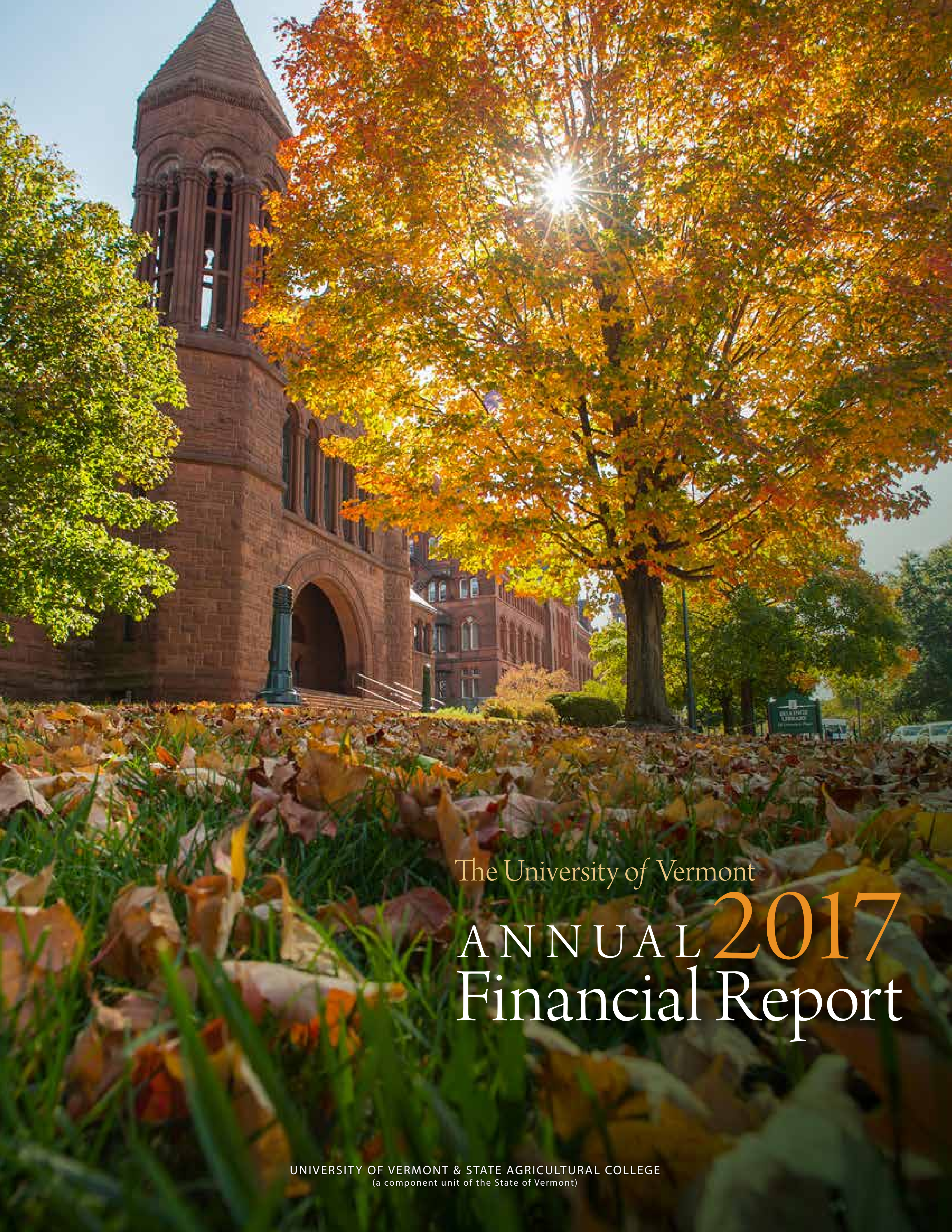


The University *of* Vermont

ANNUAL 2017 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

Board of Trustees

Administration

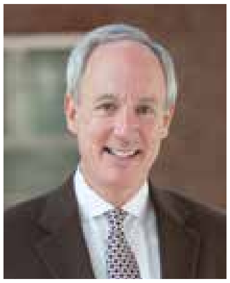
E. Thomas Sullivan .... President
David V. Rosowsky .... Provost and Senior Vice President
Sharon Reich Paulsen .... Vice President and General Counsel, and Senior Advisor to the President
Richard H. Cate .... Vice President for Finance and University Treasurer
Thomas J. Gustafson .... Vice President for University Relations and Administration
Stacey Kostell .... Vice President for Enrollment Management
Gary L. Derr .... Vice President for Executive Operations
Annie Stevens .... Vice Provost for Student Affairs
Wanda R. Heading-Grant .... Vice President for Human Resources, Diversity and Multicultural Affairs
Richard Galbraith .... Vice President for Research
Cynthia J. Forehand .... Dean, Graduate College
Nancy Mathews .... Dean, The Rubenstein School of Environment and Natural Resources
Sanjay Sharma .... Dean, Grossman School of Business
Frederick C. Morin, III .... Dean, Robert Larner, M.D. College of Medicine
Luis A. Garcia .... Dean, College of Engineering and Mathematical Sciences
Thomas K. Vogelmann .... Dean, College of Agriculture and Life Sciences
William Falls .... Dean, College of Arts and Sciences
David A. Nestor .... Dean of Students
Patricia A. Prelock .... Dean, College of Nursing and Health Sciences
Mara R. Saule .... Chief Information Officer and Dean, University Libraries and Learning Resources
Scott Thomas .... Dean, College of Education and Social Services
Lisa Schnell .... Interim Dean, Honors College
Cynthia L. Belliveau .... Dean, Continuing and Distance Education

Photography by Sally McCay • Design by Direct Design, Inc.

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

Table of Contents

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



Letter from the President

Members of the Board of Trustees,

I attach the Annual Financial Report for the Fiscal Year ended June 30, 2017. The state of the UVM's finances is sound.

These financial statements reflect an increase of $34.6 million in the University's net position. A key contributor to the change in net position was the volatile condition of the financial markets. In 2017 the growth of the endowment was more than enough to offset the increase in depreciation and the post-retirement medical benefit liability, unlike 2016. It is important to note that, since the inception of the Foundation, new endowment gifts have been reflected in the financial records of the Foundation rather than the University. This somewhat limits the growth of the University's endowment, but all of the gifts to the Foundation flow to the benefit of UVM students and the University. As of June 30, 2017, the market value of the entire combined endowment (UVM and Foundation) was $521.9 million. Our comprehensive campaign will ensure that the combined endowment will grow substantially over the next decade. This will provide even more funding for the support of scholarships, faculty, academic programs, and facilities.

As the University advances, I will continue to work with the UVM and Vermont communities to focus on affordability and financial access, quality enhancement, strategic alignment of priorities, and resource and revenue growth. This will ensure an even more financially healthy University, which will enable us to continue to improve the total student experience at UVM, and to enhance the impact of the University on the State of Vermont and beyond.

With every best wish,

E. Thomas 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, 2017 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 2017.

Periodically throughout the year, the Trustee Audit Committee meets with the Audit Services Office and the Compliance 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 Services Office and Compliance Office staff have full access to the University Trustees and the State Auditor throughout the year.

Richard H. Cate
Vice President for Finance
And University Treasurer

Claire L. Burlingham
University Controller

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

Independent Auditors' Report

The Honorable Douglas Hoffer,
Auditor of Accounts, State of Vermont
and
The Board of Trustees of 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 aggregate discretely presented component units, of the University of Vermont and State Agricultural College (collectively, the University) a component unit of the State of Vermont, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We did not audit the financial statements of the University Medical Education Associates, Inc, a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insorfar as it relates to the amounts included for the discretely presented component unit is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

KPMG

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units, of the University as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis and the Schedules of Employer Contributions, Funding Progress and Net OPEB Obligation on pages 6-15 and 38 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.

2016 Financial Statements

The accompanying financial statements of the University of Vermont and State Agricultural College as of and for the year ended June 30, 2016 were audited by other auditors whose report thereon, expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Colchester, Vermont
November 6, 2017

Vt. Reg. No. 92-0000241

The University of Vermont

Management's Discussion and Analysis (Unaudited)

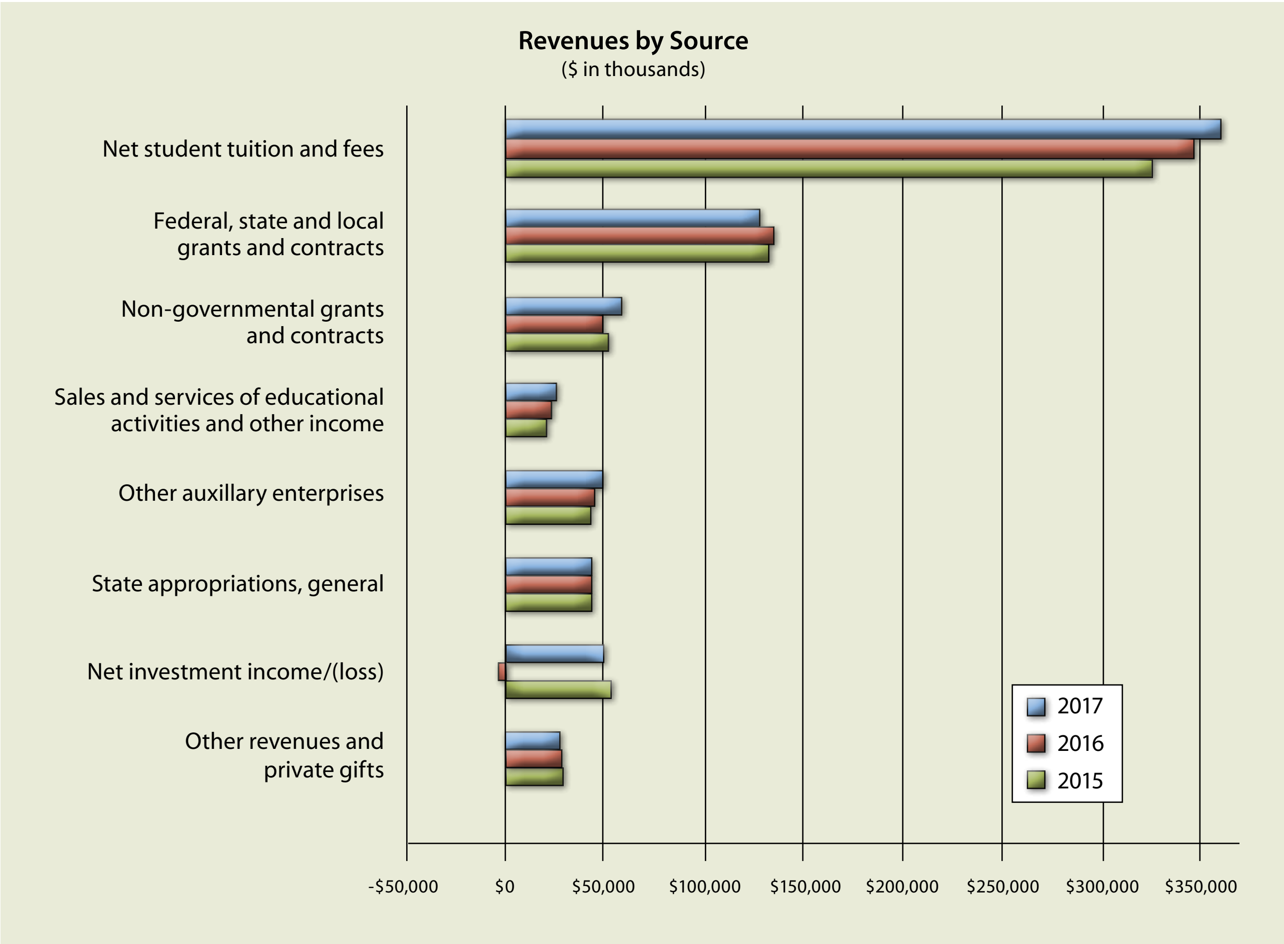
June 30, 2017 and 2016

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, 2017 and 2016, 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 audited financial statements and related notes.

