COMMUNITY COLLEGE OF VERMONT
VERMONT STATE UNIVERSITY

VERMONT STATE COLLEGES SYSTEM

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MEMORANDUM

TO: VSCS Audit and Risk Management Committee
Sue Zeller, Chair
David Durfee, Vice-Chair
Bob Flint
David Silverman
Shawn Tester

FROM: Sharron Scott, Chief Financial & Operating Officer

DATE: October 13, 2023

SUBJECT: Audit & Risk Management Committee Meeting scheduled for October 16, 2023

The Audit and Risk Management Committee of the VSC Board of Trustees will meet at 1:00 p.m. on Monday, October 16, 2023

The primary focus of the October 2023, Audit and Risk Management Committee meeting will be review and approval of the draft Financial Statements, Uniform Guidance Single Audit report, and advisory comments. Kieth Goldie and Chris Evans from Withum will join the Committee to review these documents and answer any questions you may have regarding the materials. An audit committee resource guide authored by Deloitte is available in your packet for supplemental guidance as you review the documents. Following the presentation, representatives from Withum will meet with the Committee in executive session to discuss their work with the Vermont State Colleges System.

Patty Turley will be on hand to provide a verbal report to the Committee regarding FY2023 Whistleblower Complaints.

Lastly, Vermont State Colleges policy requires the periodic rebidding of contracts to ensure best price and fit. The current contract for financial and single audit services with Withum concludes this year. Therefore we will hold a brief discussion regarding the committee’s preferences related to request for proposal development.

Should you have any questions regarding these materials, or any other matter, please contact me at Sharron.Scott@vsc.edu or 802.224.3022.

CC: VSCS Board of Trustees
Council of Presidents
Business Affairs Council

Vermont State Colleges Board of Trustees
Audit and Risk Management Committee Meeting

October 16, 2023
1:00 p.m. via Zoom

AGENDA

1. Review Minutes of the April 17, 2023 Meeting of the Audit Committee

2. Public Comment signup for public comment at www.vsc.edu/signup [1]

3. Review and Approval of minutes of the April 17, 2023 Audit & Risk Management Committee

4. Review and Approval of FY2023 *Draft* Audited Financial Statements and Uniform Guidance Single Audit and executive session with Auditors

5. Report to the Audit & Risk Management Committee on Whistleblower Complaints

6. Financial and Single Audit Service Provider Selection Process

7. Other Business

8. Executive Session

9. Adjourn

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[1] To make a public comment you must be logged into the live session at https://www.vsc.edu/botzoom. The rules for public comment may be found on the VSC website at https://www.vsc.edu/wp-content/uploads/2022/08/VSC-BOT-Rules-for-Public-Comment.pdf

Meeting Materials

ITEM 1: April 17, 2023 Audit & Risk Management Committee Minutes

ITEM 2: Financial Statements and Uniform Guidance Single Audit

- Required Communications
- Draft Financial Statements
- Draft Management Letter
- Draft Uniform Guidance Single Audit & Corrective Action Plan
- Resolution 2023-011 Approving Audited Financial Statements & Single Audit Report

ITEM 3: Supplemental Material

- Deloitte Resource Guide for Audit Committees

ITEM 1: Minutes of the April 17, 2023 Audit & Risk Management Meeting

Minutes of the VSC Board of Trustees Audit & Risk Management Committee meeting held Monday, April 17, 2023 at 1:00 p.m. via ZOOM - UNAPPROVED

Note: These are unapproved minutes, subject to amendment and/or approval at the subsequent meeting.

The Vermont State Colleges Board of Trustees Audit & Risk Management Committee met on April 17, 2023, via Zoom

Committee members present: Sue Zeller (Chair), David Silverman (Vice Chair), David Durfee, Mary Moran (1:46 p.m.), Shawn Tester

Other Trustees Present:	Lynn Dickinson
Presidents:	Joyce Judy, CCV Sarah Truckle, VTSU (Acting)
Chancellor's Office Staff:	Wilson Garland, Director of Transformation Projects Pat Moulton, Executive Director, Workforce Development Jen Porrier, Administrative Director Sarah Potter, Chief Human Resources Officer Sharron Scott, Chief Financial/Operating Officer Toby Stewart, System Controller Patty Turley, General Counsel Sophie Zdatny, Chancellor Yasmine Ziesler, Chief Academic Officer
Shared Services:	Donny Bazluke, Network/Security Analyst Kellie Campbell, Chief Information Officer Sarah Chambers, Director of Learning Technologies Tony Hashem, Information Security Officer Gayle Malinowski, Director of IT Operations Meg Walz, Director, Program Management
From the Colleges:	Kelley Beckwith, Vice President of Student Success, Castleton University Mary Droege, Faculty, Castleton University Andy Pallito, Dean of Administration, Community College of Vermont

Denise Rhodes, Consultant, Finance & Registration Services, Castleton University
Dannielle Spring, Chief Budget & Finance Officer, Northern Vermont University
David Tabaruka, Controller, Community College of Vermont
Littleton Tyler, Assistant Vice President of Finance & Compliance, Vermont State University

From the Public: Chris Evans, Audit Senior, WithumSmith + Brown, P.C.
Kieth Goldie, Audit Partner, WithumSmith + Brown, P.C.
Anne Wallace Allen, Reporter, Seven Days

1. Chair Zeller called the meeting to order at 1:00 p.m.

2. <u>Public Comment</u>

Mary Droege and Charlotte Gerstein both provided comments regarding the recent proposed changes to the libraries and athletics at Vermont State University

3. <u>Approval of the Minutes of the February 13, 2023 Meeting of the Audit & Risk Management Committee</u>

<u>Trustee Silverman moved and Trustee Durfee seconded the motion to approve the February 13, 2023 meeting minutes. The motion was approved unanimously</u>.

4. <u>Fiscal Year 6-30-2023 Financial Statement & Single Audit Planning Discussion with External Auditing firm WithumSmith + Brown, P.C.</u>

Chair Zeller introduced Audit Senior Chris Evans and Audit Partner Kieth Goldie, both of WithumSmith + Brown, P.C., who reviewed their plan for approaching the FY2023 Financial Statement and Single Audit. This information can be found here on pages 9-11.

5. <u>Progress review:</u>
   a. *FY2022 Internal Audit: Chart of Accounts*

System Controller Toby Stewart provided a progress update on the internal audit of the Chart of Accounts. The internal audit resulted in several key recommendations for the new chart of accounts. Those are outlined here on pages 13-18.

b. *Uniform Guidance Single Audit Finding 2022-001*

Mr. Stewart reported that last year's uniform guidance single audit resulted in a finding regarding failure to report enrollment status changes to the US Department of Education. He answered questions regarding the most recent update, which can be found here on pages 20-22.

6. Other Business

There was no other business.

7. Executive Session

At 1:33 p.m. Trustee Silverman moved that the Audit & Risk Management Committee enter executive session pursuant to 1 V.S.A. § 313(a)(6) to discuss records exempt from access to public records because public knowledge of these discussions would place VSC at a substantial disadvantage. Along with the members of the Board present at the meeting, the Board invited the Chancellor, VSC Chief Financial Officer, VSC Chief Information Officer, VSC Director of Information Security, Director of IT Operations, VSC General Counsel, VSC Controller, the Chief Business Officers, Presidents of Community College of Vermont and Vermont State University, and representatives from the external auditing firm to attend. Trustee Tester seconded the motion and it was approved unanimously.

The committee exited executive session at 2:19 p.m.

Trustee Silverman moved and Trustee Tester seconded a motion to approve the Cyber Security Internal Audit. The motion was approved unanimously.

8. Adjourn

Chair Zeller adjourned the meeting at 2:20 p.m.

ITEM 7: Financial Statements & Uniform Guidance Single Audit

Vermont State Colleges

June 30, 2023

withum
ADVISORY TAX AUDIT

Required Communications

Auditors' Responsibility Under GAAS

- We have a responsibility to conduct our audit in accordance with auditing standards generally accepted in the United States of America.
- In carrying out this responsibility, we planned and performed the audit to obtain reasonable – not absolute – assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud.
  - We issued an unmodified opinion on the financial statements.
- An audit includes considerations of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion.
  - No material weaknesses/significant deficiencies were noted within the Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Required Communications - Continued

Auditors' Responsibility Under GAAS - continued

- We are responsible for communicating significant matters related to the financial statement audit that are, in our professional judgement, relevant to the responsibilities of those charged with governance.
- We applied certain limited procedures (such as inquiry of management and comparing for consistency) to the Required Supplementary Information that supplements the financial statements.

Required Communications - Continued

Independence

- We are not aware of any relationships between Withum and the College that in our professional judgment may reasonably impact our independence.
- We are independent with respect to the College within the meaning of the pronouncements of the Independence Standards Board, Government Auditing Standards, and under Rule 101 of the AICPA Code of Professional Conduct.
- No management advisory services were performed by Withum.
- Withum assisted in the preparation of the financial statements, and GASB 87 and GASB 96 calculations. Withum will perform the Single Audit under the guidelines of Subpart F of the OMB Uniform Guidance for Federal Awards; however, these activities do not impact our independence
  - These non-attest services were supervised by Sharron Scott, Chief Financial and Operating Officer and Toby Stewart, Systems Controller.

Required Communications - Continued

Management's Responsibility

- Selection and use of appropriate accounting policies – Significant policies are found in Note 1
  - During fiscal year 2023, *GASB 96 – Subscription-Based Information Technology Arrangements*, was adopted.
  - Application of all other existing policies were not changed during current year.
- Selection and use of appropriate accounting estimates – Based on management's knowledge and experience about past and current events and assumptions about future events.
  - Allowance for doubtful accounts
  - Depreciable lives and recoverability of capital assets
  - Net position classifications
  - Net pension and OPEB liabilities
  - Incremental borrowing rate for GASB 96 (SBITA)
  - Health insurance reserve

Required Communications - Continued

Management's Responsibility – continued

- Accounting for significant and unusual transactions include:
  - GASB 96 Software Implementation
    - Recording of SBITA Asset
    - Recording of SBITA Liabilities
- No transactions entered into during the year for which there is a lack of authoritative guidance or consensus.
- All significant transactions have been recognized in the financial statements in the proper period.

Required Communications - Continued

Significant Communications, Findings or Issues

- There were NO:
  - Disagreements with management
  - Major issues discussed with management prior to retention
  - Difficulties encountered in performing the audit
  - Uncorrected misstatements
  - Other findings or issues that are significant or relevant to be communicated to those charged with governance
- There were:
  - Proposed and accepted audit adjustments (see next slide)
- Significant written communications between the auditor and management include:
  - Engagement letter
  - Management representation letter (to be obtained after Board approval)

Required Communications - Continued

Significant Communications, Findings or Issues - Continued

	Account	Purpose	Income (Expense) Audit Adjustment FY 2023
Unadjusted change in net position as provided by client			29,016,297
	OPEB	To adjust OPEB to actual	(478,767)
	GASB 87 Lease	To adjust for lease liability	(311,427)
	GASB 96 SBITA	To adjust for SBITA liability	(70,763)
Adjusted change in net position as reported on the financial statements			28,155,340

Required Communications - Continued

Financial Statement Fraud Risks

- No pervasive financial statement fraud risks were identified.
- Specific Risks Presumed by Auditing Standards
  - Risk of misstatement relating to revenue recognition
  - Risk of management override of controls
    - Journal entries and adjustments
    - Significant accounting estimates
    - Significant unusual transactions

Other Matters

Discussion of financial statements

Questions?

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Financial Statements and
Management's Discussion and Analysis
June 30, 2023 and 2022
With Independent Auditor's Reports

Vermont State Colleges
(a Component Unit of the State of Vermont)
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June 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Vermont State Colleges:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Vermont State Colleges (a component unit of the State of Vermont) (the "Colleges"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Colleges basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Colleges, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Colleges adopted new accounting guidance, GASB Statement Number 96, Subscription-based Information Technology Arrangements. Our opinions are not modified with respect to this matter.

Other Matter

The financial statements of the Colleges as of and for the year ended June 30, 2022 were audited by O'Connor & Drew, P.C., who joined with WithumSmith+Brown, PC on January 1, 2023 and expressed an unmodified opinion on those statements dated October 31, 2022.

As more fully described in Note 2 to the financial statements, the Company has adjusted its 2022 financial statements to retrospectively apply the change in accounting principle to adopt GASB Statement Number 96, Subscription-Based Information Technology Arrangements. O'Connor & Drew, P.C. reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2023 financial statements, we also audited the adjustments to the 2022 financial statements to retrospectively adopt the change in accounting principle as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the Colleges' 2022 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2022 financial statements as a whole.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colleges ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Colleges internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Colleges ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and the other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements.

Such information is the responsibility of management and, 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 and *Government Auditing Standards*, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, on our consideration of the Colleges internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 Colleges internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Colleges internal control over financial reporting and compliance.

DATE

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

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 College System

Comprised of two public colleges, including Community College of Vermont (CCV) and Vermont State University (VTSU), the Vermont State Colleges System serves more than 10,000 students annually. These students participate in educational programs at the certificate, associates, bachelors, and master's levels. An expanding portion of the VSCS' portfolio includes continuing education and workforce development.

In 2020, the VSCS embarked upon a significant period of transformation. This transformation, in partnership with the State of Vermont, includes expansion of the state appropriation, the merger of three colleges into Vermont State University as of July 1, 2023, and aggressive administrative consolidation, together with significant financial restructuring. The intended result is a fiscally sustainable Vermont State Colleges System that secures the future of public higher education in Vermont for generations to come.

FY2023 included three primary accomplishments of transformation. The first and most significant was the receipt of full accreditation from the New England Commission on Higher Education (NECHE) and formal launch of Vermont State University on July 1, 2023. The second key accomplishment was the creation of new system-wide shared services for information technology, human resources, and libraries. The last key accomplishment was the creation of new allocation strategies for the distribution of state appropriation funding and payment of shared services.

The work of transformation continues through June 30, 2026. Transformative activities over the next twelve months will focus on efficiency improvements and cost-reduction measures that simultaneously improve student outcomes and allow the Vermont State Colleges to deliver on its educational mission.

Significant Events Affecting These Financial Statements

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

- In 2020, the State of Vermont created the *Select Committee on the Future of Public Higher Education in Vermont*. The committee, established by the legislature, comprised of legislators, higher education professionals, government officials, and business leaders, provided guidance to the State of Vermont and Vermont State Colleges System leadership to address the urgent needs of the Vermont State Colleges. The *Select Committee* concluded its work in April 2021[1] with several key recommendations:
    - Reduce the structural deficit of the Vermont State Colleges System by $25M over five years through a combination of expense reductions and increased revenues.
    - Increase state investment (base appropriation) in the Vermont State Colleges System from $30.5M to $48.0M within five years.
    - Merge Castleton University, Northern Vermont University, and Vermont Technical College into a single institution
    - Consolidate administrative operations.
    - Provide bridge funding to support the Vermont State Colleges through the five-year transformation period.

[1] The committee's final report, issued April 9, 2021 is available on the State of Vermont website at: https://ljfo.vermont.gov/assets/Uploads/c2ef482057/Final-Report-of-the-Select-Committee-on-the-Future-of-Public-Higher-Education-in-Vermont-Submitted.pdf

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

- Honoring the recommendations from the *Select Committee on the Future of Public Higher Education in Vermont,* the State of Vermont has increased the base appropriation from $30.5M to $48.0M since FY2020.

- Bridge funding, both in the form of general fund and federal American Rescue Plan Act grants have been received from the State of Vermont to support transformation of the Vermont State Colleges. Amounts received or allocated include:

    - FY2021: $28.8M in state General Fund
    - FY2022: $21.0M in ARPA grants for economic support for losses incurred.
    - FY2023: $14.9M in ARPA grants for economic support for losses incurred.
    - FY2024: $3.82M in state General Fund and $5.18M in ARPA grants for economic support for losses incurred.

- In FY2021, the State of Vermont authorized a general fund allocation of $20M to support transformation activities. The first installment of these funds, $8M, was received in FY2022. A subsequent installment was received in FY2023, and the remaining installments will be in FY2024 and FY2025.

- Workforce development programs, funded via ARPA and Coronavirus Relief (CRF) grants as a pass through from the State of Vermont, were funded in FY2021, FY2022, FY2023. These programs, offering courses and certifications to Vermonters negatively affected by the COVID-19 Pandemic, have allowed upskilling and reskilling of more than two-thousand Vermonters. Allocated funds for these programs included:

    - FY2021: $1.4M
    - FY2022: $3.0M
    - FY2023: $2.0M

- For FY2022 and FY2023, legislatively-directed scholarship programs, funded via ARPA grants as a pass through from the State of Vermont, funded degree completion programs, scholarships for critical occupations, and practical nursing programs. These "last dollar" scholarship programs eliminated the need for students in these programs to accept loans for tuition. Allocated funds for these programs included:

    - Long Term Care Practical Nursing Program: $ 1.4M
    - Degree Completion Program: $ 3.0M
    - Critical Occupations Scholarships: $14.7M

    For FY2024, new legislatively-directed programs include $3.8 million to provide Critical Occupation Scholarships at Vermont State University and $4 million to reduce tuition at Community College of Vermont during the 2023-2024 academic year. The Critical Occupations program offers free last-dollar tuition for eligible students with a household income of $75,000 or less enrolled in programs that lead to a career in early childhood occupations, clinical mental health counseling, criminal justice occupations, dental hygiene, and nursing. The Community College program reduces tuition for certificates, degrees, and courses that have a direct nexus to Vermont business and industry needs. Both programs are funded through one-time appropriations.

- The pandemic that began in January 2020 had a significant impact on the Vermont State Colleges System's performance for FY2020 and FY2021. FY2022 saw some rebounding in terms of enrollment, specifically at Community College of Vermont and Castleton University. However, room participation and enrollment continues to stall at both Vermont Technical College and Northern Vermont University. Fortunately, two means of funding have had a positive impact on the Vermont State Colleges – Coronavirus Relief Funding allocated from the State of Vermont and federally allocated Higher Education Emergency Relief Funding (HEERF).

Allocated funds from CRF and HEERF included:

	FY2020	**FY2021**	**FY2022**
o Coronavirus Relief:	$ 6.6M	$15.7M	$ 4.3M
o HEERF (institutional):	$ 2.9M	$15.1M	$ 5.8M
o HEERF (student):	$ 2.6M	$ 3.5M	$11.6M

- Enrollment trends continue to be a concern for institutions of Higher Education. Across the country, enrollments have declined consistently 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. Historically, Vermont has ranked as 49th or 50th in the country with respect to its support for public higher education. However, recent investments in response to the pandemic and transformation of the Vermont State Colleges have made significant improvements in this arena.

- The other post-employment benefits (OPEB) continues to pose a large liability at $134 million, however both FY2022 and FY2023 saw a reduction ($77 million and $27 million respectively) in accrual due to the VSCS' adoption of a fully insured Medicare Advantage plan for retirees, effective January 1, 2022. The OPEB obligation is not pre-funded but paid when incurred during the period. The retirement group was closed to new members in 2012 for all staff and administrators, and in 2015 for all faculty groups. An actuarial forecast anticipates the Vermont State Colleges obligation will peak between 2028 and 2037 and from there decline to less than 50% of the anticipated FY2024 obligation by 2059.

- In FY2020, the System refinanced its 2010B bonds with the issuance of its 2020A bond series. The 2020A bonds are fixed rate, publicly traded, and were issued through the Vermont Municipal Bond Bank under the VSCS Program Resolution, as general obligations of the Bond Bank, secured by a pledge of the 2020 VSCS Bond and the amounts required to be paid by the VSCS to the Bond Bank pursuant to a loan agreement for principal and interest on the 2020 bonds. Additionally, the bonds are secured by appropriations to the VSCS, which may be directed by the State Treasurer to pay principal and interest on the bonds in the event of a default of such payments on the part of the VSCS. In addition to the 2020 bonds, the VSCS debt includes fixed rate, publicly traded general obligation bonds issued in 2013 and 2017.

- At the conclusion of FY2023, the Vermont State Colleges paid off the Series 2013 Revenue Bond ten years early. The benefits of this transaction were two-fold. First, it reduced annual expenses by $1.3M annually for the remaining ten years of the term of the bond. This reduction was an important action relative to the system's ongoing commitment to reduce its annual expenditures. Second, the transaction eliminated $2.4M in interest expense over the remaining life of the bond.

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, 2023 and selected comparative information. Since this MD&A is designed to focus on current activities, resulting changes and currently known facts, please read this 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 at 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 the whole of the VSCS.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

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

Financial Statements

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

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements 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 shows the condensed Statement of Net Position for the past five years.

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

	2023	% change	2022	% change	2021	% change	2020	% change	2019
Current Assets	116	-9%	127	32%	96	100%	48	45%	33
Noncurrent Assets									
Investments	73	52%	48	-13%	55	15%	48	0%	48
Capital assets, net	147	-5%	154	-4%	161	-5%	169	8%	157
Other	2	-33%	3	-25%	4	0%	4	-33%	6
Deferred outflows/inflows	41	-16%	49	-14%	57	128%	25	0%	25
Total Assets and Def'd outflows/inflows	379	-1%	381	2%	373	27%	294	9%	269
Current liabilities	27	4%	26	-26%	35	30%	27	13%	24
Non current liabilities									
Post employm't benefit oblig	134	-17%	161	-32%	238	23%	194	3%	189
Bonds and Notes payable	107	-12%	122	-5%	128	-6%	136	14%	119
Other	3	-25%	4	0%	4	0%	4	-33%	6
Deferred outflows/inflows	86	16%	74	1750%	4	-20%	5	0%	5
Total Liabilities	357	-8%	387	-5%	409	12%	366	7%	343
Net investment in cap'l assets	45	18%	38	-7%	41	-11%	46	5%	44
Restricted									
Nonexpendable	25	14%	22	5%	21	11%	19	0%	19
Expendable	24	50%	16	-20%	20	54%	13	0%	13
Unrestricted	-72	12%	-82	31%	-118	21%	-150	0%	-150
Total Net Position	22	467%	-6	83%	-36	50%	-72	3%	-74
Total Liabilties and Net Position	379	-1%	381	2%	373	27%	294	9%	269

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

Assets are items of economic value owned or controlled 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 fiscal 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.

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Total assets (including deferred outflows and right of use assets included in capital asset due to adoption of *GASB 87 and GASB 96*) equaled $379 million as of the end of the current fiscal year, decrease of $2 million or 0.5% from prior year. The decrease can be attributed to two factors. The first is $7 million in depreciation of the system's facilities plus an $8 million reduction in deferred outflows/inflows. These decreases were offset by an increase in investments due to a significant change in the manner in which the Vermont State Colleges manages its cash position. Since 2019, total assets have increased by $109 million: an increase of $83 million in current assets and an increase of $10 million in non-current assets – largely related to a substantial increase in net capital assets for "right of use assets" due to the adoption of *GASB 87 Leases* as of 6/30/20. Deferred outflows and inflows during this time period increased by $16 million.

Noncurrent assets consist primarily of endowment and other investments, in addition to capital assets. Investments were $73 million as of June 30, 2023, $25 million higher than the prior year reflecting the significant market improvement occurring in FY2023 coupled with the VSCS' change in cash management strategy. Capital Assets continue to decline at approximately $11 million per year reflecting the system's inability to invest at a rate equal to or greater than depreciation on an annual basis.

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

Current liabilities of $27 million include primarily accounts payable, unearned revenue and principal amounts due on long-term debt related to the next fiscal year. Over this five-year period, current liabilities have varied dependent upon the timing of deferred revenue and accounts payable transactions. This was especially true for FY2021, which saw a large increase in current liabilities. Efforts in FY2022 and FY2023 to expedite payment and streamline processes reduced the current liabilities to below the system's five-year average.

Noncurrent liabilities decreased by $31 million to $330 million during FY2023. This decrease relates to three factors: 1) the $27 million actuarial decrease in other post-employment benefits, 2) a $15 million reduction in bonds and notes-payable due to the payoff of the Series 2013 Revenue bond, and 3) an increase of $12 million in deferred outflows/inflows.

Net position is equal to the total assets minus the total liabilities and represents the residual value of the VSCS at a single point in time, which is as of the financial statements issued each June 30.

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

Total net position over the five years reported here has improved by $96 million from -$74 million in FY2019 to $22 million in FY2023. This improvement is the result of Higher Education Emergency Relief Funding, State of Vermont Bridge Funding (both ARPA and general fund), and Coronavirus Relief Funding beginning in FY2020.

Net investment in capital assets increased by $7 million from June 30, 2022 to June 30, 2023. This was an unusual situation in that liabilities in the "plant fund" decreased by $16 million with the retirement of the Series 2013 Revenue Bond liability. It is expected that net investment in capital assets will return to pre-2023 levels next fiscal year.

The restricted nonexpendable portion of the Net Position represents the permanent endowment funds for the system. These are donations to the colleges that cannot be spent without permission of the donor. These are invested and the earnings are used in accordance with VSCS Board Policy and the instructions of the donor. Most of the earnings in our endowment funds are designated for student scholarships. The increase of $6 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 an $8 million increase from June 30, 2022 to June 30, 2023. Over the 5-year period, expendable net assets have increased by $11 million, as earnings have outpaced the 5% spending on endowments permitted by Board policy.

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The unrestricted portion of the Net Position is largely affected by general operations, but the most significant impact to date has been the full recognition of future OPEB obligations, which are unfunded. As noted earlier in these materials, the VSCS saw a reduction in the OPEB accrual for FY2022 and FY2023 due to its move to a Medicare Advantage program for its retirees.

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. However, due to fiscal constraints the VSCS has not been able to invest in its facilities level consistent with depreciation. This is something the VSCS will be addressing as it completes its system-wide transformation. Table 2, below, provides detail from the past 5 years related to the Capital Assets held by the System.

