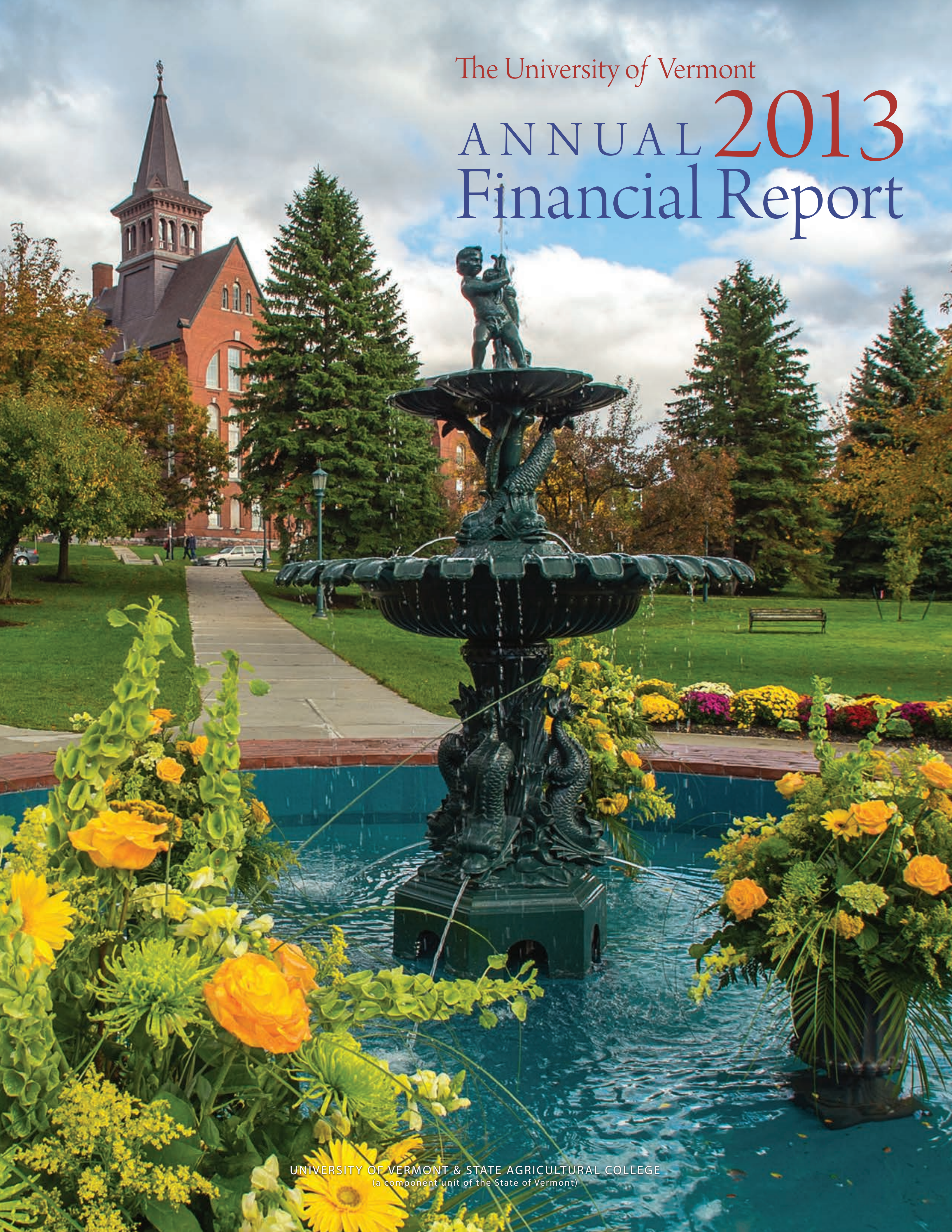
The University of Vermont

ANNUAL 2013 Financial Report



UNIVERSITY OF VERMONT & STATE AGRICULTURAL COLLEGE
(a component unit of the State of Vermont)

UNIVERSITY OF VERMONT & STATE AGRICULTURAL COLLEGE
(a component unit of the State of Vermont)

The University *of* Vermont

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Letter from the President

Members of the Board of Trustees,

I am pleased to present the Annual Financial Report for the Fiscal Year ended June 30, 2013 to you, the campus community, our alumni, and citizens of Vermont. During my first year at UVM, it has become clear that there is widespread support for this great University. The state of the University's finances is sound.

These financial statements reflect an increase of $47.3 million in the University's investment portfolio, which is largely a result of the recovery of the financial markets. The value of the endowment was $350.8 million on June 30, 2013 as compared to $308.2 million in 2012 and $327 million in 2011. This volatility is the reason we base our annual endowment spending on the average value of the fund over the previous thirteen quarters. The establishment of the University of Vermont Foundation and our upcoming capital campaign will ensure that the endowment will grow significantly over the next decade so that even more funding will be available for the support of scholarships, faculty, academic programs, and facilities.

As you know, we recently have begun work on planning for a transition to Incentive Based Budgeting (IBB) in an effort to promote academic quality and excellence and incentivize growth and diversification of our revenue stream. In the long run this transition should also result in growth in the net position of the University, providing an even more sound financial base.

This fall we enrolled 9,970 undergraduates from 47 states and over two dozen other countries. The academic profile of our first year class is one of the highest in history, including 14% of it being comprised of ALANA students and 18% first generation college students. We intend to make substantial gains in the academic profile, preparedness, and diversity of the class in the coming years.

As the University advances, I will continue to work with the entire UVM and Vermont communities to focus on affordability and financial access, quality enhancement, strategic alignment of priori-ties, and resources and revenue growth to ensure an even healthier University so that we are able to increase the total student experience at UVM.

With every best wish,

E. Thomas Sullivan

Tom Sullivan

The University *of* Vermont

Management's Responsibility for the Financial Report

The accompanying financial statements of the University of Vermont and State Agricultural College for the year ended June 30, 2013 are official documents prepared in accordance with U.S. generally accepted accounting principles set forth for public colleges and universities by the Governmental Accounting Standards Board. The management of the University is responsible for the integrity and objectivity of these financial statements, which are accessible to all. The University's system of internal accounting controls is designed to ensure that the financial reports and the books of account properly reflect the transactions of the institution, in accordance with established policies and procedures as implemented by qualified personnel.

The University Trustees selected the certified public accounting firm of KPMG, LLP to conduct the annual financial audit for fiscal year 2013.

Periodically throughout the year, the Trustee Audit Committee meets with the Audit Services Office and the Compliance and Privacy Services Office staff and the external independent audit firm to review the audit plan and later the report. The Vermont State Auditor is invited to attend those meetings to offer comments and opinions. Both KPMG and the Audit Service Office and Compliance and Privacy Services Office staff have full access to the University Trustees and the State Auditor throughout the year.

Richard H. Cate
Vice President for Finance and Administration
And University Treasurer

Claire L. Burlingham
Controller

KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

The Honorable Douglas Hoffer,
Auditor of the Accounts of the
State of Vermont

and

The Board of Trustees
The University of Vermont and
State Agricultural College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of The University of Vermont and State Agricultural College (the University), a component unit of the State of Vermont, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of a discretely presented component unit, University Medical Education Associates, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinions, insofar as they relate to the amounts included for that discretely presented component unit, are based on the report of other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Independent Auditor's Report

continued

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

We believe that the audit evidence we have obtained and the report of other auditors, is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the business-type activities and the discretely presented component units of The University of Vermont and State Agricultural College, as of June 30, 2013 and 2012, and the respective changes in net position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the schedules of Funding Progress and Employer Contributions on pages 6–15 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report

continued

KPMG

The Honorable Douglas Hoffer
The Board of Trustees
The University of Vermont and
State Agricultural College
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013 on our consideration of the University'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 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 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 University's internal control over financial reporting and compliance.

KPMG LLP

November 18, 2013

The University of Vermont

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

Introduction

The Management's Discussion and Analysis (MD&A) provides a broad overview of the University of Vermont's financial condition as of June 30, 2013 and 2012, the results of its operations for the years then ended, significant changes from the previous years, and outlook for the future where appropriate and relevant. Management has prepared the financial statements and related footnote disclosures along with this MD&A. The MD&A should be read in conjunction with the financial statements and related notes.

The University is a public, non-profit, comprehensive research institution of higher education established in 1791 as the fifth college in New England. The University consists of seven undergraduate schools and colleges, including the Colleges of Agriculture and Life Sciences, Arts and Sciences, Education and Social Services, Engineering and Mathematical Sciences, Nursing and Health Sciences, the School of Business Administration, and the Rubenstein School of Environment and Natural Resources. The University also includes an Honors College, the College of Medicine, the Division of Continuing Education and the Graduate College. The University of Vermont is the only comprehensive research university in Vermont. The University has 9,970 undergraduate students and 1,811 graduate and medical students. It is located in Burlington, Vermont with satellite instructional and research sites throughout Vermont. It is a component unit of the State of Vermont as it receives an annual appropriation from the State. For financial reporting purposes, the University's reporting entity consists of all sectors of the University and also includes the discreetly presented financial information for University Medical Education Associates, Inc. (UMEA) and the University of Vermont and State Agricultural College Foundation, Inc. (UVMF). UMEA is a legally separate tax-exempt component unit of the University whose purpose is to support the operations, activities and objectives of the College of Medicine of the University of Vermont. UVMF is a legally separate tax-exempt component unit of the University whose purpose is to secure and manage private gifts for the sole benefit of the University. The MD&A discusses the University's financial statements only and not those of its component units.

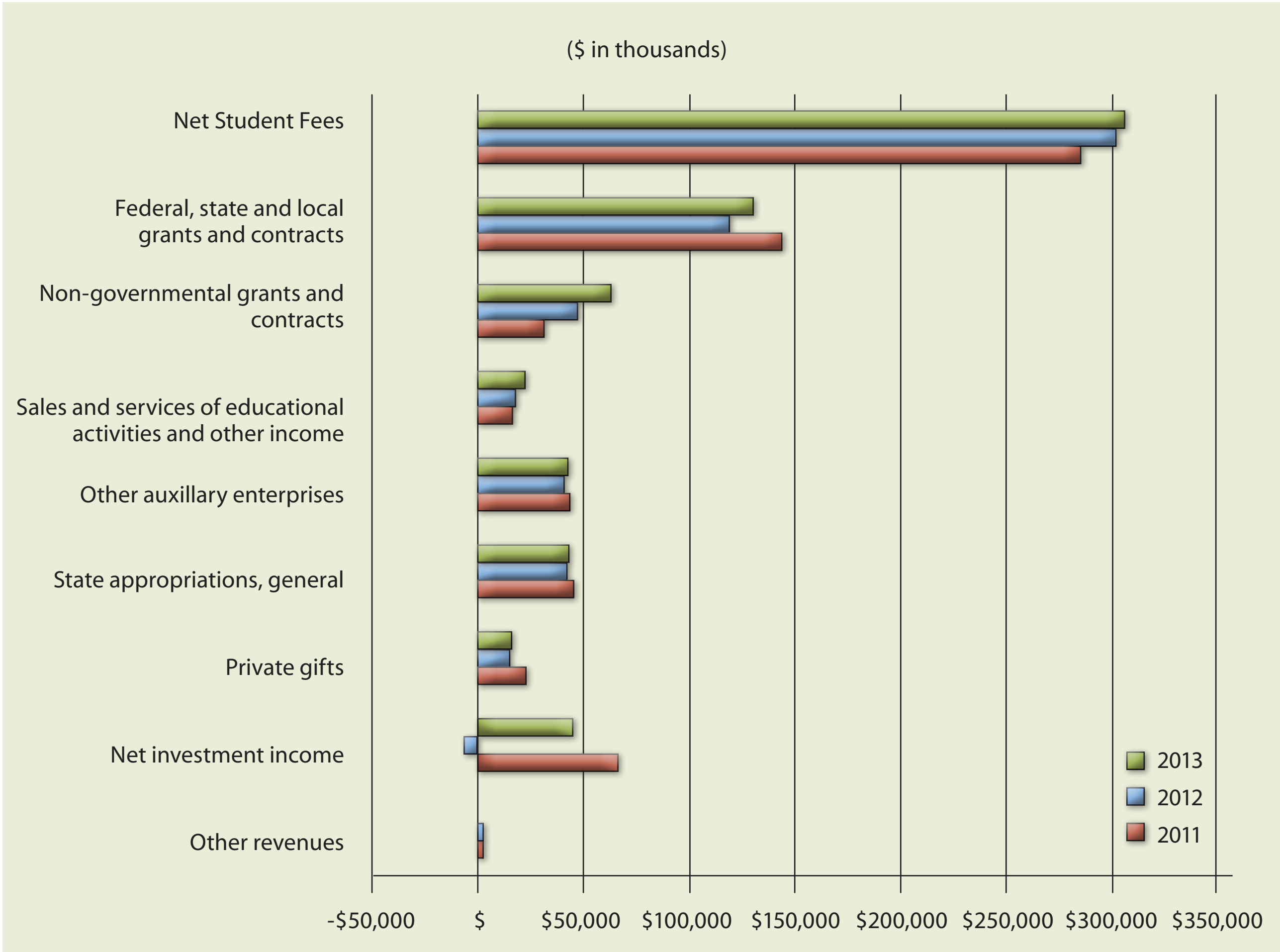
The focus of the MD&A is on the University's financial information contained in the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

Financial Highlights and Economic Outlook

The University's net position increased by $19.1 million in fiscal 2013, compared to a decrease of $30.1 million in fiscal 2012. A key contributor to the change in net position was the recovery in the financial markets, resulting in a net gain on the investment portfolio of $47.3 million in fiscal 2013 as compared to a $5.7 million net loss in fiscal 2012. The University also had a decrease in private gift revenue of $5.2 million or 78.0%. This change is primarily due to the establishment of the UVMF as the vehicle through which the University receives private gifts.

