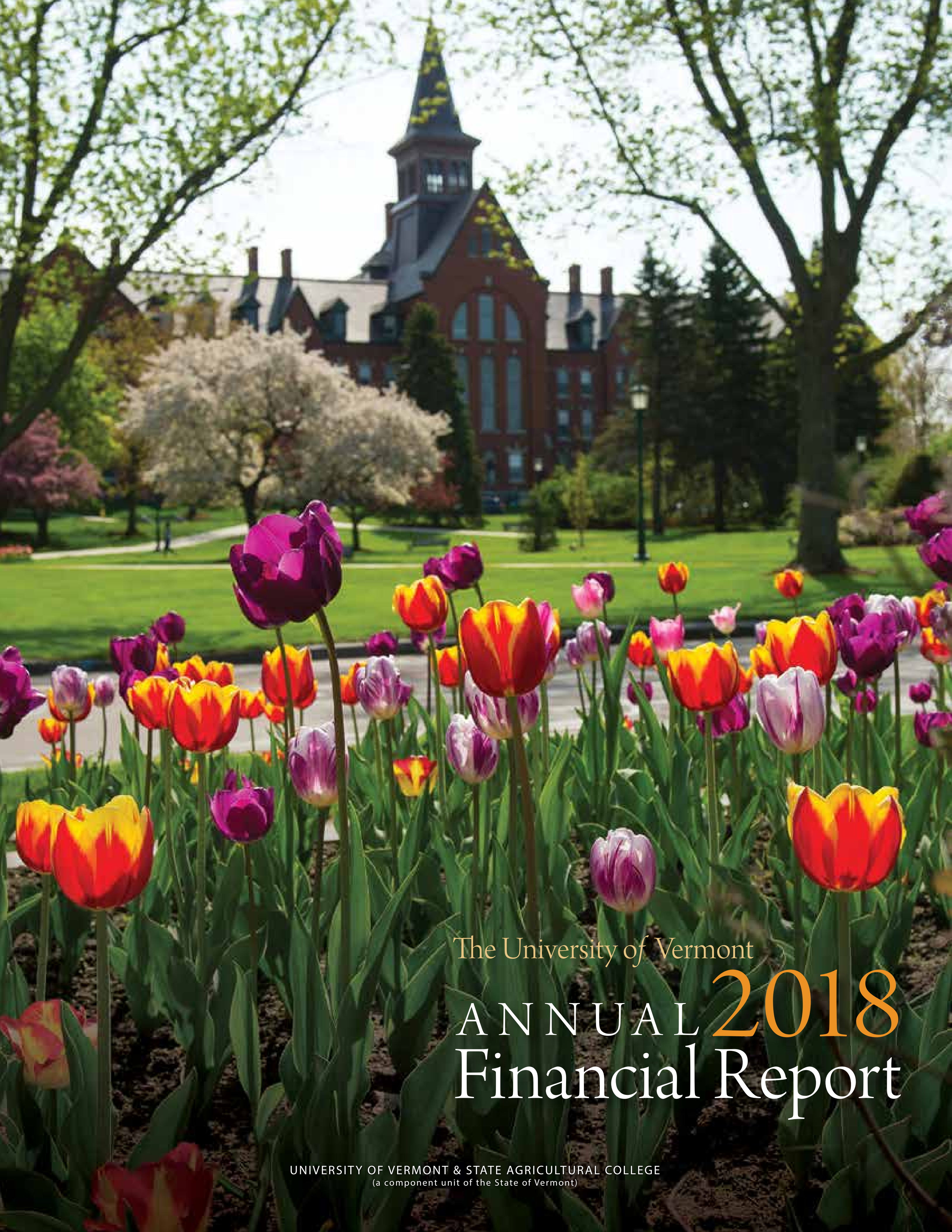

The University of Vermont

ANNUAL 2018 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)

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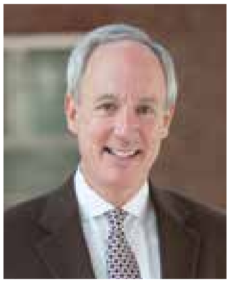
(a component unit of the State of Vermont)



Letter from the President

Members of the Board of Trustees,

I attach the Annual Financial Report for the Fiscal Year ended June 30, 2018. The state of the UVM's finances is sound.

These financial statements reflect an increase of $27.7 million in the University's net position. A key contributor to the change in net position was the volatile condition of the financial markets. 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, 2018, the market value of the entire combined endowment (UVM and Foundation) was $555 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 increase the total student experience at UVM.

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, 2018 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 2018.

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
One Park Place
463 Mountain View Drive, Suite 400
Colchester, VT 05446-9909

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 years ended June 30, 2018 and 2017, 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 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 insofar 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 business-type activities and the aggregate discretely presented component units, of the University as of June 30, 2018 and 2017, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018 the University adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 – 14 and the required supplementary information on page 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018 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

November 5, 2018

The University of Vermont

Management's Discussion and Analysis (Unaudited)

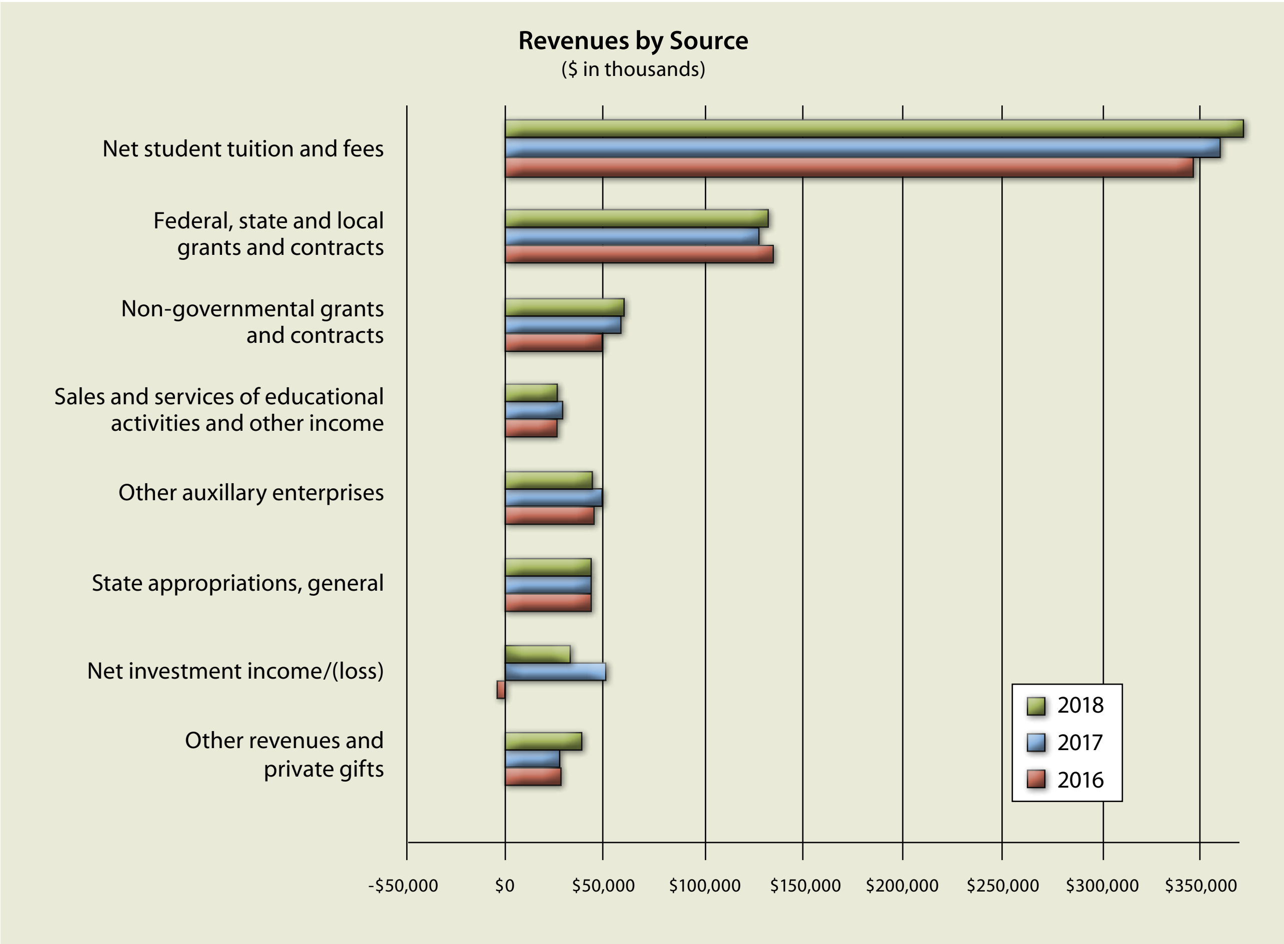
June 30, 2018 and 2017

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, 2018 and 2017, 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 10,612 undergraduate students and 2,067 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

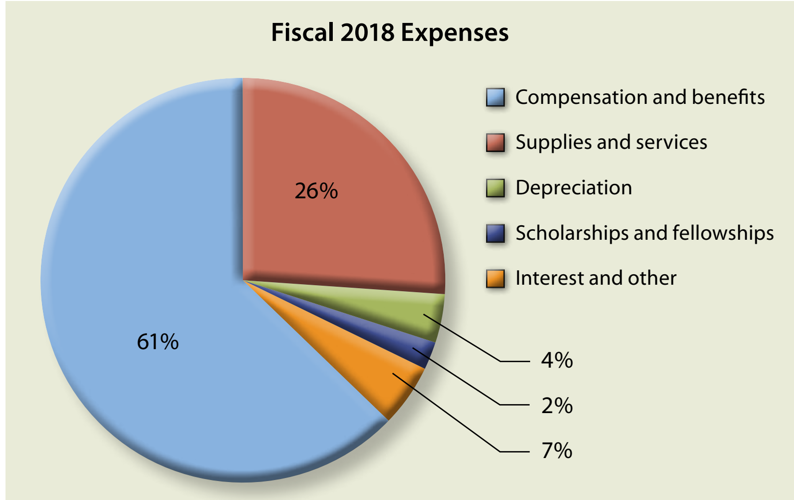
The President's strategic action plan titled "Enhancing Quality and Affordability" outlines four major initiatives which are the cornerstone for all University decisions; 1) Access to success: promoting affordability, financial access and academic support, 2) Promoting a culture of advancing academic 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 2019.

