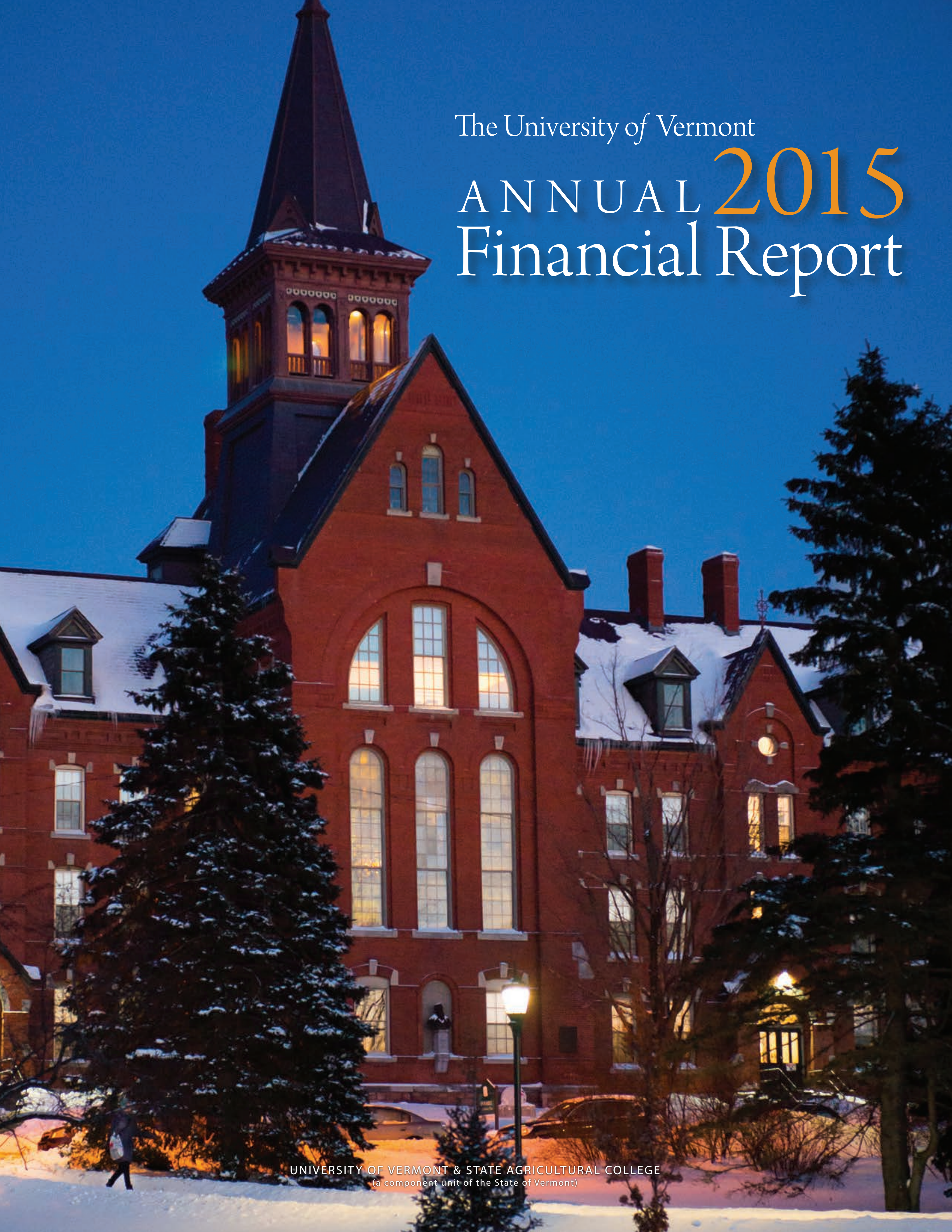
The University *of* Vermont

ANNUAL 2015 Financial Report



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

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(a component unit of the State of Vermont)

The University *of* Vermont

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ANNUAL FINANCIAL REPORT 2015

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

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Letter from the President

Members of the Board of Trustees,

I attach the Annual Financial Report for the Fiscal Year ended June 30, 2015. The state of the UVM's finances is sound.

These financial statements reflect a decrease of $16.3 million in the University's net assets. A key contributor to the change in net position was the volatile condition of the financial markets. In 2014 the growth of the endowment was more than enough to offset the increase in depreciation and the post-retirement medical benefit liability, but that was not the case this year. 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 asset, but all of the gifts to the Foundation flow to the benefit of UVM students and the University. As of June 30, 2015, the entire combined endowment (UVM and Foundation) market value was $450.6 million. Our comprehensive campaign will ensure that the combined endowment will grow substantially over the next decade. This will provide even more funding for the support of scholarships, faculty, academic programs, and facilities.

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

With every best wish,

Tom Sullivan

The University of Vermont

Management's Responsibility for the Financial Report

The accompanying financial statements of the University of Vermont and State Agricultural College for the year ended June 30, 2015 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 Grant Thornton, LLP to conduct the annual financial audit for fiscal year 2015.

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 Grant Thornton and the Audit Service 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

GrantThornton

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Douglas Hoffer,
Auditor of the 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 the 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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents. We did not audit the financial statements of the following discreetly presented component units: University Medical Education Associates, Inc., and the University of Vermont and State Agriculture College Foundation, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those discretely presented component units, is based solely on the reports of those other auditors.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's responsibility

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

Independent Auditor's Report

continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 University'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 University'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.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective net position of the business-type activities and the aggregate discretely presented component units, as of June 30, 2015 and 2014, and the respective changes in net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis ("MD&A") and the Schedules of Employer Contributions, Funding Progress and Net OPEB Obligation be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures 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.

Grant Thornton LLP

Boston, Massachusetts
October 14, 2015

The University of Vermont

Management's Discussion and Analysis (Unaudited)

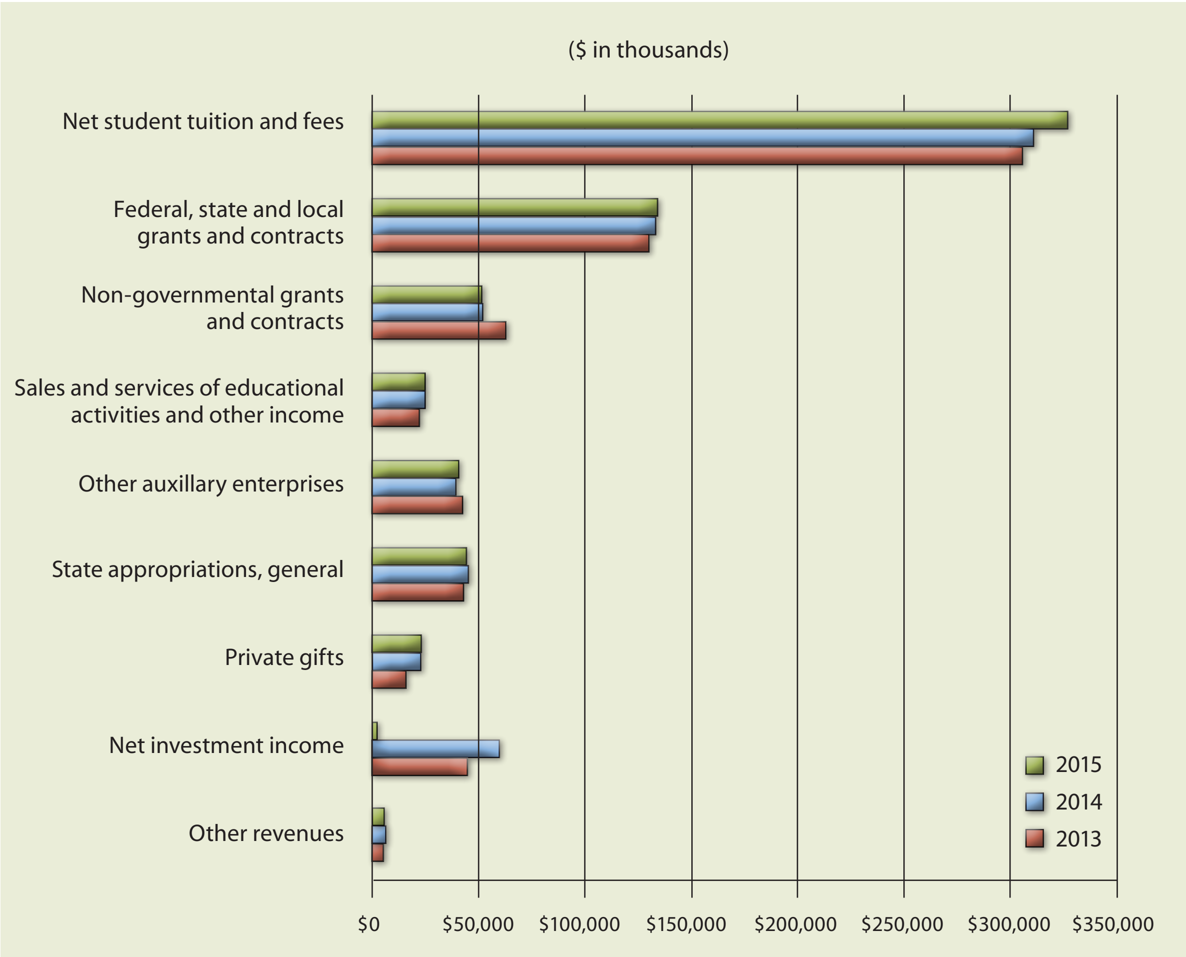
June 30, 2015 and 2014

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, 2015 and 2014, 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. In planning and performing the audit of the financial statements, the independent auditors consider the University of Vermont's internal controls over financial reporting to determine appropriate audit procedures in order to express an opinion. In addition, the independent auditors perform tests of the University's compliance with certain provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements. A report is issued to describe the scope of testing on internal controls and compliance. This independent auditor's report can be found on the University's website.

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 College of Medicine, the Division of Continuing and Distance Education, Extension and the Graduate College. The University of Vermont is the only comprehensive research university in Vermont. The University has 10,081 undergraduate students and 1,842 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 College of Medicine of the University of Vermont. UVMF is a legally separate tax-exempt component unit of the University whose purpose is to secure and manage private gifts for the sole benefit of the University. The MD&A discusses the University's financial statements only and not those of its component units.

