VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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

Financial Statements and Management's Discussion and Analysis June 30, 2019

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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, 2019 and 2018, 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 auditors consider 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, 2019 and 2018 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 3-19, the schedule of changes in total OPEB liability on page 62, and their respective notes on Page 63, 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 69 through 75 is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is not a required part of the basic financial statements. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, 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 solely 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 effectiveness of the College's 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 + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 21, 2019

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

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Introduction

The management of the Vermont State Colleges System (VSCS) has prepared the following unaudited Management's Discussion and Analysis (MD&A), required supplemental information according to the Governmental Accounting Standards Board (GASB). The intent is to contribute to the reader's understanding of the accompanying financial statements and notes. As this MD&A contains highly summarized information, tables and graphs, it should be read in conjunction with the accompanying financial statements and notes.

Vermont State Colleges System

Commencing July 1, 2018 with the official merger of Johnson State College and Lyndon State College into Northern Vermont University, the Vermont State Colleges System is now comprised of four public colleges united in the common purpose of providing affordable, high quality, student-centered, and accessible education, fully integrating professional, liberal, and career study, consistent with student aspirations and regional and state needs.

Community College of Vermont (CCV)

Castleton University (CU)

Northern Vermont University (NVU-J and NVU-L)

Vermont Technical College (VTC)

Significant Events Affecting These Financial Statements

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

- Enrollment trends continue to be a concern for institutions of Higher Education. Nationally, enrollments have declined by 9.0% since 2011. Although a national issue, these challenges to the industry are hitting New England and Vermont especially hard. There are declining numbers of traditional college students and increased competition among colleges for those students. Student preferences and attitudes toward higher education are changing. Vermont also ranks at the bottom of the nation in state support.

- The change in accounting for the accrual of the costs of other post-employment benefits (OPEB) GASB 75 implemented in FY2018 had a significant impact on the financial position of the VSCS - bringing the accrual balance from $65 million at 6/30/17 (before restatement) to a total of $188 million at the end of FY2018. In the current year, the liability is at $189 million. This accrual is not being pre-funded, but paid when incurred during retirement periods. Groups have been closed for newly hired employees, which will reduce this liability over time.

- In FY2017, the System refinanced its privately placed, variable rate bank loans issued in FY2006, FY2008 and FY2009, terminated the related interest rate swaps, and amortized a balloon maturity associated with the FY2008 loan. The System structured the repayments to provide debt service relief from FY2018 through FY2021, followed by level debt service from FY2022 through FY2038. The FY2017 debt was issued through the Vermont Municipal Bond Bank, is publicly traded and fixed rate, and is backed by the System's appropriation from the State of Vermont. In addition to the bonds issued in FY2013 and FY2017, the System's debt also includes publicly traded fixed rate general obligation bonds issued in FY2011.

- In FY2018, Johnson State College and Lyndon State College unified administration in preparation for the origination of Northern Vermont University – one accredited institution with two distinct campuses at Johnson and Lyndon. This unification was finalized on July 1, 2018, and the newly formed Northern Vermont University began operating as one accredited institution.

Using the Financial Statements

The following discussion and analysis provides an overview of the financial statements and activities of the Vermont State Colleges System (VSCS) for the year ended June 30, 2019 and selected comparative information for the previous 4 years. Since this MD&A is designed to focus on current activities, resulting changes and currently known facts, please read in conjunction with the financial statements and notes that follow this section.

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

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

Financial Statements

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

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flow

STATEMENT OF NET POSITION

The Statement of Net Position presents the financial position of VSCS at a 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 7 shows the condensed Statement of Net Position for the past five years.

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

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

Total assets (including deferred outflows) of $269 million as of the end of the current fiscal year decreased by $9 million or 3.2% from prior year, the decrease was primarily in the cash due to the prior year receipt of FY2019 state capital monies in June 2018, and in deferred outflows due to predictable amortization. These decreases were offset somewhat by an increase in Accounts Receivable and supplemented by a decrease in Capital Assets net of depreciation. Over the 5 years, total assets have decreased by $3 million: an increase of $7 million in current assets plus investments combined with the $14 million increase in deferred outflows, net of the $24 million reduction in capital assets.

Noncurrent assets consist primarily of endowment and other investments, in addition to capital assets. Investments were $48 million at June 30, 2019, which was essentially a $2 million change over prior year due to endowment spending net market gains. Capital Assets continue to decline at relatively the same rate indicating that investments in capital have primarily been at the same level each year and continue to be less than depreciation on an annual basis.

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

Current liabilities of $24 million include primarily accounts payable and unearned revenue related to the next fiscal year. Current liabilities have been relatively consistent, with the exception of the $3 million deferred revenue from the FY2019 state capital project monies received in June 2018.

Noncurrent liabilities increased by $3 million to $319 million during FY2019. This increase relates a new deferred inflow recorded in FY19 offset by Bond and Notes Payable scheduled loan payments. The deferred inflow relates to GASB 75. The change in accounting standard to GASB

75 had a significant impact on the OPEB liability in FY2018 bringing the total OPEB liability to $188 million at June 30, 2018 and $189 million at June 30, 2019.

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

($ in millions)

	2019	% change	2018	% change	2017	% change	2016	2015
Current Assets	33	-6%	35	21%	29	-3.3%	30	24
Noncurrent Assets								
Investments	48	4%	46	0%	46	7.0%	43	50
Capital assets, net	157	-4%	163	-4%	169	-2.9%	174	181
Other	6	0%	6	0%	6	0.0%	6	6
Deferred outflows/inflows	25	-11%	28	65%	17	13.3%	15	11
Total Assets and Def'd outflows/inflows	269	-3%	278	4%	267	-0.4%	268	272
Current liabilities	24	-14%	28	22%	23	-8.0%	25	24
Noncurrent liabilities								
Post employm't benefit oblig	189	1%	188	9%	172	186.7%	60	55
Bonds and Notes payable	119	-2%	121	-3%	125	6.8%	117	123
Other	6	-14%	7	17%	6	-71.4%	21	16
Deferred outflows/inflows	5	100%	0		0	0.0%	0	0
Total Liabilities	343	0%	344	6%	326	46.2%	223	218
Net investment in capital assets	46	-6%	49	-11%	55	1.9%	54	57
Restricted								
Nonexpendable	19	6%	18	-5%	19	5.6%	18	17
Expendable	13	8%	12	9%	11	22.2%	9	9
Unrestricted	-152	5%	-145	1%	-144	300.0%	-36	-29
Total Net Position	-74	12%	-66	12%	-59	-231.1%	45	54
Total Liabilities and Net Position	269	-3%	278	4%	267	-0.4%	268	272

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

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

Total net position decreased from $54 million to $-74 million over the five years reported here, primarily from the recognition of post retirement costs and compounded by the change to GASB 75 in FY2018 (FY2017 was restated for FY2018 financial statement presentation). Changes in our net position from FY2018 to FY2019 include a decrease to cash ($-4M), decrease in capital assets (-$6M), an increase in unfunded post-retirement benefit obligations ($1M), a decrease in amount owed on debt ($4M), as well as the net increase in OPEB Deferred Outflows/Inflows ($2M).

Net investment in capital assets decreased by $3 million from June 30, 2018 to June 30, 2019 due to depreciation, offset partially by reduction in outstanding debt related to capital assets. Net investment in capital assets have steadily decreased over the five-year period reported here.

The restricted nonexpendable portion of the Net Position represents the permanent endowment funds for the system. These are donations to the colleges that cannot be spent without permission of the donor. These are invested; and the earnings are used based on VSCS Board Policy and the instructions of the donor. Most of the earnings on our endowment funds are designated for student scholarships. The increase of $2 million over 5 years is due to gifts received for endowments during this period.

The restricted expendable portion of Net Position includes unexpended restricted gifts and grants, and unexpended endowment appreciation, subject to externally imposed conditions on their use. There was a $1 million increase from June 30, 2018 to June 30, 2019. Over the 5-year period, expendable net assets have increased by $4 million, as earnings have outpaced the 5% spending on endowments permitted by Board policy.

The unrestricted portion of the Net Position is largely affected by general operations, but the most significant impact to date has been the OPEB obligations, which are unfunded. Year over year, that liability has increased and has over time eroded the unrestricted net position. Additionally, that liability increased significantly in FY2018 due to implementation of GASB 75 and was restated for FY2017 to be comparative with the new standard. This resulted in the significant change to unrestricted net position in both FY2017 and FY2018 as compared to the previous three years reported herein.

During FY2019, the system's total Net Position declined from $-66 million to $-74 million. This is due primarily to our unrestricted net assets being reduced from the annual booking of the VSCS OPEB liability. The details of the change in net position are shown in Table 3 the Statement of Revenues, Expenses, and Changes in Net Position beginning on page 10.

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 education, research, cultural programs and residential life. Table 2 below 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. Construction in Progress has remained fairly steady since the significant construction phase ended in FY14. Building and Improvements increased throughout the period, reflecting completed projects. Infrastructure includes water & sewer systems, heating & electrical systems, telecommunication systems, and roads. The increase in infrastructure over the five-year period is due to projects on the campuses as well as enhanced communications systems for the entire System. Table 2 below also includes related information (depreciation expense and outstanding principal on construction loans).

TABLE 2: Capital Assets as of June 30

($ in millions)

	2019	% Change	2018	% Change	2017	% Change	2016	2015
Land	9	0%	9	0%	9	-10%	10	10
Construction in progress	2	100%	1	0%	1	-50%	2	2
Infrastructure	41	3%	40	3%	39	3%	38	38
Buildings and improvements	261	1%	259	1%	257	1%	254	252
Leasehold improvements	4	0%	4	0%	4	0%	4	4
Equipment	36	0%	36	6%	34	3%	33	32
Total Capital Assets	353	1%	349	1%	344	1%	341	338
Accumulated Depreciation	-196	5%	-186	6%	-176	5%	-167	-157
Capital Assets, Net	157	-4%	163	-3%	168	-3%	174	181
Related information								
Depreciation Expense	10	0%	10	0%	10	0%	10	14
Outstanding Principal, Related Loans	121	-3%	125	-3%	129	5%	123	127

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 this page shows the Condensed Statements of Revenues, Expenses, and Changes in Net Position for the past five fiscal years.

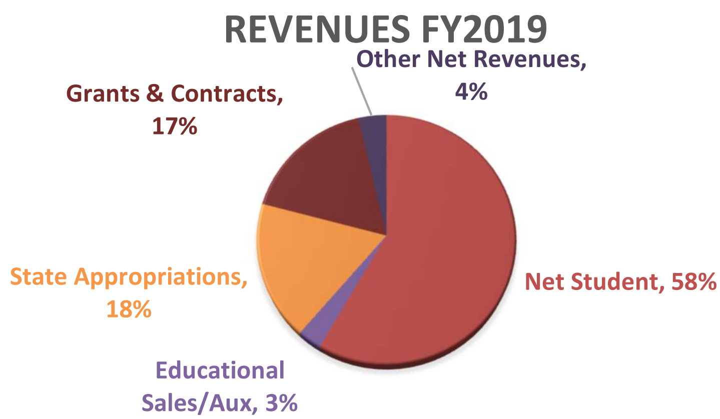
Operating and Non-operating Revenue

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 VSCS's primary source of revenue is from student tuition and fees. This accounts for 58% of operating and non-operating income. In addition, the System receives revenue from state appropriations, governmental and privately funded grants and contracts; gifts from individuals, foundations, and corporations; and investment income.