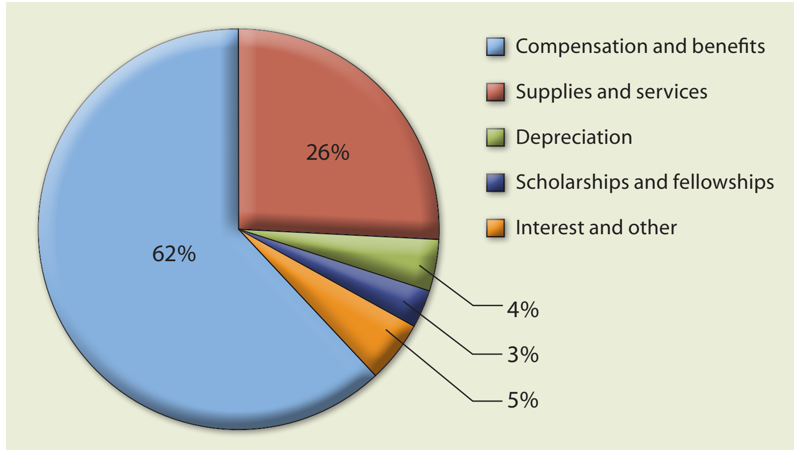
In October 2012 the University's President, in a communication to the Board of Trustees, presented his strategic action plan titled "Enhancing Quality and Affordability". This plan outlined four major initiatives which are the cornerstone of the strategic plan; 1) Access to Success: Promoting Affordability, Financial Access and Academic Support, 2) Promoting a culture of advancing academic excellence and cultivating talent, 3) Identifying necessary investments to ensure a bright future, 4) Instilling an institutional commitment to efficiency and effectiveness that optimizes the use of facilities, technology, assets, and shared services. Much work has been done to implement this vision and the University anticipates continued discussion and implementation of this strategic action plan during fiscal year 2014.

Total operating revenues increased in fiscal 2013 by $31.5 million, or 6.0%. This included an increase in net student tuition and fees of $4.5 million, or 1.5%, an increase in auxiliary revenues of $0.5 million, or 1.3%, and an increase in federal, state, and private grants and contracts of $22.7 million, or 13.7%. The increase in federal, state, and other private grants and contracts revenues is attributable to an additional $29.8 million in commitment funds from Fletcher Allen Health Care, Inc. to offset facilities and operation costs of the College of Medicine. Other critical revenues include state appropriations which decreased by 0.2% in 2013, compared to a 5.9% decrease in 2012, and state capital appropriations which the University did not receive in 2013. The University voluntarily waived its state capital appropriation due to the effect Hurricane Irene had on the state and the need for the state to repair much of its infrastructure that was destroyed during the storm. As presented in the following chart, net student fees and grants and contracts comprise the largest sources of revenue.



The University experienced an increase in operating costs of $3.9 million, or 0.7% in fiscal 2013. Compensation and benefits represents the most significant operating cost, comprising 65.3% and 64.3% of operating costs in 2013 and 2012, respectively. Compensation and benefit expenses increased $8.3 million and supplies and service expenses decreased $3.2 million in fiscal 2013. Compensation and benefit expenses increased due to salary and wage increases in 2013 of 2% for both faculty and staff. Supplies and service expenses decreased due to increased scrutiny on spending. Other significant non-operating expenses include interest on indebtedness which was $20.8 million in 2013 compared to $21.0 million in 2012.

The chart at right displays operating, interest, and other expenses for fiscal 2013:



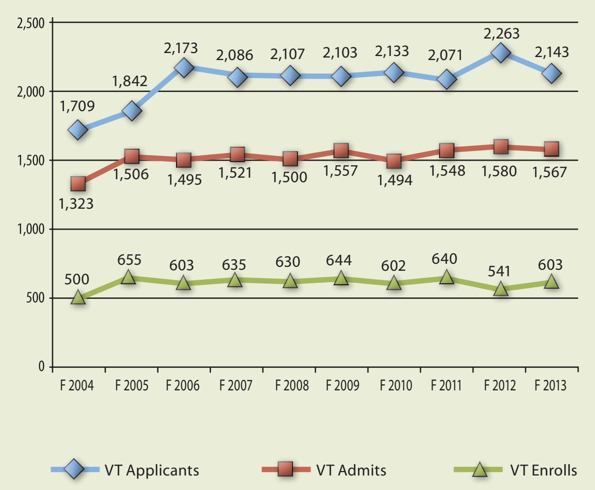
The strategic action plan requires the University to explore investment in facilities, infrastructure, and information technologies which are necessary to advance the educational and research responsibilities of the University particularly in engineering, sciences and libraries.

Projects in process during the current fiscal year included renovations to the Simpson Dining Hall and the Mason, Simpson, Hamilton Residential Halls, as well as other deferred maintenance projects.

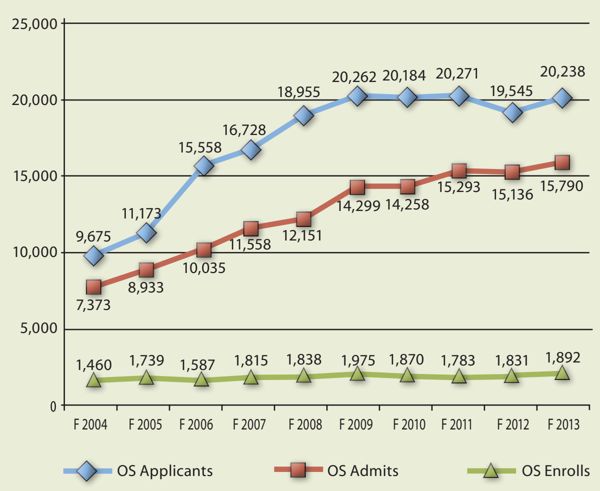
In the fall of 2013, the University enrolled 9,970 students in more than 100 undergraduate majors, 1,357 students in graduate and post-baccalaureate programs, and 454 students at the College of Medicine. The University attracts undergraduates from 47 states and many foreign countries. The University is primarily a regional institution however, drawing 88% of the undergraduates enrolled in the fall of 2013 from New England and the Middle Atlantic States, including 32% of its undergraduate students from Vermont. In the fall of 2013, 37% of total students at the University were from Vermont. Graduate and Certificate student enrollment from Vermont represented 45%.

The following tables present applications, admissions, and enrollments for in-state and out-of-state students. Final numbers for the fall of 2013 show that total applications have increased 97% since 2004, with in-state applications increasing 25% and out-of-state applications increasing 109%. Total admissions have increased for that period by 100%, with in-state admissions increasing 18% and out-of-state admissions increasing 114%. Since 2004, total first-time, first year enrollments have increased 27%, with in-state enrollments increasing by 21% and out-of-state enrollments increasing by 30%.

Trends in Vermont Applications, Admits, and Enrollments
Fall 2004 to Fall 2013



Trends in Out-of-State Applications, Admits, and Enrollments
Fall 2004 to Fall 2013



The University and its Board of Trustees have made a concerted effort to contain increases in tuition and fees with the average annual increases for in-state and out-of-state held to 5.2%, since 2006. The table on the next page presents tuition and fees, as well as room and board for that period.

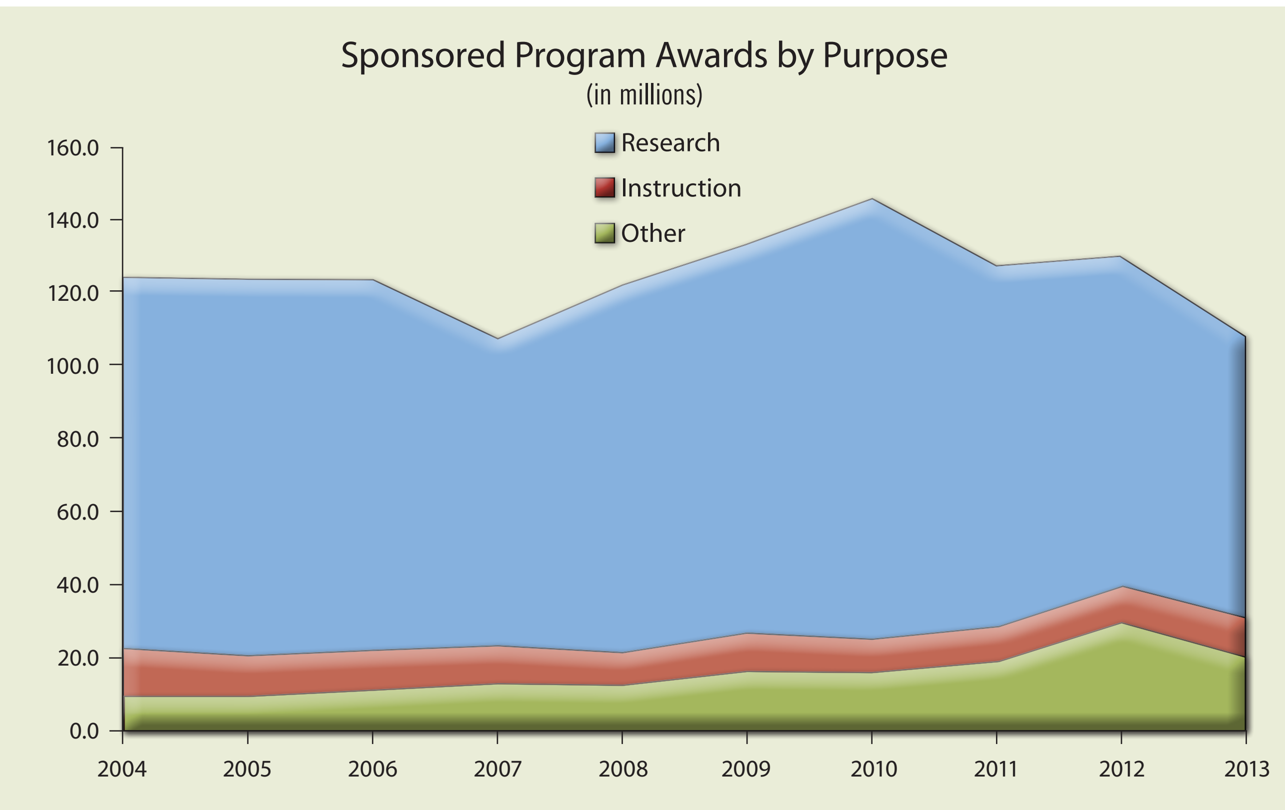
The State of Vermont ("the State") general appropriations represented 7.1% of the University's total revenues for fiscal year 2013. The University did not receive a State capital appropriation in fiscal year 2013 but receive d $1.8 million in fiscal year 2012, as it directed the State to use these funds for the Hurricane Irene disaster relief and repair efforts in place of the appropriation.

In-State & Out-of-State Fees

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Average Annual % Increase
Student Fees								
In-State Tuition & Fees	$11,324	$12,054	$12,844	$13,554	$14,044	$14,784	$15,284	5.17%
Out of-State Tuition & Fees	26,308	$27,938	$29,682	$31,410	$32,630	$34,424	$35.612	5.23%
Room (Double)	$5,150	$5,426	$5,752	$5,964	$6,196	$6,426	$6,650	4.35%
Board (Average Meal Plan)	$2,492	$2,598	$2,782	$3,032	$3,156	$3,282	$3,414	5.20%
Total, In-State Cost	18,966	$20,078	$21,378	$22,550	$23,418	$24,492	$25,348	
Increase Over Previous Year	4.90%	5.86%	6.47%	5.48%	3.84%	4.59%	3.50%	4.95%
Total, Out-of-State Cost	$33,950	$35,962	$38,216	$40,406	$41,982	$44,132	$45,676	
Increase Over Previous Year	5.22%	5.93%	6.27%	5.73%	3.90%	5.12%	3.49%	5.09%

Grant and contract revenues of $189.1 million represented 30.8% of total revenues for fiscal 2013 which included facility and administrative cost recoveries of $24.9 million and additional commitment funds from Fletcher Allen Health Care, Inc. of $29.8 million. During fiscal 2013, the University was awarded over $106.1 million in sponsored funds, 74.2% of which were for research activities. Approximately 61.1% of sponsored funds awarded during fiscal 2013 were from federal sources. The University's leading areas of externally sponsored programs are the biomedical sciences, agriculture, the environment, and education.

The following chart presents the activity of sponsored programs over the past decade:



Friends of the University continued to provide support in fiscal 2013 with private gifts of $1.5 million and gifts for endowment and capital purposes of $1.9 million. Commencing in January 2012 the UVMF began operations. UVMF was organized for the purpose of enhancing voluntary private support from alumni, parents, friends, corporation, foundations and others for the exclusive benefit of the University. UVMF exists to raise and manage private resources supporting the mission and priorities of the University.