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



Financial Highlights and Economic Outlook

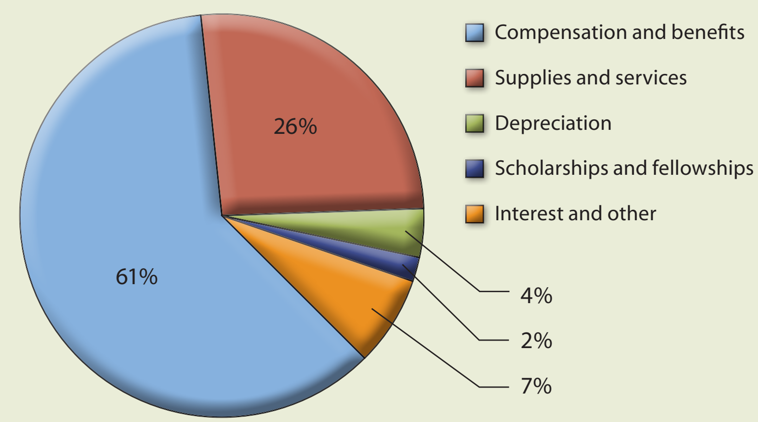
The President's strategic action plan titled "Enhancing Quality and Affordability" outlines four major initiatives which are the cornerstone for all University decisions; 1) Access to success: promoting affordability, financial access and academic support, 2) Promoting a culture of advancing academic excellence and cultivating talent, 3) Identifying necessary investments to ensure a bright future, 4) Instilling an institutional commitment to efficiency and effectiveness that optimizes the use of facilities, technology, assets, and shared services. Much has been done to implement this vision and the University anticipates continued discussion and implementation of this strategic action plan during fiscal year 2016.

The University's net position decreased by $16.3 million in fiscal 2015, compared to an increase of $27.4 million in fiscal 2014. A key contributor to the change in net position was the performance in the financial markets; the net gain in the investment portfolio in fiscal 2015 was $4.4 million as compared to $60.6 million in fiscal 2014.

Total operating revenues increased in fiscal 2015 by $19.1 million, or 3.5%. This included an increase in net student tuition and fees of $18.5 million, or 5.9%, offset by a slight decrease in federal, state, and private grants and contracts of $0.6 million, or 0.4%. Other critical revenues include state appropriations, which decreased by 0.6% in 2015 compared to a 3.5% increase in 2014, and state capital appropriations which remained constant at $1.4 million.

The University experienced an increase in operating costs of $9.4 million, or 1.6%, in fiscal 2015. Compensation and benefits represents the most significant operating cost, comprising 65.4% and 64.9% of operating costs in 2015 and 2014, respectively. Compensation and benefit expenses increased $8.8 million while supplies and service expenses remained steady. Compensation and benefit expenses primarily increased due to salary and wage increases in 2015 of 2% for both faculty and staff. Other significant non-operating expenses include interest on indebtedness which was $20.5 million in 2015 compared to $21.4 million in 2014 and transfers to other governmental entities and the UVM Foundation which, combined, were $22.7 million in 2015 and $24.1 million in 2014.

The following chart displays operating, interest, and other expenses for fiscal 2015:



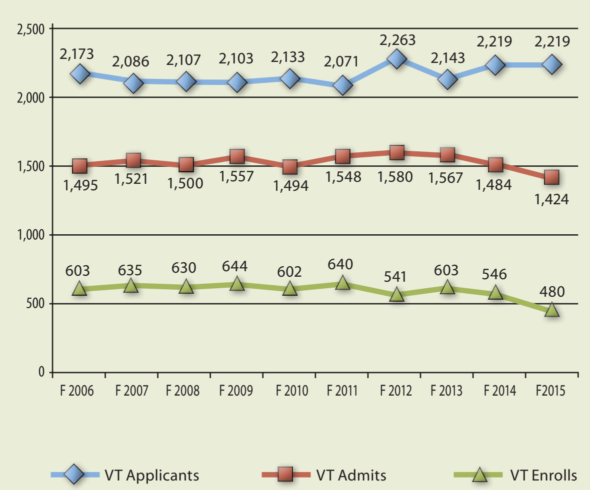
During fiscal year 2015, projects which began included renovations to the Simpson Dining Hall and the Mason, Simpson, and Hamilton Residential Halls, expansion to the Central Heating Plant, and renovations to the Alumni House. The University started construction on the Sciences, Technology, Engineering and Mathematics (STEM) complex by fiscal year end, which will provide innovative research and classroom spaces for those disciplines. Finally, planning on the First Year Student Housing and Dining Hall to replace the Chittenden, Buckham, and Wills Halls continued in fiscal year 2015.

In the fall of fiscal 2016, the University enrolled 10,081 students in more than 100 undergraduate majors, 1,385 students in graduate and post-baccalaureate programs, and 457 students at the College of Medicine. The University attracts undergraduates from 46 states and many foreign countries. The University has grown its international student population by 34% over the last year. The University is primarily a regional institution however, drawing 88% of the undergraduates enrolled in the fall of fiscal year 2016 from New England and the Middle Atlantic States, including 20% of its undergraduate students from Vermont. Graduate and Certificate student enrollment from Vermont represented 50%.

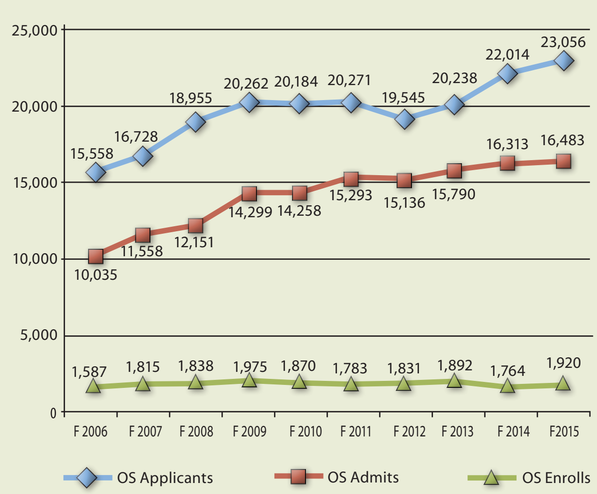
The following tables present applications, admissions, and enrollments for in-state and out-of-state students. Final numbers for the fall of fiscal year 2016 show that total applications have increased 43% since 2006, with in-state applications increasing 2% and out-of-state applications increasing 48%. Total admissions have increased for that period by 55%, with in-state admissions decreasing 5% and out-of-state admissions increasing 64%. Since 2006, total first-time, first year enrollments have increased 10%, with in-state enrollments decreasing by 20% and out-of-state enrollments increasing by 21%.

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 4.6% since 2007. The table at the top of page 9 presents tuition and fees, as well as room and board for that period.

Trends in Vermont Applications, Admits, and Enrollments
Fall 2006 to Fall 2015



Trends in Out-of-State Applications, Admits, and Enrollments
Fall 2006 to Fall 2015



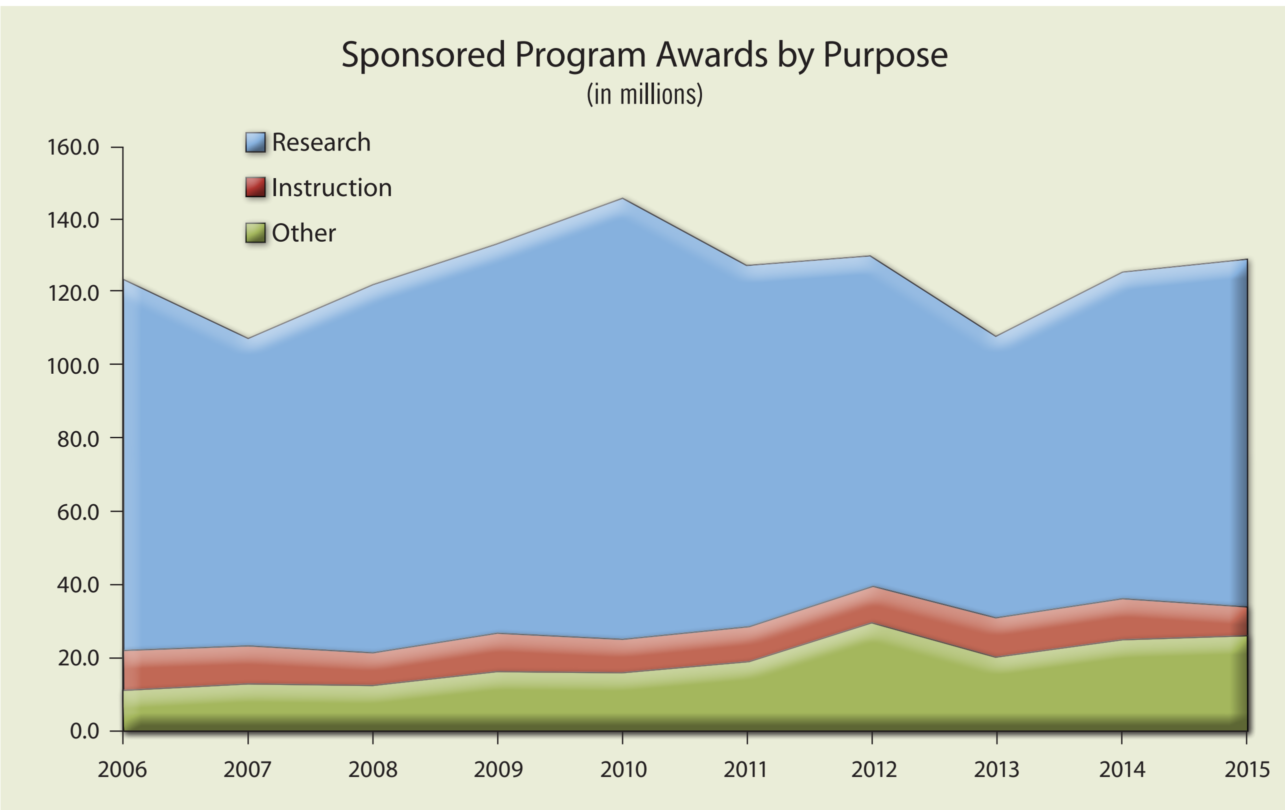
The State of Vermont ("the State") general appropriations represented 6.7% of the University's total revenues for fiscal year 2015. The University received a State capital appropriation of $1.4 million in fiscal year 2015 and fiscal year 2014.

Grant and contract revenues of $170.6 million represented 26.6% of total revenues for fiscal 2015 which included facility and administrative cost recoveries of $24.8 million and additional commitment funds from Fletcher Allen Health Care, Inc. of $15.1 million. During fiscal 2015, the University was awarded over $132.3 million in sponsored funds, 76.9% of which were for research activities. Approximately 70.0% of sponsored funds awarded during fiscal 2015 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

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Average Annual % Increase
Student Tuition & Fees									
In-State Tuition & Fees	$12,054	$12,844	$13,554	$14,044	$14,784	$15,284	$15,718	$16,226	4.61%
Out of-State Tuition & Fees	$27,938	$29,682	$31,410	$32,630	$34,424	$35.612	$36,646	$37,874	4.67%
Room (Double)	$5,426	$5,752	$5,964	$6,196	$6,426	$6,650	$6,844	$7,116	4.13%
Board (Average Meal Plan)	$2,598	$2,782	$3,032	$3,156	$3,282	$3,414	$3,558	$3,664	4.95%
Total, In-State Cost	$20,078	$21,378	$22,550	$23,418	$24,492	$25,348	$26,120	$27,006	
Increase Over Previous Year	5.86%	6.47%	5.48%	3.84%	4.59%	3.50%	3.05%	3.39%	4.52%
Total, Out-of-State Cost	$35,962	$38,216	$40,406	$41,982	$44,132	$45,676	$47,048	$48,654	
Increase Over Previous Year	5.93%	6.27%	5.73%	3.90%	5.12%	3.49%	3.00%	3.41%	4.61%

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



In June 2014 the University successfully negotiated and executed an updated Affiliation Agreement between the University of Vermont and Fletcher Allen Health Care, Inc. for a period of five (5) years with provisions for an automatic renewal in the absence of a party's written notice. The 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, 2015 and 2014 fiscal years. These statements provide information on the financial position of the University and the financial activity and results of its operations during the years presented. A description of these statements is below. The financial statements focus on the University as a whole, rather than upon individual funds or activities.