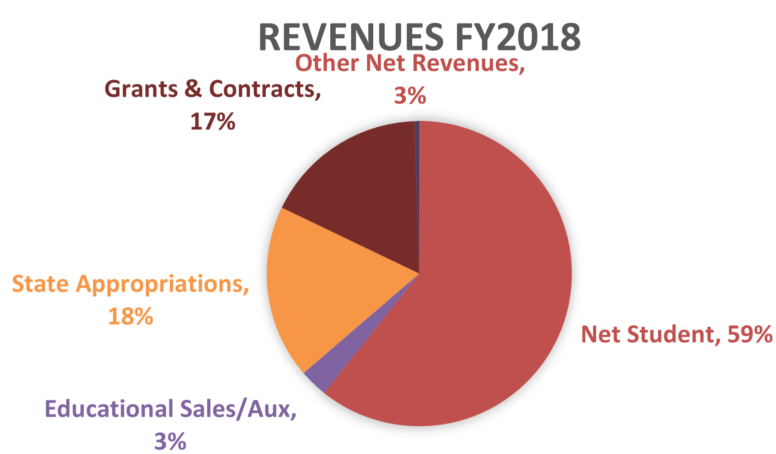
TABLE 3: Condensed Statements of Revenues, Expenses, and Changes in Net Position

($ in millions)

	2019	% Change	2018	% Change	2017	% Change	2016	2015
Net Student Revenues	107	-1%	108	-4%	112	0%	112	110
Grants and contracts	16	7%	15	7%	14	-7%	15	15
Other Operating Revenues	7	0%	7	0%	7	-13%	8	8
Operating Revenues	130	0%	130	-2%	133	-1%	135	133
Operating Expenses	186	0%	186	1%	184	-1%	186	190
Operating Loss	-56	0%	-56	10%	-51	0%	-51	-57
Nonoperating Revenues (Expenses)								
Non Capital Appropriations	30	0%	30	11%	27	4%	26	27
Federal Grants & Contracts	16	0%	16	0%	16	-6%	17	18
Gifts currently expendable	2	-33%	3	50%	2	-33%	3	4
Investment Income & Interest	2	0%	2	-33%	3	200%	1	0
Interest Expense	-5	0%	-5	0%	-5	-17%	-6	-4
Other nonoperating revenues	0	0%	0	0%	0	-100%	-1	0
Net Nonoperating Revenues	45	-2%	46	7%	43	8%	40	45
Total Change before other Revenues	-11	10%	-10	25%	-8	-27%	-11	-12
Other Changes in Net Position								
Capital Appropriation	3	0%	3	50%	2	-33%	3	2
Capital gifts and grants	0	0%	0	0%	0	0%	0	0
Endowment gifts	0	0%	0	-100%	1	100.0%	0	1
Change in Net Position	-7	0%	-7	40%	-5	-38%	-8	-10



	FY2019 Revenues ($ in thousands)	FY2018 Revenues ($ in thousands)
Net Student	$ 107,247	$108,248
Educational Sales/Aux	5,360	5,304
State Appropriations	32,790	32,819
Grants & Contracts	31,723	30,936
Other Net Revenues	6,628	6,435
TOTALS	$ 183,748	$183,742

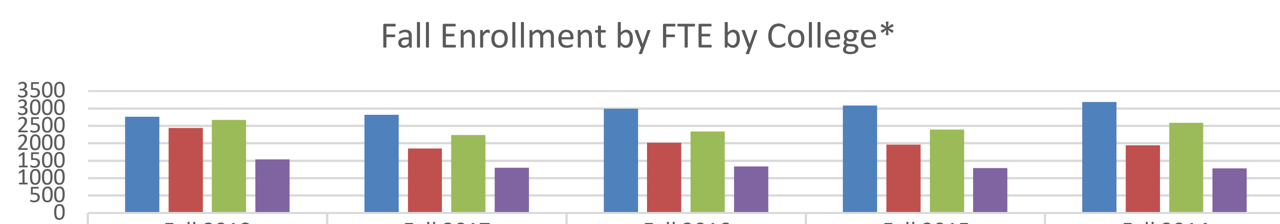


Tuition and Fee Revenue

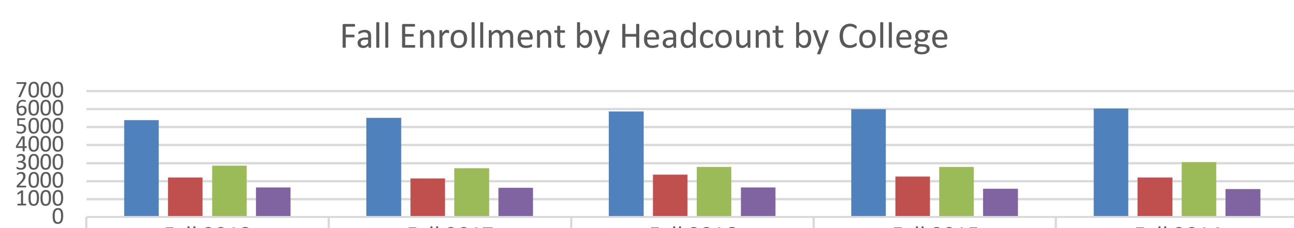
Net Tuition and fees includes tuition and fees plus residence and dining fees less scholarship allowances. The charts below shows the trend for Tuition and Fee Revenue from FY2015 through FY2019. For the System, student-based revenue has been slowly declining during this five-year period, despite increases in tuition rates. Enrollments, in a time of decreasing high school graduates in the state, have created a challenge for the colleges/universities in our system.

Enrollments are displayed by both FTE (Full Time Equivalent) and by Headcount. FTE provides better comparative information; whereas, headcount shows the total number of individuals who have benefited from a VSCS education. These charts show a general steady decline in enrollment for CCV and NVU. Both Castleton University and Vermont Technical College have experienced more volatility in enrollments over the 5-year period.

*Please note that the method used for calculating FTE for the VSCS changed for Fall 2018 and restatement of prior years is not feasible, so with exception of CCV, the comparative nature of this chart is somewhat lost for Fall 2018 as compared to prior years herein.

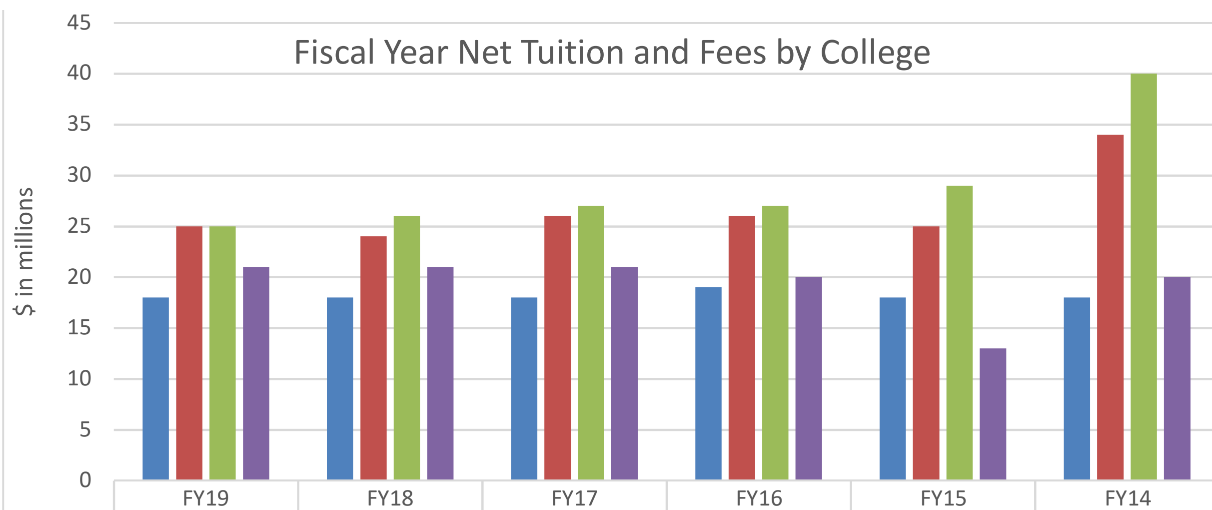


	Fall 2018	Fall 2017	Fall 2016	Fall 2015	Fall 2014
CCV	2754	2813	2984	3077	3186
CU	2434	1851	2015	1960	1940
NVU	2671	2235	2338	2387	2579
VTC	1533	1297	1335	1286	1274



	Fall 2018	Fall 2017	Fall 2016	Fall 2015	Fall 2014
CCV	5378	5504	5863	5983	6019
CU	2194	2141	2342	2246	2183
NVU	2858	2699	2781	2780	3043
VTC	1638	1616	1645	1559	1542

The chart below displays Net Tuition and Fees for each college during the five-year period. It is notable that CCV has by far the largest number of students – both FTE and Headcount, but their net tuition is consistently outpaced by the Universities, and generally more on par with Vermont Technical College, which has far fewer students. CCV, as a community college has the lowest tuition cost and charges for courses on a per credit basis, while the residential schools charge a higher tuition rate and on a semester basis. However, CCV's net tuition has remained much more stable during the more recent years than the other colleges/universities which have experienced a sharp decline after FY2014, but have been relatively stable (within $1-2 million) in subsequent years reported herein. The exception being VTC, who rebounded in FY2016 from the significant FY2015 decline, returning to the approximate FY2014 level and maintaining that level to date.



	FY19	FY18	FY17	FY16	FY15	FY14
CCV	18	18	18	19	18	18
CU	25	24	26	26	25	34
NVU	25	26	27	27	29	40
VTC	21	21	21	20	13	20

<u>Operating and Non-operating Expenses</u>

Table 4 on page 14 shows the total Operating and Non-Operating Expenses for the past 5 years, and the charts provide a quick view of the percent of expenses by type for FY2019 and FY2018.

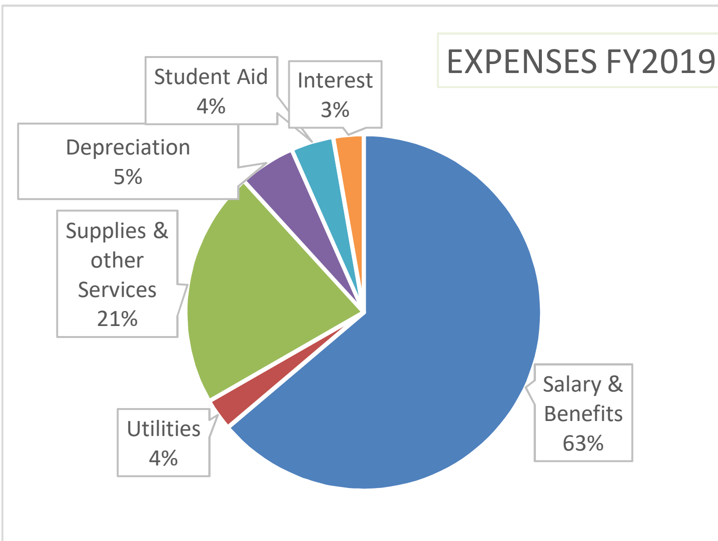
The largest percentage of VSCS expenses are for salary and benefits (approximately 63%). Those expenses have generally declined since FY2014 due to staff reductions compounded with a reduction in TIAA employer contribution for all employees, except the Full-Time Faculty, beginning in FY2018. Positive trends in health care over the past couple of years have resulted in far less expense; however, annual accruals related to post-employment benefits are also included in this salary and benefit expense category.

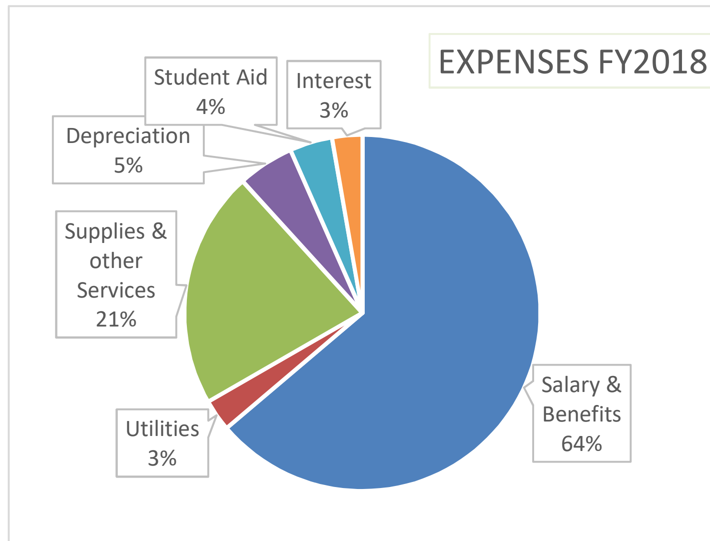
Overall expenses have declined over the five years reported. Changes in utility expenses have been a direct result of solar energy efforts across all the colleges, but an increase in oil prices and a particularly long winter heating season caused an increase in FY2019. Supplies and services is the second largest expense (21%). Keeping this expense relatively constant has been the result of the colleges and universities continued efforts to contain costs in response to the enrollment declines. Notably, student aid has increased as the VSCS institutions respond to the national trend towards aggressive discounting as a strategic and necessary response to the current competitive environment.

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

($ in millions)

	2019	% change	2018	% change	2017	2016	2015
Operating							
Salaries & Benefits	121	-1%	122	1%	121	121	123
Utilities	7	17%	6	20%	5	6	7
Supplies and Svcs	40	0%	40	-2%	41	41	39
Depreciation	10	0%	10	0%	10	11	14
Student Aid	8	14%	7	0%	7	7	7
Total Operating	186		185		184	186	190
Nonoperating							
Interest on Debt	5	-17%	6	20%	5	5	6
TOTAL Expenses	191	0%	191	1%	189	191	196





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.

