MEMORANDUM

TO:	**Committee Members**	**Committee Liaisons**
	Sue Zeller, Chair	William Carey, CCV faculty
	David Durfee, Vice-Chair	Ryan Dulude, CCV staff
	Gwen Bailey-Rowe	Jen Jones, VTSU staff
	Bob Flint	Dennis Reilly, VTSU faculty
	David Silverman	

FROM: Barry Harte, Interim Chief Financial & Operating Officer

RE: VSC Audit & Risk Management Committee Meeting
October 26, 2026

DATE: October 19, 2026

The VSC Board of Trustees Audit & Risk Management Committee is scheduled to meet on **Monday, October 26, 2026, at 9:00 a.m.** via vsc.edu/botzoom.

The meeting will begin with the call to order, public comment, and approval of the May 11, 2026, meeting minutes.

The Committee will then review the draft audited financial statements for the fiscal year ended June 30, 2026, and receive a presentation from the System's external auditors, Withum. The FY2026 Single Audit is not yet available due to the delayed issuance of the federal Compliance Supplement and will be presented to the Committee at a subsequent meeting.

Following other business, the Committee is expected to enter executive session for discussions with the external auditors regarding management and financial controls and to review the annual EthicsPoint report. Upon returning to public session, the Committee will consider Resolution 2026-12, recommending acceptance of the FY2026 audited financial statements by the Board of Trustees.

A quorum of three Committee members is required to convene the meeting and take action.

The Board Assistant may be reached at (802) 224-3021 with questions.

CC:
Council of Presidents
Vermont Department of Libraries
VSC Board of Trustees

Vermont State Colleges Board of Trustees
Audit & Risk Management Committee Meeting
Monday, October 26, 2026 at 9:00 a.m.
Live session: vsc.edu/botzoom | Stream: vsc.edu/live

AGENDA

1. Call to Order

2. Public Comment[1]

3. Approval of May 11, 2026 minutes

4. Review of FY 2026 *Draft* Audited Financial Statements

5. Proposed Executive Sessions for the purposes of
    a) Evaluating public officers or employees; and
    b) Discussion of a Record exempt from the public records act

6. Return to Public Session and Consideration of Resolution 2026-12, Acceptance of the FY2026 Audited Financial Statements

7. Report on FY2026 Whistleblower Activity

8. Other Business

9. Adjournment

MATERIALS

1. May 11, 2026 Minutes
2. FY 2026 Draft Audited Financial Statements
3. Resolution 2026-12

[1] Sign up to make a comment at vsc.edu/signup. Commenters must be logged in to the live session at www.vsc.edu/botzoom to make a comment.

Minutes of the VSC Board of Trustees' Audit & Risk Management Committee meeting held Monday, May 11, 2026 at 9:00 a.m. at vsc.edu/botzoom. – UNAPPROVED

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

The VSC Board of Trustees Audit & Risk Management Committee met on Monday, May 11, 2026 at 9:00 a.m. at vsc.edu/botzoom.

Attendance

Committee Members:	Sue Zeller (Chair), David Durfee (Vice Chair), Bob Flint
Absent:	David Silverman
Liaisons:	William Carey (CCV faculty), Ryan Dulude (CCV staff)
Presidents:	David Bergh, VTSU Joyce Judy, CCV
Other Attendees:	Kayla Dewey, Executive Assistant, Board of Trustees Wilson Garland, Chief Information Officer Jason Kaiser, VTSU Learning Spaces Technology Specialist Zach LaFlash, CPA, Withum Nicole Mace, CCV Dean of Administration Michael Martel, Manager of Data Center Operation Sharron Scott, Chief Financial and Operating Officer Toby Stewart, Controller Patty Turley, General Counsel Littleton Tyler, AVP Finance and Compliance Meg Walz, Deputy CIO

1. Call to Order

Chair Zeller called the meeting to order at 9:00 a.m.

2. Public Comment

There was no public comment.

3. Approval of February 23, 2026 minutes

Trustee Zeller moved and Trustee Flint seconded the motion to approve the February 23, 2026 minutes. The motion was approved unanimously.

4. Review: FY2026 Audit Planning with Withum

UNAPPROVED

Chair Zeller introduced the topic: a review of the FY2026 audit planning with Withum, which included a review of last year's audit—where they had received an unmodified opinion and no material weaknesses—as well as an overview of the approach and timeline for the current year's work. She also stated that the committee would hear about any areas of focus for the current year, including audit risks, federal program considerations, and planned process improvements. She then invited Withim CPA, Zach LaFlash, to provide the report which he did.

5. Canvas Outage

Chair Zeller introduced this topic by stating that there had been a recent Canvas outage, which had caused some security. Chief Information Officer, Wilson Garland reviewed the current status with the committee including implications for system operations and risk management. He also took questions from the committee.

6. Review & Recommend: Written Information Security Program (WISP)

Chair Zeller invited Meg Walz, Deputy Chief Information Security Officer, to walk the committee through the Written Information Security Program (WISP), which she did.

Trustee Zeller moved and Trustee Silverman seconded the motion to recommend approval of the WISP as drafted in the packet to the board. The motion passed unanimously.

7. Other Business

There was no other business.

8. Adjourn

Chair Zeller adjourned the meeting at 9:31 a.m.

UNAPPROVED

Vermont State Colleges
(a Component Unit of the State of Vermont)
Financial Statements and
Management's Discussion and Analysis
June 30, 2026 and 2025
With Independent Auditor's Reports

REVISED DRAFT 10.19.2026

Vermont State Colleges
(a Component Unit of the State of Vermont)
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Independent Auditor's Report

To the Board of Trustees of
Vermont State Colleges (a Component Unit of the State of Vermont):

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Vermont State Colleges (a Component unit of the State of Vermont) (the “System”), as of and for the years ended June 30, 2026 and 2025, and the related notes to the financial statements, which collectively comprise the System’s 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, 2026 and 2025, 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 audits 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 ("*Government Auditing Standards*"). 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 System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 System adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement Number 103, *Financial Reporting Model Improvements.* Our opinion is not modified with respect to this matter.

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 System’s 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.

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Auditor's Responsibilities for the Audit 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 GAAS 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 GAAS 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 System's 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 System's 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 analysis 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated Select Date on our consideration of the System's 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 System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Select Date

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Management's Discussion and Analysis

Fiscal Years Ended June 30, 2026 and 2025 | Unaudited

Overview of the Financial Statements

Management's Discussion and Analysis (MD&A) provides an overview of the financial position and financial activities of the Vermont State Colleges System (the "System") for the fiscal year ended June 30, 2026, with comparative information for fiscal year 2025. This discussion should be read together with the accompanying financial statements and notes that follow.

The System is a component unit of the State of Vermont. It includes the Community College of Vermont (CCV), Vermont State University (VTSU), Workforce Development and the System Office. Fiscal year 2026 marked the conclusion of a five-year period of significant institutional transformation supported by the State of Vermont. During that period, the System merged three institutions into VTSU, consolidated administrative services and replaced the financial, payroll and human resource components of its enterprise resource planning (ERP) platform. The System's charge is to become a more affordable, accessible and sustainable public higher education system that meets the evolving needs of Vermont's students and economy, and it serves as the State's workforce development partner.

How to read the statements. The System reports as a single business-type activity, much as a self-supporting enterprise would. The statements are designed to be read together, and each answers a different question:

- **Statements of Net Position** measure the System's financial position at fiscal year-end. They report what the System owns (assets) and owes (liabilities), along with deferred outflows and deferred inflows of resources; what remains is net position. Together these provide a snapshot of the System's financial condition at June 30.
- **Statements of Revenues, Expenses and Changes in Net Position** measure financial performance during the year. They report revenues and expenses, showing operating results first, followed by noncapital subsidies (mainly State operating appropriations) and then other nonoperating items such as investment income, capital appropriations and interest expense. They explain how and why net position changed: the change in net position, added to net position at the beginning of the year, equals the net position reported on the Statements of Net Position.
- **Statements of Cash Flows** measure cash activity during the year. They report cash receipts and payments by type of activity (operating, noncapital financing, capital and related financing, and investing) and end with the cash and cash equivalents reported on the Statements of Net Position. Because the other statements are prepared on the accrual basis, the Statements of Cash Flows complement them by showing how cash was actually generated and used, including a reconciliation of the operating loss to net cash used in operating activities.
- **Notes** provide the accounting policies and additional detail, including on capital assets, debt, leases and subscriptions, and retiree health benefits, needed to fully understand and interpret the amounts in the statements. Required supplementary information on retiree health benefits follows the notes.

A few terms recur in this discussion:

- **OPEB (other postemployment benefits):** the System's obligation to pay health care for eligible retirees. It is paid as benefits come due and is not prefunded.
- **Deferred outflows and inflows of resources:** amounts that relate to future years, mostly from OPEB measurement changes recognized gradually over time.
- **Noncapital subsidies:** State operating appropriations and similar support. They fund day-to-day operations but are reported separately from operating revenue.

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- **Subscription arrangements:** multi-year software contracts, such as Workday, recorded as an asset with a matching liability.

Change in presentation. The financial statements and this discussion follow the presentation required by Governmental Accounting Standards Board Statement No. 103, *Financial Reporting Model Improvements*. FY2025 amounts are presented on the same basis, as described in Note 2.

Financial Summary

Net position rose $14.1 million (18.8%) to $89.2 million, while cash declined $13.5 million to $105.8 million.

The System's net position increased $14.1 million in FY2026, following a $28.0 million increase in FY2025. The smaller increase reflects two developments tied to the close of the System's period of State-supported transformation: State operating appropriations were $8.4 million lower as one-time bridge and transformation funding stepped down, and the operating loss widened by $6.1 million, reflecting $3.5 million of Workday implementation consulting, the absence of $2.7 million of one-time credits from the FY2025 close-out of the Federal Perkins Loan Program, and lower sales, services and grant revenue. Net position also benefited from a lower measurement of the System's retiree health obligation, a noncash item discussed later in this analysis.

Cash and cash equivalents declined $13.5 million to $105.8 million. Operating activities and State support together generated $5.5 million of cash, down from $24.7 million in FY2025, which was not sufficient to cover $20.4 million of capital investment and debt service. The System's liquidity nonetheless remains sound: year-end cash and cash equivalents represent approximately 223 days of operating expenses, excluding depreciation. The System also holds $91.4 million of long-term investments, a portion of which is restricted by donors, including permanent endowments.