The University of Vermont ("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 Grossman School of Business, and the Rubenstein School of Environment and Natural Resources. The University also includes an Honors College, the Robert Larner, M.D. College of Medicine, the Division of Continuing and Distance Education, Extension and the Graduate College. The University is the only comprehensive research university in Vermont. The University has 10,519 undergraduate students and 2,001 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 discretely 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 Robert Larner, M.D. College of Medicine of the University. 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

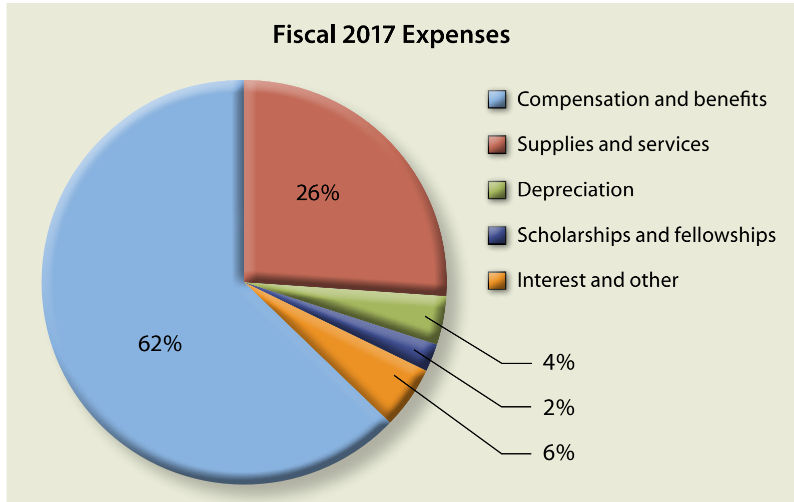
The President's strategic action plan titled "Enhancing Quality and Affordability" outlines four major initiatives which are the cornerstone for all University decisions; 1) Access to success: promoting affordability, financial access and academic support, 2) Promoting a culture of advancing academic 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 has been done to implement this vision and the University anticipates continued discussion and implementation of this strategic action plan during fiscal year 2018.

The University's net position increased by $34.6 million in fiscal 2017, compared to a decrease of $9.2 million in fiscal 2016. A key contributor to the change in net position was the performance in the financial markets; the net gain in the investment portfolio in fiscal 2017 was $51.6 million as compared to a net loss of $6.9 million in fiscal 2016. The fiscal 2016 loss was a significant drop from fiscal 2015, however, by $11.5 million or 246.6%.

Total operating revenues increased in fiscal 2017 by $24.3 million, or 4.1%. This included an increase in net student tuition and fees of $16.2 million, or 4.7%. Other critical revenues include state appropriations and state capital appropriations. State appropriations decreased slightly to $42.9 million in fiscal 2017 from $43.0 million in fiscal 2016 while state capital appropriations increased to $1.9 million in fiscal 2017 compared to $1.4 million in fiscal 2016.

The University experienced an increase in operating costs of $27.3 million, or 4.3%, in fiscal 2017. Compensation and benefits represents the most significant operating cost, comprising 65.4% and 66.2% of operating costs in 2017 and 2016, respectively. Compensation and benefit expenses increased by $12.7 million. Supplies and service expenses also increased by $9.9 million. Compensation and benefit expenses primarily increased due to salary and wage increases in 2017 of 4.0% for faculty and between 1.0-1.5% for staff. Other significant non-operating expenses include interest on indebtedness which was $16.7 million in 2017 compared to $17.2 million in 2016 and transfers to other governmental entities and the UVM Foundation which, combined, were $28.4 million in 2017 and $22.5 million in 2016.

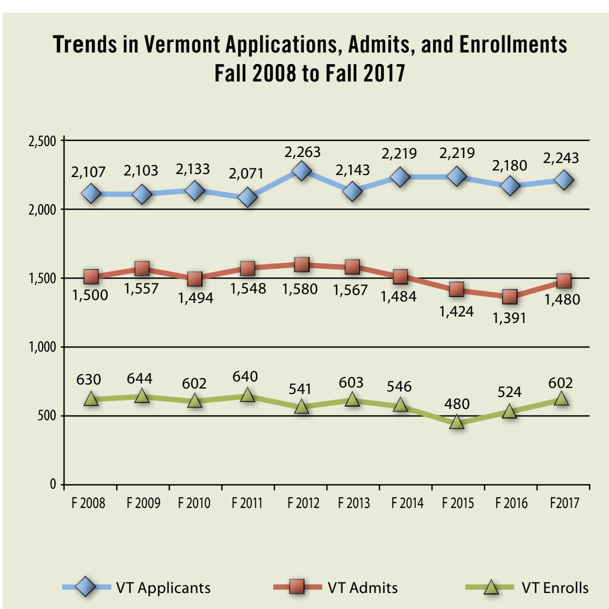
The chart to the right displays operating, interest, and other expenses for fiscal 2017:

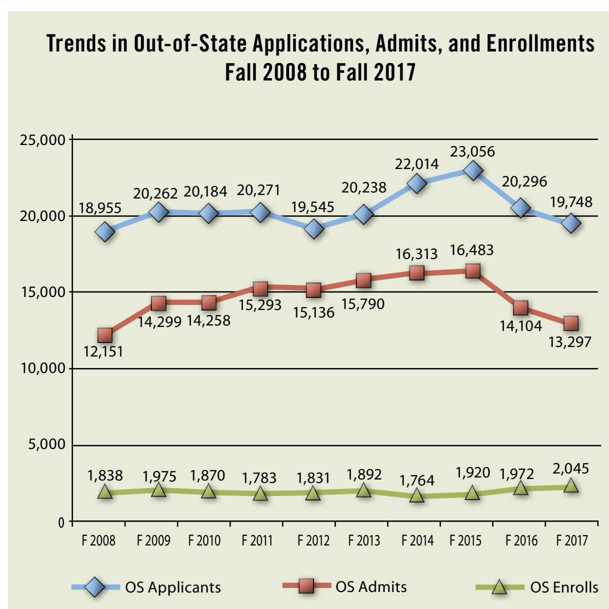


During fiscal year 2017, construction continued on the Sciences, Technology, Engineering and Mathematics (STEM) complex which will provide innovative research and classroom spaces for those disciplines, as well as the First Year Student Housing and Dining Hall to replace Chittenden, Buckham, and Wills Halls, as well as the expansion to the Central Heating Plant.

In the fall of fiscal 2018, the University enrolled 10,519 students in more than 100 undergraduate majors, 1,542 students in graduate and post-baccalaureate programs, and 459 students at the College of Medicine. The University attracts undergraduates from over 40 states and many foreign countries. The University has grown its international student population by 6% over the last year. The University is primarily a regional institution however, drawing 89% of the undergraduates enrolled in the fall of fiscal year 2018 from New England and the Middle Atlantic States, including 23% of its undergraduate students from Vermont. Graduate and Certificate student enrollment from Vermont represented 47%.

The following tables present applications, admissions, and enrollments for in-state and out-of-state students. Final numbers for the fall of fiscal year 2018 show that total applications have increased 4% since 2008, with in-state applications increasing 6% and out-of-state applications increasing 4%. Total admissions have increased for that period by 8%, with in-state admissions decreasing 1% and out-of-state admissions increasing 9%. Since 2008, total first-time, first year enrollments have increased 7%, with in-state enrollments decreasing by 4% and out-of-state enrollments increasing by 11%.





The University and its Board of Trustees continues to contain increases in tuition and fees with the average annual increases for in-state and out-of-state held to 3.8% and 3.9%, respectively, since 2009. The table to the right presents tuition and fees, as well as room and board for that period.

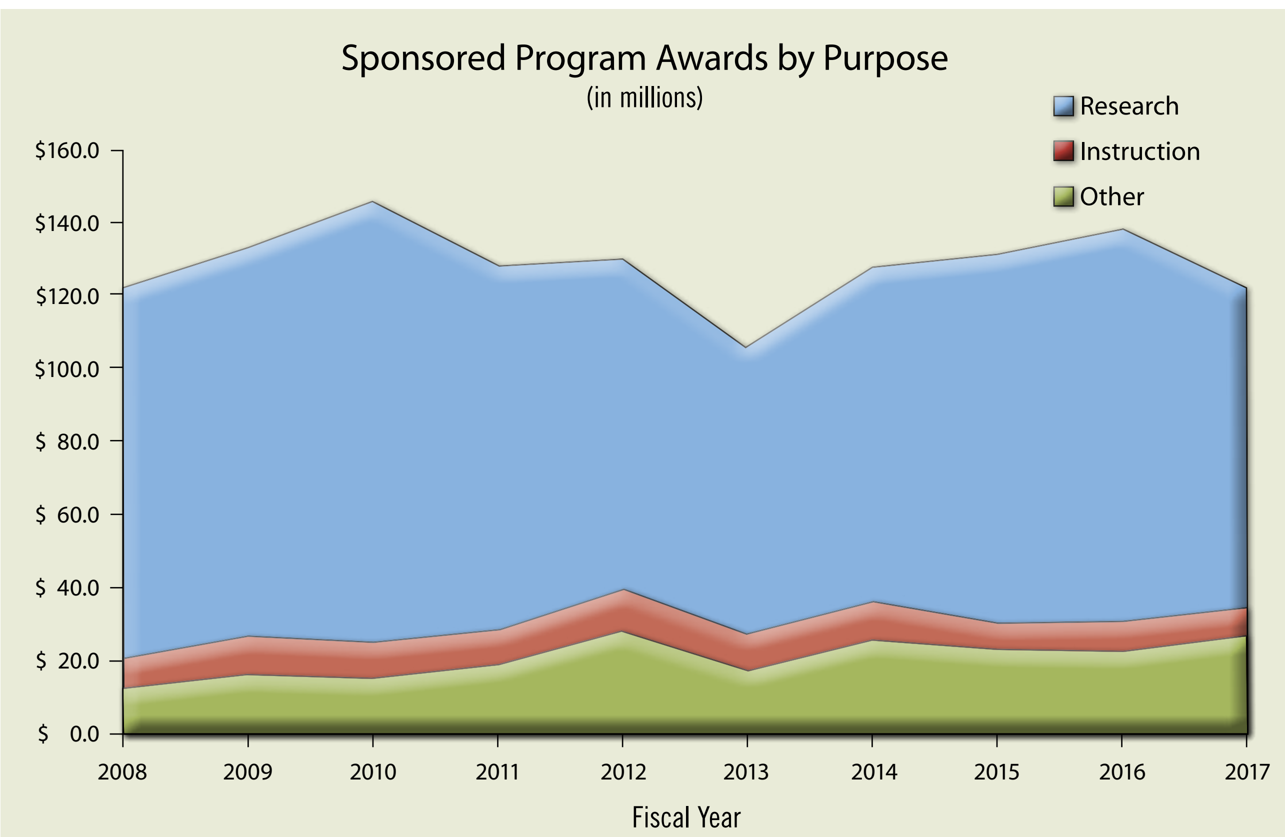
In-State and Out-of-State Tuition & Fees

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Average Annual % Increase
Student Tuition & Fees									
In-State Tuition & Fees	$13,554	$14,044	$14,784	$15,284	$15,718	$16,226	$16,768	$17,300	3.80%
Out of-State Tuition & Fees	$31,410	$32,630	$34,424	$35,612	$36,646	$37,874	$39,160	$40,364	3.92%
Room (Double)	$5,964	$6,196	$6,426	$6,650	$6,844	$7,116	$7,376	$7,634	3.60%
Board (Average Meal Plan)	$3,032	$3,156	$3,282	$3,414	$3,558	$3,664	$3,774	$3,944	4.47%
Total, In-State Cost	$22,550	$23,418	$24,492	$25,348	$26,120	$27,006	$27,918	$28,878	
Increase Over Previous Year	5.48%	3.84%	4.59%	3.50%	3.05%	3.39%	3.38%	3.44%	3.83%
Total, Out-of-State Cost	$40,406	$41,982	$44,132	$45,676	$47,048	$48,654	$50,310	$51,942	
Increase Over Previous Year	5.73%	3.90%	5.12%	3.49%	3.00%	3.41%	3.40%	3.24%	3.91%

The State of Vermont ("the State") general appropriations represented 5.8% of the University's total revenues for fiscal year 2017. The University received a State capital appropriation of $1.9 million in fiscal year 2017 and $1.4 million in fiscal year 2016.

Grant and contract revenues of $173.2 million represented 23.5% of total revenues for fiscal 2017 which included facility and administrative cost recoveries of $25.6 million and additional commitment funds from University of Vermont Medical Center, Inc.of $15.8 million. During fiscal 2017, the University was awarded over $123.2 million in sponsored funds, 72.1% of which were for research activities. Approximately 63.8% of sponsored funds awarded during fiscal 2017 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:



The University has an affiliation with the University of Vermont Medical Center, Inc., University of Vermont Medical Group, Inc., and the University of Vermont Health Network, Inc. through an updated Affiliation Agreement signed in June, 2014. The 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 provisions of that contract are reflected in the financial statements. 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, conducting high-quality research leading to advances in health care and in the bio-medical and life sciences to improve the quality of life of the citizens of Vermont and the broader society.

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, 2017 and 2016 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. The financial statements focus on the University as a whole, rather than upon individual funds or activities.

