BOARD OF REGENTS
UNIVERSITY OF MINNESOTA

Finance & Operations Committee

December 2023

December 7, 2023

1:45 p.m.

Boardroom, McNamara Alumni Center

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: Academic Affiliation with CentraCare: Financial Plan

☐ **Review** ☐ **Review + Action** ☒ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: William Sibert, Senior Associate Dean, Medical School, and Chief Financial Officer, University of Minnesota Physicians
Michael Volna, Associate Vice President & Assistant Chief Financial Officer

PURPOSE & KEY POINTS

The purpose of this item is for the committee to act on the proposed financial plan for the Academic Affiliation Agreement between the University and CentraCare Health. The financial plan was reviewed by the Board at a special meeting on November 2, 2023, and has not changed since that meeting.

The Board approved the affiliation agreement in October 2023, which is contingent upon approval of the financial plan. The goal of the affiliation is to improve access to quality health care in rural Minnesota. The partnership will include a regional campus of the Medical School in St. Cloud, CentraCare-sponsored residencies, and a co-led research institute to focus on rural health challenges.

The financial plan includes the following sections:

- a detailed pro forma for the Medical School regional campus;
- revenue and expense assumptions;
- a funds flow description;
- summary of additional funding mechanisms;
- CentraCare’s financial position; and
- a risk assessment and mitigation approach.

To develop the financial plan, both parties engaged Kaufman Hall to assess the financial needs and funds flow opportunities for the partnership.

BACKGROUND INFORMATION

The Academic Affiliation Agreement with CentraCare was approved in October 2023, contingent upon approval of a final financial plan.

After a non-binding Statement of Interest was approved by the Board in February 2023, both organizations began working toward faculty and Liaison Committee on Medical Education (LCME) approval of a regional campus for the Medical School, seeking approvals for new residency slots, and working to gain community and philanthropic support for this affiliation.

CentraCare and the University received legislative funding to support this initiative in 2023: $5 million for the facility and $10 million for programmatic support. CentraCare has also conducted a third-party assessment of their philanthropic opportunities, and pending Board approval of the financial plan, together with UMF, will launch a $50 million campaign to support this effort to make rural lives healthier.

The Definitive Agreement will bring together the core capabilities of the Medical School and CentraCare to advance:

- a regional campus of the Medical School based at CentraCare (proposed 24 students per year);
- expanded residency programming in rural physician-shortage areas (for example, in mental health, pediatrics, and general surgery);
- a new footprint in clinical research focused on rural health; and
- exploration of new collaborations between CentraCare and University of Minnesota Physicians.

The Medical School and CentraCare have existing relationships with a family medicine residency, clinical care in Orthopedics, and a new rural training track grant.

CentraCare is one of the largest health systems in Minnesota. It includes 8 hospitals (including St. Cloud Hospital) and 30 clinic locations, home care, urgent care, outpatient surgery centers, pharmacy, and senior services across a large geographic area in central Minnesota.

INTERIM PRESIDENT'S RECOMMENDATION

The Interim President recommends approval of the financial plan for the Academic Affiliation with CentraCare.

University of Minnesota Board of Regents
CentraCare Rural Health Affiliation Agreement: Financial Plan

Introduction

On October 13, 2023, the University of Minnesota Board of Regents approved a Definitive Agreement with CentraCare Health to form a Rural Health Affiliation that will work to address the physician workforce needs of rural Minnesota and beyond. Twenty-percent of the US population live in rural areas, and only eleven-percent of physicians practice rurally. In Minnesota, one third of rural physicians plan to retire in the next five years. The need to train their replacements is high, and evidence shows that if medical students are trained in rural settings, they are more likely to practice there. First and foremost, this affiliation forms a new regional campus for the University of Minnesota Medical School (UMMS or Medical School) that will be based at CentraCare Plaza in St. Cloud, Minnesota. The regional campus will provide four year undergraduate medical education to 24 students per year starting in 2025, and increasing to 96 students at maturity in 2028. The first two years of education will take place in a retrofitted building on the CentraCare campus, due to be ready by spring 2025. The second two years of clinical education will take place throughout CentraCare's clinical sites, including the St. Cloud locations, Willmar, Long Prairie, and beyond - exposing students to the rural clinic environment as early as possible in their careers.

The second aspect of the affiliation is an expansion of residencies at CentraCare. Currently, CentraCare has eighteen residents affiliated with the University of Minnesota Medical School in Family Medicine, and we hope to slowly expand residency slots commensurate with our expanded student class. Residency is a vital component of medical education and prepares graduates for their specialties. Rural communities lack specialty physicians mostly in four areas that we will focus on: Psychiatry and Behavioral Health, Family Medicine, General Surgery, and Obstetrics, and Pediatrics. Third and final, the affiliation aims to create a Rural Health Research Institute - not a building, but a research infrastructure that will bring vital opportunities to rural communities. It has long been known that people with access to clinical trials have better outcomes, and this expansion will improve lives.

The following report includes the financial plan outlined in the affiliation agreement and a detailed pro forma for the Medical School regional campus, including revenue and expense assumptions. It then touches briefly on the plans for the residency program and rural health research institute - both in their infancy and without financial investment from the Medical School. Finally, the report walks through the funds flow, fundraising efforts, and CentraCare's financial position before identifying and assessing financial risks to this project.

Financial Information

In April of 2022, the Medical School and CentraCare hired an outside consultant to help analyze what this affiliation could look like and its costs. Using the consultant's projections, both organizations refined the budget to what is presented below. For the regional campus, it was clear from the outset that revenues from tuition would not cover the expense of the program, and it would produce an annual, operational deficit. Both organizations agreed to move forward regardless, with an understanding that the Medical School would provide a reasonable budget for medical education, and CentraCare would cover the operating deficit within parameters outlined in the agreement. This was a collaborative effort with engagement from both organizations through a Steering Committee with equal representation that continues to meet monthly.

Per the agreement, to ensure the financial viability of the program, both organizations agree to 1) be fiscally responsible, 2) provide financial transparency, and 3) have shared accountability for financial performance.

Financial Plan

In regards to the operations of the CentraCare Regional Campus St. Cloud, UMMS will operate the campus with commensurate funding and expenses as compared to the UMMS Twin Cities and Duluth Campuses as normalized for differences in enrollment where appropriate. Every year, through an Oversight Committee, CentraCare and the Medical School will agree upon an initial budget and CentraCare will provide funding and other resources necessary to cover all funding deficiencies of the campus. Any material changes to the initial budget outside of increases in non-discretionary expenses requires approval by CentraCare CEO and the Dean of the Medical School.

The CentraCare Regional Campus St. Cloud is projected to have an annual funding deficit of approximately $1.5 million when fully operational. The financial pro-forma is as follows:

(000's)	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Enrollment	-	24	48	72	96	96	96
Tuition	$ -	$ 689	$ 1,842	$ 3,038	$ 4,281	$ 4,409	$ 4,541
Student Fees	-	6	12	18	25	26	27
Total Revenue	-	695	1,854	3,056	4,306	4,435	4,568
Salaries, wages & benefits	736	1,627	2,483	3,052	3,372	3,472	3,574
Physician precepting time	97	200	309	424	655	675	695
Supplies and general	2	7	19	31	43	44	46
Other general and administrative	5	21	56	92	129	133	137
Building and leases	113	450	464	477	492	506	522
Other expenses	42	167	445	733	1,033	1,064	1,096
Total operating expenses	994	2,471	3,775	4,809	5,724	5,895	6,070
Funding surplus/(deficit)	$ (994)	$ (1,776)	$ (1,921)	$ (1,753)	$ (1,418)	$ (1,460)	$ (1,502)

Revenue Assumptions

Our revenue assumptions are likely conservative as we are only modeling out revenues from student tuition and fees. The Medical School uses a "cost of degree" model whereas Medical Students pay 11 semesters during their time in the Medical School, regardless of how long they are actually attending Medical School. It is relatively simple to project tuition and fees because the annual increase is estimated at 3%, students pay the same tuition amount throughout their tenure, and the number of students per year is well understood.

The state has appropriated $10M to this initiative and the funds can be utilized until June 30, 2027. The funds were earmarked for tuition support, the residency program, rural health research program, a program to target scholarships to students from diverse backgrounds and a scholarship program targeted at students who will practice in rural areas. Because our first students matriculate until FY26, it is going to be difficult to use these funds prior to date by which state funding ends. We intend to request latitude from the Legislature over the timing and uses of the funding to ensure that the University can fully utilize it to support the students at the new campus.

There will likely be other sources of revenue when the Medical School has matured. These revenues might include philanthropy (see a description of philanthropic plans below in the Fundraising Efforts section), internal and external sales of goods and services and potential educational grants.

Expense Assumptions

Salaries, Wages & Benefits/Physician Precepting Time

These categories represent the St. Cloud Regional Campus staffing needs.

Leadership - Budgeting for a Regional Campus Assistant Dean for UME to provide oversight of all the three student-facing units in Undergraduate Medical Education (Medical Students).

Student Affairs - Student Affairs staff are responsible for the Medical School experience in a number of ways. They help students with Mental Health and Wellbeing, Student Academic Progress, Career and Professional Development and events such as the White Coat Ceremony, Orientation and Graduation. Positions budgeted in Student Affairs are equitable to the Duluth and Twin Cities campuses and include faculty advising, academic advising, learning specialist time, Assessment and Coaching and DEI mentors.

Curriculum - The Curriculum Office is responsible for delivery of the redesigned shared curriculum of the U of MN Medical School. They are staffed to achieve the Medical School's educational goals, be able to adapt the curriculum, continuously improve it and to plan for future enhancements and changes. This is where the majority of faculty are budgeted. Faculty are responsible for delivering the foundational knowledge in the beginning years of Medical School, while faculty preceptors mentor and teach students in their clinical clerkships in the later years of Medical School. In addition, there are also facilitators for problem-based learning, clinical skills, large groups and Anatomy educators. Staffing positions include Curriculum Director, a Course Manager for the Foundational portion of Medical Student education and a Curriculum Manager for Clinical Immersions and Transitions, or the clerkship and clinical skills training of the Medical Student Curriculum.

Admissions - Our admissions teams recruit, advise, evaluate and select both local and national applicants for admission to the University of Minnesota Medical School. Their main goal is to ensure the reputation of the Medical School through the admission of students from broadly diverse backgrounds who are academically high achieving and show potential for serving the state. To support this work, we have budgeted for Faculty Director time, as well as staff time for recruiting coordination, enrollment and Data Analytics.

Registrar - Staff who focus on registration, compliance, off-cycle tracking, site placements, grades, etc.

Financial Aid Counselor - Staff who focus on Financial Aid entry and debt counseling for the Medical Students.

Supplies and General/Other Expenses

Included in this category are expenses that enhance Medical Student Education and Experience. Examples of some of the expenses in these categories are support for Events such as Orientation, Compliance (Basic Life Saving class, Mask Fitting and Background Check), Peer Mentorship, Wellbeing programs and Student Council. Other expenses are more directly mission-related such as Anatomy cadaver charges and Simulation training. Finally, there are ongoing costs of doing business such as computer replacement, supplies and faculty and staff development.

Other General and Administrative

This category includes the Budget Model charges levied by the University of Minnesota to provide support for University centralized services, such as SPA, Central Finance and HR as well as the President's Office. The budget also includes incremental support for our Finance and HR teams to reimburse for the additional duties added from the St. Cloud campus.

Building and Leases

CentraCare will repurpose an existing facility adjacent to its ambulatory facility in St. Cloud. The renovation of the facility is expected to cost approximately $18 million. CentraCare will seek legislative and philanthropic funding and will provide funds for any remaining deficit. In 2023, a $5 million state capital appropriation was received for the medical education center. There will also be a legislative request of $12.9M in 2024. Based on this capital financing plan, we are assuming there will not be any annual leasing or facilities costs for the use of the building. However, we have budgeted for furniture and equipment replacement, security costs, OIT and HST technical support, custodial services and biohazard waste removal, parking, maintenance requests and building and grounds maintenance.

The Medical School plans to control expense growth as much as we can so the funding shortfall does not exceed $1.5M annually. As such, we have forecasted the budgets to the extent that we have experienced them in the recent past. However, some expense increases are outside of the control of the Medical School. Should that happen, CentraCare has agreed to pay for all University adjustments to the budget that are beyond the control of the Medical School, including but not limited to: salary increases, fringe increases, and budget model cost increases. The Oversight Committee will be responsible for budget control and the Dean and CEO of CentraCare will ultimately approve the budgets.

Residency Program

UMMS will continue to serve as the academic sponsor for the residency programs at CentraCare, and CentraCare will be financially responsible for the costs of the Residency Program including the costs of expansion of existing University residency programs to CentraCare rural sites in psychiatry, surgery, obstetrics, and pediatrics. There are some monies allocated to fund the residency program from the state. We will use those funds to increase our residency footprint in the St Cloud area.