Table 2: Capital Assets as of June 30
($ in millions)

	2023	% Change	2022	% Change	2021	% Change	2020	% Change	2019
Land	8	0%	8	-11%	9	0%	9	0%	9
Construction in progress	3	-50%	6	20%	5	67%	3	50%	2
Infrastructure	43	0%	43	2%	42	2%	41	0%	41
Buildings and improvements	265	2%	260	0%	261	0%	262	0%	261
Leasehold improvements	4	0%	4	0%	4	0%	4	0%	4
Equipment	44	2%	43	13%	38	3%	37	3%	36
Software arrangements *(GASB*	5	25%	4	0%	0	0%	0	0%	0
Right of use assets (*GASB 87*)	19	0%	19	6%	18	0%	18	0%	0
Total Capital Assets	391	1%	387	3%	377	1%	374	6%	353
Accumulated Depreciation	-244	6%	-230	6%	-217	6%	-205	5%	-196
Capital Assets, Net	147	-6%	157	-2%	160	-5%	169	8%	157
Related information									
Depreciation Expense	11	0%	11	10%	10	0%	10	0%	10
Outstanding Principal, Related Loans	98	-14%	114	-3%	118	-2%	120	-1%	121
SBITA Liability *(GASB 96)*	2	-33%	3	0%	0	0%	0	0%	0
Lease Liability (*GASB 87*)	13	-13%	15	-12%	17	-6%	18	0%	0

Table 2: Capital Assets as of June 30

Construction in Progress (CWIP) reflects amounts paid for buildings, or other assets, where the work is incomplete at year-end. Once complete, and the asset is placed into service, the total cost is moved to the appropriate capital asset category. Depreciation of each asset begins the month following placement into service. The dollar value of CWIP is wholly dependent upon funding availability for capital projects and the timing of project conclusion. In most years, this amount is between $2 and $3 million annually resulting in very little CWIP from year to year. However, a Department of Defense Contract for construction of an Advanced Manufacturing Center on the Vermont Technical College campus at Randolph was in progress at the end of both FY2022 and FY2021. This project was closed out at the end of FY2023 thus returning the Vermont State Colleges to its previous spending level.

Building and Improvements increased $5 million, or 2%, from FY2022 to FY2023 reflecting modest increases in capital improvements due to external funding sources. Infrastructure includes water & sewer systems, heating & electrical systems, telecommunication systems, and roads. Spending in this category has remained consistent since FY2019. As noted in Table 2, depreciation continues to outpace the sum of building improvements, infrastructure, and construction in progress. As discussed elsewhere in this document, the Vermont State Colleges paid off the Series 2013 Revenue Bond ten years early at the end of FY2023. This resulted in a corresponding reduction in outstanding principal for the related loan.

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

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

($ in millions)

	2023	% Change	2022	% Change	2021	% Change	2020	% Change	2019
Net Student Revenues	94	15%	82	-6%	87	-13%	100	-7%	107
Grants and contracts	20	5%	19	6%	18	13%	16	0%	16
Other Operating Revenues	9	-47%	17	113%	8	33%	6	-14%	7
Operating Revenues	123	4%	118	4%	113	-7%	122	-6%	130
Operating Expenses	193	-4%	202	7%	188	3%	183	-2%	186
Operating Loss	-70	-17%	-84	12%	-75	23%	-61	9%	-56
Nonoperating Revenues (Expenses)									
Non Capital Appropriations	51	9%	47	-23%	61	85%	33	10%	30
Federal Grants & Contracts	39	-47%	73	70%	43	54%	28	75%	16
Gifts currently expendable	2	0%	2	-33%	3	50%	2	0%	2
Investment Income & Interest	4	-200%	-4	-157%	7	600%	1	-50%	2
Interest Expense	-4	-20%	-5	-17%	-6	20%	-5	0%	-5
Other nonoperating revenues	0	0%	-2	0%	0	0%	0	0%	0
Net Nonoperating Revenues	92	-17%	111	3%	108	83%	59	31%	45
Total Change before other Revenues	22	-19%	27	-18%	33	-1750%	-2	-82%	-11
Other Changes in Net Position									
Capital Appropriation	4	100%	2	0%	2	0%	2	-33%	3
Capital gifts and grants	0	0%	0	0%	0	0%	0	0%	0
Endowment gifts	2	0%	1	0%	1	0%	1	0%	0
Change in Net Position	28	-7%	30	-17%	36	3500%	1	-114%	-7

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

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

Accounting rules require that our audited financials include operating revenues and expenses (revenues and expenses from the operation of the Vermont State Colleges System) and non-operating revenues and expenses (revenues and expenses that come from other sources such as state entities, grants, contracts, and accounting transactions). The following sections provide an analysis of the total operating and non-operating revenues and expenses.

Prior to the pandemic, the VSCS's primary source of revenue was from student tuition and fees at approximately 57% of the total. However, the unusual conditions related to the pandemic, and the State of Vermont's investment in transformation, state appropriation, and bridge funding has shifted the proportion of total operating and non-operating income attributed to net students from the historical average of 57% to its current 42%.

The State Appropriation for FY2023 included a $10 million increase to the base general fund for the Vermont State Colleges System together with a one-time $4 million appropriation to support transformation of the Vermont State Colleges, combined, these factors increased state appropriations from 21% of total revenues to 24% of total revenues. The proportion of revenue attributable to grants and contracts reduced by 13% from FY2022 to FY2023. This is due to a $6 million reduction in bridge funding from the State of Vermont. This change was budgeted and planned.

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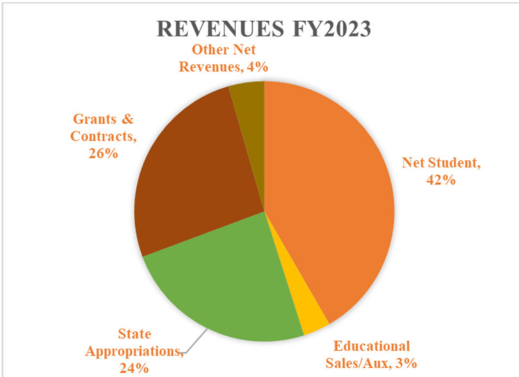


Chart 1: Current Year Revenue

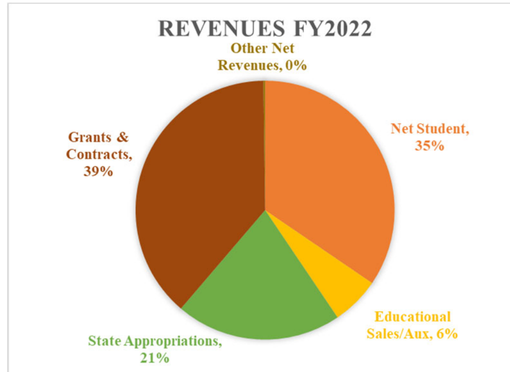


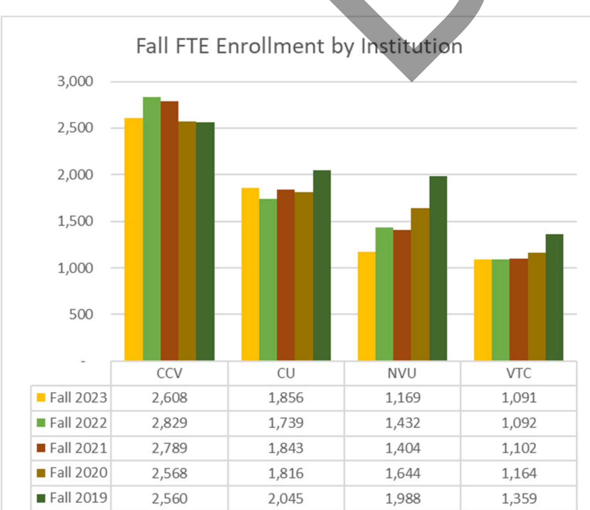
Chart 2: Prior Year Revenues

Tuition and Fee Revenue

Net Tuition and fees include tuition and fees plus residence and dining fees less scholarship allowances. The charts below shows the trend for enrollments and corresponding Tuition and Fee Revenues from FY2019 through FY2023. For the System, student-based revenue has declined during this five-year period due to a combination of weaker enrollment and increased financial aid.

Chart 3 displays Full Time Equivalent (FTE) enrollment. The FTE is a reasonable proxy for revenue and reflects the average full-time participation of students. Since Fall 2019, the VSCS has seen a decline FTE of approximately 15.4%. However, as noted on this chart, the decline is not equal across institutions. Only CCV has seen an improvement in FTE during this period. All other institutions have seen a decline ranging from a low of 9.2% at Castleton to a high of 41% at the campuses of Northern Vermont University.

Fall 2021 was a marked increase in enrollment for Community College of Vermont. This increase can be directly attributed to three factors: 1) funding for workforce education for Vermonters negatively affected by the pandemic; 2) Vermont Student Assistance Corporation's 802Opportunity Scholarship for low-income Vermonters; and 3) receipt of a McClure Foundation gift supplying all graduating high school seniors with a free course at Community College of Vermont.



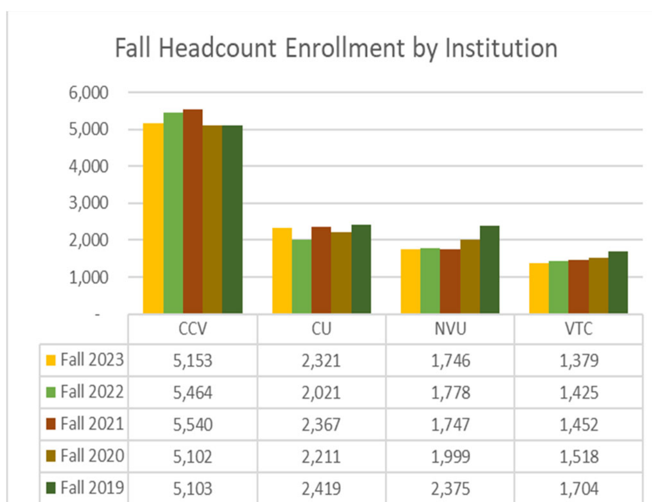


Chart 3: Fall FTE Enrollment and Headcount by Institution

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Chart 4 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 matched or outpaced by the Universities. 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.

Over the last five years, enrollment (headcount) has declined across all institutions with the most significant declines occurring at NVU and VTC. Proportionately, net tuition and fees revenue by institution declined during this same period. Recent enrollment improvements at CU has had a modest improvement in net tuition and fees.

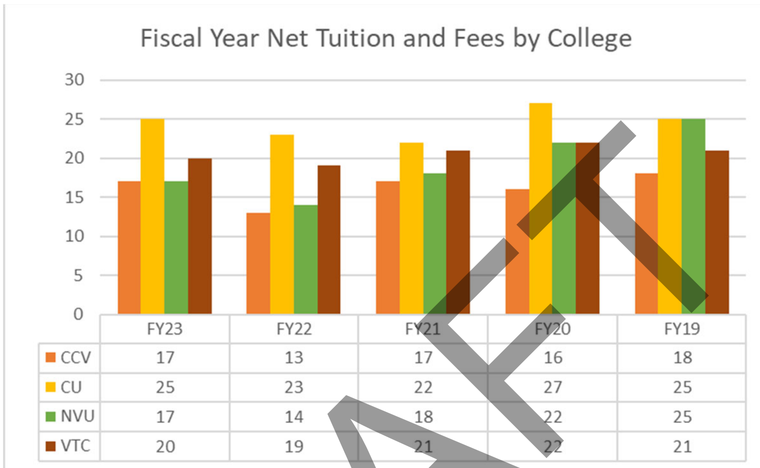

Chart 4: Fiscal year Net Tuition and Fees by Institution

Operating and Non-operating Expenses

Table 4, below, 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 FY2021 and FY2020.

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

	2023	% Change	2022	% Change	2021	% Change	2020	% Change	2019
Operating									
Salaries & Benefits	109	-3%	112	-6%	119	0%	119	-2%	121
Utilities	7	17%	6	20%	5	-17%	6	-14%	7
Supplies and Svcs	44	0%	44	13%	39	5%	37	-8%	40
Depreciation	14	0%	14	8%	13	30%	10	0%	10
Student Aid	19	-27%	26	117%	12	20%	10	25%	8
Total Operating	193	-4%	202	7%	188	3%	182	-2%	186
Nonoperating									
Interest on Debt	4	-33%	6	0%	6	20%	5	0%	5
TOTAL Expenses	197	-5%	208	7%	194	4%	187	-2%	191

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

Salary and benefits account for approximately 55% of all operating and non-operating expenses for the Vermont State Colleges System. Since FY2019, salary and benefits have declined by $12 million or 9.9% despite increases to total compensation. Careful budget management by institutional leaders, strong partnerships with the system's bargaining units, and strong insurance performance has allowed the system to decrease expenditures in this area.

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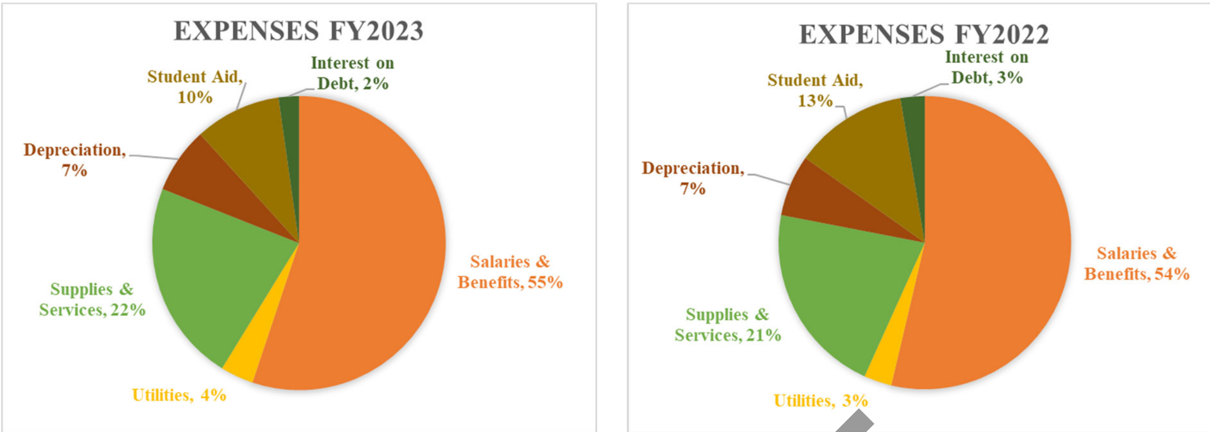

Chart 1: Expenses FY2023 and FY2022 by Major Category

Overall expenses have increased over the five years reported driven largely by an increase in scholarship aid, followed by an increase in supplies and services related primarily to transformation expenses. The large increase in student aid from FY2021 is directly attributable to legislatively funded scholarship programs including critical occupations, degree completion scholarships, and workforce development.

<u>**Student Financial Aid**</u>

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 are recognized at the initial gift value and adjusted by 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 expenses.

Table 5: Student Financial Aid Trends for Past Five Years
($ in millions)

	FY23	FY22	FY21	FY20	FY19
Scholarship Allowances (included in revenue)	29	38	31	32	29
Scholarship Expenses (included in expenses)	19	26	13	10	8
Total Student Aid	48	64	44	42	37

Table 5: Student Financial Aid Trends for Past Five Years

A large influx of federal funding in the form of HEERF student aid increased the total scholarship expense for FY22 from baseline. This trend continued into FY2023 at a smaller amount as Community College of Vermont concluded the last of its spending in this arena. Continued legislatively directed spending for reduced tuition at Community College of Vermont and Critical Occupations Scholarships for Vermont State University are anticipated into FY2024.

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Statement of Cash Flow

The Statement of Cash Flows shows inflows and outflows of cash excluding accrued revenue and expense. The Condensed Statement of Cash Flows for the VSCS is shown as Table 6 below.

Table 6: Condensed Statement of Cash Flows as of June 30
($ in millions)

Cash flows from:	2023	% Change	2022	% Change	2021	% Change	2020	% Change	2019
Operating	-56	-33%	-84	79%	-47	0%	-47	9%	-43
Non capital financing	92	-21%	117	9%	107	62%	66	38%	48
Capital and related financing	-19	27%	-15	88%	-8	33%	-6	-25%	-8
Investing	-20	-767%	3	0%	0	-100%	1	-200%	-1
Net increase (decrease)	-3	-114%	21	-60%	52	247%	15	-475%	-4
Cash, Beginning of Year	102	26%	81	179%	29	107%	14	-22%	18
Cash, End of Year	99	-3%	102	26%	81	179%	29	107%	14
Operating cash flows if noncapital appropriations and non-operating grants were included									
Operating	-56	-33%	-84	79%	-47	0%	-47	9%	-43
Non capital appropriations	51		47		61		33		30
Non operating grants	39		73		43		28		16
Operating cash flows with non-operating additions	34	-6%	36	-37%	57	307%	14	367%	3

Table 6: Condensed Statement of Cash Flows

Cash flows from operating activities

Cash flows from operating activities on the Statement of Cash Flows will always be different from the net operating income 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. In addition, the SRECNP is prepared on the accrual basis of accounting, meaning that it shows both revenues earned, and expenses incurred even if 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 increased significantly in FY2022 due to significant increases in Operating Grants (ARPA, HEERF, CRF) and continued to a lesser degree in FY2023. It is anticipated these cash from these grants will slow significantly in FY2024.

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.

Cash flows from noncapital financing activities

In normal years, 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.

In FY2020, the Vermont State Colleges received a significant influx in federal funding in the form of American Rescue Plan Act, Higher Education Emergency Relief, and Coronavirus Relief funds support recovery from the COVID-19 pandemic. These monies increased the non-operating federal grants line from $16 million in FY2019 to $73 million at the end of FY2022. In FY2023, non-operating grants dropped to $39 million based on slowed receipt of these grant funds. It is expected these funds will return to baseline by FY2026.

At the same time, cash flows from non-capital appropriations increased by $4 million from FY2022 to FY2023. This increase is directly related to a shift in legislatively directed spending on scholarship programs coupled with an increase in the state general fund appropriation.

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. Capital and related financing remained relatively constant between FY2019 and FY2021. Sales of certain assets at the Vermont Technical College and Community College of Vermont locations affected these numbers for FY2022 and FY2023.

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 purchases or sales and gains (or losses) from investments in financial markets and operating subsidies. In FY2023 there were cash changes due to a shift in the management cash resulting in increased longer-term investments.

Economic Factors That Will Affect the Future

Vermont State Colleges Transformation

As noted at the beginning of this document, in 2020, the State of Vermont created the *Select Committee on the Future of Public Higher Education in Vermont*. Since the conclusion of the *Committee's* work in 2021, the Board of Trustees of the Vermont State Colleges endorsed the recommendations of the *Select Committee* and instructed the Chancellor to execute the recommendations. Since that time, the Vermont State Colleges have achieved the following:

1. The first $10 million in structural savings were achieved in advance of the FY2024 budget, an additional $5 million in structural savings will be achieved with each of the next three fiscal years.
2. Hired an interim president of Vermont State University to oversee the economic and academic transformation of Vermont State University.
3. Merged Castleton University, Northern Vermont University, and Vermont Technical College into Vermont State University.
4. Launched Optimization 2.0 to streamline Vermont State University's curriculum and reduce the number of academic programs.
5. Enrolled the first class of Vermont State University
6. Established a new tuition and discounting structure that reduces the published tuition price and lowers overall discounts commencing with the 2023-2024 academic year.
7. Hired executive leaders for academic affairs, enrollment, and student success.
8. Created an Information Technology Shared Services unit.

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In addition, the State of Vermont has authorized an additional $18 million in state appropriation for the Vermont State Colleges (a 60% increase over the historical appropriation), authorized $20 million in transformation funding, and provided $73.7 million in bridge funding, and funded new scholarship programs for low-income Vermonters.

Over the next four years, further work will be completed including:

1. Complete Optimization 2.0 and reduce academic programs to fewer than 80 and reduce faculty headcount by 10% or more.
2. Consolidate administrative positions and reduce administrator headcount by 10% or more.
3. Receive the remaining installments of bridge funding equaling $15.0 million between FY20254 and FY2026
4. Reduce the structural deficit through a combination of cost reductions and improved revenues by $5 million a year for the years FY2023 and FY2026, inclusive.

Vermont State Appropriations and Bridge Funding

The *Select Committee on the Future of Public Higher Education in Vermont* recommended substantial increases in the state appropriation for the Vermont State Colleges System along with bridge funding to support the System through the period of transformation and stabilization.

To date, the State of Vermont has approved all of the increases to the base appropriation recommended by the *Select Committee.*

In addition to base appropriation increases, the VSCS requires bridge funding to assist the system with transformation in a fiscally responsible and sustainable manner. To date, the State of Vermont has approved bridge funding in the amounts of $28.8 million (FY2021, general fund), $21 million (FY2022, ARPA economic support grant), and $14.9 million (FY2023, ARPA economic support grant) and $9 million for FY2024 through a combination of general fund and ARPA economic support grant. The VSCS will request two additional installments of bridge funding totaling $15 million (FY2025: $10 million, FY2025: $5 million).

Receipt of the increase to base appropriation has been vital to the success of the Vermont State Colleges. Receipt of the final installments of bridge funding is vital to the success of the VSCS' transformation. To that end, the Chancellor and senior leadership team continue to work tireless with the Governor and his administration and the Legislature to provide the funding necessary to support transformation.

Employee and Contractual Obligations

The VSCS employs nearly than three thousand people annually, the majority of whom are covered by collective bargaining agreements. Wages and benefits are the single biggest expense of the VSCS, with more than 55% of all expenses related to employees.

The VSCS has seven collective bargaining units – four full-time units and three part-time faculty units. The four full-time employee collective bargaining agreements expired on June 30, 2020 and received one-year extensions for both FY2021 and FY2022. Recently all the full-time units agreed to a two-year compensation package addressing wages and benefits for FY2023 and FY2024.

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Assets and Deferred Outflows of Resources

	2023	(Restated) 2022
Current Assets:		
Cash and equivalents (Note 3)	**$ 98,842,936**	$ 101,581,584
Accounts receivable, net (Note 4)	**15,132,037**	22,159,504
Deposit with bond trustees (Note 3)	**-**	1,087,625
Other current assets	**2,851,834**	2,515,874
Total Current Assets	**116,826,807**	127,344,587
Non-Current Assets:		
Cash and equivalents (Note 3)	**660,542**	896,203
Long-term investments (Note 3)	**72,586,940**	48,187,071
Notes receivable, net (Note 4)	**809,507**	1,469,809
Other assets	**123,060**	88,697
Capital assets, net (Note 12)	**146,967,199**	156,630,236
Total Non-Current Assets	**221,147,248**	207,272,016
Total Assets	**337,974,055**	334,616,603
Deferred Outflows of Resources:		
Deferred loss on debt refunding (Note 6)	**5,445,225**	6,493,996
OPEB (Note 10)	**35,519,806**	42,760,473
Total Deferred Outflows of Resources	**40,965,031**	49,254,469
Total Assets and Deferred Outflows of Resources	**$ 378,939,086**	$ 383,871,072

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

Liabilities, Deferred Inflows of Resources and Net Position

	2023	(Restated) 2022
Current Liabilities:		
Accounts payable and accrued liabilities (Note 13)	**$ 13,937,940**	$ 12,945,955
Unearned revenue and deposits	**6,033,863**	7,104,075
Current portion of lease liability (Note 5)	**1,719,623**	1,916,423
Current portion of SBITA Liability (Note 5)	**1,404,480**	1,240,409
Current portion of long-term debt (Note 5)	**3,768,510**	4,428,454
Total Current Liabilities	**26,864,416**	27,635,316
Non-Current Liabilities:		
Other liabilities	**34,839**	87,287
Refundable grants	**3,343,558**	3,556,288
Post-employment benefit obligations (Note 10)	**133,937,265**	160,734,727
Lease liability, net of current portion (Note 5)	**11,717,177**	12,891,810
SBITA liability, net of current portion (Note 5)	**694,631**	1,640,992
Long-term debt, excluding current portion (Note 5)	**93,894,779**	109,274,003
Total Non-Current Liabilities	**243,622,249**	288,185,107
Total Liabilities	**270,486,665**	315,820,423
Deferred Inflows of Resources:		
OPEB (Note 10)	**86,301,061**	74,054,636
Net Position:		
Net investment in capital assets	**44,863,006**	38,043,565
Restricted - nonexpendable	**25,279,443**	22,454,476
Restricted - expendable	**23,860,619**	16,473,377
Unrestricted	**(71,851,708)**	(82,975,405)
Total Net Position	**22,151,360**	(6,003,987)
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 378,939,086**	$ 383,871,072

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,

	2023	(Restated) 2022
Operating Revenues:		
Tuition and fees	**$ 107,589,382**	$ 107,370,762
Residence and dining	**15,604,629**	13,020,293
Less: scholarship allowances	**(29,178,554)**	(38,117,532)
Net Tuition, Fees, and Residence and Dining Revenue	**94,015,457**	82,273,523
Federal grants and contracts	**16,111,378**	15,606,175
State and local grants and contracts	**2,201,724**	1,990,337
Non-governmental grants and contracts	**1,483,576**	1,392,306
Interest income	**88,812**	739,623
Sales and services of educational activities	**7,703,515**	14,352,916
Other operating revenues	**1,174,970**	2,015,237
Total Operating Revenues	**122,779,432**	118,370,117
Operating Expenses (Notes 7, 10 and 13):		
Salaries and wages	**78,128,715**	75,405,824
Employee benefits (Notes 9 and 10)	**30,799,469**	36,506,729
Scholarships and fellowships	**18,773,733**	26,075,221
Supplies and other services	**43,866,215**	44,327,993
Utilities	**7,210,584**	6,403,482
Depreciation (Note 11 and 12)	**14,333,932**	14,144,968
Total Operating Expenses	**193,112,648**	202,864,217
Net Operating Loss	**(70,333,216)**	(84,494,100)
Non-Operating Revenues (Expenses):		
State appropriations (Note 8)	**51,045,239**	47,331,892
Federal grants and contracts	**39,355,112**	72,826,574
Gifts	**2,047,953**	1,987,758
Investment income, net of expenses (Note 3)	**4,082,139**	(3,886,044)
Interest expense on capital debt	**(4,426,143)**	(5,587,401)
Other non-operating revenues (expenses)	**26,318**	(1,803,824)
Net Non-Operating Revenues	**92,130,618**	110,868,955
Increase in Net Position Before Other Revenues	**21,797,402**	26,374,855
Other Revenues:		
State appropriations for capital expenditures (Note 8)	**3,700,000**	2,000,000
Capital grants and gifts	**1,024**	3,663
Additions to non-expendable assets	**2,656,921**	1,455,272
Increase in Net Position	**28,155,347**	29,833,790
Net Position, Beginning of Year	**(6,003,987)**	(35,837,777)
Net Position, End of Year	**$ 22,151,360**	$ (6,003,987)