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

		(In thousands)	
	2015	**2014**	**2013**
Assets			
Current assets	$ 287,149	$ 267,864	$ 255,346
Non-current assets:			
Endowment, annuities and life income cash, cash equivalents and investments	404,522	406,131	350,808
Deposits with Trustees	11,198	14,174	14,928
Capital assets, net	519,190	525,111	536,372
Other	24,990	27,470	30,706
Total non-current assets	959,900	972,886	932,814
Total assets	**1,247,049**	**1,240,750**	**1,188,160**
Deferred outflows of resources			
Loss on refunding of debt	3,676	3,504	3,699
Total deferred outflows of resources	**3,676**	**3,504**	**3,699**
Liabilities			
Current liabilities	108,675	102,430	90,925
Non-current liabilities	635,387	618,837	605,367
Total liabilities	**744,062**	**721,267**	**696,292**
Net position			
Net investment in capital assets	73,660	66,977	71,226
Restricted:			
Non-expendable	109,056	101,079	99,021
Expendable	304,900	320,404	281,381
Unrestricted	19,047	34,527	43,939
Total net position	**$506,663**	**$522,987**	**$495,567**

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, 2015, with comparative information for 2014 and 2013 is displayed in the chart on page 10.

Net position totaled $506.7 million, $523.0 million, and $495.6 million at June 30, 2015, 2014, and 2013, respectively, decreasing by $16.3 million in 2015 and increasing by $27.4 million in 2014. Both 2015 and 2014 were significantly impacted by the investment market and the recognition of other postemployment benefits as prescribed by GASB 45. Increased support from the University of Vermont Foundation has also had a positive effect on the net position.

Net position at June 30, 2014 was adjusted to be in accordance with GASB statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which indicates that when the University receives assets in a split-interest agreement, it should recognize assets at their fair value. A liability should be recognized for the obligation to the beneficiary using present value techniques. The difference between the assets and liability should be recognized as private gift revenue. After initial measurement, the change in the value of assets and revaluation of the liability should be reflected on the Statements of Revenues, Expenses, and Changes in Net Position as gains or losses. Prior to fiscal 2015, the University had not recorded a liability related to the obligation associated with those agreements. For fiscal 2014 net position was adjusted from $528.3 million to $523.0 million and non-current accrued liabilities was adjusted from $12.8 million to $18.1 million.

Current assets of $287.1 million, $267.9 million, and $255.3 million at June 30, 2015, 2014, and 2013, respectively, consist primarily of cash and cash equivalents, and operating investments, which totaled $193.2 million at June 30, 2015, $189.2 million at June 30, 2014, and $187.0 million at June 30, 2013. Cash and cash equivalents and operating investments represents approximately 3.9, 3.9, and 4.0 months of total operating expenses, excluding depreciation, for 2015, 2014, and 2013, respectively. The net increase to current assets in 2015 of $19.3 million was primarily driven by a $12.0 million increase in accounts, loans, notes and pledges receivable and a $1.9 million increase in investments for capital activities. The net increase to current assets in 2014 of $12.5 million was primarily driven by a $5.6 million increase in investments for capital activities and a $4.8 million increase in accounts, loans, notes and pledges receivable.

Endowment cash, cash equivalents and investments totaled $404.5 million, $406.1 million and $350.8 million at June 30, 2015, 2014, and 2013, respectively, representing a decrease of $1.6 million, or 0.4% in 2015, and an increase of $55.3 million, or 15.8% in 2013. The University's long-term investment pool consists of permanent endowments, term endowments, and funds functioning as endowments, commonly referred to as quasi-endowments.

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

The University's primary long-term investment goal is to attain a real total return that exceeds the amount being distributed for spending and administration, currently set at 4.75% of the previous 13 quarters' average market value. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark, measured over a full market cycle; and to outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies. The spending distributions from the total endowment were $17.3 million, $16.4 million, and $14.6 million in fiscal years ended June 30, 2015, 2014, and 2013, respectively. These distributions were 4.0%, 4.4%, and 4.4% of the beginning market value of the endowment for fiscal years 2015, 2014, and 2013, respectively.

The decrease to *Deposits with Trustees* of $3.0 million in 2015 and $0.8 million in 2014 was primarily due to the closing of certain split interest agreements and draw-downs for construction and other capital projects.

Capital assets, net of accumulated depreciation, totaled $519.2 million, $525.1 million and $536.4 million at June 30, 2015, 2014 and 2013, respectively, representing a decrease of $5.9 million, or 1.1%, in 2015 and $11.3 million, or 2.1%, in 2014. Gross capital additions totaled $20.8 million in 2015 and $15.3 million in 2014. Capital additions in 2015 included land acquisitions and land improvements of $1.5 million, renovations to residence and dining halls, research laboratories, and other buildings of $4.5 million, building components and equipment of $0.5 million, fixed equipment of $0.9 million, building interiors of $1.9 million, moveable equipment of $2.4 million, software systems of $0.2 million, and construction in progress of $8.9 million. Capital additions in 2014 included land acquisitions and land improvements of $1.4 million, renovations to residence and dining halls, research laboratories, and other buildings of $8.8 million, building components and equipment of $0.7 million, fixed equipment of $0.6 million, building interiors of $1.0 million, moveable equipment of $1.0 million, software systems of $0.3 million, and construction in progress of $1.5 million.

Deferred outflows of resources of $3.7 million and $3.5 million at, June 30, 2015 and 2014, respectively, represent the deferred loss on refunding of the 1998 and 2002 general obligation bonds with the 2012 and 2014 general obligation bonds. The loss is amortized at a rate of $0.2 million each year until fiscal year 2032.

Current liabilities increased $6.2 million in 2015 and $11.5 million in 2014. The primary cause of the increases in both fiscal years is due to the University accepting UVMF funds which were then invested in the University's pooled endowment. These funds generate income which is distributed to the UVMF. The funds held in the University's pooled endowment represent a liability of the University as they are UVMF assets and will be returned to the UVMF in the future. At June 30, 2015 the amount of UVMF assets held in the University's pooled endowment was $29.9 million. At June 30, 2014 the amount of UVMF assets held in the University's pooled endowment was $27.6 million.

Non-current liabilities increased $16.6 million in 2015 compared to $13.5 million in 2014. The increase in 2015 is the result of the recognition of $24.4 million in additional liability for postemployment benefits offset by a decrease of $7.7 million in the non-current portion of bonds and notes payable. The increase in 2014 is the result of the recognition of $21.5 million in additional liability for postemployment benefits offset by an $8.0 million decrease in the non-current portion of bonds and notes payable.

Net investment in capital assets of $73.7 million, $67.0 million, and $71.2 million, at June 30, 2015, 2014, and 2013, 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 $6.7 million in 2015 was primarily the result of the net effect of additions to capital assets of $20.8 million, the decrease in bonds payable related to capitalized assets of $12.5 million, and depreciation expense of $26.6 million. The decrease of $4.2 million in 2014 was primarily the result of the net effect of additions to capital assets of $15.3 million, the decrease in bonds payable related to capitalized assets of $6.8 million, and depreciation expense of $26.5 million.

Restricted non-expendable net position totaling $109.1 million, $101.1 million, and $99.0 million at June 30, 2015, 2014, and 2013, respectively, consist entirely of the University's permanent endowment funds. The corpus of restricted nonexpendable resources is only available for investment purposes. The increase of $8.0 million, or 7.9%, in 2015, resulted from new gifts. The increase of $2.1 million, or 2.1%, in 2014, resulted from new gifts.

Restricted expendable net position are subject to externally imposed restrictions governing their use. Restricted expendable net position totaled $304.9 million, $320.4 million, and $281.4 million, as of June 30, 2015, 2014, and 2013, respectively. The decrease of $15.5 million in 2015 and the increase of $39.0 million in 2014 were primarily due to changes in net investment income. In 2015 there was a net investment gain of $1.4 million compared to a gain of $37.4 million in 2014.

Unrestricted net position are not subject to externally imposed stipulations. However, substantially all of the University's unrestricted net position has been designated for various academic and research programs and initiatives, as well as capital projects. Unrestricted net position totaled $19.0 million, $34.5 million, and $43.9 million for June 30, 2015, 2014, and 2013, respectively. The decrease of $15.5 million in 2015 was primarily due to increases in net tuition and fees of $18.5 million and other auxiliary enterprises revenues of $4.6 million offset by decreases in facility and administrative recovery of $0.7 million, other operating revenues of $1.4 million and net investment income of $10.5 million, as well as increases in operating expenses of $12.2 million, including $5.8 million in compensation and benefits, $4.0 million in supplies and services, and $2.5 million in scholarships and fellowships, and increased internal transfers of $4.5 million to capital assets. The decrease of $9.4 million in 2014 was primarily due to increases in net tuition and fees of $4.6 million, other auxiliary enterprises revenues of $3.1 million, other operating revenues of $2.5 million, net investment income of $4.4 million, and state capital appropriations of $1.4 million offset by increases in operating expenses of $22.3 million including $7.2 million in compensation and benefits, $8.5 million in supplies and services, and $6.6 million in scholarships and fellowships.