TABLE 5: Student Financial Aid Trends Over the Past Five Fiscal Years

($ in millions)

	FY19	FY18	FY17	FY16	FY15
Scholarship Allowances (included in revenue)	29	27	25	25	25
Scholarship Expenses (included in expenses)	8	7	7	7	7
Total Student Aid	37	34	32	32	32

Statement of Cash Flow

The Statement of Cash Flows shows inflows and outflows of cash excluding both revenue and expense that is accrued to comply with accounting rules. The Condensed Statement of Cash Flows for the VSCS is in Table 6 on page 17.

Cash flows from operating activities

Cash flows from operating activities on the Statement of Cash Flows will always be different from the operating gain or loss on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) because of the inclusion of noncash items, such as depreciation expenses on the SRECNP. Also, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows both revenues earned and expenses incurred though cash has not yet exchanged hands. The primary cash receipts from operating activities consist of tuition and fees, grants and contracts, and auxiliary income from housing and food service operations. Cash outlays include payment of wages and benefits; operating expenses such as utilities, supplies, insurance and repairs; and scholarships awarded to students. Cash flow from operations decreased significantly due to increased payments to suppliers, reduced tuition and fees, and an increase in accounts receivable outstanding at year-end.

Cash flows from noncapital financing activities

There are two primary sources of noncapital financing: state appropriations and non-operating federal grants that fund PELL student grants. Accounting standards require that we reflect these sources of revenue as non-operating, even though each of the colleges depends on them to continue the current level of operations. Cash flows from noncapital financing activities have remained relatively consistent over the past two fiscal years.

Cash flows from capital and related financial activities

Cash flows from capital and related financing activities include all capital plant funds and related long-term debt activities (excluding depreciation and amortization of bond premiums, since these are non-cash transactions), as well as capital gifts, grants and appropriations. This has decreased significantly from prior year due to the FY2019 Capital Appropriations being paid near the end of FY2018. Additionally, there was a reduction in the cash required on deposit to the bond trustee at year-end.

Cash flows from investing activities

Purchase or sale of investments and income earned on investments are included in cash flows from investing activities. An item on the cash flow statement belongs in the investing activities section if it results from any gains (or losses) from investments in financial markets and operating subsidiaries. In FY2019, there was a reduction in the level of investments due to endowment spending.

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.

TABLE 6: Condensed Statement of Cash Flows as of June 30

($ in millions)

Cash flows from:	2019	% change	2018	% change	2017	2016	2015
Operating	-42	14%	-37	6%	-35	-38	-35
Non capital financing	48	-2%	49	9%	45	45	48
Capital and related financing	-11	57%	-7	-30%	-10	-12	-13
Investing	1	-50%	2	100%	0	7	6
Net increase (decrease)	-4	-157%	7	100%	0	2	6
Cash, Beginning of Year	18	64%	11	0%	11	9	3
Cash, End of Year	14	-22%	18	64%	11	11	9
Operating cash flows if noncapital appropriations and PELL grants were included							
Operating	-42	14%	-37	6%	-35	-38	-35
Non capital appropriations	30	0%	30	11%	27	26	27
Non operating federal grants	16	0%	16	0%	16	17	20
Operating cash flows including appropriation and fed grants	4	-56%	9	13%	8	5	12

Economic Factors That Will Affect the Future

Demographic Trend

Consistent with national trends, Vermont continues to experience a demographic decline in the overall number of graduating high school students. This is expected to last for the foreseeable future and likely result in permanently lower enrollments going forward. In fact, the number of births in Vermont in 2015 was the lowest since before the Civil War and continues to shrink. Additionally, free college initiatives in neighboring states and online education are increasing the competitive landscape and forcing aggressive discounting strategies to ensure VSCS enrollments. All of the institutions have adopted programs and strategies to better recruit in this shrinking market.

The VSCS Office of the Chancellor published a white paper in August 2019 titled "Serving Vermont's Students by Securing the Future of the Vermont State Colleges System". The intent was to set the foundation for consideration of concrete, strategic actions that the Vermont State Colleges System can take to secure its mission in an increasingly challenging and rapidly changing higher education environment. The paper was presented to the Long Range Planning Committee of the VSCS Board of Trustees as a first step to gain a clear understanding of the forces affecting our colleges and universities, as well as the strengths and weaknesses of the VSCS to respond to these threats and opportunities.

The paper broadly describes six major challenges facing higher education and six strategies the VSCS Board of Trustees had already adopted as the VSCS Six Priorities back in 2015. Historically weak demographics, bottom-ranked State support, accelerating pricing pressures, barriers to adaptability, changing student preferences and attitudes, and disruptive technology and delivery stood out as the top challenges facing the Vermont State Colleges System. In response, the six priorities adopted by the Board in 2015 proved to be relevant in addressing these challenges.

The VSCS has made significant strides in each of the six strategies: a focus on high school continuation rates, retention and graduation rates at our institutions, increased visibility and marketing efforts, program development for working age Vermonters, administrative and operational efficiencies - including the unification of the two northern VSCS colleges into one single institution, Northern Vermont University, and increases in state financial support and other supplemental revenues. The Vermont State Colleges System will adapt, innovate, and leverage its strengths in order to secure a financially viable and bright future.

Vermont State Appropriations

For FY2019, State Appropriations for both operating and capital projects were $32,790,000, or 18% of total operating and non-operating revenues. VSCS continues to rely on this important revenue source from the State of Vermont to help keep tuition as low as possible.

Other Post-Employment Benefits

A ruling of the Government Accounting Standards Board (GASB) effective in FY2008 requires that we recognize the future costs of retirement benefits. Subsequently, GASB 75 replaced the original standard from FY2008 and was adopted by the VSCS in FY2018. For the VSCS, this includes employer costs of medical, prescription, dental and life insurance plans for all current employees who have already become eligible to receive retirement benefits and those employees who may become eligible before they retire. The cost of these benefits must be recognized during the period of active employment rather than when they are paid during retirement. Because of VSCS's early retirement wages benefit for the full-time faculty, VSCS must also account for this liability for those eligible employees under the GASB ruling.

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

For financial reporting purposes, an actuarial valuation is required for OPEB plans with total eligible employees (active, retirees and beneficiaries) of 200 or more. This externally prepared report was prepared for the VSCS for FY2019 and FY2018 in order to meet the GASB 75 financial reporting requirements.

Miscellaneous

As a result of positive market conditions during both FY2019 and FY2018, VSCS had net realized and unrealized gains on the endowments and other investments.

VSCS has contractual commitments for various construction projects currently under way. The funds have been encumbered for these projects.

Employees: As of Fall 2018, the VSCS employs approximately 2,030 full and part-time employees. Approximately 528 of the 923 full-time employees at VSCS are covered by union contracts.

VSC Employees as of November 1, 2018

Bargaining Unit Employees	
Full Time	528
Part Time	618
TOTAL	1,146
Non-Bargaining Unit Employees	
Full Time	395
Part Time & Temp	489
TOTAL	884
TOTAL Employees	2030

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Statements of Net Position

June 30,

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets:		
Cash and equivalents (Note 2)	**$ 12,779,829**	$ 17,969,575
Accounts receivable, net (Note 3)	**14,613,398**	11,384,075
Deposit with bond trustees (Note 2)	**3,147,989**	4,942,501
Other current assets	**2,252,541**	1,193,508
Total Current Assets	**32,793,757**	35,489,659
Non-Current Assets:		
Cash and equivalents (Note 2)	**1,305,530**	434,981
Long-term investments (Note 2)	**47,978,121**	46,184,316
Notes receivable, net (Note 3)	**4,185,228**	4,923,967
Other assets	**100,704**	169,308
Capital assets, net (Note 11)	**157,104,709**	162,946,720
Total Non-Current Assets	**210,674,292**	214,659,292
Total Assets	**243,468,049**	250,148,951
Deferred Outflows of Resources:		
Deferred loss on debt refunding (Note 5)	**8,820,680**	9,824,025
OPEB (Note 9)	**16,444,994**	17,904,148
Total Deferred Outflows of Resources	**25,265,674**	27,728,173
Total Assets and Deferred Outflows of Resources	**$ 268,733,723**	$ 277,877,124

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

Liabilities, Deferred Inflows of Resources and Net Position

	2019	2018
Current Liabilities:		
Accounts payable and accrued liabilities (Note 12)	**$ 14,540,357**	$ 14,395,060
Unearned revenue and deposits	**7,131,827**	9,943,657
Current portion of long-term debt (Note 4)	**2,503,616**	3,937,732
Total Current Liabilities	**24,175,800**	28,276,449
Non-Current Liabilities:		
Other liabilities (Note 12)	**224,866**	247,529
Refundable grants	**6,036,744**	6,037,232
Post-employment benefit obligations (Note 9)	**189,003,550**	188,498,148
Long-term debt, excluding current portion (Note 4)	**118,582,630**	121,086,246
Total Non-Current Liabilities	**313,847,790**	315,869,155
Total Liabilities	**338,023,590**	344,145,604
Deferred Inflows of Resources:		
OPEB (Note 9)	**4,465,998**	-
Net Position:		
Net investment in capital assets	**46,529,627**	49,065,357
Restricted nonexpendable	**18,564,953**	18,208,512
Restricted expendable	**13,185,660**	11,517,067
Unrestricted	**(152,036,105)**	(145,059,416)
Total Net Position	**(73,755,865)**	(66,268,480)
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 268,733,723**	$ 277,877,124

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,

	2019	2018
Operating Revenues:		
Tuition and fees	**$ 117,624,580**	$ 116,522,454
Residence and dining	**18,584,640**	19,069,865
Less: scholarship allowances	**(28,962,603)**	(27,344,447)
Net Tuition, Fees, and Residence and Dining Revenue	**107,246,617**	108,247,872
Federal grants and contracts	**12,215,520**	10,951,225
State and local grants and contracts	**2,437,913**	2,778,362
Non-governmental grants and contracts	**1,091,487**	824,657
Interest income	**86,158**	86,381
Sales and services of educational activities	**5,359,762**	5,303,557
Other operating revenues	**1,431,315**	1,398,317
Total Operating Revenues	**129,868,772**	129,590,371
Operating Expenses (Notes 6, 10 and 12):		
Salaries and wages	**78,107,048**	79,583,780
Employee benefits (Notes 8 and 9)	**42,706,911**	42,291,707
Scholarships and fellowships	**7,805,966**	7,346,293
Supplies and other services	**40,403,321**	40,322,825
Utilities	**6,772,332**	5,798,694
Depreciation (Note 11)	**10,084,696**	9,842,721
Total Operating Expenses	**185,880,274**	185,186,020
Net Operating Loss	**(56,011,502)**	(55,595,649)
Non-Operating Revenues (Expenses):		
State appropriations (Note 7)	**29,790,256**	30,319,008
Federal grants and contracts	**15,978,880**	16,382,196
Gifts	**2,108,506**	2,434,193
Investment income, net of expenses (Note 2)	**2,562,154**	2,128,687
Interest expense on capital debt	**(5,357,070)**	(5,505,852)
Other non-operating revenues (expenses)	**147,313**	41,265
Net Non-Operating Revenues	**45,230,039**	45,799,497
Decrease in Net Position Before Other Revenues	**(10,781,463)**	(9,796,152)
Other Revenues:		
State appropriations for capital expenditures (Note 7)	**3,000,000**	2,500,000
Capital grants and gifts	**3,500**	375
Additions to non-expendable assets	**290,578**	347,981
Decrease in Net Position	**(7,487,385)**	(6,947,796)
Net Position, Beginning of Year	**(66,268,480)**	(59,320,684)
Net Position, End of Year	**$ (73,755,865)**	$ (66,268,480)

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,

	2019	2018
Cash Flows from Operating Activities:		
Tuition and fees	**$ 98,885,844**	$ 100,821,174
Grants and contracts	**14,634,805**	14,144,991
Sales and services of educational activities	**5,359,762**	6,683,153
Interest received	**86,158**	86,381
Payments to suppliers	**(43,761,040)**	(38,708,919)
Payments to employees	**(120,017,607)**	(121,748,345)
Loans issued to students	**500**	(837,432)
Collection of loan payments	**791,125**	805,831
Other cash receipts	**1,431,315**	1,398,317
Net Cash Applied to Operating Activities	**(42,589,138)**	(37,354,849)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**29,790,256**	30,319,008
Non-operating federal grants	**15,978,880**	16,382,196
Gifts and grants	**2,373,517**	2,449,089
Net Cash Provided by Non-Capital Financing Activities	**48,142,653**	49,150,293
Cash Flows from Capital and Related Financing Activities:		
Capital and non-expendable grants and gifts	**294,078**	348,356
Capital appropriations	**-**	5,500,000
Purchase of capital assets	**(4,309,639)**	(4,139,141)
Change in deposits with bond trustee	**1,466,570**	130,724
Proceeds from sale of capital assets	**56,200**	16,445
Payments on capital debt	**(3,280,000)**	(3,325,000)
Interest expense on capital debt	**(5,357,069)**	(5,505,852)
Other receipts	**139,013**	41,265
Net Cash Applied to Capital and Related Financing Activities	**(10,990,847)**	(6,933,203)