Rural Health Institute

In the interest of advancing the research mission of UMMS and increasing research with the purpose of improving the health of rural residents, the organizations agree to 1) leverage the research support infrastructure at UMMS, 2) develop the research infrastructure at CentraCare in a manner that does not conflict with either party's research priorities, and 3) consider the creation of a jointly-directed Rural Health Research Institute as part of the Parties desire to advance medical research in rural Minnesota. For the purposes of shared financial support, unfunded research support costs of the Rural Health Research Institute will be pooled and supported equally by both parties.

The investment into this collaboration would benefit the Medical School not only in the increase in grants attributable to the Blue Ridge Ranking, but by increasing our exposure to research participants in more rural areas of the state. This access to the patient population will be very beneficial to both the University of Minnesota Health Sciences and to the rural population of Minnesota. In addition, the state allocated some funding for investment into the Rural Health Institute.

The Indirect Cost Recovery, not to mention salary support on grants, will help to lessen the financial burden of the Institute over time.

Funds Flow

We expect there will be some changes to the budget provided above, but both parties will be involved in the budgeting process and discussion.

At the outset, the budget for the Medical School CentraCare Regional Campus in St. Cloud, based on the current budgets for the Twin Cities and Duluth campuses, will be finalized and approved by both parties.

CentraCare has agreed to provide the funding and other resources necessary to cover the funding deficiencies of the campus. Each year thereafter, the budget will be reviewed and agreed upon by the Oversight Committee and will be forwarded to the CEO of CentraCare, Dr. Ken Holmen and Dean of the Medical School, Dr. Jakub Tolar, for approval. The Oversight Committee will consist of equal members of each organization.

Budgetary approval will be completed in accordance with the University's budget timeline. All revenues and expenses will flow through the University and will be part of the Medical School's overall budget submission. Tuition and fees will be attributed to the Medical School as they are now and we will bill CentraCare for the funding shortfall on a quarterly basis, with a final reconciliation at year end. In addition, all expenses will run through the University and be subject to University policies and procedures.

Given CentraCare's responsibility for any budget shortfall, any new initiatives or changes will be agreed upon by both parties before they are added to the budget. CentraCare has stated that they plan to use philanthropy to cover the annual shortfall.

Fundraising Efforts

The University of Minnesota Foundation (UMF) and the CentraCare Foundation are working on a joint campaign to raise funds in support of the proposed regional campus in St. Cloud. The overall goal is $50 million, with the effort being led by CentraCare. This goal encompasses support for five key areas: programs and services, facilities, scholarships, residency training and student housing. We estimate that the scholarship portion of this effort will be about $10 million.
We are working on the legal fundraising agreement with CentraCare, but we anticipate that new scholarship funds will be held at UMF, while the other funds will be primarily dedicated to the start-up costs within CentraCare.

Now that the affiliation agreement has been approved and signed, UMF will begin fundraising for this initiative. CentraCare has had some successful early conversations (contingent on Regents' approval). They have one $5 million and two $1 million commitments to date, plus some additional smaller, but meaningful, donations. UMF has had some exploratory conversations with donors that have been well received. In addition, CentraCare already has a $2.6 million endowment called "Growing Our Own Doctors Fund" that produces about $400,000 in scholarship funding annually.

UMF staff have a good and collaborative working relationship with the CentraCare Foundation team and are currently developing a joint case statement for the campaign. While we anticipate that most donor conversations and proposals will be conducted by the individual foundations, we will work together in those instances where both foundations have a relationship with a donor/prospect.

CentraCare's Financial Position

CentraCare is a very financially sound health system and so far, has exhibited exemplary efforts towards collaboration in this partnership. The formation of the St Cloud Regional Campus Medical School helps CentraCare to achieve its missions of partnering with their patients and communities to drive improved population health, health equity and affordable outcomes and their commitment to educating the next generation of healthcare professionals with the creation of a nation-leading, rural-focused academic health system.

CentraCare has durable and strengthened financial performances, exceeding pre-pandemic levels, despite increased industry expense and labor challenges. Their net income grew by approximately $110M year over year. They currently have $1.6 billion in net assets and only $537 million in long-term debt. Their cash on hand is 238 days.

CentraCare
Financial Summary
(Dollars in millions)

	FY23	FY24
Revenues	$ 1,913	$1,902
Expenses	$1,912	$1,882
Other Operating Gains	$5	$83*
Net Operating Margin	$6	$104
Net Income	**$114**	**$6**

Days Cash On Hand	238 Days	232 Days
Current Ratio	1.70 %	1.50 %
Debt	$537	$550
Net Assets	**$1,647**	**$1,527**

*FY22 included an $83 million gain on divestiture

CentraCare's Credit Ratings – CentraCare is rated by Moody's Investors Services and Fitch Ratings. Moody's most recent review took place in October 2021 and resulted in their affirming CentraCare's A2 rating, and outlook as stable. Fitch's most recent rating review occurred in March 2023 and resulted in their affirming CentraCare's AA- rating, and outlook as stable. Both of these are considered quality investment ratings.

Risk Assessment and Mitigation

To assist with assessing and managing risks, the University decided to utilize Kaufman Hall, a firm recognized for its expertise in the healthcare consulting space, to assist with the plan development. The University has used Kaufman Hall in the past and was satisfied with their performance and level of expertise.

During the development of the plan a number of specific risks related to the financial assumptions were identified. The following list identifies some key risk factors and related mitigations.

1. <u>We are not able to fill our 24 students/class estimates.</u> Acquiring less students into the program than are budgeted would decrease our projected revenues and CentraCare would have to increase the amount of funding that they will have to contribute.

Mitigation: There is great interest in rural health care. We receive approximately thirty five hundred applicants per year between the Twin Cities and Duluth Medical School campuses. We currently only matriculate two hundred and thirty students. Acquiring less than 24 students per year at the St. Cloud campus is perceived as very low risk.

2. <u>Staffing levels are insufficient to perform campus operations.</u>

   Mitigation: This risk is mitigated by the fact we currently operate two other campuses and have vast experience on the necessary staffing level. Even if the estimate is proven inadequate, CentraCare is willing to pivot as needed when the Medical School goes live and will work through staffing levels in real time.

3. <u>What if the joint fundraising effort doesn't achieve its $50 million fundraising goal?</u>

   Mitigation: The revenue projections are not dependent on the philanthropic plan. The fundraising effort has already realized commitments of approximately $10 million and has just begun. CentraCare has strong financials and will be able to cover the shortfall, even without additional philanthropic funding.

4. <u>What if CentraCare faces financial challenges and can't cover the funding shortfall?</u> - If CentraCare starts to lose money, will they challenge our affiliation agreement?

   Mitigation: CentraCare is a market dominant regional system and has an expansive ambulatory network. They lead the region with a large service area - the entirety of which is economically growing - and are committed to this regional campus. Their current financial position is extremely strong; however, we cannot predict the future and will address negative economic circumstances as they arise collaboratively as partners. If the shortfall cannot be resolved by CentraCare, UMMS will be required to cover the unfunded amount as part of its operating budget. The projected deficits are considered not significant in relation to UMMS' annual operating budget and reserves.

Academic Affiliation with CentraCare Financial Plan

Michael Volna, Associate Vice President & Assistant CFO
William Sibert, Senior Associate Dean, Medical School, and Chief Financial Officer, University of Minnesota Physicians

December 7, 2023

Recap

- Establish a new regional Medical School campus in St. Cloud with CentraCare
  - Provide four-year undergraduate medical education starting in 2025.
  - Expand residencies at CentraCare facilities.
  - Address workforce needs of rural Minnesota and beyond
- No changes to Financial Plan presented in November

Key Financial Assumptions

- Enrollment
  - 24 students added per year; total planned enrollment 96 students
- Faculty
  - 5.25 academic full-time equivalents (aFTE) year one and two
  - 6.75 academic full-time equivalents (aFTE) year three and four
  - Anticipate that most will be adjuncts
- Staff
  - 10.20 FTE
- CentraCare sustains commitment to cover budgeted deficits

Financial Plan

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Enrollment	-	24	48	72	96	96	96
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Total operating expenses	994	2,471	3,775	4,809	5,724	5,895	6,070
Funding surplus/(deficit)	$ (994)	$ (1,776)	$ (1,921)	$ (1,753)	$ (1,418)	$ (1,460)	$ (1,502)

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CentraCare Is a Strong Partner

- Positive net operating income in FY22 and FY23 when its peers have seen substantial negative
- Net income grew by approximately $110 million YOY
- $1.6 billion in net assets
- Long-term debt is $537 million
- Days cash on hand is 238 days
- Moody’s rating: A2/stable
- Fitch rating: AA-/stable

This is a Financially Sustainable Plan

- Strong collaborative relationship by both entities to make this work
- Vital for CentraCare to realize its strategic plan
- CentraCare is a very financially sound health system
- The financial projections are conservative
- Joint philanthropic plan to acquire donations to cover all budgeted deficits
- UM Medical School has operationalized this model at Twin Cities and Duluth campuses

UNIVERSITY OF MINNESOTA

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: Amendment to the University's Supplemental FY 2025 State Budget Request

☒ **Review** ☐ **Review + Action** ☐ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Interim President Jeff Ettinger
Myron Frans, Senior Vice President

PURPOSE & KEY POINTS

The purpose of this item is to review an amendment to the University's FY 2025 Supplemental Budget Request to the State of Minnesota.

On December 6, the University presented its Vision for Academic Health System to the Governor's Task Force on Academic Health. The University proposes a three-stage plan that builds on the University's long history of education, discovery and innovation, and service to all Minnesotans. The vision seeks to advance the future of academic medicine and health sciences, commits to improvements in outcomes for Minnesotans, and is offered in a spirit of full alignment with the public interests of the State of Minnesota. In order to advance the work outlined, the University is requesting between $60 to $80 million annually, beginning in FY 2025, for academic medicine and interprofessional programming that will optimize health sciences at the University. These funds would be used for ongoing support of academic medicine's role in improving access and equity in health care, and the University's mission of training, research, and clinical care. Program elements may include:

- continued support for the University's recruitment and retention of world-class doctors;
- create interdisciplinary teams across the University's comprehensive health sciences schools and programs to address our most perplexing health challenges;
- provide sustaining and increasing support for the University's Federally Qualified Health Center, the Community-University Health Care Center (CUHCC); and
- stabilize the University of Minnesota Medical Center (UMMC) health system finances because of high Medicaid volumes, by expanding the current intergovernmental transfer (IGT) for the UMMC and explore higher reimbursements for academic medical faculty providers because of the high Medicaid volumes and low reimbursements.

BACKGROUND INFORMATION

Board of Regents Policy: *Reservation and Delegation of Authority* reserves to the Board the authority to approve all requests for appropriations from the State of Minnesota.

The Board discussed its FY 2024-25 biennial budget request to the State of Minnesota at two Finance & Operations Committee meetings in September 2022 and October 2022 and the Full Board meeting in March 2023:

- October 2023: *Interim President's Recommended Supplemental FY 2025 State Budget Request – Action*
- September 2023: *Interim President's Recommended Supplemental FY 2025 State Budget Request – Review*
- March 2023: *Amendments to the FY 2024-25 Biennial Budget Request – Review/Action*
- October 2022: *President's Recommended FY 2024-25 Biennial Budget Request – Action*
- September 2022: *President's Recommended FY 2024-25 Biennial Budget Request – Review*

Approved FY 2025 Supplemental Budget Request Narrative

As a part of the State of Minnesota's FY 2024-25 Biennial Budget request process, the University requested recurring Operations and Maintenance (O&M) funding for its core mission activities of an incremental $45,000,000 beginning in FY 2024 and an additional $45,000,000 recurring beginning in FY 2025. This request was based on an expectation that the University would raise tuition moderately and continue to internally reallocate funding to pay for cost increases associated with:

- expanded services and service levels to support the needs of University students across all campuses;
- growth in research activities and associated infrastructure costs;
- the labor market – additional costs to attract and retain talented faculty and staff who are critical for delivering the University's education, research, and outreach missions; and
- inflation on purchased goods and services.

Toward that portion of the request, combined with the need to address the FY 2023 tuition revenue shortfall compared to budget, the State of Minnesota generously provided $50,000,000 recurring in FY 2024, and the University, as promised, utilized its reallocation process and kept tuition increases to modest levels for its students (the increase was 3.5 percent for the Twin Cities campus and 1.0 percent for the greater Minnesota campuses) to balance the FY 2024 budget. The final bill did not include an appropriation increase for core mission activities in FY 2025.

