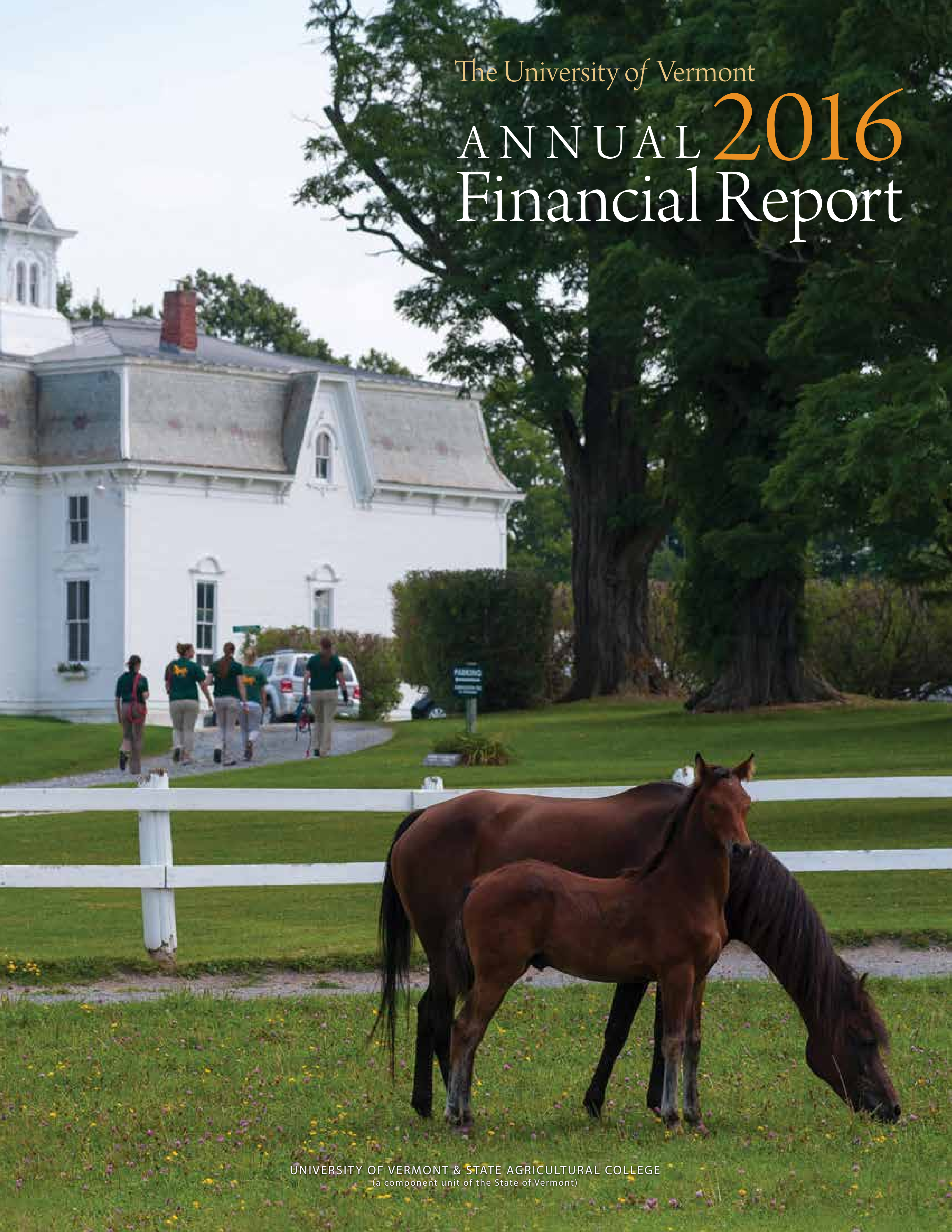

The University of Vermont

ANNUAL 2016 Financial Report

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

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

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

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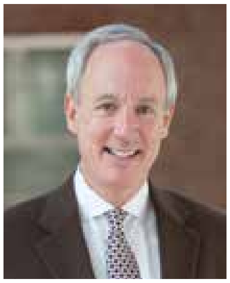

Letter from the President

Members of the Board of Trustees,

I attach the Annual Financial Report for the Fiscal Year ended June 30, 2016. The state of the UVM's finances is sound.

These financial statements reflect a decrease of $9.2 million in the University's net position. A key contributor to the change in net position was the volatile condition of the financial markets. In both 2015 and 2016 the growth of the endowment was not enough to offset the increase in depreciation and the post-retirement medical benefit liability. It is important to note that, since the inception of the Foundation, new endowment gifts have been reflected in the financial records of the Foundation rather than the University. This somewhat limits the growth of the University's endowment, but all of the gifts to the Foundation flow to the benefit of UVM students and the University. As of June 30, 2016, the market value of the entire combined endowment (UVM and Foundation) was $468.7 million. Our comprehensive campaign will ensure that the combined endowment will grow substantially over the next decade. This will provide even more funding for the support of scholarships, faculty, academic programs, and facilities.

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

With every best wish,

E. Thomas Sullivan

The University of Vermont

Management's Responsibility for the Financial Report

The accompanying financial statements of the University of Vermont and State Agricultural College for the year ended June 30, 2016 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 2016.

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 Services Office and Compliance Office staff have full access to the University Trustees and the State Auditor throughout the year.

Richard H. Cate
Vice President for Finance
And University Treasurer

Claire L. Burlingham
University Controller

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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 (the "University") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 did not audit the financial statements of the University Medical Education Associates, Inc. or the University of Vermont and State Agriculture College Foundation, Inc., discretely presented component units, whose statements reflect total assets constituting $170.6 million and $116 million, respectively, as of June 30, 2016 and 2015, and total operating revenues of $2 million and $1.1 million, respectively, for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts presented for the discreetly presented component units, is based solely on the reports of those component auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Independent Auditor's Report

continued

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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University as of June 30, 2016 and 2015, and the respective changes in financial 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.

Emphasis of a matter

As discussed in Note A (2) to the financial statements, the University adopted new accounting guidance related to fair value measurements which impacted both accounting and disclosures of certain assets and liabilities measured at fair value in fiscal 2016. Our opinion is not modified with respect to this matter.

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 Contribution, Funding Progress and Net OPEB Obligations 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. However, we do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 17, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Grant Thornton LLP

Boston, Massachusetts
October 17, 2016

The University of Vermont

Management's Discussion and Analysis (Unaudited)

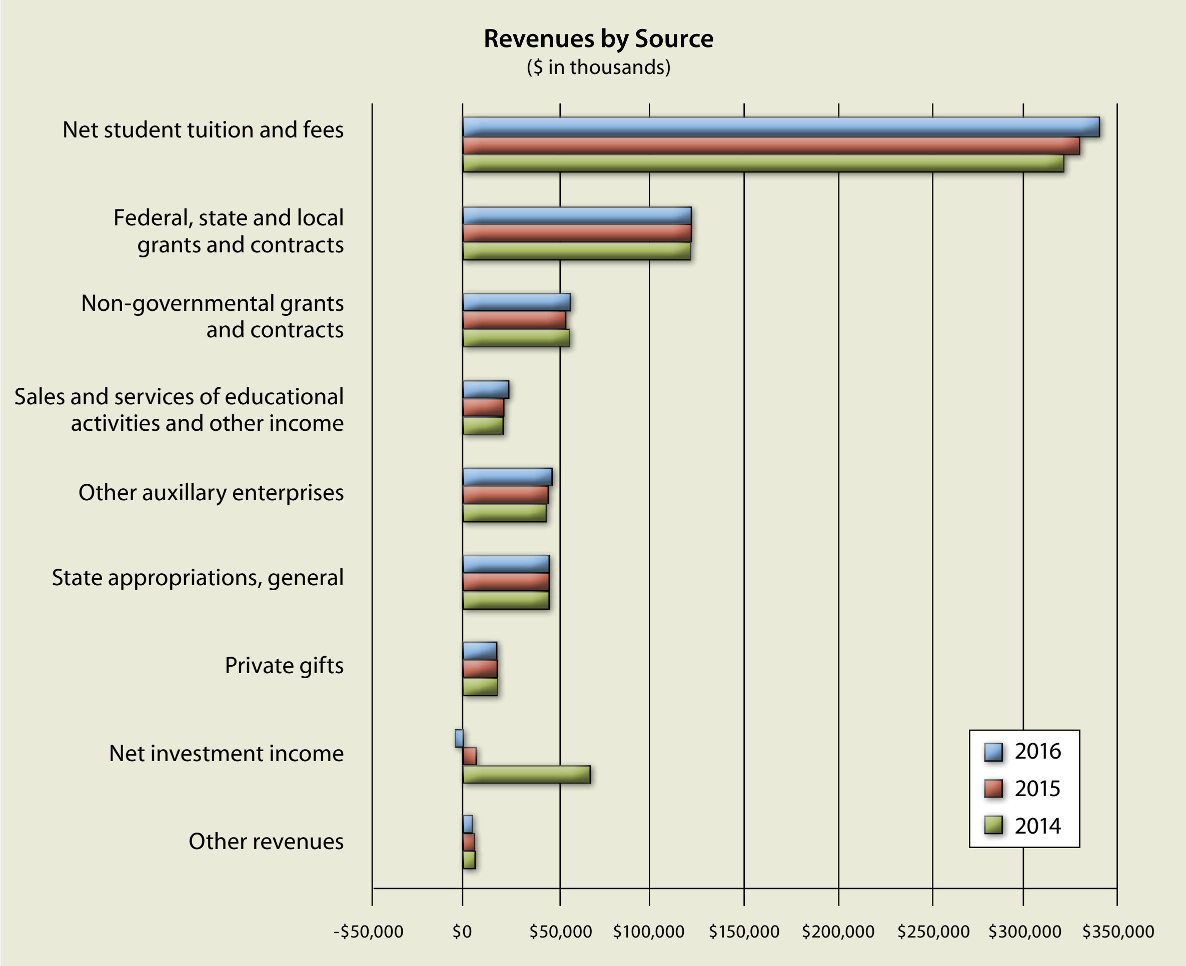
June 30, 2016 and 2015

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, 2016 and 2015, 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 certified public accountants 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 certified public accountants 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 certified public accountant'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 Robert Larner M.D. 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 10,267 undergraduate students and 1,946 graduate and medical students. It is located in Burlington, Vermont with satellite instructional and research sites throughout Vermont. It is a component unit of the State of Vermont as it receives an annual appropriation from the State. For financial reporting purposes, the University's reporting entity consists of all sectors of the University and also includes discretely presented financial information for University Medical Education Associates, Inc. (UMEA) and the University of Vermont and State Agricultural College Foundation, Inc. (UVMF). UMEA is a legally separate tax-exempt component unit of the University whose purpose is to support the operations, activities and objectives of the Robert Larner M.D. College of Medicine of the University 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

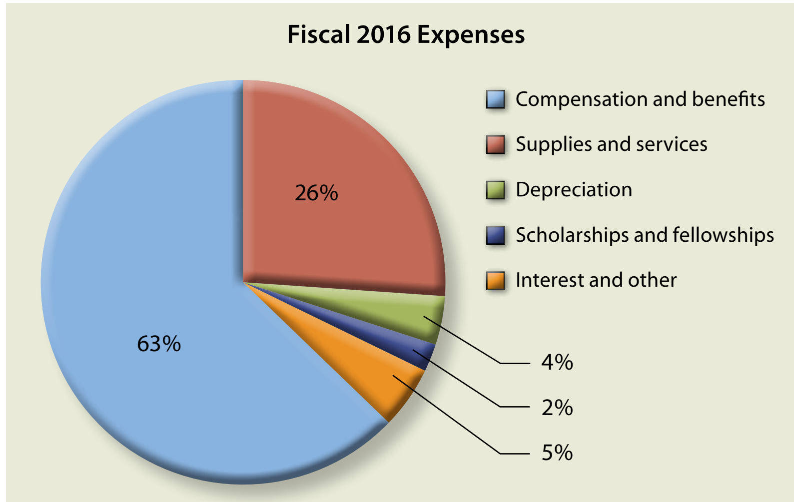
The President's strategic action plan titled "Enhancing Quality and Affordability" outlines four major initiatives which are the cornerstone for all University decisions; 1) Access to success: promoting affordability, financial access and academic support, 2) Promoting a culture of advancing academic 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 2017.

