

The University of Vermont

ANNUAL 2019 Financial Report





The University of Vermont

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Linda Schadler.....	Dean, College of Engineering and Mathematical Sciences
Jean Harvery.....	Interim Dean, College of Agriculture and Life Sciences
William Falls.....	Dean, College of Arts and Sciences
David A. Nestor.....	Dean of Students
Scott Thomas.....	Interim Dean, College of Nursing and Health Sciences
Bryn Geffert.....	Dean, University Libraries
Scott Thomas.....	Dean, College of Education and Social Services
David Jenemann.....	Interim Dean, Honors College
Cynthia L. Belliveau.....	Dean, Continuing and Distance Education

Table of Contents

1 Letter from the President

2 Management’s Responsibility for the Financial Report

3 Independent Auditor’s Report

5 Management’s Discussion and Analysis

15 Statements of Net Position

16 Statements of Revenues, Expenses and Changes in Net Position

17 Statements of Cash Flows

18 Notes to Financial Statements

38 Required Supplementary Information - Postemployment Benefits





Letter from the President

Members of the Board of Trustees,

I attach the Annual Financial Report for the Fiscal Year ended June 30, 2019. The state of UVM's finances is sound.

These financial statements reflect an increase of \$39.7 million in the University's net position. A key contributor was growth in the value of the endowment due to changes in 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, 2019, the market value of the entire combined endowment (UVM and Foundation) was \$567 million.

The University of Vermont remains focused on student affordability and financial access, quality enhancements, strategic alignment of priorities, and resource and revenue growth. This will ensure an even more financially healthy University, which will enable us to continue to improve the overall positive student experience at UVM, as well as the positive and substantial contributions UVM makes to the state, the region, and the country.

Best wishes,

Suresh Garimella

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, 2019 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 2019.

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, 2019 and 2018 and, the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. 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 LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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, 2019 and 2018, 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.

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 4, 2019 on our consideration of the University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University’s internal control over financial reporting and compliance.

KPMG LLP

Colchester, Vermont
November 4, 2019

Vt. Reg. No. 92-0000241

The University of Vermont

Management's Discussion and Analysis (Unaudited) June 30, 2019 and 2018

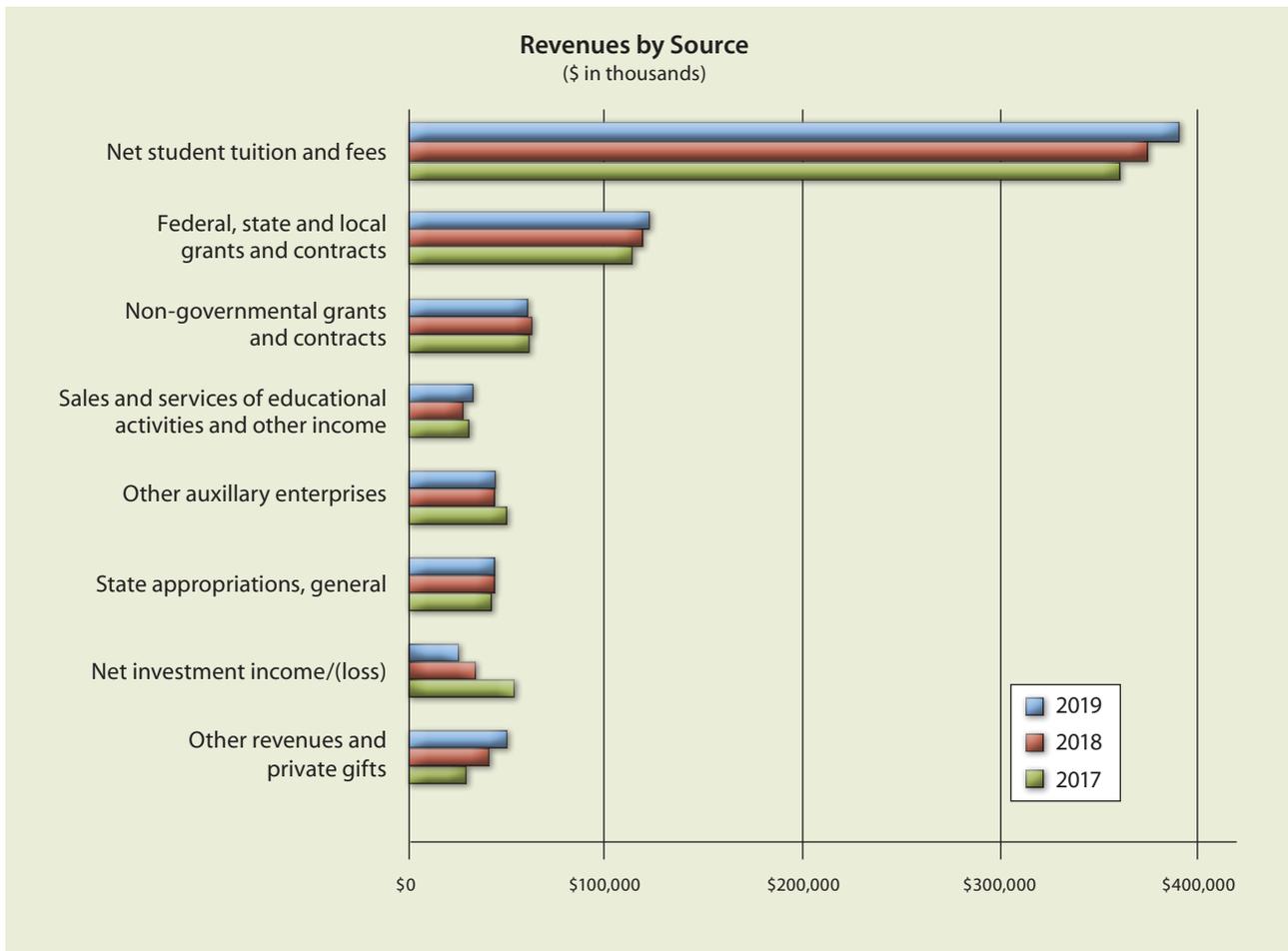
Introduction

The Management's Discussion and Analysis (MD&A) provides a broad overview of the University of Vermont's financial condition as of June 30, 2019 and 2018, 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 10,700 undergraduate students and 2,072 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

In fiscal year 2019, President E. Thomas Sullivan announced his decision to step down as the University of Vermont President. During his last year, President Sullivan continued to implement his strategic vision for the institution as outlined in his strategic action plan entitled “Enhancing Quality and Affordability.” The Board of Trustees announced the appointment of Dr. Suresh Garimella as the 27th President of the University of Vermont. Dr. Garimella assumed this post effective July 1, 2019 and during his first year will undoubtedly outline his strategic vision along with the Board of Trustees.

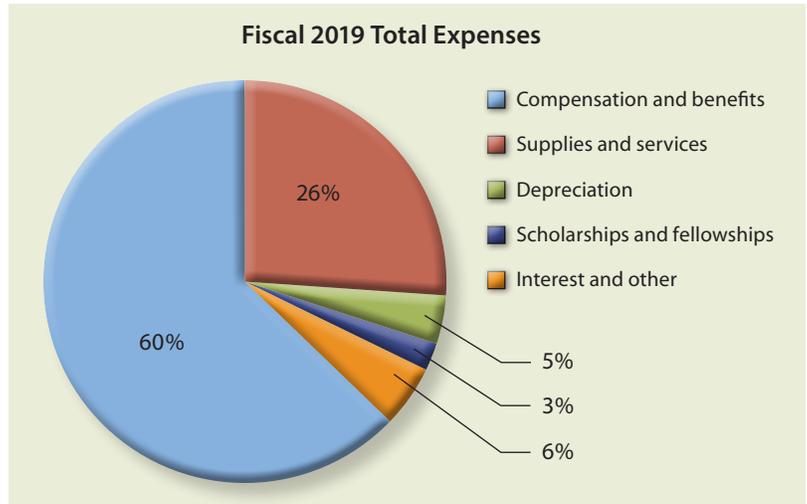
The University’s net position increased by \$39.7 million in fiscal 2019, compared to a net decrease of \$202.7 million in fiscal 2018. The increase in fiscal 2019 was largely due to favorable performance in the financial markets, with a net gain in the investment portfolio of \$25.2 million. This gain was down \$8.0 million from the net gain of \$33.2 million in fiscal 2018. 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 largely due to favorable performance in the financial markets, with a net gain in the investment portfolio of \$33.2 million. This gain was down \$19.9 million from the net gain of \$53.1 million in fiscal 2017.

Total operating revenues increased in fiscal 2019 by \$24.5 million, or 3.9%. This included an increase in net student tuition and fees of \$16.2 million, or 4.3%. Other critical revenues include state appropriations and state capital appropriations. State appropriations remained steady at \$43.0 million in fiscal 2019 and \$43.0 million in fiscal 2018, while state capital appropriations increased to \$1.7 million in fiscal 2019 compared to \$1.4 million in fiscal 2018.

The University experienced an increase in operating costs of \$13.0 million, or 1.9%, in fiscal 2019. Compensation and benefits represents the most significant operating cost, comprising 64.2% and 64.6% of operating costs in 2019 and 2018, respectively. Compensation and benefit expenses increased by \$5.7 million which was primarily due to salary and wage increases in 2019 of 2.0-3.0% for faculty and between 1.5-2.0% for staff. Supplies and service expenses increased by \$1.8 million. Other significant non-operating expenses include interest on indebtedness, which was \$22.5 million in 2019 compared to \$17.3 million in 2018, and transfers to other governmental agencies and the UVM Foundation which, combined, were \$23.9 million in 2019 and \$21.0 million in 2018.