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

Statements of Cash Flows - Continued

For the Years Ended June 30,

	2019	2018
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	**$ 21,041,248**	$ 11,749,522
Purchase of investments	**(19,864,915)**	(10,134,299)
Interest and dividends received on investments	**(58,198)**	549,353
Net Cash Provided by Investing Activities	**1,118,135**	2,164,576
Net Increase in Cash and Equivalents	**(4,319,197)**	7,026,817
Cash and Equivalents, Beginning of Year	**18,404,556**	11,377,739
Cash and Equivalents, End of Year	**$ 14,085,359**	$ 18,404,556
Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	**$ (56,011,502)**	$ (55,595,649)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	**10,084,696**	9,842,721
Bad debts	**680,460**	593,909
Net OPEB activity	**5,925,157**	5,427,098
Changes in assets and liabilities:		
Accounts receivable	**(3,567,568)**	(895,825)
Other assets	**(985,545)**	1,131,316
Notes receivable	**818,601**	537,413
Accounts payable and accrued liabilities	**156,051**	526,641
Unearned revenues, deposits and refundable grants	**(194,890)**	902,045
Post-employment benefit obligations	**505,402**	175,482
Net Cash Applied to Operating Activities	**$ (42,589,138)**	$ (37,354,849)
Non-Cash Transactions:		
Equipment provided by capital grants and gifts	**$ 30,635**	$ 20,000
Equipment acquisitions financed through capital leases	**$ -**	$ 251,086
Unrealized gains (losses)	**$ -**	$ 31,248
Net loss on disposal of capital assets	**$ 19,881**	$ 2,400

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

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

Notes to the Financial Statements

June 30, 2019 and 2018

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"), Northern Vermont University ("NVU"), Vermont Technical College ("VTC"), Vermont Manufacturing Extension Center ("VMEC"), Small Business Development Center ("SBDC"), and Vermont Tech Office of Continuing Education and Workforce Development ("TED").

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 interfund 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 statements 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:

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

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

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

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

Net Position - continued

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

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

Cash and Equivalents

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

Allowance for Doubtful Accounts

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

Capital Assets

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

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

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

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

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

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

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

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

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

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

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

Bond and Note Premiums
Bond and note underwriters' premiums are amortized on the straight-line basis over the life of the respective bond. VSC incurred bond premiums related to the 2010, 2013 and 2017 bonds at the time of the issuance of the bonds. The bond premium for the 2010 bond of $377,743 is amortized on a straight-line basis over approximately 8.5 years. The bond premium for the 2013 bond of $1,898,889 is amortized over 20 years. The bond premium for the 2017 bond of $10,557,129 is amortized over 20.5 years. Cumulative amortization of the bond premium totaled $2,062,514 and $1,404,783 as of June 30, 2019 and 2018, respectively. The bond premium is included in bonds and notes payable.

Post-employment Benefits Other Than Pensions ("OPEB")
GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75"), require 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 net OPEB liability is to be measured as the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service. The Statement requires that the actuarial present value of projected benefit payments be attributed to the periods of employee services using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay.

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

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

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

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

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

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

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

New Governmental Accounting Pronouncements - continued
GASB Statement 89 – *Accounting for Interest Costs Incurred before the End of a Construction Period* is effective for reporting periods beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management has not completed its review of the requirements of this standard and its applicability.

Reclassifications
Certain amounts on the 2018 financial statements have been reclassified to conform to the 2019 presentation.

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

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

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

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

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

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

Cash and Equivalents - continued
At June 30, 2019, the balance of current assets - cash and equivalents consists of approximately $14,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $12,766,000 per the accounting records of the Colleges, and approximately $14,907,000 per bank records. Of the bank balances, approximately $700,000 was covered by federal depository insurance and approximately $14,207,000 was uninsured and uncollateralized at June 30, 2019.

At June 30, 2019, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $1,306,000 per the accounting records of the Colleges, and approximately $1,306,000 per bank records. Of the bank balances, approximately $250,000 was covered by federal depository insurance and approximately $1,056,000 was uninsured and uncollateralized at June 30, 2019.

At June 30, 2018, the balance of current assets - cash and equivalents consists of approximately $14,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $17,955,000 per the accounting records of the Colleges, and approximately $18,631,000 per bank records. Of the bank balances, approximately $732,000 was covered by federal depository insurance and approximately $17,900,000 was uninsured and uncollateralized at June 30, 2019.

At June 30, 2018, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $435,000 per the accounting records of the Colleges, and approximately $413,000 per bank records. Of the bank balances, approximately $329,000 was covered by federal depository insurance and approximately $84,000 was uninsured and uncollateralized at June 30, 2018.

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

Investments
Investments of the various funds at June 30, 2019 are as follows:

	Fair Value	Cost
U.S. Government bonds	**$ 9,394,940**	**$ 9,186,397**
Corporate bonds	**8,847,291**	**8,747,382**
Common stock	**15,553,273**	**13,350,519**
Hedge fund shares	**1,125,677**	**1,000,000**
Mutual funds	**10,305,114**	**9,972,751**
Money market	**2,751,826**	**2,749,018**
Held by bond trustee	**3,147,989**	**3,147,989**
Total Investments	**$ 51,126,110**	**$ 48,154,056**

Investments of the various funds at June 30, 2018 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 8,515,105	$ 8,851,740
Corporate bonds	9,761,429	10,175,628
Common stock	15,264,667	11,604,348
Hedge fund shares	1,096,984	1,000,000
Mutual funds	10,038,619	9,757,802
Money market	1,507,512	1,506,665
Held by bond trustee	4,942,501	4,942,501
Total Investments	$ 51,126,817	$ 47,838,684

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.

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

Investments - continued

2019
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 2,751,826	$ 2,751,826	$ -	$ -	$ -
Corporate Bonds	8,847,291	1,377,845	4,757,159	2,712,287	-
U.S. Govt. Bonds	9,394,940	885,072	6,128,619	2,381,249	-
Total	$ 20,994,057	$ 5,014,743	$ 10,885,778	$ 5,093,536	$ -
Other Investments					
Common Stock and Mutual Funds	26,984,064				
Held by Bond Trustee	3,147,989				
Total	$ 51,126,110				

2018
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 1,507,512	$ 1,507,512	$ -	$ -	$ -
Corporate Bonds	9,761,429	1,982,627	5,382,623	2,396,179	-
U.S. Govt. Bonds	8,515,105	2,302,520	3,506,208	2,706,377	-
Total	$ 19,784,046	$ 5,792,659	$ 8,888,831	$ 5,102,556	$ -
Other Investments					
Common Stock and Mutual Funds	26,400,270				
Held by Bond Trustee	4,942,501				
Total	$ 51,126,817				

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.

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

	2019	2018
Interest and dividend income	**$ 1,230,390**	$ 1,206,026
Net realized and unrealized gain (loss)	**1,514,228**	1,109,314
Total investment income	**2,744,618**	2,315,340
Less: management fees	**(182,464)**	(186,653)
Investment income, net	**$ 2,562,154**	$ 2,128,687

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

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

Investment rating*	**2019**	2018
AAA	**$ 9,733,021**	$ 8,554,868
AA+	**83,350**	19,961
AA	**1,766,436**	2,208,674
AA-	**860,615**	224,407
A+	**643,655**	901,075
A	**2,339,099**	3,013,271
A-	**1,346,719**	1,542,103
BBB+	**1,219,060**	1,028,935
BBB	**250,276**	581,413
BBB-	**-**	201,827
BB+	**-**	-
BB	**-**	-
BB-	**-**	-
B+	**-**	-
B	**-**	-
B-	**-**	-
CCC+	**-**	-
Unrated	**2,751,826**	1,507,512
	$ 20,994,057	$ 19,784,046

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Hierarchy - continued

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

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

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

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

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

Assets at Fair Value as of June 30, 2019

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ 9,394,940	$ -	$ -	$ 9,394,940
Corporate bonds	-	8,847,291	-	8,847,291
Common stock	15,553,273	-	-	15,553,273
Hedge fund shares	-	1,125,677	-	1,125,677
Mutual funds	10,305,114	-	-	10,305,114
Money market	2,751,826	-	-	2,751,826
Held by bond trustee	3,147,989	-	-	3,147,989
Total Assets at Fair Value	$ 41,153,142	$ 9,972,968	$ -	$ 51,126,110

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

Fair Value Hierarchy - continued

Assets at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ 8,515,105	$ -	$ -	$ 8,515,105
Corporate bonds	-	9,761,429	-	9,761,429
Common stock	15,264,667	-	-	15,264,667
Hedge fund shares	-	1,096,984	-	1,096,984
Mutual funds	10,038,619	-	-	10,038,619
Money market	1,507,512	-	-	1,507,512
Held by bond trustee	4,942,501	-	-	4,942,501
Total Assets at Fair Value	$ 40,268,404	$ 10,858,413	$ -	$ 51,126,817

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:

	2019	2018
Student accounts receivable	**$ 12,468,104**	$ 11,713,723
Grants receivable	**6,415,040**	4,686,487
Other receivable	**2,605,519**	1,273,910
Subtotal	**21,488,663**	17,674,120
Allowance for doubtful accounts	**(6,875,265)**	(6,290,045)
Total accounts receivable, net	**$ 14,613,398**	$ 11,384,075

The notes receivable balance in the statements of net position represent the Perkins notes receivable. It is shown net of an allowance for bad debts of approximately $1,214,000 and $1,203,000 at June 30, 2019 and 2018, 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 $584,000 in 2019 and 2018, respectively, has been reflected in operating expenses.

Note 4 - **Long-Term Liabilities**

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

	2019				
	Beginning balances	**Additions**	**Reductions**	**Ending balances**	**Current portion**
Long-term liabilities					
Bonds and notes payable	**$ 125,023,978**	**$ -**	**$ 3,937,732**	**$ 121,086,246**	**$ 2,503,616**
Net OPEB obligation	**188,498,148**	**505,402**	**-**	**189,003,550**	**-**
Other liabilities	**247,529**	**224,865**	**247,528**	**224,866**	**-**
Refundable grants	**6,037,232**	**-**	**488**	**6,036,744**	**-**
Total long-term liabilities	**$ 319,806,887**	**$ 730,267**	**$ 4,185,748**	**$ 316,351,406**	**$ 2,503,616**

	2018				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$ 129,006,709	$ -	$ 3,982,731	$ 125,023,978	$ 3,937,732
Net OPEB obligation	171,508,646	16,989,502	-	188,498,148	-
Other liabilities	66,107	252,677	71,255	247,529	-
Refundable grants	6,037,793	-	561	6,037,232	-
Total long-term liabilities	$ 306,619,255	$ 17,242,179	$ 4,054,547	$ 319,806,887	$ 3,937,732

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

Bonds and Notes Payable

Outstanding debt as of June 30, is as follows:

	2019	2018
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 $0 and $44,116 has been added to this liability at June 30, 2019 and 2018, respectively.[1]	**$ -**	$ 1,234,116
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]	**28,780,000**	30,265,000
Revenue Bonds, Series 2017: 4.0% - 5.0% serial bonds aggregating $67,660,000 maturing 2021 through 2037 and Interest on serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of $9,465,747 and $9,984,429 has been added to the liability at June 30, 2019 and 2018, respectively.[3]	**77,125,757**	77,644,429

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

Bonds and Notes Payable - continued

	2019	2018
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 \$1,305,489 and \$1,400,433 has been added to the liability at June 30, 2019 and 2018, respectively.	**\$ 15,180,489**	\$ 15,880,433
	\$ 121,086,246	\$ 125,023,978

[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%).

