

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

FINANCIAL STATEMENTS

JUNE 30, 2012

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

Financial Statements

June 30, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges") as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Colleges' management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements of Vermont State Colleges, taken as a whole. The accompanying supplemental information contained on page 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of Vermont State College's 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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.

Handwritten signature in cursive script that reads "O'Connell & Drew, P.C." with a small circle at the end of the signature.

**Certified Public Accountants
Braintree, Massachusetts**

October 19, 2012

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

Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

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.

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, 2012 and selected comparative information for the year ended June 30, 2011. 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.

VSC's financial reports include three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. These financial statements have been prepared in accordance with GASB 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:

Statement of Net Assets (SNA) - this statement accounts for what VSC owns and owes at one point in time. It includes all assets and liabilities of VSC and is therefore the primary statement used to determine financial condition.

Statement of Revenues, Expenses and Changes in Net Assets (SRECNA) - this statement aggregates all transactions that have similar characteristics into line items of revenues and expenses. It corresponds to the statement of activities presented by institutions subject to Financial Accounting Standards Board reporting rules.

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

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Using the Financial Statements - Continued

Statement of Cash Flows - this statement reports the cash received by and disbursed from VSC during a period of time. The cash flows are segregated into four categories - operating, noncapital financing, capital and related financing and investing.

Condensed Statement of Net Assets

The condensed statement of net assets presents the financial position of VSC. This statement shows the assets and liabilities at the end of the fiscal year using the accrual basis of accounting.

Net Assets as of June 30:

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 65,159,000	\$ 84,992,000
Non-Current Assets:		
Cash, Long-Term Investments and Deposits with		
Bond Trustees	23,182,000	25,162,000
Capital Assets, Net	181,348,000	160,643,000
Other	<u>22,986,000</u>	<u>14,419,000</u>
Total Assets	<u>292,675,000</u>	<u>285,216,000</u>
Current Liabilities	25,549,000	24,452,000
Non-Current Liabilities	<u>195,696,000</u>	<u>183,732,000</u>
Total Liabilities	<u>221,245,000</u>	<u>208,184,000</u>
Invested in Capital Assets, Net	51,786,000	51,581,000
Restricted	20,639,000	19,325,000
Unrestricted	<u>(995,000)</u>	<u>6,126,000</u>
Total Net Assets	<u>\$ 71,430,000</u>	<u>\$ 77,032,000</u>

Current assets are comprised of cash, short-term investments, accounts receivable, inventories, deposits with bond trustees and prepaid expenses. Short-term investments are now zero due to the fact that our investment CD expired during FY2012. Accounts receivable decreased slightly due primarily to increased focus on collecting. Deposits with bond trustees decreased as most of the 2010 bond has been disbursed. Change in prepaid expenses, other current assets was insignificant.

VERMONT STATE COLLEGES
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Using the Financial Statements - Continued

Non-current assets include cash and equivalents, endowments and other long-term investments, capital assets and notes receivable. Long term investments increased slightly. Deposits with bond trustees decreased due to the 2010 bond proceeds all in current assets. Interest rate swap increased by over \$8M due to the change in the interest rate market. Capital assets, net increased due to construction projects funded by the 2010 bond.

Current liabilities consist of accounts payable and accrued expenses, deferred revenue and deposits, and the current portion of long-term debt. Change in current liabilities was insignificant.

Non-current liabilities consist of accounts payable and accrued expenses, refundable grants, post-employment benefit obligations and the long-term portion of debt. Postemployment benefit obligations increased due to the annual GASB 45 liability accrual. Fair market value of interest rate swaps increased by over \$8M due to a change in short term interest rates. Long term debt decreased.

GASB requires that net assets be reported in three net asset categories. Invested in capital assets, net represents the historical cost of equipment and property reduced by the corresponding depreciation and related debt outstanding. Restricted net assets have two categories: Restricted non-expendable net assets are those that are required to be retained in perpetuity. Restricted expendable net assets are net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of VSC or passage of time. Unrestricted net assets include amounts committed or designated to support specific academic programs, capital construction projects and other purposes. Invested in capital assets, net increased due to the additional construction funded by the 2010 bond. Restricted net assets increased primarily due to the increase in the VSC endowment funds. Unrestricted net assets decreased primarily due to recording of post-employment benefit obligations.

VERMONT STATE COLLEGES
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Using the Financial Statements - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Assets

The condensed statement of revenues, expenses and changes in net assets presents the operating results of VSC, as well as non-operating revenues and expenses. Annual state appropriations are considered non-operating revenues.

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Tuition and Fees, Net	\$ 89,751,000	\$ 86,685,000
Residence and Dining, Net	19,928,000	18,805,000
Grants and Contracts, and Sales and Service Revenue	20,638,000	20,659,000
Other	<u>1,809,000</u>	<u>2,240,000</u>
Total Operating Revenues	<u>132,126,000</u>	<u>128,389,000</u>
Operating Expenses:		
Salaries and Wages	79,822,000	78,749,000
Employee Benefits	32,960,000	31,074,000
Employee Benefits - GASB 45	8,032,000	5,944,000
Scholarships and Fellowships	7,909,000	8,714,000
Supplies and Other Services	41,899,000	40,168,000
Utilities	6,683,000	6,320,000
Depreciation	<u>7,624,000</u>	<u>7,792,000</u>
Total Operating Expenses	<u>184,929,000</u>	<u>178,761,000</u>
Operating Loss	<u>(52,803,000)</u>	<u>(50,372,000)</u>
Non-Operating and Other Revenues:		
State Appropriation	28,097,000	30,655,000
Non-Operating Federal Grant	20,327,000	22,408,000
Gifts	2,230,000	2,286,000
Other Non-Operating Revenues and Expenses	<u>(3,454,000)</u>	<u>823,000</u>
	<u>47,200,000</u>	<u>56,172,000</u>
Increase (Decrease) in Net Assets	(5,603,000)	5,800,000
Net Assets, Beginning of Year	<u>77,033,000</u>	<u>71,233,000</u>
Net Assets, End of Year	\$ <u>71,430,000</u>	\$ <u>77,033,000</u>

VERMONT STATE COLLEGES
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Using the Financial Statements - Continued

Tuition and fees, net of regularly provided discounts and scholarship allowances of \$20,882,000, increased \$3,066,000, or 4%, over FY2011 to \$89,751,000. This increase was from a combination of increased student enrollment and tuition. Tuition and fees, net accounts for 68% of operating revenues. Scholarship allowance decreased \$151,000. Residence and dining, net which accounts for 15% of operating revenue increased \$1,124,000. Grants and contracts and other, which account for the remaining 17%, remained relatively unchanged year on year.

According to GASB Statement No. 34, State Appropriations are considered non-operating revenue. If they were still considered operating revenue their contribution thereto would be 16%.

Salaries and employee benefits, excluding GASB 45, increased \$2,959,000 or 3% over FY2011 to \$112,782,000. This increase was brought about by the continued rising cost of health care and other benefits. This expense category clearly represents the largest expense at VSC comprising 61% of all Operating Expenses. VSC currently employs approximately 2,306 personnel, which includes part-time and full-time faculty, administrative, and professional and technical staff. There are five labor unions representing five units of personnel. Scholarships and fellowships decreased. Supplies and other services, which include departmental and operating expenses, increased by \$1,731,000. The increase in utilities reflects increased energy prices compared to the prior year. The decrease in depreciation reflects some corrections to accumulated depreciation.