The chart to the right displays total operating, interest, and other expenses for fiscal 2019:



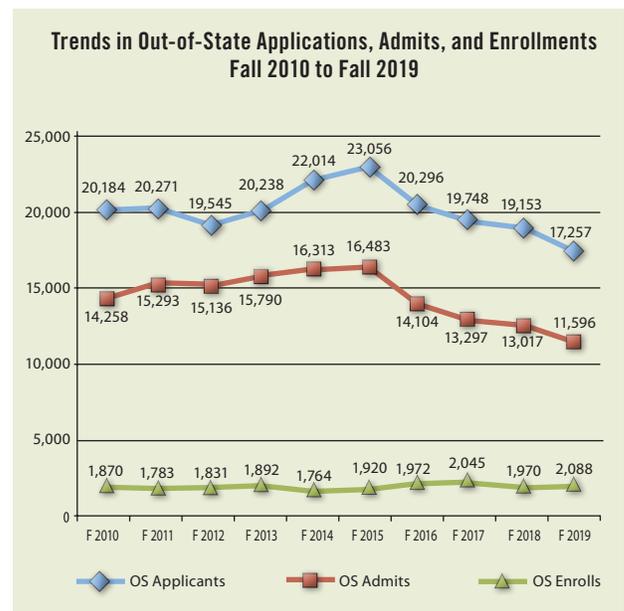
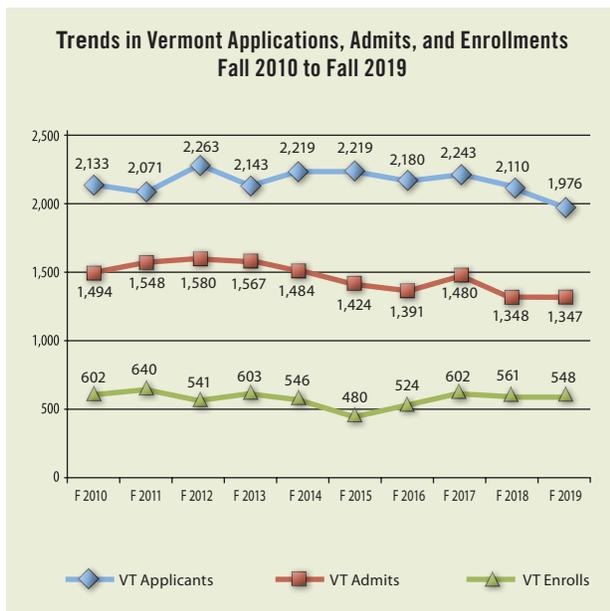
During fiscal year 2019, construction continued on the Sciences, Technology, Engineering and Mathematics (STEM) complex Innovation Hall, which will provide innovative research and classroom spaces for those disciplines. Renovations of the Given Building, Cohen Hall, and 439 College Street are underway and work began on the Athletic Multipurpose Center Complex.

In the fall of fiscal 2020, the University enrolled 10,700 students in more than 100 undergraduate majors, 1,627 students in graduate and post-baccalaureate programs, and 478 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 85% of the undergraduates enrolled in the fall of fiscal year 2020 from New England and the Middle Atlantic States, including 21% of its undergraduate students from Vermont. Graduate and Certificate student enrollment from Vermont

represented 42.6%.

The following tables present applications, admissions, and enrollments for in-state and out-of-state students. Final numbers for the fall of fiscal year 2020 show that total applications have decreased 13.8% since 2010, with in-state applications decreasing 7.4% and out-of-state applications decreasing 14.5%. Total admissions have decreased for that period by 17.8%, with in-state admissions decreasing 9.8% and out-of-state admissions decreasing 18.7%. Since 2010, total first-time, first year enrollments have increased by 6.6%, with in-state enrollments decreasing by 9.0% and out-of-state enrollments increasing by 11.7%.

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 3.5% and 3.4%, respectively, since 2011. The table to the



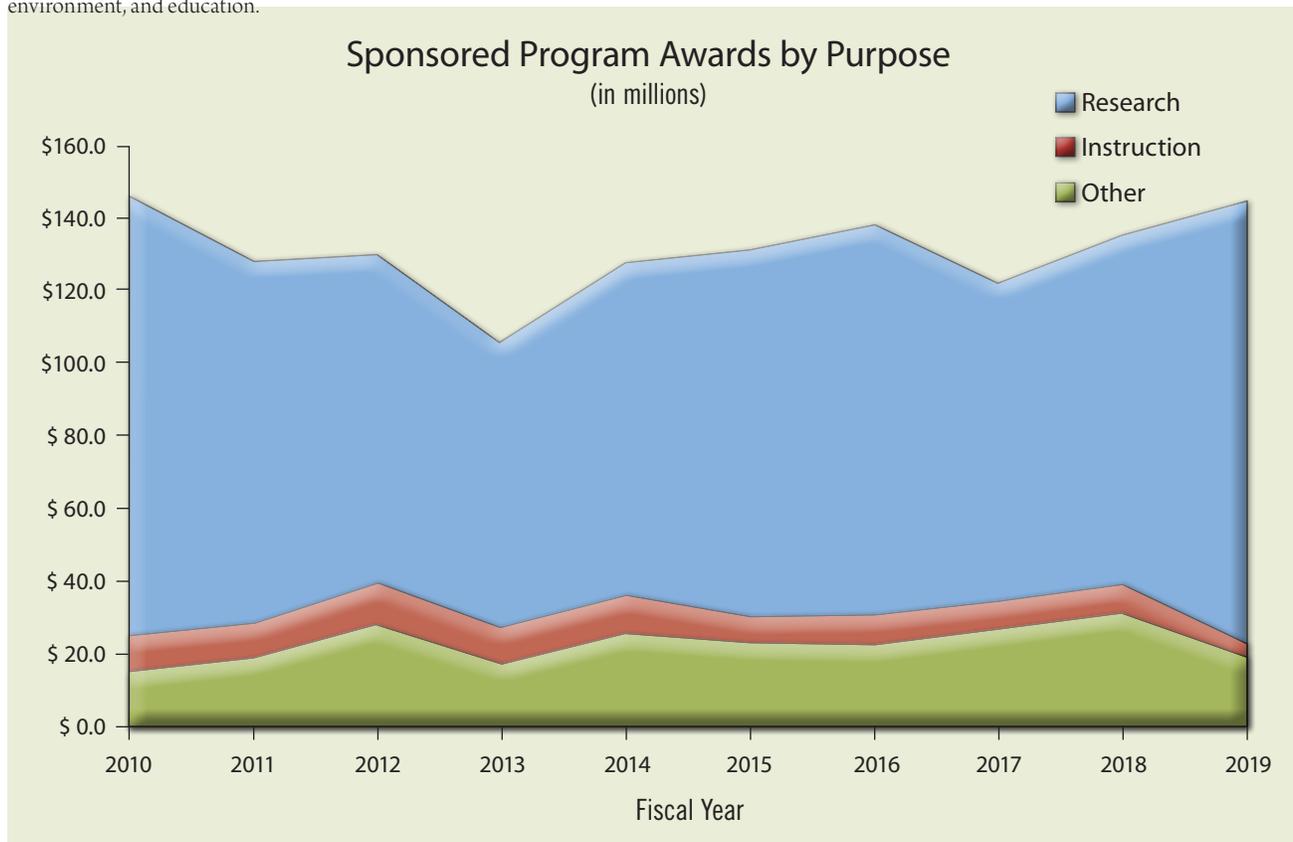
right presents tuition and fees, as well as room and board for that period.

The State of Vermont (“the State”) general appropriations represented 5.6% of the University’s total revenues for fiscal year 2019. The University received a State capital appropriation of \$1.7 million in fiscal year 2019 and \$1.4 million in fiscal year 2018.

Grant and contract revenues of \$184.3 million represented 24.1% of total revenues for fiscal 2019 which included facility and administrative cost recoveries of \$30.4 million and additional commitment funds from University of Vermont Medical Center, Inc. of \$16.0 million. During fiscal 2019, the University was awarded over \$144.3 million in sponsored funds, 85.2% of which were for research activities. Approximately 66.6% of sponsored funds awarded during fiscal 2019 were from federal sources. The University’s leading areas of externally sponsored programs are the biomedical sciences, agriculture, the environment, and education.

In-State and Out-of-State Tuition & Fees									
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Average Annual % Increase
Student Tuition & Fees									
In-State Tuition & Fees	\$14,784	\$15,284	\$15,718	\$16,226	\$16,768	\$17,300	\$17,740	\$18,276	3.83%
Out-of-State Tuition & Fees	\$34,424	\$35,612	\$36,646	\$37,874	\$39,160	\$40,364	\$41,356	\$42,516	3.88%
Room (Double) Board (Average Meal Plan)									
Room (Double)	\$6,426	\$6,650	\$6,844	\$7,116	\$7,376	\$7,634	\$7,900	\$8,196	4.06%
Board (Average Meal Plan)	\$3,282	\$3,414	\$3,558	\$3,664	\$3,774	\$3,944	\$4,122	\$4,266	4.37%
Total, In-State Cost	\$24,492	\$25,348	\$26,120	\$27,006	\$27,918	\$28,878	\$29,762	\$30,738	
Increase Over Previous Year	4.59%	3.50%	3.05%	3.39%	3.38%	3.44%	3.06%	3.28%	3.46%
Total, Out-of-State Cost	\$44,132	\$45,676	\$47,048	\$48,654	\$50,310	\$51,942	\$53,378	\$54,978	
Increase Over Previous Year	5.12%	3.50%	3.00%	3.41%	3.40%	3.24%	2.76%	3.00%	3.43%

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, 2019 and 2018 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.

