

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

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**FINANCIAL STATEMENTS**

**JUNE 30, 2013**

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

**Financial Statements**

**June 30, 2013 and 2012**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2013 and 2012, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont State Colleges at June 30, 2013 and 2012 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.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-11 and the schedule of funding progress on page 49 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013, on our consideration of Vermont State Colleges' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*O'Connor and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

October 23, 2013

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

## Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

### 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, 2013 and selected comparative information for the year ended June 30, 2012. 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 Position, the Statements of Revenues, Expenses and Changes in Net Position 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 Position (SNP) - 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 Position (SRECNP) - 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, 2013 and 2012**

**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 Position***

The condensed statement of net position presents the financial position of VSC as of June 30. This statement shows the assets and liabilities at the end of the fiscal year using the accrual basis of accounting.

	<u>2013</u>	<u>2012</u>
Current Assets	\$ 25,134,000	\$ 65,159,000
Non-Current Assets:		
Cash, Long-Term Investments and Deposits with		
Bond Trustees	52,058,000	23,182,000
Capital Assets, Net	194,505,000	181,348,000
Other	<u>6,075,000</u>	<u>6,177,000</u>
Total Assets	\$ <u>277,772,000</u>	\$ <u>275,866,000</u>
Deferred Outflows of Resources:		
Interest Rate Swap, accumulated decrease in fair value	\$ <u>10,603,000</u>	\$ <u>16,809,000</u>
Current Liabilities	22,854,000	25,549,000
Non-Current Liabilities	<u>191,360,000</u>	<u>195,696,000</u>
Total Liabilities	\$ <u>214,214,000</u>	\$ <u>221,245,000</u>
Investment in Capital Assets, net	65,590,000	51,786,000
Restricted	23,384,000	20,639,000
Unrestricted	<u>(14,813,000)</u>	<u>(995,000)</u>
Total Net Position	\$ <u>74,161,000</u>	\$ <u>71,430,000</u>

Current assets are comprised of cash, accounts receivable, inventories, deposits with bond trustees and prepaid expenses. Cash and equivalents decreased \$35,236,000 primarily due to funds being invested in long term investments. Deposits with bond trustees decreased \$7,362,000 due to bond funds being disbursed for capital projects. Other assets increased \$1,800,000 mostly due to slightly higher software maintenance contracts in prepaid. Changes in accounts receivable and inventories were immaterial.

# VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

## Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

### Using the Financial Statements - Continued

#### *Condensed Statement of Net Position - Continued*

Non-current assets include cash and equivalents, endowments and other long-term investments, capital assets and notes receivable. Long term investments increased \$31,727,000 due to current asset cash being invested during the year. Deposits with bond trustees decreased \$2,800,000 due to the 2013 bond refinancing. Capital assets, net increased \$13,157,000 primarily due to a \$12,526,000 software donation to Workforce Development (a subsidiary of Vermont Tech), as well as small capital projects. Changes in notes receivable and other assets were immaterial.

Deferred outflows of resources is a new asset classification on the Statements of Net Position as required by the implementation of GASB 63 during the current fiscal year. Deferred outflows of resources includes the accumulated decrease in fair market values of interest rate swaps, which decreased \$6,206,000 due to the change in the interest rate market.

Current liabilities consist of accounts payable and accrued expenses, unearned revenue and deposits, and the current portion of long-term debt. Change in current liabilities was from a decrease of \$1,390,000 in accounts payable and accrued expenses and a \$1,303,000 decrease in the current term portion of long term debt due to the 2013 bond refinancing. Changes in unearned revenue and deposits were insignificant.

Non-current liabilities consist of accounts payable and accrued expenses, refundable grants, post-employment benefit obligations and the long-term portion of debt. Post-employment benefit obligations increased \$7,063,000 due to the annual GASB 45 liability accrual. Fair market value of interest rate swaps decreased \$6,206,000 due to a change in short term interest rates. Long term debt decreased \$5,323,000 due primarily to annual debt payments.

GASB requires that net position be reported in three net position categories. Investment in capital assets, net represents the historical cost of equipment and property reduced by the corresponding depreciation and related debt outstanding. Restricted net position has two categories: Restricted non-expendable net position are those that are required to be retained in perpetuity. Restricted expendable net position are those funds whose use is subject to externally imposed conditions that can be fulfilled by the actions of VSC or passage of time. Unrestricted net position includes amounts committed or designated to support specific academic programs, capital construction projects and other purposes. Investment in capital assets, net increased \$13,804,000 primarily due to a software donation of \$12,526,000. Restricted net position increased \$2,745,000 primarily due to the increase in the VSC endowment funds. Unrestricted net position decreased \$13,834,000 primarily due to recording post-employment benefit obligations of \$7,063,000, capital projects of \$2,550,000 financed out of unrestricted fund balance, unrealized investments losses of \$1,290,000 and loss from operations at a college.

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

**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2013 and 2012**

**Using the Financial Statements - Continued**

***Condensed Statement of Revenues, Expenses and Changes in Net Position***

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

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Tuition and Fees, Net	\$ 91,029,000	\$ 89,751,000
Residence and Dining, Net	20,652,000	19,928,000
Grants and Contracts, and Sales and Service Revenue	20,664,000	20,638,000
Other	<u>2,600,000</u>	<u>1,809,000</u>
Total Operating Revenues	<u>134,945,000</u>	<u>132,126,000</u>
Operating Expenses:		
Salaries and Wages	81,454,000	79,822,000
Employee Benefits	35,133,000	32,960,000
Employee Benefits - GASB 45	7,063,000	8,032,000
Scholarships and Fellowships	8,008,000	7,909,000
Supplies and Other Services	42,663,000	41,899,000
Utilities	6,926,000	6,683,000
Depreciation	<u>13,239,000</u>	<u>7,624,000</u>
Total Operating Expenses	<u>194,486,000</u>	<u>184,929,000</u>
Net Operating Loss	<u>(59,541,000)</u>	<u>(52,803,000)</u>
Non-Operating and Other Revenues:		
State Appropriation	29,991,000	28,097,000
Non-Operating Federal Grant	20,797,000	20,327,000
Gifts	2,623,000	2,230,000
Other Non-Operating Revenues and Expenses	<u>8,861,000</u>	<u>(3,454,000)</u>
Total Non-Operating and Other Revenues	<u>62,272,000</u>	<u>47,200,000</u>
Increase (Decrease) in Net Position	<b>2,731,000</b>	<b>(5,603,000)</b>
Net Position, Beginning of Year	<u>71,430,000</u>	<u>77,033,000</u>
Net Position, End of Year	<b>\$ <u>74,161,000</u></b>	<b>\$ <u>71,430,000</u></b>