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

Bonds and Notes Payable - continued

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

Debt Roll-Forward

Long-term debt activity for the years ended June 30, 2019 and 2018 was as follows:

	Balance June 30, 2018	Additons	Repayment	Balance June 30, 2019	Current Portion
Series 2010-A	$ 1,190,000	$ -	$ (1,190,000)	$ -	$ -
Series 2010-B	30,265,000	-	(1,485,000)	28,780,000	1,135,000
Series 2010 Bond Premium	44,116	-	(44,116)	-	-
Series 2010 Bonds	31,499,116	-	(2,719,116)	28,780,000	1,135,000
Series 2013	14,480,000	-	(605,000)	13,875,000	755,000
Series 2013 Bond Premium	1,400,433	-	(94,944)	1,305,489	94,944
Series 2013 Bonds	15,880,433	-	(699,944)	15,180,489	849,944
Series 2017	67,660,000	-	-	67,660,000	-
Series 2017 Bond Premium	9,984,429	-	(518,672)	9,465,757	518,672
Series 2017 Bonds	77,644,429	-	(518,672)	77,125,757	518,672
Total Bonds and Notes Payable	$ 125,023,978	$ -	$ (3,937,732)	$ 121,086,246	$ 2,503,616

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

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

Debt Roll-Forward - continued

	Balance June 30, 2017	Additions	Repayment	Balance June 30, 2018	Current Portion
Series 2010-A	$ 3,055,000	$ -	$ (1,865,000)	$ 1,190,000	$ 1,190,000
Series 2010-B	30,265,000	-	-	30,265,000	1,485,000
Series 2010 Bond Premium	88,232	-	(44,116)	44,116	44,116
Series 2010 Bonds	33,408,232	-	(1,909,116)	31,499,116	2,719,116
Series 2013	15,940,000	-	(1,460,000)	14,480,000	605,000
Series 2013 Bond Premium	1,495,377	-	(94,944)	1,400,433	94,944
Series 2013 Bonds	17,435,377	-	(1,554,944)	15,880,433	699,944
Series 2017	67,660,000	-	-	67,660,000	-
Series 2017 Bond Premium	10,503,100	-	(518,671)	9,984,429	518,672
Series 2017 Bonds	78,163,100	-	(518,671)	77,644,429	518,672
Total Bonds and Notes Payable	$ 129,006,709	$ -	$ (3,982,731)	$125,023,978	$ 3,937,732

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
2020	$ 1,890,000	$ 4,135,674
2021	1,960,000	4,108,972
2022	4,640,000	4,025,732
2023	4,860,000	3,861,557
2024	5,095,000	3,689,313
2025-2029	27,720,000	14,211,427
2030-2034	32,220,000	4,744,427
2035-2039	28,425,000	571,576
2040-2041	3,505,000	252,746
	$ 110,315,000	$ 39,601,424

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

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

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

Notes to the Financial Statements - Continued

June 30, 2019 and 2018

Note 5 - **Deferred Outflows of Resources - Debt Refunding**

During 2017, VSC paid a breakage fee of $10,931,885 to discontinue all of its interest rate swap agreements. The breakage fee is recorded on the statements of net position as a "deferred loss on debt refunding" and is amortized of the life of the old debt it was associated with and is included with interest expense. The amortization of the breakage fee that was included in interest expense was $1,003,345 for the years ended June 30, 2019 and 2018.

Note 6 - **Functional Expense Classification**

The following table details VSC's operating expenses by functional expense classification as of June 30,:

	2019	2018
Instruction	**$ 55,107,218**	$ 56,708,525
Research	**42,237**	43,806
Public service	**9,597,218**	10,079,874
Academic support	**22,496,341**	20,464,012
Student services	**39,393,272**	39,368,958
Institutional support	**37,267,090**	36,771,677
Physical plant	**5,574,191**	6,069,746
Student financial support	**6,318,011**	5,836,701
Depreciation	**10,084,696**	9,842,721
Total	**$ 185,880,274**	$ 185,186,020

Note 7 - **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 fiscal years 2019 and 2018; VMEC of approximately $428,000 in fiscal year 2019 and 2018.

Capital appropriations for VSC made from the State Bond Funds were approximately $3,000,000 and $2,500,000 in fiscal years 2019 and 2018, respectively.

Note 8 - **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, 2019 and 2018, the Colleges' total payroll expense was approximately $78,107,000 and $79,584,000, respectively, of which approximately $51,902,000 and $53,887,000 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, 2019 and 2018, contributions made by the Colleges under this plan totaled approximately $5,163,000 and $5,357,000, or approximately 9.95% and 9.94% of covered salaries, respectively.

Additionally, certain employees participate in one of two defined benefit plans (Vermont Employees Retirement System or Vermont State Teachers Retirement System). Employees who were participants in either of these plans prior to their employment by the Colleges are allowed to continue participation. During the years ended June 30, 2019 and 2018, there were no covered salaries for employees participating in the Vermont Employees Retirement System and there were no employer contributions. There were no contributions to the Vermont State Teachers Retirement System during 2019 and 2018.

Note 8 - **Retirement Plans - Continued**

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, 2019 and 2018, contributions for these benefits were approximately $899,000 and $850,000, respectively.

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

Note 9 - **Post-Employment Benefits Other Than Pension**

Plan Description: VSC administers a self-insured single-employer defined benefit healthcare plan. The plan provides 100% of the 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. The following employees were covered by the benefits terms at June 30,:

	2019	2018
Retirees and Beneficiaries	**607**	554
Active plan members	**891**	994
Total plan members	**1,498**	1,588

Note 9 - **Post-Employment Benefits Other Than Pension - Continued**

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 2019 and 2018, VSC recognized employer contributions of $6,181,621 and $6,318,175, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2019 and 2018, there were no member contributions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Annual OPEB Cost and Net OPEB Obligation: VSC's OPEB cost (expense) includes most changes in the net OPEB liability. The effect of changes such as service costs and interest on the total OPEB liability must be reported in the current reporting period as an OPEB expense. The effects of changes such as the change in actuarial assumptions and differences between expected and actual experiences are required to be included in OPEB expense over the current and future periods. Such changes must be amortized in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan beginning in the current period.

At June 30, 2019 and 2018, VSC reported a total net OPEB liability of $189,003,550 and $188,498,148, respectively. The total net OPEB liability as of June 30, 2019, the reporting date, was measured as of June 30, 2018, the measurement date, and the actuarial valuation date of July 1, 2017 was rolled forward from the prior measurement date of June 30, 2017. The total net OPEB liability as of June 30, 2018, the reporting date, was measured as of June 30, 2017, the measurement date, and the total net OPEB liability was determined by an actuarial valuation date as of July 1, 2017.

Note 9 - **Post-Employment Benefits Other Than Pension - Continued**

The following table shows the components of VSC's annual OPEB costs for the year ended June 30, 2019 and 2018 and the changes in VSC's net OPEB obligation to the Retiree Health and Early Retirement Plans:

	2019	2018
Interest on total OPEB obligation	**$ 6,647,387**	$ 6,185,677
Service Cost	**4,515,546**	4,359,477
Amortization of current year for difference between expected and actual experience	**951,327**	1,254,299
Amortization of current year for changes in plan actuarial assumptions	**(186,281)**	68,301
Annual OPEB cost	**11,927,979**	11,867,754
Difference between expected and actual experience to be recognized in future years	**(2,729,774)**	10,987,660
Difference between changes in plan actuarial assumptions to be recognized in future years	**(2,293,777)**	598,313
Benefit payments	**(6,399,026)**	(6,464,225)
Increase in net OPEB obligation	**505,402**	16,989,502
Net OPEB obligation - Beginning of Year	**188,498,148**	171,508,646
Net OPEB obligation - End of Year	**$ 189,003,550**	$ 188,498,148

Note 9 - **Post-Employment Benefits Other Than Pension - Continued**

Deferred Outflows of Resources related to OPEB:

VSC reported deferred outflows of resources related to OPEB from the following sources for the year ended June 30,:

Deferred Outflows of Resources	**2019**	2018
Differences between projected and actual experience	**$ 9,733,361**	$ 10,987,660
Changes in plan actual assumptions	**530,012**	598,313
Contributions subsequent to the measurement date	**6,181,621**	6,318,175
Total	**$ 16,444,994**	$ 17,904,148

Deferred Inflows of Resources related to OPEB:

VSC reported deferred inflows of resources related to OPEB from the following sources for the year ended June 30,:

Deferred Inflows of Resources	**2019**	2018
Differences between projected and actual experience	**$ 2,426,803**	$ -
Changes in plan actual assumptions	**2,039,195**	-
Contributions subsequent to the measurement date	**-**	-
Total	**$ 4,465,998**	$ -

Note 9 - **Post-Employment Benefits Other Than Pension - Continued**

VSC's contributions of $6,181,621 and $6,318,175 made during fiscal year ending 2019 and 2018, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the succeeding year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) in pension expense as follows:

Years Ending June 30,		
2020	$	765,047
2021		765,047
2022		765,047
2023		765,047
2024		765,047
2025-2027		1,972,140
	$	5,797,375

Note 9 - **Post-Employment Benefits Other Than Pension - Continued**

Actuarial Assumptions: The total net OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date	June 30, 2018	June 30, 2017
Inflation	2.6%	2.6%
Salary increases	3.5% per year	3.5% per year
Discount rate	3.87%	3.58%
Healthcare Cost Trend Rate	5.4%, decreasing incrementally to an ultimate rate of 5.1% in 2021 then increasing from 5.1% to 5.3% in 2022 and then decreasing incrementally to an ultimate rate of 3.8% in 2040	5.5%, decreasing incrementally to an ultimate rate of 5.1% in 2021 then increasing from 5.1% to 5.3% in 2022 and then decreasing incrementally to an ultimate rate of 3.8% in 2040

The discount rate was based on the Bond Buyer 20-Bond GO Index.

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 9 - **Post-Employment Benefits Other Than Pension - Continued**

Mortality: Life expectancies were based on the RP-2006 Table (base rates underlying RP-2014) projected to 2017 and thereafter, with MP-2017 projection scale which is 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 economic assumptions used were the following:

- Rate of Inflation - 2.6%
- Rate of Growth in Real Income/GDP per Capita - 1.15%
- Extra Trend due to Technology - 1.00%
- Health Share of GDP Resistance Point - 20%
- Year for limiting Cost Growth to GDP Growth 2040

Sensitivity of the Colleges' proportionate share of the net OPEB liability to changes in the discount rate: The following presents the Colleges' proportionate share of the net OPEB liability, as well as what the Colleges' proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	2019	
	Current	
1.00% Decrease	**Discount Rate**	**1.00% Increase**
(2.87%)	**(3.87%)**	**(4.87%)**
$ 211,446,681	**$ 189,003,550**	**$ 170,026,659**

Note 9 - **Post-Employment Benefits Other Than Pension - Continued**

2018

1.00% Decrease (2.58%)	Current Discount Rate (3.58%)	1.00% Increase (4.58%)
$ 211,679,150	$ 188,498,148	$ 168,925,037

Sensitivity of the Colleges' proportionate share of the net OPEB liability to changes in the healthcare cost trend rates: The following presents the Colleges' proportionate share of the net OPEB liability, as well as what the Colleges' proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

2019

1.00% Decrease	**Current Healthcare Cost Trend Rate (A)**	**1.00% Increase**
$ 167,824,500	**$ 189,003,550**	**$ 214,438,450**

2018

1.00% Decrease	Current Healthcare Cost Trend Rate (A)	1.00% Increase
$ 168,232,241	$ 188,498,148	$ 212,785,134

(A) - See page 53 for current healthcare cost trend rate.

Note 10 - **Leases**

The Colleges have various operating leases for classrooms, office space, equipment and motor vehicles. The majority of these leases have terms equal to or less than ten years and in some cases contain escalation and maintenance clauses, as well as renewal options. Total rental expense for all operating leases was approximately $2,935,000 and $3,067,000 in 2019 and 2018, respectively.