	<i>(In thousands)</i>		
	<u>2019</u>	<u>2018</u>	<u>*Restated 2017</u>
Assets			
Current assets	\$ 355,699	\$ 332,061	\$ 327,154
Non-current assets	1,269,078	1,250,058	1,193,419
Total assets	<u>1,624,777</u>	<u>1,582,119</u>	<u>1,520,573</u>
Deferred outflows of resources			
Loss on refunding of debt	4,985	5,215	5,936
Postemployment benefits	13,135	12,617	-
Total deferred outflows of resources	<u>18,120</u>	<u>17,832</u>	<u>5,936</u>
Liabilities			
Current liabilities	194,529	183,025	158,452
Non-current liabilities	1,014,285	1,061,628	811,563
Total liabilities	<u>1,208,814</u>	<u>1,244,653</u>	<u>970,015</u>
Deferred inflows of resources			
Service concession arrangement	1,562	1,826	2,104
Split interest	5,621	3,407	1,640
Postemployment benefits	37,140	-	-
Total deferred inflows of resources	<u>44,323</u>	<u>5,233</u>	<u>3,744</u>
Net position			
Net investment in capital assets	138,070	116,345	95,797
Restricted:			
Non-expendable	116,469	115,918	115,035
Expendable	335,965	342,741	329,753
Unrestricted	(200,744)	(224,939)	12,165
Total net position	<u>\$ 389,760</u>	<u>\$ 350,065</u>	<u>\$ 552,750</u>

**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, 2019, with comparative information for 2018 and 2017 are contained on page 9.

Net position totaled \$389.8 million, \$350.1 million, and \$552.8 million at June 30, 2019, 2018, and 2017, respectively, increasing by \$39.7 million in 2019 and decreasing by \$202.7 million in 2018. The primary contributor to the increase in net position in fiscal 2019 was favorable performance in the financial markets. The primary contributors to the decrease in net position in 2018 were a change of accounting principle for the other postemployment benefit (OPEB) liability offset partially by favorable performance in the financial markets.

Current assets of \$355.7 million, \$332.1 million, and \$327.2 million at June 30, 2019, 2018, and 2017, respectively, consist primarily of cash and cash equivalents, and operating investments, which totaled \$302.3 million at June 30, 2019, \$276.1 million at June 30, 2018, and \$273.3 million at June 30, 2017. Cash and cash equivalents and operating investments represents approximately 5.6, 5.2, and 5.2 months of total operating expenses, excluding depreciation, for 2019, 2018, and 2017, respectively. The net increase to current assets in 2019 of \$23.6 million was driven by a \$26.1 million increase in cash, cash equivalents and operating investments, and a \$0.9 increase in inventories, prepaid expenses and deferred charges offset by a \$3.4 million decrease in accounts, loans, notes and pledges receivable. 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.

Non-current assets of \$1.3 billion, \$1.3 billion, and \$1.2 billion at June 30, 2019, 2018, and 2017, respectively, consist primarily of the following:

- *Capital assets, net of accumulated depreciation*, totaled \$683.4 million, \$673.0 million and \$641.9 million at June 30, 2019, 2018 and 2017, respectively, representing an increase of \$10.4 million, or 1.6%, in 2019 and an increase of \$31.1 million, or 4.8%, in 2018. Gross capital additions totaled \$43.5 million in 2019 and \$65.0 million in 2018. Capital additions in 2019 included land of \$1.1 million, land improvements of \$0.7 million, renovations to residence and dining halls, research laboratories, and other buildings of \$5.7 million, building components and equipment and building interiors of \$3.3 million, fixed

equipment of \$0.6 million, moveable equipment of \$1.3 million and construction in progress of \$30.6 million. These additions in 2019 were offset by an increase to accumulated depreciation of \$32.9 million. 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.

- *Endowment cash, cash equivalents and investments* totaling \$494.7 million, \$490.8 million and \$453.3 million at June 30, 2019, 2018, and 2017, respectively. In fiscal 2019, there was an increase of \$3.9 million, or 0.8%, and an increase of \$37.5 million, or 8.3% in 2018. 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 \$22.4 million, \$21.6 million, and \$20.3 million in fiscal years ended June 30, 2019, 2018, and 2017, respectively. These distributions were 4.2%, 4.4%, and 4.6% of the beginning market value of the endowment for fiscal years 2019, 2018, and 2017, respectively.

- The increase to *Deposits with Trustees* of \$2.1 million in 2019 was primarily due to the recognition of additional split interest agreements. The decrease of \$21.6 million in 2018 was primarily due to use and draw down of bond proceeds.

Deferred outflows of resources were \$18.1 million and \$17.8 million at June 30, 2019 and 2018, respectively. In fiscal 2019, deferred outflows represent the deferred loss on refunding of general obligation bonds totaling \$5.0 million and valuation of certain other postemployment benefit costs totaling \$13.1 million.

Current liabilities increased \$11.5 million in 2019 and \$24.6 million in 2018. In both 2019 and 2018, current liabilities increased due to the University accepting UVVMF funds which were then invested in the University's pooled endowment. These funds generate income which is distributed to the UVVMF. The funds held in the University's pooled endowment represent a liability to the University as they are UVVMF assets and will be returned to the UVVMF in the future. At June 30, 2019 the amount of UVVMF assets held in the University's pooled endowment was \$89.0 million. At June 30, 2018 the amount of UVVMF assets held in the University's pooled endowment was \$81.0 million.

Non-current liabilities decreased \$47.3 million in 2019 compared to an increase of \$250.1 million in 2018. The decrease in 2019 is mostly due to a net decrease of the postemployment benefits liability of \$32.2 million and a decrease in the non-current portion of bonds and leases payable of \$14.4 million. 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.

Deferred inflows of resources totaled \$44.3 million in fiscal year 2019 and \$5.2 million in fiscal year 2018. In 2019, these inflows included other postemployment benefit costs of \$37.1 million, the present value of anticipated future gifts from split interest agreements valued at \$5.6 million and \$1.6 million in future guaranteed payments due from Sodexo Management, Inc. under the Food Service Program agreement.

Net investment in capital assets of \$138.1 million, \$116.3 million, and \$95.8 million, at June 30, 2019, 2018, and 2017, 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 \$21.8 million in 2019 was primarily the result of the net effect of additions and disposals to capital assets of \$43.4 million, the decrease in bonds payable related to capitalized assets of \$11.5 million and an increase of accumulated depreciation of \$32.9 million. 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.

Restricted non-expendable net position totaling \$116.5 million, \$115.9 million, and \$115.0 million at June 30, 2019, 2018, and 2017, respectively, consists entirely of the University's permanent endowment funds. The corpus of restricted nonexpendable resources is only available for investment purposes. The increase of \$0.6 million, or 0.5%, in 2019, and \$0.9 million, or 0.8%, in 2018, resulted from new gifts.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Restricted expendable net position totaled \$336.0 million, \$342.7 million, and \$329.8 million, as of June 30, 2019, 2018, and 2017, respectively. The decrease of \$6.7 million in 2019 and the increase of \$12.9 million in 2018 were primarily due to changes in net investment income. In 2019 and 2018 there was a net investment gain of \$13.3 million and \$26.2 million, respectively.

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

	(In thousands)		
	<u>2019</u>	<u>2018</u>	<u>*Restated 2017</u>
Operating revenues	\$ 650,070	\$ 625,541	\$ 613,600
Operating expenses	(681,320)	(668,359)	(661,202)
Operating loss	(31,250)	(42,818)	(47,602)
Net non-operating revenues	68,876	68,681	79,864
Revenue before capital and endowment additions	37,626	25,863	32,262
State capital appropriations	1,650	1,400	1,900
Capital gifts and grants	190	304	444
Gifts for endowment purposes	229	91	1,510
Total capital and endowment additions	2,069	1,795	3,854
Increase in net position	39,695	27,658	36,116
Cumulative effect of change in accounting principle	-	(230,343)	-
Net position, beginning of year	350,065	552,750	516,634
Net position, end of year	\$ 389,760	\$ 350,065	\$ 552,750

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

initiatives, as well as capital projects. Unrestricted net position totaled \$(200.7) million, \$(224.9) million, and \$12.2 million for June 30, 2019, 2018, and 2017, respectively. The \$24.2 million increase in 2019 was primarily due to increases in net tuition and fees of \$16.2 million, facilities & administration recovery from sponsored agreements of \$2.8 million and investment income of \$4.9 million offset by increases in operating expenses. Operating expenses increased in fiscal 2019 by \$2.1 million including an increase of \$0.9 million in compensation and benefits, an increase of \$3.9 million in scholarships and fellowships and a decrease of \$2.8 million in supplies and services. 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.

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, 2019, with comparative totals for the years ended June 30, 2018 and June 30, 2017, can be found on page 11.

Net position increased by \$39.7 million in 2019 and decreased by \$202.7 million in 2018. Contributors to the increase in 2019 include an increase in net student fees of \$16.2 million, an increase in federal, state, and private grants and contracts of \$3.8 million, an increase in gifts of \$8.2 million and a decrease of net other non-operating expense of \$5.6 million offset by a decrease in net investment income of \$8.0 million and an increase of operating expenses of \$13.0 million. 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.