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

**June 30, 2013 and 2012**

**Using the Financial Statements - Continued**

***Condensed Statement of Revenues, Expenses and Changes in Net Position - Continued***

Tuition and fees, net of regularly provided discounts and scholarship allowances of \$22,609,000, increased \$1,278,000 or 1% over FY2012 to \$91,029,000. This increase was from a combination of increased student enrollment and tuition. Tuition and fees accounts for 67% of total operating revenues. Scholarship allowance increased \$1,727,000. Residence and dining, net, which accounts for 15% of total operating revenue increased \$723,000. 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 \$3,805,000 or 3% over FY2012 to \$116,587,000. This increase was brought about by wage increases and the continued rising cost of health care and other benefits. This expense category clearly represents the largest expense at VSC, comprising 64% of all Operating Expenses. VSC currently employs approximately 2,350 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 increased slightly. Supplies and other services, which include departmental and operating expenses, increased by \$764,000. The increase in utilities reflects increased energy prices compared to the prior year. The significant increase in depreciation reflects the additional depreciation attributable to a software donation.

The increase of \$2,000,000 in State Appropriations represents the state funds made available for the VSC to fund the fit up costs of the new academic space in Brattleboro. Non-operating federal grants and gifts had insignificant changes with the prior year. Other non-operating revenues/expenses saw a significant increase of \$12,317,000 due primarily to a software donation to VSC.

# VERMONT STATE COLLEGES

## (a Component Unit of the State of Vermont)

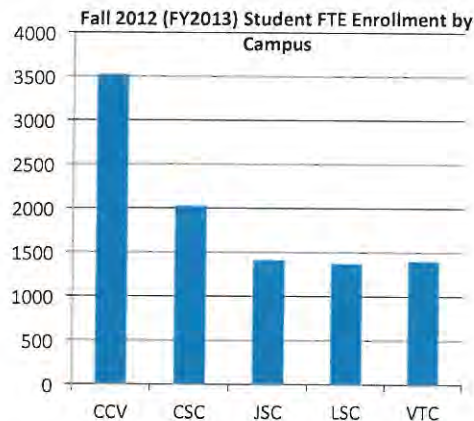
### Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2013 and 2012

#### Student Enrollment

For Fall 2012, the VSC experienced a 2% decline in full time equivalent (FTE) and headcount enrollment. For Fall 2011, the VSC also experienced a 2% decline in FTE and headcount enrollment. On an FTE basis 9,685 were enrolled in Fall 2012 and 9,868 were enrolled in Fall 2011. 12,911 were enrolled on a headcount basis for Fall 2012 while 13,200 were enrolled on a headcount basis for Fall 2011. For Fall 2012, 84% of the student population was full time and 80% were Vermont residents.

FALL STUDENT ENROLLMENTS										
	Fall 2012		Fall 2011		Fall 2010		Fall 2009		Fall 2008	
Full Time	10,794	84%	11,020	83%	11,381	84%	11,033	84%	10,167	83%
Part Time	2,117	16%	2,180	17%	2,113	16%	2,137	16%	2,143	17%
<b>Headcount</b>	<b>12,911</b>	<b>100%</b>	<b>13,200</b>	<b>100%</b>	<b>13,494</b>	<b>100%</b>	<b>13,170</b>	<b>100%</b>	<b>12,310</b>	<b>100%</b>
In State	7,766	80%	7,894	80%	8,188	81%	7,875	80%	7,237	79%
Out of state	1,919	20%	1,974	20%	1,938	19%	1,957	20%	1,975	21%
<b>Full Time Equivalent</b>	<b>9,685</b>	<b>100%</b>	<b>9,868</b>	<b>100%</b>	<b>10,126</b>	<b>100%</b>	<b>9,832</b>	<b>100%</b>	<b>9,212</b>	<b>100%</b>



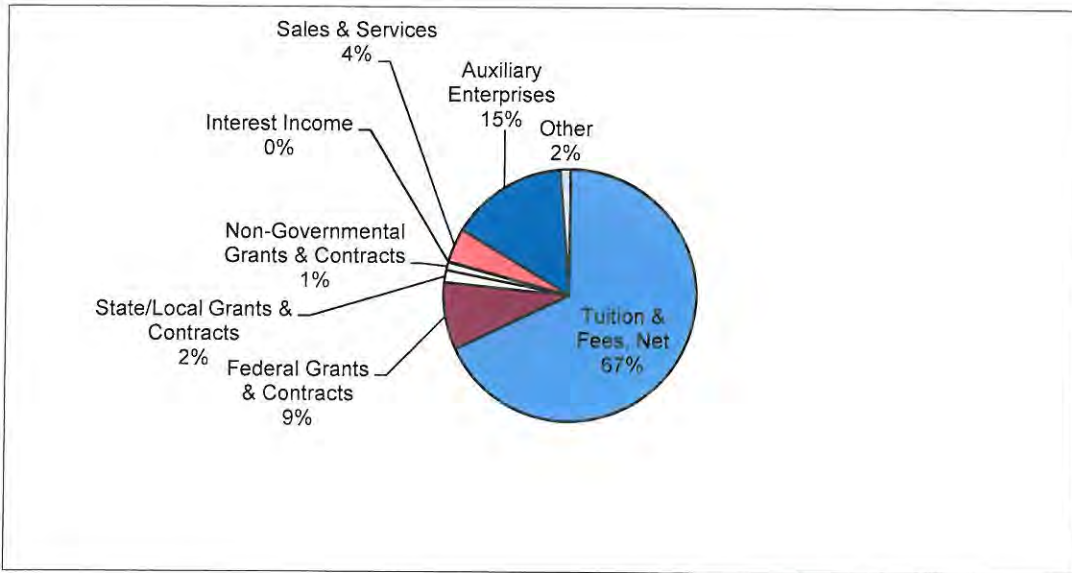
Fall Student Enrollments - FTE											
	% Change Fall 2008 - Fall 2012	Fall 2012	% Change	Fall 2011	% Change	Fall 2010	% Change	Fall 2009	% Change	Fall 2008	% Change
CCV	12.2%	3,520	-4.5%	3,685	-3.3%	3,810	8.9%	3,500	11.6%	3,136	2.3%
CSC	5.3%	2,024	0.5%	2,014	-2.1%	2,058	3.2%	1,995	3.7%	1,923	1.1%
JSC	-5.4%	1,415	-5.2%	1,493	-3.2%	1,543	1.0%	1,528	2.1%	1,496	0.9%
LSC	6.3%	1,374	4.1%	1,320	1.3%	1,303	-5.0%	1,371	6.0%	1,293	-1.3%
VTC	-0.4%	1,401	-0.3%	1,405	-3.4%	1,455	1.5%	1,433	1.9%	1,406	6.4%
	5.2%	9,734	-1.8%	9,917	-2.5%	10,169	3.5%	9,827	6.2%	9,254	1.9%

