VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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

Financial Statements and Management's Discussion and Analysis

June 30, 2015 and 2014

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2015 and 2014, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Colleges' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont State Colleges at June 30, 2015 and 2014 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-18 and the schedule of funding progress on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of Vermont State Colleges, taken as a whole. The accompanying schedule of expenditures of federal awards on pages 61 through 66 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of Federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015, 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

November 18, 2015

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

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

Introduction

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

Vermont State College System

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

The colleges are:

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

Significant Events Affecting These Financial Statements

Significant events that affect these statements during the past five years include:

- FTE Enrollments for all institutions were down in FY15. Over the 5 year period, trends varied from school to school, but for all 5 institutions the enrollments for Fall 2014 were lower that for Fall 2011, counting both by FTE and by Headcount.
- Accrual of other post-employment benefits (OPEB) totaling over $55 million through FY2015, which is not being pre-funded, but paid when incurred during retirement periods. Groups have been closed for staff hired in the future which will reduce this liability over time.
- Maturing of a Certificate of Deposit in FY2013 which had an excellent interest rate. Monies have been moved to other vehicles under both cash and investments on the financials, but all with less return than the CD.
- Debt financing secured for construction projects in FY2008 and FY2010, with construction projects placed in service through FY2013.

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, 2015 and selected comparative information for the previous 4 years. Since this MD&A is designed to focus on current activities, resulting changes and currently known facts, please read in conjunction with the financial statements and notes that follow this section.

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

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

Financial Statements

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

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

Statement of Net Position

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

Statement of Net Position – Continued

Total assets are categorized as either current or noncurrent. Current assets are available to satisfy current liabilities, which are those amounts expected to be payable within the next year. The major component of current assets is accounts receivable, primarily funds due to the VSC by students and granting agencies. Total assets of $272 million decreased by $8 million or 3% from FY2014 to FY2015, primarily in Capital Assets due to depreciation. Over the 5 years, Assets and deferred outflows have decreased by $13 million, primarily in current assets, offset in part by increase in investments and capital assets. This relates to construction projects during the period funded through debt, and payment on that debt in subsequent years, as well as depreciation of all capital assets.

Noncurrent assets consist primarily of endowment and other investments, in addition to capital assets. Investments were $50 million at June 30, 2015, a decrease of $5 million or 9% since June 30, 2014 – this decrease was primarily from reduction in the shorter term investments and moving funds in money market included in cash. At the beginning of the 5-year period, current assets included the CD which matured in FY2012. Invested funds from this CD are now reflected in Long Term investments, as well as some cash in current assets.

Current liabilities of $24 million and $23 million as of June 30, 2015 and 2014 respectively include primarily accounts payable, and unearned revenue related to the next fiscal year. Current liabilities have not changed significantly from FY2011.

Noncurrent liabilities increased by $1 million to $194 million during FY2015. An increase in postemployment benefits liability of $6 million was offset by a decrease in long term debt of $4 million. During the 5-year period, the VSC has recorded an increase in this liability of $27 million, bringing the total OPEB liability to $55 million. Bonds payable increased due to new bonds issued in FY2012, but are declining as bond holders are being paid.

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

June 30, 2015 and 2014

Statement of Net Position – Continued

TABLE 1: Condensed Statement of Net Position as of June 30
($ in millions)

	2015	% change	2014	% change	2013	2012	2011
Current Assets	24	14%	21	-19%	26	65	84
Noncurrent Assets							
Investments	50	-9%	55	8%	51	20	19
Capital assets, net	181	-3%	187	-4%	194	181	161
Other	6	0%	6	20%	5	10	13
Deferred outflows	11	0%	11	0%	11	17	8
Total Assets and Def'd outflows	272	-3%	280	-2%	287	293	285
Current liabilities	24	4%	23	0%	23	26	24
Non current liabilities							
Post employm't benefit oblig	55	12%	49	14%	43	36	28
Bonds and Notes payable	123	-3%	127	-3%	131	136	141
Other	16	-6%	17	0%	17	23	15
Total Liabilities	218	1%	216	1%	214	221	208
Net investment in cap'l assets	57	-5%	60	-9%	66	52	52
Restricted							
Nonexpendable	17	6%	16	7%	15	15	13
Expendable	9	-10%	10	25%	8	6	6
Unrestricted	-29	32%	-22	38%	-16	-1	6
Total Net Position	54	-16%	64	-12%	73	72	77
Total Liabilties and Net Position	272		280		287	293	285

Net Position

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

Net Position - Continued

Total net position decreased from $64 million to $54 million or 16% from June 30, 2014 to June 30, 2015. It generally increased from FY2011 to FY2013, with blip in FY2011 related to timing of borrowings vs use of debt for capital assets. The decline during FY15 is related to the decrease in assets plus the increase in unfunded post-retirement benefit obligations included in liabilities.

Net investment in capital assets decreased by $3 million from June 30, 2014 to June 30, 2015 due to depreciation, offset partially by reduction in debt related to capital assets. Net investment in capital assets increased during the prior years during a period of capital construction.

The restricted nonexpendable part of the Net Position represents the permanent endowment funds for the system. The increase of $1 million in FY2015 and $4 million over 5 years is due to gifts received for endowments during the period.

The restricted expendable portion of Net Position includes unexpended gifts and grants, and unexpended endowment appreciation, above corpus, subject to externally imposed conditions on spending. The decrease of $1 million from June 30, 2014 to June 30, 2015 is due to use of restricted gifts, grants and earnings according to donor or grantee instructions. Over the 5-year period, expendable net assets has increased by $3 million, as earnings have outpaced the 5% spending on endowments permitted by Board policy. The balance of unexpended gifts and grants has remained stable throughout this period.

The unrestricted portion of the Net Position is affected primarily by OPEB obligations, which are unfunded. That liability increased by $6 million in FY2015 to $55 million as of June 30,2015. Since FY2011, the unrestricted net position has declined by $35 million as post-employment benefit obligations are recorded.

During FY2015 the system's total Net Position declined from $64 million to $54 million. This is due primarily to our unrestricted net assets being reduced from the annual booking of the VSC OPEB liability. The details of this change are shown in the Statement of Revenues, Expenses, and Changes in Net Position beginning on page 20.

Capital Assets and Debt Administration

The System's facilities are critical to accomplishing the mission of the System as they provide the physical framework and environment for educational, research, cultural programs and residential life. Table 2 on page 7 provides detail from the past 5 years related to the Capital Assets held by the System.

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

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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Capital Assets and Debt Administration – Continued

During the 5-year period, there was significant construction done at all five colleges, funded by debt acquired in FY2008 and FY2010. Construction in Progress increased during the years of construction, representing construction not completed on June 30. During FY2014 as construction projects were completed Construction in Progress returned to an amount similar to FY2010. Building and Improvements increased throughout the period, reflecting the completed projects. Infrastructure includes water & sewer systems, heating & electrical systems, telecommunication systems, and roads. The increase in infrastructure over the five-year period is due to projects on the campuses as well as enhanced communications systems for the entire System. Equipment shows a significant increase in FY2013 due to a donation of software valued at $12 million. Table 2 provides detail about Capital Assets, including related information (depreciation expense and outstanding principal on construction loans).

Table 2: Capital Assets as of June 30

($ in millions)

	2015	% Change	2014	% Change	2013	2012	2011
Land	**10**	67%	6	0%	6	6	6
Construction in progress	**2**	-33%	3	-63%	8	7	7
Infrastructure	**38**	0%	38	6%	36	35	33
Buildings and improvements	**252**	1%	250	4%	241	233	210
Leasehold improvements	**4**	100%	2	0%	2	0	0
Equipment	**32**	0%	32	3%	31	17	15
Total Capital Assets	**338**		331		324	298	271
Accumulated Depreciation	**-157**	9%	-144	12%	-129	-117	-110
Capital Assets, Net	**181**		187		195	181	161
Related information							
Depreciation Expense	**14**	0%	14	8%	13	8	8
Outstanding Principal, Related Loans	**127**	-3%	131	-3%	135	141	146

Statement of Revenues, Expenses, and Changes in Net Position

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

Operating and Non-operating Revenue

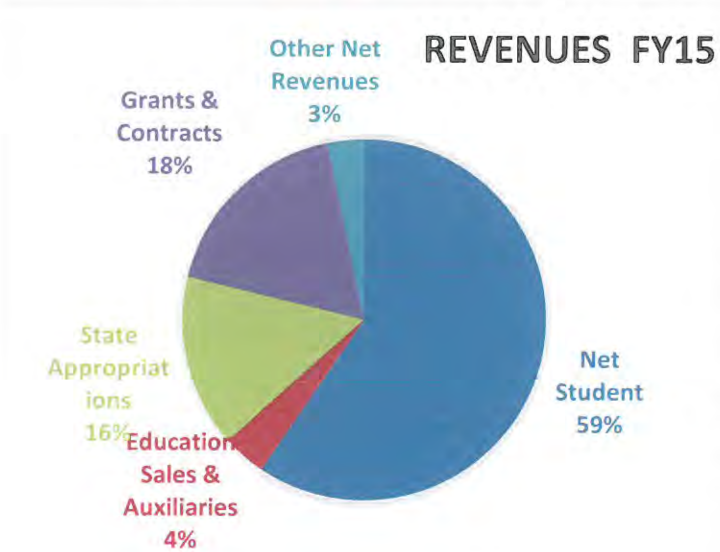
Accounting rules require that our audited financials include operating revenues, operating expenses and non-operating revenues and expenses. The following sections provide an analysis of the total operating and non-operating revenues and expenses. The VSC's primary source of revenue is from student fees. This accounts for 59% of operating and non-operating income. In addition, the System receives revenue from governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; and investment income.

