

Preliminary Analysis on the Financial Condition of the University of Vermont
Howard Bunsis, Professor of Accounting, Eastern Michigan University
March 1, 2020

The University of Vermont, based on the financial statements through June of 2020, is in solid financial condition. This conclusion is supported by the strong bond rating of UVM (Aa3), and this report will detail the components of that bond rating that support this conclusion. The bond rating was reported by Moody's on December 16, 2020, so it incorporated the most recent financial statements, and the rating makes several references to the potential impact of COVID on the 2021 financial results, and concludes that the university can readily handle any potential reductions in revenues or increases in expenses.

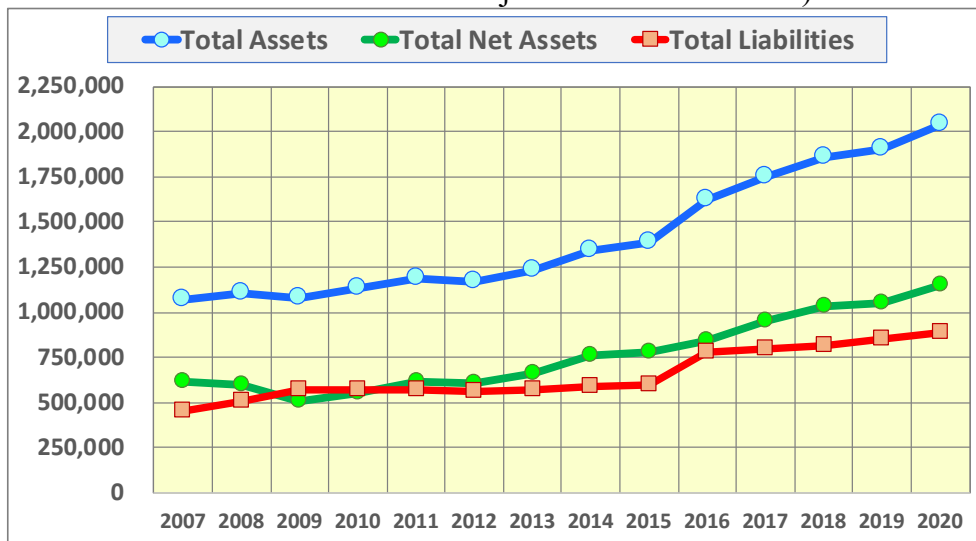
In addition, though fiscal 2020-2021 will likely have declines in revenues from auxiliaries, total revenues will be more than sufficient to cover expenses in the near and long term. The University has generated significant positive cash flows for many years, and that should continue going forward.

This report will examine:

1. Balance sheet and reserves for UVM
2. Moody's ratings and ratios
3. Examination of compensation and benefits paid for different functions, including instruction and administration
4. Comparison of potential COVID losses to reserves
5. Technical notes

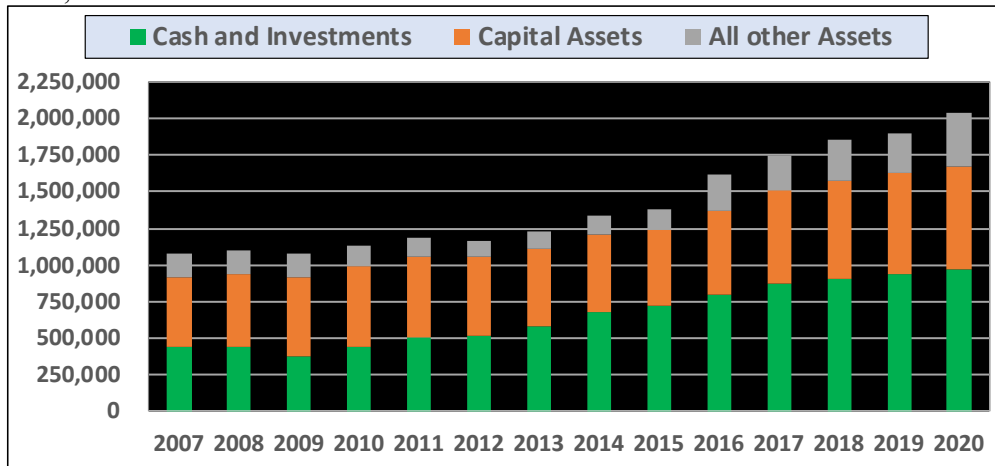
1. Balance sheet and reserves for UVM

Below is the balance sheet for UVM from 2007 to 2020, adjusted for retiree healthcare (see technical notes at the end where the adjustments are discussed):