Significant operating revenues include the following:

- *Student Tuition and Residential Life Fees, net of scholarship allowance*, are the largest component of operating revenues and the primary source of funding for the University's academic programs. Net student fees increased by \$16.2 million in 2019, comprised of an increase to tuition and fees of \$16.0 million, or 3.7%, an increase to residential life revenues of \$2.8 million, or 4.2%, and by an increase in scholarship allowances of \$2.6 million, or 2.1%. 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%. 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 \$144.0 million, \$137.5 million, and \$122.7 million, were awarded to students in 2019, 2018, and 2017, respectively. This represents a total increase of \$6.5 million, or 4.8%, for 2019 as compared to a \$14.8 million increase, or 12.1%, for 2018.
- *Revenues for sponsored programs* of \$184.3 million in 2019, \$180.5 million in 2018, and \$173.2 million in 2017, 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 2019 is due to increased federal funding for the Robert Larner, M.D. College of Medicine, College of Arts & Sciences and Extension. 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 Robert Larner, M.D. College of Medicine. The revenues for sponsored programs include recovery of indirect costs, referred to as facilities and administrative costs, of \$30.4 million, \$27.6 million, and \$25.6 million, in 2019, 2018, and 2017, respectively.
- *Auxiliary enterprise and educational activities revenues* totaled \$53.2 million, \$51.3 million, and \$58.2 million, in 2019, 2018, and 2017, 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 2019 had increases due to additional revenues generated by University Event Services, Instrumentation and Technical Services and the Spatial Analysis Laboratory. Fiscal 2018 had steady revenue streams.
- *Student loan interest and other operating revenues* were \$22.3 million, \$19.6 million, and \$21.5 million in 2019, 2018, and 2017, respectively.

Significant components of operating expenses include the following:

- *Compensation and benefits* of \$437.6 million, \$431.9 million, and \$432.5 million in 2019, 2018, and 2017, respectively, comprise the most significant portion of total expenses. Compensation and benefits increased by \$5.7 million, or 1.3% in 2019 due budgeted increases for faculty and staff. 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. In addition, health plan benefit costs increased by \$4.5 million, or 7.9%, in 2019 and by \$3.6 million, or 6.7%, in 2018.

- *Supplies and services expenses* increased by \$1.8 million, or 0.9% in 2019, and increased by \$6.7 million, or 3.7%, in 2018. This classification encompasses the many and varied non-compensation expenses that are required for the operation of the University, including utilities, professional services, non-capitalized equipment, and minor renovations.
- *Depreciation expense* increased by \$1.5 million, or 4.9%, in 2019 and increased by \$1.4 million, or 4.8%, in 2018.
- *Scholarships and fellowships* of \$20.7 million in 2019, \$16.8 million in 2018, and \$17.2 million in 2017 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 2019, \$43.0 million in 2018 and \$42.9 million in 2017, remaining steady in 2019 and increasing by 0.3% in 2018.
- *Federal Pell grants*, which represents funds received from the federal government to help low-income undergraduate students were \$7.9 million, \$7.8 million, and \$6.9 million in 2019, 2018, and 2017, respectively.
- *Intergovernmental Transfers* totaled \$13.9 million, \$13.6 million, and \$13.7 million in 2019, 2018 and 2017, 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 \$39.7 million, \$31.5 million, and \$17.8 million, in 2019, 2018, and 2017, respectively.
- *Gain (loss) on disposal of capital assets* totaled \$0.0 million, \$(2.6) million and \$4.8 million in 2019, 2018 and 2017, respectively. In fiscal 2019, the University sold a piece of land owned in Manchester, Vermont. In fiscal 2018, the University demolished the Cook Physical Science complex to complete construction of Discovery Hall.

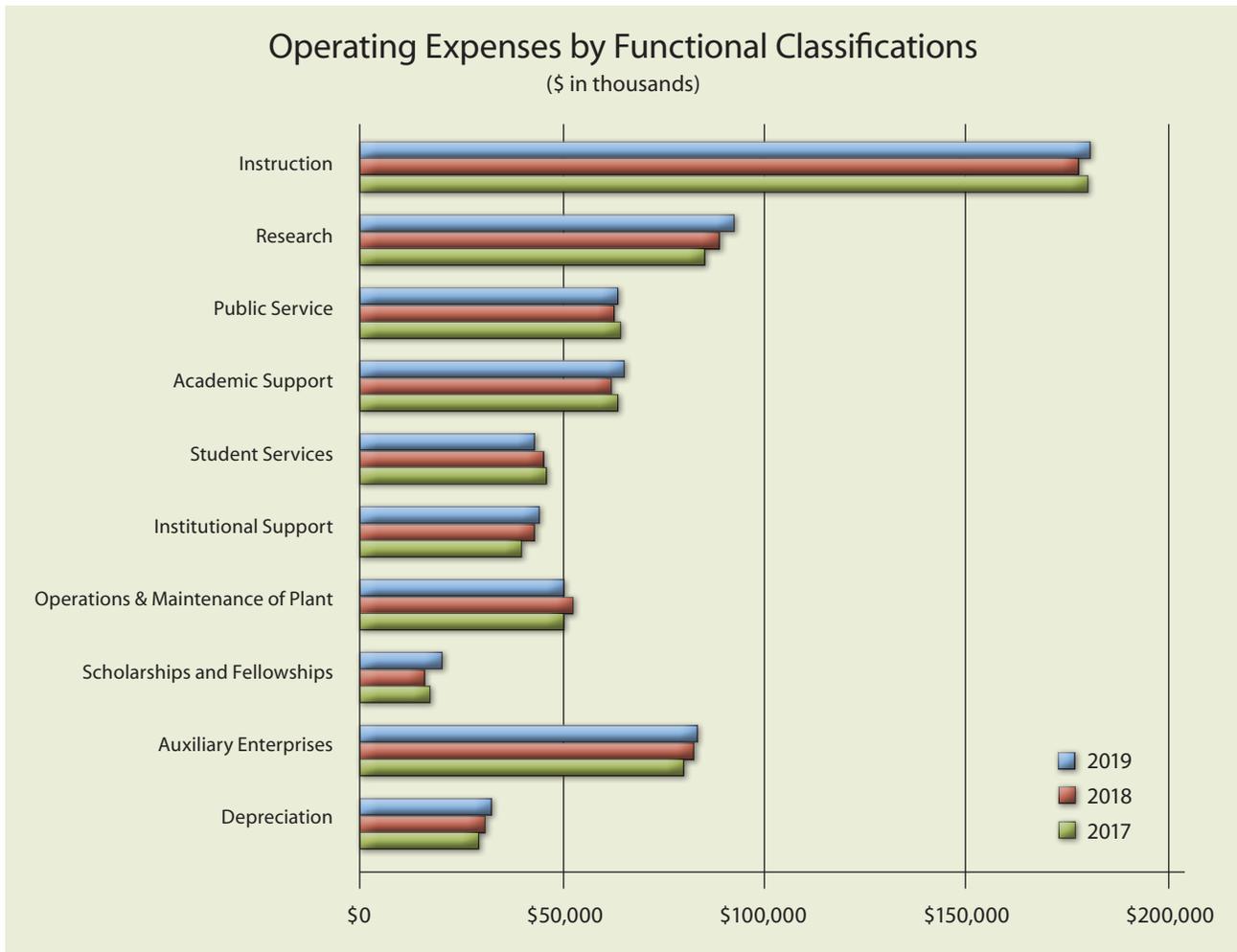
- *Net other non-operating expense* totaled \$0.4 million in fiscal 2019 and \$6.0 in fiscal 2018. Included in this expense are life income payments totaling \$0.4 million in both 2019 and 2018, respectively. Also included in fiscal 2018 expense were UVM funds pledged to the City of Burlington to improve downtown over the next 20 years.
- *Transfers to Component Units from UVM* totaled \$10.1 million and \$7.3 million in 2019 and 2018, respectively. These transfers were to the UVM Foundation, Inc. from the University to assist the Foundation in its operations.
- *Net investment income/(loss)* was \$25.2 million, \$33.2 million, and \$53.1 million in 2019, 2018, and 2017, respectively. Net investment income includes realized investment income and the change in the unrealized appreciation or depreciation of investments. Net investment income in fiscal 2019 and 2018 were affected greatly by volatility in the financial markets. The change in unrealized appreciation/(depreciation) included in net investment income was \$2.7 million in 2019, \$16.1 million in 2018, and \$32.4 million in 2017. Realized gains and other income included in net investment income totaled \$22.5 million, \$17.1 million, and \$20.7 million in 2019, 2018, and 2017, respectively.
- *Interest on indebtedness* totaled \$22.5 million in 2019, \$17.3 million in 2018, and \$16.7 million in 2017. 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:

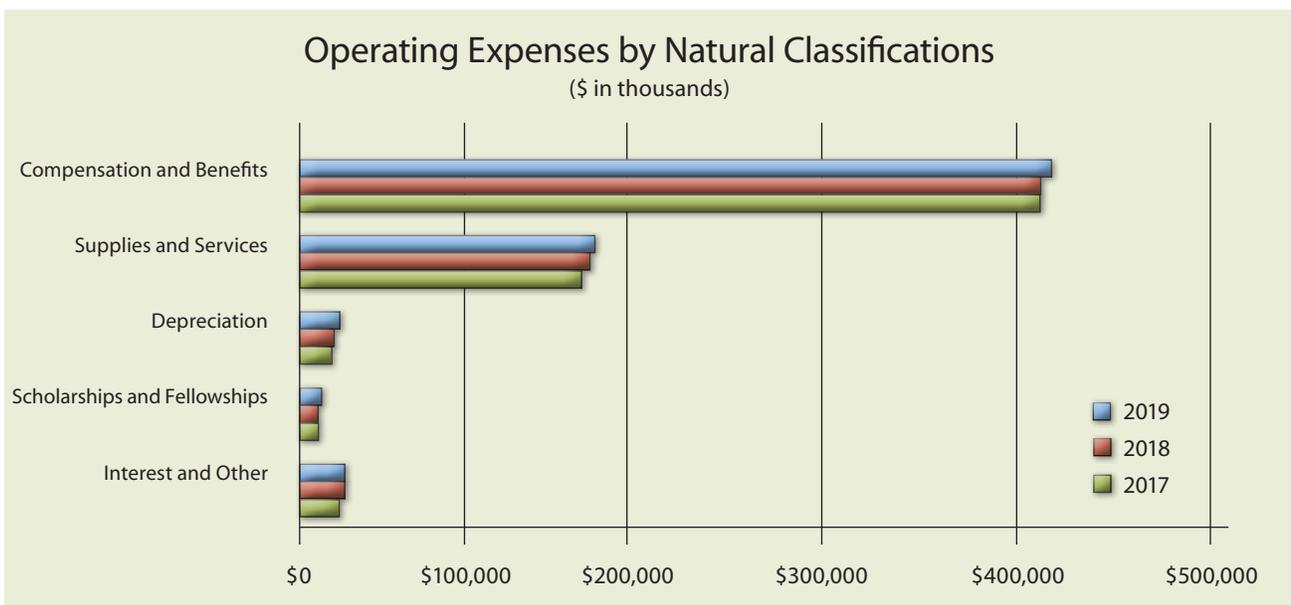
- *State capital appropriations* were \$1.7 million, \$1.4 million, and \$1.9 million in 2019, 2018 and 2017, respectively.
- *Capital and endowment gifts and grants* were \$0.4 million, \$0.4 million, and \$2.0 million, in 2019, 2018, and 2017, respectively.

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 \$13.0 million, or 1.8%, in 2019 and \$13.2 million, or 1.9%, in 2018. 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 2019, 2018, and 2017:



The following chart presents total expenses by natural classification for 2019, 2018, and 2017:



Statements of Net Position

as of June 30, 2019 and 2018

(dollars in thousands)

	2019	2018	UMEA 2019	UMEA 2018	UVMF 2019	UVMF 2018
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 163,121	\$ 153,491	\$ 122	\$ 555	\$ 35,867	\$ 33,255
Operating investments	139,132	122,654	62,100	61,914	9,979	17,070
Accounts, loans, notes and pledges receivable, net	40,583	43,953	585	765	11,437	14,004
Inventories and prepaid expenses	12,863	11,963	9	8	384	361
Total current assets	355,699	332,061	62,816	63,242	57,667	64,690
Non-current assets:						
Endowment cash, cash equivalents and investments	494,724	490,792	-	-	115,213	101,164
Student loans, notes, and pledges receivable, net	36,336	36,991	-	-	14,295	13,605
Investments for capital activities	44,420	41,247	-	-	-	10
Deposits with trustees	10,153	8,077	-	-	1,316	1,261
Capital assets, net	683,445	672,951	-	-	8,502	8,852
Total non-current assets	1,269,078	1,250,058	-	-	139,326	124,892
Total Assets	1,624,777	1,582,119	62,816	63,242	196,993	189,582
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of debt	4,985	5,215	-	-	-	-
Postemployment benefits	13,135	12,617	-	-	-	-
Total Deferred Outflows of Resources	18,120	17,832	-	-	-	-
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	79,679	73,192	682	421	8,306	10,613
Unearned revenue, deposits, and funds held for others	100,430	98,668	41,824	43,025	514	121
Bonds and leases payable	14,420	11,165	-	-	-	-
Total current liabilities	194,529	183,025	42,506	43,446	8,820	10,734
Non-current liabilities:						
Accrued liabilities	22,981	23,662	-	-	-	-
Postemployment benefits	460,332	492,575	-	-	-	-
Bonds and leases payable	530,972	545,391	-	-	5,138	5,388
Total non-current liabilities	1,014,285	1,061,628	-	-	5,138	5,388
Total Liabilities	1,208,814	1,244,653	42,506	43,446	13,958	16,122
DEFERRED INFLOWS OF RESOURCE						
Service concession arrangement	1,562	1,826	-	-	-	-
Split-interest arrangements	5,621	3,407	-	-	-	-
Postemployment benefits	37,140	-	-	-	-	-
Total Deferred Inflows of Resources	44,323	5,233	-	-	-	-
NET POSITION						
Net investment in capital assets	138,070	116,345	-	-	3,363	3,464
Restricted:						
Non-Expendable	116,469	115,918	-	-	106,400	95,989
Expendable	335,965	342,741	15,052	14,392	65,298	66,491
Unrestricted	(200,744)	(224,939)	5,258	5,404	7,974	7,516
Total Net Position	\$ 389,760	\$ 350,065	\$ 20,310	\$ 19,796	\$ 183,035	\$ 173,460

Statements of Revenues, Expenses and Changes in Net Position

for the years ended June 30, 2019 and 2018

(dollars in thousands)

	2019	2018	UMEA 2019	UMEA 2018	UVMF 2019	UVMF 2018
Operating revenues						
Tuition and fees	\$ 443,983	\$ 427,998	\$ -	\$ -	\$ -	\$ -
Residential life	69,528	66,722	-	-	-	-
Less scholarship allowances	(123,248)	(120,657)	-	-	-	-
Net student fees	390,263	374,063	-	-	-	-
Federal, state, and private grants and contracts	184,293	180,541	-	-	1,003	1,067
Sales and services of educational activities	8,574	7,706	-	-	-	-
Other auxiliary enterprises	44,614	43,611	-	-	-	-
Student loan interest and other operating revenues	22,326	19,620	157	147	646	496
Total operating revenues	650,070	625,541	157	147	1,649	1,563
Operating expenses						
Compensation and benefits	(437,635)	(431,919)	(234)	(314)	(8,987)	(8,277)
Supplies and services	(190,036)	(188,285)	-	-	(2,778)	(2,447)
Depreciation	(32,902)	(31,356)	-	-	(350)	(341)
Scholarships and fellowships	(20,747)	(16,799)	-	-	-	-
Total operating expenses	(681,320)	(668,359)	(234)	(314)	(12,115)	(11,065)
Operating loss	(31,250)	(42,818)	(77)	(167)	(10,466)	(9,502)
Non-operating revenues (expenses)						
State appropriations	43,011	43,010	-	-	-	-
Federal Pell grants	7,896	7,844	-	-	-	-
Private gifts	1,994	5,375	313	431	30,253	32,282
Net investment income	25,183	33,202	1,637	1,186	5,091	7,818
Interest on indebtedness	(22,535)	(17,290)	-	-	(104)	(89)
Loss on disposal of capital assets	(20)	(2,609)	-	-	-	-
Net other non-operating expense	(396)	(6,018)	-	-	(526)	(583)
Intergovernmental transfers	(13,865)	(13,644)	-	-	-	-
Transfers from UVM to component units	(10,068)	(7,334)	-	-	9,059	6,709
Transfers to UVM from component units	37,676	26,145	(1,076)	(1,419)	(34,088)	(22,006)
Net non-operating revenues	68,876	68,681	874	198	9,685	24,131
Revenue (loss) before capital and endowment additions	37,626	25,863	797	31	(781)	14,629
State capital appropriations	1,650	1,400	-	-	-	-
Capital gifts and grants	190	304	-	-	-	-
Gifts for endowment purposes	229	91	-	-	10,356	13,777
Total capital and endowment additions	2,069	1,795	-	-	10,356	13,777
Increase in net position	39,695	27,658	797	31	9,575	28,406
Restatement of net position as of July 1, 2017*	-	(230,343)	(283)	-	-	-
Net position, beginning of year adjusted	350,065	552,750	19,796	19,765	173,460	145,054
Net Position, end of year	\$ 389,760	\$ 350,065	\$ 20,310	\$ 19,796	\$ 183,035	\$ 173,460

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, 2019 and 2018
(dollars in thousands)

	2019	2018
Cash Flows From Operating Activities		
Tuition and fees (net of applicable scholarship allowances)	\$ 333,379	\$ 327,322
Grants and contracts	185,549	174,031
Sales and services of educational activities	8,574	7,706
Sales and services of auxiliary enterprises:		
Residential life fees, net of scholarship allowances	52,840	50,449
Other	44,614	43,611
Payments to employees and benefit providers	(429,371)	(413,906)
Payments to vendors	(186,626)	(184,999)
Payments for scholarships and fellowships	(20,747)	(16,799)
Student loans issued	(3,977)	(5,628)
Student loans collected, interest and other revenue	3,372	2,675
Other receipts, net	21,872	19,135
Net cash provided by operating activities	9,479	3,597
Cash Flows From Non-Capital Financing Activities		
State general appropriation	43,011	43,010
Federal Pell grants	7,896	7,844
Private gifts for other than capital purposes	4,460	1,229
Intergovernmental transfers	(13,865)	(13,644)
Transfers from UVM to component units	(10,068)	(7,334)
Transfers to UVM from component units	37,683	26,029
Deposits of affiliates and life income payments, net	10,376	20,759
Net cash provided by non-capital financing activities	79,493	77,893
Cash Flows From Capital Financing Activities		
Proceeds from issuance of capital debt	-	67,068
State capital appropriation	1,650	1,400
Capital grants, gifts and other income	190	1,085
Purchases and construction of capital assets	(45,792)	(60,148)
Proceeds from disposal of capital assets	65	-
Principal paid on capital debt	(11,164)	(78,553)
Interest paid on capital debt	(22,639)	(22,126)
Changes in deposits with trustees, net	534	21,135
Net cash used in capital financing activities	(77,156)	(70,139)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	157,543	106,983
Purchase of investments	(157,802)	(126,324)
Interest and dividends on investments, net	5,466	4,443
Net cash provided by (used in) investing activities	5,207	(14,898)
Net increase (decrease) in cash and cash equivalents	17,023	(3,547)
Cash and cash equivalents - beginning of year	159,363	162,910
Cash and cash equivalents - end of year *	\$ 176,386	\$ 159,363
Reconciliation of Operating Loss To Cash Provided by Operating Activities		
Operating loss	\$ (31,250)	\$ (42,818)
Adjustments to reconcile operating loss to net cash provided by Operating Activities:		
Depreciation expense	32,902	31,356
Changes in assets and liabilities:		
Accounts receivable and loan receivables, net	4,172	313
Inventories and prepaid expense	(901)	(683)
Accounts payable	8,946	(4,574)
Unearned revenue, deposits and accrued liabilities	(4,390)	20,003
Net cash provided by operating activities	\$ 9,479	\$ 3,597