		(In thousands)	
	2017	**2016**	**2015**
Assets			
Current assets	$ 327,154	$ 299,791	$ 257,236
Non-current assets	1,193,419	1,149,669	1,006,887
Total assets	**1,520,573**	**1,449,460**	**1,264,123**
Deferred outflows of resources			
Loss on refunding of debt	5,936	3,524	3,676
Total deferred outflows of resources	**5,936**	**3,524**	**3,676**
Liabilities			
Current liabilities	158,452	139,270	108,675
Non-current liabilities	813,086	786,483	631,667
Total liabilities	**971,538**	**925,753**	**740,342**
Deferred inflows of resources			
Service concession arrangement	2,104	9,012	-
Total deferred inflows of resources	**2,104**	**9,012**	-
Net position			
Net investment in capital assets	95,797	80,234	73,660
Restricted:			
Non-expendable	115,035	111,533	109,056
Expendable	329,870	299,276	321,975
Unrestricted	12,165	27,176	22,766
Total net position	**$ 552,867**	**$ 518,219**	**$ 527,457**

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 Changes in Net Position.

Statements of Net Position

Net position, or the sum of total assets, plus deferred outflows of resources, less total liabilities, less deferred inflows of resources is considered an indicator of the current financial condition of the University. The Statements of Net Position presents all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 Statements of Net Position. Condensed information for net position at June 30, 2017, with comparative information for 2016 and 2015 are contained on the page 10 chart.

Net position totaled $552.9 million, $518.2 million, and $527.5 million at June 30, 2017, 2016, and 2015, respectively, increasing by $34.7 million in 2017 and decreasing by $9.3 million in 2016. Both 2016 and 2015 were significantly impacted by the investment market.

Current assets of $327.2 million, $299.8 million, and $257.2 million at June 30, 2017, 2016, and 2015, respectively, consist primarily of cash and cash equivalents, and operating investments, which totaled $273.3 million at June 30, 2017, $239.7 million at June 30, 2016, and $193.2 million at June 30, 2015. Cash and cash equivalents and operating investments represents approximately 5.2, 4.7, and 4.9 months of total operating expenses, excluding depreciation, for 2017, 2016, and 2015, respectively. The net increase to current assets in 2017 of $27.4 million was driven by a $33.6 million increase in cash, cash equivalents and operating investments offset by a $4.9 million decrease in accounts, loans, notes and pledges receivable and a $1.3 million decrease in inventories, prepaid expenses and deferred charges. The net increase to current assets in 2016 of $42.6 million was driven by a $46.6 million increase in cash, cash equivalents and operating investments, a $0.6 million increase in inventories, prepaid expenses and deferred charges offset by a $4.6 million decrease in accounts, loans, notes and pledges receivable.

Non-current assets of $1.2 billion, $1.1 billion, and $1.0 billion at June 30, 2017, 2016, and 2015, respectively, consist primarily of the following:

- *Capital assets, net of accumulated depreciation*, totaled $641.9 million, $574.8 million and $519.2 million at June 30, 2017, 2016 and 2015, respectively, representing an increase of $67.1 million, or 11.7%, in 2017 and an increase of $55.6 million, or 10.7%, in 2016. Gross capital additions totaled $101.7 million in 2017 and $84.5 million in 2016. Capital additions in 2017 included land improvements of $1.5 million, renovations to residence and dining halls, research laboratories, and other buildings of $4.6 million, building components and equipment and building interiors of $3.4 million, fixed equipment of $0.9 million, moveable equipment of $1.1 million, software systems of $0.5 million and construction in progress of $89.8 million. These additions in 2017 were offset by disposals of $9.2 million and an increase to accumulated depreciation of $25.4 million. Capital additions in 2016 included land acquisitions and land improvements of $0.9 million, renovations to residence and dining halls, research laboratories, and other buildings of $9.8 million, building components and equipment and building interiors of $0.1 million, fixed equipment of $1.0 million, moveable equipment of $1.9 million, and construction in progress of $70.7 million. These additions in 2016 were offset by disposals of $7.5 million and an increase to accumulated depreciation of $21.4 million.

- *Endowment cash, cash equivalents and investments* totaling $453.3 million, $408.9 million and $421.6 million at June 30, 2017, 2016, and 2015, respectively. In fiscal 2017, there was an increase of $44.4 million, or 10.9%, and a decrease of $12.7 million, or 3.0% in 2016. 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 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.

  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 $20.3 million, $18.6 million, and $17.3 million in fiscal years ended June 30, 2017, 2016, and 2015, respectively. These distributions were 4.6%, 4.3%, and 4.0% of the beginning market value of the endowment for fiscal years 2017, 2016, and 2015, respectively.

- The decrease to *Deposits with Trustees* of $72.5 million in 2017 was primarily due to the use of proceeds from issuance of 2015 general obligation bond held by a third party trustee for the STEM complex and First Year Student Housing projects. The increase to this asset of $91.0 million in 2016 was primarily due to unused proceeds from issuance of 2015 general obligation bond held by a third party trustee.

Deferred outflows of resources were \$5.9 million and \$3.5 million at, June 30, 2017 and 2016, respectively. In fiscal 2017, deferred outflows represent the deferred loss on refunding of the 1998, 2002, 2005 and 2007 general obligation bonds. The loss for the 1998 and 2002 general obligation bonds are amortized at a rate of \$0.2 million each year until fiscal year 2032. The loss on the refunding of the 2005 general obligation bond and the partial refunding of the 2007 general obligation bond is amortized at a combined rate of \$0.2 million until fiscal year 2036.

Current liabilities increased \$19.2 million in 2017 and \$30.6 million in 2016. In fiscal 2017, accounts payable and accrued liabilities increased by \$2.2 million. This increase was the result of accrued contract retainage costs and pollution remediation activities on construction projects in progress. In both 2017 and 2016, current liabilities increased 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 liability to the University as they are UVMF assets and will be returned to the UVMF in the future. At June 30, 2017 the amount of UVMF assets held in the University's pooled endowment was \$55.4 million. At June 30, 2016 the amount of UVMF assets held in the University's pooled endowment was \$39.1 million.

Non-current liabilities increased \$26.6 million in 2017 compared to \$154.8 million in 2016. The increase in 2017 is mostly due to the result of \$30.2 million in additional liability for postemployment benefits as well as \$4.9 million of additional accrued liabilities under the Service Concession Arrangement with Sodexo Management offset by a decrease in the non-current portion of bonds and leases payable of \$8.1 million. The increase in 2016 is mostly due to the result of \$120.7 million in the non-current portion of bonds and notes payable as the result of issuance of general obligation bonds, as well as the recognition of \$32.7 million in additional liability for postemployment benefits.

Deferred inflows of resources totaled \$2.1 million in fiscal year 2017 and \$9.0 million in fiscal year 2016. These inflows were due to an agreement that took effect July 1, 2015, with Sodexo Management, Inc., to carry out the Food Service Program. The inflow is the net impact of future guaranteed payments due to be received by the University offset by a liability carried for capital improvement payments to be amortized for the next 8 years. The decrease of \$6.9 million in 2017 was the result of an additional capital improvement payment.

Net investment in capital assets of \$95.8 million, \$80.2 million, and \$73.7 million, at June 30, 2017, 2016, and 2015, 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 increase of \$15.6 million in 2017 was primarily the result of the net effect of additions and disposals to capital assets of \$92.6 million, the increase in bonds payable related to capitalized assets of \$51.6 million, and an increase of accumulated depreciation of \$25.4 million. The increase of \$6.5 million in 2016 was primarily the result of the net effect of additions and disposals to capital assets of \$77.0 million, the increase in bonds payable related to capitalized assets of \$49.0 million, and an increase of accumulated depreciation of \$21.4 million.

Restricted non-expendable net position totaling \$115.0 million, \$111.5 million, and \$109.1 million at June 30, 2017, 2016, and 2015, 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 \$3.5 million, or 3.1%, in 2017, and \$2.5 million, or 2.3%, in 2016, resulted from new gifts.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Restricted expendable net position totaled \$329.9 million, \$299.3 million, and \$322.0 million, as of June 30,

	(In thousands)		
	2017	**2016**	**2015**
Operating revenues	\$ 613,600	\$ 589,346	\$ 564,405
Operating expenses	(661,202)	(633,941)	(611,409)
Operating loss	(47,602)	(44,595)	(47,004)
Net non-operating revenues	78,396	32,131	32,794
Revenue (loss) before capital and endowment additions	30,794	(12,464)	(14,210)
State capital appropriations	1,900	1,400	1,400
Capital gifts and grants	444	180	162
Gifts for endowment purposes	1,510	1,646	352
Total capital and endowment additions	3,854	3,226	1,914
Increase (decrease) in net position	**34,648**	**(9,238)**	**(12,296)**
Net position, beginning of year	518,219	527,457	539,753
Net position, end of year	**\$ 552,867**	**\$ 518,219**	**\$ 527,457**

2017, 2016, and 2015, respectively. The increase of $30.6 million in 2017 and the decrease of $22.7 million in 2016 were primarily due to changes in net investment income. In 2017 there was a net investment gain of $44.5 million compared to a loss of $10.4 million in 2016.

Unrestricted net position is not subject to externally imposed stipulations. However, substantially all of the University's unrestricted net position has been designated for various academic and research programs and initiatives, as well as capital projects. Unrestricted net position totaled $12.2 million, $27.2 million, and $22.8 million for June 30, 2017, 2016, and 2015, respectively. The decrease of $15.0 million in 2017 was primarily due to increases in net tuition and fees of $16.2 million, other auxiliary enterprise revenue of $5.2 million and net investment income of $7.3 million offset by an increase in operating expenses of $29.6 million including increases of $10.1 million in compensation and benefits, an increase of $10.2 million in supplies and services and an increase of $9.3 million in scholarships and fellowships. The increase of $4.4 million in 2016 was primarily due to increases in net tuition and fees of $15.7 million, other auxiliary enterprise revenue of $3.3 million and student loan interest & other operating revenues of $1.3 million offset by an increase in operating expenses of $20.5 million including increases of $20.6 million in compensation and benefits and $5.2 million in scholarships and fellowships with a decrease of $5.3 million in supplies and services.

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 Net 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, 2017, with comparative totals for the years ended June 30, 2016 and June 30, 2015 is contained on the chart on page 12.

Net position increased by $34.6 million in 2017 and decreased by $9.2 million in 2016. Contributors to the increase in 2017 include an increase in net investment income of $58.5 million, an increase in net tuition and fee revenue of $16.2 million, offset by an increase in operating expenses of $27.3 million. Contributors to the decrease in 2016 include a decrease in net investment income of $11.5 million, an increase in operating expenses of $22.5 million offset by an increase in net tuition and fee revenue of $15.7 million, auxiliary enterprise revenue of $3.3 million and Federal, state, and private grants and contracts of $3.0 million.

Significant operating revenues include the following:

- *Student Tuition and Residential Life Fees, net of scholarship allowance*, are the largest component of operating revenues and the primary source of funding for the University's academic programs. Net student fees increased by $16.2 million in 2017, comprised of an increase to tuition and fees of $23.1 million, or 6.0%, an increase to residential life revenues of $1.2 million, or 1.9%, and by an increase in scholarship allowances of $8.1 million, or 8.2%. Net student fees increased by $15.7 million in 2016, comprised of an increase to tuition and fees of $20.8 million, or 5.7%, an increase to residential life revenues of $0.6 million, or 1.0%, and by an increase in scholarship allowances of $5.7 million, or 6.1%. Scholarship and fellowship awards applied to student accounts are presented as a reduction of student tuition and fee and residential life revenues, while payments directly made to students are presented as scholarship and fellowship expenses. Total scholarships and fellowships of $122.7 million, $113.5 million, and $108.3 million, were awarded to students in 2017, 2016, and 2015, respectively. This represents a total increase of $9.2 million, or 8.1%, for 2017 as compared to a $5.2 million increase, or 4.8%, for 2016.

- *Revenues for sponsored programs* of $173.2 million in 2017, $173.7 million in 2016, and $170.6 million in 2015, 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 minimal change in fiscal 2017 is due to steady funding. The increase in fiscal 2016 is due to an increase of University of Vermont Medical Center Commitment and Dean's Tax funds, as well as Area Health Education Center matching funds, offset slightly by decreased federal, state and private grants and contracts. 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 $25.6 million, $25.5 million, and $24.9 million, in 2017, 2016, and 2015, respectively.

- *Auxiliary enterprise and educational activities revenues* totaled $58.2 million, $52.1 million, and $48.0 million, in 2017, 2016, and 2015, 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 $6.1 million increase in 2017 and the $4.1 million increase in 2016 is primarily due to commissions and payments under the dining contract.

- *Student loan interest and other operating revenues* were $21.5 million, $19.1 million, and $17.1 million in 2017, 2016, and 2015, respectively.