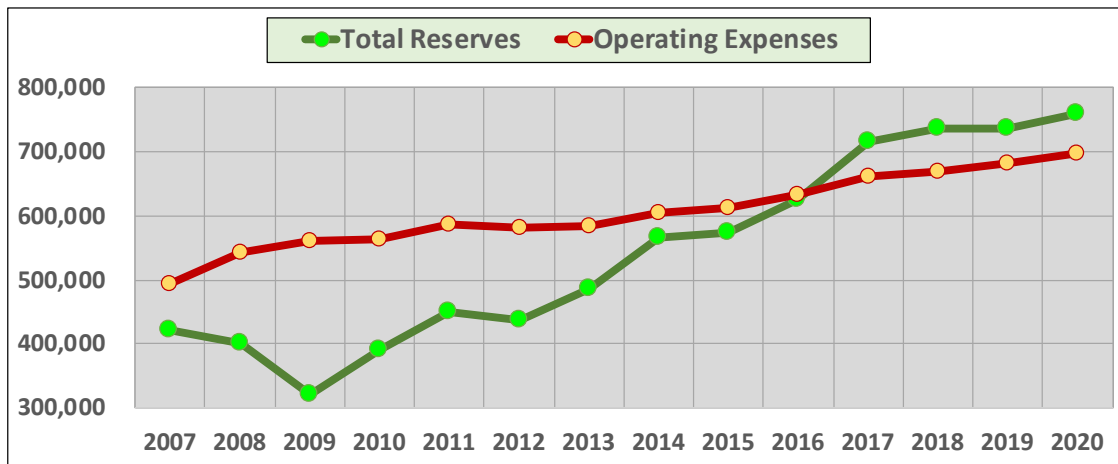
- At the end of 2020, UVM had over \$2 billion in assets, and this amount has almost doubled since 2007
- Why are the assets growing? As we will see below, cash inflows have been greater than cash outflows every year, and there has been an increase in buildings on campus
- The level of debt has increased over time, but not nearly as much as the increase in assets and then net assets
- We will see that \$700-\$800 million of the \$1.1 billion of net assets represent reserves

Next, we will break down the assets:



- Cash and investments went from \$441 million in 2007 to \$972 million at the end of 2020. Note that this increase was gradual, and the increase is mostly due to cash inflows being greater than cash outflows every year.
- Capital assets is mostly the buildings, and this increased from \$480 million in 2007 to \$703 million at the end of 2020
- Overall, this is a picture of a very healthy institution

The level of reserves (see technical notes for details) is compared to operating expenses; if reserves are greater than operating expenses, this is considered a very strong indicator of financial strength, and is one of the reasons UVM has a strong Aa3 bond rating. It is clear that reserves are growing faster than operating expenses.



2. Moody's ratings and ratios

Moody's created a new comprehensive framework to determine bond ratings in 2015, then updated this in both December 2017 and May of 2019. The goal is to analyze ratios that define the overall financial health of the institution.

There are a total of 10 factors utilized, and they cover revenue, expense, reserves, cash flows, liquidity, and debt. The process is that the 10 ratios map into ratio scores and bond ratings.

Below are the 10 factors and where UVM stands for each of the 10 ratios based on their 2020 results:

			UVM at Aa3						
		Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Factor 1: Market Profile (30%)	Sub-Weight	Excellent	Excellent	Very Good	Good	Fair	Poor	Very Poor	Very Poor
Operating Revenues (\$000)	15%	Greater than 2.7 Billion	400M to 2.7 Billion	75 Million to 400 Million	40 Million to 75 Million	30 Million to 40 Million	20 Million to 30 Million	8 Million to 20 Million	Less than 8 Million
Annual Change in Operating Revenue (%)	5%	> 8%	6% to 8%	4% to 6%	2% to 4%	0% to 2%	-6% to 0%	-6% to -11%	< -11%
Strategic Positioning	10%		Excellent						
Factor 2; Operating Performance (25%)									
Operating Cash Flow Margin (%)	10%	> 20%	11% to 20%	4.5% to 11%	1% to 4.5%	-2% to 1%	-3.5% to -2%	-5% to -3.5%	< -5%
Revenue diversity (max single contribution %)	15%	< 35%	35% to 50%	50% to 69%	69% to 79%	79% to 87%	87% to 93%	93% to 97%	> 97%
Factor 3: Wealth and Liquidity (25%)									
Total Cash and Investments	10%	> 2.5 billion	100 million to 2.5 billion	25 million to 100 million	10 million to 25 million	2.3 million to 10 million	900k to 2.3 million	350k to 900k	< 350k
Spendable Cash/Investments to Operating Expenses (%)	10%	> 100%	50% to 100%	15% to 50%	5% to 15%	4.4% to 5%	3.8% to 4.4%	3.2% to 3.8%	< 3.2%
Monthly Days Cash on Hand	5%	> 260	140 to 260	50 to 140	25 to 50	14 to 25	8 to 14	6 to 8	< 6
Factor 4: Leverage (20%)									
Spendable Cash/Investments to Debt (%) (high is better)	10%	> 300%	75% to 300%	20% to 75%	12% to 20%	6% to 12%	3.5% to 6%	2.1% to 3.5%	< 2.1%
Debt-to-Cash Flow (x) (low is better)	10%	< 4	4 to 10	10 to 16	16 to 22	22 to 34	34 to 46	46 to 58	> 52 > 58

UVM was given an Aa3 bond rating by Moody's in December of 2020.