As the University moves into its internal FY 2025 budgeting process this fall, it continues to face the same challenges it faced a year ago – limited resources and increased projected costs. With this in mind, the University proposes to resubmit its FY 2025 request for $45,000,000 recurring – to help address a portion of those cost increases and keep costs lower for students by leveraging only modest increases in tuition. The University again plans to cover a portion of projected cost increases through its reallocation methodology, which involves reducing expenses in one area of its budget to fund required framework cost increases elsewhere (most often accomplished through efficiencies, targeted scope reductions, reorganizations, and restructuring of operations). The University cannot maintain the depth and breadth of its programming and impact by limiting tuition increases to low or modest levels and cutting to a balanced budget: additional state support is needed to fill the gap.

Of the University's $4.5 billion revenue budget for FY 2024 (excluding internal sales), the majority (~60 percent) is restricted to use by the source of the funds or is directly related to sales and other miscellaneous revenue generating activity where the revenues pay for the direct costs of the associated goods and services. For that portion of the budget, revenue must grow to cover cost increases, or decisions must be made to reduce spending. Only on rare occasions can those funds be used to support cost increases in state and tuition-funded activities. Therefore, the remaining 40 percent of University revenues from the unrestricted Operations and Maintenance (O&M) appropriation and tuition must be directed to increasing core mission costs and pressing needs as well as the necessary infrastructure. The only way these general operating revenues grow is through enrollment growth, increasing tuition rates, or a decision by the state to increase the University's O&M appropriation.

The Request Items

As noted above, the University's request includes a recurring increase in its general fund O&M appropriation by $45,000,000 beginning in FY 2025.

Core Mission: Maintaining Student Success, Research, and Outreach

This supplemental budget request is focused on maintaining the University's strong national and international reputation for educating students, driving innovation across all disciplines, and connecting with Minnesota communities while simultaneously keeping costs low for students. Each year, the University faces inflationary cost increases for programs, services, and infrastructure to:

- educate learners across a broad spectrum of ages and education levels (from youth programs such as 4-H through Ph.D. candidates);
- maintain student support services, such as academic planning, health and wellbeing services, disability resources, career development, etc.;
- drive economic growth in Minnesota and beyond through cutting-edge research, innovation, and industry partnerships across all sectors; and
- provide services to people and communities across the state through clinical care for patients and animals, MN Extension, public health efforts, research and outreach centers, library services, etc.

The $45,000,000 recurring request will be used in combination with internal reallocations to keep cost increases low for University of Minnesota students and fund a portion of what is needed to address:

- salary and fringe increases for faculty, educators, student services staff, research technicians, trades and other bargaining unit employees, student employees, and many others. The University employs approximately 27,000 people who live and work in communities in every corner of the state, over 52 percent of whom earn less than $63,640, which is the annual mean wage for all occupations in Minnesota, according to the Bureau of Labor Statistics (May 2022 State Occupational Employment and Wage Estimates);
- inflation on supplies, equipment, and other non-capital operating expenses for current programs and services (including library materials, lab supplies, instructional technology, restroom supplies, cleaning agents, etc.);
- facility operating costs and capital expenses, including utilities, building and landscape operations, debt service, leases, etc.; and
- cost increases for current technology licenses and maintenance agreements.

An additional $45,000,000 recurring in FY 2025 represents a 1 percent increase in the University's total revenues (excluding internal sales) and a 5.8 percent increase in its Operations and Maintenance and State Specials funding. Although the University is working to keep costs down for its students, this request assumes that a moderate tuition increase for all students across all campuses will still be necessary to cover the University's FY 2025 costs.

An increase in general fund support at this level would allow the University to continue to work towards achieving its mission-driven goals and priorities while practicing sound fiscal stewardship through ensuring average student debt for those who borrow is below the national average, increasing on-campus employment opportunities for students; targeting student aid; promoting operational efficiencies by maintaining spending on administration; and reporting on continuous improvement processes – all Commitment 5, Fiscal Stewardship goals, as identified in the MPact 2025 Systemwide Strategic Plan. Specific allocation of the additional $45 million in recurring base appropriation would be implemented consistent with those systemwide strategic priorities and determined through the annual internal budget development process.

INTERIM PRESIDENT'S RECOMMENDATION

The Interim President recommends approval of the resolution related to the amendment to the Supplemental FY 2025 Budget Request to the State of Minnesota.

REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

Amendment to the Supplemental FY 2025 Budget Request to the State of Minnesota

WHEREAS, the University of Minnesota (University) recognizes there are immediate needs in Minnesota's health care sector, and the University is uniquely positioned to deliver the next generation of Minnesota's expertise in healthcare; and

WHEREAS, the University's Vision for Academic Health System includes a request for $60 million to $80 million annually beginning in FY 2025 for increased academic health funding support from the State of Minnesota (State) for academic medicine and interprofessional programming, optimizing the breadth of health sciences at the University; and

WHEREAS, the University recognizes the many competing priorities for State general fund support.

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents approves the amendment to the supplemental budget request for FY 2025 for presentation to the State, which as amended includes a total increase of up to $125,000,000 to the operations and maintenance appropriation from the general fund for a total operations and maintenance appropriation of up to $801,294,000 in fiscal year 2025 and a biennial total of up to $1,487,852,000.

REGENTS OF THE UNIVERSITY OF MINNESOTA

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: PEAK Implementation Update

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Myron Frans, Senior Vice President
Ken Horstman, Vice President, Human Resources

PURPOSE & KEY POINTS

The purpose of this item is to provide an update on the progress of the PEAK Initiative (Positioned for Excellence, Alignment, and Knowledge). As planned, the PEAK Initiative is preparing to implement Phase 1 on December 4, 2023. The discussion will focus on progress on the implementation plan and preparations for future phases, including:

- an overview of organizational changes that demonstrate Phase 1 progress;
- summary of change metrics associated with Phase 1 implementation milestones;
- early outcomes of Phase 1 "Go Live";
- lessons learned from Phase 1 along with the specific actions taken to address stakeholder feedback;
- next steps for Phase 2 Implementation; and
- the contract to complete Phase 2 in 2024.

BACKGROUND INFORMATION

The PEAK Initiative is a systemwide effort to help fulfill the MPact 2025 Systemwide Strategic Plan commitment around fiscal stewardship to promote access, efficiency, trust, and collaboration with the state, students, faculty, staff, and partners. PEAK aims to identify opportunities across non-academic functions to reduce costs while still retaining excellent service and the agility to evolve – helping to advance the University's teaching, research, and outreach mission.

Administrative functions within the scope of the project include finance, information technology, human resources, as well as marketing and communications.

Guiding principles of the PEAK Initiative include:

- Equitable & Inclusive – consciously and intentionally includes and advocates for diverse populations.

- Integrated – seamless connections with other systems and processes.
- Agile – flexible to accommodate evolving needs and strategies through iterative improvements.
- Operating Efficiency – implement approaches that will drive value in support of the University's mission.
- Digitally Enabled – simplify repetitive administrative tasks and enable focus on high-value strategic and consultative activities through technology enablement.
- Consistent – foster an experience of one University, supporting harmonization through simple and transparent processes.

The Board previously discussed this topic at the following meetings:

- June 2023: *PEAK Implementation Update,* Board of Regents
- February 2023: *PEAK Implementation Update,* Finance & Operations Committee
- December 2021: *PEAK Action Plan,* Board of Regents
- October 2021: *PEAK Implementation Plan,* Board of Regents
- September 2021: *Update on PEAK Initiative,* Board of Regents
- July 2021: *Report on PEAK Initiative,* Board of Regents

PEAK Implementation Update:

Positioned for Excellence, Alignment & Knowledge

Myron Frans, Senior Vice President for Finance and Operations

Ken Horstman, Vice President, Human Resources

Finance & Operations Committee

December 7, 2023

Agenda

- PEAK Initiative Overview
- Phase 1
  - Progress
  - Process Improvement
  - Next Steps
- Looking ahead
  - Key Learnings to Apply
  - Preparing for Phase 2
  - Contract Review
- Questions

The PEAK Initiative

PEAK is a proactive systemwide initiative that seeks to change how we administer essential services beginning with Finance, Human Resources, Information Technology, and Marketing and Communications to create more value for our:

- **People:** Provide opportunities for growth and specialization within newly-created functional teams and scale service to support flexibility, work/life balance, and remove bottlenecks.

- **Partners:** Create equitable coverage and consistent processes for Human Resources, Finance, and Marketing and Communications services. Build on past IT process improvements to utilize campus, college, and administrative unit capacity for systemwide priorities.

- **University**: Reduce compliance risk and budgetary pressure by creating organizational flexibility that avoids distributed expertise and incremental staff hiring.

Phase 1 Progress: Finance, HR, Marcom

On December 4, we achieved a key PEAK milestone with Phase 1 implementation of 11 RRCs*

Expression of Interest

Summer 2023

- Mapped 390 FTE of functional activity
- 53 job descriptions created
- 30 positions offered through Expression of Interest (EOI)

Talent & Work Realignment

Fall 2023

- 0 positions lost due to PEAK
- 64 total hires for HR, Finance, and Marcom
- 42 interviews completed across HR and 75 interviews across Finance to date

Training & Onboarding

- Over 2,400 hours of HR Ops Center, Talent Acquisition, and Finance Ops training completed
- 20 on demand TDX learning assets developed for up to 5,600 Phase 1 staff
- 150+ Welcome Event attendees

Readiness Confirmation

- 1,680 hours of User Acceptance Testing
- Nearly 200 Finance requests processed to date during Morris extended test period.
- 10+ recent visits to colleges, campuses and units

Dec 4 Go-Live

New Op. Model Implemented (HR & Finance)

- Begin conducting transactions via new model
- Provide post-Go Live support
- Monitor and measure against SLAs
- Begin to track against Key Performance Indicators (KPIs)

We Are Here ☆

Introduction of Marcom Common Goods Services

Dec 2023

- Onboarding staff - EOI, internal, external hires
- 970+ applicants for 23 Marcom positions
- 18 offers to date (44% internal)
- Preparing for Marcom Common Goods Services which will go into effect Jan. 2024

Phase 1 RRCs:	Humphrey School, Internal Audit, Law School, Board of Regents,Human Resources,Crookston, Duluth, Morris, Rochester, Finance/Controller, Information Technology.

*Rolling out to all campuses, colleges, and units (RRCs) in four overlapping phases included in Appendix.

Phase 1 Progress: Information Technology

Leadership Structure

changes in OIT improves communication, accountability and system view of IT needs/opportunities

Virtual Teams

deliver functional expertise, capability and energy to drive initiatives and support IT services

Competency Model

achieves the outcome of a talented and engaged workforce

Talent Marketplace

enhances the value of talent profiles, optimizes workforce, and reduces consulting costs

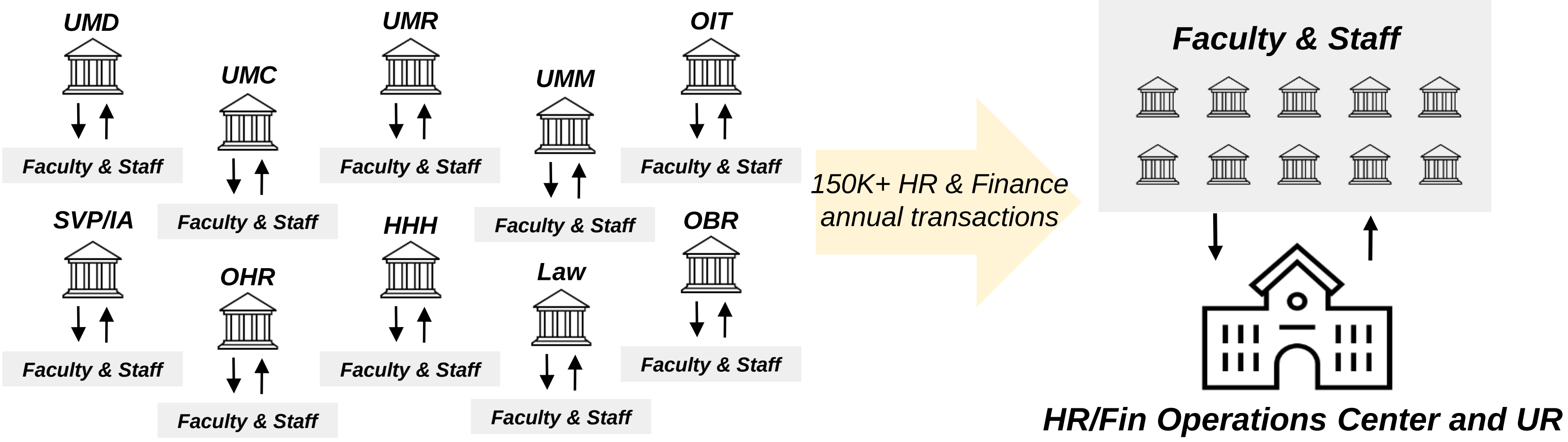
Phase 1: Process Improvement

Before

14 HR and Finance processes differing across 10 colleges, campuses, units

After

14 standardized processes handled by functional experts



UMD

Faculty & Staff

UMC

Faculty & Staff

UMR

Faculty & Staff

UMM

Faculty & Staff

OIT

Faculty & Staff

SVP/IA

Faculty & Staff

OHR

Faculty & Staff

HHH

Faculty & Staff

Law

Faculty & Staff

OBR

Faculty & Staff

150K+ HR & Finance annual transactions

Faculty & Staff

HR/Fin Operations Center and UR

275+ employees spending an average of 18% of their time on in-scope activities

70 employees 100% dedicated to specialized activities

Phase 1: Next Steps

1. Support successful transition of services and people
2. Evaluate progress against KPIs
3. Apply learnings for continuous improvement

Supporting People Transition

Phase 1 Welcome Event: 150+ Phase 1 leaders and staff attended a two-day event at Duluth focused on workforce transition and readiness for the transition of services on December 4th.