Table 1 – Condensed Statements of Net Position

(in millions)	FY2026	FY2025	CHANGE	PCT
Current assets	$130.3	$141.5	$(11.2)	(7.9)%
Capital assets, net	145.9	139.3	6.6	4.7%
Other noncurrent assets	92.2	85.2	7.1	8.3%
Total assets	**368.4**	**366.0**	**2.4**	**0.7%**
Deferred outflows of resources	23.1	27.4	(4.2)	(15.5)%
Total assets and deferred outflows	**391.5**	**393.4**	**(1.8)**	**(0.5)%**
Current liabilities	30.2	31.3	(1.1)	(3.6)%
Noncurrent liabilities	209.1	213.4	(4.3)	(2.0)%
Total liabilities	**239.3**	**244.7**	**(5.4)**	**(2.2)%**
Deferred inflows of resources	63.1	73.6	(10.5)	(14.3)%
Total liabilities and deferred inflows	**302.4**	**318.3**	**(15.9)**	**(5.0)%**
Net investment in capital assets	53.9	47.4	6.5	13.8%
Restricted – nonexpendable	29.2	26.9	2.2	8.3%
Restricted – expendable	33.4	36.8	(3.4)	(9.2)%
Unrestricted	(27.3)	(36.1)	8.7	24.2%
Total net position	**$89.2**	**$75.1**	**$14.1**	**18.8%**

Total assets and deferred outflows of resources were essentially unchanged at $391.5 million, but their composition shifted. Current assets fell $11.2 million, mainly because of lower cash, partly offset by a $3.5 million increase in accounts receivable. Capital assets rose $6.6 million, led by the Workday subscription, and other noncurrent assets rose $7.1 million as long-term investments grew. Total liabilities fell $5.4 million as the System paid down bonds and

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leases and its retiree health obligation declined, partly offset by a new $7.9 million software subscription liability. Deferred outflows and deferred inflows of resources, which relate mostly to retiree health benefits, both declined as previously deferred amounts were recognized.

Table 2 – Condensed Statements of Revenues, Expenses and Changes in Net Position

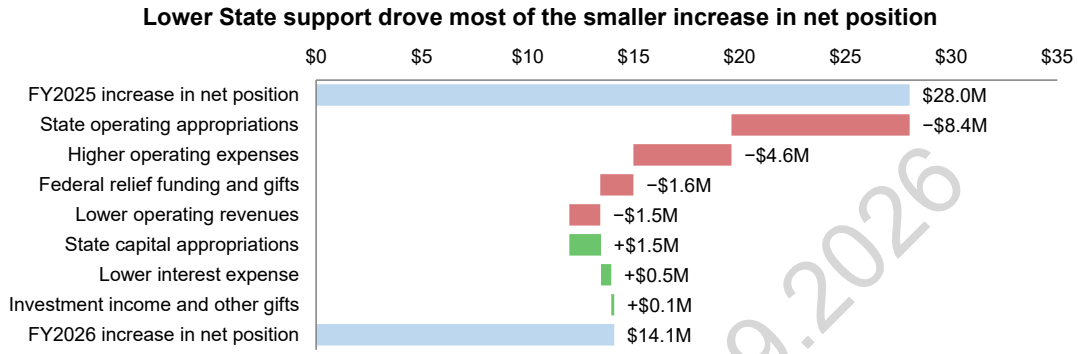
(in millions)	FY2026	FY2025	CHANGE	PCT
Net tuition, fees, residence and dining	$84.3	$82.3	$2.0	2.4%
Grants and contracts, including Pell	39.6	41.0	(1.4)	(3.4)%
Sales and services of educational activities	7.1	9.3	(2.2)	(23.5)%
Other operating revenues	0.8	0.7	0.1	20.6%
Total operating revenues	**131.9**	**133.4**	**(1.5)**	**(1.1)%**
Salaries, wages and benefits	109.7	109.4	0.3	0.3%
Supplies and other services	47.2	41.6	5.6	13.5%
Scholarships and fellowships	8.9	9.8	(0.9)	(9.6)%
Utilities	7.7	7.2	0.5	6.2%
Depreciation	13.6	14.4	(0.8)	(5.3)%
Total operating expenses	**187.0**	**182.4**	**4.6**	**2.5%**
Operating loss	**(55.1)**	**(49.0)**	**(6.1)**	**(12.4)%**
State appropriations	59.9	68.3	(8.4)	(12.3)%
Federal relief funding and gifts	0.4	2.0	(1.6)	(78.9)%
Total noncapital subsidies	**60.3**	**70.3**	**(10.0)**	**(14.2)%**
Operating loss and noncapital subsidies	**5.2**	**21.2**	**(16.1)**	**(75.6)%**
Investment income, net	8.5	8.4	0.2	1.9%
State capital appropriations	3.0	1.5	1.5	100.0%
Gifts and additions to endowment	1.6	1.7	(0.0)	(1.3)%
Interest expense on capital debt	(4.3)	(4.7)	0.5	10.2%
Total other nonoperating revenues, net	**8.9**	**6.8**	**2.1**	**31.4%**
Change in net position	**$14.1**	**$28.0**	**$(13.9)**	**(49.8)%**
Net position, beginning of year	75.1	47.1	28.0	59.5%
Net position, end of year	**$89.2**	**$75.1**	**$14.1**	**18.8%**

Note: Amounts are rounded, so rows may not sum exactly.

State operating support fell $8.4 million as one-time bridge and transformation funding stepped down. Operating costs rose $4.6 million, led by the Workday implementation. Together these account for most of the $13.9 million difference.

Operating loss and noncapital subsidies. GASB Statement No. 103 introduced this subtotal to show whether operating revenues and noncapital subsidies, principally State operating appropriations, together covered the cost of operations. In FY2026 they exceeded operating expenses by $5.2 million, compared with $21.2 million in FY2025. The FY2026 result includes the final $5.0 million of one-time bridge funding and a $7.3 million noncash credit for retiree health benefits, and it is after $13.6 million of depreciation.

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Source: Statements of Revenues, Expenses and Changes in Net Position, FY2026 and FY2025.

Detailed Analysis

Operating revenues: down $1.5 million (1.1%) to $131.9 million

Operating revenues were nearly level. Modest growth in net student revenue, which at 64% of the total remains the System's largest operating revenue source, was more than offset by lower sales and services and lower grant revenue.

- **Net student revenue rose $2.0 million (2.4%) to $84.3 million.** Tuition and fees increased $2.7 million (3.0%), driven primarily by tuition rate increases of approximately 3.5% across the System. Residence and dining revenue fell $0.4 million (3.0%) reflecting lower demand for on-campus housing and dining. Scholarship allowances, the discounts the System gives students, rose $0.3 million to $22.3 million.
- **Sales and services of educational activities fell $2.2 million (23.5%) to $7.1 million.** Activity declined in advanced manufacturing programs, under the Cold Regions Research and Engineering Laboratory (CRREL) contract, and in camps and conferences.
- **Grants and contracts fell $1.4 million (3.4%) to $39.6 million.** Federal grants, including Pell, declined $0.8 million. Pell grants, which are awarded directly to eligible students, fell $0.9 million to $16.6 million. Funding for the federally supported healthcare workforce initiative at VTSU (Vermont Act 183) and U.S. Department of Education System transformation funding also declined from their FY2025 peaks, but these declines were more than offset by other federal awards. State and other grants declined $0.6 million, principally because the three-year Working Lands grant from the Vermont Agency of Agriculture, Food and Markets concluded in FY2025.

Operating expenses: up $4.6 million (2.5%) to $187.0 million

The increase was concentrated in supplies and other services, where the Workday implementation was the largest driver, while compensation costs were essentially flat. Salaries and benefits remain the largest category of expense, at nearly 59% of the total.

- **Supplies and other services rose $5.6 million (13.5%) to $47.2 million.** The main drivers were Workday implementation consulting of $3.5 million, spending on externally funded activities, and the absence of one-time credits recorded in FY2025 from the close-out of the Federal Perkins Loan Program ($2.7 million).

  Workday replaces Colleague, the System's legacy administrative system. During FY2026 the System completed Phase 1 of the implementation, establishing Workday as its enterprise system for human resources, payroll and finance across the System Office, VTSU and CCV. The work included configuring

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core business processes, extensive system testing, validating data converted from Colleague, building the integrations needed for day-to-day operations, and preparing faculty and staff for new workflows and self-service capabilities through instructor-led training and change management. Employees gained access on June 22, 2026, in time for the first payroll on the new system, and purchasing and finance functions launched on July 1, 2026. Under GASB Statement No. 96, costs of implementing the subscription are capitalized with the subscription asset, while other consulting costs ($3.5 million in FY2026) are expensed as incurred and are reflected in this category. Phase 1 provides the foundation for the Workday student information system, which is expected to be completed over the next two years; the remaining fixed implementation fees are described under Currently Known Facts, Decisions, or Conditions.

- **Salaries, wages and benefits were stable at $109.7 million (up $0.3 million).** Salaries and wages rose $2.1 million (2.6%) under the multiple collective bargaining agreements, as well as for non-bargaining employees. Employee benefits fell $1.8 million (6.0%). The decline, however, reflects accounting for postemployment health benefits (OPEB), not lower benefit costs: the noncash OPEB credit grew from $3.8 million to $7.3 million. Medical and dental claims incurred under the System's self-insured health plan rose $1.5 million to $22.4 million.
- **Scholarships, utilities and depreciation fell $1.2 million combined.** Scholarship expense fell $0.9 million because students with larger scholarship packages have graduated from VTSU. Utilities rose $0.5 million due to higher energy costs. Depreciation fell $0.8 million as older assets became fully depreciated.

State support: down $10.0 million (14.2%) to $60.3 million

State operating appropriations remain the System's second-largest source of revenue after student revenue, equal to approximately 29% of total revenues in FY2026.

State operating appropriations fell $8.4 million to $59.9 million, reflecting the reduction of one-time bridge funding from $10.0 million to $5.0 million and the conclusion of $4.0 million in special transformation appropriations received in FY2025. Within the total, the operating appropriation directed to VTSU increased $2.8 million. Federal pandemic relief funding fell $1.5 million to $0.1 million as the last awards were spent.

Other nonoperating revenues rose $2.1 million to $8.9 million. Net investment income of $8.5 million was comparable to FY2025's $8.4 million and remained a meaningful contributor to results. Capital State appropriations increased from $1.5 million to $3.0 million, including additional support for the Johnson campus heating plant.

Cash and liquidity: $105.8 million in cash and $91.4 million in long-term investments

Table 3 – Condensed Statements of Cash Flows

(in millions)	FY2026	FY2025	CHANGE
Operating activities	$(56.0)	$(46.8)	$(9.1)
Noncapital financing activities (mainly State appropriations)	61.5	71.6	(10.1)
Capital and related financing activities	(20.4)	(20.5)	0.1
Investing activities	1.4	2.0	(0.6)
Net change in cash	**(13.5)**	**6.2**	**(19.7)**
Cash and cash equivalents, end of year	**$105.8**	**$119.3**	**$(13.5)**

Taken together, operating and noncapital financing activities generated approximately $5.5 million of cash in FY2026, compared with $24.7 million in FY2025. Payments to suppliers rose $9.9 million, led by the Workday implementation, while grant and contract receipts fell $6.2 million. Capital spending, debt payments and interest used $20.4 million, about the same as last year.