The ratios above demonstrate that two of the factors are Aaa for UVM, six are Aa, one is A, and one is Ba. How does this lead to a bond rating? Every ratio is assigned a letter grade, and the letter grade corresponds to a number, per the scale below. Note that lower is better.

Aaa	1
Aa	3
A	6
Baa	9
Ba	12
B	15
Caa	18
Ca	20

Below are the specific scores for UVM for 2020:

Ratio	2020 UVM Score	Weight	Score * Weight
Operating Revenues	3	15%	0.450
Change in Revenues	12	5%	0.600
Strategic Positioning	3	10%	0.300
Cash Flow Margin	3	10%	0.300
Revenue Diversity	6	15%	0.900
Cash and Investments	3	10%	0.300
Spendable Cash to Expenses	1	10%	0.100
Cash on Hand	1	5%	0.050
Spendable Cash to Debt	3	10%	0.300
Debt-to-Cash Flow	3	10%	0.300
Total UVM Score			3.600
Total Score Maps to Bond Rating			Aa3

Below is the overall manner in which Moody's maps the total score into a bond rating:

Scorecard Outcome	Score (Low is better)
Aaa	Less than 1.5
Aa1	1.5 to 2.5
Aa2	2.5 to 3.5
Aa3	3.5 to 4.5
A1	4.5 to 5.5
A2	5.5 to 6.5
A3	6.5 to 7.5
Baa1	7.5 to 8.5
Baa2	8.5 to 9.5
Baa3	9.5 to 10.5
Ba1	10.5 to 11.5
Ba2	11.5 to 12.5
Ba3	12.5 to 13.5
B1	13.5 to 14.5
B2	14.5 to 15.5
B3	15.5 to 16.5
Caa1	16.5 to 17.5
Caa2	17.5 to 18.5
Caa3	18.5 to 19.5
Ca	More than 19.5

Specifics of UVM Ratios per Moody's for 2020

Ratio	Level	Median for Aa3 publics	UVM Letter Score	UVM Number Score
Operating Revenue	728,898,000	778,197,000	Aa	3
Change in Operating Revenues	1.8%	4.2%	Ba	12
Cash Flow Margin	14.8%	10.7%	Aa	3
Revenue Diversity				
Tuition + Aux Revenue	391,442,000			
Total Operating Revenues	728,898,000			
Percent of revenues in 1 item	53%	Not reported	A	6
Cash and Investments	972,479,000	737,970,000	Aa	3
Spendable Cash/Inv to Expenses	110%	70%	Aaa	1
Monthly Days Cash on Hand	270	151	Aaa	1
Spendable Cash/Inv to Debt	140%	140%	Aa	3
Debt-to-Cash Flow	5.0	4.8	Aa	3

- This table demonstrates that for most ratios, UVM is:
 - At a very solid level
 - Above that of Aa3-rated public universities
- The strengths of UVM are:
 - Spendable cash and investments (proxy for reserves) compared to expenses
 - Monthly days cash on hand
 - Cash flow margin
 - Level of cash and investments
 - Low level of debt
- The weaknesses are:
 - Heavy reliance on tuition and auxiliary income; the bond report mentions the weak support from the State of Vermont.
 - Weak growth in total operating revenues from 2019 to 2020
 - Tuition, fees, and residential life income increased from \$390.6 million in 2019 to \$391.4 million in 2020, an increase of \$819,000 or 0.2%
 - The state appropriation increased from \$43.0 million in 2019 to \$51.7 million in 2020, an increase of \$8.7 million or 20.2%
 - There was a decline in other auxiliaries (bookstore, printing, conferences) from \$44.6 million in 2019 to \$42.3 million, a decrease of \$2.3 million or 5.3%
- The administration will likely claim that 2021 will be much worse, but this is highly doubtful:
 - Fall 2020 total enrollment was only 1.89% below Fall 2019, per <https://www.uvm.edu/oir/enrollment>
 - The base appropriation from the State to UVM for 2021 is slated to be flat with the amount from 2020, according to: https://www.uvm.edu/sites/default/files/Division-of-Finance-Administration/Publications/Buddoc_FY_2021.pdf