PEAK Program Continuous Improvement

Key Learnings from Phase 1	**Actions We Are Taking** for Phase 2
• EOI process too short and confusing	→ Extend EOI period and explain better
• Change requires boots on the ground, including in person meetings and regular touchpoints	→ Provide central project liaison for each phase unit to guide and advise on the project (and do so early in the phase)
• Inconsistent messaging around PEAK	→ Robust communication plan
• Change fatigue continues	→ Identify Phase 1 ambassadors
• Details needed for decision making	→ PEAK budget model shared
• Allow time to adjust to new roles	→ Continue events like Welcome Event
• Phases 2+ eager for information	→ Communicate pre-planning activities

What Does Success Look Like?

- PEAK’s success will be:
  - **Governed** by service-level agreements,
  - **Measured** against key performance indicators,
  - **Communicated** via service dashboards and
  - **Shared** report-outs with campus, college, and unit leaders

Quality
Ex KPI: Time to ticket resolution

Accuracy
Ex KPI: % of reopened requests

Timeliness
Ex KPI: Time to first response

Experience
Ex KPI: Customer satisfaction survey

Service Level Agreements

Service Dashboards

Leadership Report-Outs

Preparing for Phase 2

1 **Timeline**

2 **Approach to Phase 2**

3 **Contract Request**

History of PEAK Partnership

Since 2021, the PEAK Initiative has benefited from the support of valued consulting partners. Huron Consulting Group has been integral in our ability to implement Phase 1 in 2023 and prepare for Phase 2 in 2024.

2021	2022	2023
Assessed 10+ functions across the University System	Successfully designed Finance, HR, IT, and Marcom service delivery models	Held in-person roadshows across all Phase 1 campuses, colleges, and units
Supported engagement with hundreds of University staff	Mapped distributed processes and redesigned to create compliance and efficiency	Organized the transition and staffing of 60+ Operations Center and UR positions
Analyzed over 3,000 FTE of activity data to derive insights	Developed a multi-year implementation plan and launched Phase 1	Successfully launched Phase 1 of PEAK in December

Purposeful Shift in Partnership Models

Over that time, the University has continuously developed our internal resources and decreased the level of external support. This shift will continue into Phase 2 and further accelerate in 2024.

Phase 1 Huron Co-Led	**Phase 2** UMN-Driven
• **Huron provided interim PEAK Project Office leadership** (e.g., program director, change manager, functional managers)	→ **UMN staffing PEAK Project Office** (e.g., Program Director O'Neill; Comms and CM Manager Nardie-Warner)
• **Huron co-led Workforce Transition** in partnership with UMN External & Labor Relations	→ **UMN will lead Workforce Transition** with Tracey Kane in her new full-time role
• **Huron co-led and facilitated engagement** with central, campus, college, and unit stakeholders	→ **UMN will lead and facilitate engagement** with central, campus, college, and unit stakeholders

Huron Contract Request for Phase 2

The University is requesting review of the next PEAK contract with Huron, which would cover professional service fees for 9 months, from February 2024 - October 2024 for $2.65M.

This request continues the University's approach of decreasing required external support, in both total and monthly cost.

Phase 1:
Design & Implementation
Sept 22 to June 23 (10 Months)
--
Contract Total: $3.85M*
Monthly Run-Rate: $410k**

Phase 1:
Extension
July 23 to Jan 24 (7 Months)
--
Contract Total: $2.75M
Monthly Run-Rate: $392k

Proposed Phase 2:
Implementation
Feb 24 to Oct 24 (10 Months)
--
Contract Total: $2.65M
Monthly Run-Rate: $295k

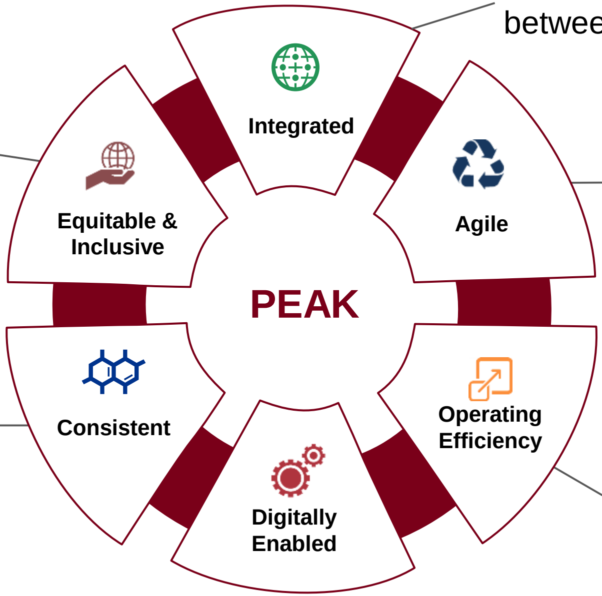
5% decrease in monthly run-rate → **25% decrease in monthly run-rate**

* Includes amended scope, which increased run-rate to $410k
**Run-Rate = Monthly Contract Expense

Questions?

Appendix

Guiding Principles



PEAK

Integrated

Enable seamless connections between systems and processes.

Agile

Iterate to accommodate ongoing improvements and respond to evolving needs and strategies.

Operating Efficiency

Define and organize work and teams to most effectively support the University’s mission.

Digitally Enabled

Use technology to simplify repetitive administrative tasks to enable focus on high-value strategic and consultative activities.

Consistent

Foster an experience of one University across units, colleges, and campuses through simple and transparent processes.

Equitable & Inclusive

Consciously and intentionally include and advocate for diverse people and communities.

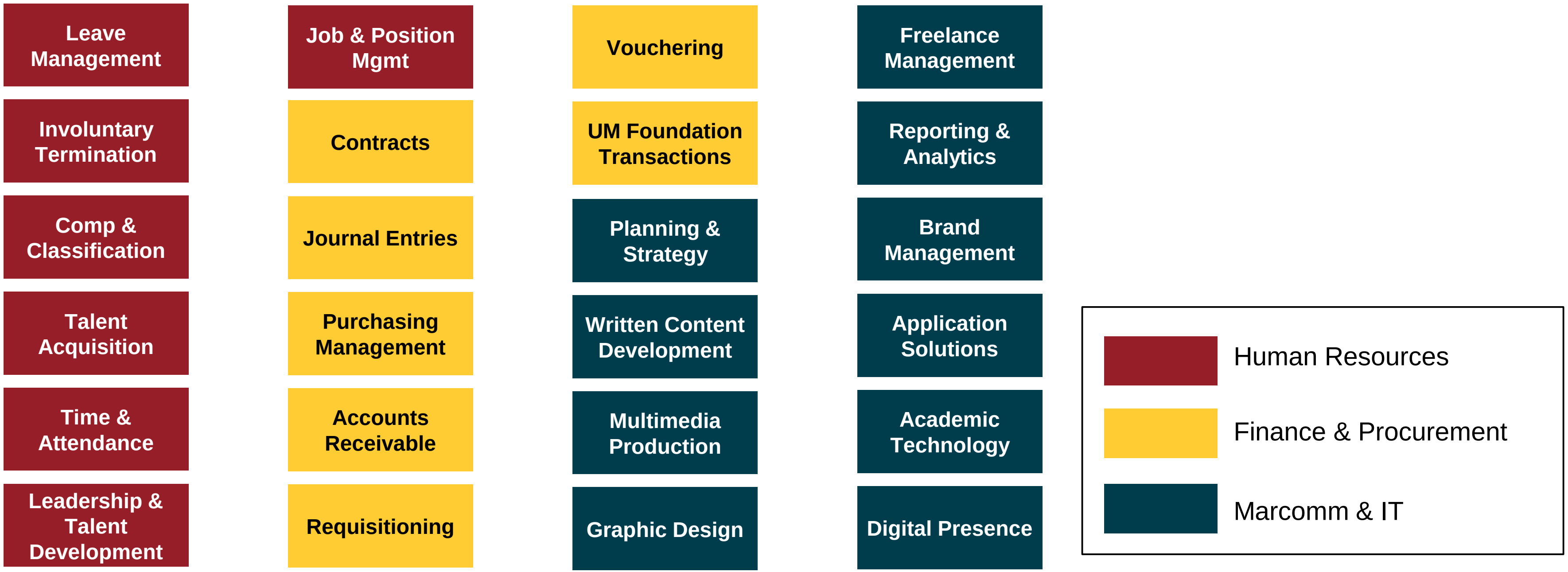
Implementation Plan

Rolling out to all campuses, colleges, and units (RRCs) in four overlapping phases

Phase 1: Implementation FY23-FY24	**Phase 2: Implementation FY24**	**Phase 3: Implementation FY24-FY25**	**Phase 4: Implementation FY24-FY25**
Hubert H Humphrey School of Public Affairs	CFANS (including Ag Exp Station)	College of Continuing and Professional Studies	Carlson School of Management
Internal Audit	College of Liberal Arts	College of Education and Human Development	College of Biological Sciences
Law School	Office of Student Affairs	College of Pharmacy	College of Design
Office of the Board of Regents	EVPP - Office of the Exec VP & Provost	College of Science and Engineering	College of Veterinary Medicine
Office of Human Resources	EVPP - The Graduate School	Intercollegiate Athletics	EVPP - Global Programs and Strategy
UM Crookston	EVPP - Office of Undergraduate Education	School of Dentistry	EVPP - MN Extension
UM Duluth	EVPP - Office of Faculty Affairs	School of Public Health	EVPP - University Libraries
UM Morris	EVPP - Office of Public Engagement	SVPFO - Capital Project Management	Medical School
UM Rochester	Office of Equity & Diversity	SVPFO - Public Safety	Office of Academic Clinical Affairs
SVPFO - Finance/Controller	Office of the General Counsel	SVPFO - University Health & Safety	Office of the VP for Health Sciences
SVPFO - Information Technology	Office of the President	SVPFO - University Services	Office of VP for Research
	University Relations		School of Nursing

Improving Processes

Through PEAK, the University has redesigned and improved a set of critical processes, focusing on compliance, efficiency, and specialization.



- 🟥 Leave Management
- 🟥 Involuntary Termination
- 🟥 Comp & Classification
- 🟥 Talent Acquisition
- 🟥 Time & Attendance
- 🟥 Leadership & Talent Development

- 🟥 Job & Position Mgmt
- 🟨 Contracts
- 🟨 Journal Entries
- 🟨 Purchasing Management
- 🟨 Accounts Receivable
- 🟨 Requisitioning

- 🟨 Vouchering
- 🟨 UM Foundation Transactions
- 🟦 Planning & Strategy
- 🟦 Written Content Development
- 🟦 Multimedia Production
- 🟦 Graphic Design

- 🟦 Freelance Management
- 🟦 Reporting & Analytics
- 🟦 Brand Management
- 🟦 Application Solutions
- 🟦 Academic Technology
- 🟦 Digital Presence

🟥 Human Resources
🟨 Finance & Procurement
🟦 Marcomm & IT

UNIVERSITY OF MINNESOTA

Driven to Discover®

Crookston Duluth Morris Rochester Twin Cities

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: FY 2025 Budget Variables and Levers

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Julie Tonneson, Vice President and Budget Director

PURPOSE & KEY POINTS

The purpose of this item is to engage in a discussion about the primary variables impacting budget planning for FY 2025, which begins on July 1, 2024. The discussion will focus on general definitions and trends in resources and expenditures rather than specific issues or values for FY25.

In September, the committee reviewed the University's budget process to provide context for future budget-related agenda items. The Board's discussion and review of components specific to the FY25 Annual Operating Budget begins with this discussion and continues with a review of the annual budget framework variables in February. The Board will review and act on the Interim President's Recommended Annual Operating Budget for FY25 in May and June of 2024. The complementary goals of each step in the process are for the administration to share information and recommendations and for the Board to provide input and guidance that outlines their priorities and expectations for the FY25 operating budget.