The University's net position decreased by $9.2 million in fiscal 2016, compared to a decrease of $12.3 million in fiscal 2015. A key contributor to the change in net position was the performance in the financial markets; the net loss in the investment portfolio in fiscal 2016 was $6.9 million as compared to a net gain of $4.7 million in fiscal 2015. The fiscal 2015 gain was a significant drop from fiscal 2014, however, by $55.9 million or 92.3%.

Total operating revenues increased in fiscal 2016 by $24.9 million, or 4.4%. This included an increase in net student tuition and fees of $20.8 million, or 5.7%, coupled with an increase in federal, state, and private grants and contracts of $3.0 million, or 1.8%. Other critical revenues include state appropriations and state capital appropriations which remained constant at $43.0 million and $1.4 million, respectively.

The University experienced an increase in operating costs of $22.5 million, or 3.7%, in fiscal 2016. Compensation and benefits represents the most significant operating cost, comprising 66.2% and 65.2% of operating costs in 2016 and 2015, respectively. Compensation and benefit expenses increased by $21.4 million. Supplies and service expenses also increased by $1.7 million. Compensation and benefit expenses primarily increased due to salary and wage increases in 2016 of 2.75% for faculty and between 1.60-2.50% for staff. Other significant non-operating expenses include interest on indebtedness which was $17.2 million in 2016 compared to $20.5 million in 2015 and transfers to other governmental entities and the UVM Foundation which, combined, were $22.5 million in 2016 and $22.7 million in 2015.

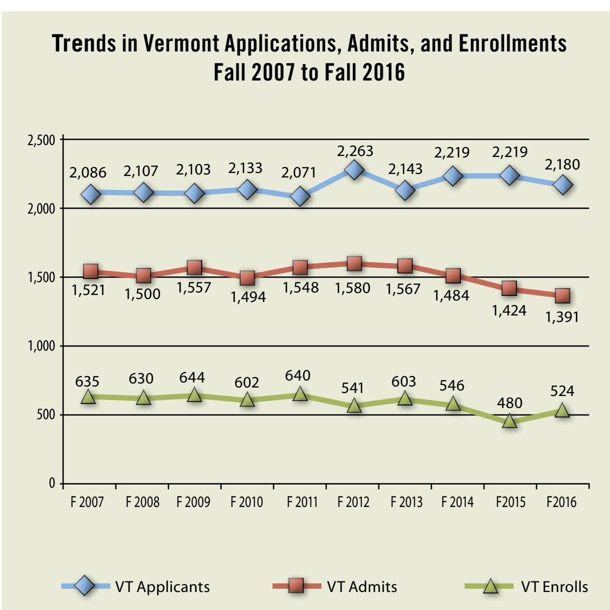
The chart to the right displays operating, interest, and other expenses for fiscal 2016:

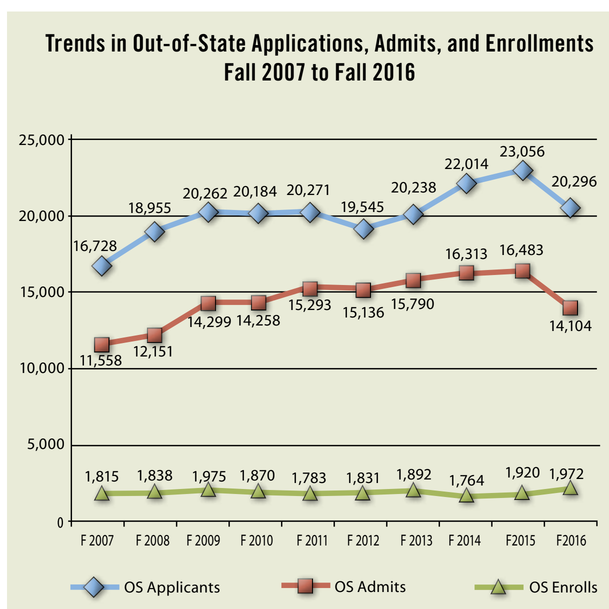


During fiscal year 2016, construction began on the First Year Student Housing and Dining Hall to replace Chittenden, Buckham, and Wills Halls. On-going construction projects included renovations to the Simpson Dining Hall and the Mason, Simpson, and Hamilton Residential Halls, expansion to the Central Heating Plant, and renovations to the Alumni House. Construction on the Sciences, Technology, Engineering and Mathematics (STEM) complex continued, which will provide innovative research and classroom spaces for those disciplines.

In the fall of fiscal 2017, the University enrolled 10,267 students in more than 100 undergraduate majors, 1,485 students in graduate and post-baccalaureate programs, and 461 students at the College of Medicine. The University attracts undergraduates from 40 states and many foreign countries. The University has grown its international student population by 11% over the last year. The University is primarily a regional institution however, drawing 87% of the undergraduates enrolled in the fall of 2016 from New England and the Middle Atlantic States, including 21% 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 2017 show that total applications have increased 19% since 2007, with in-state applications increasing 5% and out-of-state applications increasing 21%. Total admissions have increased for that period by 18%, with in-state admissions decreasing 9% and out-of-state admissions increasing 22%. Since 2007, total first-time, first year enrollments have increased 2%, with in-state enrollments decreasing by 17% and out-of-state enrollments increasing by 9%.





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 4.2% and 4.3%, respectively, since 2008. The table on the right presents tuition and fees, as well as room and board for that period.

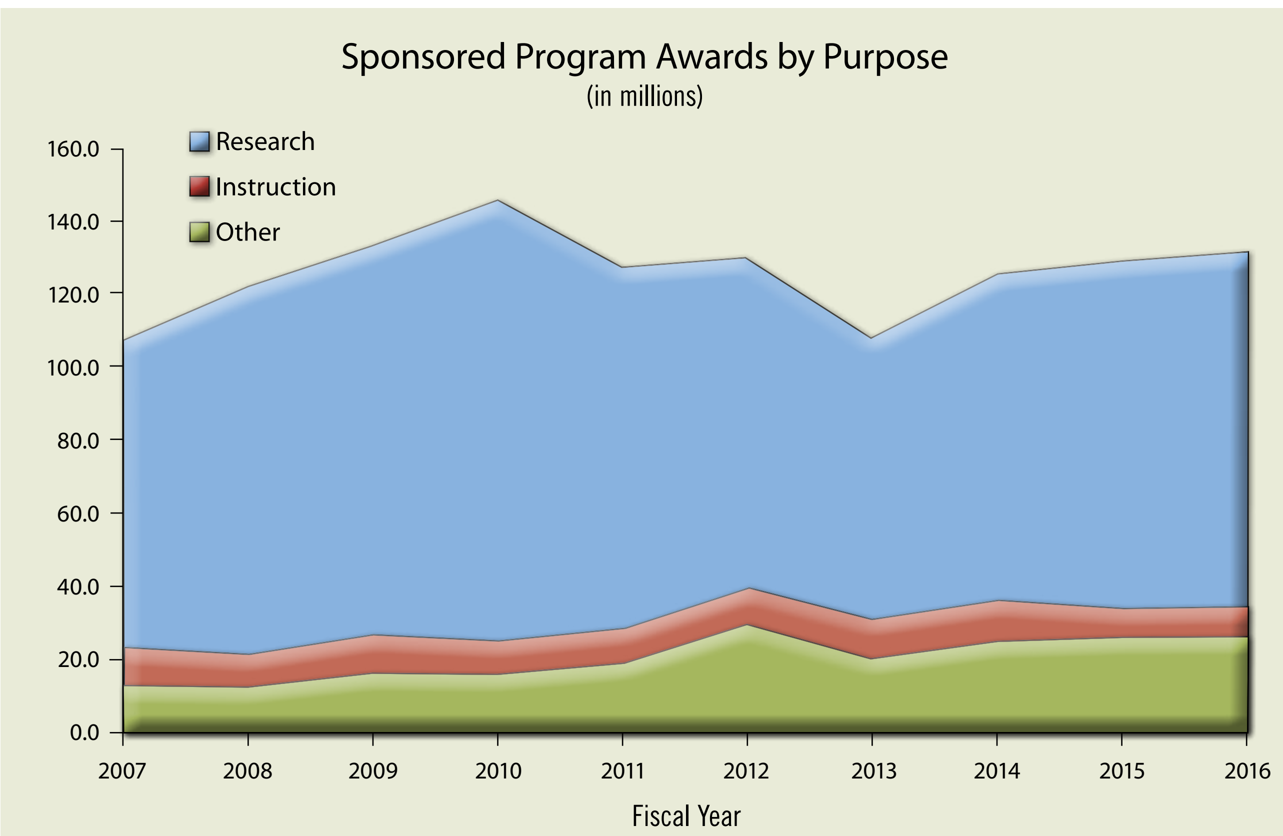
The State of Vermont ("the State") general appropriations represented 6.6% of the University's total revenues for fiscal year 2016. The University received a State capital appropriation of $1.4 million in fiscal year 2016 and fiscal year 2015.

Grant and contract revenues of $173.7 million represented 26.6% of total revenues for fiscal 2016 which included facility and administrative cost recoveries of $25.5 million and additional commitment funds from University of Vermont Medical Center, Inc. of $15.5 million. During fiscal 2016, the University was awarded over $138.0 million in sponsored funds, 77.8% of which were for research activities. Approximately 54.7% of sponsored funds awarded during fiscal 2016 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

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Average Annual % Increase
Student Tuition & Fees									
In-State Tuition & Fees	$12,844	$13,554	$14,044	$14,784	$15,284	$15,718	$16,226	$16,768	4.22%
Out of-State Tuition & Fees	$29,682	$31,410	$32,630	$34,424	$35,612	$36,646	$37,874	$39,160	4.32%
Room (Double)	$5,752	$5,964	$6,196	$6,426	$6,650	$6,844	$7,116	$7,376	3.92%
Board (Average Meal Plan)	$2,782	$3,032	$3,156	$3,282	$3,414	$3,558	$3,664	$3,774	4.80%
Total, In-State Cost	$21,378	$22,550	$23,418	$24,492	$25,348	$26,120	$27,006	$27,918	
Increase Over Previous Year	6.47%	5.48%	3.84%	4.59%	3.50%	3.05%	3.39%	3.38%	4.21%
Total, Out-of-State Cost	$38,216	$40,406	$41,982	$44,132	$45,676	$47,048	$48,654	$50,310	
Increase Over Previous Year	6.27%	5.73%	3.90%	5.12%	3.49%	3.00%	3.41%	3.40%	4.29%

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



The University has an affiliation with the University of Vermont Medical Center, Inc. (formally named Fletcher Allen Health Care, Inc.), University of Vermont Medical Group, Inc., and the University of Vermont Health Network, Inc. (formerly named Fletcher Allen Partner, Inc.) through an updated Affiliation Agreement signed in June, 2014. The Agreement is for a period of five (5) years with provisions for an automatic renewal in the absence of a party's written notice. The provisions of that contract are reflected in the financial statements. The Agreement is to guide and govern the parties in the achievement of their common goals, including, but not limited to, providing high-quality clinical education for undergraduate and graduate students enrolled in UVM medical and health care related academic programs and health care professionals enrolled in continuing education programs, conducting high-quality research leading to advances in health care and in the bio-medical and life sciences to improve the quality of life of the citizens of Vermont and the broader society.