The decrease in Appropriation represents the loss of temporary appropriations required for ARRA funding. Non-operating federal grants decreased \$2,081,000 due to a decrease in Pell grants. Investment Income decreased \$4,522,000 over FY2011 due to a fairly flat investment environment. Other non-operating revenues/expenses saw a net decrease of \$249,000 due primarily to the increase of interest expense on capital debt.

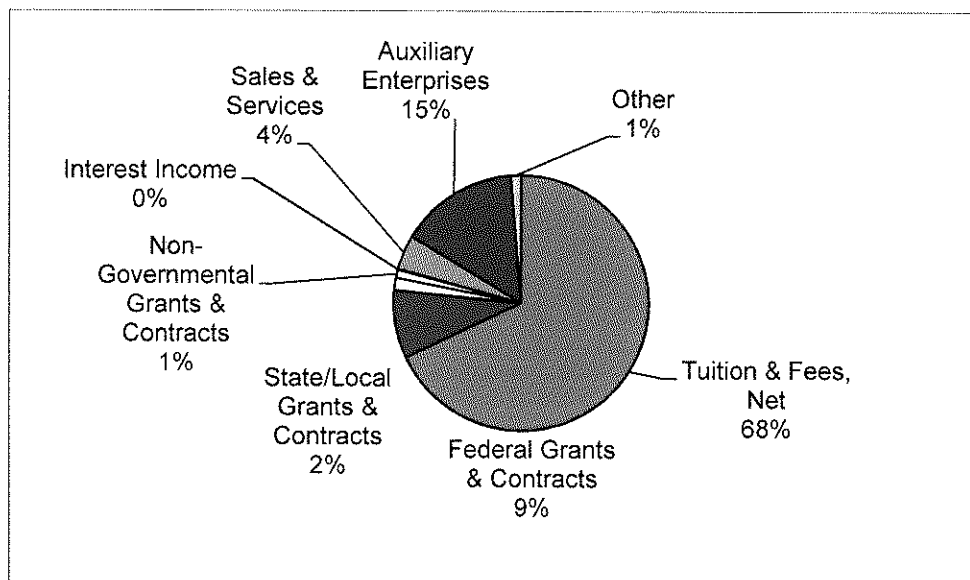
VERMONT STATE COLLEGES
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Using the Financial Statements - Continued

FY2012 Operating Income



VSC receives an annual capital appropriation from the State of Vermont. These appropriations become available for expenditure on July 1 of the fiscal year following the year of appropriation. Capital appropriations for VSC made from the State Bond Funds in fiscal years 2012 and 2011 were \$2,099,000 and \$2,730,000, respectively.

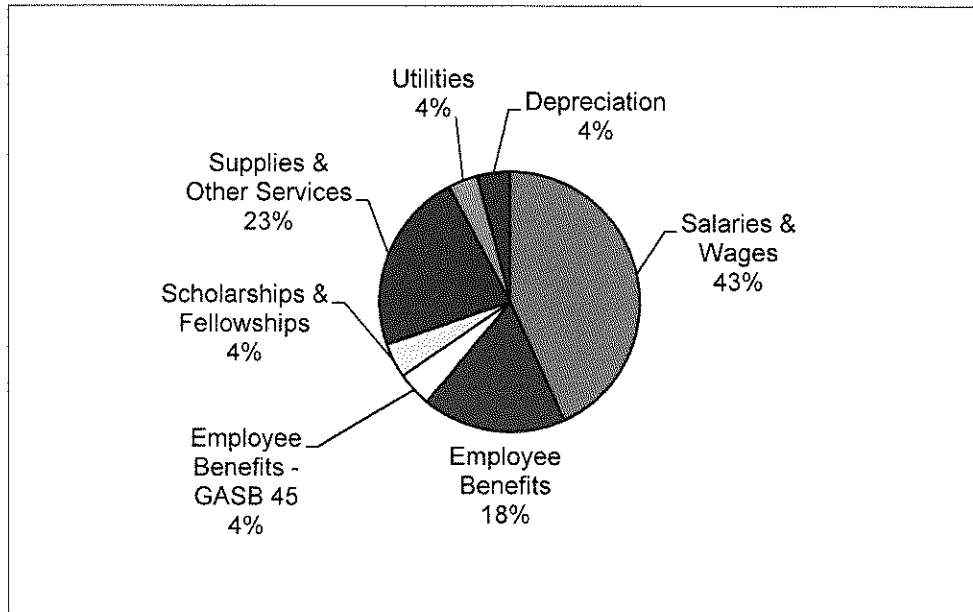
VERMONT STATE COLLEGES
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Using the Financial Statements - Continued

FY2012 Operating Expenses



Total Student Headcount

	<u>Fall 2008</u>	<u>Fall 2009</u>	<u>Fall 2010</u>	<u>Fall 2011</u>	<u>Fall 2012*</u>
<u>Undergraduate:</u>					
In-State	9,761	10,516	10,912	10,603	10,437
Out-of-State	2,097	2,080	2,073	2,128	2,088
Total	11,858	12,596	12,985	12,731	12,525
<u>Graduate:</u>					
In-State	406	517	469	417	307
Out-of-State	46	57	40	52	38
Total	452	574	509	469	345
<u>Total:</u>					
Part-time	5,772	6,210	6,513	6,475	6,160
Full-time	6,538	6,960	6,981	6,725	6,710

* Preliminary as of September 20, 2012. This number is not final and is low due to some students not having signed up for fall courses yet.

VERMONT STATE COLLEGES
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Capital Assets and Debt Administration

At June 30, 2012, VSC had \$181,348,000 invested in Capital Assets, net of Accumulated Depreciation of \$116,791,000. Depreciation expense for the current year totaled \$7,625,000.

At June 30, 2011, VSC had \$160,643,000 invested in Capital Assets, net of Accumulated Depreciation of \$109,854,000. Depreciation expense for the 2011 fiscal year totaled \$7,792,000.

	<u>2012</u>	<u>2011</u>
Net Capital Assets		
Capital Assets		
Land	\$ 6,369,000	\$ 5,713,000
Infrastructure	34,420,000	32,878,000
Buildings and improvements	233,344,000	209,933,000
Leasehold improvements	350,000	299,000
Equipment	16,581,000	14,460,000
Construction in Process	<u>7,075,000</u>	<u>7,214,000</u>
Total	298,139,000	270,497,000
Less: Accumulated Depreciation	<u>(116,791,000)</u>	<u>(109,854,000)</u>
Net Capital Assets	<u>\$ 181,348,000</u>	<u>\$ 160,643,000</u>

VSC has net bonds and notes payable of \$141,199,000 that mature from FY2013 through FY2041.

Please see Note 4 for more information.

Economic Factors That Will Affect The Future

Most sources of operating and non-operating revenues increased in FY2012. While enrollments at the colleges continue to be strong, a demographic decline in the overall number of Vermont high school students is expected to continue over the next decade. Because the majority of VSC enrollees are Vermonters, this trend could affect enrollment, although the colleges have adopted programs and strategies to better recruit in a shrinking market. Controlling tuition cost continues to be a top priority for VSC and initiatives are constantly under way to help reduce expenses. Due to the fact that wages and benefits account for a substantial part of expenses, VSC must continually strive to become more efficient in its operations.