In August 2010 the University successfully negotiated and executed an updated Affiliation Agreement between the University of Vermont and Fletcher Allen Health Care, Inc. for a period of five (5) years with provisions for an automatic renewal in the absence of a party's written notice. The Agreement is to guide and govern the parties in the achievement of their common goals, including, but not limited to, providing high-quality clinical education for undergraduate and graduate students enrolled in UVM medical and health care related academic programs and health care professionals enrolled in continuing education programs.

Overview of the Financial Statements

The financial statements of the University of Vermont and State Agricultural College (the "University") have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation consists of comparable Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows and accompanying notes for the June 30, 2013 and 2012 fiscal years. These statements provide information on the financial position of the University and the financial activity and results of its operations during the years presented. A description of these statements is below. The financial statements focus on the University as a whole, rather than upon individual funds or activities.

University Medical Associates, Inc. (UMEA) and University of Vermont Foundation, Inc. (UVMF) are legally separate tax-exempt component units of the University of Vermont and issue separate audited financial statements. UMEA and UVMF are presented as separate columns on the University's Statements of Net Position and Statements of Revenues, Expenses and Change in Net Position.

Statements of Net Position

Net position, or the difference between total assets less total liabilities, is considered an indicator of the current financial condition of the University. The Statement of Net Position presents all assets and liabilities of the University as of June 30. Assets and liabilities are classified as current or non-current. Current assets are classified as such if they are available to satisfy current liabilities, which are generally defined as being due within one year of the date of the Statement of Net Position. Condensed information for net position at June 30, 2013, with comparative information for 2012 and 2011 follows:

		(In thousands)	
	2013	**2012**	**2011**
Assets			
Current assets	$ 255,541	$ 247,262	$ 237,412
Non-current assets:			
Endowment, annuities and life income			
Cash and cash equivalents and investments	350,808	308,198	327,026
Deposits with Trustees	14,928	15,210	22,539
Capital assets, net	536,372	544,011	549,124
Other	34,210	32,940	33,588
Total non-current assets	936,318	900,359	932,277
Total assets	**1,191,859**	**1,147,621**	**1,169,689**
Liabilities			
Current liabilities	90,925	78,337	79,617
Non-current liabilities	600,318	587,759	578,465
Total liabilities	**691,243**	**666,096**	**658,082**
Net position			
Net investment in capital assets	71,226	72,272	75,792
Restricted:			
Nonexpendable	99,021	97,166	94,662
Expendable	286,430	260,777	283,481
Unrestricted	43,939	51,310	57,672
Total net position	**$500,616**	**$481,525**	**$511,607**

Net position totaled $500.6 million, $481.5 million, and $511.6 million at June 30, 2013, 2012, and 2011, respectively, increasing by $19.1 million in 2013 and decreasing by $30.1 million in 2012. Both 2013 and 2012 were significantly impacted by the investment market and the recognition of other postemployment benefits as prescribed by the implementation of GASB 45.

Current assets of $255.5 million, $247.3 million, and $237.4 million at June 30, 2013, 2012, and 2011, respectively, consist primarily of cash and cash equivalents, and operating investments, which totaled $187.0 million at June 30, 2013, $184.7 million at June 30, 2012, and $168.1 million at June 30, 2011. Cash and cash equivalents and operating investments represents approximately 4.0, 4.0, and 3.6 months of total operating expenses, excluding depreciation, for 2013, 2012, and 2011, respectively. The net increase to current assets in 2013 of $8.3 million was primarily driven by a $4.9 million increase in investments for capital activities and a $1.4 million increase in operating investments. The net increase to current assets in 2012 of $9.9 million was driven by a $16.7 million increase in cash, cash equivalent and operating investments and a $9.3 million decrease in accounts, loans, notes and pledges receivable.

Endowment cash, cash equivalents and investments totaled $350.8 million, $308.2 million and $327.0 million at June 30, 2013, 2012, and 2011, respectively, representing an increase of $42.6 million, or 13.8% in 2013, and a decrease of $18.8 million, or 5.8% in 2012. The University's long-term investment pool consists of permanent endowments, term endowments, and funds functioning as endowments, commonly referred to as quasi-endowments.

Permanent endowments are those funds received from donors with the stipulation that the principal be invested in perpetuity to produce income to be expended for the purposes specified by the donor. Term endowments are those funds received from donors that function as endowments for a period of time or until a specific event occurs, such as reaching a certain balance. Funds functioning as endowments consist of restricted gifts and unrestricted funds that have been designated by the University for long-term investment purposes. These funds are not subject to donor restrictions requiring the University to preserve the principal in perpetuity. Programs supported by the endowment include scholarships, fellowships, professorships, research efforts and other programs and activities related to the University's mission. Investments are reported in three categories in the Statement of Net Position. Investments reported as non-current assets include endowment, annuity, and life income funds. Investments for capital activities reported as current assets are replacement reserves designated for capital renovations. All other investments are reported as operating investments.

The University's primary long-term investment goal is to attain a real total return that exceeds the amount being distributed for spending and administration, currently set at 4.75% of the previous 13 quarters' average market value. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark, measured over a full market cycle; and to outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies. The spending distributions from the total endowment were $14.6 million, $14.5 million, and $14.4 million in fiscal years ended June 30, 2013, 2012, and 2011, respectively. These distributions were 4.4%, 4.2%, and 5.0% of the beginning market value of the endowment for fiscal years 2013, 2012, and 2011, respectively.

The decrease to *Deposits with Trustees* of $0.3 million in 2013 and $7.3 million in 2012 was primarily the result of draw-downs for construction and other capital projects. The construction fund of the 2010 Series-A bonds totaled $0.1 million at June 30, 2013, $0 million at June 30, 2012 and $4.3 million at June 30, 2011. The construction fund of the 2009 bonds totaled $0.1 million at June 30, 2013, $0.1 million at June 30, 2012 and $1.2 million at June 30, 2011. The construction fund of the 2007 bonds totaled $0.5 million at June 30, 2013, $1.0 million at June 30, 2012 and $1.9 million at June 30, 2011. The construction fund of the 2005 bond totaled $0 million at June 30, 2013, $0.1 million at June 30, 2012, and $0.6 million at June 30, 2011.

Capital assets, net of accumulated depreciation, totaled $536.4 million, $544.0 million, and $549.1 million at June 30, 2013, 2012 and 2011, respectively, representing a decrease of $7.6 million, or 1.4%, in 2013 and $5.1 million, or 0.9%, in 2012. Gross capital additions totaled $20.2 million in 2013 and $23.6 million in 2012. Capital additions in 2013 included land acquisitions of $2.0 million, renovations to residence and dining halls, research laboratories, and other buildings of $9.3 million, building components and equipment of $1.9 million, fixed equipment of $1.5 million, building interiors of $1.6 million, moveable equipment of $3.5 million, and software systems of $0.4 million. Capital additions in 2012 included land acquisitions of $3.5 million, renovations to residence and dining halls, research laboratories, Aiken construction, and other buildings of $10.2 million, building components and equipment of $2.6 million, fixed equipment of $1.8 million, building interiors of $3.4 million, moveable equipment of $1.6 million, and software systems of $.5 million.

Current liabilities increased $12.6 million in 2013 and decreased of $1.3 million in 2012. The increase in 2013 was primarily due to the University accepting UVMF funds which were then invested in the University's pooled endowment. These funds generate income which is distributed to the UVMF. The funds held in the University's pooled endowment represent a future liability to the University as they are UVMF assets and will be returned to the UVMF in the future. At June 30, 2013 the amount of UVMF assets held in the University's pooled endowment was $14.4 million. The decrease in 2012 was primarily due to a decrease in accounts payable and accrued liabilities of $1.6 million.

Non-current liabilities increased $12.6 million in 2013 compared to $9.3 million in 2012. The increase in 2013 is the result of the recognition of $18.4 million in additional liability for postemployment benefits offset by a $5.6 million decrease in non-current portion of bonds and notes payable. The increase in 2012 is the result of the recognition of $18.2 million in additional liability for postemployment benefits, a decrease in accrued liabilities of $1.7 million, and a decrease in non-current portion of bonds and notes payable of $7.2 million.

Net investment in capital assets, of $71.2 million, $72.3 million, and $75.8 million, at June 30, 2013, 2012, and 2011, respectively, represent the University's capital assets of land, buildings and equipment net of accumulated depreciation and net of outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The decrease of $1.1 million in 2013 was primarily the result of the net effect of additions and disposals to capital assets of $20.1 million, the decrease in bonds payable related to capitalized assets of $6.6 million, and depreciation expense of $27.8 million. The decrease of $3.5 million in 2012 was primarily the result of the net effect of additions and disposals to capital assets of

$23.6 million, the decrease in bonds payable related to capitalized assets of $1.6 million, and depreciation expense of $28.7 million.

Restricted nonexpendable net position totaling $99.0 million, $97.2 million, and $94.7 million at June 30, 2013, 2012, and 2011, respectively, consist entirely of the University's permanent endowment funds. The corpus of restricted nonexpendable resources is only available for investment purposes. The increase of $1.8 million, or 1.9%, in 2013, resulted from new gifts. The increase of $2.5 million, or 2.6%, in 2012 was due to new gifts.

Restricted expendable net position are subject to externally imposed restrictions governing their use. Restricted expendable net positions totaled $286.4 million, $260.8 million, and $283.5 million, as of June 30, 2013, 2012, and 2011, respectively. The increase of $25.6 million in 2013 compared to the decrease of $22.7 million in 2012 was primarily due to changes in net investment income. In 2013 there was a net investment gain of $38.8 million compared to a net investment loss of $7.0 million in 2012.

Unrestricted net position are not subject to externally imposed stipulations. However, substantially all of the University's unrestricted net positions have been designated for various academic and research programs and initiatives, as well as capital projects. Unrestricted net positions totaled $43.9 million, $51.3 million, and $57.7 million for June 30, 2013, 2012, and 2011, respectively. The decrease of $7.4 million in 2013 was primarily due to an increase in net tuition and fees of $4.5 million, a decrease in supplies and service expense of $2.9 million, an increase in net investment income of $7.9 million, offset by an increase in compensation and benefits of $8.0 million, a decrease in State capital appropriation of $1.8 million, a decrease in private gifts of $1.2 million, an increase in transfers to component units of $3.8 million, a decrease in facility and administrative recovery of $1.3 million, and a decrease in sales and services of educational activities of $1.2 million. The decrease of $6.4 million in 2012 was primarily due to an increase in net tuition and fees of $14.5 million, a decrease in supplies and service expense of $2.7 million, offset by decreases in state appropriation revenue of $2.6 million, private gifts of $2.2 million, and net investment income of $11.3 million. Another contributing factor in the decrease of $6.4 million in 2012 is $5.1 million contributed by the University to UVMF.

Statements of Revenues, Expenses and Changes in Net Position

The components of the change in net position are presented in the Statements of Revenues, Expenses and Changes in Position. This statement displays the revenues earned by the University, the expenses incurred by the University and the resulting increase or decrease in net position. Revenues and expenses are categorized as either operating or non-operating, and net operating income or loss is displayed. Operating revenues generally are those earned through providing services or goods to the University's customers. Operating expenses are incurred in providing those services and goods. Significant recurring sources of the University's revenues, including state appropriations, gifts, and investment income or loss are considered non-operating.

Condensed information for the year ended June 30, 2013, with comparative totals for the years ended June 30, 2012 and June 30, 2011, follows:

		(In thousands)	
	2013	**2012**	**2011**
Operating revenues	$ 557,473	$ 525,978	$ 520,312
Operating expenses	585,027	581,087	587,427
Operating loss	(27,554)	(55,109)	(67,115)
Net non-operating revenues	44,703	18,340	103,904
Revenue (loss) before capital And endowment additions	17,149	(36,769)	36,789
State capital appropriations	-	1,800	2,000
Capital and endowment gifts and grants	1,942	4,887	6,790
Total capital and endowment additions	1,942	6,687	8,790
Increase (decrease) in net position	**19,091**	**(30,082)**	**45,579**
Net position, beginning of year	481,525	511,607	466,028
Net position, end of year	**$500,616**	**$481,525**	**$511,607**

Net position increased by $19.1 million in 2013 and decreased by $30.1 million in 2012. Contributors to the increase in 2013 include an increase in operating revenues of $31.5 million offset slightly by an increase in operating expenses of $3.9 million. Operating revenues increased mostly due to an increase of $22.7 million in federal, state, and private grants and contracts due to an increase in Fletcher Allen Health Care, Inc. commitment funds of $29.8 million. There was also an increase of $4.5 million in net student tuitions and fees. The increase in operating expenses consists mostly of increases in compensation and benefits of $8.3 million offset by a decrease in supplies and services expenses of $3.2 million. Investment income increased $53.0 million in 2013. This increase was slightly offset by decreases in private gifts of $5.2 million and capital gifts and grants of $6.0 million. There was also an intergovernmental transfer from the University to the State of Vermont of $25.8 million in 2013. These funds were contributed to support the Graduate Medical Education (GME) program. The GME program helps ensure access to quality, essential professional health services for Medicaid beneficiaries through the care provided by teaching physicians and teaching hospitals. Contributors to the decrease in 2012 include an increase in operating revenues of $5.7 million and a decrease in operating expenses of $6.3 million offset by a decrease in non-operating revenues of $85.6 million. Investment income decreased $71.6 million in fiscal 2012. State appropriations and private gifts decreased by $7.6 million.