FY 2025 – The Budget Framework

In the early stages of developing each biennial budget request to the State of Minnesota, the University creates a budget planning framework for the two years of the upcoming biennium. FY25 is the second year of the current biennium, so initial planning for next year's budget began in the summer of 2022, consistent with this time frame. The framework is a high-level set of assumptions related to changes in revenues and expenditures and summarizes plans for achieving a balanced budget. The framework focuses on the significant unrestricted funds available to support the maintenance and operations of the University's core missions: the state appropriation and tuition.

The other funds of the institution (fees, auxiliary and other unrestricted sales, restricted grants, contracts, gifts, etc.) are generated by units throughout the University in various ways, based on the activities they engage in.

A typical budget framework reflects incremental changes in resources and costs and includes the following components:

- Estimated or known changes in state appropriations

- Planned savings from efficiencies or spending decreases (internal reallocations)
- Planned changes in tuition revenue based on enrollment projections and recommended rates
- Planned increases in salary costs based on a recommended compensation plan
- Estimated cost increases for fringe benefits
- Estimated cost increases for technology maintenance agreements and facilities operations (utilities, debt service, etc.)
- Planned investment pools for programmatic and operating initiatives/needs

The budget framework guides the decision-making process throughout the year, but it does not remain stagnant. The framework is adjusted as new information becomes available or as decisions are made based on the institution's priorities. It must always, however, result in a positive or $0 balance.

FY 2025 – Preliminary Assessment of Budget Variables

Investments in programmatic enhancements and initiatives to advance the MPact 2025 Systemwide Strategic Plan are a high priority every year. In addition, the University is expecting significant cost pressures in FY25 related to five categories of spending:

- compensation for all employee groups;
- facility operations;
- expanding technology infrastructure;
- compliance and safety requirements; and
- investments necessary to address realized or desired enrollment changes.

Inflation, reflected in at least three of these categories impacts the University's budget in a variety of ways. The first step in managing inflation-driven costs is to develop actual projections as the next fiscal year approaches and understand how those projections apply to different activities and units. That process is underway, and the presentation will highlight information gathered to date.

A summary of resource variables to consider for FY25 is as follows:

- State appropriations: Annual revenue of roughly $765 million. The University will submit the Board-approved supplemental operating budget request to the State of Minnesota for an additional $45 million increase in FY25, following a biennial budget process that resulted in an increase for FY25 of $0.
- Tuition: Annual revenue approaching $1 billion. Increases driven by rate changes (each 1 percent on all rates generates roughly $9.5 million) and enrollment.
- Internal reallocations: Spending reductions to free up existing resources to redistribute to new or different costs. Each 1 percent (the general level implemented since FY18, excluding FY22) frees up roughly $20 million.
- "Other" revenues: Annual revenue just over $2.5 billion. Includes restricted and unrestricted funding from a variety of sources including sponsored grants, external sales, fees, gifts, royalty income, investment earnings, federal appropriations, etc. Growth opportunities and discretion vary across sources and units of the University.

The presentation will describe each of these variables in more detail and facilitate questions and discussion about priorities for FY25. It will also summarize the distributed nature of the University's budget development process, how each unit's unique set of activities is shaped by these variables, and how those activities impact the total annual operating budget recommended to the Board.

BACKGROUND INFORMATION

The Annual Operating Budget is submitted to the Board for review and action each year in late spring. Although the supplemental request for additional state funding will be considered during the 2024 legislative session, it will remain unresolved until sometime in May. Current law (passed during the 2023 session) includes a base level of state appropriation to the University for FY25. To ensure a final FY25 budget prior to July 1, the Interim President's recommended Annual Operating Budget will likely be based on the known base appropriation and provided to the Board for review at the May 2024 meeting, with subsequent action in June 2024. It is anticipated that the recommended budget could include contingency plans for additional appropriations, with any actual changes in state funding for FY25 incorporated into the recommended budget as soon as they are final.

FY 2025 Budget Variables and Levers

Julie Tonneson, Vice President and Budget Director

Finance & Operations Committee

December 7, 2023

SENIOR VICE PRESIDENT FOR FINANCE AND OPERATIONS

World Class Services for a World Class University

UNIVERSITY BUDGET

UNIVERSITY OF MINNESOTA

Timeline: Annual Budget Items Before the Board

2023	September	*Overview of the University Budget Model and Process*
	December	Discuss FY 25 Budget Variables and Levers
2024	February	Discuss FY 25 Annual Budget Framework
	May/June	Review and Act on the President’s Recommended Budget

All Funds Budget Development

Major Revenue Sources

Tuition & O&M Appropriation

➡

Planned at the Institutional Level:

revenue used to support costs of instruction, research and public service plus operations/overhead

---

All "Other Revenues" More Targeted Application

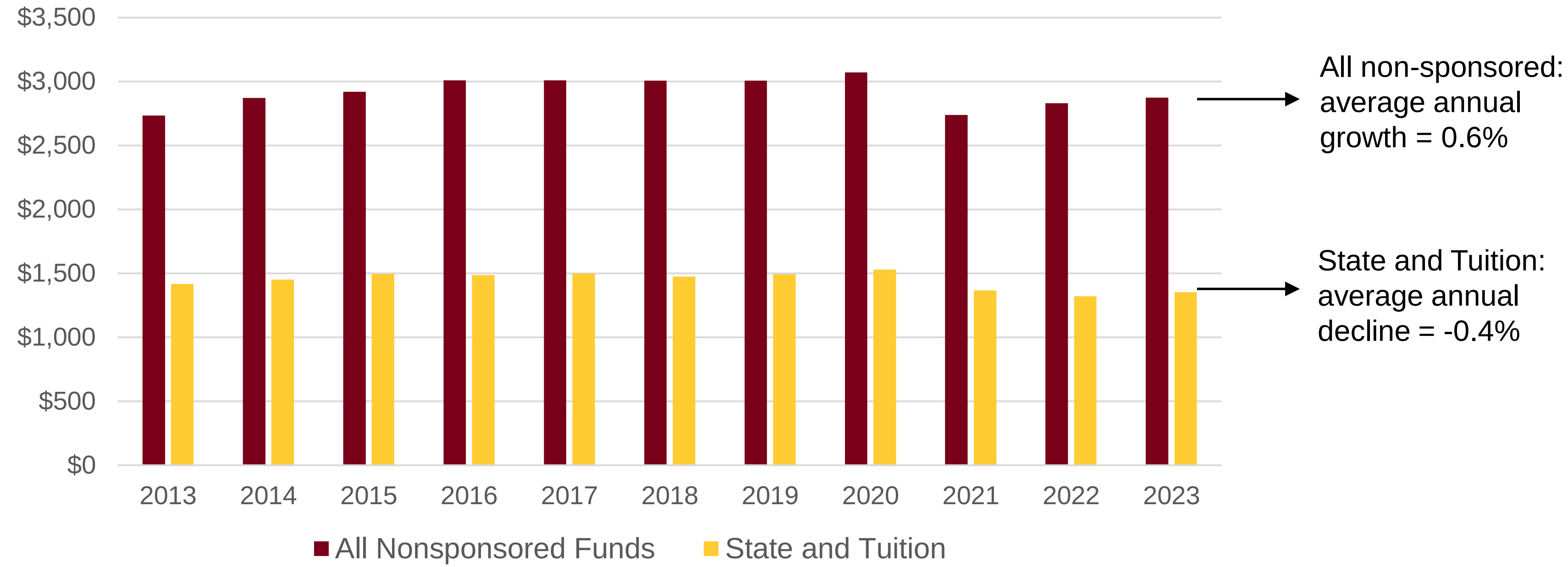
1. *Where possible, grow to cover all associated cost increases and allow for program growth*
2. *Reallocate within fund source as necessary if revenue growth does not cover cost increases*
3. *Move costs in from O&M (state/tuition) when possible & appropriate*
4. *Move costs to O&M (state/tuition) when absolutely necessary*

Focus on Changing Costs

Expenditures (adjusted for inflation - CPI)

- **5.1% higher in FY23 than FY13 for total non-sponsored funds**
- **4.5% lower in FY23 than FY13 for just state and tuition funds**

Expressed as FY13 $ in thousands



All non-sponsored: average annual growth = 0.6%

State and Tuition: average annual decline = -0.4%

University tools to manage costs:

- **Process redesign**
- **Increased efficiencies**
- **Centralized/regionalized**
- **Consolidation**
- **Renegotiated contracts**
- **Buy differently/delay**

- **Refinancing**
- **Hiring pauses/freezes**
- **Position eliminations**
- **Square footage reduction**
- **Scope reduction**
- **Partnerships (share)**

PEAK = major initiative in this space to impact costs immediately (up & down) but to help balance budgets in future years.

Cost Variables – Significant For FY25

(consistent with FY24 categories)

- Compensation
- Utilities and Debt
- Technology Infrastructure
- Compliance and Safety
- Maintain/Grow Enrollment

Compensation: Incremental Salary and Fringe Costs Planned in the Annual Framework – General Merit Pool

($ for State Appropriations & Tuition only)

New Reality

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Annual Increase	2.5%	2.5%	2.0%	2.5%	2.0%	2.0%	2.25%	0.0%*	1.5%	3.85%	4.00%
$ in millions	$13.2	$15.0	$23.0	$13.6	$34.0	$31.7	$40.7	$12.6	$18.7	$51.0	$58.4
CPI-U – calendar yr.	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%		

**bargaining unit salaries were not frozen*

Compensation Pressures Beyond Traditional Merit Pool

Market/Retention/Equity/Compression
Senate’s Workforce Reinvestment Resolution

- ❖Undergraduate Students
- ❖Graduate Students
- ❖Faculty and Staff
- ❖Bargaining Unit Contracts

Millions
$$$

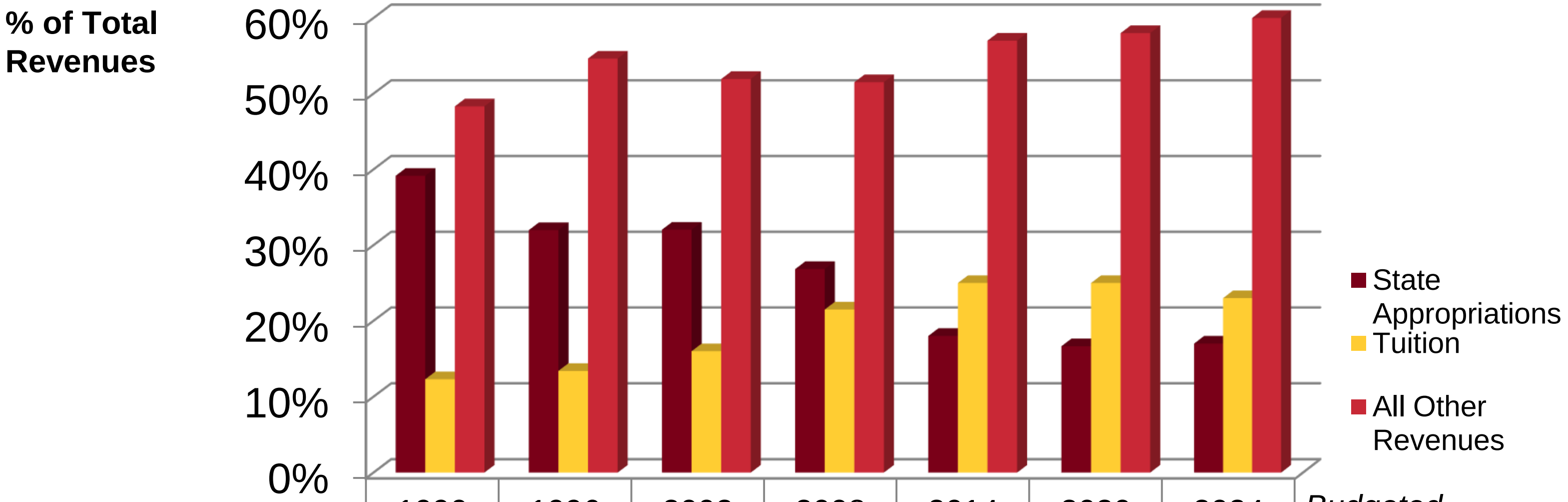
Other Cost Variables: FY25

	Significant Drivers	Projections
FACILITIES	Debt Service New Building Operations Utilities	$8-10 MILLION
TECHNOLOGY	Vendor Contracts; System Modernization; Scope of Mission Activities; Balance of Security Threats and Risk Tolerance	$5-10 MILLION
COMPLIANCE AND SAFETY	Examples: Lab Safety (Waste, Radiation, Biosafety, Hazardous Materials, Environmental), Enterprise Risk Management, Disability Resources, Security Presence & Equipment	TBD -expanded personnel -materials -facility impacts
ENROLLMENT MANAGEMENT	Marketing and Communication (reputational and recruiting), Tuition Revenue Below Budget, Program Development, Service Enhancements	TBD -strategies -estimates