Deeper Examination of Cash Flows

Source: Statement of Cash Flows, Audited financial statements

	2016	2017	2018	2019	2020
Cash Inflows:					
Tuition and Fees (net of allowances)	298,797	309,371	327,322	333,379	346,112
Grants and Contracts	175,225	181,115	174,031	185,549	202,253
Sales and service of educational activities	7,494	8,369	7,706	8,574	7,479
Auxiliaries - Residential Life (net of allowances)	46,567	47,126	50,449	52,840	46,515
Auxiliaries - Other	44,627	49,852	43,611	44,614	42,309
State general appropriation	43,016	42,894	43,010	43,011	51,710
Federal Pell Grants	7,186	6,874	7,844	7,896	7,547
Private non-capital gifts	1,978	4,568	1,229	4,460	747
Net transfers from component units	12,875	2,438	25,810	24,126	19,351
Interest and dividend income	5,771	3,387	4,443	5,466	5,579
Other receipts	22,116	20,994	19,135	21,872	17,074
Total Cash Inflows	665,652	676,988	704,590	731,787	746,676
Payments to employees and benefit providers	(387,303)	(396,677)	(413,906)	(429,371)	(451,320)
Payments to vendors	(158,501)	(180,275)	(184,999)	(186,626)	(169,807)
Payments for scholarships and fellowships	(16,002)	(17,198)	(16,799)	(20,747)	(27,329)
Payments for interest on debt	(15,931)	(24,794)	(22,126)	(22,639)	(23,542)
Other cash outflows	(2,909)	(1,471)	(2,953)	(605)	(2,294)
Total Cash outflows	(580,646)	(620,415)	(640,783)	(659,988)	(674,292)
Excess Cash Flows (Total inflows - Total outflows)	85,006	56,573	63,807	71,799	72,384
Net Cash Flows per Moody's Cash Flow Margin	94,052	93,474	94,105	92,332	107,877

The metric I am using for excess cash flows yields a more conservative (lower positive excess cash flows) result than Moody's, as Moody's does not include interest costs. Either way, the result is clear: For each and every year from 2016 to 2020, UVM is generating significant excess cash flows from their operations.

What is not included in these cash flows?

- State capital appropriations
- Capital grants and gifts
- Debt proceeds
- Paying off debt principal
- Purchase of capital items

The reason for their exclusion is that the above items are not operational, and Moody's and other analysts clearly exclude them.

Bottom line: Why is the cash growing, or to ask another way, why are reserves large and growing for UVM? Because each and every year, cash in from operations is greater than cash out for operations, as was demonstrated above.

A few notes on reserves and cash flows:

The administration is going to really balk at the level of reserves, and say that they are all spoken for. Here is how to answer those claims:

What the Administration Will Claim	What is Reality
The reserves are not nearly that high, as so much of the reserves are restricted by the endowment and donor restrictions	The unrestricted reserves do not include any funds restricted by donors
Most of the reserves are already designated by Board policy for important student initiatives; even if we wanted to move some of the funds, we are not allowed to do so	If there is a firm, no-way-you-can-get-out-of-it commitment, then the external auditors would put those funds in the restricted-expendable category of net assets; the Board may have voted for certain initiatives, but those priorities can be changed at the discretion of the Board.
Reserves cannot be spent on recurring expenses such as faculty salaries, and we would be violating our fiduciary responsibility if we used reserves in a haphazard manner	Reserves should not be spent on recurring expenses, but reserves ARE there for this exact purpose: to deal with temporary and unexpected declines in revenues or increase in expenses. That is EXACTLY the situation we are in now with the coronavirus pandemic

Next, there are several cash flow constructs that have been reported here. Below is how to summarize what is going on:

(i) Total cash and investments:

The value of the cash, stocks, bonds, money markets, checking accounts, savings accounts, etc. that UVM has at the end of each period

(ii) Excess cash flows:

Every year, the total cash in less than the total cash out;

Cash in = Tuition, auxiliary, state appropriation, grants, contracts, investment income, non-capital gifts

Cash out = paying employees, vendors, scholarships, interest

This does not include non-operational items such as capital gifts, debt proceeds, state capital appropriation, debt principal payments and payments for new buildings

(iii) Reserves, or what Moody's calls spendable cash and investments:

Indicates that the administration has access to funds that this represents.

Some of the reserves can only be used for certain purposes (restricted expendable)

Some of the reserves are totally unrestricted

The level of cash and investment suggests that the reserves are liquid, as Moody's makes clear in their bond report

3. Examination of compensation and benefits

In Thousands of Dollars	2016	2017	2018	2019	2020
Instruction	153,593	159,621	156,766	159,826	154,999
Research	58,828	58,366	59,611	60,444	65,011
Public service	45,238	47,501	47,641	48,167	47,772
Academic support	46,158	47,520	45,807	46,333	61,697
Student services	27,446	28,298	28,832	28,151	31,202
Institutional support	30,924	31,408	31,479	32,843	38,906
Plant	23,796	28,954	30,850	30,219	31,631
Auxiliaries	33,815	30,790	30,933	31,652	32,938
Total Comp and Benefits	419,798	432,458	431,919	437,635	464,156

Categories:

- Institutional support is all administration, and mostly upper-level administration.
- Public service (media, legal), academic support (deans, associate deans, librarians, advisers) and students services have combinations of administrative and mid-level personnel, but mostly administration.
- Auxiliaries is housing, dining, student union, parking, bookstore, athletics, conferences