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,

	2023	(Restated) 2022
Cash Flows from Operating Activities:		
Tuition and fees	**$ 73,444,088**	$ 56,896,667
Grants and contracts	**29,583,408**	8,288,977
Sales and services of educational activities	**5,676,516**	14,243,165
Interest received	**88,812**	739,623
Payments to suppliers	**(51,171,671)**	(54,765,925)
Payments to employees	**(115,509,945)**	(113,134,553)
Collection of loan payments	**660,302**	1,809,313
Other cash receipts	**1,174,970**	2,015,237
Net Cash Applied to Operating Activities	**(56,053,520)**	(83,907,496)
Cash Flows from Non-Capital Financing Activities:		
State appropriations	**51,045,239**	47,331,892
Non-operating federal grants	**39,355,112**	68,171,124
Gifts and grants	**2,043,110**	1,730,252
Net Cash Provided by Non-Capital Financing Activities	**92,443,461**	117,233,268
Cash Flows from Capital and Related Financing Activities:		
Capital and non-expendable grants and gifts	**2,657,945**	1,458,935
Capital appropriations	**3,700,000**	2,000,000
Purchase of capital assets	**(3,573,113)**	(8,133,110)
Change in deposits with bond trustee	**1,087,625**	(18,800)
Proceeds from sale of capital assets	**15,786**	2,612,560
Payments on SBITA arrangements	**(1,240,409)**	-
Payments on capital debt	**(13,556,880)**	(2,816,318)
Interest expense on capital debt	**(8,163,793)**	(7,941,707)
Other receipts	**26,318**	(1,803,824)
Net Cash Applied to Capital and Related Financing Activities	**(19,046,521)**	(14,642,264)

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Statements of Cash Flows - Continued
For the Years Ended June 30,

	2023	(Restated) 2022
Cash Flows from Investing Activities:		
Proceeds from sales and maturities of investments	$ 6,079,396	$ 9,642,133
Purchase of investments	(26,278,088)	(6,934,807)
Interest and dividends received on investments	(119,037)	123,815
Net Cash Provided by Investing Activities	(20,317,729)	2,831,141
Net Increase (Decrease) in Cash and Equivalents	(2,974,309)	21,514,649
Cash and Equivalents, Beginning of Year	102,477,787	80,963,138
Cash and Equivalents, End of Year	$ 99,503,478	$ 102,477,787
Reconciliation of Operating Loss to Net Cash Applied to Operating Activities:		
Operating loss	$ (70,333,216)	$ (84,494,100)
Adjustments to reconcile operating loss to net cash applied to operating activities:		
Depreciation	14,333,932	14,144,968
Prior period adjustment to expense	-	(1,026,085)
Bad debts	1,007,832	152,119
OPEB activity	19,487,092	77,424,266
Changes in assets and liabilities:		
Accounts receivable	6,019,635	(9,423,929)
Other assets	(370,323)	(599,190)
Notes receivable	660,302	1,809,313
Accounts payable and accrued liabilities	1,269,238	(3,257,422)
Unearned revenues, deposits and refundable grants	(1,330,550)	(1,367,671)
Post-employment benefit obligations	(26,797,462)	(77,269,765)
Net Cash Applied to Operating Activities	$ (56,053,520)	$ (83,907,496)
Summary of Cash and Equivalents, End of Year:		
Cash and Equivalents	$ 99,503,478	$ 102,477,787
Non-Cash Transactions:		
Unrealized gains (losses)	$ 1,340,550	$ (6,828,990)
Donation of stock	$ 1,753,644	$ 1,218,600
Net gain/(loss) on disposal of capital assets	$ 15,786	$ (1,803,824)
Acquisition of capital assets	$ 655,447	$ 223,592

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, 2023 and 2022

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

Organization
Vermont State Colleges (the "Colleges) include the following entities: System Office and Services, Community College of Vermont ("CCV"), Castleton Colleges ("CU"), Northern Vermont Colleges ("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").

COVID- 19
In response to the pandemic, the Federal government provided to the College Higher Education Emergency Relief Funds (HEERF) and funds for the Strengthening Institution Program (SIP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and American Rescue Plan Act (ARPA). The HEERF consisted of the student aid award and the institutional award. Each Act requires a minimum amount to be spent on student aid.

The student aid award is required to be distributed to students as emergency grants for their expenses related to the disruption of campus operations due to coronavirus. The institutional award and the SIP can be used to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus.

As of June 30, 2023 and 2023, the Colleges expended and recognized approximately $1,691,000 and $43,000,000 of HEERF related awards, respectively. The Colleges have expended all HEERF funds received.

The CARES act also created the Coronavirus Relief Fund ("CRF") and Coronavirus State and Local Fiscal Recovery Funds (CSL) which was awarded to the State. During the fiscal years ended June 30, 2023 and 2022, the Colleges expended $24,547,048 and $36,488,199 and recognized $24,547,048 and $36,488,199, respectively in non-operating Federal grants revenue.

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

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

The Colleges are considered a special-purpose government under the provisions of GASB Statement No. 34 and 35. 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, 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 outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

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

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

Unrestricted: Net position that is not subject to externally imposed stipulations or categorized as net investment in capital assets. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

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.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

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 the 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 costs on debt related to capital assets were capitalized during the construction period for projects before July 1, 2021. Beginning on July 1, 2021, interest on debt costs on debt related to capital assets were expensed during the construction period. 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. Leased and subscription-based information technology arrangement assets are amortized over the shorter of the lease/ subscription term or useful life of the underlying asset. 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.

Right of use assets are recorded in these financial statements in accordance with GASB 87 and represent the College's authority (right) to utilize a leased item over the duration of an agreed-upon lease term with another entity or vendor.

The right to use assets, measured at the shorter of the estimated useful life or lease term, within these financials are for buildings and space rental with various vendors.

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

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

Refundable Grants
Refundable grants are refundable to the federal government for 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.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

The Extension Act states that new Perkins Loans cannot be disbursed to students after September 30, 2017. No further extensions were granted for the program as of the date of these financial statements.

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

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

Bond and Note Premiums
Bond and note underwriters' premiums are amortized on the straight-line basis over the life of the respective bond. VSC incurred bond premiums related to the 2013, 2017, and 2020 bonds at the time of the issuance of the bonds. 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. The bond premium for the 2020 bond of $4,538,755 is amortized over 21.7 years. Cumulative amortization of the bond premium totaled $5,811,483 and $4,052,316 as of June 30, 2023 and 2022, respectively. Cumulative unamortized balances of bond premiums totaled $11,183,290 and $12,942,457 as of June 30, 2023 and 2022, respectively. The bond premiums are included in bonds and notes payable.

Post-employment Benefits Other Than Pensions ("OPEB")
GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment 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 total 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.

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.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

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, self-funded health insurance accrual, and determining the other post-employment benefits liability.

Future Governmental Accounting Pronouncements Not Implemented
GASB Statement 99 – *Omnibus 2022* has multiple effective dates. The objective of this statement is to clarify differences among leases, PPP and SBITA (which is effective for reporting periods after June 15, 2022) and reporting requirements for financial guarantees and derivative investments (which is effective for reporting periods after June 15, 2023).

GASB Statement 100 – *Accounting Changes and Error Corrections – an amendment of GASB 62* is effective for reporting periods beginning after June 15, 2023. The objective of this statement is to provide consistency for changes in accounting principles, accounting estimates, and the reporting entity and corrections of errors.

GASB Statement 101 – *Compensated Absences* is effective for reporting periods beginning after December 15, 2023. The objective of this statement is to update the recognition and measurement for compensated absences.

Management has not completed its review of the requirements of these standards and their applicability.

Note 2 - **Implementation of Newly Effective Accounting Standard**

As of July 1, 2022, the Colleges implemented GASB 96, *Subscription-Based Information Technology Arrangements (SBITAs).* GASB 96 enhances the consistency for SBITA activities and establishes the requirement to recognize a right to use asset and liability for SBITAs.

The was no change to net position as of July 1, 2022, upon the implementation of GASB 96 since the adjustment for the right to use assets - SBITAs of $4,169,859 was completely offset by the adjustment for the SBITA liability. The right of use assets and liability for SBITAs was previously $4,169,859 as of July 1, 2022.

As of July 1, 2020, the Colleges implemented GASB 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (PPP). GASB 94 provides accounting and financial reporting guidance for arrangements in which the governmental entity (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset. The implementation of this standard did not have a material impact on the financial statements.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

The prior period adjustment due to the implementation of GASB 96 as of and for the year ended June 30, 2022 is as follows:

	Previously Reported	Adjustment	Restated
As of June 30, 2022:			
Capital assets, net	$ 153,631,793	$ 2,998,443	$ 156,630,236
SBITA liability	-	2,881,401	2,881,401
Net investment in capital assets	37,926,523	117,042	38,043,565
Year Ended June 30, 2022:			
Depreciation expense	$ 12,973,552	$ 1,171,416	$ 14,144,968
Interest expense	5,476,764	110,637	5,587,401
Supplies and other services	45,354,078	(1,026,085)	44,327,993

Note 3 - Cash and Equivalents, and Investments

Cash and Equivalents

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

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

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

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

At June 30, 2023, the balance of current assets - cash and equivalents and restricted cash and equivalents, consists of approximately $7,700 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation (“FDIC”) insured banking institutions of approximately $98,842,900 per the accounting records of the Colleges, and approximately $99,770,600 per bank records. Of the bank balances, approximately $703,500 was covered by federal depository insurance and approximately $99,067,100 was uninsured and uncollateralized at June 30, 2023.

At June 30, 2023, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $660,500 per the accounting records of the Colleges, and approximately $417,000 per bank records. Of the bank balances, approximately $0 was covered by federal depository insurance and approximately $417,000 was uninsured and uncollateralized at June 30, 2023.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

At June 30, 2022, the balance of current assets - cash and equivalents and restricted cash and equivalents, consists of approximately $9,800 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $101,572,000 per the accounting records of the Colleges, and approximately $103,530,000 per bank records. Of the bank balances, approximately $1,049,300 was covered by federal depository insurance and approximately $102,480,700 was uninsured and uncollateralized at June 30, 2022.

At June 30, 2022, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $765,000 per the accounting records of the Colleges, and approximately $482,000 per bank records. Of the bank balances, approximately $122,500 was covered by federal depository insurance and approximately $359,500 was uninsured and uncollateralized at June 30, 2022.

Investments

Investments of the various funds at June 30, 2023 are as follows:

	Fair Value	Cost
U.S. Government bonds	**$ 20,301,322**	**$ 22,429,169**
Corporate bonds	**7,739,370**	**8,531,992**
Common stock and ETF's	**14,665,527**	**12,749,565**
Mutual funds	**10,357,201**	**9,969,036**
Money market	**13,282,026**	**13,282,026**
Hedge fund shares	**6,241,494**	**3,483,154**
Total Investments	**$ 72,586,940**	**$ 70,444,942**

Investments of the various funds at June 30, 2022 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 4,685,511	$ 4,655,253
Corporate bonds	4,125,463	4,240,406
Common stock and ETF's	12,533,851	11,922,331
Hedge fund shares	4,421,493	4,080,029
Mutual funds	9,868,959	10,785,930
Money market	12,551,794	12,551,794
Held by bond trustee	1,087,625	1,087,625
Total Investments	$ 49,274,696	$ 49,323,368

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 bond, 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.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Financial Statements - Continued
June 30, 2023 and 2022

2023
Investment Maturities (in years)

Investment Type	**Market Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Money Market Investments	**$ 13,282,024**	**$ 13,282,024**	**$ -**	**$ -**	**$ -**
Corporate Bonds	**7,739,370**	**295,727**	**5,666,221**	**1,777,422**	**-**
U.S. Govt. Bonds	**20,301,322**	**1,872,946**	**12,863,280**	**5,565,096**	**-**
Total	**$ 41,322,716**	**$ 15,450,697**	**$ 18,529,501**	**$ 7,342,518**	**$ -**
Other Investments					
Common Stock and Mutual Funds	**31,264,224**				
Held by Bond Trustee	**-**				
Total	**$ 72,586,940**				

2022
Investment Maturities (in years)

Investment Type	Market Value	Less than 1	1-5	6-10	More than 10
Money Market Investments	$ 12,551,794	$ 12,551,794	$ -	$ -	$ -
Corporate Bonds	4,125,463	973,455	2,872,715	279,293	-
U.S. Govt. Bonds	4,685,511	511,687	3,656,466	517,358	-
Total	$ 21,362,768	$ 14,036,936	$ 6,529,181	$ 796,651	$ -
Other Investments					
Common Stock and Mutual Funds	26,824,303				
Held by Bond Trustee	1,087,625				
Total	$ 49,274,696				

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:

	2023	2022
Interest and dividend income	**$ 3,061,872**	$ 1,220,023
Net realized and unrealized gain (loss)	**1,199,302**	(4,912,448)
Total investment income	**4,261,174**	(3,692,425)
Less: management fees	**(179,045)**	(193,619)
Investment income, net	**$ 4,082,129**	$ (3,886,044)

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

Investment rating*	2023	2022
AAA	$ 20,923,313	$ 4,913,874
AA+	67,112	75,228
AA	305,211	333,638
AA-	867,103	228,052
A+	1,117,329	367,683
A	1,540,005	507,928
A-	2,109,047	1,222,039
BBB+	1,202,371	952,898
BBB	138,104	209,633
Unrated	13,053,123	12,551,794
	$ 41,322,718	$ 21,362,768

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

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

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

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 non-payment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic 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

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economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
Plus (+) or minus (-): The ratings from 'AAA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

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 and Exchange Traded Funds ("ETF"): 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. Hedge funds shares may at times, not be redeemable subject to the business judgement of the hedge funds board of directors.

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 Colleges believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

Assets at Fair Value as of June 30, 2023

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	**$ $20,301,322**	**$ -**	**$ -**	**$ 20,301,322**
Corporate bonds	**-**	**7,739,370**	**-**	**7,739,370**
Common stock and ETF's	**14,665,527**	**-**	**-**	**14,665,527**
Hedge fund shares	**-**	**6,241,494**	**-**	**6,241,494**
Mutual funds	**10,357,201**	**-**	**-**	**10,357,201**
Money market	**13,282,026**	**-**	**-**	**13,282,026**
Total Assets at Fair Value	**$ 58,606,076**	**$ 13,980,864**	**$ -**	**$ 72,586,940**

Assets at Fair Value as of June 30, 2022

	Level 1	Level 2	Level 3	Total
U.S. Government bonds	$ 4,685,511	$ -	$ -	$ 4,685,511
Corporate bonds	-	4,125,463	-	4,125,463
Common stock and ETF's	12,533,851	-	-	12,533,851
Hedge fund shares	-	4,421,493	-	4,421,493
Mutual funds	9,868,959	-	-	9,868,959
Money market	12,551,794	-	-	12,551,794
Held by bond trustee	1,087,625	-	-	1,087,625
Total Assets at Fair Value	$ 40,727,740	$ 8,546,956	$ -	$ 49,274,696

Note 4 - **Accounts Receivable, Notes Receivable and Allowance for Bad Debts**

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

	2023	2022
Student accounts receivable	**$ 11,508,707**	$ 10,615,442
Grants receivable	**7,595,792**	17,382,522
Other receivable	**1,889,652**	895,491
Subtotal	**20,994,151**	28,893,455
Allowance for doubtful accounts	**(5,862,114)**	(6,733,951)
Total accounts receivable, net	**$ 15,132,037**	$ 22,159,504

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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 $25,000 and $169,000 at June 30, 2023 and 2022, respectively.

This allowance is the aggregate that was reserved for each college based upon historical bad loan reserve requirements, the net decrease in the allowance of $872,000 and $1,036,000 in 2023 and 2022, respectively, has been reflected in operating expenses.

Note 5 - **Long-Term Liabilities**

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

	2023				
	(Restated) Beginning balances	**Additions**	**Reductions**	**Ending balances**	**Current portion**
Long-term liabilities					
Bonds and notes payable	**$113,702,457**	**$ -**	**$16,039,168**	**$ 97,663,289**	**$3,768,510**
Total OPEB obligation	**160,734,727**	**-**	**26,797,462**	**133,937,265**	**-**
Lease liability	**14,808,233**	**655,355**	**2,026,788**	**13,436,800**	**1,719,623**
SBITA liability	**2,881,401**	**458,119**	**1,240,409**	**2,099,111**	**1,404,480**
Other liabilities	**87,287**	**-**	**52,448**	**34,839**	**-**
Refundable grants	**3,556,288**	**-**	**212,730**	**3,343,558**	**-**
Total long-term liabilities	**$ 295,770,393**	**$ 1,113,474**	**$ 46,369,005**	**$ 250,514,862**	**$ 6,892,613**

	(Restated) 2022				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$117,960,911	$ -	$ 4,258,455	$113,702,457	$4,428,454
Total OPEB obligation	238,004,493	-	77,269,765	160,734,727	-
Lease liability	16,590,959	223,592	2,006,318	14,808,233	1,916,423
SBITA liability	3,796,849		915,448	2,881,401	1,240,409
Other liabilities	142,476	87,287	142,476	87,287	-
Refundable grants	4,029,353	-	473,065	3,556,288	-
Total long-term liabilities	$ 380,525,041	$ 310,879	$ 85,065,527	$ 295,770,393	$ 7,585,286

Bonds and Notes Payable

Outstanding debt as of June 30, is as follows:

	2023	2022
Revenue Bonds, Series 2020A:		
3.0% - 5.0% serial bonds aggregating $18,990,000 maturing 2020 through 2037 and a $5,195,000 4.0% term bond due October 2040. Interest on the serial bonds is paid semi-annually on the unpaid balances. Unamortized bond premium of $3,792,219 and $4,012,059 has been added to the liability at June 30, 2023 and 2022, respectively. [1]	**$27,977,218**	$28,197,058

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	2023	2022
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 $7,391,071 and $7,909,741 has been added to the liability at June 30, 2023 and 2022, respectively. [2]	**69,686,071**	72,954,742
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 $0 and $1,115,601 has been added to the liability at June 30, 2023 and 2022, respectively.[3]	**-**	12,550,657
	$ 97,663,289	$ 113,702,457

[1] In February 2020, VSC issued Revenue Bonds, Series 2020A, in the principal amount of $18,990,000 in serial bonds and $5,195,000 in term bonds. The 2020A Bonds were issued solely for the purpose of refunding the Series 2010B Bond. The Colleges entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. At the time of the issuance, the bond proceeds were put in an irrevocable trust for which the trustee would use the funds to pay off the 2010B Bond at a later date.

The refunding decreased the College's total debt service by $5,409,550 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $5,352,091.

[2] 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 Colleges entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. The refunding increased the Colleges' 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.

[3] On June 14, 2023, VSC paid the remaining balance of the Series 2013 bond into an escrow account held by the Bank of New Mellon Trust. The total payoff amount was $10,685,000. The escrow account is to be managed by the Bank of New York Mellon Trust and is irrevocable, which relieves the Colleges of the debt liability as of June 30, 2023. The outstanding unamortized premium on the bond was recognized as income in fiscal year ending 2023.

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Debt Roll-Forward

Long-term debt activity for the years ended June 30, 2023 and 2022 was as follows:

	Balance June 30, 2022	**Additions**	**Repayment**	**Balance June 30, 2023**	**Current Portion**
Series 2013	**$ 11,530,000**	**$ -**	**$(11,530,000)**	**$ -**	**$ -**
Series 2013 Bond Premium	**1,020,657**	**-**	**(1,020,657)**	**-**	**-**
Series 2013 Bonds	**12,550,657**	**-**	**(12,550,657)**	**-**	**-**
Series 2017	**65,045,000**	**-**	**(2,750,000)**	**62,295,000**	**2,890,000**
Series 2017 Bond Premium	**7,909,741**	**-**	**(518,672)**	**7,391,069**	**518,672**
Series 2017 Bonds	**72,954,741**	**-**	**(3,268,672)**	**69,686,069**	**3,408,672**
Series 2020	**24,185,000**	**-**	**-**	**24,185,000**	**140,000**
Series 2020 Bond Premium	**4,012,059**	**-**	**(219,839)**	**3,792,220**	**219,838**
Series 2020 Bonds	**28,197,059**	**-**	**(219,839)**	**27,977,220**	**359,838**
Total Bonds and Notes Payable	**$113,702,457**	**$ -**	**$(16,039,168)**	**$ 97,663,289**	**$3,768,510**

	Balance June 30, 2021	Additions	Repayment	Balance June 30, 2022	Current Portion
Series 2013	$ 12,340,000	$ -	$ (810,000)	$ 11,530,000	$ 845,000
Series 2013 Bond Premium	1,115,601	-	(94,944)	1,020,657	94,944
Series 2013 Bonds	13,455,601	-	(904,944)	12,550,657	939,944
Series 2017	67,660,000	-	(2,615,000)	65,045,000	2,750,000
Series 2017 Bond Premium	8,428,413	-	(518,672)	7,909,741	518,672
Series 2013 Bonds	76,088,413	-	(3,133,672)	72,954,741	3,268,672
Series 2020	24,185,000	-	-	24,185,000	-
Series 2020 Bond Premium	4,231,897	-	(219,838)	4,012,059	219,838
Series 2020 Bonds	28,416,897	-	(219,838)	28,197,059	219,838
Total Bonds and Notes Payable	$117,960,911	$ -	$ (4,258,454)	$113,702,457	$4,428,454

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

Years Ending June 30,	Principal Amount	Interest Amount
2024	$ 3,030,000	$ 3,726,250
2025	4,445,000	3,567,250
2026	4,390,000	3,337,250
2027	4,610,000	3,109,500
2028	4,850,000	2,870,500
2029	4,840,000	2,619,000
2030-2034	28,040,000	9,184,550
2035-2039	28,745,000	2,883,650
2039-2041	3,530,000	213,200
	$ 86,480,000	$ 31,511,150

Deferred loss on debt refunding is 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 Revenue Bond is also collateralized by deposits held by the trustee in the Bond Fund. VSC is required to make payments to the trustee for deposit into the Bond Fund sufficient to pay the principal and interest fund requirements, when due.

Note 5A - **Lease Liability**

The Colleges are a lessee of multiple long-term leases for buildings and office space from various vendors. Significant lease terms are described below:

Description	Commencement Date for GASB 87	Lease Term at GASB 87 Commencment (months)	Payment Amount	Rate Type	Interest Rate	Lease Liability 6/30/23	Lease Liability 6/30/22
Rutland Lease (CCV)	7/1/2020	169	Varies	IBR	4.75%	$ 9,348,540	$ 9,830,835
St. Albans Lease (CCV)	11/1/2020	180	Varies	IBR	4.75%	1,925,313	2,008,827
Stonecutter's Way Lease (OC)	7/1/2020	85	Varies	IBR	4.75%	361,078	446,420
Tech Vault Lease (OC)	5/1/2023	60	Varies	IBR	4.75%	346,942	-
Butternut Ledge Lease (CU)	7/1/2020	73	Varies	IBR	4.75%	343,550	444,612
Brattleboro Lease (CCV & VTC)	7/1/2020	48	Varies	IBR	4.75%	316,469	609,369
Killington lease (CU)	11/30/2021	68	Varies	IBR	4.75%	190,872	230,772
Bennington Lease (CCV)	7/1/2020	48	Varies	IBR	4.75%	163,368	317,588
Newport Lease (CCV)	7/1/2020	48	Varies	IBR	4.75%	142,339	276,663
Lyndonville Lease (NVU)	7/1/2020	82	Varies	IBR	4.75%	134,334	77,600
Middlebury Lease (CCV)- Extended	7/1/2020	50	Varies	IBR	4.75%	126,682	17,679
Morrisville Lease (CCV)	7/1/2020	38	Varies	IBR	4.75%	20,878	142,132
Foley Hall Lease (CU)	7/1/2020	37	Varies	IBR	4.75%	16,435	208,672
Randolph Lease (VTC)	7/1/2020	36	Varies	IBR	4.75%	-	147,588
Tech Vault Rack Space Lease (OC)	7/1/2020	32	Varies	IBR	4.75%	-	49,476
						$ 13,436,800	$ 14,808,233

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Interest Expense and Net Remaining Right of Use Assets
Lease interest expense for the years ended June 30, 2023 and 2022 was $670,739 and $747,197, respectively. The amortization of the right of use assets are amortized on a straight-line basis over the lease term for each lease. The remaining unamortized right of use asset related to lease obligations was $12,260,154 and $13,943,015 at June 30, 2023 and 2022, respectively.

There were no other payments made other than the payments used in the calculation of the lease liability for the years ended June 30, 2023 and 2022. A number of the leases also include options to renew at various times based on the Colleges choice to continue the lease. There are no leases in which management believes that it is certain that the Colleges will exercise the renewal options.

Future Lease Payments
Lease payments due subsequent to June 30, 2022 are as follows:

Years Ending June 30,	Principal	Interest
2024	1,719,623	596,036
2025	1,048,037	529,147
2026	1,111,350	478,275
2027	1,079,592	425,727
2028-2032	5,325,510	1,403,532
2033-2037	3,152,688	178,949
	$ 13,436,800	$ 3,611,665

Note 5B - **Subscription-Based Information Technology Arrangements**
The Colleges have entered into subscription-based information technology arrangements (SBITAs) involving its financial managements software and document management software.

The scheduling management software arrangement is a three-year agreement, initiated in fiscal year 2023 with yearly payments of $160,000. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The contract expires on August 30, 2025, and the Colleges have the option to extend on a yearly basis. There is no option to purchase the software.