**of total cash and cash equivalents for 2019, \$163,121 is current and \$13,265 is non-current endowment and for 2018, \$153,491 is current and \$5,872 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, 2019 and 2018

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 13,400 undergraduate, graduate, medical, and non-degree 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 by \$230,343 in FY18.

3. Fair Value Measurement

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

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

Level 2 – Inputs to valuation methodology include:

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

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

In addition to the three levels described above, 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.

(dollars in thousands)

4. Government Appropriations and Grants

Revenues associated with grants and contracts are generally recognized when related costs are incurred or when milestones are achieved. Federal, state and private grants and contracts revenue for 2019 and 2018 consists of:

Grants and Contracts	FY19	FY18
Federal appropriations, grants and contracts	\$ 117,393	\$ 113,413
State grants and contracts	4,953	4,308
Other governmental and private grants and contracts	61,947	62,820
TOTAL	\$ 184,293	\$ 180,541

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 \$30.4 million in 2019 and \$27.6 million in 2018.

Private grants and contracts includes funding of \$16.0 million in 2019 and \$15.7 million in 2018 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, 2019, and 2018, is \$5,270 and \$10,286, 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, 2019, and 2018, is \$3,580 and \$4,671, 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 \$64,855 in 2019 and \$60,432 in 2018. The total cost for contributions to the RHSP was \$1,026 in 2019 and \$856 in 2018. See note L for further information about postemployment benefits.

8. Compensated Absences

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

As of June 30, 2019, \$21,778 (\$21,022 in 2018) was accrued for vacation pay of which \$16,085 (\$15,530 in 2018) was charged to unrestricted net position and \$5,693 (\$5,492 in 2018) was included in deferred charges to be recovered from restricted expendable net position when paid.

9. Collections and Works of Art

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

(dollars in thousands)

B. Accounts, Loans, Notes, and Pledges Receivable

Accounts, loans, notes and pledges receivable at June 30, 2019 and 2018 are summarized as follows:

Accounts, Loans, Notes and Pledges Receivable, Net	June 30, 2019	June 30, 2018
Current		
Federal, state, and private grants receivable	\$ 16,934	\$ 16,923
Student and trade accounts receivable, net	10,584	11,308
Other accounts receivable	10,525	13,084
Student loans receivable, net	1,982	2,077
Pledges receivable, net	558	561
Total Current	\$ 40,583	\$ 43,953
Non-Current		
Student loans receivable, net	\$ 20,164	\$ 19,588
Other notes receivable	10,695	11,907
Pledges receivable, net	5,477	5,496
Total Non-Current	\$ 36,336	\$ 36,991

The student accounts receivable are carried net of an allowance for doubtful accounts of \$290 in 2019 and \$358 in 2018.

Student loans receivable are carried net of an allowance for uncollectible UVM loans of \$38 current and \$374 non-current at June 30, 2019. At June 30, 2018, student loans receivable are carried net of an allowance for uncollectible UVM loans of \$53 current and \$443 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 \$6,890 for 2019 and \$6,947 for 2018. 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 \$5,864 and the current receivable balance is \$1,325 in 2019. The non-current receivable balance is \$7,076 and the current receivable balance is \$1,315 in 2018.

Accounts receivable from the UVMF and UMEA are \$7,610 in 2019 and \$10,203 in 2018 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 \$79,679 in 2019 and \$73,192 in 2018 are composed of accounts payable of \$24,730 in 2019 and \$15,786 in 2018 and accrued liabilities of \$54,563 in 2019 and \$57,023 in 2018. Also included in this total are pledges payable of \$386 in 2019 and \$386 in 2018, included in the chart of Note E. Accounts payable is mostly comprised of supplies and services payables, including construction, renovation and equipment of \$17,072 in 2019 and \$12,297 in 2018.

Current accrued liabilities at June 30, 2019 and 2018 are summarized below:

Current Accrued Liabilities	June 30, 2019	June 30, 2018
Interest expense	\$ 5,863	\$ 5,966
Construction retainage	915	3,456
Compensated absences	21,778	21,022
Insurance reserves	10,283	8,721
Compensation and benefits	6,917	7,826
Payment to annuitants	396	389
Service concession arrangement	938	938
Other	7,473	8,705
TOTAL	\$ 54,563	\$ 57,023

(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 2019, no interest expense (\$4,627 in 2018) was capitalized for projects that were funded by general obligation bonds.

Depreciation is calculated using the straight-line method over the estimated economic useful lives of the related assets. Certain research buildings are classified into the following components: 1) building (basic construction components/shell) with an estimated useful life of 40 years; 2) building service systems (plumbing, electrical, etc.) with an estimated useful life of 25 years; 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 2019 is \$30,076 (\$28,590 in 2018). Moveable equipment, software systems, and land improvements depreciation expense is \$2,826 for 2019 (\$2,766 in 2018).

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

Capital assets activity for the years ended June 30, 2019 and 2018 is summarized as follows:

Fiscal Year 2019					
Asset	Balance as of June 30, 2018	Additions	Retirements	Reclass/ Changes	Balance as of June 30, 2019
Land	\$ 28,039	\$ 1,090	\$ (85)	\$ -	\$ 29,044
Land Improvements	6,062	740	-	433	7,235
Buildings	712,347	5,748	-	40,496	758,591
Building Service Systems	142,321	3,085	-	10,254	155,660
Building Interiors	74,265	254	-	9,813	84,332
Fixed Equipment	116,176	637	-	324	117,137
Movable Equipment	31,623	1,287	-	965	33,875
Software Systems	30,067	-	-	716	30,783
Construction in Progress	49,066	30,640	-	(63,001)	16,705
Total property and equipment	1,189,966	43,481	(85)	-	1,233,362
Less: accumulated depreciation	(517,015)	(32,902)	-	-	(549,917)
Property, plant and equipment, net	\$ 672,951	\$ 10,579	\$ (85)	\$ -	\$ 683,445
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

(dollars in thousands)

E. Bonds and Leases Payable and Other Long Term Liabilities

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

Long term debt activity for the years ended June 30, 2019 and 2018 is summarized as follows:

Fiscal Year 2019					
Long Term Liability	Beginning Balance	New Debt	Payments	Ending Balance	
				Current	Non-Current
General Obligation Bonds					
Series 2009 (1)	\$ 69,063	\$ -	\$ 1,828	\$ 1,898	\$ 65,337
Series 2010A	9,000	-	-	-	9,000
Series 2010B (2)	17,756	-	1,280	1,334	15,142
Series 2012A (3)	46,599	-	(13)	(13)	46,625
Series 2014A (4)	71,431	-	1,826	1,911	67,694
Series 2015 (5)	195,804	-	2,529	2,639	190,636
Series 2016 (6)	79,692	-	3,149	3,259	73,284
Series 2017 (7)	66,695	-	383	3,198	63,114
Capital Leases	516	-	182	194	140
TOTAL	\$ 556,556	\$ -	\$ 11,164	\$ 14,420	\$ 530,972

- (1) This balance shown includes bond discount of \$841.
- (2) This balance shown is net of bond premium of \$367.
- (3) This balance shown includes bond discount of \$249.
- (4) This balance shown is net of bond premium of \$5,607.

- (5) This balance shown includes bond premium of \$8,546.
- (6) This balance shown includes bond premium of \$10,393.
- (7) This balance shown includes bond premium of \$9,292.

