time employees at VSC are covered by union contracts. VSC, employs approximately 2,151 full and part-time employees.

Bargaining Unit Employees	
Full Time	709
Part Time	205
TOTAL	914
Non-Bargaining Unit Employees	
Full Time	297
Part Time & Temp	940
TOTAL	1,237
TOTAL Employees	2,151

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets:		
Cash and equivalents (Note 2)	**$ 10,716,499**	$ 10,550,080
Accounts receivable, net (Note 3)	**11,050,090**	11,277,010
Deposit with bond trustees (Note 2)	**4,726,059**	5,326,532
Other current assets	**2,321,729**	3,055,765
Total Current Assets	**28,814,377**	30,209,387
Non-Current Assets:		
Cash and equivalents (Note 2)	**661,240**	626,272
Long-term investments (Note 2)	**46,224,853**	43,274,853
Notes receivable, net (Note 3)	**5,474,108**	5,529,077
Other assets	**46,826**	25,901
Capital assets, net (Note 10)	**168,414,068**	173,828,839
Total Non-Current Assets	**220,821,095**	223,284,942
Total Assets	**249,635,472**	253,494,329
Deferred Outflows of Resources:		
Deferred loss on debt refunding	**10,827,370**	-
Interest rate swap, accumulated decrease in fair value (Note 4)	**-**	14,963,264
Total Deferred Outflows of Resources	**10,827,370**	14,963,264
Total Assets and Deferred Outflows of Resources	**$ 260,462,842**	$ 268,457,593

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

Liabilities and Net Position

	2017	2016
Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	**$ 13,440,260**	$ 12,910,396
Unearned revenue and deposits	**6,188,236**	6,802,946
Current portion of long-term debt (Note 4)	**3,982,732**	5,422,083
Total Current Liabilities	**23,611,228**	25,135,425
Non-Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	**53,555**	48,106
Unearned revenue and deposits	**12,552**	25,555
Refundable grants	**6,037,793**	6,038,367
Post-employment benefit obligations (Note 8)	**64,914,056**	59,599,052
Interest rate swap (Note 4)	**-**	14,963,264
Long-term debt, excluding current portion (Note 4)	**125,023,977**	117,092,914
Total Non-Current Liabilities	**196,041,933**	197,767,258
Total Liabilities	**219,653,161**	222,902,683
Net Position:		
Investment in capital assets, net	**54,661,140**	54,415,707
Restricted nonexpendable	**18,924,987**	17,787,829
Restricted expendable	**10,894,871**	9,466,755
Unrestricted	**(43,671,317)**	(36,115,381)
Total Net Position	**40,809,681**	45,554,910
Total Liabilities and Net Position	**$ 260,462,842**	$ 268,457,593

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,

	2017	2016
Operating Revenues:		
Tuition and fees	**$ 118,054,176**	$ 116,026,307
Residence and dining	**20,272,217**	20,075,440
Less: scholarship allowances	**(25,793,897)**	(24,761,694)
Net Tuition, Fees, and Residence and Dining Revenue	**112,532,496**	111,340,053
Federal grants and contracts	**10,762,269**	11,261,929
State and local grants and contracts	**2,408,202**	2,291,236
Non-governmental grants and contracts	**915,606**	1,136,090
Interest income	**87,046**	81,693
Sales and services of educational activities	**5,968,655**	6,083,859
Other auxiliary enterprises	**-**	123,571
Other operating revenues	**1,305,009**	1,823,430
Total Operating Revenues	**133,979,283**	134,141,861
Operating Expenses (Notes 5, 9 and 11):		
Salaries and wages	**79,467,558**	78,963,999
Employee benefits (Notes 7 and 8)	**41,561,708**	42,364,668
Scholarships and fellowships	**7,353,585**	6,920,136
Supplies and other services	**40,871,119**	40,860,715
Utilities	**5,475,191**	6,176,191
Depreciation (Note 10)	**9,722,037**	10,488,999
Total Operating Expenses	**184,451,198**	185,774,708
Net Operating Loss	**(50,471,915)**	(51,632,847)
Non-Operating Revenues (Expenses):		
State appropriations (Note 6)	**26,830,818**	25,702,913
Federal grants and contracts	**15,920,436**	16,639,503
Gifts	**2,489,826**	3,060,797
Investment income, net of expenses (Note 2)	**2,792,082**	624,012
Interest expense on capital debt	**(5,212,248)**	(5,569,104)
Other non-operating revenues (expenses)	**30,061**	(655,014)
Net Non-Operating Revenues	**42,850,975**	39,803,107
Decrease in Net Position Before Other Revenues	**(7,620,940)**	(11,829,740)
Other Revenues:		
State appropriations for capital expenditures (Note 6)	**2,000,000**	3,006,258
Capital grants and gifts	**2,199**	237,866
Additions to non-expendable assets	**873,512**	462,918
Decrease in Net Position	**(4,745,229)**	(8,122,698)
Net Position, Beginning of Year	**45,554,910**	53,677,608
Net Position, End of Year	**$ 40,809,681**	$ 45,554,910

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

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Statements of Cash Flows

For the Years Ended June 30,

	2017	2016
Cash Flows from Operating Activities:		
Tuition and fees	**$ 104,380,338**	$ 104,364,711
Grants and contracts	**13,876,687**	14,741,582
Sales and services of educational activities	**6,635,190**	5,682,339
Auxiliary enterprises	**-**	123,571
Interest received	**87,046**	81,693
Payments to suppliers	**(45,095,534)**	(48,924,005)
Payments to employees	**(115,700,163)**	(115,674,117)
Loans issued to students	**(893,637)**	(1,019,987)
Collection of loan payments	**836,316**	822,982
Other cash receipts	**1,340,909**	1,774,645
Net Cash Applied to Operating Activities	**(34,532,848)**	(38,026,586)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**26,830,818**	25,702,913
Non-operating federal grants	**15,920,436**	16,639,503
Gifts and grants	**2,522,090**	3,074,717
Net Cash Provided by Non-Capital Financing Activities	**45,273,344**	45,417,133
Cash Flows from Capital and Related Financing Activities:		
Capital and non-expendable grants and gifts	**875,711**	700,784
Capital appropriations	**2,000,000**	3,006,258
Purchase of capital assets	**(4,312,357)**	(4,307,772)
Change in deposits with bond trustee	**600,473**	(2,105,909)
Proceeds from sale of capital assets	**-**	302,000
Proceeds from issuance of bonds	**78,217,129**	-
Payments on interest rate swap	**(10,931,885)**	-
Payments on capital debt	**(71,532,328)**	(4,522,152)
Interest expense on capital debt	**(5,246,793)**	(5,708,164)
Other receipts	**30,061**	10,787
Net Cash Applied to Capital and Related Financing Activities	**(10,299,989)**	(12,624,168)

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Statements of Cash Flows - Continued

For the Years Ended June 30,

	2017	2016
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	**$ 14,333,268**	$ 15,280,616
Purchase of investments	**(15,684,455)**	(8,754,764)
Interest and dividends received on investments	**1,112,067**	599,248
Net Cash Provided by Investing Activities	**(239,120)**	7,125,100
Net Increase in Cash and Equivalents	**201,387**	1,891,479
Cash and Equivalents, Beginning of Year	**11,176,352**	9,284,873
Cash and Equivalents, End of Year	**$ 11,377,739**	$ 11,176,352
Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	**$ (50,471,915)**	$ (51,632,847)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	**9,722,037**	10,488,999
Bad debts	**553,794**	468,314
Changes in assets and liabilities:		
Accounts receivable	**(326,874)**	(1,201,256)
Other assets	**713,111**	(1,041,423)
Notes receivable	**54,969**	(176,261)
Accounts payable and accrued liabilities	**535,313**	40,784
Unearned revenues, deposits and refundable grants	**(628,287)**	161,556
Post-employment benefit obligations	**5,315,004**	4,865,548
Net Cash Applied to Operating Activities	**$ (34,532,848)**	$ (38,026,586)
Non-Cash Transactions:		
Equipment provided by capital grants and gifts	**$ 12,900**	$ 94,235
Unrealized gains (losses)	**$ 1,179,846**	$ (181,528)
Net loss on disposal of capital assets	**$ (415,385)**	$ (665,801)

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

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to the Financial Statements

June 30, 2017 and 2016

Note 1 - **Summary of Significant Accounting Policies**

Organization

Vermont State Colleges include the following entities: System Office and Services, Community College of Vermont ("CCV"), Castleton University ("CU"), Johnson State College ("JSC"), Lyndon State College ("LSC"), Vermont Technical College ("VTC"), Vermont Manufacturing Extension Center ("VMEC"), Small Business Development Center ("SBDC"), and Vermont Tech Office of Continuing Education and Workforce Development ("TED").

VSC formerly included Vermont Interactive Television ("VIT") and Allied Health Nursing Program ("Allied Health"). VIT was an audio-video network bringing instruction and public service events to sites throughout Vermont (including Bennington, Brattleboro, Johnson, Lyndon, Middlebury, Montpelier, Newport, Randolph Center, Rutland, Springfield, St. Albans, White River and Williston). Budgetary management of VIT was maintained separately. VIT ceased operations during the year ended June 30, 2016. Allied Health Nursing Program merged operations with Vermont Technical College during the year ended June 30, 2016.

The accounting policies and procedures used by the Vermont State Colleges ("VSC" or the "Colleges") in accounting for and reporting their financial transactions are based on the accrual method of accounting. The significant accounting policies followed by the Colleges are described below.

Basis of Presentation

The accompanying financial statements have been prepared 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, as prescribed by the Governmental Accounting Standards Board ("GASB").

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation - continued

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. The accompanying statements of revenues, expenses and changes in net position demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are reported as general revenues.

The Colleges have determined that they function as a business-type activity, as defined by GASB. The effect of inter-fund activity has been eliminated from these financial statements. The basic financial statements and required supplementary information for general-purpose governments consist of management's discussion and analysis, basic financial statements and required supplementary information. The Colleges present the statements of net position, revenues, expenses and changes in net position, and cash flows on a combined College-wide basis.

The Colleges' policy is to define operating activities in the statement of revenues, expenses and changes in net position as those that generally result from exchange transactions such as charges for services provided to students and for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the Colleges' operating appropriations from the State of Vermont ("the "State"), net investment income, gifts, certain grants and interest expense.