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Long-term investments increased $7.2 million to $91.4 million, reflecting changes in market values and investment activity during the year.

Measured against operating expenses excluding depreciation, cash on hand declined from approximately 259 days at June 30, 2025 to approximately 223 days at June 30, 2026. Current assets were 4.3 times current liabilities, compared with 4.5 times a year earlier.

Retiree health benefits (OPEB): obligation down $3.4 million to $114.5 million

The discount rate, which is based on a market index of 20-year municipal bond yields (the Bond Buyer 20-Bond GO Index), rose from 3.93% to 5.20% as market interest rates increased. Together with other updated actuarial assumptions, this reduced the obligation by $7.9 million, partly offset by a $5.5 million experience loss. Including deferred amounts, OPEB-related balances improved net position by $10.7 million. This is an accounting measurement, not additional cash: the System pays retiree health costs as they come due ($7.1 million in FY2026).

The plan has been closed to new participants since October 2012 (October 2015 for full-time faculty). At June 30, 2026 it covered 787 retirees and beneficiaries and 928 active employees. Because the System funds these benefits as they are paid rather than through a trust, the obligation is measured using a municipal bond index rate, and changes in that rate can move the reported liability significantly from year to year without any change in the benefits themselves.

Net position: four components

Net position is reported in four components, which show the extent to which the System's resources are invested in capital assets, restricted by donors or others for specific purposes, or available for general operations.

- **Net investment in capital assets** rose $6.5 million to $53.9 million as capital additions and debt repayment outpaced depreciation.
- **Restricted – nonexpendable** (permanent endowments) rose $2.2 million to $29.2 million from new gifts of $0.4 million and investment gains.
- **Restricted – expendable** fell $3.4 million to $33.4 million as restricted funds were spent on intended purposes.
- **Unrestricted** net position improved by $8.7 million but remained negative at $27.3 million. The System's substantial unfunded retiree health obligations are a significant factor in this negative balance, notwithstanding its positive cash and investment holdings.

Significant Capital Asset and Long-Term Financing Activity

The System issued no new debt, repaid $4.4 million of bond principal and invested $23.0 million in capital assets, including its new Workday platform.

Capital assets, net of depreciation, rose $6.6 million to $145.9 million. Additions of $23.0 million included:

- **$13.2 million of software subscriptions.** The asset consists primarily of the Workday subscription for the System's finance, payroll and human resources functions, together with implementation costs capitalized under GASB Statement No. 96, and it will be amortized over the subscription term.
- **$8.8 million of construction**. Nearly $6 million related to four VTSU projects: State-funded building improvements at Green Hall on the Randolph campus ($1.7 million) and at Castleton Hall ($1.1 million), both completed during the year; a nursing project on the Johnson campus ($1.0 million), in progress at June 30; and State-funded major maintenance across VTSU's five campuses ($2.0 million), which was expensed as described below. Additions also included work on the Johnson campus heating plant, supported by State capital appropriations.
- **$1.0 million of equipment.**

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Completed projects totaling $8.0 million moved from construction in progress into service, mostly building improvements. Depreciation and amortization totaled $13.6 million. In addition, $2.9 million of costs previously recorded as construction in progress, primarily for VTSU major maintenance projects ($2.0 million), were expensed when those projects closed during the year because they did not meet the criteria for capitalization.

Bonds, leases and subscriptions.

Table 4 – Long-Term Obligations at June 30

(in millions)	FY2026	FY2025	CHANGE
Revenue bonds, including unamortized premium	$83.6	$88.7	$(5.1)
Lease liabilities (buildings and space)	10.9	13.0	(2.0)
Subscription liabilities (software)	8.7	1.9	6.8
Total	**$103.3**	**$103.6**	**$(0.4)**

Note: Excludes $12.1 million of remaining Workday implementation fees, which are a contractual commitment rather than a liability.

Bonds. Outstanding principal on the Series 2017 and Series 2020A revenue bonds fell from $79.0 million to $74.6 million. Scheduled payments reduce the balance each year through final maturity in October 2040. The System was in compliance with all bond covenants at June 30, 2026.

Leases. Lease liabilities fell $2.0 million as scheduled payments were made, and no new leases were signed. The largest lease is CCV's Rutland academic center ($7.6 million). The System has begun relocating System Office operations into existing CCV facilities, which is expected to reduce annual lease expense by approximately $90,000.

Subscriptions. The $6.8 million increase is attributable to the Workday subscription ($7.9 million), payable over 104 months.

Currently Known Facts, Decisions, or Conditions

The System enters FY2027 with time-limited transformation funding concluded, a new administrative platform in place for finance, payroll and human resources, and implementation of its student information system under way. Management knows of the following items that may affect future financial position or results:

- **State funding.** FY2026 included the final $5.0 million of one-time bridge funding. The enacted FY2027 base appropriation is $54.3 million, up $1.6 million from FY2026. Aligning recurring revenue with recurring expenses without bridge support is the System's central financial priority. Through its FY2027 budget development process, the System achieved approximately $3 million in financial improvements by controlling costs and identifying new revenue opportunities.
- **Workday.** Human resources and payroll went live in June 2026, and purchasing and finance functions on July 1, 2026; both are in stabilization. The student information system is in implementation and is expected to be completed over the next two years. Remaining fixed implementation fees of $12.1 million are payable as follows: $7.0 million in FY2027; $4.3 million in FY2028; and $0.8 million in FY2029. Subscription payments are in addition to these fees.
- **Labor agreements.** Collective bargaining agreements with CCV United Faculty and the Part-Time Faculty Federation extend through August 31, 2029. On July 28, 2026, the System executed a collective bargaining agreement with the Vermont State Colleges Faculty Federation (VSCFF), representing the VTSU Online faculty bargaining unit (formerly NVU Online), extending through August 2029. The separate VSCFF agreement covering VTSU full-time faculty expires August 31, 2027, with negotiations expected to begin in spring 2027. Any resulting financial impact is anticipated in FY2028. Agreements with the VSEA, PAT, and SUP bargaining units extend through June 30, 2028.
- **Vermont State University.** VTSU continues to face financial pressures associated with enrollment trends, operating costs, and the transition from extraordinary State transformation support to a sustainable mix of recurring State appropriations and institutional revenues. System and new University leadership under President Sherry Kollmann, who began July 1, 2026, are developing a multiyear financial sustainability plan

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to achieve a sustainable balance of revenues and expenses while preserving academic quality, student access, and the University's statewide mission. This work will inform future budget development.

- **Enrollment.** As of mid-October, fall 2026 FTE enrollment was 4,204 at VTSU, down 0.8% from the same point in fall 2025, and 2,647 at CCV, up 4.4%.
- **Debt service.** FY2027 bond debt service is $7.8 million: $4.6 million of principal and $3.2 million of interest. Lease and subscription payments add $4.1 million.
- **Retiree health benefits.** Previously deferred OPEB amounts will reduce reported OPEB expense by $9.2 million in FY2027. This is an accounting effect. Cash costs for retiree health care continue to be paid as they come due, and the obligation remains sensitive to discount rates and health care cost trends.
- **Facilities.** All five VTSU campuses remain in operation, and the System is finding new ways to put its campuses, facilities and land to work for the communities it serves. It currently has five long-term leases of available space either executed or in final discussions, including a new home at Johnson for a primary health care provider serving Lamoille County and space at Lyndon for the Kingdom East Supervisory Union, and affordable housing development is under way at Johnson. The System is expanding its work on the adaptive reuse of its physical assets.

Management believes that the System's liquidity, the completion of the first phase of its administrative systems modernization and the multiyear sustainability planning under way at VTSU position it to meet these challenges and to pursue growth in the programs and services Vermont needs. The System remains committed to its long-term financial sustainability and to building a more affordable, accessible and sustainable public higher education system that meets students' changing needs, strengthens Vermont's workforce and contributes to the vitality of the communities it serves for generations to come.

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Vermont State Colleges
(a Component Unit of the State of Vermont)
Statements of Net Position
June 30, 2026 and 2025

	2026	2025
Assets and Deferred Outflows of Resources		
Current assets		
Cash and equivalents (Note 3)	$ 105,747,457	$ 119,167,550
Accounts receivable, net (Note 4)	20,952,723	17,450,791
Other current assets	3,600,553	4,914,772
Total current assets	130,300,733	141,533,113
Non-current assets		
Cash and equivalents (Note 3)	55,714	132,811
Long-term investments (Note 3)	91,359,576	84,205,079
Notes receivable, net (Note 4)	834,624	809,325
Other assets	-	19,357
Capital assets, net (Note 13)	145,852,807	139,293,302
Total non-current assets	238,102,721	224,459,874
Total assets	368,403,454	365,992,987
Deferred outflows of resources		
Deferred loss on debt refunding (Note 8)	2,341,874	3,362,601
OPEB (Note 12)	20,784,087	24,009,239
Total deferred outflows of resources	23,125,961	27,371,840
Total assets and deferred outflows of resources	$ 391,529,415	$ 393,364,827

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The Notes to Financial Statements are an integral part of these statements.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Statements of Net Position
June 30, 2026 and 2025

	2026	2025
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	$ 14,222,996	$ 16,740,523
Unearned revenue and deposits	7,303,614	6,437,925
Current Portion of lease liability (Note 6)	1,636,980	2,034,424
Current portion of SBITA Liability (Note 7)	1,652,852	948,733
Current portion of long-term debt (Note 5)	5,348,510	5,128,510
Total current liabilities	30,164,952	31,290,115
Non-current liabilities		
Post-employment benefit obligations (Note 12)	114,488,306	117,898,513
Lease liability, net of current portion (Note 6)	9,288,780	10,925,759
SBITA liability, net of current portion (Note 7)	7,093,090	989,250
Long-term debt, net of current portion (Note 5)	78,234,248	83,582,759
Total non-current liabilities	209,104,424	213,396,281
Total Liabilities	239,269,376	244,686,396
Deferred inflows of resources		
OPEB (Note 12)	63,095,300	73,593,537
Net position		
Net investment in capital assets	53,907,978	47,370,429
Restricted - nonexpendable	29,165,968	26,932,616
Restricted expendable	33,434,281	36,835,380
Unrestricted	(27,343,488)	(36,053,531)
Total net position	89,164,739	75,084,894
Total liabilities, deferred inflows of resources and net position	$ 391,529,415	$ 393,364,827

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The Notes to Financial Statements are an integral part of these statements.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2026 and 2025