		(In thousands)	
	2015	**2014**	**2013**
Operating revenues	$ 564,403	$ 545,295	$ 548,683
Operating expenses	(615,127)	(605,712)	(585,027)
Operating loss	(50,724)	(60,417)	(36,344)
Net non-operating revenues	32,486	85,734	53,493
Revenue (loss) before capital and endowment additions	(18,238)	25,317	17,149
State capital appropriations	1,400	1,400	-
Capital gifts and grants	162	21	891
Gifts for endowment purposes	352	683	1,051
Total capital and endowment additions	1,914	2,104	1,942
Increase (decrease) in net position	**(16,324)**	**27,421**	**19,091**
Net position, beginning of year	522,987	495,566	476,475
Net position, end of year	**$ 506,663**	**$ 522,987**	**$ 495,566**

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, 2015, with comparative totals for the years ended June 30, 2014 and June 30, 2013 appears on page 12:

Net position decreased by $16.3 million in 2015 and increased by $27.4 million in 2014. Contributors to the decrease in 2015 include a decrease in net investment income of $56.2 million, an increase in operating expenses of $9.7 million offset by an increase in net tuition and fee revenue of $18.5 million, auxiliary enterprise revenue of $1.1 million and transfers to UVM from component units of $4.4 million. Contributors to the increase in 2014 include an increase in net investment income of $14.0 million, State appropriations of $1.5 million, private gifts of $2.5 million, State capital appropriations of $1.4 million, and support from UVMF and UMEA of $3.8 million. Federal, state, and private grants and contracts decreased by $9.1 million in large part due to a reduction in commitment funds from Fletcher Allen Health Care, Inc. This reduction was offset slightly by a decrease in intergovernmental transfer expense to the State of Vermont of $12.5 million.

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 $18.5 million in 2015, comprised of an increase to tuition and fees of $17.2 million, or 5.0%, an increase to residential life of $3.6 million, or 6.5%, and by an increase in scholarship allowances of $2.4 million, or 2.7%. Net student fees increased by $3.4 million in 2014, comprised of an increase to tuition and fees of $4.6 million, or 1.4%, an increase to residential life of $4.1 million, or 8.0%, and by an increase in scholarship allowances of $5.3 million, or 6.4%. 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 $108.3 million, $105.3 million, and $100.1 million, were awarded to students in 2015, 2014, and 2013, respectively. This represents a total increase of $3.0 million, or 2.9%, for 2015 as compared to a $5.2 million increase, or 5.1%, for 2014.

- *Revenues for sponsored programs* of $170.6 million in 2015, $171.3 million in 2014, and $180.3 million in 2013, include federal appropriations, grants and contracts, as well as state and non-governmental grants and contracts that normally provide for the recovery of direct and indirect costs or expenses. The minimal change in fiscal 2015 is due to steady funding. The decrease of $9.0 million in fiscal 2014 is attributed to a decrease in Fletcher Allen Health Care, Inc. commitment funds of $14.6 million offset slightly by an increase in federal and state grants. Revenues for sponsored programs are generally recognized when expenses are incurred or when significant milestones have been met under the terms of the award. The revenues for sponsored programs include recovery of indirect costs, referred to as facilities and administrative costs, of $24.9 million, $25.5 million, and $24.9 million, in 2015, 2014, and 2013, respectively.

- *Auxiliary enterprise and educational activities revenues* totaled $48.0 million, $46.9 million, and $47.9 million, in 2015, 2014, and 2013, respectively. Auxiliary enterprises include business type enterprises such as the bookstore, printing, mail services and conferences and events that provide support to the University's primary missions of education, research and public service. The $1.1 million increase in 2015 is primarily due to fee revenue for the Global Gateway Program and health fees collected. The $1.0 million decrease in 2014 is primarily due to a decrease in bookstore sales.

- *Student loan interest and other operating revenues* were $17.1 million, $16.9 million, and $13.6 million in 2015, 2014, and 2013, respectively.

Significant components of operating expenses include the following:

- *Compensation and benefits* of $402.1 million, $393.3 million, and $382.1 million in 2015, 2014, and 2013, respectively, comprise the most significant portion of total expenses. Compensation and benefits increased by $8.8 million, or 2.2% in 2015 and by $11.2 million, or 2.9% in 2014. The fiscal 2015 and 2014 increases reflected budgeted increases of 2.0% in the non-represented staff salary pool and the faculty salary pool along with increased fringe benefits rates for Medical Group faculty, Civil Service and temporary employees. In addition, health plan benefit costs decreased by $0.3 million, or 0.6%, in 2015 and increased $5.1 million, or 11.0%, in 2014.

- *Supplies and services* expenses remained the same in 2015 and increased by $11.0 million, or 6.9%, in 2014. 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 slightly by $0.1 million, or 0.2%, in 2015 and decreased by $1.3 million, or 4.6%, in 2014.

- *Scholarships and fellowships* of $16.4 million in 2015, $15.8 million in 2014, and $16.0 million in 2013 are comprised of direct payments to students. As noted earlier, in addition to the amounts reflected in scholarships and fellowships expense, financial aid is applied to tuition and residential life fees and amounts applied to each are reflected in the financial statements as a reduction of those revenues.

- *Net non-operating revenue* is comprised of several revenue and expense categories that are not considered to be operating or exchange transactions. Net non-operating revenues totaled $32.7 million, $85.7 million, and $53.5 million, in 2015, 2014, and 2013, respectively, resulting in a decrease of $53.0 million in 2015 and an increase of $32.2 million in 2014. The decrease in fiscal 2015 net non-operating revenues was primarily due to a decrease in investment income of $56.2 million offset by an increase of $4.4 million in transfers to

UVM from component units. The increase in fiscal 2014 net non-operating revenues was primarily due to an increase in investment income of $14.0 million, state appropriation of $1.5 million, private gifts of $2.5 million, and transfers from component units of $3.8 million. Also, there was a reduction in intergovernmental transfer expense of $12.5 million to support the GME program. Net non-operating revenue includes various non-operating revenues and expenses that are grouped together on the Statements of Revenues, Expenses and Changes in Net Position and include the following:

- *State appropriations*, which represent funding provided by the State of Vermont, were $43.0 million, $43.3 million, and $41.8 million, in 2015, 2014, and 2013, respectively, decreasing by 0.6% in 2015 and increasing by 3.5% in 2014.

- *Federal Pell grants*, which represents funds received from the federal government to help low-income undergraduate students were $8.0 million, $8.2 million, and $8.8 million in 2015, 2014, and 2013, respectively.

- *Intergovernmental Transfers* totaled $13.1 million, $13.2 million, and $25.8 million in 2015, 2014 and 2013, respectively. This represents contributions to the State to support the Graduate Medical Education program.

- *Private gifts and Transfers to UVM from Component Units* totaled $20.3 million, $19.5 million, and $13.2 million, in 2015, 2014, and 2013, respectively.

- *Transfers to Component Units from UVM* totaled $9.7 million and $10.8 million in 2015 and 2014, respectively. These transfers were to the UVM Foundation, Inc. from the University to assist the Foundation in its operations.

- *Net investment income* was $4.4 million, $60.6 million, and $46.6 million in 2015, 2014, and 2013, respectively. Net investment income includes realized investment income and the change in the unrealized appreciation or depreciation of investments. Net investment income in fiscal 2015 was affected greatly by volatility in the financial markets. The change in unrealized appreciation/(depreciation) included in net investment income was $(20.7) million in 2015, $34.0 million in 2014, and $22.2 million in 2013. Realized gains and other income included in net investment income totaled $25.1 million, $27.1 million, and $24.4 million in 2015, 2014, and 2013, respectively.

- *Interest on indebtedness* totaled $20.5 million in 2015, $21.4 million in 2014, and $20.8 million in 2013. Interest on indebtedness represents interest on notes and bonds net of capitalized interest.

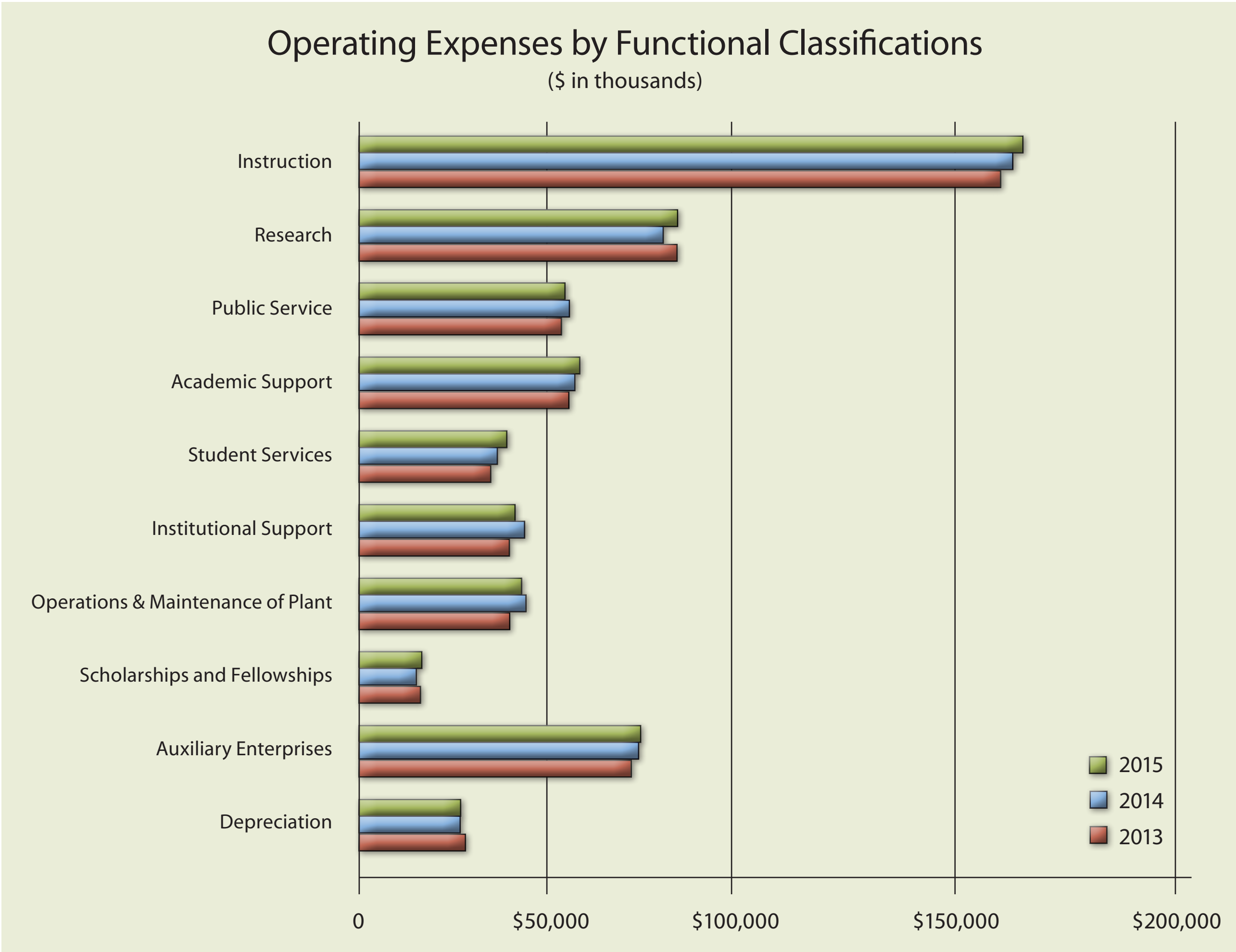
Other financial resources presented after *Revenue (Loss) before capital and endowment additions* include the following:

- *State capital appropriations* were $1.4 million, $1.4 million, and $0 million in 2015, 2014 and 2013, respectively.