Significant components of operating expenses include the following:

- *Compensation and benefits* of $432.5 million, $419.8 million, and $398.4 million in 2017, 2016, and 2015, respectively, comprise the most significant portion of total expenses. Compensation and benefits increased by $12.7 million, or 3.0% in 2017 and by $21.4 million, or 5.4% in 2016. The fiscal 2017 change reflected budgeted increases of 4.0% for faculty and between 1.00-1.50% for staff. There was also an increase to the Medical Group benefit rate. The fiscal 2016 change reflected budgeted increases of 2.75% for faculty and between 1.60-2.50% for staff. There was also an increase to the regular benefit rate and a new student employee benefit rate. In addition, health plan benefit costs increased by $2.3 million, or 4.5%, in 2017 and by $1.2 million, or 2.3%, in 2016.

- *Supplies and services expenses* increased by $9.9 million, or 5.8% in 2017, and increased by $1.7, or 1.0%, in 2016. 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* increased by $3.5 million, or 13.3%, in 2017 and decreased slightly by $0.2 million, or 0.7%, in 2016.

- *Scholarships and fellowships* of $17.2 million in 2017, $16.0 million in 2016, and $16.4 million in 2015 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.

Significant components of non-operating revenues and expenses include the following:

- *State appropriations*, which represent funding provided by the State of Vermont, were $42.9 million in 2017 and $43.0 million in both 2016 and 2015, respectively, decreasing by 0.3% in 2017 and remaining steady in 2016.

- *Federal Pell grants*, which represents funds received from the federal government to help low-income undergraduate students were $6.9 million, $7.2 million, and $8.0 million in 2017, 2016, and 2015, respectively.

- *Intergovernmental Transfers* totaled $13.7 million, $13.5 million, and $13.1 million in 2017, 2016 and 2015, respectively. This represents contributions to the State of Vermont to support the Graduate Medical Education program.

- *Private gifts and Transfers to UVM from Component Units* totaled $17.8 million, $19.1 million, and $20.3 million, in 2017, 2016, and 2015, respectively.

- *Gain (loss) on disposal of capital assets* totaled $4.8 million and $9.7 million and in 2017 and 2016 respectively. In fiscal 2017, the University sold apartment buildings and related fixed assets resulting in the gain. In fiscal 2016, the University sold off a parcel of land which resulted in a gain of $9.3 million.

- *Transfers to Component Units from UVM* totaled $14.7 million and $9.0 million in 2017 and 2016, respectively. These transfers were to the UVM Foundation, Inc. from the University to assist the Foundation in its operations.

- *Net investment income/(loss)* was $51.6 million, $(6.9) million, and $4.7 million in 2017, 2016, and 2015, respectively. Net investment income includes realized investment income and the change in the unrealized appreciation or depreciation of investments. Net investment income in fiscal 2017 and 2016 were affected greatly by volatility in the financial markets. The change in unrealized appreciation/(depreciation) included in net investment income was $30.9 million in 2017, $(19.8) million in 2016, and $(20.4) million in 2015. Realized gains and other income included in net investment income totaled $20.7 million, $12.9 million, and $25.1 million in 2017, 2016, and 2015, respectively.

- *Interest on indebtedness* totaled $16.7 million in 2017, $17.2 million in 2016, and $20.5 million in 2015. Interest on indebtedness represents interest on notes and bonds net of capitalized interest.

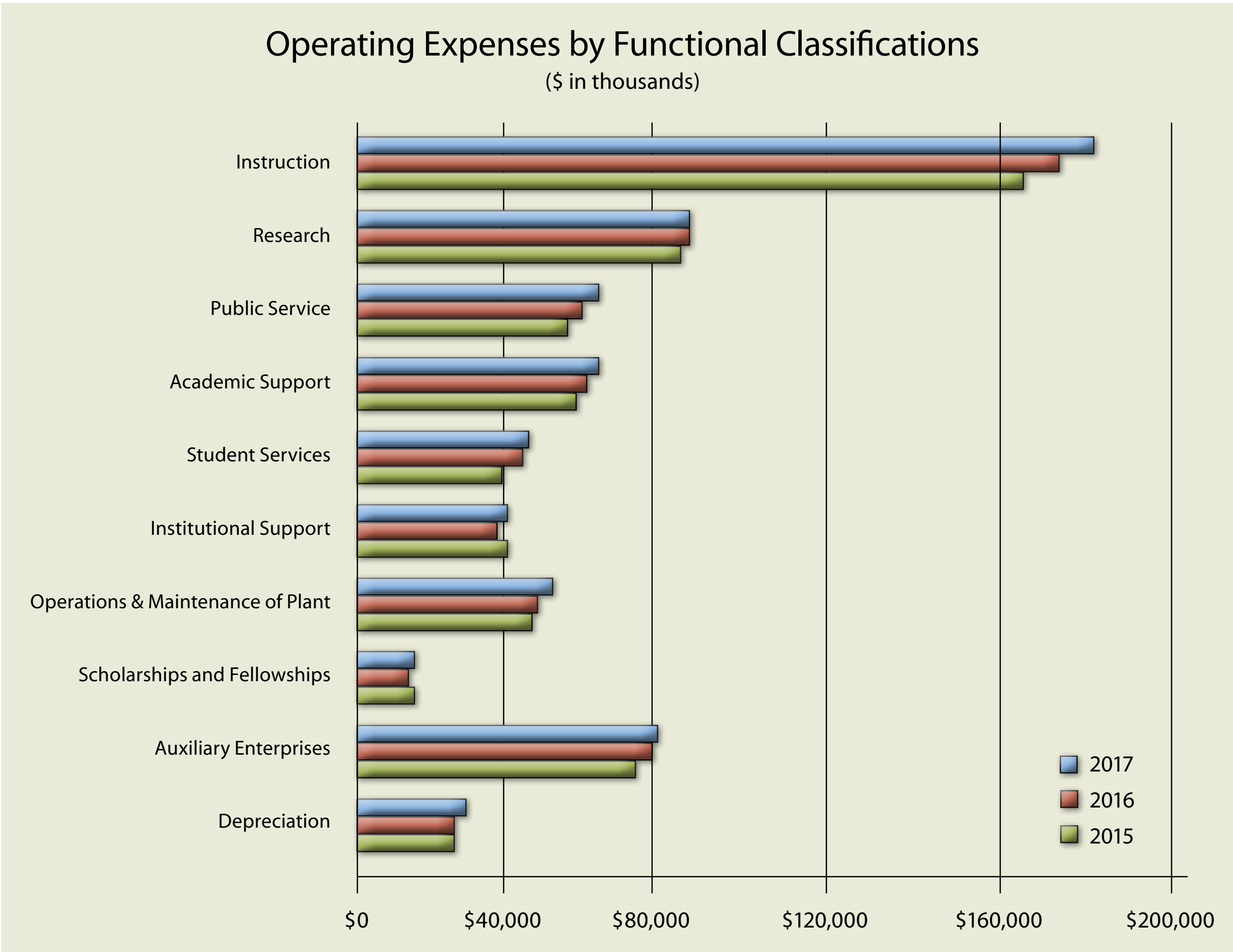
Other financial resources presented after *Revenue (Loss) before capital and endowment additions* include the following:

- *State capital appropriations* were $1.9 million, $1.4 million, and $1.4 million in 2017, 2016 and 2015, respectively.

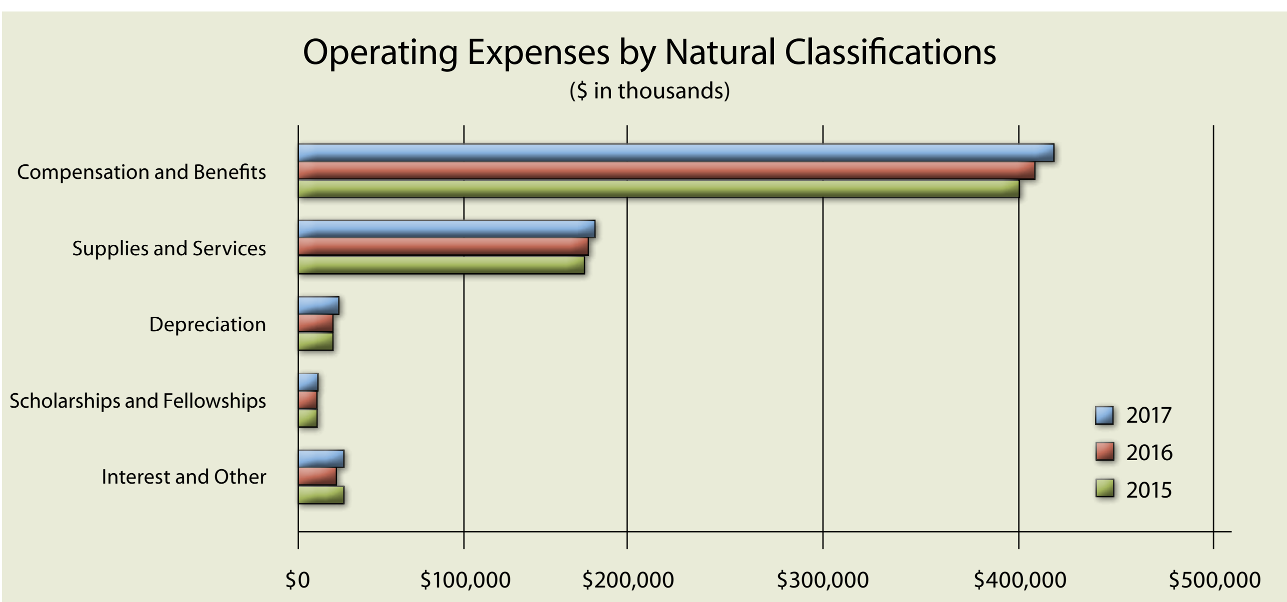
- *Capital and endowment gifts and grants* were $2.0 million, $1.8 million, and $0.5 million, in 2017, 2016, and 2015, respectively.

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 $27.3 million, or 4.3%, in 2017 and $22.5 million, or 3.7%, in 2016. 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 function for 2017, 2016, and 2015:



The following chart presents total expenses by natural classification for 2017, 2016, and 2015:



Statements of Net Position

as of June 30, 2017 and 2016

(dollars in thousands)

	2017	2016	UMEA 2017	UMEA 2016	UVMF 2017	UVMF 2016
ASSETS						
Current assets:						
Cash and cash equivalents	$ 151,514	$ 117,506	$ 572	$ 414	$ 27,285	$ 12,368
Operating investments	121,826	122,237	60,110	50,053	22,605	28,525
Accounts, loans, notes and pledges receivable, net	42,521	47,448	583	507	8,062	2,156
Inventories and prepaid expenses	11,293	12,600	8	10	321	356
Total current assets	**327,154**	**299,791**	**61,273**	**50,984**	**58,273**	**43,405**
Non-current assets:						
Endowment cash, cash equivalents and investments	453,323	408,936	-	-	83,129	66,590
Student loans, notes, and pledges receivable, net	33,132	34,125	-	-	8,003	2,326
Investments for capital activities	35,128	29,218	-	-	-	-
Deposits with trustees	29,674	102,187	-	-	1,221	1,138
Prepaid expenses and other assets	222	405	-	-	-	-
Capital assets, net	641,940	574,798	-	-	8,950	6,113
Total non-current assets	**1,193,419**	**1,149,669**	**-**	**-**	**101,303**	**76,167**
Total Assets	**1,520,573**	**1,449,460**	**61,273**	**50,984**	**159,576**	**119,572**
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of debt	5,936	3,524	-	-	-	-
Total Deferred Outflows of Resources	**5,936**	**3,524**	**-**	**-**	**-**	**-**
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	73,360	71,124	230	422	8,760	9,843
Unearned revenue, deposits, and funds held for others	74,314	58,057	41,978	32,973	104	1,617
Bonds and leases payable	10,778	10,089	-	-	-	-
Total current liabilities	**158,452**	**139,270**	**42,208**	**33,395**	**8,864**	**11,460**
Non-current liabilities:						
Accrued liabilities	23,893	19,401	-	-	-	-
Postemployment benefits	232,590	202,356	-	-	-	-
Bonds and leases payable	556,603	564,726	-	-	5,658	3,000
Total non-current liabilities	**813,086**	**786,483**	**-**	**-**	**5,658**	**3,000**
Total Liabilities	**971,538**	**925,753**	**42,208**	**33,395**	**14,522**	**14,460**
DEFERRED INFLOWS OF RESOURCES						
Service concession arrangement	2,104	9,012	-	-	-	-
Total Deferred Inflows of Resources	**2,104**	**9,012**	**-**	**-**	**-**	**-**
NET POSITION						
Net investment in capital assets	95,797	80,234	-	-	3,292	3,113
Restricted:						
Non-Expendable	115,035	111,533	-	-	78,159	60,436
Expendable	329,870	299,276	13,340	12,124	57,136	39,012
Unrestricted	12,165	27,176	5,725	5,465	6,467	2,551
Total Net Position	**$ 552,867**	**$ 518,219**	**$ 19,065**	**$ 17,589**	**$ 145,054**	**$ 105,112**

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, 2017 and 2016
(dollars in thousands)

