Finance Committee

December 2014

December 11, 2014
10:15 a.m. - 12:15 p.m.

West Committee Room, McNamara Alumni Center
1. Resolution Related to the Issuance of Debt - Review/Action
   Docket item summary
   Resolution

   Docket item summary
   Report
   Presentation slides

3. GASB 61 Treatment of Component Units
   Docket item summary

4. Update on Enterprise Systems Upgrade Project
   Docket item summary
   Presentation slides

   Docket item summary
   Report
   Presentation slides

6. Consent Report - Review/Action
   Docket item summary
   General contingency
   Purchasing summaries

7. Information Items
   Docket item summary
   Quarterly asset management report
Finance

December 11, 2014

Agenda Item: Resolution Related to the Issuance of Debt

☐ Review  ☒ Review + Action  ☐ Action  ☐ Discussion

This is a report required by Board policy.

Presenters: Richard H. Pfitzenreuter, Vice President & Chief Financial Officer

Purpose & Key Points

The University is requesting approval of the attached financing resolution authorizing the additional principal amount of $17,100,000 to finance the Combined Heat and Power Plant, Twin Cities campus (CHP).

In December 2013, the Board approved the issuance of $83,000,000 of debt for a project to update and expand the CHP. Total cost of the project was then estimated at approximately $96,000,000, with $10,000,000 provided by the 2012 legislative appropriation, $3,000,000 provided by Facilities Management R&R funding, and $83,000,000 of University debt.

The estimated cost of the project has increased by $17,100,000. The cost increase is due to delays in the permitting process, construction market cost escalation, additional complexity in the delivery of electricity to the campus, and unforeseen conditions. If this resolution is approved, the total amount of University debt authorized for this project will equal $100,100,000.

Background Information

In accordance with Board of Regents Policy: Debt Transactions, the Resolution Related to Issuance of Debt is being presented for action.

Funding in the amount of $18,000,000 to initiate design for the CHP project was included in the FY 2013 Capital Budget approved by the Board of Regents in June 2012. Project funding in the amount of $77,881,000 was approved as a Capital Budget Amendment in February 2013, concurrent to the schematic design and the selection and procurement of the equipment. A capital budget amendment in the amount of $17,100,000 was presented for review in the Facilities Committee in October 2014 and for approval in December 2014. This capital budget amendment is planned to be funded by issuing University debt.

President’s Recommendation

The President recommends approval of the Resolution Related to Issuance of Debt.
WHEREAS, it has been proposed that the University proceed with a plan of financing which involves, among other things, the issuance and sale of indebtedness (such indebtedness, whether issued in the form of bonds, notes, commercial paper or such other form of indebtedness as may be designated by the University, the “Debt”), the proceeds of which are to be used to finance University capital projects which may include purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as the costs of issuance of the Debt;

WHEREAS, the Debt will be issued pursuant to an Indenture of Trust between the University and a bank or trust company acting as trustee or pursuant to an Order of the University;

WHEREAS, the Indenture of Trust or Order pursuant to which Debt will be issued will contain the terms of such Debt and agreements and covenants of the University with respect to the payment of the principal of, premium, if any, and interest on such Debt;

WHEREAS, the principal amount of the Debt authorized will be the amount of the Debt outstanding at any time, and not an aggregate principal amount;

NOW, THEREFORE, BE IT RESOLVED by the Board of Regents of the University of Minnesota (Board) as follows:

1. To provide funds to finance capital projects which may include purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as the costs of issuance of such financing, the Board hereby authorizes the sale and issuance of Debt in the principal amount of up to $17,100,000. The Debt may be issued in one or more series and shall mature (or if commercial paper, shall have an amortization schedule terminating) not later than the date that is 25 years after the date of issuance of each series. The Treasurer is
authorized to determine whether or not the Debt shall be issued as general obligations of the University and whether or not the Debt shall be tax-exempt under Section 103 of the Internal Revenue Code of 1986, as amended.

2. The purchases of land and buildings, construction and remodeling projects, or acquisition of equipment to be financed by the proceeds of the Debt shall be those the source of funding of which is so designated by the Board of Regents or by the Treasurer as part of the University's capital planning process.

3. The Debt may be sold in either a negotiated sale or a competitive process, as determined by the Treasurer. The Treasurer is authorized to negotiate and approve the terms and conditions of the appropriate agreement or agreements with financial advisors, banks, investment banking firms, or other financial institutions, including the terms and conditions upon which their services will be rendered and the terms and conditions upon which the Debt will be sold and issued. The Treasurer is further authorized to negotiate and approve the terms and conditions of any credit support or liquidity facility for any series of Debt and any interest rate swap agreement or other agreement for the purpose of hedging the University’s interest rate risk with respect to any series of Debt. Such agreements shall be in the form and contain such rights, obligations, covenants, agreements, representations and warranties of the University as are approved by the Treasurer and the General Counsel.

4. In connection with the issuance of any series of Debt, the President and Treasurer are authorized to execute and deliver on behalf of the University the Indenture of Trust or Order or any supplement or amendment thereto under which the Debt is to be issued in the form and containing such covenants, agreements, representations and warranties as is approved by the Treasurer and the General Counsel, and the Secretary and Treasurer are authorized to execute and deliver the Debt in accordance with such Indenture of Trust or Order or any supplement or amendment thereto. The signatures of the Secretary and/or Treasurer on the documents evidencing the Debt may be by facsimile.

5. The President and Treasurer are authorized to execute and deliver a purchase agreement with the initial purchaser or purchasers of any series of Debt in the form and containing such covenants, agreements, representations and warranties of the University as are approved by the Treasurer and General Counsel.

6. The Treasurer is authorized to approve the Preliminary Official Statement, final Official Statement, Offering Memorandum, Offering Circular, or other offering material or any supplements or amendments thereto to be prepared and distributed to any purchaser or potential purchaser of a series of Debt, and the President is authorized to execute and deliver the final Official Statement or any supplements or amendments thereto. In the case of the sale of any series of Debt in a competitive process, the Treasurer is authorized to approve the Notice of Sale and any amendment thereto.
7. The appropriate University officers are authorized to execute and deliver all other documents, certificates and to take such action as may be necessary or appropriate in connection with the issuance and sale of the Debt.

8. The Secretary and other officials of the University are authorized and directed to prepare and furnish to any purchasers of the Debt certified copies of all proceedings and records of the University as may be required or appropriate to evidence the facts relating to the legality of the Debt as such facts appear from the books and records in the officers’ custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the University as to the truth of all statements contained therein.

9. The execution of any document by the appropriate University officers herein authorized shall be conclusive evidence of the approval of such documents in accordance with the terms hereof. In the absence of the President or Treasurer, any Indenture of Trust, Order, final Official Statement, purchase agreement or any other document to be executed by the President or Treasurer in connection with the Debt may be executed by the Chair or Vice Chair instead of the President and by the Secretary instead of the Treasurer.
Finance     December 11, 2014


☐ Review  ☐ Review + Action  ☐ Action  ☒ Discussion

This is a report required by Board policy.

Presenters: Richard H. Pfutzenreuter, Vice President & Chief Financial Officer
            Michael Volna, Associate Vice President & Controller

Purpose & Key Points

The annual financial report presents the financial position and results of operations for the University of Minnesota for FY 2014, with comparative data for FY 2013. The presentation will cover:

- Highlights of assets, liabilities, and net position.
- An overview of the statement of cash flows.
- A summary of component unit information.

Background Information

This report is prepared annually and presented to the Finance Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines.*
University of Minnesota
Consolidated Financial Statements for the Years
Ended June 30, 2014 and 2013, Independent
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Financial Report

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INDEPENDENT AUDITORS’ REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the University of Minnesota (the "University") as of June 30, 2014 and 2013, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended and the financial statements of the discretely presented component units as of and for the years ended June 30, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the schedule of funding progress, as listed in the table of contents, which are the responsibility of the University’s management, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2014 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 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.

Deloitte & Touche LLP

October 29, 2014
Management's Discussion and Analysis
(Unaudited)

Introduction

This discussion and analysis of the University of Minnesota's (the University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2014, 2013, and 2012. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

The University of Minnesota is both the state’s land-grant university, with a strong tradition of education and public service, and a major research institution, with faculty of national and international reputation. Its mission is to offer undergraduate, graduate, and professional instruction through the doctoral degree, and to be the primary state-supported academic institution for research and extension services.

The University of Minnesota, founded in 1851, has five campuses (Twin Cities, Duluth, Morris, Crookston, and Rochester), research and outreach centers, and extension service offices throughout the state.

The Twin Cities campus is the fourth largest campus in the country in terms of enrollment (approximately 52,000 students) and among the top nine public research institutions nationally. The University is the state's major research institution with expenditures of approximately $679.7 million, $656.6 million, and $633.2 million in fiscal years 2014, 2013, and 2012, respectively, for research under various programs funded by governmental and private sources.

The Duluth campus is a comprehensive regional university that offers instruction through the doctoral degree and has unique research strengths in natural and freshwater resources. The Duluth campus consistently ranks among the top Midwestern regional universities.

The Morris campus is ranked as one of the top public liberal arts colleges in the nation and is a leader in environmental issues.

The Crookston campus provides career-oriented education at the baccalaureate level, primarily in polytechnical disciplines.

The Rochester campus is focused on meeting the educational needs of students in the southeastern Minnesota area at the upper division undergraduate and post-baccalaureate levels.

Mission

The University of Minnesota's mission, carried out on multiple campuses and throughout the state, is threefold: research and discovery, teaching and learning, and outreach and public service.

- Research and Discovery—To generate and preserve knowledge, understanding, and creativity by conducting high quality research, scholarship, and artistic activities that benefit students, scholars, and communities across the state, the nation, and the world.

- Teaching and Learning—To share that knowledge, understanding, and creativity by providing a broad range of educational programs in a strong and diverse community of learners and teachers, and to prepare graduate, professional, and undergraduate students, as well as non-degree-seeking students
interested in continuing education and lifelong learning, for active roles in a multiracial and multicultural world.

- **Outreach and Public Service**—To extend, apply, and exchange knowledge between the University and society by applying scholarly expertise to community problems, by helping organizations and individuals respond to their changing environments, and by making the knowledge and resources created and preserved at the University accessible to the citizens of the state, the nation, and the world.

**Operations**

The University of Minnesota conducts its mission activities at its campuses and other facilities throughout the state. Each year, the University of Minnesota:

- provides instruction for approximately 68,000 students;
- graduates approximately 15,600 students, 40 percent with graduate or first professional degrees on the Twin Cities campus;
- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal, state, and governmental agencies, and numerous private companies and foundations;
- reaches out to more than one million Minnesotans through various outreach and public service activities.

**Consolidated Financial Statements**

The consolidated financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB). The consolidated financial statements required under these reporting standards include the Consolidated Statements of Net Position; the Consolidated Statements of Revenues, Expenses, and Changes in Net Position; and the Consolidated Statements of Cash Flows. All are reported on a consolidated basis for the University as a whole. Also required are the financial results of the University’s legally separate component units.

In fiscal year 2014, the University implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66 (GASB 66), *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70 (GASB 70), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. There are no financial statement impacts to the University as a result of the implementation of GASB standards 66 and 70.

Previous GASB guidance allowed for bond issuance costs to be recorded as a prepaid expense on the balance sheet and amortized over the life of the bond. GASB 65 revised this guidance and requires bond issuance costs to be expensed during the year of the bond issuance. The implementation of GASB 65 resulted in $4.8 million dollars of additional expense recognized in fiscal year 2014 related to the remaining unamortized bond issuance costs.

**Financial Highlights**

The University’s financial position remains strong with assets of $5.7 billion, an increase of $0.2 billion from fiscal year 2013. Liabilities remained unchanged at $1.9 billion for both fiscal years. The University’s net position, the difference between total assets and total liabilities, increased year over year to $3.8 billion as of June 30, 2014 compared to $3.6 billion as of June 30, 2013.
The following chart summarizes total assets, liabilities and net position for the periods ending June 30, 2014, 2013 and 2012, respectively:

The change in net position represents the financial results during the fiscal year and is the difference between total revenue and total expense. The University’s net position increased $169.3 million in fiscal year 2014 and $189.8 million in fiscal year 2013.

The following chart summarizes total revenues, expenses and the changes in net position for the periods ending June 30, 2014, 2013 and 2012, respectively:

The University experienced an increase in total revenue of $177.1 million or 5.4 percent with operating revenues contributing $13.0 million or 0.6 percent increase in operating revenues. Total expenses increased
$197.7 million or 6.4 percent primarily consisting of operating expenses. The University continues to focus on instruction, research and public service while continuing to emphasize controlling operating expenses.

### Consolidated Statements of Net Position

The Consolidated Statements of Net Position present the consolidated financial position of the University at the end of the fiscal year, under a classified balance sheet format that reflects current and noncurrent assets and liabilities and reports net position under four separate classifications.

A comparison of the University’s assets, liabilities, and net position as of June 30, 2014, 2013 and 2012 is summarized in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$589,977</td>
<td>$629,376</td>
<td>$585,161</td>
</tr>
<tr>
<td>Noncurrent assets, excluding capital assets</td>
<td>2,231,939</td>
<td>2,040,048</td>
<td>1,971,938</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>2,900,494</td>
<td>2,876,914</td>
<td>2,696,951</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,722,410</td>
<td>5,546,338</td>
<td>5,254,050</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>444,319</td>
<td>443,100</td>
<td>432,135</td>
</tr>
<tr>
<td>Noncurrent liabilities, excluding long-term debt</td>
<td>208,518</td>
<td>184,726</td>
<td>167,583</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,282,507</td>
<td>1,300,730</td>
<td>1,226,389</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,935,344</td>
<td>1,928,556</td>
<td>1,826,107</td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>812,356</td>
<td>820,146</td>
<td>727,348</td>
</tr>
<tr>
<td>Restricted—expendable</td>
<td>1,004,191</td>
<td>865,819</td>
<td>784,443</td>
</tr>
<tr>
<td>Restricted—nonexpendable</td>
<td>289,366</td>
<td>277,601</td>
<td>265,156</td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>1,681,153</td>
<td>1,654,216</td>
<td>1,650,996</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>3,787,066</td>
<td>3,617,782</td>
<td>3,427,943</td>
</tr>
<tr>
<td><strong>Total net position and liabilities</strong></td>
<td>$5,722,410</td>
<td>$5,546,338</td>
<td>$5,254,050</td>
</tr>
</tbody>
</table>

### Assets

Current assets are used to support current operations and consist primarily of cash and cash equivalents, net receivables and short-term investments.

Noncurrent assets consist primarily of investments and capital assets net of accumulated depreciation. Noncurrent receivables consist mainly of student loan receivables scheduled for collection after the current report year.
The following charts illustrate the composition of total assets:
**The University’s current and noncurrent assets as of June 30, 2014, 2013 and 2012**

*(in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>From 2013 to 2014</th>
<th>Percent</th>
<th>From 2012 to 2013</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$243,049</td>
<td>$194,006</td>
<td>$167,751</td>
<td>$49,043</td>
<td>25.3%</td>
<td>$26,255</td>
<td>15.7%</td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>312,323</td>
<td>310,878</td>
<td>251,814</td>
<td>1,445</td>
<td>0.5%</td>
<td>59,064</td>
<td>23.5%</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>676</td>
<td>89,534</td>
<td>133,586</td>
<td>(88,858)</td>
<td>(99.2%)</td>
<td>(44,052)</td>
<td>(33.0%)</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>33,929</td>
<td>34,958</td>
<td>32,010</td>
<td>(1,029)</td>
<td>(2.9%)</td>
<td>2,948</td>
<td>9.2%</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>589,777</td>
<td>629,376</td>
<td>585,161</td>
<td>(39,399)</td>
<td>(6.3%)</td>
<td>44,215</td>
<td>7.6%</td>
<td></td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>2,900,494</td>
<td>2,876,914</td>
<td>2,696,951</td>
<td>23,580</td>
<td>0.8%</td>
<td>179,963</td>
<td>6.7%</td>
<td></td>
</tr>
<tr>
<td><strong>Other noncurrent assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents &amp; other assets</td>
<td>68,522</td>
<td>92,656</td>
<td>192,781</td>
<td>(24,134)</td>
<td>(26.0%)</td>
<td>(100,125)</td>
<td>(51.9%)</td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>71,699</td>
<td>58,236</td>
<td>53,487</td>
<td>13,643</td>
<td>23.1%</td>
<td>4,749</td>
<td>8.9%</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>2,091,718</td>
<td>1,889,156</td>
<td>1,725,670</td>
<td>202,562</td>
<td>10.7%</td>
<td>163,486</td>
<td>9.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Total other noncurrent assets</strong></td>
<td>2,231,939</td>
<td>2,040,048</td>
<td>1,971,938</td>
<td>191,891</td>
<td>9.4%</td>
<td>68,110</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$5,722,410</td>
<td>$5,546,338</td>
<td>$5,254,050</td>
<td>$176,072</td>
<td>3.2%</td>
<td>$292,288</td>
<td>5.6%</td>
<td></td>
</tr>
</tbody>
</table>

As of June 30, 2014, total assets increased $176.1 million primarily due to increases in cash and cash equivalents, investments and capital. Investments increased $113.7 million primarily due to increases in Consolidated Endowment Fund fair market value, partially offset by decreases in Temporary Investment Pool investment activity. Cash and cash equivalents increased $24.9 million. Noncurrent cash and cash equivalents consist of unspent bond proceeds of $66.9 million and $87.0 million in fiscal year 2014 and 2013, respectively. Capital assets, net of accumulated depreciation, increased $23.6 million due to increased spending on construction projects, specifically the Ambulatory Care Clinic and the Amundson Hall Addition. Refer to Footnote 4 for additional information related to capital assets.

**Liabilities**

Current liabilities are obligations that are expected to become due and payable during the next fiscal year. Current liabilities consist primarily of accounts payable and accrued liabilities including salaries and compensation-related expenditures, and unearned income. Current unearned income is comprised of revenue related to summer session tuition and fees deferred to the following fiscal year, and funds received in advance of expenditures on sponsored accounts.

The University’s noncurrent liabilities consist primarily of capital obligations, notes payable, leases and bonds payable (long-term debt). The University’s long-term debt represents 66 percent of total liabilities or $1,282.5 million as of June 30, 2014 compared to 67 percent or $1,300.7 million as of June 30, 2013.
The following charts illustrate the composition of total liabilities:

**The University's Total Liabilities as of June 30, 2014, 2013, and 2012:**

- **Current Liabilities**
- **Long-term debt**
- **Other noncurrent liabilities**

**The University's current and noncurrent liabilities as of June 30, 2014, 2013, 2012:**

- **Current Liabilities:**
- **Noncurrent Liabilities:**

- **FY 2014**
- **FY 2013**
- **FY 2012**
The University’s current and noncurrent liabilities as of June 30, 2014, 2013 and 2012

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td>Amount</td>
<td>Percent</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$131,403</td>
<td>10.2%</td>
<td>$134,954</td>
<td>(2.2%)</td>
<td>$144,073</td>
</tr>
<tr>
<td>Accrued liabilities and other</td>
<td>244,389</td>
<td>19.3%</td>
<td>239,401</td>
<td>2.1%</td>
<td>228,360</td>
</tr>
<tr>
<td>Unearned income</td>
<td>68,527</td>
<td>5.3%</td>
<td>68,745</td>
<td>(0.3%)</td>
<td>59,702</td>
</tr>
<tr>
<td>Long-term debt, current</td>
<td>272,026</td>
<td>21.3%</td>
<td>285,416</td>
<td>(4.7%)</td>
<td>293,941</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>716,345</td>
<td></td>
<td>728,516</td>
<td>(1.7%)</td>
<td>726,076</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued liabilities and other</td>
<td>205,360</td>
<td>16.1%</td>
<td>184,564</td>
<td>11.3%</td>
<td>167,259</td>
</tr>
<tr>
<td>Unearned income *</td>
<td>3,158</td>
<td>0.2%</td>
<td>162</td>
<td>1849.4%</td>
<td>324</td>
</tr>
<tr>
<td>Long-term debt, noncurrent</td>
<td>1,010,481</td>
<td>79.3%</td>
<td>1,015,314</td>
<td>(0.5%)</td>
<td>932,448</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>1,218,999</td>
<td></td>
<td>1,200,040</td>
<td>1.6%</td>
<td>1,100,031</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$1,935,344</td>
<td></td>
<td>$1,928,556</td>
<td>$1,826,107</td>
<td>$6,788</td>
</tr>
</tbody>
</table>

*Total is less than 1 percent - not included in the graph.

As of June 30, 2014, total liabilities increased $6.8 million. Long-term debt decreased $18.2 million or 5.2 percent. The University issued Special Purpose Revenue Bonds Series 2013C and General Obligation Bonds Series 2013D, with a par amount of $35.4 million and $12.8 million in fiscal year 2014, respectively. Additions from the issuance were offset by normal amortization of the bonds, premiums and discounts. Refer to Footnote 5 for additional information related to long-term debt. Accrued liabilities increased $25.8 million due to the gradual amortization of the University’s full liability related to Other Post-Employment Benefits (OPEB). The University recorded an OPEB liability of $18.9 million in fiscal year 2014 and $19.4 million in fiscal year 2013. As of June 30, 2014, the cumulative OPEB liability of $101.3 million was recorded as a current liability of $6.6 million and a noncurrent liability of $94.7 million.

**Net Position**

Net position represents the residual value of the University’s assets after deducting liabilities and consists of the following three classifications:

- **Unrestricted net position**—Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the institution and include resources that may be designated for specific purposes as determined by management or the Board of Regents.

- **Restricted net position, which is divided into two categories—expendable and nonexpendable**—Expendable assets are available for expenditure by the institution, but only in accordance with restrictions placed on their use by donors and other external entities. Nonexpendable assets are also externally restricted, but are required to be retained in perpetuity, including the University’s true endowments and institutional contributions to refundable loan programs.

- **Net investment in capital assets**—Includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.
The following charts illustrate the composition of the University’s total net position:

### The University's Total Net Position as of June 30, 2014, 2013 and 2012

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>Increase (Decrease)</th>
<th>From 2013 to 2014</th>
<th>From 2012 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$812,356</td>
<td>$820,146</td>
<td>$727,348</td>
<td></td>
<td>$(7,790)</td>
<td>$92,798</td>
</tr>
<tr>
<td>Restricted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.9%)</td>
<td>12.8%</td>
</tr>
<tr>
<td>Expendable</td>
<td>1,004,191</td>
<td>865,819</td>
<td>784,443</td>
<td></td>
<td>138,372</td>
<td>81,376</td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>289,366</td>
<td>277,601</td>
<td>265,156</td>
<td></td>
<td>11,765</td>
<td>12,445</td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>1,681,153</td>
<td>1,654,216</td>
<td>1,650,996</td>
<td></td>
<td>26,937</td>
<td>3,220</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$3,787,066</td>
<td>$3,617,782</td>
<td>$3,427,943</td>
<td></td>
<td>$169,284</td>
<td>$189,839</td>
</tr>
</tbody>
</table>

The University’s restricted expendable net position increased $138.4 million in fiscal year 2014 compared to an increase of $81.4 million in fiscal year 2013 due to changes in market values related to endowments.

### Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position present the institution’s operating, nonoperating, and capital- and endowment-related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University’s principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University’s educational and self-supporting auxiliary units. State appropriations are reported as nonoperating revenues, as are gifts and other revenues for which the University does not give equal value in exchange for the resources received. Operating revenues were 61 percent and 63 percent of total revenues for fiscal year 2014 and 2013, respectively.
The University's Revenues as of June 30, 2014, 2013, and 2012

FY 2014: 61% Total operating revenues, 36% Total nonoperating revenues, 3% Total other revenue

FY 2013: 63% Total operating revenues, 33% Total nonoperating revenues, 4% Total other revenue

FY 2012: 67% Total operating revenues, 30% Total nonoperating revenues, 3% Total other revenue

The University's operating, nonoperating and other revenues as of June 30, 2014, 2013, 2012

Operating Revenues: Grants and contracts, Student tuition and fees, Auxiliary enterprises, Educational activities, Federal appropriations, State appropriations, Grants, gifts, and other nonoperating

Nonoperating and Other Revenues: Net investment gain (loss), Total other revenues
The University's operating, nonoperating and other revenue for the years ended June 30, 2014, 2013 and 2012

(in thousands)

<table>
<thead>
<tr>
<th>Operating revenues</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>From 2013 to 2014</th>
<th>Amount</th>
<th>Percent</th>
<th>From 2012 to 2013</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and contracts</td>
<td>$ 836,819</td>
<td>$ 836,423</td>
<td>$ 858,810</td>
<td>$ 396</td>
<td>0.0%</td>
<td></td>
<td>$ (22,387)</td>
<td>(2.6%)</td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees, net</td>
<td>732,821</td>
<td>720,510</td>
<td>696,278</td>
<td>12,311</td>
<td>1.7%</td>
<td></td>
<td>24,232</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>Auxiliary enterprises, net</td>
<td>376,449</td>
<td>365,459</td>
<td>351,571</td>
<td>10,990</td>
<td>3.0%</td>
<td></td>
<td>13,888</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>Educational activities</td>
<td>147,134</td>
<td>157,840</td>
<td>162,096</td>
<td>(10,706)</td>
<td>(6.8%)</td>
<td></td>
<td>(4,256)</td>
<td>(2.6%)</td>
<td></td>
</tr>
<tr>
<td>Other operating revenue *</td>
<td>137</td>
<td>135</td>
<td>162</td>
<td>2</td>
<td>1.5%</td>
<td></td>
<td>(27)</td>
<td>(16.7%)</td>
<td></td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>2,093,360</td>
<td>2,080,367</td>
<td>2,068,917</td>
<td>12,993</td>
<td>0.6%</td>
<td></td>
<td>11,450</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Nonoperating revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal appropriations</td>
<td>19,072</td>
<td>22,039</td>
<td>15,145</td>
<td>(2,967)</td>
<td>(13.5%)</td>
<td></td>
<td>6,894</td>
<td>45.5%</td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>614,791</td>
<td>575,491</td>
<td>572,075</td>
<td>39,300</td>
<td>6.8%</td>
<td></td>
<td>3,416</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>Grants, gifts, and other nonoperating, net</td>
<td>396,147</td>
<td>357,741</td>
<td>322,010</td>
<td>38,406</td>
<td>10.7%</td>
<td></td>
<td>35,731</td>
<td>11.1%</td>
<td></td>
</tr>
<tr>
<td>Net investment gain</td>
<td>234,407</td>
<td>122,797</td>
<td>36,895</td>
<td>111,610</td>
<td>90.9%</td>
<td></td>
<td>85,902</td>
<td>232.8%</td>
<td></td>
</tr>
<tr>
<td>Total nonoperating revenues</td>
<td>1,264,417</td>
<td>1,078,068</td>
<td>946,125</td>
<td>186,349</td>
<td>17.3%</td>
<td></td>
<td>131,943</td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Total other revenues</td>
<td>117,438</td>
<td>139,655</td>
<td>103,353</td>
<td>(22,217)</td>
<td>(15.9%)</td>
<td></td>
<td>36,302</td>
<td>35.1%</td>
<td></td>
</tr>
<tr>
<td>Total revenues (noncapital)</td>
<td>$ 3,475,215</td>
<td>$ 3,298,090</td>
<td>$ 3,118,395</td>
<td>$ 177,125</td>
<td>5.4%</td>
<td></td>
<td>$ 179,695</td>
<td>5.8%</td>
<td></td>
</tr>
</tbody>
</table>

* Total is less than 1 percent - not included in the graph.

Total revenues increased in fiscal year 2014 by $177.1 million due to increases in State appropriations and net investment gains due to market increases. Grants, gifts and other nonoperating revenue increased primarily due to increased funding from the University of Minnesota Foundation as well as other donors. Operating revenues increased $13.0 million or 0.6 percent mainly due to increases in student tuition and fees and auxiliary enterprises. Revenues from sales and services of educational activities decreased $10.7 million due to timing of normal business activity.

State appropriations increased $39.3 million compared to fiscal year 2013 increasing to $614.8 million in fiscal year 2014 from $575.5 million in fiscal year 2013. New State appropriations for fiscal year 2014 included appropriations for the MnDRIVE project and Tuition Relief program. MnDRIVE (Minnesota's Discovery Research and InnoVation Economy) is an $18 million annual investment by the state of Minnesota in four research areas: Global Food Ventures; Advancing Industry, Conserving Our Environment; Discoveries and Treatments for Brain Conditions; and Robotics, Sensors and Advanced Manufacturing. The initiative combines the University’s distinctive research strengths with the state’s key and emerging industries to develop innovative solutions that propel Minnesota’s economy forward. As one of these areas, Global Food Ventures aims to partner research, agriculture and industry to develop holistic approaches to ensuring a safe, sustainable and resilient food system.

Tuition, educational and auxiliary activities and State appropriations, in addition to other sources of unrestricted revenue, funded a number of University priorities including competitive compensation plans for faculty and staff; various academic initiatives; enhancement of services to students including technology improvements; upgrades to the financial aid process and freshman seminars; and increases in facilities costs.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $197.2 million, $159.2 million, and $143.0 million, and grants and gifts for capital purposes of $22.9 million, $28.8 million, and $31.3 million in fiscal years 2014, 2013, and 2012, respectively.
For the year ended June 30, 2014, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased $22.2 million or 15.9 percent in fiscal year 2014 compared to an increase of $36.3 million or 35.1 percent in fiscal year 2013.

**Total Operating Expenses**

![Graph showing the University's operating expenses for the years ended June 30, 2014, 2013, 2012.]

The University's total operating expenses by functional category for the years ended June 30, 2014, 2013 and 2012

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$769,479</td>
<td>$737,596</td>
<td>$696,217</td>
<td>$31,883</td>
<td>4.3%</td>
<td>$41,379</td>
<td>5.9%</td>
</tr>
<tr>
<td>Research</td>
<td>679,718</td>
<td>656,551</td>
<td>633,176</td>
<td>23,167</td>
<td>3.5%</td>
<td>23,375</td>
<td>3.7%</td>
</tr>
<tr>
<td>Public service</td>
<td>253,141</td>
<td>249,257</td>
<td>245,511</td>
<td>3,884</td>
<td>1.6%</td>
<td>3,746</td>
<td>1.5%</td>
</tr>
<tr>
<td>Academic support</td>
<td>394,927</td>
<td>367,265</td>
<td>360,626</td>
<td>27,662</td>
<td>7.5%</td>
<td>6,639</td>
<td>1.8%</td>
</tr>
<tr>
<td>Student services</td>
<td>116,575</td>
<td>110,230</td>
<td>106,152</td>
<td>6,345</td>
<td>5.8%</td>
<td>4,078</td>
<td>3.8%</td>
</tr>
<tr>
<td>Institutional support</td>
<td>256,641</td>
<td>197,319</td>
<td>189,040</td>
<td>59,322</td>
<td>30.1%</td>
<td>8,279</td>
<td>4.4%</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>285,938</td>
<td>266,994</td>
<td>254,553</td>
<td>18,944</td>
<td>7.1%</td>
<td>12,441</td>
<td>4.9%</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>54,519</td>
<td>50,435</td>
<td>52,014</td>
<td>4,084</td>
<td>8.1%</td>
<td>(1,579)</td>
<td>(3.0%)</td>
</tr>
<tr>
<td><strong>Total education and general</strong></td>
<td>2,810,938</td>
<td>2,635,647</td>
<td>2,537,289</td>
<td>175,291</td>
<td>6.7%</td>
<td>98,358</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

**Other operating expenses**

| Depreciation                               | 192,705       | 193,139       | 183,875       | (434)            | (0.2%)  | 9,264            | 5.0%    |
| Auxiliary enterprises                       | 256,068       | 235,411       | 227,397       | 20,657           | 8.8%    | 8,014            | 3.5%    |
| Other operating expenses, net              | 583           | 19            | (195)          | 564              | 2968.4% | 214 (109.7%)     |         |
| **Total other operating expenses**         | 449,356       | 428,569       | 411,077       | 20,787           | 4.9%    | 17,492           | 4.3%    |

**Total operating expenses**

| Total operating expenses                    | $3,260,294    | $3,064,216    | $2,948,366    | $196,078         | 6.4%    | 115,850          | 3.9%    |

Total operating expenses increased $196.1 million or 6.4 percent in fiscal year 2014 compared to fiscal year 2013. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at $2.1 billion or 63.3 percent, $2.0 billion or 63.8 percent and $1.9 billion or 64.5 percent of operating expenses in fiscal years 2014, 2013 and 2012, respectively. Compensation related expenditures increased $108.7 million or 5.6 percent in fiscal year 2014.
and $53.4 million or 2.8 percent in fiscal year 2013. These increases are primarily due to the University’s salary increase of 2.5 percent, in addition to increases in compensation related liabilities. Institutional support expenses increased percentage-wise more than the other categories of operating expenses, driven primarily by two factors. First, $23.8 million of the increase is attributable to compensation related expenditures such as normal salary increases, fringe benefit costs, and accrued liabilities. Second, the merger of the University of Minnesota Foundation and Minnesota Medical Foundation (MMF) resulted in $24.6 million in increased compensation and other related expenses being recorded on the University’s financial statements. Prior to the Foundation merger, MMF expenses were recorded in an Agency fund and incorporated into the University’s Statement of Net Position. After the merger, MMF expenses are now recorded in the Statements of Financial Position.

**Consolidated Statements of Cash Flows**

<table>
<thead>
<tr>
<th>The University's cash flows for the years ended June 30, 2014, 2013 and 2012</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From 2013 to 2014</td>
</tr>
<tr>
<td>(in thousands)</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>Cash (used in) provided by</strong></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$924,284</td>
</tr>
<tr>
<td>Noncapital financing activities</td>
<td>1,038,968</td>
</tr>
<tr>
<td>Capital and related financing activities</td>
<td>(204,533)</td>
</tr>
<tr>
<td>Investing activities</td>
<td>118,775</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash</strong></td>
<td>28,826</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>281,011</td>
</tr>
<tr>
<td><strong>Cash, end of year</strong></td>
<td>$309,937</td>
</tr>
</tbody>
</table>

The Consolidated Statements of Cash Flows present information about changes in the University’s cash position using the direct method of reporting sources and uses of cash. The direct method reports all major cash inflows and outflows at gross amounts, differentiating these activities into cash flows arising from operating activities; noncapital financing such as nonexchange grants and contributions; capital financing, including bond proceeds from debt issued to purchase or construct buildings and other capital assets; and investing activities.

As illustrated in above table, the University’s cash and cash equivalents increased $28.9 million due to cash inflows from investing activities and noncapital financing activities, partially offset by the use of funds by operating activities, and capital and related financing activities. The cash used by capital and financing activities decreased $18.8 million primarily due to a reduction in capital equipment purchases. During fiscal year 2014, the University issued $48.2 million in new bond issuances compared to $96.5 million in fiscal year 2013. The most significant sources of cash provided by noncapital financing activities included State appropriations totaling $616.4 million and $575.0 million, grants totaling $197.3 million and $181.7 million and gifts totaling $190.1 million and $150.8 million in 2014 and 2013, respectively. Cash inflows for capital acquisitions from State appropriations, gifts and grants, and bonds issued during the year funded a portion of the University’s equipment needs and ongoing renovation and construction initiatives.