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2012 and 2011

Economic Factors That Will Affect The Future - Continued

For FY2012, State Appropriations were \$25,998,000, 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. For FY2012, in-state tuition increased 4% at Community College of Vermont (CCV), Castleton State College (CSC), Johnson State College (JSC) and Lyndon State College (LSC), and Vermont Technical College (VTC). FY2012 out-of-state tuition increased 4% at CCV, LSC and VTC while increasing 5% at JSC and 7% at CSC. VSC continues to maintain its tuition and fee increases below the national average for comparable institutions. VSC will continue to promote the cause of higher education to the State administration and legislature.

As a result of positive market conditions during FY2012, the System had net realized and unrealized gains on the endowments.

Approximately 734 of the 1,066 full-time employees at VSC are covered by union contracts. VSC employs approximately 2,306 full and part-time employees.

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

GASB 45, which became effective in FY2008, requires the recognition of the employer costs of medical, prescription, dental and life insurance plans for all eligible employees during the period of their active employment rather than when the benefits are paid during their retirement. Because of VSC's unique early retirement wages benefit for the full-time faculty, VSC must also account for this liability under GASB 45.

The annual cost to VSC is equal to the actuarially calculated costs for the year and a component for the amortization of the unrecognized liability for the plan over a period not to exceed 30 years, less payments made to our self-insurance plan for current retirees.

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. At each valuation time, the pattern of cost sharing between VSC and the employee as well as certain legal or contractual caps should be considered.

VSC's current actuarial study estimated that the liability for the current list of employees, as of July 1, 2011, was approximately \$105,578,000 for post-retirement health, dental and life insurance benefits and \$12,033,000 for early retirement benefits. The VSC has been working with its board of trustees and employees to adopt a fair and balanced retirement healthcare package and funding approach that could have the GASB liability fully funded in within ten years. Significant progress has been made in the adoption of such a plan.

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

Statements of Net Assets

June 30,

Assets

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and equivalents (Note 2)	\$ 38,682,802	\$ 564,867
Short-term investments (Note 2)	-	40,120,946
Accounts receivable, net (Note 3)	10,091,212	11,618,192
Inventories	253,839	282,498
Deposit with bond trustees (Note 2)	15,072,756	31,338,076
Other current assets	<u>1,058,338</u>	<u>1,067,860</u>
Total Current Assets	<u>65,158,947</u>	<u>84,992,439</u>
Noncurrent Assets:		
Cash and equivalents (Note 2)	854,558	569,406
Long-term investments (Note 2)	19,547,377	19,262,355
Deposits with bond trustees, noncurrent (Note 2)	2,780,101	5,329,890
Notes receivable, net (Note 3)	5,207,715	5,360,356
Other assets	969,464	1,028,974
Interest rate swap deferred inflow (Note 4)	16,808,535	8,029,595
Capital assets, net (Note 10)	<u>181,348,363</u>	<u>160,643,398</u>
Total Noncurrent Assets	<u>227,516,113</u>	<u>200,223,974</u>
Total Assets	<u>\$ 292,675,060</u>	<u>\$ 285,216,413</u>

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

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	\$ 14,124,206	\$ 13,214,172
Deferred revenue and deposits	6,484,210	6,803,976
Current portion of long-term debt (Note 4)	<u>4,940,334</u>	<u>4,433,894</u>
Total Current Liabilities	<u>25,548,750</u>	<u>24,452,042</u>
Noncurrent Liabilities:		
Accounts payable and accrued liabilities (Note 11)	92,178	-
Deferred revenue and deposits	787,430	864,360
Refundable grants	6,058,644	6,072,622
Post-employment benefit obligations (Note 8)	35,690,489	27,658,331
Interest rate swap deferred outflow (Note 4)	16,808,535	8,029,595
Long-term debt, excluding current portion (Note 4)	<u>136,258,923</u>	<u>141,106,858</u>
Total Noncurrent Liabilities	<u>195,696,199</u>	<u>183,731,766</u>
Total Liabilities	<u>221,244,949</u>	<u>208,183,808</u>
Net Assets:		
Invested in capital assets, net of related debt	51,786,211	51,581,398
Restricted nonexpendable	14,446,789	13,414,763
Restricted expendable	6,191,758	5,910,795
Unrestricted	<u>(994,647)</u>	<u>6,125,649</u>
Total Net Assets	<u>71,430,111</u>	<u>77,032,605</u>
Total Liabilities and Net Assets	<u>\$ 292,675,060</u>	<u>\$ 285,216,413</u>

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

Statements of Revenues, Expenses and Changes in Net Asset
For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Tuition and fees	\$ 110,632,877	\$ 107,717,508
Residence and dining	19,928,368	18,804,792
Less: scholarship allowances	<u>(20,881,867)</u>	<u>(21,032,822)</u>
Net Tuition, Fees, and Residence and Dining Revenue	109,679,378	105,489,478
Federal grants and contracts	11,417,042	12,165,527
State and local grants and contracts	2,034,437	1,809,790
Non-governmental grants and contracts	1,386,443	1,170,538
Interest income	102,176	87,087
Sales and services of educational activities	5,799,595	5,513,041
Other auxiliary enterprises	661,213	1,198,336
Other operating revenues	<u>1,045,694</u>	<u>954,868</u>
Total Operating Revenues	<u>132,125,978</u>	<u>128,388,665</u>
Operating Expenses (Notes 5, 9 and 11):		
Salaries and wages	79,821,981	78,748,960
Employee benefits (Notes 7 and 8)	40,992,260	37,017,951
Scholarships and fellowships	7,908,653	8,714,124
Supplies and other services	41,898,700	40,168,113
Utilities	6,683,132	6,319,516
Depreciation (Note 10)	<u>7,624,758</u>	<u>7,792,090</u>
Total Operating Expenses	<u>184,929,484</u>	<u>178,760,754</u>
Net Operating Loss	<u>(52,803,506)</u>	<u>(50,372,089)</u>
Nonoperating Revenues (Expenses):		
State appropriations (Note 6)	25,998,079	27,925,328
Federal grants and contracts	20,327,223	22,408,503
Gifts	2,230,363	2,285,635
Investment income, net of expenses (Note 2)	1,334,768	5,856,437
Interest expense on capital debt (Note 5)	(6,397,681)	(6,024,345)
Other non-operating revenues	<u>560,198</u>	<u>380,654</u>
Net Nonoperating Revenues	<u>44,052,950</u>	<u>52,832,212</u>
Increase (Decrease) in Net Assets Before Other Revenues	(8,750,556)	2,460,123
Other Revenues:		
State appropriations for capital expenditures (Note 6)	2,099,484	2,730,085
Capital grants and gifts	58,501	62,268
Additions to non-expendable assets	<u>990,077</u>	<u>547,550</u>
Increase (Decrease) in Net Assets	<u>(5,602,494)</u>	<u>5,800,026</u>
Net Assets, Beginning of Year	<u>77,032,605</u>	<u>71,232,579</u>
Net Assets, End of Year	<u>\$ 71,430,111</u>	<u>\$ 77,032,605</u>