Overview of the Financial Statements

The financial statements of the University of Vermont and State Agricultural College (the "University") have been prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation consists of comparable Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows and accompanying notes for the June 30, 2016 and 2015 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.

		(In thousands)	
		***Restated**	***Restated**
	2016	**2015**	**2014**
Assets			
Current assets	$ 329,009	$ 287,149	$ 267,864
Non-current assets:			
Endowment, annuities and life income cash, cash equivalents and investments	408,936	421,596	422,898
Deposits with trustees	102,187	11,198	14,173
Capital assets, net	574,798	519,190	525,111
Other	34,530	24,990	27,470
Total non-current assets	1,120,451	976,974	989,652
Total assets	**1,449,460**	**1,264,123**	**1,257,516**
Deferred outflows of resources			
Loss on refunding of debt	3,524	3,676	3,504
Total deferred outflows of resources	**3,524**	**3,676**	**3,504**
Liabilities			
Current liabilities	139,270	108,675	102,429
Non-current liabilities	786,483	631,667	618,838
Total liabilities	**925,753**	**740,342**	**721,267**
Deferred inflows of resources			
Service Concession Arrangement	9,012	-	-
Total deferred inflows of resources	**9,012**	**-**	**-**
Net position			
Net investment in capital assets	80,234	73,660	66,977
Restricted:			
Non-expendable	111,533	109,056	101,079
Expendable	299,276	321,975	337,170
Unrestricted	27,176	22,766	34,527
Total net position	**$ 518,219**	**$ 527,457**	**$ 539,753**

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

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

Statements of Net Position

Net position, or the sum of total assets, plus deferred outflows of resources, less total liabilities, less deferred inflows of resources is considered an indicator of the current financial condition of the University. The Statements of Net Position presents all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University as of June 30. Assets and liabilities are classified as current or non-current. Current assets are classified as such if they are available to satisfy current liabilities, which are generally defined as being due within one year of the date of the Statements of Net Position. Condensed information for net position at June 30, 2016, with comparative information for 2015* and 2014* is located on the bottom of page 10.

Net position totaled $518.2 million, $527.5 million, and $539.8 million at June 30, 2016, 2015, and 2014, respectively, decreasing by $9.3 million in 2016 and by $12.3 million in 2015. Both 2016 and 2015 were significantly negatively impacted by the investment market and the change in the liability for other postemployment benefits as prescribed by GASB 45. Sales of Capital Assets resulting in a net gain had a positive effect on the net position in fiscal 2016.

Net position at June 30, 2014 and 2015 were adjusted to be in accordance with GASB statement 72, *Fair Value Measurements and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. GASB 72 also includes guidance on applying fair value to certain investments. Prior to fiscal 2016, the University had recorded certain investments at cost, as permitted by existing GASB guidance. Refer to footnote A2 in the audited financial statements for details of the impact of adoption of this new statement. In addition to the adoption of GASB 72, the University identified certain costs related to the federal government's Medicare Part D pharmacy program called an Employer Group Waiver program (EGWP) that were not initially included in contributions during fiscal year 2015 for the calculations of the increase in net Other Post-Employment Benefit (OPEB) obligation. To facilitate period-over-period comparisons, the University has revised its 2015 financial statements to reflect corrections in the period in which the revenues were recognized and expenses were incurred. As a result of these two items, fiscal 2014 net position was adjusted from $523.0 million to $539.8 million, with non-current endowment cash, cash equivalents and investments adjusted from $406.1 million to $422.9 million. For fiscal 2015 net position was adjusted from $506.7 million to $527.5 million, non-current endowment cash, cash equivalents and investments were adjusted from $404.5 million to $421.6 million, and $3.7 million less of compensation and benefit expense and postemployment benefit liability were recorded.

Current assets of $329.0 million, $287.1 million, and $267.9 million at June 30, 2016, 2015, and 2014, respectively, consist primarily of cash and cash equivalents, and operating investments, which totaled $239.7 million at June 30, 2016, $193.2 million at June 30, 2015, and $189.2 million at June 30, 2014. Cash and cash equivalents and operating investments represents approximately 4.7, 4.0, and 4.0 months of total operating expenses, excluding depreciation, for 2016, 2015, and 2014, respectively. The net increase to current assets in 2016 of $41.9 million was primarily driven by a $44.3 million increase in cash and cash equivalents offset by a $4.6 million decrease in accounts, loans, notes and pledges receivable. The net increase to current assets in 2015 of $19.2 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.

Endowment cash, cash equivalents and investments totaled $408.9 million, $421.6 million and $422.9 million at June 30, 2016, 2015, and 2014, respectively, representing a decrease of $12.7 million, or 3.0% in 2016, and a decrease of $1.3 million, or 0.3% in 2015. The University's long-term investment pool consists of permanent endowments, term endowments, and funds functioning as endowments, commonly referred to as quasi-endowments.

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

The University's primary long-term investment goal is to attain a real total return that exceeds the amount being distributed for spending and administration, currently set at 4.75% of the previous 13 quarters' average market value. Other important investment objectives are to achieve annualized returns in excess of the strategic policy portfolio blended benchmark, measured over a full market cycle; and to outperform the median return of a pool of endowment funds with broadly similar investment objectives and policies. The spending distributions from the total endowment were $18.6 million, $17.3 million, and $16.4 million in fiscal years ended June 30, 2016, 2015, and 2014, respectively. These distributions were 4.3%, 4.0%, and 4.4% of the beginning market value of the endowment for fiscal years 2016, 2015, and 2014, respectively.

The increase to *Deposits with Trustees* of $91.0 million in 2016 was primarily due to unused proceeds from issuance of the 2015 general obligation bond held by a third party trustee. The decrease to this asset of $3.0 million in 2015 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 $574.8 million, $519.2 million and $525.1 million at June 30, 2016, 2015 and 2014, respectively, representing an increase of $55.6 million, or 10.7%, in 2016 and a decrease of $5.9 million, or 1.1%, in 2015. Gross capital additions totaled $84.5 million in 2016 and $20.8 million in 2015. Capital additions in 2016 included land acquisitions and land improvements of $0.9 million, renovations to residence and dining halls, research laboratories, and other buildings of

$9.8 million, building components and equipment and building interiors of $0.1 million, fixed equipment of $1.0 million, moveable equipment of $1.9 million, and construction in progress of $70.7 million. These additions in 2016 were offset by disposals of $7.5 million and an increase to accumulated depreciation of $21.4 million. 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.

Deferred outflows of resources were $3.5 million and $3.7 million at, June 30, 2016 and 2015, respectively. In fiscal 2016, deferred outflows represent the deferred loss on refunding of the 1998, 2002, and 2005 general obligation bonds. The loss for the 1998 and 2002 general obligation bonds are amortized at a rate of $0.2 million each year until fiscal year 2032. The loss on the partial refunding of the 2005 general obligation bond is amortized at a rate of $0.02 million until fiscal year 2035.

Current liabilities increased $30.6 million in 2016 and $6.2 million in 2015. In fiscal 2016, accounts payable and accrued liabilities increased by $13.5 million. This increase was the result of accounts payable and accrued contract retainage costs on construction projects in progress. An additional $6.8 million in accounts payable and $5.4 million in accrued liabilities were recognized for such projects. In both 2016 and 2015, current liabilities increased due to the University accepting UVMF funds which were then invested in the University's pooled endowment. These funds generate income which is distributed to the UVMF. The funds held in the University's pooled endowment represent a liability to the University as they are UVMF assets and will be returned to the UVMF in the future. At June 30, 2016 the amount of UVMF assets held in the University's pooled endowment was $39.1 million. At June 30, 2015 the amount of UVMF assets held in the University's pooled endowment was $29.9 million.

Non-current liabilities increased $154.8 million in 2016 compared to $12.8 million in 2015. The increase in 2016 is the result of $120.7 million in the non-current portion of bonds and notes payable as the result of issuance of general obligation bonds, as well as the recognition of $32.7 million in additional liability for postemployment benefits. The increase in 2015 is the result of the recognition of $20.7 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.

Deferred inflows of resources were recognized for Service Concession Arrangements totaling $9.0 million at June 30, 2016. These inflows were due to a new agreement that took effect July 1, 2015, with Sodexo Management, Inc., to carry out the Food Service Program. No such deferred inflows existed at June 30, 2015.

Net investment in capital assets of $80.2 million, $73.7 million, and $67.0 million, at June 30, 2016, 2015, and 2014, 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 $6.5 million in 2016 was primarily the result of the net effect of additions and disposals to capital assets of $76.9 million, the increase in bonds payable related to capitalized assets of $49.0 million, and an increase of accumulated depreciation of $21.4 million. The increase of $6.7 million in 2015 was primarily the result of the net effect of additions and disposals to capital assets of $20.5 million, the decrease in bonds payable related to capitalized assets of $12.6 million, and an increase of accumulated depreciation of $26.4 million.

Restricted non-expendable net position totaling $111.5 million, $109.1 million, and $101.1 million at June 30, 2016, 2015, and 2014, 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 $2.4 million, or 2.3%, in 2016, and $8.0 million, or 7.9%, in 2015, resulted from new gifts.

		(In thousands) *Restated	*Restated
	2016	**2015**	**2014**
Operating revenues	$ 589,346	$ 564,405	$ 545,295
Operating expenses	(633,941)	(611,409)	(605,712)
Operating loss	(44,595)	(47,004)	(60,417)
Net non-operating revenues	32,131	32,794	85,734
Revenue (loss) before capital and endowment additions	(12,464)	(14,210)	25,317
State capital appropriations	1,400	1,400	1,400
Capital gifts and grants	180	162	21
Gifts for endowment purposes	1,646	352	683
Total capital and endowment additions	3,226	1,914	2,104
Increase (decrease) in net position	**(9,238)**	**(12,296)**	**27,421**
Net position, beginning of year	527,457	539,753	512,332
Net position, end of year	**$ 518,219**	**$ 527,457**	**$ 539,753**

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

Restricted expendable net position is subject to externally imposed restrictions governing their use. Restricted expendable net position totaled $299.3 million, $322.0 million, and $337.2 million, as of June 30, 2016, 2015, and 2014, respectively. The decrease of $22.7 million in 2016 and $15.2 million in 2015 were primarily due to changes in net investment income. In 2016 there was a net investment loss of $10.4 million compared to a gain of $1.7 million in 2015.

Unrestricted net position is not subject to externally imposed stipulations. However, substantially all of the University's unrestricted net position has been designated for various academic and research programs and initiatives, as well as capital projects. Unrestricted net position totaled $27.2 million, $22.8 million, and $34.5 million for June 30, 2016, 2015, and 2014, respectively. The increase of $4.4 million in 2016 was primarily due to increases in net tuition and fees of $15.7 million, other auxiliary enterprise revenue of $3.3 million, student loan interest and other operating revenues of $1.3 million, sales and service of educational activities of $0.8 million, F&A recovery of $0.7 million and net investment income of $0.6 million offset by an increase in operating expenses of $20.5 million including increases of $20.6 million in compensation and benefits and $5.2 million in scholarships and fellowships with a decrease of $5.3 million in supplies and services. The decrease of $11.7 million in 2015 was primarily due to increases in net tuition and fees of $18.5 million and other auxiliary enterprises revenues of $1.1 million offset by decreases in student loan interest and other operating revenues of $1.4 million and net investment income of $10.5 million, as well as increases in operating expenses of $8.5 million, including $2.0 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.