**Investing Activities**

The University’s endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three-to five-year periods.
Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of $120.6 million and $13.5 million in fiscal year 2014 and 2013, respectively. In addition, decreases of $46.7 million and $45.2 million in 2014 and 2013, respectively related to annual distributions of the endowment to departments, partially offset by reinvested endowment earnings.

To provide a relatively stable level of support for endowed programs, a specified percentage rate based on a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.5 percent in fiscal years 2014 and 2013.

**Capital and Debt Activities**

The following charts illustrate the composition of capital assets before depreciation:

![Chart of University's Capital Assets](chart.png)

**The University's capital asset categories (before depreciation) for the years ended June 30, 2014, 2013 and 2012**

(in thousands)

<table>
<thead>
<tr>
<th>Capital assets (gross)</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>From 2013 to 2014</th>
<th>From 2012 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percent</td>
<td>Amount</td>
<td>Percent</td>
<td>Amount</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$4,256,855</td>
<td>$3,966,992</td>
<td>$3,760,552</td>
<td>$289,863</td>
<td>7.3%</td>
</tr>
<tr>
<td>Equipment</td>
<td>742,667</td>
<td>741,166</td>
<td>721,675</td>
<td>1,501</td>
<td>0.2%</td>
</tr>
<tr>
<td>Library and other collections</td>
<td>211,287</td>
<td>199,366</td>
<td>191,117</td>
<td>11,921</td>
<td>6.0%</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>120,380</td>
<td>278,103</td>
<td>186,973</td>
<td>(157,723)</td>
<td>(56.7%)</td>
</tr>
<tr>
<td>Land</td>
<td>94,015</td>
<td>91,089</td>
<td>90,189</td>
<td>2,926</td>
<td>3.2%</td>
</tr>
<tr>
<td>Software and other intangibles</td>
<td>140,259</td>
<td>122,991</td>
<td>116,422</td>
<td>17,268</td>
<td>14.0%</td>
</tr>
<tr>
<td><strong>Total capital assets (gross)</strong></td>
<td>$5,565,463</td>
<td>$5,399,707</td>
<td>$5,066,928</td>
<td>$165,756</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

Capital additions totaled $225.8 million, $375.3 million, and $277.0 million in fiscal year 2014, 2013 and 2012, respectively. Fiscal year 2014 spending included the completion of the Physics and Nanotech Building, the Fourth Street Housing Project, and the Northrop Interior Renovation, in addition to spending...
on existing projects such as the Ambulatory Care Clinic and the Amundson Hall Addition. See Note 4 of the consolidated financial statements for more detailed information about capital assets. Project spending continuing in fiscal year 2015 is projected to be $148.9 million, $48.1 million, and $14.9 million for the Ambulatory Care Clinic, the Microbiology Research Facility, and the Lysaker Wellness Recreation Center Addition, respectively.

Fiscal year 2014 activity included the issuance of General Obligation Taxable Bonds, Series 2013D and Special Purpose Revenue Bonds, Series 2013C to fund the Biomedical Science Research Facilities. During fiscal year 2014, the University’s final auxiliary bond debt obligations matured. Student housing and food services net revenues were pledged until fiscal year 2014, at which time the debt obligation on these auxiliary revenue bonds were satisfied.

Capital leases of $1.9 million and $45.3 million were issued in fiscal year 2014 and 2013, respectively. Refer to Note 5 for additional information.

**Factors Affecting Future Economic Conditions**

Following the completion of the 2013 legislative session, the University received a significant boost in State appropriations which allowed for the implementation of two notable events:

1. The approval of $42,600,000 in new State appropriations to hold Minnesota resident undergraduate tuition increase to zero percent in each of the next two years, saving a Minnesota resident undergraduate on the Twin Cities campus, more than $2,500 over the next four years.

2. The establishment of a new Minnesota Discovery, Research and InnoVation Economy (MNDRIVE) funding program through the commitment of $33,650,000 by the State of Minnesota over the next two years.

President Kaler’s biennial operating budget request for fiscal years 2016 and 2017 to the State of Minnesota for the upcoming 2015 legislative session calls for the commitment of an additional $127,200,000 above current levels of state funding. Key elements of the request include:

1. An increase of $65,200,000 in new funds for the University of Minnesota to achieve

   a. a second biennium of zero percent tuition increases for Minnesota resident undergraduate students, which has been exceedingly popular. Continued state investment will save Minnesota students and families an average of $2,500 over their four-year degree program at the time the state needs a highly trained work force and

   b. the proposal also recognizes the need to address tuition increases for graduate and professional students. Savings for students and families will vary by program ($1,500 for graduate students, $5,000 for medical students, $7,000 for law students) as the tuition costs and time to degree are different by program.

The proposal to hold tuition to a zero percent increase in each of the next two years would improve access and decrease debt for resident students – at the undergraduate, as well as graduate and professional school levels. Middle class families have experienced stagnant incomes over the last decade. Meanwhile historic state budget cuts to the University shifted a significant financial burden to students and families through tuition increases. The State of Minnesota cut higher education funding per student twice the national average over the past decade. The University’s request represents a reinvestment in Minnesota students and our state’s innovation and economic future. This
proposed tuition freeze would give many Minnesota students and families a full four years of zero tuition increases, allowing them to begin to recover from the Great Recession, reduce their debt burden and make the dream of graduating from the University of Minnesota a reality.

2. An increase of $34,500,000 in funds to support a healthy Minnesota initiative to improve the health of Minnesotans through research, clinical services, and innovative programs.

3. An increase of $15,000,000 in funds to support facilities condition improvements in order to ensure that students and faculty have modern educational and research facilities to ensure their success.

4. An increase of $12,500,000 in funds to support a vibrant economy to ensure Minnesota has strong communities with economic development opportunities.

Reducing costs is also a top priority for the University. President Kaler and his administration are on track to reduce administrative costs by $90 million over a six-year period. These dollars are being reinvested in mission-centered activities (e.g., faculty, student services, instructional and other program support, research support, etc.) that directly enhance student education, maintain the University’s exceptional quality, and ensure research innovation and outreach continue to strengthen the entire state.

At its October 2014 meeting, the University of Minnesota Board of Regents approved a strategic plan that articulates a vision and priorities for the next decade. The plan builds on the Twin Cities campus’ exceptional strengths and opportunities as one of the country’s most comprehensive research universities and one of the few located in a large metropolitan area. The plan, shaped by faculty, staff, and students over nearly 12 months, aims to reinvigorate the institution as a 21st-century land-grant research university of ambition, innovation, and impact. It will create new learning and career pathways for students, build and retain a faculty of field-shaping researchers and teachers, expand campus-community partnerships, and combine university strengths more broadly and deeply to address the most pressing and complex problems facing the state, nation, and world.

The plan calls on the University to:

- Leverage its breadth and depth to take on society’s grand challenges through more cross-cutting research, creative scholarship, and curriculum;

- Support excellence and reject complacency by changing practices to create an invigorated campus culture of ambition, challenge, exploration, and innovation;

- Aggressively recruit, retain and promote diverse field-shaping researchers and teachers; and

- Build a culture of mutual engagement between the University and many partners and stakeholders that capitalizes on the institution’s dynamic metropolitan location.

To jump-start institutional transformation, three initial grand challenge areas have been identified that harness University expertise across many fields of knowledge, from the core disciplines of the liberal arts to the new frontiers of the biosciences:

1. Ensuring sustainable, healthy, secure food;

2. Advancing industry while conserving the environment and addressing climate change; and

Additional grand challenge priorities will be identified and developed through collaborative processes.

The plan is focused on a set of strategic goals and is intended to be dynamic. It will be a framework for a more detailed set of goals, outcomes, and implementation steps. Beginning in fall 2014, resources and work plans will be aligned with the plan, which will be incorporated into ongoing academic planning by the provost to develop indicators for excellence; integrate into compact planning; connect the Twin Cities campus plan with plans of academic and administrative units; advance action plans to achieve goals derived from the compact planning; and share successes and report outcomes. Concurrently, the provost’s office will coordinate an ongoing process of communication and engagement with the campus community and external stakeholders to continue to refine the plan as a dynamic framework that advances the University's land grant, research, and teaching missions.
University of Minnesota  
Consolidated Statements of Net Position (Excluding Component Units)  
June 30, 2014 and 2013 (in thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$243,049</td>
<td>$194,066</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>676</td>
<td>89,534</td>
</tr>
<tr>
<td>Receivables, net</td>
<td>302,424</td>
<td>297,021</td>
</tr>
<tr>
<td>Inventories</td>
<td>22,519</td>
<td>22,554</td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>9,899</td>
<td>13,857</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>11,034</td>
<td>12,028</td>
</tr>
<tr>
<td>Other assets</td>
<td>376</td>
<td>376</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>589,977</td>
<td>629,376</td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>66,888</td>
<td>87,005</td>
</tr>
<tr>
<td>Investments</td>
<td>2,091,718</td>
<td>1,889,156</td>
</tr>
<tr>
<td>Receivables, net</td>
<td>14,554</td>
<td>4,148</td>
</tr>
<tr>
<td>Student loan receivables, net</td>
<td>57,145</td>
<td>54,088</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>1,634</td>
<td>5,636</td>
</tr>
<tr>
<td>Other assets</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>2,900,494</td>
<td>2,876,914</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>5,132,433</td>
<td>4,916,962</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5,722,410</td>
<td>5,546,338</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total deferred outflows of resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets and deferred outflows of resources</strong></td>
<td>5,722,410</td>
<td>5,546,338</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>131,403</td>
<td>134,954</td>
</tr>
<tr>
<td>Accrued liabilities and other</td>
<td>244,389</td>
<td>239,401</td>
</tr>
<tr>
<td>Unearned income</td>
<td>68,527</td>
<td>68,745</td>
</tr>
<tr>
<td>Long-term debt-current portion</td>
<td>272,026</td>
<td>285,416</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>716,345</td>
<td>728,516</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued liabilities and other</td>
<td>205,360</td>
<td>184,564</td>
</tr>
<tr>
<td>Unearned income</td>
<td>3,158</td>
<td>162</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,010,481</td>
<td>1,015,314</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>1,218,999</td>
<td>1,200,040</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,935,344</td>
<td>1,928,556</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deferred Inflows of Resources</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total deferred inflows of resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and deferred inflows of resources</strong></td>
<td>1,935,344</td>
<td>1,928,556</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Position</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>812,356</td>
<td>820,146</td>
</tr>
<tr>
<td>Restricted Expendable</td>
<td>1,004,191</td>
<td>865,819</td>
</tr>
<tr>
<td>Restricted Nonexpendable</td>
<td>289,266</td>
<td>277,601</td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>1,681,153</td>
<td>1,654,216</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$3,787,066</td>
<td>$3,617,782</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
University of Minnesota
Component Units - Statements of Financial Position
June 30, 2014 and 2013 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>University of Minnesota Foundation</th>
<th>University of Minnesota Physicians</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$21,910</td>
<td>$73,179</td>
</tr>
<tr>
<td>Investments, substantially at fair market value</td>
<td>2,287,360</td>
<td>28,561</td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>142,775</td>
<td></td>
</tr>
<tr>
<td>Accounts and other receivables</td>
<td>20,202</td>
<td>80,432</td>
</tr>
<tr>
<td>Interest in charitable lead trusts, unitrusts, pooled income, and trusts</td>
<td>97,416</td>
<td></td>
</tr>
<tr>
<td>Gift annuities</td>
<td>40,256</td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>54,637</td>
<td>8,012</td>
</tr>
<tr>
<td>Prepaids and other assets</td>
<td>830</td>
<td>1,849</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>2,655,386</td>
<td>192,033</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>23,507</td>
<td>84,929</td>
</tr>
<tr>
<td>Deferred revenue and gains</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gift annuities payable</td>
<td>20,344</td>
<td></td>
</tr>
<tr>
<td>Unitrusts, pooled income, and annuity trusts payable</td>
<td>11,633</td>
<td></td>
</tr>
<tr>
<td>Investments held for custody of others</td>
<td>250,176</td>
<td></td>
</tr>
<tr>
<td>Bonds and capital lease payable</td>
<td>51,236</td>
<td>852</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>356,896</td>
<td>85,781</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>80,800</td>
<td>106,252</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>1,256,264</td>
<td></td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>951,426</td>
<td></td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>2,298,490</td>
<td>106,252</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$2,655,386</td>
<td>$192,033</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
University of Minnesota
Consolidated Statements of Revenues, Expenses and Changes in Net Position (Excluding Component Units)
Years ended June 30, 2014 and 2013 (in thousands)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees, net of scholarship allowances of $248,030 in 2014; $239,066 in 2013</td>
<td>$732,821</td>
<td>$720,510</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>480,177</td>
<td>497,444</td>
</tr>
<tr>
<td>State and other government grants</td>
<td>63,848</td>
<td>60,775</td>
</tr>
<tr>
<td>Nongovernmental grants and contracts</td>
<td>292,794</td>
<td>278,204</td>
</tr>
<tr>
<td>Student loan interest income</td>
<td>1,831</td>
<td>1,867</td>
</tr>
<tr>
<td>Sales and services of educational activities, net of scholarship allowances of $28 in 2014; $36 in 2013</td>
<td>145,303</td>
<td>155,973</td>
</tr>
<tr>
<td>Auxiliary enterprises, net of scholarship allowances of $9,423 in 2014; $7,792 in 2013</td>
<td>376,449</td>
<td>365,459</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>137</td>
<td>135</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>2,093,360</td>
<td>2,080,367</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses Education and general</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>769,479</td>
<td>737,595</td>
</tr>
<tr>
<td>Research</td>
<td>679,718</td>
<td>656,551</td>
</tr>
<tr>
<td>Public service</td>
<td>253,141</td>
<td>249,257</td>
</tr>
<tr>
<td>Academic support</td>
<td>394,927</td>
<td>367,265</td>
</tr>
<tr>
<td>Student services</td>
<td>116,375</td>
<td>110,233</td>
</tr>
<tr>
<td>Institutional support</td>
<td>256,641</td>
<td>197,319</td>
</tr>
<tr>
<td>Operation &amp; maintenance of plant</td>
<td>285,938</td>
<td>266,994</td>
</tr>
<tr>
<td>Scholarships &amp; fellowships</td>
<td>54,519</td>
<td>50,435</td>
</tr>
<tr>
<td>Depreciation</td>
<td>192,705</td>
<td>193,139</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>256,068</td>
<td>235,411</td>
</tr>
<tr>
<td>Other operating expenses, net</td>
<td>583</td>
<td>19</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>3,260,294</td>
<td>3,064,215</td>
</tr>
</tbody>
</table>

| Operating Loss | (1,166,934) | (983,849) |

<table>
<thead>
<tr>
<th>Nonoperating Revenues (Expenses)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal appropriations</td>
<td>19,072</td>
<td>22,039</td>
</tr>
<tr>
<td>State appropriations</td>
<td>614,791</td>
<td>575,491</td>
</tr>
<tr>
<td>Grants</td>
<td>200,895</td>
<td>195,141</td>
</tr>
<tr>
<td>Gifts</td>
<td>197,172</td>
<td>159,167</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>234,407</td>
<td>122,797</td>
</tr>
<tr>
<td>Interest on capital-asset related debt</td>
<td>(45,637)</td>
<td>(44,035)</td>
</tr>
<tr>
<td>Other nonoperating revenues (expenses), net</td>
<td>(1,920)</td>
<td>3,433</td>
</tr>
<tr>
<td>Net nonoperating revenues</td>
<td>1,218,780</td>
<td>1,034,033</td>
</tr>
</tbody>
</table>

| Income Before Other Revenues | 51,846 | 50,184 |
| Capital appropriations | 83,081 | 98,396 |
| Capital grants & gifts | 22,929 | 28,801 |
| Additions to permanent endowments | 11,428 | 12,458 |
| Total other revenues | 117,438 | 139,655 |

| Increase In Net Position | 169,284 | 189,839 |
| Net position at beginning of year | 3,617,782 | 3,427,943 |
| Net position at end of year | $3,787,066 | $3,617,782 |

See notes to consolidated financial statements.
University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2014 (in thousands)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$278</td>
<td>$139,856</td>
<td>$49,462</td>
<td>$189,596</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>2,536</td>
<td>11,045</td>
<td>154</td>
<td>13,735</td>
</tr>
<tr>
<td>Net realized and unrealized gains (losses) on investments</td>
<td>16,819</td>
<td>203,735</td>
<td>154</td>
<td>220,554</td>
</tr>
<tr>
<td>Change in value of trusts</td>
<td>5</td>
<td>6,683</td>
<td>102</td>
<td>6,790</td>
</tr>
<tr>
<td>Support services revenue</td>
<td>7,091</td>
<td></td>
<td></td>
<td>7,091</td>
</tr>
<tr>
<td>UMF - Real Estate Advisors rental revenue</td>
<td>5,986</td>
<td></td>
<td></td>
<td>5,986</td>
</tr>
<tr>
<td>University Gateway Corporation revenue</td>
<td>4,376</td>
<td></td>
<td></td>
<td>4,376</td>
</tr>
<tr>
<td>Other revenue</td>
<td>2,488</td>
<td></td>
<td></td>
<td>2,488</td>
</tr>
<tr>
<td>Net assets released from restriction</td>
<td>217,619</td>
<td>(217,619)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenues</td>
<td>257,198</td>
<td>143,700</td>
<td>49,718</td>
<td>450,616</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions for educational purposes</td>
<td>183,951</td>
<td></td>
<td></td>
<td>183,951</td>
</tr>
<tr>
<td>Support services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management and general</td>
<td>8,742</td>
<td></td>
<td></td>
<td>8,742</td>
</tr>
<tr>
<td>Fund-raising</td>
<td>27,153</td>
<td></td>
<td></td>
<td>27,153</td>
</tr>
<tr>
<td>UMF - Real Estate Advisors</td>
<td>5,921</td>
<td></td>
<td></td>
<td>5,921</td>
</tr>
<tr>
<td>University Gateway Corporation</td>
<td>5,663</td>
<td></td>
<td></td>
<td>5,663</td>
</tr>
<tr>
<td>Total expenses</td>
<td>231,430</td>
<td></td>
<td></td>
<td>231,430</td>
</tr>
</tbody>
</table>

Increase in net assets                         | 25,768       | 143,700                | 49,718                 | 219,186    |
Net assets at beginning of year                | 55,032       | 1,122,564              | 901,708                | 2,079,304  |

Net assets at end of year                      | $80,800      | $1,266,264             | $951,426               | $2,298,490 |

See notes to consolidated financial statements.
University of Minnesota
Component Units - Statements of Activities
Years ended June 30, 2014 and 2013 (in thousands)

<table>
<thead>
<tr>
<th>University of Minnesota Physicians</th>
<th>Total (unrestricted)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Net patient service revenue</td>
<td>$198,100</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>1,263</td>
</tr>
<tr>
<td>Net realized and unrealized gains (losses) on investments</td>
<td>143</td>
</tr>
<tr>
<td>Other revenue</td>
<td>270,151</td>
</tr>
<tr>
<td>Gain on sale of oncology clinic</td>
<td>13,556</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>483,213</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td></td>
</tr>
<tr>
<td>Health care services</td>
<td>415,121</td>
</tr>
<tr>
<td>Support services</td>
<td></td>
</tr>
<tr>
<td>Management and general</td>
<td>44,925</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>460,046</td>
</tr>
<tr>
<td>Increase in net assets</td>
<td>23,167</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>83,085</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$106,252</td>
</tr>
</tbody>
</table>

*See notes to consolidated financial statements.*
University of Minnesota  
Consolidated Statements of Cash Flows (Excluding Component Units)  
Years ended June 30, 2014 and 2013 (in thousands)

<table>
<thead>
<tr>
<th>Cash Flows From Operating Activities</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and contracts (federal, state, nongovernmental, other)</td>
<td>$842,339</td>
<td>$828,937</td>
</tr>
<tr>
<td>Student tuition and fees</td>
<td>731,580</td>
<td>719,758</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>381,991</td>
<td>362,450</td>
</tr>
<tr>
<td>Sales and services of educational activities</td>
<td>152,455</td>
<td>151,848</td>
</tr>
<tr>
<td>Collection of loans to students</td>
<td>15,798</td>
<td>6,828</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>137</td>
<td>141</td>
</tr>
<tr>
<td>Payments to employees for services</td>
<td>(1,540,179)</td>
<td>(1,464,867)</td>
</tr>
<tr>
<td>Payments to suppliers for goods and services</td>
<td>(958,378)</td>
<td>(862,842)</td>
</tr>
<tr>
<td>Payments for fringe benefits</td>
<td>(494,881)</td>
<td>(468,608)</td>
</tr>
<tr>
<td>Payments for scholarships and fellowships</td>
<td>(41,713)</td>
<td>(43,069)</td>
</tr>
<tr>
<td>Loans issued to students</td>
<td>(13,433)</td>
<td>(12,176)</td>
</tr>
<tr>
<td><strong>Net cash used by operating activities</strong></td>
<td>(924,284)</td>
<td>(781,600)</td>
</tr>
</tbody>
</table>

| Cash Flows From Noncapital Financing Activities |  
|-------------------------------------------------|---------|
| State appropriations                            | 616,446 | 575,044 |
| Grants for other than capital purposes          | 197,328 | 181,695 |
| Gifts for other than capital purposes           | 190,094 | 150,787 |
| Other nonoperating revenues, net                | 10,616  | 6,022   |
| Federal appropriations                          | 19,329  | 14,963  |
| Private gifts for endowment purposes            | 11,428  | 12,458  |
| Direct lending receipts                         | 315,294 | 322,178 |
| Direct lending disbursements                    | (314,944) | (321,565) |
| Agency transactions                             | (6,623) | (16,094) |
| **Net cash provided by noncapital financing activities** | 1,038,968 | 925,483 |

| Cash Flows From Capital and Related Financing Activities |  
|----------------------------------------------------------|---------|
| Capital appropriations                                   | 81,521  | 99,989  |
| Proceeds from capital debt                              | 50,986  | 96,483  |
| Capital grants and gifts                                 | 10,579  | 18,347  |
| Proceeds from sale of capital assets                    | 863     | 1,149   |
| Principal received on notes receivable                   | 844     |         |
| Interest received on notes receivable                    | 321     |         |
| Purchases of capital assets                             | (223,333) | (324,447) |
| Principal paid on capital debt                           | (67,121) | (63,723) |
| Interest paid on capital debt                            | (50,438) | (51,172) |
| Issuance of notes receivable                             | (8,755) |         |
| **Net cash used by capital and related financing activities** | (204,533) | (223,374) |

| Cash Flows From Investing Activities |  
|-------------------------------------|---------|
| Proceeds from sales and maturities of investments | 930,671 | 1,059,348 |
| Investment income, net               | 96,712  | 124,239  |
| Purchase of investments              | (908,598) | (1,178,610) |
| **Net cash provided by investing activities** | 118,775 | 4,977 |

| Net Increase (Decrease) in Cash and Cash Equivalents |  
|------------------------------------------------------|---------|
| 28,926                                               | (74,509) |

| Cash and Cash Equivalents at Beginning of Year | 281,011 | 355,520 |

| Cash and Cash Equivalents at End of Year | $309,937 | $281,011 |

See notes to consolidated financial statements.
University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years ended June 30, 2014 and 2013 (in thousands)

<table>
<thead>
<tr>
<th>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(1,166,934)</td>
<td>$(983,849)</td>
</tr>
<tr>
<td>Adjustments to reconcile net operating loss to net cash used by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>192,705</td>
<td>193,139</td>
</tr>
<tr>
<td>Changes in assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>13,218</td>
<td>(22,477)</td>
</tr>
<tr>
<td>Inventories</td>
<td>(84)</td>
<td>851</td>
</tr>
<tr>
<td>Prepaid and other items</td>
<td>726</td>
<td>(4,008)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>10</td>
<td>(7,485)</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>32,453</td>
<td>34,487</td>
</tr>
<tr>
<td>Unearned income</td>
<td>3,622</td>
<td>7,742</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>$(924,284)</td>
<td>$(781,600)</td>
</tr>
</tbody>
</table>

Noncash Investing, Capital, and Financing Activities

| Noncash Investing, Capital, and Financing Activities                                      | 2014       | 2013       |
| Unrealized gains on investments                                                          | $140,458   | $1,567     |
| Capital assets on account                                                                | 33,540     | 42,345     |
| Contribution of capital assets                                                           | 7,639      | 3,747      |
| Amortization of bond discount/premium                                                    | 4,031      | 3,725      |
| Capital assets acquired with capital lease                                               | 1,944      | 45,306     |

Cash and Cash Equivalents at End of Year

<table>
<thead>
<tr>
<th>Cash and Cash Equivalents at End of Year</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$243,049</td>
<td>$194,066</td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>66,888</td>
<td>87,065</td>
</tr>
<tr>
<td>Total cash and cash equivalents at end of year</td>
<td>$309,937</td>
<td>$281,111</td>
</tr>
</tbody>
</table>

See notes to consolidated financial statements.
Notes to Consolidated Financial Statements
Years ended June 30, 2014 and 2013 (in thousands)

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies

Organization

The University of Minnesota (the University) is both a state land-grant university, with a strong tradition of education and public service, and a major research institution serving the State of Minnesota through five campuses: Crookston, Duluth, Morris, Rochester, and Twin Cities.

The University is considered a constitutional corporation and an agency of the State of Minnesota. As a result of this unique status, authority to govern the University is reserved to the Board of Regents rather than state law. The University complies with state law when specifically included by statute or when compliance does not conflict with the University’s ability to accomplish its mission and purpose as established by the constitution of the State of Minnesota.

Tax Status—The Internal Revenue Service (IRS) has ruled that the University is an integral part of the State of Minnesota. Therefore, the University is generally exempt from federal income taxes, although certain activities are subject to federal unrelated business income tax.

Reporting Entity

The financial reporting entity for the University of Minnesota includes the financial results of the five campuses and, as required under Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 (GASB 61), its legally separate component units. The component units are included in the University’s reporting entity because of the significance of their operational or financial relationships with the University or its other component units.

Blended Component Units—The University has two component units that provide services entirely for the University’s own benefit. As a result, GASB 61 requires blended presentation—combining the component units and University financial information together, displayed as one entity.

RUMINCO, Ltd.

RUMINCO, Ltd. is a wholly owned single parent captive insurance company. Although it is legally separate from the University, RUMINCO, Ltd. is reported as if it were part of the University because its sole purpose is to handle medical malpractice, general liability, directors’ and officers’ liability, and automobile liability on behalf of the University.

UMore Development Limited Liability Company (LLC)

UMore Development Limited Liability Company (LLC) is a wholly owned company with a purpose of providing oversight and management for the planning and development for the University’s UMore Park property. Although it is legally separate from the University, based on its purpose, it is reported as if it were part of the University.

Discretely Presented Component Units—The University’s financial statements include the financial data of two tax-exempt component units. They are reported in separate columns on separate pages. GASB 61 requires discrete presentation of component units when either the resources held by these entities can only be
used by, or for the benefit of, the University or its component units; or the component units are closely related to, or financially integrated with the University.

University of Minnesota Foundation

The University of Minnesota Foundation (UMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts to benefit the University of Minnesota. The Board of Trustees of the UMF consists of between 30 and 45 members and includes the president of the University of Minnesota. One fourth of the members of the Board of Trustees are appointed by the University. Although the UMF is an independent organization, the majority of resources that it holds and invests, including income from its investments, is restricted by donors to the activities of the University. The factor that contributes to UMF being classified as a discretely presented component unit relates to the significant resources UMF holds on behalf of the University. The University has access to these resources.

During fiscal year 2013, the Board of Trustees for UMF and the Board of Trustees for the Minnesota Medical Foundation (MMF) agreed to combine their operations to better fulfill their respective missions, to enhance their ability to serve the University and their donors, and to create one voice for private giving at the University. The effective date of the Legal Plan of Merger was February 1, 2013. Under this Legal Plan of Merger, the MMF was merged with and into UMF, and MMF’s separate existence ceased. Prior to the merger with MMF, UMF had a 50 percent voting interest in University Gateway Corporation (Gateway). Under Generally Accepted Accounting Principles (GAAP), consolidation was not required. Subsequent to the merger, UMF has a 67 percent voting interest which thus requires consolidation of Gateway’s assets, liabilities, income, and expense activity commencing with the effective merger date of February 1, 2013.

As a result of the merger, fiscal year 2013 only reflects a partial year of the newly combined organization; therefore, UMF’s fiscal year 2014 financial statements are in single year presentation.

During fiscal years 2014 and 2013, the UMF distributed $209,829 and $181,005, respectively, to the University. Complete financial statements for the University of Minnesota Foundation can be obtained from the UMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 500, Minneapolis, MN 55455.

University of Minnesota Physicians

University of Minnesota Physicians (UMP) is a legally separate, tax-exempt clinical practice organization for the faculty of the University of Minnesota School of Medicine. The Board of UMP consists of at least 25 and not more than 29 voting directors, ex-officio voting directors, and ex-officio non-voting directors. Included in the composition of UMP’s board of directors is the dean of the University of Minnesota Medical School, faculty, and department heads of the University Medical School totaling 19 members. Based on the University appointing a voting majority of board members, the University has the ability to impose its will on UMP, as management and direction of the business and affairs of UMP is vested in the board. As a result, this contributes to UMP being classified as a discretely presented component unit.

During fiscal years 2014 and 2013, UMP distributed $83,447 and $83,122, respectively, to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Ave S.E., Suite 200, Minneapolis, MN 55414.

Component Units

The University’s discretely presented component units are nonprofit organizations, organized under IRS Code Section 501(c)(3). These units report under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. The component units’ financial data
has been aggregated into like categories for presentation purposes and is shown in these statements in thousands.

**Joint Ventures**

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain an ongoing financial interest or an ongoing financial responsibility.

**2407 University Investment, LLC**

The University is a participant in a joint venture, 2407 University Investment, LLC with United Properties Investment, LLC. The joint venture owns and operates a hotel and acts as a lessor of a restaurant on property adjacent to the Twin Cities campus. The joint venture also provides the University the opportunity to plan with United Properties Investment, LLC future redevelopment of the parcel of land. It is governed by a five member board of governors, for which the University shall have the right to appoint two of the governors. In addition, the University has 49 percent membership based on its initial capital contribution of $1,960. During fiscal year ended June 30, 2014, the University provided an interest-bearing loan to the joint venture in the amount of $8,750, which is expected to be repaid over a period of 20 years. As of June 30, 2014, the University received $208 in interest income and the $8,750 principal remains outstanding. Complete financial statements can be obtained from 2407 University Investment, LLC, c/o United Properties Investment, LLC, 3600 American Blvd, Ste. 750, Minneapolis, MN 55431.

**Financial Statement Presentation**

The financial statements have been prepared in accordance with accounting principles prescribed by GASB. These statements are prepared on a consolidated, entity-wide basis. All significant inter-fund balances have been eliminated upon consolidation.

**Basis of Accounting**

The University is considered to be a special purpose government engaged primarily in business type activities (BTA). As a BTA, the University prepares its financial statements using the accrual basis of accounting and the economic-resources-measurement focus. Under the accrual basis of accounting, revenues and expenses are recognized when earned or incurred, respectively.

**Significant Accounting Policies**

**Cash and Cash Equivalents**—For purposes of the statement of cash flows, the University defines cash and cash equivalents as highly liquid, short-term (90 days or less) investments that bear little or no market risk. The intent of the Consolidated Endowment Fund (CEF), the Group Income Pool (GIP), and the Separately Invested Funds (SIF) is long-term appreciation. Any cash balances held at the date of the statements are due to the timing of reinvesting the proceeds within the funds.

**Investments**—Investments in securities are reported at market value as determined by the major securities markets. Land and other real estate investments held in endowment are reported at market value as well. The values are determined using standardized industry practices, including a third party appraisal performed to validate internal valuations. Alternative investment strategies involving thinly traded securities are determined by the most recent purchase or sale price publicly available for that security. Private investments including real estate, timber, and venture capital are independently appraised annually and reported by investment managers as an updated estimate to that appraisal. As a result, these investments bear a greater
risk that the reported value may be materially different than actual value. Certain alternative investments and intellectual property (e.g., income-producing patents) are reported on a cost basis. Purchases and sales of investments are recorded on a settlement-date basis. Investment income is reported on the accrual basis and includes: interest income; realized and unrealized gains and losses; and endowment income (interest earned on endowments but allocated to other funds).

The University uses derivative instruments for a variety of purposes. Financial futures are used to maintain investment portfolio asset allocations in accordance with institutional policy and to enhance the investment returns of certain asset classes. Forward foreign exchange contracts are used to protect against foreign currency exposure; gas commodity forward contracts are used to synthetically fix the price of other physical gas purchases used for University consumption; and interest rate swaps are used to manage the cost of debt. Financial futures and forward foreign exchange contracts are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The University is required to post collateral, typically U.S. Treasury bills, for derivative contracts held. Collateral required by these contracts is monitored daily and required deposits or withdrawals are made as necessary. In general, the University follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Minnesota, for donor-restricted endowments. Under UPMIFA, the Board of Regents determines the prudent amount of realized and unrealized endowment appreciation to be allocated to fund current operations. Investment of the realized or unrealized appreciation in excess of the annual spending limits is discussed in Note 2.

**Inventories**—Inventories held for resale are carried at the lower of cost (first-in, first-out) or market value. Other inventories are carried primarily at cost, which approximates market value.

**Receivables and Student Loan Receivables, Net**—Receivables and student loan receivables are shown net of estimated allowance for uncollectible accounts.

**Restricted Cash and Cash Equivalents**—Restricted cash and cash equivalents represent unspent bond proceeds, which are externally restricted for the construction or purchase of buildings or other capital assets. Although these funds meet the University’s definition of cash and cash equivalents, they are recorded as long-term assets, as these funds are required to be used for long-term capital projects.

**Capital Assets**—Land, buildings, and other property are recorded at cost, if purchased or constructed, or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization is $1,473 and $2,987 for fiscal years 2014 and 2013, respectively.
The following schedule summarizes the useful lives and capitalization thresholds:

<table>
<thead>
<tr>
<th>Asset category</th>
<th>Useful life (in years)</th>
<th>Capitalization threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized software (intangible asset)</td>
<td>Shorter of legal life or 5 years</td>
<td>$500,000</td>
</tr>
<tr>
<td>Licenses (intangible asset)</td>
<td>License term</td>
<td>500,000</td>
</tr>
<tr>
<td>Non income-producing intellectual property (intangible asset)</td>
<td>Legal life</td>
<td>500,000</td>
</tr>
<tr>
<td>All other intangible assets</td>
<td>5</td>
<td>500,000</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>10-40</td>
<td>50,000</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>10-40</td>
<td>50,000</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>Lease term</td>
<td>50,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>3-20</td>
<td>5,000</td>
</tr>
<tr>
<td>Land</td>
<td>Indefinite</td>
<td></td>
</tr>
<tr>
<td>Museums and collections</td>
<td>Indefinite</td>
<td></td>
</tr>
<tr>
<td>Library and reference books</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Permanent right-of-way easements (intangible asset)</td>
<td>Indefinite</td>
<td></td>
</tr>
</tbody>
</table>

**Unearned Income**—Unearned income represents amounts received from tuition, auxiliary services, and grants and contracts prior to fiscal year-end but not yet earned.