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

($ in millions)

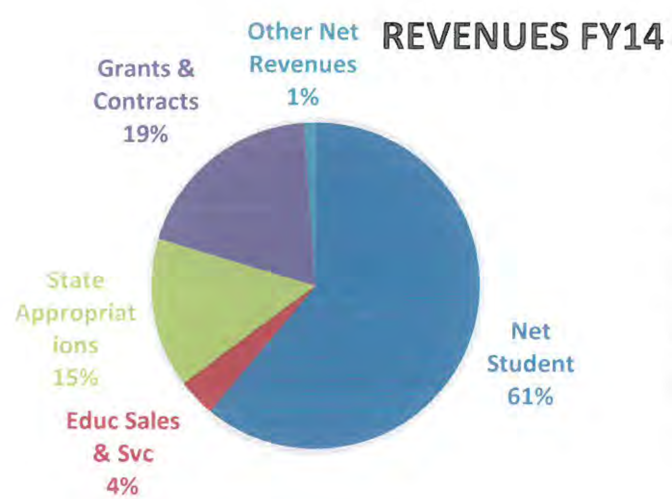
	2015	% Change	2014	% Change	2013	2012	2011
Net Student Fees	**110**	-2%	112	0%	112	110	105
Grants and contracts	**15**	0%	15	0%	15	15	15
Other Operating Revenues	**8**	0%	8	0%	8	7	8
Operating Revenues	**133**	-1%	135	0%	135	132	128
Operating Expenses	**189**	-3%	195	1%	194	185	179
Operating Loss	**-56**	-7%	-60	2%	-59	-53	-51
Nonoperating Revenues (Expenses)							
Non Capital Appropriations	**27**	0%	27	4%	26	26	28
Federal Grants & Contracts	**18**	-10%	20	0%	20	20	22
Gifts currently expendable	**4**	33%	3	0%	3	2	2
Investment Income & Interest	**0**	-100%	4	100%	2	1	6
Interest Expense	**-5**	-17%	-6	0%	-6	-6	(6)
Other nonoperating revenues	**0**	0%	0	0%	0	1	1
Net Nonoperating Revenues	**44**	-8%	48	7%	45	44	53
Total Change before other Revenues	**-12**	0%	-12	-14%	-14	-9	2
Other Changes in Net Position							
Capital Appropriation	**2**	0%	2	-50%	4	2	3
Capital gifts and grants	**0**	0%	0	-100%	13	0	-
Endowment gifts	**0**	0%	1	0%	0	1	1
Change in Net Position	**-10**	11%	-9	-400%	3	-6	6

Operating and Non-operating Revenue - Continued



FY2015 Revenues
($ in thousands)

Net Student	$109,860
Educational Sales/Aux	7,114
State Appropriations	28,710
Grants & Contracts	32,976
Other Net Revenues	6,747
TOTAL	$185,406



FY2014 Revenues
($ in thousands)

Net Student	$111,611
Educational Sales/Aux	6,766
State Appropriations	27,331
Grants & Contracts	35,053
Other Net Revenues	2,265
TOTAL	$183,026

Tuition and Fee Revenue

Net Tuition and fees includes tuition and fees plus residence and dining fees less scholarship allowances. Table 3 shows the trend for Tuition and Fee Revenue from FY2011 through FY2015. For the System, student-based revenue increased each year from FY2011 through FY2013, but was level in FY2014 and declined in FY2015.

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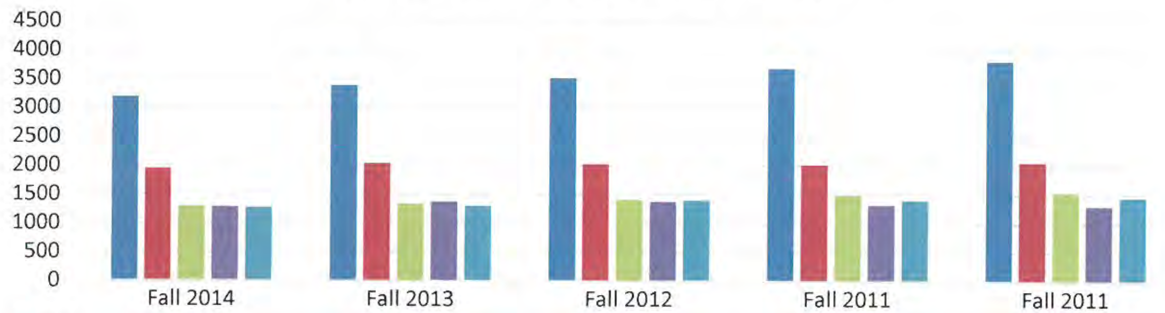
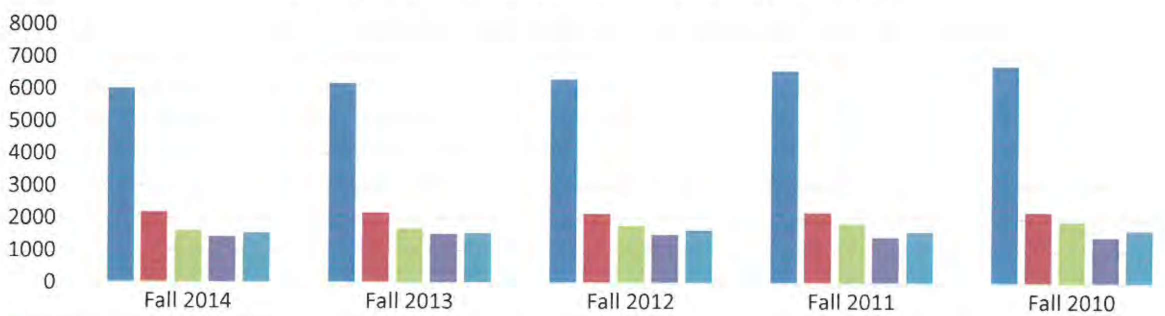
Charts on page 11 show enrollments and student revenues for each college during this 5 year period. Enrollments are displayed by both FTE and by Headcount. FTE (Full Time Equivalent) provides better comparative information, and Headcount shows the total number of individuals who have benefited from VSC education. These charts show the decline in enrollment for all schools in FY2015, which begins with the Fall 2014 term.

Fall Enrollment by FTE by College



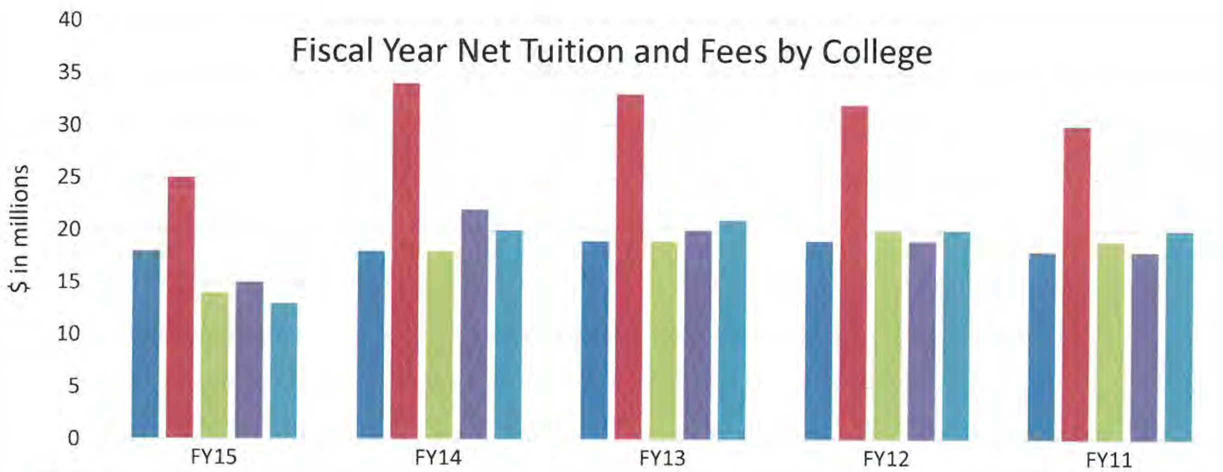
	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2011
CCV	3186	3387	3520	3685	3810
CU	1940	2036	2024	2014	2057
JSC	1296	1343	1415	1493	1543
LSC	1283	1376	1374	1320	1304
VTC	1274	1302	1401	1405	1455

Fall Enrollment by Headcount by College



	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2010
CCV	6019	6194	6311	6578	6738
CU	2183	2175	2156	2192	2215
JSC	1613	1692	1783	1859	1924
LSC	1430	1519	1508	1422	1436
VTC	1542	1543	1645	1603	1656

The chart below displays Net Tuition and Fees for each college during the five-year period. It is notable that CCV has by far the largest number of students – both FTE and Headcount, but their net tuition is one of the lowest. CCV, as a Community College has the lowest tuition cost and charges for courses on a per credit basis, while the residential schools charge on a semester basis.



	FY15	FY14	FY13	FY12	FY11
CCV	18	18	19	19	18
CU	25	34	33	32	30
JSC	14	18	19	20	19
LSC	15	22	20	19	18
VTC	13	20	21	20	20

Operating and Non-operating Expenses

Table 4 on page 13 shows the total Operating and Non-operating Expenses for the past 5 years, and the charts on pages 13 and 14 provide a quick view of the percent of expenses by type for FY2015 and FY2014.

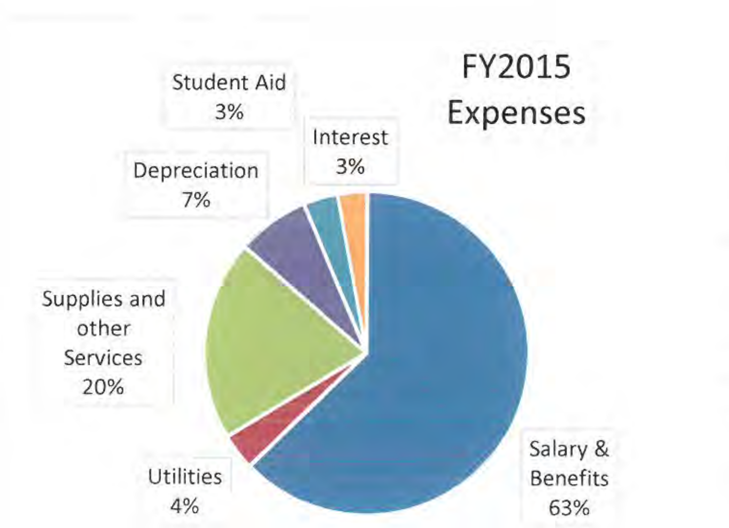
The largest percentage of VSC expenses are for salary and benefits (about 63%). Those expenses have continued to grow through FY2014, but staff reductions created a decline in FY2015. The only other expense that has increased significantly during this period is depreciation, related to construction projects in earlier years. Supplies and services is the second largest expense (20%), and there was a significant decrease in monies spent in this area in FY2015, bringing the total to less than at the beginning of the 5-year period.