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, 2016, with comparative totals for the years ended June 30, 2015* and June 30, 2014* are located in the chart at the bottom of page 12.

Net position decreased by $9.2 million in 2016 and decreased by $12.3 million in 2015. Contributors to the decrease in 2016 include a decrease in net investment income of $11.5 million, an increase in operating expenses of $22.5 million offset by an increase in net tuition and fee revenue of $15.7 million, auxiliary enterprise revenue of $3.3 million and Federal, state, and private grants and contracts of $3.0 million. Contributors to the decrease in 2015 include a decrease in net investment income of $55.9 million, an increase in operating expenses of $5.7 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.

Significant components of 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 $15.7 million in 2016, comprised of an increase to tuition and fees of $20.8 million, or 5.7%, an increase to residential life revenues of $0.6 million, or 1.0%, and by an increase in scholarship allowances of $5.7 million, or 6.1%. 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 revenues of $3.6 million, or 6.5%, and by an increase in scholarship allowances of $2.3 million, or 2.7%. 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 $113.5 million, $108.3 million, and $105.3 million, were awarded to students in 2016, 2015, and 2014, respectively. This represents a total increase of $5.2 million, or 4.8%, for 2016 as compared to a $3.0 million increase, or 2.8%, for 2015.

- *Revenues for sponsored programs* of $173.7 million in 2016, $170.6 million in 2015, and $171.3 million in 2014, include federal appropriations, grants and contracts, as well as state and non-governmental grants and contracts that normally provide for the recovery of direct and indirect costs or expenses. The increase in fiscal 2016 is due to an increase of University of Vermont Medical Center Commitment and Dean's Tax funds, as well as Area Health Education Center matching funds, offset slightly by decreased federal, state and private grants and contracts. The minimal change in fiscal 2015 is due to steady funding. Revenues for sponsored programs are generally recognized when expenses are incurred or when significant milestones have been met under the terms of the award. The revenues for sponsored programs include recovery of indirect costs, referred to as facilities and administrative costs, of $25.5 million, $24.9 million, and $25.5 million, in 2016, 2015, and 2014, respectively.

- *Auxiliary enterprise and educational activities revenues* totaled $52.1 million, $48.0 million, and $46.9 million, in 2016, 2015, and 2014, 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 $4.1 million increase in 2016 is primarily due to commissions under the new dining contract. The $1.1 million increase in 2015 is primarily due to fee revenue for the Global Gateway Program and health fees collected.

- *Student loan interest and other operating revenues* were $19.1 million, $17.1 million, and $16.9 million in 2016, 2015, and 2014, respectively.

Significant components of operating expenses include the following:

- *Compensation and benefits* of $419.8 million, $398.4 million, and $393.3 million in 2016, 2015, and 2014, respectively, comprise the most significant portion of total expenses. Compensation and benefits increased by $21.4 million, or 5.4% in 2016 and by $5.1 million, or 1.3% in 2015. The fiscal 2016 change reflected budgeted increases of 2.75% for faculty and between 1.60-2.50% for staff. There was also an increase to the regular benefit rate and a new student employee benefit rate. The fiscal 2015 change 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 increased by $1.2 million, or 2.3%, in 2016 and decreased by $0.3 million, or 0.6%, in 2015.

- *Supplies and services* expenses increased by $1.7 million, or 1.0% in 2016 and remained constant in 2015. This classification encompasses the many and varied non-compensation expenses that are required for the operation of the University, including utilities, professional services, non-capitalized equipment, and minor renovations.

- *Depreciation* expense decreased slightly by $0.2 million, or 0.7%, in 2016 and increased slightly by $0.1 million, or 0.2%, in 2015.

- *Scholarships and fellowships* of $16.0 million in 2016, $16.4 million in 2015, and $15.8 million in 2014 are comprised of direct payments to students. As noted earlier, in addition to the amounts reflected in scholarships and fellowships expense, financial aid is applied to tuition and residential life fees and amounts applied to each are reflected in the financial statements as a reduction of those revenues.

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

- *State appropriations*, which represent funding provided by the State of Vermont, were $43.0 million, $43.0 million, and $43.3 million, in 2016, 2015, and 2014, respectively, remaining steady in 2016 and decreasing by 0.6% in 2015.

- *Federal Pell grants*, which represents funds received from the federal government to help low-income undergraduate students were $7.2 million, $8.0 million, and $8.2 million in 2016, 2015, and 2014, respectively.

- *Intergovernmental Transfers* totaled $13.5 million, $13.1 million, and $13.2 million in 2016, 2015 and 2014, respectively. This represents contributions to the State of Vermont to support the Graduate Medical Education program.

- *Private gifts and Transfers to UVM from Component Units* totaled $19.1 million, $20.3 million, and $19.5 million, in 2016, 2015, and 2014, respectively.

- *Gain (loss) on disposal of capital assets* totaled $9.7 million and $0.4 million and in 2016 and 2015 respectively. In fiscal 2016, the University sold off a parcel of land which resulted in a gain of $9.3 million.

- *Transfers to Component Units from UVM* totaled $9.0 million and $9.7 million in 2016 and 2015, respectively. These transfers were to the UVM Foundation, Inc. from the University to assist the Foundation in its operations.

- *Net investment income/(loss)* was ($6.9) million, $4.7 million, and $60.5 million in 2016, 2015, and 2014, respectively. Net investment income includes realized investment income and the change in the unrealized appreciation or depreciation of investments. Net investment income in fiscal 2016 was affected greatly by volatility in the financial markets. The change in unrealized appreciation/(depreciation) included in net investment income was $(19.8) million in 2016, $(20.4) million in 2015, and $34.0 million in 2014. Realized gains and other income included in net investment income totaled $12.9 million, $25.1 million, and $26.5 million in 2016, 2015, and 2014, respectively.

- *Interest on indebtedness* totaled $17.2 million in 2016, $20.5 million in 2015, and $21.4 million in 2014. Interest on indebtedness represents interest on notes and bonds net of capitalized interest.

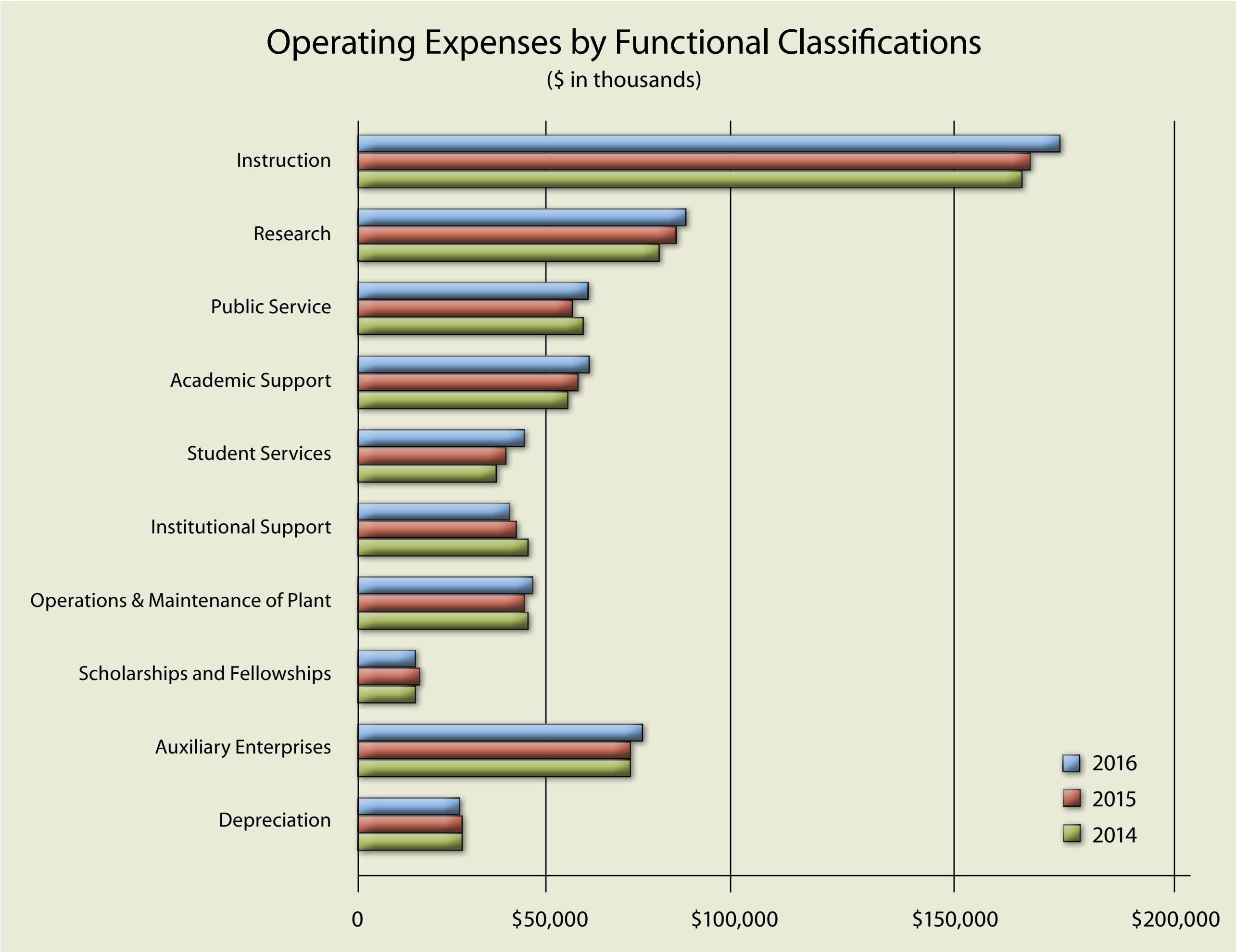
Other financial resources presented after *Revenue (Loss) before capital and endowment additions* include the following:

- *State capital appropriations* were $1.4 million, $1.4 million, and $1.4 million in 2016, 2015 and 2014, respectively.