**Noncurrent Liabilities**—Noncurrent liabilities represent the principal portion of bonds, notes, and capital lease obligations as well as estimated amounts of accrued compensated absences, other postemployment benefits, and other liabilities that will not be paid within the next fiscal year.

**Net Position**—Net position is reported in three components based upon the type of external restriction imposed.

- **Unrestricted**: Net position that has no external restriction imposed. Unrestricted net position may be designated for specific purposes by the Board of Regents or subject to contractual limitations, but generally are designated to fund the academic, research, and public service mission of the University.

- **Restricted**:

  **Expendable**—Net position that is restricted for specific purposes by grantors, donors, or law. Restrictions on these assets are released when the University complies with the stipulations required by the grantor, donor, or legislative act.

  **Nonexpendable**—Net position that is required to be retained permanently by the University. These assets represent the principal portion (historical value) of gifts to the University’s true and life endowment funds, and institutional contributions to refundable loan programs.

- **Net investment in capital assets**: Net investment in capital assets represents capital assets net of accumulated depreciation and outstanding debt used to purchase, construct, or improve such assets. If debt has been incurred but not yet expended for capital assets, these unspent proceeds are classified as restricted-expendable net position.

If both restricted and unrestricted resources are to be used for the same purpose, the resources are used in accordance with applicable instructions of the grantor, donor, or law.

**Revenue Recognition**—The University recognizes exchange revenue in accordance with GASB Statement No. 34 (GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, when the University receives and gives up essentially equal values, and recognizes
nonexchange revenue in accordance with GASB Statement No. 33 (GASB 33), Accounting and Financial Reporting for Nonexchange Transactions, when the University receives something of value without directly giving something of equal value in exchange.

**Revenue and Expense Classifications**—The University has classified revenues and expenses as operating or nonoperating based upon the following criteria:

- **Operating revenues**: Revenues that result from exchange activities that contribute to the University's mission of Research and Discovery; Teaching and Learning; and Outreach and Public Service. Exchange activities are transactions where the amount received approximates the fair market value of the goods or services given up. The University considers student tuition and fees (net of scholarship allowances), most grants and contracts, interest on student loans, and sales and services of auxiliary and educational activities (net of scholarship allowances) to be exchange transactions.

- **Nonoperating revenues**: Revenues that represent nonexchange activities. The primary sources of these revenues are federal and State appropriations, gifts, capital grants, federal and state financial aid grants (such as Pell and Supplemental Educational Opportunity Grants), and other nonexchange grants and contracts. Although the University relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the grant or gift terms. Insurance recovery proceeds are also classified as nonoperating revenues as part of other nonoperating revenues, net, which total $2,195 and $2,510 for fiscal years 2014 and 2013, respectively.

- **Operating expenses**: Expenses that are paid to acquire or produce goods and services in return for operating revenues. The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 12.

  During fiscal years 2014 and 2013, departmental research in nonsponsored accounts of $182,617 and $180,713, respectively, was recorded as research expense.

- **Nonoperating expenses**: Expenses incurred in the performance of activities that are not directly related to generating University operating revenues, such as interest on capital asset-related debt.

**Reclassifications**—Certain prior-year amounts have been reclassified to conform to the presentation used in the current year. These reclassifications had no impact on net position as previously reported.

**Use of Estimates**—To prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management's estimates relate to investment valuations, accounts payable, allowances for uncollectible accounts, self-insurance reserves, scholarship discounts and allowances, arbitrage rebates, and vacation pay and pension accruals.

**New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued new accounting standards that may be applicable to the University effective in future fiscal years.
GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, improves the accounting and financial reporting for pensions, along with improving information regarding financial support for pensions provided by other entities. The provisions of this Statement are effective for fiscal year 2015.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer; or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are effective for fiscal year 2015.

Management is in the process of evaluating whether these GASB statements will be applicable to the University and the impact these statements may have on the University’s financial statements.

### 2. Cash and Investments

#### Summary

The University maintains centralized management of substantially all of its cash and investments which are held in several investment pools. Each pool has a specific set of guidelines designed to meet its respective investment objectives within risk parameters established for that pool. Securities held in these portfolios are exposed to various types of risk such as credit, interest rates, foreign currency and other capital market risks. Material changes in the value of securities subsequent to June 30, 2014 could affect the market values reported in the consolidated financial statements.

The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2014:

<table>
<thead>
<tr>
<th>Temporary Investment Pool</th>
<th>Consolidated Endowment Fund</th>
<th>Group Income Pool</th>
<th>Separately Invested Funds and Other</th>
<th>Invested assets related to indebtedness</th>
<th>RUMINCO, Ltd. insurance subsidiary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$150,717</td>
<td>$90,007</td>
<td>$1,882</td>
<td>$443</td>
<td>$243,049</td>
<td></td>
</tr>
<tr>
<td>Short-term investments</td>
<td>676</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>676</td>
</tr>
<tr>
<td>Total current assets</td>
<td>151,393</td>
<td>90,007</td>
<td>1,882</td>
<td>443</td>
<td>243,725</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Restricted cash and cash equivalents</th>
<th>$66,888</th>
<th>66,888</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Long-term investments</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>805,992</td>
<td>211,651</td>
<td>43,485</td>
<td>13,478</td>
<td>1,094,606</td>
<td></td>
</tr>
<tr>
<td>Public Equity</td>
<td>390,831</td>
<td></td>
<td></td>
<td>25,337</td>
<td>416,168</td>
<td></td>
</tr>
<tr>
<td>Private Capital</td>
<td>365,253</td>
<td></td>
<td></td>
<td>365,253</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Hedges</td>
<td>198,132</td>
<td></td>
<td></td>
<td>198,132</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>21,014</td>
<td>$16,545</td>
<td></td>
<td></td>
<td>37,559</td>
<td></td>
</tr>
<tr>
<td>Total noncurrent investments</td>
<td>805,992</td>
<td>1,186,881</td>
<td>43,485</td>
<td>16,545</td>
<td>38,815</td>
<td>2,091,718</td>
</tr>
<tr>
<td>Total cash and investments</td>
<td>$957,385</td>
<td>$1,276,888</td>
<td>$45,367</td>
<td>$16,545</td>
<td>$66,888</td>
<td>$35,238</td>
</tr>
</tbody>
</table>
The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2013:

<table>
<thead>
<tr>
<th>Temporary Investment Pool</th>
<th>Consolidated Endowment Fund</th>
<th>Group Income Pool</th>
<th>Separately Invested Funds and other</th>
<th>Invested assets related to indebtedness</th>
<th>RUMINCO, Ltd. insurance subsidiary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 166,847</td>
<td>$ 24,496</td>
<td>713</td>
<td>$ 1,756</td>
<td>$ 194</td>
<td>$ 194,006</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>89,534</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>89,534</td>
</tr>
<tr>
<td>Total current assets</td>
<td>256,381</td>
<td>24,496</td>
<td>713</td>
<td>1,756</td>
<td>194</td>
<td>283,540</td>
</tr>
</tbody>
</table>

| Restricted cash and cash equivalents | 87,005 | 87,005 |

Long-term investments

<table>
<thead>
<tr>
<th>Fixed Income</th>
<th>731,220</th>
<th>193,329</th>
<th>45,304</th>
<th>21,032</th>
<th>990,885</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>287,051</td>
<td></td>
<td></td>
<td>14,601</td>
<td>301,652</td>
</tr>
<tr>
<td>Private Capital</td>
<td>343,386</td>
<td></td>
<td></td>
<td></td>
<td>343,386</td>
</tr>
<tr>
<td>Inflation Hedges</td>
<td>216,647</td>
<td></td>
<td></td>
<td></td>
<td>216,647</td>
</tr>
<tr>
<td>Other</td>
<td>10,557</td>
<td></td>
<td>26,029</td>
<td></td>
<td>36,586</td>
</tr>
<tr>
<td>Total noncurrent investments</td>
<td>731,220</td>
<td>1,050,970</td>
<td>45,304</td>
<td>26,029</td>
<td>35,633</td>
</tr>
<tr>
<td>Total cash and investments</td>
<td>$ 987,601</td>
<td>$ 1,075,466</td>
<td>$ 46,017</td>
<td>$ 26,029</td>
<td>$ 88,761</td>
</tr>
</tbody>
</table>

**Authorizations**

The Board of Regents (Board) establishes the investment policies and objectives for all University funds. RUMINCO, Ltd., a wholly-owned captive insurance company, has an independent Board of Directors that establishes the investment policies and objectives for its reserves. Guidelines to manage the investment pools are described below:

**Temporary Investment Pool (TIP)—Short-Term Reserves**—The TIP funds are intended to meet the current obligations of the University. The investment objectives for the TIP are to maximize current income and investment returns, maintain sufficient liquidity for University operations, and provide backup liquidity for certain University short-term or variable-rate debt obligations. The pool may invest in money market funds, corporate obligations, and U.S. government and agency securities, within specified credit quality and term constraints.

The Board’s Investment of Reserves policy allows for up to 30 percent of the pool to be invested in the Consolidated Endowment Fund (CEF). As of June 30, 2014 and 2013, the market value of the TIP assets invested in the CEF was $134,237 and $123,638, respectively. These assets are reported in the total cash and investments of the CEF. In addition, the Investment of Reserves policy guidelines include the following: average duration of four years or less for the entire pool and maximum duration of seven years for any individual holding; average credit quality of A1/A+ or better; no use of leverage; and credit ratings of investment grade defined as Baa3/BBB- or better by Moody’s or Standard & Poor’s. Retention of a lower rated security requires approval by the President or delegate with notification to the Board.

For June 30, 2014 and 2013 the TIP’s average Standard & Poor’s credit rating was AA and AA+, respectively.

**Consolidated Endowment Fund (CEF)**—The CEF represents the pooling of funds from both public and private sources for which donor intent, law, or institutional decree determines the principal amount that must be invested in perpetuity or other specified time frames. The funds are invested to achieve an inflation-adjusted rate of return, after expenses are deducted, that exceeds the current payout rate of 4.5 percent of the
average of the endowment’s trailing month-end market values for the prior 60 months. The Board reserves
the authority to approve asset allocation ranges for this pool. For fiscal years ended June 30, 2014 and 2013,
$46,653 and $46,267, respectively, in net appreciation over the prior fiscal year was made available for
departmental spending in restricted expendable net assets.

Minnesota State Chapter 309, Section 745, governs the expenditure or accumulation of endowment funds.
An institution may appropriate for expenditure or accumulate so much of an endowment fund as the
institution determines is prudent.

The University makes distributions from the CEF for activities targeted by the individual endowments.
When the CEF investment return is less than the payout rate, accumulated capital gains are used to
supplement the distribution payout to meet the spending policy. If investment income exceeds the amount
needed for distribution the excess remains as a capital gain in the respective endowment.

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in
separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund
structures has different risk and return characteristics. LP investments are privately negotiated transactions
with limited liquidity. LPs are required to conduct an external audit annually in accordance with the
Financial Accounting Standards Board or the International Accounting Standards Board. As of June 30,
2014 and 2013, the University had unfunded commitments to LPs of $220,576 and $161,157, respectively,
which are commitments that have not been drawn down by the general partners.

**Group Income Pool (GIP)—Long-Term Reserves**—The GIP represents assets invested for the benefit of
various University units for long-term capital purposes. The investment objective of the GIP is to maximize
the total investment return while preserving capital balances until such time as the principal is required to
fund the intended use. The GIP is invested in fixed-income funds through external investment managers.
Additionally, up to 50 percent of the pool can be invested in the CEF. As of June 30, 2014 and 2013, the
market value of the GIP assets invested in the CEF was $13,459 and $11,916, respectively. These assets are
reported in the total cash and investments of the CEF.

**Separately Invested Funds (SIF) and Other**—The SIF represent restricted assets which include future
licensing or royalty interests and equity in companies that are established based on University owned
technology, as well as minerals and future mineral rights assigned to the University from privately owned
real estate. All of these assets have been assigned a nominal value. Investments defined as “Other”
represent investments made by the University in its own intellectual property, such as copyrights, patents,
and trademarks, which are developed with the primary purpose of generating royalty income from its
licensing to external customers. These other investments are valued at cost, which is based on certain filing
and legal expenses incurred to establish the University’s legal ownership.

**Invested Assets Related to Indebtedness**—Invested Assets Related to Indebtedness are internally managed
and held in custodial accounts. These assets are invested in high quality, short-term fixed income securities
until needed for capital projects for which the debt was issued.

**Regents of the University of Minnesota Insurance Company, Ltd. (RUMINCO)**—RUMINCO is a
wholly-owned captive insurance company (Note 9) whose principal activities are the insurance of certain
risks to the University. Coverage includes: commercial general and professional liability, non-profit
organization liability, business auto liability and excess automobile liability. RUMINCO insurance
agreements limit the exposure to loss on a per-occurrence and annual aggregate basis.

The investment objectives for the liability reserves, which cover specific known and expected claims, are
capital preservation and near term liquidity. The investment objectives for the capital surplus in excess of
the liability reserves are to maximize the total return within acceptable risk parameters and to achieve at least 400 basis points of return above the inflation rate over multiple year periods.

Components of the Net Investment Income (Loss)—Components of the net investment income (loss) include interest, dividends, realized and unrealized gains or losses and all changes in fair market value on investments. Investment income is current year investment income that could include net increase or decrease in fair market values of investments from prior years.

The components of the net investment income (loss) are as follows:

<table>
<thead>
<tr>
<th>Temporary Investment Pool</th>
<th>Investment income (net)</th>
<th>Net increase (decrease) in the fair market value of investments</th>
<th>Net investment income (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Endowment Fund</td>
<td>12,266</td>
<td>3,842</td>
<td>16,108</td>
</tr>
<tr>
<td>Group Investment Pool</td>
<td>97,572</td>
<td>127,386</td>
<td>224,958</td>
</tr>
<tr>
<td>Separately Invested Funds and Other</td>
<td>(478)</td>
<td>1,313</td>
<td>835</td>
</tr>
<tr>
<td>Invested Assets Related to Indebtedness</td>
<td>253</td>
<td>(14,343)</td>
<td>(14,090)</td>
</tr>
<tr>
<td>RUMINCO, Ltd. Insurance Subsidiary</td>
<td>7</td>
<td>2,401</td>
<td>2,408</td>
</tr>
<tr>
<td>Total 2014</td>
<td>$10,130</td>
<td>$124,277</td>
<td>$234,407</td>
</tr>
</tbody>
</table>

| Total 2013                | $108,715                  | $14,082                                                      | $122,797                   |

Investment Risks

Credit and Interest Rate Risk—Credit risk is the risk that company specific events may cause a bond issuer to default, which results in a failure to repay principal or interest owed to the University in a timely manner. The Board’s Investment of Reserves policy affecting the assets of the TIP limits investments in fixed income instruments to those with credit ratings of investment grade as a means of managing its exposure to market value losses arising from credit deterioration or defaults.

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of the University’s fixed income investments. The Board’s Investment of Reserves policy affecting assets in the TIP limits investment duration as a means of managing its exposure to market value losses arising from increasing interest rates.
The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2014:

<table>
<thead>
<tr>
<th>Fixed-income securities</th>
<th>Market value</th>
<th>Weighted average maturity (years)</th>
<th>AA or better</th>
<th>BBB to A</th>
<th>BB or lower</th>
<th>Not rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; equivalents</td>
<td>$246,211</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>97,179</td>
<td>19.8</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>US Agency</td>
<td>461,975</td>
<td>3.2</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>US Treasury</td>
<td>245,492</td>
<td>2.9</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>250,384</td>
<td>4.3</td>
<td></td>
<td></td>
<td></td>
<td>51</td>
</tr>
<tr>
<td><strong>Total marketable fixed-income securities</strong></td>
<td><strong>1,301,241</strong></td>
<td><strong>4.0</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private fixed-income securities</td>
<td>19,260</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total fixed-income securities</strong></td>
<td><strong>$1,320,501</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2013:

<table>
<thead>
<tr>
<th>Fixed-income securities</th>
<th>Market value</th>
<th>Weighted average maturity (years)</th>
<th>AA or better</th>
<th>BBB to A</th>
<th>BB or lower</th>
<th>Not rated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; equivalents</td>
<td>$205,380</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>93,636</td>
<td>20.6</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>US Agency</td>
<td>601,139</td>
<td>3.1</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>US Treasury</td>
<td>124,160</td>
<td>3.5</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>224,655</td>
<td>5.7</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Total marketable fixed-income securities</strong></td>
<td><strong>1,248,970</strong></td>
<td><strong>4.4</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private fixed-income securities</td>
<td>35,010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total fixed-income securities</strong></td>
<td><strong>$1,283,980</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Concentration of Credit Risk**—Concentration of credit risk is the risk of loss attributed to the exposure of the University’s investment in a single issuer. The Board’s Endowment Fund policy prohibits investing directly in individual issuers in the CEF and places limits on exposures to individual managers and funds. The Board’s Investment of Reserves policy places limits on concentrations to a single corporate issuer in the TIP of no more than 5 percent. As of June 30, 2014, and 2013, all securities held in the pools were in compliance with policy guidelines.

**Foreign Currency Risk**—The University invests in foreign currency denominated assets. Fluctuations in exchange rates may adversely affect the fair market value of such investments.
The following table summarizes the University’s exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2014 and 2013:

<table>
<thead>
<tr>
<th>Investment type</th>
<th>Foreign currency</th>
<th>Market value 2014</th>
<th>Market value 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity/Debt/RE</td>
<td>Euro</td>
<td>$ 70,441</td>
<td>$ 53,281</td>
</tr>
<tr>
<td>Equity</td>
<td>British Pound Sterling</td>
<td>39,855</td>
<td>32,336</td>
</tr>
<tr>
<td>Equity</td>
<td>Japanese Yen</td>
<td>27,717</td>
<td>24,251</td>
</tr>
<tr>
<td>Equity</td>
<td>Hong Kong Dollar</td>
<td>15,436</td>
<td>10,024</td>
</tr>
<tr>
<td>Equity</td>
<td>Canadian Dollar</td>
<td>7,806</td>
<td>7,382</td>
</tr>
<tr>
<td>Equity/Debt</td>
<td>Brazilian Real</td>
<td>7,220</td>
<td>3,729</td>
</tr>
<tr>
<td>Equity</td>
<td>South African Rand</td>
<td>6,164</td>
<td>4,088</td>
</tr>
<tr>
<td>Equity</td>
<td>Swiss Franc</td>
<td>5,943</td>
<td>5,555</td>
</tr>
<tr>
<td>Equity</td>
<td>Australian Dollar</td>
<td>5,404</td>
<td>5,368</td>
</tr>
<tr>
<td>Equity</td>
<td>South Korean Won</td>
<td>4,963</td>
<td>2,344</td>
</tr>
<tr>
<td>Equity</td>
<td>Thailand Baht</td>
<td>4,184</td>
<td>1,233</td>
</tr>
<tr>
<td>Equity/Debt</td>
<td>Mexican Peso</td>
<td>3,509</td>
<td>3,690</td>
</tr>
<tr>
<td>Equity</td>
<td>Swedish Krona</td>
<td>2,519</td>
<td>2,227</td>
</tr>
<tr>
<td>Equity</td>
<td>Singapore Dollar</td>
<td>2,411</td>
<td>3,131</td>
</tr>
<tr>
<td>Equity</td>
<td>Turkish Lira</td>
<td>2,185</td>
<td>638</td>
</tr>
<tr>
<td>Equity</td>
<td>Indonesian Rupiah</td>
<td>2,167</td>
<td>927</td>
</tr>
<tr>
<td>Equity</td>
<td>Malaysian Ringgit</td>
<td>2,004</td>
<td>1,985</td>
</tr>
<tr>
<td>Equity</td>
<td>New Taiwan Dollar</td>
<td>1,906</td>
<td>644</td>
</tr>
<tr>
<td>Equity/Debt</td>
<td>Indian Rupee</td>
<td>1,760</td>
<td>317</td>
</tr>
<tr>
<td>Equity</td>
<td>Norwegian Krone</td>
<td>1,613</td>
<td>670</td>
</tr>
<tr>
<td>Equity</td>
<td>Philippine Peso</td>
<td>990</td>
<td>801</td>
</tr>
<tr>
<td>Equity</td>
<td>Danish Krone</td>
<td>971</td>
<td>679</td>
</tr>
<tr>
<td>Equity/Debt</td>
<td>Other Currency</td>
<td>841</td>
<td>234</td>
</tr>
<tr>
<td>Equity</td>
<td>Polish Zloty</td>
<td>499</td>
<td>88</td>
</tr>
<tr>
<td>Equity</td>
<td>Chile Peso</td>
<td>458</td>
<td>214</td>
</tr>
<tr>
<td>Equity</td>
<td>Israeli Shekel</td>
<td>325</td>
<td>289</td>
</tr>
<tr>
<td>Equity</td>
<td>New Zealand Dollar</td>
<td>138</td>
<td>80</td>
</tr>
<tr>
<td>Equity</td>
<td>Russian Ruble</td>
<td>86</td>
<td>761</td>
</tr>
<tr>
<td>Equity</td>
<td>Chinese Rennminbi</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>Uruguay Peso</td>
<td>211</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>Argentine Peso</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$219,517</strong></td>
<td><strong>$167,250</strong></td>
</tr>
</tbody>
</table>

**Securities Lending**—The University does not participate in a securities lending program.

**Financial Institution Credit Risk**

**Deposits**—Depository credit risk is the risk that in the event of a bank failure, the University’s deposits may not be recovered. Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts were fully insured, regardless of balance, at qualified FDIC-insured institutions. This change was due to the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage for such non-interest-bearing accounts. As scheduled, the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits that are held in the same ownership category, and the FDIC insured amount reverted back to $250 thousand. As of June 30, 2014 the University’s bank balances of $244,132 were uninsured and uncollateralized and as of June 30, 2013 the University’s bank balances of $203,130 were uninsured and uncollateralized.
**Investments**—Custodial credit risk is the risk that, in the event of failure of the counterparty, the University may not be able to recover the value of its investments held in custodial accounts. The University currently has custodial accounts at State Street Bank & Trust Company and JPMorgan Chase. As of June 30, 2014 and 2013, the market value of investments held in the custodial accounts was $804,646 and $818,936 in TIP; and $101,002 and $69,574 in CEF; and $21,757 and $0 in GIP, respectively.

3. **Other Asset and Liability Information**

Receivables, net, and student loans receivable, net, as of June 30, 2014, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and federal appropriations</td>
<td>$7,612</td>
<td></td>
<td>$7,612</td>
</tr>
<tr>
<td>Sponsored grants and contracts</td>
<td>102,080</td>
<td></td>
<td>102,080</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>904</td>
<td>$14,537</td>
<td>15,441</td>
</tr>
<tr>
<td>Student receivables</td>
<td>41,613</td>
<td></td>
<td>41,613</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>131,044</td>
<td></td>
<td>131,044</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>1,887</td>
<td></td>
<td>1,887</td>
</tr>
<tr>
<td>Other</td>
<td>29,987</td>
<td>17</td>
<td>30,004</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>(12,703)</td>
<td></td>
<td>(12,703)</td>
</tr>
<tr>
<td><strong>Total receivables, net</strong></td>
<td>$302,424</td>
<td>$14,554</td>
<td>$316,978</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loans receivable</td>
<td>12,401</td>
<td>57,722</td>
<td>70,123</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>(2,502)</td>
<td>(577)</td>
<td>(3,079)</td>
</tr>
<tr>
<td><strong>Student loans receivable, net</strong></td>
<td>$9,909</td>
<td>$57,145</td>
<td>$67,044</td>
</tr>
</tbody>
</table>

Accrued liabilities as of June 30, 2014, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade liabilities</td>
<td>$10,120</td>
<td>$458</td>
<td>$10,578</td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>142,273</td>
<td>137,960</td>
<td>280,233</td>
</tr>
<tr>
<td>Self-insurance reserves</td>
<td>31,062</td>
<td>11,571</td>
<td>42,633</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>12,283</td>
<td></td>
<td>12,283</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>53,870</td>
<td></td>
<td>53,870</td>
</tr>
<tr>
<td>Other</td>
<td>48,651</td>
<td>1,501</td>
<td>50,152</td>
</tr>
<tr>
<td><strong>Total accrued liabilities</strong></td>
<td>$244,389</td>
<td>$205,360</td>
<td>$449,749</td>
</tr>
</tbody>
</table>

Activity for certain liabilities consisted of the following for the year ended June 30, 2014:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
<th>Current Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated balances (excluding pensions, OPEB, termination benefits, see Notes 6, 10, 11)</td>
<td>$245,195</td>
<td>$154,851</td>
<td>$(121,779)</td>
<td>$278,267</td>
<td>$142,273</td>
</tr>
<tr>
<td>Self-insurance reserves (see Note 9)</td>
<td>42,980</td>
<td>264,681</td>
<td>$(265,028)</td>
<td>42,633</td>
<td>31,062</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>53,330</td>
<td>540</td>
<td></td>
<td>53,870</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>50,969</td>
<td>50,152</td>
<td></td>
<td>50,152</td>
<td>48,651</td>
</tr>
</tbody>
</table>
Receivables, net, and student loans receivable, net, as of June 30, 2013, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and federal appropriations</td>
<td>$ 9,498</td>
<td>$ 9,498</td>
<td></td>
</tr>
<tr>
<td>Sponsored grants and contracts</td>
<td>108,265</td>
<td>108,265</td>
<td></td>
</tr>
<tr>
<td>Notes receivable</td>
<td>1,300</td>
<td>$ 4,136</td>
<td>5,436</td>
</tr>
<tr>
<td>Student receivables</td>
<td>40,737</td>
<td>40,737</td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>122,893</td>
<td>122,893</td>
<td></td>
</tr>
<tr>
<td>Accrued interest</td>
<td>2,283</td>
<td>2,283</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>24,010</td>
<td>12</td>
<td>24,022</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>(11,965)</td>
<td>(11,965)</td>
<td></td>
</tr>
<tr>
<td><strong>Total receivables, net</strong></td>
<td>$ 297,021</td>
<td>$ 4,148</td>
<td>$ 301,169</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loans receivable</td>
<td>16,926</td>
<td>54,634</td>
<td>71,560</td>
</tr>
<tr>
<td>Allowance for uncollectible accounts</td>
<td>(3,069)</td>
<td>(546)</td>
<td>(3,615)</td>
</tr>
<tr>
<td><strong>Student loans receivable, net</strong></td>
<td>$ 13,857</td>
<td>$ 54,088</td>
<td>$ 67,945</td>
</tr>
</tbody>
</table>

Accrued liabilities as of June 30, 2013, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Noncurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade liabilities</td>
<td>$ 14,553</td>
<td>$ 714</td>
<td>$ 15,267</td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>130,661</td>
<td>119,206</td>
<td>249,867</td>
</tr>
<tr>
<td>Self-insurance reserves</td>
<td>32,445</td>
<td>10,535</td>
<td>42,980</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>11,552</td>
<td>53,330</td>
<td>53,330</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>50,190</td>
<td>779</td>
<td>50,969</td>
</tr>
<tr>
<td><strong>Total accrued liabilities</strong></td>
<td>$ 239,401</td>
<td>$ 184,564</td>
<td>$ 423,965</td>
</tr>
</tbody>
</table>

Activity for certain liabilities consisted of the following for the year ended June 30, 2013:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
<th>Current Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated balances (excluding pensions, OPEB, termination benefits, see Notes 6, 10, 11)</td>
<td>$ 220,097</td>
<td>$ 144,233</td>
<td>$(119,135)</td>
<td>$ 245,195</td>
<td>$ 130,661</td>
</tr>
<tr>
<td>Self-insurance reserves (see Note 9)</td>
<td>48,109</td>
<td>256,536</td>
<td>$(261,665)</td>
<td>42,980</td>
<td>32,445</td>
</tr>
<tr>
<td>Refundable advances</td>
<td>55,037</td>
<td>$(1,707)</td>
<td>53,330</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>41,123</td>
<td>50,969</td>
<td>$(41,123)</td>
<td>50,969</td>
<td>50,190</td>
</tr>
</tbody>
</table>
4. Capital Assets

Capital assets, net as of June 30, 2014, consisted of the following:

<table>
<thead>
<tr>
<th>Depreciable / amortizable capital assets</th>
<th>Beginning balance</th>
<th>Additions</th>
<th>Transfers</th>
<th>Retirements</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>$3,495,733</td>
<td>$545</td>
<td>$299,013</td>
<td>$(17,094)</td>
<td>$3,778,197</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>9,734</td>
<td>645</td>
<td></td>
<td></td>
<td>10,379</td>
</tr>
<tr>
<td>Equipment</td>
<td>741,165</td>
<td>53,158</td>
<td></td>
<td>$(51,656)</td>
<td>742,667</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>461,525</td>
<td>3,096</td>
<td>3,657</td>
<td></td>
<td>468,278</td>
</tr>
<tr>
<td>Library and reference books</td>
<td>144,672</td>
<td>5,683</td>
<td></td>
<td></td>
<td>150,355</td>
</tr>
<tr>
<td>Capitalized software (intangible asset)</td>
<td>117,935</td>
<td>16,597</td>
<td></td>
<td></td>
<td>134,532</td>
</tr>
<tr>
<td>All other intangible assets</td>
<td>5,052</td>
<td>672</td>
<td></td>
<td></td>
<td>5,724</td>
</tr>
<tr>
<td><strong>Total depreciable / amortizable capital assets</strong></td>
<td><strong>4,975,816</strong></td>
<td><strong>80,396</strong></td>
<td><strong>302,670</strong></td>
<td><strong>(68,753)</strong></td>
<td><strong>5,290,132</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-depreciable / amortizable capital assets</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>91,090</td>
<td>2,925</td>
<td></td>
<td></td>
<td>94,015</td>
</tr>
<tr>
<td>Museums and collections</td>
<td>54,695</td>
<td>6,285</td>
<td>(48)</td>
<td></td>
<td>60,932</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>278,103</td>
<td>136,233</td>
<td>(290,564)</td>
<td>(3,392)</td>
<td>120,380</td>
</tr>
<tr>
<td>Permanent right-of-way easements (intangible asset)</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td><strong>Total non-depreciable / amortizable capital assets</strong></td>
<td><strong>423,890</strong></td>
<td><strong>145,444</strong></td>
<td><strong>(290,612)</strong></td>
<td><strong>(3,392)</strong></td>
<td><strong>275,330</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accumulated depreciation / amortization</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>(1,581,243)</td>
<td>(95,623)</td>
<td>(12,058)</td>
<td>12,252</td>
<td>(1,676,662)</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>(5,123)</td>
<td>(782)</td>
<td></td>
<td></td>
<td>(5,905)</td>
</tr>
<tr>
<td>Equipment</td>
<td>(517,497)</td>
<td>(59,688)</td>
<td></td>
<td></td>
<td>(526,880)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>(232,422)</td>
<td>(16,458)</td>
<td></td>
<td></td>
<td>(248,880)</td>
</tr>
<tr>
<td>Library and reference books</td>
<td>(84,783)</td>
<td>(12,184)</td>
<td></td>
<td></td>
<td>(96,967)</td>
</tr>
<tr>
<td>Capitalized software (intangible asset)</td>
<td>(98,140)</td>
<td>(7,412)</td>
<td></td>
<td></td>
<td>(105,552)</td>
</tr>
<tr>
<td>All other intangible assets</td>
<td>(3,584)</td>
<td>(558)</td>
<td></td>
<td></td>
<td>(4,142)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation / amortization</strong></td>
<td><strong>(2,522,792)</strong></td>
<td><strong>(192,705)</strong></td>
<td><strong>(12,058)</strong></td>
<td><strong>62,587</strong></td>
<td><strong>(2,664,968)</strong></td>
</tr>
</tbody>
</table>

| Capital assets, net                        | $2,876,914      | $33,135  | $-        | $-(9,555)   | $2,900,494     |

**Summary**

| Depreciable / amortizable capital assets | $4,975,816 | $80,396 | $302,670 | $(68,750) | $5,290,132 |
| Non-depreciable / amortizable capital assets | 423,890 | 145,444 | (290,612) | (3,392) | 275,330 |
| **Total capital assets** | **5,399,706** | **225,840** | **12,058** | **(72,142)** | **5,565,462** |
| Less accumulated depreciation / amortization | (2,522,792) | (192,705) | (12,058) | 62,587 | (2,664,968) |
| **Capital assets, net** | **$2,876,914** | **$33,135** | **$-** | **$(9,555)** | **$2,900,494** |
Capital assets, net as of June 30, 2013, consisted of the following:

<table>
<thead>
<tr>
<th>Depreciable / amortizable capital assets</th>
<th>Beginning balance</th>
<th>Additions</th>
<th>Transfers</th>
<th>Retirements</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>$ 3,313,255</td>
<td>$ 41,854</td>
<td>$ 140,625</td>
<td>$ (41)</td>
<td>$ 3,495,733</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>9,242</td>
<td>409</td>
<td>12</td>
<td>9,734</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>721,675</td>
<td>61,663</td>
<td>(42,173)</td>
<td>741,165</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>438,055</td>
<td>(83)</td>
<td>23,555</td>
<td>461,525</td>
<td></td>
</tr>
<tr>
<td>Library and reference books</td>
<td>139,389</td>
<td>5,283</td>
<td>144,672</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized software (intangible asset)</td>
<td>111,949</td>
<td>5,986</td>
<td>117,935</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other intangible assets</td>
<td>4,473</td>
<td>579</td>
<td>5,052</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total depreciable / amortizable capital assets</strong></td>
<td><strong>4,738,038</strong></td>
<td><strong>115,691</strong></td>
<td><strong>164,302</strong></td>
<td><strong>(42,214)</strong></td>
<td><strong>4,975,816</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-depreciable / amortizable capital assets</th>
<th>Land</th>
<th>Museums and collections</th>
<th>Construction in progress</th>
<th>Permanent right-of-way easements (intangible asset)</th>
<th>Total non-depreciable / amortizable capital assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>90,189</td>
<td>51,728</td>
<td>186,973</td>
<td>2</td>
<td>328,892</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accumulated depreciation / amortization</th>
<th>Buildings and improvements</th>
<th>Leasehold improvements</th>
<th>Equipment</th>
<th>Infrastructure</th>
<th>Library and reference books</th>
<th>Capitalized software (intangible asset)</th>
<th>All other intangible assets</th>
<th>Total accumulated depreciation / amortization</th>
<th>Capital assets, net</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1,489,974)</td>
<td>(91,269)</td>
<td>(4,327)</td>
<td>(786)</td>
<td>(496,331)</td>
<td>(61,492)</td>
<td>(217,352)</td>
<td>(15,070)</td>
<td>(72,275)</td>
</tr>
</tbody>
</table>