In fiscal 2018, a restatement of net position as of July 1, 2017 for the other postemployment benefit (OPEB) liability was required due to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This resulted in a decrease to unrestricted net position of $230.3 million. Excluding the effects of this adoption, the University's net position increased by $27.7 million in fiscal 2018, compared to an increase of $36.1 million in fiscal 2017. The increase in fiscal 2018 was largely due to favorable performance in the financial markets; with a net gain in the investment portfolio of $33.2 million. The fiscal 2018 net gain in the investment portfolio was down $19.9 million from the net gain of $53.1 million in fiscal 2017. The fiscal 2017 gain increased $60.0 million from the loss in fiscal 2016 of $(6.9) million.

Total operating revenues increased in fiscal 2018 by $11.9 million, or 1.9%. This included an increase in net student tuition and fees of $22.8 million, or 5.6%. Other critical revenues include state appropriations and state capital appropriations. State appropriations increased slightly to $43.0 million in fiscal 2018 from $42.9 million in fiscal 2017 while state capital appropriations decreased to $1.4 million in fiscal 2018 compared to $1.9 million in fiscal 2017.

The University experienced an increase in operating costs of $7.2 million, or 1.1%, in fiscal 2018. Compensation and benefits represents the most significant operating cost, comprising 64.6% and 65.4% of operating costs in 2018 and 2017, respectively. Compensation and benefit expenses decreased by $0.5 million which was primarily due to a lower annual accrual for other postemployment benefits offset by salary and wage increases in 2018 of 1.5-2.5% for faculty and between 1.5-2.0% for staff. Supplies and service expenses increased by $6.7 million. Other significant non-operating expenses include interest on indebtedness which was $17.3 million in 2018 compared to $16.7 million in 2017 and transfers to other governmental entities and the UVM Foundation which, combined, were $21.0 million in 2018 and $28.4 million in 2017.

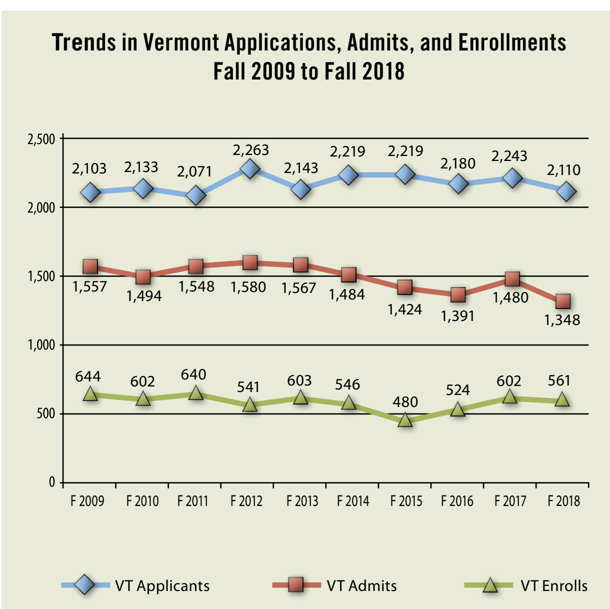
The chart to the right displays operating, interest, and other expenses for fiscal 2018:

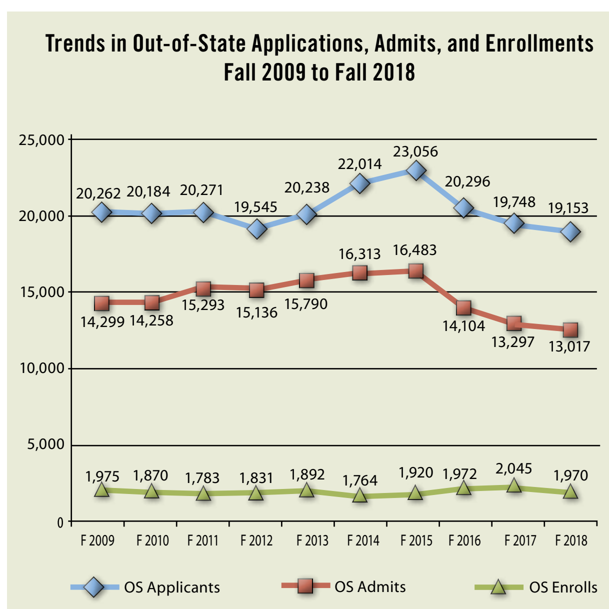


During fiscal year 2018, construction continued on the Sciences, Technology, Engineering and Mathematics (STEM) complex which will provide innovative research and classroom spaces for those disciplines, as well as the renovation of the Billings Library, and the Kalkin Building Expansion.

In the fall of fiscal 2019, the University enrolled 10,612 students in more than 100 undergraduate majors, 1,601 students in graduate and post-baccalaureate programs, and 466 students at the College of Medicine. The University attracts undergraduates from over 40 states and many foreign countries. The University is primarily a regional institution however, drawing 87% of the undergraduates enrolled in the fall of fiscal year 2019 from New England and the Middle Atlantic States, including 22% of its undergraduate students from Vermont. Graduate and Certificate student enrollment from Vermont represented 44.9%.

The following tables present applications, admissions, and enrollments for in-state and out-of-state students. Final numbers for the fall of fiscal year 2019 show that total applications have decreased 4.9% since 2009, with in-state applications increasing 0.3% and out-of-state applications decreasing 5.5%. Total admissions have decreased for that period by 9.4%, with in-state admissions decreasing 13.4% and out-of-state admissions decreasing 9.0%. Since 2009, total first-time, first year enrollments have decreased 3.4%, with in-state enrollments decreasing by 12.9% and out-of-state enrollments increasing by 0.3%.





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 3.4% and 3.5%, respectively, since 2010. The table to the right presents tuition and fees, as well as room and board for that period.

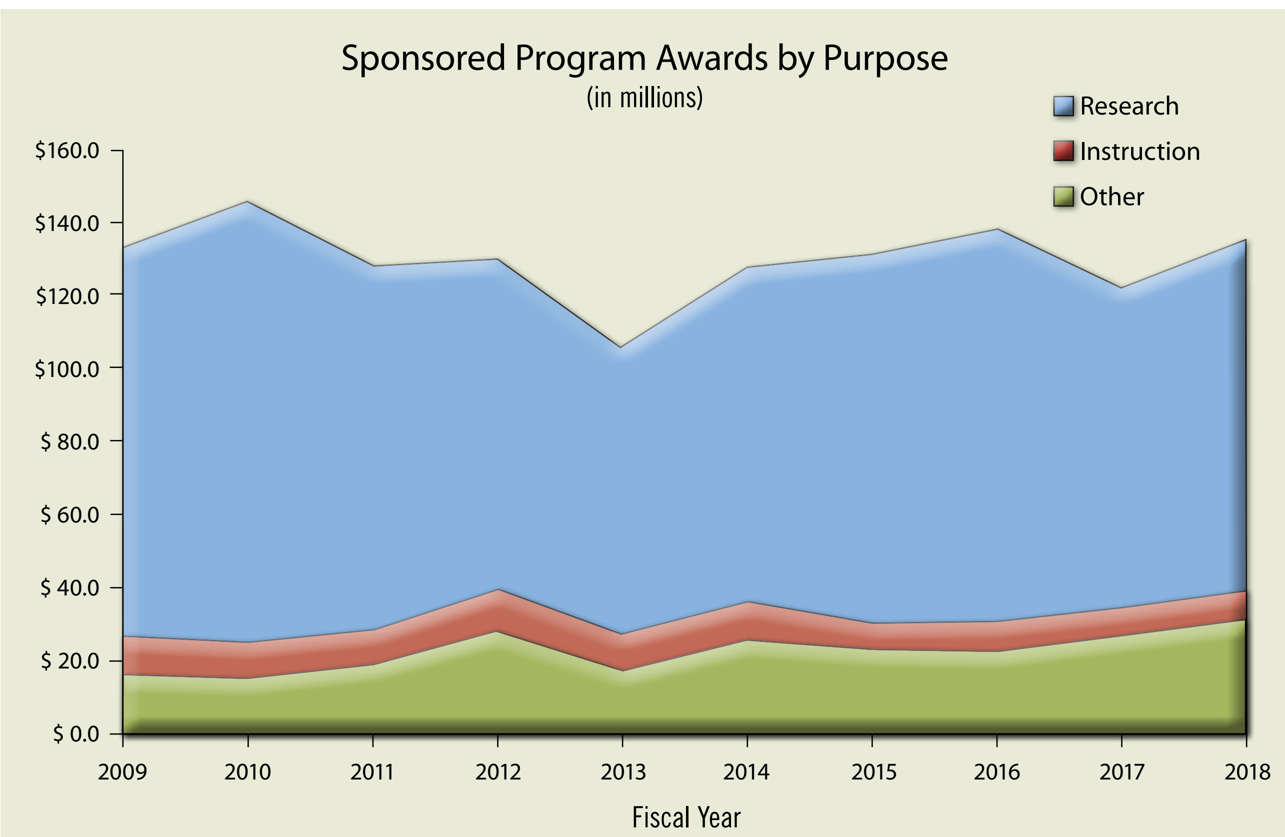
The State of Vermont ("the State") general appropriations represented 5.8% of the University's total revenues for fiscal year 2018. The University received a State capital appropriation of $1.4 million in fiscal year 2018 and $1.9 million in fiscal year 2017.