	2026	2025
Operating revenues		
Tuition and fees	$ 92,804,146	$ 90,100,147
Residence and dining	13,867,048	14,293,636
Less: Scholarship allowances	(22,338,149)	(22,049,436)
Net tuition, fees, and residence and dining revenue	84,333,045	82,344,347
Federal grants and contracts	35,792,884	36,589,862
State and local grants and contracts	2,328,024	2,730,152
Non-governmental grants and contracts	1,473,792	1,671,999
Interest income	-	1,493
Sales and services of educational activities	7,140,502	9,332,703
Other operating revenues	824,689	683,138
Total operating revenues	131,892,936	133,353,694
Operating expenses (Notes 9, 11, 12 and 13)		
Salaries and wages	81,759,566	79,689,152
Employee benefits	27,914,664	29,711,110
Scholarships and fellowships	8,850,093	9,789,606
Supplies and other services	47,194,234	41,586,775
Utilities	7,694,242	7,241,831
Depreciation	13,602,732	14,361,975
Total operating expenses	187,015,531	182,380,449
Net operating loss	(55,122,595)	(49,026,755)
Non-capital subsidies		
State appropriations (Note 10)	59,887,030	68,296,480
Gifts	323,723	337,719
Federal grants and contracts	93,264	1,642,068
Total non-capital subsidies	60,304,017	70,276,267
Operating loss and non-capital subsidies	5,181,422	21,249,512
Other non-operating revenues (expenses)		
Gifts	1,195,269	1,310,764
Investment income, net of expenses (Note 3)	8,535,156	8,372,878
State appropriations for capital expenditures	3,000,000	1,500,000
Additions to non-expendable assets	435,334	322,897
Interest expense on capital debt	(4,267,336)	(4,749,627)
Other non-operating revenues	-	17,593
Total other non-operating revenues	8,898,423	6,774,505
Change in net position	14,079,845	28,024,017
Net position		
Beginning of year	75,084,894	47,060,877
End of year	$ 89,164,739	$ 75,084,894

The Notes to Financial Statements are an integral part of these statements.

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Vermont State Colleges
(a Component Unit of the State of Vermont)
Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	2025
Operating activities		
Tuition and fees	$ 83,684,976	$ 72,890,483
Grants and contracts	35,869,745	42,078,584
Sales and services of educational activities	7,993,579	8,840,923
Interest received	-	1,493
Payments to suppliers	(63,862,156)	(53,925,028)
Payments to employees	(120,217,554)	(117,427,410)
Collection of loan payments	-	18,248
Other cash receipts	560,937	683,138
Net cash used in operating activities	(55,970,473)	(46,839,569)
Non-capital financing activities		
State appropriations	59,887,030	68,296,480
Federal noncapital subsidies	93,264	1,642,068
Gifts and grants	1,493,693	1,648,483
Net cash provided by non-capital financing activities	61,473,987	71,587,031
Capital and related financing activities		
Capital and non-expendable grants and gifts	435,334	322,897
Capital appropriations	3,000,000	1,500,000
Purchases of capital assets	(12,076,751)	(9,851,061)
Proceeds from sale of capital assets	-	12,982
Payments on lease and SBITA arrangements	(3,311,947)	(1,285,333)
Payments on capital debt	(4,390,000)	(2,272,741)
Interest expense on capital debt	(4,038,000)	(8,948,596)
Other receipts	-	17,593
Net cash used in capital and related financing activities	(20,381,364)	(20,504,259)
Investing activities		
Proceeds from sales and maturities of investments	24,599,396	7,345,707
Purchases of investments	(30,473,155)	(8,375,876)
Investment income, net of fees	7,254,419	3,031,303
Net cash provided by investing activities	1,380,660	2,001,134
Net change in cash and cash equivalents	(13,497,190)	6,244,337
Cash and cash equivalents		
Beginning of year	119,300,361	113,056,024
End of year	$ 105,803,171	$ 119,300,361

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The Notes to Financial Statements are an integral part of these statements.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Statements of Cash Flows
Years Ended June 30, 2026 and 2025

	2026	2025
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss	$ (55,122,595)	$ (49,026,755)
Depreciation	13,602,732	14,361,975
Bad debts	1,102,738	612,278
OPEB activity	(7,273,083)	(3,796,416)
Changes in operating assets and liabilities		
Accounts receivable	(4,604,669)	1,413,735
Other assets	1,377,451	(2,656,141)
Notes receivable	-	18,248
Accounts payable and accrued liabilities	(2,464,647)	2,023,955
Unearned revenues, deposits and refundable grants	821,807	(4,442,489)
Post-employment benefit obligations	(3,410,207)	(5,347,959)
Net cash used in operating activities	$ (55,970,473)	$ (46,839,569)
Summary of cash and cash equivalents, end of year		
Cash and cash equivalents (current)	$ 105,747,457	$ 119,167,550
Cash and cash equivalents (non-current)	55,714	132,811
Cash and cash equivalents, end of year	105,803,171	119,300,361
Non-cash transactions		
Unrealized gains	$ 2,681,963	$ 2,778,256
Right-of-use asset additions funded through SBITA and lease liabilities	$ 8,085,486	$ -

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The Notes to Financial Statements are an integral part of these statements.

1. Summary of Significant Accounting Policies

Organization
Vermont State Colleges (the "System") is a component unit of the State of Vermont. The System comprises System Office and Services, Community College of Vermont ("CCV"), Vermont State University ("VTSU") and Workforce Development ("WFD").

Basis of Presentation
The accounting policies and procedures used by the System in accounting for, and reporting, its financial transactions are based on the accrual method of accounting. The significant accounting policies followed by the System 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.

The System is considered a special-purpose government under the provisions of GASB Statements No. 34 and 35. The System has determined that it functions 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 System presents the statements of net position, revenues, expenses and changes in net position, and cash flows on a combined System-wide basis.

The System defines 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 purchases of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement Nos. 35 and 103. These non-operating activities include the System's operating and capital appropriations from the State, net investment income, gifts, certain grants, and interest expense. Operating revenues and expenses are distinguished from non-operating activity. State operating appropriations and other qualifying noncapital subsidies are presented separately before other nonoperating activity. State appropriations for capital expenditures are separately presented in other non-operating activity.

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 the System 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 System or by the passage of time.

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

Cash and Equivalents
The System considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

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

Capital Assets
Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of 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 related to capital assets were expensed during the construction period.

The System's 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 System'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 the System 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 System's 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 the System's 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 statement of net position date. No liability is recorded for non-vesting accumulating rights to receive vacation benefits.

Refundable Grants

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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. 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.

Perkins Loan Program Closeout
In accordance with federal requirements, the System completed the liquidation and closeout of the Federal Perkins Loan (Perkins) program during fiscal year 2025. As part of the closeout process, the System returned its federal capital contribution to the U.S. Department of Education (DOE) and assigned any outstanding Perkins loan receivables to DOE. Consequently, the administration and collection of any loans assigned under the program will be solely the responsibility of the DOE.

The System has no further responsibility or liability related to the Perkins program subsequent to the closeout during fiscal year 2025. There are no Perkins loan balances within the accompanying financial statements for fiscal years 2026 and 2025.

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. The System incurred bond premiums related to the 2017 and 2020 bonds at the time of the issuance of the bonds. 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 $6,128,125 and $5,389,615 as of June 30, 2026 and 2025, respectively. Cumulative unamortized balances of bond premiums totaled $8,967,760 and $9,706,270 as of June 30, 2026 and 2025, 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"), requires governments to account for other post-employment benefits ("OPEB"), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the 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.

GASB 75 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 System is a wholly owned instrumentality of the State of Vermont, and as such is generally exempt from federal income tax. However, the System is subject to federal income tax on unrelated business income.

Grants
The System receives 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.

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Use of Estimates in Financial Statement Preparation
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events.

These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances.

Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating an allowance for doubtful accounts, depreciation, net position classification, self-funded health insurance accrual, and determining the other post-employment benefits liability.

Future Governmental Accounting Pronouncements Not Implemented
GASB Statement 105 - *Subsequent Events* is effective for reporting periods beginning after June 15, 2026. The objective of this statement is to improve the financial reporting requirements for events that occur after the financial statement date.

Management has not completed its review of the requirements of this standard and its applicability.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Comparative fiscal year 2025 information has been reclassified to conform to the current year presentation. The reclassifications are presentational only. The adoption of GASB 103, as further discussed in Note 2, had no effect on the change in net position for the year ended June 30, 2025 of $28,024,017, on net position at the beginning or the end of that year, on the net increase in cash and cash equivalents of $6,244,337, or on any asset, liability or deferred balance.

The following reclassifications were made to the fiscal year 2025 statement of revenues, expenses and changes in net position:

- Federal Pell grants totaling $17,586,429 were reclassified from nonoperating revenues to operating revenues.
- State appropriations totaling $68,296,480, were reclassified from nonoperating revenues to noncapital subsidies.
- Federal relief funding totaling $1,642,068, was reclassified from nonoperating revenues to noncapital subsidies.

As a result, total operating revenues for fiscal year 2025 increased from $115,767,265 as previously reported to $133,353,694 as reclassified, and the net operating loss decreased from $66,613,184 to $49,026,755. State appropriations for capital expenditures of $1,500,000 and additions to non-expendable assets of $322,897, previously reported below a separate other revenues subtotal, are now reported within other nonoperating revenues.

Corresponding reclassifications were made to the fiscal year 2025 statement of cash flows. Federal Pell grant receipts of $17,586,429 were reclassified from noncapital financing activities to grants and contracts within operating activities. Grants and contracts received increased from $24,492,155 to $42,078,584 and federal noncapital subsidies decreased from $19,228,497 to $1,642,068. Net cash applied to operating activities changed from $64,425,998 as previously reported to $46,839,569 as reclassified, and net cash provided by noncapital financing activities decreased from $89,173,460 to $71,587,031. There was no effect on the net increase in cash and cash equivalents or on cash and cash equivalents at June 30, 2025 of $119,300,361.

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2. Implementation of Newly Effective Accounting Standards

Effective July 1, 2024, the System adopted GASB Statement No. 103, *Financial Reporting Model Improvements*. GASB 103 improves key components of the governmental financial reporting model by enhancing Management's Discussion and Analysis (MD&A), revising certain financial statement presentation requirements, clarifying classifications within the statement of revenues, expenses and changes in net position, and establishing guidance for the presentation of unusual or infrequent items. The adoption of GASB 103 did not result in a change to beginning net position or impact the change in net position previously reported. However, certain revenues and expenses were reclassified within the statement of revenues, expenses and changes in net position to conform with the requirements of the new standard:

- Federal Pell grants were reclassified from nonoperating revenues to operating revenues.
- State operating appropriations were reclassified from nonoperating revenues to noncapital subsidies.
- Federal relief funding was reclassified from nonoperating revenues to noncapital subsidies.