**Summary**

<table>
<thead>
<tr>
<th>Depreciable / amortizable capital assets</th>
<th>$ 4,738,038</th>
<th>$ 115,691</th>
<th>$ 164,302</th>
<th>$ (42,214)</th>
<th>$ 4,975,816</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-depreciable / amortizable capital assets</td>
<td>$ 328,892</td>
<td>$ 259,646</td>
<td>(164,302)</td>
<td>(346)</td>
<td>423,890</td>
</tr>
<tr>
<td><strong>Total capital assets</strong></td>
<td>$ 5,066,930</td>
<td>375,337</td>
<td>(42,560)</td>
<td>5,395,706</td>
<td></td>
</tr>
<tr>
<td>Less accumulated depreciation / amortization</td>
<td>(2,369,979)</td>
<td>(193,139)</td>
<td>40,326</td>
<td>(2,232,792)</td>
<td></td>
</tr>
<tr>
<td><strong>Capital assets, net</strong></td>
<td>$ 2,696,951</td>
<td>$ 182,198</td>
<td>$ -</td>
<td>$ (2,234)</td>
<td>$ 2,876,914</td>
</tr>
</tbody>
</table>
## 5. Long-Term Debt

Long-term debt as of June 30, 2014, consisted of the following:

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>Issued</th>
<th>Fiscal</th>
<th>Coupon Rate</th>
<th>Due Dates</th>
<th>FY 2014</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>amount (m)</td>
<td>year</td>
<td>interest rate</td>
<td>through fiscal year</td>
<td>beginning balance</td>
<td>Additions</td>
</tr>
<tr>
<td>General obligation bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2013D (taxable)</td>
<td>$12,760</td>
<td>2014</td>
<td>0.60%–4.84%</td>
<td>2039</td>
<td>$12,760</td>
<td>$12,760</td>
</tr>
<tr>
<td>Series 2013B (taxable)</td>
<td>13,780</td>
<td>2013</td>
<td>2.60%–3.75%</td>
<td>2038</td>
<td>$13,780</td>
<td>$345</td>
</tr>
<tr>
<td>Series 2013A (tax-exempt)</td>
<td>73,570</td>
<td>2013</td>
<td>2.00%–5.00%</td>
<td>2038</td>
<td>73,570</td>
<td>1,750</td>
</tr>
<tr>
<td>Series 2011D (tax-exempt)</td>
<td>53,610</td>
<td>2012</td>
<td>2.00%–5.00%</td>
<td>2037</td>
<td>52,450</td>
<td>1,195</td>
</tr>
<tr>
<td>Series 2011C (taxable)</td>
<td>19,335</td>
<td>2012</td>
<td>0.90%–4.56%</td>
<td>2037</td>
<td>19,035</td>
<td>530</td>
</tr>
<tr>
<td>Series 2011A (tax-exempt)</td>
<td>335,270</td>
<td>2011</td>
<td>2.00%–5.50%</td>
<td>2037</td>
<td>297,005</td>
<td>21,415</td>
</tr>
<tr>
<td>Series 2010B (taxable)</td>
<td>41,720</td>
<td>2011</td>
<td>0.74%–5.02%</td>
<td>2036</td>
<td>39,505</td>
<td>1,305</td>
</tr>
<tr>
<td>Series 2010D (taxable)</td>
<td>27,200</td>
<td>2010</td>
<td>3.86%–5.77%</td>
<td>2030</td>
<td>27,200</td>
<td>27,200</td>
</tr>
<tr>
<td>Series 2010C (tax-exempt)</td>
<td>8,480</td>
<td>2010</td>
<td>2.00%–4.00%</td>
<td>2016</td>
<td>4,440</td>
<td>1,425</td>
</tr>
<tr>
<td>Series 2009D (taxable)</td>
<td>37,330</td>
<td>2009</td>
<td>6.30%</td>
<td>2029</td>
<td>37,330</td>
<td>37,330</td>
</tr>
<tr>
<td>Series 2009C (tax-exempt)</td>
<td>44,625</td>
<td>2009</td>
<td>1.50%–5.00%</td>
<td>2022</td>
<td>33,700</td>
<td>3,120</td>
</tr>
<tr>
<td>Series 2009B (taxable)</td>
<td>17,035</td>
<td>2009</td>
<td>2.50%–6.00%</td>
<td>2029</td>
<td>14,785</td>
<td>640</td>
</tr>
<tr>
<td>Series 2009A (tax-exempt)</td>
<td>41,000</td>
<td>2009</td>
<td>3.00%–5.25%</td>
<td>2034</td>
<td>37,170</td>
<td>1,110</td>
</tr>
<tr>
<td>Commercial paper notes, Series A</td>
<td>159,100</td>
<td>2006</td>
<td>0.06%–0.08%</td>
<td>2015</td>
<td>117,100</td>
<td>7,000</td>
</tr>
<tr>
<td>Commercial paper notes, Series B</td>
<td>61,000</td>
<td>2007</td>
<td>0.08%</td>
<td>2015</td>
<td>43,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Commercial paper notes, Series C</td>
<td>70,000</td>
<td>2008</td>
<td>0.00%–0.08%</td>
<td>2015</td>
<td>50,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Commercial paper notes, Series D</td>
<td>25,000</td>
<td>2010</td>
<td>0.07%–0.10%</td>
<td>2015</td>
<td>19,450</td>
<td>1,750</td>
</tr>
<tr>
<td>Obligations to the State of Minnesota pursuant to infrastructure development bonds</td>
<td>109,234</td>
<td>1991-2006</td>
<td>3.55%–5.70%</td>
<td>2026</td>
<td>25,817</td>
<td>4,306</td>
</tr>
<tr>
<td>Auxiliary revenue bonds</td>
<td>10,080</td>
<td>1971-1977</td>
<td>3.00%</td>
<td>2014</td>
<td>620</td>
<td>620</td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2013C (tax-exempt)</td>
<td>35,395</td>
<td>2014</td>
<td>2.00%–5.00%</td>
<td>2039</td>
<td>35,395</td>
<td>35,395</td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2011B (tax-exempt)</td>
<td>52,485</td>
<td>2012</td>
<td>3.00%–5.00%</td>
<td>2037</td>
<td>52,110</td>
<td>1,180</td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2010A (tax-exempt)</td>
<td>111,400</td>
<td>2011</td>
<td>3.00%–5.00%</td>
<td>2036</td>
<td>108,165</td>
<td>2,655</td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2006 (tax-exempt)</td>
<td>137,250</td>
<td>2007</td>
<td>4.00%–5.00%</td>
<td>2030</td>
<td>113,995</td>
<td>4,695</td>
</tr>
<tr>
<td>Unamortized premium and discounts</td>
<td>87,800</td>
<td>2007-2014</td>
<td>2016-2039</td>
<td>73,725</td>
<td>2,831</td>
<td>4,031</td>
</tr>
<tr>
<td>Capital leases and other</td>
<td>1999-2014</td>
<td>1.94%–4.21%</td>
<td>2025</td>
<td>46,278</td>
<td>1,944</td>
<td>5,581</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,584,459</td>
<td></td>
<td></td>
<td>$1,300,230</td>
<td>$52,930</td>
<td>71,153</td>
</tr>
</tbody>
</table>
Long-term debt as of June 30, 2013, consisted of the following:

<table>
<thead>
<tr>
<th>General obligation bonds</th>
<th>Original amount (par)</th>
<th>Fiscal year issued</th>
<th>Coupon rate</th>
<th>Due at various dates through fiscal year balance</th>
<th>FY 2013 beginning balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>FY 2013 ending balance</th>
<th>Current portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 2013B (taxable)</td>
<td>$13,780</td>
<td>2013</td>
<td>2.60%-3.75%</td>
<td>2038 $13,780</td>
<td>$13,780</td>
<td>$1,345</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2013A (tax-exempt)</td>
<td>73,570</td>
<td>2013</td>
<td>2.00%-5.00%</td>
<td>2038 73,570</td>
<td>73,570</td>
<td>1,750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2011D (tax-exempt)</td>
<td>53,610</td>
<td>2012</td>
<td>2.00%-5.00%</td>
<td>2037 53,610</td>
<td>53,610</td>
<td>1,195</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2011C (taxable)</td>
<td>19,335</td>
<td>2012</td>
<td>0.90%-4.56%</td>
<td>2037 19,335</td>
<td>19,335</td>
<td>530</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2011A (tax-exempt)</td>
<td>335,270</td>
<td>2011</td>
<td>2.00%-5.00%</td>
<td>2037 317,800</td>
<td>20,575</td>
<td>21,415</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2010B (taxable)</td>
<td>41,720</td>
<td>2011</td>
<td>7.4%-5.02%</td>
<td>2036 40,800</td>
<td>1,295</td>
<td>1,305</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2010D (taxable)</td>
<td>27,200</td>
<td>2010</td>
<td>3.86%-5.77%</td>
<td>2030 27,200</td>
<td>27,200</td>
<td>27,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2010C (tax-exempt)</td>
<td>8,480</td>
<td>2010</td>
<td>2.00%-4.00%</td>
<td>2016 5,825</td>
<td>1,385</td>
<td>4,425</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2009D (taxable)</td>
<td>37,330</td>
<td>2009</td>
<td>6.30%</td>
<td>2029 37,330</td>
<td>27,200</td>
<td>27,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2009C (taxable)</td>
<td>44,625</td>
<td>2009</td>
<td>1.50%-5.00%</td>
<td>2022 36,655</td>
<td>2,965</td>
<td>33,700</td>
<td>3,120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2009B (taxable)</td>
<td>17,035</td>
<td>2009</td>
<td>2.50%-6.00%</td>
<td>2029 15,425</td>
<td>620</td>
<td>14,785</td>
<td>640</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2009A (tax-exempt)</td>
<td>41,000</td>
<td>2009</td>
<td>3.00%-5.25%</td>
<td>2034 38,285</td>
<td>1,075</td>
<td>37,170</td>
<td>1,110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper notes, Series A</td>
<td>159,100</td>
<td>2006</td>
<td>.10%-.16%</td>
<td>2014 124,130</td>
<td>7,000</td>
<td>117,100</td>
<td>117,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper notes, Series B</td>
<td>61,000</td>
<td>2007</td>
<td>.11%-.15%</td>
<td>2014 46,000</td>
<td>3,000</td>
<td>43,000</td>
<td>43,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper notes, Series C</td>
<td>70,000</td>
<td>2008</td>
<td>.11%-16%</td>
<td>2014 54,000</td>
<td>3,500</td>
<td>50,500</td>
<td>50,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper notes, Series D</td>
<td>25,000</td>
<td>2010</td>
<td>.12%-15%</td>
<td>2014 22,250</td>
<td>2,800</td>
<td>19,450</td>
<td>19,450</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations to the State of Minnesota pursuant to Infrastructure development bonds</td>
<td>109,234</td>
<td>1991-2006</td>
<td>3.55%-5.70%</td>
<td>2026 30,059</td>
<td>4,822</td>
<td>25,817</td>
<td>4,306</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary revenue bonds</td>
<td>12,555</td>
<td>1971-1977</td>
<td>3.00%</td>
<td>2014 1,420</td>
<td>800</td>
<td>620</td>
<td>620</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2011B (tax-exempt)</td>
<td>52,485</td>
<td>2012</td>
<td>3.00%-5.00%</td>
<td>2037 52,485</td>
<td>375</td>
<td>52,110</td>
<td>1,180</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2010A (tax-exempt)</td>
<td>111,400</td>
<td>2011</td>
<td>3.00%-5.00%</td>
<td>2036 110,705</td>
<td>2,540</td>
<td>108,165</td>
<td>2,655</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special purpose revenue bonds, Series 2006 (tax-exempt)</td>
<td>137,250</td>
<td>2007</td>
<td>4.00%-5.00%</td>
<td>2030 118,600</td>
<td>4,495</td>
<td>113,095</td>
<td>4,695</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unamortized premium and discounts</td>
<td>84,969</td>
<td>2007-2013</td>
<td>68,316</td>
<td>9,133</td>
<td>3,724</td>
<td>73,725</td>
<td>3,956</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital leases and other</td>
<td>1999-2013</td>
<td>1.98%-10.20%</td>
<td>5,098</td>
<td>45,306</td>
<td>5,016</td>
<td>46,278</td>
<td>5,119</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **Total** | **$1,535,948** | $1,226,388 | $141,789 | $67,447 | $1,300,730 | $285,416 |}

**General Obligation Bonds**

The University issued General Obligation Taxable Bonds for the University Supported Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The Series 2013D bonds were issued on November 6, 2013 in the par amount of $12,760 at coupon rates of 0.60% – 4.848 percent. The Series 2011C bonds were issued on October 13, 2011 in the par amount of $19,335 at coupon rates of 0.9 – 4.56 percent with a discount of $13. The Series 2010B bonds were issued on September 30, 2010 in the par amount of $41,720 at coupon rates of 0.74 – 5.02 percent.

On February 19, 2013, the University issued General Obligation Taxable Bonds, Series 2013B and General Obligation Bonds, Series 2013A in the par amount of $13,780 and $73,570, respectively. The proceeds will be used to fund various capital projects including the renovation of Northrop Memorial Auditorium, the construction of a student residence hall and dining facility, and the construction of the Physics & Nanotechnology Building, all on the Twin Cities campus, and construction of residence halls on each of the Crookston and Morris campuses. The 2013B bonds were issued at coupon rates of 2.6 – 3.75 percent with a premium of $354. The 2013A bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $8,779.

On December 21, 2011, the University issued General Obligation Bonds, Series 2011D in the par amount of $53,610. The proceeds will be used to fund various capital projects including portions of the renovation of Northrop Memorial Auditorium, the renovation of the Recreation Center, and construction of the student residence hall and dining facility, all on the Twin Cities campus, and the acquisition and installation of equipment related to these projects. The 2011D bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $7,354.
The University has outstanding General Obligation Taxable Bonds, Series 2010D, Series 2010B and Series 2009D. These Series are Build America Bonds – Direct Payment to Issuer, whereby the University is expected to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Due to the implementation of federal sequestration during FY13, the subsidy payments received to offset the June 1, 2014, February 1, 2014 and December 1, 2013 interest payments were reduced by 7.2 percent, and the August 1, 2013 and June 1, 2013 interest payments were reduced by 8.7 percent.

All general obligation bonds are secured by the full faith and credit of the University and subject to mandatory sinking fund requirements set forth in the prospectuses.

**Special Purpose Revenue Bonds**

The University issued Special Purpose Revenue Bonds for the State Supported Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The Series 2013C bonds were issued on November 6, 2013 in the par amount of $35,395 at coupon rates of 2.0 – 5.0 percent with a premium of $2,831. The Series 2011B bonds were issued on October 13, 2011 in the par amount of $52,485 at coupon rates of 3.0 – 5.0 percent with a premium of $5,408. The Series 2010A bonds were issued on September 30, 2010 in the par amount of $111,400 at coupon rates of 3.0 – 5.0 percent with a premium of $12,827. State of Minnesota legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds.

The University issued Special Purpose Revenue Bonds, Series 2006 to finance a portion of the cost of the TCF Bank Stadium on the Twin Cities campus and to pay costs of issuance. State funding of up to $10,250 per year for no more than 25 years is provided to reimburse the University for the annual debt service on these bonds.

**Commercial Paper Notes**

The University issued tax-exempt Commercial Paper Notes, Series A, B, C, and D, to defease outstanding bond obligations, to finance purchases of land and buildings, to finance construction and remodeling projects to be undertaken by the University, and to finance the acquisition and installation of equipment by the University. The commercial paper is backed by the University’s self-liquidity, which was supported by a line of credit with a major commercial bank through July 19, 2013. No amounts were ever drawn under the line of credit.

Although commercial paper is short-term in nature and classified as current liabilities in the financial statements, the University intends to hold the commercial paper notes as a long-term financing vehicle.

**Auxiliary Revenue Bonds**

On November 1, 2013, the University’s final auxiliary revenue bond debt obligations matured. The University’s auxiliary revenue bonds were secured by the revenues, net of expenses, of the auxiliary activity to which they related, debt-service subsidy grants provided by the U.S. Department of Housing and Urban Development, and the full faith and credit of the University. Student housing and food services net revenues of $1,504 in fiscal year 2014 and $1,544 in fiscal year 2013 were pledged as security to pay total debt service payments of $639 and $887 for auxiliary revenue bonds in fiscal years 2014 and 2013, respectively. Revenues were pledged until fiscal year 2014, at which time the debt obligation on these auxiliary revenue bonds was satisfied.
Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt service of infrastructure development bonds issued by the state for University capital projects. Debt was issued for this purpose between July 1990 and October 2005. The total amount of outstanding debt issued by the state on behalf of the University was $64,531 as of June 30, 2014 and $77,448 as of June 30, 2013 of which the University owes $21,511 and $25,817, respectively.

Capital Leases and Other Debt

The University has six distinct capital leases. Three of the six agreements are financed through third-party financing for purchase of fleet vehicles and other equipment. The remaining three capital leases have payments being paid directly to the lessor and represent leases for buildings. Associated capital assets acquired through capital leases for buildings are $55,451 with related accumulated depreciation of $18,621 and capital leases for vehicles and equipment are $11,384 and related accumulated depreciation of $5,573. The capital leases bear interest rates between 1.94 percent and 4.21 percent, with none extending beyond fiscal year 2025. One of the third-party financing agreements bears interest, which is tied to the 30 Day LIBOR Index** that cannot fall below a floor of 3.0 percent. The 3.0 percent floor for the note payable was maintained during the fiscal year ended June 30, 2014 and does not extend beyond fiscal year 2017. A second third-party financing agreement has interest rates tied to commercial paper, which ranged from 1.94 percent to 2.31 percent during fiscal year ended June 30, 2014.

Interest Rate Swaps

At June 30, 2014 the University has one freestanding pay-fixed and receive-variable interest rate swap that is considered an ineffective hedge, where the changes in fair value are included in investment income reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

The University had two freestanding pay-fixed, receive-variable interest rate swaps with notional amounts of $37,500 each that matured in fiscal year 2013. Fixed rates of 4.88 percent and 4.90 percent, respectively, were paid to two separate counterparties. The variable rate received on both was based on the LIBOR Index**.

The terms, fair values, and credit rating of the outstanding swap as of June 30, 2014, are as follows:

<table>
<thead>
<tr>
<th>Associated bond issue</th>
<th>Nature of association</th>
<th>Notional amounts</th>
<th>Effective date</th>
<th>Fixed rate</th>
<th>Variable rate</th>
<th>Swap type</th>
<th>Fair value</th>
<th>Swap maturity date</th>
</tr>
</thead>
<tbody>
<tr>
<td>CP, Series 2005A</td>
<td>Freestanding</td>
<td>$70,000</td>
<td>8/27/1997</td>
<td>4.98%</td>
<td>SIFMA Index*</td>
<td>Pay fixed and receive variable</td>
<td>$ (9,498)</td>
<td>8/27/2017</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$70,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* SIFMA (Securities Industry Financial Markets Association) Index previously known as the BMA (Bond Market Association) Index, is a 7-day high-grade market index comprised of tax-exempt variable demand obligations from the MMD (Municipal Market Data).

** LIBOR Index is an average yield of interbank offered rates for one-year US dollar-denominated deposits in the London Market.

Credit Risk—The swap that exists at the end of fiscal year 2014 is with a counterparty that is rated Aa3 by Moody’s Investors Service. The University faces maximum possible losses equivalent to the amount of the derivative’s fair value should the counterparty not perform under the terms of the swap agreements. Due to the fair value of the swap being negative as of June 30, 2014, the University was not exposed to credit risk.
It is the University’s practice to net payments to/from a counterparty required under the derivatives instrument as allowed under the terms of the Master Agreements.

**Interest Rate Risk**—The University is exposed to interest rate risk since the changes in interest rates may adversely affect the fair value of the University’s interest rate swaps and/or cash flows related to the net interest payments.

**Basis Risk**—The University was exposed to basis risk on the two swaps that matured during the current fiscal year since the variable-rate payments received by the University on the swaps were based on a rate or index other than interest rates the University pays to the holders of its commercial paper.

**Termination Risk**—The University is exposed to termination risk on its existing freestanding swap. Per the swap agreement, the counterparty is allowed to terminate the swap agreement if the variable rate paid by the counterparty to the University averages above 7.0 percent for any rolling consecutive 90-day period.

Variable-rate bond interest payments and net swap payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2014, debt service requirements of the University’s outstanding long-term debt obligations and net swap payments for the next five years and in subsequent five-year periods are as follows:

<table>
<thead>
<tr>
<th>Fiscal year ending June 30</th>
<th>Bonds and obligations</th>
<th>Commercial paper notes</th>
<th>Capital lease and other</th>
<th>Total principal</th>
<th>Interest</th>
<th>Net interest rate swaps</th>
<th>Total obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$ 51,812</td>
<td>$ 214,800</td>
<td>$ 5,414</td>
<td>$ 272,026</td>
<td>$ 47,535</td>
<td>$ 3,444</td>
<td>$ 323,005</td>
</tr>
<tr>
<td>2016</td>
<td>53,951</td>
<td>5,447</td>
<td>59,398</td>
<td>44,486</td>
<td>3,444</td>
<td>107,328</td>
<td>106,577</td>
</tr>
<tr>
<td>2017</td>
<td>55,805</td>
<td>5,172</td>
<td>60,977</td>
<td>41,936</td>
<td>3,444</td>
<td>101,214</td>
<td>106,577</td>
</tr>
<tr>
<td>2018</td>
<td>57,889</td>
<td>5,073</td>
<td>62,962</td>
<td>39,340</td>
<td>547</td>
<td>102,849</td>
<td>102,849</td>
</tr>
<tr>
<td>2019</td>
<td>59,656</td>
<td>5,007</td>
<td>64,663</td>
<td>36,551</td>
<td>547</td>
<td>101,214</td>
<td>101,214</td>
</tr>
<tr>
<td>2020-2024</td>
<td>236,774</td>
<td>16,949</td>
<td>252,723</td>
<td>146,657</td>
<td>399,380</td>
<td>340,577</td>
<td>399,380</td>
</tr>
<tr>
<td>2025-2029</td>
<td>249,532</td>
<td>579</td>
<td>250,111</td>
<td>90,466</td>
<td>340,577</td>
<td>340,577</td>
<td>340,577</td>
</tr>
<tr>
<td>2030-2034</td>
<td>173,941</td>
<td></td>
<td>173,941</td>
<td>38,503</td>
<td>212,444</td>
<td>212,444</td>
<td>212,444</td>
</tr>
<tr>
<td>2035-2039</td>
<td>85,706</td>
<td></td>
<td>85,706</td>
<td>7,022</td>
<td>92,728</td>
<td>92,728</td>
<td>92,728</td>
</tr>
<tr>
<td></td>
<td>$ 1,025,066</td>
<td>$ 214,800</td>
<td>$ 42,641</td>
<td>$ 1,282,507</td>
<td>$ 492,496</td>
<td>$ 10,879</td>
<td>$ 1,785,882</td>
</tr>
</tbody>
</table>

**Deceased Bonds**

In previous years, the University deceased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The deceased bonds are as follows:

<table>
<thead>
<tr>
<th>Associated bond issue</th>
<th>Refunding date</th>
<th>Amount deceased</th>
<th>Amount refunded</th>
<th>Bond call date</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General obligation bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996 Series A</td>
<td>10/2/2005</td>
<td>159,000</td>
<td>159,000</td>
<td>7/1/2021</td>
</tr>
</tbody>
</table>
The Series 1982A bonds were issued December 1, 1982, to finance the construction and equipment for the University Hospital and Clinics. They were defeased in fiscal year 1985, resulting in a recognized loss of $13,945.

The Series 1996A bonds were issued to provide funds for capital projects and to refund the general obligation variable rate demand bonds Series 1985F, 1985G, 1985H, and 1985I and the Series 1991A and Series 1991B Commercial Paper. As required under the terms of a put option exercised July 5, 2005, the proceeds from the issuance of Commercial Paper Notes, Series A in October 2005 were used to defease the remaining outstanding Series 1996A bonds. There was no gain or loss incurred with the defeasance of the Series 1996A bonds.

Neither the outstanding indebtedness nor the related trust account assets for the defeased bonds are included in the University’s financial statements.

Arbitrage

University general obligation and special purpose debt issuances issued after the Federal Tax Reform Act of 1986 are subject to federal arbitrage regulations. This results when earnings on the invested gross proceeds of a bond issue exceed the issuer’s tax-exempt borrowing rates. The University continues to monitor and report any arbitrage in accordance with the Internal Revenue Code. The University had no arbitrage liability at June 30, 2014 or June 30, 2013.

6. Pension Plans

The University and its employees contribute to pension plans characterized as either a defined benefit (specifies the amount of pension benefits to be provided at a future date) or defined contribution (specifies how contributions are to be determined, rather than an amount) plan.

Defined Benefit Plans

Cost-sharing plans, multiple-employer plans

United States Government (Federal) Retirement Plans

All University employees with federal benefits work for the University of Minnesota Extension (Extension) or its partner colleges; College of Food, Agricultural and Natural Resources Science (CFANS), College of Design, and College of Education and Human Development. These employees were grandfathered in, allowing them to keep their federal benefits, which were formerly offered exclusively to Extension staff. No new participants are being accepted into the federal retirement plans listed below. An exception would be granted to allow for a new participant when an appointment transfers from another Extension service. Questions regarding the federal plans listed below, including requests for financial statements and required supplementary information can be directed to the United States Office of Personnel Management (OPM), 1900 E Street N.W., Washington, DC 20415.

Civil Service Retirement System (CSRS)

The Civil Service Retirement System (CSRS) is a federal program that provides retirement benefits for approximately 23 employees who work for the University. Participation is limited to those who initially entered federal service prior to January 1, 1984, and have been continuously employed since December 31, 1983, or before, or have had a break in federal service of one year or less since 1984. It is closed to new members. Retirement benefits are based on years and months of service. CSRS provides full retirement
benefits at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service. Deferred benefits are payable at age 62 with 5 years of service. The annuity formula provides 1.5 percent of average salary for the first five years of service, 1.75 percent for the next five years, and 2.0 percent for any remaining service, up to a maximum of 80 percent of average salary (based on the highest three consecutive years of salary).

Civil Service Retirement System Offset Retirement (CSRS Offset)

The Civil Service Retirement System Offset Retirement (CSRS Offset) is administered in conjunction with the standard CSRS by the OPM. It provides retirement benefits for five employees who work for the University. Participation is limited to federal employees who had at least five years of creditable civilian federal service prior to January 1, 1987, and had rejoined federal service since January 1, 1984, after a break of CSRS coverage of more than one year; or were hired before January, 1, 1984, and acquired CSRS interim coverage (precursor to CSRS Offset coverage) between 1984 and 1987.

Federal Employees Retirement System (FERS)

The Federal Employees Retirement System (FERS) is a federal program that provides retirement benefits for approximately 91 employees who work for the University. In general, all civilian service employees newly hired on or after January 1, 1984, are mandatorily covered by FERS. In addition, employees rehired after January 1, 1984, who had less than five years of prior civilian service as of December 31, 1986, are mandatorily covered by FERS. Using Social Security as a base, FERS provides an additional defined benefit and a voluntary thrift savings plan. An employee who receives a new appointment can often elect FERS coverage voluntarily during the first six months of the appointment. FERS provides full retirement benefits at the "Minimum Retirement Age" (MRA) with 30 years of service, at age 60 with 20 years of service, or at age 62 with 5 years of service. The MRA is 55 for those born before 1948, and incrementally increases to 62 for those born in or after 1970. Deferred retirement benefits are available at or after the MRA with 10 years of service at reduced benefit levels. The annuity formula generally provides 1.0 percent of the employee’s average salary (based on the highest three consecutive years of salary) multiplied by the number of years of creditable service. If retirement is at age 62 or later with at least 20 years of service, a factor of 1.1 percent is used rather than 1.0 percent.

State of Minnesota Retirement Plans

Public Employee Police and Fire Fund (PEPFF)

The Public Employee Police and Fire Fund (PEPFF) covers approximately 62 active law enforcement staff; participation is mandatory and begins from the first day of employment. PEPFF, in total, provides coverage to approximately 500 local governmental subdivisions within the state of Minnesota. Each participant earns service credit for each month retirement deductions are withheld from the employee’s salary. Retirement benefits are based on years and months of service. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. The fund covers all those hired since 1980. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained from the Public Employees Retirement Association (PERA), 60 Empire Drive, Suite 200, St. Paul, MN 55103.

State Employees’ Retirement Fund (SERF)

The State Employees’ Retirement Fund (SERF) covers approximately 8,900 active Civil Service and non-faculty bargaining unit employees. SERF, in total, provides coverage to approximately 33 employers within the state of Minnesota. Participation is mandatory and begins from the first day of employment. Each
participant earns service credit for each month retirement deductions are withheld from the employee’s salary. Retirement benefits are based on years and months of service. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. Applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member’s average salary, which is defined as the highest salary paid in five successive years of service. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained from the Minnesota State Retirement System (MSRS), 60 Empire Drive, Suite 300, St. Paul, MN 55103.

Funding Policy

<table>
<thead>
<tr>
<th>Statutory authority</th>
<th>CSRS</th>
<th>CSRS Offset</th>
<th>FERS</th>
<th>PEPFF</th>
<th>SERC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota chapter</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>353</td>
<td>352</td>
</tr>
<tr>
<td>United States code</td>
<td>Title 5, Chapter 83</td>
<td>Title 5, Chapter 83</td>
<td>Title 5, Chapter 84</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Required contribution rates (%)

<table>
<thead>
<tr>
<th></th>
<th>Active plan members</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td></td>
<td>1.20%</td>
<td>8.51%</td>
</tr>
<tr>
<td></td>
<td>0.80%</td>
<td>11.90%</td>
</tr>
<tr>
<td></td>
<td>10.20%</td>
<td>15.30%</td>
</tr>
<tr>
<td></td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
</tbody>
</table>

Required contributions ($)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>$152</td>
<td>$172</td>
<td>$226</td>
<td>$513</td>
<td>$511</td>
<td>$462</td>
</tr>
<tr>
<td>University</td>
<td>$152</td>
<td>$172</td>
<td>$226</td>
<td>$894</td>
<td>$878</td>
<td>$900</td>
</tr>
</tbody>
</table>

Single-employer plan

Supplemental Benefits Plan (SBP)

The Supplemental Benefits Plan (SBP) is a plan sponsored by the University pursuant to the Board of Regents governing authority. This plan is in addition to the Faculty Retirement Plan (FRP), where faculty members employed prior to 1963 and female participants employed prior to July 1, 1982, may be eligible to receive additional benefits. SBP is designed to provide additional retirement benefits for certain groups of individuals who participated in the FRP, but who, due to plan design, have retirement income levels that are significantly lower than those of current participants. It accounts for 151 eligible participants. SBP is funded in an amount equal to or greater than the amount required under statute. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. The eligible population under the plan is a closed group. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Funding Policy

<table>
<thead>
<tr>
<th>Statutory authority</th>
<th>356</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota chapter</td>
<td></td>
</tr>
</tbody>
</table>

Required contribution rates (%)

<table>
<thead>
<tr>
<th></th>
<th>Active plan members</th>
<th>University</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Due to the plan being closed, required contribution rates do not apply. Contribution amounts are determined by funding status and actuarial value in compliance with state statutes. The University makes all contributions to the SBP using a variable rate.

### Annual Pension Cost and Net Pension Obligation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual required contribution (ARC)</td>
<td>$380</td>
</tr>
<tr>
<td>Interest on net pension obligation (NPO)</td>
<td>121</td>
</tr>
<tr>
<td>Adjustment to ARC</td>
<td>(374)</td>
</tr>
<tr>
<td>Annual pension cost (expense)</td>
<td>$127</td>
</tr>
<tr>
<td>Less contributions made — fiscal year ended June 30, 2014</td>
<td>(393)</td>
</tr>
<tr>
<td>Decrease in NPO</td>
<td>$266</td>
</tr>
<tr>
<td>NPO—June 30, 2013</td>
<td>2,422</td>
</tr>
<tr>
<td>NPO—June 30, 2014</td>
<td>$2,156</td>
</tr>
</tbody>
</table>

### Three-Year Trend Information

<table>
<thead>
<tr>
<th>Fiscal year ended</th>
<th>Annual pension cost</th>
<th>Employer contribution</th>
<th>Percentage of annual pension cost contributed</th>
<th>Net pension obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2014</td>
<td>$127</td>
<td>$393</td>
<td>30.945%</td>
<td>$2,156</td>
</tr>
<tr>
<td>6/30/2013</td>
<td>149</td>
<td>409</td>
<td>27.450%</td>
<td>2,422</td>
</tr>
<tr>
<td>6/30/2012</td>
<td>177</td>
<td>409</td>
<td>23.027%</td>
<td>2,682</td>
</tr>
</tbody>
</table>

### Schedule of Funding Progress

<table>
<thead>
<tr>
<th>Actuarial valuation date</th>
<th>Actuarial value of assets (a)</th>
<th>Actuarial accrued liability (AAL) (b)</th>
<th>Unfunded AAL (UAAL) (b-a)</th>
<th>Funded ratio (a/b)</th>
<th>Covered payroll (c)</th>
<th>UAAL as a percentage of covered payroll ((b-a)/c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/2013</td>
<td>$1,761</td>
<td>$4,219</td>
<td>$2,458</td>
<td>41.74%</td>
<td>$558</td>
<td>440.50%</td>
</tr>
<tr>
<td>7/1/2012</td>
<td>1,883</td>
<td>4,672</td>
<td>2,789</td>
<td>40.30%</td>
<td>659</td>
<td>423.22%</td>
</tr>
<tr>
<td>7/1/2011</td>
<td>2,106</td>
<td>5,263</td>
<td>3,157</td>
<td>40.02%</td>
<td>731</td>
<td>431.87%</td>
</tr>
</tbody>
</table>

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.
Actuarial Methods and Assumptions

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation date</td>
<td>7/1/2013</td>
</tr>
<tr>
<td>Actuarial cost method</td>
<td>Entry age</td>
</tr>
<tr>
<td>Amortization method</td>
<td>Level of dollar by</td>
</tr>
<tr>
<td></td>
<td>6/30/2021, closed</td>
</tr>
<tr>
<td>Remaining amortization period</td>
<td>8 years</td>
</tr>
<tr>
<td>Asset valuation method</td>
<td>Fair market value, smoothed over 5 years</td>
</tr>
<tr>
<td>Actuarial assumptions</td>
<td>Investment rate of return: 5.00%</td>
</tr>
<tr>
<td></td>
<td>Projected salary increase: 3.50%</td>
</tr>
<tr>
<td></td>
<td>Cost of living adjustment: 2.50%</td>
</tr>
</tbody>
</table>

Defined Contribution Plans

The University’s defined contribution plans represent benefits to be received. They are limited to the value of the participant’s account balance, depending on the plan. Accordingly, there is no unfunded actuarial accrued liability (UAAL), or actuarial accrued liability (AAL), associated with the following plans.

Description of Plans and Contribution Information

Faculty Retirement Plan (FRP)

The Faculty Retirement Plan (FRP) is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the University’s Board of Regents governing authority, in compliance with Section 401(a) of the Internal Revenue Code, it authorizes the University to contribute to the plan and governs the requirements of this plan. Eligibility requirements involve an employee appointment of at least nine months; employee appointments between 67 to 99 percent time are granted prorated participation. The waiting period for certain salary classes was eliminated effective June 29, 2014. The plan is funded through employee pre-tax contributions and University contributions. Eligible academic employees with hire dates prior to January 2, 2012 contribute 2.5 percent of covered salary and the University contributes 13.0 percent. Eligible employees with a start date (or were rehired) on or after January 2, 2012 contribute 5.5 percent of covered salary and the University contributes 10.0 percent. The FRP covers approximately 9,080 active faculty and professional and administrative (P&A) staff. This amount includes approximately 2,280 with hire dates on or after January 2, 2012.