Operating revenues include the following:

- *Student Tuition and Residential Life Fees, net of scholarship allowances*, are the largest component of operating revenues and the primary source of funding for the University's academic programs. Net student fees increased by $4.5 million in 2013, comprised of an increase to tuition and fees of $8.0 million, or 2.4%, a decrease to residential life of $0.1 million, or .1%, and by an increase in scholarship allowances of $3.4 million, or 4.3%. Net student fees increased by $16.1 million in 2012, comprised of an increase to tuition and fees of $14.5 million, or 4.6%, residential life of $1.2 million, or 2.4%, and by a decrease in scholarship allowances of $0.3 million, or 0.4%. Scholarship and fellowship awards applied to student accounts are presented as a reduction of student tuition and fees and residential life revenues, while payments directly made to students are presented as scholarship and fellowship expenses. Total scholarships and fellowships of $100.1 million, $96.9 million, and $98.1 million, were awarded to students in 2013, 2012, and 2011, respectively. This represents a total increase of $3.2 million, or 3.3%, for 2013 as compared to a $1.2 million decrease, or 1.2%, for 2012.

- *Revenues for sponsored programs*, of $189.1 million in 2013, $166.4 million in 2012, and $175.3 million in 2011, include federal appropriations, grants and contracts, as well as state and non-governmental grants and contracts that normally provide for the recovery of direct and indirect costs or expenses. The increase of $22.7 million is attributed to an increase in Fletcher Allen Health Care, Inc. commitment funds of $29.8 million offset by a reduction in federal and state grants. The decrease of federal funding was anticipated due to continued reductions. The decrease of $8.9 million in 2012 is the result of a decrease of $6.2 million in federal and private grants and a decrease $2.7 million in state grants. Revenues for sponsored programs are generally recognized when expenses are incurred or when significant milestones have been met under the terms of the award. The revenues for sponsored programs include recovery of indirect costs, referred to as facilities and administrative costs, of $24.9 million, $26.2 million, and $28.0 million, in 2013, 2012, and 2011, respectively.

- *Auxiliary enterprise and educational activities revenues* totaled $47.9 million, $46.2 million, and $48.1 million, in 2013, 2012, and 2011, respectively. Auxiliary enterprises include business type enterprises such as the bookstore, printing, mail services and conferences and events that provide support to the University's primary missions of education, research and public service. The $1.7 million increase in 2013 is primarily due to an increase in the number of conference and events hosted for non-University customers and the $1.9 million decrease in 2012 is primarily due the decreased activity related to Conferences and Events Services and activity in the Davis Center.

- *Student loan interest and other operating revenues* were $13.6 million, $11.0 million, and $10.5 million in 2013, 2012, and 2011, respectively.

Significant components of operating expenses include the following:

- *Compensation and benefits* of $382.1 million, $373.8 million, and $376.5 million in 2013, 2012, and 2011, respectively, comprise the most significant portion of total expenses. Compensation and benefits increased by $8.3 million, or 2.2% in 2013 and decreased $2.6 million, or 0.7% in 2012. The fiscal 2013 increase reflected a budgeted increase of 2.0% in the non-represented staff salary pool and the faculty salary pool. The fiscal 2012 decrease was primarily due to no budget increases in the non-represented staff salary pool and faculty salary pool. In addition, staff of the Development and Alumni Relations office became employees of the UVMF as of January 1, 2012. In addition, health plan benefit costs increased by $2.2 million, or 4.9%, in 2013 and decreased $5.1 million, or 10.4%, in 2012.

- *Supplies and services* expenses decreased by $3.2 million, or 2.0%, in 2013 and decreased by $3.5 million, or 2.1%, in 2012. This classification encompasses the many and varied non-compensation expenses that are required for the operation of the University, including utilities, professional services, non-capitalized equipment, and minor renovations.

- *Depreciation* expense decreased slightly by $.9 million, or 3.1%, in 2013 and $.7 million, or 2.3%, in 2012.

- *Scholarships and fellowships* of $16.0 million in 2013, $16.2 million in 2012, and $17.1 million in 2011 are comprised of direct payments to students. As noted earlier, in addition to the amounts reflected in scholarships and fellowships expense, financial aid is applied to tuition and residential life fees and amounts applied to each are reflected in the financial statements as a reduction of those revenues.

- *Net non-operating revenue* is comprised of several revenue and expense categories that are not considered to be operating or exchange transactions. Net non-operating revenues totaled $44.7 million, $18.3 million, and $103.9 million, in 2013, 2012, and 2011, respectively, resulting in an increase of $26.4 million in 2013 and a decrease of $85.6 million in 2012. The increase in fiscal 2013 net non-operating revenues was primarily due to an increase in investment income to $47.3 million in 2013 from ($5.7) million in 2012, reductions in private gifts of $5.2 million, state appropriations of $0.1 million, and an increase of $0.1 million on interest on indebtedness. In addition, UVM made an intergovernmental transfer to the State of Vermont in the amount of $25.8 million to help support the GME program. Net non-operating revenues reflected a decrease of $85.6 million in 2012 primarily due to a reduction in investment income from $65.7 million in 2011 to ($5.7) million in 2012, reductions in private gifts of $5.0 million, state appropriations of $2.6 million, and an increase of $0.4 million on interest on indebtedness. Net non-operating revenue includes various non-operating revenues and expenses that are grouped together on the Statements of Revenues, Expenses and Changes in Net Position and include the following:

- *State appropriations*, which represent funding provided by the State of Vermont, were $41.8 million, $41.9 million, and $44.5 million, in 2013, 2012, and 2011, respectively, decreasing by 0.2% in 2013 and decreasing by 5.9% in 2012 due to one-time funding.

- *Intergovernmental Transfers* totaled $25.8 million in 2013. This represents contributions to the State to support the GME program.

- *Private gifts and Transfers to UVM from Component Units* totaled $13.2 million, $9.5 million, and $15.2 million, in 2013, 2012, and 2011, respectively.

- *Transfers to Component Units from UVM* totaled $9.8 million in 2013. These transfers were to the UVM Foundation, Inc. from the University to assist the Foundation in its operations.

- *Net investment income/(loss)* was $47.3 million, $(5.7) million, and $65.9 million in 2013, 2012, and 2011, respectively. Net investment income includes realized investment income/(loss) and the change in the unrealized appreciation or depreciation of investments. The change in unrealized appreciation/(depreciation) included in net investment income was $22.2 million in 2013, $(22.4) million in 2012, and $48.6 million in 2011. Realized gains/(losses) and other income included in net investment income totaled $25.1 million, $16.7 million, and $17.3 million in 2013, 2012, and 2011, respectively.

- *Interest on indebtedness* totaled $20.8 million in 2013, $21.0 million in 2012, and $20.6 million in 2011. Interest on indebtedness represents interest on notes and bonds net of capitalized interest.

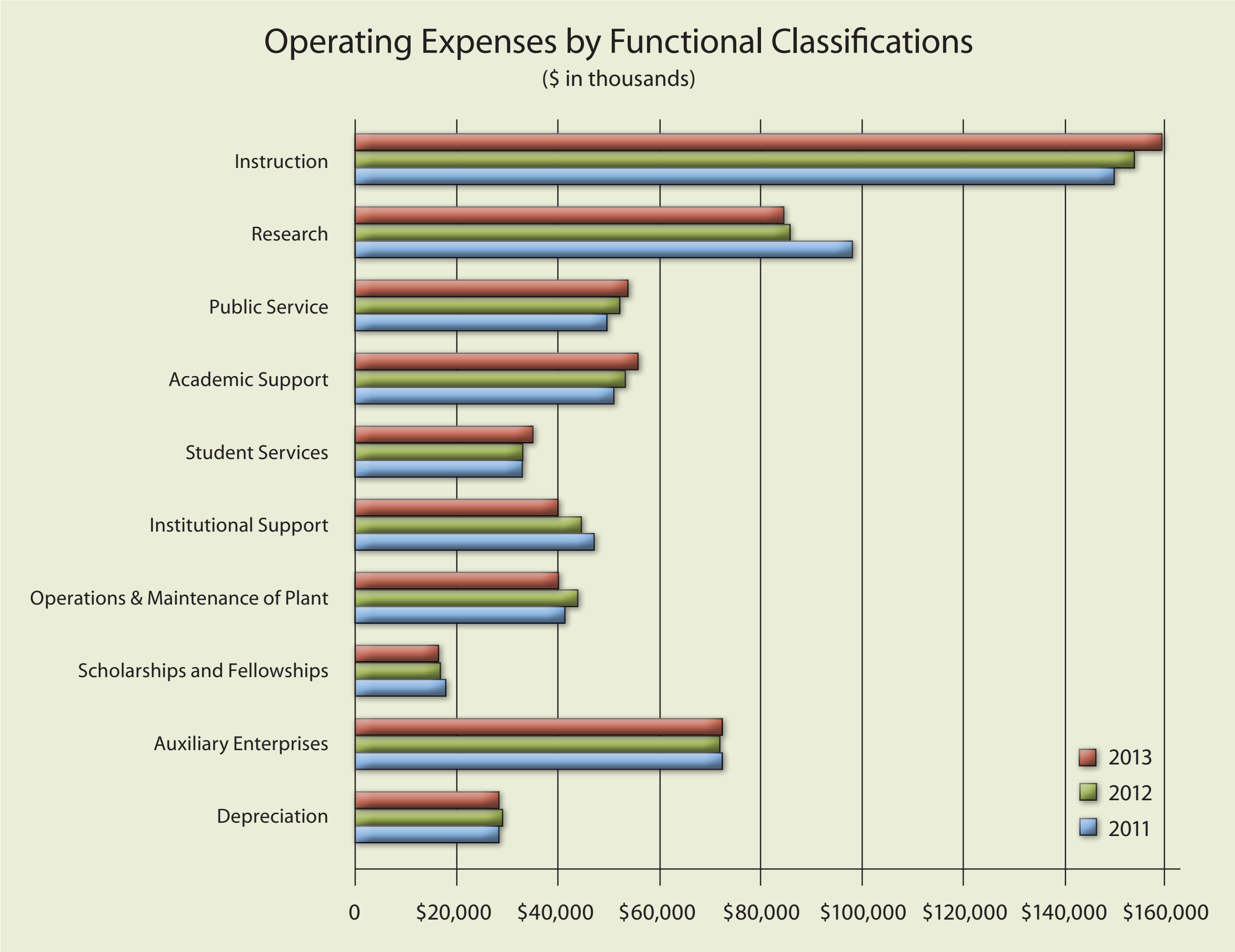
Other financial resources presented after ***Revenue (Loss) before capital and endowment additions*** include the following:

- *State capital appropriations* were $0 million, $1.8 million, and $2.0 million in 2013, 2012 and 2011, respectively.

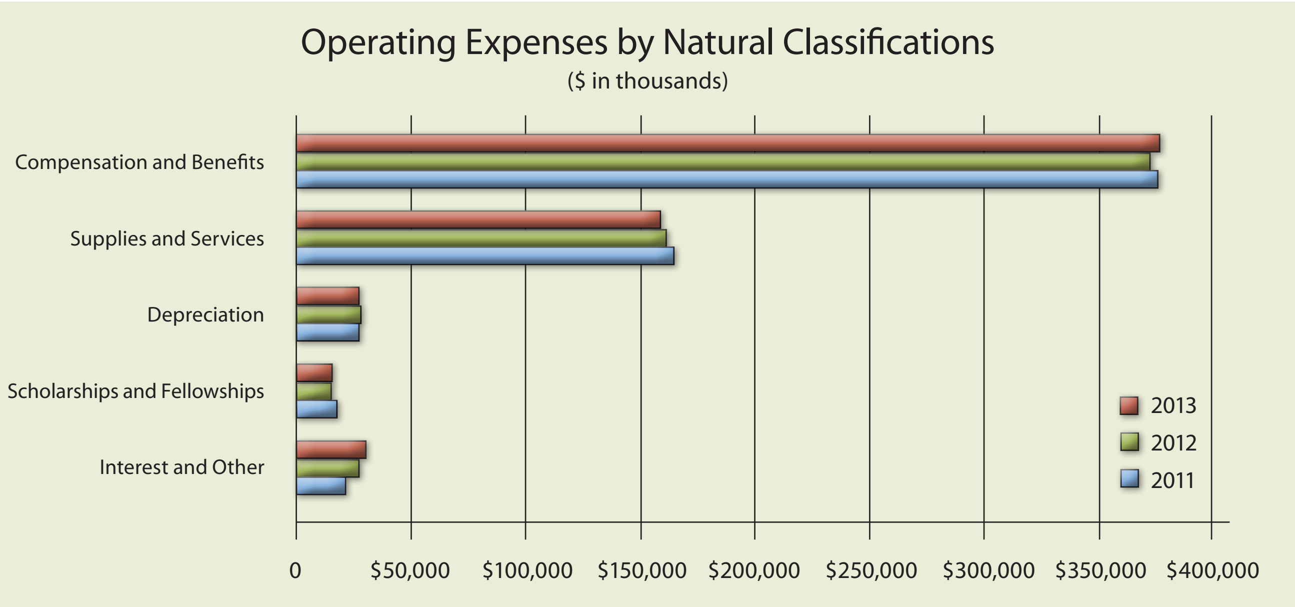
- *Capital and endowment gifts and grants* were $1.9 million, $4.9 million, and $6.8 million, in 2013, 2012, and 2011, respectively.