Effective July 1, 2024, the System adopted GASB Statement No. 104, *Disclosure of Certain Capital Assets*. This Statement requires separate disclosure of lease assets by major class of underlying asset, subscription assets, and certain other intangible assets, and additional disclosures for capital assets held for sale.

Management evaluated the requirements of GASB Statement No. 104 and incorporated the applicable provisions into the accompanying financial statements, including separate presentation of leased buildings and subscription assets and their related accumulated amortization in Note 13. Adoption affected the capital-asset disclosures but did not have a material effect on the amounts recognized in the financial statements.

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 institution cash receipts (except the federal loan funds) are deposited in separate collection deposit accounts in the name of the System. 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, the System 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, 2026, the balance of current assets - cash and equivalents and restricted cash and equivalents consists of approximately $4,500 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation (“FDIC”) insured banking institutions of approximately $105,747,500 per the accounting records of the System, and approximately $108,124,400 per bank records. Of the bank balances, approximately $586,000 was covered by federal depository insurance and approximately $107,534,000 was uninsured and uncollateralized at June 30, 2026.

At June 30, 2026, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $55,700 per the accounting records of the System, and approximately $55,700 per bank records. Of the bank balances, approximately $0 was covered by federal depository insurance and approximately $55,700 was uninsured and uncollateralized at June 30, 2026.

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At June 30, 2025, the balance of current assets - cash and equivalents and restricted cash and equivalents consists of approximately $7,000 in petty cash, and the remainder deposited in Federal Deposit Insurance Corporation ("FDIC") insured banking institutions of approximately $119,160,500 per the accounting records of the System, and approximately $120,104,000 per bank records. Of the bank balances, approximately $842,000 was covered by federal depository insurance and approximately $119,262,000 was uninsured and uncollateralized at June 30, 2025.

At June 30, 2025, the balances of non-current assets - cash and equivalents deposited in FDIC insured banking institutions were approximately $132,800 per the accounting records of the System, and approximately $132,800 per bank records. Of the bank balances, approximately $0 was covered by federal depository insurance and approximately $132,800 was uninsured and uncollateralized at June 30, 2025.

Investments
Investments of the various funds at June 30, 2026 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 17,563,800	$ 17,130,974
Corporate bonds	19,913,080	20,087,019
Common stock and ETFs	27,694,948	18,970,487
Mutual funds	13,455,052	12,703,527
Money market	8,797,699	8,797,699
Hedge fund shares	3,934,997	3,746,114
Total investments	$ 91,359,576	$ 81,435,820

Investments of the various funds at June 30, 2025 are as follows:

	Fair Value	Cost
U.S. Government bonds	$ 18,179,209	$ 18,308,582
Corporate bonds	6,398,596	6,181,666
Common stock and ETFs	21,179,976	15,662,535
Mutual funds	13,222,907	11,572,162
Money market	20,547,143	20,547,143
Hedge fund shares	4,677,248	3,691,622
Total Investments	$ 84,205,079	$ 75,963,710

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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 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.

	2026 Investment Maturities (in years)				
Investment Type	**Market Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Money Market Investments	$ 8,521,695	$ 8,521,695	$ -	$ -	$ -
Corporate Bonds	19,782,845	1,585,980	7,431,754	10,765,111	-
U.S. Govt. Bonds	17,674,251	3,463,799	11,616,634	2,593,818	-
	45,978,791	13,571,474	19,048,388	13,358,929	-
Common Stock, Mutual Fund and Hedge Fund Shares	45,380,785	-	-	-	-
	$ 91,359,576	$ 13,571,474	$ 19,048,388	$ 13,358,929	$ -

	2025 Investment Maturities (in years)				
Investment Type	**Market Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Money Market Investments	$ 20,547,143	$ 20,547,143	$ -	$ -	$ -
Corporate Bonds	6,398,596	1,667,304	4,037,008	694,284	-
U.S. Govt. Bonds	18,179,209	3,944,166	10,011,050	4,223,993	-
	45,124,948	26,158,613	14,048,058	4,918,277	-
Common Stock, Mutual Fund and Hedge Fund Shares	39,080,131	-	-	-	-
	$ 84,205,079	$ 26,158,613	$ 14,048,058	$ 4,918,277	$ -

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, 2026 and 2025 is as follows:

	2026	**2025**
Interest and dividend income	$ 4,848,060	$ 4,726,457
Net realized and unrealized gain	3,972,747	3,905,409
Total investment income	8,820,807	8,631,866
Less: Management fees	(285,651)	(258,988)
Investment income, net	$ 8,535,156	$ 8,372,878

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The risk categories for the bond fund holdings held by the System at June 30, 2026 and 2025 are as follows:

Investment Rating*	2026	2025
AAA	$ 26,585,058	$ 18,842,896
AA+	450,798	69,426
AA	503,383	333,395
AA-	774,262	456,070
A+	3,020,361	797,822
A	5,017,489	1,692,420
A-	7,252,843	1,758,752
BBB+	1,989,323	748,414
BBB	385,274	139,639
Unrated	-	20,286,114
	$ 45,978,791	$ 45,124,948

*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 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.

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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 System 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 System typically 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 System are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the System are deemed to be actively traded.

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

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 System 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 System's assets measured on a recurring basis as of June 30, 2026 and 2025:

	June 30, 2026				
	Level 1	Level 2	Level 3	Measured at NAV	Total
U.S. Government bonds	$ 17,563,800	$ -	$ -	$ -	$ 17,563,800
Corporate bonds	-	19,913,080	-	-	19,913,080
Common stock and ETFs	27,694,948	-	-	-	27,694,948
Mutual funds	13,455,052	-	-	-	13,455,052
Money market	8,797,699	-	-	-	8,797,699
Hedge fund shares	-	-	-	3,934,997	3,934,997
Total assets at fair value	$ 67,511,499	$ 19,913,080	$ -	$ 3,934,997	$ 91,359,576

* As of June 30, 2026, there are no unfunded commitments associated with the Hedge fund shares. Redemption frequencies may vary from monthly, to quarterly, to semi-annually depending on the fund. Redemption notice periods also vary, with some funds requiring up to a 95-day notice.

	June 30, 2025				
	Level 1	Level 2	Level 3	Measured at NAV	Total
U.S. Government bonds	$ 18,179,209	$ -	$ -	$ -	$ 18,179,209
Corporate bonds	-	6,398,596	-	-	6,398,596
Common stock and ETFs	21,179,976	-	-	-	21,179,976
Mutual funds	13,222,907	-	-	-	13,222,907
Money market	20,547,143	-	-	-	20,547,143
Hedge fund shares	-	873,571	-	3,803,677	4,677,248
Total assets at fair value	$ 73,129,235	$ 7,272,167	$ -	$ 3,803,677	$ 84,205,079

* As of June 30, 2025, there are no unfunded commitments associated with the Hedge fund shares. Redemption frequencies may vary from monthly, to quarterly, to semi-annually depending on the fund. Redemption notice periods also vary, with some funds requiring up to a 95-day notice.

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4. Accounts Receivable, Notes Receivable and Allowance for Bad Debts

The composition of the System's accounts receivable at June 30, 2026 and 2025 is summarized as follows:

	2026	2025
Student accounts receivable	$ 14,879,358	$ 13,408,287
Grants receivable	13,279,035	9,435,171
Other receivable	1,235,474	2,025,668
Subtotal	29,393,867	24,869,126
Allowance for doubtful accounts	(8,441,144)	(7,418,335)
Total accounts receivable, net	$ 20,952,723	$ 17,450,791

This allowance is the aggregate that was reserved for each institution based upon historical bad loan reserve requirements. The net increase in the allowance of approximately $1,023,000 in 2026 and increase in the allowance of approximately $534,000 in 2025, has been reflected in operating expenses.

5. Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2026 and 2025:

	2026				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$ 88,711,269	$ -	$ 5,128,511	$ 83,582,758	$ 5,348,510
Total OPEB obligation	117,898,513	-	3,410,207	114,488,306	-
Lease liability	12,960,183	-	2,034,423	10,925,760	1,636,980
SBITA liability	1,937,983	8,085,483	1,277,524	8,745,942	1,652,852
Other liabilities	-	-	-	-	-
Refundable grants	-	-	-	-	-
Total long-term liabilities	$ 221,507,948	$ 8,085,483	$ 11,850,665	$ 217,742,766	$ 8,638,342

	2025				
	Beginning balances	Additions	Reductions	Ending balances	Current portion
Long-term liabilities					
Bonds and notes payable	$ 93,894,779	$ -	$ 5,183,510	$ 88,711,269	$ 5,128,510
Total OPEB obligation	123,246,472	-	5,347,959	117,898,513	-
Lease liability	13,890,343	1,342,581	2,272,741	12,960,183	2,034,424
SBITA liability	2,022,293	1,201,023	1,285,333	1,937,983	948,733
Other liabilities	3,451	-	3,451	-	-
Refundable grants	3,343,558	-	3,343,558	-	-
Total long-term liabilities	$ 236,400,896	$ 2,543,604	$ 17,436,552	$ 221,507,948	$ 8,111,667

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Bonds and Notes Payable
Outstanding debt as of June 30 2026 and 2025, is as follows:

	2026	2025
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 $3,132,703 and $3,352,541 has been added to the liability at June 30, 2026 and 2025, respectively. 1	$ 24,577,703	$ 25,992,541
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 $5,835,056 and $6,353,727 has been added to the liability at June 30, 2026 and 2025, respectively. 2	59,005,055	62,718,728
	$ 83,582,758	$ 88,711,269

1. In February 2020, the System 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 System 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 System'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, the System 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 the System; (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 System entered into the bond refunding with the goal to achieve cost savings primarily through the reduction of interest expense. The refunding increased the System's total debt service by $15,163,384 and resulted in an economic gain (difference between the present value of the old and new debt service payments) of $1,051,774.