	2017	2016	UMEA 2017	UMEA 2016	UVMF 2017	UVMF 2016
Operating revenues						
Tuition and fees	$ 405,242	$ 382,191	$ -	$ -	$ -	$ -
Residential life	60,907	59,744	-	-	-	-
Less scholarship allowances	(105,477)	(97,475)	-	-	-	-
Net student fees	360,672	344,460	-	-	-	-
Federal, state, and private grants and contracts	173,209	173,683	-	-	986	1,065
Sales and services of educational activities	8,369	7,494	-	-	-	-
Other auxiliary enterprises	49,852	44,627	-	-	-	-
Student loan interest and other operating revenues	21,498	19,082	104	368	504	427
Total operating revenues	**613,600**	**589,346**	**104**	**368**	**1,490**	**1,492**
Operating expenses						
Compensation and benefits	(432,458)	(419,798)	(229)	(238)	(8,177)	(7,801)
Supplies and services	(181,615)	(171,719)	-	-	(2,880)	(3,545)
Depreciation	(29,931)	(26,422)	-	-	(257)	(26)
Scholarships and fellowships	(17,198)	(16,002)	-	-	-	-
Total operating expenses	**(661,202)**	**(633,941)**	**(229)**	**(238)**	**(11,314)**	**(11,372)**
Operating income (loss)	**(47,602)**	**(44,595)**	**(125)**	**130**	**(9,824)**	**(9,880)**
Non-operating revenues (expenses)						
State appropriations	42,894	43,016	-	-	-	-
Federal Pell grants	6,874	7,186	-	-	-	-
Private gifts	503	511	396	359	33,286	27,603
Net investment income/(loss)	51,618	(6,862)	1,946	645	6,549	269
Interest on indebtedness	(16,741)	(17,163)	-	-	(72)	-
Gain on disposal of capital assets	4,754	9,742	-	-	-	-
Net other non-operating expense	(380)	(378)	-	-	(515)	(470)
Intergovernmental transfers	(13,704)	(13,492)	-	-	-	-
Transfers from UVM to component units	(14,711)	(9,008)	-	-	14,193	8,385
Transfers to UVM from component units	17,289	18,579	(741)	(2,177)	(15,429)	(16,099)
Net non-operating revenues	**78,396**	**32,131**	**1,601**	**(1,173)**	**38,012**	**19,688**
Revenue (loss) before capital & endowment additions	**30,794**	**(12,464)**	**1,476**	**(1,043)**	**28,188**	**9,808**
State capital appropriations	1,900	1,400	-	-	-	-
Capital gifts and grants	444	180	-	-	-	-
Gifts for endowment purposes	1,510	1,646	-	-	11,754	28,587
Total capital and endowment additions	**3,854**	**3,226**	**-**	**-**	**11,754**	**28,587**
Increase (decrease) in net position	34,648	(9,238)	1,476	(1,043)	39,942	38,395
Net position, beginning of year	518,219	527,457	17,589	18,632	105,112	66,717
Net Position, End of Year	**$ 552,867**	**$ 518,219**	**$ 19,065**	**$ 17,589**	**$ 145,054**	**$ 105,112**

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

Statements of Cash Flows

for the years ended June 30, 2017 and 2016

(dollars in thousands)

	2017	2016
Cash Flows From Operating Activities		
Tuition and fees (net of applicable discounts)	$ 309,371	$ 298,797
Grants and contracts	181,115	175,225
Sales and services of educational activities	8,369	7,494
Sales and services of auxiliary enterprises:		
Residential life fees, net of scholarship allowances	47,126	46,567
Other	49,852	44,627
Payments to employees and benefit providers	(396,677)	(387,303)
Payments to vendors	(180,275)	(158,501)
Payments for scholarships and fellowships	(17,198)	(16,002)
Student loans issued	(3,766)	(2,909)
Student loans collected, interest and other revenue	2,295	3,606
Other receipts, net	20,994	18,510
Net cash provided by operating activities	**21,206**	**30,111**
Cash Flows From Non-Capital Financing Activities		
State general appropriation	42,894	43,016
Federal Pell grants	6,874	7,186
Private gifts for other than capital purposes	4,568	1,978
Intergovernmental transfers	(13,704)	(13,492)
Transfers from UVM to component units	(14,711)	(9,008)
Transfers to UVM from component units	17,289	25,475
Deposits of affiliates and life income payments, net	13,564	9,900
Net cash provided by non-capital financing activities	**56,774**	**65,055**
Cash Flows From Capital Financing Activities		
Proceeds from issuance of capital debt	80,341	196,169
State capital appropriation	1,900	1,400
Capital grants, gifts and other income	(3,970)	117
Purchases and construction of capital assets	(96,054)	(79,410)
Proceeds from disposal of capital assets	9,471	7,515
Principal paid on capital debt	(87,775)	(73,674)
Interest paid on capital debt	(24,974)	(15,931)
Changes in deposits with trustees, net	71,770	(92,420)
Net cash used in capital financing activities	**(49,291)**	**(56,234)**
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	126,657	143,756
Purchase of investments	(127,212)	(151,531)
Interest and dividends on investments, net	3,387	5,771
Net cash (used in) provided by investing activities	**2,832**	**(2,004)**
Net increase (decrease) in cash and cash equivalents	**31,521**	**36,928**
Cash and cash equivalents - beginning of year	131,389	94,461
Cash and cash equivalents - end of year *	**$ 162,910**	**$ 131,389**
Reconciliation of Operating Loss To Cash Provided by Operating Activities		
Operating loss	$ (47,602)	$ (44,595)
Adjustments to reconcile operating loss to net cash provided by Operating Activities:		
Depreciation expense	29,931	26,422
Changes in assets and liabilities:		
Accounts receivable and loan receivables, net	7,802	(9,171)
Inventories and prepaid expense	1,314	(571)
Accounts payable	(587)	7,716
Unearned revenue, deposits and accrued liabilities	30,348	50,310
Net cash provided by operating activities	**$ 21,206**	**$ 30,111**

** of total cash and cash equivalents for 2017, $151,514 is current and $11,396 is non-current endowment and for 2016, $117,506 is current and $13,883 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, 2017 and 2016

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 12,520 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 land-grant institution and a component unit of the State of Vermont. The University receives an annual appropriation from the State. The Board of Trustees has 25 members including 9 legislative, 9 self-perpetuating, 3 gubernatorial, and 2 students; the Governor and President of the University serve as ex-officio members during their terms in office.

The University has received a letter from the Internal Revenue Service recognizing the University as an organization that is described in Internal Revenue Code Section 501(c)(3) and generally exempt from income taxes pursuant to Section 501(a) of the Internal Revenue Code.

1. Affiliated Organizations

University Medical Education Associates, Inc. (UMEA) is a legally separate component unit of the University of Vermont. UMEA is an organization described in Internal Revenue Code Section 501(c)(3) and is generally exempt from income taxes pursuant to Section 501(a) of the Code. UMEA is governed by a minimum nine-member board; five 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 Robert Larner, M.D. College of Medicine of the University of Vermont. UMEA is a public non-profit organization that reports under Financial Accounting Standards Board (FASB) standards. UMEA's fiscal years end on June 30. UMEA issues separate audited financial statements, which may be obtained by contacting the Dean's Office, Robert Larner, M.D. College of Medicine. In accordance with Governmental Accounting Standards Board (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 Position 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 an organization described in Internal Revenue Code Section 501(c)(3) and is generally exempt from income taxes pursuant to Section 501(a) of the Code. 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 29 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, the Chair of the UVM Medical Center Foundation, 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 June 30, 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 the University of Vermont Medical Center, Inc. (formally named Fletcher Allen Health Care, Inc.), University of Vermont Medical Group, Inc., and the University of Vermont Health Network, Inc. (formerly named Fletcher Allen Partner, Inc.) through an updated Affiliation Agreement signed in June, 2014. The Affiliation Agreement is for a period of five years. 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 the University of Vermont Medical Center (UVMMC) in coordinating efforts and allocating their resources. UVMMC 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 UVMMC. In addition, UVMMC agrees to pay base payments that help maintain medical facilities owned and managed by the University and the Dana Medical Library. UVMMC agrees to pay a portion of the UVM Medical Group Net Patient Revenues, referred to as the Dean's Tax, to the Robert Larner, M.D. 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.

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, contracts and endowment appreciation.
- **Unrestricted:** Net position 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.

The GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, and will affect all fiscal years beginning after June 15, 2017. Under GASB 45, employers are required to calculate the unfunded actuarial accrued liability (UAAL) for other postemployment benefits (OPEB) whereas under GASB 75 employers will be required to calculate the net OPEB liability (NOL). There are some technical differences between the two calculations but the most significant impact of GASB 75 is the change in reporting. GASB 75 will require that the NOL be recognized on the Statements of Net Position. Under GASB 45 the UAAL is disclosed in the footnotes (note L). This will result in a significant increase in liabilities and a significant decrease in unrestricted net position on the FY18 Statements of Net Position. Other changes prescribed by GASB 75 will include more frequent actuarial valuations, the rate used to discount future benefit payments to a present value, the measurement date, and footnote disclosures. Footnote disclosures will include year over year comparisons and sensitivity calculations for NOL.

The GASB issued Statement 81, *Irrevocable Split-Interest Agreements.* This statement establishes recognition and measurement requirements for irrevocable split-interest agreements, defined as "a specific type of giving arrangement used by donors to provide resources to two or more beneficiaries, including governments". Examples of irrevocable split-interest agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. Prior to GASB Statement 81, the receipt of split-interest agreements was recognized as contribution revenue. Following the implementation of GASB Statement 81, the receipt of split-interest agreements will be recognized as a deferred inflow of resources. Implementation of this statement in FY18 will require the University to analyze existing split-interest agreements and apply the new requirements to calculate the asset, liability, and deferred inflow of resources for each. In addition, the University will quantify the adjustment to beginning net position by reducing contributions previously recorded and increasing deferred inflow of resources.

3. Fair Value Measurement

GASB statement 72, *Fair Value Measurements and Application*, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used for measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active or inactive markets that the University has the ability to access.

Level 2 – Inputs to valuation methodology include:

- Quoted prices for similar assets or liabilities in inactive markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumption of risk). Unobservable inputs are developed based on the best information available in circumstances and may include the University's own data.

In addition to the three levels described above, GASB 72 has guidance that allows for estimates of fair value for certain investments measured at net asset value (NAV) without further adjustment as of the reporting entity's measurement date if NAV is calculated consistent with guidance in Accounting Standards Codification 946, *Financial Services – Investment Companies.* The University utilizes NAV as its estimate of fair value for those funds whose value is determined by the appropriate manager or general partner. The majority of investments reported at NAV consist of shares or units in funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable and not difficult to value.

NAV measured investments are not categorized in the fair value hierarchy table.

Investments in certain funds contain lock-up provisions. Under such provisions, share classes of the investment are available for redemption at various times in accordance with the management agreement of the fund.

Certain FY16 investments have been reclassified within the GASB 72 fair value hierarchy to better reflect the investment's framework and inputs used to measure fair value.

(dollars in thousands)

4. Government Appropriations and Grants

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 2017 and 2016 consists of:

Grants and Contracts	FY17	FY16
Federal appropriations, grants and contracts	$ 109,273	$ 115,455
State grants and contracts	3,369	3,298
Private grants and contracts	60,567	54,930
TOTAL	**$ 173,209**	**$ 173,683**

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

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 $25.6 million in 2017 and $25.5 million in 2016.

Private grants and contracts includes funding of $15.8 million in 2017 and $13.5 million in 2016 to the Robert Larner, M.D. College of Medicine from the University of Vermont Medical Center, Inc. to offset facilities and operation costs.

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 until received.

6. Deposits and Unearned Revenue

Deposits and advance payments for the following academic year are unearned and recorded as revenues when earned. Summer session revenues are unearned to the extent that they relate to courses scheduled in July and August. Deposits and advance payments unearned revenue at June 30, 2017, and 2016, is $10,733 and $9,843, respectively.

The University records unearned revenue for cash received in excess of expenditures on grants and contracts. Grants and contracts unearned revenue at June 30, 2017, and 2016, is $5,502 and $7,099, respectively.

7. Employee Benefits

The University provides health and dental insurance to retired employees, hired prior to 2012, and their families during their lives and life insurance until age 70. Employees hired on or after January 1, 2012 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 defined contribution Retiree Health Savings Plan (RHSP). UVM makes regular tax free contributions to the RHSP for benefits-eligible faculty and staff. Earnings that accumulate in the RHSP grow tax free. Retirees will be able to access the savings in the RHSP to pay for eligible healthcare expenses upon retirement.

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 $56,802 in 2017 and $53,979 in 2016. The total cost for contributions to the RHSP was $708 in 2017 and $839 in 2016. See note L 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, 2017, $20,275 ($19,786 in 2016) was accrued for vacation pay of which $14,981 ($14,617 in 2016) was charged to unrestricted net position and $5,294 ($5,169 in 2016) was included in deferred charges to be recovered from restricted expendable net position 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 management believes the collections are 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.