Fiscal Year 2018					
Long Term Liability	Beginning Balance	New Debt	Payments	Ending Balance	
				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)

In compliance with the University's various bond indentures, at June 30, 2019 the University has deposits with trustees of \$8 (\$542 in 2018) 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
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	13,595	20,662	34,257
2025-2029	79,040	92,342	171,382
2030-2034	100,695	71,492	172,187
2035-2039	126,280	47,011	173,291
2040-2044	123,335	18,014	141,349
2045-2046	17,705	777	18,482
TOTAL	\$ 512,278	\$ 339,228	\$ 851,506

Other long term liabilities at June 30, 2019 and 2018 are summarized below:

Fiscal Year 2019					
Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance	
				Current	Non-Current
Federal Student Loan Capital Contribution	\$ 6,947	\$ -	\$ 57	\$ -	\$ 6,890
Green Mountain Loan Guarantee	795	-	226	-	569
Obligations under deferred giving arrangements	5,393	1,342	556	396	5,783
Postemployment Benefits	492,575	-	32,243	-	460,332
Service Concession Arrangement	6,565	-	938	938	4,689
Pledges Payable and Other Accrued Liabilities	5,675	-	239	386	5,050
TOTAL	\$ 517,950	\$ 1,342	\$ 34,259	\$ 1,720	\$ 483,313
Fiscal Year 2018					
Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance	
				Current	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

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

(dollars in thousands)

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, money markets, and high quality corporate and asset-backed securities, and commercial and bank paper. Debt securities must be rated Aaa, Aa, A or Baa by Moody's 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. Asset-backed securities must be rated Aaa by Moody's or AAA by Standard and Poors. Commercial paper must be rated A-1 by Standard and Poors or P-1 by Moody's. 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 banker's acceptance or negotiable certificates of deposit issued by banks rated B or better. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, banker's acceptances or floating rate notes of the institutions within any single holding company. 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. Finally, investments may include the Commonfund, a non-profit provider of investment products for colleges and universities. 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, 2019	June 30, 2018
Cash	\$ 76,691	\$ 71,563
Certificates of Deposit	-	86,740
Money Markets	99,695	1,060
TOTAL	\$ 176,386	\$ 159,363

Of total cash and cash equivalents above, \$13,265 in 2019 and \$5,872 in 2018 are included in non-current endowment cash and cash equivalents.

The balance of cash held in bank deposit accounts was \$176,386 at June 30, 2019 and \$159,363 at June 30, 2018. Of these bank balances, \$1,509 in 2019 and \$1,033 in 2018 were covered by the Federal Depository Insurance Corporation. The University had a third-party custodian agreement with Bank of New York Mellon, through People's United, of \$61,629. The University also has an irrevocable standby letter of credit up to \$127,000 at June 30, 2019 and \$120,000 at June 30, 2018 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, 2019 and 2018.

(dollars in thousands)

Total operating investments were \$139,132 at June 30, 2019 and \$122,654 at June 30, 2018. Operating investments invested in the long term pool were \$11,091 at June 30, 2019 and \$11,244 at June 30, 2018 (see note G).

Short and intermediate term operating investments at June 30, 2019 and 2018 were primarily made through commingled funds with the following investment strategies:

2019	UVM Amount	Average Maturity/ Effective Duration	Govt/ Agency	Credit Quality %				
				AAA	AA	A	BBB	Other
Bonds	\$ 116,783	2.7 yrs/ 2.5 yrs	28	4	33	28	7	-
Multi Strategy Equity Fund	10,774							
Other	484							
TOTAL	\$ 128,041							

2018	UVM Amount	Average Maturity/ Effective Duration	Govt/ Agency	Credit Quality %				
				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							

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 \$9,022 in 2019 and \$6,437 in 2018 of assets held under deferred giving arrangements, \$1,123 in 2019 and \$1,098 in 2018 of investments in the waste disposal fund required by the EPA, and \$8 in 2019 and \$542 in 2018 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	FY19	FY18
Net interest, dividend, and other income	\$ 6,820	\$ 5,936
Realized gains	17,440	12,899
Unrealized gains	2,643	16,099
Investment management fees	(1,720)	(1,732)
TOTAL	\$ 25,183	\$ 33,202

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, 2019 and 2018 is summarized as follows:

Fiscal Year 2019	Level 1	Level 2	Level 3	NAV	Total Investments
Investments:					
Equity Securities					
U.S. Equity	\$ 125,231	\$ -	\$ -	\$ -	\$ 125,231
Global Developed	71,008	-	-	-	71,008
Global Emerging	30,846	-	-	12,600	43,446
Total Equity Securities	<u>227,085</u>	<u>-</u>	<u>-</u>	<u>12,600</u>	<u>239,685</u>
Marketable Alternative					
Absolute Return	-	-	-	71,590	71,590
Hedged Equity	-	-	-	10,152	10,152
Total Marketable Alternative	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,742</u>	<u>81,742</u>
Real Assets					
Private Real Assets	-	-	325	33,867	34,192
Public Real Assets	12,028	-	-	14,681	26,709
Total Real Assets	<u>12,028</u>	<u>-</u>	<u>325</u>	<u>48,548</u>	<u>60,901</u>
Private Equity/Venture Capital					
Private Equity	-	-	8	17,832	17,840
Venture Capital	-	-	-	28,479	28,479
Secondaries	-	-	-	9,936	9,936
Distressed	-	-	-	13,470	13,470
Total Private Equity/Venture Capital	<u>-</u>	<u>-</u>	<u>8</u>	<u>69,717</u>	<u>69,725</u>
Debt Securities	74,668	137,427	-	-	212,095
Other Investments	412	-	451	-	863
Cash and Cash Equivalents	13,265	-	-	-	13,265
Total Investments	\$ 327,458	\$ 137,427	\$ 784	\$ 212,607	\$ 678,276
Deposits With Trustees at Fair Value:					
Beneficial Interests in Trusts	\$ -	\$ -	\$ 4,765	\$ -	\$ 4,765
U.S. Equity	205	-	-	-	205
Debt Securities	229	4,363	-	-	4,592
Cash and Cash Equivalents	591	-	-	-	591
Total Deposits With Trustees	\$ 1,025	\$ 4,363	\$ 4,765	\$ -	\$ 10,153

(dollars in thousands)

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)

Investment liquidity for the years ended June 30, 2019 and 2018 is summarized as follows:

Fiscal Year 2019	Daily	Monthly	Quarterly	Semi- Annual	Annual	Illiquid	Total	Redemption Notice Period
Investments:								
Equity Securities								
U.S. Equity	\$ 118,193	\$ 7,038	\$ -	\$ -	\$ -	\$ -	\$ 125,231	1-30 days
Global Developed	71,008	-	-	-	-	-	71,008	Same day
Global Emerging	30,846	-	12,600	-	-	-	43,446	1-45 days
Total Equity Securities	<u>220,047</u>	<u>7,038</u>	<u>12,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>239,685</u>	
Marketable Alternative								
Absolute Return	10,774	-	27,511	14,367	18,935	3	71,590	1-90 days, Illiquid
Hedged Equity	-	-	10,152	-	-	-	10,152	Quarterly
Total Marketable Alternative	<u>10,774</u>	<u>-</u>	<u>37,663</u>	<u>14,367</u>	<u>18,935</u>	<u>3</u>	<u>81,742</u>	
Real Assets								
Private Real Assets	-	-	-	-	-	34,192	34,192	Illiquid
Public Real Assets	12,028	-	-	-	-	14,681	26,709	Same day, Illiquid
Total Real Assets	<u>12,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,873</u>	<u>60,901</u>	
Private Equity/Venture Capital								
Private Equity	-	-	-	-	-	17,840	17,840	Illiquid
Venture Capital	-	-	-	-	-	28,479	28,479	Illiquid
Secondaries	-	-	-	-	-	9,936	9,936	Illiquid
Distressed	-	-	-	-	-	13,470	13,470	Illiquid
Total Private Equity/ Venture Capital	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,725</u>	<u>69,725</u>	
Debt Securities	195,089	17,006	-	-	-	-	212,095	1-30 days
Other Investments	412	-	-	-	-	451	863	Same day, Illiquid
Cash and Cash Equivalents	13,265	-	-	-	-	-	13,265	Same day
Total Investments	<u>\$ 451,615</u>	<u>\$ 24,044</u>	<u>\$ 50,263</u>	<u>\$ 14,367</u>	<u>\$ 18,935</u>	<u>\$ 119,052</u>	<u>\$ 678,276</u>	

(dollars in thousands)

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	

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.

(dollars in thousands)

H. Endowment and Other Long Term Funds

The University's investment policies are governed and authorized by the University Board of Trustees. The Board of Trustees Investment Subcommittee has established a formal policy for investment of the endowment and other long term funds with an objective to provide a stable and consistent level of ongoing support for the University's programs through a 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 below left table.

Endowment and separately invested funds including \$11,091 and \$11,244 of operating investments and \$44,420 and \$41,247 of capital investments at June 30, 2019 and 2018, respectively, are composed of the following:

Unaudited June 30, 2019

	Target %	Actual %
Public Global Equity	43.0	43.3
Marketable Alternatives	13.0	13.5
Private Investments	25.0	19.2
Public Real Assets	5.0	5.0
Fixed Income/Debt	14.0	17.0
Cash & Cash Equivalents	0.0	2.0

June 30, 2018

	Target %	Actual %
US Equity	20.0	22.0
Global Excluding US Equity	23.0	25.6
Marketable Alternatives	19.0	17.4
Real Estate/Inflation Hedges	13.0	12.7
Non-marketable Alternatives	13.0	9.6
Fixed Income/Debt	12.0	11.8
Cash & Cash Equivalents	0.0	0.9

	June 30, 2019	June 30, 2018
Cash	\$ 11,740	\$ 4,833
Money Market	1,525	1,039
Common Stock	118,193	115,929
U.S. Treasury Bonds and Notes	370	474
Other Government Bonds and Notes	206	197
Industry Bonds	3,074	2,880
Private Equity and Venture Partnerships	135,235	116,125
Insurance Policies	387	-
Life Estates	579	949
Hedge Funds	83,591	115,178
Mutual Funds	195,335	185,679
TOTAL	\$ 550,235	\$ 543,283

The fixed income portfolio is composed of two passive bond funds with the following risk profiles at June 30, 2019 and 2018:

	Amount	Average Duration Yrs.	Credit Quality %					
			Govt/ Agency	AAA	AA	A	BBB <BBB	
2019								
Passive Bond Funds	\$91,651	3.6	50	3	3	11	32	1
			Credit Quality %					
	Amount	Average Duration Yrs.	Govt/ Agency	AAA	AA	A	BBB	<BBB
2018								
Passive Bond Funds	\$62,428	4.4	44	3	3	11	38	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 \$63.32), 4,753,2684 units were owned by endowment funds and 3,757,1292 units by quasi endowment funds at June 30, 2019 (\$64.20, 4,755.8939 and 3,541.3406 respectively, at June 30, 2018).