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

**Management's Discussion and Analysis (Unaudited) - Continued**

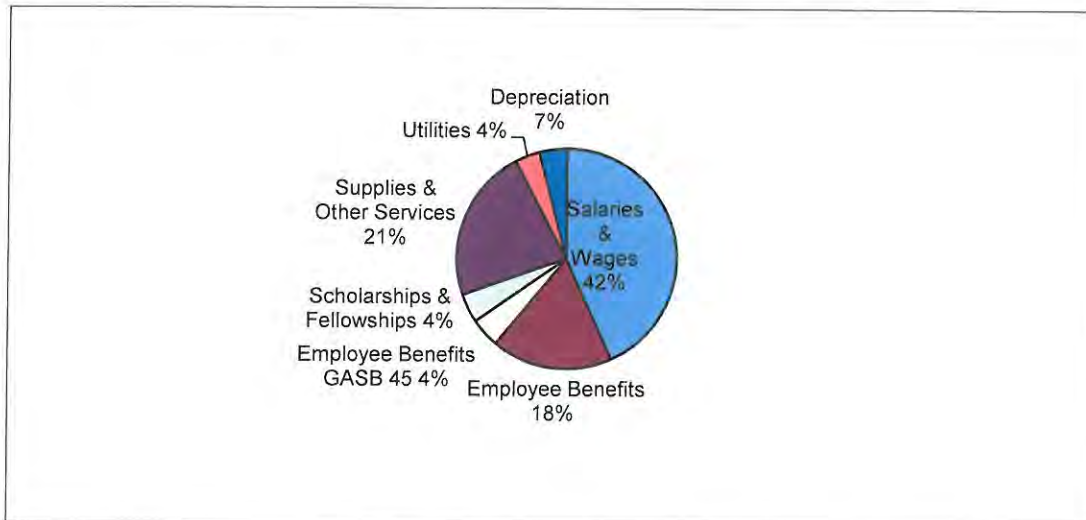
**June 30, 2013 and 2012**

**FY2013 Operating Revenues**



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 2013 and 2012 were \$4,099,000 and \$2,099,000, respectively.

**FY2013 Operating Expenses**



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

**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2013 and 2012**

**Capital Assets and Debt Administration**

At June 30, 2013, VSC had \$194,505,000 invested in Capital Assets, net of Accumulated Depreciation of \$129,857,000. Depreciation expense for the current year totaled \$13,239,000.

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 2012 fiscal year totaled \$7,625,000.

	<u>2013</u>	<u>2012</u>
Net Capital Assets		
Capital Assets		
Land	\$ 6,428,000	\$ 6,369,000
Infrastructure	36,441,000	34,420,000
Buildings and improvements	240,504,000	233,344,000
Leasehold improvements	2,144,000	350,000
Equipment	30,854,000	16,581,000
Construction in Process	<u>7,991,000</u>	<u>7,075,000</u>
Total	324,362,000	298,139,000
Less: Accumulated Depreciation	<u>(129,857,000)</u>	<u>(116,791,000)</u>
Net Capital Assets	\$ <u>194,505,000</u>	\$ <u>181,348,000</u>

VSC has net bonds and notes payable of \$134,573,000 that mature from FY2014 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 FY2013. Vermont continues to experience a demographic decline in the overall number of Vermont high school students. Accordingly, the VSC continues to proactively enhance its recruiting and retention efforts. 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, 2013 and 2012

### Economic Factors That Will Affect The Future - Continued

For FY2013, State Operating Appropriations were \$25,892,000, or 14%, 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 FY2013, 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). FY2013 out-of-state tuition increased 4% at CCV, LSC and VTC while increasing 5% at JSC and 7% at CSC. VSC will continue to promote the cause of higher education to the State administration and legislature.

As a result of positive market conditions during FY2013, VSC had net realized and unrealized gains on the endowments.

Approximately 739 of the 1,079 full-time employees at VSC are covered by union contracts. VSC employs approximately 2,350 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 accumulated value of prior benefits 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 present value of all benefits (past and future obligations) is estimated to be \$157,460,000. The VSC has been discussing with its board of trustees and employees about a fair and balanced retirement healthcare package and funding approach that could have the GASB liability fully funded in within ten years.

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

**Statements of Net Position**

**June 30,**

**Assets and Deferred Outflows of Resources**

	<u>2013</u>	<u>2012</u>
<b>Current Assets:</b>		
Cash and equivalents (Note 2)	\$ 3,446,616	\$ 38,682,802
Accounts receivable, net (Note 3)	10,804,059	10,091,212
Inventories	304,797	253,839
Deposit with bond trustees (Note 2)	7,710,558	15,072,756
Other current assets	<u>2,868,378</u>	<u>1,058,338</u>
<b>Total Current Assets</b>	<u>25,134,408</u>	<u>65,158,947</u>
<b>Non-current Assets:</b>		
Cash and equivalents (Note 2)	783,947	854,558
Long-term investments (Note 2)	51,274,407	19,547,377
Deposits with bond trustees (Note 2)	-	2,780,101
Notes receivable, net (Note 3)	5,223,078	5,207,715
Other assets	851,136	969,464
Capital assets, net (Note 10)	<u>194,504,801</u>	<u>181,348,363</u>
<b>Total Non-current Assets</b>	<u>252,637,369</u>	<u>210,707,578</u>
<b>Total Assets</b>	<u>277,771,777</u>	<u>275,866,525</u>
<b>Deferred Outflows of Resources:</b>		
Interest rate swap, accumulated decrease in fair value (Note 4)	<u>10,603,309</u>	<u>16,808,535</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 288,375,086</u>	<u>\$ 292,675,060</u>