Expenses are presented in the financial statements by natural classification, according to the type of expense, such as compensation and benefits. In addition, expenses may be aggregated by the functions that they support. Total expenses increased by $3.9 million, or 0.7%, in 2013 and decreased $0.7 million, or 0.1%, in 2012. With the exception of scholarships and fellowships, depreciation, and interest expense, the changes in each of the functional categories reflect the changes in compensation and benefits and supplies and services.

The following chart presents total expenses by natural classification (object) for 2013, 2012, and 2011:



The following chart presents total expenses by natural classification (object) for 2013, 2012, and 2011:



Statements of Net Position

as of June 30, 2013 and 2012

(dollars in thousands)

	2013	2012	UMEA 2013	UMEA 2012	UVMF 2013	UVMF 2012
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 72,452	$ 71,649	$ 631	$ 5,542	$ 14,668	$ 1,567
Operating investments	114,498	113,083	23,305	10,290	-	-
Investments for capital activities	22,416	17,525	-	-	-	-
Accounts, loans, notes and pledges receivable, net	35,195	34,793	555	449	906	-
Inventories and prepaid expenses	10,980	10,212	11	9	252	22
Total current assets	**255,541**	**247,262**	**24,502**	**16,290**	**15,826**	**1,589**
Non-current assets:						
Endowment cash, cash equivalents and investments	350,808	308,198	-	-	1,002	-
Student loans, notes, and pledges receivable, net	26,410	27,122	-	-	807	-
Deposits with trustees	14,928	15,210	-	-	-	-
Prepaid expenses and other assets	7,800	5,818	-	-	-	-
Capital assets, net	536,372	544,011	-	-	75	-
Total non-current assets	**936,318**	**900,359**	**-**	**-**	1,884	**-**
Total Assets	**1,191,859**	**1,147,621**	**24,502**	**16,290**	**17,710**	**1,589**
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	69,651	54,571	7,647	683	3,688	49
Unearned revenue, deposits, and funds held for others	13,270	16,363	-	-	1	-
Bonds and leases payable	8,004	7,403	-	-	-	-
Total current liabilities	**90,925**	**78,337**	**7,647**	**683**	**3,689**	**49**
Non-current liabilities:						
Accrued liabilities	13,058	13,300	-	-	-	-
Postemployment benefits	127,550	109,178	-	-	-	-
Bonds and leases payable	459,710	465,281	-	-	-	-
Total non-current liabilities	**600,318**	**587,759**	**-**	**-**	**-**	**-**
Total Liabilities	**691,243**	**666,096**	**7,647**	**683**	**3,689**	**49**
NET POSITION						
Net investment in capital assets	71,226	72,272	-	-	-	-
Restricted:						
Non-Expendable	99,021	97,166	-	-	1,763	200
Expendable	286,430	260,777	5,251	245	10,179	38
Unrestricted	43,939	51,310	11,604	15,362	2,079	1,302
Total Net Position	**$ 500,616**	**$ 481,525**	**$ 16,855**	**$ 15,607**	**$ 14,021**	**$ 1,540**

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

Statements of Revenues, Expenses and Changes in Net Position

for the years ended June 30, 2013 and 2012

(dollars in thousands)

	2013	2012	UMEA 2013	UMEA 2012	UVMF 2013	UVMF 2012
Operating revenues						
Tuition and fees	$ 339,566	$ 331,613	$ -	$ -	$ -	$ -
Residential life	51,406	51,437	-	-	-	-
Less scholarship allowances	(84,105)	(80,677)	-	-	-	-
Net student fees	306,867	302,373	-	-	-	-
Federal, state, and private grants and contracts	189,115	166,382	-	-	-	-
Sales and services of educational activities	6,626	5,436	-	-	-	-
Other auxiliary enterprises	41,288	40,772	-	-	-	-
Student loan interest and other operating revenues	13,577	11,015	422	524	208	-
Total operating revenues	**557,473**	**525,978**	**422**	**524**	**208**	**-**
Operating expenses						
Compensation and benefits	(382,122)	(373,829)	(284)	(262)	(6,692)	(382)
Supplies and services	(159,067)	(162,292)	-	-	(2,313)	(428)
Depreciation	(27,823)	(28,721)	-	-	-	-
Scholarships and fellowships	(16,015)	(16,245)	-	-	-	-
Total operating expenses	**(585,027)**	**(581,087)**	**(284)**	**(262)**	**(9,005)**	**(810)**
Operating income (loss)	**(27,554)**	**(55,109)**	**138**	**262**	**(8,797)**	**(810)**
Non-operating revenues (expenses)						
State appropriations	41,833	41,896	-	-	-	-
Private gifts	1,473	6,691	5,297	271	15,603	50
Net investment income/(loss)	47,317	(5,700)	1,181	(40)	77	-
Interest on indebtedness	(20,847)	(21,043)	-	-	-	-
Net other non-operating expense	(1,168)	(1,085)	-	-	-	-
Intergovernmental transfers	(25,757)	-	-	-	-	-
Transfers from UVM to component units	(9,831)	(5,221)	-	-	8,862	2,100
Transfers to UVM from component units	11,683	2,802	(5,368)	(2,174)	(4,828)	-
Net non-operating revenues	**44,703**	**18,340**	**1,110**	**(1,943)**	**19,714**	**2,150**
Revenue (loss) before capital and endowment additions	**17,149**	**(36,769)**	**1,248**	**(1,681)**	**10,917**	**1,340**
State capital appropriations	-	1,800	-	-	-	-
Capital gifts and grants	891	2,763	-	-	-	-
Gifts for endowment purposes	1,051	2,124	-	-	1,563	200
Total capital and endowment additions	**1,942**	**6,687**	**-**	**-**	**1,563**	**200**
Increase (decrease) in net position	19,091	(30,082)	1,248	(1,681)	12,480	1,540
Net Position, Beginning of Year	481,525	511,607	15,607	17,288	1,540	-
Net Position, End of Year	**$ 500,616**	**$ 481,525**	**$ 16,855**	**$ 15,607**	**$ 14,020**	**$ 1,540**

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

Statements of Cash Flows

for the years ended June 30, 2013 and 2012

(dollars in thousands)

	2013	2012
Cash Flows From Operating Activities		
Tuition and fees (net of applicable discounts)	$ 266,223	$ 260,808
Grants and contracts	185,412	176,610
Sales and services of educational activities	6,626	5,436
Sales and services of auxiliary enterprises:		
Residential Life fees, net of scholarship allowances	40,348	40,603
Other	41,288	40,772
Payments to employees and benefit providers	(362,771)	(357,000)
Payments to vendors	(159,271)	(161,879)
Payments for scholarships and fellowships	(16,015)	(16,245)
Student loans issued	(4,380)	(4,991)
Student loans collected, interest and other revenue	4,320	4,352
Other receipts, net	12,955	10,367
Net cash used in operating activities	**14,735**	**(1,167)**
Cash Flows From Noncapital Financing Activities		
State general appropriation	41,833	41,896
Private gifts for other than capital purposes	2,444	8,381
Intergovernmental transfers	(25,757)	-
Transfers from UVM to component units	(9,831)	(5,221)
Transfers to UVM from component units	11,683	2,802
Deposits of affiliates and life income payments	13,512	(2,617)
Net cash provided by non-capital financing activities	**33,884**	**45,241**
Cash Flows From Capital Financing Activities		
Proceeds from capital debt	50,275	-
State capital appropriation	-	1,800
Capital grants, gifts and other income	1,675	2,839
Purchases and construction of capital assets	(22,171)	(23,357)
Principal and interest paid on capital debt	(76,246)	(28,072)
Changes in deposits with trustees, net	444	6,860
Net cash used in capital financing activities	**(46,023)**	**(39,930)**
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	83,005	111,682
Purchase of investments	(70,509)	(122,437)
Interest and dividends on investments, net	6,051	8,233
Net cash used in investing activities	**18,547**	**(2,522)**
Net Increase in Cash and Cash Equivalents	**21,143**	**1,622**
Cash and cash equivalents - beginning of year	79,869	78,247
Cash and Cash Equivalents - End of Year *	**$ 101,012**	**$ 79,869**
Reconciliation of Operating Loss To Cash Used by Operating Activities		
Operating loss	$ (27,554)	$ (55,109)
Adjustments to reconcile net income to net cash used in Operating Activities:		
Depreciation expense	27,823	28,721
Changes in assets and liabilities:		
Accounts receivable and loan receivables, net	(366)	9,094
Inventories and prepaid expense	(775)	(451)
Accounts payable	1,235	(3,736)
Unearned revenue, deposits and accrued liabilities	14,372	20,314
Net cash used in operating activities	**$ 14,735**	**$ (1,167)**

** of total cash and cash equivalents for 2013, $72,452 is current and $28,560 is non-current endowment and for 2012, $71,649 is current and $8,220 is non-current endowment*

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

Notes to Financial Statements
For the Years Ended June 30, 2013 and 2012

A. Summary of Significant Accounting Policies and Presentation

The University of Vermont and State Agricultural College is a public, non-profit, comprehensive research institution of higher education with an enrollment of approximately 11,780 undergraduate, graduate, and medical students. It is located in Burlington, Vermont with satellite instructional and research buildings throughout the State.

The University of Vermont and State Agricultural College is a component unit of the State of Vermont as it receives an annual appropriation from the State.

The University has received a letter from the Internal Revenue Service recognizing the University as an organization that is tax-exempt on related income under Section 501(a) of the Internal Revenue Code.

1. Affiliated Organizations

University Medical Education Associates, Inc. (UMEA) is a legally separate tax-exempt component unit of the University of Vermont. UMEA is governed by a minimum nine-member board; six members are named as a result of their positions at the University of Vermont and the remaining are elected by the other members. UMEA's purpose is to support the operations, activities and objectives of the College of Medicine of the University of Vermont. UMEA is a public non-profit organization that reports under Governmental Accounting Standards Board (GASB) standards. UMEA's fiscal years end on June 30th. UMEA issues separate audited financial statements, which may be obtained by contacting the Dean's Office, College of Medicine. In accordance with GASB Statement No. 61, The Financial Reporting Entity: Omnibus (an amendment of GASB 14 and 34), UMEA is discretely presented on the University's Statements of Net Positions and Statements of Revenues, Expenses, and Changes in Net Position.

The University of Vermont and State Agricultural College Foundation, Inc. (UVMF) was incorporated as a Vermont nonprofit corporation on March 14, 2011, and is a legally separate entity from the University of Vermont. On January 1, 2012, UVMF officially assumed all fundraising responsibilities of the Office of Development and Alumni Relations at the University. UVMF is exempt from federal income taxes by Internal Revenue Code Section 501(c)(3) and qualifies as a public charity under Internal Revenue Code Sections 509(a)(1) and 170(b)(1)(A)(vi). UVMF exists to secure and manage private gifts for the sole benefit of the University and has been recognized by the University as the primary and preferred recipient for charitable gifts to or for the benefit of the University. UVMF is governed by a board of directors composed of not less than 15 or more than 25 members, including ex officio directors. The President of the University, the Chair of the Board of Trustees of the University, the President of the UVM Alumni Association, and the UVMF President/CEO are ex officio directors of UVMF. UVMF reports under Financial Accounting Standards Board (FASB) standards, has a fiscal year end date of December 31st, and issues separate audited financial statements, which may be obtained at the UVMF's website www.uvmfoundation.org or by contacting the UVMF's main office at 411 Main Street, Burlington, VT. In accordance with GASB Statement No. 61, The Financial Reporting Entity: Omnibus (an amendment of GASB 14 and 34), UVMF is discretely presented on the University's Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position.

The University has an affiliation with Fletcher Allen Health Care, Inc. (FAHC) through an executed Affiliation Agreement signed August, 2010 between the University of Vermont and FAHC. The Affiliation Agreement is for a period of five (5) years with provisions for an automatic renewal in the absence of a party's written notice. The Agreement is to guide and govern the parties in the achievement of their common goals, including, but not limited to, providing high-quality clinical education for undergraduate and graduate students enrolled in UVM medical and health care related academic programs and health care professionals enrolled in continuing education programs. The Agreement sets forth principles and protocols designed to assist the University and FAHC in coordinating efforts and allocating their resources. FAHC agrees to pay a portion of salary, benefits, and related expenses incurred by the University to physician-faculty and staff who are also employed by FAHC. In addition, FAHC agrees to pay base payments that help maintain medical facilities and the Dana Medical Library. FAHC agrees to pay a portion of the UVM Medical Group Net Patient Revenues, referred to as the Dean's Tax, to the College of Medicine for purposes that promote and are consistent with the common goals of both parties.

2. Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as defined for public colleges and universities by the GASB. The University has elected not to adopt statements issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

Net position is categorized as follows:

- **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. Such assets include the University's physical plant.