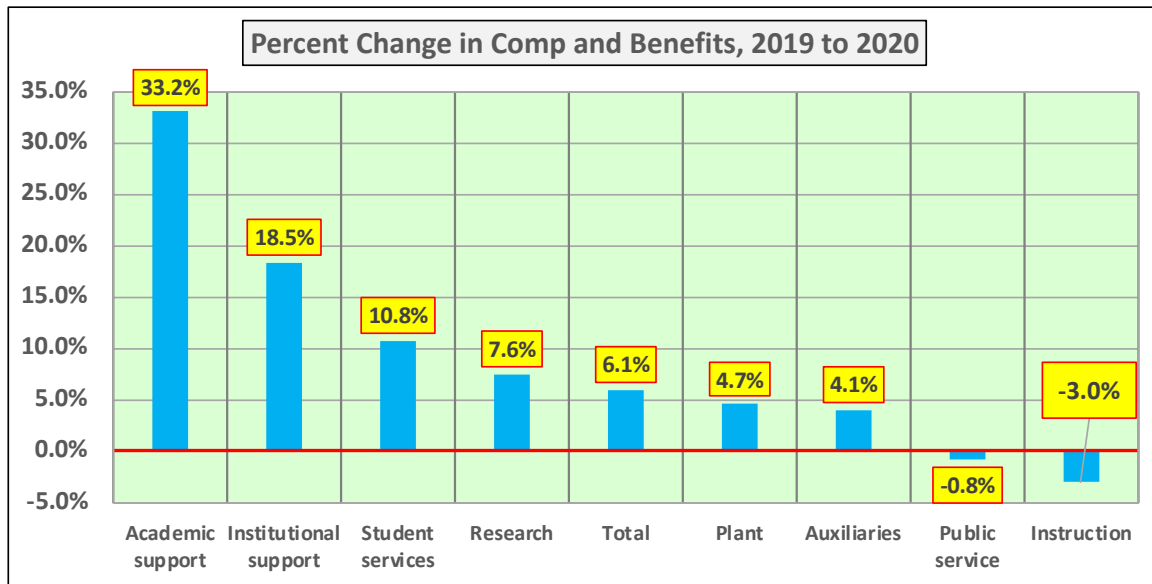
The following table reports total compensation and benefits as a percent of total compensation and benefits for all UVM employees and functions:

Percent of Total	2016	2017	2018	2019	2020
Instruction	36.6%	36.9%	36.3%	36.5%	33.4%
Research	14.0%	13.5%	13.8%	13.8%	14.0%
Public service	10.8%	11.0%	11.0%	11.0%	10.3%
Academic support	11.0%	11.0%	10.6%	10.6%	13.3%
Student services	6.5%	6.5%	6.7%	6.4%	6.7%
Institutional support	7.4%	7.3%	7.3%	7.5%	8.4%
Plant	5.7%	6.7%	7.1%	6.9%	6.8%
Auxiliaries	8.1%	7.1%	7.2%	7.2%	7.1%
Total Comp and Benefits	100.0%	100.0%	100.0%	100.0%	100.0%
Instruction + Research	50.6%	50.4%	50.1%	50.3%	47.4%

Notice how the core mission, instruction plus research, represents less than ½ of total compensation and benefits to all employees. This should be addressed.

There is a clear decline for instruction and research, and an increase for institutional support, especially from 2019 to 2020.

Percentage change in compensation and benefits from 2019 to 2020



The audited financial statements gave the following explanation for the 2019 to 2020 changes:

“In fiscal 2020 the University went through an exercise to compare all faculty functional salary distributions and to better align those salary distributions with the faculty’s effort and workload. The result was a refinement of distributed salary which increased research and academic support expenses and decreased instruction expenses.”

However, note that the explanation does not report anything about institutional support. Therefore, from 2019 to 2020, which included several months of a pandemic, compensation and benefits of upper-level administrators increased 18.5%, versus a decline for instructional compensation and benefits, and much smaller increases for the other functions.

4. Comparison of potential COVID losses to reserves

Any potential losses from the pandemic are likely overstated by the administration, and will be easily covered by reserves.

First, in their December 2020 bond report, this is what Moody's stated:

"Strong fiscal oversight is demonstrated by its consistently favorable operations and debt service coverage, solid reserves and liquidity, and manageable leverage, which will underpin UVM's ability to manage through the near-term fiscal challenges posed by the coronavirus pandemic."

The coronavirus pandemic had an impact on fall 2020 enrollment, but was a comparatively modest 2.6% decrease, to 12,524 FTE from 12,853 in fall 2019."

Therefore, it is clear that Moody's believes the pandemic can be easily handled. Note that actual fall enrollment was a decline of 1.89% for total (not FTE).