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

## Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities (Note 11)	\$ 12,734,330	\$ 14,124,206
Unearned revenue and deposits	6,481,816	6,484,210
Current portion of long-term debt (Note 4)	<u>3,637,524</u>	<u>4,940,334</u>
<b>Total Current Liabilities</b>	<u>22,853,670</u>	<u>25,548,750</u>
<b>Non-current Liabilities:</b>		
Accounts payable and accrued liabilities (Note 11)	220,129	92,178
Unearned revenue and deposits	798,016	787,430
Refundable grants	6,049,434	6,058,644
Post-employment benefit obligations (Note 8)	42,753,755	35,690,489
Interest rate swap (Note 4)	10,603,309	16,808,535
Long-term debt, excluding current portion (Note 4)	<u>130,935,970</u>	<u>136,258,923</u>
<b>Total Non-current Liabilities</b>	<u>191,360,613</u>	<u>195,696,199</u>
<b>Total Liabilities</b>	<u>214,214,283</u>	<u>221,244,949</u>
<b>Net Position:</b>		
Investment in capital assets, net	65,590,456	51,786,211
Restricted nonexpendable	15,128,413	14,446,789
Restricted expendable	8,255,108	6,191,758
Unrestricted	<u>(14,813,174)</u>	<u>(994,647)</u>
<b>Total Net Position</b>	<u>74,160,803</u>	<u>71,430,111</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 288,375,086</u>	<u>\$ 292,675,060</u>

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

**Statements of Revenues, Expenses and Changes in Net Position**

**For the Years Ended June 30,**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues:</b>		
Tuition and fees	\$ 113,637,743	\$ 110,632,877
Residence and dining	20,651,576	19,928,368
Less: scholarship allowances	<u>(22,608,571)</u>	<u>(20,881,867)</u>
Net Tuition, Fees, and Residence and Dining Revenue	111,680,748	109,679,378
Federal grants and contracts	12,094,281	11,417,042
State and local grants and contracts	1,696,272	2,034,437
Non-governmental grants and contracts	1,343,831	1,386,443
Interest income	105,440	102,176
Sales and services of educational activities	5,529,267	5,799,595
Other auxiliary enterprises	959,296	661,213
Other operating revenues	<u>1,535,602</u>	<u>1,045,694</u>
<b>Total Operating Revenues</b>	<u>134,944,737</u>	<u>132,125,978</u>
<b>Operating Expenses (Notes 5, 9 and 11):</b>		
Salaries and wages	81,453,823	79,821,981
Employee benefits (Notes 7 and 8)	42,196,246	40,992,260
Scholarships and fellowships	8,007,863	7,908,653
Supplies and other services	42,663,166	41,898,700
Utilities	6,926,313	6,683,132
Depreciation (Note 10)	<u>13,238,072</u>	<u>7,624,758</u>
<b>Total Operating Expenses</b>	<u>194,485,483</u>	<u>184,929,484</u>
<b>Net Operating Loss</b>	<u>(59,540,746)</u>	<u>(52,803,506)</u>
<b>Non-operating Revenues (Expenses):</b>		
State appropriations (Note 6)	25,891,792	25,998,079
Federal grants and contracts	20,797,045	20,327,223
Gifts	2,623,021	2,230,363
Investment income, net of expenses (Note 2)	2,189,117	1,334,768
Interest expense on capital debt	(6,434,642)	(6,397,681)
Other non-operating revenues	<u>853</u>	<u>560,198</u>
<b>Net Non-operating Revenues</b>	<u>45,067,186</u>	<u>44,052,950</u>
<b>Decrease in Net Position Before Other Revenues</b>	(14,473,560)	(8,750,556)
<b>Other Revenues:</b>		
State appropriations for capital expenditures (Note 6)	4,099,241	2,099,484
Capital grants and gifts	12,568,125	58,501
Additions to non-expendable assets	<u>536,886</u>	<u>990,077</u>
<b>Increase (Decrease) in Net Position</b>	<u>2,730,692</u>	<u>(5,602,494)</u>
Net Position, Beginning of Year	<u>71,430,111</u>	<u>77,032,605</u>
<b>Net Position, End of Year</b>	<u>\$ 74,160,803</u>	<u>\$ 71,430,111</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>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities:</b>		
Tuition and fees	\$ 103,614,930	\$ 102,257,873
Grants and contracts	14,345,004	15,471,137
Sales and services of educational activities	5,529,267	5,799,595
Auxiliary enterprises	959,296	661,213
Interest received	105,440	102,176
Payments to suppliers	(53,004,669)	(47,473,915)
Payments to employees	(115,900,598)	(112,794,155)
Loans issued to students	(373,109)	(572,287)
Collection of loan payments	283,403	724,929
Other cash receipts	<u>1,508,967</u>	<u>1,065,445</u>
Net Cash Applied to Operating Activities	<u>(42,932,069)</u>	<u>(34,757,989)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
State appropriations	25,891,792	25,998,079
Non-operating federal grants	20,797,045	20,327,223
Gifts and grants	<u>2,623,021</u>	<u>2,230,363</u>
Net Cash Provided by Non-capital Financing Activities	<u>49,311,858</u>	<u>48,555,665</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Capital appropriations	4,099,241	2,099,484
Capital and non-expendable grants and gifts	579,281	1,048,578
Purchase of capital assets	(13,909,942)	(28,349,474)
Change in deposits with bond trustee	10,142,299	18,815,109
Proceeds from capital debt borrowings	20,063,889	-
Payments on capital debt	(26,689,652)	(4,341,495)
Interest expense on capital debt	(6,434,642)	(6,397,681)
Other receipts	<u>853</u>	<u>560,198</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(12,148,673)</u>	<u>(16,565,281)</u>