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

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Average Annual % Increase
Student Tuition & Fees									
In-State Tuition & Fees	$14,066	$14,784	$15,284	$15,718	$16,226	$16,768	$17,300	$17,740	3.42%
Out-of-State Tuition & Fees	$32,630	$34,424	$35,612	$36,646	$37,874	$39,160	$40,364	$41,356	3.50%
Room (Double)	$6,196	$6,426	$6,650	$6,844	$7,116	$7,376	$7,634	$7,900	3.58%
Board (Average Meal Plan)	$3,156	$3,282	$3,414	$3,558	$3,664	$3,774	$3,944	$4,122	3.92%
Total, In-State Cost	$23,418	$24,492	$25,348	$26,120	$27,006	$27,918	$28,878	$29,762	
Increase Over Previous Year	3.85%	4.59%	3.50%	3.05%	3.39%	3.38%	3.44%	3.06%	3.53%
Total, Out-of-State Cost	$41,982	$44,132	$45,676	$47,048	$48,654	$50,310	$51,942	$53,378	
Increase Over Previous Year	3.90%	5.12%	3.50%	3.00%	3.41%	3.40%	3.24%	2.76%	3.54%

Grant and contract revenues of $180.5 million represented 24.4% of total revenues for fiscal 2018 which included facility and administrative cost recoveries of $27.6 million and additional commitment funds from University of Vermont Medical Center, Inc. of $15.7 million. During fiscal 2018, the University was awarded over $135.9 million in sponsored funds, 71.2% of which were for research activities. Approximately 59.7% of sponsored funds awarded during fiscal 2018 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, 2018 and 2017 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)	
		**Restated*	**Restated*
	2018	**2017**	**2016**
Assets			
Current assets	$ 332,061	$ 327,154	$ 299,791
Non-current assets	1,250,058	1,193,419	1,149,669
Total assets	**1,582,119**	**1,520,573**	**1,449,460**
Deferred outflows of resources			
Loss on refunding of debt	5,215	5,936	3,524
Postemployment benefits	12,617	-	-
Total deferred outflows of resources	**17,832**	**5,936**	**3,524**
Liabilities			
Current liabilities	183,025	158,452	139,270
Non-current liabilities	1,061,628	811,563	785,253
Total liabilities	**1,244,653**	**970,015**	**924,523**
Deferred inflows of resources			
Service concession arrangement	1,826	2,104	9,012
Split interest	3,407	1,640	2,815
Total deferred inflows of resources	**5,233**	**3,744**	**11,827**
Net position			
Net investment in capital assets	116,345	95,797	80,234
Restricted:			
Non-expendable	115,918	115,035	111,533
Expendable	342,741	329,753	297,691
Unrestricted	(224,939)	12,165	27,176
Total net position	**$ 350,065**	**$ 552,750**	**$ 516,634**

*"*Refer to footnote A2 of the audited financial statements for a discussion of the restatement.*

University Medical Associates, Inc. (UMEA) and University of Vermont Foundation, Inc. (UVMF) are legally separate tax-exempt, discretely presented 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, 2018, with comparative information for 2017 and 2016 are contained on the page 9 chart.

Net position totaled $350.1 million, $552.8 million, and $516.6 million at June 30, 2018, 2017, and 2016, respectively, decreasing by $202.7 million in 2018 and increasing by $36.1 million in 2017. The primary contributors to the significant decrease in net position in 2018 was the change of accounting principle for the other postemployment benefit (OPEB) liability. Both 2018 and 2017 were significantly impacted by the investment market.

Current assets of $332.1 million, $327.2 million, and $299.8 million at June 30, 2018, 2017, and 2016, respectively, consist primarily of cash and cash equivalents, and operating investments, which totaled $276.1 million at June 30, 2018, $273.3 million at June 30, 2017, and $239.7 million at June 30, 2016. Cash and cash equivalents and operating investments represents approximately 5.2, 5.2, and 5.4 months of total operating expenses, excluding depreciation, for 2018, 2017, and 2016, respectively. The net increase to current assets in 2018 of $4.9 million was driven by a $2.8 million increase in cash, cash equivalents and operating investments, a $1.4 million increase in accounts, loans, notes and pledges receivable and a $0.7 increase in inventories, prepaid expenses and deferred charges. 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.

Non-current assets of $1.3 billion, $1.2 billion, and $1.1 billion at June 30, 2018, 2017, and 2016, respectively, consist primarily of the following:

- *Capital assets, net of accumulated depreciation*, totaled $673.0 million, $641.9 million and $574.8 million at June 30, 2018, 2017 and 2016, respectively, representing an increase of $31.1 million, or 4.8%, in 2018 and an increase of $67.1 million, or 11.7%, in 2017. Gross capital additions totaled $65.0 million in 2018 and $101.8 million in 2017. Capital additions in 2018 included land improvements of $1.3 million, renovations to residence and dining halls, research laboratories, and other buildings of $5.2 million, building components and equipment and building interiors of $2.3 million, fixed equipment of $1.5 million, moveable equipment of $1.6 million and construction in progress of $53.1 million. These additions in 2018 were offset by disposals of $12.2 million and an increase to accumulated depreciation of $21.8 million. Capital additions in 2017 included land acquisitions and 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.

- *Endowment cash, cash equivalents and investments* totaling $490.8 million, $453.3 million and $408.9 million at June 30, 2018, 2017, and 2016, respectively. In fiscal 2018, there was an increase of $37.5 million, or 8.3%, and an increase of $44.4 million, or 10.9% in 2017. 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 $21.6 million, $20.3 million, and $18.6 million in fiscal years ended June 30, 2018, 2017, and 2016, respectively. These distributions were 4.4%, 4.6%, and 4.3% of the beginning market value of the endowment for fiscal years 2018, 2017, and 2016, respectively.

- The decrease to *Deposits with Trustees* of $21.6 million in 2018 and the decrease 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.

Deferred outflows of resources were $17.8 million and $5.9 million at, June 30, 2018 and 2017, respectively. In fiscal 2018, deferred outflows represent the deferred loss on refunding of general obligation bonds totaling $5.2 million and valuation of certain other postemployment benefit costs totaling $12.6 million.

Current liabilities increased $24.6 million in 2018 and $19.2 million in 2017. In both 2018 and 2017, 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, 2018 the amount of UVMF assets held in the University's pooled endowment was $81.0 million. At June 30, 2017 the amount of UVMF assets held in the University's pooled endowment was $55.4 million.

Non-current liabilities increased $250.1 million in 2018 compared to $26.3 million in 2017. The increase in 2018 is mostly due to the result of $260.0 million in additional liability for postemployment benefits. This was offset by a decrease in the non-current portion of bonds and leases payable of $11.2 million. 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.

Deferred inflows of resources totaled $5.2 million in fiscal year 2018 and $3.7 million in fiscal year 2017. In 2018, these inflows included $1.8 million in future guaranteed payments due from Sodexo Management, Inc., under the Food Service Program agreement as well as the present value of anticipated future gifts from split interest agreements valued at $3.4 million.

Net investment in capital assets of $116.3 million, $95.8 million, and $80.2 million, at June 30, 2018, 2017, and 2016, 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 $20.5 million in 2018 was primarily the result of the net effect of additions and disposals to capital assets of $52.8 million the increase in bonds payable related to capitalized assets of $10.5 million and an increase of accumulated depreciation of $21.8 million. 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.

Restricted non-expendable net position totaling $115.9 million, $115.0 million, and $111.5 million at June 30, 2018, 2017, and 2016, 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 $0.9 million, or 0.8%, in 2018, and $3.5 million, or 3.1%, in 2017, resulted from new gifts.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Restricted expendable net position totaled $342.7 million, $329.8 million, and $297.7 million, as of June 30, 2018, 2017, and 2016, respectively. The increase of $12.9 million in 2018 and the increase of $30.5 million in 2017 were primarily due to changes in net investment income. In 2018 and 2017 there was a net investment gain of $33.2 million and $53.1 million, respectively.

		(In thousands)	
		****Restated***	****Restated***
	2018	**2017**	**2016**
Operating revenues	$ 625,541	$ 613,600	$ 589,346
Operating expenses	(668,359)	(661,202)	(633,941)
Operating loss	(42,818)	(47,602)	(44,595)
Net non-operating revenues	68,681	79,864	32,131
Revenue (loss) before capital and endowment additions	25,863	32,262	(12,464)
State capital appropriations	1,400	1,900	1,400
Capital gifts and grants	304	444	180
Gifts for endowment purposes	91	1,510	1,646
Total capital and endowment additions	1,795	3,854	3,226
Increase (decrease) in net position	**27,658**	**36,116**	**(9,238)**
Cumulative effect of change in accounting principle	(230,343)	-	-
Net position, beginning of year	552,750	516,634	525,872
Net position, end of year	**$ 350,065**	**$ 552,750**	**$ 516,634**

*"*Refer to footnote A2 of the audited financial statements for a discussion of the restatement.*

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 $(224.9) million, $12.2 million, and $27.2 million for June 30, 2018, 2017, and 2016, respectively. Unrestricted net position was adjusted in fiscal 2018 by $(230.3) million for a change in accounting principle for other postemployment benefits (OPEB). The additional $6.8 million decrease in 2018 was primarily due to increases in net tuition and fees of $13.4 million and facilities & administration recovery from sponsored agreements of $1.9 million offset by a decrease of other auxiliary enterprise revenue of $6.2 million and a decrease of student loan interest and other operating revenues of $1.0 million. Operating expenses increased in fiscal 2018 by $13.9 million including a decrease of $6.3 million in compensation and benefits, an increase of $4.9 million in supplies and services and an increase of $15.4 million in scholarships and fellowships. 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 $3.5 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.

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, 2018, with comparative totals for the years ended June 30, 2017 and June 30, 2016, can be found on page 11.