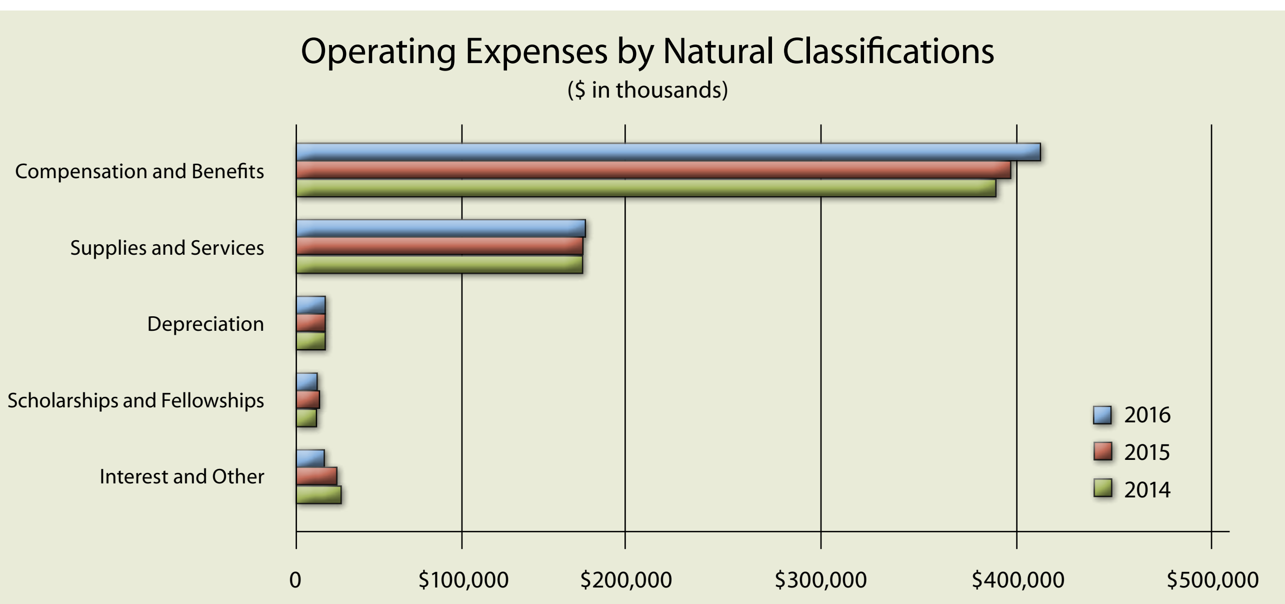
- *Capital and endowment gifts and grants* were $1.8 million, $0.5 million, and $0.7 million, in 2016, 2015, and 2014, respectively.

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 $22.5 million, or 3.7%, in 2016 and $5.7 million, or 0.9%, in 2015. With the exception of scholarships and fellowships, depreciation, and interest expense, the changes in each of the functional categories reflect the changes in compensation and benefits and supplies and services.

The following chart presents total expenses by function for 2016, 2015, and 2014:



The following chart presents total expenses by natural classification for 2016, 2015, and 2014:



Statements of Net Position

as of June 30, 2016 and 2015

(dollars in thousands)

	2016	*Restated 2015	UMEA 2016	UMEA 2015	UVMF 2016	UVMF 2015
ASSETS						
Current assets:						
Cash and cash equivalents	$ 117,506	$ 73,228	$ 414	$ 410	$ 12,368	$ 41,566
Operating investments	122,237	119,948	50,053	34,726	28,525	5
Investments for capital activities	29,218	29,913	-	-	-	35
Accounts, loans, notes and pledges receivable, net	47,448	52,033	507	628	2,156	1,790
Inventories and prepaid expenses	12,600	12,027	10	10	356	502
Total current assets	**329,009**	**287,149**	**50,984**	**35,774**	**43,405**	**43,898**
Non-current assets:						
Endowment cash, cash equivalents and investments	408,936	421,596	-	-	66,590	31,429
Student loans, notes, and pledges receivable, net	34,125	24,345	-	-	2,326	2,760
Deposits with trustees	102,187	11,198	-	-	1,138	1,095
Prepaid expenses and other assets	405	645	-	-	-	-
Capital assets, net	574,798	519,190	-	-	6,113	1,006
Total non-current assets	**1,120,451**	**976,974**	**-**	**-**	**76,167**	**36,290**
Total Assets	**1,449,460**	**1,264,123**	**50,984**	**35,774**	**119,572**	**80,188**
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of debt	3,524	3,676	-	-	-	-
Total Deferred Outflows of Resources	**3,524**	**3,676**	**-**	**-**	**-**	**-**
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	71,124	57,651	552	302	9,843	13,400
Unearned revenue, deposits, and funds held for others	58,057	42,718	32,843	16,840	1,617	71
Bonds and leases payable	10,089	8,306	-	-	-	-
Total current liabilities	**139,270**	**108,675**	**33,395**	**17,142**	**11,460**	**13,471**
Non-current liabilities:						
Accrued liabilities	19,401	17,956	-	-	-	-
Postemployment benefits	202,356	169,697	-	-	-	-
Bonds and leases payable	564,726	444,014	-	-	3,000	-
Total non-current liabilities	**786,483**	**631,667**	**-**	**-**	**3,000**	**-**
Total Liabilities	**925,753**	**740,342**	**33,395**	**17,142**	**14,460**	**13,471**
DEFERRED INFLOWS OF RESOURCES						
Service concession arrangement	9,012	-	-	-	-	-
Total Deferred Inflows of Resources	**9,012**	**-**	**-**	**-**	**-**	**-**
NET POSITION						
Net investment in capital assets	80,234	73,660	-	-	3,113	1,006
Restricted:						
Non-Expendable	111,533	109,056	-	-	60,436	24,584
Expendable	299,276	321,975	12,124	11,665	39,012	35,641
Unrestricted	27,176	22,766	5,465	6,967	2,551	5,486
Total Net Position	**$ 518,219**	**$ 527,457**	**$ 17,589**	**$ 18,632**	**$105,112**	**$ 66,717**

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

Statements of Revenues, Expenses and Changes in Net Position

for the years ended June 30, 2016 and 2015

(dollars in thousands)

	2016	*Restated 2015	UMEA 2016	UMEA 2015	UVMF 2016	UVMF 2015
Operating revenues						
Tuition and fees	$ 382,191	$ 361,410	$ -	$ -	$ -	$ -
Residential life	59,744	59,153	-	-	-	-
Less scholarship allowances	(97,475)	(91,851)	-	-	-	-
Net student tuition and fees	344,460	328,712	-	-	-	-
Federal, state, and private grants and contracts	173,683	170,640	-	-	1,065	168
Sales and services of educational activities	7,494	6,683	-	-	-	-
Other auxiliary enterprises	44,627	41,294	-	-	-	-
Student loan interest and other operating revenues	19,082	17,076	498	501	427	456
Total operating revenues	**589,346**	**564,405**	**498**	**501**	**1,492**	**624**
Operating expenses						
Compensation and benefits	(419,798)	(398,374)	(238)	(329)	(7,801)	(7,810)
Supplies and services	(171,719)	(170,034)	-	-	(3,545)	(3,427)
Depreciation	(26,422)	(26,596)	-	-	(26)	(26)
Scholarships and fellowships	(16,002)	(16,405)	-	-	-	-
Total operating expenses	**(633,941)**	**(611,409)**	**(238)**	**(329)**	**(11,372)**	**(11,263)**
Operating income (loss)	**(44,595)**	**(47,004)**	**260**	**172**	**(9,880)**	**(10,639)**
Non-operating revenues (expenses)						
State appropriations	43,016	43,012	-	-	-	-
Federal Pell grants	7,186	8,015	-	-	-	-
Private gifts	511	424	359	5,339	27,603	31,191
Net investment income	(6,862)	4,680	645	562	269	504
Interest on indebtedness	(17,163)	(20,544)	-	-	-	-
Gain on disposal of capital assets	9,742	408	-	-	-	-
Net other non-operating expense	(378)	(365)	-	-	(470)	(593)
Intergovernmental transfers	(13,492)	(13,055)	-	-	-	-
Transfers from UVM to component units	(9,008)	(9,655)	-	-	8,385	9,592
Transfers to UVM from component units	18,579	19,874	(2,307)	(2,619)	(16,099)	(17,166)
Net non-operating revenues	**32,131**	**32,794**	**(1,303)**	**3,282**	**19,688**	**23,528**
Revenue (loss) before capital & endowment additions	**(12,464)**	**(14,210)**	**(1,043)**	**3,454**	**9,808**	**12,889**
State capital appropriations	1,400	1,400	-	-	-	-
Capital gifts and grants	180	162	-	-	-	-
Gifts for endowment purposes	1,646	352	-	-	28,587	907
Total capital and endowment additions	**3,226**	**1,914**	**-**	**-**	**28,587**	**907**
Increase (decrease) in net position	(9,238)	(12,296)	(1,043)	3,454	38,395	13,796
Net Position, Beginning of Year	527,457	522,987	18,632	15,178	66,717	52,921
*Cumulative effect of change in accounting principle**	-	16,766	-	-	-	-
Net Position, Beginning of Year Adjusted	-	539,753	-	-	-	-
Net Position, End of Year	**$ 518,219**	**$ 527,457**	**$ 17,589**	**$ 18,632**	**$ 105,112**	**$ 66,717**

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

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

Statements of Cash Flows

for the years ended June 30, 2016 and 2015

(dollars in thousands)

	2016	2015
Cash Flows From Operating Activities		
Tuition and fees (net of applicable discounts)	$ 298,797	$ 280,482
Grants and contracts	175,225	168,518
Sales and services of educational activities	7,494	6,683
Sales and services of auxiliary enterprises:		
Residential life fees, net of scholarship allowances	46,567	46,234
Other	44,627	41,294
Payments to employees and benefit providers	(387,303)	(377,146)
Payments to vendors	(158,501)	(168,204)
Payments for scholarships and fellowships	(16,002)	(16,405)
Student loans issued	(2,909)	(3,902)
Student loans collected, interest and other revenue	3,606	4,551
Other receipts, net	18,510	16,491
Net cash (used in) provided by operating activities	**30,111**	**(1,404)**
Cash Flows From Non-capital Financing Activities		
State general appropriation	43,016	43,012
Federal Pell grants	7,186	8,015
Private gifts for other than capital purposes	1,978	2,516
Intergovernmental transfers	(13,492)	(13,055)
Transfers from UVM to component units	(9,008)	(9,655)
Transfers to UVM from component units	25,475	12,978
Deposits of affiliates and life income payments	9,900	1,871
Net cash provided by non-capital financing activities	**65,055**	**45,682**
Cash Flows From Capital Financing Activities		
Proceeds from issuance of capital debt	196,169	75,213
State capital appropriation	1,400	1,400
Capital grants, gifts and other income	117	293
Purchases and construction of capital assets	(79,410)	(20,805)
Disposal of capital assets	7,515	328
Principal and interest paid on capital debt	(89,605)	(103,327)
Changes in deposits with trustees, net	(92,420)	888
Net cash used in capital financing activities	**(56,234)**	**(46,010)**
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	143,756	165,420
Purchase of investments	(151,531)	(187,643)
Interest and dividends on investments, net	5,771	5,190
Net cash used in investing activities	**(2,004)**	**(17,033)**
Net Increase (decrease) in Cash and Cash Equivalents	**36,928**	**(18,765)**
Cash and cash equivalents - beginning of year	94,461	113,226
Cash and Cash Equivalents - End of Year *	**$ 131,389**	**$ 94,461**
Reconciliation of Operating Loss To Cash Used by Operating Activities		
Operating loss	$(44,595)	$(47,004)
Adjustments to reconcile operating loss to net cash used in Operating Activities:		
Depreciation expense	26,422	26,596
Changes in assets and liabilities:		
Accounts receivable and loan receivables, net	(9,171)	(4,635)
Inventories and prepaid expense	(571)	(1,150)
Accounts payable	7,716	(265)
Unearned revenue, deposits and accrued liabilities	50,310	25,054
Net cash used in operating activities	**$ 30,111**	**$ (1,404)**

** of total cash and cash equivalents for 2016, $117,506 is current and $13,883 is non-current endowment and for 2015, $73,228 is current and $21,233 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, 2016 and 2015

A. Summary of Significant Accounting Policies and Presentation

The University of Vermont and State Agricultural College is a public, non-profit, comprehensive research institution of higher education with an enrollment of approximately 12,200 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 described in Internal Revenue Code Section 501(c)(3) and generally exempt from income taxes pursuant to Section 501(a) of the Internal Revenue Code.