(dollars in thousands)

B. Accounts, Loans, Notes, and Pledges Receivable

Accounts, loans, notes and pledges receivable at June 30, 2017 and 2016 are summarized as follows:

Accounts, Loans, Notes and Pledges Receivable, Net	June 30, 2017	June 30, 2016
Current		
Federal, state, and private grants receivable	$ 15,678	$ 19,906
Student and trade accounts receivable, net	12,385	13,221
Other accounts receivable	11,279	10,655
Student loans receivable, net	2,182	2,338
Pledges receivable, net	997	1,328
Total Current	**$ 42,521**	**$ 47,448**
Non-Current		
Student loans receivable, net	$ 20,160	$ 20,392
Other notes receivable	12,933	11,456
Pledges receivable, net	39	2,277
Total Non-Current	**$ 33,132**	**$ 34,125**

The student accounts receivable are carried net of an allowance for doubtful accounts of $418 in 2017 and $336 in 2016.

Student loans receivable are carried net of an allowance for uncollectible UVM loans of $72 current and $581 non-current at June 30, 2017. At June 30, 2016, student loans receivable are carried net of an allowance for uncollectible UVM loans of $98 current and $784 non-current. The University does not record an allowance for uncollectible federal student loans since they can be assigned to the government if certain conditions stipulated by the federal government are met.

The University's liability for the federal capital contribution to the Perkins, Health Professions, Primary Care, and Nursing Student loan programs is $7,346 for 2017 and $8,156 for 2016. 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 on a net basis in the Statements of Cash Flows.

Other notes receivable, non-current, includes the present value of expected future cash flows as a result of an agreement with Sodexo Management, Inc. (Note J) entered into in 2016. The non-current receivable balance is $8,303 and the current receivable balance is $1,305 in 2017. The non-current receivable balance is $9,546 and the current receivable balance is $1,294 in 2016.

Accounts receivable from the UVMF and UMEA are $8,365 in 2017 and $9,782 in 2016 and presented in accounts, loans, notes and pledges receivable, net on the Statements of Net Position.

C. Accounts Payable and Current Accrued Liabilities

Accounts payable and current accrued liabilities of $73,360 in 2017 and $71,124 in 2016 are composed of accounts payable of $20,363 in 2017 and $20,976 in 2016 and accrued liabilities of $52,997 in 2017 and $50,148 in 2016. Accounts payable is mostly comprised of supplies and services payables, including construction, renovation and equipment of $16,585 in 2017 and $17,752 in 2016.

Current accrued liabilities at June 30, 2017 and 2016 are summarized below:

Current Accrued Liabilities	June 30, 2017	June 30, 2016
Interest expense	$ 6,174	$ 6,440
Construction retainage	4,860	5,973
Compensated absences	20,275	19,786
Insurance reserves	7,423	6,808
Compensation and benefits	6,589	6,195
Payment to annuitants	369	382
Service concession arrangement	938	203
Other	6,369	4,361
TOTAL	**$ 52,997**	**$ 50,148**

(dollars in thousands)

D. Capital Assets

Capital assets are stated at acquisition 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 2017, net interest expense of $7,967 ($7,617 in 2016) was capitalized for projects that were funded by the 2015 general obligation bond.

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; 3) interiors/renovations with an estimated useful life of 20 years and 4) fixed equipment with an estimated useful life of 15 years.

Other buildings are depreciated over a useful life of 40 years, land improvements are depreciated over a useful life of 20 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 2017 is $27,085 ($23,833 in 2016). Moveable equipment, software systems, and land improvements depreciation expense is $2,846 for 2017 ($2,589 in 2016).

Land and construction in progress are the only non-depreciable capital assets.

Capital assets activity for the years ended June 30, 2017 and 2016 is summarized as follows:

Fiscal Year 2017

Asset	Balance as of June 30, 2016	Additions	Retirements	Reclass/ Changes	Balance as of June 30, 2017
Land	$ 28,069	$ -	$ (30)	$ -	$ 28,039
Land Improvements	3,360	1,452	-	-	4,812
Buildings	614,124	4,645	(8,960)	26,062	635,871
Building Service Systems	93,057	2,204	-	40,979	136,240
Building Interiors	59,687	1,238	-	13,555	74,480
Fixed Equipment	108,899	913	(209)	7,889	117,492
Movable Equipment	28,898	1,118	-	-	30,016
Software Systems	29,611	456	-	-	30,067
Construction in Progress	78,905	89,764	-	(88,485)	80,184
Total property and equipment	**1,044,610**	**101,790**	**(9,199)**	**-**	**1,137,201**
Less: accumulated depreciation	(469,812)	(29,931)	4,482	-	(495,261)
Property, plant and equipment, net	**$ 574,798**	**$ 71,859**	**$ (4,717)**	**$ -**	**$ 641,940**

Fiscal Year 2016

Asset	Balance as of June 30, 2015	Additions	Retirements	Reclass/ Changes	Balance as of June 30, 2016
Land	$ 28,009	$ 83	$ (23)	$ -	$ 28,069
Land Improvements	2,591	850	(81)	-	3,360
Buildings	609,757	9,793	(7,002)	1,576	614,124
Building Service Systems	93,370	41	-	(354)	93,057
Building Interiors	59,605	82	-	-	59,687
Fixed Equipment	107,959	1,016	(220)	144	108,899
Movable Equipment	26,322	1,916	(190)	850	28,898
Software Systems	29,611	-	-	-	29,611
Construction in Progress	10,380	70,741	-	(2,216)	78,905
Total property and equipment	**967,604**	**84,522**	**(7,516)**	**-**	**1,044,610**
Less: accumulated depreciation	(448,414)	(27,018)	5,620	-	(469,812)
Property, plant and equipment, net	**$ 519,190**	**$ 57,504**	**$ (1,896)**	**$ -**	**$ 574,798**

(dollars in thousands)

E. Bonds and Leases Payable and Other Long Term Liabilities

Debt obligations are generally callable by the University and bear interest at fixed rates ranging from 3.00% to 6.43%. The debt obligations mature at various dates through 2046.

On July 28, 2016 the University issued $68,870 of Series 2016 General Obligation Bonds. The proceeds from the bonds will be used to refund the remaining portion of the 2005 General Obligation Bonds and partially refund a portion of the 2007 General Obligation Bonds. The University incurred a deferred loss of $1,083 on the refunding of the 2005 General Obligation Bonds and $1,684 on the partial refunding of the 2007 General Obligation Bond.

On July 15, 2015 the University issued $186,930 of Series 2015 General Obligation Bonds. The bonds were issued at a premium of $9,860. The proceeds from the bonds were used for three purposes including refunding a portion of the 2005 General Obligation Bonds, funding a portion of the Science, Technology, Engineering, and Math Complex project, and funding the new student housing project. The University incurred a deferred loss of $65 on the refunding of the 2005 General Obligation Bonds.

Long term debt activity for the years ended June 30, 2017 and 2016 is summarized as follows:

Fiscal Year 2017

				Ending Balance	
Long Term Liability	**Beginning Balance**	**New Debt**	**Payments**	**Current**	**Non-Current**
General Obligation Bonds					
Series 2005	$ 11,236	$ -	$ 11,236	$ -	$ -
Series 2007 (1)	146,355	-	72,628	6,469	67,258
Series 2009 (2)	72,539	-	1,708	1,768	69,063
Series 2010A	9,000	-	-	-	9,000
Series 2010B (3)	17,836	-	40	40	17,756
Series 2012A (4)	46,573	-	(13)	(13)	46,599
Series 2014A (5)	74,780	-	1,592	1,757	71,431
Series 2015 (6)	196,462	-	329	329	195,804
Series 2016 (7)	-	80,120	-	428	79,692
Capital Leases	34	-	34	-	-
TOTAL	**$ 574,815**	**$ 80,120**	**$ 87,554**	**$ 10,778**	**$ 556,603**

(1) This balance shown includes bond premium of $2,347.
(2) This balance shown is net of bond discount of $924.
(3) This balance shown includes bond premium of $446.
(4) This balance shown is net of bond discount of $275.
(5) This balance shown includes bond premium of $6,230.
(6) This balance shown includes bond premium of $9,203.
(7) This balance shown includes bond premium of $11,250.

(dollars in thousands)

Fiscal Year 2016

Long Term Liability	Beginning Balance	New Debt	Payments	Ending Balance Current	Ending Balance Non-Current
Heat System Bond					
1980 Issue (1),(2)	$ 768	$ -	$ 768	$ -	$ -
General Obligation Bonds					
Series 2005 (3)	77,498	-	66,262	(52)	11,288
Series 2007 (4)	151,262	-	4,907	6,452	139,903
Series 2009 (5)	74,198	-	1,659	1,708	70,831
Series 2010A	9,000	-	-	-	9,000
Series 2010B (6)	17,875	-	39	40	17,796
Series 2012A (7)	46,560	-	(13)	(13)	46,586
Series 2014A (8)	75,093	-	313	1,591	73,189
Series 2015 (9)	-	196,462	-	329	196,133
Capital Leases	66	-	32	34	-
TOTAL	**$ 452,320**	**$ 196,462**	**$ 73,967**	**$ 10,089**	**$ 564,726**

(1) Revenue from the heat system is pledged as collateral under debt agreements.
(2) The assets are pledged as collateral under debt agreements.
(3) This balance shown is net of bond discount of $1,033.
(4) This balance shown includes bond premium of $3,600.
(5) This balance shown is net of bond discount of $966.
(6) This balance shown includes bond premium of $485.
(7) This balance shown is net of bond discount of $287.
(8) This balance shown includes bond premium of $6,542.
(9) This balance shown includes bond premium of $9,532.

In compliance with the University's various bond indentures, at June 30, 2017 the University has deposits with trustees of $21,677 ($93,447 in 2016) for debt service reserves, sinking funds, and other requirements. 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
2018	$ 9,635	$ 24,493	$ 34,128
2019	12,335	24,016	36,351
2020	12,895	23,430	36,325
2021	13,335	22,810	36,145
2022	12,445	22,200	34,645
2023-2027	72,255	101,006	173,261
2028-2032	93,195	81,140	174,335
2033-2037	114,915	58,348	173,263
2038-2042	132,355	29,896	162,251
2043-2046	65,740	4,806	70,546
TOTAL	**$ 539,105**	**$ 392,145**	**$ 931,250**

(dollars in thousands)

Other long term liabilities at June 30, 2017 and 2016 are summarized below:

Fiscal Year 2017

Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 8,156	$ -	$ 810	$ -	$ 7,346
Green Mountain Loan Guarantee	1,287	-	250	-	1,037
Obligations under deferred giving arrangements	8,438	1,792	1,138	369	8,723
Postemployment Benefits	202,356	47,390	17,156	-	232,590
Service Concession Arrangement	1,828	5,878	203	938	6,565
Other Accrued Liabilities	277	81	136	-	222
TOTAL	**$ 222,342**	**$ 55,141**	**$ 19,693**	**$ 1,307**	**$ 256,483**

Fiscal Year 2016

Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 8,175	$ -	$ 19	$ -	$ 8,156
Green Mountain Loan Guarantee	1,492	-	205	-	1,287
Obligations under deferred giving arrangements	8,239	2,197	1,998	382	8,056
Postemployment Benefits	169,697	44,908	12,249	-	202,356
Service Concession Arrangement	-	1,828	-	203	1,625
Other Accrued Liabilities	401	26	150	-	277
TOTAL	**$ 188,004**	**$ 48,959**	**$ 14,621**	**$ 585**	**$ 221,757**

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 instruments 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 weighted average maturities of up to one year, and the intermediate pool, which includes investments with a weighted average 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 of 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 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:

Cash and Cash Equivalents	June 30, 2017	June 30, 2016
Cash	$ 85,139	$ 79,295
Certificates of Deposit	77,233	51,692
Money Markets	538	402
TOTAL	**$ 162,910**	**$ 131,389**

Of total cash and cash equivalents above, $11,396 in 2017 and $13,883 in 2016 are included in non-current endowment cash and cash equivalents.

(dollars in thousands)

The balance of cash held in bank deposit accounts was $164,139 at June 30, 2017 and $131,971 at June 30, 2016. Of these bank balances, $1,018 in 2017 and $714 in 2016 were covered by the Federal Depository Insurance Corporation. The University also has an irrevocable standby letter of credit up to $135,000 at June 30, 2017 and $82,000 at June 30, 2016 through the Federal Home Loan Bank of Pittsburgh as collateral for the University's primary depository account. The University has not drawn on the letter of credit as of June 30, 2017.