  - **Restricted:**

    Non-Expendable - Net position subject to externally imposed stipulations that they be maintained permanently by the University. This category includes the corpus of the University's true endowment funds.

    Expendable - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University to meet those stipulations or that expire through the passage of time. This category includes restricted gifts, grants and contracts.

  - **Unrestricted:** Net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management, the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

(dollars in thousands)

The University's policy for defining operating activities as reported on the Statements of Revenues, Expenses, and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Non-exchange transactions such as gifts, investment income, state appropriations and interest on indebtedness are reported as non-operating revenues and expenses.

When both restricted and unrestricted net position are available and appropriate to fund an expense, the University's practice is to allow the budget manager to determine which to use in each instance.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. The most significant areas that require management estimates relate to valuation of certain investment balances, the valuation of the postemployment benefit obligation, allowances on accounts and loans receivable, depreciation, and certain accruals.

3. Investments

Investments are stated at fair value in the case of marketable securities. Investments in private partnerships are stated at cost as they do not meet the definition of marketable securities. Nonmarketable investments include alternative investments such as venture capital and real estate funds, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Marketable alternative investments, generally referred to as hedge funds, may contain non-marketable as well as marketable investments. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the estimated values may differ from the values that would have been used had a ready market existed. University management is responsible for the fair measurements of investments reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that reported fair values at the balance sheet date are reasonable.

Investments are reported in three categories in the Statements of Net Position. Investments reported as non-current assets include endowment, annuity, and life income funds. Investments for capital activities reported as current assets are replacement reserves designated for capital renovations. All other investments are reported as operating investments.

Deposits with trustees include $13,854 in 2013 and $14,067 in 2012 of assets held under deferred giving arrangements and $1,074 in 2013 and $1,143 in 2012 of investments in the waste disposal fund required by the EPA.

Investment income is recorded as revenue when earned. Net investment income is reported as non-operating revenue and includes income net of investment fees and the change in the fair value of investments. The calculation of realized gains (losses) is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held for more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The fair value of investments increased $41,238 during 2013 including $19,029 of realized gains and $22,210 of unrealized gains. For 2012 the fair value of investments decreased $10,199 including $8,456 of realized gains and $22,380 of unrealized losses. For 2013, the unrealized gains on investments held at year-end was $67,405 compared to an unrealized gain of $45,195 for 2012.

The University records its purchases and sales of investments on a trade date basis.

4. Government Appropriations and Grants

The University has recorded reimbursement of indirect costs relating to government contracts and grants at a predetermined rate. The reimbursement of indirect costs included in grant revenue is $24,884 in 2013 and $26,228 in 2012.

Private grants and contracts includes additional funding of $29.8 million in 2013 to the College of Medicine from Fletcher Allen Health Care, Inc. to offset facilities and operation costs.

Revenues associated with grants and contracts are generally recognized when related costs are incurred or when milestones are achieved. Federal, state and private grants and contracts revenue for 2013 and 2012 consists of:

Grants and Contracts	FY13	FY12
Federal appropriations, grants and contracts	$ 122,350	$ 125,996
State grants and contracts	3,702	3,089
Private grants and contracts	63,063	37,297
TOTAL	**$ 189,115**	**$ 166,382**

State appropriations (general fund and capital) are reported as non-operating revenue.

5. Gifts

Gifts are recorded at their fair value and reported as non-operating revenue.

Promises to donate to the University are recorded as receivables and revenues when the University has met all applicable eligibility and time requirements. Since the University cannot fulfill the requirement to invest in perpetuity for gifts to endowments until the gift is received, pledges to endowments are not recognized.

6. Deposits and Unearned Revenue

Deposits and advance payments for the following academic year are deferred and recorded as revenues when earned. Summer session revenues are deferred to the extent that they relate to courses scheduled in July and August.

The University records unearned revenue for cash received in excess of expenditures on grants and contracts. Grants and contracts deferred revenue at June 30, is $5,973 in 2013 and $7,814 in 2012.

(dollars in thousands)

7. Employee Benefits

The University provides health and dental insurance to retired employees and their families during their lives and life insurance until age 70. For employees hired on or after January 1, 2012 they will continue to receive dental insurance and life insurance upon retirement. The health insurance benefit for these employees hired after January 1, 2012 has been replaced with a Retiree Health Savings Plan (RHSP). UVM will make regular tax free contributions to the RHSP for benefits-eligible faculty and staff. Earnings that accumulate in a RHSP will grow tax free. Retirees will be able to access the savings in the RHSP to pay for eligible healthcare expenses.

Health, dental and life insurance are paid by the University on a premium basis at the same rate as active employees for retirees under the age of 65 and at a slightly lower rate for retirees over the age of 65. The total cost for active and retired employees for health, dental and life insurance, net of employee contributions, was $47,296 in 2013 and $45,092 in 2012. The total cost for contributions to the RHSP was $43 in FY13. See note J for further information about postemployment benefits.

8. Compensated Absences

The University accrues amounts for compensated absences (principally vacation allowances) as earned. They are included in the current portion of accrued liabilities.

As of June 30, 2013, $18,674 ($18,168 in 2012) was accrued for vacation pay of which $13,792 ($13,412 in 2012) was charged to unrestricted net assets and $4,882 ($4,756 in 2012) was included in deferred charges to be recovered from restricted expendable assets when paid.

9. Collections and Works of Art

The University maintains collections of inexhaustible assets, including: works of art; historical artifacts; biological, geological, archaeological and ethnographic materials; and literature. While the collections are undoubtedly quite valuable and irreplaceable, the University has not placed a dollar value on these assets. It is the University's policy to hold these assets for public exhibit, education and research rather than for financial gain and to protect, care for and maintain such assets in perpetuity. Accordingly, the collections are not capitalized for financial statement purposes.

B. Accounts, Loans, Notes, and Pledges Receivable

Accounts, loans, notes and pledges receivable at June 30, 2013 and 2012 are summarized at the top of the next column.

The student accounts receivable are carried net of an allowance for doubtful accounts of $354 in 2013 and $414 in 2012.

Student loans and other notes receivable current portion of $3,027 and non-current portion of $23,172 at June 30, 2013, are carried net of an allowance for uncollectible UVM loans of $150 and $1,152, respectively. Student loans receivable current portion of $3,004 and non-current portion of $23,764 at June 30, 2012, were carried net of an allowance for uncollectible UVM loans of $158 and $1,261, respectively. The University does not record an allowance for uncollectible federal student loans since they can be assigned to the government.

Accounts, Loans, Notes and Pledges Receivable, Net	June 30, 2013	June 30, 2012
Current		
Federal, state, and private grants receivable	$ 17,209	$ 18,264
Student and company accounts receivable	5,275	4,844
Other accounts receivable	7,146	5,322
Student loans and other notes receivable, net	3,027	3,004
Pledges receivable, net	2,538	3,359
Total Current	**$ 35,195**	**$ 34,793**
Non-Current		
Student loans and other notes receivable, net	$ 23,172	$ 23,764
Pledges receivable, net	3,238	3,358
Total Non-Current	**$ 26,410**	**$ 27,122**

The University's liability for the federal capital contribution to the Perkins, Health Professions, Primary Care, and Nursing Student loan programs is $8,574 for 2013 ($8,680 for 2012). These amounts are included in non-current accrued liabilities.

Collections and disbursements of pass through student loans such as Federal Direct Loans, Federal Plus Loans, and Vermont Student Assistance Corporation's Green Mountain Loans are reported net in the Statement of Cash Flows.

Current and non-current pledges receivable are recorded at the present value of expected future cash flows, net of an allowance for unfulfilled pledges of $74 ($221 in 2012) and $95 ($224 in 2012) respectively. Discount rates ranging from 2.73% to 5.03% were applied to pledges.

C. Accounts Payable and Current Accrued Liabilities

Accounts payable and current accrued liabilities of $69,651 ($54,571 in 2012) are composed of accounts payable of $12,001 ($10,746 in 2012) and accrued liabilities of $57,648 ($43,825 in 2012). Accounts payable is mostly comprised of supplies and services payables, including construction, renovation and equipment of $11,524 ($10,492 in 2012).

D. Capital Assets

Capital assets are stated at cost or, in the case of gifts, at the fair value at the date of donation.

Interest expense, net of interest earnings on unspent bond proceeds is capitalized for debt funded construction projects. In 2013, net interest expense of $102 ($1,467 in 2012) was capitalized for projects that were funded by the 2005, 2007, 2009, and 2010 general obligation bonds.

Depreciation is calculated using the straight-line method over the estimated economic useful lives of the related assets. Certain research buildings are classified into the following components: 1) building (basic construction components/shell) with an estimated useful life of 40 years; 2) building service systems (plumbing, electrical, etc.) with an estimated useful life of 25 years and 3) interiors/renovations with an estimated useful life of 20 years and 4) fixed equipment with an estimated useful life of 15 years.

(dollars in thousands)

Other buildings are depreciated over a useful life of 40 years, fixed equipment is depreciated over a useful life of 15 years, and movable equipment is depreciated over a useful life of 5 years. Software systems are depreciated over a useful life of 7 years. Major construction projects are capitalized, but are not depreciated until they are put into service.

Depreciation expense for buildings and components including fixed equipment for fiscal year 2013 is $24,580 ($24,350 in 2012). Moveable equipment and software systems depreciation expense is $3,243 for 2013 ($4,371 in 2012).

Land and construction in progress are the only non-depreciable capital assets. Capital assets activity for the years ended June 30, 2013 and 2012 is summarized as follows:

Fiscal Year 2013

Asset	Beginning Balance	Additions	Deductions	Reclassification	Balance	Accum. Deprec.	Net Balance
Land	$ 25,667	$ 2,042	$ -	$ -	$ 27,709	$ -	$ 27,709
Buildings	587,499	9,251	(54)		596,696	(215,253)	381,443
Building Service Systems	90,290	1,897			92,187	(29,598)	62,589
Building Interiors	55,096	1,636			56,732	(25,367)	31,365
Fixed Equipment	104,927	1,542			106,469	(80,024)	26,445
Moveable Equipment	19,450	3,468			22,918	(17,448)	5,470
Software Systems	28,796	353			29,149	(27,798)	1,351
TOTAL	**$ 911,725**	**$ 20,189**	**$ (54)**	**$ -**	**$ 931,860**	**$ (395,488)**	**$ 536,372**

Fiscal Year 2012

Asset	Beginning Balance	Additions	Deductions	Reclassification	Balance	Accum. Deprec.	Net Balance
Land	$ 22,197	$ 3,470	$ -	$ -	$ 25,667	$ -	$ 25,667
Buildings	583,053	10,241		(5,795)	587,499	(201,927)	385,572
Building Service Systems	85,740	2,618		1,932	90,290	(25,817)	64,473
Building Interiors	47,862	3,371		3,863	55,096	(22,763)	32,333
Fixed Equipment	103,163	1,764			104,927	(75,205)	29,722
Moveable Equipment	17,847	1,603			19,450	(16,479)	2,971
Software Systems	28,255	541			28,796	(25,523)	3,273
TOTAL	**$ 888,117**	**$ 23,608**	**$ -**	**$ -**	**$ 911,725**	**$ (367,714)**	**$ 544,011**

(dollars in thousands)

E. Bonds and Leases Payable and Other Long Term Liabilities

Bonds payable at June 30, 2013, totaled $467,714 of which $8,004 is current and $459,710 is long term. Debt obligations are generally callable by the University and bear interest at fixed rates ranging from 2.00% to 6.43%. The debt obligations mature at various dates through 2045.

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

Fiscal Year 2013

				Ending Balance	
Long Term Liability	**Beginning Balance**	**New Debt**	**Decreases**	**Current**	**Non-Current**
Heat System Bond (1),(2)					
1980 Issue	$ 1,227	$ -	$ 149	$ 153	$ 925
General Obligation Bonds					
Series 1998	25,157		25,157	-	-
Series 2002	25,436		25,436	-	-
Series 2005 (3)	155,213		828	1,003	153,382
Series 2007 (4)	158,463		732	1,752	155,979
Series 2009 (5)	78,913		1,539	1,568	75,806
Series 2010A	9,000			-	9,000
Series 2010B (6)	18,945		990	40	17,915
Series 2012A (7)		49,949	-	3,402	46,547
Capital Leases	330	-	88	86	156
TOTAL	**$ 472,684**	**$ 49,949**	**$ 54,919**	**$ 8,004**	**$ 459,710**

(1) Revenue from this facility is pledged as collateral under debt agreements.
(2) The assets are pledged as collateral under debt agreements.
(3) This balance shown includes bond premium of $3,455.
(4) This balance shown includes bond premium of 3,996.
(5) This balance shown net of bond discount of $1,090.
(6) This balance shown includes bond premium of $605.
(7) This balance shown net of bond discount of $326.