The professional development management software arrangement is a five-year agreement, initiated in fiscal year 2019 with yearly payments totaling $242,682. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The contract expires on May 1, 2025, and the Colleges have the option to extend for one year. There is no option to purchase the software.

The learning management software arrangement is a five-year agreement, initiated in fiscal year 2019 with yearly payments of increasing amounts totaling $1,387,878. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The contract expires on June 30, 2024, and the Colleges does not have the option to extend. There is no option to purchase the software.

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The information management software arrangement is a five-year agreement, initiated in fiscal year 20129 with yearly payments of $37,500. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The initial contract expires on June 30, 2024. The Colleges have signed an extension of the initial contract for an additional 4 years for $10,000 per year. This contract expires on June 30, 2027. There is no option to purchase the software.

The information management software arrangement is a four-year agreement, initiated in fiscal year 2023 with yearly payments of $203,846. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The contract expires on December 31, 2027, and the Colleges have the option to extend for one year. There is no option to purchase the software.

The workforce management software arrangement is a five-year agreement, initiated in fiscal year 2019 with monthly payments based on the number of employees. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The contract expires on May 31, 2024, and the Colleges have the option to extend on a yearly basis. There is no option to purchase the software.

The entertainment management software arrangement is a three-year agreement, initiated in fiscal year 2021 with yearly payments of $43,850. The Colleges have used a 4.75% discount rate for this arrangement based on the incremental borrowing rate it received from its lender to determine the present value of the intangible right- of use asset and SBITA liability. The contract expires on Juen 30, 2023. The Colleges extended the arrangement for one year for a payment of $51,729. There is no option to purchase the software.

At June 30, 2023, the total amount of the SBITA right of use assets and accumulated amortization for SBITAs were $2,145,390 and $2,482,588, respectively. At June 30, 2022, the total amount of the SBITA right of use assets and accumulated amortization for SBITAs were $2,998,443 and $2,881,401, respectively.

Annual requirements to amortize the SBITA liability and related interest subsequent to June 30, 2023 are as follows:

Years Ended June 30,	Principal	Interest	Total
2024	$ 1,404,480	$ 54,412	$ 1,458,892
2025	339,805	24,041	363,846
2026	189,854	13,992	203,846
2027	164,972	4,775	169,747
	$ 2,099,111	$ 97,220	$ 2,196,331

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Note 6 - **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 over 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, 2023 and 2022. The unamortized balance of the breakage fee was $4,807,298 and $5,810,643 for years ended June 30, 2023 and 2022.

During 2020, VSC issued the 2020A Series Bond which was an advanced refunding of the 2010B Bond. As stated in the advanced refunding agreement, the proceeds from the issuance of the 2020A Bond was to be placed in an irrevocable trust and will be used to pay off the 2010B Bond.

The difference between the amount in placed in escrow to pay off the 2010B Bond and the net carrying amount of the 2010 Bond was $764,156 and is recognized as a "deferred loss on debt refunding", and is amortized over the life of the old debt it was associated with and is included with interest expense. The amortization of this advanced debt refunding that was included in interest expense was $37,581 and $28,506 for the year ending June 30, 2023 and 2022. The unamortized balance of the advanced debt refunding was $636,927 and $683,353 for years ended June 30, 2023 and 2022.

Note 7 - **Functional Expense Classification**

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

		2023		2022
Instructions	**$**	**53,112,008**	$	53,440,088
Research		**678,601**		110,345
Public Service		**12,376,990**		12,092,190
Academic Support		**19,866,473**		16,614,214
Student Services		**49,245,320**		40,373,031
Institution Support		**24,365,659**		33,523,063
Physical Plant		**2,020,808**		8,165,910
Student Financial Support		**17,112,857**		24,400,408
Depreciation		**14,333,932**		14,144,968
	$	**193,112,648**	$	202,864,217

Note 8 - **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. In addition to their operating appropriation, the Colleges received an additional $15,000,000 for the Transformation Project, $387,00 designated for the Meat Packing Program and $4,000,000 for various scholarships. Also included in the annual State appropriation for operations is funding for Allied Health of approximately $1,158,000 in fiscal years 2023 and 2022; VMEC of approximately $428,000 in fiscal year 2022.

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Capital appropriations for VSC made from the State Bond Funds were approximately $3,700,000 and $2,000,000 for fiscal years 2023 and 2022, respectively.

Note 9 - **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, 2023 and 2022, the Colleges' total payroll expense was approximately $78,129,000 and $75,406,000, respectively, of which approximately $52,860,000 and $53,101,000 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, 2023 and 2022, contributions made by the Colleges under this plan totaled approximately $4,877,000 and $4,837,000, or approximately 9.23% and 9.11%, of covered salaries, respectively. The defined contribution plan is not a fiduciary activity since the Colleges do not hold the assets nor have the ability to direct the use, exchange or deployment of the assets.

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, 2023 and 2022, 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 2023 and 2022.

In addition, full-time faculty employees who have worked for the Colleges for 15 years may elect early retirement at age 58 and receive 50% 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, 2023 and 2022, contributions for these benefits were approximately $517,000 and $573,000, respectively.

The early retirement benefit is no longer being offered to faculty employees hired after February 10, 2005, 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.

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Note 10 - 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. Employees hired after October 1, 2012 (fulltime faculty after October 1, 2015) are ineligible for retiree medical and dental benefits. The type of employees that were covered by the benefits terms at June 30,:

	2023	2022
Retirees and Beneficiaries	**719**	719
Inactive, Non-retired members	**-**	-
Active plan members	**914**	914
Total plan members	**1,633**	1,633

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 2023 and 2022, VSC recognized employer contributions of $6,895,566 and $7,024,702, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis.
In fiscal years 2023 and 2022, there were minimal member contributions to the plan from new retirees hired before July 1, 2000. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Annual OPEB Cost and Total OPEB Obligation: VSC's OPEB cost (expense) includes most changes in the total OPEB liability. The effects 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, 2023 and 2022, VSC reported a total OPEB liability of $133,937,265 and $160,734,727, respectively. The total OPEB liability as of June 30, 2023, the reporting date, was measured as of June 30, 2022, the measurement date, and the actuarial valuation date of July 1, 2021, which was rolled forward from the prior measurement date of June 30, 2021. The total OPEB liability as of June 30, 2022, the reporting date, was measured as of June 30, 2021, the measurement date, and the total OPEB liability was determined by an actuarial valuation date as of July 1, 2019.

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The following table shows the components of VSC's annual OPEB costs for the year ended June 30, 2023 and 2022, and the changes in VSC's total OPEB obligation to the retiree healthcare plan are as follows:

	2023	2022
Interest on total OPEB obligation	**$ 3,396,004**	$ 5,179,166
Service Cost	**2,229,613**	5,231,085
Amortization of current year for difference between expected and actual experience	**(508,019)**	(536,788)
Annual OPEB cost	**5,117,598**	9,873,463
Difference between expected and actual experience to be recognized in future years	**508,019**	536,788
Difference between changes in plan actuarial assumptions to be recognized in future years	**(25,629,673)**	(67,475,590)
Difference between expected and actual experience of the Total OPEB liability	**231,296**	(12,898,213)
Benefit payments	**(7,024,702)**	(7,306,213)
Increase in total OPEB obligation	**(26,797,462)**	(77,269,765)
Total OPEB obligation - Beginning of Year	**160,734,727**	238,004,492
Total OPEB obligation - End of Year	**$133,937,265**	$160,734,727

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	**2023**	2022
Differences between projected and actual experience	**$ 5,021,787**	$ 6,113,668
Changes in plan actual assumptions	**23,952,083**	29,622,103
Contributions subsequent to the measurement date	**6,545,936**	7,024,702
Total	**$ 35,519,806**	$ 42,760,473

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 Outflows of Resources	**2023**	2022
Differences between projected and actual experience	**$ 11,056,681**	$ 12,887,877
Changes in plan actual assumptions	**75,244,380**	61,166,759
Total	**$ 86,301,061**	$ 74,054,636

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VSC's contributions of $6,545,935 and $7,024,702 made during fiscal year ending 2023 and 2022, respectively, subsequent to the measurement date will be recognized as a reduction of the total OPEB 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,		
2024	$	(6,390,051)
2025		(6,390,051)
2026		(6,357,891)
2027		(6,632,622)
2028		(11,399,145)
2028 and after		(20,157,430)
	$	(57,327,190)

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

Measurement date	June 30, 2022	June 30, 2021
Inflation	2.3%	2.3%
Salary Increases	3.5% per year	3.5% per year
Discount Rate	3.54%	2.16%
Healthcare Cost Trend Rate	5.9%, then decreasing incrementally to an ultimate rate of 3.6% in 2060	5.9%, then decreasing incrementally to an ultimate rate of 3.6% in 2060

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 July 1, 2017 to July 1, 2020. 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. Employees less than 40 had an annual turnover rate of 8.5%, which was the same rate used in the prior measurement date. Employees less than 65 had an annual turnover rate of 3.5%, which was the same rate used in the prior measurement date.

Mortality: Life expectancies were based on the RP-2006 Table (base rates underlying RP-2014) projected to 2017 and thereafter, with MP-2019 projection scale which is published by the Retirement Plans Experience Committee of the Society of Actuaries. In the prior measurement date, the same rate was used.

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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.

Sensitivity of the Colleges' proportionate share of the total OPEB liability to changes in the discount rate: The following presents the Colleges' proportionate share of the total OPEB liability, as well as what the Colleges' proportionate share of the total 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:

	2023	
	Current	
1.00% Decrease	**Discount Rate**	**1.00% Increase**
2.54%	**3.54%**	**4.54%**
$ 151,770,539	**$ 133,937,265**	**$ 119,309,958**

	2022	
	Current	
1.00% Decrease	Discount Rate	1.00% Increase
1.21%	2.21%	3.21%
$ 185,079,857	$ 160,734,727	$ 141,051,498

Sensitivity of the Colleges' proportionate share of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the Colleges' proportionate share of the total OPEB liability, as well as what the Colleges' proportionate share of the total 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:

	2023	
	Current Healthcare	
1.00% Decrease	**Cost Trend Rate (A)**	**1.00% Increase**
$ 118,286,607	**$ 133,937,265**	**$ 153,140,594**

	2022	
	Current Healthcare	
1.00% Decrease	Cost Trend Rate (A)	1.00% Increase
$ 141,884,071	$ 160,734,727	$ 185,122,365

(A) - See page 44 for current healthcare cost trend rate.

Vermont State Colleges
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Notes to the Financial Statements - Continued
June 30, 2023 and 2022

Note 11 - **Capital Assets**

Property and equipment activity for the years ended June 30, 2023 and 2022 is summarized below:

	(Restated) Balance June 30, 2022	Additions	Transfers	Retirements	Balance June 30, 2023
Land	$ 8,436,048	$ -	$ -	$ -	$ 8,436,048
Construction-in-process	5,950,249	2,874,221	(5,332,490)	-	3,491,980
Subtotal - Capital assets not depreciated	14,386,297	2,874,221	(5,332,490)	-	11,928,028
Infrastructure	42,538,036	30,171	482,814	-	43,051,021
Buildings and improvements	260,204,936	79,544	4,313,119	-	264,597,599
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	42,615,769	1,048,377	77,361	(86,649)	43,654,858
Software arrangements	4,169,859	503,119	-	(45,000)	4,627,978
Leased buildings	18,665,579	655,445	-	-	19,321,024
Subtotal - Capital assets depreciated	372,284,450	2,316,656	4,873,294	(131,649)	355,393,749
Less accumulated depreciation					
Capital assets	(224,146,530)	(10,684,455)	-	70,863	(234,760,122)
SBITA arrangement	(1,171,416)	(1,311,172)	-	-	(2,482,588)
Right of use assets	(4,722,565)	(2,338,305)	-	-	(7,060,870)
Capital assets, net	$156,630,236	$(9,143,055)	$ (459,196)	$ (60,786)	$146,967,199

	Balance June 30, 2021	Additions	Transfers	Retirements	(Restated) Balance June 30, 2022
Land	$ 8,670,348	$ -	$ -	$ (234,300)	$ 8,436,048
Construction-in-process	4,859,465	7,472,216	(6,381,432)	-	5,950,249
Subtotal - Capital assets not depreciated	13,529,813	7,472,216	(6,381,432)	(234,300)	14,386,297
Infrastructure	42,330,013	-	208,023	-	42,538,036
Buildings and improvements	261,331,103	1,865,165	396,933	(3,388,265)	260,204,936
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	38,043,564	660,894	3,911,311	-	42,615,769
Software arrangements	4,169,859	-	-	-	4,169,859
Leased buildings	18,441,987	223,592	-	-	18,665,579
Subtotal - Capital assets depreciated	364,236,938	2,749,651	4,516,267	(3,388,265)	372,284,450
Less accumulated depreciation					
Capital assets	(214,581,093)	(10,575,442)	-	1,010,005	(224,146,530)
SBITA arrangement	-	(1,171,416)	-	-	(1,171,416)
Right of use assets	(2,324,455)	(2,398,110)	-	-	(4,722,565)
Capital assets, net	$160,861,203	$(2,751,685)	$(1,865,165)	$(2,612,560)	$156,630,236

Vermont State Colleges
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Notes to the Financial Statements - Continued
June 30, 2023 and 2022

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 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 $200,000 of paid claims per covered member per year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Reserves for medical and dental claims are included in accrued liabilities in the amount of approximately $1,594,000 June 30, 2023 and $1,879,000 at June 30, 2022 and are based on historical data. A medical and dental claim roll-forward is presented below:

	2023	2022
Medical and dental claims reserve, beginning of year	**$ 1,594,000**	$ 1,879,100
Incurred claims	**20,535,000**	19,352,900
Payments on claims	**(20,109,000)**	(19,638,000)
Medical and dental claims reserve, end of year	**$ 2,020,000**	$ 1,594,000

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 $1,477,000 per year. VSC has obtained a letter of credit in the amount of $600,000 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:

	2023	2022
Workers' compensation reserve, beginning of year	**$ 474,000**	$ 402,000
Workers' compensation accrued during the year	**521,000**	769,000
Claims paid/reserved/claims administration	**(637,000)**	(697,000)
Workers' compensation reserve, end of year	**$ 358,000**	$ 474,000

Employment Contracts

The Colleges have employment contracts with certain officers that expire on various dates through fiscal year 2023. The agreements provide for aggregate annual base salaries of $379,000 in fiscal year 2023, respectively, and may be terminated with cause at any time.

Vermont State Colleges
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Notes to the Financial Statements - Continued
June 30, 2023 and 2022

Public-Private Partnership
The Colleges entered into a public-private partnership with Sodexo Operations, LLC ("Sodexo") to manage and operate its food services for VSC's students, faculty, staff, employees and guests through June 2023; the partnership was cancelable by either party at any time. Under the partnership, Sodexo made annual contributions to VSC to be used at VSC's discretion for food service facility enhancements. In March 2020, with the commencement of the pandemic, VSC exercised its right to the catastrophe clause of its existing contract with Sodexo. In August 2020, VSC entered into a new public-private partnership with Sodexo continuing through August 2025. The new public-private partnership will not require annual contributions.

Note 13 - **Subsequent Events**

The Colleges has evaluated subsequent events through DATE, the date for which the financial statements were available for issuance. Based on that evaluation, the Colleges has determined the following event subsequent to June 30, 2023 has occurred that requires disclosure in the financial statements.

On July 14, 2023, the Federal Emergency Management Agency (FEMA) issued a declared disaster to the State of Vermont as a result of severe storms, flooding, landslides and mudslides from July 7, 2023 to July 17, 2023. Management has evaluated the impact of FEMA event DR-4720-VT and has determined that the effects of the event does not require adjustment to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Schedule of Changes in Total OPEB Liability (Unaudited)

Year ended	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Measurement date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Valuation date	July 1, 2022	July 1, 2021	July 1, 2019	July 1, 2019	July 1, 2017
Total OPEB liability					
Service Cost	$ 2,229,613	$ 5,231,085	$ 3,672,170	$ 4,532,612	$ 4,515,546
Interest	3,396,003	5,179,166	6,671,317	7,194,823	6,647,387
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	231,296	(12,898,213)	-	263,532	(1,778,447)
Changes of assumptions or other inputs	(25,629,673)	(67,475,590)	40,500,432	(755,342)	(2,480,058)
Benefit payments	(7,024,702)	(7,306,213)	(6,896,981)	(6,181,621)	(6,399,026)
Net change in total OPEB liability	(26,797,463)	(77,269,765)	43,946,938	5,054,004	505,402
Total OPEB liability - beginning	160,734,727	238,004,492	194,057,554	189,003,550	188,498,148
Total OPEB liability - ending	$ 133,937,264	$ 160,734,727	$ 238,004,492	$ 194,057,554	$ 189,003,550
Covered payroll	52,860,000	51,296,724	50,942,334	49,219,646	50,074,973
Total OPEB liability as a percentage of covered-employee payroll	253.38%	313.34%	467.20%	394.27%	377.44%

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

See accompanying notes to the required supplementary information.

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Multi-Year Schedule of Contributions (Unaudited)

Year ended	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Measurement date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Valuation date	July 1, 2022	July 1, 2021	July 1, 2019	July 1, 2019	July 1, 2017
Actuarially determined contributions	$ 8,894,092	$ 9,565,257	$ 16,167,269	$ 14,223,337	$ 15,290,840
Employer contributions	6,894,566	7,024,702	7,306,213	6,896,981	6,181,621
Contribution deficiency (excess)	1,999,526	2,540,555	8,861,056	7,326,356	9,109,219
Covered payroll	52,860,000	51,296,724	50,942,334	49,219,646	50,074,973
Actual Contributions as a % of Covered Valuation Payroll	13.04%	13.69%	14.34%	14.01%	12.34%

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

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, 2023 and 2022

Note 1 - **Change in Plan Assumptions**

Measurement date – June 30, 2022

Change in Discount Rate

The discount rate increased from 2.16% to 3.54%.

Measurement date – June 30, 2021

Change in Discount Rate

The discount rate decreased from 2.21% to 2.16%.

Mortality Rates

Mortality rates used general scale MP-2021 for males and females. In the prior measurement date, general scale MP-2019 was used.

Health Care Cost Trend

Updated to use the most recent Getzen Model (v, 2021-f4)

Employee Retirement Rates

The valuation retirement rates have been updated as of 7/1/2021 to reflect the overall trend towards later retirement ages, with some exceptions in the 60-64 age range which experienced higher retirement rates.

Participation Rates

Review of reports show a decrease in the percentage of retirees who elect to receive health care benefits in retirement, has decreased from 95% to 90%.

Measurement date – June 30, 2020

Change in Discount Rate

The discount rate was decreased from 3.50% to 2.21%

Measurement date – June 30, 2019

Change in Discount Rate

The discount rate was decreased from 3.87% to 3.5%

Employee Turnover

Employees less than 40 had an annual turnover rate of 8.5%, an increase from the 7.5% rate used in the prior measurement date. Employees less than 65 had an annual turnover rate of 3.5%, an increase from the 2.5% used in the prior measurement date.

Mortality Rates

Mortality rates used general scale MP-2019 for males and females. In the prior measurement date, general scale MP-2017 was used.

Vermont State Colleges
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Notes to the Required Supplementary Information - OPEB (Unaudited)- Continued
June 30, 2023 and 2022

Change in Trend on Future Costs

The healthcare trend rate decreased from 5.4% to 4.7%. The medical trend was developed using the SOA Getzen Model and noted the following economic assumptions that changed from the prior measurement date:

- Rate of Inflation was 2.5% which was decreased from 2.6%
- Rate of Growth in Real Income/GDP per capital was 1.25% which was an increase from 1.15%
- Health share of GDP resistance point was 25% which was an increase from 20%
- Year for limiting cost growth to GDP was 2050. 200 was used in the prior measurement date.

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%.

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

INDEPENDENT AUDITOR'S 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:

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, 2023, 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 DATE.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Vermont State Colleges' internal control over financial reporting ("internal control") as a basis for designing 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 audits 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. 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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DATE

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
INDEPENDENT AUDITORS' REPORTS AS REQUIRED BY THE UNIFORM GUIDANCE AND *GOVERNMENT AUDITING STANDARDS* AND RELATED INFORMATION

JUNE 30, 2023

VERMONT STATE COLLEGES
(a Component Unit of the State of Vermont)
Independent Auditors' Reports as Required by the Uniform Guidance and Government Auditing Standards and Related Information
June 30, 2023

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

Report on Compliance for Each Major Federal Program

Opinion on 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 identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2023. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the College's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); 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* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Colleges and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Colleges compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the College's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the College's compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the College's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the College's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the College's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the College's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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 Findings 2023-001 through 2023-006. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 Colleges, as of and for the year ended June 30, 2023. We issued our report thereon dated October 16, 2023, 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.

October 16, 2023

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 statement of net position as of June 30, 2023 and 2022, the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 16, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Colleges internal control over financial reporting ("internal control") as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report of Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 16, 2023

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, 2023

	Assistance Listing Number	Pass-Through Entity	Pass-Through Entity Award Number	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	$ 1,107,399	$ -
Federal Work-Study Program	84.033	N/A	N/A	1,272,223	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	3,279,112	-
Federal Perkins Loan Program (current year expenditures)	84.038	N/A	N/A	-	-
Federal Direct Student Loans	84.268	N/A	N/A	26,169,728	-
Federal Pell Grant Program	84.063	N/A	N/A	13,095,678	-
Total Student Financial Assistance Cluster				44,924,140	-
TRIO CLUSTER					
U.S. Department of Education:					
Direct Awards:					
TRIO Student Support Services	84.042A	N/A	N/A	1,502,323	-
TRIO Upward Bound Math and Science	84.047M	N/A	N/A	111,004	-
TRIO Upward Bound	84.047A	N/A	N/A	1,306,646	-
TRIO McNair	84.217A	N/A	N/A	246,016	-
Total TRIO Cluster				3,165,989	-
RESEARCH AND DEVELOPMENT CLUSTER					
National Aeronautics and Space Administration:					
Passthrough Awards:					
Science - National Space Grant College and Fellowship Program	43.001	University of Vermont	AWD00000100SUB00000078	7,008	-
Kingdom Military Teen Adventure Camp	10.500	University of Vermont	AWD00001307SUB00000435	17,899	-
Subtotal - Passthrough Awards				24,907	-
National Science Foundation:					
Direct Awards:					
Geosciences	47.050	N/A	N/A	52,669	-
Passthrough Awards:					
National Science Foundation/UVM/NS	47.073	University of Vermont	AWD00000725SUB00000293	123,509	-
Biomedical Research and Research Training	93.859	University of Vermont	AWD00000100SUB00000040	296,908	-
Subtotal - Passthrough Awards				420,417	-
Total Research and Development Cluster				497,993	-
477 CLUSTER					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
Child Care Mandatory and Matching Funds of the Child Care and Development	93.575	Vermont Department of Children & Families	03440-32004-23	1,296,026	-
Child Care Mandatory and Matching Funds of the Child Care and Development	84.181A	Vermont Department of Children & Families	03440-32004-23	33,910	-
Total 477 Cluster				1,329,936	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

	Assistance Listing Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
MEDICAID CLUSTER					
U.S. Department of Health and Human Services:					
Passthrough Awards:					
VCPI Operations Grant	93.778	Vermont Department of Mental Health	03150-A1843	$ 77,868	$ -
ECONOMIC DEVELOPMENT CLUSTER					
U.S. Department of Commerce:					
Direct Awards					
Economic Adjustment Assistance	11.307	N/A	N/A	190,648	-
EDA Café	11.307	N/A	N/A	41,778	-
				232,426	-
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER					
U.S. Department of Agriculture:					
Direct Awards:					
Highway Planning and Construction	20.205	VT Agency of Transportation	GR1673	48,093	-
NON-CLUSTER					
U.S. Department of Agriculture:					
Passthrough Awards:					
Northeast Organic Farming Association- Organic Certification Training	10.575	Northeast Organic Farming Association of New Jersey	N/A	20,408	-
U.S. Department of Commerce:					
Direct Awards:					
Manufacturing Extension Partnership	11.611	N/A	N/A	760,297	-
Passthrough Awards:					
Mass MEP Human Capital Barometrics Project	11.611	Massachusetts Manufacturing Extenstion Center	N/A	67,504	-
U.S. Department of Justice:					
Direct Awards:	16.753	N/A	N/A	224,446	-
US Department of Justice					
Small Business Administration:					
Direct Awards:					
COVID-19 - Small Business Development Centers	59.037	N/A	N/A	21,318	-
Congressional Community Project	59.059	N/A	N/A	58,847	-
Small Business Development Centers	59.037	N/A	N/A	1,014,546	-
COVID-19 - Community Navigator Pilot Program	59.077	N/A	N/A	1,164,173	876,962
Subtotal - Direct Awards				2,258,884	876,962
National Endowment for the Arts					
Passthrough Awards:					
COVID-19 Vermont Cultural Relief Grant	45.025	Vermont Arts Council	N/A	3,122	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