Net position decreased by $202.7 million in 2018 and increased by $36.1 million in 2017. Contributors to the decrease in 2018 include a change of accounting principle for other postemployment benefits of $(230.3) million, a decrease in net investment income of $19.9 million and an increase of operating expenses of $7.2 million partially offset by an increase in net student fees of $13.4 million, an increase in federal, state, and private grants and contracts of $7.3 million and gifts of $13.7 million. Contributors to the increase in 2017 include an increase in net investment income of $60.0 million, an increase in net tuition and fee revenue of $16.2 million, offset by an increase in operating expenses of $27.3 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 $13.4 million in 2018, comprised of an increase to tuition and fees of $22.8 million, or 5.6%, an increase to residential life revenues of $5.8 million, or 9.5%, and by an increase in scholarship allowances of $15.2 million, or 14.4%. 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 $8.0 million, or 8.2%. 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 $137.5 million, $122.7 million, and $113.5 million, were awarded to students in 2018, 2017, and 2016, respectively. This represents a total increase of $14.8 million, or 12.1%, for 2018 as compared to a $9.2 million increase, or 8.1%, for 2017.

- *Revenues for sponsored programs* of $180.5 million in 2018, $173.2 million in 2017, and $173.7 million in 2016, 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 change in fiscal 2018 is due to additional University of Vermont Medical Center Commitment and Dean's Tax funds, as well as increased federal funding for the College of Medicine. The minimal change in fiscal 2017 is due to steady funding. 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 $27.6 million, $25.6 million, and $25.5 million, in 2018, 2017, and 2016, respectively.

- *Auxiliary enterprise and educational activities revenues* totaled $51.3 million, $58.2 million, and $52.1 million, in 2018, 2017, and 2016 , 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. Fiscal 2018 had steady revenue streams while fiscal 2017 had a $6.1 million increase primarily due to one-time payments under the dining contract.

- *Student loan interest and other operating revenues* were $19.6 million, $21.5 million, and $19.1 million in 2018, 2017, and 2017, respectively.

Significant components of operating expenses include the following:

- *Compensation and benefits* of $431.9 million, $432.5 million, and $419.8 million in 2018, 2017, and 2016, respectively, comprise the most significant portion of total expenses. Compensation and benefits decreased by $0.6 million, or 0.1% in 2018 due to lower annual expenses related to other postemployment benefits offset by budgeted increases for faculty and staff. The increase of $12.7 million, or 3.0%, in fiscal 2017 was due to 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. In addition, health plan benefit costs increased by $3.6 million, or 6.7%, in 2018 and by $2.3 million, or 4.5%, in 2017.

- *Supplies and services expenses* increased by $6.7 million, or 3.7% in 2018, and increased by $9.9, or 5.8%, in 2017. 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.

- D*epreciation expense* increased by $1.4 million, or 4.8%, in 2018 and increased by $3.5 million, or 13.3%, in 2017.

- *Scholarships and fellowships* of $16.8 million in 2018, $17.2 million in 2017, and $16.0 million in 2016 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 $43.0 million in 2018, $42.9 million in 2017 and $43.0 million in 2016, increasing by 0.3% in 2018 and decreasing by 0.3% in 2017.

- *Federal Pell grants*, which represents funds received from the federal government to help low-income undergraduate students were $7.8 million, $6.9 million, and $7.2 million in 2018, 2017, and 2016, respectively.

- *Intergovernmental Transfers* totaled $13.6 million, $13.7 million, and $13.5 million in 2018, 2017 and 2016, 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 $31.5 million, $17.8 million, and $19.1 million, in 2018, 2017, and 2016, respectively.

- *Gain (loss) on disposal of capital assets* totaled $(2.6) million, $4.8 million and $9.7 million in 2018, 2017 and 2016, respectively. In fiscal 2018, the University demolished the Cook Physical Science complex to complete construction of Discovery Hall. In fiscal 2017, the University sold apartment buildings and related fixed assets resulting in the gain.

- *Net other non-operating expense* totaled $6.0 million in fiscal 2018 and $0.4 in fiscal 2017. Included in fiscal 2018 expense were UVM funds pledged to the City of Burlington to improve downtown over the next 20 years. Also included in this expense are life income payments totaling $0.4 million in both 2018 and 2017, respectively.

- *Transfers to Component Units from UVM* totaled $7.3 million and $14.7 million in 2018 and 2017, respectively. These transfers were to the UVM Foundation, Inc. from the University to assist the Foundation in its operations.

- *Net investment income/(loss)* was $33.2 million, $53.1 million, and $(6.9) million in 2018, 2017, and 2016, respectively. Net investment income includes realized investment income and the change in the unrealized appreciation or depreciation of investments. Net investment income in fiscal 2018 and 2017 were affected greatly by volatility in the financial markets. The change in unrealized appreciation/(depreciation) included in net investment income was $16.1 million in 2018, $32.4 million in 2017, and $(19.8) million in 2016. Realized gains and other income included in net investment income totaled $17.1 million, $20.7 million, and $12.9 million in 2018, 2017, and 2016, respectively.

- *Interest on indebtedness* totaled $17.3 million in 2018, $16.7 million in 2017, and $17.2 million in 2016. Interest on indebtedness represents interest on notes and bonds net of capitalized interest.

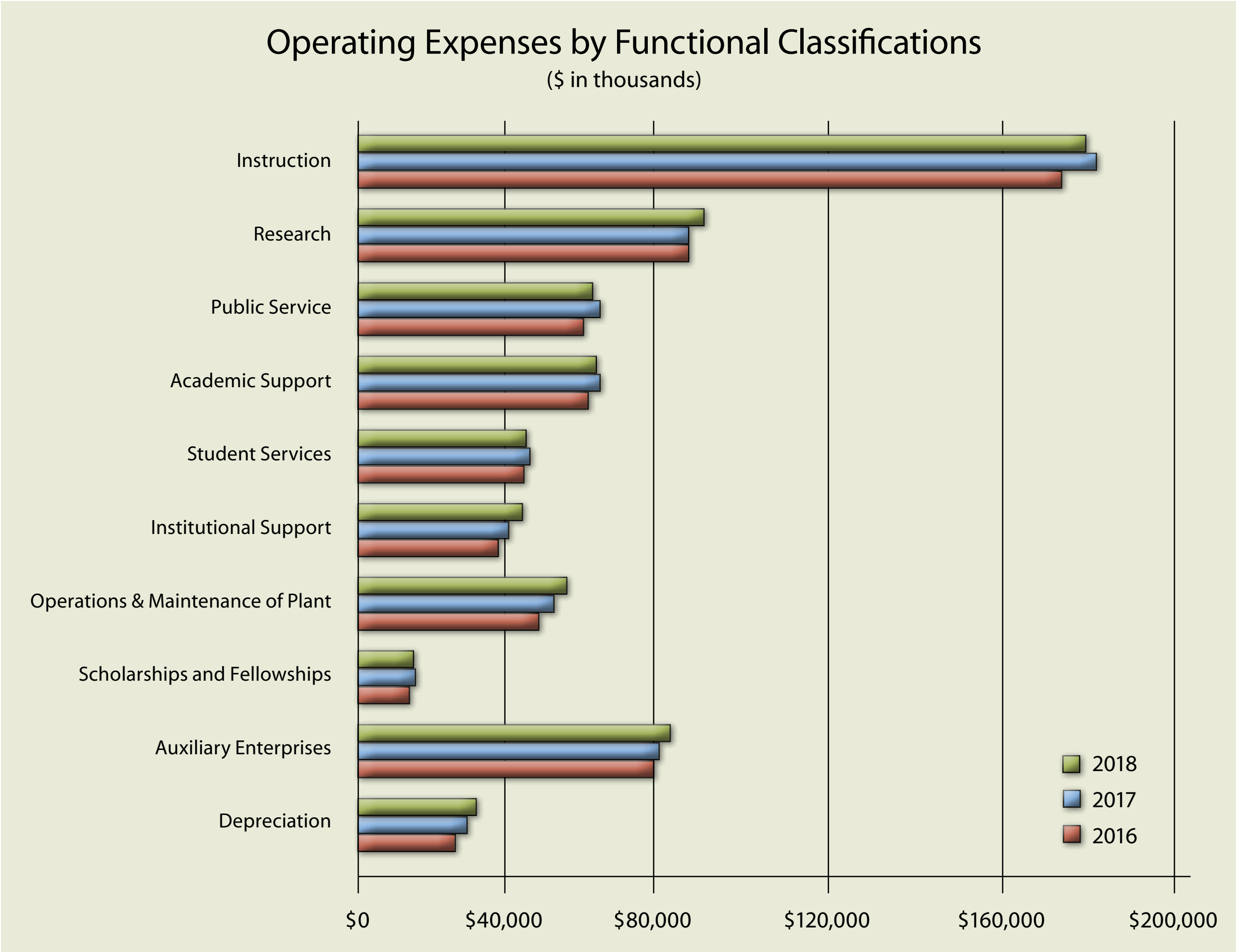
Other financial resources presented after *Revenue (Loss) before capital and endowment additions* include the following:

- *State capital appropriations* were $1.4 million, $1.9 million, and $1.4 million in 2018, 2017 and 2016, respectively.

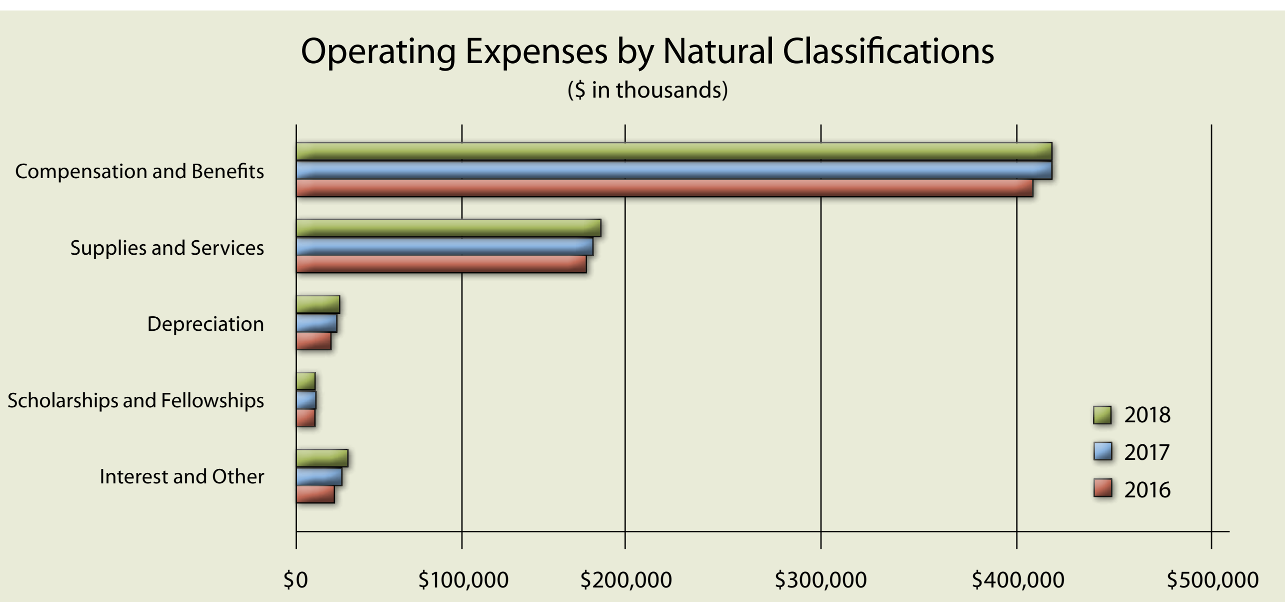
- *Capital and endowment gifts and grants* were $0.4 million, $2.0 million, and $1.8 million, in 2018, 2017, and 2016, respectively.