Total operating investments were $121,826 at June 30, 2017 and $122,237 at June 30, 2016. Operating investments invested in the long term pool were $10,960 at June 30, 2017 and $10,229 at June 30, 2016 (see note G). Short and intermediate term operating investments at June 30, 2017 and 2016 were primarily made through commingled funds with the following investment strategies:

			Credit Quality %					
2017	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 101,035	3.1 yrs/ 2.9 yrs	43	1	15	30	11	-
Multi Strategy Equity Fund	9,088							
Other	743							
TOTAL	**$ 110,866**							

			Credit Quality %					
2016	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 102,056	3.0 yrs/ 2.9 yrs	38	-	15	32	15	-
Multi Strategy Equity Fund	9,383							
Other	569							
TOTAL	**$ 112,008**							

G. Investments

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 $6,873 in 2017 and $7,631 in 2016 of assets held under deferred giving arrangements, $1,124 in 2017 and $1,109 in 2016 of investments in the waste disposal fund required by the EPA, and $21,677 in 2017 and $93,447 in 2016 of investments held by bond trustees.

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 marketable investments as well as losses on impaired investments. The calculation of realized gains (losses) is independent of the calculation of the net increase in the fair value of marketable investments. Net investment income consists of:

Net Investment Income	FY17	FY16
Net interest, dividend, and other income	$ 5,042	$ 7,146
Realized gains	17,211	7,224
Unrealized gains/(losses)	30,911	(19,792)
Investment management fees	(1,546)	(1,440)
TOTAL	**$ 51,618**	**$ (6,862)**

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

The assets or liabilities level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(dollars in thousands)

The determination of what constitutes observable requires judgement by the University's management. University management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to University management's perceived risk of that investment.

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

Because of the inherent uncertainty of valuations, the estimated values as determined by the appropriate manager or general partners may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Investments measured at fair value for the years ended June 30, 2017 and 2016 is summarized as follows:

Fiscal Year 2017	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total Investments**
Investments:					
Equity Securities					
U.S. Equity	$ 105,423	$ -	$ -	$ -	$ 105,423
Global Developed	67,056	-	-	-	67,056
Global Emerging	37,835	-	-	21,087	58,922
Total Equity Securities	210,314	-	-	21,087	231,401
Marketable Alternative					
Absolute Return	-	-	-	84,405	84,405
Hedged Equity	-	-	-	14,672	14,672
Total Marketable Alternative	-	-	-	99,077	99,077
Real Assets					
Private Real Assets	-	-	325	36,767	37,092
Public Real Assets	16,017	-	-	9,965	25,982
Total Real Assets	16,017	-	325	46,732	63,074
Private Equity/Venture Capital					
Private Equity	-	-	9	13,089	13,098
Venture Capital	-	-	-	18,328	18,328
Secondaries	-	-	-	9,515	9,515
Distressed	-	-	-	4,015	4,015
Total Private Equity/Venture Capital	-	-	9	44,947	44,956
Debt Securities	47,694	113,376	-	-	161,070
Other Investments	-	-	625	-	625
Cash and Cash Equivalents	10,074	-	-	-	10,074
Total Investments	**$ 284,099**	**$ 113,376**	**$ 959**	**$ 211,843**	**$ 610,277**
Deposits With Trustees:					
Beneficial Interests in Trusts	$ 107	$ -	$ 7,887	$ -	$ 7,994
Debt Securities	11,263	10,414	-	-	21,677
Cash and Cash Equivalents	3	-	-	-	3
Total Deposits With Trustees	**$ 11,373**	**$ 10,414**	**$ 7,887**	**$ -**	**$ 29,674**

(dollars in thousands)

Fiscal Year 2016	Level 1	Level 2	Level 3	NAV	Total Investments
Investments:					
Equity Securities					
U.S. Equity	$ 87,125	$ -	$ -	$ -	$ 87,125
Global Developed	56,324	-	-	-	56,324
Global Emerging	29,077	-	-	19,894	48,971
Total Equity Securities	172,526	-	-	19,894	192,420
Marketable Alternative					
Absolute Return	-	-	-	83,101	83,101
Hedged Equity	-	-	-	13,336	13,336
Total Marketable Alternative	-	-	-	96,437	96,437
Real Assets					
Private Real Assets	-	-	325	33,286	33,611
Public Real Assets	16,187	-	-	9,781	25,968
Total Real Assets	16,187	-	325	43,067	59,579
Private Equity/Venture Capital					
Private Equity	-	-	1	13,147	13,148
Venture Capital	-	-	-	18,185	18,185
Secondaries	-	-	-	10,407	10,407
Distressed	-	-	-	5,147	5,147
Total Private Equity/Venture Capital	-	-	1	46,886	46,887
Debt Securities	37,772	105,854	-	7,756	151,382
Other Investments	240	-	686	-	926
Cash and Cash Equivalents	12,760	-	-	-	12,760
Total Investments	**$ 239,485**	**$ 105,854**	**$ 1,012**	**$ 214,040**	**$ 560,391**
Deposits With Trustees:					
Beneficial Interests in Trusts	$ -	$ -	$ 7,631	$ -	$ 7,631
Debt Securities	-	26,657	-	-	26,657
Cash and Cash Equivalents	67,899	-	-	-	67,899
Total Deposits With Trustees	**$ 67,899**	**$ 26,657**	**$ 7,631**	**$ -**	**$ 102,187**

(dollars in thousands)

Investment liquidity for the years ended June 30, 2017 and 2016 is summarized as follows:

Fiscal Year 2017	**Daily**	**Monthly**	**Quarterly**	**Semi-Annual**	**Annual**	**Illiquid**	**Total**	**Redemption Notice Period**
Investments:								
Equity Securities								
U.S. Equity	$ 99,163	$ 6,260	$ -	$ -	$ -	$ -	$ 105,423	1-30 days
Global Developed	67,056	-	-	-	-	-	67,056	Same day
Global Emerging	37,835	-	21,087	-	-	-	58,922	1-60 days
Total Equity Securities	204,054	6,260	21,087	-	-	-	231,401	
Marketable Alternative								
Absolute Return	9,088	8,627	24,726	15,223	20,525	6,216	84,405	1-90 days, Illiquid
Hedged Equity	-	-	-	14,672	-	-	14,672	90 days
Total Marketable Alternative	9,088	8,627	24,726	29,895	20,525	6,216	99,077	
Real Assets								
Private Real Assets	-	-	-	-	-	37,092	37,092	Illiquid
Public Real Assets	16,017	-	-	-	-	9,965	25,982	Same day, Illiquid
Total Real Assets	16,017	-	-	-	-	47,057	63,074	
Private Equity/Venture Capital								
Private Equity	-	-	-	-	-	13,098	13,098	Illiquid
Venture Capital	-	-	-	-	-	18,328	18,328	Illiquid
Secondaries	-	-	-	-	-	9,515	9,515	Illiquid
Distressed	-	-	-	-	-	4,015	4,015	Illiquid
Total Private Equity/ Venture Capital	-	-	-	-	-	44,956	44,956	
Debt Securities	152,358	8,712	-	-	-	-	161,070	1-30 days
Other Investments	-	-	-	-	-	625	625	Illiquid
Cash and Cash Equivalents	10,074	-	-	-	-	-	10,074	Same day
Total Investments	**$391,591**	**$ 23,599**	**$ 45,813**	**$ 29,895**	**$ 20,525**	**$ 98,854**	**$610,277**	

(dollars in thousands)

Fiscal Year 2016	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total	Redemption Notice Period
Investments:								
Equity Securities								
U.S. Equity	$ 81,695	$ 5,430	$ -	$ -	$ -	$ -	$ 87,125	1-30 days
Global Developed	56,324	-	-	-	-	-	56,324	Same day
Global Emerging	29,077	-	19,894	-	-	-	48,971	1-60 days
Total Equity Securities	167,096	5,430	19,894	-	-	-	192,420	
Marketable Alternative								
Absolute Return	9,383	12,218	22,301	7,366	18,852	12,981	83,101	1-90 days, Illiquid
Hedged Equity	-	-	-	-	-	13,336	13,336	Illiquid
Total Marketable Alternative	9,383	12,218	22,301	7,366	18,852	26,317	96,437	
Real Assets								
Private Real Assets	-	-	-	-	-	33,611	33,611	Illiquid
Public Real Assets	16,187	-	-	-	-	9,781	25,968	Same day, Illiquid
Total Real Assets	16,187	-	-	-	-	43,392	59,579	
Private Equity/Venture Capital								
Private Equity	-	-	-	-	-	13,148	13,148	Illiquid
Venture Capital	-	-	-	-	-	18,185	18,185	Illiquid
Secondaries	-	-	-	-	-	10,407	10,407	Illiquid
Distressed	-	-	-	-	-	5,147	5,147	Illiquid
Total Private Equity/ Venture Capital	-	-	-	-	-	46,887	46,887	
Debt Securities	143,620	7,762	-	-	-	-	151,382	1-30 days
Other Investments	240	-	-	-	-	686	926	Same day, Illiquid
Cash and Cash Equivalents	12,760	-	-	-	-	-	12,760	Same day
Total Investments	**$ 349,286**	**$ 25,410**	**$ 42,195**	**$ 7,366**	**$ 18,852**	**$117,282**	**$560,391**	

The following is a description of the financial investment categories:

Global Equity – Investments are with managers who have a geographic focus, either the U.S., Developed ex U.S. Markets, or Emerging Markets. The program provides the portfolio exposure to common equities across the globe. The University has investments in commingled vehicles, mutual funds, and separate accounts.

Marketable Alternatives – This asset class includes hedge fund managers with the intention of reducing total portfolio volatility and providing diversification. The investments are in the following categories: multi-strategy, distressed securities, global macro, open mandate, and long/short equity in global markets.

Real Assets – This asset class includes investments focusing on publicly traded securities of oil, gas, and other natural resources affiliated companies and private real estate funds invested in various segments of the real estate market, including: office, industrial, multi-family, and retail. The allocation also includes partnerships targeting oil and gas properties as well as other natural resources. Many of the private real asset investments are made via lock-up funds and are thus illiquid. Public real assets are publicly traded and are liquid.

Private Equity – This asset class includes investments focusing on non-publicly traded securities such as buyout funds, secondaries, and distressed debt.

Venture Capital – This asset class includes investments focusing on non-publicly traded securities in start-up entities.

Debt Securities – Investments consisting of U.S. Treasuries, corporate, and high yield bonds. The allocation is liquid and designed to protect the portfolio in deflationary periods.

Other Investments – This asset class includes insurance policies where the University is named as the beneficiary.

(dollars in thousands)

H. Endowment and Other Long Term Funds

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 are presented in the following table:

Unaudited	**June 30, 2017**		**June 30, 2016**	
	Target %	**Actual %**	**Target %**	**Actual %**
US Equity	19.0	20.3	19.0	18.6
Global Excluding US Equity	24.0	25.8	24.0	24.0
Marketable Alternatives	21.0	18.3	21.0	19.9
Real Estate/Inflation Hedges	13.0	12.8	13.0	13.5
Non-marketable Alternatives	13.0	9.2	13.0	10.7
Fixed Income/Debt	10.0	11.5	10.0	10.4
Cash & Cash Equivalents	0.0	2.1	0.0	2.9

Endowment and similar investments including $10,960 and $10,229 of operating investments and $35,128 and $29,218 of capital investments at June 30, 2017 and 2016, respectively, are composed of the following:

	June 30, 2017	**June 30, 2016**
Cash	$ 9,862	$ 12,542
Money Market	1,534	1,341
Common Stock	97,889	80,393
U.S. Treasury Bonds and Notes	481	459
Other Government Bonds and Notes	332	346
Industry Bonds	2,815	2,934
Private Equity and Venture Partnerships	100,109	96,766
Life Estates	928	959
Hedge Funds	110,900	107,892
Mutual Funds	174,561	144,751
TOTAL	**$ 499,411**	**$ 448,383**

(dollars in thousands)

The fixed income portfolio is composed of two passive bond funds with the following risk profiles at June 30, 2017 and 2016:

			Credit Quality %					
2017	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**<BBB**
Passive Bond Funds	$56,384	3.7	55	5	4	10	25	1

			Credit Quality %					
2016	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**<BBB**
Passive Bond Funds	$45,521	3.1	53	5	4	11	12	15

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 $62.58), 4,737.4387 units were owned by endowment funds and 3,077.4780 units by quasi endowment funds at June 30, 2017 ($58.40, 4,719.7360 and 2,785.9097 respectively, at June 30, 2016).

Beginning in fiscal year 2013 the University of Vermont Foundation (UVMF) elected to participate in the UVM pooled endowment. The UVMF owned 884.9141 units with a market value of $55,374 as of June 30, 2017 and 670.8359 units with a market value of $39,180 as of June 30, 2016. The market value of UVMF's units is reported on the Statements of Net Position within unearned revenue, deposits, and funds held for others.

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, 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 will 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.