	Assistance Listing Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED					
U.S. Department of Veteran Affairs					
Direct Awards:					
Veteran Affairs	93.888	N/A	N/A	$ 944	$ -
U.S. Department of Commerce					
Passthrough Awards:					
University Corporation for Atmosphere Research	11.467	National Oceanic and Atmospheric Admin	SUBAWD002504	1,066	-
Northern Border Regional Commission:					
Direct Awards:					
Northern Border Regional Development	90.601	N/A	N/A	810,690	326,099
U.S. Department of Health and Human Services:					
Direct Awards:					
Oral Health Workforce Activities	93.236	N/A	N/A	210,251	156,866
National Institute of Health	93.855	N/A	N/A	47,906	-
National Institute of Health	93.859	N/A	N/A	150,474	-
CDC	93.084	N/A	N/A	38,305	-
Subtotal - Direct Awards				446,936	156,866
Passthrough Awards:					
Centers for Disease Control & Prevention	93.391	Vermont Department of Health	03420-09223	75,721	-
Substance Abuse and Mental Health Services	93.243	Vermont Department of Mental Health	03150-C1722	15,140	-
VCPI- 6 Core Strategies***	93.958	Vermont Department of Health	03150-A1852	56,030	-
Block Grants for Community Mental Health Services***	93.958	Vermont Department of Health	03420-09224	33,251	-
ADAP Workforce Development	93.959	Vermont Department of Health	03420-08888	90,548	-
Early Childhood Education Institute	93.434	Vermont Department of Health	03440-32000-22	7,000	-
Spectrum Youth and Family Services	93.243	Vermont Department of Health	N/A	56,716	-
Southern Vermont Health Care	93.243	Vermont Department of Health	MOU	62,000	-
VCPI DBT Training***	93.958	Vermont Department of Health	03150-A1853, 03150-A1854	64,295	-
Subtotal - Passthrough Awards				460,701	-
Corporation for National and Community Service:					
Passthrough Awards:					
AmeriCorps	94.006	Vermont Agency of Human Services	19AFHVT00100012	308,447	-
U.S. Department of Labor:					
Passthrough Awards:					
Apprenticeship State Funds	17.285	Vermont Department of Labor	2247ASE01	156,644	-
Apprenticeship State Funds	17.285	Vermont Department of Labor	2247ASE02	169,186	-
VCPI Retain	17.720	N/A	1947RTN2-05	19,364	-
Subtotal - Passthrough Awards				345,194	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

	Assistance Listing Number	Pass-Through Entity	Pass-Through Entity Award Number	Total	Total Amounts to Sub-recipients
NON-CLUSTER - CONTINUED					
U.S. Department of Education:					
Direct Awards:					
COVID-19 - Higher Education Emergency Relief Fund - Student Aid Portion*	84.425E	N/A	N/A	$ 5,591	$ -
COVID-19 - Higher Education Emergency Relief Fund - Institutional Portion*	84.425F	N/A	N/A	1,355,865	-
COVID-19 - Higher Education Strengthening - Institutional Programs*	84.425M	N/A	N/A	329,611	-
Title III	84.031A	N/A	N/A	797,633	-
Fund for Improvement of Postsecondary Education	84.116Z	N/A	N/A	333,171	
Subtotal - Direct Awards				2,821,871	-
Passthrough Awards:					
Career and Technical Education - Basic Grants to States**	84.048	Vermont Department of Education	4319R0572201	936,008	-
Career and Technical Education - Basic Grants to States**	84.048	Vermont Department of Education	4322R0572201, 4319R2172201	292,268	-
Gaining Early Awareness and Readiness Program	84.334S	Vermont Student Assistance Corp.	N/A	146,104	-
Subtotal - Passthrough Awards				1,374,380	-
U.S. Department of Treasury:					
Passthrough Awards:					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act9Sec(18)(a)-VSC	1,895,979	
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act74SecG.300(a)(8)(B)-VSC	375,867	-
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act74SecG.300a8c-VSC-#1	7,137,048	
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	0110Act74SecG.200(2)(()-VSC	14,900,000	-
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act9Sec(17)(a)-VSC	238,154	-
				24,547,048	-
National Endowment for the Humanities					
Direct Awards:					
National endowment for humanities	45.162	N/A	N/A	175,896	-
Total Non-Cluster				34,627,834	1,359,927
Total Federal Funds				$ 84,904,279	$ 1,359,927

*Subtotal of ALN 84.425 programs is $1,691,067
** Subtotal of ALN 84.048 programs is $1,228,276
*** Subtotal of ALN 93.958 programs is $153,576

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

	Assistance Listing 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	$ 184,692	$ 323,990	$ 379,063	$ 219,654	$ -	$ -	$ 1,107,399	$ -
Federal Work-Study Program	84.033	N/A	N/A	116,273	341,898	732,824	81,228	-	-	1,272,223	-
Federal Perkins Loan Program (beginning of year)	84.038	N/A	N/A	-	773,813	2,282,225	176,302	-	46,772	3,279,112	-
Federal Direct Student Loans	84.268	N/A	N/A	1,677,295	10,143,862	8,630,270	5,718,301	-	-	26,169,728	-
Federal Pell Grant Program	84.063	N/A	N/A	5,851,399	2,737,286	2,660,747	1,846,246	-	-	13,095,678	-
Total Student Financial Assistance Cluster				7,829,659	14,320,849	14,685,129	8,041,731	-	46,772	44,924,140	-
TRIO CLUSTER											
U.S. Department of Education:											
Direct Awards:											
TRIO Student Support Services	84.042A	N/A	N/A	396,230	377,996	471,361	256,736	-	-	1,502,323	-
TRIO Upward Bound Math and Science	84.047M	N/A	N/A	-	111,004	-	-	-	-	111,004	-
TRIO Upward Bound	84.047A	N/A	N/A	-	331,409	975,237	-	-	-	1,306,646	-
TRIO McNair	84.217A	N/A	N/A	-	246,016	-	-	-	-	246,016	-
Total TRIO Cluster				396,230	1,066,425	1,446,598	256,736	-	-	3,165,989	-
RESEARCH AND DEVELOPMENT CLUSTER											
National Aeronautics and Space Administration:											
Passthrough Awards:											
Science - National Space Grant College and Fellowship Program	43.001	University of Vermont	AWD00000100SUB00000078	-	-	-	7,008	-	-	7,008	-
Kingdom Military Teen Adventure Camp	10.500	University of Vermont	AWD00001307SUB00000435	-	-	17,899	-	-	-	17,899	-
Subtotal - Passthrough Awards				-	-	17,899	7,008	-	-	24,907	-
National Science Foundation:											
Direct Awards:											
Geosciences	47.050	N/A	N/A	-	52,669	-	-	-	-	52,669	-
Passthrough Awards:											
National Science Foundation/UVM/NS	47.083	University of Vermont/National Science Foundation	AWD00000725SUB00000293	-	-	-	123,509	-	-	123,509	-
Biomedical Research and Research Training	93.859	University of Vermont	AWD00000118SUB00000040	-	134,063	162,845	-	-	-	296,908	-
Subtotal - Passthrough Awards				-	134,063	162,845	123,509	-	-	420,417	-
Total Research and Development Cluster				-	186,732	180,744	130,517	-	-	497,993	-
477 CLUSTER											
U.S. Department of Health and Human Services:											
Passthrough Awards:											
Child Care Mandatory and Matching Funds of the Child Care and Development	93.575	Vermont Department of Children & Families	03440-32004-23	1,296,026	-	-	-	-	-	1,296,026	-
Child Care Mandatory and Matching Funds of the Child Care and Development	84.181A	Vermont Department of Children & Families	03440-32004-23	33,910	-	-	-	-	-	33,910	-
Total 477 Cluster				1,329,936	-	-	-	-	-	1,329,936	

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

	Assistance Listing 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:											
VCPI Operations Grant	93.778	Vermont Department of Mental Health	03150-A1843	$ -	$ -	$ 77,868	$ -	$ -	$ -	$ 77,868	$ -
ECONOMIC DEVELOPMENT CLUSTER											
U.S. Department of Commerce:											
Direct Awards											
Economic Adjustment Assistance	11.307	N/A	N/A	-	-	190,648	-	-	-	190,648	-
EDA Café	11.307	N/A	N/A	-	-	-	41,778	-	-	41,778	-
				-	-	190,648	41,778	-	-	232,426	-
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER											
U.S. Department of Agriculture:											
Passthrough Awards:											
Highway Planning and Construction	20.205	VT Agency of Transportation	GR1673	-	-	-	-	48,093	-	48,093	-
NON-CLUSTER											
U.S. Department of Agriculture:											
Passthrough Awards:											
Northeast Organic Farming Association- Organic Certification Training	10.575	Northeast Organic Farming Association of New Jersey	N/A	-	-	-	20,408	-	-	20,408	-
U.S. Department of Commerce:											
Direct Awards:											
Manufacturing Extension Partnership	11.611	N/A	N/A	-	-	-	-	760,297	-	760,297	-
Passthrough Awards:											
Manufacturing Extension Partnership	11.611	Massachusetts Manufacturing Extenstion Center	N/A	-	-	-	-	67,504	-	67,504	-
U.S. Department of Justice											
Direct Awards:											
US Department of Justice	16.753	N/A	N/A	224,446	-	-	-	-	-	224,446	-
Small Business Administration:											
Direct Awards:											
COVID-19 - Small Business Development Centers	59.037	N/A	N/A	-	-	-	-	21,318	-	21,318	-
Congressional Community Project	59.059	N/A	N/A	-	-	-	-	58,847	-	58,847	-
Small Business Development Centers	59.037	N/A	N/A	-	-	-	-	1,014,546	-	1,014,546	-
COVID-19 - Community Navigator Pilot Program	59.077	N/A	N/A	-	-	-	-	1,164,173	-	1,164,173	876,962
Subtotal - Direct Awards				-	-	-	-	2,258,884	-	2,258,884	876,962
National Endowment for the Arts											
Passthrough Awards:											
COVID-19 - Vermont Cultural Relief Grant	45.025	Vermont Arts Council	N/A	-	-	3,122	-	-	-	3,122	-
U.S. Department of Veteran Affairs											
Direct Awards:											
Veteran Affairs	93.888	N/A	N/A	-	944	-	-	-	-	944	-
U.S. Department of Commerce											
Passthrough Awards:											
University Corporation for Atmosphere Research	11.467	National Oceanic and Atmospheric Admin	SUBAWD002504	-	-	1,066	-	-	-	1,066	-

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

Schedule of Expenditures of Federal Awards - Continued

Year Ended June 30, 2023

	Assistance Listing 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:											
Direct Awards:											
Northern Border Regional Development	90.601	N/A	N/A	$ -	$ -	$ 401,436	$ -	$ 409,254	$ -	$ 810,690	$ 326,099
U.S. Department of Health and Human Services:											
Direct Awards:											
Oral Health Workforce Activities	93.236	N/A	N/A	-	-	-	210,251	-	-	210,251	156,866
National Institute of Health	93.855	N/A	N/A	-	-	47,906	-	-	-	47,906	-
National Institute of Health	93.859	N/A	N/A	-	-	150,474	-	-	-	150,474	-
CDC	93.084	N/A	N/A	-	-	38,305	-	-	-	38,305	-
Subtotal - Direct Awards				-	-	236,685	210,251	-	-	446,936	156,866
Passthrough Awards:											
Centers for Disease Control & Prevention	93.391	Vermont Department of Health	03420-09223	75,721	-	-	-	-	-	75,721	-
Substance Abuse and Mental Health Services	93.243	Vermont Department of Mental Health	03150-C1722	-	-	15,140	-	-	-	15,140	
VCPI- 6 Core Strategies***	93.958	Vermont Department of Health	03150-A1852	-	-	56,030	-	-	-	56,030	-
Block Grants for Community Mental Health Services***	93.958	Vermont Department of Health	03420-09224	-	-	33,251	-	-	-	33,251	-
ADAP Workforce Development	93.959	Vermont Department of Health	03420-08888	-	-	90,548	-	-	-	90,548	-
Early Childhood Education Institute	93.434	Vermont Department of Health	03440-32000-22	-	7,000	-	-	-	-	7,000	-
Spectrum Youth and Family Services	93.243	Vermont Department of Health	N/A	-	56,716	-	-	-	-	56,716	-
Southern Vermont Health Care	93.243	Vermont Department of Health	MOU	62,000	-	-	-	-	-	62,000	-
VCPI DBT Training***	93.958	Vermont Department of Health	03150-A1853, 03150-A1854	-	-	64,295	-	-	-	64,295	-
Subtotal - Passthrough Awards				137,721	63,716	259,264	-	-	-	460,701	-
Corporation for National and Community Service:											
Passthrough Awards:											
AmeriCorps	94.006	Vermont Agency of Human Services	19AFHVT00100012	-	-	308,447	-	-	-	308,447	-
U.S. Department of Labor:											
Passthrough Awards:											
Apprenticeship State Funds	17.285	Vermont Department of Labor	2247ASE01	156,644	-	-	-	-	-	156,644	-
Apprenticeship State Funds	17.285	Vermont Department of Labor	2247ASE02	-	-	-	-	169,186	-	169,186	-
VCPI Retain	17.720	N/A	1947RTN2-05	-	-	19,364	-	-	-	19,364	-
Subtotal - Passthrough Awards				156,644	-	19,364	-	169,186	-	345,194 -	-
U.S. Department of Treasury:											
Passthrough Awards:											
COVID-19- Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act9Sec(18)(a)-VSC	-	-	-	-	-	1,895,979	1,895,979	-
COVID-19- Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act74SecG.300(a)(8)(B)-VSC	-	-	-	-	-	375,867	375,867	-
COVID-19- Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act74SecG.300a8c-VSC-#1	-	-	-	-	-	7,137,048	7,137,048	-
COVID-19- Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	0110Act74SecG.200(2)(()-VSC	-	-	-	-	-	14,900,000	14,900,000	-
COVID-19- Coronavirus State and Local Fiscal Recovery Funds	21.027	Vermont Agency of Administration	01110Act9Sec(17)(a)-VSC	-	-	-	238,154	-	-	238,154	-
Subtotal - Passthrough Awards				-	-	-	238,154	-	24,308,894	24,547,048 -	-
U.S. Department of Education:											
Direct Awards:											
COVID-19 - Higher Education Emergency Relief Fund - Student Aid Portion*	84.425E	N/A	N/A	5,591	-	-	-	-	-	5,591	-
COVID-19 - Higher Education Emergency Relief Fund - Institutional Portion*	84.425F	N/A	N/A	1,355,865	-	-	-	-	-	1,355,865	-
COVID-19 - Higher Education Strengthening - Institutional Programs*	84.425M	N/A	N/A	329,611	-	-	-	-	-	329,611	-
Title III	84.031A	N/A	N/A	-	491,310	306,323	-	-	-	797,633	-
Fund for Improvement of Postsecondary Education	84.116Z			-	-	159,463	-	-	173,708	333,171	
Subtotal - Passthrough Awards				1,691,067	491,310	465,786	-	-	173,708	2,821,871	-
Passthrough Awards:											
Career and Technical Education - Basic Grants to States**	84.048	Vermont Department of Education	4319R0572201	936,008				-	-	936,008	-
Career and Technical Education - Basic Grants to States**	84.048	Vermont Department of Education	4322R0572201, 4319R2172201	97,072			195,196	-	-	292,268	-
Gaining Early Awareness and Readiness Program	84.334S	Vermont Student Assistance Corp.	N/A	146,104	-	-	-	-	-	146,104	-
Subtotal - Passthrough Awards				1,179,184	-	-	195,196	-	-	1,374,380	-
National Endowment for the Humanities											
Direct Awards:											
National Endowment for Humanities	45.162	N/A	N/A	-	175,896	-	-	-	-	175,896	-
Total Non-Cluster				3,389,062	731,866	1,695,170	664,009	3,665,125	24,482,602	34,627,834	1,359,927
Total Federal Funds				$ 12,944,887	$ 16,305,872	$ 18,276,157	$ 9,134,771	$ 3,713,218	$ 24,529,374	$ 84,904,279	$ 1,359,927

*Subtotal of ALN 84.425 programs is $1,691,067
** Subtotal of ALN 84.048 programs is $1,228,276
*** Subtotal of ALN 93.958 programs is $153,576

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

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, 2023. 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. As of June 30, 2023, loan balances receivable, net under Perkins was $1,469,809.

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

Direct Student Loan Program
The Colleges disbursed $26,169,728 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, 2023. The Colleges are only responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the Colleges’ financial statements.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2023

<u>Section I – Summary of Auditors' Results:</u>

Financial Statements

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

Federal Awards

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

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Identification of Major Programs:

Name of Federal Program or Cluster	CFDA Number
Student Financial Aid Cluster:	
Federal Supplemental Educational Opportunity Grant	**84.007**
Federal Work-Study Program	**84.033**
Federal Perkins Loan Program	**84.038**
Federal Direct Student Loans	**84.268**
Federal Pell Grant Program	**84.063**
Non-cluster:	
COVID-19 – Coronavirus State and Local Fiscal Recovery Funds	**21.027**
COVID-19 – Community Navigator Pilot Program	**59.077**

Dollar threshold used to distinguish between type A and type B programs: $2,548,000

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

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Section II – Financial Statement Findings:

None.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Section III – Federal Award Findings and Questioned Costs:

Finding number:	2023-01
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grants and Direct Loans
CFDA #:	84.063 and 84.268
Award year:	2023

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 College to report to the Federal Government's Common Origination and Disbursement System ("COD") Federal Pell Grant and Direct Loan disbursements made to students within 15 days of the funds being disbursed to the student. During our testing, we noted 3 students, out of a sample of 40, that was not reported within the required timeframe by 1 to 9 days.

Cause
The Colleges have policies and procedures in place to report the disbursement records to the Department of Education through the COD system within the required fifteen calendar days, however, in this case the procedures were not completed properly.

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

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Questioned Costs
Not applicable

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the 40 students selected for testing, 3 students, or 7.5% of our sample, was determined to be reported late to the COD by 1 to 9 days.

Identification as a Repeat Finding, if applicable
Not applicable

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

View of Responsible Officials
The Colleges agree with the finding.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Finding number:	2023-02
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:	2023

Criteria
According to 34 CFR 668.34:

(a) An institution must establish a reasonable satisfactory academic progress policy for determining whether an otherwise eligible student is making satisfactory academic progress in his or her educational program and may receive assistance under the title IV, HEA programs.

(9) If the institution permits a student to appeal a determination by the institution that he or she is not making satisfactory academic progress, the policy describes –

(i) How the student may reestablish his or her eligibility to receive assistance under the title IV, HEA programs;

(ii) The basis on which a student may file an appeal: The death of a relative, an injury or illness of the student, or other special circumstances; and

(iii) Information the student must submit regarding why the student failed to make satisfactory academic progress, and what has changed in the student's situation that will allow the student to demonstrate satisfactory academic progress at the next evaluation.

Condition
The Colleges' satisfactory academic progress policy (SAP) allows for a student who fails to meet the minimum standard to be provided one semester of academic warning. If the student does not improve, as described in the Colleges' SAP, the student will be dismissed from the Colleges unless the student successfully appeals the dismissal. Our testing revealed that four students failed to meet the minimum standards established by the Colleges' SAP. Of these four students, one student did not receive notification that they were out of compliance of the Colleges' SAP.

Cause
The Colleges failed to have the proper review procedures in place to ensure that all students who did not meet the minimum SAP standards received proper notification.

Effect
Students who did not receive notification of their current academic standing and as such were unable to submit an appeal.

Questioned Costs
Not Applicable

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the 40 students selected for testing, 1 students, or 2.5%, failed to meet the minimum standards established by the Colleges' SAP.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Identification as a Repeat Finding, if applicable
Not applicable

Recommendation
The Colleges should continue to strengthen their controls surrounding notification to students who have failed to meet the minimum standards per the SAP.

View of Responsible Officials
The Colleges agree with the finding.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Finding number:	2023-03
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:	2023

Criteria
According to 34 CFR 668.22(c):

> *Withdrawal date for a student who withdraws from an institution that is not required to take attendance.* For purposes of this section, for a student who ceases attendance at an institution that is not required to take attendance, the student's withdrawal date is –
>
> (i) The date, as determined by the institution, that the student began the withdrawal process prescribed by the institution;
>
> (ii) The date, as determined by the institution, that the student otherwise provided official notification to the institution, in writing or orally, of his or her intent to withdraw;
>
> (iii) If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c)(1)(i) or (c)(1)(ii) of this section, the mid-point of the payment period (or period of enrollment, if applicable).

Condition
When a recipient of Title IV funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution should determine the proper amount of Title IV funds to be refunded as of the recipient's withdrawal date. Once a recipient's withdrawal date is determined, an institution should complete a Return of Title IV ("R2T4") calculation. The R2T4 is used to calculate the percentage of the payment period or period of enrollment completed, establish the amount of Title IV funds earned by the recipient, and determine the amount required to be returned to the Department of Education. During our testing, we noted 1 student, out of a sample of 40, where the Return of Title IV calculation was completed using incorrect withdrawal dates.

Cause
When completing the R2T4 calculation, the Colleges used the date the students' withdrawal was processed by the Colleges instead of the actual date the student withdrew from the Colleges.

Effect
The Colleges calculated the student's percentage of earned aid incorrectly which resulted in an incorrect amount of Title IV funds returned to the Department of Education.

Questioned Costs
Unknown

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the 40 students selected for testing, 1 student, or 2.5% of our sample, used the incorrect withdrawal date when completing the Return of Title IV calculation.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Identification as a Repeat Finding, if applicable
Not applicable

Recommendation
The Colleges should implement a formal review process of the Return of Title IV calculations to ensure an accurate calculation is made.

View of Responsible Officials
The Colleges agree with the finding.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Finding number:	2023-04
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:	2023

Criteria
According to 34 CFR 668.22(j)(1):

> *Timeframe for the return of title IV funds.* An institution must return the amount of title IV funds for which it is responsible under paragraph (g) of this section as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew as defined in paragraph (l)(3) of this section.

According to 34 CFR 668.173(b):

> *Timely return of Title IV, HEA program funds.* In accordance with procedures established by the Secretary or Federal Family Education Loan ("FFEL") program lender, an institution returns unearned Title IV, HEA program funds timely if –
>
> (1) The institution deposits or transfers the funds into the bank account it maintains under 34 CFR Sections 668.163 no later than 45 days after the date it determines the student withdrew;
>
> (2) The institution initiates an electronic funds transfer no later than 45 days after the date it determines that the student withdrew;
>
> (3) The institution initiates an electronic transaction no later than 45 days after the date it determines that the student withdrew, that informs a FFEL lender to adjust the borrower's loan account for the amount returned; or
>
> (4) The institution issues a check no later than 45 days after the date it determines that the student withdrew. An institution does not satisfy this requirement if –
>
> (i) The institution's records show that the check was issued more than 45 days after the date the institution determined the student withdrew; or
>
> (ii) The date on the cancelled check shows that the bank used by the Secretary or FFEL Program lender endorsed that check more than 60 days after the date the institution determined that the student withdrew.

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 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 3 students, out of a sample of 40, had unearned Title IV aid that was not returned to the Federal Government, within 45 days of the determined withdrawal date, by 20 to 74 days.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Cause
The Colleges did not consistently follow the procedures in place to monitor student withdrawals related to Title IV funds that must be returned to the Department of Education within 45 days.

Effect
The Colleges did not return unearned Title IV funds within the required 45-day time frame.

Questioned Costs
Not applicable

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the 40 students selected for testing, 3 students, or 7.5% of our sample, had unearned Title IV funds that were not returned to the Department of Education within the 45-day required time frame.

Identification as a Repeat Finding, if applicable
Not applicable

Recommendation
The Colleges should strengthen their controls surrounding the review Return of Title IV calculations in a timely manner to ensure that all funds are returned to the Department of Education within the required time frame.

View of Responsible Officials
The Colleges agree with the finding.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Finding number:	2023-05
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:	2023

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

> Unless the Colleges 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.

<u>The Dear Colleague Letter GEN-12-6</u> 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, 5 out of 40 students were reported late to the NSLDS by 3 to 168 days. During our testing, 2 out of 40 students reported incorrect effective dates, and 1 out of 40 students had an incorrect status reported to the NSLDS.

Cause
The Colleges did not have the proper review procedures in place to ensure enrollment status changes were being reported to NSLDS timely and correctly.

Effect
The Colleges did not report the students' correct effective dates to NSLDS or were not reported within the required timeframe, which may impact the students’ loan grace periods.

Questioned Costs
Not applicable

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the 40 students selected for testing, 7 students, or 17.5% of our sample, did not report the correct effective dates to NSLDS or were not reported within the required timeframe.

Identification as a Repeat Finding, if applicable
See prior year finding 2022-001

Recommendation
The Colleges should strengthen their controls surrounding the review of the NSLDS reporting process to ensure they are in compliance with federal regulations.

View of Responsible Officials
The Colleges agree with the finding.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Current Year Findings and Questioned Costs - Continued
Year Ended June 30, 2023

Finding number:	2023-06
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:	2023

Criteria
According to 34 CFR 668.164(l):

(1) Notwithstanding any State law (such as a law that allows funds to escheat to the State), an institution must return to the Secretary any title IV, Higher Education Act ("HEA") program funds, except Federal Work Study ("FWS") program funds, that it attempts to disburse directly to a student or parent that are not received by the student or parent. For FWS program funds, the institution is required to return only the Federal portion of the payroll disbursement.

(2) If an EFT to a student's or parent's financial account is rejected, or a check to a student or parent is returned, the institution may make additional attempts to disburse the funds, provided that those attempts are made not later than 45 days after the EFT was rejected or the check returned. In cases where the institution does not make another attempt, the funds must be returned to the Secretary before the end of this 45-day period.

(3) If a check sent to a student or parent is not returned to the institution but is not cashed, the institution must return the funds to the Secretary no later than 240 days after the date it issued the check.

Condition
Federal regulations require an institution to return unclaimed Title IV funds issued by check or EFT within 240 days. During our testing, we noted 3 students, out of a sample of 40, that had unclaimed funds exceeding the federal day limit by 27 to 224 days.

Cause
The Colleges did not have an effective proves in place to monitor the outstanding check aging to ensure that the 240-day timeframe was met.

Effect
The Colleges did not return Title IV unclaimed funds to the Department of Education within the required 240-day time frame.

Questioned Costs
There were 3 outstanding checks totaled $4,729 which pertained specifically to federal-sourced funds.

Perspective
Our sample was not, and was not intended to be, statistically valid. Of the 40 students selected for testing, 3 students, or 7.5% of our sample, had unclaimed funds pertaining to federal sources that were not returned to the Department of Education within the 240-day required time frame.

Recommendation
The Colleges should examine its policies and procedures related to unclaimed funds including the process and time frame for identifying aged balances and the process for cancelling checks and returning funds to the Department of Education.

View of Responsible Officials
The Colleges agrees with the finding.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Management's Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

Finding number:	2022-001
Federal agency:	U.S. Department of Education
Programs:	Student Financial Assistance Cluster
CFDA #:	84.063 and 84.268
Award year:	2022

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 2022:
During our inquiry with management, one of the Colleges failed to report enrollment status changes, inclusive of graduation status records to the National Student Loan Data System ("NSLDS") from Summer 2021 through Spring 2022.