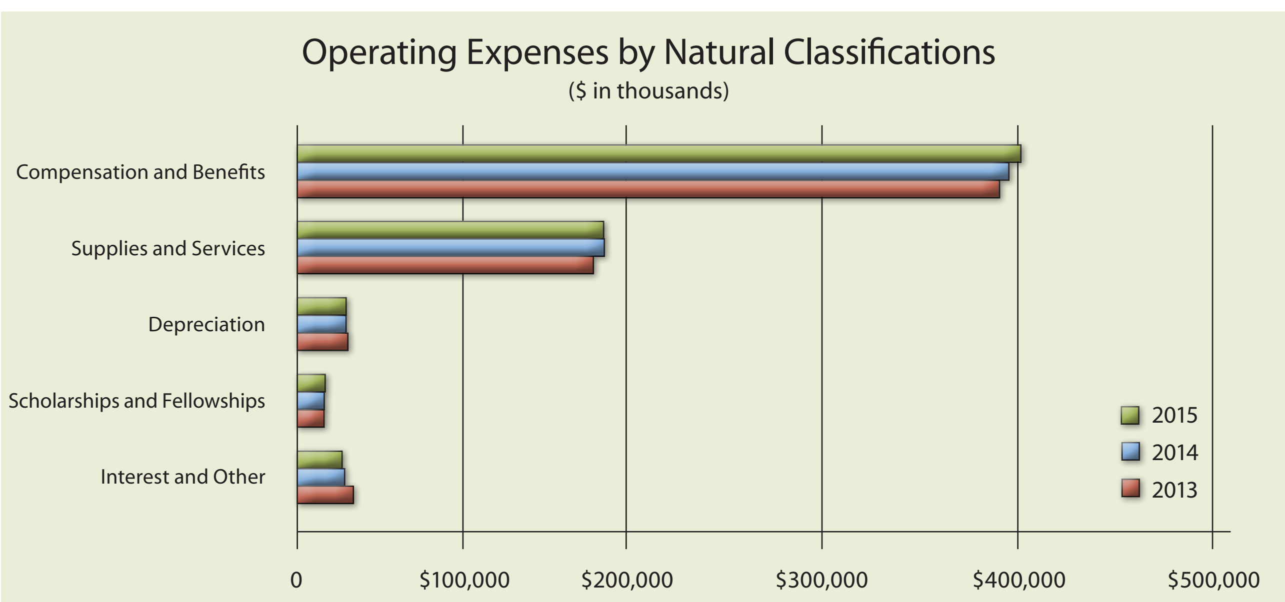
- *Capital and endowment gifts and grants* were $0.5 million, $0.7 million, and $1.9 million, in 2015, 2014, and 2013, respectively.

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 $9.7 million, or 1.6%, in 2015 and $20.7 million, or 3.5%, in 2014. 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 chart below presents total expenses by function for 2015, 2014, and 2013:



The following chart presents total expenses by natural classification for 2015, 2014, and 2013:



Statements of Net Position

as of June 30, 2015 and 2014

(dollars in thousands)

	2015	2014	UMEA 2015	UMEA 2014	UVMF 2015	UVMF 2014
ASSETS						
Current assets:						
Cash and cash equivalents	$ 73,228	$ 99,528	$ 410	$ 360	$ 41,566	$ 25,050
Operating investments	119,948	89,644	34,726	20,572	5	-
Investments for capital activities	29,913	27,994	-	-	35	-
Accounts, loans, notes and pledges receivable, net	52,033	40,014	628	518	1,790	1,623
Inventories and prepaid expenses	12,027	10,684	10	10	502	464
Total current assets	**287,149**	**267,864**	**35,774**	**21,460**	**43,898**	**27,137**
Non-current assets:						
Endowment cash, cash equivalents and investments	404,522	406,131	-	-	31,429	28,721
Student loans, notes, and pledges receivable, net	24,345	26,668	-	-	2,760	2,317
Deposits with trustees	11,198	14,174	-	-	1,095	1,094
Prepaid expenses and other assets	645	802	-	-	-	-
Capital assets, net	519,190	525,111	-	-	1,006	56
Total non-current assets	**959,900**	**972,886**	**-**	**-**	**36,290**	**32,188**
Total Assets	**1,247,049**	**1,240,750**	**35,774**	**21,460**	**80,188**	**59,325**
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of debt	3,676	3,504	-	-	-	-
Total Deferred Outflows of Resources	**3,676**	**3,504**	**-**	**-**	**-**	**-**
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	57,651	55,525	302	1,753	13,400	6,367
Unearned revenue, deposits, and funds held for others	42,718	38,943	16,840	4,529	71	37
Bonds and leases payable	8,306	7,962	-	-	-	-
Total current liabilities	**108,675**	**102,430**	**17,142**	**6,282**	**13,471**	**6,404**
Non-current liabilities:						
Accrued liabilities	17,956	18,071	-	-	-	-
Postemployment benefits	173,417	149,018	-	-	-	-
Bonds and leases payable	444,014	451,748	-	-	-	-
Total non-current liabilities	**635,387**	**613,837**	**-**	**-**	**-**	**-**
Total Liabilities	**744,062**	**721,267**	**17,142**	**6,282**	**13,471**	**6,404**
NET POSITION						
Net investment in capital assets	73,660	66,977	-	-	-	-
Restricted:						
Non-Expendable	109,056	101,079	-	-	24,584	22,542
Expendable	304,900	320,404	11,665	6,083	35,641	23,884
Unrestricted	19,047	34,527	6,967	9,095	6,492	6,495
Total Net Position	**$ 506,663**	**$ 522,987**	**$ 18,632**	**$ 15,178**	**$ 66,717**	**$ 52,921**

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

Statements of Revenues, Expenses and Changes in Net Position

for the years ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014	UMEA 2015	UMEA 2014	UVMF 2015	UVMF 2014*
Operating revenues						
Tuition and fees	$ 361,410	$ 344,171	$ -	$ -	$ -	$ -
Residential life	59,153	55,536	-	-	-	-
Less scholarship allowances	(91,851)	(89,450)	-	-	-	-
Net student tuition and fees	328,712	310,257	-	-	-	-
Federal, state, and private grants and contracts	170,640	171,263	-	-	168	109
Sales and services of educational activities	6,683	6,643	-	-	-	-
Other auxiliary enterprises	41,294	40,232	-	-	-	-
Student loan interest and other operating revenues	17,074	16,900	501	416	456	568
Total operating revenues	**564,403**	**545,295**	**501**	**416**	**624**	**677**
Operating expenses						
Compensation and benefits	(402,092)	(393,291)	(329)	(333)	(7,810)	(10,879)
Supplies and services	(170,034)	(170,060)	-	-	(3,427)	(5,047)
Depreciation	(26,596)	(26,545)	-	-	(26)	(22)
Scholarships and fellowships	(16,405)	(15,816)	-	-	-	-
Total operating expenses	**(615,127)**	**(605,712)**	**(329)**	**(333)**	**(11,263)**	**(15,948)**
Operating income (loss)	**(50,724)**	**(60,417)**	**172**	**83**	**(10,639)**	**(15,271)**
Non-operating revenues (expenses)						
State appropriations	43,012	43,287	-	-	-	-
Federal Pell grants	8,015	8,198	-	-	-	-
Private gifts	424	4,001	5,339	311	31,191	30,403
Net investment income	4,372	60,579	562	2,661	504	3,745
Interest on indebtedness	(20,544)	(21,369)	-	-	-	-
Gain on disposal of capital assets	408	-	-	-	-	-
Net other non-operating expense	(365)	(385)	-	-	(593)	(335)
Intergovernmental transfers	(13,055)	(13,229)	-	-	-	-
Transfers from UVM to component units	(9,655)	(10,833)	-	-	9,592	15,443
Transfers to UVM from component units	19,874	15,485	(2,619)	(4,732)	(17,166)	(14,778)
Net non-operating revenues	**32,486**	**85,734**	**3,282**	**(1,760)**	**23,528**	**34,478**
Revenue (loss) before capital and endowment additions	**(18,238)**	**25,317**	**3,454**	**(1,677)**	**12,889**	**19,207**
State capital appropriations	1,400	1,400	-	-	-	-
Capital gifts and grants	162	21	-	-	-	-
Gifts for endowment purposes	352	683	-	-	907	19,693
Total capital and endowment additions	**1,914**	**2,104**	**-**	**-**	**907**	**19,693**
Increase (decrease) in net position	(16,324)	27,421	3,454	(1,677)	13,796	38,900
Net Position, Beginning of Year	522,987	495,566	15,178	16,855	52,921	14,021
Net Position, End of Year	**$ 506,663**	**$ 522,987**	**$ 18,632**	**$ 15,178**	**$ 66,717**	**$ 52,921**

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

**UVMF 2014 column for the period of January 1, 2013 through June 30, 2014.*

Statements of Cash Flows

for the years ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Cash Flows From Operating Activities		
Tuition and fees (net of applicable discounts)	$ 280,482	$ 262,989
Grants and contracts	168,478	167,842
Sales and services of educational activities	6,683	6,643
Sales and services of auxiliary enterprises:		
Residential Life fees, net of scholarship allowances	46,234	43,107
Other	41,294	40,233
Payments to employees and benefit providers	(377,146)	(368,809)
Payments to vendors	(168,204)	(171,793)
Payments for scholarships and fellowships	(16,405)	(15,816)
Student loans issued	(3,902)	(4,227)
Student loans collected, interest and other revenue	4,551	4,257
Other receipts, net	16,491	16,274
Net cash used in operating activities	**(1,444)**	**(19,300)**
Cash Flows From Non-capital Financing Activities		
State general appropriation	43,012	43,287
Federal Pell grants	8,015	8,198
Private gifts for other than capital purposes	2,516	3,141
Intergovernmental transfers	(13,055)	(13,229)
Transfers from UVM to component units	(9,655)	(10,833)
Transfers to UVM from component units	12,978	15,485
Deposits of affiliates and life income payments	1,871	10,734
Net cash provided by non-capital financing activities	**45,682**	**56,783**
Cash Flows From Capital Financing Activities		
Proceeds from capital debt	75,213	-
State capital appropriation	1,400	1,400
Capital grants, gifts and other income	293	1,291
Purchases and construction of capital assets	(20,805)	(11,361)
Disposal of capital assets	328	-
Principal and interest paid on capital debt	(103,327)	(29,659)
Changes in deposits with trustees, net	888	857
Net cash used in capital financing activities	**(46,010)**	**(37,472)**
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	165,460	143,215
Purchase of investments	(187,643)	(136,592)
Interest and dividends on investments, net	5,190	5,580
Net cash (used in) provided by investing activities	**(16,993)**	**12,203**
Net Increase (decrease) in Cash and Cash Equivalents	**(18,765)**	**12,214**
Cash and cash equivalents - beginning of year	113,226	101,012
Cash and Cash Equivalents - End of Year *	**$ 94,461**	**$ 113,226**
Reconciliation of Operating Loss To Cash Used by Operating Activities		
Operating loss	$ (50,724)	$ (60,417)
Adjustments to reconcile operating loss to net cash used in Operating Activities:		
Depreciation expense	26,596	26,545
Changes in assets and liabilities:		
Accounts receivable and loan receivables, net	(4,675)	(4,771)
Inventories and prepaid expense	(1,150)	96
Accounts payable	(263)	1,495
Unearned revenue, deposits and accrued liabilities	28,772	17,752
Net cash used in operating activities	**$ (1,444)**	**$ (19,300)**

** of total cash and cash equivalents for 2015, $73,228 is current and $21,233 is non-current endowment and for 2014, $99,528 is current and $13,698 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, 2015 and 2014

A. Summary of Significant Accounting Policies and Presentation

The University of Vermont and State Agricultural College is a public, non-profit, comprehensive research institution of higher education with an enrollment of approximately 11,800 undergraduate, graduate, and medical students. It is located in Burlington, Vermont with satellite instructional and research buildings throughout the State.