University of Minnesota Optional Retirement Plan (ORP)

The Optional Retirement Plan (ORP) is a voluntary retirement savings/investment plan covered under Section 403(b) of the Internal Revenue Code. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. The plan is funded mainly through employee pre-tax contributions. However, the University may make discretionary contributions for select staff based on employment contracts. Approximately 4,000 full- and part-time employees contribute to this plan.

University of Minnesota Section 457 Deferred Compensation Plan

The 457 Deferred Compensation Plan is a voluntary retirement savings plan authorized under Section 457 of the Internal Revenue Code. This plan is funded exclusively through employee pre-tax contributions. All
faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. Approximately 940 full- and part-time employees contribute to this plan.

**University of Minnesota 415(m) Retirement Plan**

The 415(m) Retirement Plan is a qualified excess benefit plan authorized under Section 415(m) of the Internal Revenue Code. This plan is provided to select staff based on individual employment contracts negotiated. All contributions provided by the University are negotiated on an individual employee basis and are contingent on vesting requirements being satisfied. Ten University employees are part of this plan.

**Contributions Made for Fiscal Year 2014**

<table>
<thead>
<tr>
<th></th>
<th>FRP</th>
<th>ORP</th>
<th>457</th>
<th>415(m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>$23,179</td>
<td>$39,842</td>
<td>$12,962</td>
<td>N/A</td>
</tr>
<tr>
<td>University</td>
<td>98,809</td>
<td>312</td>
<td>N/A</td>
<td>448</td>
</tr>
</tbody>
</table>

**7. Related Organization**

The University is responsible for appointing eight members of the 15-member Board of Directors of UCare Minnesota, a licensed nonprofit health maintenance organization (HMO) that provides medical services for its members. The University’s accountability for this organization, however, does not extend beyond making Board appointments. The dean of the University of Minnesota Medical School and the head of the University’s Department of Family Medicine and Community Health appoint six board members; two members are automatically appointed by virtue of the University positions that they hold.

**8. Commitments and Contingencies**

Construction projects in progress, principally buildings, approximated $120,380 on June 30, 2014. The estimated cost to complete these facilities is $421,430, which is to be funded from plant fund assets and $19,296 in appropriations available from the State of Minnesota as of June 30, 2014.

The University owns steam production facilities that produce steam for heating and cooling the Twin Cities campus, which by agreement are managed, operated, and maintained by an unaffiliated company. The original agreement was for five years and began May 17, 2004, with a contract end date of May 2019. Under the agreement, the University must make minimum fixed payments for certain operating and maintenance costs, as well as contingent payments based upon performance requirements.

The University is obligated under various operating leases for the use of real property and equipment. Total operating lease expenditures for the years ended June 30, 2014 and 2013, were $18,638 and $18,264, respectively, of which $14,512 and $14,640 were for real property and $4,126 and $3,624 were for equipment, respectively.
The future steam plant and operating lease commitments as of June 30, 2014, for the next five years and in subsequent five-year periods are as follows:

<table>
<thead>
<tr>
<th>Fiscal year ending June 30</th>
<th>Steam plant</th>
<th>Operating leases</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$246</td>
<td>$8,634</td>
<td>$8,880</td>
</tr>
<tr>
<td>2016</td>
<td>246</td>
<td>7,404</td>
<td>7,650</td>
</tr>
<tr>
<td>2017</td>
<td>246</td>
<td>6,788</td>
<td>7,034</td>
</tr>
<tr>
<td>2018</td>
<td>246</td>
<td>4,482</td>
<td>4,728</td>
</tr>
<tr>
<td>2019</td>
<td>246</td>
<td>3,712</td>
<td>3,958</td>
</tr>
<tr>
<td>2020-2024</td>
<td></td>
<td>13,524</td>
<td>13,524</td>
</tr>
<tr>
<td>2025-2029</td>
<td></td>
<td>11,583</td>
<td>11,583</td>
</tr>
<tr>
<td>2030-2034</td>
<td></td>
<td>11,646</td>
<td>11,646</td>
</tr>
<tr>
<td>2035-2039</td>
<td></td>
<td>1,810</td>
<td>1,810</td>
</tr>
<tr>
<td><strong>Total commitments</strong></td>
<td><strong>$1,230</strong></td>
<td><strong>$69,583</strong></td>
<td><strong>$70,813</strong></td>
</tr>
</tbody>
</table>

The University receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the University. Management is not aware of any disallowed claims at this time, and any such disallowances that are currently being reviewed by grantor agencies are immaterial.

The University is a defendant in cases involving claims of medical malpractice, personal injuries, breach of contract, and other civil matters. While any litigation has an element of uncertainty and the University cannot, therefore, predict how these cases will be finally resolved, management and its general counsel believe the outcomes of the cases, individually and combined, will not have a material adverse effect on the overall financial position of the University.

9. Self-Insurance Programs

The University is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly-owned, single parent captive insurance company (see Note 1). Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims using a discount rate of 0.46 percent.

The University is also self-insured for workers’ compensation through an internally maintained fund, and excess claims insurance is maintained through the Workers’ Compensation Reinsurance Association (WCRA). The internal fund for workers’ compensation is maintained only to fund the current year’s expected payouts. Each year, an actuarial estimate of the University’s liability for workers’ compensation is compiled and recorded within the consolidated statements of net position, but the liability is not separately funded.

The University’s medical (health) coverage for faculty and staff and their dependents is a self-insured program (UPlan). Under UPlan Medical, the University pays claims and establishes reserves, and the administration of the program is handled by two independent administrators: Medica for medical plan administration, and Prime Therapeutics for pharmacy benefit management. The medical conversion carrier, that provided policies to the University under which terminated employees were able to convert their UPlan
coverage to single coverage once their COBRA rights expired, discontinued this service as of January 1, 2014 due to the Affordable Care Act. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $800,000 in a single year. An annual actuarial estimate of the University’s liability for medical claims, including IBNR, is recorded within the consolidated statements of net position.

The University’s dental coverage for faculty and staff and their dependents is also a self-insured program (UPlan). Under UPlan Dental, the University pays claims and establishes reserves, and the administration of the program is handled by two independent administrators, Delta Dental and HealthPartners. An annual actuarial estimate of the University’s liability for dental claims, including IBNR, is recorded.

Medical coverage for eligible graduate assistants is a self-insured program. Under the graduate assistant medical plan, the University pays claims and establishes reserves. The program is administered by HealthPartners. An annual actuarial estimate of the University’s liability for medical claims, including IBNR, is recorded. The Graduate Assistant Plan also offers self-insured Dental Plan benefits at Boynton Health Service without a third party administrator.

The University’s medical (health) coverage for eligible students and their dependents is a self-insured program (Student Health Benefit Plan). Under the Student Health Benefit Plan, the University pays claims and establishes reserves, and the administration of the program is handled by Blue Cross and Blue Shield of Minnesota. The administrator offers medical conversion policies to eligible University students who are able to convert their SHBP coverage to single coverage after graduation. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $250,000 in a single year in addition to aggregate stop-loss coverage for claims totals over 115 percent of plan year claims. An annual actuarial estimate of the University’s liability for medical claims, including IBNR, is recorded. The University also carries a student health plan for the Academic Health Center (AHC-Student Health Benefit Plan). The plan is self-insured and the health carrier is Blue Cross and Blue Shield of Minnesota. An estimated claims liability ensures that funds are available to cover claims up to the point where stop-loss coverage begins. The AHC Plan also offers self-insured Dental Plan preventive benefits at Boynton Health Service without a third party administrator.

Medical coverage for eligible Medical Residents and Fellows is also a self-insured program. Under the Medical & Resident medical plan, the University pays claims and establishes reserves. The program is administered by HealthPartners. An annual actuarial estimate of the University’s liability for medical claims, including IBNR, is recorded. The Medical & Resident group also offers a fully insured Dental Benefit Plan through Delta Dental.

Reported liabilities as of June 30, 2014, are shown below:

<table>
<thead>
<tr>
<th>Liability beginning of year</th>
<th>New Claims</th>
<th>Claim payments</th>
<th>Other adjustments</th>
<th>Liability end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUMINCO, Ltd.</td>
<td>$7,181</td>
<td>$2,395</td>
<td>$ (2,709)</td>
<td>$675</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>11,760</td>
<td>3,578</td>
<td>(3,578)</td>
<td>1,286</td>
</tr>
<tr>
<td>UPlan medical</td>
<td>16,365</td>
<td>222,766</td>
<td>(221,835)</td>
<td>(1,988)</td>
</tr>
<tr>
<td>UPlan dental</td>
<td>1,286</td>
<td>17,078</td>
<td>(16,724)</td>
<td>(819)</td>
</tr>
<tr>
<td>Graduate assistant health plan</td>
<td>1,446</td>
<td>19,239</td>
<td>(19,239)</td>
<td>113</td>
</tr>
<tr>
<td>Student health plan</td>
<td>4,436</td>
<td></td>
<td></td>
<td>4,549</td>
</tr>
<tr>
<td>Medical Residents &amp; Fellows</td>
<td>504</td>
<td></td>
<td></td>
<td>407</td>
</tr>
</tbody>
</table>
Reported liabilities as of June 30, 2013, are shown below:

<table>
<thead>
<tr>
<th>Liability</th>
<th>Liability end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 8,142</td>
</tr>
<tr>
<td>RUMINCO, Ltd.</td>
<td>$ 2,999</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>(2,999)</td>
</tr>
<tr>
<td>UPlan medical</td>
<td>(1,639)</td>
</tr>
<tr>
<td>UPlan dental</td>
<td>(186)</td>
</tr>
<tr>
<td>Graduate assistant health plan</td>
<td>(5,445)</td>
</tr>
<tr>
<td>Student health plan</td>
<td>1,286</td>
</tr>
<tr>
<td>Medical Residents &amp; Fellows</td>
<td>1,446</td>
</tr>
</tbody>
</table>

Other adjustments reflect reserve changes on prior years’ claims and changes in estimated IBNR.

10. Termination Benefits

Termination benefits are defined as benefits received for involuntarily or voluntarily terminating employment with the University in accordance with GASB Statement No. 47, Accounting for Termination Benefits (GASB 47). University benefits that qualify and meet GASB 47 criteria include contract buyouts, retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation. Benefits that are otherwise offered in exchange for, or are considered conditional on, future employee services do not qualify under GASB 47; rather they qualify as a pension benefit or other postemployment benefits (OPEB) as referenced in Notes 6 and 11, respectively.

Contract Buyouts

University contract buyouts apply when an employee resigns his or her duty and the University has agreed to pay additional compensation based on the contractual employment agreement. Benefits outstanding as of June 30, 2014 and 2013 are paid in the subsequent fiscal year and affect only the Twin Cities campus. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due.

Retirement Incentives

The University of Minnesota is currently not offering any retirement incentive options (RIO’s).

Severance Lump-Sum Payouts and Continuing Healthcare Subsidies

Eligible Civil Service and Represented Bargaining Unit staff members may fall under the University of Minnesota’s Layoff Severance Program. This program is an elected program provided to Civil Service and Represented Bargaining Unit staff members who receive a notice of layoff and who meet the eligibility requirements as described. Benefits are based on years of continuous service with the University in designated types of appointments. Severance payouts may apply to tenured faculty members and academic professionals with continuous appointments under the University of Minnesota Terminal Agreement Program and University of Minnesota Federal Terminal Agreement Program. The University of Minnesota Phased Retirement Program also provides continuing healthcare subsidies, though it does not provide severance payouts. These programs are designed to facilitate change within units by providing remuneration in return for tenure resignation. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due. Severance lump-sum payouts and continuing healthcare subsidies impact all University campuses.
Vacation

Vacation payouts apply to employees that have terminated employment prior to the end of the fiscal year and subsequently receive compensation payment in the next fiscal year. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due.

**Academic Professional and Administrative (P&A) Contracts**

Benefits below reflect contract buyouts, retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation:

<table>
<thead>
<tr>
<th>University liability as of June 30</th>
<th>Number of staff members</th>
<th>Liability amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>88</td>
<td>$768</td>
</tr>
<tr>
<td>2013</td>
<td>73</td>
<td>632</td>
</tr>
</tbody>
</table>

**Civil Service Contracts**

Benefits below reflect retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation:

<table>
<thead>
<tr>
<th>University liability as of June 30</th>
<th>Number of staff members</th>
<th>Liability amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>73</td>
<td>$639</td>
</tr>
<tr>
<td>2013</td>
<td>83</td>
<td>988</td>
</tr>
</tbody>
</table>

**Faculty Contracts**

Benefits below reflect severance lump-sum payouts and continuing healthcare subsidies and vacation:

<table>
<thead>
<tr>
<th>University liability as of June 30</th>
<th>Number of staff members</th>
<th>Liability amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>109</td>
<td>$1,208</td>
</tr>
<tr>
<td>2013</td>
<td>82</td>
<td>1,017</td>
</tr>
</tbody>
</table>

**Graduate Assistant Contracts**

Benefits below reflect severance lump-sum payouts and continuing healthcare subsidies and vacation:

<table>
<thead>
<tr>
<th>University liability as of June 30</th>
<th>Number of staff members</th>
<th>Liability amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>15</td>
<td>$26</td>
</tr>
<tr>
<td>2013</td>
<td>12</td>
<td>21</td>
</tr>
</tbody>
</table>
Represented Bargaining Unit Staff Contracts

Benefits below reflect retirement incentives, severance lump-sum payouts and continuing healthcare subsidies, and vacation:

<table>
<thead>
<tr>
<th>University liability as of June 30</th>
<th>Number of staff members</th>
<th>Liability amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>193</td>
<td>$2,600</td>
</tr>
<tr>
<td>2013</td>
<td>136</td>
<td>1,316</td>
</tr>
</tbody>
</table>

11. Other Postemployment Benefits

Description of Plan

The University administers the UPlan—a self-insured, single-employer, defined benefit healthcare plan. It is a partnership between the University and its employees to provide quality, cost-effective health benefits to employees, retirees, and their families. Pursuant to the University’s Board of Regents governing authority, non-Medicare retirees and former employees can purchase medical and dental insurance coverage. The University also provides a continuation of pay and benefits beyond active employment under the Academic Disability Plan (ADP) for Faculty and Academic Professional and Administrative (P&A) employees after three months of medical leave. The benefit provision process is initiated through the Benefits Advisory Committee (BAC). The BAC comprises representatives from all employee groups who advise the University administration on health program benefit offerings. An internal UPlan financial report is prepared on a calendar year basis. Questions regarding the UPlan may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Funding Policy

The University has established that a former employee must pay the entire premium for continuation coverage, except as otherwise provided in a collective bargaining agreement or personnel policy. Non-Medicare retirees can purchase medical and dental insurance coverage at the full premium rate applicable to active employees, and COBRA participants can purchase coverage at 102 percent of the full group rate. Eligible participants under the ADP receive full healthcare benefits at employee cost for up to two years from disability onset and beyond that point disabled participants would pay the full premium as if they were retirees. The self-insured portion of the ADP program also provides disability income and retirement contributions for up to 9 months—months 4 through 12 after disability onset. The following premium rates were in effect for fiscal year 2014:

<table>
<thead>
<tr>
<th>Beneficiary type</th>
<th>Beneficiary annual rate (Actual amounts, not rounded to thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Medicare retiree</td>
<td>$6,279</td>
</tr>
<tr>
<td>COBRA</td>
<td>6,405</td>
</tr>
<tr>
<td>Disabled Participants</td>
<td>6,279</td>
</tr>
</tbody>
</table>

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2014, the University paid $5,411 on behalf of former employees and eligible disabilitants who participate in the UPlan.
Annual OPEB Cost and Net OPEB Obligation

The University’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). This amount is actuarially determined in accordance with the parameters of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each fiscal year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed 30 years. The University has elected to amortize the unfunded actuarial liability over 20 years.

The components of the University’s annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the University’s net OPEB obligation are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual required contribution (ARC)</td>
<td>$27,048</td>
</tr>
<tr>
<td>Interest on net OPEB obligation</td>
<td>2,746</td>
</tr>
<tr>
<td>Adjustment to annual required contribution</td>
<td>(5,528)</td>
</tr>
<tr>
<td>Annual OPEB cost (expense)</td>
<td>24,266</td>
</tr>
<tr>
<td>Less contributions made—</td>
<td></td>
</tr>
<tr>
<td>fiscal year ended June 30, 2014</td>
<td>(5,411)</td>
</tr>
<tr>
<td>Increase in net OPEB obligation</td>
<td>18,855</td>
</tr>
<tr>
<td>Net OPEB obligation—June 30, 2013</td>
<td>82,433</td>
</tr>
<tr>
<td>Net OPEB obligation—June 30, 2014</td>
<td>$101,288</td>
</tr>
</tbody>
</table>

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended</th>
<th>Annual OPEB cost</th>
<th>Employer contribution</th>
<th>Percentage of annual OPEB cost contributed</th>
<th>Net OPEB obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2014</td>
<td>$24,266</td>
<td>$5,411</td>
<td>22.3%</td>
<td>$101,288</td>
</tr>
<tr>
<td>6/30/2013</td>
<td>26,192</td>
<td>6,746</td>
<td>25.8%</td>
<td>82,433</td>
</tr>
<tr>
<td>6/30/2012</td>
<td>24,800</td>
<td>5,944</td>
<td>24.0%</td>
<td>62,987</td>
</tr>
</tbody>
</table>

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial accrued liability (AAL)</td>
<td>$113,145</td>
</tr>
<tr>
<td>Actuarial value of plan assets</td>
<td></td>
</tr>
<tr>
<td>Unfunded actuarial accrued liability (UAAL)</td>
<td>$113,145</td>
</tr>
<tr>
<td>Funded ratio (actuarial value of plan assets/AAL)</td>
<td>0.00%</td>
</tr>
<tr>
<td>Increase in net OPEB obligation</td>
<td>$18,855</td>
</tr>
<tr>
<td>Covered payroll (active plan members)</td>
<td>$1,252,154</td>
</tr>
<tr>
<td>UAAL as a percentage of covered payroll</td>
<td>9.04%</td>
</tr>
</tbody>
</table>

The actuarial accrued liability (AAL) is the present value of projected future benefits earned by employees to date. Whereas, the unfunded actuarial accrued liability (UAAL) is the AAL less any cash, investments, and other resources the University is holding to specifically fund the AAL.
Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Some of the specific assumptions that were taken into consideration when calculating the actuarial valuations were participant age, years of service, salary increases, benefit election patterns, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information following the notes to the financial statements, presents the results of the University’s OPEB valuation as of June 30, 2014.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan, the plan as understood by the employer and plan members. This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial methods and assumptions incorporated in the UPlan’s valuation are as follows:

<table>
<thead>
<tr>
<th>Valuation date</th>
<th>7/1/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial cost method</td>
<td>Entry age</td>
</tr>
<tr>
<td>Amortization method</td>
<td>Level Dollar, Open Group</td>
</tr>
<tr>
<td>Remaining amortization period</td>
<td>20 years</td>
</tr>
<tr>
<td>Asset valuation method</td>
<td>N/A</td>
</tr>
<tr>
<td>Actuarial assumptions</td>
<td></td>
</tr>
<tr>
<td>Investment rate of return</td>
<td>3.33%</td>
</tr>
<tr>
<td>Projected Payroll growth</td>
<td>4.00%</td>
</tr>
<tr>
<td>Benefit increase</td>
<td>N/A</td>
</tr>
<tr>
<td>Assumed inflation rate</td>
<td>3.00%</td>
</tr>
<tr>
<td>Healthcare cost trend rate</td>
<td></td>
</tr>
<tr>
<td>Initial rate</td>
<td>6.50%</td>
</tr>
<tr>
<td>2nd year rate</td>
<td>6.40%</td>
</tr>
<tr>
<td>Ultimate rate</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year ultimate rate reached</td>
<td>2060</td>
</tr>
</tbody>
</table>
12. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2014, are summarized as follows:

<table>
<thead>
<tr>
<th>Function</th>
<th>Compensation and benefits</th>
<th>Supplies and services</th>
<th>Scholarships and fellowships</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$663,245</td>
<td>$106,234</td>
<td></td>
<td></td>
<td>$769,479</td>
</tr>
<tr>
<td>Research</td>
<td>426,256</td>
<td>253,462</td>
<td></td>
<td></td>
<td>679,718</td>
</tr>
<tr>
<td>Public service</td>
<td>158,203</td>
<td>94,938</td>
<td></td>
<td></td>
<td>253,141</td>
</tr>
<tr>
<td>Academic support</td>
<td>300,725</td>
<td>94,202</td>
<td></td>
<td></td>
<td>394,927</td>
</tr>
<tr>
<td>Student services</td>
<td>91,033</td>
<td>25,542</td>
<td></td>
<td></td>
<td>116,575</td>
</tr>
<tr>
<td>Institutional support</td>
<td>193,901</td>
<td>62,740</td>
<td></td>
<td></td>
<td>256,641</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>116,123</td>
<td>169,815</td>
<td></td>
<td></td>
<td>285,938</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>9,449</td>
<td>2,684 $</td>
<td>$42,386</td>
<td></td>
<td>54,519</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>$192,705</td>
<td></td>
<td></td>
<td>192,705</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>105,836</td>
<td>150,232</td>
<td></td>
<td></td>
<td>256,068</td>
</tr>
<tr>
<td>Other operating expense</td>
<td>583</td>
<td></td>
<td></td>
<td></td>
<td>583</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,064,771</strong></td>
<td><strong>$604,432</strong></td>
<td><strong>$42,386</strong></td>
<td><strong>$192,705</strong></td>
<td><strong>$3,260,294</strong></td>
</tr>
</tbody>
</table>

Operating expenses by natural classification for the year ended June 30, 2013, are summarized as follows:

<table>
<thead>
<tr>
<th>Function</th>
<th>Compensation and benefits</th>
<th>Supplies and services</th>
<th>Scholarships and fellowships</th>
<th>Depreciation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$673,233</td>
<td>$100,363</td>
<td></td>
<td></td>
<td>$737,596</td>
</tr>
<tr>
<td>Research</td>
<td>423,002</td>
<td>233,549</td>
<td></td>
<td></td>
<td>556,551</td>
</tr>
<tr>
<td>Public service</td>
<td>158,293</td>
<td>99,964</td>
<td></td>
<td></td>
<td>248,257</td>
</tr>
<tr>
<td>Academic support</td>
<td>284,620</td>
<td>82,645</td>
<td></td>
<td></td>
<td>367,265</td>
</tr>
<tr>
<td>Student services</td>
<td>86,978</td>
<td>23,252</td>
<td></td>
<td></td>
<td>110,230</td>
</tr>
<tr>
<td>Institutional support</td>
<td>151,181</td>
<td>46,138</td>
<td></td>
<td></td>
<td>197,319</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>110,147</td>
<td>156,847</td>
<td></td>
<td></td>
<td>266,994</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>8,427</td>
<td>2,689 $</td>
<td>$39,319</td>
<td></td>
<td>50,435</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>$193,139</td>
<td></td>
<td></td>
<td>193,139</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>96,224</td>
<td>139,187</td>
<td></td>
<td></td>
<td>235,411</td>
</tr>
<tr>
<td>Other operating expense</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,956,105</strong></td>
<td><strong>$875,653</strong></td>
<td><strong>$39,319</strong></td>
<td><strong>$193,139</strong></td>
<td><strong>$3,064,216</strong></td>
</tr>
</tbody>
</table>

13. Subsequent Events

On August 6, 2014, the University issued General Obligation Bonds, Series 2014B in the par amount of $145,760. The proceeds will be used to fund the costs of construction of the Ambulatory Care Center and to pay capitalized interest during the construction period and costs of issuance. The 2014B bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $13,778.

The Ambulatory Care Center is owned by the University and will be leased to University of Minnesota Physicians and Fairview Health Services.
14. Component Units

**Discretely Presented Component Units**

Based on significant balances reported in the University's discretely presented component units' Statements of Financial Position, the note disclosures for investments, temporarily restricted net assets, and permanently restricted net assets, as reported in the separately issued financial statements of the University of Minnesota Foundation (UMF), are presented below.

**Investments**

Investments in cash equivalents, corporate bonds, other fixed income securities, equity securities, and Treasury inflation protected securities with readily determinable fair values are reported at fair value as set forth in Note 3 of UMF's annual report (traditional structures). Investments held in alternative structures are recorded at net asset values provided by external investment managers as a practical expedient in determining fair value. Because such investments are not readily marketable, the estimated value is subject to uncertainty and therefore may differ materially from the value that would have been used had a ready market for such investments existed.

Donated investments are recorded at their fair values, as determined on the date of donation. Investment income and gains and losses are recorded in the period incurred.

For management efficiency, investments of the unrestricted and restricted net assets are pooled, except for certain net assets that the board of trustees or the donors have designated to be segregated and maintained separately.

Receivables from pending liquidations represent sales of investments made prior to the end of the fiscal year, but settled after the fiscal year-end.

The investments as of June 30, 2014, are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Traditional Structures</th>
<th>Alternate Structures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 406,328</td>
<td>$ 406,328</td>
<td></td>
</tr>
<tr>
<td>Fixed income</td>
<td>254,161</td>
<td>78,417</td>
<td>332,578</td>
</tr>
<tr>
<td>Global equity</td>
<td>80,985</td>
<td>293,909</td>
<td>374,894</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>22,909</td>
<td>378,697</td>
<td>401,606</td>
</tr>
<tr>
<td>Natural resources</td>
<td></td>
<td>128,701</td>
<td>128,701</td>
</tr>
<tr>
<td>Treasury inflation protected securities (TIPS)</td>
<td>74,983</td>
<td></td>
<td>74,983</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>111,639</td>
<td>111,639</td>
</tr>
<tr>
<td>Private equity</td>
<td></td>
<td>471,463</td>
<td>471,463</td>
</tr>
<tr>
<td>Other investments</td>
<td>3,433</td>
<td></td>
<td>3,433</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>839,366</strong></td>
<td><strong>1,466,259</strong></td>
<td><strong>2,305,625</strong></td>
</tr>
<tr>
<td>Less charitable gift annuities reported separately</td>
<td></td>
<td></td>
<td>(38,265)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$ 2,267,360</strong></td>
</tr>
</tbody>
</table>
Fixed income investments include high yield bonds, bank loans, mortgage, and related securitizations.

Investments held in traditional structures represent those held directly by UMF in custodial accounts with financial institutions. Investments held in alternative structures include those held through interests in collective trust funds, limited partnerships, commingled funds, and limited liability companies.

Net asset values provided by external investment managers for alternative structures include estimates, appraisals, assumptions, and methods that are reviewed by management. It is possible that the redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and, consequently, the fair value of UMF’s interests in the funds. UMF has $1,466,259 of investments in alternative structures which are reported at net asset value as a practical expedient. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if UMF were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

**Fair Value Measurements**

UMF follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, UMF has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fixed income securities are generally traded in the over-the-counter market and are valued at a price that reflects fair value as quoted by dealers in these securities or by an independent pricing service. These prices are based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, such as benchmark yields, expected prepayment speeds and volumes, and issuer ratings.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.
The following table summarizes UMF’s financial assets and other liabilities measured at fair value on a recurring basis as of June 30, 2014:

<table>
<thead>
<tr>
<th>Fair value measurements using</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset backed securities</td>
<td>$67</td>
<td>$59,901</td>
<td>$59,901</td>
<td>$59,901</td>
</tr>
<tr>
<td>Mortgages</td>
<td></td>
<td>26,947</td>
<td>26,947</td>
<td></td>
</tr>
<tr>
<td>Alternative structures</td>
<td></td>
<td>3,744</td>
<td>3,744</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$50</td>
<td>9,369</td>
<td>9,369</td>
<td>9,419</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td>147,702</td>
<td>147,702</td>
<td>148,258</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>3,370</td>
<td>3,370</td>
<td>9,636</td>
</tr>
<tr>
<td>Global equity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small cap</td>
<td></td>
<td>37,959</td>
<td>37,959</td>
<td></td>
</tr>
<tr>
<td>Large cap</td>
<td></td>
<td>43,011</td>
<td>43,011</td>
<td></td>
</tr>
<tr>
<td>Alternative structures</td>
<td></td>
<td>293,909</td>
<td>293,909</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Hedge funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Directional long biased equity</td>
<td></td>
<td></td>
<td></td>
<td>137,345</td>
</tr>
<tr>
<td>Fined income arbitrage</td>
<td></td>
<td>81,620</td>
<td>104,530</td>
<td></td>
</tr>
<tr>
<td>Long/short nonequity</td>
<td></td>
<td>79,400</td>
<td>79,400</td>
<td></td>
</tr>
<tr>
<td>Market neutral equity</td>
<td></td>
<td>22,047</td>
<td>22,047</td>
<td></td>
</tr>
<tr>
<td>Structured credit</td>
<td></td>
<td>58,284</td>
<td>58,284</td>
<td></td>
</tr>
<tr>
<td>Natural resources</td>
<td></td>
<td>128,701</td>
<td>128,701</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>111,639</td>
<td>111,639</td>
<td></td>
</tr>
<tr>
<td>Treasury inflation protected securities (TIPS)</td>
<td></td>
<td>74,983</td>
<td>74,983</td>
<td></td>
</tr>
<tr>
<td>Private equity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buyout</td>
<td></td>
<td>141,979</td>
<td>141,979</td>
<td></td>
</tr>
<tr>
<td>Distressed</td>
<td></td>
<td>64,043</td>
<td>64,043</td>
<td></td>
</tr>
<tr>
<td>Special situations</td>
<td></td>
<td>45,419</td>
<td>45,419</td>
<td></td>
</tr>
<tr>
<td>Venture capital</td>
<td></td>
<td>220,022</td>
<td>220,022</td>
<td></td>
</tr>
<tr>
<td>Other investments</td>
<td></td>
<td>3,433</td>
<td>3,433</td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td></td>
<td>110,752</td>
<td>322,287</td>
<td>1,466,258</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
<td>406,328</td>
</tr>
<tr>
<td>Total investments and cash</td>
<td></td>
<td></td>
<td></td>
<td>2,305,628</td>
</tr>
<tr>
<td>Gift annuities not categorized above</td>
<td>$1,990</td>
<td></td>
<td>$1,990</td>
<td></td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts</td>
<td></td>
<td>$67,573</td>
<td>67,573</td>
<td></td>
</tr>
<tr>
<td>Assets held in charitable trusts</td>
<td>21,758</td>
<td>$3,744</td>
<td>25,502</td>
<td></td>
</tr>
<tr>
<td>Beneficial interest in trusts</td>
<td></td>
<td></td>
<td>4,341</td>
<td>4,341</td>
</tr>
<tr>
<td>UGC derivative financial instrument</td>
<td></td>
<td>(1,911)</td>
<td>(1,911)</td>
<td></td>
</tr>
</tbody>
</table>

There were no transfers between Level 1, Level 2, or Level 3 during the year ended June 30, 2014.
The changes in investments measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows:

<table>
<thead>
<tr>
<th>Beginning</th>
<th>Net realized</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>balance</td>
<td>and unrealized</td>
<td>balance at</td>
</tr>
<tr>
<td>at July 1, 2013</td>
<td>gains (losses)</td>
<td>June 30, 2014</td>
</tr>
<tr>
<td>Investment income</td>
<td>Purchases</td>
<td>Sales</td>
</tr>
</tbody>
</table>

**Fixed income:**

- Alternative structures: $22,465 $1,670 $67,284 $(13,002) $78,417

**Global equity:**

- Alternative structures: 223,555 $1,396 42,390 27,024 (456) 293,909

**Hedge funds:**

- Directional long-biased equity: 139,344 12,984 10,000 (24,983) 137,345
- Fixed income arbitrage: 91,788 (3,589) 11,000 (17,579) 81,620
- Long/short nonequity: 49,188 5,560 25,000 (348) 79,400
- Market neutral equity: 24,279 2,475 5,000 (9,707) 22,047
- Structured credit: 43,776 12,508 2,000 58,284
- Natural resources: 110,296 8,044 17,698 (7,337) 128,701
- Real estate: 90,857 18,095 40,814 (38,127) 111,639

**Private equity:**

- Buyout: 143,709 14,372 7,247 (23,349) 141,979
- Distressed: 69,367 11,894 4,531 (21,749) 64,043
- Special situations: 39,521 406 12,691 (7,199) 45,419
- Venture capital: 148,320 79,013 20,186 (27,497) 220,022
- Other investments: 3,378 (1) 145 (89) 3,433

**Total:** $1,199,843 $1,396 $205,821 $250,620 $(191,422) $1,466,258

The changes in other investments or financial assets measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows:

<table>
<thead>
<tr>
<th>Beginning</th>
<th>Change in</th>
<th>Net realized</th>
<th>Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>balance</td>
<td>carrying</td>
<td>and unrealized</td>
<td>balance at</td>
</tr>
<tr>
<td>at July 1, 2013</td>
<td>value</td>
<td>gains (losses)</td>
<td>Purchases</td>
</tr>
<tr>
<td>Beneficial interest in trusts</td>
<td>$5,630</td>
<td>$(1,289)</td>
<td>$4,341</td>
</tr>
<tr>
<td>Beneficial interest in perpetual trusts</td>
<td>67,619</td>
<td>(44)</td>
<td>67,575</td>
</tr>
</tbody>
</table>

**Net Assets:**

Net assets of UMF and changes therein are classified into the following three categories:

1. Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of UMF.

2. Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are time restricted.

3. Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently, but permit UMF to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.
Temporarily Restricted Net Assets

Temporarily restricted net assets are available as of June 30, 2014, for the following purposes.