(dollars in thousands)

Fiscal Year 2012

Long Term Liability	Beginning Balance	New Debt	Decreases	Ending Balance Current	Ending Balance Non-Current
Heat System Bond (1),(2)					
1980 Issue	$ 1,372	$ -	$ 145	$ 149	$ 1,078
General Obligation Bonds					
Series 1998 (3)	25,122		(35)	(36)	25,193
Series 2002 (4)	28,410		2,974	3,114	22,322
Series 2005 (5)	156,031		818	828	154,385
Series 2007 (6)	159,170		707	732	157,731
Series 2009 (7)	80,417		1,504	1,538	77,375
Series 2010A	9,000			-	9,000
Series 2010B (8)	19,908		963	990	17,955
Capital Leases	224	174	68	88	242
TOTAL	**$ 479,654**	**$ 174**	**$ 7,144**	**$ 7,403**	**$ 465,281**

(1) Revenue from this facility is pledged as collateral under debt agreements.
(2) The assets are pledged as collateral under debt agreements.
(3) This balance shown net of bond discount of $932.
(4) This balance shown includes bond premium of $91.
(5) This balance shown includes bond premium of $3,583.
(6) This balance shown includes bond premium of $4,128.
(7) This balance shown net of bond discount of $1,132.
(8) This balance shown includes bond premium of $644.

In compliance with the University's various bond indentures, at June 30, 2013 the University has deposits with trustees of $2,773 ($3,217 in 2012) for debt service reserves, sinking funds, other requirements and unspent 2007, 2009, and 2010A general obligation bond proceeds. Deposits with trustees are invested in obligations of the U.S. Government as required by the University's bond indentures.

The principal and interest due on bonds over the next five years and in subsequent five year periods are presented in the table below:

For the Fiscal Year Ending June 30	Principal Due	Interest Due	Total Due
2014	$ 7,759	$ 21,669	$ 29,428
2015	7,717	21,424	29,141
2016	7,955	21,126	29,081
2017	9,621	20,780	30,401
2018	9,867	20,387	30,254
2019-2023	52,996	94,677	147,673
2024-2028	61,355	81,198	142,553
2029-2033	79,620	64,325	143,945
2034-2038	100,990	43,317	144,307
2039-2043	102,270	17,481	119,751
2044-2045	20,925	759	21,684
TOTAL	**$ 461,075**	**$ 407,143**	**$ 868,218**

(dollars in thousands)

Other long term liabilities at June 30, 2013 and 2012 are summarized below:

Fiscal Year 2013

Other Long Term Liability	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 8,680	$ -	$ 105	$ -	$ 8,575
Green Mountain Loan Guarantee	1,494	109	-	-	1,603
Obligations under deferred giving arrangements	3,194	96	393	410	2,487
Postemployment Benefits	109,178	18,372	-	-	127,550
Other Accrued Liabilities	368	25	-	-	393
TOTAL	**$ 122,914**	**$ 18,602**	**$ 498**	**$ 410**	**$ 140,608**

Fiscal Year 2012

Other Long Term Liability	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 8,801	$ -	$ 121	$ -	$ 8,680
Green Mountain Loan Guarantee	1,469	25	-	-	1,494
Obligations under deferred giving arrangements	4,821	440	2,067	436	2,758
Postemployment Benefits	90,929	18,249	-	-	109,178
Other Accrued Liabilities	332	36	-	-	368
TOTAL	**$ 106,352**	**$ 18,750**	**$ 2,188**	**$ 436**	**$ 122,478**

F. Cash and Cash Equivalents and Operating Investments

The University's Cash Management Policy provides parameters for investment of the University's pooled cash. The University classifies resources invested in money market funds and short-term investments with maturities at date of purchase of 90 days or less as cash equivalents. Operating funds invested in vehicles with maturities beyond 90 days are classified as operating investments. The Cash Management Policy establishes three pools for investment: short, intermediate and long term. Allowable investments for the short term pool, which includes cash and cash equivalents and other investments with average weighted maturities of up to one year, and the intermediate pool, which includes investments with an average weighted maturity of between one and six years, are restricted by investment type, dollar level, maturity and rating to mitigate credit risk on investments individually and in the aggregate. Investments are restricted to U.S. Treasury and government securities and high quality corporate securities and commercial and bank paper. Debt securities must be rated Aaa, Aa, A or BBB by Moodys or AAA, AA, A or BBB by Standard and Poors. Bank obligations, banker's acceptances or negotiable certificates of deposit must be rated B or better and no more than 20% of the funds in the cash pool can be in obligations of institutions within any single holding company. Commercial paper must be rated A-1 by Standard and Poors or P-1 by Moodys. Investments may include repurchase agreements secured by the U.S government and federal agency obligations, which shall have market values at least 100% of the amount of the repurchase agreement. Investments may also include repurchase agreements with banks having Fitch ratings no lower than B with the condition that these repurchase agreements are 100% collateralized with U. S government securities. Investments may also include commingled funds if they are in compliance with the certain guidelines. Investments of the long term pool are restricted to those allowable under the University's Statement of Objectives and Policies for the Long Term Investment Pool, including the endowment fund.

Current and non-current cash and cash equivalents are comprised of the following:

	June 30, 2013	June 30, 2012
Cash	$ 47,207	$ 34,870
Repurchase Agreements	3	16,520
Certificate of Deposit	50,147	25,000
Money Markets	3,655	3,479
TOTAL	**$ 101,012**	**$ 79,869**

(dollars in thousands)

Of total cash and cash equivalents on prior page, $28,560 in 2013 and $8,220 in 2012 are included in non-current endowment cash and cash equivalents.

The balance of cash held in bank deposit accounts was $44,221 at June 30, 2013 and $55,008 at June 30, 2012. Of these bank balances, $734 in 2013 and $669 in 2012 were covered by the Federal Depository Insurance Corporation. The University also has an irrevocable standby letter of credit up to $50,000.

Total operating investments were $114,498 at June 30, 2013 and $113,083 at June 30, 2012. Operating investments invested in the long term pool were $9,882 at June 30, 2013 and $9,113 at June 30, 2012 (see note G). Short and intermediate term operating investments at June 30, 2013 and 2012 were primarily made through commingled funds with the following investment strategies:

			Credit Quality %					
2013	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 96,280	2.2 yrs/ 2.0 yrs	71		23	6		
Multi Strategy Equity Fund	7,391							
Other	945							
TOTAL	**$ 104,616**							

			Credit Quality %					
2012	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 96,978	2.6 yrs/ 2.4 yrs	68	13	19			
Multi Strategy Equity Fund	6,083							
Other	909							
TOTAL	**$ 103,970**							

(dollars in thousands)

G. Endowment and Other Long Term Investments

The University's investment policies are governed and authorized by the University Board of Trustees. The Board of Trustees Investment Subcommittee has established a formal policy for investment of the endowment and other long term funds with an objective to provide a stable and consistent level of ongoing support for the University's programs through a reasoned spending policy that is also consistent with preserving and enhancing the real purchasing power of the fund over time. The primary long-term investment goal is to attain a real total return that exceeds the amount being distributed for spending and administration, currently set at 4.75% of the previous 13 quarters' average market value. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark, measured over a full market cycle; and to outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies.

The endowment in aggregate (which comprises the consolidated endowment and other separately invested assets), long term capital and operating reserves, and UVM Foundation assets are invested in a balanced portfolio consisting of: traditional stocks (domestic and international) and bonds; marketable alternatives (hedge funds); non-marketable alternatives (venture capital and private equity); and a diversified portfolio of inflation-hedges (real estate and commodities). The asset allocation target and actual percentages at June 30, 2013 and 2012 are presented in the following table:

	June 30, 2013		June 30, 2012	
	Target %	**Actual %**	**Target %**	**Actual %**
US Equity	23.0	24.6	22.5	24.0
Global Excluding US Equity	24.0	20.1	22.5	20.7
Marketable Alternatives	20.0	21.7	22.0	22.8
Real Estate/Inflation Hedges	14.0	11.3	14.0	12.5
Non-marketable Alternatives	11.0	11.3	11.0	11.3
Fixed Income	8.0	5.3	8.0	6.4
Cash & Cash Equivalents	0.0	5.7	0.0	2.3

Endowment and similar investments including $9,882 and $9,113 of operating investments and $22,416 and $17,525 of capital investments at June 30, 2013 and 2012, respectively, are composed of the following:

	June 30, 2013	June 30, 2012
Cash	$ 20,565	$ 7,198
Money Market	1,710	1,022
Common Stock	79,512	67,957
Other Government Bonds and Notes	11	11
Industry Bonds	3,453	3,404
Private Equity and Venture Partnerships	59,690	52,407
Life Estates	535	501
Hedge Funds	81,035	74,254
Mutual Funds	136,595	128,082
TOTAL	**$ 383,106**	**$ 334,836**

(dollars in thousands)

The fixed income portfolio is composed of one passive fund with the following risk profile at June 30, 2013 and 2012:

			Credit Quality %				
2013	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**Baa-BBB**
Bond Market Index Fund	$19,945	5.5	68	5	3	12	12

			Credit Quality %				
2012	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**Baa-BBB**
Bond Market Index Fund	$20,965	5.1	70	4	4	12	10

The majority of endowment fund assets are pooled for investment purposes. Each individual fund subscribes to or disposes of units on the basis of the value per unit at fair value at the beginning of the month within which the transaction takes place. Income is distributed on a per unit basis. Of the total units (each having a fair value of $56.42), 4,765.3645 units were owned by endowment funds and 1,868.7717 units by quasi endowment funds at June 30, 2013 ($52.03, 4,394.1198 and 1,862.7532 respectively, at June 30, 2012).

Beginning in FY13 the University of Vermont Foundation (UVMF) purchased units in the UVM pooled endowment. As of June 30, 2013 UVMF owned 254.5370 units with a market value of $14,362.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was passed by the State of Vermont effective May 5, 2009. UPMIFA broadens and clarifies the latitude of institutions to manage overall endowment returns, without specifically isolating those particular endowments, that because of timing of receipt of the gift and market conditions, are deemed underwater. Rather, the institution is expected to define an overall prudent approach both to distribution of funds for spending and long term preservation and growth of capital. The University shall continue with its uniform endowment distribution practice, including distributions from endowments that are temporarily underwater in accordance with the statute. The Investment Subcommittee of the Board of Trustees reviews the income distribution rate annually.

(dollars in thousands)

The table below summarizes changes in relationships between cost and fair values of the pooled endowment:

	Fair Value	Cost	Net Return	Fair Value Per Unit
June 30, 2013	$ 374,316	$ 312,043	$ 62,273	56.42
June 30, 2012	325,555	284,840	40,715	52.03
Unrealized Net Gain			21,558	
New Gifts and Transfers			20,096	
Realized Net Gain			19,080	
Net Income			907	
Withdrawn for Spending			(12,880)	
Total Net Change			**$ 48,761**	**4.39**

	Fair Value	Cost	Net Return	Fair Value Per Unit
June 30, 2012	$ 325,555	$ 284,840	$ 40,715	52.03
June 30, 2011	343,050	280,225	62,825	56.18
Unrealized Net Loss			(22,110)	
New Gifts and Transfers			7,105	
Realized Net Gain			9,003	
Net Income			1,408	
Withdrawn for Spending			(12,901)	
Total Net Change			**$(17,495)**	**(4.15)**

H. Commitments

Major plant projects include commitments as follows:

Project	Estimated Project Cost	Project-to-Date Expenditures 2013	Project-to-Date Expenditures 2012
Simpson Dining Renovation	7,200	6,601	6,577
Mason, Simpson, Hamilton Renovation	8,000	6,839	5,482

The University has entered into operating leases for space, which expire at various dates through fiscal 2019. Outstanding commitments for these leases are expected to be paid in the following years ended June 30:

For the Fiscal Year Ending June 30	Rental Payments Due
2014	$ 901
2015	648
2016	437
2017	233
2018	161
2019	166
Total	**$ 2,546**

Operating lease expenses totaled $955 and $725 in 2013 and 2012, respectively.

The University is obligated under certain of its investments to make future capital contributions in the amount of $16,879.

(dollars in thousands)

The University entered into an Agreement with the State of Vermont Department of Vermont Health Access in 2013 and retroactively covering 2012, to make payments to support the Graduate Medical Education (GME) program. The GME program helps ensure access to quality and essential professional health services for Medicaid beneficiaries through the care provided by teaching physicians and teaching hospitals. The University uses general fund state appropriation dollars to fund the GME payments through an inter-governmental transfer to the State. GME payments totaling $25.8 million were made in 2013 and are recorded on the Statements of Revenues, Expenses, and Changes in Net Position under Intergovernmental transfers in the Non-operating revenues and expenses section. For 2014 a revised Agreement was entered into on August 26, 2013 with the State of Vermont Department of Vermont Health Access to make quarterly payments totaling $13.2 million in 2014.

The University is 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 University manages these risks through a combination of self-insurance and commercial insurance purchased in the name of the University. The University's annual self-insured obligation for general liability is $500 per occurrence and $25 per occurrence for automobile liability. Its assumption of risk for property losses is $250 per occurrence. Educator's legal liability risks are subject to a $250 per loss retention. Worker's compensation is subject to a $650 per occurrence retention. None of these lines of coverage have an annual self-insured aggregate, or stop-gap. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The University elected, effective July 1, 2003, to become a shareholder and member of Genesis Limited, an insurance and reinsurance captive organization domiciled in Bermuda. A Vermont captive, Pinnacle Consortium of Higher Education, was formed in FY '05 as a fronting insurer to Genesis. The captives consist of two insurance lines, general liability and automobile liability. All members are required to participate in the captive general liability program which provides $2 excess limit, written by Pinnacle effective 7/1/05, and the group purchase liability program that provides a $23 excess limit. Pinnacle retains 5% of the risk and cedes 95% to Genesis. The University has purchased an additional $75 to bring the total excess limit to $100.