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 $13.2 million, or 1.9%, in 2018 and $37.7 million, or 5.7%, in 2017. 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 2018, 2017, and 2016:



The following chart presents total expenses by natural classification for 2018, 2017, and 2016:



Statements of Net Position
as of June 30, 2018 and 2017
(dollars in thousands)

	2018	*Restated 2017	UMEA 2018	UMEA 2017	UVMF 2018	UVMF 2017
ASSETS						
Current assets:						
Cash and cash equivalents	$ 153,491	$ 151,514	$ 555	$ 572	$ 33,255	$ 27,285
Operating investments	122,654	121,826	61,914	60,110	17,070	22,605
Accounts, loans, notes and pledges receivable, net	43,953	42,521	765	583	14,004	8,062
Inventories and prepaid expenses	11,963	11,293	8	8	361	321
Total current assets	**332,061**	**327,154**	**63,242**	**61,273**	**64,690**	**58,273**
Non-current assets:						
Endowment cash, cash equivalents and investments	490,792	453,323	-	-	101,164	83,129
Student loans, notes, and pledges receivable, net	36,991	33,132	-	-	13,605	8,003
Investments for capital activities	41,247	35,128	-	-	10	-
Deposits with trustees	8,077	29,674	-	-	1,261	1,221
Prepaid expenses and other assets	-	222	-	-	-	-
Capital assets, net	672,951	641,940	-	-	8,852	8,950
Total non-current assets	**1,250,058**	**1,193,419**	**-**	**-**	**124,892**	**101,303**
Total Assets	**1,582,119**	**1,520,573**	**63,242**	**61,273**	**189,582**	**159,576**
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of debt	5,215	5,936	-	-	-	-
Postemployment benefits	12,617	-	-	-	-	
Total Deferred Outflows of Resources	**17,832**	**5,936**	**-**	**-**	**-**	**-**
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	73,192	73,360	421	230	10,613	8,760
Unearned revenue, deposits, and funds held for others	98,668	74,314	43,025	41,278	121	104
Bonds and leases payable	11,165	10,778	-	-	-	-
Total current liabilities	**183,025**	**158,452**	**43,446**	**41,508**	**10,734**	**8,864**
Non-current liabilities:						
Accrued liabilities	23,662	22,370	-	-	-	-
Postemployment benefits	492,575	232,590	-	-	-	-
Bonds and leases payable	545,391	556,603	-	-	5,388	5,658
Total non-current liabilities	**1,061,628**	**811,563**	**-**	**-**	**5,388**	**5,658**
Total Liabilities	**1,244,653**	**970,015**	**43,446**	**41,508**	**16,122**	**14,522**
DEFERRED INFLOWS OF RESOURCES						
Service concession arrangement	1,826	2,104	-	-	-	-
Split-interest arrangements	3,407	1,640	-	-	-	-
Total Deferred Inflows of Resources	**5,233**	**3,744**	**-**	**-**	**-**	**-**
NET POSITION						
Net investment in capital assets	116,345	95,797	-	-	3,464	3,292
Restricted:						
Non-Expendable	115,918	115,035	-	-	95,989	78,159
Expendable	342,741	329,753	14,392	14,040	66,491	57,136
Unrestricted	(224,939)	12,165	5,404	5,725	7,516	6,467
Total Net Position	**$ 350,065**	**$ 552,750**	**$ 19,796**	**$ 19,765**	**$ 173,460**	**$ 145,054**

The accompanying notes are an integral part of the financial statements
**Refer to footnote A2 of audited financial statements for a discussion of the restatement.*

Statements of Revenues, Expenses and Changes in Net Position

for the years ended June 30, 2018 and 2017

(dollars in thousands)

	2018	*Restated 2017	UMEA 2018	UMEA 2017	UVMF 2018	UVMF 2017
Operating revenues						
Tuition and fees	$ 427,998	$ 405,242	$ -	$ -	$ -	$ -
Residential life	66,722	60,907	-	-	-	-
Less scholarship allowances	(120,657)	(105,477)	-	-	-	-
Net student fees	374,063	360,672	-	-	-	-
Federal, state, and private grants and contracts	180,541	173,209	-	-	1,067	986
Sales and services of educational activities	7,706	8,369	-	-	-	-
Other auxiliary enterprises	43,611	49,852	-	-	-	-
Student loan interest and other operating revenues	19,620	21,498	147	104	496	504
Total operating revenues	**625,541**	**613,600**	**147**	**104**	**1,563**	**1,490**
Operating expenses						
Compensation and benefits	(431,919)	(432,458)	(314)	(229)	(8,277)	(8,177)
Supplies and services	(188,285)	(181,615)	-	-	(2,447)	(2,880)
Depreciation	(31,356)	(29,931)	-	-	(341)	(257)
Scholarships and fellowships	(16,799)	(17,198)	-	-	-	-
Total operating expenses	**(668,359)**	**(661,202)**	**(314)**	**(229)**	**(11,065)**	**(11,314)**
Operating income (loss)	**(42,818)**	**(47,602)**	**(167)**	**(125)**	**(9,502)**	**(9,824)**
Non-operating revenues (expenses)						
State appropriations	43,010	42,894	-	-	-	-
Federal Pell grants	7,844	6,874	-	-	-	-
Private gifts	5,375	503	431	396	32,282	33,286
Net investment income	33,202	53,086	1,186	1,946	7,818	6,549
Interest on indebtedness	(17,290)	(16,741)	-	-	(89)	(72)
Gain/(loss) on disposal of capital assets	(2,609)	4,754	-	-	-	-
Net other non-operating expense	(6,018)	(380)	-	-	(583)	(515)
Intergovernmental transfers	(13,644)	(13,704)	-	-	-	-
Transfers from UVM to component units	(7,334)	(14,711)	-	-	6,709	14,193
Transfers to UVM from component units	26,145	17,289	(1,419)	(741)	(22,006)	(15,429)
Net non-operating revenues	**68,681**	**79,864**	**198**	**1,601**	**24,131**	**38,012**
Revenue before capital and endowment additions	**25,863**	**32,262**	**31**	**1,476**	**14,629**	**28,188**
State capital appropriations	1,400	1,900	-	-	-	-
Capital gifts and grants	304	444	-	-	-	-
Gifts for endowment purposes	91	1,510	-	-	13,777	11,754
Total capital and endowment additions	**1,795**	**3,854**	**-**	**-**	**13,777**	**11,754**
Increase in net position	27,658	36,116	31	1,476	28,406	39,942
Restatement of net position as of July 1, 2017*	(230,343)	-	-	700	-	-
Net position, beginning of year adjusted	552,750	516,634	19,765	17,589	145,054	105,112
Net Position, End of Year	**$ 350,065**	**$ 552,750**	**$ 19,796**	**$ 19,765**	**$ 173,460**	**$ 145,054**

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

**Refer to footnote A2 of audited financial statements for a discussion of restatement*

Statements of Cash Flows

for the years ended June 30, 2018 and 2017

(dollars in thousands)

	2018	2017
Cash Flows From Operating Activities		
Tuition and fees (net of applicable discounts)	$ 327,322	$ 309,371
Grants and contracts	174,031	181,115
Sales and services of educational activities	7,706	8,369
Sales and services of auxiliary enterprises:		
Residential life fees, net of scholarship allowances	50,449	47,126
Other	43,611	49,852
Payments to employees and benefit providers	(413,906)	(396,677)
Payments to vendors	(184,999)	(180,275)
Payments for scholarships and fellowships	(16,799)	(17,198)
Student loans issued	(5,628)	(3,766)
Student loans collected, interest and other revenue	2,675	2,295
Other receipts, net	19,135	20,994
Net cash provided by operating activities	**3,597**	**21,206**
Cash Flows From Non-Capital Financing Activities		
State general appropriation	43,010	42,894
Federal Pell grants	7,844	6,874
Private gifts for other than capital purposes	1,229	4,568
Intergovernmental transfers	(13,644)	(13,704)
Transfers from UVM to component units	(7,334)	(14,711)
Transfers to UVM from component units	26,029	17,289
Deposits of affiliates and life income payments, net	20,759	13,564
Net cash provided by non-capital financing activities	**77,893**	**56,774**
Cash Flows From Capital Financing Activities		
Proceeds from issuance of capital debt	67,068	80,341
State capital appropriation	1,400	1,900
Capital grants, gifts and other income	1,085	(3,970)
Purchases and construction of capital assets	(60,148)	(96,054)
Proceeds from disposal of capital assets	-	9,471
Principal paid on capital debt	(78,553)	(87,775)
Interest paid on capital debt	(22,126)	(24,974)
Changes in deposits with trustees, net	21,135	71,770
Net cash used in capital financing activities	**(70,139)**	**(49,291)**
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	106,983	126,657
Purchase of investments	(126,324)	(127,212)
Interest and dividends on investments, net	4,443	3,387
Net cash (used in) provided by investing activities	**(14,898)**	**2,832**
Net increase (decrease) in cash and cash equivalents	**(3,547)**	**31,521**
Cash and cash equivalents - beginning of year	162,910	131,389
Cash and cash equivalents - end of year *	**$159,363**	**$162,910**
Reconciliation of Operating Loss To Cash Provided by Operating Activities		
Operating loss	$ (42,818)	$ (47,602)
Adjustments to reconcile operating loss to net cash provided by Operating Activities:		
Depreciation expense	31,356	29,931
Changes in assets and liabilities:		
Accounts receivable and loan receivables, net	313	7,802
Inventories and prepaid expense	(683)	1,314
Accounts payable	(4,574)	(587)
Unearned revenue, deposits and accrued liabilities	20,003	30,348
Net cash provided by operating activities	**$ 3,597**	**$ 21,206**

**of total cash and cash equivalents for 2018, $153,491 is current and $5,872 is non-current endowment and for 2017, $151,514 is current and $11,396 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, 2018 and 2017

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 12,679 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 year ends 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 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. In accordance with 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.