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,

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 102,257,873	\$ 79,123,726
Grants and contracts	15,471,137	13,100,404
Sales and services of educational activities	5,799,595	3,747,229
Auxiliary enterprises	661,213	20,003,128
Interest received	102,176	87,087
Payments to suppliers	(47,473,915)	(65,820,093)
Payments to employees	(112,794,155)	(92,464,480)
Loans issued to students	(572,287)	(574,252)
Collection of loan payments	724,929	202,157
Other cash receipts	<u>1,065,445</u>	<u>954,868</u>
Net Cash Applied to Operating Activities	<u>(34,757,989)</u>	<u>(41,640,226)</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations	25,998,079	27,925,328
Nonoperating federal grants	20,327,223	22,408,503
Gifts and grants	<u>2,230,363</u>	<u>2,285,635</u>
Net Cash Provided by Noncapital Financing Activities	<u>48,555,665</u>	<u>52,619,466</u>
Cash Flows from Capital and Related Financing Activities:		
Capital appropriations	2,099,484	2,730,085
Capital and non-expendable grants and gifts	1,048,578	609,818
Purchase of capital assets	(28,349,474)	(13,774,167)
Change in deposits with bond trustee	18,815,109	(31,374,660)
Proceeds from capital debt borrowings	-	41,727,743
Principal on capital debt	(4,341,495)	(14,782,487)
Interest expense on capital debt	(6,397,681)	(6,024,345)
Other receipts	<u>560,198</u>	<u>380,654</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(16,565,281)</u>	<u>(20,507,359)</u>

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	<u>2012</u>	<u>2011</u>
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	\$ 44,490,759	\$ 39,706,482
Purchase of investments	(5,291,666)	(44,140,828)
Interest and dividends received on investments	<u>1,971,599</u>	<u>2,894,151</u>
Net Cash (Applied to) Provided by Investing Activities	<u>41,170,692</u>	<u>(1,540,195)</u>
Net Increase (Decrease) in Cash and Equivalents	38,403,087	(11,068,314)
Cash and Equivalents, Beginning of Year	<u>1,134,273</u>	<u>12,202,587</u>
Cash and Equivalents, End of Year	<u>\$ 39,537,360</u>	<u>\$ 1,134,273</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	<u>\$ (52,803,506)</u>	<u>\$ (50,372,089)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	7,624,758	7,792,090
Bad debts	1,325,564	836,226
Net (gain) loss on disposal of capital assets	19,751	-
Changes in assets and liabilities:		
Accounts receivable	201,416	(3,181,721)
Inventories	28,659	(82,186)
Other assets	69,032	620,924
Notes receivable	152,641	(372,095)
Accounts payable and accrued liabilities	1,002,212	(2,641,562)
Deferred revenues, deposits and refundable grants	(410,674)	(183,977)
Postemployment benefit obligation	<u>8,032,158</u>	<u>5,944,164</u>
Net Cash Applied to Operating Activities	<u>\$ (34,757,989)</u>	<u>\$ (41,640,226)</u>

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, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

Organization

Vermont State Colleges are comprised of the following entities - System Office and Services, Community College of Vermont (CCV), Castleton State College (CSC), Johnson State College (JSC), Lyndon State College (LSC), Vermont Technical College (VTC), Vermont Interactive Television (VIT), Allied Health Nursing Program (Allied Health), Vermont Manufacturing Extension Center (VMEC) Small Business Development Center (SBDC), and Vermont Tech Office of Continuing Education and Workforce Development (TED). VIT is an audio-video network bringing instruction and public service events to sites throughout Vermont (currently Bennington, Brattleboro, Johnson, Lyndon, Middlebury, Montpelier, Newport, Randolph Center, Rutland, Springfield, St. Albans, White River and Williston). Budgetary management of VIT is maintained separately.

The accounting policies and procedures used by 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 U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). 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. In accordance with GASB Statement No. 39, *The Financial Reporting Entity*, the Colleges are a component unit of the State of Vermont.

The Colleges have determined that they function as a Business Type Activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements.

The Colleges apply all applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements contradict or conflict with GASB pronouncements. VSC does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Basis of Presentation - Continued

The Colleges' policy is to define operating activities in the statement of revenues, expenses and changes in net assets 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, net investment income, gifts, certain grants and interest expense.

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

Net Assets

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

Invested in capital assets, net of related debt: 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 assets subject to externally imposed conditions that VSC must maintain them in perpetuity.

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

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by actions of the Colleges' Board of Trustees.

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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out retail inventory method) or market and consist of bookstore items.

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 5 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 assets include 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.

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 assets.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

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 nonunion personnel, according to State or College 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.

Deferred 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 deferred revenues.

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, the student and are reflected as expenses.

Bond and Note Issuance Costs, Discounts, and Premiums

Bonds, note issuance costs and underwriter's discounts are amortized on the straight line basis over the life of the respective bond and consist of costs and issuance discounts incurred at the time of issuance. The 1998 bond issuance costs of \$158,544 and the 2007 capital construction loan issuance costs of \$401,197 are amortized over 20 years. Bond issuance costs of \$334,545 and \$393,384 in connection with the 2003 and 2010 bond issues, respectively, are amortized over 30 years. Accumulated amortization as of June 30, 2012 and 2011 aggregated \$360,243 and \$299,271, respectively. The unamortized portion of the issuance costs are included in other assets.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Bond and Note Issuance Costs, Discounts, and Premiums - Continued

Underwriter's discounts of \$164,124 and \$420,597 related to the 1998 and 2003 bond issuances are amortized over 20 and 30 years, respectively, and are included in bonds and notes payable. Accumulated amortization as of June 30, 2012 and 2011 is \$276,283 and \$251,098, respectively.

VSC incurred a bond premium related to the 2010 bonds at the time of the issuance of the bonds. The bond premium of \$377,743 is amortized on a straight-line basis over approximately 8.5 years. Cumulative amortization of the bond premium totals \$68,931 and \$24,815 as of June 30, 2012 and 2011, 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 Postemployment Benefits Other Than Pensions* (GASBS 45), requires governments to account for other postemployment 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 and expenses when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment 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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Governmental Accounting Pronouncements

GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. Management has not completed its review of the effects of implementation on the financial statements.

GASB 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, provides additional criteria for classifying entities as component units to better assess the accountability of officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude. Management of the College does not expect implementation to affect the financial statements.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Management of the College does not expect implementation to affect the financial statements.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

New Governmental Accounting Pronouncements - Continued

GASB 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows after the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. An item is not considered a deferred outflow or resources or a deferred inflow of resources unless specifically required by a GASB pronouncement. Currently only GASB 53 *Accounting and Financial Reporting for Derivative Instruments* and GASB 60 contain this requirement. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

GASB 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with GASB 63. Management expects this statement to have no effect on the financial statements.

GASB 66, *Technical Corrections - 2012 - an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012, resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

GASBS 67, *Financial Reporting for Pension Plans – an amendment of GASBS 26*, effective for fiscal periods beginning after June 15, 2013, is to improve financial reporting for state and local government pension plans replacing the requirements for certain plans administered through trust arrangements of GASBS 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50, *Pension Disclosures*. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

New Governmental Accounting Pronouncements - Continued

GASBS 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, effective for periods beginning after June 15, 2014, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures for defined benefit pension plans, replacing the requirements of *Statement 27 Accounting for Pensions by State and Local Governmental Employers* and *Statement 50*, for certain plans administered through trust arrangements. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

Reclassifications

Certain amounts on the 2011 financial statements have been reclassified to conform to the 2012 presentation.