Net Position

GASB Statement No. 34 requires that resources be classified for accounting purposes into the following four net position categories:

Investment in capital assets, net: Capital assets, net of accumulated depreciation and of outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted - nonexpendable: Net position subject to externally imposed conditions that VSC must maintain in perpetuity.

Restricted - expendable: Net position that is subject to externally-imposed conditions that can be fulfilled by the actions of the Colleges or by the passage of time.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Net Position - continued

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the Colleges' Board of Trustees (the "Board").

In accordance with VSC's policy pertaining to the expenditure of restricted dollars, unrestricted dollars are spent first, followed by restricted dollars, if appropriate.

Cash and Equivalents

The Colleges consider all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the Board's capitalization policy, vehicles, equipment and works of art and historical treasures with a unit cost of at least $5,000 are capitalized. Land, building, leasehold and infrastructure improvements with a unit cost of $50,000 or more are capitalized. Software with a unit cost of $500,000 or more is capitalized. Interest cost on debt related to capital assets is capitalized during the construction period and then depreciated over the life of the project. The Colleges' capital assets, with the exception of land and construction in progress are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Restricted expendable net position includes certain capital funds appropriated by the State of Vermont to the Vermont Department of Buildings and General Services for the benefit of VSC and unexpended as of fiscal year-end.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Investments

Investments are stated at fair value. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of the investment securities will occur and that such changes could materially affect the amounts reported in the statement of net position.

Other Significant Accounting Policies

The Colleges' employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for those accumulated vacation and sick days allowable in accordance with the applicable union contract in force or in the case of non-union personnel, according to the State or Colleges policy.

Amounts of vested and accumulated vacation leave are reported as accrued compensation and benefits. Amounts are determined based upon the personal service rates in effect as of the balance sheet date. No liability is recorded for non-vesting accumulating rights to receive vacation and sick pay benefits.

Refundable Grants

Refundable grants consist primarily of the refundable portion of the Federal Perkins and Nursing Student loans.

The Federal Perkins Loan Program Extension Act of 2015 (the "Extension Act"), enacted on December 18, 2015, extended the Perkins Loan Program through September 30, 2017. The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. Students that received a fall semester Perkins loan disbursement before October 1, 2017 can receive a spring semester Perkins loan disbursement. The College is currently evaluating alternative methods of financial aid for students affected by the Extension Act for the 2018-19 academic year.

Unearned Revenue and Deposits

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are reported as unearned revenues.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Student Fees
Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. Certain other scholarship amounts are paid directly to, or refunded to students, and they are reflected as expenses.

Bond and Note Premiums
Bond and note underwriter's premiums are amortized on the straight-line basis over the life of the respective bond. VSC incurred bond premiums related to the 2010, 2013 and 2017 bonds at the time of the issuance of the bonds. The bond premium for the 2010 bond of $377,743 is amortized on a straight-line basis over approximately 8.5 years. The bond premium for the 2013 bond of $1,898,889 is amortized over 20 years. The bond premium for the 2017 bond of $10,557,129 is amortized over 20.5 years. Cumulative amortization of the bond premium totals $747,051 and $553,963 as of June 30, 2017 and 2016, respectively. The bond premium is included in bonds and notes payable.

Post-Employment Benefits
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* ("GASB 45"), requires governments to account for other post-employment benefits ("OPEB"), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the balance sheet over time.

Income Taxes
The Internal Revenue Service has determined that the Colleges are a wholly-owned instrumentality of the State of Vermont, and as such are generally exempt from federal income tax. However, the Colleges are subject to federal income tax on unrelated business income.

Grants
The Colleges receive financial assistance from federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit by the granting agency.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Use of Estimates in Financial Statement Preparation

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 about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, net position classification, and determining the other post-employment benefits liability.

New Governmental Accounting Pronouncements

GASB Statement 75 - *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions ("OPEB"). It also requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined-benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

Note 1 - **Summary of Significant Accounting Policies - Continued**

New Governmental Accounting Pronouncements - continued

GASB Statement 83 – *Certain Asset Retirement Obligations* ("ARO's") is effective for periods beginning after June 15, 2018. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. Management has not completed its review of the requirements of this Statement and its applicability.

GASB Statement 84 – *Fiduciary Activities* is effective for periods beginning after December 15, 2018. The objective of this Statement is to establish criteria for identifying fiduciary activities. Activity meeting the established criteria would then be presented in a statement of net position and a statement of changes in net position. Pension and other employee-benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds would be reported, as applicable, according to this Statement. Information of component units of a primary government would be shown in the aggregate with the fiduciary funds of the primary government. Under this Statement, a liability could be recognized to the beneficiaries in a fiduciary fund if the government has been compelled to disburse fiduciary resources. Management has not yet evaluated the effects of the implementation of this Statement.

GASB Statement 85 – *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits). Management has not completed its review of the requirements of this Statement and its applicability.

GASB Statement 87 – *Leases* is effective for periods beginning after December 15, 2019. Implementation of this standard will require lessees to recognize on their statement of net position the rights and obligations resulting from leases categorized as operating leases as assets, liabilities, or deferred inflows / outflows of resources. It provides for an election on leases with terms of less than twelve months to be excluded from this Statement. Management is in the process of evaluating this Statement and has not yet determined its impact on the financial statements.

Note 1 - **Summary of Significant Accounting Policies - Continued**

Reclassifications
Certain amounts on the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Note 2 - **Cash and Equivalents, and Investments**

Cash and Equivalents
Cash and equivalents with maturities of 90 days or less from purchase date are recorded at cost, which approximates market value.

In operating a central treasury and investment pool, individual college cash receipts (except the federal loan funds) are deposited in separate collection deposit accounts in the name of VSC. Disbursements are made from other bank accounts that are funded by transfers from the central treasury.

In accordance with the Uniform Prudent Management of Institutional Funds Act, VSC deems all realized and unrealized gains on permanently restricted investments to be temporarily restricted if the income is restricted by the donor. Absent donor restrictions, the Board of Trustees has adopted a spending policy whereby 5% of the lesser of the current market value of investments or the average portfolio value over the last three years is allowed to be drawn down and allocated to operations.

Cash and equivalents included with non-current assets are restricted primarily for specific programs or to be used to pay for capital construction projects.

At June 30, 2017, the balance of current assets - cash and equivalents consists of approximately $15,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $10,702,000 per the accounting records of the Colleges, and approximately $11,577,000 per bank records. Of the bank balances, approximately $676,000 was covered by federal depository insurance and approximately $10,901,000 was uninsured and uncollateralized at June 30, 2017.

At June 30, 2017, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $661,000 per the accounting records of the Colleges, and approximately $661,000 per bank records. Of the bank balances, approximately $577,000 was covered by federal depository insurance and approximately $84,000 was uninsured and uncollateralized at June 30, 2017.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Cash and Equivalents - continued

At June 30, 2016, the balance of current assets - cash and equivalents consists of approximately $15,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $10,535,000 per the accounting records of the Colleges, and approximately $12,967,000 per bank records. Of the bank balances, approximately $729,000 was covered by federal depository insurance and approximately $12,238,000 was uninsured and uncollateralized at June 30, 2016.

At June 30, 2016, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $626,000 per the accounting records of the Colleges, and approximately $615,000 per bank records. Of the bank balances, approximately $595,000 was covered by federal depository insurance and approximately $20,000 was uninsured and uncollateralized at June 30, 2016.

Investments

Investments of the various funds at June 30, 2017 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 7,205,716	$ 7,422,503
Corporate bonds	11,264,548	11,553,021
Common stock	6,927,486	6,907,854
Hedge fund shares	1,017,542	1,000,000
Mutual funds	18,298,232	14,599,948
Money market	1,511,329	1,511,329
Held by bond trustee	4,726,059	4,726,059
Total Investments	$ 50,950,912	$ 47,720,714

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - continued
Investments of the various funds at June 30, 2016 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 7,058,295	$ 7,107,615
Corporate bonds	10,563,149	10,638,802
Common stock	6,006,025	6,531,479
Hedge fund shares	949,893	1,000,000
Mutual funds	14,422,151	11,554,829
Money market	4,275,340	4,275,305
Held by bond trustee	5,326,532	5,326,532
Total Investments	$ 48,601,385	$ 46,434,562

Investment maturities include deposits held by the bond trustee, which are invested in various government securities, corporate bonds, commercial grade paper, and money market accounts. The majority of these funds are related to the 2013 and 2010 bonds, and they are held in the bond fund, the reserve fund and the construction fund. Within the bond fund, there is a principal account, an interest account, and a sinking fund account.

2017
Investment Maturities (in years)

Investment Type	**Market Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Money Market Investments	**$ 1,511,329**	**$ 1,511,329**	**$ -**	**$ -**	**$ -**
Corporate Bonds	**11,264,548**	**2,346,377**	**5,429,790**	**3,488,381**	**-**
U.S. Govt. Bonds	**7,205,716**	**1,528,127**	**3,841,245**	**1,836,344**	**-**
Total	**19,981,593**	**$ 5,385,833**	**$ 9,271,035**	**$ 5,324,725**	**$ -**
Other Investments					
Common Stock and Mutual Funds	**26,243,260**				
Held by Bond Trustee	**4,726,059**				
Total	**$ 50,950,912**				

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - continued

2016
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 4,275,340	$ 4,275,340	$ -	$ -	$ -
Corporate Bonds	10,563,149	2,446,435	4,817,669	3,299,045	-
U.S. Govt. Bonds	7,058,295	1,461,260	3,676,217	1,920,818	-
Total	21,896,784	$ 8,183,035	$ 8,493,886	$ 5,219,863	$ -
Other Investments					
Common Stock and Mutual Funds	21,378,069				
Held by Bond Trustee	5,326,532				
Total	$ 48,601,385				

Investment income for the years ended June 30, is as follows:

	2017	2016
Interest and dividend income	**$ 1,072,793**	$ 1,119,769
Net realized and unrealized gain (loss)	**1,902,732**	(298,380)
Total investment income	**2,975,525**	821,389
Less: management fees	**(183,443)**	(197,377)
Investment income, net	**$ 2,792,082**	$ 624,012

Realized gain (loss) is included as a component of investment income. The calculation of realized gains (losses) is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - Continued

The risk categories for the bond fund holdings held by VSC at June 30, are as follows:

Investment rating*	**2017**	2016
AAA	**$ 7,215,720**	$ 7,058,295
AA+	**10,087**	-
AA	**1,220,751**	1,092,226
AA-	**208,904**	835,472
A+	**2,921,762**	1,509,297
A	**3,046,533**	2,711,908
A-	**1,538,438**	1,317,289
BBB+	**1,718,082**	821,704
BBB	**386,418**	858,981
BBB-	**203,569**	291,850
BB+	-	330,436
BB	-	222,564
BB-	-	183,415
B+	-	194,748
B	-	84,037
B-	-	67,488
CCC+	-	41,734
	$ 18,470,264	$ 17,621,444

*These ratings are determined by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. All ratings represent the opinions of the research provider and are disclaimed as not representations or guarantees of performance.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - continued
The applicable risk ratings as defined by Standard & Poor's are as follows:

AAA - An obligation rated 'AAA' has an extremely strong capacity to meet its financial commitments. It is the highest rating given to an obligor.