(dollars in thousands)

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.

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.

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaced Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, and became effective for all fiscal years beginning after June 15, 2017. Under GASB 45, employers were required to calculate the unfunded actuarial accrued liability (UAAL) for other postemployment benefits (OPEB) whereas under GASB 75 employers are 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 requires that the NOL be recognized on the Statements of Net Position. Under GASB 45 the UAAL was disclosed in the footnotes (note L). Other changes prescribed by GASB 75 include more frequent actuarial valuations, the rate used to discount future benefit payments to a present value, the measurement date, and required disclosures. Disclosures now include year over year comparisons and sensitivity calculations for NOL. To comply with GASB 75, the University restated the July 1, 2017 Statement of Revenues, Expenses, and Changes in Net Position $230,343.

The GASB issued Statement 81, *Irrevocable Split-Interest Agreements*, effective for years beginning after December 15, 2016. 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. Going forward, the receipt of split-interest agreements will be recognized as a deferred inflow of resources. To comply with GASB 81, the University has restated fiscal 2017 opening net position by reclassifying $1,585 from restricted expendable net position to unconditional interests deferred outflows. In addition, net investment income increased $1,468 from $51,618 to $53,086 as a result of split interest activity being recorded as deferred inflow of resources.

	As Previously Reported	GASB 81 Adjustment	As Restated
Net position as of July 1, 2016	$ 518,219	$ (1,585)	$ 516,634
For the year ended June 30, 2017:			
Net investment income	51,618	1,468	53,086
Increase in net position	34,648	1,468	36,116
Net position as of June 30, 2017	**$ 552,867**	**$ (117)**	**$ 552,750**

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.

(dollars in thousands)

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, certain investments are measured at net asset value (NAV) without further adjustment 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 as described above. 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.

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 2018 and 2017 consists of:

Grants and Contracts	FY18	FY17
Federal appropriations, grants and contracts	$ 113,413	$ 109,273
State grants and contracts	4,308	3,369
Other governmental grants and contracts	7	-
Private grants and contracts	62,813	60,567
TOTAL	**$180,541**	**$173,209**

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 $27.6 million in 2018 and $25.6 million in 2017.

Private grants and contracts includes funding of $15.7 million in 2018 and $15.7 million in 2017 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, 2018, and 2017, is $10,286 and $10,733, 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, 2018, and 2017, is $4,671 and $5,502, 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 $60,432 in 2018 and $56,802 in 2017. The total cost for contributions to the RHSP was $856 in 2018 and $708 in 2017. See note L for further information about postemployment benefits.

(dollars in thousands)

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, 2018, $21,022 ($20,275 in 2017) was accrued for vacation pay of which $15,530 ($14,981 in 2017) was charged to unrestricted net position and $5,492 ($5,294 in 2017) 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.

B. Accounts, Loans, Notes, and Pledges Receivable

Accounts, loans, notes and pledges receivable at June 30, 2018 and 2017 are summarized as follows:

Accounts, Loans, Notes and Pledges Receivable, Net	June 30, 2018	June 30, 2017
Current		
Federal, state, and private grants receivable	$ 16,923	$ 15,678
Student and trade accounts receivable, net	11,308	12,385
Other accounts receivable	13,084	11,279
Student loans receivable, net	2,077	2,182
Pledges receivable, net	561	997
Total Current	**$ 43,953**	**$ 42,521**
Non-Current		
Student loans receivable, net	$ 19,588	$ 20,160
Other notes receivable	11,907	12,933
Pledges receivable, net	5,496	39
Total Non-Current	**$ 36,991**	**$ 33,132**

The student accounts receivable are carried net of an allowance for doubtful accounts of $358 in 2018 and $418 in 2017.

Student loans receivable are carried net of an allowance for uncollectible UVM loans of $53 current and $443 non-current at June 30, 2018. At June 30, 2017, student loans receivable are carried net of an allowance for uncollectible UVM loans of $72 current and $581 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 $6,947 for 2018 and $7,346 for 2017. 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 $7,076 and the current receivable balance is $1,315 in 2018. The non-current receivable balance is $8,303 and the current receivable balance is $1,305 in 2017.

Accounts receivable from the UVMF and UMEA are $10,203 in 2018 and $8,365 in 2017 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 $73,192 in 2018 and $73,360 in 2017 are composed of accounts payable of $15,786 in 2018 and $20,363 in 2017 and accrued liabilities of $57,023 in 2018 and $52,997 in 2017. Also included in this total are pledges payable of $383 for 2018, included in the chart of Note E. Accounts payable is mostly comprised of supplies and services payables, including construction, renovation and equipment of $12,297 in 2018 and $16,585 in 2017.

Current accrued liabilities at June 30, 2018 and 2017 are summarized below:

Current Accrued Liabilities	June 30, 2018	June 30, 2017
Interest expense	$ 5,966	$ 6,174
Construction retainage	3,456	4,860
Compensated absences	21,022	20,275
Insurance reserves	8,721	7,423
Compensation and benefits	7,826	6,589
Payment to annuitants	389	369
Service concession arrangement	938	938
Other	8,705	6,369
TOTAL	**$ 57,023**	**$ 52,997**

(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 2018, net interest expense of $4,627 ($7,967 in 2017) 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 2018 is $28,590 ($27,085 in 2017). Moveable equipment, software systems, and land improvements depreciation expense is $2,766 for 2018 ($2,846 in 2017).

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

Capital assets activity for the years ended June 30, 2018 and 2017 is summarized as follows:

Fiscal Year 2018

Asset	Balance as of June 30, 2017	Additions	Retirements	Reclass/ Changes	Balance as of June 30, 2018
Land	$ 28,039	$ -	$ -	$ -	$ 28,039
Land Improvements	4,812	1,250	-	-	6,062
Buildings	635,871	5,227	(6,507)	77,756	712,347
Building Service Systems	136,240	1,897	(1,180)	5,364	142,321
Building Interiors	74,480	414	(1,183)	554	74,265
Fixed Equipment	117,492	1,477	(2,793)	-	116,176
Movable Equipment	30,016	1,627	(548)	528	31,623
Software Systems	30,067	-	-	-	30,067
Construction in Progress	80,184	53,084	-	(84,202)	49,066
Total property and equipment	**1,137,201**	**64,976**	**(12,211)**	**-**	**1,189,966**
Less: accumulated depreciation	(495,261)	(31,356)	9,602	-	(517,015)
Property, plant and equipment, net	**$ 641,940**	**$ 33,620**	**$ (2,609)**	**$ -**	**$ 672,951**

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**

(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 3.25% to 6.43%. The debt obligations mature at various dates through 2045.

On July 10, 2017 the University issued $57,020 of Series 2017 General Obligation Bonds at par value with a premium of $9,675. The proceeds from the bonds were used, together with available moneys of the University, to refund 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.

Long term debt activity for the years ended June 30, 2018 and 2017 is summarized as follows:

Fiscal Year 2018

				Ending Balance	
Long Term Liability	**Beginning Balance**	**New Debt**	**Payments**	**Current**	**Non-Current**
General Obligation Bonds					
Series 2007	$ 73,727	$ -	$ 73,727	$ -	$ -
Series 2009 (1)	70,831	-	1,768	1,828	67,235
Series 2010A	9,000	-	-	-	9,000
Series 2010B (2)	17,796	-	40	1,280	16,476
Series 2012A (3)	46,586	-	(13)	(13)	46,612
Series 2014A (4)	73,188	-	1,757	1,827	69,604
Series 2015 (5)	196,133	-	329	2,529	193,275
Series 2016 (6)	80,120	-	428	3,149	76,543
Series 2017 (7)	-	67,068	373	383	66,312
Capital Leases	-	660	144	182	334
TOTAL	**$ 567,381**	**$ 67,728**	**$ 78,553**	**$ 11,165**	**$ 545,391**

(1) This balance shown includes bond discount of $883.
(2) This balance shown is net of bond premium of $406.
(3) This balance shown includes bond discount of $262.
(4) This balance shown is net of bond premium of $5,919.
(5) This balance shown includes bond premium of $8,874.
(6) This balance shown includes bond premium of $10,821.
(7) This balance shown includes bond premium of $9,675.

(dollars in thousands)

Fiscal Year 2017

Long Term Liability	Beginning Balance	New Debt	Payments	Ending Balance Current	Ending Balance 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.