Award Year 2021:
Out of a sample of forty students with enrollment status changes, three students were never reported to the NSLDS, three students were not reported to NSLDS within the 60-day required timeframe.

Award Year 2020:
Out of a sample of forty students with enrollment status changes, one student was never reported to the NSLDS, four students were reported with the incorrect effective date, and six students' status changes were not reported to NSLDS within the 60-day required time frame.

Award Year 2019:
Out of a sample of forty students with enrollment status changes, three students were not reported with the correct effective date to the NSLDS.

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 student's 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:
During our current year testing, we noted 1 finding related to NSLDS reporting. See finding 2023-05.

The Colleges are looking to strengthen its controls in this area. See finding 2023-05 for more information and corrective action plan.

Management's Corrective Action Plan

Finding number:	2023-01
Federal agency:	U.S. Department of Education
Programs:	Federal Pell Grants and Direct Loans
CFDA #:	84.063 and 84.268
Award year:	2023

Corrective Action Plan:

CCV
Disbursement errors noted are isolated errors due to system issues within COD, testing of processes that resulted in an error, and a scheduling issue related to a holiday break. A new automated COD report in Colleague will be created by CCV and implemented in November 2023.

VTSU
VTSU will continue to monitor and report weekly.

Timeline for Implementation of Corrective Action Plan:

Immediately

Contact Person

Sharron Scott, CFO

Finding number:	2023-02
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:	2023

Corrective Action Plan:

VTSU
This was an isolated instance and attributed to human error. Training with all staff has been reinforced.

Timeline for Implementation of Corrective Action Plan:

Immediately

Contact Person

Sharron Scott, CFO

Management's Corrective Action Plan

Finding number:	2023-03
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:	2023

Corrective Action Plan:

VTSU
A new process for verifying last date of attendance by the registrar's office was implemented for the 2023-2024 academic year. The new process includes verifying last date of attendance supplied by the student on their withdrawal form with faculty. The verified date will be used for all transactions of record.

Timeline for Implementation of Corrective Action Plan:

Immediately

Contact Person

Sharron Scott, CFO

Finding number:	2023-04
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:	2023

Corrective Action Plan:

CCV
CCV implemented new processes in March and June of 2023 to address these issues. The first process verifies that a student's aid has been updated and recalculated before closing the record. The second process ensures additional training and controls to make sure student withdrawals occur within the appropriate timeframe.

VTSU
VTSU reprocessed the error return to the Title IV funds with the correct information and cancelled the loan completely. Training with all staff has been reinforced.

Timeline for Implementation of Corrective Action Plan:

Immediately

Contact Person

Sharron Scott, CFO

Management's Corrective Action Plan

Finding number: 2023-05
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: 2023

Corrective Action Plan:

CCV
In June 2023 CCV implemented a new process to verify that student records reported to the Clearinghouse have been correctly and accurately reported to the National Student Database (NSLDS)

VTSU
In March 2023 VTSU implemented new procedures to ensure all enrollment status changes were processed consistently. Since implementation, no new findings were identified.

Timeline for Implementation of Corrective Action Plan:

Immediately

Contact Person

Sharron Scott, CFO

Finding number: 2023-06
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: 2023

Corrective Action Plan:

New procedures to effectively collaborate and share information between financial aid and student accounts will be drafted to ensure unclaimed checks are processed within the required window.

Timeline for Implementation of Corrective Action Plan:

Immediately

Contact Person

Sharron Scott, CFO

VERMONT STATE COLLEGES SYSTEM
BOARD OF TRUSTEES
RESOLUTION 2023-011

Acceptance of the FY2023 Audited Financial Statements and Single Audit Report

WHEREAS, The Vermont State Colleges has contracted with Withum to perform its FY2023 financial statements and single audit, and the auditors have delivered the final draft documents; and

WHEREAS, The Board's Audit and Risk Management Committee has reviewed these materials and recommended that the Board accept them; therefore; and

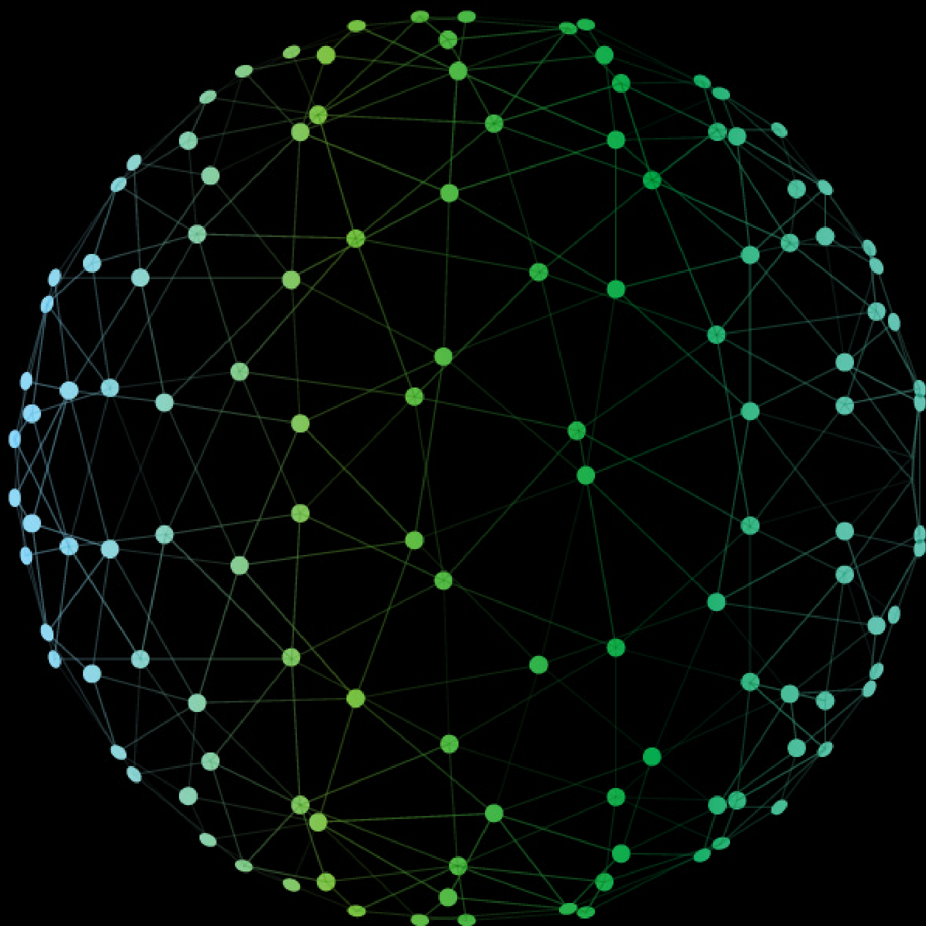
RESOLVED, That the Board of Trustees of the Vermont State Colleges hereby accepts the FY2023 Financial Statements and Single Audit Report by Withum.

Approved: _________________, 2023

____
Lynn Dickinson, Chair of the Board of Trustees

ITEM 3: Deloitte Resource Guide for Audit Committees

Deloitte.



The role of the audit committee

April 2018

Center *for*
Board Effectiveness

The role of the audit committee

Oversight of financial reporting and related internal controls

Review of filings and earnings releases

Risk oversight

Oversight of the independent auditor

Ethics and compliance

Oversight of internal audit

Other interactions with management and the board

Audit committee external communications

The role of the audit committee

As an audit committee member, it is important to understand the rules relevant to your role. This section provides an overview of an audit committee's responsibilities in overseeing financial reporting and related internal controls, risk, and ethics and compliance. It also discusses the committee's role in overseeing the internal and independent auditors, as well as how the committee may interact with other members of management and external stakeholders. Finally, it highlights the committee's responsibilities with respect to disclosures in the proxy statement.

SEC, PCAOB, NYSE, and NASDAQ rules are highlighted where relevant, and we have noted leading practices, tools, and resources to help audit committee members execute their responsibilities.

Oversight of financial reporting and related internal controls

The audit committee, management, and the independent auditor all have distinct roles in financial reporting. Management is responsible for preparing the financial statements, establishing and maintaining adequate internal control over financial reporting (ICFR), and evaluating the effectiveness of ICFR. The independent auditor is responsible for expressing an opinion on the fairness with which the financial statements present, in all material respects, the financial position, the results of operations, and cash flows in conformity with GAAP, and, when applicable, evaluating the effectiveness of ICFR.

To oversee ICFR successfully, the audit committee should be familiar with the processes and controls management has put in place and understand whether those processes and controls are designed and operating effectively. The audit committee should work with management, the internal auditors, and the independent auditor to gain the knowledge needed to provide appropriate oversight of this area.

Likewise, the audit committee is responsible for overseeing the entire financial reporting process. To do so effectively, it should be familiar with the processes and controls that management has established and determine whether they were designed effectively.

The audit committee's role is one of oversight and monitoring, and in carrying out this responsibility, the committee may rely on management, the independent auditor, and any advisers the committee might engage, provided its reliance is reasonable.

The audit committee should consider having management identify and discuss any significant accounting policies, estimates, and judgments made. A quarterly analysis of these areas may be useful to prepare for these discussions, and management should tailor the analysis to highlight changes and include new or unusual items. Because Regulation S-X, Rule 2-07 requires the independent auditor to discuss the effects of alternative GAAP methods on the financial statements, the information presented by management should be corroborated by the independent auditor.

NYSE requirements. NYSE listing standards require the audit committee to review major issues regarding accounting principles and the presentation of the financial statements. These include significant changes in the company's selection or application of accounting principles, the adequacy of internal controls, and any special audit steps adopted in response to what the NYSE terms "material control deficiencies." These discussions can be held, generally with management, during the review of the quarterly financial statements to be filed with the SEC.

The audit committee is also required to review management's analyses of significant issues in financial reporting and judgments made in preparing the financial statements, including the effects of alternative GAAP methods. This discussion may also be held during the review of the quarterly financial statements. The audit committee also should review the effects of regulatory and accounting initiatives, as well as off-balance-sheet transactions, on the financial statements. For example:

- Management and the audit committee should discuss pending technical and regulatory matters that could affect the financial statements, and the audit committee should be updated on management's plans to implement new technical or regulatory guidelines.
- The review of off-balance-sheet structures should also be a recurring agenda item, and may be conducted as part of the committee's review of management's discussion and analysis in the annual and quarterly reports. The exact frequency of these discussions will depend on the company's operations and preferences. Finally, the audit committee should consider reviewing off-balance-sheet transactions, or at least material ones, before they are executed.

NASDAQ requirements. NASDAQ requires disclosure of the audit committee's purpose, as set out in its charter, of overseeing accounting and financial reporting processes of the company and audits of the financial statements. See the **audit committee charter** section of this guide for details.

Fraud risk

In conjunction with risk oversight, the audit committee should be satisfied that the company has programs and policies in place to prevent and identify fraud. It should work with management to oversee the establishment of appropriate antifraud controls and programs and to take the necessary steps when fraud is detected. The audit committee should also be satisfied that the organization has implemented an appropriate ethics and compliance program and established a reporting hotline. See the **ethics and code of conduct** and **reporting hotline procedures** sections later in this guide for more information.

Audit committee members should be aware of three main areas of fraud risk:

- Financial statement fraud, which includes intentional misstatements in or omissions from financial statements
- Asset misappropriation, which may include check forgery, theft of money, inventory theft, payroll fraud, or theft of services
- Corruption, which may include schemes such as kickbacks, shell companies, bribes to influence decision makers, or manipulation of contracts.

One way the audit committee can help oversee the prevention and detection of financial statement fraud is by monitoring management's assessment of ICFR.

The audit committee should also have an awareness of the US Foreign Corrupt Practices Act (FCPA) and other non-US anticorruption laws that may be applicable (e.g., the UK Bribery Act). As the SEC and Department of Justice note in the Resource Guide to the FCPA, anticorruption compliance "begins with the board of directors and senior executives setting the proper tone for the rest of the company." To that end, the audit committee should:

- Understand the company's obligations and responsibilities regarding anticorruption laws to which it is subject
- Determine whether the company has dedicated appropriate oversight, autonomy, and resources to its anticorruption compliance program; depending on the company's size, this could involve assigning an individual who is specifically charged with anticorruption compliance and has a direct reporting line to the committee

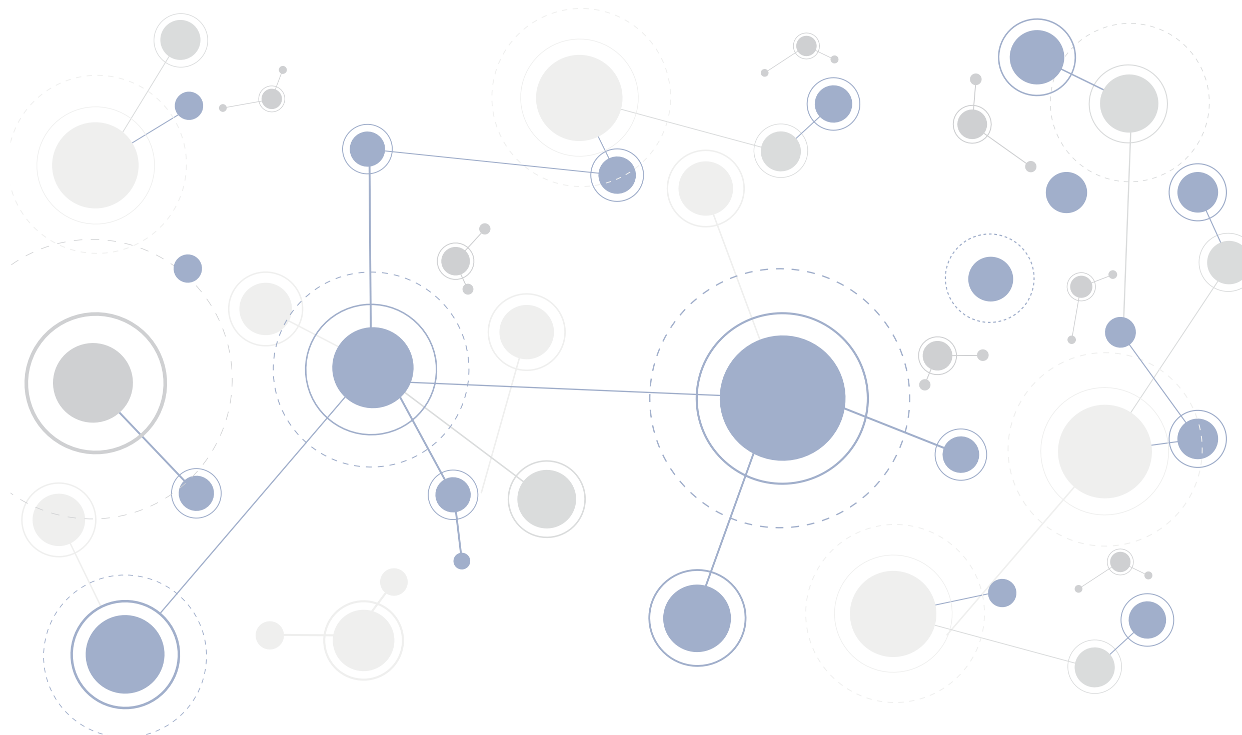
- Understand specific policies and procedures in place to identify and mitigate corruption-related risks
- Discuss with management specific corruption-related risks that have been identified, including allegations of corruption that may have been received through the company's monitoring and reporting mechanisms, as well as management's plans for responding to such risks
- Monitor any actual violations, including management's response.

2013 COSO framework. The 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a formal structure for designing and evaluating the effectiveness of internal control. It emphasizes the role of the board—and, by delegation or regulation, the role of the audit committee—in overseeing internal control, which remains an essential aspect of effective governance. In particular, the framework highlights:

- The board's role in the control environment, including clarification of expectations for integrity and ethics, conflicts of interest, adherence to codes of conduct, and other matters
- The board's assessment of the risk that management could override internal controls and careful consideration of the possibility that management may override such controls
- The establishment and maintenance of open lines of communication between management and the board and the provision of separate lines of communication, such as whistleblower hotlines.

Tools and resources

The Anti-Fraud Collaboration released a report titled *The Fraud-Resistant Organization* that identifies three central themes critical to fraud deterrence and detection.



Review of filings and earnings releases

The audit committee generally reviews earnings releases, SEC filings containing financial information, and other financial information and earnings guidance provided to analysts, ratings agencies, and others. The committee should consider how it will execute these responsibilities to satisfy itself that all information is presented fairly and in a transparent manner. This should include a focus on consistency of information, tone, and messaging across all financial communications.

The audit committee should confirm that an appropriate legal review has been completed to verify the completeness of disclosures, including any obligation to report on trends. This legal review should also consider compliance with the company's policies on forward-looking statements and the completeness of any related disclaimers.

NYSE requirements. NYSE listing standards require that the audit committee meet to discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditor. They also require the audit committee charter to address the committee's responsibility to discuss earnings press releases and the financial information and guidance provided to analysts and ratings agencies.

The commentary to the listing standards indicates that this discussion may be in general terms, and the audit committee may discuss the type of information disclosed and the type of presentation made. The commentary also indicates that the discussion should pay particular attention to any pro forma or adjusted non-GAAP financial information.

Note that SEC rules require the audit committee to recommend to the board that the audited financial statements be included in the company's annual report on Form 10-K.

Two-thirds of audit committees meet via conference call to discuss earnings releases, while **22%** review earnings releases at in-person meetings

Source: *Deloitte 2016 Board Practices Report*

Questions for audit committees to consider

Earnings guidance

The audit committee should discuss earnings guidance with management. Questions to consider include:

- When did management last evaluate its approach to providing earnings guidance? Is a change in approach warranted as a result of the current economic environment and other circumstances facing the company?
- How can pressures to meet expectations in the short term influence the quality of the company's reported financial results and management behavior?
- What practices do the company's competitors follow with respect to earnings guidance and other forward-looking information?
- What are management's reasons for providing or not providing earnings-per-share targets and other types of forward-looking information?
- How confident is management in its ability to forecast earnings accurately? Is the disclosure of a range of earnings estimates preferable to a specific target? Should the time frame for which estimates are provided be modified or are more frequent updates necessary?
- What are the company's long-term value drivers? What is the specific quantitative and qualitative information—be it financial or nonfinancial in nature—that best reflects these drivers? Is this information provided to investors and analysts on a forward-looking basis?
- Has management considered seeking input directly from shareholders regarding the types of forward-looking information they would find meaningful?
- Do current circumstances warrant enhanced audit committee review of earnings estimates and other forward-looking information before it is made public?
- If the company changes its approach to the provision of earnings guidance and forward-looking information, should the audit committee modify its practices for reviewing that information?

Questions for audit committees to consider

Non-GAAP measures

The SEC rules regarding the use of non-GAAP financial measures require, among other things, that disclosure of any material information containing non-GAAP financial measures must include the most directly comparable GAAP financial measures, that the GAAP measures must be disclosed with equal or greater prominence, and that the GAAP and non-GAAP measures must be reconciled. The SEC has recently taken a hard look at non-GAAP measures in response to concerns about their increased use and prominence. As a result, companies and audit committees should consider re-examining their use of non-GAAP measures and related controls and the disclosure of those measures. The audit committee should consider asking the following questions:

- Is the measure misleading or prohibited?
- Is the measure presented with the most directly comparable GAAP measure and with no greater prominence than the GAAP measure?
- Is the measure defined and described appropriately and clearly labeled as non-GAAP?
- Does the reconciliation between the GAAP and non-GAAP measure clearly label and describe the nature of each adjustment, and is each adjustment appropriate?
- Is there transparent and company-specific disclosure of the substantive reasons why management believes that the measure is useful for investors and the purpose for which management uses the measure?
- Is the measure prepared consistently from period to period in accordance with a defined policy, and is it comparable to that of the company's peers?
- Is the measure balanced (e.g., does it adjust not only for nonrecurring expenses but also for nonrecurring gains)?
- Does the measure appropriately focus on material adjustments and not include immaterial adjustments that would not seem to be a focus of management?
- Do the disclosure controls and procedures address non-GAAP measures?
- Does the audit committee oversee the preparation and use of non-GAAP measures?
- Does the audit committee have a clear understanding how non-GAAP measures impact compensation? Are the audit and compensation committees aligned on this?

Tools and resources

Deloitte's publications *A Chance to Self-Correct: SEC Urges Companies to Take a Fresh Look at Their Non-GAAP Measures* and *A Roadmap to Non-GAAP Financial Measures* provide additional information, including ways for a company to assess the appropriateness of its non-GAAP measures and control considerations.

Additionally, in March 2018, the Center for Audit Quality issued *Non-GAAP Measures: A Roadmap for Audit Committees*, a guide intended to help audit committees enhance their oversight of these measures used by company management. The roadmap provides key considerations for audit committees, including leading practices to assess whether a company's non-GAAP metrics present a balanced representation of the company's performance.

Questions for audit committees to consider

Related-party transactions

NASDAQ and NYSE listing standards each contemplate that the audit committee of a listed company, or another independent body of the board, will review all related-party transactions. In some instances, this responsibility is assigned to the audit committee. The following questions may help the audit committee assess its process for approving related-party transactions:

- What process will the committee follow in reviewing and approving related-party transactions? Is this process documented?
- Will special meetings be called as potential transactions arise, or is there a process to review transactions between scheduled meetings?
- What information does the committee need to make an informed judgment about the appropriateness of a transaction?
- Who will be responsible for presenting this information?

For each transaction brought for approval, the committee may consider asking:

- What are the business reasons for the transaction? Are these reasons in line with the company's overall strategy and objectives?
- When and how will the transaction have to be disclosed? How will investors view the transaction when it is disclosed?
- Which insiders could benefit from the transaction and in what way?
- What impact will the transaction have on the financial statements?
- Are any outside advisers needed to help understand the implications of the transaction?

Risk oversight

Given the dynamic business environment, which creates an ever-changing risk landscape, boards should make sure the risk oversight function is well defined and effective. The board plays a critical role in understanding and influencing management's processes for identifying, assessing, and continually monitoring risks. The board should clearly define which risks the full board should discuss regularly versus the risks that can appropriately be delegated primarily to a board committee. While many boards have a defined risk governance structure in place, it is important to continually assess the structure as companies face new risks.

A leading practice is for management to maintain a list of all enterprise-wide risks, which are then mapped to specific board committees with the expertise to oversee them. For example, human resource and compensation risks may be delegated to the compensation committee for oversight, and the audit committee should have a key role in overseeing financial risks. In many instances, the full board takes direct responsibility for and regularly discusses the company's most strategic risks, which include risks that could disrupt and materially impact the company's business strategy. Committee charters should be updated to align with the defined risk governance structure.

For companies outside the financial services industry, where many companies have separate board risk committees, any risks not assigned to a specific committee during this process are often delegated to the audit committee. While it may be appropriate for the audit committee to take responsibility for reviewing the guidelines, processes, and policies management has in place to identify, assess, and manage risk, boards should take care not to overburden the audit committee

Questions for audit committees to consider

Risk oversight

When the board or audit committee is considering the effectiveness of the company's enterprise risk management—the process of planning, organizing, leading, and controlling activities to minimize the effect of downside risk on the organization—it may consider the following questions:

- Which board committees are responsible for various aspects of risk governance? Has the risk governance structure been defined?
- How do the various board committees oversee risk? Is there appropriate coordination and communication between all relevant stakeholders?
- Does the board consider the relationship between strategy and risk? What are the potential internal and external risks to the success of the strategy?
- Does management provide the board with the information needed to oversee the risk management process effectively?
- What are the company's policies and processes for identifying, assessing, and continually monitoring the major financial risk exposures on an integrated, enterprise-wide basis?
- Has management assigned owners for each risk that has been identified?
- How might the company's compensation programs encourage inappropriate focus on short-term financial performance? Are the audit committee and compensation committee aligned on such risks?
- What mechanisms does management use to monitor emerging financial risks? What are the early warning mechanisms, and how effective are they? How, and how often, are they calibrated?
- Which framework has management selected for the financial risk management program? What criteria were used to select it?
- What is the role of technology in the risk management program? How was it chosen, and when was it last evaluated?
- Is cyber risk receiving adequate time and focus on the audit committee agenda?

with risk oversight responsibilities. The NYSE listing standards further define the audit committee's role in discussing policies with respect to risk assessment and risk management:

> While it is the job of the CEO and senior management to assess and manage the listed company's exposure to risk, the audit committee must discuss guidelines and policies to govern the process by which this is handled. The audit committee should discuss the listed company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The audit committee is not required to be the sole body responsible for risk assessment and management, but, as stated above, the committee must discuss guidelines and policies to govern the process by which risk assessment and management is undertaken. Many companies, particularly financial companies, manage and assess their risk through mechanisms other than the audit committee. The processes these companies have in place should be reviewed in a general manner by the audit committee, but they need not be replaced by the audit committee.[1]

The SEC considers risk oversight a primary responsibility of the board and requires disclosure of its role in this area. Disclosures include whether the entire board is involved in risk oversight; whether certain aspects are executed by individual board committees; and whether the employees responsible for risk management report directly to the board. Such disclosures informs shareholders' understanding of the board's process for overseeing risk.

Tools and resources

Deloitte's publications, *Risk Committee Resource Guide for Boards*; *Risk Intelligent Governance: Lessons from State of the Art Board Practices*; and *Bank Board Risk Governance: Driving Performance through Enhanced Risk Oversight*, provide additional information for boards and audit committee members on risk oversight.

[1] NYSE listing standards, 303A.07 *Audit Committee Additional Requirements*.

The audit committee's potential role in overseeing cyber risk

It is often challenging for even the most tech-savvy business leaders to keep up with the scope and pace of developments related to big data, social media, cloud computing, IT implementations, cyber risk, and other technology matters. These developments carry a complex set of risks, the most serious of which can compromise sensitive information and significantly disrupt business processes. Cyber risk is often at the top of the agenda for management and boards at companies of all sizes and industries. The pervasiveness of cyber risk significantly increases concerns about financial information; internal controls; and a wide variety of risks, including the reputational risks that can result from a cyber incident. Oversight of a successful cyber risk management program requires proactive engagement and is most frequently the responsibility of the full board. In some organizations, a level of oversight may be delegated to a risk committee or the audit committee.