1. Affiliated Organizations

University Medical Education Associates, Inc. (UMEA) is a legally separate component unit of the University of Vermont. UMEA is an organization described in Internal Revenue Code Section 501(c)(3) and is generally exempt from income taxes pursuant to Section 501(a) of the Code. UMEA is governed by a minimum nine-member board; five members are named as a result of their positions at the University of Vermont and the remaining are elected by the other members. UMEA's purpose is to support the operations, activities and objectives of the Robert Larner M.D. College of Medicine of the University of Vermont. UMEA is a public non-profit organization that reports under Financial Accounting Standards Board (FASB) standards. UMEA's fiscal years end on June 30. UMEA issues separate audited financial statements, which may be obtained by contacting the Dean's Office, Robert Larner M.D. College of Medicine. In accordance with 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 exists to secure and manage private gifts for the sole benefit of the University and has been recognized by the University as the primary and preferred recipient for charitable gifts to or for the benefit of the University. UVMF is governed by a board of directors composed of not less than 15 or more than 29 members, including ex officio directors. The President of the University, the Chair of the Board of Trustees of the University, the President of the UVM Alumni Association, the Chair of the UVM Medical Center Foundation, and the UVMF President/CEO are ex officio directors of UVMF. UVMF reports under Financial Accounting Standards Board (FASB) standards, has a fiscal year end date of June 30, and issues separate audited financial statements, which may be obtained at the UVMF's website www.uvmfoundation.org or by contacting the UVMF's main office at 411 Main Street, Burlington, VT. In accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB 14 and 34)*, UVMF is discretely presented on the University's Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position.

The University has an affiliation with the University of Vermont Medical Center, Inc. (formally named Fletcher Allen Health Care, Inc.), University of Vermont Medical Group, Inc., and the University of Vermont Health Network, Inc. (formerly named Fletcher Allen Partner, Inc.) through an updated Affiliation Agreement signed in June, 2014. The Affiliation Agreement is for a period of five years. The Agreement is to guide and govern the parties in the achievement of their common goals, including, but not limited to, providing high-quality clinical education for undergraduate and graduate students enrolled in UVM medical and health care related academic programs and health care professionals enrolled in continuing education programs. The Agreement sets forth principles and protocols designed to assist the University and the University of Vermont Medical Center (UVMMC) in coordinating efforts and allocating their resources. UVMMC agrees to pay a portion of salary, benefits, and related expenses incurred by the University to physician-faculty and staff who are also employed by UVMMC. In addition, UVMMC agrees to pay base payments that help maintain medical facilities owned and managed by the University and the Dana Medical Library. UVMMC agrees to pay a portion of the UVM Medical Group Net Patient Revenues, referred to as the Dean's Tax, to the Robert Larner M.D. College of Medicine for purposes that promote and are consistent with the common goals of both parties.

2. Basis of Accounting

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

Net position is categorized as follows:

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

- **Restricted:**

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

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

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.

During fiscal year 2016, the University identified certain costs related to the federal government's Medicare Part D pharmacy program called an Employer Group Waiver program (EGWP). This program was activated at the University on January 1, 2015. The program costs from January 1, 2015 through June 30, 2015 were not included in contributions during fiscal year 2015 for the calculation of the increase in net OPEB obligation. This resulted in an overstatement in fiscal 2015 in compensation and benefit expense on the Statements of Revenues, Expense and Changes in Net Position and in postemployment benefits liability on the Statements of Net Position of $3,720. The University has concluded that the expense reported in the prior period was an error and that it is immaterial to all periods previously presented. To facilitate period-over-period comparisons, the University has revised its prior period financial statements to reflect the corrections in the period in which the expenses were incurred. As a result, the University recorded $3,720 less of compensation and benefit expense and postemployment benefits liability in the year ended June 30, 2015.

GASB statement 72, *Fair Value Measurements and Application*, was issued and became effective for financial statement periods beginning after June 15, 2015. GASB 72 sets forth the framework for measuring fair value. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. GASB 72 also provides additional guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Prior to fiscal 2016, the University had recorded investments in private partnerships including private equity, venture capital, and real estate partnerships at cost as they did not meet the definition of marketable securities as previously defined by GASB. GASB 72 requires that these partnerships be reported at estimated fair value which the University obtains from the investment managers in the absence of readily determinable public market values. As such, the University restated fiscal 2015 endowment cash, cash equivalents and investments from $404,522 to $421,597 and net position as follows:

(dollars in thousands)

	As Previously Reported	**GASB 72 Adjustment**	**OPEB Correction**	**As Restated**
Net position as of July 1, 2014	$ 522,987	$ 16,766	$ -	$ 539,753
For the year ended June 30, 2015:				
Net investment income	4,372	308	-	4,680
Compensation and benefits expense	402,094	-	(3,720)	398,374
Increase/(decrease) in net position	(16,324)	308	3,720	(12,296)
Net position as of June 30, 2015	$ 506,663	$ 17,074	$ 3,720	$ 527,457

3. Fair Value Measurement

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

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

Level 2 – Inputs to valuation methodology include:

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

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

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

(dollars in thousands)

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

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

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

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

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

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

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 2016 and 2015 consists of:

Grants and Contracts	**FY16**	**FY15**
Federal appropriations, grants and contracts	$ 115,455	$ 116,382
State grants and contracts	3,298	2,854
Private grants and contracts	54,930	51,404
TOTAL	**$ 173,683**	**$ 170,640**

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

The University has recorded reimbursement of indirect costs relating to government contracts and grants at a predetermined rate. The reimbursement of indirect costs included in grant revenue is $25.5 million in 2016 and $24.8 million in 2015.

Private grants and contracts includes funding of $13.5 million in 2016 and $13.1 million in 2015 to the Robert Larner, M.D. College of Medicine from the University of Vermont Medical Center, Inc. to offset facilities and operation costs.

5. Gifts

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

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

6. Deposits and Unearned Revenue

Deposits and advance payments for the following academic year are 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. Deposits and advance payments unearned revenue at June 30 is $9,843 in 2016 and $5,733 in 2015.

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 $7,099 in 2016 and $4,047 in 2015.

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 $53,979 in 2016 and $51,612 in 2015. The total cost for contributions to the RHSP was $839 in 2016 and $577 in 2015. See note L for further information about postemployment benefits.

8. Compensated Absences

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

As of June 30, 2016, $19,786 ($19,276 in 2015) was accrued for vacation pay of which $14,617 ($14,238 in 2015) was charged to unrestricted net assets and $5,169 ($5,037 in 2015) was included in deferred charges to be recovered from restricted expendable assets when paid.

(dollars in thousands)

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, 2016 and 2015 are summarized as follows:

Accounts, Loans, Notes and Pledges Receivable, Net	June 30, 2016	June 30, 2015
Current		
Federal, state, and private grants receivable	$ 19,906	$ 19,863
Student and trade accounts receivable, net	13,221	11,360
Other accounts receivable	10,655	16,738
Student loans receivable, net	2,338	2,608
Pledges receivable, net	1,328	1,464
Total Current	**$ 47,448**	**$ 52,033**
Non-Current		
Student loans receivable, net	$ 20,392	$ 21,710
Other notes receivable	11,456	5
Pledges receivable, net	2,277	2,630
Total Non-Current	**$ 34,125**	**$ 24,345**

The student accounts receivable are carried net of an allowance for doubtful accounts of $336 in 2016 and $352 in 2015.

Student loans receivable are carried net of an allowance for uncollectible UVM loans of $98 current and $784 non-current at June 30, 2016. At June 30, 2015, student loans receivable are carried net of an allowance for uncollectible UVM loans of $129 current and $982 non-current. The University does not record an allowance for uncollectible federal student loans since they can be assigned to the government if certain conditions stipulated by the federal government are met.

The University's liability for the federal capital contribution to the Perkins, Health Professions, Primary Care, and Nursing Student loan programs is $8,155 for 2016 and $8,174 for 2015. These amounts are included in non-current accrued liabilities.

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

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

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 $85 in 2016 and $93 in 2015 and $145 in 2016 and $168 in 2015, respectively. Discount rates ranging from 1.67% to 5.03% were applied to pledges.

Accounts receivable from the UVMF and UMEA are $9,782 in 2016 and $12,804 in 2015 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 $71,124 in 2016 and $57,651 in 2015 are composed of accounts payable of $20,976 in 2016 and $13,281 in 2015 and accrued liabilities of $50,148 in 2016 and $44,370 in 2015. Accounts payable is mostly comprised of supplies and services payables, including construction, renovation and equipment of $17,752 in 2016 and $9,636 in 2015.

(dollars in thousands)

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 2016, net interest expense of $7,617 ($9 in 2015) was capitalized for projects that were funded by the 2015 general obligation bond.

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

Other buildings are depreciated over a useful life of 40 years, land improvements are depreciated over a useful life of 20 years, fixed equipment is depreciated over a useful life of 15 years, and movable equipment is depreciated over a useful life of 5 years. Software systems are depreciated over a useful life of 7 years. Major construction projects are capitalized, but are not depreciated until they are put into service.

Depreciation expense for buildings and components including fixed equipment for fiscal year 2016 is $23,833 ($24,385 in 2015). Moveable equipment, software systems, and land improvements depreciation expense is $2,589 for 2016 ($2,211 in 2015).

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

Capital assets activity for the years ended June 30, 2016 and 2015 is summarized as follows:

Fiscal Year 2016

Asset	Beginning Balance	Additions	Deductions	Reclasses	Gross Balance	Accum. Deprec.	Net Balance
Land	$ 28,009	$ 83	$ (23)	$ -	$ 28,069	$ -	$ 28,069
Land Improvements	2,591	850	(81)	-	3,360	(349)	3,011
Buildings	609,757	9,793	(7,002)	1,576	614,124	(251,040)	363,084
Building Service Systems	93,370	41	-	(354)	93,057	(41,027)	52,030
Building Interiors	59,605	82	-	-	59,687	(32,798)	26,889
Fixed Equipment	107,959	1,016	(220)	144	108,899	(92,967)	15,932
Moveable Equipment	26,322	1,916	(190)	850	28,898	(22,663)	6,235
Software Systems	29,611	-	-	-	29,611	(28,968)	643
Construction in Progress	10,380	70,741	-	(2,216)	78,905	-	78,905
TOTAL	**$ 967,604**	**$ 84,522**	**$ (7,516)**	**$ -**	**$ 1,044,610**	**$ (469,812)**	**$ 574,798**

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**

(dollars in thousands)

E. Bonds and Leases Payable and Other Long Term Liabilities

Debt obligations are generally callable by the University and bear interest at fixed rates ranging from 2.00% to 6.43%. The debt obligations mature at various dates through 2046.

On July 15, 2015 the University issued $186,930 of Series 2015 General Obligation Bonds. The bonds were issued at a premium of $9,532. The proceeds from the bonds were used for three purposes including refunding a portion of the 2005 General Obligation Bonds, funding a portion of the Science, Technology, Engineering, and Math Complex project, and funding the new student housing project. The University incurred a deferred loss of $65 on the refunding of the 2005 General Obligation Bonds.