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

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

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

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Cash and Equivalents - Continued

At June 30, 2012, the balance of current assets - cash and equivalents consist of approximately \$18,000 in petty cash and the remainder deposited in Federal Deposit Insurance Corporation (FDIC) insured banking institutions of approximately \$38,665,000 per the accounting records of the Colleges and approximately \$40,105,000 per bank records. As of June 30, 2012, all bank balances were covered under FDIC banking institution insurance coverage and also by a Federal Home Loan Bank Issuance Letter of Credit.

At June 30, 2012, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately \$855,000 per the accounting records of the Colleges and approximately \$734,000 per bank records. Of the bank balances, approximately \$614,000 was covered by federal depository insurance and approximately \$120,000 was uninsured and uncollateralized at June 30, 2012.

At June 30, 2011, the balance of current assets - cash and equivalents consist of approximately \$18,000 in petty cash and the remainder deposited in Federal Deposit Insurance Corporation (FDIC) insured banking institutions of approximately \$547,000 per the accounting records of the Colleges and approximately \$2,166,000 per bank records. As of June 30, 2011, all bank balances and a certificate of deposit of approximately \$40,121,000 were covered under FDIC banking institution insurance coverage and also by a Federal Home Loan Bank Issuance Letter of Credit.

At June 30, 2011, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately \$569,000 per the accounting records of the Colleges and approximately \$551,000 per bank records. As of June 30, 2011, all bank balances were covered under FDIC banking institution insurance coverage and also by a Federal Home Loan Bank Issuance Letter of Credit.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Investments

Investments of the various funds at June 30, 2012 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
U.S. government bonds	\$ 1,388,565	\$ 1,313,836
Corporate bonds	2,653,079	2,464,967
Common stock	10,151,569	13,030,696
Mutual funds	4,817,376	2,527,373
Money market	536,788	528,968
Held by bond trustee	<u>17,852,857</u>	<u>17,852,857</u>
 Total investments	 \$ <u>37,400,234</u>	 \$ <u>37,718,697</u>

Investments of the various funds at June 30, 2011 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Certificates of deposit	\$ 40,120,946	\$ 40,120,946
U.S. government bonds	1,879,213	1,812,423
Corporate bonds	2,674,833	2,531,962
Common stock	9,762,384	9,902,221
Mutual funds	4,482,911	3,997,244
Money market	463,014	463,014
Held by bond trustee	<u>36,667,966</u>	<u>36,667,966</u>
 Total investments	 \$ <u>96,051,267</u>	 \$ <u>95,495,776</u>

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Investments - Continued

<u>Investment Type</u>	<u>Market Value</u>	<u>2012</u> <u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money Market					
Investments	\$ 536,788	\$ 536,788	\$ -	\$ -	\$ -
Corporate Bonds	2,653,079	245,580	1,103,452	1,276,821	27,226
U.S. Govt. Bonds	<u>1,388,565</u>	<u>402,190</u>	<u>661,350</u>	<u>325,025</u>	<u>-</u>
Total	\$ <u>4,578,432</u>	\$ <u>1,184,558</u>	\$ <u>1,764,802</u>	\$ <u>1,601,846</u>	\$ <u>27,226</u>
 <u>Other Investments</u>					
Equity Securities and					
Mutual Funds	14,968,945				
Held by Bond Trustee	<u>17,852,857</u>				
Total	\$ <u>37,400,234</u>				

Amounts included under the caption held by bond trustee are invested in government securities, corporate bonds, commercial grade paper, and money market accounts. The majority of these funds are related to the 2010 and 2003 Bonds, and 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, to be held by the Trustee, which provide for certain proceeds of the 2010 and 2003 Bonds to be deposited therein. See Note 4 for additional details. During 2012 and 2011, VSC invested in the same types of investments as those held at year-end.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Investments - Continued

Investment income for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 1,897,224	\$ 2,894,151
Net realized and unrealized gain/(losses)	<u>(443,450)</u>	<u>3,072,506</u>
Total investment income	1,453,774	5,966,657
Less: management fees	<u>(119,006)</u>	<u>(110,220)</u>
Investment income, net	\$ <u>1,334,768</u>	\$ <u>5,856,437</u>

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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Investments - Continued

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

<u>Investment rating*</u>	<u>2012</u>	<u>2011</u>
AAA	\$ 153,563	\$ 504,349
AA+	1,250,179	1,374,864
AA	97,413	92,712
AA-	209,167	315,561
A+	684,654	663,925
A	410,296	494,578
A-	79,970	82,887
BBB	9,810	10,116
BBB-	117,990	58,555
BB+	154,386	186,006
BB	211,083	121,213
BB-	228,088	300,817
B+	135,449	122,425
B	137,172	101,155
B-	103,663	72,639
CCC+	26,598	20,624
CCC	<u>32,163</u>	<u>31,620</u>
	\$ <u>4,041,644</u>	\$ <u>4,554,046</u>

*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.

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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Investments - Continued

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 nonpayment 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 nonpayment, 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.

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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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:

	<u>2012</u>	<u>2011</u>
Student accounts receivable	\$ 6,836,661	\$ 6,486,406
Grants receivable	3,156,976	3,832,080
Other receivable	<u>1,820,965</u>	<u>2,761,303</u>
Subtotal	<u>11,814,602</u>	13,079,789
Allowance for doubtful accounts	<u>(1,723,390)</u>	<u>(1,461,597)</u>
Total accounts receivable, net	<u>\$ 10,091,212</u>	<u>\$ 11,618,192</u>

The notes receivable balance in the statement of net assets represents the Perkins notes receivable. It is shown net of an allowance for bad debts of approximately \$537,000 and \$411,000 at June 30, 2012 and 2011, respectively. This allowance is the aggregate that was reserved for by each college based upon historical bad loan reserve requirements, and the net increase in the allowance of \$126,000 in 2012 and \$7,000 in 2011 has been reflected in operating expenses.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 4 - **Long-Term Liabilities**

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

	2012				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	\$ 145,540,752	\$ -	\$ 4,341,495	\$ 141,199,257	\$ 4,940,334
Fair market value of interest rate swap	8,029,595	8,778,940	-	16,808,535	-
Net OPEB obligation	27,658,331	12,394,002	4,361,844	35,690,489	-
Accounts payable and accrued liabilities	13,214,172	14,216,384	13,214,172	14,216,384	14,124,206
Deferred revenue and deposits	7,668,336	6,441,848	6,838,544	7,271,640	6,484,210
Refundable grants	6,072,622	-	13,978	6,058,644	-
Total long-term liabilities	<u>\$ 208,183,808</u>	<u>\$ 41,831,174</u>	<u>\$ 28,770,033</u>	<u>\$ 221,244,949</u>	<u>\$ 25,548,750</u>