Resource Variables

1. State Appropriation
2. Tuition
3. Savings from Efficiencies and Expenditure Reductions
4. Other Revenues

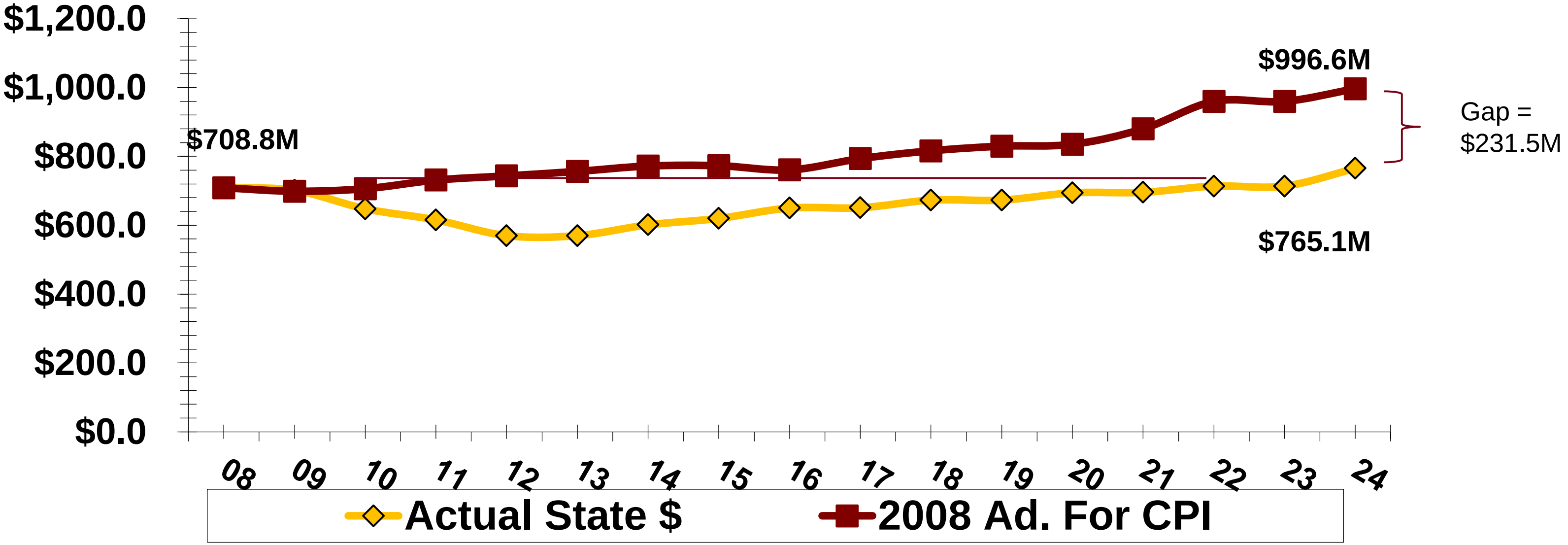
Shift in University Revenues: State Support vs. All Other Revenues



	1990	1996	2002	2008	2014	2020	2024
State Appropriations	39%	32%	32%	27%	18%	17%	17%
Tuition	12%	13%	16%	22%	25%	25%	23%
All Other Revenues	48%	55%	52%	52%	57%	58%	60%

Budgeted

The actual $708.8M appropriation* in FY08, if adjusted for CPI, would equal $996.6M in FY24 (Sept. 2023).
The actual appropriation for FY24 is $765.1M.



*Includes Cigarette Tax and MnCare – excludes nonrecurring project appropriations
Source for adjusted data: U.S. Bureau of Labor Statistics, CPI Inflation Calculator, through Sept. 2023

Supplemental Budget Request

$45M for Core Mission

O&M STATE APPROPRIATION

	2024	2025	Biennial
Current O&M Recurring Base	**$672.3**	**$672.3**	**$1,344.6**
Core Mission Request - Recurring	**$0.0**	**$45.0**	**$45.0**
Total O&M Recurring Base	**$672.3**	**$717.3**	**$1,389.6**
% change from base			**3.3%**

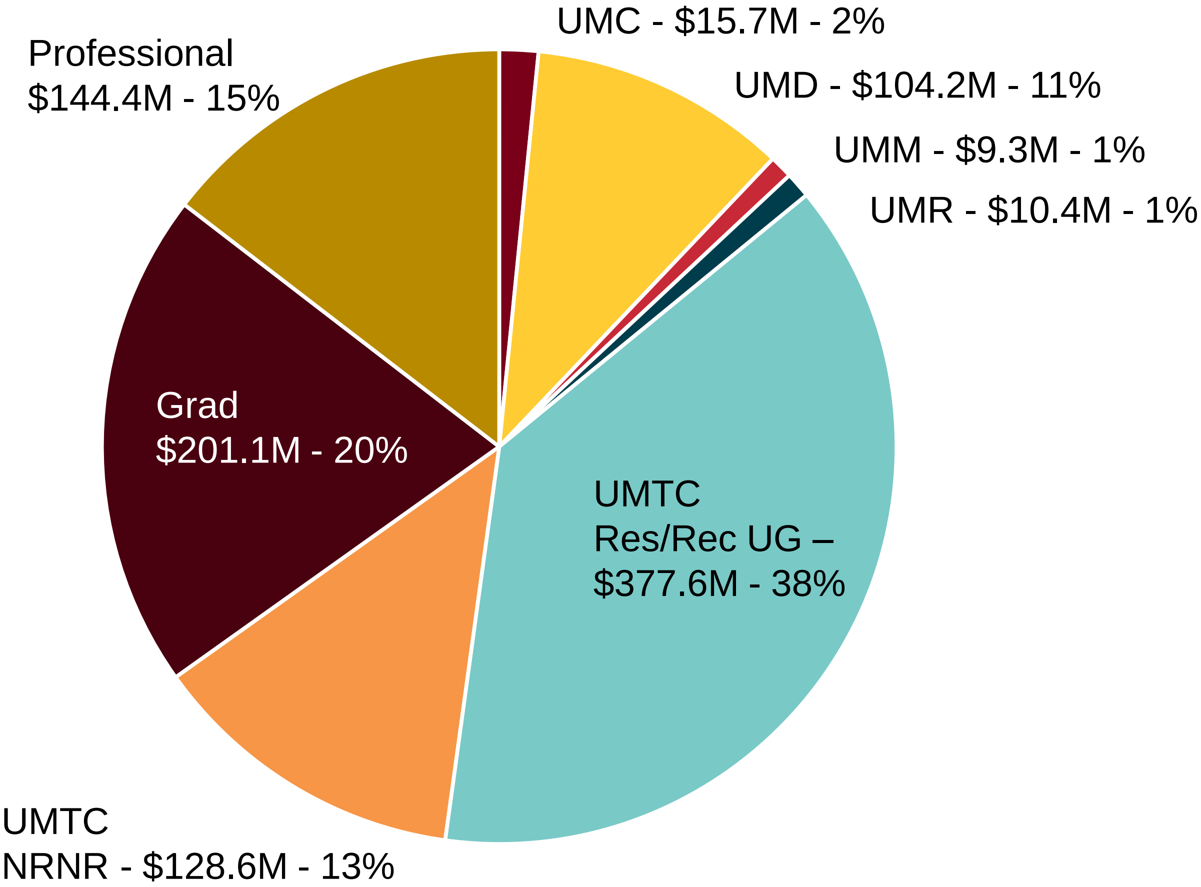
(dollars in millions)

$45M

will impact our ability to deliver on our mission

- ✓ **Limit tuition increases** for students
- ✓ **Retain our talent** through increased compensation for faculty and staff
- ✓ **Invest in more student services** such as counseling, advising, and academic support
- ✓ **Maintain classrooms and instructional spaces**
- ✓ **Support research and technology** infrastructure
- ✓ **Preserve and maintain safe, functional, and accessible facilities**

Estimated FY24 Tuition Revenue: $991.3M



Current Year (FY24) Est. Tuition Revenue

Compared to Budget – Total Variance <1%/’’Normal”

	FY24 Budget	Updated Estimate	Variance	% Change
Crookston	$15.7	$17.2	$1.5	+10%
Duluth	$104.2	$102.0	($2.2)	-2%
Morris	$9.2	$7.8	($1.4)	-15%
Rochester	$10.4	$8.5	($1.9)	-18%
SUBTOTAL	$139.5	$135.5	($4.0)	-3%

Twin Cities	$851.8	$848.8	($3.0)	-.4%
TOTAL	$991.3	$984.3	($7.0)	-.7%

(dollars in millions)

- **Learning why some campuses and colleges are below estimate** – to guide future actions
- **Reassessing and revising revenue estimating methodologies** – campuses/TC colleges/central
- **Working with campuses & TC colleges now on adjusting budgets** during this fiscal year to address shortfalls and long term where necessary

Tuition Revenue: Growth Potential

(each 1% = projected $9.5M across all rates)

Rate considerations:

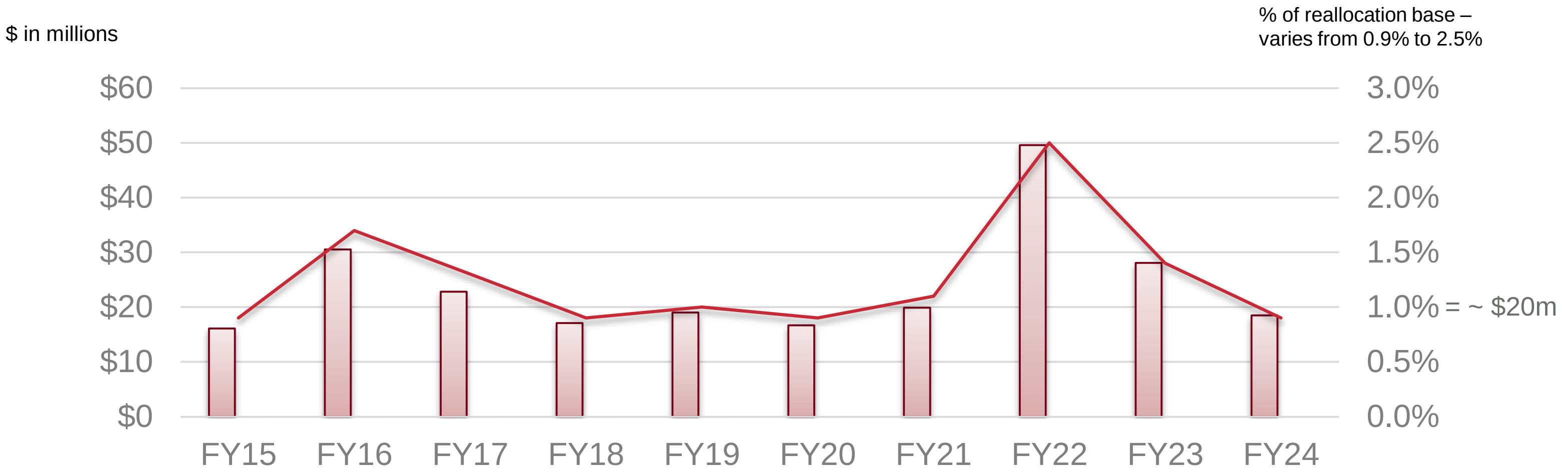
- Resident undergraduate – rate increases relatively low since FY13 – all campuses - TC rate 5th highest of 13 in Big10 (FY24)
- Nonresident undergraduate – TC rate 8th highest of 13 in Big10 (FY24)
- System campuses – rates high in the market
- Graduate and professional rates vary in their markets
- Availability of adequate financial aid

Enrollment considerations:

- Retention vs. Incoming – all campuses
- TC NRNR enrollment growth
- UMR planned enrollment growth
- UMC, UMD, UMM enrollment concerns

Repurposing Existing Resources

“Reallocations” approved in the budget (state and tuition funds):



Note: FY20 and FY21 do not include one-time reductions in response to COVID-19

Goal: Continue responsible efforts to reduce costs where possible and gain efficiencies, while remaining competitive nationally and internationally.

What are “Other Revenues?”