Debt Roll-Forward
Long-term debt activity for the years ended June 30, 2026 and 2025 was as follows:

	Balance June 30, 2025	Additions	Repayment	Balance June 30, 2026	Current Portion
Series 2017	$ 56,365,000	$ -	$ (3,195,000)	$ 53,170,000	$ 3,360,000
Series 2017 Bond Premium	6,353,725	-	(518,672)	5,835,053	518,672
Series 2017 Bonds	62,718,725	-	(3,713,672)	59,005,053	3,878,672
Series 2020	22,640,000	-	(1,195,000)	21,445,000	1,250,000
Series 2020 Bond Premium	3,352,544	-	(219,839)	3,132,705	219,838
Series 2020 Bonds	25,992,544	-	(1,414,839)	24,577,705	1,469,838
Total bonds and notes payable	$ 88,711,269	$ -	$ (5,128,511)	$ 83,582,758	$ 5,348,510

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	Balance June 30, 2024	Additions	Repayment	Balance June 30, 2025	Current Portion
Series 2017	$ 59,405,000	$	$ (3,040,000)	$ 56,365,000	$ 3,195,000
Series 2017 Bond Premium	6,872,397		(518,672)	6,353,725	518,672
Series 2017 Bonds	66,277,397		(3,558,672)	62,718,725	3,713,672
Series 2020	24,045,000		(1,405,000)	22,640,000	1,195,000
Series 2020 Bond Premium	3,572,382		(219,838)	3,352,544	219,838
Series 2020 Bonds	27,617,382		(1,624,838)	25,992,544	1,414,838
Total bonds and notes payable	$ 93,894,779	$	$ (5,183,510)	$ 88,711,269	$ 5,128,510

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

Years Ending June 30,	Principal Amount	Interest Amount
2027	$ 4,610,000	$ 3,162,250
2028	4,850,000	2,925,750
2029	4,840,000	2,683,500
2030	5,085,000	2,435,375
2031	5,340,000	2,180,950
2032-2036	30,635,000	6,962,150
2037-2043	19,255,000	1,292,975
	$ 74,615,000	$ 21,642,950

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 the System.

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6. Lease Liability

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

	Commencement Date for GASB 87	Lease Term at GASB 87 Commencement (months)	Payment Amount	Rate Type	Interest Rate	Lease Liability 6/30/26	Lease Liability 6/30/25
Stonecutter's Way Lease (OC)	7/1/2020	85	Varies	IBR	4.75%	$ 102,707	$ 192,944
Rutland Lease (CCV)	7/1/2020	169	Varies	IBR	4.75%	7,599,317	8,235,856
Morrisville Lease (CCV)	7/1/2020	38	Varies	IBR	4.75%	12,557	85,488
Middlebury Lease (CCV)	7/1/2020	50	Varies	IBR	4.75%	-	-
Newport Lease (CCV)	7/1/2020	48	Varies	IBR	4.75%	151,055	292,154
Bennington Lease (CCV)	7/1/2020	48	Varies	IBR	4.75%	-	144,563
Lyndonville Lease (NVU)	7/1/2020	82	Varies	IBR	4.75%	31,314	67,294
Butternut Ledge Lease (CU)	7/1/2020	73	Varies	IBR	4.75%	9,882	125,930
St. Albans Lease (CCV)	11/1/2020	180	Varies	IBR	4.75%	1,620,702	1,731,595
Killington lease (CU)	11/30/2021	68	Varies	IBR	4.75%	52,754	102,032
Tech Vault Lease (OC)	5/1/2023	60	Varies	IBR	4.75%	141,033	212,948
Foley Hall Lease (CU) - Extended	7/31/2023	37	Varies	IBR	4.75%	20,033	247,899
Randolph Lease (VTC) - Extended	7/31/2023	36	Varies	IBR	10.00%	-	-
Brattleboro Lease (CCV & VTC) - Extended	6/30/2024	48	Varies	IBR	Various	928,298	1,180,412
Bennington Lease (VTC)	7/1/2024	60	Varies	IBR	10.00%	223,919	281,804
Vermont Community Foundation (CCV)	8/1/2024	36	Varies	IBR	5.36%	32,189	59,264
						$ 10,925,760	$ 12,960,183

Interest Expense and Net Remaining Right-of-Use Assets

Lease interest expense for the years ended June 30, 2026 and 2025 was $634,830 and $755,206 , respectively. 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 $9,040,678 and $11,228,557 at June 30, 2026 and 2025, 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, 2026 and 2025. A number of the leases also include options to renew at various times based on the System's choice to continue the lease. There are no leases in which management believes that it is certain that the System will exercise the renewal options.

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Future Lease Payments
Lease payments due subsequent to June 30, 2026 are as follows:

Years Ending June 30,	Principal Amount	Interest Amount
2027	$ 1,636,980	$ 528,528
2028	1,348,050	438,820
2029	1,376,600	353,414
2030	1,061,649	284,437
2031	1,131,525	232,808
2032-2035	4,370,956	355,930
	$ 10,925,760	$ 2,193,937

7. Subscription-Based Information Technology Arrangements

The System has entered into subscription-based information technology arrangements (SBITAs) involving its financial management software and document management software.

	Commencement Date for GASB 96	Lease Term at GASB 96 Commencement (months)	Payment Amount	Rate Type	Interest Rate	Lease Liability 6/30/26	Lease Liability 6/30/25
Touchnet	7/1/2021	78	Varies	IBR	4.75%	$ 194,408	$ 379,815
Tech Solutions (VTSU)	7/1/2023	36	Varies	IBR	10.00%	-	46,416
Linkedin	1/1/2024	24	Varies	IBR	10.00%	-	32,982
Microsoft Unified Enterprise Support	6/15/2024	37	Varies	IBR	10.00%	-	50,427
Instructure Lease Extension	6/30/2024	37	Varies	IBR	10.00%	-	538,243
Tech Solutions (CCV)	6/30/2024	49	Varies	IBR	10.00%	132,648	189,699
Trace3	9/26/2024	37	Varies	IBR	5.56%	75,449	146,827
Rapid7	10/1/2024	36	Varies	IBR	5.56%	92,594	180,191
Avisio (OC)	11/1/2024	36	Varies	IBR	5.56%	32,931	61,646
Zoom - Presidio	4/7/2025	37	Varies	IBR	5.56%	100,051	194,702
Yuja	5/1/2025	36	Varies	IBR	5.56%	32,454	61,320
Avisio (Randolph)	5/12/2025	37	Varies	IBR	5.56%	40,247	55,715
Workday	6/24/2026	104	Varies	IBR	4.9046%	7,865,999	-
Adobe — VSC	9/28/2025	47	Varies	IBR	10.00%	122,049	-
Adobe — CCV	9/28/2025	47	Varies	IBR	10.00%	44,510	-
Digication	6/30/25	36	Varies	IBR	6.35%	12,602	-
						$ 8,745,942	$ 1,937,983

At June 30, 2026, the total amount of the SBITA right-of-use assets and accumulated amortization for SBITAs were $16,871,416 and $2,501,779, respectively. At June 30, 2025, the total amount of the SBITA right-of-use assets and accumulated amortization for SBITAs were $4,368,740 and $2,009,457, respectively.

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Annual requirements to amortize the SBITA liability and related interest subsequent to June 30, 2026 are as follows:

Years Ended June 30,	Principal	Interest	Total
2027	$ 1,652,852	$ 284,969	$ 1,937,821
2028	975,197	364,075	1,339,272
2029	954,030	310,241	1,264,271
2030	934,224	259,038	1,193,262
2031	981,088	212,174	1,193,262
2032-2035	3,248,551	331,234	3,579,785
	$ 8,745,942	$ 1,761,731	$ 10,507,673

8. Deferred Outflows of Resources - Debt Refunding

During 2017, the System 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. Amortization of the breakage fee included in interest expense was $983,261 and $1,003,345 for the years ended June 30, 2026 and 2025, respectively. The unamortized balance of the breakage fee was $1,817,346 and $2,800,607 for years ended June 30, 2026 and 2025, respectively.

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

The difference between the amount 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. Amortization of this advance debt refunding included in interest expense was $37,466 and $37,581 for the years ended June 30, 2026 and 2025, respectively. The unamortized balance of the advance debt refunding was $524,528 and $561,994 for years ended June 30, 2026 and 2025, respectively.

9. Functional Expense - Classification

The following table details the System's operating expenses by functional expense classification for the years ended June 30, 2026 and 2025:

	2026	2025
Instruction	$ 52,098,429	$ 53,227,907
Research	1,984,645	2,361,643
Public service	10,779,724	13,431,834
Academic Support	20,138,192	20,789,927
Student Services	24,368,898	33,841,928
Institutional Support	36,348,085	22,760,500
Physical Plant	20,392,162	13,172,373
Depreciation	13,602,732	14,361,975
Student Financial Support	7,302,664	8,432,362
	$ 187,015,531	$ 182,380,449

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10. Appropriations

The System receives operating appropriations directly from the State of Vermont, generally through monthly allotments. State appropriations reported as noncapital subsidies totaled $59,887,030 and $68,296,480 for the years ended June 30, 2026 and 2025, respectively.

These appropriations included $5,000,000 and $10,000,000 of bridge funding in fiscal years 2026 and 2025, respectively, to support the System's transformation and financial sustainability initiatives. Fiscal year 2025 also included $4,000,000 for the Transformation Project and $1,000,000 for tuition reduction. These two appropriations did not recur in fiscal year 2026.

Distributions from the Higher Education Trust Fund ("HETF") totaled $621,251 and $567,568 in fiscal years 2026 and 2025, respectively, and are included in noncapital state appropriations.

Operating appropriations also included funding for Allied Health of approximately $1,797,000 and $1,788,000 in fiscal years 2026 and 2025, respectively, and funding for the Vermont Manufacturing Extension Center of approximately $428,000 in each year.

Capital appropriations from the State of Vermont totaled $3,000,000 and $1,500,000 for the years ended June 30, 2026 and 2025, respectively, and are reported separately as state appropriations for capital expenditures in the statements of revenues, expenses and changes in net position.

11. 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, 2026 and 2025, the System's total payroll expense was approximately $81,760,000 and $79,689,000, respectively, of which approximately $60,533,323 and $54,566,000, respectively, represented salaries and wages of employees covered under the defined contribution plan.

The System's requirements to contribute to the retirement plan are specified by applicable 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, 2026 and 2025, contributions made by the System under this plan totaled approximately $5,005,000 and $4,821,000, or approximately 8.27% and 8.83%, respectively, of covered salaries. The defined contribution plan is not a fiduciary activity since the System does not hold the assets and does not 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 System are allowed to continue participation. During the years ended June 30, 2026 and 2025, 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 2026 and 2025.

In addition, full-time faculty employees who have worked for the System for 15 years may elect early retirement at age 58 and receive 50% of their annual salary as of their retirement date. In addition, the System will pay 12% of the retiree's early retirement wages to the individual. This 12% payment represents the System's contribution, which would have been made to the individual TIAA/CREF pension account. The payments due under this program are funded by the System, as needed. During the years ended June 30, 2026 and 2025, contributions for these benefits were approximately $276,658 and $202,000 , respectively.

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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.

12. Post-Employment Benefits Other Than Pension

Plan Description: The System 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 the System and the unions representing the System's 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, 2026 and 2025:

	2026	2025
Retirees and Beneficiaries	787	824
Inactive, non-retired members	3	-
Active plan members	928	759
Total plan members	1,718	1,583

Funding Policy: Contribution requirements are also negotiated between the System and union representatives. The System contributes 100% of the current-year utilization costs for eligible employees, spouses or civil union partners.