	2011				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	\$ 118,595,496	\$ 41,900,603	\$ 14,955,347	\$ 145,540,752	\$ 4,433,894
Fair market value of interest rate swap	10,011,910	-	1,982,315	8,029,595	-
Net OPEB obligation	21,714,167	10,070,405	4,126,241	27,658,331	-
Accounts payable and accrued liabilities	15,890,302	13,001,603	15,677,733	13,214,172	13,214,172
Deferred revenue and deposits	7,806,443	6,492,086	6,630,193	7,668,336	6,803,976
Refundable grants	6,083,924	-	11,302	6,072,622	-
Total long-term liabilities	<u>\$ 180,102,242</u>	<u>\$ 71,464,697</u>	<u>\$ 43,383,131</u>	<u>\$ 208,183,808</u>	<u>\$ 24,452,042</u>

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Bonds and Notes Payable

Outstanding debt is as follows:

	<u>2012</u>	<u>2011</u>
Student Housing and Dining Hall Bonds: (Collateralized by certain dormitory and dining hall facilities)		
6.25% Series A 1977, called in full on 7/1/12.	\$ 315,000	\$ 375,000
3% Series B 1977, called in full on 7/1/12.	60,000	79,000
Aramark Dining Renovation - LSC, 0% through 2012; uncollateralized.	-	32,353
Aramark Dining Renovation - VTC, 0% through 2012; uncollateralized.	-	40,000
Revenue Bonds, Series 2003:		
2.0% - 4.125% serial bonds aggregating \$16,035,000, maturing 2004 through 2018, and 4.75% term bonds of \$3,730,000, \$4,695,000, and \$5,930,000 due July 2023, July 2028, and July 2033, respectively. Interest on the serial bonds accrues semi-annually and is compounded. Interest on the term bond is payable semi-annually on the unpaid balances. Unamortized original issue discount of \$308,438 and \$322,458 has been netted against this liability at June 30, 2012 and 2011, respectively.	22,861,562	23,947,542

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
<i><u>Bonds and Notes Payable - Continued</u></i>		
Revenue Bonds, Series 1998:		
4.9% - 5.45% capital appreciation serial bonds aggregating \$5,205,000, maturing 2006 through 2013, and a 5.125% term bond of \$4,850,000, refinanced in FY2011 with 2010 Bond. Interest on the capital appreciation serial bonds accrues semi-annually and is compounded. Interest is payable only at maturity. The face amount of the capital appreciation serial bond is \$1,360,000 and \$2,080,000 at June 30, 2012 and 2011, respectively, and \$102,607 of unaccrued interest has been netted against this liability at June 30, 2011. The face amount of the term bond was \$4,850,000 and an unamortized original issue discount of \$8,206 had been netted against this liability at June 30, 2011.	\$ 1,360,000	\$ 1,969,187
CSC - 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. ^{1,3}	4,040,272	4,244,152
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 asset. ⁴	2,455,623	2,547,053

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
<i>Bonds and Notes Payable - Continued</i>		
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. There is a loan origination fee of \$404,197 which will be amortized on a straight line basis over the life of the loan. ^{2,3}	\$ 69,252,988	\$ 70,603,537
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 occurs semi-annually on the unpaid balances. Unamortized bond premium of \$308,812 and \$352,928 has been added to this liability at June 30, 2012 and 2011, respectively.	10,588,812	11,437,928
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.	<u>30,265,000</u>	<u>30,265,000</u>
	\$ <u>141,199,257</u>	\$ <u>145,540,752</u>

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Bonds and Notes Payable - Continued

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.

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 State College; (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.

In October 2003, VSC issued Revenue Bonds, Series 2003, in the principal amount of \$30,390,000. The 2003 Bonds were issued for the purposes of (1) paying the costs of constructing new dormitories at CSC and LSC and a new teaching facility for CCV in Wilder, Vermont; (2) the current refunding of the Series 1993 Bonds - at a lower interest rate; (3) paying a portion of the interest accruing on the 2003 Bonds through September 2004; (4) funding the Reserve Fund; and (5) paying the costs of issuance of the 2003 bonds.

¹ 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%.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Bonds and Notes Payable - Continued

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 \$742,408 as of June 30, 2012 and \$493,153 as of June 30, 2011.

² 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 \$15,876,742 as of June 30, 2012 and \$7,561,603 as of June 30, 2011.

³ 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.

⁴ 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%.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Bonds and Notes Payable - Continued

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 \$189,385 as of June 30, 2012 and a positive fair value of \$25,161 as of June 30, 2011.

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Debt Rollforward

Long-term debt activity for the years ended June 30, 2012 and 2011 was as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Current</u> <u>Portion</u>
Series 1977-A	\$ 375,000	\$ -	\$ (60,000)	\$ 315,000	\$ 315,000
Series 1977-B	79,000	-	(19,000)	60,000	60,000
Aramark Dining Renovation - LSC	32,353	-	(32,353)	-	-
Aramark Dining Renovation - VTC	40,000	-	(40,000)	-	-
Series 1998 with accreted interest	1,977,393	-	(617,393)	1,360,000	720,000
Series 1998 original issue discount	<u>(8,206)</u>	<u>-</u>	<u>8,206</u>	<u>-</u>	<u>-</u>
Series 1998 Bond	<u>1,969,187</u>	<u>-</u>	<u>(609,187)</u>	<u>1,360,000</u>	<u>720,000</u>
Series 2003	24,270,000	-	(1,100,000)	23,170,000	1,150,000
Series 2003 original issue discount	<u>(322,458)</u>	<u>-</u>	<u>14,020</u>	<u>(308,438)</u>	<u>(14,020)</u>
Series 2003 Bond	<u>23,947,542</u>	<u>-</u>	<u>(1,085,980)</u>	<u>22,861,562</u>	<u>1,135,980</u>
New Housing - CSC	4,244,152	-	(203,880)	4,040,272	214,422
TD Banknorth - FY 2008 Capital Projects	70,603,537	-	(1,350,549)	69,252,988	1,414,558
CCV Montpelier	2,547,053	-	(91,430)	2,455,623	96,258
Series 2010-A	11,085,000	-	(805,000)	10,280,000	940,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	<u>352,928</u>	<u>-</u>	<u>(44,116)</u>	<u>308,812</u>	<u>44,116</u>
Series 2010 Bonds	<u>41,702,928</u>	<u>-</u>	<u>(849,116)</u>	<u>40,853,812</u>	<u>984,116</u>
Total bonds and notes payable	\$ <u>145,540,752</u>	\$ <u>-</u>	\$ <u>(4,341,495)</u>	\$ <u>141,199,257</u>	\$ <u>4,940,334</u>

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Debt Rollforward - Continued