Note 10 - **Leases - continued**

Future minimum rental payments required under operating leases with non-cancelable terms in excess of one year at June 30, 2019 are as follows:

Years Ending June 30,	Real Estate	Vehicles and Equipment	Total
2020	$ 2,961,578	$ 390,285	$ 3,351,863
2021	2,747,905	366,068	3,113,973
2022	2,256,853	322,731	2,579,584
2023	1,873,936	260,030	2,133,966
2024 and thereafter	6,461,919	53,084	6,515,003
	$ 16,302,191	$ 1,392,198	$ 17,694,389

Note 11 - **Capital Assets**

Property and equipment activity for the years ended June 30, 2019 and 2018 is summarized below:

	Balance June 30, 2018	Additions	Transfers	Retirements	Balance June 30, 2019
Land	$ 9,004,664	$ -	$ -	$ -	$ 9,004,664
Construction-in-process	908,493	3,423,799	(2,727,788)	-	1,604,504
Subtotal - Capital assets not depreciated	9,913,157	3,423,799	(2,727,788)	-	10,609,168
Infrastructure	39,864,432	-	1,134,089	-	40,998,521
Buildings and improvements	259,347,174	-	1,203,878	-	260,551,052
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	35,411,937	855,205	389,821	(231,699)	36,425,264
Subtotal - Capital assets depreciated	338,713,814	855,205	2,727,788	(231,699)	342,065,108
Less accumulated depreciation	(185,680,251)	(10,084,696)	-	195,380	(195,569,567)
Capital assets, net	$162,946,720	$ (5,805,692)	$ -	$ (36,319)	$157,104,709

Note 11 - **Capital Assets - Continued**

	Balance June 30, 2017	Additions	Transfers	Retirements	Balance June 30, 2018
Land	$ 9,004,664	$ -	$ -	$ -	$ 9,004,664
Construction-in-process	591,775	2,931,519	(2,614,801)	-	908,493
Subtotal - Capital assets not depreciated	9,596,439	2,931,519	(2,614,801)	-	9,913,157
Infrastructure	39,314,228	-	550,204	-	39,864,432
Buildings and improvements	257,449,757	85,794	1,811,623	-	259,347,174
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	34,070,153	1,392,914	252,974	(304,104)	35,411,937
Subtotal - Capital assets depreciated	334,924,409	1,478,708	2,614,801	(304,104)	338,713,814
Less accumulated depreciation	(176,106,780)	(9,842,721)	-	269,250	(185,680,251)
Capital assets, net	$ 168,414,068	$ (5,432,494)	$ -	$ (34,854)	$ 162,946,720

Note 12 - **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 12 - **Contingencies and Commitments - Continued**

Contingencies - continued
VSC is also exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. VSC manages these risks through a combination of commercial insurance packages purchased in the name of VSC, and through self-insurance for medical and dental claims. VSC has entered into contracts with a third-party claims administrator, which essentially caps medical claim costs (stop-loss) at an agreed-upon level. Individual stop-loss is $175,000 of paid claims per covered member per year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Reserves for medical and dental claims are included in accrued liabilities in the amount of approximately $2,560,000 at June 30, 2019 and $1,987,000 at June 30, 2019 and are based on historical data. A medical and dental claim roll-forward is presented below:

	2019	2018
Medical and dental claims reserve, beginning of year	**$ 1,987,000**	$ 1,908,000
Incurred claims	**18,747,000**	18,393,000
Payments on claims	**(18,174,000)**	(18,314,000)
Medical and dental claims reserve, end of year	**$ 2,560,000**	$ 1,987,000

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

	2019	2018
Workers' compensation reserve, beginning of year	**$ 432,000**	$ 265,000
Workers' compensation accrued during the year	**640,000**	881,000
Claims paid/reserved/claims administration	**(775,000)**	(714,000)
Workers' compensation reserve, end of year	**$ 297,000**	$ 432,000

Note 12 - **Contingencies and Commitments - Continued**

Commitments

VSC has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2019:

Project	Expended through June 30, 2019	Committed Future Costs	Total Committed Costs of Project
VTC Building 200 Roof	$ -	$ 94,000	$ 94,000
NVU-J Site Improvements	254,000	190,000	444,000
NVU-J Willey Window Replacement	147,000	16,000	163,000
CU Jeffords Science Renovation	219,000	529,000	748,000
	$ 620,000	$ 829,000	$ 1,449,000

At June 30, 2019, invoices related to construction projects of approximately $303,000 were included in accounts payable.

Employment Contracts

The Colleges have employment contracts with certain officers that expire on various dates through fiscal year 2021. The agreements provide for aggregate annual base salaries of $700,000 and $165,000 in fiscal years 2020 and 2021, respectively, and may be terminated with cause at any time.

Note 12 - **Contingencies and Commitments - Continued**

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

Years Ending June 30,	
2020	$ 225,000
2021	487,500
2022	487,500
Total	$ 1,200,000

REQUIRED SUPPLEMENTARY INFORMATION

VERMONT STATE COLLEGES

(a Component Unit of the State of Vermont)

Schedule of Changes in Total OPEB Liability (Unaudited)

Year ended	June 30, 2019	June 30, 2018
Measurement date	June 30, 2018	June 30, 2017
Valuation date	July 1, 2017	July 1, 2017
Total OPEB liability		
Service Cost	$ 4,515,546	$ 4,359,477
Interest	6,647,387	6,185,678
Changes of benefit terms	-	-
Differences between expected and actual experience	(1,778,447)	12,241,959
Changes of assumptions or other inputs	(2,480,058)	666,613
Benefit payments	(6,399,026)	(6,464,225)
Net change in total OPEB liability	505,402	16,989,502
Total OPEB liability - beginning	188,498,148	171,508,646
Total OPEB liability - ending	$ 189,003,550	$ 188,498,148
Covered-employee payroll	50,074,973	51,380,910
Total OPEB liability as a percentage of covered-employee payroll	377.44%	366.86%

Notes:

The GASB pronouncement requiring the presentation of the information on this schedule became effective for years beginning after June 15, 2017 and is intended to provide data for the most recent ten years.

See accompanying notes to the required supplementary information.

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

Notes to the Required Supplementary Information - OPEB (Unaudited)

June 30, 2019 and 2018

Note 1 - **Change in Plan Assumptions**

Measurement date – June 30, 2018

Change in Trend on Future Costs

The healthcare trend rate decreased from 5.5% to 5.4%.

Change in Discount Rate

The discount rate was increased from 3.58% to 3.87%.

Measurement date – June 30, 2017

Change in Discount Rate

The discount rate decreased to 3.58% based upon the change of the discount method to the discount rate of the Bond Buyer 20-Bond GO Index as of the measurement date as required by GASB Statement 74. The June 30, 2016 discount rate was calculated to be 3.75%.

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

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

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

Report on Compliance for Each Major Federal Program

We have audited Vermont State Colleges' (a component unit of the State of Vermont) (the Colleges) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Vermont State Colleges' major federal programs for the years ended June 30, 2019. The Colleges' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Opinion on Each Major Federal Program
In our opinion, the Colleges complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2019.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2019-001, 2019-002 and 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Vermont State Colleges, as of and for the year ended June 30, 2019. We issued our report thereon dated October 21, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 21, 2019

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, 2019 and 2018, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Vermont State Colleges' basic financial statements and have issued our report thereon dated October 21, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor + Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

October 21, 2019

SUPPLEMENTAL INFORMATION

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, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education:					
Direct Awards:					
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	$ 1,088,192	$ -
Federal Work-Study Program	84.033	N/A	N/A	1,328,735	-
Federal Direct Student Loans	84.268	N/A	N/A	39,689,361	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	5,491,071	-
Federal Perkins Loan Program (current year expenditures)	84.038	N/A	N/A	-	-
Federal Pell Grant Program	84.063	N/A	N/A	15,978,880	-
Total Student Financial Assistance Cluster				63,576,239	-
TRIO CLUSTER					
U.S. Department of Education:					
Direct Awards:					
TRIO Student Support Services	84.042A	N/A	N/A	1,366,077	-
TRIO Upward Bound	84.047A	N/A	N/A	1,282,172	-
TRIO Upward Bound NY	84.047M	N/A	N/A	287,671	-
TRIO McNair	84.217A	N/A	N/A	249,544	-
Total TRIO Cluster				3,185,464	-
RESEARCH AND DEVELOPMENT CLUSTER					
National Aeronautics and Space Administration:					
Passthrough Awards:					
Science - National Space Grant College & Fellowship Program	43.001	University of Vermont	29907 SUB51933	9,904	-
Education - CubeSat Continued Development	43.008	University of Vermont	30018	4,229	-
Subtotal - Passthrough Awards				14,133	-
National Science Foundation:					
Direct Awards:					
Geosciences	47.050	N/A	N/A	77,160	-
Education and Human Resources	47.076	N/A	N/A	2,118	-
Subtotal - Direct Awards				79,278	-
Passthrough Awards:					
Experimental Program to Stimulate Competitive Research	47.073	University of Vermont	30373SUB52050	73,219	-
Experimental Program to Stimulate Competitive Research	47.073	University of Vermont	30373SUB52051	24,388	-
Subtotal - Passthrough Awards				97,607	-
Total Research and Development Cluster				191,018	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
CCDF CLUSTER					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.575	Vermont Department of Children & Families	03440-34001-18-ECPDS	851,195	-
MEDICAID CLUSTER					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
Medicaid Assistance Program	93.778	Office of Vermont Health Access	P85 - Sec. B. 605	220,249	-
Medical Assistance Program	93.778	Vermont Department of Mental Health	03420-7299S	5,372	-
Medical Assistance Program	93.778	Vermont Department of Mental Health	03150-A1695	268,930	-
Total Medicaid Cluster				494,551	-
ECONOMIC DEVELOPMENT CLUSTER					
U.S. Department of Commerce:					
Direct Awards					
Economic Adjustment Assistance	11.307	N/A	N/A	61,422	-
CHILD NUTRITION CLUSTER					
U.S. Department of Agriculture					
Direct Awards					
Summer Food Program for Children	10.559	N/A	N/A	22,687	-
NON-CLUSTER					
U.S. Department of Agriculture:					
Direct Awards					
Rural Business Development Grant	10.351	N/A	N/A	58,736	-
Distance Learning and Telemedicine Loans	10.855	N/A	N/A	321,337	-
Subtotal - Direct Awards				380,073	-
U.S. Department of Commerce:					
Direct Awards:					
Manufacturing Extension Partnership	11.611	N/A	N/A	512,750	-
Institute of Museum and Library Services:					
Passthrough Awards:					
Grants to States - Job Hunt Helpers	45.310	VT Department of Libraries	11300.JHH.LSTA17.A1	33,580	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED					
Small Business Administration:					
Direct Awards:					
Small Business Development Centers	59.037	N/A	N/A	765,583	-
Environmental Protection Agency:					
Passthrough Awards:					
Great Lakes Fishery	66.481	Lake Champlain Basin Program	0100-319-004	3,250	-
Pollution Prevention Grants Program	66.708	VT Department of Environmental Conservation	2018-CGPTC-ECD-01	7,841	-
Subtotal - Passthrough awards				11,091	-
U.S. Department of the Interior					
Passthrough Awards					
Heritage Partnership	15.939	Lake Champlain Basin Program	P18AC01302J	4,564	-
U.S. Department of Education:					
Passthrough Awards:					
Carl D. Perkins Vocalation Education - Post Secondary	84.048A	Vermont Department of Education	PerkR2171801	199,012	-
Career and Technical Education - Basic Grants to States	84.048	Vermont Agency of Education	4319R0571801	705,746	-
Career and Technical Education - Basic Grants to States	84.048	Vermont Agency of Education	4322R0571801	60,000	-
Race to the Top Early Challenge Grant	84.412	Vermont Department of Children & Familie	N/A	39,675	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Vermont Student Assistance Corp	P334S110006-15	382,127	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	Vermont Student Assistance Corp	P334S110006-15	33,036	-
Mathematics and Science Partnerships	84.366	Vermont Department of Education	4655R1171501	69,253	-
Subtotal - Passthrough Awards				1,488,849	-
Northern Border Regional Commission:					
Passthrough Awards:					
Northern Border Regional Development	90.601	Northern Border Regional Commission	NBRC16GVT	146,447	-
National Endowment For the Arts					
Passthrough Awards:					
Arts Partnership Agreements	45.025	New England Foundation for the Arts	18-34739	3,600	-
U.S. Department of Health and Human Services:					
Direct Awards:					
Oral Health Workforce Activities	93.236	N/A	N/A	165,226	-
Passthrough Awards:					
Biomedical Research and Research Training	93.859	University of Vermont	29252SUB51796	227,978	-
Biomedical Research and Research Training	93.859	University of Vermont	29252SUB52826	161,329	-
Subtotal - Passthrough Awards				389,307	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED					
U.S. Department of Transportation					
Passthrough Awards:					
Highway Planning and Construction	20.205	Vermont Agency of Transportation	N/A	1,631	-
U.S. Department of Health and Human Services					
Passthrough Awards					
Substance Abuse and Mental Health Services	93.243	Vermont Department of Mental Health	03150-C1052	60,796	-
Block Grants for Prevention and Treatment of Substance abuse	93.959	Vermont Department of Health	03420-07656	7,736	-
ADAP Workforce Development	93.959	Vermont Department of Health	03420-07626	18,000	-
Subtotal - Passthrough Awards				86,532	-
Corporation for National and Community Service:					
Passthrough Awards:					
AmeriCorps	94.006	Vermont Agency of Human Services	03400-16AFH-LEAP-FY19	238,741	-
U.S. Department of Defense:					
Passthrough Awards:					
VT Additive Manufacturing Partnership	12.617	Vermont Department of Economic Development	N/A	23,437	-
U.S. Department of Labor:					
Direct Awards:					
H-1B Job Training Grants	17.268	N/A	N/A	588,435	-
TAACCCT 1 + 4	17.282	N/A	N/A	84,502	-
Subtotal - Direct Awards				672,937	-
Passthrough Awards					
Apprenticeship State Funds	17.285	Vermont Department of Labor	N/A	5,301	-
U.S. Department of Education:					
Direct Awards					
Title III	84.031A	N/A	N/A	51,883	-
Total Non-Cluster				4,981,532	-
Total Federal Funds				$ 73,364,108	-