Long term debt activity for the years ended June 30, 2016 and 2015 is summarized as follows:

Fiscal Year 2016

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

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

(dollars in thousands)

Fiscal Year 2015

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

In compliance with the University's various bond indentures, at June 30, 2016 the University has deposits with trustees of $93,447 ($1,028 in 2015) 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
2017	$ 9,384	$ 25,568	$ 34,952
2018	9,635	25,172	34,807
2019	12,405	24,680	37,085
2020	12,985	24,076	37,061
2021	13,445	23,436	36,881
2022-2026	69,515	107,420	176,935
2027-2031	89,555	87,646	177,201
2032-2036	113,040	65,631	178,671
2037-2041	138,820	33,595	172,415
2042-2046	88,160	8,879	97,039
TOTAL	**$ 556,944**	**$ 426,103**	**$ 983,047**

(dollars in thousands)

Other long term liabilities at June 30, 2016 and 2015 are summarized below:

Fiscal Year 2016

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

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	33,546	12,867	-	169,697
Other Accrued Liabilities	324	154	77	-	401
TOTAL	**$ 167,441**	**$ 36,532**	**$ 15,969**	**$ 351**	**$ 187,653**

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, 2016	June 30, 2015
Cash	$ 79,295	$ 42,208
Repurchase Agreements	-	681
Certificates of Deposit	51,692	25,210
Money Markets	402	26,362
TOTAL	**$ 131,389**	**$ 94,461**

Of total cash and cash equivalents above, $13,883 in 2016 and $21,233 in 2015 are included in non-current endowment cash and cash equivalents.

The balance of cash held in bank deposit accounts was $131,971 at June 30, 2016 and $67,738 at June 30, 2015. Of these bank balances, $714 in 2016 and $763 in 2015 were covered by the Federal Depository Insurance Corporation. The University also has an irrevocable standby letter of credit up to $82,000.

(dollars in thousands)

Total operating investments were $122,237 at June 30, 2016 and $119,948 at June 30, 2015. Operating investments invested in the long term pool were $10,229 at June 30, 2016 and $10,534 at June 30, 2015 (see note G).

Short and intermediate term operating investments at June 30, 2016 and 2015 were primarily made through commingled funds with the following investment strategies:

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

			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**							

G. Investments

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

Deposits with trustees include $7,631 in 2016 and $9,057 in 2015 of assets held under deferred giving arrangements, $1,109 in 2016 and $1,113 in 2015 of investments in the waste disposal fund required by the EPA, and $93,447 in 2016 and $1,028 in 2015 of investments held by bond trustees.

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

Net Investment Income	**FY16**	**FY15**
Net interest, dividend, and other income	$ 7,146	$ 5,685
Realized gains	7,224	20,762
Unrealized losses	(19,792)	(20,426)
Investment management fees	(1,440)	(1,341)
TOTAL	**$ (6,862)**	**$ 4,680**

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

Investments measured at fair value for the years ended June 30, 2016 and 2015 are summarized on the following pages:

(dollars in thousands)

Fiscal Year 2016	Level 1	Level 2	Level 3	Total Investments	Redemption or Liquidation	Days Notice
Investments at Fair Value:						
Equity Securities						
U.S. Equity	$ 81,695	$ -	$ -	$ 81,695	Daily to Monthly	1-30
Total Equity Securities	81,695	-	-	81,695		
Real Assets						
Private Real Assets	280	-	9,036	9,316	Illiquid	N/A
Total Real Assets	280	-	9,036	9,316		
Private Equity/Venture Capital						
Private Equity	-	-	1	1	Illiquid	N/A
Venture Capital	53	-	11,369	11,422	Illiquid	N/A
Secondaries	598	-	9,809	10,407	Illiquid	N/A
Distressed	49	-	1,374	1,423	Illiquid	N/A
Total Private Equity/Venture Capital	700	-	22,553	23,253		
Debt Securities	120	113,490	-	113,610	Daily to Monthly	1-30
Other Investments	240	-	685	925	Illiquid	N/A
Cash and Cash Equivalents	12,798	-	-	12,798	Daily	1
Total Investments at Fair Value	**$ 95,833**	**$ 113,490**	**$ 32,274**	**$ 241,597**		
Investments Measured at NAV:						
Equity Securities						
U.S. Equity				$ 2,506	Daily to Monthly	1-30
Global Developed				56,983	Daily	1
Global Emerging				49,342	Daily to Quarterly	1-60
Total Equity Securities				108,831		
Marketable Alternative						
Absolute Return				83,102	Monthly to Illiquid	5-N/A
Hedged Equity				13,337	Quarterly	95
Total Marketable Alternative				96,439		
Real Assets						
Public Real Assets				25,968	Daily	1-N/A
Private Real Assets				24,296	Illiquid	N/A
Total Real Assets				50,264		
Private Equity/Venture Capital						
Private Equity				13,147	Illiquid	N/A
Venture Capital				6,762	Illiquid	N/A
Distressed				3,724	Illiquid	N/A
Total Private Equity/Venture Capital				23,633		
Debt Securities				39,627	Daily to Monthly	1-30
Total Investments Measured at NAV				**$ 318,794**		
Total Investments				**$ 560,391**		
Deposits With Trustees at Fair Value:						
Beneficial Interests in Trusts	$ -	$ -	$ 7,631	$ 7,631	Illiquid	N/A
Debt Securities	-	26,657	-	26,657	Daily	1
Cash and Cash Equivalents	67,899	-	-	67,899	Daily	1
Total Deposits With Trustees	**$ 67,899**	**$ 26,657**	**$ 7,631**	**$ 102,187**		

Investments measured at fair value for the year ended June 30, 2015 is summarized as follows:

(dollars in thousands)

Fiscal Year 2015	Level 1	Level 2	Level 3	Total Investments	Redemption or Liquidation	Days Notice
Investments at Fair Value:						
Equity Securities						
U.S. Equity	$ 86,310	$ -	$ -	$ 86,310	Daily to Monthly	1-30
Global Developed	33,227	688	-	33,915	Daily	1
Global Emerging	-	369	-	369	Daily to Quarterly	1-60
Total Equity Securities	119,537	1,057	-	120,594		
Real Assets						
Private Real Assets	-	-	9,784	9,784	Illiquid	N/A
Total Real Assets	-	-	9,784	9,784		
Private Equity/Venture Capital						
Private Equity	-	-	4	4	Illiquid	N/A
Venture Capital	7,348	1,244	-	8,592	Illiquid	N/A
Secondaries	129	-	10,837	10,966	Illiquid	N/A
Distressed	328	37	3,529	3,894	Illiquid	N/A
Total Private Equity/Venture Capital	7,805	1,281	14,370	23,456		
Debt Securities	35,838	108,215	-	144,053	Daily to Monthly	1-30
Other Investments	236	-	933	1,169	Illiquid	N/A
Cash and Cash Equivalents	20,396	-	-	20,396	Daily	1
Total Investments at Fair Value	**$ 183,812**	**$ 110,553**	**$ 25,087**	**$ 319,452**		
Investments Measured at NAV:						
Equity Securities						
Global Developed				$ 33,209	Daily	1
Global Emerging				50,541	Daily to Quarterly	1-60
Total Equity Securities				83,750		
Marketable Alternative						
Absolute Return				85,326	Monthly to Illiquid	5-N/A
Hedged Equity				14,355	Quarterly	95
Total Marketable Alternative				99,681		
Real Assets						
Public Real Assets				25,999	Daily	1-N/A
Private Real Assets				20,936	Illiquid	N/A
Total Real Assets				46,935		
Private Equity/Venture Capital						
Private Equity				12,761	Illiquid	N/A
Venture Capital				7,586	Illiquid	N/A
Distressed				1,292	Illiquid	N/A
Total Private Equity/Venture Capital				21,639		
Total Investments Measured at NAV				**$ 252,005**		
Total Investments				**$ 571,457**		
Deposits With Trustees at Fair Value:						
Beneficial Interests in Trusts	$ -	$ -	$ 9,057	$ 9,057	Illiquid	N/A
Debt Securities	-	867	-	867	Daily	1
Cash and Cash Equivalents	1,274	-	-	1,274	Daily	1
Total Deposits With Trustees	**$ 1,274**	**$ 867**	**$ 9,057**	**$ 11,198**		

(dollars in thousands)

The following is a description of the financial investment categories:

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

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

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

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

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

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

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

H. Endowment and Other Long Term Funds

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

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

	June 30, 2016		**June 30, 2015**	
	Target %	**Actual %**	**Target %**	**Actual %**
US Equity	19.0	18.6	20.0	19.3
Global Excluding US Equity	24.0	24.0	25.0	26.9
Marketable Alternatives	21.0	19.9	22.0	20.7
Real Estate/Inflation Hedges	13.0	13.5	12.0	10.5
Non-marketable Alternatives	13.0	10.7	11.0	8.9
Fixed Income	10.0	10.4	10.0	9.1
Cash & Cash Equivalents	0.0	2.9	0.0	4.6

(dollars in thousands)

Endowment and similar investments including $10,229 and $10,534 of operating investments and $29,218 and $29,913 of capital investments at June 30, 2016 and 2015, respectively, are composed of the following:

	June 30, 2016	June 30, 2015
Cash	$ 12,542	$ 19,935
Money Market	1,341	1,297
Common Stock	80,393	82,575
U.S. Treasury Bonds and Notes	459	383
Other Government Bonds and Notes	346	176
Industry Bonds	2,934	3,048
Private Equity and Venture Partnerships	96,766	78,843
Life Estates	959	605
Hedge Funds	107,892	112,264
Mutual Funds	144,751	162,917
TOTAL	**$ 448,383**	**$ 462,043**

The fixed income portfolio is composed of two passive bond funds with the following risk profile at June 30, 2016 and three passive bond funds with the following risk profile at June 30, 2015:

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

			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

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 $58.40), 4,719.7360 units were owned by endowment funds and 2,785.9097 units by quasi endowment funds at June 30, 2016 ($60.15, 4,661.6922 and 2,574.6163 respectively, at June 30, 2015).

Beginning in fiscal year 2013 the University of Vermont Foundation (UVMF) elected to participate in the UVM pooled endowment. The UVMF owned 670.8359 units with a market value of $39,180 as of June 30, 2016 and 496.4301 units with a market value of $29,858 as of June 30, 2015. The market value of UVMF's units is reported on the Statements of Net Position within unearned revenue, deposits, and funds held for others.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was passed by the State of Vermont effective May 5, 2009. UPMIFA broadens and clarifies the latitude of institutions to manage overall endowment returns, without specifically isolating those particular endowments, 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, 2016	$ 438,362	$ 369,994	$ 68,368
June 30, 2015	435,229	361,363	73,866
Unrealized Net Loss			(5,498)
New Gifts and Transfers			12,935
Realized Net Gain			8,601
Net Income			2,031
Withdrawn for Spending			(14,936)
Total Net Change			**$ 3,133**

	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 Loss			(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**

With respect to the pooled endowment amounts previously reported for June 30, 2014 and June 30, 2015, the impact of the adoption of GASB 72, as it relates to an increase of fair value in private equity and venture partnerships, is not reflected. The amounts were not restated for the adoption of GASB 72 because these amounts are used to determine unit values for both allocation of earnings and for new purchases of pooled endowment units. In connection with the adoption of GASB 72, unit values were updated for the change in accounting policy in fiscal year 2016. Had the value of the private equity and venture partnerships been restated to reflect the fair value as of July 1, 2014 (effective date of the adoption), there would have been an increase of $16m as of June 30, 2015. Refer to Note A for further discussion of the adoption of GASB 72.

I. Commitments

Major plant projects include commitments as follows:

Project	**Estimated Project Cost**	**Project-to-Date Expenditures 2016**	**Project-to-Date Expenditures 2015**
STEM Project	104,000	43,746	8,872
Central Plant Chiller Expansion	11,800	3,602	356
Alumni House Project	10,000	6,929	446
First Year Student Housing and Dining	70,000	23,634	390

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

For the Fiscal Year Ending June 30	**Rental Payments Due**
2017	$ 4,008
2018	1,297
2019	1,097
2020	221
2021	149
Total	**$ 6,772**

Operating lease expenses totaled $3,267 and $2,002 in 2016 and 2015, respectively.