Included in Salaries and Benefits are annual accruals related to OPEB.

Operating and Non-operating Expenses - Continued

Table 4: Total Operating and Non-operating Expenses for Years Ended June 30
($ in millions)

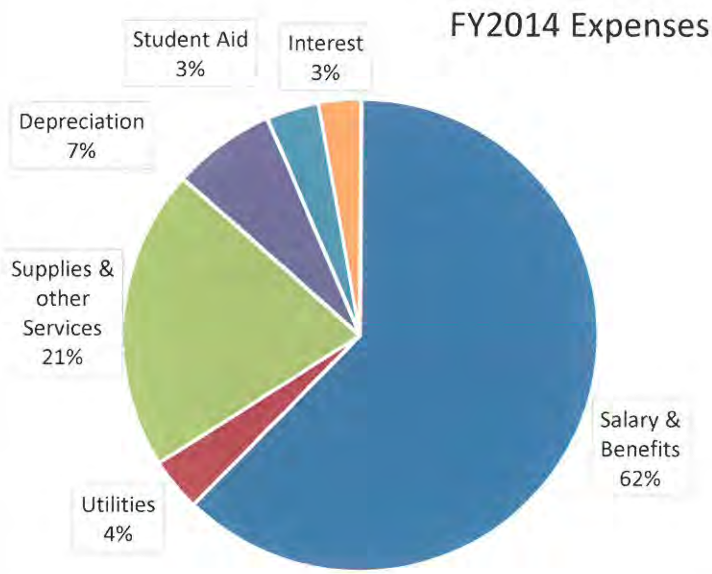
	2015	% change	2014	% change	2013	2012	2011
Operating							
Salaries & Benefits	**123**	-2%	125	2%	123	120	116
Utilities	**7**	0%	7	0%	7	7	6
Supplies and Svcs	**39**	-7%	42	-2%	43	42	40
Depreciation	**14**	0%	14	8%	13	8	8
Student Aid	**7**	0%	7	-13%	8	8	9
Total Operating	**190**		195		194	185	179
Nonoperating							
Interest on Debt	**6**	0%	6	0%	6	6	6
Total Expenses	**196**	-2%	201	1%	200	191	185



FY2015 Expenses
($ in thousands)

Salary/Benefits	$122,588
Utilities	7,143
Supplies/Services	39,342
Depreciation	14,087
Student Aid	6,742
Interest on Debt	5,758
Total	$195,660

Operating and Non-operating Expenses - Continued



FY2014 Expenses
($ in thousands)

Salary/Benefits	$125,287
Utilities	7,289
Supplies/Services	41,491
Depreciation	14,030
Student Aid	7,191
Interest on Debt	5,916
Total	$201,204

Student Financial Aid

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

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

Student Financial Aid – Continued

Total student financial aid over the past five years is shown below.

Table 5: Student Finance Aid
($ in millions)

	FY15	FY14	FY13	FY12	FY11
Scholarship Allowances (included in revenue)	**25**	25	23	21	21
Scholarship Expenses (included in expenses)	**7**	7	8	8	9
Total Student Aid	**32**	32	31	29	30

Statement of Cash Flows

The Statement of Cash Flows shows inflows and outflows of cash without regard to accrual items. The Condensed Statement for VSC is in Table 6 on page 16. The temporary blip in cash at the end of FY2012 is related to the maturation of a Certificate of Deposit. In the following fiscal year, these funds were moved into other investments.

Cash flows from operating activities

Cash flows from operating activities on the Statement of Cash Flows will always be different from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) because of the inclusion of noncash items, such as depreciation expenses on the SRECNP. Also, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows revenues earned and expenses incurred. The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing, food service and bookstore operations. Cash outlays include payment of wages and benefits; operating expenses such as utilities, supplies, insurance and repairs; and scholarship to students. During the last five fiscal years operating cash flow has been fairly consistent.

Cash flows from noncapital financing activities

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

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Management's Discussion and Analysis (Unaudited) - Continued

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Cash flows from capital and related financial activities

Cash flows from capital and related financing activities include all plant funds and related long term debt activities (except depreciation and amortization), as well as capital gifts, grants and appropriations. Purchase and sale of investments and income earned on investments are included in cash flows from investing activities.

Cash flows from investing activities

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

Cash flows from:	**2015**	% change	2014	% change	2013	2012	2011
Operating	**-35**	-17%	-42	-2%	-43	-35	-41
Non capital financing	**48**	-6%	51	4%	49	49	53
Capital and related financing	**-12**	20%	-10	-17%	-12	-17	-21
Investing	**5**	0%	0	-100%	-29	41	-2
Net increase (decrease)	**6**	-700%	-1	-97%	-35	38	-11
Cash, Beginning of Year	**3**	-25%	4	-90%	39	1	12
Cash, End of Year	**9**	200%	3	-25%	4	39	1
Operating cash flows adding noncapital appropriations and PELL grants							
Operating	**-35**	-17%	-42	-2%	-43	-35	-41
Non capital appropriations	**27**	0%	27	4%	26	26	28
Non operating federal grants	**18**	-10%	20	-5%	21	20	22
Operating cash flows including appropriation and fed grants	**10**	100%	5	25%	4	11	9

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

Economic Factors That Will Affect the Future

Demographic Trend

Vermont continues to experience a demographic decline in the overall number of graduating 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 continue to affect enrollment in future years. All of the colleges have adopted programs and strategies to better recruit in this shrinking market. In addition, the State of Vermont has been initiating programs that permit high school students to attend college, and get both high school and college credits for courses. The VSC has taken a lead in participating in these programs that will benefit the students by reducing the overall cost of college, as well as provide some additional revenue for the colleges. Each of the member institutions is working to develop strategies to deal with controlling tuition costs and initiatives are constantly under way to help reduce expenses. In FY15 expenses were reduced in both staffing and supplies and services to deal with a downturn in enrollments.

Vermont State Appropriations

For FY2015, State Operating Appropriations were $27,222,000, or 15% 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 FY2015, in-state tuition increased from 3% to 5% with any increase over 3% committed to in state financial aid to students. FY15 out-of- state tuition increased 3% (CCV), 6% (CU), 3% (JSC), 4% (LSC), and 3% (VTC). VSC will continue to promote the cause of higher education to the State administration and legislature.

Post-Employment Benefits

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

The annual cost to VSC 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 and early retirement benefits paid to retired full-time faculty.

Economic Factors That Will Affect the Future – Continued

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with total eligible employees (active, retirees and beneficiaries) of 200 or more. 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, 2013, was approximately $135,345,000 for post-retirement health, dental and life insurance benefits and for early retirement benefits. The present value of all benefits (past and future obligations) is estimated to be $140,327,000. The VSC has come to an agreement with all of the bargaining units representing eligible staff, to close the groups of staff eligible for this benefit. Over time, this will reduce the increase in the liability and eventually reduce the liability itself.

Other Factors

As a result of positive market conditions during FY2015, VSC had net realized and unrealized gains on the endowments, and other investments.

Approximately 738 of the 1,050 full-time employees at VSC are covered by union contracts. VSC employs approximately 2,210 full and part-time employees.

Full Time	738
Part Time	219
Total	957
Non-Bargaining Unit Employees	
Full Time	312
Part Time & Temp	941
Total	1253
Total Employees	2210

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

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	2015	2014
Current Assets:		
Cash and equivalents (Note 2)	**$ 8,607,778**	$ 2,451,670
Accounts receivable, net (Note 3)	**10,637,361**	11,462,983
Inventories	**489,165**	452,563
Deposit with bond trustees (Note 2)	**3,220,623**	4,426,154
Other current assets	**1,530,668**	2,389,683
Total Current Assets	**24,485,595**	21,183,053
Non-Current Assets:		
Cash and equivalents (Note 2)	**677,095**	581,822
Long-term investments (Note 2)	**49,777,168**	54,972,307
Notes receivable, net (Note 3)	**5,352,816**	5,419,391
Other assets	**19,273**	52,260
Capital assets, net (Note 10)	**180,883,632**	186,999,848
Total Non-Current Assets	**236,709,984**	248,025,628
Total Assets	**261,195,579**	269,208,681
Deferred Outflows of Resources:		
Interest rate swap, accumulated decrease in fair value (Note 4)	**11,024,967**	10,674,356
Total Assets and Deferred Outflows of Resources	**$ 272,220,546**	$ 279,883,037

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

Liabilities and Net Position

	2015	2014
Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	**$ 12,867,683**	$ 12,126,093
Unearned revenue and deposits	**6,477,785**	6,663,699
Current portion of long-term debt (Note 4)	**4,661,213**	3,759,760
Total Current Liabilities	**24,006,681**	22,549,552
Non-Current Liabilities:		
Accounts payable and accrued liabilities (Note 11)	**50,035**	136,055
Unearned revenue and deposits	**171,643**	427,302
Refundable grants	**6,041,112**	6,044,136
Post-employment benefit obligations (Note 8)	**54,733,504**	48,943,729
Interest rate swap (Note 4)	**11,024,967**	10,674,356
Long-term debt, excluding current portion (Note 4)	**122,514,996**	127,176,209
Total Non-Current Liabilities	**194,536,257**	193,401,787
Total Liabilities	**218,542,938**	215,951,339
Net Position:		
Investment in capital assets, net	**56,533,789**	60,152,724
Restricted nonexpendable	**17,180,471**	16,497,265
Restricted expendable	**9,331,469**	10,279,496
Unrestricted	**(29,368,121)**	(22,997,787)
Total Net Position	**53,677,608**	63,931,698
Total Liabilities and Net Position	**$ 272,220,546**	$ 279,883,037