VERMONT STATE COLLEGES
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Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Northern Vermont University	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
STUDENT FINANCIAL ASSISTANCE CLUSTER											
U.S. Department of Education:											
Direct Awards:											
Federal Supplemental Educational Opportunity Grant	84.007	N/A	N/A	$ 166,036	$ 323,990	$ 379,063	$ 219,103	$ -	$ -	$ 1,088,192	$ -
Federal Work-Study Program	84.033	N/A	N/A	132,472	330,809	693,142	172,312	-	-	1,328,735	-
Federal Direct Student Loans	84.268	N/A	N/A	4,043,565	11,825,020	15,161,218	8,659,558	-	-	39,689,361	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	-	2,165,477	2,584,079	741,515	-	-	5,491,071	-
Federal Perkins Loan Program (current year expenditures)	84.038	N/A	N/A	-	-	-	-	-	-	-	-
Federal Pell Grant Program	84.063	N/A	N/A	5,846,088	3,152,643	4,821,688	2,158,461	-	-	15,978,880	-
Total Student Financial Assistance Cluste				10,188,161	17,797,939	23,639,190	11,950,949	-	-	63,576,239	-
TRIO CLUSTER											
U.S. Department of Education:											
Direct Awards:											
TRIO Student Support Services	84.042A	N/A	N/A	373,261	297,583	406,120	289,113	-	-	1,366,077	-
TRIO Upward Bound	84.047A	N/A	N/A	-	297,753	984,419	-	-	-	1,282,172	-
TRIO Upward Bound NY	84.047M	N/A	N/A	-	287,671	-	-	-	-	287,671	-
TRIO McNair	84.217A	N/A	N/A	-	249,544	-	-	-	-	249,544	-
Total TRIO Cluster				373,261	1,132,551	1,390,539	289,113	-	-	3,185,464	-
RESEARCH AND DEVELOPMENT CLUSTER											
National Aeronautics and Space Administration:											
Passthrough Awards:											
Science - National Space Grant College & Fellowship Program	43.001	University of Vermon	29907 SUB51933	-	-	-	9,904	-	-	9,904	-
Education - CubeSat Continued Development	43.008	University of Vermon	30018	-	-	-	4,229	-	-	4,229	-
Subtotal - Passthrough Awards				-	-	-	14,133	-	-	14,133	-
National Science Foundation:											
Direct Awards:											
Geosciences	47.050	N/A	N/A	-	77,160	-	-	-	-	77,160	-
Education and Human Resources	47.076	N/A	N/A	-	-	2,118	-	-	-	2,118	-
Subtotal - Direct Awards				-	77,160	2,118	-	-	-	79,278	-
Passthrough Awards:											
Experimental Program to Stimulate Competitive Research	47.073	University of Vermont	30373SUB52050	-	44,617	28,602	-	-	-	73,219	-
Experimental Program to Stimulate Competitive Research	47.073	University of Vermont	30373SUB52051	-	-	24,388	-	-	-	24,388	-
Subtotal - Passthrough Awards				-	44,617	52,990	-	-	-	97,607	-
Total Research and Development Cluster				-	121,777	55,108	14,133	-	-	191,018	-
CCDF CLUSTER											
U.S. Department of Health and Human Services:											
Passthrough Awards:											
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.575	Vermont Departmet of Children & Families	03440-34001-18-ECPDS	851,195	-	-	-	-	-	851,195	-

VERMONT STATE COLLEGES
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Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Northern Vermont University	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
MEDICAID CLUSTER											
U.S. Department of Health and Human Services:											
Passthrough Awards:											
Medical Assistance Program	93.778	Office of Vermont Health Access	P85 - Sec. B. 605	-	-	-	220,249	-	-	220,249	-
Medical Assistance Program	93.778	Vermont Department of Mental Health	03420-7299S	-	-	5,372	-	-	-	5,372	-
VCPI Operations Grant	93.778	Vermont Department of Mental Health	03150-A1695	-	-	268,930	-	-	-	268,930	-
Total Medicade Cluster				-	-	274,302	220,249	-	-	494,551	-
ECONOMIC DEVELOPMENT CLUSTER											
U.S. Department of Commerce:											
Direct Awards											
Economic Adjustment Assistance	11.307	N/A	N/A	-	-	61,422	-	-	-	61,422	-
CHILD NUTRITION CLUSTER											
U.S. Department of Agriculture											
Direct Awards											
Summer Food Program for Children	10.559	N/A	N/A	-	-	22,687	-	-	-	22,687	-
NON-CLUSTER											
U.S. Department of Agriculture:											
Direct Awards:											
Higher Education - Institution Challenge Grants Program	10.351	N/A	N/A	-	-	58,736	-	-	-	58,736	-
Rural Business Enterprise Giants	10.855	N/A	N/A	-	-	321,337	-	-	-	321,337	-
Subtotal - Direct Awards				-	-	380,073	-	-	-	380,073	-
U.S. Department of Commerce:											
Direct Awards:											
Manufacturing Extension Partnership	11.611	N/A	N/A	-	-	-	-	512,750	-	512,750	-
Institute of Museum and Library Services:											
Passthrough Awards:											
Grants to States - Job Hunt Helpers	45.310	VT Department of Libraries	11300.JHH.LSTA17.A1	33,580	-	-	-		-	33,580	-
Small Business Administration:											
Direct Awards:											
Small Business Development Centers	59.037	N/A	N/A	-	-	-	-	765,583	-	765,583	-
Environmental Protection Agency:											
Passthrough Awards:											
Great Lakes Fishery	66.481	Lake Champlain Basin Program	0100-319-004	-	3,250	-	-	-	-	3,250	-
Pollution Prevention Grants Program	66.708	VT Department of Environmental Conservation	2018-CGPTC-ECD-01	7,841		-	-	-	-	7,841	-
Subtotal - Passthrough awards				7,841	3,250	-	-	-	-	11,091	-
U.S. Department of the Interior											
Passthrough Awards											
Heritage Partnership	15.939	Lake Champlain Basin Program	P18AC01302J	-	4,564	-	-	-	-	4,564	-
U.S. Department of Education:											
Passthrough Awards:											
Carl D. Perkins Vocalation Education - Post Secondary	84.048A	Vermont Department of Education	PerkR2171801	-	-	-	199,012	-	-	199,012	-
Career and Technical Education - Basic Grants to States	84.048	Vermont Department of Education	4319R0571901	705,746	-	-	-	-	-	705,746	-
Career and Technical Education - Basic Grants to States	84.048	Vermont Department of Education	4322R0571901	60,000	-	-	-	-	-	60,000	-
Race to the Top Early Challenge Grant	84.412	Vermont Department of Children & Families	N/A	-	39,675	-	-	-	-	39,675	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Vermont Student Assistance Corp	P334S110006-15	286,704	-		-	-	95,423	382,127	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	Vermont Student Assistance Corp	P334S110006-15	1,527	3,451	23,466	4,592	-	-	33,036	-
Mathematics and Science Partnerships	84.366	Vermont Department of Education	4655R1171501	-	-	69,253	-	-	-	69,253	-
Subtotal - Passthrough Awards				1,053,977	43,126	92,719	203,604	-	95,423	1,488,849	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2019

	CFDA Number	Pass-Through Entity	Pass-Through Entity Award Number	Community College of Vermont	Castleton University	Northern Vermont University	Vermont Technical College	Workforce	System Offices & Services	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED											
Northern Border Regional Commission:											
Passthrough Awards:											
Northern Border Regional Development	90.601	Northern Border Regional Commission	NBRC16GVT	73,383	-	73,064	-	-	-	146,447	-
National Endowment For the Arts											
Passthrough Awards:											
Arts Partnership Agreements	45.025	New England Foundation for the Arts	18-34739	-	3,600	-	-	-	-	3,600	-
U.S. Department of Health and Human Services:											
Direct Awards:											
Oral Health Workforce Activities	93.236	N/A	N/A	-	-	-	165,226	-	-	165,226	-
Passthrough Awards:											
Biomedical Research and Research Training	93.859	University of Vermont	29252SUB51796	-	227,978	-	-	-	-	227,978	-
Biomedical Research and Research Training	93.859	University of Vermont	29252SUB52826	-	-	161,329	-	-	-	161,329	-
Subtotal - Passthrough Awards				-	227,978	161,329	-	-	-	389,307	-
U.S. Department of Transportation											
Passthrough Awards:											
Highway Planning and Construction	20.205	Vermont Agency of Transportation	N/A	-	-	-	-	1,631	-	1,631	-
U.S. Department of Health and Human Services											
Passthrough Awards											
Substance Abuse and Mental Health Services	93.243	Vermont Department of Mental Health	03150-C1052	-	-	60,796	-	-	-	60,796	-
Block Grants for Prevention and Treatment of Substance abuse	93.959	Vermont Department of Health	03420-07656	-	-	7,736	-	-	-	7,736	-
ADAP Workforce Development	93.959	Vermont Department of Health	03420-07626	-	-	18,000	-	-	-	18,000	-
Subtotal - Passthrough Awards				-	-	86,532	-	-	-	86,532	-
Corporation for National and Community Service:											
Passthrough Awards:											
AmeriCorps	94.006	Vermont Agency of Human Services	03400-16AFH-LEAP-FY19	-	-	238,741	-	-	-	238,741	-
U.S. Department of Defense:											
Passthrough Awards:											
VT Additive Manufacturing Partnership	12.617	Vermont Department of Economic Development	N/A	-	-	-	23,437	-	-	23,437	-
U.S. Department of Labor:											
Direct Awards:											
H-1B Job Training Grants	17.268	N/A	N/A	-	-	-	-	588,435	-	588,435	-
TAACCCT 1 + 4	17.282	N/A	N/A	84,502	-	-	-	-	-	84,502	-
Subtotal - Direct Awards				84,502	-	-	-	588,435	-	672,937	-
Passthrough Awards											
Apprenticeship State Funds	17.285	Vermont Department of Labor	N/A	-	-	-	-	5,301	-	5,301	-
U.S. Department of Education:											
Direct Awards											
Title III	84.031A	N/A	N/A	-	-	51,883	-	-	-	51,883	-
Total Non-Cluster				1,253,283	282,518	1,084,341	392,267	1,873,700	95,423	4,981,532	-
Total Federal Funds				$ 12,665,900	$ 19,334,785	$ 26,527,589	$ 12,866,711	$ 1,873,700	$ 95,423	$ 73,364,108	$ -

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of Vermont State Colleges (the "Colleges") under programs of the Federal Government for the year ended June 30, 2019. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position or cash flows of the Colleges.

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

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

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

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

Note 4 - **Federal Student Loan Program**

Perkins Loan Program
The Federal Perkins Loan Program ("Perkins") is administered directly by the Colleges and balances and transactions relating to the program are included in the College's basic financial statements. During the year ended June 30, 2019, no loans were advanced under the Perkins program and no administrative costs were incurred. As of June 30, 2019, loan balances receivable, net under Perkins was $4,185,228.

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

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

Direct Student Loan Program

The Colleges disbursed $39,689,361 of loans under the Federal Direct Student Loans program, which include Stafford Subsidized and Unsubsidized Loans and Parent Plus Loans. It is not practical to determine the balances of the loans outstanding to students of the Colleges under the program as of June 30, 2019. The Colleges are only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the Colleges' financial statements.