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

**Statements of Cash Flows - Continued**

**For the Years Ended June 30,**

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales and maturities of investments	\$ 41,324,878	\$ 44,490,759
Purchase of investments	(71,564,092)	(5,291,666)
Interest and dividends received on investments	<u>701,301</u>	<u>1,971,599</u>
Net Cash (Applied to) Provided by Investing Activities	<u>(29,537,913)</u>	<u>41,170,692</u>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	<b>(35,306,797)</b>	<b>38,403,087</b>
Cash and Equivalents, Beginning of Year	<u>39,537,360</u>	<u>1,134,273</u>
<b>Cash and Equivalents, End of Year</b>	<b><u>\$ 4,230,563</u></b>	<b><u>\$ 39,537,360</u></b>
<b>Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:</b>		
Operating loss	\$ (59,540,746)	\$ (52,803,506)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	13,238,072	7,624,758
Bad debts	126,127	1,325,564
Net loss on disposal of capital assets	41,162	19,751
Changes in assets and liabilities:		
Accounts receivable	(838,974)	201,416
Inventories	(50,958)	28,659
Other assets	(1,691,712)	69,032
Notes receivable	(15,363)	152,641
Accounts payable and accrued liabilities	(1,261,925)	1,002,212
Unearned revenues, deposits and refundable grants	(1,018)	(410,674)
Post-employment benefit obligations	<u>7,063,266</u>	<u>8,032,158</u>
Net Cash Applied to Operating Activities	<u>\$ (42,932,069)</u>	<u>\$ (34,757,989)</u>
<b>Non Cash Transactions:</b>		
Equipment provided by capital grants and gifts	<u>\$ 12,525,730</u>	<u>\$ -</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, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies

Organization

Vermont State Colleges include the following entities: System Office and Services, Community College of Vermont (CCV), Castleton 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 accounting principles generally accepted in the United States of America, 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. The accompanying statements of activities demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenues.

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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 position as those that generally result from exchange transactions such as charges for services provided to students and for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include the Colleges' operating appropriations from the State of Vermont, 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 Position*

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

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

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

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

**Unrestricted:** All other categories of net position. Unrestricted net position 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.

*Inventories*

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Capital Assets*

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

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

*Investments*

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

*Other Significant Accounting Policies*

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

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

*Refundable Grants*

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

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Unearned Revenue and Deposits*

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

*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 they 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, the 2007 capital construction loan issuance costs of \$405,221, and the 2013 bond issuance costs of \$193,518 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, 2013 and 2012 aggregated \$650,058 and \$360,243, respectively. The unamortized portion of the issuance costs are included in other assets. Due to the refinancing of the 2003 bond with the 2013 bond, all costs related to the 2003 bond were written-off in fiscal year 2013.

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 they are included in bonds and notes payable. Accumulated amortization as of June 30, 2013 and 2012 is \$584,721 and \$276,283, respectively.

VSC incurred bond premiums related to the 2010 and 2013 bonds at the time of the issuance of the bonds. The bond premium for the 2010 of \$377,743 is amortized on a straight-line basis over approximately 8.5 years. The bond premium for the 2013 bond of \$1,898,889 is amortized over 20 years. Cumulative amortization of the bond premium totals \$136,783 and \$68,931 as of June 30, 2013 and 2012, respectively. The bond premium is included in bonds and notes payable.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*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 post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues 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 post-employment benefit liability is recognized on the balance sheet over time.

*Income Taxes*

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

*Grants*

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

*Use of Estimates in Financial Statement Preparation*

The preparation of financial statements in conformity with United States 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 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 believes this Statement will require approximately \$835,000 of bond issuance costs to be written-off in the next fiscal year.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*New Governmental Accounting Pronouncements - Continued*

*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 believes this Statement will not have a material effect on the financial statements.*

*GASB 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. Management is in the process of reviewing this statement and its potential effect upon their financial reporting, but does not expect any material impact.*

*GASB 69, Government Combinations and Disposals of Government Operations is required for periods ending after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this statement and its potential effect upon their financial reporting. It does not expect any material impact.*

*GASB 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, is required for periods beginning after June 15, 2013. This Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Management does not believe this statement will have a material effect on the financial statements.*



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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Reclassifications*

Certain amounts on the 2012 financial statements have been reclassified to conform to the 2013 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.

At June 30, 2013, 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 \$3,429,000 per the accounting records of the Colleges and approximately \$5,318,000 per bank records. Of the bank balances, approximately \$1,139,000 was covered by Federal depository insurance and approximately \$4,179,000 was uninsured and uncollateralized at June 30, 2013.

At June 30, 2013, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately \$784,000 per the accounting records of the Colleges and approximately \$777,000 per bank records. Of the bank balances, approximately \$269,000 was covered by Federal depository insurance and approximately \$508,000 was uninsured and uncollateralized at June 30, 2013.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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 balance 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.

*Investments*

Investments of the various funds at June 30, 2013 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
U.S. government bonds	\$ 19,451,817	\$ 19,543,271
Corporate bonds	13,397,791	13,436,645
Common stock	5,380,913	6,038,616
Mutual funds	10,980,785	9,210,466
Money market	2,063,101	2,063,101
Held by bond trustee	<u>7,710,558</u>	<u>7,710,558</u>
Total investments	\$ <u>58,984,965</u>	\$ <u>58,002,657</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Investments - Continued*

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>

Investment maturities include deposits held by bond trustee, which are invested in various government securities, corporate bonds, commercial grade paper, and money market accounts. The majority of these funds are related to the 2013 and 2010 bonds, and 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.

**2013**  
**Investment Maturities (in years)**

<u>Investment Type</u>	<u>Market Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money Market					
Investments	\$ 2,063,101	\$ 2,063,101	\$ -	\$ -	\$ -
Corporate Bonds	13,397,791	2,522,241	7,627,180	3,207,942	40,428
U.S. Govt. Bonds	<u>19,451,817</u>	<u>8,403,371</u>	<u>8,126,577</u>	<u>2,921,869</u>	<u>-</u>
 Total	 <u>34,912,709</u>	 <u>12,988,713</u>	 <u>15,753,757</u>	 <u>6,129,811</u>	 <u>40,428</u>

Other Investments

Equity Securities and	
Mutual Funds	16,361,698
Held by Bond Trustee	<u>7,710,558</u>
 Total	 \$ <u>58,984,965</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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>

Other Investments

Equity Securities and Mutual Funds	14,968,945
Held by Bond Trustee	<u>17,852,857</u>
Total	\$ <u>37,400,234</u>