In budget speak - any revenue source outside of state appropriations and tuition, so primary sources include:

	FY24 Budget
Sponsored Grants	$780M
Auxiliary Income	$445M
Sales/Fees/Misc.	$434M
Other Grants/Contracts/Fed Appropriations	$372M
Gifts/Endowment Income	$299M
Indirect Cost Recovery	$214M
Private Practice	$150M

“Other Revenues” Planned & Managed More at the Unit Level with Institutional Monitoring, Guidance, and Direction

1. *Where possible, grow to cover all associated cost increases and allow for program growth*
2. *Reallocate within fund source as necessary if revenue growth does not cover cost increases*
3. *Move costs in from O&M (state/tuition) when possible & appropriate*
4. *Move costs to O&M (state/tuition) when absolutely necessary*

Incentives to Grow Other Revenues

MPact 2025 Measures – 7 are directly tied to revenue goals

Budget Model/Process:

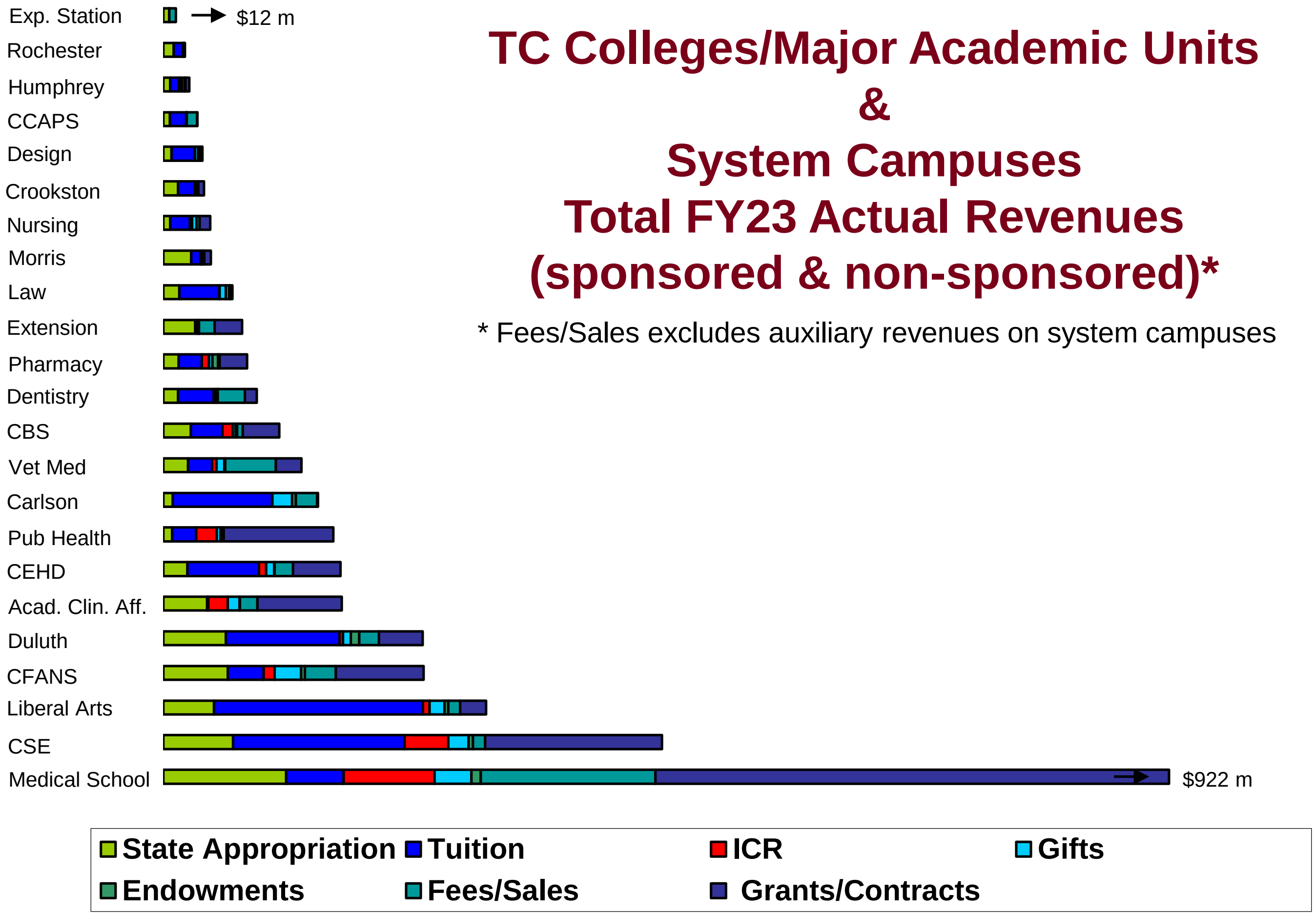
- Earned revenues retained at unit level
- Internal reallocation process (expenditure cut or revenue growth)

Some Limitations to Use

- Majority (~60%) are restricted by source to particular uses
- Unequal opportunity across units to generate based on activities
- Some come with increased infrastructure/support costs
- Many are nonrecurring

TC Colleges/Major Academic Units
&
System Campuses
Total FY23 Actual Revenues
(sponsored & non-sponsored)*

* Fees/Sales excludes auxiliary revenues on system campuses



Annual Budget Process
Distributed Budget Management Model

President	• Sets broad goals, strategies, principles • Directs and delegates the overall process • Receives and acts on recommendations from Budget Committee • Delivers Final Recommended Budget to the Board • Accountable for ensuring University's financial health in accordance with Board of Regents' direction
Chancellors, Deans, VPs	• Provide input into broad goals and strategies • Develop unit-level priorities, goals, and strategies • Request funding and assistance from Central to achieve goals • Implement final decisions/accountable for overall unit financial health
Departments	• Respond to RRC level direction regarding development of departmental priorities, goals and strategies • Request funding and assistance from RRC to achieve goals • Implement final decisions

Board of Regents	Reviews and acts on Annual Budget submitted by the President

Board of Regents
Input today or in February

Resources:

- Tuition strategy?
- Enrollment maintenance or growth – impact on metrics?
- Cutting budgets and reallocating resources beyond that needed to offset revenue losses?
- Other thoughts?

Costs:

- Compensation strategy?
- Reducing budgets by reducing scope in some cases?
- Magnitude of investment in strategic plan initiatives?
- Other thoughts?

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BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: Annual Report on Targeted Business, Community Economic Development, and Small Business Programs

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☒ *This is a report required by Board policy.*

PRESENTERS: Sharon Banks, Executive Director, Office for Supplier Diversity
Rebecca Eberdt, Assistant Director, Office for Supplier Diversity
Tina Marisam, Associate Vice President, Office for Equity and Diversity

PURPOSE & KEY POINTS

The purpose of this item is to provide the committee with the FY 2023 Annual Report on Targeted Business, Community Economic Development, and Small Business Programs. The annual report is prepared by the University's Office of Supplier Diversity and highlights their work over the past year and the results of that work. As required by Board of Regents Policy: *Targeted Business, Community Economic Development, and Small Business Programs*, the University actively promotes the use of businesses owned and operated by women, BIPOC, and disabled persons ("Targeted Businesses") and small businesses in its construction projects and other contracts for goods and services. The Office for Supplier Diversity oversees and implements the University's Targeted Business Program.

BACKGROUND INFORMATION

The Annual Report on Targeted Business, Community Economic Development, and Small Business Programs is provided to the Board as required by Board of Regents Policy: *Targeted Business, Community Economic Development, and Small Business Programs.*

UNIVERSITY OF MINNESOTA

Crookston • Duluth • Morris • Rochester • Twin Cities

Office for Equity and Diversity

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100 Church Street S.E.
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Annual Report on Targeted Business, Community Economic Development, and Small Business Programs

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In accordance with the Board of Regents Policy: *Targeted Business, Community Economic Development, and Small Business Programs*, the University actively promotes the use of businesses owned and operated by women, BIPOC, and disabled persons ("targeted businesses") in its construction projects and other contracts for goods and services. The FY23 Annual Report on the Targeted Business Program follows.

I. FY23 Expenditures to Targeted Businesses

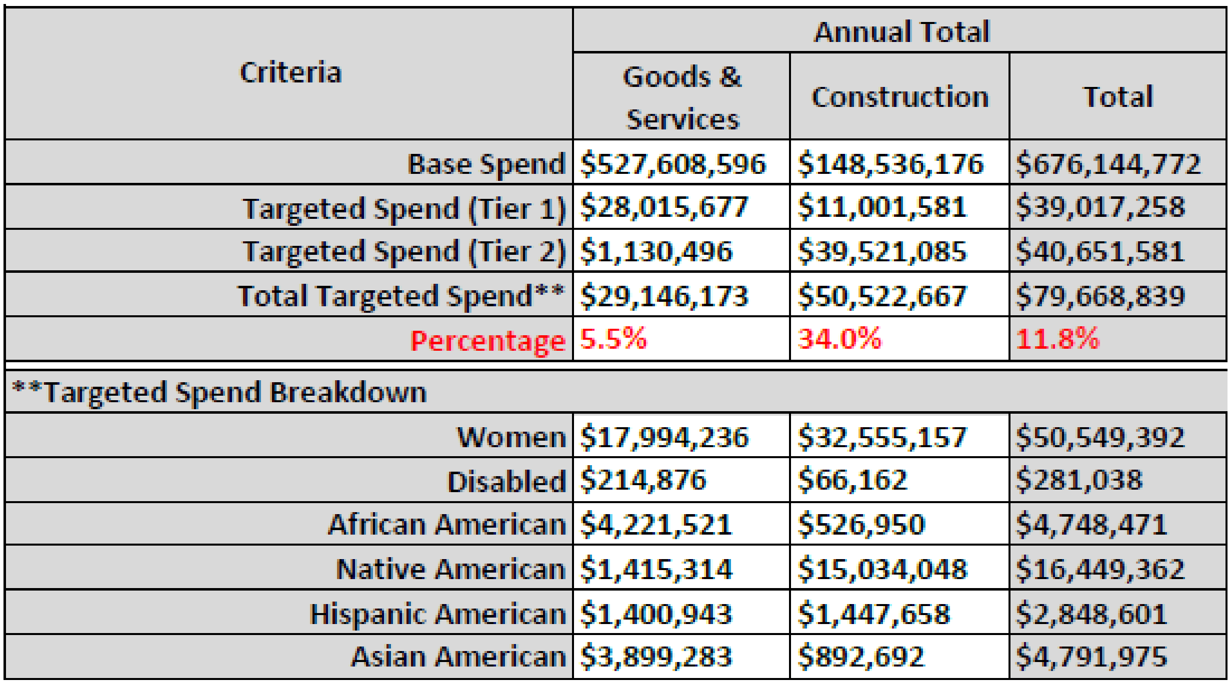
The University sets targets for its expenditures to targeted businesses as part of its strategy for facilitating and monitoring its progress toward more robust supplier diversity. The following bullets compare our actual and target expenditures in FY23.

- ***Total expenditures***. The University spent 11.8% of its total expenditures on targeted businesses in FY23, which is a 0.4% increase from FY22 expenditures on targeted businesses. University spending on targeted businesses increased by $5,834,227 or 7.9% from FY22 to FY23. Overall University spending increased by 4.40% from FY22 to FY23.

- ***Goods and services expenditures.*** The University spent 5.5% of its total goods and services expenditures on targeted businesses, and therefore did not meet its spend goal of 6%. In comparison, in FY22, the University spent 5.6% of its total goods and services expenditures on targeted businesses.

- ***Construction project expenditures.*** The University spent 34% of its construction project expenditures on targeted businesses, surpassing its goal of 13%. Expenditures to targeted businesses increased from FY22, in which the University spent 31.6% of its construction project expenditures on targeted businesses.

The table below shows the University's FY23 spend on targeted businesses broken down by: 1) whether the spend was directed to University contractors (Tier 1) or subcontractors (Tier 2); and 2) the demographic category of the targeted business owner.



Criteria	Annual Total		
	Goods & Services	Construction	Total
Base Spend	$527,608,596	$148,536,176	$676,144,772
Targeted Spend (Tier 1)	$28,015,677	$11,001,581	$39,017,258
Targeted Spend (Tier 2)	$1,130,496	$39,521,085	$40,651,581
Total Targeted Spend**	$29,146,173	$50,522,667	$79,668,839
Percentage	5.5%	34.0%	11.8%
**Targeted Spend Breakdown			
Women	$17,994,236	$32,555,157	$50,549,392
Disabled	$214,876	$66,162	$281,038
African American	$4,221,521	$526,950	$4,748,471
Native American	$1,415,314	$15,034,048	$16,449,362
Hispanic American	$1,400,943	$1,447,658	$2,848,601
Asian American	$3,899,283	$892,692	$4,791,975

II. FY23 Workforce Utilization

Fostering a diverse workforce in Minnesota is one priority of the supplier diversity program, as those protected-class laborers will become the next generation of diverse business owners. As part of its supplier diversity program, the University sets goals for the percentage of women, BIPOC, and disabled persons who work on University construction projects ("workforce participation goals"). The University has adopted the goals set by the State of Minnesota for the workforce participation of women and BIPOC in state construction projects. The University has independently set a 2% goal for the workforce participation of persons with disabilities in University construction projects.