The portion of unexpended investment return generated from donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) consists of:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital improvement/facilities</td>
<td>$8,479</td>
</tr>
<tr>
<td>Faculty support</td>
<td>9,652</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>133,737</td>
</tr>
<tr>
<td>Lectureships, professorships, and chairs</td>
<td>191,232</td>
</tr>
<tr>
<td>College program support</td>
<td>62,928</td>
</tr>
<tr>
<td>Research</td>
<td>13,469</td>
</tr>
<tr>
<td>Other</td>
<td>2,184</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$421,681</strong></td>
</tr>
</tbody>
</table>

Gifts and other unexpended revenues and gains available for:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital improvement/facilities</td>
<td>$118,783</td>
</tr>
<tr>
<td>Faculty support</td>
<td>15,142</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>145,544</td>
</tr>
<tr>
<td>Lectureships, professorships, and chairs</td>
<td>40,742</td>
</tr>
<tr>
<td>College program support</td>
<td>370,911</td>
</tr>
<tr>
<td>Research</td>
<td>132,441</td>
</tr>
<tr>
<td>Trusts</td>
<td>12,878</td>
</tr>
<tr>
<td>Other</td>
<td>8,142</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$844,583</strong></td>
</tr>
</tbody>
</table>

Total temporarily restricted net assets $1,266,264

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The permanently restricted net asset balances and purposes the income is expendable to support, as of June 30, 2014, are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital improvement/facilities</td>
<td>$7,744</td>
</tr>
<tr>
<td>Faculty support</td>
<td>21,612</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>387,190</td>
</tr>
<tr>
<td>Lectureships, professorships, and chairs</td>
<td>339,752</td>
</tr>
<tr>
<td>College program support</td>
<td>80,276</td>
</tr>
<tr>
<td>Research</td>
<td>37,916</td>
</tr>
<tr>
<td>Trusts</td>
<td>74,337</td>
</tr>
<tr>
<td>Other</td>
<td>2,599</td>
</tr>
<tr>
<td><strong>Total permanently restricted net assets</strong></td>
<td><strong>$951,426</strong></td>
</tr>
</tbody>
</table>
**Blended Component Units**

Condensed statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows for fiscal years ended June 30, 2014 and 2013 for RUMINCO, Ltd, a blended component unit of the University, are as follows:

<table>
<thead>
<tr>
<th><strong>Condensed statements of net position:</strong></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$ 648</td>
<td>$ 398</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>38,816</td>
<td>35,633</td>
</tr>
<tr>
<td>Total assets</td>
<td>39,464</td>
<td>36,031</td>
</tr>
<tr>
<td>Deferred outflows of resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets &amp; deferred outflows of resources</td>
<td>39,464</td>
<td>36,031</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>1,615</td>
<td>2,103</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>1,817</td>
<td>1,644</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>3,432</td>
<td>3,747</td>
</tr>
<tr>
<td>Deferred inflows of resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities &amp; deferred inflows of resources</td>
<td>3,432</td>
<td>3,747</td>
</tr>
<tr>
<td>Unrestricted net position</td>
<td>$ 36,032</td>
<td>$ 32,284</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Condensed statements of revenues, expenses, and changes in net position:</strong></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net underwriting income</td>
<td>$ 589</td>
<td>$ 2,033</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,029</td>
<td>1,035</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>(440)</td>
<td>994</td>
</tr>
<tr>
<td>Nonoperating revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income, net</td>
<td>4,188</td>
<td>2,969</td>
</tr>
<tr>
<td>Increase in net position</td>
<td>3,748</td>
<td>3,963</td>
</tr>
<tr>
<td>Net position at beginning of year</td>
<td>32,284</td>
<td>28,321</td>
</tr>
<tr>
<td>Net position at end of year</td>
<td>$ 36,032</td>
<td>$ 32,284</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Condensed statements of cash flows:</strong></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided (used) by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>$ (360)</td>
<td>$ 1,134</td>
</tr>
<tr>
<td>Investing activities</td>
<td>403</td>
<td>(1,162)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash</td>
<td>43</td>
<td>(28)</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>67</td>
<td>95</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>$ 110</td>
<td>$ 67</td>
</tr>
</tbody>
</table>
Required Supplementary Information

72 Schedules of Funding Progress for Supplemental Benefits Plan and Other Postemployment Benefits
### Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2014 and 2013 (in thousands)

#### Schedule of Funding Progress for the Supplemental Benefits Plan (SBP)

<table>
<thead>
<tr>
<th>Actuarial valuation date</th>
<th>Actuarial value of assets (a)</th>
<th>Actuarial accrued liability (AAL)—entry age (b)</th>
<th>Unfunded AAL (UAAL) (b-a)</th>
<th>Funded ratio (a/b)</th>
<th>Covered payroll (c)</th>
<th>UAAL as a percentage of covered payroll ([(b-a)/c])</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/2013</td>
<td>$1,761</td>
<td>$4,219</td>
<td>$2,458</td>
<td>41.74%</td>
<td>$558</td>
<td>440.50%</td>
</tr>
<tr>
<td>7/1/2012</td>
<td>1,883</td>
<td>4,672</td>
<td>2,789</td>
<td>40.30%</td>
<td>659</td>
<td>423.22%</td>
</tr>
<tr>
<td>7/1/2011</td>
<td>2,106</td>
<td>5,263</td>
<td>3,157</td>
<td>40.02%</td>
<td>731</td>
<td>431.87%</td>
</tr>
</tbody>
</table>

Additional information related to the SBP Plan is provided in Note 6.

#### Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

<table>
<thead>
<tr>
<th>Actuarial valuation date</th>
<th>Actuarial value of assets (a)</th>
<th>Actuarial accrued liability (AAL)—entry age (b)</th>
<th>Unfunded AAL (UAAL) (b-a)</th>
<th>Funded ratio (a/b)</th>
<th>Covered payroll (c)</th>
<th>UAAL as a percentage of covered payroll ([(b-a)/c])</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/2014</td>
<td>$113,145</td>
<td>$113,145</td>
<td>$113,145</td>
<td>0.00%</td>
<td>$1,252,154</td>
<td>9.04%</td>
</tr>
<tr>
<td>7/1/2013</td>
<td>94,555</td>
<td>94,555</td>
<td>94,555</td>
<td>0.00%</td>
<td>1,205,994</td>
<td>7.85%</td>
</tr>
<tr>
<td>7/1/2012</td>
<td>116,182</td>
<td>116,182</td>
<td>116,182</td>
<td>0.00%</td>
<td>1,222,548</td>
<td>9.30%</td>
</tr>
</tbody>
</table>

Additional information related to OPEB is provided in Note 11.
Supplemental Schedules

as of and for the Years Ended June 30, 2014 and 2013

74  Independent Auditors’ Report on Additional Information

75  Statements of Net Position by Campus

77  Statements of Revenues, Expenses, and Changes in Net Position by Campus
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as of and for the years ended June 30, 2014 and 2013, as a whole. The accompanying schedules of net position by campus, and of revenues, expenses, and changes in net position by campus as of and for the years ended June 30, 2014 and 2013 are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

October 29, 2014
## Statements of Net Position by Campus

June 30, 2014 (in thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$6,128</td>
<td>$39,996</td>
<td>$5,470</td>
<td>$2,347</td>
<td>$189,108</td>
<td>$243,049</td>
</tr>
<tr>
<td>Short-term investments</td>
<td></td>
<td></td>
<td>676</td>
<td></td>
<td>676</td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>194</td>
<td>7,448</td>
<td>1,147</td>
<td>587</td>
<td>293,048</td>
<td>302,424</td>
</tr>
<tr>
<td>Inventories</td>
<td>174</td>
<td>2,331</td>
<td>101</td>
<td>19,913</td>
<td>22,519</td>
<td></td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>111</td>
<td>1,657</td>
<td>228</td>
<td>7,903</td>
<td>9,899</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>438</td>
<td></td>
<td></td>
<td>10,596</td>
<td>11,034</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
<td></td>
<td>376</td>
<td>376</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>6,607</strong></td>
<td><strong>51,870</strong></td>
<td><strong>6,546</strong></td>
<td><strong>2,934</strong></td>
<td><strong>521,620</strong></td>
<td><strong>589,977</strong></td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>66,888</td>
<td>66,888</td>
</tr>
<tr>
<td>Investments</td>
<td>3,207</td>
<td>97,237</td>
<td>3,461</td>
<td>1,987,783</td>
<td>2,091,718</td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>45</td>
<td></td>
<td>3,505</td>
<td>11,004</td>
<td>14,554</td>
<td></td>
</tr>
<tr>
<td>Student loan receivables, net</td>
<td>530</td>
<td>8,412</td>
<td>1,131</td>
<td>47,072</td>
<td>57,145</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>15</td>
<td>3</td>
<td></td>
<td>1,616</td>
<td>1,634</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>41,401</td>
<td>209,717</td>
<td>65,765</td>
<td>36,760</td>
<td>2,545,851</td>
<td>2,900,494</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>45,138</strong></td>
<td><strong>315,381</strong></td>
<td><strong>71,435</strong></td>
<td><strong>40,265</strong></td>
<td><strong>4,660,214</strong></td>
<td><strong>5,132,433</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>51,745</strong></td>
<td><strong>367,251</strong></td>
<td><strong>78,381</strong></td>
<td><strong>43,199</strong></td>
<td><strong>5,181,834</strong></td>
<td><strong>5,722,410</strong></td>
</tr>
</tbody>
</table>

### Deferred Outflows of Resources

| Total deferred outflows of resources | **Total assets and deferred outflows of resources** | **51,745** | **367,251** | **78,381** | **43,199** | **5,181,834** | **5,722,410** |

### Liabilities

| Current liabilities | | | | | | |
| Accounts payable | 647 | 5,641 | 857 | 544 | 123,714 | 131,403 |
| Accrued liabilities and other | 1,727 | 13,151 | 2,236 | 657 | 222,118 | 244,389 |
| Unearned income | 971 | 4,183 | | 63,327 | 68,527 |
| Long-term debt—current portion | | | | | 272,026 | 272,026 |
| **Total current liabilities** | **2,845** | **27,975** | **3,093** | **1,247** | **681,185** | **716,345** |

| Noncurrent liabilities | | | | | | |
| Accrued liabilities and other | 1,704 | 18,468 | 2,931 | 309 | 181,948 | 205,360 |
| Unearned income | | | | 3,158 | 3,158 |
| Long-term debt | | | | 1,010,481 | 1,010,481 |
| **Total noncurrent liabilities** | **1,704** | **18,468** | **2,931** | **309** | **1,195,587** | **1,218,999** |
| **Total liabilities** | **4,549** | **46,443** | **6,024** | **1,556** | **1,876,772** | **1,935,344** |

### Deferred Inflows of Resources

| Total deferred inflows of resources | | | | | | |
| **Total liabilities and deferred inflows of resources** | **4,549** | **46,443** | **6,024** | **1,556** | **1,876,772** | **1,935,344** |

### Net Position

| Unrestricted | 661 | 1,835 | (3,961) | 2,014 | 811,807 | 812,356 |
| Restricted | | | | | | |
| Expendable | 4,117 | 44,738 | 8,480 | 2,869 | 943,987 | 1,004,191 |
| Nonexpendable | 1,017 | -64,711 | 1,074 | | 222,564 | 289,366 |
| Net investment in capital assets | 41,401 | 209,524 | 66,764 | 36,760 | 1,326,704 | 1,681,153 |
| **Total net position** | **$47,196** | **$320,808** | **$72,357** | **$41,643** | **$3,305,062** | **$3,787,066** |
# Statements of Net Position by Campus

*June 30, 2013 (in thousands)*

<table>
<thead>
<tr>
<th>Assets</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$5,815</td>
<td>$38,472</td>
<td>$6,917</td>
<td>$(1,790)</td>
<td>$144,592</td>
<td>$194,006</td>
</tr>
<tr>
<td>Short-term investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>89,534</td>
<td>89,534</td>
</tr>
<tr>
<td>Receivables, net</td>
<td>94</td>
<td>7,573</td>
<td>576</td>
<td>1,264</td>
<td>287,414</td>
<td>297,021</td>
</tr>
<tr>
<td>Inventories</td>
<td>152</td>
<td>2,218</td>
<td>121</td>
<td></td>
<td>20,063</td>
<td>22,554</td>
</tr>
<tr>
<td>Student loans receivable, net</td>
<td>104</td>
<td>1,391</td>
<td>226</td>
<td></td>
<td>12,136</td>
<td>13,857</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>31</td>
<td>412</td>
<td>41</td>
<td></td>
<td>11,544</td>
<td>12,028</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>376</td>
<td>376</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>6,196</td>
<td>50,066</td>
<td>7,981</td>
<td>(526)</td>
<td>565,659</td>
<td>629,376</td>
</tr>
</tbody>
</table>

| Noncurrent assets | | | | | | |
| Restricted cash and cash equivalents | | | | | 87,005 | 87,005 |
| Investments | 2,881 | 86,492 | 3,133 | | 1,796,650 | 1,889,156 |
| Receivables, net | 51 | 50 | 3,643 | | 455 | 4,148 |
| Student loan receivables, net | 51 | 8,320 | 1,150 | | 44,107 | 54,088 |
| Prepaid expenses | | | | | 5,636 | 5,636 |
| Other assets | | | | | 15 | 15 |
| Capital assets, net | 42,442 | 214,118 | 68,610 | 39,769 | 2,511,975 | 2,876,914 |
| **Total noncurrent assets** | 45,834 | 308,910 | 72,943 | 41,412 | 4,445,843 | 4,916,962 |
| **Total assets** | 52,030 | 358,996 | 80,924 | 42,886 | 5,011,502 | 5,546,338 |

## Deferred Outflows of Resources

**Total deferred outflows of resources**

**Total assets and deferred outflows of resources** 52,030 358,996 80,924 42,886 5,011,502 5,546,338

## Liabilities

**Current liabilities**

| Accounts payable | 578 | 4,241 | 768 | 379 | 128,988 | 134,954 |
| Accrued liabilities and other | 1,691 | 16,892 | 2,315 | 657 | 217,846 | 239,401 |
| Unearned income | 1,018 | 4,166 | 142 | 51 | 63,568 | 68,745 |
| Long-term debt-current portion | | | | | 285,416 | 285,416 |
| **Total current liabilities** | 3,287 | 25,299 | 1,225 | 1,087 | 695,618 | 728,516 |

**Noncurrent liabilities**

| Accrued liabilities and other | 1,804 | 17,398 | 2,700 | 275 | 162,387 | 184,564 |
| Unearned income | | | | | 162 | 162 |
| Long-term debt | | | | | 1,015,214 | 1,015,214 |
| **Total noncurrent liabilities** | 1,804 | 17,398 | 2,700 | 275 | 1,177,863 | 1,200,040 |
| **Total liabilities** | 5,091 | 42,697 | 5,925 | 1,362 | 1,873,481 | 1,928,556 |

## Deferred Inflows of Resources

**Total deferred inflows of resources**

**Total liabilities and deferred inflows of resources** 5,091 42,697 5,925 1,362 1,873,481 1,928,556

## Net Position

**Unrestricted**

| | 1,398 | 7,909 | 1,627 | (522) | 809,734 | 820,146 |

**Restricted**

| | | | | | | |
| Expendable | 2,427 | 35,187 | 3,946 | 2,277 | 821,982 | 865,819 |
| Nonexpendable | 1,018 | 59,085 | 1,052 | | 216,446 | 277,601 |

<p>| Net investment in capital assets | 42,096 | 214,118 | 68,374 | 39,769 | 1,289,859 | 1,654,216 |
| <strong>Total net position</strong> | $46,993 | $316,299 | $74,999 | $41,524 | $3,138,021 | $3,617,782 |</p>
<table>
<thead>
<tr>
<th>Revenues</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student tuition and fees, net</td>
<td>$11,345</td>
<td>$90,151</td>
<td>$10,037</td>
<td>$7,182</td>
<td>$614,106</td>
<td>$732,821</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>226</td>
<td>8,292</td>
<td>294</td>
<td>471,365</td>
<td>480,177</td>
<td></td>
</tr>
<tr>
<td>State and other government grants</td>
<td>68</td>
<td>4,312</td>
<td>51</td>
<td>59,417</td>
<td>63,848</td>
<td></td>
</tr>
<tr>
<td>Nongovernmental grants and contracts</td>
<td>306</td>
<td>2,412</td>
<td>1,496</td>
<td>21</td>
<td>288,559</td>
<td>292,794</td>
</tr>
<tr>
<td>Student loan interest income</td>
<td>16</td>
<td>280</td>
<td>30</td>
<td>1,505</td>
<td>1,831</td>
<td></td>
</tr>
<tr>
<td>Sales and services of educational activities, net</td>
<td>422</td>
<td>4,843</td>
<td>205</td>
<td>37</td>
<td>139,796</td>
<td>145,303</td>
</tr>
<tr>
<td>Auxiliary enterprises, net</td>
<td>3,935</td>
<td>37,130</td>
<td>7,438</td>
<td>1,738</td>
<td>326,208</td>
<td>376,449</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>137</td>
<td>137</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>16,318</td>
<td>147,420</td>
<td>19,551</td>
<td>8,978</td>
<td>1,901,093</td>
<td>2,093,360</td>
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<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational and general</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instruction</td>
<td>9,872</td>
<td>68,042</td>
<td>12,423</td>
<td>2,499</td>
<td>676,643</td>
<td>769,479</td>
</tr>
<tr>
<td>Research</td>
<td>113</td>
<td>18,327</td>
<td>1,088</td>
<td>619</td>
<td>659,561</td>
<td>679,718</td>
</tr>
<tr>
<td>Public service</td>
<td>317</td>
<td>8,238</td>
<td>746</td>
<td>19</td>
<td>243,821</td>
<td>253,141</td>
</tr>
<tr>
<td>Academic support</td>
<td>3,077</td>
<td>24,191</td>
<td>4,571</td>
<td>1,386</td>
<td>361,702</td>
<td>394,927</td>
</tr>
<tr>
<td>Student services</td>
<td>2,521</td>
<td>14,623</td>
<td>4,512</td>
<td>1,636</td>
<td>93,283</td>
<td>116,575</td>
</tr>
<tr>
<td>Institutional support</td>
<td>2,434</td>
<td>12,690</td>
<td>2,901</td>
<td>5,119</td>
<td>233,497</td>
<td>256,641</td>
</tr>
<tr>
<td>Operation and maintenance of plant</td>
<td>4,267</td>
<td>26,346</td>
<td>6,561</td>
<td>143</td>
<td>248,681</td>
<td>285,938</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>424</td>
<td>1,991</td>
<td>1,245</td>
<td>89</td>
<td>50,830</td>
<td>54,519</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,459</td>
<td>12,611</td>
<td>4,259</td>
<td>3,140</td>
<td>170,466</td>
<td>192,705</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>5,770</td>
<td>30,672</td>
<td>8,949</td>
<td>160</td>
<td>210,517</td>
<td>256,068</td>
</tr>
<tr>
<td>Other operating expenses, net</td>
<td>(6)</td>
<td>59</td>
<td>(42)</td>
<td></td>
<td>572</td>
<td>583</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>30,978</td>
<td>217,720</td>
<td>47,263</td>
<td>14,810</td>
<td>2,949,573</td>
<td>3,260,294</td>
</tr>
<tr>
<td>Operating Loss</td>
<td>(14,660)</td>
<td>(70,310)</td>
<td>(27,652)</td>
<td>(5,832)</td>
<td>(1,048,480)</td>
<td>(1,166,934)</td>
</tr>
<tr>
<td>Nonoperating Revenues (Expenses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal appropriations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>19,072</td>
<td>19,072</td>
</tr>
<tr>
<td>State appropriations</td>
<td>8,926</td>
<td>35,592</td>
<td>19,158</td>
<td>7,597</td>
<td>543,518</td>
<td>614,791</td>
</tr>
<tr>
<td>Grants</td>
<td>4,328</td>
<td>23,171</td>
<td>5,848</td>
<td></td>
<td>167,548</td>
<td>200,895</td>
</tr>
<tr>
<td>Gifts</td>
<td>718</td>
<td>5,283</td>
<td>1,153</td>
<td>71</td>
<td>189,887</td>
<td>197,172</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>228</td>
<td>4,342</td>
<td>259</td>
<td></td>
<td>229,578</td>
<td>234,407</td>
</tr>
<tr>
<td>Interest on capital asset-related debt</td>
<td>228</td>
<td>4,342</td>
<td>259</td>
<td></td>
<td>229,578</td>
<td>234,407</td>
</tr>
<tr>
<td>Other nonoperating revenues (expenses), net</td>
<td>7</td>
<td>(1,841)</td>
<td>333</td>
<td>(219)</td>
<td>(45,637)</td>
<td>(45,637)</td>
</tr>
<tr>
<td>Net nonoperating revenues</td>
<td>14,267</td>
<td>66,547</td>
<td>25,751</td>
<td>7,449</td>
<td>1,103,566</td>
<td>1,218,780</td>
</tr>
<tr>
<td>Income (Loss) Before Other Revenues</td>
<td>(353)</td>
<td>(3,763)</td>
<td>(91)</td>
<td>1,617</td>
<td>55,286</td>
<td>51,846</td>
</tr>
<tr>
<td>Capital appropriations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>83,081</td>
<td>83,081</td>
</tr>
<tr>
<td>Capital grants and gifts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>21,913</td>
<td>22,929</td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8,567</td>
<td>11,428</td>
</tr>
<tr>
<td>Transfers</td>
<td>3,737</td>
<td>24,143</td>
<td>2,568</td>
<td>1,912</td>
<td>33,260</td>
<td>33,260</td>
</tr>
<tr>
<td>Other internal charges</td>
<td>(3,087)</td>
<td>(19,759)</td>
<td>(4,298)</td>
<td>(3,410)</td>
<td>30,554</td>
<td>30,554</td>
</tr>
<tr>
<td>Total other revenues (expenses)</td>
<td>650</td>
<td>8,272</td>
<td>(1,741)</td>
<td>(1,498)</td>
<td>111,755</td>
<td>117,438</td>
</tr>
<tr>
<td>Increase (Decrease) in Net Position</td>
<td>257</td>
<td>4,509</td>
<td>(2,642)</td>
<td>119</td>
<td>167,041</td>
<td>169,284</td>
</tr>
<tr>
<td>Net position at beginning of year</td>
<td>46,939</td>
<td>316,299</td>
<td>74,999</td>
<td>41,524</td>
<td>3,138,021</td>
<td>3,617,782</td>
</tr>
<tr>
<td>Net position at end of year</td>
<td>$47,196</td>
<td>$320,808</td>
<td>$72,357</td>
<td>$41,643</td>
<td>$3,305,062</td>
<td>$3,787,066</td>
</tr>
</tbody>
</table>
## Statements of Revenues, Expenses, and Changes in Net Position by Campus

Year ended June 30, 2013 (in thousands)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$10,906</td>
<td>$91,844</td>
<td>$10,440</td>
<td>$5,962</td>
<td>$601,358</td>
<td>$720,510</td>
</tr>
<tr>
<td>Student tuition and fees, net</td>
<td>462</td>
<td>7,961</td>
<td>421</td>
<td>50</td>
<td>488,550</td>
<td>497,444</td>
</tr>
<tr>
<td>Federal grants and contracts</td>
<td>39</td>
<td>2,480</td>
<td>31</td>
<td>2</td>
<td>58,223</td>
<td>60,775</td>
</tr>
<tr>
<td>State and other government grants</td>
<td>404</td>
<td>2,985</td>
<td>685</td>
<td>166</td>
<td>273,964</td>
<td>278,204</td>
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<tr>
<td>Nongovernmental grants and contracts</td>
<td>19</td>
<td>304</td>
<td>46</td>
<td></td>
<td>1,498</td>
<td>1,867</td>
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<tr>
<td>Student loan interest income</td>
<td>393</td>
<td>4,717</td>
<td>190</td>
<td>12</td>
<td>150,661</td>
<td>155,973</td>
</tr>
<tr>
<td>Sales and services of educational activities, net</td>
<td>3,875</td>
<td>37,235</td>
<td>5,950</td>
<td>1,392</td>
<td>317,007</td>
<td>365,459</td>
</tr>
<tr>
<td>Auxiliary enterprises, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>135</td>
<td>135</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>16,098</td>
<td>147,526</td>
<td>17,763</td>
<td>7,584</td>
<td>1,891,396</td>
<td>2,080,367</td>
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<table>
<thead>
<tr>
<th>Expenses</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational and general</td>
<td>9,545</td>
<td>61,806</td>
<td>12,134</td>
<td>2,030</td>
<td>652,081</td>
<td>737,596</td>
</tr>
<tr>
<td>Instruction</td>
<td>139</td>
<td>17,265</td>
<td>919</td>
<td>516</td>
<td>637,712</td>
<td>656,551</td>
</tr>
<tr>
<td>Research</td>
<td>565</td>
<td>8,727</td>
<td>521</td>
<td>117</td>
<td>240,227</td>
<td>249,257</td>
</tr>
<tr>
<td>Public service</td>
<td>3,106</td>
<td>23,758</td>
<td>4,795</td>
<td>1,523</td>
<td>334,083</td>
<td>367,265</td>
</tr>
<tr>
<td>Academic support</td>
<td>2,526</td>
<td>13,553</td>
<td>4,553</td>
<td>1,718</td>
<td>87,880</td>
<td>110,230</td>
</tr>
<tr>
<td>Student services</td>
<td>2,728</td>
<td>20,005</td>
<td>4,397</td>
<td>1,494</td>
<td>174,055</td>
<td>197,319</td>
</tr>
<tr>
<td>Institutional support</td>
<td>4,471</td>
<td>23,940</td>
<td>6,261</td>
<td></td>
<td>231,622</td>
<td>266,994</td>
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<tr>
<td>Operation and maintenance of plant</td>
<td>433</td>
<td>1,985</td>
<td>1,209</td>
<td>116</td>
<td>46,692</td>
<td>50,435</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>2,428</td>
<td>22,428</td>
<td>1,892</td>
<td>116</td>
<td>171,967</td>
<td>193,139</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,128</td>
<td>31,047</td>
<td>6,946</td>
<td>137</td>
<td>192,153</td>
<td>235,411</td>
</tr>
<tr>
<td>Auxiliary enterprises, net</td>
<td>(5)</td>
<td>5</td>
<td>(33)</td>
<td></td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>Other operating expenses, net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>30,380</td>
<td>207,403</td>
<td>44,263</td>
<td>13,623</td>
<td>2,768,347</td>
<td>3,064,216</td>
</tr>
</tbody>
</table>

| Operating Loss | (14,282) | (59,877) | (26,500) | (6,039) | (877,151) | (983,849) |

<table>
<thead>
<tr>
<th>Nonoperating Revenues (Expenses)</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal appropriations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22,039</td>
</tr>
<tr>
<td>State appropriations</td>
<td>8,511</td>
<td>30,816</td>
<td>18,756</td>
<td>7,428</td>
<td>509,950</td>
<td>575,491</td>
</tr>
<tr>
<td>Grants</td>
<td>4,595</td>
<td>22,677</td>
<td>5,508</td>
<td></td>
<td>162,361</td>
<td>195,141</td>
</tr>
<tr>
<td>Gifts</td>
<td>623</td>
<td>4,955</td>
<td>664</td>
<td>80</td>
<td>152,845</td>
<td>159,167</td>
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<tr>
<td>Investment income, net</td>
<td>194</td>
<td>4,156</td>
<td>256</td>
<td></td>
<td>118,181</td>
<td>122,797</td>
</tr>
<tr>
<td>Interest on capital asset-related debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(44,035)</td>
<td>(44,035)</td>
</tr>
<tr>
<td>Other nonoperating revenues (expenses), net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net nonoperating revenues</strong></td>
<td>13,978</td>
<td>62,507</td>
<td>25,467</td>
<td>7,503</td>
<td>924,578</td>
<td>1,034,033</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income (Loss) Before Other Revenues</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(394)</td>
<td>2,630</td>
<td>(1,033)</td>
<td></td>
<td>1,464</td>
<td>47,427</td>
<td>50,184</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income (Loss) After Other Revenues</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital appropriations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>98,396</td>
</tr>
<tr>
<td>Capital grants and gifts</td>
<td>555</td>
<td>31</td>
<td>5,800</td>
<td>22,415</td>
<td>28,801</td>
<td></td>
</tr>
<tr>
<td>Additions to permanent endowments</td>
<td>6,153</td>
<td>6</td>
<td></td>
<td></td>
<td>6,299</td>
<td>12,458</td>
</tr>
<tr>
<td>Transfers</td>
<td>5,673</td>
<td>(13,236)</td>
<td>4,067</td>
<td>14,801</td>
<td>(11,305)</td>
<td>29,998</td>
</tr>
<tr>
<td>Other internal charges</td>
<td>(3,122)</td>
<td>(19,662)</td>
<td>(4,209)</td>
<td>(3,005)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total other revenues (expenses)</strong></td>
<td>2,551</td>
<td>(26,190)</td>
<td>(105)</td>
<td>17,596</td>
<td>145,803</td>
<td>139,655</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increase (Decrease) in Net Position</th>
<th>Crookston</th>
<th>Duluth</th>
<th>Morris</th>
<th>Rochester</th>
<th>Twin Cities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,247</td>
<td>(23,560)</td>
<td>(1,138)</td>
<td></td>
<td>19,060</td>
<td>193,230</td>
<td>189,839</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net position at beginning of year</th>
<th>44,692</th>
<th>339,859</th>
<th>76,137</th>
<th>22,464</th>
<th>2,944,791</th>
<th>3,427,943</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net position at end of year</td>
<td>$46,939</td>
<td>$316,299</td>
<td>$74,999</td>
<td>$41,524</td>
<td>$3,138,021</td>
<td>$3,617,782</td>
</tr>
</tbody>
</table>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have audited, in accordance with the 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, the consolidated statement of net position of the University of Minnesota (the "University") as of June 30, 2014, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements, and have issued our report thereon dated October 29, 2014. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the University's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 29, 2014
FY 2014 Highlights

• Net position (net assets) increased by $169.3 million, driven by favorable investment market conditions.
• Net operating loss increased over FY 2013, but non-operating revenues were also up nearly $200 million.
• FY 2014 cash flow increased by $103.4 million from FY 2013, to a positive $28.9 million.
• 2407 Investment LLC joint venture added in 2014.
• Adoption of new GASB standards resulted in minor changes to the financial statements.
Net Position – Overview of Assets 2014 versus 2013

- Total University assets increased by $176 million or 3.2%.
- Cash & equivalents increase of $25 million due to increase in cash held in CEF partially offset by a decrease in unspent bond proceeds.
- Investments increased $114 million because of CEF market value appreciation.
- Capital assets (net) increased $24 million due to increased spending on construction projects, specifically the Ambulatory Care Clinic.
Net Position – Overview of Liabilities
2014 versus 2013

- Total University liabilities increased by $7 million or 0.4%.
- Increase in accrued & other liabilities of $26 million because of gradual amortization of the OPEB liability.
- Long-term debt decreased $18 million due to debt service payments and refunding, offset by issuance of 2013C / 2013D bonds.
Overview of Revenues, Expenses, and Changes in Net Position

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ in Millions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$2,093.4</td>
<td>$2,080.4</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>3,260.3</td>
<td>3,064.2</td>
</tr>
<tr>
<td>Net Operating Loss</td>
<td>(1,166.9)</td>
<td>(983.8)</td>
</tr>
<tr>
<td>Net Non-Operating Revenues</td>
<td>1,218.8</td>
<td>1,034.0</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>117.4</td>
<td>139.6</td>
</tr>
<tr>
<td>Increase in Net Position</td>
<td>$169.3</td>
<td>$189.8</td>
</tr>
</tbody>
</table>
FY 2014 Total Revenues –
$3.4 Billion

Operating Revenues = $2,093 million (61%)
Nonoperating & Other Revenues = $1,335 million (39%)

- Tuition & Fees
- Grants & Contracts
- Sales of Educational Activities
- Auxiliary Enterprises (net)
- Other Operating Revenue
- Federal Appropriations
- State Appropriations
- Nonoperating Grants & Gifts
- Investment Income (net)
- Other Nonoperating Income
- Capital Appropriations
- Capital Grants & Gifts

$ in millions

$234; 7%
$396; 12%
$615; 18%
$376; 11%
$147; 4%
$733; 21%
$837; 24%
$147; 4%
$19; 1%
$0; 0%
FY 2014 Total Operating Expenses – $3.3 Billion

- Instruction: $769 million (24%)
- Research: $680 million (21%)
- Public Service: $286 million (9%)
- Academic Support: $257 million (8%)
- Student Services: $395 million (12%)
- Institutional Support: $253 million (8%)
- Operation & Maintenance of Plant: $256 million (8%)
- Scholarships & Fellowships: $193 million (5%)
- Depreciation: $55 million (2%)
- $116 million (3%)

Total: $3.3 billion

$ in millions
Operating Expense Trends – Natural Classification
Fiscal Years 2010 – 2014

(Audited amounts; $ in millions)
## Cash Flows
### FY 2014 versus FY 2013

<table>
<thead>
<tr>
<th>($ in thousands)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td>($924,284)</td>
<td>($781,600)</td>
</tr>
<tr>
<td>Noncapital financing activities</td>
<td>1,038,968</td>
<td>925,488</td>
</tr>
<tr>
<td></td>
<td>$114,684</td>
<td>$143,888</td>
</tr>
<tr>
<td>Capital and related financing</td>
<td>($204,533)</td>
<td>($223,374)</td>
</tr>
<tr>
<td>Investing activities</td>
<td>118,775</td>
<td>4,977</td>
</tr>
<tr>
<td></td>
<td>($85,758)</td>
<td>($218,397)</td>
</tr>
<tr>
<td>Net (decrease) increase</td>
<td>$28,926</td>
<td>($74,509)</td>
</tr>
<tr>
<td>Ending cash &amp; equivalents</td>
<td>$309,937</td>
<td>$281,011</td>
</tr>
</tbody>
</table>
### Cash Flows, Fiscal Year 2014

**($ in millions)**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee payments ($2,035.1)</td>
<td></td>
</tr>
<tr>
<td>Capital assets &amp; Supplier payments ($223.3) &amp; ($958.4)</td>
<td></td>
</tr>
<tr>
<td>Principal and interest on capital debt ($117.6)</td>
<td></td>
</tr>
<tr>
<td>Investing activities $118.8</td>
<td></td>
</tr>
<tr>
<td>Capital appropriations $92.9 &amp; Proceeds from debt $51.0</td>
<td></td>
</tr>
<tr>
<td>State and Federal appropriations $635.8</td>
<td></td>
</tr>
<tr>
<td>Tuition receipts $692.2</td>
<td></td>
</tr>
<tr>
<td>Gifts $201.5 &amp; Auxiliary and other sales activity $538.9</td>
<td></td>
</tr>
<tr>
<td>Grants $1,039.7</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2013</td>
<td>$281.0</td>
</tr>
<tr>
<td>6/30/2014</td>
<td>$309.9</td>
</tr>
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</table>
University’s Component Units

Blended Component Units
• RUMINCO, Ltd.
• UMORE Development, LLC

Joint Ventures
• 2407 University Investment, LLC

Discretely presented Component Units
• University of Minnesota Foundation (UMF)
• University of Minnesota Physicians (UMP)
Discretely Presented
Component Unit Overview FY 2014
($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>UMF</th>
<th>UMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>$2,655.4</td>
<td>$192.0</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>356.9</td>
<td>85.8</td>
</tr>
<tr>
<td>Net Assets</td>
<td>2,298.5</td>
<td>106.2</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>450.6</td>
<td>483.2</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>231.4</td>
<td>460.0</td>
</tr>
<tr>
<td>Increase (Decrease) in Net Assets</td>
<td>$219.2</td>
<td>$23.2</td>
</tr>
</tbody>
</table>
GASB 61 – Component Unit Reporting
Component Unit Definitions

- Legally separate organization for which the primary government is “financially accountable”;  
  or  
- An organization for which the nature and significance of the relationship with the primary government is such that exclusion would cause the primary government’s financial statements to be misleading
Component Unit Definitions

• “Financially accountable” means the primary government appoints a voting majority of the organization’s governing board, and:
  – Is able to impose its will on the organization, or
  – There is potential for the organization to provide specific financial benefit to, or burden on, the primary government

• As a result, facts and circumstances for each relationship must be analyzed
<table>
<thead>
<tr>
<th>Financial Reporting Format</th>
<th>Blended Component Unit</th>
<th>Reported as Investment in Component Unit</th>
<th>Discretely Presented Component Unit</th>
<th>Footnote Disclosure of material transactions and activities between U and the Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal form</td>
<td>Part of the U, or a separate entity owned by the U</td>
<td>Legally separate Joint Venture with U Equity</td>
<td>Legally Separate but Related Entity</td>
<td>Joint Venture without Equity Separate Legal Entity</td>
</tr>
<tr>
<td>Governance</td>
<td>Governed by U, or U appoints a majority of governing board</td>
<td>The U may have representation on the entity’s board but does not control it.</td>
<td>The U may have representation on entity’s board but does not control its governance structures</td>
<td>Jointly governed, but the U does not control Separately governed</td>
</tr>
<tr>
<td>Level of Control by the University</td>
<td>Highest</td>
<td>High level of Influence</td>
<td>Influence but not control</td>
<td>Low to none Low to none</td>
</tr>
<tr>
<td>Financial Interdependence</td>
<td>Fiscally dependent or interdependent</td>
<td>Significant, non-controlling University equity investment in the entity</td>
<td>Fiscally dependent or interdependent, and significant to the U</td>
<td>Minimal, immaterial financial impact to the U Minimal, immaterial financial impact to the U</td>
</tr>
<tr>
<td>Credit Rating Impact</td>
<td>Would be factored into the U’s credit rating (“On our credit”)</td>
<td>Would be factored into the U’s credit rating</td>
<td>May or not be factored into the U’s credit rating</td>
<td>Would not be factored into the U’s credit rating (“Off our credit”) Would not be factored into the U’s credit rating (“Off our credit”)</td>
</tr>
<tr>
<td>Example</td>
<td>RUMINCO; UMORE Park</td>
<td>2407 University Investment LLC</td>
<td>UMP, University of MN Foundation</td>
<td>Currently No Examples Ucare Minnesota</td>
</tr>
</tbody>
</table>
University’s Component Units

Blended Component Units
• RUMINCO, Ltd.
• UMORE Development, LLC

Joint Ventures
• 2407 University Investment, LLC

Discretely presented Component Units
• University of Minnesota Foundation (UMF)
• University of Minnesota Physicians (UMP)
Questions
Agenda Item: GASB 61 Treatment of Component Units

☐ Review ☐ Review + Action ☐ Action ☒ Discussion

This is a report required by Board policy.