AA - An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A - An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB - An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - An obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economical conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - An obligation rated 'CCC' is currently vulnerable to non-payment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Investments - continued

Plus (+) or minus (-): The ratings from 'AAA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Fair Value Hierarchy

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

U.S. Government Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Corporate Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Common Stock: Value based on quoted prices in active markets of similar instruments.

Hedge Fund Shares: Hedge fund shares held by the Colleges are closed-end hedge funds that are registered with the SEC. The fair values of the investments in this class have been estimated using the net asset value ("NAV") per share of the investments. The hedge fund shares held by the Colleges have redemption periods under 90 days and are considered redeemable in the near term.

Note 2 - **Cash and Equivalents, and Investments - Continued**

Fair Value Hierarchy - continued

Mutual funds: Valued at daily closing price as reported by the fund. Mutual funds held by the Colleges are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Colleges are deemed to be actively traded.

Money market: Value based on quoted prices in active markets of similar instruments.

Held by bond trustee: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the College believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the fair value of the Plan's assets measured on a recurring basis:

Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ **7,205,716**	$ **-**	$ **-**	$ **7,205,716**
Corporate bonds	**-**	**11,264,548**	**-**	**11,264,548**
Common stock	**6,927,486**	**-**	**-**	**6,927,486**
Hedge fund shares	**-**	**1,017,542**	**-**	**1,017,542**
Mutual funds	**18,298,232**	**-**	**-**	**18,298,232**
Money market	**1,511,329**	**-**	**-**	**1,511,329**
Held by bond trustee	**4,726,059**	**-**	**-**	**4,726,059**
Total Assets at Fair Value	$ **38,668,822**	$ **12,282,090**	$ **-**	$ **50,950,912**

Note 2 - **Cash and Equivalents, and Investments - Continued**

Fair Value Hierarchy - continued

Assets at Fair Value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ 7,058,295	$ -	$ -	$ 7,058,295
Corporate bonds	-	10,563,149	-	10,563,149
Common stock	6,006,025	-	-	6,006,025
Hedge fund shares	-	949,893	-	949,893
Mutual funds	14,422,151	-	-	14,422,151
Money market	4,275,340	-	-	4,275,340
Held by bond trustee	5,326,532	-	-	5,326,532
Total Assets at Fair Value	$ 37,088,343	$ 11,513,042	$ -	$ 48,601,385

Note 3 - **Accounts Receivable, Notes Receivable and Allowance for Bad Debts**

The composition of the Colleges' accounts receivable at June 30, is summarized as follows:

	2017	2016
Student accounts receivable	**$ 11,353,920**	$ 10,168,405
Grants receivable	**4,084,172**	3,918,547
Other receivable	**1,401,361**	2,502,541
Subtotal	**16,839,453**	16,589,493
Allowance for doubtful accounts	**(5,789,363)**	(5,312,483)
Total accounts receivable, net	**$ 11,050,090**	$ 11,277,010

The notes receivable balance in the statement of net position represents the Perkins notes receivable. It is shown net of an allowance for bad debts of approximately $619,000 and $592,000 at June 30, 2017 and 2016, respectively. This allowance is the aggregate that was reserved for by each college based upon historical bad loan reserve requirements, the net increase in the allowance of $27,000 and 1,000 in 2017 and 2016, respectively, has been reflected in operating expenses.

Note 4 - **Long-Term Liabilities**

Long-term liabilities consist of the following at June 30,:

	2017				
	Beginning balances	**Additions**	**Reductions**	**Ending balances**	**Current portion**
Long-term liabilities					
Bonds and notes payable	**$ 122,514,997**	**$ 78,239,995**	**$ 71,748,283**	**$ 129,006,709**	**$ 3,982,732**
Fair market value of interest rate swap	**14,963,264**	**-**	**14,963,264**	**-**	**-**
Net OPEB obligation	**59,599,052**	**5,315,004**	**-**	**64,914,056**	**-**
Accounts payable and accrued liabilities	**12,958,502**	**4,246,231**	**3,710,918**	**13,493,815**	**13,440,260**
Unearned revenue and deposits	**6,828,501**	**1,105,962**	**1,733,674**	**6,200,789**	**6,188,237**
Refundable grants	**6,038,367**	**-**	**574**	**6,037,793**	**-**
Total long-term liabilities	**$ 222,902,683**	**$ 88,907,192**	**$ 92,156,713**	**$ 219,653,162**	**$ 23,611,229**

	2016				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$ 127,176,209	$ -	$ 4,661,212	$ 122,514,997	$ 5,422,083
Fair market value of interest rate swap	11,024,967	3,938,297	-	14,963,264	-
Net OPEB obligation	54,733,504	12,029,564	7,164,016	59,599,052	-
Accounts payable and accrued liabilities	12,917,718	1,840,520	1,799,736	12,958,502	12,910,396
Unearned revenue and deposits	6,649,428	882,620	703,547	6,828,501	6,802,946
Refundable grants	6,041,112	-	2,745	6,038,367	-
Total long-term liabilities	$ 218,542,938	$ 18,691,001	$ 14,331,256	$ 222,902,683	$ 25,135,425

Note 4 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable

Outstanding debt is as follows:

	2017	2016
Revenue Bonds, Series 2010A:		
3.0% - 4.0% serial bonds aggregating $5,710,000 maturing 2011 through 2018 and a $5,375,000 4.0% term bond due July 2017. Interest on the serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of $88,232 and $132,348 has been added to this liability at June 30, 2016 and 2015, respectively. [1]	**$ 3,143,232**	$ 4,972,348
Revenue Bonds, Series 2010B:		
4.751% - 5.101% serial bonds aggregating $3,800,000 maturing 2018 through 2020, and 6.101%, 6.861%, and 7.211% term bonds of $6,255,000, $5,580,000, and $14,630,000 due July 2025, July 2030, and July 2040, respectively. Interest on the term bond is payable semi-annually on the unpaid balances. [2]	**30,265,000**	30,265,000
CU - New Student Housing:		
Variable rate (69% of one-month LIBOR plus 1.31%) term loan of $5,200,000 for 20 years with monthly payments of principal and interest due through December 2025; collateralized by substantially all unrestricted revenue and assets not previously pledged as collateral on other debt. Paid off during 2017 [3, 5, 7]	-	3,113,764

Note 4 - **Long-Term Liabilities - Continued**

	2017	2016
Bonds and Notes Payable - continued		
VSC - Capital Construction Projects: Variable rate (69% of the one-month LIBOR plus 1.21%) term loan of $72,000,000 for 20 years with monthly payments of principal and interest due through May 2028; collateralized by substantially all unrestricted revenue, accounts receivable, contract rights, inventory and machinery and equipment not previously pledged as collateral on other debt. Paid off during 2017.[4, 5, 7]	**$ -**	$ 63,179,580
VSC - Capital Construction Projects: Variable rate (69% of one-month LIBOR plus 3.12%) term loan of $2,750,000 for 20 years with monthly payments of principal and interest due through January 2029; loan has a negative pledge against assets. Paid off during 2017.[6, 7]	-	2,038,984
Revenue Bonds, Series 2017: 4.0% - 5.0% serial bonds aggregating $67,660,000 maturing 2021 through 2037 and Interest on serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of $10,503,100 has been added to the liability at June 30, 2017. [8]	**78,163,100**	-
Revenue Bonds, Series 2013: 4.0% - 5.0% serial bonds aggregating $13,715,000 maturing 2015 through 2032 and 3.125% - 5.0% term bonds aggregating $4,450,000 maturing 2027 through 2030. Interest on serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of $1,495,377 and $1,590,321 has been added to the liability at June 30, 2017 and 2016, respectively.	**17,435,377**	18,945,321
	$ 129,006,709	$ 122,514,997

Note 4 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - continued

[1] In December 2010, VSC issued Revenue Bonds, Series 2010A, in the principal amount of $11,085,000. The 2010A Bonds were issued for the purpose of (1) refinancing a portion of the Series 1998 Bonds; (2) refinancing certain indebtedness of VSC including loans to improve the Blair Park, Williston, Randolph, and Vermont campuses of VSC; and (3) paying the costs of issuance of the 2010A Bonds.

[2] In December 2010, VSC issued Federally Taxable Build America Bonds, Series 2010B, in the principal amount of $30,265,000. The 2010B Bonds were issued for the purpose of (1) financing certain upgrades to the Community College of Vermont's Montpelier campus, including a 12,000 square foot building addition; (2) constructing a new residence hall and other related improvements at Castleton University; (3) renovating an academic building and a visual arts center at Johnson State College; (4) expanding parking facilities at Lyndon State College together with building improvements for Lyndon State College's journalism program; (5) financing library renovations, the installation of certain energy or heating systems, construction of additional on-campus housing at the Randolph campus of Vermont Technical College ("VTC"), and improvements at VTC's Blair Park, Williston, Vermont campus; and (6) paying the costs of issuance of the 2010B Bonds. VSC is expected to receive a 35% subsidy of the interest paid on the Series 2010B Build America Bonds from the Federal Government, which will be recorded as a reduction of bond interest expense. (Sequester for federal budget reduced subsidy of interest by 7.6%).

[3] To manage its borrowing costs, VSC entered into an interest swap in connection with its $5,200,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 4.97%.

The loan and the related swap agreement mature on December 16, 2025, and the swap's notional amount of $5,200,000 matches the $5,200,000 variable rate loan. The swap was entered into at the same time the loan was issued in December 2005. Under the swap, VSC pays the counterparty a fixed payment of 4.97% and receives a variable payment computed as 69% of the one-month London Interbank Offered Rate ("LIBOR") plus 1.31%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $0 and $459,283 as of June 30, 2017 and 2016, respectively. The interest rate swap was terminated during fiscal year 2017.