Beginning in fiscal year 2013 the University of Vermont Foundation (UVMF) elected to participate in the UVM pooled endowment. The UVMF owned 1,404.8586 units with a market value of \$88,960 as of June 30, 2019 and 1,261.2855 units with a market value of \$80,971 as of June 30, 2018. 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, 2019	\$ 538,906	\$ 419,585	\$ 119,321
June 30, 2018	532,658	411,178	121,480
Unrealized Net Loss			(2,159)
New Gifts and Transfers			8,679
Realized Net Gain			15,964
Net Income			195
Withdrawn for Spending			(16,431)
Total Net Change			\$ 6,248

	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

I. Commitments

Major plant projects include commitments as follows:

Unaudited Project	Estimated Project Cost	Project-to-Date Expenditures 2019	Project-to-Date Expenditures 2018
Given Renovation	\$ 6,950	\$ 2,323	\$ 472
McAuley Hall Upgrade	6,100	284	83
Multipurpose Center	95,000	7,911	2,963
Torrey Interior Renovation	6,300	303	87

The University has entered into operating leases for space, which expire at various dates through fiscal 2026. 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
2020	\$ 1,708
2021	1,552
2022	1,430
2023	1,267
2024-26	1,378
TOTAL	\$ 7,335

Operating lease expenses totaled \$4,587 and \$4,458 in 2019 and 2018, respectively.

The University is obligated under certain of its investments to make future capital contributions in the amount of \$61,923 as of June 30, 2019.

The University entered into agreements with the State of Vermont Department of Vermont Health Access in both 2019 and 2018, 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 \$13,865 and \$13,644 were made in 2019 and 2018, 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 2020, 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 \$13,840.

(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 \$5,155 in 2019 and \$3,248 in 2018; \$1,963 and \$10 of this is covered by excess insurance in 2019 and 2018, respectively. The University paid claims of \$1,914 in 2019 and \$2,378 in 2018. Reserves for property and casualty liabilities are included in accrued liabilities (including incurred but not reported) in the amount of \$10,283 at June 30, 2019 and \$8,721 at June 30, 2018.

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 \$7,189. 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 \$5,627 in FY19. 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 \$7,189, (\$5,627), and (\$1,562), 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, to waive this waiting period, 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, to waive this waiting period, 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 employer 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 remain in the UVM plan but may no longer make contributions, 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, 2019 and 2018, the University had total payroll expense of \$305,694 and \$294,262, respectively, of which \$215,013 in 2019 and \$211,255 in 2018 was covered by the University's 403(b) retirement plan. Total employee and employer contributions for 403(b) pension benefits for the year were \$18,089 and \$21,501, respectively, for 2019 and \$18,054 and \$21,126, respectively, for 2018. 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 \$4,687 in fiscal year 2019 and \$4,500 in fiscal year 2018.

L. Postemployment Benefits Other Than Pensions (OPEB)

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 months 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 \$460,332 in 2019 and \$492,575 in 2018 was determined by an actuarial valuation as of January 1, 2017, and then projected forward to the measurement date of December 31, 2018 and December 31, 2017, respectively.

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	4.10%

The following percentages 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 for 2019 were based on the Sex-distinct RP-2006 Base Healthy Annuitant /Employee Mortality Tables with projection Scale MP-2018 for healthy participants and Sex-distinct RP-2006 Base Disabled Mortality Tables with projection Scale MP-2018 for disabled participants. The mortality rates for 2018 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, 2019 and 2018:

Total OPEB Liability	Fiscal Year 2019	Fiscal Year 2018
Balance at the beginning of year	\$ 492,575	\$ 471,201
Changes for the year:		
Service cost	15,645	14,434
Interest on total OPEB liability	17,175	18,066
Effect of plan changes	-	-
Effect of economic/demographic gains or losses	1,395	847
Effect of assumption changes or inputs	(48,429)	4,085
Benefit payments	(18,029)	(16,058)
Net changes	(32,243)	21,374
Balance at end of the year	\$ 460,332	\$ 492,575

Changes of assumptions and other inputs reflect a change in the discount rate to 4.10% in FY19 from 3.44% in FY18.

The following tables present the total OPEB liability of the University, calculated using the discount rates of 4.10% in FY19 and 3.44% in FY18, 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 or 1 percentage point higher than the current rate.

	1% Decrease	Discount Rate	1% Increase
Fiscal Year 2019	(3.10%)	(4.10%)	(5.10%)
Total OPEB liability	\$ 532,203	\$ 460,332	\$ 402,338
Fiscal Year 2018	(2.44%)	(3.44%)	(4.44%)
Total OPEB liability	\$ 574,964	\$ 492,575	\$ 426,676

The following tables present the FY19 and FY18 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.

	1% Decrease	Current Trend Rate	1% Increase
Fiscal Year 2019			
Total OPEB liability	\$ 390,911	\$ 460,332	\$ 547,983
Fiscal Year 2018			
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, 2019 and 2018 is summarized as follows:

OPEB Expense	FY19	FY18
Service cost	\$ 15,645	\$ 14,434
Interest on total OPEB liability	17,175	18,066
Effect of plan changes	-	-
Recognition of deferred outflows/inflows of resources		
Recognition of economic/demographic gains or losses	485	160
Recognition of assumption changes or inputs	(10,517)	772
OPEB expense	\$ 22,788	\$ 33,432

Deferred outflows and inflows of resources as of June 30, 2019 and 2018 are summarized as follows:

Fiscal Year 2019	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,597
Changes of assumptions	(37,140)	2,540
Contributions after measurement period	-	8,998
TOTAL	\$ (37,140)	\$ 13,135

Fiscal Year 2018	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 \$8,998 and \$8,618 will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020 and June 30, 2019, respectively. 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
2020	\$ (10,031)
2021	(10,031)
2022	(10,031)
2023	(2,909)
2024	-
Thereafter*	-

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

(dollars in thousands)

M. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2019 and 2018 are summarized as follows:

Year ended June 30, 2019					
Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	\$ 159,826	\$ 21,328	\$ -	\$ -	\$ 181,154
Research	60,444	32,626	-	-	93,070
Public service	48,167	16,011	-	-	64,178
Academic support	46,333	19,450	-	-	65,783
Student services	28,151	15,606	-	-	43,757
Institutional support	32,843	11,687	-	-	44,530
Operations and maintenance of plant	30,219	20,924	-	-	51,143
Scholarships and fellowships	-	-	20,747	-	20,747
Auxiliary enterprises	31,652	52,404	-	-	84,056
Depreciation	-	-	-	32,902	32,902
TOTAL	\$ 437,635	\$ 190,036	\$ 20,747	\$ 32,902	\$ 681,320

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

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 \$300 and \$1,456 in fiscal 2019 and fiscal 2018, respectively.

Also, in fiscal 2019, 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 2019 and therefore fiscal 2019 supplies and services expense and current accrued liabilities include \$1,388 (\$1,654 in fiscal 2018) 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)

O. Subsequent Events

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements of Auditing Standards*, provides guidance for disclosure of events or transactions that occur subsequent to the Statements of Net Position date but prior to the issuance of the financial statements. The statement specifically refers to the issuance of bonds as an event that requires disclosure in the footnotes. On August 21, 2019 the University issued two bonds: General Obligation Bonds, Series 2019A (Green Bonds) par amount of \$38,200 and General Obligation Bonds, Series 2019B par amount of \$59,875. The 2019A Bonds are being issued to finance a portion of the costs of constructing an on-campus Multipurpose Center and to finance capitalized interest on the 2019A Bonds through April 1, 2020. The 2019B Bonds are being issued for the purpose of providing funds that will be used, together with available moneys of the University, to refund all the University’s outstanding General Obligation Bonds, Series 2009 maturing after October 1, 2019 and to reimburse the University for the costs of certain deferred maintenance on the campus of the University. Proceeds of the 2019 Bonds will also be used to finance certain costs of issuance of the 2019 Bonds. The University incurred a deferred loss of \$1,207 on the refunding of the 2009 General Obligation Bonds.

Required Supplementary Information - Postemployment Benefits		
Schedule of Changes in the University’s Total OPEB Liability and Related Ratios		
Total OPEB Liability	FY19	FY18
Service cost	\$ 15,645	\$ 14,434
Interest on total OPEB liability	17,175	18,066
Changes of benefit terms	-	-
Effect of economic/demographic gains or (losses)	1,395	847
Effect of assumption changes or inputs	(48,429)	4,085
Benefit payments	(18,029)	(16,058)
Net change in total OPEB liability	(32,243)	21,374
Total OPEB liability, beginning	492,575	471,201
Total OPEB liability, ending	\$ 460,332	\$ 492,575
Covered-employee payroll	\$ 241,981	\$ 241,981
Total OPEB liability as a % of covered-employee payroll	190.23%	203.56%

This 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. The following are the discount rates used in each period:

2019	4.10%
2018	3.44%





The University of Vermont

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