Presenters: Richard H. Pfutzenreuter, Vice President & Chief Financial Officer
Michael Volna, Associate Vice President & Controller

Purpose & Key Points

Entities like the University of Minnesota participate in a variety of business activities, such as public-private partnerships and joint ventures. Governmental Accounting Standards Board (GASB) Statement No. 61 provides guidance on the requirements for determining how to account for and report these activities in financial statements. The presentation will describe the major categories of business combinations and the criteria for deciding how to present and disclose equity interests, component units, joint ventures, and other business combinations.

Background Information

This report is prepared and presented to the Finance Committee in conformance with Board of Regents Policy: Board Operations and Agenda Guidelines.
Finance

December 11, 2014

Agenda Item: Update on Enterprise Systems Upgrade Program (ESUP)

☐ Review ☐ Review + Action ☐ Action ☒ Discussion

☒ This is a report required by Board policy.

Presenters: Richard H. Pfutzenreuter, Vice President & Chief Financial Officer
R. Scott Studham, Vice President & Chief Information Officer
Dennis Wenzel, Executive Program Director, Enterprise Systems Upgrade Program

Purpose & Key Points

The University of Minnesota is in the final testing and deployment readiness phases of a major technology and business transformation known as the Enterprise Systems Upgrade Program (ESUP).

This PeopleSoft technology upgrade and system implementation is on schedule to launch in February 2015. ESUP will introduce changes to the Human Resources Management Systems (HRMS), Student Services, Financial Systems, the MyU Enterprise Portal, and Management Reporting. ESUP is necessary to maintain regulatory compliance and software vendor support for the systems; perform mission-critical activities and day-to-day business functions; and position the University to leverage new and emerging technologies.

The system-wide program represents an $83.5 million budget allocation and is on budget entering the final two months. Since presenting to the Finance Committee in June 2014, the ESUP team has completed the build phase (application development) and has executed a structured testing strategy. The team recently concluded the second of three major testing phases and fifth of six deployment dress rehearsals. The test application is now running on-site on University hardware, and operations staff across business and technology units are beginning transition planning activities. The team is focused on closing out application defects, preparing for deployment and operations transition, and communicating and training the University community. A comprehensive end user support strategy is being developed to support University students, faculty, and staff as they navigate the transition between legacy and new system processes.

The ESUP team will present a status update, outline deployment and support activities, and discuss Board awareness items.

For reference, the program’s scope includes the following technical and business elements:
• Student Service System: This system tracks course offerings, student financial information, and academic life. The Student upgrade is required to maintain federal regulatory and tax updates; federal SEVIS/Visa updates; and to receive and distribute financial aid.

• Human Resource Management System: This system tracks employment records, benefits administration, and payroll processing. New functionality, such as electronic time and labor reporting, will also be implemented.

• Finance System: This system tracks and manages the University’s annual budget and financial reporting. This component of the program is primarily a technical upgrade with only select new features.

• MyU (PeopleSoft Enterprise Portal): The new MyU will be the University-wide interface that faculty, staff, and students use to access their systems and data. The new MyU will provide intelligent management of content for all users.

• Reporting and Data Management: This element of the Upgrade will bring the current business reports (i.e., UM Reports) in line with the integrated technical solution and provide the ability to easily access business reports used by faculty and staff.

**Background Information**

The Resolution related to the Enterprise Systems Upgrade Program was presented to and acted on by the Finance and Operations Committee in July 2012.

A presentation titled “Progress Report on Enterprise Systems Management Program” was presented to the Board of Regents in June 2013.

A progress report and presentation titled “Enterprise Systems Management Program: Update” was presented to the Finance Committee in June 2014.
Enterprise Systems Upgrade Program

R. Scott Studham, Vice President for Information Technology
Dennis Wenzel, ESUP Executive Program Director
Purpose and Background

**Purpose:**
Upgrade outdated University technology platform to maintain regulatory compliance, leverage improved tools, reduce on-going modification maintenance, and efficiently manage mission-critical business functions.

**Scope:**

**Impact:**
The new solution will impact all faculty, students and staff.
Status Overview

• **Progress!** The program team, with the help of hundreds of people across the University, has made steady progress on delivering this *very large* upgrade.

• **We are beginning “the third period.”** The game is not over... Much of the technological heavy lifting is near completion. Now, our focus increasingly will turn to communication, change management and user support.

• **Expect more visibility... a few bumps ahead.** This upgrade affects thousands of users, will be visible (both inside and, potentially, outside the University) and will inevitably produce some user frustrations. We are preparing to help faculty members, students and staff through this transition.
Key Accomplishments

• Primary application development activities are complete

• Iterations of functional and system testing have been completed
  o Defect resolution in-process
  o Additional testing (end-to-end and user acceptance) through December

• Five dry-run deployment cycles have been completed
  o One additional scheduled in January as a dress rehearsal for cutover
  o Supplemental HR data conversion cycles completed and additional planned
Key Accomplishments

• Utilizing UMN infrastructure several months ahead of original plan
• Transition to operational support underway
• Bolstered Change Management team with additional expertise
• Completed first go/no-go review with Executive Oversight Committee
• Launched first training courses
$83.5 million Budget Allocation

- On budget with >$1.2M contingency remaining
- Includes all hardware, software, maintenance through Go-Live
- Forecast fully resource-loaded through 60 days post Go-Live (4/30/2015)

<table>
<thead>
<tr>
<th>Description</th>
<th>Actual</th>
<th>Forecast to End of Program</th>
<th>Total Actual + Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staffing (Non CedarCrestone)</td>
<td>$29,638</td>
<td>$10,539</td>
<td>$40,177</td>
</tr>
<tr>
<td>Equipment and Operations</td>
<td>$1,588</td>
<td>$230</td>
<td>$1,818</td>
</tr>
<tr>
<td>Hardware and Software</td>
<td>$7,706</td>
<td>$1,178</td>
<td>$8,884</td>
</tr>
<tr>
<td>Partner Staffing and Lab</td>
<td>$26,456</td>
<td>$4,975</td>
<td>$31,431</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$65,388</strong></td>
<td><strong>$16,922</strong></td>
<td><strong>$82,310</strong></td>
</tr>
<tr>
<td>Contingency Remaining</td>
<td>$1,236</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Cut-over

• Just before the new systems “go live,” there will be a one-to-two week period during which some systems will not be available – some will have view-only information that is not “live”
  o Five dry run cutover cycles have been completed to minimize cutover risks
  o Final dry run / dress rehearsal is scheduled for January

• A 60-day Enhanced Support period is planned, including:
  o 24x7 command center support for critical issues (first 2 weeks)
  o Expanded User Support from call centers, network of business volunteers
  o Added training and communication to address issues in near real-time
  o Enhanced notifications via new MyU for training and issue sharing
Awareness Items

• Single Go-Live day for all systems
  o Each University faculty, student, and staff will be impacted at once

• Post Go-Live system issues, training questions, changes will cause noise
  o This is common in large system deployments
  o Although we have an extensive communications program, not all users will pay attention or respond

• Cultural change
  o There are major business changes taking place at once

• New MyU Portal will be a new access point to all University business
Advance Team Support

Coordinated teams of subject matter experts distributed throughout the University

- Trained in assisting with issues – onsite in their departments
- Available to answer questions, direct students, faculty, and staff
- ~400 Faculty Go-To, 114 HR Stars, 110 RRC, ~125 FCoP
Welcome to MyU

Announcements
Teaching
My Advisees
Research
Faculty Career
Academics
My Finances
My Time
My Pay
My Benefits
Manager Info
Purchasing

Everyone
Advisers of record
Faculty
Students
Employees
Managers
All faculty & staff

< More Announcements
Top Announcements
Reminder: New Time Sheet Approval Requirements

Duluth
Campus Closed 03/17/2014
Some really long title that is used to take up real estate on the screen.
Here is another long title to take up real estate.

Health & Wellness
Get your flu shot for free all month long
Learn about the long term effects of smoking on your health.

Morris
This is a sample news item for Morris

UMR CONNECTS - Free Professional Speaker Series

The apple, rebooted
UMD Named a Top Summer School
Stay Connected – Learn More

upgrade.umn.edu
See details on changes to processes and reports

Sign up for The Upgrade newsletter

esup@umn.edu
For any questions, comments, concerns

Operational Excellence
Enterprise Systems Upgrade Program (ESUP)

University of Minnesota
Driven to Discover®

☐ Review    ☑ Review + Action    ☐ Action    ☐ Discussion

☐ This is a report required by Board policy.

Presenters:  Richard H. Pfutzenreuter, Vice President & Chief Financial Officer

Purpose & Key Points

Five percent, or approximately $26.5 million, of the University’s FY 2015 appropriation for operations and maintenance is conditional based on meeting at least three of five performance measures specified in Minnesota Laws 2013, Chapter 99, Article 1, Section 5, Subdivision 3. The measures include:

1. Improving graduation rates for low-income students.
2. Increasing the total number of undergraduate STEM degrees.
3. Improving graduation rates, more generally.
4. Decreasing administrative costs by $15 million for FY 2014.
5. Increasing invention disclosures.

The University is pleased that it successfully achieved all five of the performance measures set forth in the statute. Data regarding these performance measures are now available and presented below.

1. **Improving Graduation Rates for Low-Income Students**

   Following the definition used in the Department of Education (IPEDS) completion survey, the graduation rates were calculated as the percent of first-time, full-time, degree-seeking freshmen who are eligible for Pell grants in their first term of enrollment and beginning in fall semester on the Twin Cities campus who graduate with a degree from their campus of entry (Twin Cities) by the end of summer term four, five, or six years after entry. For purposes of the performance measure, a three-year weighted average of the graduation rates will be calculated, with each cohort weighted proportionally to the number of students in the cohort. The target increase was a one percent increase in graduation rates for these cohorts of students over the previous baselines from two years ago.
Below are the University’s results:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline</th>
<th>Target Increase</th>
<th>Target Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-year graduation rate</td>
<td>38.9%</td>
<td>1%</td>
<td>39.9%</td>
<td>47.1%</td>
</tr>
<tr>
<td>5-year graduation rate</td>
<td>53.3%</td>
<td>1%</td>
<td>54.3%</td>
<td>60.6%</td>
</tr>
<tr>
<td>6-year graduation rate</td>
<td>56.8%</td>
<td>1%</td>
<td>57.8%</td>
<td>63.1%</td>
</tr>
</tbody>
</table>

2. **Increasing the Total Number of Undergraduate STEM Degrees**

This performance measure used three-year averages of the University’s official degrees granted, as reported by the Office of Institutional Research, counting undergraduate degrees granted by the Twin Cities campus in Science, Technology, Engineering, and Mathematics (STEM) fields but excluding certificates. The degree fields included:

- Agriculture, Agriculture Operations, and Related Sciences
- Natural Resources and Conservation
- Architecture and Related Services
- Computer and Information Sciences and Support Services
- Engineering
- Engineering Technologies and Technicians
- Biological and Biomedical Sciences
- Mathematics and Statistics
- Physical Sciences
- Science Technologies/Technicians
- Health Professions and Related Programs

The University’s results are as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline</th>
<th>Target Increase</th>
<th>Target Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEM Degrees Granted</td>
<td>2,557</td>
<td>3%</td>
<td>2,634</td>
<td>2,814</td>
</tr>
</tbody>
</table>

3. **Improving Graduation Rates, More Generally**

Following the definition used on the Office of Institutional Research web site, the graduation rates were calculated as the percent of first-time, full-time, degree-seeking freshmen beginning in fall semester on any campus in the University of Minnesota system who graduate with a degree from a University of Minnesota campus by the end of summer term four or six years after entry. These figures differ slightly from more commonly reported graduation rates, which do not give credit for starting at one campus within the University system and graduating from a different campus within the system. The measure agreed upon here does provide credit for those successful graduating students.

The University’s results are as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline</th>
<th>Target Increase</th>
<th>Target Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-year graduation rate</td>
<td>48.0%</td>
<td>1%</td>
<td>49.0%</td>
<td>52.5%</td>
</tr>
<tr>
<td>5-year graduation rate</td>
<td>65.2%</td>
<td>1%</td>
<td>66.2%</td>
<td>69.5%</td>
</tr>
<tr>
<td>6-year graduation rate</td>
<td>67.8%</td>
<td>1%</td>
<td>68.8%</td>
<td>71.5%</td>
</tr>
</tbody>
</table>
4. Decreasing Administrative Costs by $15 Million for FY 2014

Classifying administrative costs:
The University decreased administrative costs by $18.8 million in FY 2014. For purposes of this performance measure (and as reported in the FY 2014 approved budget), administrative costs are defined as any University unit’s expenses that fall into two of the three main expense categories: Mission Support and Facilities; and Leadership and Oversight. Any reallocations impacting the third expense category of Mission Delivery are not included in this report. Below is a brief summary of each of the three categories:

1. Direct Mission Delivery: The Direct Mission Delivery category includes expenses for people and supplies directly relating to the University's mission of instruction, research, and public service. The salary, benefits, and other costs associated with tenured faculty, adjunct instructors, lecturers, clinical professors, extension educators, scientists, laboratory technicians, and health science professionals are all examples of costs coded to the Direct Mission Delivery category. As noted above, decreases in this category are not considered administrative cost reductions.

2. Mission Support and Facilities: This category of expenses includes the cost for people, supplies, and facilities that support the delivery of the mission. Examples of expenses that fall into this category include salaries, benefits, and operating costs related to non-supervisory staff such as academic advisors, librarians, sponsored grant accountants, and public safety officials as well as facility costs. This category of expenses is considered administrative in nature.

3. Leadership and Oversight: The third and final category for expenses includes costs related to the leaders and managers of the University, including their associated operating costs. Examples of positions falling into this category include executive leadership (President, Vice Presidents, Chancellors, etc.), academic leadership (Deans, Associate Deans, etc.), program and department directors, supervisors, and managers. This category of expenses is also considered administrative in nature.

A detailed list of the reductions is included as an attachment: FY 2014 Reallocation of Administrative Expenses. The report classifies information by unit, item, and reallocation amount.

Summary data:
The University decreased administrative costs by $18.8 million in two major areas: staffing changes; and operating reductions. Below is summary information for each of these areas. Additional details for each of the reallocations follow in the attachment.

- Savings Due to Staffing Changes: $11.4 Million
  Approximately 61 percent of the reallocations were realized through changes in staffing, including both position eliminations and other reductions leading to reduced spending on salaries and benefits. Examples include instances in which the units eliminated administrative positions or reduced the cost of such positions through attrition, reorganization, termination, consolidation of staff under a single unit from multiple units, movement towards part-time staff, and hiring replacement staff at a lower salary than their predecessor. In some cases, restructuring leading to productivity gains or new efficiencies allowed for elimination of positions with little impact on service levels or business outcomes. In other cases, the loss of positions will impact service and output.
• **Savings Due to Operating Reductions: $7.4 Million**

Operating reductions made up the remaining 39 percent of the reallocations. Examples of reallocations in this category include: moving to less expensive space; improving energy efficiency; and scaling back operating expenses for equipment, travel, professional development, and supplies.

**Conclusions and final comments:**

The University decreased administrative costs for FY 2014 by approximately $18.8 million. Therefore, performance measure four has been met. The reallocations occurred across the University system, including approximately $11.8 million (63 percent) in administrative reductions within the academic units and approximately $7.0 million (37 percent) in reallocations in system support units.

The University's FY 2014 annual operating budget was balanced through a variety of actions, one of which was implementation of the reallocations detailed in this report. An increase in tuition revenue from nonresident, graduate and professional rates; modest increases in other revenue sources; and some reasonable reallocations within direct mission activities supplemented this $18.8 million of reallocation in administrative cost. Combined, these resource changes and expenditure reductions covered cost increases related to compensation, facilities, contracts, etc. and allowed for investments in student aid and academic program priorities.

5. **Increasing Invention Disclosures**

In order to adequately protect the intellectual property rights of the faculty, staff, and the University as a whole, Board of Regents Policy: Commercialization of Intellectual Property Rights directs researchers to report and disclose any inventions or original creations that they believe have commercial or public value. This policy protects the University's intellectual property (i.e., inventions or software) and helps ensure that the University (and, as applicable, the individual) is complying with reporting requirements based on government funding and external sponsored research agreements. Data collection is coordinated by the University's Office for Technology Commercialization, and the number of disclosures is reported to the Board of Regents annually as part of the report from the Vice President for Research.

The University's results are as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline</th>
<th>Target Increase</th>
<th>Target Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invention Disclosures</td>
<td>331</td>
<td>3%</td>
<td>341</td>
<td>343</td>
</tr>
</tbody>
</table>

**Background Information**

In July 2013, the Board of Regents reviewed and approved the Memorandum of Understanding with the Minnesota Office of Higher Education regarding the Performance Measures for the University of Minnesota in Minn. Laws 2013, Chapter 99. The Board also reviewed and approved the FY 2015 annual operating budget for the University in June 2014 with the understanding that five percent of the state appropriation included in that budget was contingent on achieving the performance measures as outlined in this report.
President’s Recommendation

The President recommends approval of the performance data and corresponding narrative descriptions to be reported to the State of Minnesota in response to the requirements under Minnesota Laws 2013, Chapter 99, Article 1, Section 5, Subdivision 3.
OVERVIEW
Five percent, or approximately $26.5 million, of the University’s fiscal year 2015 appropriation for operations and maintenance is conditional based on meeting at least three of five performance measures specified in Minnesota Laws 2013, Chapter 99, Article 1, Section 5, Subdivision 3. The requirements include:

1. Improving graduation rates for low-income students;
2. Increasing the total number of undergraduate STEM degrees;
3. Improving graduation rates, more generally;
4. Decreasing administrative costs by $15 million for fiscal year 2014; and
5. Increasing invention disclosures.

This report provides detailed information on how the University has decreased administrative costs by over $15 million for fiscal year 2014 thereby meeting performance measure four.

CLASSIFYING ADMINISTRATIVE COSTS
The University decreased administrative costs by $18.8 million in fiscal year 2014. For purposes of this performance measure (and as reported in the fiscal year 2014 approved budget), administrative costs are defined as any University unit’s expenses that fall into two of the three main expense categories: Mission Support and Facilities; and Leadership and Oversight. Any reallocations impacting the third expense category of Mission Delivery are not included in this report. Below is a brief summary of each of the three categories:

1. Direct Mission Delivery: The Direct Mission Delivery category includes expenses for people and supplies directly relating to the University’s missions of instruction, research, and public service. The salary, benefits, and other costs associated with tenured faculty, adjunct instructors, lecturers, clinical professors, extension educators, scientists, laboratory technicians, and health science professionals are all examples of costs coded to the Direct Mission Delivery category. As noted above, decreases in this category are not considered administrative cost reductions.

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3. Leadership and Oversight: The third and final category for expenses includes costs related to the leaders and managers of the University, including their associated operating costs. Examples of positions falling into this category include executive leadership (President, Vice Presidents, Chancellors, etc.), academic leadership (Deans, Associate Deans, etc.), program and department directors, supervisors, and managers. This category of expenses is also considered administrative in nature.

REPORTING REQUIREMENTS
Minnesota Laws 2013 specified that the Board of Regents and the Minnesota Office of Higher Education (OHE) must agree on the specific calculations and definitions related to the performance measures noted above. The Board of Regents and OHE developed a memorandum of understanding (MOU), Performance Measures for University of Minnesota in Minn. Laws 2013, Chap. 99, during the summer of 2014 to meet this requirement.
For the purposes of the performance measures, the University will provide a list of expenditure reductions implemented in FY 14 (identifying unit, item, and $ amount) totaling at least $15 million, that are not directly mission related (i.e. instruction, research, or public service) and that do not include reductions to scholarships and fellowships. Allowable administrative reductions will be recurring expenditures eliminated by the end of FY 14 and beyond that fall in the remaining, non-mission functional areas.

The functional areas include administrative costs that fall into the Mission Support and Facilities as well as the Leadership and Oversight categories discussed above. A detailed list of the reductions is included in the attachment: FY 2014 Reallocation of Administrative Expenses. The report classifies information by unit, item, and reallocation amount.

SUMMARY DATA
The University decreased administrative costs by $18.8 million in two major areas: staffing changes; and operating reductions. Below is summary information for each of these areas. Additional details for each of the reallocations follow in the attachment.

Savings Due to Staffing Changes: $11.4 Million
Approximately 61 percent of the reallocations were realized through changes in staffing, including both position eliminations and other reductions leading to reduced spending on salaries and benefits. Examples include instances in which the units eliminated administrative positions or reduced the cost of such positions through attrition, reorganization, termination, consolidation of staff under a single unit from multiple units, movement towards part-time staff, and hiring replacement staff at a lower salary than their predecessor. In some cases, restructuring leading to productivity gains or new efficiencies allowed for elimination of positions with little impact on service levels or business outcomes. In other cases, the loss of positions will impact service and output.

Savings Due to Operating Reductions: $7.4 Million
Operating reductions made up the remaining 39 percent of the reallocations. Examples of reallocations in this category include: moving to less expensive space; improving energy efficiency; and scaling back operating expenses for equipment, travel, professional development, and supplies.

CONCLUSIONS AND FINAL COMMENTS
The University decreased administrative costs for fiscal year 2014 by approximately $18.8 million. Therefore, performance measure four has been met. The reallocations occurred across the University system, including approximately $11.8 million (63 percent) in administrative reductions within the academic units and approximately $7.0 million (37 percent) in reallocations in system support units.

The University’s fiscal year 2014 annual operating budget was balanced through a variety of actions, one of which was implementation of the reallocations detailed in this report. An increase in tuition revenue from nonresident, graduate and professional rates; modest increases in other revenue sources; and some reasonable reallocations within direct mission activities supplemented this $18.8 million of reallocation in administrative cost. Combined, these resource changes and expenditure reductions covered cost increases related to compensation, facilities, contracts, etc. and allowed for investments in student aid and academic program priorities.
Reallocated

<table>
<thead>
<tr>
<th>Reallocations by Unit</th>
<th>Reallocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic Affairs and Provost</strong></td>
<td></td>
</tr>
<tr>
<td>1 Eliminated Vice Provost for Distributed Education</td>
<td>63,000</td>
</tr>
<tr>
<td>2 Eliminated administrative support staff position and supplies</td>
<td>70,931</td>
</tr>
<tr>
<td><strong>Sub-Total: Academic Affairs and Provost</strong></td>
<td><strong>133,931</strong></td>
</tr>
<tr>
<td><strong>Academic Health Center (AHC) Shared</strong></td>
<td></td>
</tr>
<tr>
<td>7 Reduced maintenance costs for the MN Molecular and Cellular Therapeutics building</td>
<td>10,000</td>
</tr>
<tr>
<td>8 Utilized students instead of techs for the Biological Materials Procurement</td>
<td>10,000</td>
</tr>
<tr>
<td>10 Closed the Office of Education’s Learning Commons and eliminated web developer, technical support, project manager, and educational specialist positions</td>
<td>400,000</td>
</tr>
<tr>
<td>12 Eliminated administrative support staff in Community Based Education</td>
<td>25,000</td>
</tr>
<tr>
<td>13 Reduced general operating costs (non-mission) throughout the Academic Health Center</td>
<td>152,000</td>
</tr>
<tr>
<td>14 Reduced full-time administrative staff in the Center for Spirituality and Healing</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Academic Health Center</strong></td>
<td><strong>612,000</strong></td>
</tr>
<tr>
<td><strong>Auxiliary Services</strong></td>
<td></td>
</tr>
<tr>
<td>18 Reduced funding for non-motorized transportation services</td>
<td>9,000</td>
</tr>
<tr>
<td>19 Eliminated full-time dining management staff positions</td>
<td>279,577</td>
</tr>
<tr>
<td>20 Revamped dining hood system and generated energy savings</td>
<td>230,000</td>
</tr>
<tr>
<td>21 Eliminated two printing positions</td>
<td>141,329</td>
</tr>
<tr>
<td>22 Reduced bindery staff hours by 10 percent</td>
<td>18,427</td>
</tr>
<tr>
<td>23 Moved the U-Card office to a less expensive space</td>
<td>7,000</td>
</tr>
<tr>
<td>24 U Market Services (purchasing) savings on item cost and shipping from negotiation of new contracts and elimination of service charges</td>
<td>1,960,000</td>
</tr>
<tr>
<td>26 U Market Services procurement process redesign and efficiencies</td>
<td>1,250,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Auxiliary Services</strong></td>
<td><strong>3,895,333</strong></td>
</tr>
<tr>
<td><strong>College of Biological Sciences</strong></td>
<td></td>
</tr>
<tr>
<td>30 Eliminated director position</td>
<td>152,000</td>
</tr>
<tr>
<td>31 Merged accounting operations into a single unit on St. Paul campus and eliminated two administrative support positions</td>
<td>125,000</td>
</tr>
<tr>
<td>33 Hired a new director at a lower salary</td>
<td>20,000</td>
</tr>
<tr>
<td>35 Restructured manager position and hired a different position type</td>
<td>27,658</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Biological Sciences</strong></td>
<td><strong>384,658</strong></td>
</tr>
</tbody>
</table>
Administrative expenses are defined as those falling into two main expenditure categories tracked and monitored at the University: **Mission Support and Facilities; and Leadership and Oversight.** Changes in expenditures related to the direct delivery of the University’s missions (instruction, research, and public service) are not included on this list.

<table>
<thead>
<tr>
<th>Reallocations by Unit</th>
<th>Reallocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Planning and Project Management</strong></td>
<td></td>
</tr>
<tr>
<td>Reduced general operating expenses</td>
<td>11,000</td>
</tr>
<tr>
<td>Eliminated outside vendor fees related to architect and contractor evaluations</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Capital Planning and Project Management</strong></td>
<td><strong>111,000</strong></td>
</tr>
<tr>
<td><strong>Carlson School of Management</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated three administrative support positions within two offices: Information Technology and Venture Enterprise</td>
<td>323,530</td>
</tr>
<tr>
<td>Reduced a Human Resources position from full-time to part-time</td>
<td>19,750</td>
</tr>
<tr>
<td>Reduced general operating expenses (non-mission)</td>
<td>154,345</td>
</tr>
<tr>
<td><strong>Sub-Total: Carlson School of Management</strong></td>
<td><strong>497,625</strong></td>
</tr>
<tr>
<td><strong>College of Continuing Education</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated a director position by combining two departments</td>
<td>140,917</td>
</tr>
<tr>
<td>Eliminated four administrative support positions through attrition and termination</td>
<td>320,450</td>
</tr>
<tr>
<td>Closed the New Media Group and eliminated an administrative support position</td>
<td>109,134</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Continuing Education</strong></td>
<td><strong>570,501</strong></td>
</tr>
<tr>
<td><strong>Controller’s Office</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated an accountant position in Treasury, changed an Executive Accounting Specialist position to a 75 percent appointment, and salary savings</td>
<td>90,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Controller’s Office</strong></td>
<td><strong>90,000</strong></td>
</tr>
<tr>
<td><strong>School of Dentistry</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated administrative support positions through attrition</td>
<td>277,000</td>
</tr>
<tr>
<td><strong>Sub-Total: School of Dentistry</strong></td>
<td><strong>277,000</strong></td>
</tr>
<tr>
<td><strong>College of Design</strong></td>
<td></td>
</tr>
<tr>
<td>Reduced general operating expenses (non-mission)</td>
<td>118,600</td>
</tr>
<tr>
<td>Eliminated recurring facilities budget</td>
<td>34,700</td>
</tr>
<tr>
<td>Eliminated student worker positions</td>
<td>7,200</td>
</tr>
<tr>
<td>Reduced an administrative staff support position by 20 percent</td>
<td>3,400</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Design</strong></td>
<td><strong>163,900</strong></td>
</tr>
<tr>
<td><strong>College of Education and Human Development</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated administrative support positions through restructuring centers</td>
<td>152,527</td>
</tr>
<tr>
<td>Reduced general operating expenses (non-mission) through restructuring centers</td>
<td>81,389</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Education and Human Development</strong></td>
<td><strong>233,916</strong></td>
</tr>
<tr>
<td><strong>Facilities Management</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated positions by restructuring services over a multi-year timeframe, including decreasing the number of districts, contracting out elevator services, and restructuring building cleaning services</td>
<td>597,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Department of Facilities Management</strong></td>
<td><strong>597,000</strong></td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Reallocations by Unit</th>
<th>Reallocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Office of General Counsel</strong></td>
<td></td>
</tr>
<tr>
<td>83 Reduced the number of purchased legal publications</td>
<td>3,000</td>
</tr>
<tr>
<td>84 Reorganized staff, hired replacement staff at a lower salary, and did not fill a vacancy</td>
<td>21,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of General Counsel</strong></td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Global Programs and Strategy Alliance</strong></td>
<td></td>
</tr>
<tr>
<td>88 Reduced non-capital equipment expenses</td>
<td>20,000</td>
</tr>
<tr>
<td>89 Reduced travel expenses</td>
<td>23,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Global Programs and Strategy Alliance</strong></td>
<td>43,000</td>
</tr>
<tr>
<td><strong>Graduate School</strong></td>
<td></td>
</tr>
<tr>
<td>94 Reorganized staff and eliminated .8 of an info technology professional position</td>
<td>36,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Graduate School</strong></td>
<td>36,000</td>
</tr>
<tr>
<td><strong>Office of the Vice President for Health Sciences</strong></td>
<td></td>
</tr>
<tr>
<td>98 Eliminated an open special assistant position</td>
<td>89,000</td>
</tr>
<tr>
<td>99 Reduced finance staffing by .5 positions through retirements</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of the Vice President for Health Sciences</strong></td>
<td>139,000</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td></td>
</tr>
<tr>
<td>103 Eliminated staff position in communications</td>
<td>69,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Human Resources</strong></td>
<td>69,000</td>
</tr>
<tr>
<td><strong>Humphrey Institute of Public Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>107 Hired replacement staff for one associate dean and two administrative positions at lower salaries</td>
<td>145,939</td>
</tr>
<tr>
<td>108 Eliminated two administrative support positions</td>
<td>121,330</td>
</tr>
<tr>
<td><strong>Sub-Total: Humphrey Institute of Public Affairs</strong></td>
<td>267,269</td>
</tr>
<tr>
<td><strong>Office of Information Technology</strong></td>
<td></td>
</tr>
<tr>
<td>112 Eliminated 25 positions through efficiency gains from restructuring data/voice services</td>
<td>1,998,471</td>
</tr>
<tr>
<td>113 Reduced capital and operating expenses from restructuring data/voice services</td>
<td>1,562,362</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of Information Technology</strong></td>
<td>3,560,833</td>
</tr>
<tr>
<td><strong>Office of Internal Audit</strong></td>
<td></td>
</tr>
<tr>
<td>117 Hired replacement staff at a lower salary</td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of Internal Audit</strong></td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Law School</strong></td>
<td></td>
</tr>
<tr>
<td>121 Eliminated information technology staff by utilizing central Office of Information Technology services to manage existing servers</td>
<td>80,897</td>
</tr>
<tr>
<td>122 Reduced director position to part-time by partnering with another unit to share a position</td>
<td>60,415</td>
</tr>
<tr>
<td>123 Positions (non-mission) held open for reevaluation</td>
<td>327,342</td>
</tr>
<tr>
<td><strong>Sub-Total: Law School</strong></td>
<td>468,654</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Reallocations by Unit</th>
<th>Reallocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>College of Liberal Arts</strong></td>
<td></td>
</tr>
<tr>
<td>128 Eliminated finance, human resources, and support positions</td>
<td>423,267</td>
</tr>
<tr>
<td>129 Reduced general operating expenses (non-mission)</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Liberal Arts</strong></td>
<td><strong>483,267</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Libraries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>134 Eliminated five positions: three from the reference/circulation desk consolidation; and two managers</td>
<td>308,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Libraries</strong></td>
<td><strong>308,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Medical School</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>139 Moved out of leased space</td>
<td>610,000</td>
</tr>
<tr>
<td>140 Eliminated a director position and a chief administrative officer position</td>
<td>554,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Medical School</strong></td>
<td><strong>1,164,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>College of Pharmacy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>144 Reduced general operating expenses (non-mission)</td>
<td>30,000</td>
</tr>
<tr>
<td>145 Restructured administrative support functions through retirements and reduced positions from full-time to part-time and/or lowered salaries</td>
<td>20,000</td>
</tr>
<tr>
<td>147 Eliminated a senior administrative position by utilizing existing faculty</td>
<td>200,607</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Pharmacy</strong></td>
<td><strong>250,607</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Office of the President</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>151 Reduced position at Eastcliff from full-time to part-time</td>
<td>23,000</td>
</tr>
<tr>
<td>152 Restructured positions in compliance and lowered staffing costs</td>
<td>8,000</td>
</tr>
<tr>
<td>153 Reduced federal operations and reduced the salary of a vacant position</td>
<td>12,000</td>
</tr>
<tr>
<td>154 Reduced faculty athletic representative travel and supplies for the University Senate</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Sub-Total: President’s Office</strong></td>
<td><strong>49,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>School of Public Health</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>158 Eliminated positions through phased retirements and lay-offs, including an associate dean, receptionist, coordinator, two administrative specialists, and accountant</td>
<td>293,642</td>
</tr>
<tr>
<td>160 Reduced information technology costs by partnering with another unit to share a position</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Sub-Total: School of Public Health</strong></td>
<td><strong>313,642</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Safety</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>164 Restructured University of MN Police Department services to reduce operating costs</td>
<td>32,000</td>
</tr>
<tr>
<td>165 Eliminated student monitor in the West Bank Office Building</td>
<td>45,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Department of Public Safety</strong></td>
<td><strong>77,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Office of the Vice President for Research</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>169 Eliminated the administration funds for the Biocatalysis Initiative</td>
<td>100,000</td>
</tr>
<tr>
<td>170 Hired replacement staff at a lower salary</td>
<td>32,000</td>
</tr>
<tr>
<td>171 Eliminated the budget for emerging technologies under high performance computing operations and reduced expenditures on equipment purchases</td>
<td>94,000</td>
</tr>
<tr>
<td>173 Reduced general operating expenses (non-mission) for the Institute on the Environment</td>
<td>43,000</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>Reallocations by Unit</th>
<th>Reallocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>and the Center for Transportation Studies</td>
<td></td>
</tr>
<tr>
<td>Reduced administrative staff time related to inspections</td>
<td>34,700</td>
</tr>
<tr>
<td>Reduced administrative staff time by increasing collaborative agreements with other institutions</td>
<td>8,000</td>
</tr>
<tr>
<td>Reduced administrative staff time by streamlining and standardizing the materials transfer process</td>
<td>75,000</td>
</tr>
<tr>
<td>Reduced administrative staff time by changing required training to an online format</td>
<td>25,000</td>
</tr>
<tr>
<td>Reduced administrative staff time by eliminating redundant requirements related to controlled substances in research</td>
<td>125,000</td>
</tr>
<tr>
<td>Reduced administrative staff time related to effort reporting</td>
<td>100,500</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of the Vice President for Research</strong></td>
<td>637,200</td>
</tr>
<tr>
<td><strong>Office of Student Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Reduced general operating expenses for student support activities</td>
<td>29,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of Student Affairs</strong></td>
<td>29,000</td>
</tr>
<tr>
<td><strong>Office for System Academic Administration</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated the Senior Vice President, administrative support staff, and student workers</td>
<td>830,250</td>
</tr>
<tr>
<td>Eliminated operating, facility, and other associated costs for the Office</td>
<td>86,366</td>
</tr>
<tr>
<td><strong>Sub-Total: Office for System Academic Administration</strong></td>
<td>916,616</td>
</tr>
<tr>
<td><strong>Office of Undergraduate Education</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated a One-Stop counselor</td>
<td>55,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of Undergraduate Education</strong></td>
<td>55,000</td>
</tr>
<tr>
<td><strong>Office of University Budget and Finance</strong></td>
<td></td>
</tr>
<tr>
<td>Reduced general operating expenses for the Office of Real Estate</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Sub-Total: Office of University Budget and Finance</strong></td>
<td>24,000</td>
</tr>
<tr>
<td><strong>University Health and Safety</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated the Assistant Director of Environmental Compliance</td>
<td>42,000</td>
</tr>
<tr>
<td><strong>Sub-Total: University Health and Safety</strong></td>
<td>42,000</td>
</tr>
<tr>
<td><strong>University of Minnesota Duluth</strong></td>
<td></td>
</tr>
<tr>
<td>Eliminated the Vice Chancellor for Advancement</td>
<td>143,996</td>
</tr>
<tr>
<td>Eliminated administrative support positions within Continuing Education</td>
<td>96,700</td>
</tr>
<tr>
<td>Eliminated a technology position for Student Life</td>
<td>46,216</td>
</tr>
<tr>
<td>Eliminated facilities management staff</td>
<td>558,668</td>
</tr>
<tr>
<td>Reduced facilities management staff work hours</td>
<td>29,132</td>
</tr>
<tr>
<td>Reduced rehabilitation and replacement budgets</td>
<td>105,000</td>
</tr>
<tr>
<td>Reduced general operating expenses (non-mission)</td>
<td>201,353</td>
</tr>
<tr>
<td>Hired information technology replacement managers at a lower salary</td>
<td>81,137</td>
</tr>
<tr>
<td>Eliminated administrative support positions in various support units</td>
<td>182,177</td>
</tr>
<tr>
<td><strong>Sub-Total: University of Minnesota Duluth</strong></td>
<td>1,444,379</td>
</tr>
</tbody>
</table>
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<th>Reallocations by Unit</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>University of Minnesota Morris</strong></td>
<td></td>
</tr>
<tr>
<td>220 Hired replacement administrative support staff at a lower salary</td>
<td>175,733</td>
</tr>
<tr>
<td>221 Eliminated two administrative support staff through attrition</td>
<td>105,869</td>
</tr>
<tr>
<td><strong>Sub-Total: University of Minnesota Morris</strong></td>
<td>281,602</td>
</tr>
<tr>
<td><strong>University of Minnesota Rochester</strong></td>
<td></td>
</tr>
<tr>
<td>225 Eliminated one graduate program director</td>
<td>72,903</td>
</tr>
<tr>
<td>226 Reduced general operating expenses (non-mission)</td>
<td>37,097</td>
</tr>
<tr>
<td><strong>Sub-Total: University of Minnesota Rochester</strong></td>
<td>110,000</td>
</tr>
<tr>
<td><strong>University Relations</strong></td>
<td></td>
</tr>
<tr>
<td>230 Reduced general operating expenses</td>
<td>31,000</td>
</tr>
<tr>
<td>231 Reduced technology support</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Sub-Total: University Relations</strong></td>
<td>41,000</td>
</tr>
<tr>
<td><strong>University Services</strong></td>
<td></td>
</tr>
<tr>
<td>235 Eliminated a director position and replaced with an analyst position</td>
<td>14,000</td>
</tr>
<tr>
<td>236 Reduced general operating expenses and technology reserve</td>
<td>35,000</td>
</tr>
<tr>
<td><strong>Sub-Total: University Services</strong></td>
<td>49,000</td>
</tr>
<tr>
<td><strong>College of Veterinary Medicine</strong></td>
<td></td>
</tr>
<tr>
<td>240 Eliminated three administrative support positions</td>
<td>147,300</td>
</tr>
<tr>
<td>241 Reduced general operating expenses (non-mission)</td>
<td>130,000</td>
</tr>
<tr>
<td><strong>Sub-Total: College of Veterinary Medicine</strong></td>
<td>277,300</td>
</tr>
<tr>
<td><strong>Total Reallocations</strong></td>
<td><strong>18,757,233</strong></td>
</tr>
</tbody>
</table>