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,

	2015	2014
Operating Revenues:		
Tuition and fees	**$ 115,146,051**	$ 115,690,089
Residence and dining	**19,926,641**	20,674,084
Less: scholarship allowances	**(25,212,668)**	(24,752,899)
Net Tuition, Fees, and Residence and Dining Revenue	**109,860,024**	111,611,274
Federal grants and contracts	**11,267,895**	11,917,991
State and local grants and contracts	**1,872,176**	2,144,216
Non-governmental grants and contracts	**1,384,237**	1,081,688
Interest income	**87,334**	87,029
Sales and services of educational activities	**6,008,981**	5,848,881
Other auxiliary enterprises	**1,104,783**	916,820
Other operating revenues	**1,567,754**	1,001,239
Total Operating Revenues	**133,153,184**	134,609,138
Operating Expenses (Notes 5, 9 and 11):		
Salaries and wages	**79,922,958**	82,488,029
Employee benefits (Notes 7 and 8)	**42,665,064**	42,798,448
Scholarships and fellowships	**6,741,524**	7,191,107
Supplies and other services	**39,341,671**	41,490,709
Utilities	**7,142,919**	7,289,372
Depreciation (Note 10)	**14,087,773**	14,030,027
Total Operating Expenses	**189,901,909**	195,287,692
Net Operating Loss	**(56,748,725)**	(60,678,554)
Non-Operating Revenues (Expenses):		
State appropriations (Note 6)	**27,221,566**	27,330,899
Federal grants and contracts	**18,451,754**	19,909,045
Gifts	**4,255,144**	3,220,107
Investment income, net of expenses (Note 2)	**358,253**	3,861,415
Interest expense on capital debt	**(5,758,495)**	(5,916,020)
Other non-operating revenues	**(50,502)**	11,533
Net Non-Operating Revenues	**44,477,720**	48,416,979
Decrease in Net Position Before Other Revenues	**(12,271,005)**	(12,261,575)
Other Revenues:		
State appropriations for capital expenditures (Note 6)	**1,488,000**	1,688,000
Capital grants and gifts	**7,970**	110,302
Additions to non-expendable assets	**520,945**	1,070,322
Decrease in Net Position	**(10,254,090)**	(9,392,951)
Net Position, Beginning of Year	**63,931,698**	73,324,649
Net Position, End of Year	**$ 53,677,608**	$ 63,931,698

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,

	2015	2014
Cash Flows from Operating Activities:		
Tuition and fees	**$ 108,669,503**	$ 111,179,537
Grants and contracts	**15,296,077**	14,763,594
Sales and services of educational activities	**7,006,158**	5,848,881
Auxiliary enterprises	**1,104,783**	916,820
Interest received	**87,334**	87,029
Payments to suppliers	**(51,226,868)**	(57,131,056)
Payments to employees	**(117,236,770)**	(118,499,313)
Loans issued to students	**(1,076,965)**	(1,003,012)
Collection of loan payments	**938,239**	838,519
Other cash receipts	**1,582,516**	1,584,972
Net Cash Applied to Operating Activities	**(34,855,993)**	(41,414,029)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**27,221,566**	27,330,899
Non-operating federal grants	**18,451,754**	19,909,045
Gifts and grants	**2,421,144**	3,220,107
Net Cash Provided by Non-Capital Financing Activities	**48,094,464**	50,460,051
Cash Flows from Capital and Related Financing Activities:		
Capital and non-expendable grants and gifts	**528,915**	1,180,624
Purchase of capital assets	**(4,950,297)**	(5,368,165)
Change in deposits with bond trustee	**1,205,531**	3,284,404
Proceeds from sale of capital assets	**229,925**	-
Payments on capital debt	**(3,759,760)**	(3,637,525)
Interest expense on capital debt	**(5,758,495)**	(5,916,020)
Other receipts	**(50,502)**	50,073
Net Cash Applied to Capital and Related Financing Activities	**(12,554,683)**	(10,406,609)

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	2015	2014
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	$ 19,536,324	$ 22,567,016
Purchase of investments	(15,136,742)	(23,607,730)
Interest and dividends received on investments	1,168,011	1,204,230
Net Cash Provided by Investing Activities	5,567,593	163,516
Net Increase (Decrease) in Cash and Equivalents	6,251,381	(1,197,071)
Cash and Equivalents, Beginning of Year	3,033,492	4,230,563
Cash and Equivalents, End of Year	$ 9,284,873	$ 3,033,492
Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	$ (56,748,725)	$ (60,678,554)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	14,087,773	14,030,027
Bad debts	79,029	966,763
Net (gain) loss on disposal of capital assets	56,614	(11,533)
Changes in assets and liabilities:		
Accounts receivable	746,593	(1,121,604)
Inventories	(36,602)	(147,766)
Other assets	892,002	441,417
Notes receivable	66,575	(196,313)
Accounts payable and accrued liabilities	655,570	(608,237)
Unearned revenues, deposits and refundable grants	(444,597)	(278,203)
Post-employment benefit obligations	5,789,775	6,189,974
Net Cash Applied to Operating Activities	$ (34,855,993)	$ (41,414,029)
Non-Cash Transactions:		
Equipment provided by capital grants and gifts	$ 1,834,000	$ -
Capital appropriations	$ 1,488,000	$ 1,688,000
Unrealized gains (losses)	$ (1,072,259)	$ 2,508,215

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

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

Organization
Vermont State Colleges include the following entities: System Office and Services, Community College of Vermont (CCV), Castleton University (CU), Johnson State College (JSC), Lyndon State College (LSC), Vermont Technical College (VTC), Vermont 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 the Vermont State Colleges ("VSC" or the "Colleges") in accounting for and reporting their financial transactions are based on the accrual method of accounting. The significant accounting policies followed by the Colleges are described below.

Basis of Presentation
The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The accompanying statements of revenues, expenses and changes in net position demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are reported as general revenues.

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Continued

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

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

Net Position

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

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

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

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

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

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

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

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.

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.

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

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

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

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

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 students, and they are reflected as expenses.

Bond and Note Premiums
Bond and note underwriter's premiums are amortized on the straight line basis over the life of the respective bond. VSC incurred bond premiums related to the 2010 and 2013 bonds at the time of the issuance of the bonds. The bond premium for the 2010 bond of $377,743 is amortized on a straight-line basis over approximately 8.5 years. The bond premium for the 2013 bond of $1,898,889 is amortized over 20 years. Cumulative amortization of the bond premium totals $414,903 and $275,843 as of June 30, 2015 and 2014, respectively. The bond premium is included in bonds and notes payable.

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, expenses and changes in net position 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.

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

New Governmental Accounting Pronouncements

GASB 72, *Fair Value Measurement and Application*, is effective for periods beginning after June 15, 2015. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation methodologies should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value, which are as follows: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable, directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumptions about certain factors affecting the value of the asset or liability. Management is in the process of evaluating the implementation of this pronouncement but does not expect any material effect to its financial position.

GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement applicable to the Vermont State Colleges are effective for periods beginning after June 15, 2015. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 68 is effective for the fiscal year ended June 30, 2015. Management is currently reviewing this pronouncement but does not expect any material effect to its financial position.

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

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

GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles ("GAAP"). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Management is currently reviewing this pronouncement, implementation of which must be applied retroactively.

Reclassifications
Certain amounts on the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Note 2 - **Cash and 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, 2015, the balance of current assets - cash and equivalents consists of approximately $16,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation (FDIC) insured banking institutions of approximately $8,592,000 per the accounting records of the Colleges, and approximately $9,178,000 per bank records. Of the bank balances, approximately $724,000 was covered by Federal depository insurance and approximately $8,454,000 was uninsured and uncollateralized at June 30, 2015.

At June 30, 2015, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $677,000 per the accounting records of the Colleges, and approximately $665,000 per bank records. Of the bank balances, approximately $638,000 was covered by Federal depository insurance and approximately $27,000 was uninsured and uncollateralized at June 30, 2015.

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

Cash and Equivalents - Continued

At June 30, 2014, the balance of current assets - cash and equivalents consists of approximately $18,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation (FDIC) insured banking institutions of approximately $2,434,000 per the accounting records of the Colleges, and approximately $3,106,000 per bank records. Of the bank balances, approximately $786,000 was covered by Federal depository insurance and approximately $2,321,000 was uninsured and uncollateralized at June 30, 2014.

At June 30, 2014, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $582,000 per the accounting records of the Colleges, and approximately $569,000 per bank records. The bank balances of approximately $569,000 were covered by Federal depository insurance.

Investments

Investments of the various funds at June 30, 2015 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 6,977,619	$ 7,245,948
Corporate bonds	13,173,540	13,465,356
Common stock	13,878,749	11,113,932
Mutual funds	7,828,418	7,750,276
Money market	7,918,842	7,918,781
Held by bond trustee	3,220,623	3,220,623
Total Investments	$ 52,997,791	$ 50,714,916

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

Investments - Continued
Investments of the various funds at June 30, 2014 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 15,602,328	$ 15,857,678
Corporate bonds	12,968,607	13,032,119
Common stock	7,161,656	6,693,097
Mutual funds	12,403,889	9,111,365
Money market	6,835,827	6,835,827
Held by bond trustee	4,426,154	4,426,154
Total Investments	$ 59,398,461	$ 55,956,240

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

2015
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 7,918,842	$ 7,918,842	$ -	$ -	$ -
Corporate Bonds	13,173,540	3,624,183	6,092,524	3,444,793	12,040
U.S. Govt. Bonds	6,977,619	1,450,468	3,664,469	1,862,682	-
Total	28,070,001	$ 12,993,493	$ 9,756,993	$ 5,307,475	$ 12,040
Other Investments					
Equity Securities and Mutual Funds	21,707,167				
Held by Bond Trustee	3,220,623				
Total	$ 52,997,791				

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

Investments - Continued

2014

Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 6,835,827	$ 6,835,827	$ -	$ -	$ -
Corporate Bonds	12,968,607	3,013,711	7,655,719	2,284,917	14,260
U.S. Govt. Bonds	15,602,328	7,711,521	6,095,301	1,795,506	-
Total	35,406,762	$ 17,561,059	$ 13,751,020	$ 4,080,423	$ 14,260
Other Investments					
Equity Securities and Mutual Funds	19,565,545				
Held by Bond Trustee	4,426,154				
Total	$ 59,398,461				

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

	2015	2014
Interest and dividend income	**$ 1,068,567**	$ 1,367,083
Net realized and unrealized gain	**(475,293)**	2,721,427
Total investment income	**593,274**	4,088,510
Less: management fees	**(235,021)**	(227,095)
Investment income, net	**$ 358,253**	$ 3,861,415

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

Investments - Continued

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.