Investment income for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 962,731	\$ 1,897,224
Net realized and unrealized gain (losses)	<u>1,386,936</u>	<u>(443,450)</u>
Total investment income	2,349,667	1,453,774
Less: management fees	<u>(160,550)</u>	<u>(119,006)</u>
Investment income, net	\$ <u>2,189,117</u>	\$ <u>1,334,768</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, 2013 and 2012**

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>2013</u>	<u>2012</u>
AAA	\$ 19,046,899	\$ 153,563
AA+	1,046,992	1,250,179
AA	1,956,037	97,413
AA-	2,242,423	209,167
A+	2,938,966	684,654
A	1,661,660	410,296
A-	1,338,194	79,970
BBB+	124,264	-
BBB	1,326,981	9,810
BBB-	124,460	117,990
BB+	169,470	154,386
BB	152,612	211,083
BB-	198,318	228,088
B+	227,896	135,449
B	179,528	137,172
B-	62,569	103,663
CCC+	52,339	26,598
CCC	<u>-</u>	<u>32,163</u>
	<b>\$ 32,849,608</b>	<b>\$ 4,041,644</b>

\*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.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Investments - Continued*

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

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

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

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

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

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

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

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

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, 2013 and 2012**

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>2013</u>	<u>2012</u>
Student accounts receivable	\$ 6,814,704	\$ 6,836,661
Grants receivable	3,962,607	3,156,976
Other receivable	<u>2,118,655</u>	<u>1,820,965</u>
Subtotal	<u>12,895,966</u>	11,814,602
Allowance for doubtful accounts	<u>(2,091,907)</u>	<u>(1,723,390)</u>
Total accounts receivable, net	<u>\$ 10,804,059</u>	<u>\$ 10,091,212</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 \$515,000 and \$537,000 at June 30, 2013 and 2012, respectively. This allowance is the aggregate that was reserved for by each college based upon historical bad loan reserve requirements, the net decrease in the allowance of \$22,000 in 2013 and the net increase in the allowance of \$126,000 in 2012 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, 2013 and 2012**

Note 4 - **Long-Term Liabilities**

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

	2013				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	\$ 141,199,257	\$ 20,063,889	\$ 26,689,652	\$ 134,573,494	\$ 3,637,524
Fair market value of interest rate swap	16,808,535	-	6,205,226	10,603,309	-
Net OPEB obligation	35,690,489	12,047,665	4,984,399	42,753,755	-
Accounts payable and accrued liabilities	14,216,384	12,954,459	14,216,384	12,954,459	12,734,330
Unearned revenue and deposits	7,271,640	6,492,402	6,484,210	7,279,832	6,481,816
Refundable grants	6,058,644	-	9,210	6,049,434	-
Total long-term liabilities	<u>\$ 221,244,949</u>	<u>\$ 51,558,415</u>	<u>\$ 58,589,081</u>	<u>\$ 214,214,283</u>	<u>\$ 22,853,670</u>
	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
Unearned 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>



**VERMONT STATE COLLEGES**  
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**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Bonds and Notes Payable*

Outstanding debt is as follows:

	<u>2013</u>	<u>2012</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
3% Series B 1977, called in full on 7/1/12.	-	60,000
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 has been netted against this liability at June 30, 2012. The 2003 bonds were refinanced with proceeds from the 2013 bonds.	-	22,861,562
VSC - Capital Construction Projects Variable rate (69% of one-month LIBOR plus 3.12%) term loan of \$2,750,000 for 20 years with monthly payments of principal and interest due through January 2029; loan has a negative pledge against assets. <sup>4</sup>	<b>2,359,365</b>	2,455,623

**VERMONT STATE COLLEGES**  
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**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

	<u>2013</u>	<u>2012</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. Interest on the capital appreciation serial bonds accrues semi-annually and is compounded. Interest is payable only at maturity.	\$ 640,000	\$ 1,360,000
 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. <sup>1,3</sup>	3,825,850	4,040,272
 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. <sup>2,3</sup>	67,838,430	69,252,988

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

2013

2012

*Bonds and Notes Payable - Continued*

Revenue Bonds, Series 2010A:

3.0% - 4.0% serial bonds aggregating \$5,710,000 maturing 2011 through 2018 and a \$5,375,000 4.0% term bond due July 2017. Interest on the serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of \$264,696 and \$308,812 has been added to this liability at June 30, 2013 and 2012, respectively.

\$ **9,604,696**    \$ 10,588,812

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.

**30,265,000**    30,265,000

Revenue Bonds, Series 2013:

4.0% - 5.0% serial bonds aggregating \$13,715,000 maturing 2015 through 2032 and 3.125% - 5.0% term bonds aggregating \$4,450,000 maturing 2027 through 2030. Interest on serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of \$1,875,153 has been added to the liability at June 30, 2013.

20,040,153    \_\_\_\_\_

\$ 134,573,494    \$ 141,199,257

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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. (Sequester for Federal budget reduced subsidy of interest by 7.6%).

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.

**VERMONT STATE COLLEGES**  
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**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Bonds and Notes Payable - Continued*

<sup>1</sup> To manage its borrowing costs, VSC entered into an interest swap in connection with its \$5,200,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 4.97%.

The loan and the related swap agreement mature on December 16, 2025, and the swap's notional amount of \$5,200,000 matches the \$5,200,000 variable rate loan. The swap was entered into at the same time the loan was issued in December 2005. Under the swap, VSC pays the counterparty a fixed payment of 4.97% and receives a variable payment computed as 69% of the one-month London Interbank Offered Rate (LIBOR) plus 1.31%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of \$519,533 as of June 30, 2013 and \$742,408 as of June 30, 2012.

<sup>2</sup> 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 \$10,017,328 as of June 30, 2013 and \$15,876,742 as of June 30, 2012.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Bonds and Notes Payable - Continued*

<sup>3</sup> 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.

<sup>4</sup> To manage its borrowing costs, VSC entered into an interest rate swap in connection with its \$2,750,000 variable-rate loan. The intention of the swap was to effectively change the variable interest rate on the loan to a synthetic fixed rate of 5.25%.