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

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

1. Affiliated Organizations

University Medical Education Associates, Inc. (UMEA) is a legally separate tax-exempt component unit of the University of Vermont. UMEA is governed by a minimum nine-member board; six members are named as a result of their positions at the University of Vermont and the remaining are elected by the other members. UMEA's purpose is to support the operations, activities and objectives of the College of Medicine of the University of Vermont. UMEA is a public non-profit organization that reports under Governmental Accounting Standards Board (GASB) standards. UMEA's fiscal years end on June 30th. UMEA issues separate audited financial statements, which may be obtained by contacting the Dean's Office, College of Medicine. In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB 14 and 34)*, UMEA is discretely presented on the University's Statements of Net 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(1) of the Code. UVMF qualifies as a public charity under Internal Revenue Code Sections 509(a)(1) and 170(b)(1)(A)(vi). UVMF exists to secure and manage private gifts for the sole benefit of the University and has been recognized by the University as the primary and preferred recipient for charitable gifts to or for the benefit of the University. UVMF is governed by a board of directors composed of not less than 15 or more than 25 members, including ex officio directors. The President of the University, the Chair of the Board of Trustees of the University, the President of the UVM Alumni Association, and the UVMF President/CEO are ex officio directors of UVMF. UVMF reports under Financial Accounting Standards Board (FASB) standards, has a fiscal year end date of June 30th, and issues separate audited financial statements, which may be obtained at the UVMF's website www.uvmfoundation.org or by contacting the UVMF's main office at 411 Main Street, Burlington, VT. In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB 14 and 34)*, UVMF is discretely presented on the University's Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position. In 2014 the UVMF changed its fiscal year end date from December 31st to June 30th. For fiscal 2014 the amounts shown for UVMF on the Statements of Revenues, Expenses, and Changes in Net Position reflect activity from January 1, 2013 through June 30, 2014. The 18 month period reflects the prior full fiscal year ending December 31, 2013 and the six months from January 1, 2014 through June 30, 2014.

The University has an affiliation with Fletcher Allen Health Care, Inc. (FAHC), University of Vermont Medical Group, Inc, and 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 FAHC in coordinating efforts and allocating their resources. FAHC agrees to pay a portion of salary, benefits, and related expenses incurred by the University to physician-faculty and staff who are also employed by FAHC. In addition, FAHC agrees to pay base payments that help maintain medical facilities owned and managed by the University and the Dana Medical Library. FAHC agrees to pay a portion of the UVM Medical Group Net Patient Revenues, referred to as the Dean's Tax, to the College of Medicine for purposes that promote and are consistent with the common goals of both parties.

2. Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as defined for public colleges and universities by the GASB..

Net position is categorized as follows:

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Such assets include the University's physical plant.
  - **Restricted:**

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

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

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

(dollars in thousands)

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

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

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

GASB statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*, indicates that when the University receives assets in a split-interest agreement, it should recognize assets at their fair value. A liability should be recognized for the obligation to the beneficiary using present value techniques. The difference between the assets and liability should be recognized as private gift revenue. After initial measurement, the change in the value of assets and revaluation of the liability should be reflected on the Statements of Revenues, Expenses, and Changes in Net Position as gains or losses. Prior to fiscal 2015, the University had not recorded a liability related to the obligation associated with those agreements and, accordingly, during fiscal 2015 the University adjusted fiscal 2014 non-current accrued liabilities from $12,808 to $18,071 and net position from $528,250 to $522,987, as shown in the table below.

	As Previously Reported	GASB 33 Adjustment	As Adjusted
Net position as of July 1, 2013	$ 467,843	$ (5,050)	$ 462,793
For the year ended June 30, 2014:			
Net investment income	61,371	(792)	60,579
Net other non-operating expense	(964)	579	(385)
Increase/(decrease) in net position	60,407	(213)	60,194
Net position as of June 30, 2014	**$ 528,250**	**$ (5,263)**	**$ 522,987**

3. Investments

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

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

Deposits with trustees include $10,085 in 2015 and $13,113 in 2014 of assets held under deferred giving arrangements and $1,113 in 2015 and $1,060 in 2014 of investments in the waste disposal fund required by the EPA.

Investment income is recorded as revenue when earned. Net investment income is reported as non-operating revenue and includes income net of investment fees and the change in the fair value of marketable investments as well as losses on impaired investments. The calculation of realized gains (losses) is independent of the calculation of the net increase in the fair value of marketable investments. Net investment income for 2015 and 2014 consists of:

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

Net Investment Income	FY15	FY14
Net interest, dividend, and other income	$ 5,685	$ 7,410
Realized gains	20,762	20,519
Unrealized gains/(losses)	(20,734)	34,037
Investment management fees	(1,341)	(1,387)
TOTAL	**$ 4,372**	**$ 60,579**

(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 2015 and 2014 consists of:

Grants and Contracts	FY15	FY14
Federal appropriations, grants and contracts	$ 116,382	$ 115,406
State grants and contracts	2,854	3,805
Private grants and contracts	51,404	52,052
TOTAL	**$ 171,640**	**$ 171,263**

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 $24.8 million in 2015 and $25.5 million in 2014.

Private grants and contracts includes funding of $13.1 million in 2015 and $13.2 million in 2014 to the College of Medicine from Fletcher Allen Health Care, 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 deferred and recorded as revenues when earned. Summer session revenues are deferred to the extent that they relate to courses scheduled in July and August.

The University records unearned revenue for cash received in excess of expenditures on grants and contracts. Grants and contracts unearned revenue at June 30 is $4,047 in 2015 and $4,253 in 2014.

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 $50,981 in 2015 and $52,407 in 2014. The total cost for contributions to the RHSP was $577 in 2015 and $303 in 2014. See note J for further information about postemployment benefits.

8. Compensated Absences

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

As of June 30, 2015, $19,276 ($18,943 in 2014) was accrued for vacation pay of which $14,238 ($13,992 in 2014) was charged to unrestricted net assets and $5,037 ($4,951 in 2014) was included in deferred charges to be recovered from restricted expendable assets when paid.

9. Collections and Works of Art

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

B. Accounts, Loans, Notes, and Pledges Receivable

Accounts, loans, notes and pledges receivable at June 30, 2015 and 2014 are summarized as follows:

Accounts, Loans, Notes and Pledges Receivable, Net	June 30, 2015	June 30, 2014
Current		
Federal, state, and private grants receivable	$ 19,863	$ 19,913
Student and trade accounts receivable, net	11,360	7,659
Other accounts receivable	16,738	7,837
Student loans and other notes receivable, net	2,608	2,862
Pledges receivable, net	1,464	1,743
Total Current	**$ 52,033**	**$ 40,014**
Non-Current		
Student loans and other notes receivable, net	$ 21,715	$ 22,438
Pledges receivable, net	2,630	4,230
Total Non-Current	**$ 24,345**	**$ 26,668**

The student accounts receivable are carried net of an allowance for doubtful accounts of $352 in 2015 and $303 in 2014.

(dollars in thousands)

Student loans and other notes receivable are carried net of an allowance for uncollectible UVM loans of $129 current and $982 non-current, respectively. Student loans receivable are carried net of an allowance for uncollectible UVM loans of $154 current and $1,170 non-current, respectively. 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 $8,174 for 2015 and $8,229 for 2014. 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 Statement of Cash Flows.

Current and non-current pledges receivable are recorded at the present value of expected future cash flows, net of an allowance for unfulfilled pledges of $93 in 2015 and $69 in 2014 and $168 in 2015 and $168 in 2014, respectively. Discount rates ranging from 1.67% to 5.03% were applied to pledges.

Accounts receivable from the UVMF and UMEA are $12,804 in 2015 and $7,237 in 2014 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 $57,651 in 2015 and $55,525 in 2014 are composed of accounts payable of $13,281 in 2015 and $13,496 in 2014 and accrued liabilities of $44,370 in 2015 and $42,029 in 2014. Accounts payable is mostly comprised of supplies and services payables, including construction, renovation and equipment of $9,636 in 2015 and $9,882 in 2014.

D. Capital Assets

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

Interest expense, net of interest earnings on unspent bond proceeds, is capitalized for debt funded construction projects. In 2015, net interest expense of $9 ($198 in 2014) was capitalized for projects that were funded by 2007 and 2009 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.

Fiscal Year 2015

Asset	Beginning Balance	Additions	Deductions	Gross Balance	Accum. Deprec.	Net Balance
Land	$ 28,009	$ -	$ -	$ 28,009	$ -	$ 28,009
Land Improvements	1,105	1,486	-	2,591	(185)	2,406
Buildings	605,537	4,547	(327)	609,757	(242,070)	367,687
Building Service Systems	92,868	502	-	93,370	(37,224)	56,146
Building Interiors	57,749	1,856	-	59,605	(30,333)	29,272
Fixed Equipment	107,057	903	(1)	107,959	(89,200)	18,759
Moveable Equipment	23,919	2,403	-	26,322	(20,672)	5,650
Software Systems	29,429	182	-	29,611	(28,730)	881
Construction in Progress	1,471	8,909	-	10,380	-	10,380
TOTAL	**$ 947,144**	**$ 20,788**	**$ (328)**	**$ 967,604**	**$ (448,414)**	**$ 519,190**

Fiscal Year 2014

Asset	Beginning Balance	Additions	Deductions	Gross Balance	Accum. Deprec.	Net Balance
Land	$ 27,709	$ 300	$ -	$ 28,009	$ -	$ 28,009
Land Improvements	-	1,105	-	1,105	(55)	1,050
Buildings	596,696	8,841	-	605,537	(228,759)	376,778
Building Service Systems	92,187	681	-	92,868	(33,405)	59,463
Building Interiors	56,732	1,017	-	57,749	(27,821)	29,928
Fixed Equipment	106,469	588	-	107,057	(84,673)	22,384
Moveable Equipment	22,918	1,001	-	23,919	(18,892)	5,027
Software Systems	29,149	280	-	29,429	(28,428)	1,001
Construction in Progress	-	1,471	-	1,471	-	1,471
TOTAL	**$ 931,860**	**$ 15,284**	**$ -**	**$ 947,144**	**$ (422,033)**	**$ 525,111**

(dollars in thousands)

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 2015 is $24,385 ($24,416 in 2014). Moveable equipment, software systems, and land improvements depreciation expense is $2,211 for 2015 ($2,129 in 2014).