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

Investment rating*	2015	2014
AA+	$ 8,013,318	$ 16,558,229
AA	806,692	2,596,218
AA-	1,637,702	1,285,138
A+	1,541,891	1,962,841
A	4,229,678	2,424,357
A-	971,113	1,315,657
BBB+	578,344	135,593
BBB	419,946	603,646
BBB-	808,992	456,119
BB+	245,464	155,945
BB	242,336	331,670
BB-	204,208	356,173
B+	157,907	148,816
B	116,542	95,812
B-	129,485	131,688
CCC+	40,611	13,033
CCC-	6,930	-
	$ 20,151,159	$ 28,570,935

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

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

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

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

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

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

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

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

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

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

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

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

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:

	2015	2014
Student accounts receivable	**$ 9,962,008**	$ 10,291,876
Grants receivable	**4,042,020**	3,528,283
Other receivable	**1,760,345**	2,822,954
Subtotal	**15,764,373**	13,058,745
Allowance for doubtful accounts	**(5,127,012)**	(5,180,130)
Total accounts receivable, net	**$ 10,637,361**	$ 11,462,983

The notes receivable balance in the statement of net position represents the Perkins notes receivable. It is shown net of an allowance for bad debts of approximately $591,000 and $580,000 at June 30, 2015 and 2014, respectively. This allowance is the aggregate that was reserved for by each college based upon historical bad loan reserve requirements, the net increase in the allowance of $11,000 and 65,000 in 2015 and 2014, respectively, has been reflected in operating expenses.

Note 4 - **Long-Term Liabilities**

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

	2015				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$ 130,935,969	$ -	$ 3,759,760	$ 127,176,209	$ 4,661,213
Fair market value of interest rate swap	10,674,356	350,611	-	11,024,967	-
Net OPEB obligation	48,943,729	11,316,963	5,527,188	54,733,504	-
Accounts payable and accrued liabilities	12,262,148	12,781,671	12,126,101	12,917,718	12,867,683
Unearned revenue and deposits	7,091,001	1,873,231	2,314,804	6,649,428	6,477,785
Refundable grants	6,044,136	-	3,024	6,041,112	-
Total long-term liabilities	$ 215,951,339	$ 26,322,476	$ 23,730,877	$ 218,542,938	$ 24,006,681

	2014				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$ 134,573,494	$ -	$ 3,637,525	$ 130,935,969	$ 3,759,760
Fair market value of interest rate swap	10,603,309	71,047	-	10,674,356	-
Net OPEB obligation	42,753,755	11,548,353	5,358,379	48,943,729	-
Accounts payable and accrued liabilities	12,954,459	12,046,640	12,738,951	12,262,148	12,126,093
Unearned revenue and deposits	7,279,832	978,913	1,167,744	7,091,001	6,663,699
Refundable grants	6,049,434	-	5,298	6,044,136	-
Total long-term liabilities	$ 214,214,283	$ 24,644,953	$ 22,907,897	$ 215,951,339	$ 22,549,552

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

Bonds and Notes Payable
Outstanding debt is as follows:

	2015	2014
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 \$176,464 and \$220,580 has been added to this liability at June 30, 2015 and 2014, respectively. [1]	**\$ 6,741,464**	\$ 8,510,580
Revenue Bonds, Series 2010B: 4.751% - 5.101% serial bonds aggregating \$3,800,000 maturing 2018 through 2020, and 6.101%, 6.861%, and 7.211% term bonds of \$6,255,000, \$5,580,000, and \$14,630,000 due July 2025, July 2030, and July 2040, respectively. Interest on the term bond is payable semi-annually on the unpaid balances. [2]	**30,265,000**	30,265,000
CU - New Student Housing: Variable rate (69% of one-month LIBOR plus 1.31%) term loan of \$5,200,000 for 20 years with monthly payments of principal and interest due through December 2025; collateralized by substantially all unrestricted revenue and assets not previously pledged as collateral on other debt. [3,5]	**3,363,177**	3,600,340

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

	2015	2014
Bonds and Notes Payable - Continued		
VSC - Capital Construction Projects:		
Variable rate (69% of the one-month LIBOR plus 1.21%) term loan of $72,000,000 for 20 years with monthly payments of principal and interest due through May 2028; collateralized by substantially all unrestricted revenue, accounts receivable, contract rights, inventory and machinery and equipment not previously pledged as collateral on other debt.[4, 5]	**$ 64,804,979**	$ 66,356,816
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.[6]	**2,151,324**	2,258,024
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 $1,685,265 and $1,780,209 has been added to the liability at June 30, 2015 and 2014, respectively.	**19,850,265**	19,945,209
	$ 127,176,209	$ 130,935,969

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

Bonds and Notes Payable - Continued

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

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

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

The loan and the related swap agreement mature on December 16, 2025, and the swap's notional amount of $5,200,000 matches the $5,200,000 variable rate loan. The swap was entered into at the same time the loan was issued in December 2005. Under the swap, VSC pays the counterparty a fixed payment of 4.97% and receives a variable payment computed as 69% of the one-month London Interbank Offered Rate (LIBOR) plus 1.31%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $419,350 as of June 30, 2015 and $469,030 as of June 30, 2014.

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

Bonds and Notes Payable - Continued

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

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

The loan has a thirty year amortization with a twenty year term. The first two years of the loan are interest only payments. This will allow VSC to more closely match the revenue streams produced by the capital projects. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $10,516,510 as of June 30, 2015 and $10,129,047 as of June 30, 2014.

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

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

The loan and the related swap agreement mature on January 15, 2029, and the swap's notional amount of $2,750,000 matches the $2,750,000 variable rate loan. The swap was entered into at the same time the loan was issued in January 2009. Under the swap, VSC pays the counterparty a fixed payment of 2.25% and receives a variable payment computed as 69% of the one-month LIBOR plus 3.12%. Because of interest rate fluctuations since execution of the swap, the swap had a negative fair value of $89,107 and $76,279 as of June 30, 2015 and 2014, respectively.

VERMONT STATE COLLEGES
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Notes to the Financial Statements - Continued

June 30, 2015 and 2014

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

Debt Roll-Forward

Long-term debt activity for the years ended June 30, 2015 and 2014 was as follows:

	Balance June 30, 2014	Additions	Repayments	Balance June 30, 2015	Current Portion
New Housing - CU	$ 3,600,340	$ -	$ (237,163)	$ 3,363,177	$ 249,414
TD Banknorth - FY 2008 Capital Projects	66,356,816	-	(1,551,837)	64,804,979	1,625,399
CCV Montpelier	2,258,024	-	(106,700)	2,151,324	112,340
Series 2010-A	8,290,000	-	(1,725,000)	6,565,000	1,725,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	220,580	-	(44,116)	176,464	44,116
Series 2010 Bonds	38,775,580	-	(1,769,116)	37,006,464	1,769,116
Series 2013	18,165,000	-	-	18,165,000	810,000
Series 2013 Bond Premium	1,780,209	-	(94,944)	1,685,265	94,944
Series 2013 Bonds	19,945,209	-	(94,944)	19,850,265	904,944
Total Bonds and Notes Payable	$ 130,935,969	$ -	$ (3,759,760)	$ 127,176,209	$ 4,661,213

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

Debt Roll-Forward - Continued

	Balance June 30, 2013	Additions	Repayments	Balance June 30, 2014	Current Portion
Series 1998 with accreted interest	$ 640,000	$ -	$ (640,000)	$ -	$ -
New Housing - CU	3,825,850	-	(225,510)	3,600,340	237,162
TD Banknorth - FY 2008 Capital Projects	67,838,430	-	(1,481,614)	66,356,816	1,551,838
CCV Montpelier	2,359,365	-	(101,341)	2,258,024	106,700
Series 2010-A	9,340,000	-	(1,050,000)	8,290,000	1,725,000
Series 2010-B	30,265,000	-	-	30,265,000	-
Series 2010 Bond Premium	264,696	-	(44,116)	220,580	44,116
Series 2010 Bonds	39,869,696	-	(1,094,116)	38,775,580	1,769,116
Series 2013	18,165,000	-	-	18,165,000	-
Series 2013 Bond Premium	1,875,153	-	(94,944)	1,780,209	94,944
Series 2013 Bonds	20,040,153	-	(94,944)	19,945,209	94,944
Total Bonds and Notes Payable	$ 134,573,494	$ -	$ (3,637,525)	$ 130,935,969	$ 3,759,760

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

Notes to the Financial Statements - Continued

June 30, 2015 and 2014

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

Debt Roll-Forward - Continued

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

Years Ending June 30,	Principal Amount	Interest Amount
2016	$ 4,661,213	$ 5,560,090
2017	5,422,083	5,325,744
2018	5,647,584	5,078,704
2019	5,707,937	4,854,637
2020	4,384,276	4,678,926
2021-2025	24,874,187	20,254,413
2026-2030	56,827,823	10,937,003
2031-2035	10,051,106	3,147,112
2036-2040	7,805,000	1,250,264
2041	1,795,000	-
	$ 127,176,209	$ 61,086,893

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.

Note 5 - **Functional Expense Classification**

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

	2015	2014
Instruction	**$ 57,507,382**	$ 58,399,475
Research	**46,777**	30,947
Public service	**11,009,829**	10,825,104
Academic support	**21,400,593**	22,566,674
Student services	**29,385,899**	29,400,400
Institutional support	**42,996,033**	44,830,185
Physical plant	**6,903,018**	7,931,182
Student financial support	**6,564,605**	7,273,698
Depreciation	**14,087,773**	14,030,027
Total	**$ 189,901,909**	$ 195,287,692

Note 6 - **Appropriations**

VSC's operating appropriation from the State of Vermont is made directly to the Colleges and is drawn down on the basis of a monthly allotment. Included in the annual state appropriation for operations is funding for Allied Health of approximately $1,158,000 in 2015 and $1,150,000 in 2014; VMEC of approximately $428,000 in 2015 and 2014; and VIT of approximately $817,000 in 2015 and $809,000 in 2014.

Capital appropriations for VSC made from the State Bond Funds were approximately $1,488,000 and $1,688,000 in fiscal years 2015 and 2014, respectively.