The loan and the related swap agreement mature on January 15, 2029, and the swap's notional amount of \$2,750,000 matches the \$2,750,000 variable rate loan. The swap was entered into at the same time the loan was issued in January 2009. Under the swap, VSC pays the counterparty a fixed payment of 2.25% and receives a variable payment computed as 69% of the one-month LIBOR plus 3.12%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of \$66,448 and \$189,385 as of June 30, 2013 and 2012, respectively.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Debt Roll-forward*

Long-term debt activity for the years ended June 30, 2013 and 2012 was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Series 1977-A	\$ 315,000	\$ -	\$ (315,000)	\$ -	\$ -
Series 1977-B	60,000	-	(60,000)	-	-
Series 1998 with accreted interest	1,360,000	-	(720,000)	640,000	640,000
Series 1998 original issue discount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Series 1998 Bond	<u>1,360,000</u>	<u>-</u>	<u>(720,000)</u>	<u>640,000</u>	<u>640,000</u>
Series 2003	23,170,000	-	(23,170,000)	-	-
Series 2003 original issue discount	<u>(308,438)</u>	<u>-</u>	<u>308,438</u>	<u>-</u>	<u>-</u>
Series 2003 Bond	<u>22,861,562</u>	<u>-</u>	<u>(22,861,562)</u>	<u>-</u>	<u>-</u>
New Housing - CSC	4,040,272	-	(214,422)	3,825,850	225,510
TD Banknorth - FY 2008 Capital Projects	69,252,988	-	(1,414,558)	67,838,430	1,481,613
CCV Montpelier	2,455,623	-	(96,258)	2,359,365	101,341
Series 2010-A	10,280,000	-	(940,000)	9,340,000	1,050,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	<u>308,812</u>	<u>-</u>	<u>(44,116)</u>	<u>264,696</u>	<u>44,116</u>
Series 2010 Bonds	<u>40,853,812</u>	<u>-</u>	<u>(984,116)</u>	<u>39,869,696</u>	<u>1,094,116</u>
Series 2013	-	18,165,000	-	18,165,000	-
Series 2013 Bond Premium	<u>-</u>	<u>1,898,889</u>	<u>(23,736)</u>	<u>1,875,153</u>	<u>94,944</u>
Series 2013 Bonds	<u>-</u>	<u>20,063,889</u>	<u>(23,736)</u>	<u>20,040,153</u>	<u>94,944</u>
Total bonds and notes payable	<u>\$ 141,199,257</u>	<u>\$ 20,063,889</u>	<u>\$ (26,689,652)</u>	<u>\$ 134,573,494</u>	<u>\$ 3,637,524</u>

**VERMONT STATE COLLEGES**  
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**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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

*Debt Roll-forward - Continued*

	<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, 2013 and 2012**

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

*Debt Roll-forward - Continued*

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

<u>Years Ending June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2014	\$ 3,637,524	\$ 5,744,938
2015	3,759,760	5,790,534
2016	4,661,213	5,621,323
2017	5,422,083	5,400,278
2018	5,647,584	5,167,648
2019-2023	24,387,395	22,620,237
2024-2028	62,786,711	16,723,192
2029-2033	12,036,224	4,432,960
2034-2038	7,095,000	2,164,969
2039-2041	<u>5,140,000</u>	<u>386,159</u>
	<b>\$ <u>134,573,494</u></b>	<b>\$ <u>74,052,238</u></b>

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 (and interest rebate on 2010 bond).

According to the terms of the agreements under which the revenue bonds were sold, the bonds are general obligations of VSC. The 2013, 2010 and 1998 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.

**VERMONT STATE COLLEGES**  
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**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

Note 5 - **Functional Expense Classification**

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

	<u>2013</u>	<u>2012</u>
Instruction	\$ 58,112,105	\$ 56,469,539
Research	39,554	24,171
Public service	10,538,004	10,222,554
Academic support	22,637,181	21,457,422
Student services	30,514,111	27,544,121
Institutional support	45,798,431	43,418,623
Physical plant	5,000,441	9,178,137
Student financial support	8,607,584	8,990,159
Depreciation	<u>13,238,072</u>	<u>7,624,758</u>
Total	\$ <u>194,485,483</u>	\$ <u>184,929,484</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 2013 and 2012; VMEC of approximately \$428,000 in 2013 and 2012; and VIT of approximately \$786,000 in 2013 and 2012.

Capital appropriations for VSC made from the State Bond Funds were approximately \$4,099,000 and \$2,099,000 in fiscal years 2013 and 2012, respectively.

**VERMONT STATE COLLEGES**  
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**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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, 2013 and 2012, the Colleges' total payroll expense was approximately \$81,454,000 and \$79,822,000, respectively, of which approximately \$52,914,000 and \$51,963,000 represented salaries and wages of employees covered under the defined contribution plan, respectively. The Colleges' requirements to contribute to the retirement plan are specified by four collective bargaining agreements and by personnel policies for 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, 2013 and 2012, contributions made by the Colleges under this plan totaled approximately \$6,251,000 and \$6,133,000, or approximately 11.81% and 11.80% 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, 2013 and 2012 were approximately \$61,500 and \$62,500 and employer contributions were approximately \$6,000 and \$6,100, respectively. There were no contributions to the Vermont State Teachers Retirement System during 2013 and 2012.

In addition, full-time faculty employees who have worked for the Colleges for 15 years may elect early retirement at age 55 and receive 50% of their annual salary as of their retirement date; full-time faculty employees who have worked for VSC for ten years may elect early retirement at age 55 and receive 40% of their annual salary as of their retirement date. In addition, VSC will pay 12% of the retiree's early retirement wages to the individual. This 12% payment represents VSC's contribution, which would have been made to the individual TIAA/CREF pension account. The payments due under this program are funded by VSC as needed. During the years ended June 30, 2013 and 2012, the contributions for these benefits were approximately \$1,313,000 and \$1,417,000, respectively.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

Note 7 - **Retirement Plans - Continued**

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

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

**Plan Description:** VSC administers a self-insured single-employer defined benefit healthcare plan. The plan provides lifetime healthcare payments for eligible employees, spouses or civil union partners. The self-insured plan, administered by CIGNA, covers both active and retired members. Benefit provisions are established through negotiations between VSC and the unions representing VSC employees and 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, 2013 and 2012, 470 and 440 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 2013 and 2012, VSC recognized employer contributions of \$4,984,399 and \$4,548,286, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2013 and 2012, 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**  
**(a Component Unit of the State of Vermont)**