Note 4 - **Long-Term Liabilities - Continued**

Bonds and Notes Payable - continued

[4] To manage its borrowing costs, VSC entered into an interest rate swap in connection with its $72,000,000 variable-rate loan. The intention of the swap was to effectively change VSC's variable interest rate on the loan to a synthetic fixed rate of 4.63%.

The loan and the related swap agreement mature in May 2028, and the swap's notional amount of $72,000,000 matches the $72,000,000 variable rate loan. The swap was entered into at the same time the loan was issued in May 2008. Under the swap, VSC pays the counterparty a fixed payment of 4.63% and receives a variable payment computed as 69% of the one-month USD-LIBOR-BBA (United States Dollar - London Interbank Offered Rate - British Bankers Association) plus 1.21%.

The loan has a thirty year amortization with a twenty-year term. The first two years of the loan are interest only payments. This will allow VSC to more closely match the revenue streams produced by the capital projects. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $0 and $14,328,670 as of June 30, 2017 and 2016, respectively. The interest rate swap was terminated during fiscal year 2017.

[5] A former member of senior management also serves on the Board of the lender. Therefore, once the Board approved the capital construction projects, he recused himself completely from all financing proposal reviews, negotiations, financing or banking discussions or decisions relating to these transactions.

[6] To manage its borrowing costs, VSC entered into an interest rate swap in connection with its $2,750,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 5.25%.

The loan and the related swap agreement mature on January 15, 2029, and the swap's notional amount of $2,750,000 matches the $2,750,000 variable rate loan. The swap was entered into at the same time the loan was issued in January 2009. Under the swap, VSC pays the counterparty a fixed payment of 2.25% and receives a variable payment computed as 69% of the one-month LIBOR plus 3.12%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $0 and $175,311 as of June 30, 2017 and 2016, respectively. The interest rate swap was terminated during fiscal year 2017.

[7] During 2017, the College paid a breakage fee of $10,931,885 to discontinue all of its interest rate swap agreements. The breakage fee is recorded on the statement of net position as a "deferred loss on debt refunding" and is amortized over the life of the old debt it was associated with and is included with interest expense.

Note 4 - **Long-Term Liabilities – Continued**

Bonds and Notes Payable - continued

[8] On May 24, 2017, VSC issued the Vermont State Colleges System Bonds 2017 Series A, in the principal amount of $67,660,000. The 2017 Bond was issued for the purpose of (1) refinancing certain indebtedness of VSC; (2) paying the costs of issuance of the 2017 Series A Bond; and (3) paying the breakage fee for the interest rate swap agreements. The College entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. The refunding increased the College's total debt service by $15,163,384 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $1,051,774.

Debt Roll-Forward

Long-term debt activity for the years ended June 30, 2017 and 2016 was as follows:

	Balance June 30, 2016	Additions	Repayments	Balance June 30, 2017	Current Portion
New Housing - CU	$ 3,113,764	$ -	$ (3,113,764)	$ -	$ -
TD Banknorth - FY 2008 Capital Projects	63,179,580	-	(63,179,580)	-	-
CCV Montpelier	2,038,984	-	(2,038,984)	-	-
Series 2010-A	4,840,000	-	(1,785,000)	3,055,000	1,865,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	132,348	-	(44,116)	88,232	44,116
Series 2010 Bonds	35,237,348	-	(1,829,116)	33,408,232	1,909,116
Series 2013	17,355,000	-	(1,415,000)	15,940,000	1,460,000
Series 2013 Bond Premium	1,590,321	-	(94,944)	1,495,377	94,944
Series 2013 Bonds	18,945,321	-	(1,509,944)	17,435,377	1,554,944
Series 2017	-	67,660,000	-	67,660,000	-
Series 2017 Bond Premium	-	10,557,128	(54,028)	10,503,100	518,672
Series 2017 Bonds	-	78,217,129	(54,028)	78,163,100	518,672
Total Bonds and Notes Payable	$ 122,514,997	$ 78,217,128	$ (71,725,416)	$ 129,006,709	$ 3,982,732

Note 4 - **Long-Term Liabilities - Continued**

Debt Roll-Forward - continued

	Balance June 30, 2015	Additions	Repayments	Balance June 30, 2016	Current Portion
New Housing - CU	$ 3,363,177	$ -	$ (249,413)	$ 3,113,764	$ 262,308
TD Banknorth - FY 2008 Capital Projects	64,804,979	-	(1,625,399)	63,179,580	1,702,442
CCV Montpelier	2,151,324	-	(112,340)	2,038,984	118,273
Series 2010-A	6,565,000	-	(1,725,000)	4,840,000	1,785,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	176,464	-	(44,116)	132,348	44,116
Series 2010 Bonds	37,006,464	-	(1,769,116)	35,237,348	1,829,116
Series 2013	18,165,000	-	(810,000)	17,355,000	1,415,000
Series 2013 Bond Premium	1,685,265	-	(94,944)	1,590,321	94,944
Series 2013 Bonds	19,850,265	-	(904,944)	18,945,321	1,509,944
Total Bonds and Notes Payable	$ 127,176,209	$ -	$ (4,661,212)	$ 122,514,997	$ 5,422,083

Note 4 - **Long-Term Liabilities - Continued**

Debt Roll-Forward - continued

Maturities of long-term debt for the next five fiscal years and thereafter are as follows:

Years Ending June 30,	Principal Amount	Interest Amount
2018	$ 3,325,000	$ 3,718,277
2019	3,280,000	4,180,716
2020	1,890,000	4,135,674
2021	1,960,000	4,108,972
2022	4,640,000	4,025,732
2023-2027	26,035,000	17,365,437
2028-2032	30,805,000	7,960,927
2033-2037	32,720,000	1,539,913
2038-2041	12,265,000	464,769
	$ 116,920,000	$ 47,500,417

Amortization of the bond premiums and deferred loss on debt refunding are included in interest expense.

According to the terms of the agreements under which the revenue bonds were sold, the bonds are general obligations of VSC. The 2013 and 2010 Revenue Bonds are also collateralized by deposits held by the trustee in the Bond Fund. VSC is required to make payments to the trustee for deposit into the Bond Fund sufficient to pay the principal and interest fund requirements, when due.

Note 5 - **Functional Expense Classification**

The following table details VSC's operating expenses by functional expense classification:

	2017	2016
Instruction	**$ 56,456,526**	$ 58,156,936
Research	**29,410**	65,542
Public service	**10,374,584**	11,047,939
Academic support	**20,787,659**	22,233,116
Student services	**38,229,934**	31,382,155
Institutional support	**32,569,648**	37,389,823
Physical plant	**10,588,411**	8,090,062
Student financial support	**5,692,989**	6,920,136
Depreciation	**9,722,037**	10,488,999
Total	**$ 184,451,198**	$ 185,774,708

Note 6 - **Appropriations**

VSC's operating appropriation from the State of Vermont is made directly to the Colleges and is drawn down on the basis of a monthly allotment. Included in the annual state appropriation for operations is funding for Allied Health of approximately $1,158,000 in 2017 and 2016; VMEC of approximately $428,000 in 2017 and 2016; and VIT of approximately $220,000 in 2016.

Capital appropriations for VSC made from the State Bond Funds were approximately $2,000,000 and $3,006,000 in fiscal years 2017 and 2016, respectively.

Note 7 - **Retirement Plans**

Eligible faculty and staff participate in a defined contribution retirement plan administered by Teachers Insurance Annuity Association and College Retirement Equities Fund ("TIAA-CREF"). For the years ended June 30, 2017 and 2016, the Colleges' total payroll expense was approximately $79,468,000 and $78,970,000, respectively, of which approximately $56,112,000 and $51,430,000 represented salaries and wages of employees covered under the defined contribution plan, respectively. The Colleges' requirements to contribute to the retirement plan are specified by four collective bargaining agreements and by personnel policies for non-represented employees. Employer contribution rates are established by employee category. There are no required employee contributions to the plan. Depending upon the position category, employees may be eligible for the plan from as early as date of hire to as long as two years from date of hire. All eligible employees are vested from the date of eligibility. During the years ended June 30, 2017 and 2016, contributions made by the Colleges under this plan totaled approximately $6,127,000 and $6,138,000, or approximately 10.92% and 11.93% of covered salaries, respectively.

Additionally, certain employees participate in one of two defined benefit plans (Vermont Employees Retirement System or Vermont State Teachers Retirement System). Employees who were participants in either of these plans prior to their employment by the Colleges are allowed to continue participation. During the years ended June 30, 2017 and 2016, there were no covered salaries for employees participating in the Vermont Employees Retirement System and there were no employer contributions. There were no contributions to the Vermont State Teachers Retirement System during 2017 and 2016.

In addition, full-time faculty employees who have worked for the Colleges for 15 years may elect early retirement at age 55 and receive 50% of their annual salary as of their retirement date; full-time faculty employees who have worked for VSC for ten years may elect early retirement at age 55 and receive 40% of their annual salary as of their retirement date. In addition, VSC will pay 12% of the retiree's early retirement wages to the individual. This 12% payment represents VSC's contribution, which would have been made to the individual TIAA/CREF pension account. The payments due under this program are funded by VSC, as needed. During the years ended June 30, 2017 and 2016, contributions for these benefits were approximately $859,000 and $1,011,000, respectively.

Note 7 - **Retirement Plans - Continued**

The early retirement benefit is no longer being offered to new hires, but those employees who were eligible for early retirement before the benefit was discontinued have the option of electing for early retirement in October of every year. The benefit will be completely phased out when those employees currently eligible for early retirement either elect for early retirement or reach the age of 65.

Note 8 - **Post-Employment Benefits Other Than Pension**

Plan Description: VSC administers a self-insured single-employer defined benefit healthcare plan. The plan provides lifetime healthcare payments for eligible employees, spouses or civil union partners. The self-insured plan, administered by CIGNA, covers both active and retired members. Benefit provisions are established through negotiations between VSC and the unions representing VSC employees, and they are reviewed during the bargaining period prior to the termination date of each union contract. The retiree healthcare plan does not issue a publicly available financial report. During the years ended June 30, 2017 and 2016, 545 and 533 retirees were receiving post-retirement benefits, respectively.

Funding Policy: Contribution requirements are also negotiated between VSC and union representatives. VSC contributes 100% of the current-year utilization costs for eligible employees, spouses or civil union partners. For the fiscal years 2017 and 2016, VSC recognized employer contributions of $6,464,225 and $7,164,016, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2017 and 2016, there were no member contributions.