Below is an estimate of COVID losses for 2020-2021 under different scenarios:

	Worst Case	Most Likely	Best Case
Auxiliary Loss - Residential Life	(25,000,000)	(20,000,000)	(15,000,000)
Auxiliary Loss - Other	(15,000,000)	(10,000,000)	(5,000,000)
Tuition and Fee Loss	(15,400,000)	(8,470,000)	(4,200,000)
Grants and Contracts	0	0	0
Stock Market	0	0	0
Extra COVID expenses not covered	0	0	0
2021 CARES Act	\$5,337,706	\$5,337,706	\$5,337,706
Net Losses	(50,062,294)	(33,132,294)	(18,862,294)

The tuition and fee losses are based on Fall 2020 enrollment

Grants and contracts are not likely to be affected

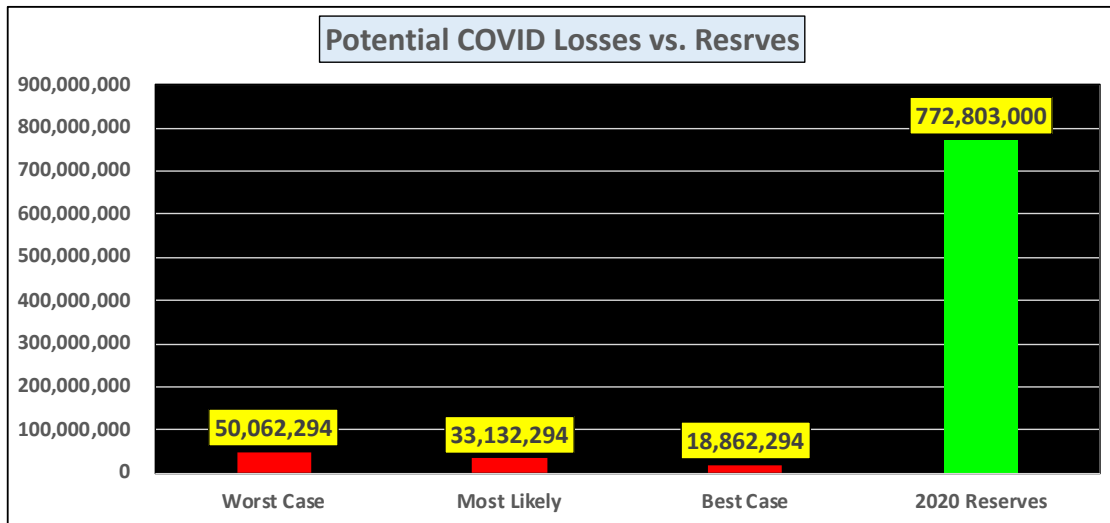
The stock market is UP; any claim of investment losses is totally bogus and should be ignored.

Any extra COVID expenses will more than likely be covered by what has already been given or what will be given to the states for higher education – this does not include the \$7 million (1/2 for students) from CARES I of 2020. CARES 2021 is from

https://www.chronicle.com/article/heres-how-much-aid-your-college-can-get-from-the-second-round-of-covid-19-stimulus?cid=gen_sign_in

The administration will likely make claims of losses much larger than those above, even in the worst-case scenario column. However, Moody's has made clear that UVM can easily handle whatever expected COVID losses that the admin will encounter – and note that Moody's gets their information in large part from the UVM administration.

The chart below reveals that UVM has more than sufficient reserves to deal with any potential 2021 losses from the COVID pandemic:



Lastly, in terms of the state, the 2021 budget for UVM reports that the base state appropriation will be flat with 2020. Any claim that the State is broke or in trouble, or that it will decrease the appropriation to UVM, is not clear at this time.

In addition, the State of Vermont is in better shape than most other states, and the chart below reports that VT has a higher bond rating than any other New England state.

State bond ratings as of November 2020, per <https://www.vermonttreasurer.gov/content/debt/ratings>

# of States	15	10	15	5	1	2	1	1
Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB-
	DE	HI	AL	AK	PA	CT	NJ	IL
	FL	ID	AZ	CA		KY		
	GA	NV	AR	KS				
	IN	NY	CO	LA				
	IA	ND	ME	WV				
	MD	OH	MA					
	MN	OR	MI					
	MO	SC	MS					
	NE	VT	MT					
	NC	WA	NH					
	SD		NM					
	TN		OK					
	TX		RI					
	UT		WI					
	VA		WY					

Conclusion:

Any losses from COVID to UVM are not large, temporary, and easily covered by existing reserves. Therefore, any layoffs, furloughs, or other draconian actions that the admin has either taken or is proposing are simply unnecessary. All these actions will do is increase excess cash flows even more.

5. Technical Notes

- A. **Reserves and postretirement benefits.** The balance sheet and reserves above make adjustments for the OPEB (other postemployment benefits) or retiree healthcare liability. This adjustment is done for several reasons:
- Moody's does not include this liability in its conception of reserves
 - This liability is a very "soft" liability, in that it changes drastically based on assumptions of discount rates and future health care costs
 - In 2018, a new accounting rule more than doubled the liability for UVM; nothing changed – in fact, the cash paid in 2018 was lower than the cash paid in 2017 for OPEB, yet the liability more than doubled. This proves how problematical this liability is, and how it distorts the results.
 - The cash paid each definitely counts, and is part of the operating expenses of UVM, and all cash flow analysis above includes these cash payments.
 - The cash paid pales in comparison to the liability, and it is very difficult to see how such modest cash outflows leads to such a large liability