Note 7 - **Retirement Plans**

Eligible faculty and staff participate in a defined contribution retirement plan administered by Teachers Insurance Annuity Association and College Retirement Equities Fund (TIAA-CREF). For the years ended June 30, 2015 and 2014, the Colleges' total payroll expense was approximately \$79,923,000 and \$82,488,000, respectively, of which approximately \$53,787,000 and \$54,018,000 represented salaries and wages of employees covered under the defined contribution plan, respectively. The Colleges' requirements to contribute to the retirement plan are specified by four collective bargaining agreements and by personnel policies for non-represented employees. Employer contribution rates are established by employee category. There are no required employee contributions to the plan. Depending upon the position category, employees may be eligible for the plan from as early as date of hire to as long as two years from date of hire. All eligible employees are vested from the date of eligibility. During the years ended June 30, 2015 and 2014, contributions made by the Colleges under this plan totaled approximately \$6,246,000 and \$6,432,000, or approximately 11.61% and 11.91% 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 years ended June 30, 2015 and 2014 were approximately \$64,700 and \$61,800, respectively, and employer contributions were approximately \$6,900 and \$6,300, respectively. There were no contributions to the Vermont State Teachers Retirement System during 2015 and 2014.

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, 2015 and 2014, contributions for these benefits were approximately \$1,017,000 and \$1,083,000, respectively.

Note 7 - **Retirement Plans - Continued**

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

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

Plan Description: VSC administers a self-insured single-employer defined benefit healthcare plan. The plan provides lifetime healthcare payments for eligible employees, spouses or civil union partners. The self-insured plan, administered by CIGNA, covers both active and retired members. Benefit provisions are established through negotiations between VSC and the unions representing VSC employees, and they are reviewed during the bargaining period prior to the termination date of each union contract. The retiree healthcare plan does not issue a publicly available financial report. During the years ended June 30, 2015 and 2014, 527 and 465 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 2015 and 2014, VSC recognized employer contributions of $5,527,188 and $5,358,379, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2015 and 2014, there were no member contributions.

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

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

The following table shows the components of VSC's annual OPEB costs for the years ended June 30, 2015 and 2014, and the changes in VSC's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	2015	2014
Annual required contribution	**$ 12,610,000**	$ 12,610,000
Interest on net OPEB obligation	**1,835,392**	1,603,266
Adjustment to annual required contribution	**(3,128,429)**	(2,664,913)
Annual OPEB cost	**11,316,963**	11,548,353
Contribution made	**(5,527,188)**	(5,358,379)
Increase in net OPEB obligation	**5,789,775**	6,189,974
Net OPEB Obligation - Beginning of Year	**48,943,729**	42,753,755
Net OPEB Obligation - End of Year	**$ 54,733,504**	$ 48,943,729

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, 2015, 2014 and 2013 are as follows:

Fiscal Years Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 11,316,963	48.8%	$ 54,733,504
June 30, 2014	$ 11,548,353	46.4%	$ 48,943,729
June 30, 2013	$ 12,047,665	41.4%	$ 42,753,755

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 $135,344,800, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was $54,018,000, and the ratio of the unfunded actuarial liability to annual covered payroll was 250.6%. The latest actuarial valuation date was on July 1, 2013.

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

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

The following actuarial assumptions were made:

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

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

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

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

Mortality: Life expectancies were based on the 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 90% at the calculation date.

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

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

Note 9 - **Leases**

The Colleges have various operating leases for classrooms, office space, equipment and motor vehicles. The majority of these leases have terms equal to or less than ten years and in some cases contain escalation and maintenance clauses, as well as renewal options. Total rental expense for all operating leases was approximately $3,003,000 and $2,801,000 in 2015 and 2014, respectively.

Note 9 - **Leases - Continued**

Future minimum rental payments required under operating leases with noncancelable terms in excess of one year at June 30, 2015 are as follows:

Years Ending June 30,	Real Estate	Vehicles and Equipment	Total
2016	$ 2,289,026	$ 242,433	$ 2,531,459
2017	1,893,593	190,964	2,084,557
2018	1,900,058	171,480	2,071,538
2019	1,679,514	149,550	1,829,064
2020	1,529,448	2,215	1,531,663
2021 and thereafter	7,594,726	-	7,594,726
	$ 16,886,365	$ 756,642	$ 17,643,007

Note 10 - **Capital Assets**

Property and equipment activity for the years ended June 30, 2015 and 2014 is summarized below:

	Balance June 30, 2014	Additions	Transfers	Retirements	Balance June 30, 2015
Land	$ 6,428,274	$ 3,501,090	$ -	$ -	$ 9,929,364
Construction-in-process	3,197,135	2,841,275	(4,416,940)	-	1,621,470
Subtotal - Capital assets not depreciated	9,625,409	6,342,365	(4,416,940)	-	11,550,834
Infrastructure	37,955,276	-	299,045	-	38,254,321
Buildings and improvements	249,467,273	870,815	1,863,132	(364,279)	251,836,941
Leasehold improvements	2,144,024	-	1,980,319	-	4,124,343
Equipment	31,478,282	1,059,117	274,444	(563,481)	32,248,362
Subtotal - Capital assets depreciated	321,044,855	1,929,932	4,416,940	(927,760)	326,463,967
Less accumulated depreciation	(143,670,416)	(14,087,773)	-	627,020	(157,131,169)
Capital assets, net	$ 186,999,848	$ (5,815,476)	$ -	$ (300,740)	$ 180,883,632

Note 10 - **Capital Assets - Continued**

	Balance June 30, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
Land	$ 6,428,274	$ -	$ -	$ -	$ 6,428,274
Construction-in-process	7,498,075	6,044,799	(10,345,739)	-	3,197,135
Subtotal - Capital assets not depreciated	13,926,349	6,044,799	(10,345,739)	-	9,625,409
Infrastructure	36,440,568	160,630	1,354,078	-	37,955,276
Buildings and improvements	240,504,212	-	8,963,061	-	249,467,273
Leasehold improvements	2,144,024	-	-	-	2,144,024
Equipment	30,853,774	850,736	28,600	(254,828)	31,478,282
Subtotal - Capital assets depreciated	309,942,578	1,011,366	10,345,739	(254,828)	321,044,855
Less accumulated depreciation	(129,856,677)	(14,030,027)	-	216,288	(143,670,416)
Capital assets, net	$ 194,012,250	$ (6,973,862)	$ -	$ (38,540)	$ 186,999,848

Included in construction-in-process is interest expense on borrowing during the construction period. There was no such interest expense for fiscal year 2014 or 2015.

Note 11 - **Contingencies and Commitments**

Contingencies

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

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

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

Contingencies - Continued

VSC is also exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSC manages these risks through a combination of commercial insurance packages purchased in the name of VSC, and through self-insurance for medical and dental claims. VSC has entered into contracts with a third-party claims administrator, which essentially caps medical claim costs (stop-loss) at an agreed-upon level. Individual stop-loss is $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 $1,595,000 at June 30, 2015 and $1,592,000 at June 30, 2014 and are based on historical data. A medical and dental claim roll-forward is presented below:

	2015	2014
Medical and dental claims reserve, beginning of year	$ 1,592,000	$ 1,537,000
Incurred claims	18,640,000	21,335,000
Payments on claims	(18,637,000)	(21,280,000)
Medical and dental claims reserve, end of year	$ 1,595,000	$ 1,592,000

VSC self-insures its workers' compensation program and is operated by a third-party claims administrator. Contributions to the plan are based on estimated payroll and rates adjusted by an experience modification factor. VSC has purchased stop-loss insurance, which is effective for aggregate claims in excess of $875,000 per year. VSC has obtained a letter of credit in the amount of $450,000 to be used in the event of failure to pay premiums on the stop-loss policy. This is collateralized by a certificate of deposit. A workers' compensation roll-forward is presented below:

	2015	2014
Workers' compensation reserve, beginning of year	$ 175,000	$ 206,000
Workers' compensation accrued during the year	347,000	355,000
Claims paid/reserved/claims administration	(356,000)	(386,000)
Workers' compensation reserve, end of year	$ 166,000	$ 175,000

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

Commitments

VSC has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2015:

Project	Expended through June 30, 2015	Committed Future Costs	Total Committed Costs of Project
CU Adams Heating	$ 5,850	$ 206,703	$ 212,553
CU Fine Arts Roof Replacement	121,363	13,485	134,848
JSC Senators Electronic	168,193	18,688	186,881
JSC Roofing Project	52,560	105,793	158,353
	$ 347,966	$ 344,669	$ 692,635

At June 30, 2015, invoices related to construction projects of approximately $226,000 were included in accounts payable.

Employment Contracts

The Colleges have employment contracts with certain officers that expire on various dates through fiscal years 2016 and 2017. The agreements provide for aggregate annual base salaries of $1,611,219 in fiscal year 2016 and $952,129 in fiscal year 2017 and may be terminated with cause at any time.

Service Concession Agreements

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

Years Ending June 30,	
2016	$ 225,000
2017	225,000
2018	445,000
2019	445,000
2020	445,000
2021-2022	1,415,000
Total	$ 3,200,000

REQUIRED SUPPLEMENTARY INFORMATION

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Schedule of Funding Progress (Unaudited)

June 30, 2015 and 2014

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, 2013	$ -	$ 135,344,800	$ 135,344,800	0%	$ 54,018,000	250.6%
July 1, 2011	$ -	$ 117,611,000	$ 117,611,000	0%	$ 52,025,735	226.1%
July 1, 2009	$ -	$ 94,168,000	$ 94,168,000	0%	$ 46,127,000	204.1%

VSC has to date performed four actuarial valuations, the latest on July 1, 2013, for purposes of satisfying the requirements of GASB Statement No. 45. The actuarial accrued liability for all benefits at this time was $135,344,800, all of which was unfunded. The annual covered payroll (annual payroll of active employees covered by the plan) was $54,018,000, and the ratio of the unfunded actuarial liability to annual covered payroll was 250.6%.

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

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), which comprise the statements of net position as of June 30, 2015 and 2014, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Vermont State Colleges' basic financial statements and have issued our report thereon dated November 18, 2015.

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.

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Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 18, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Vermont State College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Vermont State College's major Federal programs for the year ended June 30, 2015. Vermont State College's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Vermont State College's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Vermont State College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Vermont State College's compliance.

Opinion on Each Major Federal Program

In our opinion, Vermont State College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2015-001 and Finding 2015-002. Our opinion on each major Federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of the Vermont State Colleges is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Vermont State College's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Vermont State College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal controls over compliance, as described in the accompanying schedule of findings and questioned costs as item Findings 2015-001 and 2015-002, that we consider being significant deficiencies.