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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, 2013 and 2012, and the changes in VSC's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 13,262,000	\$ 13,262,000
Interest on net OPEB obligation	1,338,393	1,044,179
Adjustment to annual required contribution	<u>(2,552,728)</u>	<u>(1,725,735)</u>
Annual OPEB cost	12,047,665	12,580,444
Contribution made	<u>(4,984,399)</u>	<u>(4,548,286)</u>
Increase in net OPEB obligation	7,063,266	8,032,158
Net OPEB obligation - Beginning of year	<u>35,690,489</u>	<u>27,658,331</u>
Net OPEB obligation - End of year	\$ <u>42,753,755</u>	\$ <u>35,690,489</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, 2013, 2012 and 2011 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, 2013	\$ 12,047,665	41.4%	\$ 42,753,755
June 30, 2012	\$ 12,580,444	36.2%	\$ 35,690,489
June 30, 2011	\$ 10,070,405	41.0%	\$ 27,658,331

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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**  
**(a Component Unit of the State of Vermont)**

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

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 classrooms, office space, equipment and motor vehicles. The majority of these leases have terms equal to or less than ten years and in some cases contain escalation and maintenance clauses, as well as renewal options. Total rental expense for all operating leases was approximately \$2,707,000 and \$2,494,000 in 2013 and 2012, respectively.

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

Note 9 - **Leases - Continued**

Future minimum rental payments required under operating leases with noncancelable terms in excess of one year at June 30, 2013 are as follows:

<u>Years Ending June 30,</u>	<u>Real Estate</u>	<u>Vehicles and Equipment</u>	<u>Total</u>
2014	\$ 2,242,565	\$ 213,800	\$ 2,456,365
2015	1,555,256	192,570	1,747,826
2016	1,300,456	130,740	1,431,196
2017	1,309,744	7,829	1,317,573
2018	1,309,734	1,089	1,310,823
2019 and beyond	<u>13,106,995</u>	<u>-</u>	<u>13,106,995</u>
	<u>\$ 20,824,750</u>	<u>\$ 546,028</u>	<u>\$ 21,370,778</u>

Note 10 - **Capital Assets**

Property and equipment activity for the years ended June 30, 2013 and 2012 is summarized below:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Land	\$ 6,368,565	\$ 59,709	\$ -	\$ -	\$ 6,428,274
Construction-in-process	<u>7,075,650</u>	<u>11,222,383</u>	<u>(10,307,407)</u>	<u>-</u>	<u>7,990,626</u>
Subtotal - Capital assets not depreciated	<u>13,444,215</u>	<u>11,282,092</u>	<u>(10,307,407)</u>	<u>-</u>	<u>14,418,900</u>
Infrastructure	34,420,140	113,824	1,906,604	-	36,440,568
Buildings and improvements	233,344,436	728,707	6,431,069	-	240,504,212
Leasehold improvements	349,821	-	1,913,679	(119,476)	2,144,024
Equipment	<u>16,581,175</u>	<u>14,311,049</u>	<u>56,055</u>	<u>(94,505)</u>	<u>30,853,774</u>
Subtotal - Capital assets depreciated	<u>284,695,572</u>	<u>15,153,580</u>	<u>10,307,407</u>	<u>(213,981)</u>	<u>309,942,578</u>
Less accumulated depreciation	<u>(116,791,424)</u>	<u>(13,238,072)</u>	<u>-</u>	<u>172,819</u>	<u>(129,856,677)</u>
Capital assets, net	<u>\$ 181,348,363</u>	<u>\$ 13,197,600</u>	<u>\$ -</u>	<u>\$ (41,162)</u>	<u>\$ 194,504,801</u>



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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

Note 10 - **Capital Assets - Continued**

	Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	Balance <u>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>

Included in construction-in-process is interest expense of borrowing during the construction period. Totals for the fiscal year 2013 and 2012 are \$4,641 and \$109,530, 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, 2013 and 2012**

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 \$1,537,000 at June 30, 2013 and \$1,544,000 at June 30, 2012 and are based on historical data. A medical and dental claim roll-forward is presented below:

	<u>2013</u>	<u>2012</u>
Medical and dental claims reserve, Beginning of year	\$ 1,544,000	\$ 1,265,000
Incurred claims	15,162,000	14,332,000
Payments on claims	<u>(15,169,000)</u>	<u>(14,053,000)</u>
Medical and dental claims reserve, End of year	<u>\$ 1,537,000</u>	<u>\$ 1,544,000</u>

VSC self-insures 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>2013</u>	<u>2012</u>
Workers' compensation reserve, Beginning of year	\$ 229,000	\$ 203,000
Workers' compensation accrued during the year	341,000	430,000
Claims paid/reserved/claims administration	<u>(364,000)</u>	<u>(404,000)</u>
Workers' compensation reserve, End of year	<u>\$ 206,000</u>	<u>\$ 229,000</u>

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

**Notes to the Financial Statements - Continued**

**June 30, 2013 and 2012**

Note 11 - Contingencies and Commitments - Continued

Commitments

VSC has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2013.

<u>Project</u>	<u>Expended through June 30, 2013</u>	<u>Committed Future Costs</u>	<u>Total Committed Costs of Project</u>
VSC Brattleboro Facility	\$ 15,208	\$ 59,792	\$ 75,000
CSC Huden Renovation	421,395	1,273,782	1,695,177
CSC Tennis Court Project	507,072	110,803	617,875
JSC Martinette Window Replacement	78,912	47,079	125,991
LSC Masterplan	57,797	53,923	111,720
VTC Bio-digester Project	<u>1,550,756</u>	<u>1,900,994</u>	<u>3,451,750</u>
	<u>\$ 2,631,140</u>	<u>\$ 3,446,373</u>	<u>\$ 6,077,513</u>

At June 30, 2013, invoices related to construction projects of approximately \$1,034,000 were included in accounts payable.

Employment Contracts

The Colleges have employment contracts with certain officers that expire on various dates through fiscal years 2014 and 2015. The agreements provide for aggregate annual base salaries of \$1,417,384 in fiscal year 2014 and \$1,325,584 in fiscal year 2015 and may be terminated with cause at any time.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**Schedule of Funding Progress (Unaudited)**

**June 30, 2013 and 2012**

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%.

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2013 and 2012, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Vermont State College's basic financial statements and have issued our report thereon dated October 23, 2013.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*J'Connon and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

October 23, 2013