In compliance with the University's various bond indentures, at June 30, 2018 the University has deposits with trustees of $542 ($21,677 in 2017) 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
2019	$ 9,728	$ 23,681	$ 33,409
2020	12,983	23,157	36,140
2021	13,322	22,535	35,857
2022	12,373	21,927	34,300
2023	12,950	21,311	34,261
2024-2028	75,255	96,129	171,384
2029-2033	96,430	75,828	172,258
2034-2038	119,405	52,410	171,815
2039-2043	128,105	23,723	151,828
2044-2046	41,455	2,209	43,664
TOTAL	**$ 522,006**	**$ 362,910**	**$ 884,916**

(dollars in thousands)

Other long term liabilities at June 30, 2018 and 2017 are summarized below:

Fiscal Year 2018

Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 7,346	$ -	$ 399	$ -	$ 6,947
Green Mountain Loan Guarantee	1,037	-	242	-	795
Obligations under deferred giving arrangements	7,569	691	2,867	389	5,004
Postemployment Benefits*	471,201	37,960	16,586	-	492,575
Service Concession Arrangement	7,503	-	938	938	5,627
Pledges Payable and Other Accrued Liabilities	222	5,627	174	386	5,289
TOTAL	**$ 494,878**	**$ 44,278**	**$ 21,206**	**$ 1,713**	**$ 516,237**

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	7,208	1,791	1,430	369	7,200
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	**$ 221,112**	**$ 55,140**	**$ 19,985**	**$ 1,307**	**$ 254,960**

** To comply with GASB 75, the University restated the beginning balance of postemployment benefits. More details can be found in note A2*

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, 2018	June 30, 2017
Cash	$ 71,563	$ 85,139
Certificates of Deposit	86,740	77,233
Money Markets	1,060	538
TOTAL	**$ 159,363**	**$ 162,910**

Of total cash and cash equivalents above, $5,872 in 2018 and $11,396 in 2017 are included in non-current endowment cash and cash equivalents.

(dollars in thousands)

The balance of cash held in bank deposit accounts was $153,378 at June 30, 2018 and $164,139 at June 30, 2017. Of these bank balances, $1,033 in 2018 and $1,018 in 2017 were covered by the Federal Depository Insurance Corporation. The University also has an irrevocable standby letter of credit up to $120,000 at June 30, 2018 and $135,000 at June 30, 2017 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 during the years ended June 30, 2018 and 2017.

Total operating investments were $122,654 at June 30, 2018 and $121,826 at June 30, 2017. Operating investments invested in the long term pool were $11,244 at June 30, 2018 and $10,960 at June 30, 2017 (see note G). Short and intermediate term operating investments at June 30, 2018 and 2017 were primarily made through commingled funds with the following investment strategies:

			Credit Quality %					
2018	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 100,907	3.3 yrs/ 3.0 yrs	46	2	14	32	6	-
Multi Strategy Equity Fund	10,195							
Other	308							
TOTAL	**$ 111,410**							

			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**							

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 $6,437 in 2018 and $6,873 in 2017 of assets held under deferred giving arrangements, $1,098 in 2018 and $1,124 in 2017 of investments in the waste disposal fund required by the EPA, and $542 in 2018 and $21,677 in 2017 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 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	**FY18**	**FY17**
Net interest, dividend, and other income	$ 5,936	$ 5,042
Realized gains	12,899	17,211
Unrealized gains	16,099	32,379
Investment management fees	(1,732)	(1,546)
TOTAL	**$ 33,202**	**$ 53,086**

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, 2018 and 2017 is summarized as follows:

Fiscal Year 2018	**Level 1**	**Level 2**	**Level 3**	**NAV**	**Total Investments**
Investments:					
Equity Securities					
U.S. Equity	$ 122,395	$ -	$ -	$ -	$ 122,395
Global Developed	74,953	-	-	-	74,953
Global Emerging	39,324	-	-	22,332	61,656
Total Equity Securities	236,672	-	-	22,332	259,004
Marketable Alternative					
Absolute Return	-	-	-	87,351	87,351
Hedged Equity	-	-	-	15,649	15,649
Total Marketable Alternative	-	-	-	103,000	103,000
Real Assets					
Private Real Assets	-	-	325	30,995	31,320
Public Real Assets	18,487	-	-	9,952	28,439
Total Real Assets	18,487	-	325	40,947	59,759
Private Equity/Venture Capital					
Private Equity	-	-	8	15,132	15,140
Venture Capital	-	-	-	21,381	21,381
Secondaries	-	-	-	9,692	9,692
Distressed	-	-	-	13,269	13,269
Total Private Equity/Venture Capital	-	-	8	59,474	59,482
Debt Securities	46,698	120,197	-	-	166,895
Other Investments	235	-	446	-	681
Cash and Cash Equivalents	5,872	-	-	-	5,872
Total Investments	**$ 307,964**	**$ 120,197**	**$ 779**	**$ 225,753**	**$ 654,693**
Deposits With Trustees at Fair Value:					
Beneficial Interests in Trusts	$ -	$ -	$ 6,436	$ -	$ 6,436
Debt Securities	542	1,045	-	-	1,587
Cash and Cash Equivalents	54	-	-	-	54
Total Deposits With Trustees	**$ 596**	**$ 1,045**	**$ 6,436**	**$ -**	**$ 8,077**

(dollars in thousands)

Fiscal Year 2017	Level 1	Level 2	Level 3	NAV	Total Investments
Investments:					
Equity Securities					
U.S. Equity	$ 104,094	$ -	$ -	$ -	$ 104,094
Global Developed	67,056	-	-	-	67,056
Global Emerging	37,835	-	-	21,087	58,922
Total Equity Securities	208,985	-	-	21,087	230,072
Marketable Alternative					
Absolute Return	-	-	-	83,957	83,957
Hedged Equity	-	-	-	14,672	14,672
Total Marketable Alternative	-	-	-	98,629	98,629
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	113,365	-	-	161,059
Other Investments	466	-	625	-	1,091
Cash and Cash Equivalents	11,396	-	-	-	11,396
Total Investments	**$ 284,558**	**$ 113,365**	**$ 959**	**$ 211,395**	**$ 610,277**
Deposits With Trustees at Fair Value:					
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)

Investment liquidity for the years ended June 30, 2018 and 2017 is summarized as follows:

Fiscal Year 2018	**Daily**	**Monthly**	**Quarterly**	**Semi-Annual**	**Annual**	**Illiquid**	**Total**	**Redemption Notice Period**
Investments:								
Equity Securities								
U.S. Equity	$ 115,929	$ 6,466	$ -	$ -	$ -	$ -	$ 122,395	1-30 days
Global Developed	74,953	-	-	-	-	-	74,953	Same day
Global Emerging	39,324	-	22,332	-	-	-	61,656	1-60 days
Total Equity Securities	230,206	6,466	22,332	-	-	-	259,004	
Marketable Alternative								
Absolute Return	10,189	8,454	26,315	6,942	35,446	5	87,351	1-90 days, Illiquid
Hedged Equity	-	-	-	15,649	-	-	15,649	90 days
Total Marketable Alternative	10,189	8,454	26,315	22,591	35,446	5	103,000	
Real Assets								
Private Real Assets	-	-	-	-	-	31,320	31,320	Illiquid
Public Real Assets	18,487	-	-	-	-	9,952	28,439	Same day, Illiquid
Total Real Assets	18,487	-	-	-	-	41,272	59,759	
Private Equity/Venture Capital								
Private Equity	-	-	-	-	-	15,140	15,140	Illiquid
Venture Capital	-	-	-	-	-	21,381	21,381	Illiquid
Secondaries	-	-	-	-	-	9,692	9,692	Illiquid
Distressed	-	-	-	-	-	13,269	13,269	Illiquid
Total Private Equity/ Venture Capital	-	-	-	-	-	59,482	59,482	
Debt Securities	151,144	15,751	-	-	-	-	166,895	1-30 days
Other Investments	235	-	-	-	-	446	681	Same day, Illiquid
Cash and Cash Equivalents	5,872	-	-	-	-	-	5,872	Same day
Total Investments	**$ 416,133**	**$ 30,671**	**$ 48,647**	**$ 22,591**	**$ 35,446**	**$101,205**	**$654,693**	

(dollars in thousands)

Fiscal Year 2017	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total	Redemption Notice Period
Investments:								
Equity Securities								
U.S. Equity	$ 97,889	$ 6,205	$ -	$ -	$ -	$ -	$ 104,094	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	202,780	6,205	21,087	-	-	-	230,072	
Marketable Alternative								
Absolute Return	9,088	8,627	24,726	15,223	20,083	6,210	83,957	1-90 days, Illiquid
Hedged Equity	-	-	-	14,672	-	-	14,672	90 days
Total Marketable Alternative	9,088	8,627	24,726	29,895	20,083	6,210	98,629	
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	152,347	8,712	-	-	-	-	161,059	1-30 days
Other Investments	466	-	-	-	-	625	1,091	Same day, Illiquid
Cash and Cash Equivalents	11,396	-	-	-	-	-	11,396	Same day
Total Investments	**$ 392,094**	**$ 23,544**	**$ 45,813**	**$ 29,895**	**$ 20,083**	**$ 98,848**	**$610,277**	

The following is a description of the investment categories:

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 interests in private companies including buyout funds, secondary markets, and distressed debt.

Venture Capital - This asset class includes investments focusing on non-publicly traded interests 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.

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 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 top right table:

(dollars in thousands)

Unaudited	June 30, 2018		June 30, 2017	
	Target %	Actual %	Target %	Actual %
US Equity	20.0	22.0	19.0	20.3
Global Excluding US Equity	23.0	25.6	24.0	25.8
Marketable Alternatives	19.0	17.4	21.0	18.3
Real Estate/Inflation Hedges	13.0	12.7	13.0	12.8
Non-marketable Alternatives	13.0	9.6	13.0	9.2
Fixed Income/Debt	12.0	11.8	10.0	11.5
Cash & Cash Equivalents	0.0	0.9	0.0	2.1

Endowment and similar investments including $11,244 and $10,960 of operating investments and $41,247 and $35,128 of capital investments at June 30, 2018 and 2017, respectively, are composed of the following:

	June 30, 2018	June 30, 2017
Cash	$ 4,833	$ 9,862
Money Market	1,039	1,534
Common Stock	115,929	97,889
U.S. Treasury Bonds and Notes	474	481
Other Government Bonds and Notes	197	332
Industry Bonds	2,880	2,815
Private Equity and Venture Partnerships	116,125	100,109
Life Estates	949	928
Hedge Funds	115,178	110,900
Mutual Funds	185,679	174,561
TOTAL	**$ 543,283**	**$ 499,411**

The fixed income portfolio is composed of two passive bond funds with the following risk profiles at June 30, 2018 and 2017:

			Credit Quality %					
2018	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**<BBB**
Passive Bond Funds	$62,428	4.4	44	3	3	11	38	1

			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

(dollars in thousands)

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 $64.20), 4,755.8939 units were owned by endowment funds and 3,541.3406 units by quasi endowment funds at June 30, 2018 ($62.58, 4,737.4387 and 3,077.4780 respectively, at June 30, 2017).