Vermont State College's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Vermont State College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Vermont State Colleges as of and for the year ended June 30, 2015, and have issued our report thereon dated November 18, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 18, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

	CFDA Number	State Revenue Code	Total
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007		$ 1,270,194
Federal Work-Study Program	84.033		1,197,696
Federal Perkins Loan Program	84.038		14,340
Federal Pell Grant Program	84.063		18,447,017
before loans and loan guarantees			20,929,247
Loans and loan guarantees:			
Loans advanced to students under the Federal Perkins	84.038		859,832
Federal Family Education Loans	84.032		622,252
Federal Direct Student Loans	84.268		47,638,124
Subtotal - loans and loan guarantees			49,120,208
Total Student Financial Assistance			70,049,455
U.S. Department of Education:			
TRIO Cluster:			
TRIO Student Support Services	84.042A		1,598,515
TRIO_Upward Bound	84.047A		1,005,475
Total			2,603,990
Other Direct from U.S. Department of Education:			
Center for Rural Students II	84.116Z		35,358
Total U.S. Department of Education (Direct)			72,688,803
Direct from Other Federal Sources			
US Dept of Commerce:			
Manufacturing Extension Partnership	11.611		600,000
EDA Disaster Assistance	11.307		67,083
National Science Foundation			
VORTEX2-Wall Clouds	47.050		49,296
Geosciences	47.050		3,150
Education and Human Resources	47.076		124,049
National Institute of Health			
Laughing Babies	47.081		100,244
Small Business Administration			
Small Business Development Center	59.037		614,573
SBDC FAST Grant	59.058		41,913

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2015

	CFDA Number	State Revenue Code	Total
US Dept of Labor			
Green Jobs Initiative	17.261		$ (2,941)
TAACCCT	17.282		1,661,611
Total Other Federal Sources (Direct)			3,258,978
Passed Thru Vermont Department of Education:			
Vocational Education_Basic Grants to States	84.048	4319	155,731
Career & Technical Education	84.048	4306	678,734
CP Basic Grant to the States	84.048		48,300
CP Basic Grant to the States	84.048		1,700
Subtotal (Perkins)			884,465
Other:			
Summer Food Service Program for Children	10.559	4455	19,927
Mathematics and Science Partnerships	84.366		324,112
Sub-total			344,039
			-
Total Passed Through Vermont Dept of Education			1,228,504
Passed Thru Other Sources:			
Vermont Agency of Human Services:			
Americorps	94.006		184,654
Office of Vermont Health Access (OVHA)			
Global Commitment (Medicaid Regular)	93.778		229,014
Vermont Student Assistance Corp			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		378,749
Gear UP Guide Program	10.217		12,354
Vermont Dept. Children & Families			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		301,231
CCDF-Discretionary Funds	93.575		4,899
National Science Foundation			
UVM/SWAC	47.050		44,688
National Center for Research Resources			
Aerospace Edu Services Prog-NASA Satelite	93.389		116,194
UVM/VGN	93.389		93,902
UVM/VGN	93.859		7,453

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2015

	CFDA Number	State Revenue Code	Total
University of Vermont:			
EPSCOR	47.073		$ 19,365
EPSCOR	47.076		165,659
Vermont Genetics Network	93.389		234,202
VGN/INBRE	93.859		70,059
Think College	84.407A		75,594
National Space Grant College & Fellowship Program	43.000		10,746
Aerospace Educaton Services-NASA Satellite Lab	43.001		3,684
VT Agency of Natural Resources			
Pollution Prevention Grants Program	66.708		35,626
USDA			
Rural Business Enterprise Grants	10.769		18,130
VT Department of Libraries			
Library Services & Tech Act	45.310		1,499
VT Agency of Commercy & Community Development			
Defense Logistics Agency	12.002		44,025
VT Dept of Energy			
Large Biodigester-US Dept of Energy	81.087		14,533
NE Photovolaic Training Network	81.087		4,200
NCAA			
Strategic Alliance	93.226		29,487
Choices	93.226		14,597
USGS-Ed Maps	15.810		17,849
VT Council on Rural Development			
Digital Economy	11.307		14,642
E-Commerce for EDA/VCRD	11.307		72,964
NBRC-National Borders Regional Commission	90.601		65,067
Total Passed Through Other Sources (Indirect)			2,285,066
Total Federal Funds			$ 79,461,351

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2015

	CFDA Number	State Revenue Code	Community College of Vermont	Castleton State College	Johnson State College	Lyndon State College	Vermont Technical College	Nursing Allied Health	Workforce	System Offices & Services	Total
U.S. Department of Education:											
Student Financial Assistance Cluster:											
Federal Supplemental Educational Opportunity Grant	84.007		$ 189,781	$ 323,990	$ 358,874	$ 161,383	$ 236,166	$ -	$ -	$ -	$ 1,270,194
Federal Work-Study Program	84.033		133,769	335,223	402,177	185,662	140,865	-	-	-	1,197,696
Federal Perkins Loan Program	84.038		-	-	-	14,340	-	-	-	-	14,340
Federal Pell Grant Program	84.063		7,920,014	3,019,450	2,963,048	2,398,068	2,146,437	-	-	-	18,447,017
before loans and loan guarantees			8,243,564	3,678,663	3,724,099	2,759,453	2,523,468	-	-	-	20,929,247
Loans and loan guarantees:											
Loans advanced to students under the Federal Perkins	84.038		-	270,827	135,000	286,800	167,205	-	-	-	859,832
Federal Family Education Loans	84.032		-	-	622,252	-	-	-	-	-	622,252
Federal Direct Student Loans	84.268		6,074,318	14,057,565	10,016,867	9,074,199	8,415,175	-	-	-	47,638,124
Subtotal - loans and loan guarantees			6,074,318	14,328,392	10,774,119	9,360,999	8,582,380	-	-	-	49,120,208
Total Student Financial Assistance			14,317,882	18,007,055	14,498,218	12,120,452	11,105,848	-	-	-	70,049,455
U.S. Department of Education:											
TRIO Cluster:											
TRIO Student Support Services	84.042A		332,275	291,231	391,590	308,135	275,284	-	-	-	1,598,515
TRIO_Upward Bound	84.047A			259,996	421,942	323,537		-	-	-	1,005,475
Total			332,275	551,227	813,532	631,672	275,284	-	-	-	2,603,990
Other Direct from U.S. Department of Education:											
Center for Rural Students II	84.116Z		-	-	-	35,358	-	-	-	-	35,358
Total			-	-	-	35,358	-	-	-	-	35,358
Total U.S. Department of Education (Direct)			14,650,157	18,558,282	15,311,750	12,787,482	11,381,132	-	-	-	72,688,803
Direct from Other Federal Sources											
US Dept of Commerce:											
Manufacturing Extension Partnership	11.611		-	-	-	-	-	-	600,000	-	600,000
EDA Disaster Assistance	11.307		-	-	-	-	-	-	67,083	-	67,083
National Science Foundation											
VORTEX2-Wall Clouds	47.050		-	-	-	49,296	-	-	-	-	49,296
Geosciences	47.050		-	3,150	-	-	-	-	-	-	3,150
Education and Human Resources (START)	47.076		-	-	124,049	-	-	-	-	-	124,049
National Institute of Health											
Laughing Babies	47.081		-	-	100,244	-	-	-	-	-	100,244
Small Business Administration											
Small Business Development Center	59.037		-	-	-	-	-	-	614,573	-	614,573
SBDC FAST Grant	59.058		-	-	-	-	-	-	41,913	-	41,913
US Dept of Labor											
Green Jobs Initiative	17.261		-	-	-	-	-	-	(2,941)	-	(2,941)
TAACCCT	17.282		424,339	-	-	-	1,237,272	-	-	-	1,661,611
Total Other Federal Sources (Direct)			424,339	3,150	224,293	49,296	1,237,272	-	1,320,628	-	3,258,978

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2015

	CFDA Number	State Revenue Code	Community College of Vermont	Castleton State College	Johnson State College	Lyndon State College	Vermont Technical College	Nursing Allied Health	Workforce	System Offices & Services	Total
Passed Thru Vermont Department of Education:											
Vocational Education_Basic Grants to States	84.048	4319	$ -	$ -	$ -	$ -	$ 155,731	$ -	$ -	$ -	$ 155,731
Career & Technical Education	84.048	4306	678,734	-	-	-	-	-	-	-	678,734
CP Basic Grant to the States	84.048		50,000	-	-	-	-	-	-	-	50,000
Subtotal (Perkins)			728,734	-	-	-	155,731	-	-	-	884,465
Other:											
Summer Food Service Program for Children	10.559	4455	-	-	-	19,927	-	-	-	-	19,927
Mathematics and Science Partnerships	84.366		-	-	-	324,112	-	-	-	-	324,112
Sub-total			-	-	-	344,039	-	-	-	-	344,039
Total Passed Through Vermont Dept of Education			728,734	-	-	344,039	155,731	-	-	-	1,228,504
Passed Thru Other Sources:											
Vermont Agency of Human Services:											
Americorps	94.006		-	-	-	184,654	-	-	-	-	184,654
Office of Vermont Health Access (OVHA)											
Global Commitment (Medicaid Regular)	93.778		-	-	-	-	-	229,014	-	-	229,014
Vermont Student Assistance Corp											
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		19,893	-	-	-	-	-	-	358,856	378,749
Gear UP Guide Program	10.217		-	-	12,354	-	-	-	-	-	12,354
Vermont Dept. Children & Families											
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		301,231	-	-	-	-	-	-	-	301,231
CCDF-Discretionary Funds	93.575		4,899	-	-	-	-	-	-	-	4,899
University of Vermont:											
EPSCOR	47.073		-	19,365		-	-	-	-	-	19,365
EPSCOR	47.076		-		165,659	-	-	-	-	-	165,659
Vermont Genetics Network	93.389		-	-	234,202	-	-	-	-	-	234,202
VGN/INBRE	93.859		70,059	-	-	-	-	-	-	-	70,059
Think College	84.407A		-	-	75,594	-	-	-	-	-	75,594
National Space Grant College & Fellowship Program	43.001		-	-	-	-	10,746	-	-	-	10,746
Aerospace Educaton Services-NASA Satellite Lab	43.001		-	-	-	-	3,684	-	-	-	3,684
National Science Foundation											
UVM/SWAC	47.050		-	-	-	44,688	-	-	-	-	44,688
National Center for Research Resources											
Aerospace Edu Services Prog-NASA Satelite	93.389		-	116,194	-	-	-	-	-	-	116,194
UVM/VGN	93.389		-	-	-	93,902	-	-	-	-	93,902
UVM/VGN	93.859		-	-	-	7,453	-	-	-	-	7,453
VT Agency of Natural Resources											
Pollution Prevention Grants Program	66.708		-	-	-	-	-	-	35,626	-	35,626
USDA											
Rural Business Enterprise Grants	10.769		-	-	-	-	-	-	18,130	-	18,130
VT Department of Libraries											
Library Services & Tech Act	45.310		-	-	-	1,000	499	-	-	-	1,499