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

Capital assets activity for the years ended June 30, 2015 and 2014 is summarized on the bottom of page 22.

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 2.00% to 6.43%. The debt obligations mature at various dates through 2045.

On October 30, 2014 the University issued $68,240 of Series 2014A General Obligation Bonds. The bonds were issued at a premium of $6,853. The proceeds from the bonds were used for the purpose of refunding a portion of the Series 2005 General Obligation Bonds.

Long term debt activity for the years ended June 30, 2015 and 2014 is summarized as follows:

Fiscal Year 2015

				Ending Balance	
Long Term Liability	**Beginning Balance**	**New Debt**	**Decreases**	**Current**	**Non-Current**
Heat System Bond					
1980 Issue (1),(2)	$ 925	$ -	$ 157	$ 81	$ 687
General Obligation Bonds					
Series 2005 (3)	153,382	-	75,884	1,289	76,209
Series 2007 (4)	155,979	-	4,717	4,907	146,355
Series 2009 (5)	75,806	-	1,608	1,658	72,540
Series 2010A	9,000	-	-	-	9,000
Series 2010B (6)	17,915	-	40	40	17,835
Series 2012A (7)	46,547	-	(13)	(13)	46,573
Series 2014A (8)	-	75,093	-	312	74,781
Capital Leases	156	-	90	32	34
TOTAL	**$ 459,710**	**$ 75,093**	**$ 82,483**	**$ 8,306**	**$ 444,014**

(1) Revenue from the heat system is pledged as collateral under debt agreements.
(2) The assets are pledged as collateral under debt agreements.
(3) This balance shown includes bond premium of $98.
(4) This balance shown includes bond premium of $3,732.
(5) This balance shown is net of bond discount of $1,007.
(6) This balance shown includes bond premium of $525.
(7) This balance shown is net of bond discount of $300.
(8) This balance shown includes bond premium of $6,853.

(dollars in thousands)

Fiscal Year 2014

Long Term Liability	Beginning Balance	New Debt	Decreases	Ending Balance Current	Ending Balance Non-Current
Heat System Bond					
1980 Issue (1),(2)	$ 1,078	$ -	$ 153	$ 157	$ 768
General Obligation Bonds					
Series 2005 (3)	154,385	-	1,003	1,363	152,019
Series 2007 (4)	157,731	-	1,752	4,717	151,262
Series 2009 (5)	77,374	-	1,568	1,608	74,198
Series 2010A	9,000	-	-	-	9,000
Series 2010B (6)	17,955	-	40	40	17,875
Series 2012A (7)	49,949	-	3,402	(13)	46,560
Capital Leases	242	-	86	90	66
TOTAL	**$ 467,714**	**$ -**	**$ 8,004**	**$ 7,962**	**$ 451,748**

(1) Revenue from the heat system is pledged as collateral under debt agreements.
(2) The assets are pledged as collateral under debt agreements.
(3) This balance shown includes bond premium of $3,327.
(4) This balance shown includes bond premium of $3,864.
(5) This balance shown is net of bond discount of $1,049.
(6) This balance shown includes bond premium of $565.
(7) This balance shown is net of bond discount of $313.

In compliance with the University's various bond indentures, at June 30, 2015 the University has deposits with trustees of $1,028 ($1,916 in 2014) 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
2016	$ 7,955	$ 20,681	$ 28,636
2017	9,551	20,329	29,879
2018	9,807	19,928	29,735
2019	10,382	19,485	29,867
2020	10,764	18,988	29,752
2021-2025	54,205	87,224	141,429
2026-2030	67,695	72,300	139,995
2031-2035	86,745	55,004	141,749
2036-2040	110,754	32,999	143,754
2041-2045	74,560	8,132	82,692
TOTAL	**$ 442,418**	**$ 355,070**	**$ 797,488**

(dollars in thousands)

Other long term liabilities at June 30, 2015 and 2014 are summarized below:

Fiscal Year 2015

Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 8,229	$ -	$ 54	$ -	$ 8,175
Green Mountain Loan Guarantee	1,596	-	104	-	1,492
Obligations under deferred giving arrangements	8,274	2,832	2,867	351	7,888
Postemployment Benefits	149,018	33,547	9,148	-	173,417
Other Accrued Liabilities	324	154	77	-	401
TOTAL	**$ 167,441**	**$ 36,533**	**$ 12,250**	**$ 351**	**$ 191,373**

Fiscal Year 2014

Other Long Term Liabilities	Beginning Balance	Increases	Decreases	Ending Balance Current	Ending Balance Non-Current
Federal Student Loan Capital Contribution	$ 8,575	$ -	$ 346	$ -	$ 8,229
Green Mountain Loan Guarantee	1,603	-	7	-	1,596
Obligations under deferred giving arrangements	7,946	1,724	1,396	351	7,923
Postemployment Benefits	127,550	31,985	10,517	-	149,018
Other Accrued Liabilities	393	101	170	-	324
TOTAL	**$ 146,067**	**$ 33,810**	**$ 12,436**	**$ 351**	**$ 167,090**

F. Cash and Cash Equivalents and Operating Investments

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

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

Cash and Cash Equivalents	June 30, 2015	June 30, 2014
Cash	$ 42,208	$ 31,436
Repurchase Agreements	681	686
Certificates of Deposit	25,210	50,264
Money Markets	26,362	30,840
TOTAL	**$ 94,461**	**$ 113,226**

(dollars in thousands)

Of total cash and cash equivalents above, $21,233 in 2015 and $13,698 in 2014 are included in non-current endowment cash and cash equivalents.

The balance of cash held in bank deposit accounts was $67,738 at June 30, 2015 and $34,243 at June 30, 2014. Of these bank balances, $763 in 2015 and $526 in 2014 were covered by the Federal Depository Insurance Corporation. The University also has an irrevocable standby letter of credit up to $82,000.

Total operating investments were $119,948 at June 30, 2015 and $89,644 at June 30, 2014. Operating investments invested in the long term pool were $10,534 at June 30, 2015 and $10,906 at June 30, 2014 (see note G). Short and intermediate term operating investments at June 30, 2015 and 2014 were primarily made through commingled funds with the following investment strategies:

			Credit Quality %					
2015	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 98,746	3.1 yrs/ 2.9 yrs	36	1	14	35	12	2
Multi Strategy Equity Fund	9,647							
Other	1,021							
TOTAL	**$ 109,414**							

			Credit Quality %					
2014	**UVM Amount**	**Average Maturity/ Effective Duration**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**Other**
Bonds	$ 68,163	3.0 yrs/ 2.8 yrs	43	1	20	33	3	-
Multi Strategy Equity Fund	9,164							
Other	1,411							
TOTAL	**$ 78,738**							

(dollars in thousands)

G. Endowment and Other Long Term Investments

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

The endowment in aggregate (which comprises the consolidated endowment and other separately invested assets), long term capital and operating reserves, and UVM Foundation assets are invested in a balanced portfolio consisting of traditional stocks (domestic and international) and bonds; marketable alternatives (hedge funds); non-marketable alternatives (venture capital and private equity); and a diversified portfolio of inflation-hedges (real estate and commodities). The asset allocation target and actual percentages at June 30, 2015 and 2014 are presented in the following table:

	June 30, 2015		June 30, 2014	
	Target %	**Actual %**	**Target %**	**Actual %**
US Equity	20.0	19.3	20.0	21.6
Global Excluding US Equity	25.0	26.9	25.0	23.4
Marketable Alternatives	22.0	20.7	22.0	21.2
Real Estate/Inflation Hedges	12.0	10.5	12.0	11.2
Non-marketable Alternatives	11.0	8.9	11.0	9.2
Fixed Income	10.0	9.1	10.0	10.6
Cash & Cash Equivalents	0.0	4.6	0.0	2.8

Endowment and similar investments including $10,534 and $10,906 of operating investments and $29,913 and $27,994 of capital investments at June 30, 2015 and 2014, respectively, are composed of the following:

	June 30, 2015	**June 30, 2014**
Cash	$ 19,935	$ 12,525
Money Market	1,297	1,173
Common Stock	82,575	92,736
U.S. Treasury Bonds and Notes	383	53
Other Government Bonds and Notes	176	10
Industry Bonds	3,048	3,348
Private Equity and Venture Partnerships	61,769	61,313
Life Estates	605	577
Hedge Funds	112,264	100,940
Mutual Funds	162,917	172,356
TOTAL	**$ 444,969**	**$ 445,031**

(dollars in thousands)

The fixed income portfolio is composed of three passive funds with the following risk profile at June 30, 2015 and one passive bond fund with the following risk profile at June 30, 2014:

			Credit Quality %					
2015	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**<BBB**
Passive Bond Funds	$39,769	10.7	78	2	1	5	5	9

			Credit Quality %					
2014	**Amount**	**Average Duration Yrs.**	**Govt/ Agency**	**AAA**	**AA**	**A**	**BBB**	**<BBB**
Passive Bond Fund	$42,013	5.6	67	5	5	13	10	-

The majority of endowment fund assets are pooled for investment purposes. Each individual fund subscribes to or disposes of units on the basis of the value per unit at fair value at the beginning of the month within which the transaction takes place. Income is distributed on a per unit basis. Of the total units (each having a fair value of $60.15), 4,661.6922 units were owned by endowment funds and 2,574.6163 units by quasi endowment funds at June 30, 2015 ($62.27, 4,486.4571 and 2,472.7929 respectively, at June 30, 2014).

Beginning in fiscal year 2013 the University of Vermont Foundation (UVMF) elected to participate in the UVM pooled endowment. The UVMF owned 496.4301 units with a market value of $29,858 as of June 30, 2015 and 443.2162 units with a market value of $27,599 as of June 30, 2014. The market value of UVMF's units is reported on the Statement 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, that because of timing of receipt of the gift and market conditions, are deemed underwater. Rather, the institution is expected to define an overall prudent approach both to distribution of funds for spending and long term preservation and growth of capital. The University 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.