Beginning in fiscal year 2013 the University of Vermont Foundation (UVMF) elected to participate in the UVM pooled endowment. The UVMF owned 1,261.2855 units with a market value of $80,971 as of June 30, 2018 and 884.9141 units with a market value of $55,374 as of June 30, 2017. 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, 2018	$ 532,658	$ 411,178	$ 121,480
June 30, 2017	489,024	386,461	102,563
Unrealized Net Gain			18,917
New Gifts and Transfers			26,658
Realized Net Gain			12,849
Net Income			1,508
Withdrawn for Spending			(16,298)
Total Net Change			**$ 43,634**

	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**

I. Commitments

Major plant projects include commitments as follows:

Unaudited **Project**	**Estimated Project Cost**	**Project-to-Date Expenditures 2018**	**Project-to-Date Expenditures 2017**
STEM Project	$ 104,000	$ 84,827	$ 70,471
Billings Library Renovation	8,500	5,654	190
Kalkin Expansion Project	11,000	9,962	1,578

The University has entered into operating leases for space, which expire at various dates through fiscal 2023. 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**
2019	$ 1,047
2020	720
2021	528
2022	395
2023	213
TOTAL	**$ 2,903**

Operating lease expenses totaled $4,458 and $5,041 in 2018 and 2017, respectively.

The University is obligated under certain of its investments to make future capital contributions in the amount of $45,072 as of June 30, 2018.

The University entered into agreements with the State of Vermont Department of Vermont Health Access in both 2018 and 2017, 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 $13,644 and $13,704 were made in 2018 and 2017, 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 2019, 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 $13,865.

(dollars in thousands)

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 $3,248 in 2018 and $3,028 in 2017; $10 and $426 of this is covered by excess insurance in 2018 and 2017, respectively. The University paid claims of $2,378 in 2018 and $2,844 in 2017. Reserves for property and casualty liabilities are included in accrued liabilities (including incurred but not reported) in the amount of $8,721 at June 30, 2018 and $7,423 at June 30, 2017.

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.

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 $8,391. 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 $6,565 in FY18. 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 $8,391, ($6,565), and ($1,826), 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.

(dollars in thousands)

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, 2018 and 2017, the University had total payroll expense of $294,262 and $286,752, respectively, of which $211,255 in 2018 and $206,127 in 2017 was covered by the University's 403(b) retirement plan. Total employee and employer contributions for 403(b) pension benefits for the year were $18,054 and $21,126, respectively, for 2018 and $17,569 and $20,613, respectively, for 2017. 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 $4,500 in fiscal year 2018 and $4,156 in fiscal year 2017.

L. Postemployment Benefits Other Than Pensions (OPEB)

FY18 Disclosures Required by GASB Statement 75:

The University is required to account for its postemployment benefit plan in accordance with GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which was adopted effective July 1, 2017. GASB Statement 75 prescribes a methodology which requires the employer to recognize a total OPEB liability on the Statements of Net Position. Changes in the total OPEB liability will immediately be recognized as OPEB expense on the Statements of Revenues, Expenses, and Changes in Net Position or reported as deferred outflows or deferred inflows of resources depending on the nature of the changes.

1. Plan Description

The University's OPEB 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 defined benefit OPEB plan administered by the University. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

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 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.

At the valuation date of January 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,677
Active employees	3,842
TOTAL	**5,519**

(dollars in thousands)

2. Total OPEB Liability

The University's total OPEB liability of $492,575 was determined by an actuarial valuation as of January 1, 2017, and then projected forward to the measurement date of December 31, 2017.

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.30%
Salary Increases	3.00%
Discount Rate	3.44%

The percentages below have been assumed for election of coverage by future eligible retirees:

Medical and Rx	95%
Dental	95%
Life Insurance	95%
	20% for disabled retirees

Assumed health care cost trend rates vary by benefit type as follows:

Benefit	Initial Rate	Ultimate Rate	Year Ultimate Rate is Reached
VHP Pre-Medicare	6.5%	4.0%	2087
J Carve-Out Medicare	6.6%	4.1%	2093
MediComp III Medicare	6.6%	4.1%	2084
Dental	5.0%	4.1%	2084
Tuition Remission	2.3%	2.3%	2018

The discount rate was based on Bond Buyer GO 20-Bond Municipal Bond Index. The discount rate is as of the measurement date.

The mortality rates were based on the Sex-distinct RP-2006 Base Healthy Annuitant /Employee Mortality Tables with projection Scale MP-2017 for healthy participants and Sex-distinct RP-2006 Base Disabled Mortality Tables with projection Scale MP-2017 for disabled participants.

The University's OPEB plan is not large enough to develop credible mortality table based exclusively on plan experience. Therefore the University has relied on the previously mentioned published mortality table in which credible mortality experience was analyzed.

3. Changes in Total OPEB Liability

The following table represents changes in Total OPEB Liability for the year ended June 30, 2018:

Fiscal Year 2018	Total OPEB Liability
Balance at 7/1/2017	$ 471,201
Changes for the year:	
Service cost	14,434
Interest on total OPEB liability	18,066
Effect of plan changes	-
Effect of economic/demographic gains or losses	847
Effect of assumption changes or inputs	4,085
Benefit payments	(16,058)
Net changes	21,374
Balance at 6/30/2018	**$ 492,575**

Changes of assumptions and other inputs reflect a change in the discount rate from 3.78% in 2017 to 3.44% in 2018.

The following presents the total OPEB liability of the University, calculated using the discount rate of 3.44%, as well as what the University's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.44%) or 1 percentage point higher (4.44%) than the current rates.

Fiscal Year 2018	1% Decrease (2.44%)	Discount Rate (3.44%)	1% Increase (4.44%)
Total OPEB liability	$ 574,964	$ 492,575	$ 426,676

The following presents the total OPEB liability for the University, calculated using the current healthcare cost trend rates as well as what the University's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates.

Fiscal Year 2018	1% Decrease	Current Trend Rate	1% Increase
Total OPEB liability	$ 418,002	$ 492,575	$ 587,400

(dollars in thousands)

4. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense for the fiscal year ended June 30, 2018 is summarized as follows:

OPEB Expense		FY18
Service cost	$	14,434
Interest on total OPEB liability		18,066
Effect of plan changes		-
Recognition of deferred outflows/inflows of resources		
Recognition of economic/demographic gains or losses		160
Recognition of assumption changes or inputs		772
OPEB expense	**$**	**33,432**

Deferred outflows and inflows of resources as of June 30, 2018 is summarized as follows:

Deferred Outflows/ Inflows of Resources		Deferred Inflows of Resources		Deferred Outflows of Resources
Difference between expected and actual experience	$	-	$	687
Changes of assumptions		-		3,312
Contributions after measurement period		-		8,618
TOTAL	**$**	**-**	**$**	**12,617**

Deferred outflows of resources resulting from contributions after the measurement period totaling $8,618 will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expenses as follows:

For the Fiscal Year Ending June 30		OPEB Expense
2019	$	932
2020		932
2021		932
2022		932
2023		271
Thereafter*		-

** Note that additional future inflows and outflows of resources may impact these numbers.*

FY17 Disclosures Required by GASB Statement 45:

The University's postemployment benefit plan in fiscal year 2017 had the same coverage options and plan provisions as described earlier in this footnote.

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, or 36.2% 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).

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

		June 30, 2017
Annual required contribution	$	51,265
Interest on net OPEB obligation		10,421
ARC adjustment		(14,296)
Annual OPEB cost		47,390
Contributions during FY		(17,156)
Increase in net OPEB obligation		30,234
Net OPEB obligation, beginning of year		202,356
Net OPEB obligation, end of year	$	232,590

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, 2018 and 2017 are summarized as follows::

Year ended June 30, 2018

Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 156,766	$ 21,948	$ -	$ -	$ 178,714
Research	59,611	30,208	-	-	89,819
Public service	47,641	15,506	-	-	63,147
Academic support	45,807	16,571	-	-	62,378
Student services	28,832	16,796	-	-	45,628
Institutional support	31,479	12,199	-	-	43,678
Operations and maintenance of plant	30,850	22,329	-	-	53,179
Scholarships and fellowships	-	-	16,799	-	16,799
Auxiliary enterprises	30,933	52,728	-	-	83,661
Depreciation	-	-	-	31,356	31,356
TOTAL	**$ 431,919**	**$ 188,285**	**$ 16,799**	**$ 31,356**	**$ 668,359**

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**

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 $1,456 and $321 in fiscal 2018 and fiscal 2017, respectively.

Also, in fiscal 2018, 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 2018 and therefore fiscal 2018 supplies and services expense and current accrued liabilities include $1,654 ($1,898 in fiscal 2017) 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.

(dollars in thousands)

Required Supplementary Information - Postemployment Benefits

Schedule of Changes in the University's Total OPEB Liability and Related Ratios

Total OPEB Liability		**FY18**
Service cost	$	14,434
Interest on total OPEB liability		18,066
Changes of benefit terms		-
Effect of economic/demographic gains or (losses)		847
Effect of assumption changes or inputs		4,085
Benefit payments		(16,058)
Net change in total OPEB liability		**21,374**
Total OPEB liability, beginning		471,201
Total OPEB liability, ending	**$**	**492,575**
Covered-employee payroll	$	241,981
Total OPEB liability as a % of covered-employee payroll		2.03%

The below schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the current GASB standards, they should not be reported.

Notes to Schedule:

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period.

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)

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