The University follows the policy of self-insuring risks up to certain limits. At year end, the University had open claims valued at $2,050 in 2013 and $2,677 in 2012; $563 and $765 of this is covered by excess insurance in 2013 and 2012, respectively. The University paid claims of $1,780 in 2013 and $2,013 in 2012. Reserves for property and casualty liabilities are included in accrued liabilities (including incurred but not reported) in the amount of $6,440 at June 30, 2013 and $6,538 at June 30, 2012.

In conducting its activities, the University from time to time is the subject of various claims and also has claims against others. The ultimate resolution of such claims is not expected to have a material adverse or favorable effect on the financial position of the University.

Three groups of University employees are represented by collective bargaining units. The University participates in contract negotiations with these groups periodically.

The University receives significant financial assistance from federal and state agencies in the form of grants and contracts. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the University. In the opinion of management such adjustments, if any, are not expected to materially affect the financial condition of the University.

I. Retirement Plans

Faculty and staff at the University of Vermont may participate in the University's 403(b) defined contribution plan and a 457(b) deferred compensation plan provided the following criteria are met:

- faculty and staff must have a full-time equivalency of .75 or greater;
- staff must be employed three years before they qualify for University contributions to their retirement plan, or they must have a vested interest in the retirement plan of their previous nonprofit employer, or have a TIAA-CREF Retirement Account;
- non tenure-track faculty and faculty under the rank of Assistant Professor must wait two years to qualify for University contributions to their retirement plan, or they must have a vested interest in the retirement plan of their previous nonprofit employer, or have a TIAA-CREF Retirement Account;
- tenure track faculty at the level of Assistant Professor or above receive University contributions to their retirement plan immediately upon beginning employment.

To obtain University contributions, faculty members and officers of administration must contribute 3% of their salary, and staff must contribute 2%. The University's contribution to the retirement fund of qualified faculty and staff is 10% of salary and this amount is immediately vested.

The University also offers a 457(b) deferred compensation plan. Faculty and staff can participate provided they are participating in the 403(b) plan. The University makes no contributions to this plan.

The University's 457(b) contributory retirement plan is administered by the Teachers Insurance Annuity Association of America (TIAA), the College Retirement Equities Fund (CREF), and Fidelity Investments. These companies as well as the Prudential Company of America also administer the University's 403(b) plan. The University's policy is to accrue the costs of these defined contribution plans currently.

Since both faculty and staff are immediately vested in all retirement contributions made on their behalf, the University has no control of, responsibility for, or ownership of retirement funds, except that employees may not withdraw funds contributed to either their 403(b) or 457(b) plan while employed at the University. Retirement funds may be transferred among the investment alternatives at the discretion of the employee.

Upon leaving the University, employees may either withdraw funds from their accounts, or transfer the funds to other investment alternatives subject to the limitations of 403(b) and/or 457(b) regulations and the contractual provisions of their investment alternative.

(dollars in thousands)

For the year ended June 30, 2013 and 2012, the University had total payroll expense of $262,593 and $257,396, respectively, of which $189,621 in 2013 and $188,174 in 2012 was covered by the University's 403(b) retirement plan. Total employee and employer contributions for 403(b) pension benefits for the year were $16,120 and $18,962, respectively, for 2013 and $15,911 and $18,817, respectively, for 2012. The University's contribution for 403(b) pension benefits is 10% of the covered payroll. Total employee contributions to the 457(b) retirement plan were $3,129 in fiscal year 2013 and $3,038 in fiscal year 2012.

J. Postemployment Benefits

The University is required to account for its postemployment benefit plan in accordance with GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB Statement 45 prescribes a methodology which requires the employer to recognize an expense for the value of benefits earned during the current year by active employees (i.e. the normal cost) plus an amortization of the unfunded portion of the value of the plan benefits earned to date by active and retired employees (i.e., the actuarial accrued liability). GASB Statement 45 also introduces the concept of an employer's net postemployment benefit obligation, which is defined as the cumulative difference between the employer's annual postemployment benefit expense and its cash cost for the plan.

The University's postemployment benefit plan covers medical, (base) dental, life insurance and tuition remission benefits provided to eligible University retirees and their dependents. The plan was established under the authority of and may be amended by the University. It is a single employer plan administered by the University.

Plan provisions include two levels of eligibility and cost tables:
1) Retirees hired before July 1, 1997 are eligible when retired directly from employment after reaching age 55 with 10 years of continuous employment, with qualification that for employees hired after June 30, 1992 and before July 1, 1997, the rule of 75 applies; and 2) Retirees hired after June 30, 1997 are eligible when retired directly from employment after reaching age 60 with 15 years of continuous employment. In addition, employees who have been awarded full disability benefits from either social security or the University's long term disability carrier are eligible.

Retirees who retired under the Voluntary Separation Plan of 1992 or before are not required to contribute to the plan, however, a surviving spouse receives two (2) years of medical and base dental coverage without charge, after which dental terminates (the surviving spouse would be eligible for 36 month of COBRA) and medical coverage is available at 50% of the cost of providing coverage. Retirees under the Voluntary Separation Plan of 2000 pay for their medical benefits based on the contribution system prior to June 30, 2000 (based on 0.5% times the average final three years' base salary at 75%). Retirees hired after June 30, 1992 have the same salary bands percentage as active employees, which is based on 75% of their average final three years' base salary. Retirees hired after June 30, 1992 and before July 1, 1997 are required to contribute as above plus a percentage based on the sum of their age at retirement and their years of continuous full time service. This surcharge is based on a scale that ranges from 65 to 75 and over. Full-time represented faculty, regardless of salary, currently pay 20% of the cost of providing medical coverage and 10% of the base dental cost.

As of July 1, 2011, there were 705 fully eligible active employees, with total active employees numbering 3,690, with an average age of 48.4 years and average credited service of 11.8 years. Total annual compensation was $208,900. There were 1,389 participants in receipt of benefits, with an average age of 73.3 years.

A third party actuary performed the valuation of the liability with an actuarial valuation date of July 1, 2011. Actuarial calculations reflect a long term perspective, involve estimates about the probability of events and are subject to continual revision. The calculations were developed using certain actuarial assumptions and methods. The assumptions include an investment return of 5.15% and the RP-2000 mortality table for males and females. The methods include the projected unit credit actuarial cost method and a 30 year amortization of the plan's unfunded liability on an open, level dollar basis. Health care cost inflation is assumed to be as high as 8.00% in 2011 and gradually decreasing to 5% in 2018 and beyond.

The actuarial accrued liability at the measurement date of July 1, 2012 was $300,587. The actuarial value of assets funding the liability was $0, as the University's contributions are comprised entirely of direct payments for benefits. Employer contributions for fiscal year ended June 30, 2013 totaled $10,931 ($9,696 in 2012), or 37.3% (34.7% in 2012) of annual other postemployment benefit (OPEB) cost. The unfunded actuarial accrued liability (UAAL) was $300,587. The annual required contribution (ARC) of $31,151 for fiscal year 2013 is the sum of $10,866, the normal cost at July 1, 2011 plus interest, and $20,285, the 2013 amortization of the UAAL. The ARC of $29,428 for fiscal year 2012 is the sum of $10,448, the normal cost at July 1, 2011 plus interest, and $18,980, the 2012 amortization of the UAAL.

(dollars in thousands)

Total annual OPEB costs and liabilities for the 2013 and 2012 fiscal years include the following components:

	June 30, 2013	June 30, 2012
Annual required contribution	$ 31,151	$ 29,428
Interest on net OPEB obligation	5,623	4,683
ARC adjustment	(7,471)	(6,166)
Annual OPEB cost	29,303	27,945
Contributions during FY	(10,931)	(9,696)
Increase in net OPEB obligation	18,372	18,249
Net OPEB obligation, beginning of year	109,178	90,929
Net OPEB obligation, end of year	$ 127,550	$ 109,178

In accordance with GASB Technical Bulletin 2006-1, assumed health care costs do not reflect any expected federal reimbursements to the University under the Medicare Part D Program.

K. Operating Expense by Function

Operating expenses by functional classification for the years ended June 30, 2013 and 2012 are summarized as follows:

		Year ended June 30, 2013			
Function	**Compensation And Benefits**	**Supplies And Services**	**Scholarships And Fellowships**	**Depreciation**	**Total**
Instruction	$ 139,515	$ 20,783			$ 160,298
Research	56,021	28,525			84,546
Public service	41,049	13,581			54,630
Academic support	41,263	14,537			55,800
Student services	23,088	11,164			34,252
Institutional support	28,078	11,555			39,633
Operations and maintenance of plant	21,545	18,612			40,157
Scholarships and fellowships			16,015		16,015
Auxiliary enterprises	31,563	40,310			71,873
Depreciation				27,823	27,823
TOTAL	**$ 382,122**	**$ 159,067**	**$ 16,015**	**$ 27,823**	**$ 585,027**

		Year ended June 30, 2012			
Function	**Compensation And Benefits**	**Supplies And Services**	**Scholarships And Fellowships**	**Depreciation**	**Total**
Instruction	$ 133,716	$ 20,712			$ 154,428
Research	57,163	28,426			85,589
Public service	38,748	13,025			51,773
Academic support	39,947	13,225			53,172
Student services	22,036	10,326			32,362
Institutional support	30,641	13,589			44,230
Operations and maintenance of plant	21,088	21,833			42,921
Scholarships and fellowships			16,245		16,245
Auxiliary enterprises	30,490	41,156			71,646
Depreciation				28,721	28,721
TOTAL	**$ 373,829**	**$ 162,292**	**$ 16,245**	**$ 28,721**	**$ 581,087**

(dollars in thousands)

L. Pollution Remediation Obligations

The University is required to account for its pollution remediation activities in accordance with GASB Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations. GASB 49 requires the University to accrue estimated costs to conduct pollution remediation activities if certain obligating events have occurred. It also requires the University to expense pollution remediation costs which cannot be capitalized. The University incurred and expensed pollution remediation costs of $688 and $127 in FY13 and FY12, respectively.

Also, in FY13, the University commenced certain renovation projects that included the need for asbestos and lead paint removal. These projects are not expected to be completed until FY14 and therefore FY13 supplies and services expense and current accrued liabilities include $532 ($256 in FY12) for the expected remediation portion of these projects. The accrual is based on the estimates of expected outlays provided by the University's Physical Plant department. There are no recoveries associated with this liability.

(dollars in thousands)

Required Supplementary Information - Postemployment Benefits

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed
2013	$ 29,303	$ 10,931	37.3%
2012	$ 27,945	$ 9,696	34.7%
2011	$ 31,165	$ 9,841	31.6%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2012	$ -	$ 300,587	$ 300,587	0.0%	$ 208,900	143.8%
7/1/2011	$ -	$ 306,453	$ 306,453	0.0%	$ 208,900	146.7%
7/1/2009	$ -	$ 313,161	$ 313,161	0.0%	$ 181,542	172.5%

Net OPEB Obligation (NOO)

Fiscal Year Ended June 30	Annual Required Contribution	Interest on Existing NOO	ARC Adjustment	Annual OPEB Cost	Actual Contribution Amount	Net Increase in NOO
2013	$ 31,151	$ 5,623	$ (7,471)	$ 29,303	$ 10,931	$ 18372
2012	$ 29,428	$ 4,683	$ (6,166)	$ 27,945	$ 9,696	$ 18,249
2011	$ 31,902	$ 4,872	$ (5,609)	$ 31,165	$ 9,841	$ 21,324

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Independent Auditors' Report

The Honorable Douglas Hoffer,
Auditor of the Accounts
State of Vermont

and

The Board of Trustees
The University of Vermont and
State Agricultural College:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component units of The University of Vermont and State Agricultural College (the University), a component unit of the State of Vermont, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of a discretely presented component unit, University Medical Education Associates, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinions, insofar as they relate to the amounts included for that discretely presented component unit, are based on the report of other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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The Honorable Douglas Hoffer
The Board of Trustees
The University of Vermont and
State Agricultural College
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considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained, and the report of other auditors, is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the business-type activities, and the discretely presented component units of The University of Vermont and State Agricultural College, as of June 30, 2013 and 2012, and the respective changes in net position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the schedules of Funding Progress and Employer Contributions on pages 6–15 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Burlington, Vermont
November 18, 2013

Vt. Reg. No. 92-0000241

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Suite 400
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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Douglas Hoffer,
Auditor of the Accounts of the
State of Vermont

and

Board of Trustees
The University of Vermont and
State Agricultural College:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component units of the University of Vermont and State Agricultural College (the University), a component unit of the State of Vermont, as of and for the year ended June 30, 2013, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 18, 2013. Our report includes reference to other auditors who audited the financial statements of the University Medical Education Associates, Inc., a discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting 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 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, KPMG

Board of Trustees
The University of Vermont and
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or a combination of internal control deficiencies 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 deficiencies, significant deficiencies, or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

November 18, 2013

Vt. Reg. No. 92-0000241

UNIVERSITY OF VERMONT & STATE AGRICULTURAL COLLEGE
(a component unit of the State of Vermont)

The University of Vermont

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