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

	Fair Value	**Cost**	**Net Return**
June 30, 2017	$ 489,024	$ 386,461	$ 102,563
June 30, 2016	438,362	369,994	68,368
Unrealized Net Gain			34,195
New Gifts and Transfers			15,346
Realized Net Gain			16,780
Net Income			159
Withdrawn for Spending			(15,818)
Total Net Change			**$ 50,662**

	Fair Value	**Cost**	**Net Return**
June 30, 2016	$ 438,362	$ 369,994	$ 68,368
June 30, 2015	435,229	361,363	73,866
Unrealized Net Loss			(5,498)
New Gifts and Transfers			12,935
Realized Net Gain			8,601
Net Income			2,031
Withdrawn for Spending			(14,936)
Total Net Change			**$ 3,133**

(dollars in thousands)

I. Commitments

Major plant projects include commitments as follows:

Unaudited Project	Estimated Project Cost	Project-to-Date Expenditures 2017	Project-to-Date Expenditures 2016
STEM Project	$ 104,000	$ 70,471	$ 43,746
Central Plant Chiller Expansion	$ 11,800	$ 10,736	$ 3,602
First Year Student Housing and Dining	$ 70,000	$ 65,658	$ 23,634

The University has entered into operating leases for space, which expire at various dates through fiscal 2022. Outstanding commitments for these leases are expected to be paid in the following years ending June 30:

For the Fiscal Year Ending June 30	Rental Payments Due
2018	$ 2,608
2019	1,109
2020	697
2021	553
2022	428
TOTAL	**$ 5,395**

Operating lease expenses totaled $2,817 and $3,267 in 2017 and 2016, respectively.

The University is obligated under certain of its investments to make future capital contributions in the amount of $45,537 as of June 30, 2017.

The University entered into agreements with the State of Vermont Department of Vermont Health Access in both 2017 and 2016, 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 $13,704 and $13,492 were made in 2017 and 2016, respectively, 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 2018, based on the four-year agreement entered into on August 30, 2017, the University will make quarterly payments to the State of Vermont Department of Vermont Health Access totaling $13,885.

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 and business interruption. 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 fiscal 2005 as a fronting insurer to Genesis. On December 31, 2015, Genesis dissolved and merged its assets and liabilities into Pinnacle, to improve efficiencies and reduce operating costs. 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 $2,000 excess limit, written by Pinnacle effective 7/1/05, and the group purchase liability program that provides a $23,000 excess limit. The University has purchased an additional $75,000 from the commercial insurance market to bring the total excess limit to $100,000.

The University follows the policy of self-insuring risks up to certain limits. At year end, the University had open claims valued at $3,028 in 2017 and $2,656 in 2016; $426 and $204 of this is covered by excess insurance in 2017 and 2016, respectively. The University paid claims of $2,844 in 2017 and $2,787 in 2016. Reserves for property and casualty liabilities are included in accrued liabilities (including incurred but not reported) in the amount of $7,423 at June 30, 2017 and $6,808 at June 30, 2016.

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, operating performance or cash flows of the University.

Four 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, operating performance or cash flows of the University.

(dollars in thousands)

J. Service Concession Arrangements

On July 1, 2015, the University entered into an agreement (the "Agreement") with a third party under which the third party would operate the University's Food Services and collect revenues generated from resident and non-resident meal plans, as well as sales of food, beverages, goods, merchandise and services. The contract term is five years with an option to extend for an additional five years if mutually agreed. The third party will use University facilities to provide this service and will pay the University a guaranteed minimum annual commission; the present value of these guaranteed amounts is estimated to be $9,608. The third party will also pay UVM a percentage of net sales. The third party is required to operate the University's Food Service and facilities in accordance with the Agreement. The third party has also agreed to fund capital improvements to the University's premises, valued at $7,503 in FY17. The University is reporting the facilities used to provide the food service as a capital asset at book value. The University is reporting a receivable, liability and deferred inflow of resources at year-end pursuant to the service concession arrangement in the amounts of $9,608, ($7,503), and ($2,105), respectively. The deferred inflow will be recognized as revenue ratably over the term of the Agreement.

K. 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;
- 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;
- officers of administration or tenure track faculty at the level of assistant professor or above receive University contributions to their retirement plan immediately upon enrolling in the plan.

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 403(b) and 457(b) contributory retirement plans are administered by the Teachers Insurance Annuity Association of America (TIAA), the College Retirement Equities Fund (CREF), Prudential Financial Services, and Fidelity Investments. 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.

For the years ended June 30, 2017 and 2016, the University had total payroll expense of $286,752 and $276,680, respectively, of which $206,127 in 2017 and $198,658 in 2016 was covered by the University's 403(b) retirement plan. Total employee and employer contributions for 403(b) pension benefits for the year were $17,569 and $20,613, respectively, for 2017 and $17,176 and $19,866, respectively, for 2016. 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 $4,156 in fiscal year 2017 and $3,596 in fiscal year 2016.

L. 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 based on whether the employee was at least 65 years of age at June 30, 2014:

1) Pre-65 retirees that met the retirement benefit eligibility criteria that were in place at the time of his or her hire date, and retired on or before June 30, 2014, will receive the post-retirement medical benefit and premium contributions will remain unchanged. For employees hired before January 1, 2012, if the employee met the retirement eligibility criteria that were in place at the time of his or her hire date, and did not retire on or before June 30, 2014, then he or she is eligible for the benefit but his or her share of the premium contribution will change based on the employee's salary at the date of retirement. If, by June 30, 2014, the employee has not met the eligibility criteria that were in place at the time of his or her hire date, then he or she will be eligible to enroll in the pre-65 post-retirement medical benefit plan, but will be responsible for 100% of the

(dollars in thousands)

premium unless the employee has at least fifteen years of service in which case, at the age of 62, the employee will be eligible for the pre-retirement medical benefit and will pay 50% of the premium for Non-United Academic employees, and 60% of the premium for United Academic employees. Employees hired on or after January 1, 2012 will be able to participate in the post-retirement medical plan but they will be responsible for 100% of the premium.

2) Post-65 retirees that met the retirement benefit eligibility criteria that were in place at the time of his or her hire date, and retired on or before June 30, 2014, will receive the post-retirement medical benefit and premium contributions will remain unchanged. Employees hired before January 1, 2012 who do not retire by June 30, 2014 will be eligible for the post-65 benefit when they reach the age of 65 and have 15 years of service, but the premium will change based on the employee's salary at the date of retirement. Employees hired on or after January 1, 2012 will be able to participate in the post-retirement medical plan but they will be responsible for 100% of the premium.

Employees 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 in effect prior to June 30, 2000 (based on 0.5% times 75% of the average final three years' base salary). Retirees hired after June 30, 1992 have the same salary band contribution percentages 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. A retirement benefit structure was announced in December 2011, affecting employees retiring on or after June 30, 2015. Consideration is given to age and years of service, with employee participation in medical benefit coverage and the costs associated with that coverage.

As of January 1, 2015, there were 3,614 active employees, with an average age of 48.4 years and average credited service of 11.7 years, and 2,448 retirees and beneficiaries included in the census data used in the actuarial calculations.

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%, termination rates based on historical experience, a weighted average retirement age of 64, inflation rate of 2.5%, and annual salary rate increases of 3.0%. The valuation utilizes the RP-2014 Healthy Annuitant/Employee Mortality tables adjusted to reflect Scale MP-2015 from the 2006 base year and projected forward using Scale MP-2015 on a generational basis. The methods include the projected unit credit actuarial cost method and a 30-year amortization of the plan's initial unfunded liability on a closed, level dollar basis. Additionally, each year's plan changes, assumption changes, actuarial gains and losses, and contribution excesses/deficiencies are amortized over separate closed periods of 30 years on a level dollar basis. Health care cost inflation is assumed to be 6.6% / 8.2% in 2016 for pre-Medicare/Medicare medical coverage and gradually decrease to 4.50% going forward. Dental trend is assumed to be 5.0% in all years.

The actuarial accrued liability at the measurement date of July 1, 2015 was $438,628. There are no assets specifically funding the liability as the University's contributions are comprised entirely of direct payments for benefits. Employer contributions for fiscal year ended June 30, 2017 totaled $17,156 ($12,248 in 2016 and $12,867 in 2015), or 36.2% (27.3% in 2016 and 38.4% in 2015) of annual other postemployment benefit (OPEB) cost. The annual required contribution (ARC) of $51,265 for fiscal year 2017 is the sum of $16,342, the normal cost at July 1, 2016 plus interest, the 2017 amortization of the initial UAAL of $21,555, the amortization of contribution deficiencies of $14,297, and the amortization of plan experience of ($929). The ARC of $48,093 for fiscal year 2016 is the sum of $15,542 the normal cost at July 1, 2015 plus interest, the 2016 amortization of the initial UAAL of $21,555, the amortization of contribution deficiencies of $11,925, and the amortization of plan experience of ($929).

Total annual OPEB costs and liabilities for the 2017 and 2016 fiscal years include the following components:

	June 30, 2017	June 30, 2016
Annual required contribution	$ 51,265	$ 48,093
Interest on net OPEB obligation	10,421	8,739
ARC adjustment	(14,296)	(11,925)
Annual OPEB cost	47,390	44,907
Contributions during FY	(17,156)	(12,248)
Increase in net OPEB obligation	30,234	32,659
Net OPEB obligation, beginning of year	202,356	169,697
Net OPEB obligation, end of year	$ 232,590	$ 202,356

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.

(dollars in thousands)

M. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2017 and 2016 are summarized as follows:

Year ended June 30, 2017

Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 159,621	$ 20,639	$ -	$ -	$ 180,260
Research	58,366	27,535	-	-	85,901
Public service	47,501	17,253	-	-	64,754
Academic support	47,520	16,693	-	-	64,213
Student services	28,298	17,978	-	-	46,276
Institutional support	31,408	9,136	-	-	40,544
Operations and maintenance of plant	28,954	22,118	-	-	51,072
Scholarships and fellowships	-	-	17,198	-	17,198
Auxiliary enterprises	30,790	50,263	-	-	81,053
Depreciation	-	-	-	29,931	29,931
TOTAL	**$ 432,458**	**$ 181,615**	**$ 17,198**	**$ 29,931**	**$ 661,202**

Year ended June 30, 2016

Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 153,593	$ 20,859	$ -	$ -	$ 174,452
Research	58,828	27,276	-	-	86,104
Public service	45,238	15,887	-	-	61,125
Academic support	46,158	15,628	-	-	61,786
Student services	27,446	17,256	-	-	44,702
Institutional support	30,924	6,003	-	-	36,927
Operations and maintenance of plant	23,796	23,110	-	-	46,906
Scholarships and fellowships	-	-	16,002	-	16,002
Auxiliary enterprises	33,815	45,700	-	-	79,515
Depreciation	-	-	-	26,422	26,422
TOTAL	**$ 419,798**	**$ 171,719**	**$ 16,002**	**$ 26,422**	**$ 633,941**

N. 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 $321 and $331 in fiscal 2017 and fiscal 2016, respectively.

Also, in fiscal 2017, 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 after fiscal 2017 and therefore fiscal 2017 supplies and services expense and current accrued liabilities include $1,898 ($2,090 in fiscal 2016) for the expected remediation portion of these projects. The accrual is based on management's estimate of expected outlays. There are no recoveries associated with these projects.

O. Subsequent Events

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements of Auditing Standards*, provides guidance for disclosure of events or transactions that occur subsequent to the Statements of Net Position date but prior to the issuance of the financial statements. The statement specifically refers to the issuance of bonds as an event that requires disclosure in the footnotes. On July 10, 2017 the University issued $57,020 of General Obligation Bonds. The proceeds from the bonds will be used for the purpose of refunding the remaining portion of the 2007 General Obligation Bonds. The University incurred a deferred gain of $490 on the refunding of the 2007 General Obligation Bonds.

(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
2017	$ 47,390	$ 17,156	36.2%
2016	$ 44,907	$ 12,248	27.3%
2015	$ 33,547	$ 12,868	38.4%

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
1/1/2015	$ -	$ 438,628	$ 438,628	0.0%	$ 219,449	199.9%
1/1/2013	$ -	$ 307,028	$ 307,028	0.0%	$ 211,849	144.9%
1/1/2011	$ -	$ 306,453	$ 306,453	0.0%	$ 208,900	146.7%

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
2017	$ 51,265	$ 10,421	$ (14,296)	$ 47,390	$ 17,156	$ 30,234
2016	$ 48,093	$ 8,739	$ (11,925)	$ 44,907	$ 12,248	$ 32,659
2015	$ 36,250	$ 7,675	$ (10,378)	$ 33,547	$ 12,868	$ 20,679

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

The University of Vermont

UNIVERSITY FINANCIAL SERVICES
333 WATERMAN BUILDING
85 SOUTH PROSPECT STREET
BURLINGTON, VT 05405
802 656-2903 www.uvm.edu