For the fiscal years 2026 and 2025, the System recognized employer contributions of $7,135,016 and $6,393,979, respectively, for both healthcare and early retirement. The plan is financed on a pay-as-you-go basis. In fiscal years 2026 and 2025, 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: The System'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, 2026 and 2025, the System reported a total OPEB liability of $114,488,306 and $117,898,513, respectively. The total OPEB liability as of June 30, 2026, the reporting date, was measured as of June 30, 2025, the measurement date, and the actuarial valuation date of July 1, 2025. The total OPEB liability as of June 30, 2025, the reporting date, was measured as of June 30, 2024, the measurement date, and the total OPEB liability was determined by an actuarial valuation date as of July 1, 2023.

The following table shows the components of the System's annual OPEB costs for the years ended June 30, 2026 and 2025, and the changes in the System's total OPEB obligation to the retiree healthcare plan are as follows:

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	2026	2025
Interest on total OPEB obligation	$ 4,507,770	$ 4,376,109
Service Cost	898,310	935,465
Amortization of current year for difference between expected and actual experience	-	(130,715)
Annual OPEB cost	5,406,080	5,180,859
Difference between expected and actual experience to be recognized in future years	-	130,715
Difference between changes in plan actuarial assumptions to be recognized in future years	(7,928,928)	(3,805,741)
Difference between expected and actual experience of the Total OPEB liability	5,506,621	(147,644)
Benefit payments	(6,393,980)	(6,706,148)
Increase in total OPEB obligation	(3,410,207)	(5,347,959)
Total OPEB obligation - beginning of year	117,898,513	123,246,472
Total OPEB obligation - end of year	$ 114,488,306	$ 117,898,513

Deferred Outflows of Resources related to OPEB:

The System reported deferred outflows of resources related to OPEB from the following sources for the years ended June 30, 2026 and 2025:

	2026	2025
Deferred outflows of resources		
Differences between projected and actual experience	$ 6,707,048	$ 5,003,217
Changes in plan actual assumptions	6,942,023	12,612,043
Contributions subsequent to the measurement date	7,135,016	6,393,979
	$ 20,784,087	$ 24,009,239

Deferred Inflows of Resources related to OPEB:

The System reported deferred inflows of resources related to OPEB from the following sources for the years ended June 30, 2026 and 2025:

	2026	2025
Deferred inflows of resources		
Differences between projected and actual experience	$ 5,675,178	$ 7,524,154
Changes in plan actual assumptions	57,420,122	66,069,383
	$ 63,095,300	$ 73,593,537

The System's contributions of $7,135,016 and $6,393,979 made during fiscal years ending 2026 and 2025, respectively, subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the succeeding year.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as increases (decreases) in related OPEB expense as follows for years ending June 30:

2027	$ (9,229,087)
2028	(13,644,282)
2029	(14,353,884)
2030	(9,021,025)
2031	(1,798,280)
2032 and after	(1,399,671)
	$ (49,446,229)

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

	2026	**2025**
Measurement date	June 30, 2025	June 30, 2024
Inflation	2.25%	2.25%
Salary increases	3.55% per year	3.5% per year
Discount rate	5.20%	3.93%
Healthcare cost trend rate	5.6%, then decreasing incrementally to an ultimate rate of 3.6% in 2060	5.8%, 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 used the PUB-2016 public retirement plans mortality tables, weighted by headcount and gender distinct, with mortality improvement based on 50% of the MP-2021 scale which is published by the Retirement Plans Experience Committee of the Society of Actuaries.

Retirement Rate: Age-related retirement rates tables were developed based on input and analysis of the current retiree population overall and the new retirees over the last five years. The age related tables assumed rates of retirement beginning at age 55.

Marital Status: For future retirees, 65% of males and 55% of females were assumed to be married and covering a spouse.

Healthcare Cost Trend Rate: Dental claims are expected to increase at a uniform annual rate of 4.00%. Medical trend rates are based on the Society of Actuaries (“SOA”) Long-Run Medical Cost Trend Model.

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

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2026		
1.00% Decrease 4.20%	Current Discount Rate 5.20%	1.00% Increase 6.20%
$ 127,178,568	$ 114,488,306	$ 103,800,207

2025		
1.00% Decrease 2.93%	Current Discount Rate 3.93%	1.00% Increase 4.93%
$ 132,544,815	$ 117,898,513	$ 105,842,236

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

2026		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
$ 103,668,536	$ 114,488,306	$ 127,360,133

2025		
1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
$ 105,019,508	$ 117,898,513	$ 133,532,287

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13. Capital Assets

Property and equipment activity for the years ended June 30, 2026 and 2025 is summarized below:

	Balance June 30, 2025	Additions	Transfers	Retirements	Balance June 30, 2026
Land	$ 8,436,048	$ -	$ -	$ -	$ 8,436,048
Construction-in-process	7,014,381	8,839,982	(7,992,614)	(2,868,118)	4,993,631
Subtotal - Capital assets not depreciated	15,450,429	8,839,982	(7,992,614)	(2,868,118)	13,429,679
Infrastructure	44,964,460	-	112,981	-	45,077,441
Buildings and improvements	268,935,311	-	7,428,448	-	276,363,759
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	47,778,492	955,785	451,185	-	49,185,462
Software arrangements	4,368,741	13,234,588	-	(731,913)	16,871,416
Leased buildings	19,779,643	-	-	(870,794)	18,908,849
Subtotal - Capital assets depreciated	389,916,918	14,190,373	7,992,614	(1,602,707)	410,497,198
Less accumulated depreciation					
Capital assets	(255,513,501)	(10,190,619)	-	-	(265,704,120)
SBITA arrangement	(2,009,458)	(1,224,234)	-	731,913	(2,501,779)
Right of use assets	(8,551,086)	(2,187,879)	-	870,794	(9,868,171)
Capital assets, net	$ 139,293,302	$ 9,427,623	$ -	$ (2,868,118)	$ 145,852,807

	Balance June 30, 2024	Additions	Transfers	Retirements	Balance June 30, 2025
Land	$ 8,436,048	$ -	$ -	$ -	$ 8,436,048
Construction-in-process	2,579,627	7,927,535	(3,492,781)	-	7,014,381
Subtotal - Capital assets not depreciated	11,015,675	7,927,535	(3,492,781)	-	15,450,429
Infrastructure	44,764,435	-	200,025	-	44,964,460
Buildings and improvements	266,688,764	598,984	1,647,563	-	268,935,311
Leasehold improvements	4,090,271	-	-	-	4,090,271
Equipment	44,856,419	1,342,192	1,645,193	(65,312)	47,778,492
Software arrangements	3,122,718	1,246,023	-	-	4,368,741
Leased buildings	19,931,075	1,342,581	-	(1,494,013)	19,779,643
Subtotal - Capital assets depreciated	383,453,682	4,529,780	3,492,781	(1,559,325)	389,916,918
Less accumulated depreciation					
Capital assets	(244,782,035)	(10,783,796)	-	52,330	(255,513,501)
SBITA arrangement	(927,133)	(1,082,325)	-	-	(2,009,458)
Right of use assets	(7,486,595)	(2,495,854)	-	1,431,363	(8,551,086)
Capital assets, net	$ 141,273,594	$ (1,904,660)	$ -	$ (75,632)	$ 139,293,302

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14. Contingencies and Commitments

Contingencies
The System 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.

The System 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. The System manages these risks through a combination of commercial insurance packages purchased in the name of the System, and through self-insurance for medical and dental claims. The System 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 $1,238,000 at June 30, 2026 and $1,270,000 at June 30, 2025 and are based on historical data. A medical and dental claim roll forward is presented below:

	2026	2025
Medical and dental claims reserve, beginning of year	$ 1,270,000	$ 2,356,000
Incurred claims	22,385,000	20,918,000
Payments on claims	(22,417,000)	(22,004,000)
Medical and dental claims reserve, end of year	$ 1,238,000	$ 1,270,000

The System self-insures its workers' compensation program, which is administered by a third-party claims administrator. Contributions to the plan are based on estimated payroll and rates adjusted by an experience modification factor. The System 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. The System 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:

	2026	2025
Workers' compensation reserve, beginning of year	$ 64,000	$ 214,000
Workers' compensation accrued during the year	242,000	380,000
Claims paid/reserved/claims administration	(207,000)	(530,000)
Workers' compensation reserve, end of year	$ 99,000	$ 64,000

Employment Contract
The System has an employment contract with a certain officer that expires on June 30, 2027. The agreement may be terminated with cause at any time. For the fiscal year ending June 30, 2027, the agreement provides for an aggregate annual base salary of $288,400.

Public-Private Partnership
The System has entered into a public-private partnership with Sodexo Operations, LLC ("Sodexo") to manage and operate its food services for the System's students, faculty, staff, employees and guests. In August 2025, the System entered into a new management agreement with Sodexo with an initial term commencing August 2025 and continuing through August 2032. The agreement includes an option for one additional three-year renewal term upon mutual agreement of both parties.

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Under the agreement, Sodexo manages and operates the System's dining services; the System remains responsible for funding any operating deficits, as defined, and management fees associated with the food service program.

Additionally, as part of the agreement, Sodexo has committed to provide up to $1.09 million of equipment investments for the System's dining facilities over the term of the agreement. If the agreement is terminated or otherwise modified prior to the contractual term, the System may be required to reimburse Sodexo for the unamortized portion of the equipment investments. As of June 30, 2026, management does not believe any amounts were due under these provisions.

State Appropriations
As disclosed in Note 1, the System is a component unit of the State of Vermont and is governed by its Board of Trustees. As such, the System receives appropriations for a portion of its operating costs including but not limited to employee salaries, fringe benefits, and capital improvements reported on the statements of revenues, expenses and changes in net position of these financial statements.

Student Financial Assistance
The System participates in the Federal financial assistance (Title IV) and the Vermont student financial assistance programs. These programs allow for grants, aid, and awards to be issued to students to cover qualified education costs. During the years ended June 30, 2026 and 2025, Federal and Vermont aid awarded to students totaled $44,804,156 and $46,754,222, respectively.