VERMONT STATE COLLEGES
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Schedule of Current Year Findings and Questioned Costs

Year Ended June 30, 2019

Section I – Summary of Auditors' Results:

Financial Statements

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

Federal Awards

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

VERMONT STATE COLLEGES
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Schedule of Current Year Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Identification of Major Programs:

Name of Federal Program or Cluster	CFDA Number
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grant Program	**84.007**
Federal Work-Study Program	**84.033**
Federal Perkins Loan Program	**84.038**
Federal Pell Grant Program	**84.063**
Federal Direct Student Loans	**84.268**
TRIO Cluster:	
Student Support Services	**84.042A**
Upward Bound	**84.047A**
McNair	**84.217A**
Upward Bound	**84.047M**
CCDF Cluster:	
Child Care and Development Block Grant	**93.575**
Noncluster:	
AmeriCorps	**94.006**

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

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

VERMONT STATE COLLEGES
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Schedule of Current Year Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Required reporting for the Pell Grant and Direct Loan Programs

Sample				*Population from Which Sample Was Drawn*	
Sample Description	**OPEID**	**Number of Students Receiving Direct Loan Funds**	**Amount of Direct Loan Funds Disbursed**	**Number of Students Receiving Direct Loan Funds**	**Amount of Direct Loan Funds Disbursed**
Return of Direct Loan Testing	Various*	21	$137,155	135	$445,591

Finding Number	**Student Identifier**	**OPEID**	**Direct Loan Disbursed ($)**	**Direct Loan Under-payment ($)**
2019-003	1598217	00368800	$5,771	$193

*Sample and population consisted of the following colleges with their respective OPEID's:

Vermont Technical College (00369800)
Northern Vermont University (00368800)
Castleton University (00368300)
Community College of Vermont (01116700)

VERMONT STATE COLLEGES
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Schedule of Current Year Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Section II – Financial Statement Findings:

None

Section III – Federal Award Findings and Questioned Costs:

Finding number:	2019-001
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2019

Criteria

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

> Unless [the institution] it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that –
>
> (i) A loan under title IV of the Act was made to or on behalf of a student who was enrolled or accepted for enrollment at the school, and the student has ceased to be enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period for which the loan was intended; or
>
> (ii) A student who is enrolled at the school and who received a loan under title IV of the Act has changed his or her permanent address.

The Dear Colleague Letter GEN-12-6 issued by the U.S. Department of Education ("ED") on March 30, 2012 states that in addition to student loan borrowers, Enrollment Reporting files will include two additional groups of students: Pell Grant and Perkins Loan recipients.

According to 2 CFR Part 200, Appendix XI Compliance Supplement updated June 2019:

> Under the Pell Grant and loan programs, institutions must complete and return within 15 days the Enrollment Reporting roster file placed in their Student Aid Internet Gateway mailboxes sent by ED via the National Student Loan Data System ("NSLDS"). The institution determines how often it receives the Enrollment Reporting roster file with the default set at a minimum of every 60 days. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch

method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

Condition
The Federal Government requires the Colleges to report student enrollment changes to the National Student Loan Data System ("NSLDS") within 60 days. During our testing, we noted three students, out of a sample of forty, that had incorrect effective dates reported to NSLDS.

Cause
The Colleges did not have adequate procedures in place to ensure that students with status changes had their effective date correctly reported to NSLDS.

Effect
The Colleges did not report the students correct effective dates to NSLDS, which may impact the students' loan grace periods.

Questioned Costs
Not applicable

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the forty students selected for testing, three students, or 8% of our sample, had incorrect effective dates reported to NSLDS.

Identification as a Repeat Finding, if applicable
See finding 2018-001 included in the summary schedule of prior year findings.

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

View of Responsible Officials
The Colleges agrees with the finding.

Finding number:	2019-002
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grants
CFDA #:	84.063
Award year:	2019

Criteria
According to 34 CFR 690.83(b)

> (1) An institution shall report to the Secretary any change for which a student qualifies including any related Payment Data changes by submitting to the Secretary the student's Payment Data that discloses the basis and result of the change in award for each student. The institution shall submit the student's Payment Data reporting any to the Secretary by the reporting deadlines published by the Secretary in the Federal Register.
>
> (2) An institution shall submit, in accordance with the deadline dates established by the Secretary, through publication in the Federal Register, other reports and information the Secretary requires and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct.

According to the Federal Register (Volume 83, Number 233):

> An institution must submit Pell Grant, Iraq and Afghanistan Service Grant, Direct Loan, and TEACH Grant disbursement records to COD, no later than 15 days after making the disbursement or becoming aware of the need to adjust a previously reported disbursement. In accordance with 34 CFR 668.164(a), title IV, Higher Education Act ("HEA") program funds are disbursed on the date that the institution:
>
> > (a) Credits those funds to a student's account in the institution's general ledger or any subledger of the general ledger; or
> > (b) pays those funds to a student directly.
>
> Title IV, HEA program funds are disbursed even if an institution uses its own funds in advance of receiving program funds from the Department.

Condition
Federal regulations require the Colleges to report to the Federal Government's Common Origination and Disbursement System ("COD") Federal Pell Grant disbursements made to students within fifteen days of the funds being disbursed to the student. During our testing, we noted seven students, out of a sample of forty, were not reported within the required timeframe by a range of four to fifty-seven days.

Cause
The Colleges were relying on a report from their reporting software to identify if the disbursement were reported to COD correctly and in a timely manner. The outputs of this report that the Colleges were relying on in order to ensure disbursements were reported correctly and in a timely manner was delivering incorrect information. As a result, these students not being reported within the required timeframe.

Effect
The Colleges did not report Pell Grant disbursements to COD within the required time frame.

Questioned Costs
Not applicable

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the forty students selected for testing, seven students, or 18% of our sample, was determined to be reported late to the COD by a range of four to fifty-seven days.

Identification as a Repeat Finding, if applicable
N/A

Recommendation
We recommend that management of the Colleges review, and if necessary, update the policies and procedures to ensure all Pell Grant funds are reported within the required timeframe.

View of Responsible Officials
The Colleges agrees with the finding.

Schedule of Current Year Findings and Questioned Costs - Continued

Year Ended June 30, 2019

Finding number:	2019-003
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #:	84.268
Award year:	2019

Criteria
According to 34 CFR 668.22(e)(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 calculated under paragraph (e)(1) of this section 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.

Condition
The Financial Aid Office is responsible for completing the Return of Title IV calculation to determine how much Title IV aid the student earned and how much must be returned to the Department of Education. Once the Return of Title IV calculation is completed, the Colleges are responsible for adjusting the student's billing statement and returning unearned Title IV funds through the U.S. Department of Education's Grant Management System ("G5"). The Colleges have 45 days from the date they determined the student withdrew to return any unearned portions of Title IV funds. During our testing, we noted one student, out of a sample of forty, where the aid returned was different than the amount correctly calculated on the Return to Title IV ("R2T4") form.

Cause
The Colleges did not have procedures in place to ensure the refunded amount calculated per the R2T4 matched the actual aid returned.

Effect
The Colleges did not return the correct amount of Title IV funds to the Department of Education.

Questioned Costs
$193

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the forty students selected for testing, one student, or 3% of our sample, had the incorrect amount of Title IV funds returned.

Identification as a Repeat Finding, if applicable
N/A

Recommendation
The Colleges should review their current policies and procedures to ensure the amount of federal aid returned agrees with the amount calculated on the R2T4 form.

View of Responsible Officials
The Colleges agrees with the finding.

CASTLETON UNIVERSITY
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JOHNSON STATE COLLEGE
LYNDON STATE COLLEGE
VERMONT TECHNICAL COLLEGE

VERMONT
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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2019

Finding number:	2018-001
Federal agency:	U.S. Department of Education
Programs:	Federal Supplemental Educational Opportunity Grant Program, Federal Work-Study Program, Federal Perkins Loan Program, Federal Pell Grant Program, Federal Direct Student Loans Program
CFDA #'s:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2018

Condition

The Colleges policy is to report student enrollment to a contracted third party, the National Student Clearinghouse ("NSC"). The Colleges utilized the NSC to facilitate its responsibility to notify the National Student Loan Data System ("NSLDS") of changes in the enrollment status of students. However, the Colleges are ultimately responsible to ensure that NSLDS is properly and timely notified of all student enrollment status changes. The Colleges report an initial enrollment status and subsequent changes in enrollment status to the NSC based on a pre-determined schedule throughout each semester.

Award Year 2018:

Out of a sample of forty students with enrollment status changes, two students status changes (graduated) were never reported to NSLDS. One students' status change (withdrawal) was not reported to NSLDS within the 60-day required time frame.

Award Year 2017:

Out of a sample of forty students with enrollment status changes, two students with a status change were not reported in a timely manner to the NSLDS. One student was never reported to the NSLDS and the other student took ninety-one days to report.

Award Year 2016:

Out of a sample of forty students with enrollment status changes, one student's status change was not reported in a timely manner to the NSLDS and took sixty-two days to report.

Current Year Status:

Out of a sample of forty students with enrollment status changes, three students were not reported with the correct effective date to the NSLDS. The Colleges are looking to strengthen its controls in this area. See finding 2019-001 for more information and corrective action plan.

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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2019

Finding number:	2018-002
Federal agency:	U.S. Department of Education
Programs:	Federal Work-Study Program
CFDA #'s:	84.033
Award year:	2018

Condition

The Federal Government requires the Colleges to use at least seven percent of its Federal Work Study (FWS) allocations for an award year to pay for student's employed in community service activities. During our review of Vermont Technical College's Fiscal Operations Report and Application to Participate (FISAP), one of the colleges did not use at least seven percent of its Federal Work Study allocation for compensating students in community service activities.

Current Year Status:

The corrective action plan was fully implemented. The auditors' current year testing revealed no findings in this area.

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Management's Summary Schedule of Prior Audit Findings

Year Ended June 30, 2019

Finding number:	2018-003
Federal agency:	U.S. Department of Education
Programs:	Federal Direct Student Loans Program
CFDA #'s:	84.268
Award year:	2018

Condition

Federal regulations state that any unearned Title IV grant or loan assistance received by a student must be refunded to the Title IV programs upon a student's withdrawal from the institution. The academic institution is responsible for the calculation of the earned and unearned portion of Title IV assistance using a standard Return of Title IV Funds form ("R2T4"). In our testing sample of 40 students who were determined to have withdrawn from the Colleges, we noted one student for whom funds were not returned within the required 45 days.

Current Year Status:

The corrective action plan was fully implemented. The auditors' current year testing revealed no findings in this area.

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Management's Corrective Action Plan

Finding number:	2019-001
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #:	84.007, 84.033, 84.038, 84.063, 84.268
Award year:	2019

Corrective Action Plan:

To avoid inadvertently changing correct withdrawal dates before the information is uploaded to NSLDS, our Registrar will resolve this by now checking the R2T4 withdrawal data as part of the error correction process to ensure where the data is coming from and if it is correct. This solution was implemented for our final Spring 2019 Clearinghouse Reporting on 5/13/19.

To avoid having a discrepancy between the R2T4 unofficial withdrawal date and the withdrawal date in NSLDS, our Registrar will add a step to our Clearinghouse reporting between generating the data file and submitting it that allows us to find any students with discrepancies between the R2T4 date and the withdrawal date. After being identified, we will correct these before submitting the file.

One student represents an isolated issue driven by the determination that the classification of the individual's enrollment change was a medical withdrawal. This fell outside the normal path of enrollment change communication. Therefore, moving forward, all departments involved understand that determinations resulting in enrollment changes need to be communicated to the Registrar.

Timeline for Implementation of Corrective Action Plan:

Corrective solutions were implemented for the final Spring 2019 Clearinghouse Reporting on 5/13/19, and a communication plan was initiated immediately.

Contact Person

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Management's Corrective Action Plan - Continued

Finding number:	2019-002
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grants
CFDA #:	84.063
Award year:	2019

Corrective Action Plan:

Several steps have been done to correct this. First, the report to verify acceptance by COD was modified to ensure the correct fields are on the report that will give us the proper information we need to verify. We will make sure that we are not just reviewing the field indicating whether it was accepted or not but also an additional field called Doc ID, which has a date that indicates when it was last sent to COD. We have also added fields called "Last Sent Date," which indicates the last date the award was send to COD, and "Award Change Date," which indicates the date the Pell award was last changed in Colleague. We will also be reviewing communication with our VSCS finance team to ensure that the proper communication channels are in place when checking G5 and questioning records.

Timeline for Implementation of Corrective Action Plan:

Corrective steps above were implemented in June 2019.

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Management's Corrective Action Plan - Continued

Finding number:	2019-003
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #:	84.268
Award year:	2019

Corrective Action Plan:

NVU built a verification step into the withdrawal calculation process to ensure accuracy of the Title IV return and consistency with the student's account statement.

Timeline for Implementation of Corrective Action Plan:

June 2019

Contact Person

Sheilah Evans, System Controller