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2015

	CFDA Number	State Revenue Code	Community College of Vermont	Castleton State College	Johnson State College	Lyndon State College	Vermont Technical College	Nursing Allied Health	Workforce	System Offices & Services	Total
VT Agency of Commercy & Community Development											
Defense Logistics Agency	12.002		$ -	$ -	$ -	$ -	$ -	$ -	$ 44,025	$ -	$ 44,025
VT Sustainable Jobs Fund, Inc.											
Large Biodigester-US Dept of Energy	81.087		-	-	-	-	14,533	-	-	-	14,533
NE Photovolaic Training Network	81.087		-	-	-	-	4,200	-	-	-	4,200
NCAA											
Strategic Alliance	93.226		-	-	29,487	-	-	-	-	-	29,487
Choices	93.226		-	-	14,597	-	-	-	-	-	14,597
USGS-Ed Maps	15.810		-	17,849	-	-	-	-	-	-	17,849
VT Council on Rural Development											
Digital Economy	11.307		14,642	-	-	-	-	-	-	-	14,642
E-Commerce for EDA/VCRD	11.307		-	-	-	-	-	-	72,964	-	72,964
NBRC-National Borders Regional Commission	90.601		-	-	-	65,067	-	-	-	-	65,067
Total Passed Through Other Sources (Indirect)			410,724	153,408	531,893	396,764	33,662	229,014	170,745	358,856	2,285,066
Total Federal Funds			$ 16,213,954	$ 18,714,840	$ 16,067,936	$ 13,577,581	$ 12,807,797	$ 229,014	$ 1,491,373	$ 358,856	$ 79,461,351

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Note 1 - **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Vermont State Colleges and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results

Financial Statements

Type of audit report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance which is material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Type of auditor's report issued:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program
84.007, 84.033, 84.038, 84.063, 84.032, 84.268.	Student Financial Assistance Cluster
11.611	Manufacturing Extension Partnership
59.037	Small Business Development Center

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

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2015

I. Summary of Auditor's Results - Continued

Identification of major programs - Continued:

CFDA Numbers	*Name of Federal Program*
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants
84.048	Career and Technical Education - Basic Grants to States
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.366	Mathematics and Science Partnerships
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.389	National Center for Research Resources

Dollar threshold used to distinguish Between type A and type B programs:	$300,000
Auditee qualifies as a low-risk auditee?	No

II. Federal Audit Findings and Questioned Costs

Finding number:	2015-001
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2015

CONDITION/CRITERIA
The Federal government requires the College to report student enrollment changes to the National Student Loan Data System (NSLDS) within sixty days. Out of a sample of forty students with enrollment status changes, four of the students' changes were not reported in a timely manner to the NSLDS. For three of those students, the timeframe taken to report the status ranges from 159-168 days. The fourth student's graduation was never reported to the NSLDS.

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

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

CAUSE/EFFECT
The College reports student enrollment status changes to the NSLDS through the National Student Clearinghouse (NSC), a third-party contractor, and is responsible for ensuring that student enrollment status changes are reported to the NSLDS in a timely and accurate manner. It is the responsibility of the Registrar to submit the enrollment status changes to NSC and to ensure that controls are in place to timely submit updates once the Registrar's office receives a student withdrawal form. For three students, the Registrar's office reported the student enrollment status to NSC in a timely manner. However, the student enrollment status data was not transmitted to NSLDS within the required timeframe for those three students.

The student that was never reported to NSLDS did not properly complete the required paperwork to apply for graduation. Due to the incomplete paperwork, the student was not included in a batch submission of graduates to the NSLDS. The College discovered during the following semester that the student was eligible to graduate and recorded the student as graduated but the status change was never reported to the NSLDS.

II. Federal Audit Findings and Questioned Costs - Continued

RECOMMENDATION
We recommend that management review its control procedures for reporting student financial aid data to the NSLDS to ensure proper controls are in place to ensure that all information is reported in a timely manner. Also, we recommend that VSC's IT department develop a query to identify students who have graduated outside of the large batches at the end of each semester.

QUESTIONED COSTS
None

AUDITEE RESPONSE
CCV will continue to monitor all student files in order to satisfy the NSLDS reporting requirement. After review of current procedures, CCV will modify its processes so when a student completes the "Intent to Graduate Form" out of the large cycle, one of the steps in the processing checklist will be to manually report the student to the National Student Clearinghouse to insure timely reporting. CCV will also work with the VSC IT department to investigate developing a query to also help identify students that graduate outside of the large batches at the end of the semester.

LSC's Registrar reported the withdrawals in a timely fashion to the National Student Clearinghouse, as noted in the table above. It is regrettable that the Clearinghouse did not then report to the National Student Loan Data System in a timely fashion. We understand that the College is ultimately responsible for the reporting to NSLDS, but believe that it is impractical for the College to monitor the controls of the National Student Clearinghouse nor are we likely to be effective in influencing their actions. The College has reported this finding to the Clearinghouse so they are aware of their reporting error. While we understand that 95% of colleges and universities use the Clearinghouse for NSDLS reporting, Lyndon is investigating alternative approaches to reporting given this finding, similar incidents at other schools, and the general unresponsiveness of the Clearinghouse.

II. Federal Audit Findings and Questioned Costs - Continued

Finding number:	2015-002
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #'s:	Multiple
Award year:	2015

CONDITION/CRITERIA

When a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the proper amount of Title IV funds to be refunded as of the recipient's withdrawal date. The institution should complete a "Treatment of Title IV Funds when a Student Withdraws from a Credit-Hour Program" worksheet in order to determine the proper amount of Title IV funds to be refunded. Once a recipient's withdrawal date is determined, an institution needs to calculate the percentage of the payment period or period of enrollment completed. The percentage of the payment period or period of enrollment completed represents the percentage of Title IV funds earned by the recipient.

We tested 40 recipient files for compliance with this requirement. The refund for one student who withdrew was not calculated using the proper withdrawal date. This resulted in a net excess of $86 being returned to the Federal Government.

General Requirement

According to *34 CFR 668.22(a)*:

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

Specific Attributes of the Calculation

According to *34 CFR 668.22(e)*:

> 1) *General*. The amount of Title IV grant or loan assistance that is earned by the student is calculated by:
>
> (i) Determining the percentage of Title IV grant or loan assistance that has been earned by the student, as described in paragraph (e)(2) of this section; and
>
> (ii) Applying this percentage to the total amount of Title IV grant or loan assistance that was disbursed to the student, or on the student's behalf, for the payment period or period of enrollment as of the student's withdrawal date.

II. Federal Audit Findings and Questioned Costs - Continued

2) *Percentage earned.* The percentage of Title IV grant or loan assistance that has been earned by the student is:

(i) Equal to the percentage of the payment period or period of enrollment that the student completed as of the student's withdrawal date, if this date occurs on or before:

a) Completion of 60 percent of the payment period or period of enrollment for a program that is measured in credit hours.

3) *Percentage unearned.* The percentage or Title IV grant or loan assistance that has not been earned by the student is calculated by determining the complement of the percentage of title IV grant or loan assistance earned by the student.

4) Total amount of unearned Title IV assistance to be returned. The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of title IV assistance earned by the student as calculate from the amount of title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew.

CAUSE/EFFECT

The College did not ensure that the regulations were met in regards to refunding Title IV funds. For one student tested, the College used an incorrect date of withdrawal, which resulted in a miscalculation of the student's percentage earned. This miscalculation resulted in a net excess of $86 being returned to the Federal Government.

RECOMMENDATION

We recommend that the College adhere to the policies and procedures in regards to the refund process to ensure all refunds are being calculated correctly and in compliance with federal regulations.

QUESTIONED COSTS

$86

AUDITEE RESPONSE

The R2T4 calculation sheet was initially prepared, and as part of our procedure, was reviewed by another staff member. The date of withdrawal was incorrect on the calculation sheet and was not noticed. Also, the PLUS amount to be returned was on the calculation sheet and when the other financial aid that needed to be returned was updated, the reduction to the PLUS loan was not noticed and therefore was not reduced or returned at that time.

We have reinforced the 2nd reviewer procedures to ensure dates; calculations and budgets are double checked and that all adjustments of aid are correct and the appropriate dollar amount of the financial aid refund is returned.

II. Federal Audit Findings and Questioned Costs - Continued

Finding number:	2014-001
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grant Program
CFDA #'s:	84.063
Award year:	2014

CONDITION/CRITERIA
Colleges must report student financial aid payment data to COD (Common Origination and Disbursement system) within 30 calendar days after the school credits a student's account for a Pell or a Direct Loan disbursement. Out of a sample of forty students, we noted three students who did not have their payment information reported to COD within 30 days.

CAUSE/EFFECT
This condition occurred due to system restrictions in the Datatel computer system and communication with COD. The Federal government could potentially revoke the College's financial aid.

RECOMMENDATION
We recommend that management strengthen their oversight of COD reporting to ensure for timely reporting of aid disbursement information.

QUESTIONED COSTS
None

AUDITEE RESPONSE
CCV acknowledged these errors when discovered during interim audit testing. The errors highlighted a weakness in the College's Colleague electronic reporting process to the COD system, whereby it was difficult to discern after the data was transmitted, which individual Pell records were accepted by the COD system. This type of error was not noticed until reconciliation between the two systems was performed at a later date. The College has redesigned and implemented in its electronic reporting process, a new system report edit function which helps to quickly identify data reporting errors with the COD system and will allow CCV to provide the correct Pell student data within the required 30 day reporting window.

AUDITOR COMMENT
The recommendation was adopted by management during the fiscal year ended June 30, 2015. No similar findings were noted during the audit.