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Repayments</u>	<u>June 30, 2011</u>	<u>Portion</u>
Series 1977-A	\$ 430,000	\$ -	\$ (55,000)	\$ 375,000	\$ 60,000
Series 1977-B	97,000	-	(18,000)	79,000	19,000
Tractor - JSC	23,865	-	(23,865)	-	-
Mail Machine - JSC	2,003	-	(2,003)	-	-
Aramark Dining Renovation - LSC	70,588	-	(38,235)	32,353	32,353
Aramark Dining Renovation - VTC	70,000	-	(30,000)	40,000	30,000
Series 1998 with accreted interest	7,444,855	102,538	(5,570,000)	1,977,393	720,000
Series 1998 original issue discount	<u>(61,643)</u>	<u>53,437</u>	<u>-</u>	<u>(8,206)</u>	<u>(8,206)</u>
Series 1998 Bond	<u>7,383,212</u>	<u>155,975</u>	<u>(5,570,000)</u>	<u>1,969,187</u>	<u>711,794</u>
Series 2003	25,335,000	-	(1,065,000)	24,270,000	1,100,000
Series 2003 original issue discount	<u>(339,343)</u>	<u>16,885</u>	<u>-</u>	<u>(322,458)</u>	<u>(16,885)</u>
Series 2003 Bond	<u>24,995,657</u>	<u>16,885</u>	<u>(1,065,000)</u>	<u>23,947,542</u>	<u>1,083,115</u>
Blair Park - VTC	3,122,069	-	(3,122,069)	-	-
Blair Park - VTC	321,836	-	(321,836)	-	-
Blair Park - VTC	<u>178,201</u>	<u>-</u>	<u>(178,201)</u>	<u>-</u>	<u>-</u>
Total Blair Park Debt	<u>3,622,106</u>	<u>-</u>	<u>(3,622,106)</u>	<u>-</u>	<u>-</u>
New Housing - CSC	4,438,012	-	(193,860)	4,244,152	203,880
VTC Campus Center	2,936,188	-	(2,936,188)	-	-
TD Banknorth - FY 2008 Capital Projects	71,892,970	-	(1,289,433)	70,603,537	1,353,206
CCV Montpelier	2,633,895	-	(86,842)	2,547,053	91,430
Series 2010-A	-	11,085,000	-	11,085,000	805,000
Series 2010-B	-	30,265,000	-	30,265,000	-
Series 2010 Bond Premium	<u>-</u>	<u>377,743</u>	<u>(24,815)</u>	<u>352,928</u>	<u>44,116</u>
Series 2010 Bonds	<u>-</u>	<u>41,727,743</u>	<u>(24,815)</u>	<u>41,702,928</u>	<u>849,116</u>
Total bonds and notes payable	<u>\$ 118,595,496</u>	<u>\$ 41,900,603</u>	<u>\$ (14,955,347)</u>	<u>\$ 145,540,752</u>	<u>\$ 4,433,894</u>

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Debt Rollforward - Continued

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

<u>Year Ending June 30</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2013	\$ 4,940,334	\$ 6,281,729
2014	4,723,560	6,116,358
2015	4,885,796	5,924,717
2016	5,027,249	5,725,738
2017	5,233,119	5,498,115
2018-2022	24,856,470	24,073,804
2023-2027	24,977,826	18,632,317
2028-2032	50,582,941	6,769,573
2033-2037	9,271,962	2,574,939
2038-2042	<u>6,700,000</u>	<u>646,358</u>
	<u>\$ 141,199,257</u>	<u>\$ 82,243,648</u>

The interest amounts above reflect the 4.63%, 4.97% and 5.25% fixed rates on the debt subject to the swap agreements previously described.

According to the terms of the agreements under which the revenue bonds were sold, the bonds are general obligations of VSC. The 2003 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, interest and sinking fund requirements, when due. Additionally, a Reserve Fund has been established for the payment of the principal and interest on the 2003 Bonds in the event that the other funds available for payment thereof are insufficient. The Reserve Fund was funded upon the issuance of the 2003 Bonds from bond proceeds in the amount of \$2,060,000 which approximates the maximum annual debt service on the 2003 Bonds.

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 5 - **Functional Expense Classification**

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

	<u>2012</u>	<u>2011</u>
Instruction	\$ 56,469,539	\$ 56,716,406
Research	24,171	34,802
Public service	10,222,554	10,459,332
Academic support	21,457,422	20,235,641
Student services	27,544,121	27,309,351
Institutional support	43,418,623	38,528,945
Physical plant	9,178,137	7,480,874
Student financial support	8,990,159	10,203,313
Depreciation	7,624,758	7,792,090
Interest expense	<u>6,397,681</u>	<u>6,024,345</u>
Total	\$ <u>191,327,165</u>	\$ <u>184,785,099</u>

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 \$1,117,000 in 2012 and 2011; VMEC of approximately \$428,000 and \$460,000 in 2012 and 2011, respectively; and VIT of approximately \$786,000 in 2012 and 2011.

Capital appropriations for VSC made from the State Bond Funds were approximately \$2,099,000 and \$2,730,000 in fiscal years 2012 and 2011, respectively.

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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, 2012 and 2011, the Colleges' total payroll expense was approximately \$79,977,000 and \$78,749,000, respectively, of which approximately \$51,963,000 and \$50,621,000 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 two collective bargaining agreements and by personnel policies for nonrepresented employees. Employer contribution rates are established by employee category. There are no required employee contributions to the plan. Depending upon 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, 2012 and 2011, contributions made by the Colleges under this plan totaled approximately \$6,133,000 and \$5,977,000, or approximately 11.80% and 11.81% 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. Covered salaries for employees participating in the Vermont Employees Retirement System during the year ended June 30, 2012 and 2011 were approximately \$62,500 and \$61,000 and employer contributions were approximately \$6,100 and \$5,500, respectively. There were no contributions to the Vermont State Teachers Retirement System during 2012 and 2011.

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 made by VSC and expense is recorded as the payments are incurred. During the years ended June 30, 2012 and 2011, the expenses for these

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 7 - **Retirement Plans - Continued**

benefits were approximately \$1,417,000 and \$1,292,000, respectively. 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 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, 2012 and 2011, 440 and 424 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 2012 and 2011, VSC recognized estimated utilization of \$4,548,286 and \$4,126,241, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2012 and 2011, 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.

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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, 2012 and 2011 and the changes in VSC's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 13,262,000	\$ 10,536,000
Interest on net OPEB obligation	1,044,179	1,161,708
Adjustment to annual required contribution	<u>(1,725,735)</u>	<u>(1,627,303)</u>
Annual OPEB cost	12,580,444	10,070,405
Contribution made	<u>(4,548,286)</u>	<u>(4,126,241)</u>
Increase in net OPEB obligation	8,032,158	5,944,164
Net OPEB obligation - Beginning of year	<u>27,658,331</u>	<u>21,714,167</u>
Net OPEB obligation - End of year	\$ <u>35,690,489</u>	\$ <u>27,658,331</u>

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, 2012, 2011 and 2010 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 12,580,444	36.2%	\$ 35,690,489
June 30, 2011	\$ 10,070,405	41.0%	\$ 27,658,331
June 30, 2010	\$ 10,256,375	34.0%	\$ 21,714,167

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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 \$117,611,000, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was \$52,025,735 and the ratio of the unfunded actuarial liability to annual covered payroll was 226.1%. The latest actuarial valuation date was on July 1, 2011.

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.

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Mortality: Life expectancies were based on the RP2000 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 95% at the calculation date.

Healthcare Cost Trend Rate: The expected rate of increase in healthcare claims was assumed to be 8% for the first year for pre-65 claims and for post-65 claims. This rate was assumed to decrease at 1% per year to an ultimate rate of 5% and remain level at 5% thereafter.