(dollars in thousands)

The University is obligated under certain of its investments to make future capital contributions in the amount of $46,067 as of June 30, 2016.

The University entered into agreements with the State of Vermont Department of Vermont Health Access in both 2016 and 2015, 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 $13,492 and $13,055 were made in 2016 and 2015, 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 2017, 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 $13,704.

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

The University elected, effective July 1, 2003, to become a shareholder and member of Genesis Limited, an insurance and reinsurance captive organization domiciled in Bermuda. A Vermont captive, Pinnacle Consortium of Higher Education, was formed in fiscal 2005 as a fronting insurer to Genesis. On December 31, 2015, Genesis dissolved and merged its assets and liabilities into Pinnacle, to improve efficiencies and reduce operating costs. The captives consist of two insurance lines, general liability and automobile liability. All members are required to participate in the captive general liability program which provides $2 excess limit, written by Pinnacle effective 7/1/05, and the group purchase liability program that provides a $23 excess limit. The University has purchased an additional $75 from the commercial insurance market to bring the total excess limit to $100.

The University follows the policy of self-insuring risks up to certain limits. At year end, the University had open claims valued at $2,656 in 2016 and $3,336 in 2015; $204 and $169 of this is covered by excess insurance in 2016 and 2015, respectively. The University paid claims of $2,787 in 2016 and $2,272 in 2015. Reserves for property and casualty liabilities are included in accrued liabilities (including incurred but not reported) in the amount of $6,808 at June 30, 2016 and $8,211 at June 30, 2015.

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.

J. Service Concession Arrangements

On July 1, 2015, the University entered into an agreement (the "Agreement") with a third party under which the third party would operate the University's Food Services and collect revenues generated from resident and non-resident meal plans, as well as sales of food, beverages, goods, merchandise and services. The contract term is five years with an option to extend for an additional five years if mutually agreed. The third party will use University facilities to provide this service and will pay the University a guaranteed minimum annual commission; the present value of these guaranteed amounts is estimated to be $10,840. The third party will also pay UVM a percentage of net sales. The third party is required to operate the University's Food Service and facilities in accordance with the Agreement. The third party has also agreed to fund capital improvements to the University's premises, valued at $1,828 in FY16 and additional amounts in future fiscal years. The University is reporting the facilities used to provide the food service as a capital asset at book value. The University is reporting a receivable, liability and deferred inflow of resources at year-end pursuant to the service concession arrangement in the amounts of $10,840 million, ($1,828), and ($9,012), respectively. The deferred inflow will be recognized as revenue ratably over the term of the Agreement.

K. Retirement Plans

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

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

(dollars in thousands)

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

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

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

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

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

For the years ended June 30, 2016 and 2015, the University had total payroll expense of $276,680 and $272,655, respectively, of which $198,658 in 2016 and $196,996 in 2015 was covered by the University's 403(b) retirement plan. Total employee and employer contributions for 403(b) pension benefits for the year were $17,176 and $19,866, respectively, for 2016 and $16,957 and $19,700, respectively, for 2015. 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 $3,596 in fiscal year 2016 and $3,588 in fiscal year 2015.

L. Postemployment Benefits

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

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

Plan provisions include two levels of eligibility based on whether the employee was at least 65 years of age at June 30, 2014:

1) Pre-65 retirees that met the retirement benefit eligibility criteria that were in place at the time of his or her hire date, and retired on or before June 30, 2014, will receive the post-retirement medical benefit and premium contributions will remain unchanged. For employees hired before January 1, 2012, if the employee met the retirement eligibility criteria that were in place at the time of his or her hire date, and did not retire on or before June 30, 2014, then he or she is eligible for the benefit but his or her share of the premium contribution will change based on the employee's salary at the date of retirement. If, by June 30, 2014, the employee has not met the eligibility criteria that were in place at the time of his or her hire date, then he or she will be eligible to enroll in the pre-65 post-retirement medical benefit plan, but will be responsible for 100% of the premium unless the employee has at least fifteen years of service in which case, at the age of 62, the employee will be eligible for the pre-retirement medical benefit and will pay 50% of the premium for Non-United Academic employees, and 60% of the premium for United Academic employees. Employees hired on or after January 1, 2012 will be able to participate in the post-retirement medical plan but they will be responsible for 100% of the premium.

(dollars in thousands)

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

Employees who retired under the Voluntary Separation Plan of 1992 or before are not required to contribute to the plan, however, a surviving spouse receives two (2) years of medical and base dental coverage without charge, after which dental terminates (the surviving spouse would be eligible for 36 month of COBRA) and medical coverage is available at 50% of the cost of providing coverage. Retirees under the Voluntary Separation Plan of 2000 pay for their medical benefits based on the contribution system in effect prior to June 30, 2000 (based on 0.5% times 75% of the average final three years' base salary). Retirees hired after June 30, 1992 have the same salary band contribution percentages as active employees, which is based on 75% of their average final three years' base salary. Retirees hired after June 30, 1992 and before July 1, 1997 are required to contribute as above plus a percentage based on the sum of their age at retirement and their years of continuous full time service. This surcharge is based on a scale that ranges from 65 to 75 and over. A retirement benefit structure was announced in December 2011, affecting employees retiring on or after June 30, 2015. Consideration is given to age and years of service, with employee participation in medical benefit coverage and the costs associated with that coverage.

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

Actuarial calculations reflect a long term perspective, involve estimates about the probability of events and are subject to continual revision. The calculations were developed using certain actuarial assumptions and methods. The assumptions include an investment return of 5.15%, termination rates based on historical experience, a weighted average retirement age of 64, inflation rate of 2.5%, and annual salary rate increases of 3.0%. The valuation utilizes the RP-2014 Healthy Annuitant/Employee Mortality tables adjusted to reflect Scale MP-2015 from the 2006 base year and projected forward using Scale MP-2015 on a generational basis. The methods include the projected unit credit actuarial cost method and a 30-year amortization of the plan's initial unfunded liability on a closed, level dollar basis. Additionally, each year's plan changes, assumption changes, actuarial gains and losses, and contribution excesses/deficiencies are amortized over separate closed periods of 30 years on a level dollar basis. Health care cost inflation is assumed to be 6.6% / 8.2% in 2016 for pre-Medicare/ Medicare medical coverage and gradually decrease to 4.50% going forward. Dental trend is assumed to be 5.0% in all years.

The actuarial accrued liability at the measurement date of July 1, 2015 was $438,628. There are no assets specifically funding the liability as the University's contributions are comprised entirely of direct payments for benefits. Employer contributions for fiscal year ended June 30, 2016 totaled $12,249 ($12,867 in 2015), or 27.3% (38.4% in 2015) of annual other postemployment benefit (OPEB) cost. The annual required contribution (ARC) of $48,093 for fiscal year 2016 is the sum of $15,542, the normal cost at July 1, 2015 plus interest, the 2016 amortization of the initial UAAL of $21,555, the amortization of contribution deficiencies of $11,925, and the amortization of plan experience of ($929). The ARC of $36,250 for fiscal year 2015 is the sum of $11,838 the normal cost at July 1, 2014 plus interest, the 2015 amortization of the initial UAAL of $21,555, the amortization of contribution deficiencies of $10,378, and the amortization of plan experience of ($7,521).

Total annual OPEB costs and liabilities for the 2016 and 2015 fiscal years include the following components:

	June 30, 2016	June 30, 2015
Annual required contribution	$ 48,093	$ 36,250
Interest on net OPEB obligation	8,739	7,675
ARC adjustment	(11,925)	(10,378)
Annual OPEB cost	44,907	33,547
Contributions during FY	(12,248)	(12,868)
Increase in net OPEB obligation	32,659	20,679
Net OPEB obligation, beginning of year	169,697	149,018
Net OPEB obligation, end of year	$ 202,356	$ 169,697

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

(dollars in thousands)

M. Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2016 and 2015 are summarized as follows:

Year ended June 30, 2016					
Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 153,593	$ 20,859	$ -	$ -	$ 174,452
Research	58,828	27,276			86,104
Public service	45,238	15,887			61,125
Academic support	46,158	15,628			61,786
Student services	27,446	17,256			44,702
Institutional support	30,924	6,003			36,927
Operations and maintenance of plant	23,796	23,110			46,906
Scholarships and fellowships			16,002		16,002
Auxiliary enterprises	33,815	45,700			79,515
Depreciation				26,422	26,422
TOTAL	**$ 419,798**	**$ 171,719**	**$ 16,002**	**$ 26,422**	**$ 633,941**

Year ended June 30, 2015					
Function	Compensation And Benefits	Supplies And Services	Scholarships And Fellowships	Depreciation	Total
Instruction	$ 144,236	$ 22,226	$ -	$ -	$ 166,462
Research	56,033	28,572			84,605
Public service	43,378	12,924			56,302
Academic support	43,431	15,520			58,951
Student services	25,808	14,325			40,133
Institutional support	30,640	9,906			40,546
Operations and maintenance of plant	22,579	23,378			45,957
Scholarships and fellowships			16,405		16,405
Auxiliary enterprises	32,269	43,183			75,452
Depreciation				26,596	26,596
TOTAL	**$ 398,374**	**$ 170,034**	**$ 16,405**	**$ 26,596**	**$ 611,409**

(dollars in thousands)

N. Pollution Remediation Obligations

The University is required to account for its pollution remediation activities in accordance with GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 requires the University to accrue estimated costs to conduct pollution remediation activities if certain obligating events have occurred. It also requires the University to expense pollution remediation costs which cannot be capitalized. The University incurred and expensed pollution remediation costs of $331 and $2,646 in fiscal 2016 and fiscal 2015, respectively.

Also, in fiscal 2016, 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 2016 and therefore fiscal 2016 supplies and services expense and current accrued liabilities include $2,090 ($2,210 in fiscal 2015) for the expected remediation portion of these projects. The accrual is based on management's estimate of expected outlays. There are no recoveries associated with these projects.

O. Subsequent Events

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance* Contained in AICPA Statements of Auditing Standards, provides guidance for disclosure of events or transactions that occur subsequent to the Statements of Net Position date but prior to the issuance of the financial statements. The statement specifically refers to the issuance of bonds as an event that requires disclosure in the footnotes. On July 28, 2016 the University issued $68,870 of Series 2016 General Obligation Bonds. The proceeds from the bonds will be used to refund the remaining portion of the 2005 General Obligation Bonds and partially refund a portion of the 2007 General Obligation Bonds. The University incurred a deferred loss of $1,083 on the refunding of the 2005 General Obligation Bonds and $1,684 on the partial refunding of the 2007 General Obligation Bond.

(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
2016	$44,907	$ 12,248	27.3%
2015	$33,547	$ 12,868	38.4%
2014	$31,985	$ 10,517	32.8%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2015	$ -	$ 438,628	$ 438,628	0.0%	$219,449	199.8%
1/1/2013	$ -	$ 307,028	$ 307,028	0.0%	$211,849	144.9%
1/1/2011	$ -	$ 306,453	$ 306,453	0.0%	$208,900	146.7%

Net OPEB Obligation (NOO)

Fiscal Year Ended June 30	Annual Required Contribution	Interest on Existing NOO	ARC Adjustment	Annual OPEB Cost	Actual Contribution Amount	Net Increase in NOO
2016	$48,093	$ 8,739	$ (11,925)	$ 44,907	$ 12,248	$ 32,659
2015	$36,250	$ 7,675	$ (10,378)	$ 33,547	$ 12,868	$ 20,679
2014	$34,226	$ 6,568	$ (8,809)	$ 31,985	$ 10,517	$ 21,468

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

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