In companies where the audit committee holds some responsibility for cyber risk management, the committee should first obtain a clear understanding of the specific areas it is expected to oversee. In those organizations, the audit committee, in its capacity of overseeing financial risks and monitoring management's policies and procedures, may have expertise and be asked to play a significant strategic role in monitoring management's preparation for and response to cyber threats, coordinating cyber risk management initiatives and policies, and confirming their efficacy. Those audit committees may take the lead in monitoring cyber threat trends, regulatory developments, and major threats to the company. Other responsibilities may include setting expectations and accountability for management, as well as assessing the adequacy of resources, funding, and focus on cyber risk management activities.

For those audit committees charged with this oversight, engaging in regular dialogue with the chief information officer, chief information security officer, and other technology-focused leaders can help the committee determine where attention should be focused. Although cyber risk is frequently on the full board's agenda, audit committees are increasingly receiving regular updates from relevant technology leaders, with some technology risk-related topic on almost every meeting agenda. The audit committee chairman can be a particularly effective liaison with other groups in enforcing and communicating expectations regarding cyber and financial risk mitigation.

We need to arm corporate boards with a mechanism to thoughtfully assess management's assertions about the design and effectiveness of their organizations' cyber defenses.

Sarah Bloom Raskin, Former Deputy Secretary of the US Department of Treasury, at the PCAOB's 10th annual International Institute on Audit Regulation event in Washington, DC

To which groups has the board allocated the majority of tasks connected to the following areas of risk oversight? (Respondents could select multiple groups for each risk.)

	The "big" picture	Reputational risks	Financial stability risk	Cyber risks	Compliance risks	Talent risks	Incentive risks
The full board	96%	86%	47%	41%	22%	46%	21%
Audit committee	5%	9%	51%	51%	69%	2%	5%

Source: *2016–2017 NACD Public Company Governance Survey*, National Association of Corporate Directors

Cybersecurity risk management

In April 2017, the AICPA released its cybersecurity risk management attestation reporting framework, which is intended to expand cyber risk reporting to address the marketplace need for greater stakeholder transparency. This reporting framework establishes a standardized reporting mechanism to provide a broad range of users with useful information about an entity's cybersecurity risk management program to support informed and strategic decision making. It consists of the following components:

- Management's description of the entity's cybersecurity risk management program
- Management's assertion on the presentation of the description and the operating effectiveness of the controls to achieve the cybersecurity objectives
- Practitioner's report on the presentation of the description and the operating effectiveness of the controls to achieve the cybersecurity objectives.

Leveraging a unified approach for performing and reporting on an entity's cyber risk management program and related controls could help boards and audit committees effectively execute their oversight responsibilities with respect to cyber risk.

See Deloitte's Cybersecurity risk management assessment page.

Enhanced cybersecurity disclosure guidance

The SEC issued interpretive guidance on February 21, 2018, that largely refreshes the SEC's 2011 staff guidance related to cybersecurity disclosure obligations. The latest guidance does not establish any new disclosure obligations but rather presents the SEC's views on how its existing rules should be interpreted in connection with cybersecurity threats and incidents. It also expands on the initial concepts discussed, concentrating more heavily on cybersecurity policies and controls, most notably those related to cybersecurity escalation procedures and the application of insider trading prohibitions. The guidance also addresses the importance of avoiding selective disclosure, as well as considering the role of the board of directors in risk oversight. The release applies to public operating companies, including foreign private issuers, but does not address the specific implications of cybersecurity for other regulated entities under the federal securities laws, such as registered investment companies, investment advisers, brokers, dealers, exchanges, and self-regulatory organizations.

The new guidance clarifies the SEC's view on the role of the board of directors in overseeing cybersecurity risk. If the risk is material to a company's business, the discussion of the board of directors' role in the risk oversight function should include the nature of its responsibilities for overseeing the management of this risk. The SEC believes that "disclosures regarding a company's cybersecurity risk management program and how the board of directors engages with management on cybersecurity issues allow investors to assess how a board of directors is discharging its risk oversight responsibility in this increasingly important area."

For more information about the latest guidance, refer to Deloitte's *Heads Up: In the Spirit of Full Cybersecurity Disclosure.*

The audit committee's role in M&A

The audit committee has an important role in M&A, both before and after a transaction.

Before the deal is done: Due diligence
Although due diligence is largely management's responsibility, the audit committee can provide critical oversight in areas such as risk analysis, internal controls, and even the basic financial information on which the terms are based. Weakness in a target's internal control systems can create unpleasant surprises that, in the absence of due diligence, may not be discovered until it is too late. This could be a critical factor when management is required to evaluate the post-integration controls in accordance with the Sarbanes-Oxley Act. While target financial information may be prepared with the best of intentions, and may even be audited, audit committee oversight can provide greater comfort that the financial information is accurate and complete. Other areas of due diligence oversight include tax, insurance, and Foreign Corrupt Practices Act compliance.

Audit committees can and should satisfy themselves that the due diligence process is thorough and that the board is fully informed of related risks before the transaction is approved. They can do this in much the same way they address day-to-day matters: ask questions, identify areas of risk to consider, and provide guidance on how to solve problems.

Post-merger integration oversight
While post-merger integration is sometimes overlooked in the excitement of closing a deal, it can be critical to the success or failure of the transaction. The audit committee has a vital role to play here, too.

One area of audit committee focus is the melding of internal control systems and processes so they are stable on Day 1 or as soon as possible thereafter. SEC rules adopted under the Sarbanes-Oxley Act require public companies to integrate disclosure controls as well as controls over financial reporting. Failure to do so can have significant consequences. Even when both parties have high-quality systems, processes that do not work well together may create control problems, leading to reportable deficiencies or even material weaknesses.

Other areas of audit committee responsibility include oversight of talent integration in the financial and accounting areas and monitoring that computer systems and technology platforms can communicate with each other from the outset.

For additional information, read Deloitte's *On the Board's Agenda: Post-Merger Integration*.

Special requirements for financial institutions

Following the enactment of the Dodd-Frank Act in July 2010, the Federal Reserve Board issued a new regulation setting forth enhanced prudential standards for large banking organizations, including risk committee requirements. Specifically, all bank holding companies (BHCs) with total consolidated assets of $10 billion or more are required to maintain a risk committee that approves and periodically reviews the risk management policies of the BHC's global operations and oversees the operation of the BHC's global risk management framework. More stringent requirements apply to BHCs with total consolidated assets of $50 billion or more. The corporate governance requirements state that the risk committee must:

- Have a formal, written charter that is approved by the BHC's board of directors
- Meet at least quarterly, or more frequently if needed, and fully document and maintain records of its proceedings, including risk management decisions.

Moreover, the risk committee at each BHC with total consolidated assets of $50 billion or more is required to:

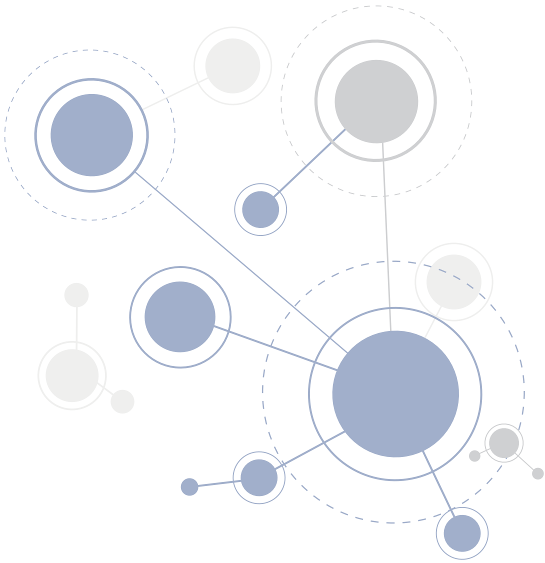
- Be an independent committee of the board of directors that has, as its sole and exclusive function, responsibility for the risk management policies of the BHC's global operations and oversight of the operation of the BHC's global risk management framework
- Report directly to the BHC's board of directors
- Receive and review regular reports not less than quarterly from the BHC's chief risk officer.

See the Federal Reserve's final rule and Deloitte's practical guide to the rule for additional requirements and guidance.

Soon after the Federal Reserve Board finalized its EPS framework, the Office of the Comptroller of the Currency (OCC) issued heightened standards applicable to national banks, insured federal savings associations, insured federal branches of foreign banks with total consolidated assets of $50 billion or more, and OCC-regulated institutions with total consolidated assets of less than $50 billion if that institution's parent company controls at least one other covered institution.

Among other things, each covered institution is required to establish and adhere to a formal, written risk governance framework that is designed by independent risk management and approved by the board of directors or the board's risk committee.

See the OCC's heightened standards for additional requirements and guidance.



Oversight of the independent auditor

Audit committees of listed companies are directly responsible for the appointment, compensation, and oversight of the independent auditor, including the resolution of any disagreements with management. It is optimal for the audit committee, management, the internal auditors, and the independent auditor to work together in a spirit of mutual respect and cooperation.

The audit committee and the independent auditor typically meet at least quarterly to thoroughly discuss a wide variety of matters, including the company's financial reporting, internal controls, and the audit, from planning to conclusion of the audit. These discussions should also include educational and evaluative topics. Executive sessions with the independent auditor are a way to maintain open communication and identify concerns, and they are required for NYSE-listed companies.

Auditor communications

The NYSE, NASDAQ, and PCAOB outline communications that are required between the audit committee and the independent auditor. Many of these communications are focused on the responsibility of the audit committee to oversee the independent auditor.

NYSE requirements. NYSE listing standards require the audit committee to communicate with the independent auditor in the following ways:

- Meet with the independent auditor to review and discuss the company's annual audited financial statements and quarterly financial statements, including disclosures in management's discussion and analysis
- Periodically, meet separately with the independent auditor, management, and the internal auditors
- Obtain a formal written communication from the independent auditor regarding independence and other matters annually
- Review with the independent auditor any audit problems or difficulties and management's response
- Set clear hiring policies for employees or former employees of the company's independent auditor.

NASDAQ requirements. NASDAQ listing standards require the audit committees of listed companies to obtain a formal written statement from the independent auditor consistent with PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*.

PCAOB requirements.[1] Some communications between the auditor and the audit committee are driven by standards the auditor must follow in conducting the audit. There are a number of PCAOB standards that require communications with the audit committee. The primary one is Auditing Standard No. 1301 (AS 1301), *Communications with Audit Committees*, The communications under this standard can be oral or written, but must be made in a timely manner and prior to issuance of the auditor's report. The standard addresses communications relevant to different phases of the audit, from the auditor's engagement through the issuance of the auditor's report. It also requires communications relevant to various aspects of the company's accounting and reporting, as well any disagreements between the auditor and management.

[1] The PCAOB requirements encompass the items the independent auditor is required to communicate to the audit committee by SEC's Regulation S-X, Rule 2-07, *Communication with Audit Committees*. The SEC stated in its release adopting this rule that it expects these discussions to occur prior to filing Form 10-Q or Form 10-K.

Summary of PCAOB required communications

Communications required by AS 1301

- Significant issues discussed with management before the auditor's appointment or retention
- An understanding of the terms of the audit
- Information relevant to the audit
- Overview of the audit strategy, timing of the audit, and significant risks
- Results of the audit, including:
  - Significant accounting policies and practices
  - Critical accounting policies and practices
  - Critical accounting estimates
  - Significant unusual transactions
- Auditor's evaluation of the quality of the company's financial reporting
- Other information in documents containing audited financial statements
- Difficult or contentious matters about which the auditor consulted
- Management consultations with other accountants
- Going-concern matters
- Uncorrected and corrected misstatements
- Material written communications
- Departure from the auditor's standard report
- Disagreements with management
- Difficulties encountered in performing the audit
- Other matters

Communications required by other PCAOB standards or rules

- Material weaknesses and significant deficiencies in internal control (AS 2201)
- Representations of management (AS 2201)
- Fraud and illegal acts (AS 2401 and 2405)
- Communications in connection with interim reviews (AS 4105)
- Preapproval of services (Rules 3524 and 3525)
- Independence matters (Rule 3526)
- Related parties (AS 2410)
- Auditing fair-value measurements and disclosures (AS 2502)

PCAOB adopts changes to the auditor's report

The SEC approved the standard requiring changes to the auditor's report on October 23, 2017. In a statement announcing its approval of this standard that significantly modifies the auditor's reporting model, Chairman Jay Clayton stated his strong support for the objective of the rule, namely for the auditors to provide investors with meaningful insights into the audit. Chairman Clayton highlighted the important role of the audit committee and noted that the SEC and PCAOB will monitor the results of the new standard's implementation, including consideration of any unintended consequences.

The new auditor reporting standard will significantly modify the auditor's reporting model while retaining the current "pass/fail" opinion of the existing auditor's report. The primary changes include:

- Standardized ordering and inclusion of section headers, with the opinion section appearing first
- Enhanced descriptions of the auditor's role and responsibilities, including a statement regarding independence requirements
- Communication of critical audit matters (CAMs)
- Disclosure of auditor tenure—the year in which the auditor began serving consecutively as the company's auditor.

A CAM is defined as a matter communicated, or required to be communicated, to the audit committee that:

- Relates to accounts or disclosures that are material to the financial statements
- Involves especially challenging, subjective, or complex auditor judgment.

The new requirements will be phased in, with CAM disclosure effective for large accelerated filers for audits of fiscal years ending on or after June 30, 2019, and for all other audits to which the requirement applies for fiscal years ending on or after December 15, 2020. The remaining changes apply to auditor reports issued for fiscal years ending on or after December 15, 2017.

Although the standard will be implemented in accordance with phased-in effective dates, management and audit committees will most likely want to start to consider the implications of the new requirements and discuss them with their auditors. Potential questions regarding CAMs may include:

- What matters could be CAMs?
- How will management and the audit committee engage with the auditor as CAMs are identified and the auditor's descriptions of the CAMs are developed and finalized?
- How will the timing of auditor communications with management and the audit committee accommodate the discussion of CAMs?
- How do the auditor's statements regarding CAMs compare to management's disclosures regarding the same matters?

Deloitte's *Heads Up* provides additional information on the new rule.

I strongly support the objective of the rule to provide investors with meaningful insights into the audit from the auditor. CAMs are designed to provide investors and other financial statement users with the auditor's perspective on matters discussed with the audit committee that relate to material accounts or disclosures and involve especially challenging, subjective, or complex auditor judgment. Investors will benefit from understanding more about how auditors view these matters.

Jay Clayton, SEC Chairman

Auditor independence

The SEC and PCAOB rules govern the independence of accountants who audit or review financial statements and prepare attestation reports filed with the SEC. The rules recognize the critical role of audit committees in financial reporting, their unique position in monitoring auditor independence, and their direct responsibility for the oversight of the independent auditor. Although most audit firms are rigorous in monitoring and enforcing these independence requirements, it is important that audit committee members be aware of them as well.

The SEC independence rules address the following issues related to registrants.

Financial interests. The rule states that independence is impaired if the audit firm or certain of its people have a direct or material indirect financial interest in an audit client. Examples of prohibited financial interests include an investment in the audit client's debt or equity securities, certain loans, deposits not fully insured by the Federal Deposit Insurance Corporation, broker-dealer account balances not fully insured by the Securities Investor Protection Corporation, and certain individual insurance products.

Employment relationships. The rule states that independence is impaired if a current partner, principal, shareholder, or professional employee of the independent auditor has an employment relationship with, or serves as a member of the board or similar management or governing body of, the audit client. Former partners, principals, shareholders, or professional employees of the independent auditor cannot be employed in an accounting role or financial reporting oversight role—one who exercises more than minimal influence over the contents of accounting records or prepares them—at an audit client unless they are fully separated from the independent auditor, financially and otherwise. Even if this separation is achieved, former members of the audit engagement team for an issuer cannot take a financial reporting oversight role for the issuer before completion of one annual audit subsequent to the engagement period when the individual was a part of the engagement team. Employment restrictions also apply to certain close family members of the independent auditor's personnel.

Business relationships. The rule prohibits an independent auditor from having a direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client's officers, directors, or substantial stockholders. This prohibition does not preclude the independent auditor from providing permissible services to the audit client or purchasing goods or services from the audit client as a consumer in the ordinary course of business, commonly known as a vendor business relationship.

Nonaudit services provided by auditors. The rule sets forth 10 categories of services that impair the auditor's independence if provided to an audit client. The rule permits an auditor to provide other nonaudit services to an issuer if the services are preapproved by the audit committee. Permissible nonaudit services include due diligence for mergers and acquisitions, internal control reviews, and tax services that are not prohibited by the PCAOB.

In certain limited circumstances, the independent auditor may provide bookkeeping, design, and implementation of financial information systems; appraisal or valuation services; actuarial services; and internal audit outsourcing to a nonclient affiliate of an audit client if "it is reasonable to conclude that the results of these services will not be subject to auditing procedures during an audit of the audit client's financial statements." This is referred to as the "not-subject-to-audit" exception.

The following nonaudit services are prohibited to the independent auditor:

- Bookkeeping or other services related to the accounting records or financial statements of the audit client
- Design and implementation of financial information systems
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
- Actuarial services
- Internal audit outsourcing
- Management functions
- Human resources
- Broker-dealer, investment advisory, or investment banking services
- Legal services
- Expert services.

The audit committee's administration of the audit engagement (preapproval). The audit committee must preapprove permissible audit and nonaudit services to be provided to the issuer and its subsidiaries. Preapproval can be obtained directly or based on policies and procedures established by the audit committee that are detailed as to the type of service. These policies and procedures do not circumvent the need to inform the audit committee of the service, and the committee cannot delegate its preapproval responsibilities to management. It can, however, delegate preapprovals to one or more members of the committee if the preapprovals are reported at the next scheduled meeting of the full committee.

Further, the PCAOB rules provide that an audit firm seeking preapproval of tax services or nonaudit services related to internal control over financial reporting must:

- Describe, in writing, the scope of the service. For tax services, the audit firm must describe, in writing, (i) the fee structure for the engagement, any side letter or other amendment to the engagement letter, or any other agreement between the firm and the audit client relating to the service; and (ii) any compensation arrangement or other agreement between the registered public accounting firm or an affiliate and any person other than the audit client with respect to promoting, marketing, or recommending a transaction covered by the service.
- Discuss with the audit committee of the issuer the potential effects of the services on the independence of the firm.

Contingent fees and commissions. The rule states that independence is impaired if the independent auditor provides any service or product to an audit client for a contingent fee or a commission, or receives a contingent fee or commission from an audit client. The PCAOB also has discretion to prohibit any other service that it determines, by regulation, to be impermissible. In addition to prohibiting the independent auditor from providing a service or product to an audit client for a contingent fee or commission, the PCAOB has issued rules prohibiting the independent auditor from:

- Marketing, planning, or opining in favor of the tax treatment of a confidential or aggressive tax transaction
- Providing tax services to persons in a financial reporting oversight role for an audit client.

Partner rotation. The rule requires the lead audit and engagement quality review partners to rotate after five years, at which time they are subject to a five-year “time-out” period. Audit partners who are significantly involved with senior management or the audit committee or who are responsible for decisions on accounting matters that affect the financial statements must rotate after seven years and are subject to a two-year time-out period. This includes audit partners who serve as the lead partner for significant subsidiaries. Significant subsidiaries are defined as those accounting for greater than 20 percent of an issuer’s revenues or assets. Other specialty partners, such as tax partners, are not required to rotate.

Compensation of audit partners. Under the SEC’s rule, an auditor is not independent if, at any point during the audit and professional engagement period, any audit partner receives compensation from selling engagements to provide the audit client with any services other than audit, review, or attest services.

For the purpose of this restriction, the SEC defines the term “audit partner” as the lead and concurring partners and other partners on the engagement team who have responsibility for making decisions on significant auditing, accounting, and reporting matters that affect the financial statements or who maintain regular contact with management or the audit committee. This includes all audit partners serving the client at the issuer or parent, with the exception of specialty partners, as well as the lead partner at subsidiaries whose assets or revenues constitute at least 20 percent of the consolidated assets or revenues.

Evaluation of the independent auditor

Inherent in the audit committee’s duty to appoint, compensate, and oversee the independent auditor is the idea that the audit committee will do some form of evaluation of the auditor.

The NYSE listing standards require the audit committee to review a report by the independent auditor describing its quality controls, results of investigations, and independence. The commentary accompanying this listing standard states that after reviewing the report and the independent auditor’s work throughout the year, the audit committee will be in a position to evaluate the auditor’s qualifications, performance, and independence. The commentary to this standard specifies that the “evaluation should include the review and evaluation of the lead partner of the independent auditor,” and “should take into account the opinions of management and the company’s internal auditors (or other personnel responsible for the internal audit function).”

Practices for evaluating the independent auditor range from highly formalized processes with extensive documentation to more informal assessments. Factors the audit committee may consider in developing an evaluation process include:

- **Frequency and timing of the evaluation.** Many audit committees perform the evaluation annually, immediately following the issuance of the Form 10-K and in conjunction with their decision to reappoint the independent auditor.
- **Parties involved in the assessment.** Although the SEC does not explicitly require the audit committee to formally evaluate the independent auditor, many committees conduct some form of evaluation to make decisions on the auditor’s initial appointment or annual reappointment. While the audit committee is responsible for the appointment, compensation, and oversight of the independent auditor, it may not be practical for the audit committee to oversee and coordinate the entire evaluation. In many instances, the audit committee delegates the coordination responsibility to internal

audit, the legal department, or another group in the company. The party responsible for coordinating the evaluation should obtain information not only from the audit committee, but also from senior financial management and the internal auditors. Depending on the size and structure of the company, it may be appropriate to obtain input from the management of significant operating locations or business units.

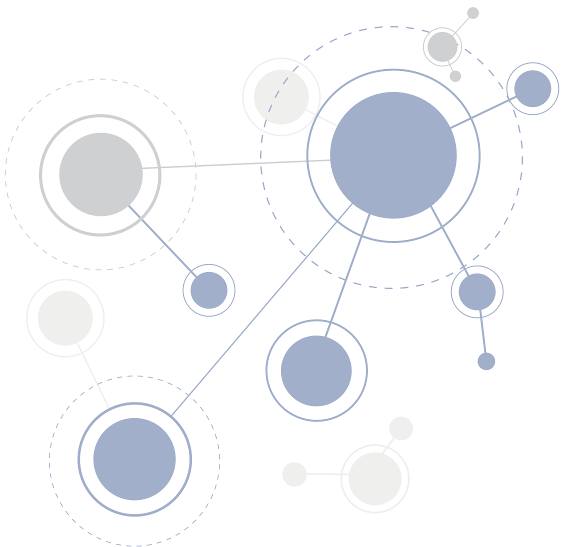
- **Form and nature of the assessment.** Some independent auditors have assessment questionnaires for evaluating client service. Audit committees can use these questionnaires, tailor them to fit their needs, or create their own. The assessment can be done by having the relevant parties complete the questionnaire in writing or by holding interviews. They may also have a discussion about the experience the audit committee and others at the company have had in working with the independent auditor.
- **Assessment criteria.** The criteria for evaluating the independent auditor vary. Common criteria specific to the engagement team include technical competence; industry knowledge; frequency and quality of communication; cohesiveness as a team; demonstrated independence, objectivity, and professional skepticism; and the level of support provided to the audit committee in fulfilling its responsibilities. Audit committees may consider information about the characteristics of the audit firm itself, such as size, financial strength and stability, presence in key markets, approach to professional development, technological capabilities, nature of the audit approach, quality of thought leadership, and eminence in the marketplace. The results of the PCAOB inspection process and peer reviews may also be considered in the evaluation.

Tools and resources

For additional information, read Deloitte's *Appointing, Assessing, and Compensating the Independent Auditor: The Role of the Audit Committee*.

The Audit Committee Collaboration, a partnership of the Center for Audit Quality and US corporate governance and policy organizations, has issued an *External Auditor Assessment Tool* for audit committees. The tool assists audit committees in carrying out their responsibility of appointing, overseeing, and determining compensation for the independent auditor.

The PCAOB issued *Information for Audit Committees about the PCAOB Inspection Process* to help audit committees better understand the PCOAB's inspection process and how to gather information from their audit firms about inspections.



Questions for audit committees to consider

Audit innovation

With advances in technology, auditors are turning to innovation to enhance quality and drive value into the audit. In understanding how the independent auditor is using innovation, the audit committee may consider the following questions:

- How is the independent auditor leveraging innovation to enhance audit execution?
- What investments is the independent auditor making in audit innovation, and how do those investments translate to enhanced audit quality and value for the company?
- What insights is the independent auditor able to provide about the company and its financial and internal controls processes through the audit and with the use of new technologies, including audit analytics?
- What are some of the emerging technologies that the independent auditor is exploring for use in the audit? How may the company benefit from the independent auditor's use of these emerging technologies?
- With respect to innovation, how is the independent auditor differentiating itself from competitors to add value to the audit?

Ethics and compliance

As highlighted by several court rulings and the US Federal Sentencing Guidelines for organizations, executives and boards of directors have special responsibilities for the oversight and management of ethics and compliance programs, an important component of which is a robust code of ethics or conduct.

The board should consider the audit committee's role in overseeing the company's ethics and compliance programs, noting that NYSE-listed companies are required to have the audit committee oversee legal and regulatory compliance.

Ethics and code of conduct

A culture that embraces the importance of ethics and compliance can be established only if employees, officers, and directors understand the requirements of the code of ethics.

The SEC, the NYSE, and NASDAQ all require a code of ethics or a code of conduct. There are similarities among the requirements, but there are also differences.

SEC requirements. The SEC requires registrants to disclose whether they have written codes of ethics that apply to their principal executive officers, principal financial officers, principal accounting officers or controllers, or individuals performing similar functions. If they do not, they must explain why not. A company registered in the United States must disclose any changes to, or waivers from, the code of ethics that apply to the CEO or senior financial officers, generally within four business days after it amends its code of ethics or grants a waiver. The NYSE and NASDAQ listing standards have the same four-day rule.