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 classroom and 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 \$2,494,000 and \$2,288,000 in 2012 and 2011, respectively.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Leases - Continued

Future minimum rental payments required under operating leases with noncancelable terms in excess of one year at June 30, 2012 are as follows:

<u>Year Ending June 30:</u>	<u>Real Estate</u>	<u>Vehicles and Equipment</u>	<u>Total</u>
2013	\$ 1,983,437	\$ 261,726	\$ 2,245,163
2014	1,838,805	137,438	1,976,243
2015	1,431,257	89,268	1,520,525
2016	1,058,020	72,824	1,130,844
2017	1,067,308	3,663	1,070,971
2018 and beyond	<u>12,302,912</u>	<u> -</u>	<u>12,302,912</u>
	<u>\$ 19,681,739</u>	<u>\$ 564,919</u>	<u>\$ 20,246,658</u>

Note 10 - Capital Assets

Property and equipment activity for the years ended June 30, 2012 and 2011 is summarized below:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Land	\$ 5,712,848	\$ -	\$ 655,717	\$ -	\$ 6,368,565
Construction-in-process	<u>7,214,193</u>	<u>23,511,920</u>	<u>(23,650,463)</u>	<u> -</u>	<u>7,075,650</u>
Subtotal - Capital assets not depreciated	<u>12,927,041</u>	<u>23,511,920</u>	<u>(22,994,746)</u>	<u> -</u>	<u>13,444,215</u>
Infrastructure	32,877,703	1,607,060	(64,623)	-	34,420,140
Buildings and improvements	209,933,450	902,042	23,008,389	(499,445)	233,344,436
Leasehold improvements	298,841	-	50,980	-	349,821
Equipment	<u>14,459,891</u>	<u>2,328,452</u>	<u> -</u>	<u>(207,168)</u>	<u>16,581,175</u>
Subtotal - Capital assets depreciated	<u>257,569,885</u>	<u>4,837,554</u>	<u>22,994,746</u>	<u>(706,613)</u>	<u>284,695,572</u>
Less accumulated depreciation	<u>(109,853,528)</u>	<u>(7,624,758)</u>	<u> -</u>	<u>686,862</u>	<u>(116,791,424)</u>
Capital assets, net	<u>\$ 160,643,398</u>	<u>\$ 20,724,716</u>	<u>\$ -</u>	<u>\$ (19,751)</u>	<u>\$ 181,348,363</u>

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

Note 10 - Capital Assets - Continued

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Land	\$ 5,712,848	\$ -	\$ -	\$ -	\$ 5,712,848
Construction-in-process	<u>3,828,702</u>	<u>12,236,056</u>	<u>(8,850,565)</u>	<u>-</u>	<u>7,214,193</u>
Subtotal - Capital assets not depreciated	<u>9,541,550</u>	<u>12,236,056</u>	<u>(8,850,565)</u>	<u>-</u>	<u>12,927,041</u>
Infrastructure	31,383,257	-	1,494,446	-	32,877,703
Buildings and improvements	202,722,625	-	7,210,825	-	209,933,450
Leasehold improvements	153,547	-	145,294	-	298,841
Equipment	<u>14,562,354</u>	<u>1,538,111</u>	<u>-</u>	<u>(1,640,574)</u>	<u>14,459,891</u>
Subtotal - Capital assets depreciated	<u>248,821,783</u>	<u>1,538,111</u>	<u>8,850,565</u>	<u>(1,640,574)</u>	<u>257,569,885</u>
Less accumulated depreciation	<u>(103,702,012)</u>	<u>(7,792,090)</u>	<u>-</u>	<u>1,640,574</u>	<u>(109,853,528)</u>
Capital assets, net	<u>\$ 154,661,321</u>	<u>\$ 5,982,077</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,643,398</u>

Included in construction-in-process is interest expense of borrowing during the construction period. Totals for the fiscal year 2012 and 2011 are \$109,530 and \$159,382, respectively.

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 which 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.

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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 \$150,000 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 \$1,544,000 at June 30, 2012 and \$1,265,000 at June 30, 2011 and are based on historical data. A medical and dental claim roll-forward is presented below:

	<u>2012</u>	<u>2011</u>
Medical and dental claims reserve, Beginning of year	\$ 1,265,000	\$ 1,225,000
Incurred claims	14,332,000	16,340,000
Payments on claims	<u>(14,053,000)</u>	<u>(16,300,000)</u>
Medical and dental claims reserve, End of year	<u>\$ 1,544,000</u>	<u>\$ 1,265,000</u>

During 2005, VSC began self-insuring its workers' compensation program. 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 aggregate claims in excess of \$896,400 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:

	<u>2012</u>	<u>2011</u>
Workers' compensation reserve, Beginning of year	\$ 203,000	\$ 145,000
Workers' compensation accrued during the year	430,000	389,000
Claims paid/reserved/claims administration	<u>(404,000)</u>	<u>(331,000)</u>
Workers' compensation reserve, End of year	<u>\$ 229,000</u>	<u>\$ 203,000</u>

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

Notes to the Financial Statements - Continued

June 30, 2012 and 2011

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

Commitments

VSC has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2012.

<u>Project</u>	<u>Expended through June 30, 2012</u>	<u>Committed Future Costs</u>	<u>Total Committed Costs of Project</u>
OC Stonecutters	\$ 785,120	\$ 839,685	\$ 1,624,805
CSC Project 2012	10,612,133	1,735,745	12,347,878
JSC Pond Remediation	147,703	76,121	223,824
JSC Stearns Retain Wall Replace	60,997	41,352	102,349
JSC Arthur Bathroom Renovation	275,427	314,430	589,857
CCV Montpelier Academic Facility	3,540,309	740,375	4,280,684
VTC Bio-digester Project	<u>223,091</u>	<u>3,698,659</u>	<u>3,921,750</u>
	<u>\$ 15,644,780</u>	<u>\$ 7,446,367</u>	<u>\$ 23,091,147</u>

At June 30, 2012, invoices related to construction projects of approximately \$2,059,000 were included in accounts payable.

Employment Contracts

The Colleges have employment contracts with certain officers of the organization that expire on various dates through fiscal year 2013 and fiscal year 2014. The agreements provide for aggregate annual base salaries of \$1,377,752 in fiscal year 2013 and \$1,287,752 in fiscal year 2014 and may be terminated with cause at any time.

SUPPLEMENTAL INFORMATION

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

Schedule of Funding Progress (Unaudited)

June 30, 2012 and 2011

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, 2011	\$ -	\$ 117,611,000	\$ 117,611,000	0%	\$ 52,025,735	226.1%
July 1, 2009	\$ -	\$ 94,168,000	\$ 94,168,000	0%	\$ 46,127,000	204.1%
July 1, 2007	\$ -	\$ 119,894,000	\$ 119,894,000	0%	\$ 41,292,000	290.4%

VSC has to date performed three actuarial valuations, the latest on July 1, 2011, for purposes of satisfying the requirements of GASB Statement No. 45. The actuarial accrued liability for all benefits at this time was \$117,611,000, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was \$52,025,735, and the ratio of the unfunded actuarial liability to annual covered payroll was 226.1%.

**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***

**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 the financial statements of Vermont State Colleges (a component unit of the State of Vermont) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.


Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of Vermont State Colleges in a separate letter dated October 19, 2012.

This report is intended solely for the information and use of management, the Board of Trustees, the audit committee, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Certified Public Accountants
Braintree, Massachusetts

October 19, 2012