Year	Total Assets	Total Liabilities	Total Net Assets	OPEB Liability	OPEB cash paid by UVM	Adjusted		
						Total Assets	Total Liabilities	Total Net Assets
2007	1,072,836	456,664	616,172	0	8,710	1,072,836	456,664	616,172
2008	1,100,445	531,417	569,028	26,292	10,516	1,100,445	505,125	595,320
2009	1,075,166	620,566	454,600	50,841	11,982	1,075,166	569,725	505,441
2010	1,127,727	644,023	483,704	69,605	10,395	1,127,727	574,418	553,309
2011	1,187,526	658,631	528,895	90,929	9,841	1,187,526	567,702	619,824
2012	1,165,500	666,828	498,672	109,178	9,696	1,165,500	557,650	607,850
2013	1,234,071	702,579	531,492	127,550	10,931	1,234,071	575,029	659,042
2014	1,341,905	733,953	607,952	149,018	10,517	1,341,905	584,935	756,970
2015	1,383,761	770,955	612,806	169,697	12,868	1,383,761	601,258	782,503
2016	1,623,540	982,620	640,920	202,356	12,248	1,623,540	780,264	843,276
2017	1,747,358	1,029,672	717,686	232,590	17,156	1,747,358	797,082	950,276
2018	1,852,775	1,309,454	543,321	492,575	16,058	1,852,775	816,879	1,035,896
2019	1,902,706	1,310,186	592,520	460,332	18,029	1,902,706	849,854	1,052,852
2020	2,034,982	1,415,083	619,899	530,031	17,053	2,034,982	885,052	1,149,930

- The first three columns report the balance sheet without any adjustment.
- The OPEB liability is the actual liability for retiree healthcare, and it artificially (UVM did nothing wrong as the standards were followed) more than doubled from 2017 to 2018
- The last three columns adjust for OPEB.
 - In 2020, total net assets were 619,899. When the OPB liability of 530,031 is added, OPEB assets go to 1,149,930.
 - $619,899 + 530,031 = 1,149,930$
- Notice the difference between the cash paid and the liability; the cash paid has not moved much from 2017 to 2020, yet the liability went up over \$300 million. This accounting-only change completely distorts the true picture, which is why the adjustment is made

The breakdown of net assets, with and without the OPEB adjustment, is as follows:

In Thousands	Invested in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted	Total Net Assets	OPEB Liability	True Unrestricted	Adj Total Net Assets
2007	122,888	72,138	299,054	122,092	616,172	0	122,092	616,172
2008	115,623	79,276	277,558	96,571	569,028	26,292	122,863	595,320
2009	99,736	84,006	211,460	59,398	454,600	50,841	110,239	505,441
2010	73,754	89,758	248,903	71,289	483,704	69,605	140,894	553,309
2011	75,792	94,662	283,481	74,960	528,895	90,929	165,889	619,824
2012	72,272	97,366	260,815	68,219	498,672	109,178	177,397	607,850
2013	71,226	100,784	296,609	62,873	531,492	127,550	190,423	659,042
2014	66,977	123,621	361,054	56,200	607,852	149,018	205,218	756,870
2015	73,660	134,646	357,616	46,884	612,806	169,697	216,581	782,503
2016	80,234	175,082	338,288	47,316	640,920	202,356	249,672	843,276
2017	95,797	196,486	387,006	38,397	717,686	232,590	270,987	950,276
2018	116,345	215,371	409,232	(197,627)	543,321	492,575	294,948	1,035,896
2019	138,070	226,232	401,263	(173,045)	592,520	460,332	287,287	1,052,852
2020	136,506	240,621	393,863	(151,091)	619,899	530,031	378,940	1,149,930

- It is clear that unrestricted net assets were artificially low and then artificially negative in 2018 due to the OPEB liability
- Of the four components of net assets, only restricted-expendable and unrestricted count as reserves. Below is a reporting of how reserves are determined for 2020:

Category	Discussion	Amount	Reserves?
Invested in capital assets:	Value of the buildings, and this component of net assets does not tell us anything about the financial freedom or flexibility of UVM. Not part of reserves	136,506	0
Restricted non-expendable net assets	These are net assets that have restrictions that do not allow for the principle of donated funds to be spent; this is mostly related to funds that have been donated to the university. Not part of reserves	240,621	0
Restricted expendable net assets	These are net assets that are set aside for a specific purpose, and the reserves can only spent for that purpose. This component IS included in the calculation of reserves	393,863	393,863
Unrestricted Net Assets	Unrestricted means unrestricted. The administration may claim that unrestricted net assets are already spoken for. If the reserves were truly spoken for and contractually committed, the amounts would not be in the unrestricted category.	378,940	378,940
Total Net Assets		1,149,930	772,803

Moody's uses a construct called Spendable cash and investments as a proxy for reserves. Moody's defines spendable cash and reserves as: "Cash and investments (at the university and affiliated foundations) plus funds held in trust by others plus pledges receivable reported in permanently restricted net assets, less permanently restricted net assets."