The SEC rule defines a code of ethics as a written standard that is reasonably designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest in personal and professional relationships
- Full, fair, accurate, timely, and understandable disclosure in the company's SEC filings and other public communications
- Compliance with applicable laws, rules, and regulations
- The prompt internal reporting of violations to parties identified in the code
- Accountability for adherence to the code.

Companies must include these disclosures in their annual reports and must make the code of ethics available to the public through one of the methods listed in Item 406 of Regulation S-K.

NYSE requirements. NYSE listing standards require a code of conduct that covers not only senior financial officers, but all employees. Specifically, the websites of NYSE-listed companies must disclose the code of conduct applicable to employees, directors, and officers. Companies can determine their own policies, but the code must contain the items listed in NYSE 303A.10, only some of which are required by the SEC.

NASDAQ requirements. NASDAQ listing standards require public disclosure of a code of conduct applicable to all employees, officers, and directors. NASDAQ's criteria for the code of conduct are consistent with the SEC's requirements.

86%
of audit committees receive a report on internal tips from a hotline or other reporting mechanism at least once a year

26%
of audit committees receive these reports at every committee meeting

Source: *Deloitte 2016 Board Practices Report*

In addition, each code of conduct must provide for prompt and consistent enforcement, protection for individuals who report questionable behavior, clear and objective standards for compliance, and a fair process for addressing violations.

Both the NYSE and NASDAQ listing standards permit companies to have more than one code of conduct as long as all directors, officers, and employees are covered by a code. For example, some companies have developed a separate code for directors, whose roles and responsibilities differ from those of officers and other employees.

Common practices and considerations. Those responsible for overseeing ethics and compliance should work with management to determine that the company's code of ethics or conduct complies with the applicable requirements. Companies may update the code in response to new issues or situations. Legal counsel should be consulted on modifications to the code.

Communication and training are critical to fostering an ethical culture. The code should be available to everyone in the organization, perhaps through inclusion on the company's intranet site and in the employee orientation program and manual. Some companies require individuals, including directors, to sign an annual certification noting that they have read, understood, and complied with the code. If an employee refuses to sign the certification, committees should encourage companies to take prompt and appropriate disciplinary action, up to and including termination. Communication of disciplinary actions taken in response to code violations is a common way of communicating to employees that violations are taken seriously.

Questions for audit committees to consider

Ethics and compliance

To the extent the audit committee is charged with the responsibility to oversee ethics and compliance:

- Does the committee hear directly from the person who has day-to-day responsibility for ethics and compliance matters? Does this person have the ability to hold these discussions in an executive session?
- Do the ethics and compliance governance framework, organizational structure, and reporting lines provide sufficient independence for the audit committee to execute its responsibilities (e.g., does the chief ethics and compliance officer report directly or indirectly to the audit committee)?
- Does the ethics and compliance officer have adequate staff, technology, and other resources to do an effective job?
- Does the company regularly and systematically scrutinize the sources of ethics and compliance failures and react appropriately?
- How does management take action on reports? Is there evidence of employees being disciplined promptly, appropriately, and consistently?
- Does the reporting process keep the audit committee informed of ethics and compliance issues, as well as the actions taken to address them? Is ethics and compliance a regular item on the committee's agenda?
- What type of ongoing monitoring and auditing processes are in place to assess the effectiveness of the ethics and compliance program?
- Is the company's risk culture encouraging the right type of behaviors?

Tools and resources

Deloitte's ethics and compliance resources offer additional information on establishing codes of ethics and robust ethics and compliance programs, including *Building World-Class Ethics and Compliance Programs: Making a Good Program Great*, and *In Focus: Compliance Trends Survey*, a collaboration between Deloitte and *Compliance Week*.

Reporting hotline procedures

Companies often use hotlines as a mechanism to report a range of ethics and compliance issues, including potential violations of the code of ethics. A thorough, independent, and objective process should be established by management and the audit committee for investigating complaints. Companies use various procedures, but the most common method of receiving tips from inside and outside the organization is through a telephone and Web-based hotline administered by an internal department or a third party.

SEC regulations and the NYSE and NASDAQ listing standards require the audit committees of listed companies to establish procedures for:

- Receiving, retaining, and addressing complaints regarding accounting, internal controls, or auditing matters, whether from internal or external sources who wish to remain anonymous, as well as reporting a range of compliance matters, including violations of the code of conduct and allegations of fraud or corruption
- The confidential, anonymous submission of employee concerns regarding questionable accounting or auditing matters.

The audit committee should work with management to confirm that the appropriate members of management are aware of questions or complaints received from internal sources and third parties, including vendors, through the various reporting methods available. Responsibility for investigating questions or concerns and reporting back to the audit committee often falls on individuals in the ethics and compliance, internal audit, legal, or risk management departments.

The audit committee should also establish expectations with respect to the type of complaints that will be reported to them and how they will be communicated. Some complaints may warrant immediate communication, such as those involving senior management and significant dollar amounts. In addition to these immediate reporting situations, the audit committee should receive a regular analysis of the complaints received, including a root-cause analysis; their resolution; and the steps taken to avoid similar violations in the future. The audit committee should also determine which complaints warrant a discussion with the board.

A telephone and Web-based hotline monitored by an independent third party is common. If the hotline is administered internally, operators should have specific training on where to direct questions or complaints, including those related to human resources, as well as the ability to provide coverage 24 hours a day, 365 days a year and include an anonymous reporting option. Employees can be informed of reporting channels in the code of ethics, the employee handbook, human resources orientation, ethics training, and periodic communications. Instructions for submitting questions or complaints can be posted in company facilities and on intranet sites.

The company's public website is a natural vehicle for communicating the procedures to individuals outside the organization. As discussed in the code of ethics section, NYSE listing standards require companies to adopt codes of ethics and disclose them on their websites. NASDAQ-listed companies also must adopt and disclose codes of ethics, and many have chosen to post their codes on their websites. Telephone operators working in customer service and investor relations should be prepared to answer questions on how to submit concerns and complaints regarding financial reporting.

Under the SEC's whistleblower programs, employees with knowledge of potential securities fraud who report original information to the government or a self-regulatory organization can receive a minimum of 10 percent and as much as 30 percent of monetary sanctions if the enforcement action results in fines of at least $1 million.

Whistleblowers are not required to report issues first through internal company channels; however, those who do so are still eligible for the reward if the company reports the problem to the government or if the whistleblower does so within 120 days of notifying the company.

It is important for the audit committee to work with management and internal audit to understand:

- How hotlines are evaluated, tested, and audited to ensure calls are received, recorded, and managed in a consistent, confidential, accurate, and timely manner
- Opportunities to enhance internal whistleblowing systems and promote reporting mechanisms to all personnel
- The potential value of transaction monitoring tools to help promptly identify potential securities fraud issues such as bribery or financial statement fraud.

Companies with operations in different countries should be careful to comply with those countries' laws, as they may impose requirements, restrictions, and prohibitions different from those applicable in the United States.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It can help an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

Institute of Internal Auditors

Oversight of internal audit

An effective relationship between the audit committee and the internal auditors is fundamental to the success of the internal audit function. It is important for audit committees to assess whether internal audit's priorities, such as monitoring critical controls and developing an audit plan focused on risks identified in the enterprise risk management program, are aligned with those of the audit committee. At some companies, internal audit evaluates and considers suggestions to improve operations and processes.

When the internal audit function reports to the audit committee directly, it allows the internal auditors to remain structurally separate from management and enhances objectivity. This also encourages the free flow of communication on issues and promotes direct feedback from the audit committee on the performance of the chief audit executive.

NYSE requirements. The NYSE listing standards require companies to have an internal audit function. Audit committees are required to oversee the internal audit function and to note this responsibility in their charters. Specific requirements include:

- The audit committee charter must include oversight of the internal audit function as one of its purposes.
- The audit committee's regular report to the board should include issues involving the performance of the internal audit function.
- The audit committee must meet separately with the internal auditors.

NASDAQ requirements. The audit committee oversees the accounting and financial reporting processes of the company. Although NASDAQ companies are not required to have an internal audit function, for those that do, oversight of internal audit is often one component of overseeing accounting and financial reporting.

Common practices and considerations. The specific expectations for internal audit functions vary by organization, but may include:

- Objectively monitor and report on the health of financial, operational, and compliance controls
- Provide insight into the effectiveness of risk management
- Offer guidance regarding internal/compliance controls
- Act as a catalyst for positive change in processes and controls
- Deliver value to the audit committee, other directors, and management in the areas of controls and risk management to assist in the audit committee's assessment of the efficacy of programs and procedures
- Coordinate activities and share perspectives with the independent auditor.

In support of these expectations, the audit committee and the chief audit executive (CAE) should have a strong relationship characterized by open communication. The audit committee should challenge the CAE and the internal audit department by setting high expectations, communicating those expectations clearly, and holding the department accountable for meeting them. The CAE should be candid in raising concerns with the audit committee when they arise.

It is important for the audit committee to see that the internal auditors have appropriate independence and stature and are visibly supported by senior management throughout the organization. They should support the CAE, providing guidance and assistance when he or she reports potential management lapses.

In addition to making themselves available when contacted by the CAE, members of the audit committee should engage with the CAE regularly to maintain a reporting relationship that is both substantive and communicative. Holding regular executive sessions with the CAE is common and is required for NYSE-listed companies. The audit committee should actively participate in discussing goals and evaluating the performance of the CAE; these responsibilities should not be delegated solely to the CFO or CEO.

The audit committee should understand and approve the annual internal audit plan and determine if the CAE has a sufficient budget and related resources to execute against it. In determining that resources are adequate, audit committees often consider whether the CAE and his or her staff are adequately compensated. As part of this review, they should review and evaluate the status of the enterprise-wide risk management program and the alignment of risks to the internal audit plan. The audit committee should also evaluate the progress and results of the internal audit plan against the original plans and any significant changes made subsequently.

The International Standards for Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA) require internal auditors to maintain a certain level of independence from the work they audit. This means that an internal auditor should have no personal or professional involvement with the area being audited and should maintain an impartial perspective on all engagements. Internal auditors should have access to records and personnel when necessary, and they should be allowed to employ appropriate investigative techniques without impediment.

Internal audit departments should also employ quality processes with a focus on continuous improvement. These processes should be periodically reviewed through self-assessment and/or external reviews. The IIA's standards require external assessments to be conducted by a qualified, independent party at least once every five years. The CAE should discuss the form and frequency of the external assessment, as well as the qualifications and independence of the external assessor, with the audit committee.

Oversight of internal audit

There are several ways the audit committee can oversee the internal audit function. The IIA provides the following checklist of considerations for audit committees in overseeing the internal auditors:

- The audit committee engages in an open, transparent relationship with the CAE.
- The audit committee reviews and approves the internal audit charter and internal audit plan annually.
- As a result of discussions with the CAE, the audit committee has a clear understanding of the strengths and weaknesses of the organization's internal control and risk management systems.
- Internal audit is sufficiently resourced with competent, objective professionals to carry out the internal audit plan, which has been reviewed and approved by the audit committee.
- Internal audit is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.
- The audit committee addresses with the CAE all issues related to internal audit independence, objectivity, and resources.
- Internal audit is quality-oriented and has a quality assurance and improvement program in place.
- The audit committee regularly communicates with the CAE about the performance and improvement of the CAE and internal audit.
- Internal audit reports are actionable, and audit recommendations and other improvements are implemented by management satisfactorily.
- The audit committee meets periodically with the CAE without the presence of management.

Questions for audit committees to consider

Interactions with internal audit

- Does internal audit have a clearly articulated strategy that is reviewed and approved by the audit committee periodically?
- Does internal audit have a clear set of performance expectations that are aligned with the success measures of the audit committee and measured and reported to the audit committee?
- Does internal audit have a charter that is reviewed and approved by the audit committee periodically? Does internal audit operate in accordance with its charter?
- Is the internal audit plan aligned to the primary risks of the organization and other assurance activities? Is internal audit's risk assessment process linked to the company's enterprise risk management activities appropriately?
- Is internal audit flexible and dynamic in addressing new risks promptly and meeting the needs of the audit committee?
- Is internal audit effective in using advanced technologies, such as data analytics, to improve audit quality?
- Does internal audit organize or perform peer reviews or self-assessments of its performance and report the results to the audit committee?
- Does the CAE have the right mix of experience and capabilities, including industry knowledge and business acumen, to understand the company's risks?
- Does the CAE have a professional certification, such as certified internal auditor, and participate in relevant continuing education programs?
- Is internal audit funded and adequately and staffed with the appropriate mix of professionals needed to achieve its objectives?
- Does internal audit's reporting structure within the organization ensure sufficient independence and respect from management and other employees?
- Is the level of assurance provided by internal audit and its interaction with other assurance sources clear and appropriate for the audit committee?
- Does the internal audit function have and demonstrate the level of independence needed to execute its responsibilities properly?
- Does internal audit meet with the independent auditor regularly to discuss risk assessments, the scope of procedures, or opportunities to achieve greater efficiencies and effectiveness in the company's audit services?
- Does internal audit report issues in a timely manner and address them with management?
- Are issues identified and reported by internal audit highlighted to the audit committee appropriately, and is the progress of remediation tracked and reported?
- Are reports and other communications from internal audit to the audit committee of an appropriate standard and do they provide value?

Other interactions with management and the board

In executing their governance responsibilities, audit committees frequently interact with other stakeholders, in addition to the internal and independent auditors.

Interactions with the finance organization

The finance function's leaders and professionals can have a direct impact on a company's risk profile, value creation, and return on investment for investors and other stakeholders. The audit committee relies significantly on the finance function and needs to maintain an open and effective relationship with them. Their oversight can contribute to the finance organization's interest in having the right resources available to support the quality and reliability of financial accounting, reporting, and related controls. Audit committees may also provide input on the assessment and compensation of finance professionals who they interact with regularly.

The audit committee can help monitor and strengthen finance talent initiatives, in particular the succession plans for leaders and finance professionals in roles of critical importance, through regular discussions with the CEO, CFO, and other finance executives, as well as regular oversight of issues related to finance talent.

Common practices and considerations. Interactions with the finance organization vary, but may include the following practices:

- To foster open communication, meet periodically with management, the director of the internal audit function, and the independent auditor in separate executive sessions (NYSE Corporate Governance Rule 303A.07(b)(iii)(E)).
- Provide input on the performance of key finance executives, including the CFO and CAO.
- Provide input into management's goal-setting process.
- Hold annual discussions of succession planning for the finance organization with the CEO and CFO and regular discussions of the finance organization's bench strength.
- Invite succession candidates to present during audit committee meetings to develop a firsthand view of their potential.
- Understand management's process for early identification and resolution of accounting and other issues.
- Understand plans to address new accounting and reporting requirements and related risks.
- Visit company locations and meet with members of management periodically.

Questions for audit committees to consider

Finance organization talent

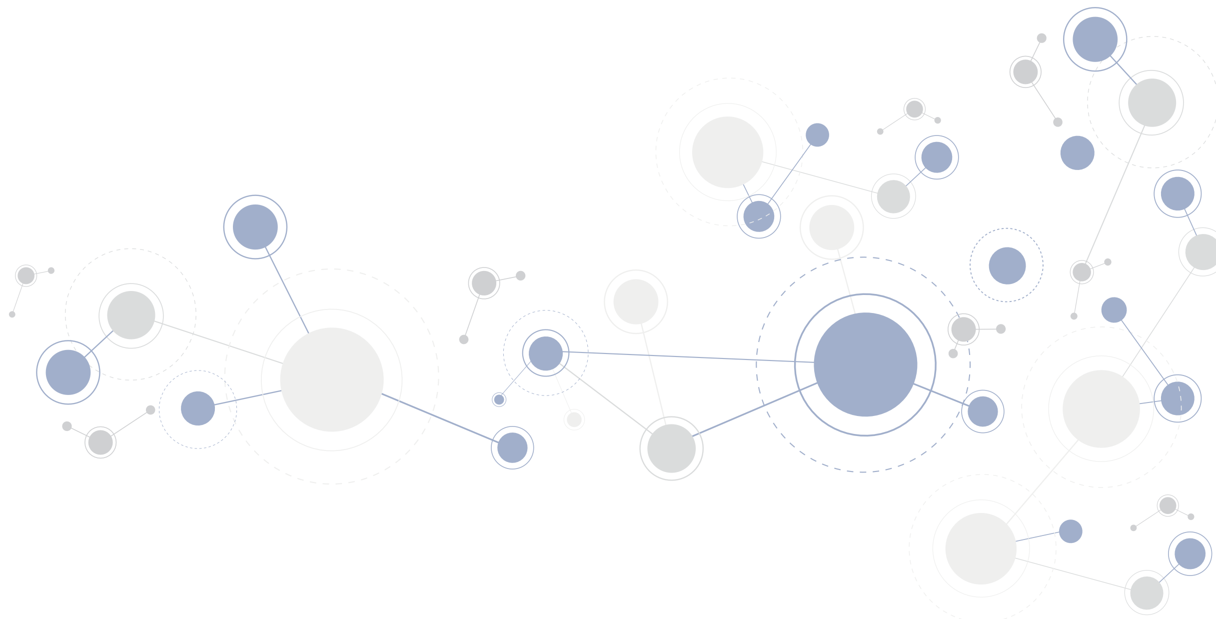
- Do you have adequate personnel, both in numbers and quality, to fulfill your responsibilities with respect to the financial statements and internal control over financial reporting?
- What is the succession plan for key finance positions?
- Are there finance professionals in the pipeline of potential leaders that the audit committee should meet? Are succession candidates given an opportunity to meet with the audit committee?
- What plans are in place to respond to unexpected turnover in finance roles? Is someone ready to begin immediately, and if not, what are the backup plans to hire temporary resources?
- What formal training and development programs are in place to keep finance professionals up to date with the latest developments and requirements? Do professionals receive training on advanced technologies that could enhance the effectiveness of the finance organization?
- How does the audit committee participate in the evaluation of the CFO? What kind of evaluation criteria are important to the audit committee?

Interactions with the board and other committees

As the audit committee seeks to align its structure with the company's strategic priorities, it should consider the coordination required among other board committees and the full board to facilitate the optimal allocation and coverage of topics that affect more than one group and to reduce the likelihood of something falling through the cracks. The audit committee should understand the roles and responsibilities of other board committees and consider whether they could benefit from periodic joint meetings to discuss areas of common interest and significant matters.

It is particularly important for the audit committee to coordinate with the compensation committee as it considers the risk that compensation policies have on the financial statements and internal controls. The audit committee should understand management and general employee compensation plans and how related metrics may affect fraud risks. Additionally, as companies increasingly use non-GAAP metrics to determine compensation, the audit committee should understand how those metrics may impact risk and may need to be addressed in the reconciliation between non-GAAP and GAAP information.

The audit committee chairman should also coordinate with the nominating and governance committee as it considers board candidates. The chairman should communicate the skills and experiences needed from members to effectively carry out the audit committee's responsibilities.



Audit committee external communications

Investors, policymakers, and regulators are continuing to show interest in more detailed disclosure about audit committees, their activities, and their oversight of the relationship with independent auditors. As these external parties request additional clarification about the roles and responsibilities, audit committees should consider whether they should enhance disclosures in the proxy statement.

Various SEC rules and exchange listing requirements address audit- and audit committee-related information that must be disclosed in the proxy statement, including the audit committee report, and on company websites.

SEC rules require companies to disclose the name of each audit committee member and include an audit committee report in their proxy statements. In the report, the audit committee must state whether it has:

- Reviewed and discussed the audited financial statements with management
- Discussed with the independent auditor all matters required under applicable auditing standards
- Received required independence disclosures from the independent auditor.

Based on this review and discussion, the report must also include a statement of whether the audit committee recommended to the board that the audited financial statements be included in the annual report to be filed with the SEC.

Proxy statements must disclose whether the board has adopted a written charter for the audit committee, and if so, include a copy of the charter as an appendix to the proxy statements at least once every three years.

Audit committee reporting

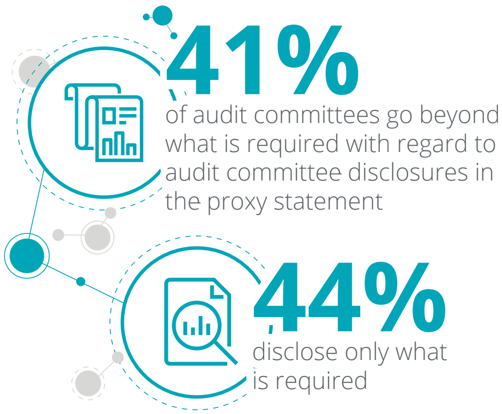
Over the past several years, investors and other governance groups and investors have sought expanded disclosures on how audit committees execute their duties. As recently as November 2016, the United Brotherhood of Carpenters' Pension Fund announced that it would send letters to 75 companies encouraging their audit committees to enhance auditor independence disclosures in 2017 proxy statements—a request they have been making since 2013. The SEC weighed in on the discussion when it issued a request for public comment in a July 2015 concept release titled *Possible Revisions to Audit Committee Disclosures*.

Deloitte's latest proxy statement analysis, *Audit Committee Disclosure in Proxy Statements – 2017 Trends*, indicates that companies have generally increased voluntary disclosures about the role and activities of audit committees over the past several years. While it is not necessary, or possible, to disclose everything an audit committee does each year in fulfilling its duties, additional insight into the structure and activities of the audit committee can help increase investor confidence in both the committee and the company as a whole.

The Center for Audit Quality (CAQ) and Audit Analytics published the *Audit Committee Transparency Barometer* in November 2016, which presents findings from an analysis of audit committee disclosures in proxy statements and measures the robustness of these disclosures among S&P Composite 1500 companies. The report measures the content of proxy statement disclosures in areas that include auditor oversight and scope of duties. The CAQ joined with several governance organizations in 2013 to form the Audit Committee Collaboration,[1] which released a report titled Enhancing the Audit Committee Report: A Call to Action in November 2013 to encourage enhanced audit committee disclosures.

The calls for increased transparency into audit committee duties, including the oversight of the independent auditor, are expected to continue to grow. Audit committees can respond by providing more meaningful disclosures that increase awareness of their responsibilities and how individual committees carry them out. For more information, read the *July 2015 Audit Committee Brief: SEC Issues Concept Release Concerning Audit Committee Reporting Requirements*.

[1] The following groups are members of the Audit Committee Collaboration: Association of Audit Committee Members, Inc.; Center for Audit Quality; Corporate Board Member/NYSE Euronext; The Directors' Council; Independent Directors Council; Mutual Fund Directors Forum; National Association of Corporate Directors; and Tapestry Networks.



Source: *Deloitte 2016 Board Practices Report*

Companies whose securities are quoted on NASDAQ or listed on the NYSE must disclose whether the audit committee members are independent as defined in the applicable listing standards, as well as certain information regarding any director on the audit committee who is not independent.

Regulators continue to solicit views of audit committees with respect to industry- and company-specific knowledge and experience. Taking the time to engage in formal or informal communication with regulators, industry groups, or the independent auditor on these topics can have a substantive impact on the development of standards and rules.

Fee disclosure

The SEC rule requires disclosure of fees paid to the independent auditor for the current and prior years, as well as a description of the services included in all categories, other than for audit fees, for both years. The audit committee's preapproval policies and procedures must be disclosed in a detailed description or by including the policy itself, along with disclosure of any services that were initially missed and later approved under a de minimis exception in the SEC's rule. Disclosures are required in the issuer's annual report as well as the proxy statement, but companies are allowed to incorporate the information into their Form 10-K from their proxy statement.

The SEC's rule that implemented the Sarbanes-Oxley Act expanded the requirements to disclose fees paid to the auditor, and many companies have opted to provide even more information. For instance, many companies subtotal the audit and audit-related fees so shareholders can easily quantify the portion of services that are audit and audit-related in nature.

Because certain institutional investors and proxy advisers, such as Institutional Shareholder Services, have guidelines for proxy-vote recommendations related to audit fees, many companies disclose not only the nature of services in the fee categories but also the amounts associated with specific services. Issuers should consult with legal counsel to determine the content of the fee disclosure. The SEC's four fee categories are:

- **Audit fees** are fees for services that normally would be provided in connection with statutory and regulatory filings or engagements, including the audit of internal control over financial reporting. This category also may include services that only the independent auditor reasonably can provide, such as comfort letters, statutory audits, attest services, consents, and assistance with documents filed with the SEC. Audit fees may include certain services provided by specialists who assist in the audit, such as tax specialists needed to audit the tax provision or valuation specialists needed to audit a fair-value assertion; certain accounting consultations in connection with the audit; and similar items that are not billed as audit services and that only the independent auditor reasonably can provide.
- **Audit-related fees** are for assurance and related services that are performed by the independent auditor, such as audits of employee benefit plans; due diligence related to mergers and acquisitions; accounting consultations and audits in connection with acquisitions; internal control reviews, although not the audit of internal control over financial reporting, which is part of audit fees; attest services that are not required by statute or regulation; and consultation concerning financial accounting and reporting standards to the extent that such consultation is not necessary to complete the GAAS audit.
- **Tax fees** include all tax services except those related to the audit, such as review of the tax provision, which would be included in audit fees. Typically, tax fees cover tax compliance, planning, and advice. Tax compliance generally involves preparation of original and amended tax returns, refund claims, and planning services related to tax payments. Tax planning and tax advice encompass a diverse range of services, including assistance with tax audits and appeals, tax advice related to mergers and acquisitions, employee benefit plans, and requests for rulings or technical advice from tax authorities. The provision of tax services is subject to certain restrictions, among which are that company personnel must make all management decisions and perform all management functions, and that services cannot be provided for an employee with a financial oversight role.
- **All other fees** include all fees paid to the independent auditor for services other than audit, audit-related, or tax services.

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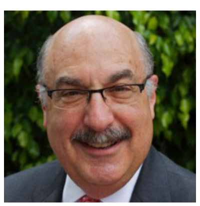

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