Annual OPEB Cost and Net OPEB Obligation: VSC's OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"). VSC has elected to calculate the ARC and related information using the unit credit actuarial cost method permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover estimated utilization of healthcare and the special early retirement payments each year, and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years for healthcare and not to exceed ten years for early retirement using a closed period, level dollar amortization method.

Note 8 - **Post-Employment Benefits Other Than Pension - Continued**

The following table shows the components of VSC's annual OPEB costs for the years ended June 30, 2017 and 2016, and the changes in VSC's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	2017	2016
Annual required contribution	**$ 13,570,498**	$ 13,570,498
Interest on net OPEB obligation	**2,234,964**	2,052,506
Adjustment to annual required contribution	**(4,026,232)**	(3,593,440)
Annual OPEB cost	**11,779,230**	12,029,564
Contribution made	**(6,464,225)**	(7,164,016)
Increase in net OPEB obligation	**5,315,005**	4,865,548
Net OPEB Obligation - Beginning of Year	**59,599,052**	54,733,504
Net OPEB Obligation - End of Year	**$ 64,914,057**	$ 59,599,052

VSC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the years ended June 30, 2017, 2016 and 2015 are as follows:

Fiscal Years Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 11,779,230	54.9%	$ 64,914,057
June 30, 2016	$ 12,029,564	59.6%	$ 59,599,052
June 30, 2015	$ 11,316,963	48.8%	$ 54,733,504

Note 8 - **Post-Employment Benefits Other Than Pension - Continued**

Funding Status and Funding Progress: As of the most recent actuarial valuation date, the actuarial accrued liability for benefits was $157,885,679, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was $51,430,000, and the ratio of the unfunded actuarial liability to annual covered payroll was 307.0%. The latest actuarial valuation date was on July 1, 2015.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, retirement rates, marital status, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the specified pattern of sharing of benefit costs between employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The following actuarial assumptions were made:

Discount Rate: The discount rate used in the calculation was 3.75%.

Projected Salary Increase Rate: The projected salary increase rate used was 4.5%.

Future Employment: Age related turnover rates were developed based on the experience from the years ended June 30, 2005 through 2009. These rates were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Note 8 - **Post-Employment Benefits Other Than Pension - Continued**

Mortality: Life expectancies were based on the RP2014 mortality table by gender and status (active versus current retired) published by the Retirement Plans Experience Committee of the Society of Actuaries.

Retirement Rate: Age related retirement rates tables were developed based on input and analysis of the current retiree population overall and the new retirees over the last five years. The age related tables assumed rates of retirement beginning at age 55.

Marital Status: Marital status of member at the calculation date was assumed to be 70% married based on current retiree population. Spousal participation was assumed to be 90% at the calculation date.

Healthcare Cost Trend Rate: Dental claims are expected to increase at 2.0 per annum. Medical trend rates are based on the Society of Actuaries ("SOA") Long-Run Medical Cost Trend Model.

The required schedule of funding progress immediately following the notes to the financial statements presents information related to the actuarial accrued liability for benefits. Pursuant to the requirements of GASB Statement No. 45, this schedule will present multi-year trend information in future years about whether the actuarial accrued liability for benefits is increasing or decreasing over time.

Note 9 - **Leases**

The Colleges have various operating leases for classrooms, office space, equipment and motor vehicles. The majority of these leases have terms equal to or less than ten years and in some cases contain escalation and maintenance clauses, as well as renewal options. Total rental expense for all operating leases was approximately $2,911,000 and $2,680,000 in 2017 and 2016, respectively.

Note 9 - **Leases - Continued**

Future minimum rental payments required under operating leases with noncancelable terms in excess of one year at June 30, 2017 are as follows:

Years Ending June 30,	Real Estate	Vehicles and Equipment	Total
2018	$ 2,158,000	$ 290,382	$ 2,448,381
2019	1,853,741	62,613	1,916,354
2020	1,662,399	41,484	1,703,883
2021	1,690,146	31,968	1,722,114
2022	1,522,442	-	1,522,442
2023 and thereafter	2,546,607	-	2,546,607
	$ 11,433,335	$ 426,447	$ 11,859,782

Note 10 - **Capital Assets**

Property and equipment activity for the years ended June 30, 2017 and 2016 is summarized below:

	Balance June 30, 2016	Additions	Transfers	Retirements	Balance June 30, 2017
Land	$ 9,004,664	$ -	$ -	$ -	$ 9,004,664
Construction-in-process	2,161,915	3,582,771	(5,152,911)	-	591,775
Subtotal - Capital assets not depreciated	11,166,579	3,582,771	(5,152,911)	-	9,596,439
Infrastructure	38,412,108	-	902,120	-	39,314,228
Buildings and improvements	254,088,848	124,526	3,236,383	-	257,449,757
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	32,922,589	605,060	1,014,408	(471,904)	34,070,153
Subtotal - Capital assets depreciated	329,513,816	729,586	5,152,911	(471,904)	334,924,409
Less accumulated depreciation	(166,851,556)	(9,722,037)	-	466,813	(176,106,780)
Capital assets, net	$ 173,828,839	$ (5,409,680)	$ -	$ (5,091)	$ 168,414,068

Note 10 - **Capital Assets - Continued**

	Balance June 30, 2015	Additions	Transfers	Retirements	Balance June 30, 2016
Land	$ 9,929,364	$ -	$ -	$ (924,700)	$ 9,004,664
Construction-in-process	1,621,470	3,352,940	(2,812,496)	-	2,161,915
Subtotal - Capital assets not depreciated	11,550,834	3,352,940	(2,812,496)	(924,700)	11,166,579
Infrastructure	38,254,321	60,273	97,515	-	38,412,108
Buildings and improvements	251,836,941	-	2,251,904	-	254,088,848
Leasehold improvements	4,124,343	-	-	(34,071)	4,090,271
Equipment	32,248,362	988,794	463,077	(777,638)	32,922,589
Subtotal - Capital assets depreciated	326,463,967	1,049,067	2,812,496	(811,709)	329,513,816
Less accumulated depreciation	(157,131,169)	(10,488,999)	-	768,609	(166,851,556)
Capital assets, net	$ 180,883,632	$ (6,086,992)	$ -	$ (967,800)	$ 173,828,839

Note 11 - **Contingencies and Commitments**

Contingencies

VSC participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures that may be disallowed by the granting agency cannot be determined at this time.

VSC is involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters is indeterminable, but in the opinion of management, the amount of ultimate liability would not have a significant impact on VSC's financial condition.

Note 11 - **Contingencies and Commitments - Continued**

Contingencies - continued

VSC is also exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSC manages these risks through a combination of commercial insurance packages purchased in the name of VSC, and through self-insurance for medical and dental claims. VSC has entered into contracts with a third-party claims administrator, which essentially caps medical claim costs (stop-loss) at an agreed-upon level. Individual stop-loss is $175,000 of paid claims per covered member per year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Reserves for medical and dental claims are included in accrued liabilities in the amount of approximately $1,908,000 at June 30, 2017 and $1,905,000 at June 30, 2016 and are based on historical data. A medical and dental claim roll-forward is presented below:

	2017	2016
Medical and dental claims reserve, beginning of year	**$ 1,905,000**	$ 1,595,000
Incurred claims	**17,676,000**	18,292,000
Payments on claims	**(17,673,000)**	(17,982,000)
Medical and dental claims reserve, end of year	**$ 1,908,000**	$ 1,905,000

VSC self-insures its workers' compensation program and is operated by a third-party claims administrator. Contributions to the plan are based on estimated payroll and rates adjusted by an experience modification factor. VSC has purchased stop-loss insurance, which is effective for individual claims over $200,000 and for aggregate claims in excess of $1,085,000 per year. VSC has obtained a letter of credit in the amount of $450,000 to be used in the event of failure to pay premiums on the stop-loss policy. This is collateralized by a certificate of deposit. A workers' compensation roll-forward is presented below:

	2017	2016
Workers' compensation reserve, beginning of year	**$ 243,000**	$ 166,000
Workers' compensation accrued during the year	**436,000**	343,000
Claims paid/reserved/claims administration	**(414,000)**	(266,000)
Workers' compensation reserve, end of year	**$ 265,000**	$ 243,000

Note 11 - **Contingencies and Commitments - Continued**

Commitments

VSC has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2017:

Project	Expended through June 30, 2017	Committed Future Costs	Total Committed Costs of Project
VTC Nutting Window Replacement	$ 114,252	$ 220,958	$ 335,210
CU Adams Sprinkler	40,000	24,860	64,860
VTC Judd Hall Roof Replacement	-	200,000	200,000
LSC Shape Dehumidification	-	175,547	175,547
JSC Governors Sprinkler	98,100	75,880	173,980
JSC Sidewalk Reconstruction	197,716	224	197,940
	$ 450,068	$ 697,469	$ 1,147,537

At June 30, 2017, invoices related to construction projects of approximately $388,000 were included in accounts payable.

Employment Contracts

The Colleges have employment contracts with certain officers that expire on various dates through fiscal year 2019. The agreements provide for aggregate annual base salaries of $923,344 and $501,687 in fiscal years 2018 and 2019, respectively, and may be terminated with cause at any time.

Note 11 - **Contingencies and Commitments - Continued**

Service Concession Agreements

The Colleges have entered into a service concession agreement with Sodexo Operations, LLC ("Sodexo") to manage and operate its food services for VSC's students, faculty, staff, employees and guests through June 2022; the agreement is cancelable by either party at any time. Under the agreement Sodexo shall make annual contributions to VSC to be used at VSC's discretion for food service facility enhancements. The annual contributions shall commence on July 1st of each year and shall be in accordance with the following schedule:

Years Ending June 30,	
2018	$ 225,000
2019	225,000
2020	225,000
2021	487,500
2022	487,500
Total	$ 1,650,000

REQUIRED SUPPLEMENTARY INFORMATION

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Funding Progress (Unaudited)

June 30, 2017 and 2016

Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2015	$ -	$ 157,886,000	$ 157,886,000	0%	$ 51,430,000	307.0%
July 1, 2013	$ -	$ 135,344,800	$ 135,344,800	0%	$ 54,018,000	250.6%
July 1, 2011	$ -	$ 117,611,000	$ 117,611,000	0%	$ 52,025,735	226.1%

VSC has to date performed five actuarial valuations, the latest on July 1, 2015, for purposes of satisfying the requirements of GASB Statement No. 45. The actuarial accrued liability for all benefits at this time was $157,886,000, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was $51,429,838, and the ratio of the unfunded actuarial liability to annual covered payroll was 307.0%.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Vermont State Colleges
Montpelier, Vermont

We have audited, 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, the financial statements of Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2017 and 2016, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Vermont State Colleges' basic financial statements and have issued our report thereon dated October 25, 2017.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Vermont State Colleges' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Colleges' internal control. Accordingly, we do not express an opinion on the effectiveness of the Colleges' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 25, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE *UNIFORM GUIDANCE*

O'Connor & Drew P.C.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE *UNIFORM GUIDANCE*

To the Board of Trustees of
Vermont State Colleges
Montpelier, Vermont

Report on Compliance for Each Major Federal Program

We have audited Vermont State Colleges' (the Colleges) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Vermont State Colleges' major federal programs for the year ended June 30, 2017. The Colleges' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Vermont State Colleges' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Vermont State Colleges' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Colleges' compliance.