Below is a comparison of what Moody's uses as a proxy for reserves, and reserves determined using the last two categories of net assets for 2016 to 2020 (only years we have Moody's data for):

Amounts in thousands	2016	2017	2018	2019	2020
Spendable Cash per Moody's	624,940	716,001	736,773	736,917	758,377
Reserves using Net Assets	587,960	657,993	704,180	688,550	772,803

The amounts are fairly close to each other, with Moody's reporting larger reserves in all years but 2020

- B. **Component Units.** This analysis and Moody's includes the results of the two component units, UMEA (University Medical Education Associates) and UVMF (University of Vermont Foundation)

From the 2020 Audited financial statements:

- UMEA is a legally separate tax-exempt component unit of the University whose purpose is to support the operations, activities and objectives of the Robert Larner, M.D. College of Medicine of the University
- UVMF is a legally separate tax-exempt component unit of the University whose purpose is to secure and manage private gifts for the sole benefit of the University.

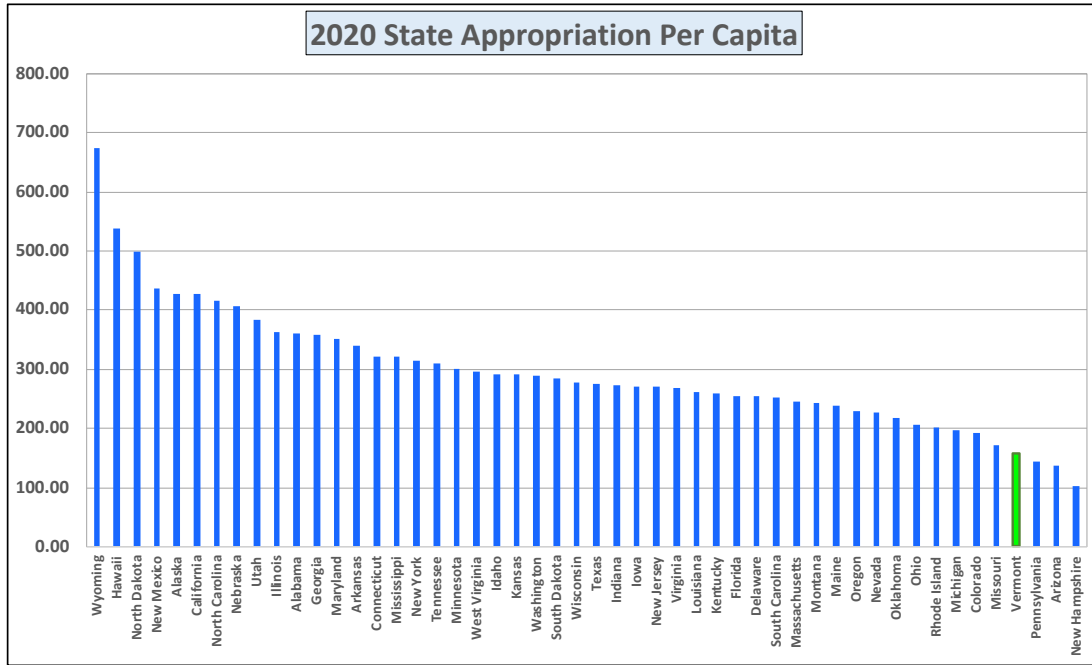
To demonstrate that these two component units are part of UVM, in 2020 there were transfers to and from these units that counted as revenues and expenses on the books of UVM. Specifically, in 2020, \$28.9 million was transferred in from the two component units, and \$8.8 million was transferred out from UVM to the component units. Similar amounts are going in and out every year.

C. **Why is this not an analysis of the budget? Why such a strong focus on audited financial statements?**

- Actual financial statements report what **actually** happened, are certified by an independent outside auditor, using standard accounting rules and principles.
- Bond ratings are determined by examining numerous standard ratios from the audited financial statements, not budgets
- A budget is just a plan, and it always balance. Budgets are created by administrators, and they are not required to be reviewed by an outside entity. They are not subject to any standard rules or principles.
- At most institutions, budget models (responsibility budgeting or some such nonsense) are about administrators needing excuses to:
 - Stop hiring tenured faculty
 - Furloughing faculty
 - Eliminating as many liberal arts programs as possible
- Notice that the word "budgets" starts with the letter B and ends with the letter S

D. Where we can agree with the administration: the low level of state support for higher education in the State of Vermont

Using the data from the Grapevine institute of Illinois State University, below is the state appropriation per capita for all of higher education in every state for fiscal 2020:



- Vermont ranks 47th out of 50 in state appropriation per capita
- Vermont is at a level of \$157 per capita, versus a United States average of \$276 per capita, and a median of \$296 per capita
- This leads to tuition being very high. The data below is for 2020-21 in-state tuition and fees per the College Board. Vermont is the highest in the country.