Board of Regents | December 11, 2014

Vice President Richard Pfutzenreuter
Minnesota Laws 2013, Chapter 99

- Five percent ($26.5 million) of the FY 2015 Operations and Maintenance appropriation is conditional.

- Five performance measures specified in session law:
  1. Improve graduation rates for low-income students
  2. Improve graduation rates, more generally
  3. Increase the total number of undergraduate STEM degrees
  4. Increase invention disclosures
  5. Decrease administrative costs by $15 million for fiscal year 2014
Graduation Rate Measures

Two Populations

• Low-Income Students: First-time, full-time, degree seeking freshman on the Twin Cities campus who are Pell grant eligible

• General Population: First-time, full-time, degree seeking freshman from all University of Minnesota campuses

Calculations

• Graduation required four, five, or six years after entry
• Three-year weighted average
• Target increase of one percent within each population group over baseline measure two years previous.
Undergraduate STEM Degrees

• Degrees in 11 fields included within the STEM definition
• Three-year average
• Target increase of three percent over baseline measure two years previous

Invention Disclosures

• Reporting required by University
• Policy protects University’s intellectual property and compliance with reporting requirements
• Coordinated by the Office for Technology Commercialization
• Target increase of three percent
Administrative Cost Reduction – Target $15m

Included

Leadership & Oversight
The expenses for the ‘leadership, direction, control and management’ of the mission

Mission Support & Facilities
The expenses to ‘support’ the delivery of mission activities

Not Included

Direct Mission Delivery
The expenses of the ‘doers’ of the mission

Last spring reported an estimated $15.6 million achieved...
FY 2014 Administrative Cost Reduction: $18.8 Million

Savings from Staffing Changes

• $11.4 million; 61 percent of the reductions
• Position eliminations and other types of staffing changes

Savings from Operating Reductions

• $7.4 million; 39 percent of the reductions
• Reduced spending on operations (e.g. moving to less expensive space; improving energy efficiency; scaling back equipment, travel, professional dev., supplies etc.).

Consistent with President’s goal to redirected these savings to enhance our mission activities, stem the overall growth in the net cost to attend the University of Minnesota, and meet inflationary cost pressures as identified in the overall budget framework.
<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline</th>
<th>Target Increase</th>
<th>Target Value</th>
<th>Result</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase Twin Cities Low-Income (Pell) Undergraduate Graduation Rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-year rate</td>
<td>38.9%</td>
<td>1%</td>
<td>39.9%</td>
<td>47.1%</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>5-year rate</td>
<td>53.3%</td>
<td>1%</td>
<td>54.3%</td>
<td>60.6%</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>6-year rate</td>
<td>56.8%</td>
<td>1%</td>
<td>57.8%</td>
<td>63.1%</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>Increase Twin Cities Baccalaureate STEM Degrees Awarded</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Degrees</td>
<td>2,557</td>
<td>3%</td>
<td>2,634</td>
<td>2,814</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>Increase System-wide Undergraduate Graduation Rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-year rate</td>
<td>48.0%</td>
<td>1%</td>
<td>49.0%</td>
<td>52.5%</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>5-year rate</td>
<td>65.2%</td>
<td>1%</td>
<td>66.2%</td>
<td>69.5%</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>6-year rate</td>
<td>67.8%</td>
<td>1%</td>
<td>68.8%</td>
<td>71.5%</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>Decrease System-wide Administrative Costs</td>
<td></td>
<td></td>
<td>($15M)</td>
<td>($18.8M)</td>
<td>ACHIEVED</td>
</tr>
<tr>
<td>Increase Invention Disclosures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosures</td>
<td>331</td>
<td>3%</td>
<td>341</td>
<td>343</td>
<td>ACHIEVED</td>
</tr>
</tbody>
</table>
Purpose & Key Points

General Contingency

The purpose of this item is to seek approval for allocations from General Contingency greater than $250,000.

- There are no items requiring approval this period.

Purchase of Goods and Services $1,000,000 and Over

The purpose of this item is to seek approval for purchases of goods and services of $1,000,000 and over.

- To HealthPartners Administrators, Inc. for the estimated amount of $12,702,141 for administering self-funded medical insurance coverage and to provide stop loss insurance for Twin Cities and Duluth graduate assistants, residents, fellows, and interns for an initial contract for a two-year period, with four one-year options to renew for the University of Minnesota Office of Human Resources Employee Benefits and Office of Student Health Benefits. These services are funded on an annual basis through the University and participant contributions. Vendor was selected through a competitive process.

- To Illumina, Inc. for $5,000,000 for manufacturer reagents and instrumentation service agreements as needed for the period of December 15, 2014, through June 30, 2016, for the Genomics Department core facility, University of Minnesota Genomics Center (UMGC). The reagents from Illumina will be purchased with departmental funds. As an Internal Service Organization (ISO), UMGC will order reagents as needed for expression, genotyping, and next-generation sequencing projects provided to University researchers. See enclosed documentation regarding basis for vendor selection.
• To Oracle Corporation for $21,474,400 for all current Oracle products for support and maintenance for the period December 15, 2014, through May 30, 2020, for the Office of Information Technology (OIT). OIT funds these product support and software updates to ensure continuous operation of mission critical functions. The expense will be covered from OIT’s central O&M funds. The FY 2015 budget includes planning and funding for this expense.

• To ServiceNow.com for an estimated $1,200,000 for an online IT service management tool with 1,050 licenses, and support and maintenance for the period June 20, 2014, through June 19, 2016, for the Office of Information Technology (OIT). OIT funds this subscription, product support and software updates to ensure continuous operation of mission critical functions. The expense will be covered from OIT’s central O&M funds. The FY 2015 budget includes planning and funding for this expense. Vendor was selected through a competitive process.

• To UnitedHealthCare Global (formerly FrontierMEDEX) for the estimated amount of $1,310,520 for medical, natural disaster and political evacuation coverage for UPlan participants, residents, fellows, interns, graduate assistants and students for an initial contract period of one year with five one-year options to renew for the University of Minnesota Office of Human Resources Employee Benefits and Office of Student Health Benefits. These services are funded on an annual basis through the University and participant contributions. Vendor was selected through a competitive process.

Background Information

Approvals are sought in compliance with Board of Regents Policy as follows:

• General Contingency: Reservation and Delegation of Authority, Sec.VII, Subd. 1.
• Purchase of Goods and Services $1,000,000 and Over: Reservation and Delegation of Authority, Sec.VII, Subd. 6

President’s Recommendation

The President recommends approval of the Consent Report.
## General Contingency

### Fiscal Year 2014-15

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Allocation</th>
<th>Balance</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2015 General Contingency</strong></td>
<td></td>
<td>$1,000,000</td>
<td></td>
</tr>
<tr>
<td>Carryforward from FY2014 into FY2015</td>
<td>785,396</td>
<td>1,785,396</td>
<td></td>
</tr>
<tr>
<td>VP University Services</td>
<td>* 500,000</td>
<td>1,285,396</td>
<td>UMarket Logistics Dock</td>
</tr>
<tr>
<td>VP University Services</td>
<td>* 250,000</td>
<td>1,035,396</td>
<td>U Relations Space Remodel</td>
</tr>
<tr>
<td>VP University Services</td>
<td>(85,000)</td>
<td>1,120,396</td>
<td>U Market Sprinkler System (return of unused funds)</td>
</tr>
<tr>
<td>College of Liberal Arts</td>
<td>25,000</td>
<td>1,095,396</td>
<td>Human Rights Program</td>
</tr>
<tr>
<td>Office of Public Safety</td>
<td>* 271,300</td>
<td>824,096</td>
<td>PSECC Radio Technology</td>
</tr>
<tr>
<td>Environmental Health &amp; Safety</td>
<td>200,000</td>
<td>624,096</td>
<td>UMore GUE Additional Investigation &amp; Response Action Plan</td>
</tr>
<tr>
<td><strong>New items this reporting period:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VP University Services</td>
<td>150,000</td>
<td>474,096</td>
<td>UM Morris Biomass (Scope 1)</td>
</tr>
<tr>
<td><strong>FY 2014-15 Ending Balance</strong></td>
<td></td>
<td>474,096</td>
<td></td>
</tr>
</tbody>
</table>

* Subject to Board approval due to cost of $250,000 or more
Purchase of Goods and Services $1,000,000 and over

To HealthPartners Administrators, Inc. for the estimated amount of $12,702,141 for administering self-funded medical insurance coverage and to provide stop loss insurance for Twin Cities and UMD Graduate Assistants, residents, fellows, and interns for an initial contract for a two-year period, with four one-year options to renew for the University of Minnesota Office of Human Resources Employee Benefits and Office of Student Health Benefits.

HealthPartners was selected as a provider for health benefit coverage as a result of a request for proposal conducted April 2014. The initial contract will be for a two-year period, with four one-year options to renew each contract. The administrative and stop loss fees are as follows:

- **Graduate Assistants Health Benefit Plan:** September 1, 2015 through August 31, 2021
- **Residents, Fellows, and Interns Health Benefit Plan:** July 1, 2015 through June 30, 2021

These services are funded on an annual basis through the University and participant contributions.

Submitted by: Ken Horstman
Director, Benefits and Compensation

Approval for this item is requested by:

[Signature]
Kathryn F. Brown
Vice President, Office of Human Resources

[Signature]  
11/18/14
Date
Purchase of Goods and Services $1,000,000 and over

To Illumina, Inc. for $5,000,000 for manufacturer reagents and instrumentation service agreements as needed for the period of December 15, 2014 through June 30, 2016 for the Genomics Department core facility, University of Minnesota Genomics Center (UMGC).

Due to the increase in expression, genotyping, and next-generation sequencing projects provided by the UMGC, a quote with negotiated pricing has been obtained from Illumina. Manufacturer specific reagents are needed to process samples using Illumina’s HiSeq2500, HiSeq2000, MiSeq, iScan, Autoloader, cBot, and Tecan instruments. To provide consistent results and maintain manufacturer warranty, the instruments require reagents manufactured solely by Illumina.

The reagents from Illumina will be purchased with departmental funds. As an ISO, the University of Minnesota Genomics Center will order reagents as needed for expression, genotyping, and next-generation sequencing projects provided to University researchers.

Submitted by: Karina Bunjer Sartorio, Scientist
University of Minnesota Genomics Center
MMC 613 Mayo
420 Delaware Street SE
Minneapolis, MN 55455
Phone (612) 626-5341
FAX (612) 626-8232

Approval for this item requested by:

[Signature]
VP or Exec. VP Signature

11/10/14
Date
Rationale for Exception to Competitive Bidding

This purchase has not been competitively bid because the University of Minnesota Genomics Center requires reagents from Illumina for Illumina's HiSeq2500 HiSeq2000, MiSeq, iScan, Autoloader, cBot, and Tecan instruments to provide consistent research results for the University of Minnesota researchers.

Prices or discounts for this request are reasonable and represent a good value to the University of Minnesota. This judgment is based on discounts negotiated with Illumina for all reagents. Discounts range from 13% to 20% from Academic Research Pricing depending on the item and volume.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.
Purchase of Goods and Services $1,000,000 and over

To Oracle Corporation for $21,474,400 for all current Oracle products for support and maintenance for the period December 15, 2014 through May 30, 2020 for the Office of Information Technology (OIT).

*Oracle technology is at the core of our enterprise services upgrade and this contract will ensure we will have ongoing support from Oracle at a competitive price for the next five years. The Oracle Software License and Services Agreement provides software licenses, updates, and 7x24 technical support and problem resolution via telephone, the web, and on-site. The high level of support provided by Oracle in the past has helped OIT maintain an excellent record for reliability and availability of this critical Enterprise system.*

The following Oracle PeopleSoft and other products are included in this price lock continuing the current contract beginning and end dates:

- Business Intelligence
- Campus Solutions
- Financials
- Exadata/Exalogic (several contracts)
- Identity Manager
- UPK developer licenses
- Recruiting
- Database

This contract renewal will lock in pricing through May 30, 2020. Based on current increases of 3% annually, future cost avoidance is projected to be $1.9 million over this five-year period. This also includes the Oracle Campus Solutions approved by the Board of Regents in September 2014.

The Office of Information Technology funds these product support and software updates to ensure continuous operation of mission critical functions. The expense will be covered from OIT’s central O&M funds. The FY15 budget includes planning and funding for this expense.

Submitted by: Ron White  
Purchasing, OIT Business Office  
Phone: (612) 625-2333  
Fax: (612) 625-3521

Approval of this Item is requested by:

[Signature]

Vice President and CIO

[Signature]  
Date  
11/20/12
Purchase of Goods and Services $1,000,000 and over

To ServiceNow.com for an estimated $1,200,000 for an online IT service management tool with 1,050 licenses, and support and maintenance for the period June 20, 2014 through June 19, 2016 for the Office of Information Technology (OIT).

The IT Service Automation Suite provides software license subscription, updates, and 7x24 technical support and problem resolution via telephone, the web, and on-site. This suite offers process management and technology support to facilitate effective IT service management delivery through ITIL processes: Incident Management, Request Fulfillment, Change Management, Knowledge Management and Problem Management.

The University uses ServiceNow to track calls to 1-HELP and emails to help@umn.edu. It has become a widely used tool throughout the University system for IT@UMN to provide timely and appropriate service in support of information technical requirements enabling University research, teaching, administration, and outreach.

This contract renewal will lock in pricing through June 19, 2016. OIT negotiated a lower per license cost and reduced the number of licenses used resulting in significant savings over this two year period. This product was purchased through a RFP in 2011 and this is years four and five of that contract.

The Office of Information Technology funds this subscription, product support and software updates to ensure continuous operation of mission critical functions. The expense will be covered from OIT’s central O&M funds. The FY15 budget includes planning and funding for this expense.

Submitted by: Ron White
Purchasing, OIT Business Office
1300 South Second Street
Mpls. Campus
Phone: (612) 625-2333
Fax: (612) 625-3521

Approval of this Item is requested by:

[Signature]
Vice President and CIO

[Date]
Purchase of Goods and Services $1,000,000 and over

To UnitedHealthCare Global (formerly FrontierMEDEX) for the estimated amount of $1,310,520 for medical, natural disaster and political evacuation coverage for UPlan participants, residents, fellows, interns, graduate assistants and students for an initial contract period of one year with five one-year options to renew for the University of Minnesota Office of Human Resources Employee Benefits and Office of Student Health Benefits.

"UnitedHealthCare Global was selected as a provider for evacuation coverage as a result of a request for proposal conducted February 2014. The initial contract will be for one year, with five one-year options to renew the contract.

- UPlan participants: January 1, 2015 through December 31, 2020
- Residents, fellows and interns: July 1, 2015 through June 30, 2021
- Graduate assistants and students: September 1, 2015 through August 31, 2021

These services are funded on an annual basis through the University and participant contributions.

Submitted by: Ken Horstman
Director, Benefits and Compensation

Approval for this item is requested by:

Kathryn F. Brown
Vice President, Office of Human Resources

[Signature]

Date

11/25/14
Agenda Item: Information Items

☐ Review  ☐ Review + Action  ☐ Action  ☒ Discussion

This is a report required by Board policy.

Presenters: Richard H. Pfutzenreuter, Vice President & Chief Financial Officer

Purpose & Key Points

Quarterly Investment Advisory Committee Update

The purpose of this item is to provide the Board of Regents with a summary of the quarterly meeting of the Investment Advisory Committee (IAC) held on November 12, 2014.

Associate Vice President and Chief Investment Officer Stuart Mason began by introducing Andrew Parks as a new portfolio manager and Jakob Widmark as a senior investment analyst. Parks and Widmark both recently joined the Office of Investments & Banking (OIB) team after managing the pension and defined contribution assets at Alliant Techsystems, Inc.

Mason noted that the market value of the Consolidated Endowment Fund (CEF) had declined over the last quarter by $2.7 million, but had grown by $160.0 million over the past year, to a September 30, 2014 total of $1,269.8 million. He reviewed the quarterly performance for CEF, noting that the 0.45% increase was 0.50% above the custom benchmark. The 12-month performance of 16.53% was 5.36% above the same custom benchmark. The most significant contributor to outperformance for the year and for the quarter was the Private Capital portfolio as 2013 and 2014 experienced very significant M&A and public market exits driving up valuations across the entire private market portfolio.

Mason presented materials to support the recommendation to commit $10 million to the Brazil-based Monashees Venture Capital Fund VII. Monashees is one of the oldest and most highly respected firms in Latin America for making seed and early-stage, Silicon Valley-style venture investments. Committee members discussed the markets in Brazil, given the very slow growth and difficult political environment that has caused a depreciating currency and rising inflation and interest rates. Members expressed some level of concern about the lack of exits for smaller company investments over the past several years. Mason offered several reasons for improving conditions within Brazil and also discussed the recent investments by leading US-based venture funds that are skilled at providing exit opportunities. Following additional discussion about the quality of the investment team, and the focus on very high growth market segments such as
marketplaces, Software-as-a-Service, and Big Data, the committee members approved the recommendation unanimously.

Parks presented materials to support the recommendation to commit $25 million to the Black Diamond Opportunity Fund IV, a control distressed strategy with a focus on gaining control of companies through the purchase and subsequent restructuring of debt and ancillary transactions. Committee members discussed the sizing of this investment relative to other distressed managers and were comfortable with Black Diamond Capital Management, in part because of the track record of excellent returns in the University’s previous investments. Committee members then approved the recommendation unanimously.

Vitali Datsenko, OIB portfolio manager, summarized the current status of negotiations with the approved hedge fund manager regarding the fund-of-one Investment Management Agreement. He indicated the expectation of completing the documentation in the following few days so as to allow several of the selected hedge funds to be funded by the December 1, 2014 target date.

Mason briefly discussed priority initiatives for calendar year 2015, highlighting a plan to re-underwrite several asset classes by creating a strategic roadmap or white paper describing the opportunity set and the macroeconomic factors that made each asset class relevant and attractive. He also indicated that other priorities included enhancing risk management capabilities and liquidity modeling processes, developing a stock distribution policy, and completing a custodian RFP search process.

Mason referred briefly to the Quarterly Asset Management Report, noting that other portfolios such as the Temporary Investment Pool, the Group Income Pool, and RUMINCO reserves all are above their respective benchmarks for longer-term periods, and that all portfolios are very much in balance relative to their specific asset allocation guidelines.

**Quarterly Asset Management Report**

- The invested assets of the University totaled approximately $2.7 billion on September 30, 2014.
- The Consolidated Endowment Fund (CEF) value as of September 30, 2014, was $1,269.8 million, a decrease of $2.7 million over the last quarter. The total investment return for CEF was up 0.45% over the last 3 months compared to a benchmark return of -0.05%.
- The investment return for CEF exceeded the benchmark through outperformance in all of the underlying asset classes except for Private Capital. The primary contributor was the Inflation Hedges portfolio, which was up 2.9% vs. its specific benchmark of -0.9%.
- The market value of the short term reserves (TIP) was $1,191.6 million as of September 30, 2014. This was an increase of $137.0 million over the quarter. The investment return on the portfolio over the last 3 months was 0.1% compared to a benchmark return of 0.0% due largely to the effect of a longer duration in the portfolio. The increase in value was largely due to timing of the receipt of tuition payments as part of the University’s normal business cycle.
Quarterly Asset Management Report
September 30, 2014
Stuart Mason, Chief Investment Officer
Table of Contents

1. Overview – All Funds

2. Highlights and Commentary
   a. Consolidated Endowment Fund (CEF)
   b. Temporary Investment Pool (TIP)
   c. Group Income Pool (GIP)
   d. RUMINCO
# Overview – All Funds

## OIB Managed Funds ($ millions)

<table>
<thead>
<tr>
<th>Fund</th>
<th>Sep ’14</th>
<th>June ’14</th>
<th>June ’13</th>
<th>June ’12</th>
<th>June ’11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Endowment Fund (CEF)</td>
<td>$1,269.8</td>
<td>$1,272.5</td>
<td>$1,079.7</td>
<td>$ 977.6</td>
<td>$ 956.8</td>
</tr>
<tr>
<td>Long-Term Reserves (GIP)</td>
<td>47.1</td>
<td>45.9</td>
<td>46.4</td>
<td>44.7</td>
<td>44.3</td>
</tr>
<tr>
<td>Short-Term Reserves (TIP)</td>
<td>1,191.6</td>
<td>1,054.6</td>
<td>1,031.4</td>
<td>972.2</td>
<td>824.9</td>
</tr>
<tr>
<td>RUMINCO Ltd.</td>
<td>41.7</td>
<td>39.2</td>
<td>35.8</td>
<td>32.6</td>
<td>32.3</td>
</tr>
<tr>
<td>Invested Assets Related to Indebtedness</td>
<td>191.0</td>
<td>66.9</td>
<td>87.0</td>
<td>189.7</td>
<td>181.9</td>
</tr>
<tr>
<td><strong>Total Managed Assets</strong></td>
<td>2,741.2</td>
<td>2,479.1</td>
<td>2,280.3</td>
<td>2,216.8</td>
<td>1,963.5</td>
</tr>
</tbody>
</table>

## Other Funds ($ millions)

<table>
<thead>
<tr>
<th>Fund</th>
<th>Sep ’14</th>
<th>June ’14</th>
<th>June ’13</th>
<th>June ’12</th>
<th>June ’11</th>
</tr>
</thead>
<tbody>
<tr>
<td>U of M Foundation Fund</td>
<td>1,935.5</td>
<td>1,928.2</td>
<td>1,610.0</td>
<td>1,560.1</td>
<td>1,564.4</td>
</tr>
<tr>
<td>Faculty Retirement Plans</td>
<td>4,750.0</td>
<td>4,769.7</td>
<td>4,199.8</td>
<td>3,807.9</td>
<td>3,709.3</td>
</tr>
</tbody>
</table>
CEF Review

Investment Policy Objectives:

1. Maintain Inflation Adjusted Endowment Value
2. Acceptable Risk Parameters
3. Stable Distributions
CEF Endowment Performance Growth of $1 since June 30, 1990

* CPI plus payout plus actual expenses (calculated quarterly)
Q3 2014 outperformance driven primarily by the following:

- Strategic overweight and outperformance by emerging markets managers
- Outperformance (383 bps) by inflation hedging managers

* Net of Manager Fees
** Benchmark: CEF Custom Index
*** Benchmark: 70% MSCI ACWI IMI / 30% Barclay’s Capital Aggregate
Current OIB management hired and began actively diversifying portfolio into venture capital, energy, private equity, and private real estate. Public equity declined significantly, shifting allocation toward illiquid alternatives and restricting ability to rebalance when stocks rallied. Private real estate valuations declined significantly.

Portfolio illiquidity and focus on a safety net of fixed income reserves limited upside capture.

Private investment portfolios provided significant liquidity for rebalancing into public equity and risk mitigating fixed income.

* Net of Manager Fees
** Benchmark: CEF Custom Index
*** Benchmark: 70% MSCI ACWI IMI / 30% Barclay’s Capital Aggregate
Maintain Inflation-Adjusted Value

Sector vs. Benchmark Returns

1 Quarter

- Risk Mitigating FI
  - CEF*: -0.2%
  - Benchmark**: -2.2%

- Public Equity
  - CEF*: -2.8%
  - Benchmark**: -1.4%

- Private Capital
  - CEF*: 4.5%
  - Benchmark**: 2.9%

- Inflation Hedges
  - CEF*: 2.9%
  - Benchmark**: -0.9%

- Return Generating FI
  - CEF*: -0.5%
  - Benchmark**: -1.8%

- Absolute Return
  - CEF*: 0%
  - Benchmark**: 0%

1 Year

- Risk Mitigating FI
  - CEF*: 3.2%
  - Benchmark**: 1.5%

- Public Equity
  - CEF*: 11.6%
  - Benchmark**: 10.7%

- Private Capital
  - CEF*: 29.9%
  - Benchmark**: 20.7%

- Inflation Hedges
  - CEF*: 7.1%
  - Benchmark**: 8.5%

- Return Generating FI
  - CEF*: 7.8%
  - Benchmark**: 0.0%

- Absolute Return
  - CEF*: 0%
  - Benchmark**: 0%

* Net of Manager Fees
** Components of CEF Custom Index
Definition: Liquidity is a measure of assets that can be sold at reasonable prices within one year. Higher levels of liquidity enable timely rebalancing and responses to new opportunities.

Target: Within a target range of 30 to 40% invested in illiquid assets. Illiquid assets market value plus unfunded commitments should not exceed 55%.

Strategy: Reduce illiquid investments to 35-40% of the overall portfolio during FY 2015.
Acceptable Risk Parameters

Net Cash Flows from Illiquid Portfolio
Actual vs. Forecast

<table>
<thead>
<tr>
<th>OIB Forecast (Cumulative)</th>
<th>Forecast</th>
<th>Actual Cashflow (Cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>7.3</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>21.0</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>33.2</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>49.2</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>58.4</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>71.5</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>90.2</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>104.3</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>119.9</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>125.7</td>
<td></td>
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<tr>
<td>November</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 Forecast</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015 Forecast</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Millions ($)

0.0  20.0  40.0  60.0  80.0  100.0  120.0  140.0  160.0  180.0
# Acceptable Risk Parameters

## Top 10 Managers

<table>
<thead>
<tr>
<th>Manager</th>
<th>Total Market Value ($M)</th>
<th>% of Total Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blackrock*</td>
<td>265.1</td>
<td>21.0</td>
</tr>
<tr>
<td>TCW</td>
<td>91.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Parametric Clifton</td>
<td>65.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>63.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Acadian</td>
<td>51.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Emergence</td>
<td>46.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Reams</td>
<td>35.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Lazard</td>
<td>34.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Pembroke</td>
<td>31.8</td>
<td>2.5</td>
</tr>
<tr>
<td>PineBridge</td>
<td>28.9</td>
<td>2.3</td>
</tr>
</tbody>
</table>

**Definition:** Maintain concentration in managers and funds at appropriate levels

**Target:** No individual fund > 10%, no manager > 20%

**Strategy:** Closely monitor large core positions and adjust holding size to maintain compliance with targets.

*Blackrock investment consists of three funds, the largest of which is a Russell 1000 index fund at 10.7% of the endowment*
Stable Distributions

Actual CEF Distribution (gross of reinvestment)

- **Actual Payout**
- **Trendline**

Change in Calculation Methodology
TIP – Fund Performance*
Market Value: $1,191.6M

Q3 2014 outperformance driven primarily by:
• Longer portfolio duration relative to benchmark

* Performance is net of manager fees and excludes balances at Wells Fargo and US Bank used to offset banking fees
** Benchmark: 70% BofAML U.S. Treasuries 1-3 Yr / 30% 91 Day T-Bill
**TIP – Asset Allocation**

**Market Value:** $1,191.6M

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Portfolio</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Duration</td>
<td>1.74</td>
<td>1.43</td>
</tr>
<tr>
<td>Average Credit Rating</td>
<td>Govt/Agency</td>
<td>Govt/Agency</td>
</tr>
<tr>
<td>Current Yield</td>
<td>0.88%</td>
<td>0.40%</td>
</tr>
</tbody>
</table>

**Credit Quality**
- Cash & Cash Equivalents: 31%
- Govt/Agency: 69%

**Sector Exposure**
- Money Market & Cash: 31%
- Treasury Notes: 21%
- Agency Bonds: 40%
- Mortgages: 8%
TIP – Performance* by Sector
Market Value: $1,191.6M

* Performance is net of manager fees
** Performance excludes balances at Wells Fargo and US Bank used to offset banking fees
TIP – Yield History
Market Value: $1,191.6M

Benchmark
TIP
GIP Review
GIP – Fund Performance*
Market Value: $61.6M***

Q3 2014 performance driven primarily by:

- Investment in CEF (23.5% allocation) outperformed the benchmark by 154 bps
- Underweight to US Treasuries relative to the benchmark
- EM Debt underperformed the benchmark by 240 bps

* Performance is net of manager fees  ** Benchmark: 100% Barclays Capital Aggregate  *** Total GIP market value and investment performance includes the $14.5 million investment in CEF
GIP – Performance* by Sector
Market Value: $61.6M

* Performance is net of manager fees
** Benchmark: 100% Barclays Capital Aggregate
RUMINCO Review
Q3 2014 performance driven primarily by:

- Overweight to Global Equities
- TCW Total Return portfolio outperformed slightly

* Performance is net of manager fees
** Benchmark as of 7/1/2014: 60% MSCI AC World Net, 30% Barclays Capital Aggregate, 10% BofAML U.S. Corp & Govt 1-3 Yr
**RUMINCO – Asset Allocation**

**Market Value:** $41.7M

**Portfolio Composition**
- **Global Equity:** 59%
- **Long-Term Fixed Income:** 25%
- **Intermediate Fixed Income:** 16%

**Portfolio Targets**
- **Global Equity:** 60%
- **Long-Term Fixed Income:** 30%
- **Intermediate Fixed Income:** 10%