Opinion on Each Major Federal Program
In our opinion, the Colleges complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2017-001, 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

The Colleges' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Colleges' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance
Management of the Vermont State Colleges is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Vermont State Colleges' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Vermont State Colleges' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Vermont State Colleges, as of and for the year ended June 30, 2017. We issued our report thereon dated October 25, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 25, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	$ 1,305,539	$ -
Federal Work-Study Program	84.033	N/A	N/A	1,153,357	-
Federal Direct Student Loans	84.268	N/A	N/A	43,185,926	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	5,992,788	-
Federal Perkins Loan Program (current year expenditures)	84.038	N/A	N/A	658,347	-
Federal Pell Grant Program	84.063	N/A	N/A	15,920,436	-
Total Student Financial Assistance Cluster				68,216,393	-
TRIO CLUSTER					
U.S. Department of Education:					
Direct Awards:					
TRIO_Student Support Services	84.042A	N/A	N/A	1,341,340	-
TRIO_Upward Bound	84.047A	N/A	N/A	1,059,843	-
Total TRIO Cluster				2,401,183	-
RESEARCH AND DEVELOPMENT CLUSTER					
National Aeronautics and Space Administration:					
Passthrough Awards:					
Science - National Space Grant College & Fellowship Program	43.001	University of Vermont	NNX10AK67H	7,446	-
Education - CubeSat Continued Development	43.008	University of Vermont	NNX16AK55A	20,633	-
Education - National Aeronautics and Space Administration	43.008	University of Vermont	NNX16AK55A	21,576	-
Education - Graduate Fellowship Competition	43.008	University of Vermont	NNX15AP86H	33,381	-
Subtotal - Passthrough Awards				83,036	
National Science Foundation:					
Direct Awards:					
Geosciences	47.050	N/A	N/A	1,567	-
Geosciences	47.050	N/A	N/A	12,120	-
Education and Human Resources	47.076	N/A	N/A	38,456	-
Subtotal - Direct Awards				52,143	-
Passthrough Awards:					
Experimental Program to Stimulate Competitive Research	47.073	University of Vermont	27788 SUB 51497	47,467	-
Education and Human Resources	47.076	University of Vermont	25399 SUB 51105	48,842	-
Subtotal - Passthrough Awards				96,309	

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
RESEARCH AND DEVELOPMENT CLUSTER - CONTINUED					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
National Center for Research Resources	93.389	University of Vermont	29252SUB51797	$ 195,622	$ -
National Center for Research Resources	93.389	University of Vermont	29252SUB51796	195,273	-
Experimental Program to Stimulate Competitive Research	93.859	University of Vermont	8P20GM103449	157,907	-
Subtotal - Passthrough Awards				548,802	-
Total Research and Development Cluster				780,290	-
CCDF CLUSTER					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Vermont Dept. Children & Families	N/A	378,188	-
MEDICAID CLUSTER					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
Medical Assistance Program	93.778	Office of Vermont Health Access (OVHA)	11-W-00194/1	222,419	-
NON-CLUSTER					
U.S. Department of Agriculture:					
Passthrough Awards:					
Higher Education - Institution Challenge Grants Program	10.217	Vermont Student Assistance Corp	P334S110006	22,017	-
U.S. Department of Commerce:					
Direct Awards:					
Manufacturing Extension Partnership	11.611	N/A	N/A	568,232	-
U.S. Department of Defense:					
Passthrough Awards:					
Procurement Technical Assistance for Business Firms	12.002	Vermont Agency of Commerce & Community Development	N/A	$ 49,003	$ -
U.S. Department of Labor:					
Direct Awards:					
H-1B Job Training Grants	17.268	N/A	N/A	183,992	-
TAACCCT	17.282	N/A	N/A	903,307	-
Subtotal - Direct Awards				1,087,299	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED					
Institute of Museum and Library Services:					
Passthrough Awards:					
Grants to States - Job Hunt Helpers	45.310	VT Department of Libraries	N/A	12,052	-
Small Business Administration:					
Direct Awards:					
Small Business Development Centers	59.037	N/A	N/A	767,591	-
Small Business Development Centers	59.037	N/A	N/A	30,892	-
Federal and State Technology Partnership Program	59.058	N/A	N/A	49,912	-
State Trade Expansion	59.061	N/A	N/A	22,937	-
Subtotal - Direct Awards				871,332	-
Environmental Protection Agency:					
Direct Awards					
Environment Educations Grants	66.951	N/A	N/A	2,227	-
Passthrough Awards:					
Pollution Protection Grants Program	66.708	Vermont Agency of Natural Resources	N/A	12,481	-
U.S. Department of Education:					
Passthrough Awards:					
Career and Technical Education -- Basic Grants to States	84.048	Vermont Department of Education	V048A150045	$ 669,589	$ -
Career and Technical Education -- Basic Grants to States	84.048	Vermont Department of Education	4319R2171501	173,882	-
Career and Technical Education -- Basic Grants to States	84.048	Vermont Department of Education	V048A50045	59,038	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Vermont Student Assistance Corp	P334S110006-15	370,223	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	Vermont Student Assistance Corp	P334S110006-15	6,408	-
Mathematics and Science Partnerships	84.366	Vermont Department of Education	4655R1171601	303,000	21,946
Subtotal - Passthrough Awards				1,582,140	21,946
Northern Border Regional Commission:					
Passthrough Awards:					
Northern Border Regional Development	90.601	Northern Border Regional Commission	NBRC-14-G-VT00001	23,030	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED					
Corporation for National and Community Service:					
Passthrough Awards:					
Americorps	94.006	Vermont Agency of Human Services	13AFHVT0010006	257,681	-
Total Non-Cluster				4,487,494	21,946
Total Federal Funds				$ 76,485,967	$ 21,946

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Johnson State University	Lyndon State College	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
STUDENT FINANCIAL ASSISTANCE CLUSTER												
U.S. Department of Education:												
Direct Awards:												
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	$ 196,578	$ 323,990	$ 358,874	$ 184,905	$ 241,192	$ -	$ -	$ 1,305,539	$ -
Federal Work-Study Program	84.033	N/A	N/A	133,720	307,410	384,307	187,332	140,588	-	-	1,153,357	-
Federal Direct Student Loans	84.268	N/A	N/A	4,994,531	13,155,959	9,568,482	7,027,481	8,439,473	-	-	43,185,926	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	-	2,103,255	1,639,903	1,507,824	741,806	-	-	5,992,788	-
Federal Perkins Loan Program (current year expenditures)	84.038	N/A	N/A	-	-	234,869	249,115	174,363	-	-	658,347	-
Federal Pell Grant Program	84.063	N/A	N/A	6,265,737	2,770,105	2,759,485	1,971,485	2,153,624	-	-	15,920,436	-
Total Student Financial Assistance Cluster				11,590,566	18,660,719	14,945,920	11,128,142	11,891,046	-	-	68,216,393	-
TRIO CLUSTER												
U.S. Department of Education:												
Direct Awards:												
TRIO_Student Support Services	84.042A	N/A	N/A	354,932	312,834	377,846	-	295,728	-	-	1,341,340	-
TRIO_Upward Bound	84.047A	N/A	N/A	-	292,844	460,261	306,738	-	-	-	1,059,843	-
Total TRIO Cluster				354,932	605,678	838,107	306,738	295,728	-	-	2,401,183	-
RESEARCH AND DEVELOPMENT CLUSTER												
National Aeronautics and Space Administration:												
Passthrough Awards:												
Science - National Space Grant College & Fellowship Program	43.001	University of Vermont	NNX10AK67H	-	-	-	-	7,446	-	-	7,446	-
Education - CubeSat Continued Development	43.008	University of Vermont	NNX16AK55A	-	-	-	-	20,633	-	-	20,633	-
Education - National Aeronautics and Space Administration	43.008	University of Vermont	NNX16AK55A	-	-	-	21,576	-	-	-	21,576	-
Education - Graduate Fellowship Competition	43.008	University of Vermont	NNX15AP86H	-	-	-	-	33,381	-	-	33,381	-
Subtotal - Passthrough Awards				-	-	-	21,576	61,460	-	-	83,036	
National Science Foundation:												
Direct Awards:												
Geosciences	47.050	N/A	N/A	-	-	-	1,567	-	-	-	1,567	-
Geosciences	47.050	N/A	N/A	-	12,120	-	-	-	-	-	12,120	-
Education and Human Resources	47.076	N/A	N/A	-	-	38,456	-	-	-	-	38,456	-
Subtotal - Direct Awards				-	12,120	38,456	1,567	-	-	-	52,143	-
Passthrough Awards:												
Experimental Program to Stimulate Competitive Research	47.073	University of Vermont	27788 SUB 51497	-	47,467	-	-	-	-	-	47,467	-
Education and Human Resources	47.076	University of Vermont	25399 SUB 51105	-	-	48,842	-	-	-	-	48,842	-
Subtotal - Passthrough Awards				-	47,467	48,842	-	-	-	-	96,309	-
U.S. Department of Health and Human Services:												
Passthrough Awards:												
National Center for Research Resources	93.389	University of Vermont	29252SUB51797	-	-	195,622	-	-	-	-	195,622	-
National Center for Research Resources	93.389	University of Vermont	29252SUB51796	-	195,273	-	-	-	-	-	195,273	-
Biomedical Research and Research Training	93.859	University of Vermont	8P20GM103449	-	-	-	157,907	-	-	-	157,907	-
Subtotal - Passthrough Awards				-	195,273	195,622	157,907	-	-	-	548,802	-
Total Research and Development Cluster				-	254,860	282,920	181,050	61,460	-	-	780,290	-
CCDF CLUSTER												
U.S. Department of Health and Human Services:												
Passthrough Awards:												
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Vermont Dept. Children & Families	N/A	378,188	-	-	-	-	-	-	378,188	-