Workforce Covered by Collective Bargaining Agreements
Employees are hired directly by the System. The System negotiates collective bargaining agreements (CBA) with the majority of the System employees. During the fiscal years ended June 30, 2026 and 2025, the System employed individuals belonging to the following unions:

Union / Bargaining Unit	Union Code or Affiliation	Agreement Expiration
Vermont State Colleges Faculty Federation - VTSU full-time faculty	AFT Vermont, Local 3180, AFL-CIO	August 31, 2027
Vermont State Colleges United Professions - Professional, Administrative and Technical Unit (PAT)	AFT Vermont, Local 6217, AFL-CIO	June 30, 2028
Vermont State Colleges Professionals Supervisory Unit (SUP)	AFT Vermont, Local 6217, AFL-CIO	June 30, 2028
CCV United Faculty	VSCFF 3180, AFT Vermont, AFL-CIO	August 31, 2029
Part-Time Faculty Federation	United Professions of Vermont-AFT, Local 3180	August 31, 2029
*VTSU Online United Faculty (formerly NVU Online)	VSCFF 3180, AFT Vermont, AFL-CIO	August 31, 2029
Vermont State Employees' Association (VSEA)	VSEA	June 30, 2028

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* On July 28, 2026, the System executed the CBA covering the VTSU Online faculty bargaining unit (formerly NVU Online).

Workday Inc. - Consulting Agreement
At June 30, 2026, the System had remaining contractual commitments of $12,137,225 to Workday, Inc., an unrelated party, for configuration, implementation and related services under a consulting contract associated with the System's enterprise resource planning platform. The contract covers Human Capital Management, Financial Management and Payroll implementation services, as well as the subsequent deployment of Workday Student functionality. The agreement requires payment of fixed fees, which are invoiced quarterly through October 2028 and are payable in the amounts of $7,042,286, $4,315,576 and $779,363 in the years ending June 30, 2027, 2028 and 2029, respectively. These commitments are separate from the subscription payments included in the related subscription liability reported in Note 7, Subscription-Based Information Technology Arrangements. To the extent the remaining commitments relate to services not yet performed at June 30, 2026, they have not been recognized as liabilities. Qualifying implementation costs will be capitalized as incurred, while other costs will be expensed, in accordance with GASB Statement No. 96.

15. Subsequent Events

The System has evaluated subsequent events through Select Date, the date for which the financial statements were available for issuance. Based on that evaluation, the System has determined that no events subsequent to June 30, 2026 have occurred, except as disclosed in Footnote 14, that require disclosure in the financial statements.

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Required Supplementary Information (Unaudited)

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

Year ended	June 30, 2026	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Measurement date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Valuation date	July 1, 2025	July 1, 2024	July 1, 2023	July 1, 2022	July 1, 2021	July 1, 2019	July 1, 2019	July 1, 2017
Total OPEB liability								
Service Cost	$ 898,310	$ 935,465	$ 1,575,203	$ 2,229,613	$ 5,231,085	$ 3,672,170	$ 4,532,612	$ 4,515,546
Interest	4,507,770	4,376,109	4,625,516	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	5,506,621	(147,644)	3,417,951	231,296	(12,898,213)	-	263,532	(1,778,447)
Changes of assumptions or other inputs	(7,928,928)	(3,805,741)	(13,763,527)	(25,629,673)	(67,475,590)	40,500,432	(755,342)	(2,480,058)
Benefit payments	(6,393,980)	(6,706,148)	(6,545,935)	(7,024,702)	(7,306,213)	(6,896,981)	(6,181,621)	(6,399,026)
Net change in total OPEB liability	(3,410,207)	(5,347,959)	(10,690,792)	(26,797,463)	(77,269,765)	43,946,938	5,054,004	505,402
Total OPEB liability - beginning	117,898,513	123,246,472	133,937,264	160,734,727	238,004,492	194,057,554	189,003,550	188,498,148
Total OPEB liability - end	$ 114,488,306	$ 117,898,513	$ 123,246,472	$ 133,937,264	$ 160,734,727	$ 238,004,492	$ 194,057,554	$ 189,003,550
Covered payroll	45,039,511	51,641,316	51,641,316	51,296,724	51,296,724	50,942,334	49,219,646	50,074,973
Total OPEB liability as a percentage of covered-employee payroll	254.20%	228.30%	238.66%	261.10%	313.34%	467.20%	394.27%	377.44%

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Notes:

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

The Notes to Required Supplementary Information are an integral part of this statement.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Schedule of Multi-Year Contributions (Unaudited)

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

Year ended	June 30, 2026	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019
Measurement date	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Valuation date	July 1, 2025	July 1, 2024	July 1, 2023	July 1, 2022	July 1, 2021	July 1, 2019	July 1, 2019	July 1, 2017
Actuarially determined contributions	$ 8,772,029	$ 7,658,563	$ 7,763,065	$ 8,894,092	$ 9,565,257	$ 16,167,269	$ 14,223,337	$ 15,290,840
Employer contributions	7,135,016	6,393,979	6,706,148	6,545,935	7,024,702	7,306,213	6,896,981	6,181,621
Contribution deficiency (excess)	1,637,013	1,264,584	1,056,918	2,348,157	2,540,555	8,861,056	7,326,356	9,109,219
Covered payroll	45,039,511	51,641,316	51,641,316	51,296,724	51,296,724	50,942,334	49,219,646	50,074,973
Actual Contributions as a % of Covered Valuation Payroll	15.84%	12.38%	12.99%	12.76%	13.69%	14.34%	14.01%	12.34%

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Notes:

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

The Notes to Required Supplementary Information are an integral part of this statement.

Vermont State Colleges
(a Component Unit of the State of Vermont)
Notes to the Required Supplementary Information - OPEB (Unaudited)
June 30, 2026 and 2025

Note 1 - Change in Plan Assumptions

Measurement date – June 30, 2025

Change in Actuary

PRM Consulting Group performed the valuation for the measurement date ended June 30, 2025. The prior valuations were prepared by Annie Brown, Consulting Actuary, PLLC. PRM replicated the prior valuation using its own valuation software and the census data and assumptions used by the prior actuary, with results within 2.00% of the prior actuary's liability. Multiple assumptions were changed in connection with the change in actuary, as described below.

Change in Discount Rate

The discount rate increased from 3.93% to 5.20%.

Mortality Rates

Updated to the PUB-2016 Mortality Table (weighted by headcount, gender distinct) released in 2025. The prior valuation used RP-2006 (rates underlying RP-2014).

Mortality Improvement

Updated to 50% of the MP-2021 improvement scale. The prior valuation used 100% of the MP-2021 scale.

Per Capita Claims Costs

Updated using claims and fixed cost data for the twelve-month period ended May 31, 2026, trended forward. Pre-65 per capita claims costs are now developed separately by age band and gender, and Medicare-eligible costs are based on Medicare Advantage Prescription Drug premium rates by age and faculty status. The prior valuation used unisex rates within two broad age groupings.

Health Reimbursement Account

The valuation now includes the Health Reimbursement Account available to early retirees enrolled in the high-deductible health plan, assuming funding of $2,500 per retiree and $5,000 for a retiree covering a spouse, with 75% utilization. The prior valuation did not include the Health Reimbursement Account.

Health Care Cost Trend

Updated using the most recent Society of Actuaries Long-Run Medical Cost Trend Model (Getzen Model v. 2026-1b), released in December 2025. The resulting rates begin at 5.60% and decrease incrementally to an ultimate rate of 3.61% in 2060. A separate post-65 trend rate is used to reflect the impact of the Inflation Reduction Act on Medicare Part D drug pricing.

Dental Rates

The dental trend rate increased from 2.50% to a uniform 4.00%. Dental claims costs are now based on projected plan premiums by coverage tier; the prior valuation used a flat annual amount of $479 for all age groups.

Stop Loss and Administrative Fee Trend

The valuation now assumes a constant annual trend of 3.50% for administrative fees and a trend 2% higher than the pre-65 health care trend rates for stop loss fees. The prior valuation applied the pre-65 health care trend rates to both.

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Salary Scale

The salary scale increased from a flat 3.50% to a flat 3.55%. This assumption is used for cost allocation purposes and does not affect the size of the total OPEB liability.

Participation Rates

The participation rate for the medical and prescription drug plan increased from 90.0% to 92.5%, and the participation rate for the dental plan increased from 90.0% to 95.0%.

Spousal Participation Rates

For future retirees, the valuation assumes 65% of males and 55% of females are married and covering a spouse. The prior valuation assumed 63% of participants are married and covering a spouse.

Life Insurance Expense

The adjustment factor for life insurance expense decreased from 15% to 0%.

Early Retirement Pension Benefit

The annual early retirement pension benefit is now projected as 50% of base salary plus one-half of the TIAA contribution applicable to non-retired faculty. The prior valuation projected the benefit as 54.5% of projected salary.

Death and Disability Benefits

The valuation now values the medical and dental benefit provided to a spouse when an active participant dies or becomes disabled. The prior valuation did not value this benefit.

Retiree Opt-Out Credit
The valuation now values the opt-out credit available under the retiree health care plan. The prior valuation did not take this credit into account.

Decrement and Benefit Payment Timing

Decrements and benefit payments are now assumed to occur at the middle of the year. The prior valuation assumed beginning of year timing.

<u>Measurement date – June 30, 2024</u>

Change in Discount Rate

The discount rate increased from 3.65% to 3.93%.

<u>Measurement date – June 30, 2023</u>

Change in Discount Rate

The discount rate increased from 3.54% to 3.65%.

Mortality Rates

Updated using the most recent Getzen Model (v. 2024-1b) and adjustment for the impact of the Inflation Reduction Act (IRA).

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Per Capita Claims Costs

Updated based on MAPD premium rates and the most recently available health care claims and fixed cost data for early retiree.

Dental Rates

Increased from 2.0% to 2.5%. The change was made based on increasing retiree dental claims over the last 3 years.

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 shows 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

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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.

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%.

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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 (a Component Unit of the State of Vermont):

We have audited, in accordance with the 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 (*Government Auditing Standards*), the financial statements of Vermont State Colleges (a Component Unit of the State of Vermont) (the "System"), which comprise the statement of net position as of June 30, 2026, the related statement of revenues, expenses and changes in net position, and the statement of cash flows for the year ended June 30, 2026, and the related notes to the financial statements, and have issued our report thereon dated Select Date.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's 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 have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.*

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Purpose of this Report

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

Select Date

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VERMONT STATE COLLEGES SYSTEM
BOARD OF TRUSTEES
RESOLUTION 2026-12

Acceptance of the FY 2026 Audited Financial Statements

WHEREAS, The Vermont State Colleges System engaged Withum to perform the FY 2026 financial statement audit and Uniform Guidance Single Audit, and Withum has completed its audit of the financial statements; and

WHEREAS, The Office of Management and Budget has not yet issued the final FY 2026 Compliance Supplement required for completion of the Uniform Guidance Single Audit, resulting in the deferral of that portion of the audit until the necessary federal guidance becomes available; and

WHEREAS, The Board's Audit and Risk Management Committee has reviewed the FY 2026 audited financial statements and recommends their acceptance by the Board of Trustees;

RESOLVED, That the Board of Trustees of the Vermont State Colleges System hereby accepts the FY 2026 audited financial statements as presented by Withum.