(dollars in thousands)

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

	Fair Value	Cost	Net Return
June 30, 2015	$ 435,229	$ 361,363	$ 73,866
June 30, 2014	433,354	340,123	93,231
Unrealized Net Gain			(19,365)
New Gifts and Transfers			14,565
Realized Net Gain			20,536
Net Income			107
Withdrawn for Spending			(13,968)
Total Net Change			**$ 1,875**

	Fair Value	Cost	Net Return
June 30, 2014	$ 433,354	$ 340,123	$ 93,231
June 30, 2013	374,316	312,043	62,273
Unrealized Net Gain			30,958
New Gifts and Transfers			17,483
Realized Net Gain			21,539
Net Income			2,648
Withdrawn for Spending			(13,590)
Total Net Change			**$ 59,038**

H. Commitments

Major plant projects include commitments as follows

Project	Estimated Project Cost	Project-to-Date Expenditures 2015	Project-to-Date Expenditures 2014
Simpson Dining Renovation	$ 7,464	$ 7,042	$ 6,935
Mason, Simpson, Hamilton Renovation	8,000	6,891	6,863
STEM Project	104,000	8,872	1,290
Central Plant Chiller Expansion	11,800	356	2
Alumni House Project	10,000	446	-
First Year Student Housing and Dining	65,000	390	-

The University has entered into operating leases for space, which expire at various dates through fiscal 2021. 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
2016	$ 3,118
2017	2,708
2018	1,588
2019	1,469
2020	400
Total	**$ 9,283**

Operating lease expenses totaled $2,002 and $1,682 in 2015 and 2014, respectively.

The University is obligated under certain of its investments to make future capital contributions in the amount of $33,552.

(dollars in thousands)

The University entered into agreements with the State of Vermont Department of Vermont Health Access in both 2015 and 2014, 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 $13.1 million and $13.2 million were made in 2015 and 2014, 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 2016, based on the three year agreement entered into on August 26, 2014, the University will make quarterly payments to the State of Vermont Department of Vermont Health Access totaling $13.5 million.

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. The captives consist of two insurance lines, general liability and automobile liability. All members are required to participate in the captive general liability program which provides $2 excess limit, written by Pinnacle effective 7/1/05, and the group purchase liability program that provides a $23 excess limit. Pinnacle retains 5% of the risk and cedes 95% to Genesis. The University has purchased an additional $75 to bring the total excess limit to $100.

The University follows the policy of self-insuring risks up to certain limits. At year end, the University had open claims valued at $3,336 in 2015 and $2,848 in 2014; $169 and $463 of this is covered by excess insurance in 2015 and 2014, respectively. The University paid claims of $2,272 in 2015 and $2,073 in 2014. Reserves for property and casualty liabilities are included in accrued liabilities (including incurred but not reported) in the amount of $8,211 at June 30, 2015 and $7,323 at June 30, 2014.

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.

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

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

I. Retirement Plans

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

- faculty and staff must have a full-time equivalency of .75 or greater;
- staff must be employed three years before they qualify for University contributions to their retirement plan, or they must have a vested interest in the retirement plan of their previous nonprofit employer;
- non tenure-track faculty and faculty under the rank of assistant professor must wait two years to qualify for University contributions to their retirement plan, or they must have a vested interest in the retirement plan of their previous nonprofit employer;
- officers of administration or tenure track faculty at the level of assistant professor or above receive University contributions to their retirement plan immediately upon enrolling in the plan.

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

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

The University's 403(b) and 457(b) contributory retirement plans are administered by the Teachers Insurance Annuity Association of America (TIAA), the College Retirement Equities Fund (CREF), Prudential Financial Services, and Fidelity Investments. The University's policy is to accrue the costs of these defined contribution plans currently.

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

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

(dollars in thousands)

For the years ended June 30, 2015 and 2014, the University had total payroll expense of $272,655 and $269,250, respectively, of which $196,996 in 2015 and $196,919 in 2014 was covered by the University's 403(b) retirement plan. Total employee and employer contributions for 403(b) pension benefits for the year were $16,957 and $19,700, respectively, for 2015 and $16,979 and $19,692, respectively, for 2014. The University's contribution for 403(b) pension benefits is 10% of the covered payroll. Total employee contributions to the 457(b) retirement plan were $3,588 in fiscal year 2015 and $3,404 in fiscal year 2014.

J. Postemployment Benefits

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

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

Plan provisions include two levels of eligibility 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. If, by June 30, 2014, 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.

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

Employees who retired under the Voluntary Separation Plan of 1992 or before are not required to contribute to the plan, however, a surviving spouse receives two (2) years of medical and base dental coverage without charge, after which dental terminates (the surviving spouse would be eligible for 36 month of COBRA) and medical coverage is available at 50% of the cost of providing coverage. Retirees under the Voluntary Separation Plan of 2000 pay for their medical benefits based on the contribution system prior to June 30, 2000 (based on 0.5% times the average final three years' base salary at 75%). Retirees hired after June 30, 1992 have the same salary bands percentage as active employees, which is based on 75% of their average final three years' base salary. Retirees hired after June 30, 1992 and before July 1, 1997 are required to contribute as above plus a percentage based on the sum of their age at retirement and their years of continuous full time service. This surcharge is based on a scale that ranges from 65 to 75 and over. A retirement benefit structure was announced in December, 2011, affecting employees retiring as of 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. Full-time represented faculty, regardless of salary, currently pay 20% of the cost of providing medical coverage and 10% of the base dental cost.

As of January 1, 2014, there were 619 fully eligible active employees, with total active employees numbering 3,652, with an average age of 48.3 years and average credited service of 11.5 years. Total annual compensation was $211,849. There were 1,509 participants in receipt of benefits, with an average age of 73.6 years.

A third party actuary performed the valuation of the liability with an actuarial valuation date of January 1, 2014. Actuarial calculations reflect a long term perspective, involve estimates about the probability of events and are subject to continual revision. The calculations were developed using certain actuarial assumptions and methods. The assumptions include an investment return of 5.15% and the RP-2000 Combined Mortality Table with Generational Improvements via Scale AA. The methods include the projected unit credit actuarial cost method and a 30 year amortization of the plan's unfunded liability on a closed, level dollar basis. Health care cost inflation is assumed to be 7.0% in 2015 and gradually decrease to 5.00% in 2018 and beyond.

The actuarial accrued liability at the measurement date of July 1, 2013 was $307,028. The actuarial value of assets funding the liability was $0, as the University's contributions are comprised entirely of direct payments for benefits. Employer contributions for fiscal year ended June 30, 2015 totaled $9,148 ($10,517 in 2014), or 27.3% (32.9% in 2014) of annual other postemployment benefit (OPEB) cost. The unfunded actuarial accrued liability (UAAL) was $323,706. The annual required contribution (ARC) of $36,250 for fiscal year 2015 is the sum of $11,838, the normal cost at July 1, 2014 plus interest, and $24,412, the 2015 amortization of the UAAL. The ARC of $34,226 for fiscal year 2014 is the sum of $11,382 the normal cost at July 1, 2013 plus interest, and $22,844, the 2014 amortization of the UAAL.

(dollars in thousands)

Total annual OPEB costs and liabilities for the 2015 and 2014 fiscal years include the following components.

	June 30, 2015	June 30, 2014
Annual required contribution	$ 36,250	$ 34,226
Interest on net OPEB obligation	7,675	6,568
ARC adjustment	(10,378)	(8,809)
Annual OPEB cost	33,547	31,985
Contributions during FY	(9,148)	(10,517)
Increase in net OPEB obligation	24,399	21,468
Net OPEB obligation, beginning of year	149,018	127,550
Net OPEB obligation, end of year	$ 173,417	$ 149,018

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

K. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2015 and 2014 are summarized as follows:

		Year ended June 30, 2015			
Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 145,528	$ 22,226	$ -	$ -	$ 167,754
Research	56,568	28,572			85,140
Public service	43,789	12,924			56,713
Academic support	43,851	15,520			59,371
Student services	26,060	14,325			40,385
Institutional support	30,924	9,906			40,830
Operations and maintenance of plant	22,795	23,378			46,173
Scholarships and fellowships			16,405		16,405
Auxiliary enterprises	32,577	43,183			75,760
Depreciation				26,596	26,596
TOTAL	**$ 402,092**	**$ 170,034**	**$ 16,405**	**$ 26,596**	**$ 615,127**

		Year ended June 30, 2014			
Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 142,670	$ 22,122	$ -	$ -	$ 164,792
Research	56,170	23,660			79,830
Public service	43,281	14,492			57,773
Academic support	42,946	15,088			58,034
Student services	24,847	12,031			36,878
Institutional support	28,265	15,877			44,142
Operations and maintenance of plant	22,612	24,041			46,653
Scholarships and fellowships			15,816		15,816
Auxiliary enterprises	32,500	42,749			75,249
Depreciation				26,545	26,545
TOTAL	**$ 393,291**	**$ 170,060**	**$ 15,816**	**$ 26,545**	**$ 605,712**

(dollars in thousands)

L. Pollution Remediation Obligations

The University is required to account for its pollution remediation activities in accordance with GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 requires the University to accrue estimated costs to conduct pollution remediation activities if certain obligating events have occurred. It also requires the University to expense pollution remediation costs which cannot be capitalized. The University incurred and expensed pollution remediation costs of $2,646 and $625 in fiscal 2015 and fiscal 2014, respectively.

Also, in fiscal 2015, 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 2015 and therefore fiscal 2015 supplies and services expense and current accrued liabilities include $2,210 ($571 in fiscal 2014) 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.

L. 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 Statement of Net Position date but prior to the issuance of the financial statements. The statement specifically refers to the issuance of bonds as an event that requires disclosure in the footnotes. On July 15, 2015 the University issued $186,930 of General Obligation Bonds. The proceeds from the bonds will be used for three purposes including refunding a portion of the 2005 General Obligation Bonds, funding a portion of the Science, Technology, Engineering, and Math Complex project, and funding the new student housing project. The University incurred a deferred loss of $65 on the refunding of the 2005 General Obligation Bonds.

(dollars in thousands)

Required Supplementary Information - Postemployment Benefits

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed
2015	$ 33,547	$ 9,148	27.3%
2014	$ 31,985	$ 10,517	32.8%
2013	$ 29,303	$ 10,931	37.3%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2013	$ -	$ 307,028	$ 307,028	0.0%	$ 211,849	144.9%
1/1/2011	$ -	$ 306,453	$ 306,453	0.0%	$ 208,900	146.7%
1/1/2009	$ -	$ 313,161	$ 313,161	0.0%	$ 181,542	172.5%

Net OPEB Obligation (NOO)

Fiscal Year Ended June 30	Annual Required Contribution	Interest on Existing NOO	ARC Adjustment	Annual OPEB Cost	Actual Contribution Amount	Net Increase in NOO
2015	$ 36,250	$ 7,675	$ (10,378)	$ 33,547	$ 9,148	$ 24,399
2014	$ 34,226	$ 6,568	$ (8,809)	$ 31,985	$ 10,517	$ 21,468
2013	$ 31,151	$ 5,623	$ (7,471)	$ 29,303	$ 10,931	$ 18,372


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

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