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Johnson State University	Lyndon State College	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
MEDICAID CLUSTER												
U.S. Department of Health and Human Services:												
Passthrough Awards:												
Medical Assistance Program	93.778	Office of Vermont Health Access (OVHA)	11-W-00194/1	$ -	$ -	$ -	$ -	$ 222,419	$ -	$ -	$ 222,419	$ -
NON-CLUSTER												
U.S. Department of Agriculture:												
Passthrough Awards:												
Higher Education - Institution Challenge Grants Program	10.217	Vermont Student Assistance Corp	P334S110006	-	6,364	15,653	-	-	-	-	22,017	-
U.S. Department of Commerce:												
Direct Awards:												
Manufacturing Extension Partnership	11.611	N/A	N/A	-	-	-	-	-	568,232	-	568,232	-
U.S. Department of Defense:												
Passthrough Awards:												
Procurement Technical Assistance for Business Firms	12.002	Vermont Agency of Commerce & Community Development	N/A	-	-	-	-	-	49,003	-	49,003	-
U.S. Department of Labor:												
Direct Awards:												
H-1B Job Training Grants	17.268	N/A	N/A	-	-	-	-	-	183,992	-	183,992	-
TAACCCT	17.282	N/A	N/A	815,629	-	-	-	87,678	-	-	903,307	-
Subtotal - Direct Awards				815,629	-	-	-	87,678	183,992	-	1,087,299	-
Institute of Museum and Library Services:												
Passthrough Awards:												
Grants to States - Job Hunt Helpers	45.310	VT Department of Libraries	N/A	12,052	-	-	-	-	-	-	12,052	-
Small Business Administration:												
Direct Awards:												
Small Business Development Centers	59.037	N/A	N/A	-	-	-	-	-	767,591	-	767,591	-
Small Business Development Centers	59.037	N/A	N/A	-	-	-	-	-	30,892	-	30,892	-
Federal and State Technology Partnership Program	59.058	N/A	N/A	-	-	-	-	-	49,912	-	49,912	-
State Trade Expansion	59.061	N/A	N/A	-	-	-	-	-	22,937	-	22,937	-
Subtotal - Direct Awards				-	-	-	-	-	871,332	-	871,332	-
Environmental Protection Agency:												
Direct Awards												
Environment Educations Grants	66.951	N/A		-	-	-	-	2,227	-	-	2,227	-
Passthrough Awards:												
Pollution Protection Grants Program	66.708	Vermont Agency of Natural Resources	N/A	-	-	-	-	-	12,481	-	12,481	-
U.S. Department of Education:												
Passthrough Awards:												
Career and Technical Education -- Basic Grants to States	84.048	Vermont Department of Education	V048A150045	$ 669,589	$ -	$ -	$ -	$ -	$ -	$ -	$ 669,589	$ -
Career and Technical Education -- Basic Grants to States	84.048	Vermont Department of Education	4319R2171501	-	-	-	-	173,882	-	-	173,882	-
Career and Technical Education -- Basic Grants to States	84.048	Vermont Department of Education	V048A50045	59,038	-	-	-	-	-	-	59,038	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Vermont Student Assistance Corp	P334S110006-15	13,975	-	-	15,493	-	-	340,755	370,223	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	Vermont Student Assistance Corp	P334S110006-15	-	-	-	-	6,408	-	-	6,408	-
Mathematics and Science Partnerships	84.366	Vermont Department of Education	4655R1171601	-	-	-	303,000	-	-	-	303,000	21,946
Subtotal - Passthrough Awards				742,602	-	-	318,493	180,290	-	340,755	1,582,140	21,946

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Johnson State University	Lyndon State College	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED												
Northern Border Regional Commission:												
Passthrough Awards:												
Northern Border Regional Development	90.601	Northern Border Regional Commission	NBRC-14-G-VT00001	-	-	-	23,030	-	-	-	23,030	-
Corporation for National and Community Service:												
Passthrough Awards:												
Americorps	94.006	Vermont Agency of Human Services	13AFHVT0010006	-	-	-	257,681	-	-	-	257,681	-
Total Non-Cluster				1,570,283	6,364	15,653	599,204	270,195	1,685,040	340,755	4,487,494	21,946
Total Federal Funds				$ 13,893,969	$ 19,527,621	$ 16,082,600	$ 12,215,134	$ 12,740,848	$ 1,685,040	$ 340,755	$ 76,485,967	$ 21,946

See accompanying notes to the Schedule of Expenditures of Federal Awards

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Vermont State Colleges (the "Colleges") under programs of the Federal Government for the year ended June 30, 2017. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Colleges.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 3 - **De Minimis Indirect Cost Rate**

The Colleges have elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4 - **Federal Student Loan Program**

Perkins Loan Program
The Federal Perkins Loan Program ("Perkins") is administered directly by the Colleges and balances and transactions relating to the program are included in the College's basic financial statements. During the year ended June 30, 2017, $624,205 of loans were advanced under the Perkins program and $34,142 of administrative costs were incurred. As of June 30, 2017, loan balances receivable, net under Perkins was $5,474,108.

There was no federal capital contribution or match by the Colleges during the current year.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Notes to Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2017

Note 4 - **Federal Student Loan Program - Continued**

Direct Student Loan Program

The Colleges disbursed $43,185,926 of loans under the Federal Direct Student Loans program, which include Stafford Subsidized and Unsubsidized Loans and Parent Plus Loans. It is not practical to determine the balances of the loans outstanding to students of the Colleges under the program as of June 30, 2017. The Colleges are only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the Colleges' financial statements.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

Section I – Summary of Auditors' Results:

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weaknesses identified?	____ yes	_x_ no
• Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	_x_ no
Noncompliance material to the financial statements noted?	____ yes	_x_ no

Federal Awards

Type of auditor's report issued:	Unmodified	
Internal control over major programs:		
• Material weaknesses identified?	____ yes	_x_ no
• Significant deficiencies identified that are not considered to be material weaknesses?	____ yes	_x_ no
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	_x_ yes	____ no

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Identification of Major Programs:

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grant Program	**84.007**
Federal Work-Study Program	**84.033**
Federal Perkins Loan Program	**84.038**
Federal Pell Grant Program	**84.063**
Federal Direct Student Loans	**84.268**
Small Business Administration	**59.037**
Research and Development Cluster:	
Science - National Space Grant College & Fellowship Program	**43.001**
Education - National Aeronautics and Space Administration	**43.008**
Geosciences	**47.050**
Experimental Program to Stimulate Competitive Research	**47.073**
Education and Human Resources	**47.076**
National Center for Research Resources	**93.389**
Biomedical Research and Research Training	**93.859**

Dollar threshold used to distinguish
Between type A and type B programs: $750,000

Auditee qualified as a low-risk auditee? x yes ____ no

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Section II – Financial Statement Findings:

None

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Section III – Federal Award Findings and Questioned Costs:

Finding number:	2017-001
Federal agency:	U.S. Department of Education
Programs:	Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2017

Criteria

According to 34 CFR Section 685.309(b)(2):

> A school shall, unless it expects to submit its next student status confirmation report to the Secretary within the next sixty days, notify the Secretary within thirty days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:
>
> 1. Enrolled at that school but has ceased to be enrolled on at least a half-time basis
> 2. Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended
> 3. Has changed his or her permanent address.

Condition

The Federal Government requires the Colleges to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. Out of a sample of forty students with enrollment status changes, two students with a status change were not reported in a timely manner to the NSLDS. One student was never reported to the NSLDS and the other student took ninety-one days to report.

Cause

For two of the students, there were oversights during the withdrawal process and these student's withdrawals were not reported to the Registrar's office in a timely manner in order to report the students as withdrawn within the required sixty day timeframe to NSLDS.

Effect
Withdrawal dates were not reported within the required timeframe, which may result in the students entering repayment status later than the required timeframe.

Questioned Costs
N/A

Perspective
Our sample was not, and was not intended to be statistically valid. Of 40 students selected for testing, two students or 5.0% of our sample was determined to have a status change not reported timely to the NSLDS within the sixty day requirement.

Identification as a Repeat Finding, if applicable
See Finding 2016-001 included in the summary schedule of prior year findings.

Recommendation
We recommend that management review its control procedures for reporting student financial aid data to the NSLDS to ensure proper controls are in place to ensure that all information is reported in a timely manner.

Views of Responsible Officials
This finding was discovered at one college within the VSC system (Community College of Vermont) for award year 2017. The College agrees with the finding.

- Community College of Vermont's Registrar team has created new reports to capture the accurate data so it can be reported in a timely manner.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Finding number: 2017-002
Federal agency: U.S. Department of Education
Programs: Federal Perkins Loan Program
CFDA #'s: 84.038
Award year: 2017

Criteria
According to 34 CFR Section 674.10 in regard to Perkins loans:

> (a)(1) An institution shall make loans under this part reasonably available, to the extent of available funds, to all students eligible under Section 674.9 but shall give priority to those students with exceptional financial need.
>
> (a)(2) The institution shall define exceptional financial need for the purpose of the priority described in paragraph (a)(1) of this section and shall develop procedures for implementing that priority.

Condition
The Federal government requires the Colleges to define exceptional financial need and adhere to that definition when prioritizing which students are awarded a Perkins loan.

Cause
The Colleges normally awards Perkins loans to students with exceptional financial need but due to an oversight during the awarding process, one student who did not display exceptional financial need was awarded a Perkins loan.

Effect
One student who did not display exceptional financial need, as dictated by the College's definition, was awarded a Perkins loan**.**

Questioned Costs
$1,000

Perspective
Of the statistically valid sample of forty students selected for testing, one student was determined to have been award a Perkins loan without meeting the definition of exceptional financial need. This student represents 2.5% of the total sample. This appears to be isolated occurrence of noncompliance.

Identification as a Repeat Finding, if applicable
Not applicable

Recommendation
We recommend that management review its control procedures for determining whether students meet the definition of exceptional financial need when awarding Perkins loans.

Views of Responsible Officials
This finding was discovered at one college within the VSC system (Lyndon State College) for award year 2017. The College agrees with the finding.

- Upon discovery, a rule was written and attached to the Perkins Award in Colleague. The rule, based on one used for SEOG for years, warns when a manual award is made to a student with an EFC outside established awarding parameters. It also does not allow transmittal to the students billing account unless a manual override is done. After the College was notified of this issue the Perkins Loan was cancelled for this student and institutional funds made up the balance.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2017

Finding number:	2017-003
Federal agency:	U.S. Department of Education
Programs:	Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2017

Criteria

According to 34 CFR Section 668.22(a):

> When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of this section.

According to 34 CFR Section 668.22(c)(3):

> Notwithstanding paragraphs (c)(1) and (2) of this section, an institution that is not required to take attendance may use as the student's withdrawal date a student's last date of attendance at an academically-related activity provided that the institution documents that the activity is academically related and documents the student's attendance at the activity.

According to the NSLDS Enrollment Reporting Guide:

> The effective date for a withdrawn ('W') or completion/graduation status ('G') is the date that the school assigns to the withdrawal or completion/graduation.

Condition

The Federal Government requires the Colleges to use an accurate withdrawal date for the Return of Title IV Aid calculation as well as accurately report student enrollment changes to the National Student Loan Data System ("NSLDS").

For students who officially withdraw, the Colleges are inconsistent when applying a withdrawal date to the student for NSLDS reporting and the Return of Title IV Aid calculation. The Colleges use the students' official withdrawal form date as an effective withdrawal date when reporting to NSLDS but uses the last date of attendance as the withdrawal date when performing the students' Return of Title IV Aid calculation.

Condition - Continued
Out of a sample of forty students with a Return of Title IV Aid calculation, the Colleges had five students whose effective withdrawal dates reported to NSLDS do not match the withdrawal dates per the Return of Title IV Aid calculations.

The withdrawal date per the official withdrawal form and the last date of attendance are both considered valid withdrawal dates for a non-attendance taking school but once one of those dates is determined, the withdrawal dates should be consistently applied to NSLDS reporting and the Return of Title IV Aid calculation.

Cause
Three of the students whose effective withdrawal date reported to NSLDS did not match the withdrawal dates per the Return of Title IV Aid calculations were official withdrawals and the College used the student's official withdrawal form date as an effective withdrawal date when reporting to NSLDS but used the last date of attendance when performing the student's Return of Title IV Aid calculation. For the other two students whose effective withdrawal dates reported to NSLDS did not match the withdrawal dates per the Return of Title IV Aid calculations, these were oversights during reporting to NSLDS where the incorrect dates were taken from the withdrawal forms (i.e. used the date the R2T4 forms were prepared instead of the effective withdrawal date).

Effect
The withdrawal dates per the Colleges are not consistent between the effective withdrawal dates reported to NSLDS and the withdrawal dates used for the Return of Title IV Aid calculation for eight students. This can result in an incorrect deferment period for loan repayments to be calculated and loan repayments to being early or later than they should.

Questioned Costs
N/A

Perspective
Of the statistically valid sample of forty students selected for testing, five students or 12.5% of our sample were determined to have inconsistent withdrawal dates. For three of those students, this appears to be a systematic issue at the College because the College is knowingly using two different dates for reporting to NSLDS and calculating the Return of Title IV Aid. The other two students were oversights during processing of status changes to NSLDS.

Identification as a Repeat Finding, if applicable
See Finding 2016-003 included in the summary schedule of prior year findings.

Recommendation
We recommend that the Colleges use the same withdrawal date as an effective date for NSLDS and withdrawal date per the Return of Title IV Aid calculation.

Views of Responsible Officials
This finding was discovered at two colleges within the VSC system (Community College of Vermont and Johnson State College) for award year 2017. Both Colleges agree with the finding.

- The withdrawal process was reviewed and to ensure the same date is used by all, the effective date to report to NSLDS will now be placed in a prominent place on the top of the Exit Form.

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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Finding number:	2016-001
Federal agency:	U.S. Department of Education
Programs:	Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2016

Condition
The Federal Government requires the College to report student enrollment changes to the National Student Loan Data System ("NSLDS") within sixty days. Out of a sample of forty students with enrollment status changes, one student's changes were not reported in a timely manner to the NSLDS. The College took 62 days to report the status change for this student.

Current Year Status:
Our current year testing revealed a finding in this area. See finding 2017-001 for more information and corrective action plan.

Finding number:	2016-002
Federal agency:	U.S. Department of Education
Programs:	Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2016

Condition
The Federal government requires the College to accurately report student enrollment changes to the National Student Loan Data System (NSLDS). Out of a sample of forty students with enrollment status changes, four of the students who officially withdrew but were not properly reported to NSLDS, which resulted in the effective withdrawal dates for theses student being reported incorrectly to the NSLDS.

Current Year Status:
The recommendation was adopted by management during the fiscal year ended June 30, 2017. No similar findings were noted during the audit.

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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Finding number:	2016-003
Federal agency:	U.S. Department of Education
Programs:	Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2016

Condition

The federal government requires the College to use an accurate withdrawal date for the Return of Title IV Aid calculation as well as accurately report student enrollment changes to the National Student Loan Data System (NSLDS).

For students who officially withdraw, the College is inconsistent when applying a withdrawal date to the student for NSLDS reporting and the Return of Title IV Aid calculation. The College uses the student's official withdrawal form date as an effective withdrawal date when reporting to NSLDS but uses the last date of attendance as the withdrawal date when performing the student's Return of Title IV Aid calculation.

Out of a sample of forty students with a Return of Title IV Aid calculation, the College has eleven students whose effective withdrawal dates reported to NSLDS do not match the withdrawal dates per the Return of Title IV Aid calculations.

The withdrawal date per the official withdrawal form and the last date of attendance are both considered valid withdrawal dates for a non-attendance taking school but once one of those dates is determined, the withdrawal dates should be consistently applied to NSLDS reporting and the Return of Title IV Aid calculation.

Current Year Status:

Our current year testing revealed a finding in this area. See finding 2017-003 for more information and corrective action plan.

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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Finding number: 2016-004
Federal agency: U.S. Department of Education
Programs: Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s: 84.007, 84.033, 84.038, 84.063, 84.268
Award year: 2016

Condition
The College is non-attendance taking and for one withdrawn student tested, the College did not determine the student withdrew until 150 days after the end of the payment period, which ended the earliest of the aforementioned dates. The student withdrew in September 2015 but the College did not determine the student's withdrawal until May 2016. The College did not determine the withdrawal date within the thirty day period after the end of the payment period, which was the Fall 2015 semester.

Current Year Status:
The recommendation was adopted by management during the fiscal year ended June 30, 2017. No similar findings were noted during the audit.

Finding number: 2016-005
Federal agency: U.S. Department of Education
Programs: Federal Pell Grant Program
CFDA #'s: 84.063
Award year: 2016

Condition
Federal regulations require institutions to report to the Federal Government's Common Origination and Disbursement System (COD) payments to students for Federal Pell Grants within 15 days of disbursement to students.

We sampled forty students and one student's Pell grant disbursement was reported late to the COD in the Fall 2015 semester. The College reported the student's disbursement to the COD 125 days after the disbursement date.

Current Year Status:
The recommendation was adopted by management during the fiscal year ended June 30, 2017. No similar findings were noted during the audit.

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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2017

Finding number: 2016-006
Federal agency: U.S. Department of Education
Programs: TRIO Cluster (Student Support Services)
CFDA #'s: 84.042A
Award year: 2016

Condition

The College did not accurately report the eligibility status of two program participants on the Student Support Services Annual Performance Report (APR). The two program participants were both individuals with a disability, first-generation, and low-income but were coded as only first generation and low-income individuals.

Omitting the disability from the eligibility status of these participants affected the calculation on the APR that ensures not less than one-third of the individuals with disabilities were also low-income individuals. Upon recalculation using the correct eligibility codes, the College was in compliance with the regulation that not less than one-third of the individuals with disabilities were also low-income individuals.

Current Year Status:

The recommendation was adopted by management during the fiscal year ended June 30, 2017. No similar findings were noted during the audit.

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Management's Corrective Action Plan

Finding number: 2017-001
Federal agency: U.S. Department of Education
Programs: Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s: 84.007, 84.033, 84.038, 84.063, 84.268
Award year: 2017

Corrective Action Plan:
Community College of Vermont ("CCV")
The College's Registrar team has created new reports to capture the accurate data so it can be reported in a timely manner.

Timeline for Implementation of Corrective Action Plan:
Community College of Vermont
June 2017

Contact Person
Community College of Vermont
Pamela Chisholm, Dean of Enrollment Services
J.P. Rees, Registrar

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Management's Corrective Action Plan - Continued

Finding number: 2017-002
Federal agency: U.S. Department of Education
Programs: Federal Perkins Loan Program
CFDA #'s: 84.038
Award year: 2017

Corrective Action Plan:
Lyndon State College ("LSC")
Upon discovery, a rule was written and attached to the Perkins Award in Colleague. The rule, based on one used for SEOG for years, warns when a manual award is made to a student with an EFC outside established awarding parameters. It also does not allow transmittal to the students billing account unless a manual override is done. After the College was notified of this issue the Perkins Loan was cancelled for this student and institutional funds made up the balance.

Timeline for Implementation of Corrective Action Plan:
Lyndon State College ("LSC")
Corrective action was taken immediately upon discovery.

Contact Person
Lyndon State College ("LSC")
Tanya Bradley, Director of Financial Aid

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Management's Corrective Action Plan - Continued

Finding number: 2017-003
Federal agency: U.S. Department of Education
Programs: Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s: 84.007, 84.033, 84.038, 84.063, 84.268
Award year: 2017

Corrective Action Plan:

Community College of Vermont ("CCV")
The College has instituted new procedures to ensure that the same withdrawal date is reported as an effective date for NSLDS and the withdrawal date per Return of Title IV Aid calculations.

Johnson State College ("JSC")
The withdrawal process was reviewed and to ensure the same date is used by all, the effective date to report to NSLDS will now be placed in a prominent place on the top of the Exit Form.

Timeline for Implementation of Corrective Action Plan:

Community College of Vermont ("CCV")
Implemented the auditor's recommendations immediately after the audit was completed.

Johnson State College ("JSC")
Corrective action was taken immediately upon discovery.

Contact Person

Community College of Vermont ("CCV")
Pam Chisholm, Dean of Enrollment Services

Johnson State College ("JSC")
Doug Eastman, Registrar