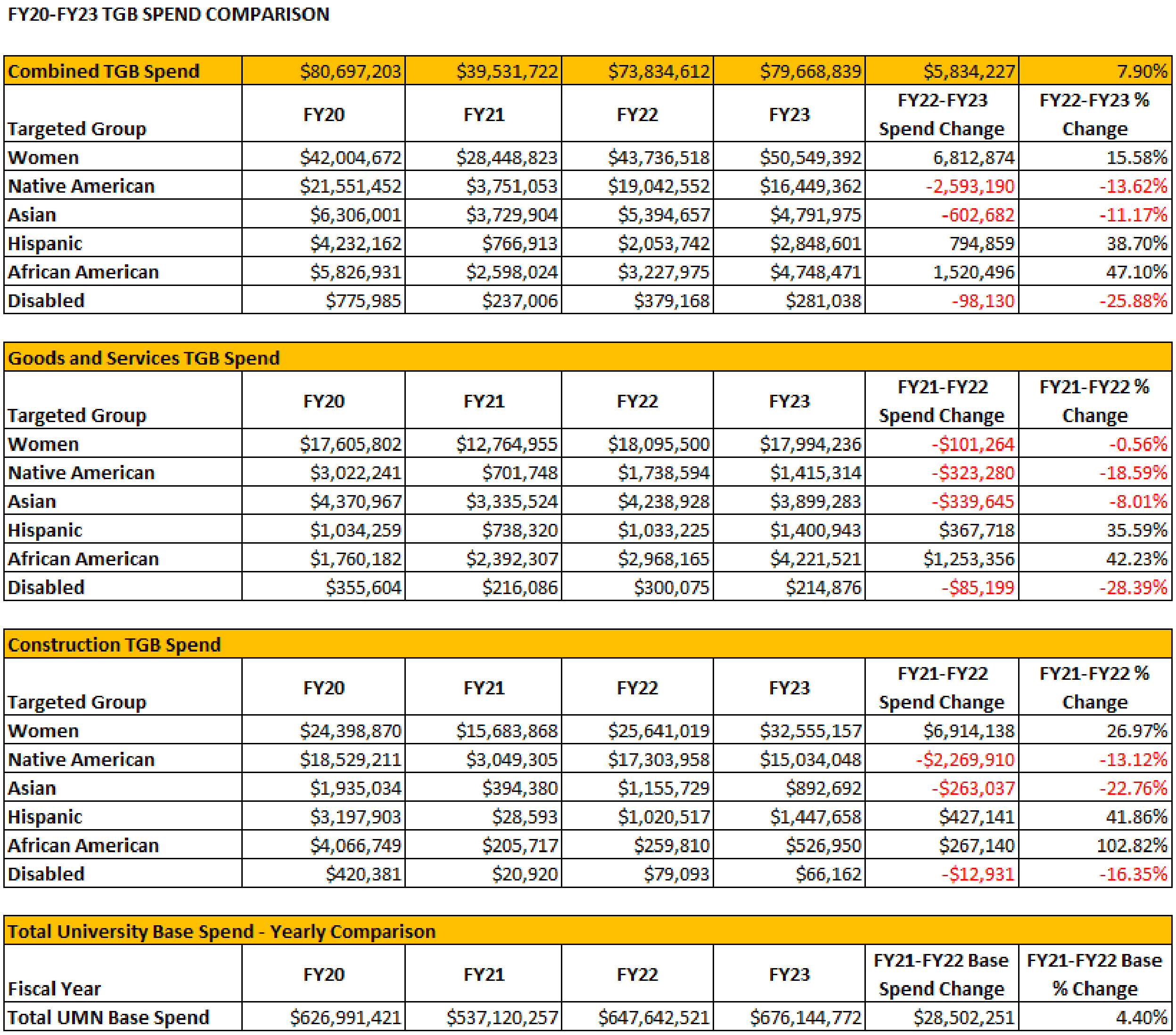
Achieving diverse workforce participation in construction contracts continues to be a challenge, and the University has not yet reached its goals. In an effort to increase workforce participation for women, BIPOC, and disabled persons on University construction contracts, the Office for Supplier Diversity (OSD) will continue to explore new strategies and improve programming designed to connect targeted businesses, and other businesses that employ high numbers of women, BIPOC, and disabled persons, with University construction project decision-makers.

The table below compares our goals with our actual utilization of women, BIPOC, and disabled persons in construction contracts.

	University Goal	Actual Utilization
Women	20%	9.55%
BIPOC/Minority	32%	19.96%
Disabled	2%	0.10%

III. University Expenditures to Targeted Businesses from FY20 – FY23

The University monitors its expenditures to targeted businesses year over year to determine whether it is effectively promoting the use of targeted businesses in construction projects and other contracts for goods and services. The chart below details University expenditures to targeted businesses, broken down by type, from FY20 – FY23.



FY20-FY23 TGB SPEND COMPARISON

Combined TGB Spend	$80,697,203	$39,531,722	$73,834,612	$79,668,839	$5,834,227	7.90%
Targeted Group	FY20	FY21	FY22	FY23	FY22-FY23 Spend Change	FY22-FY23 % Change
Women	$42,004,672	$28,448,823	$43,736,518	$50,549,392	6,812,874	15.58%
Native American	$21,551,452	$3,751,053	$19,042,552	$16,449,362	-2,593,190	-13.62%
Asian	$6,306,001	$3,729,904	$5,394,657	$4,791,975	-602,682	-11.17%
Hispanic	$4,232,162	$766,913	$2,053,742	$2,848,601	794,859	38.70%
African American	$5,826,931	$2,598,024	$3,227,975	$4,748,471	1,520,496	47.10%
Disabled	$775,985	$237,006	$379,168	$281,038	-98,130	-25.88%

Goods and Services TGB Spend						
Targeted Group	FY20	FY21	FY22	FY23	FY21-FY22 Spend Change	FY21-FY22 % Change
Women	$17,605,802	$12,764,955	$18,095,500	$17,994,236	-$101,264	-0.56%
Native American	$3,022,241	$701,748	$1,738,594	$1,415,314	-$323,280	-18.59%
Asian	$4,370,967	$3,335,524	$4,238,928	$3,899,283	-$339,645	-8.01%
Hispanic	$1,034,259	$738,320	$1,033,225	$1,400,943	$367,718	35.59%
African American	$1,760,182	$2,392,307	$2,968,165	$4,221,521	$1,253,356	42.23%
Disabled	$355,604	$216,086	$300,075	$214,876	-$85,199	-28.39%

Construction TGB Spend						
Targeted Group	FY20	FY21	FY22	FY23	FY21-FY22 Spend Change	FY21-FY22 % Change
Women	$24,398,870	$15,683,868	$25,641,019	$32,555,157	$6,914,138	26.97%
Native American	$18,529,211	$3,049,305	$17,303,958	$15,034,048	-$2,269,910	-13.12%
Asian	$1,935,034	$394,380	$1,155,729	$892,692	-$263,037	-22.76%
Hispanic	$3,197,903	$28,593	$1,020,517	$1,447,658	$427,141	41.86%
African American	$4,066,749	$205,717	$259,810	$526,950	$267,140	102.82%
Disabled	$420,381	$20,920	$79,093	$66,162	-$12,931	-16.35%

Total University Base Spend - Yearly Comparison						
Fiscal Year	FY20	FY21	FY22	FY23	FY21-FY22 Base Spend Change	FY21-FY22 Base % Change
Total UMN Base Spend	$626,991,421	$537,120,257	$647,642,521	$676,144,772	$28,502,251	4.40%

The University increased its overall spending on targeted businesses, and saw substantial increases in spend with African American and Hispanic-owned businesses as compared to FY22. The COVID-19 pandemic's repercussions in the small and targeted business community continued to reverberate throughout FY23, despite the relative re-stabilization in spend trends overall. Many targeted businesses were shuttered during the height of the pandemic, and many new targeted businesses were and continue to be established. The demographic variations seen in FY23's spend outcomes may be a reflection of those shifts in the marketplace. We anticipate that such demographic variations will continue year over year as new businesses find footing in the government contracting landscape. In response, the University will seek to increase its technical assistance offerings to address this growing need.

IV. Office for Supplier Diversity

The Office for Supplier Diversity (OSD) works with businesses owned by women, BIPOC, and disabled persons, and with other underserved businesses, to facilitate their integration into the University supply chain. OSD strives to reduce the unique obstacles faced by small and diverse businesses in competing for contract opportunities, and effectively level the playing field for all who seek to work with the University. By providing support to underserved local businesses and connecting them with University purchasers, the Office for Supplier Diversity leverages the University's resources to build powerful economic partnerships in our communities.

OSD has developed and is executing a multi-year strategic plan to build out programming for small and diverse businesses and increase the University's impact in historically underserved communities. FY23 saw several foundational milestone achievements for the office, including hiring staff, establishing relationships with a wide range of community partner organizations and peer institutions, growing the Office's Targeted Business Directory from fewer than 100 to nearly 600 businesses, and implementing a series of process improvements that increase program integrity and ensure ease of access to OSD resources for stakeholders.

The Office for Supplier Diversity's work promoting business partnerships between Minnesota-based businesses owned by women, BIPOC, and disabled persons and the University supports Commitment 4.3.3 of MPact 2025, which is to "[d]rive mutually beneficial relationships with underserved local communities and strategic partners to enhance society, access to higher education and safe campus environments." The University had supplier relationships with 294 Minnesota-based targeted businesses in FY23, which was a slight decrease from 300 such supplier relationships in FY22.

	Number of MN-based underserved suppliers	Spend with MN-based underserved suppliers	% of base spend
FY19	271	$34,961,524	5%
FY20	279	$39,729,520	6%
FY21	243	$22,842,247	4%
FY22	300	$41,793,170	6%
FY23	294	$35,214,473	5%

The Office for Supplier Diversity will continue to offer effective programming and technical support to Minnesota-based targeted businesses as a priority moving forward.

Annual Report on Targeted Business, Community Economic Development, and Small Business Programs

Sharon Banks, Executive Director, Office for Supplier Diversity

Rebecca Eberdt, Assistant Director, Office for Supplier Diversity

Tina Marisam, Associate Vice President, Office for Equity and Diversity

Finance & Operations Committee

December 7, 2023

OFFICE FOR
EQUITY AND DIVERSITY

UNIVERSITY OF MINNESOTA
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Office for Supplier Diversity:

Mission and Goals

Office for Supplier Diversity - Mission

- The Office for Supplier Diversity (OSD) works with **businesses owned by women, BIPOC, and disabled individuals**, and with other underserved businesses, to facilitate their integration into the University supply chain.

- By providing support to underserved local businesses and connecting them with University purchasers, the Office for Supplier Diversity leverages the University’s resources to build powerful economic partnerships in our communities.

Office for
Supplier Diversity

UNIVERSITY OF MINNESOTA

Office for Supplier Diversity - Key Goals

1. Increase University buyers’ interest in purchasing from targeted businesses.

2. Identify targeted businesses that can fulfill University purchasing and construction needs and support them as they integrate into the University’s supply chain.

3. Facilitate connections between i) targeted businesses and University buyers, and ii) targeted businesses and University suppliers in need of subcontractor businesses.

4. Continue to shape an effective infrastructure to support supplier diversity growth.

Office for Supplier Diversity:

Strategies

Fostering Connections Between University Purchasers And Targeted Businesses

- New marketing initiatives aimed at informing targeted businesses and University purchasers about the supplier diversity program.

- Targeted Business Directory - consisting of listings of women, BIPOC, and disabled-owned businesses that are ready to do business with the University.

ISSUE 1 VOLUME 4 APR 2023

SD NEWSLETTER | April

DEPARTMENTAL NEWSLETTER ° UNIVERSITY OF MINNESOTA OFFICE FOR

SUPPLIER DIVERSITY

SUPPLIER SPOTLIGHT

Urban Design Perspectives

By N. Simmons, Program Specialist

Background of the Firm

Founded in 1999 by Alicia Belton, Urban Design Perspectives is a Minneapolis based architecture, project management and community engagement firm that creates equitable and sustainable spaces in the built environment.

Capability Statement

Urban Design Perspectives specializes in the adaptive

Community Partner Outreach

OSD engages with community partners to educate, collaborate, and drive opportunities.

- Diverse business organizations
- Federal, state, and local public agencies
- Economic development organizations
- Technical assistance centers
- Chambers of commerce
- Small business resource centers
- Supplier diversity professional councils

OSD hosted the 2023 Supplier Diversity Expo.

- **91** exhibitor booths
- **480** attendees

WBDC
IGNITES BUSINESS GROWTH

MINNESOTA
MINORITY GOODS AND SERVICES ASSOCIATION

NAMC
NATIONAL ASSOCIATION OF MINORITY CONTRACTORS

APEX
ACCELERATORS

NMSDC
National Minority Supplier Development Council

AWC
ASSOCIATION OF WOMEN CONTRACTORS

B1G
ACADEMIC ALLIANCE

WBENC
WOMEN'S BUSINESS ENTERPRISE NATIONAL COUNCIL
JOIN FORCES. SUCCEED TOGETHER.

FEDERAL EXECUTIVE BOARD
OF MINNESOTA

SADBOC

Board of Regents Policy:
Targeted Business, Community Economic Development, and Small Business Programs

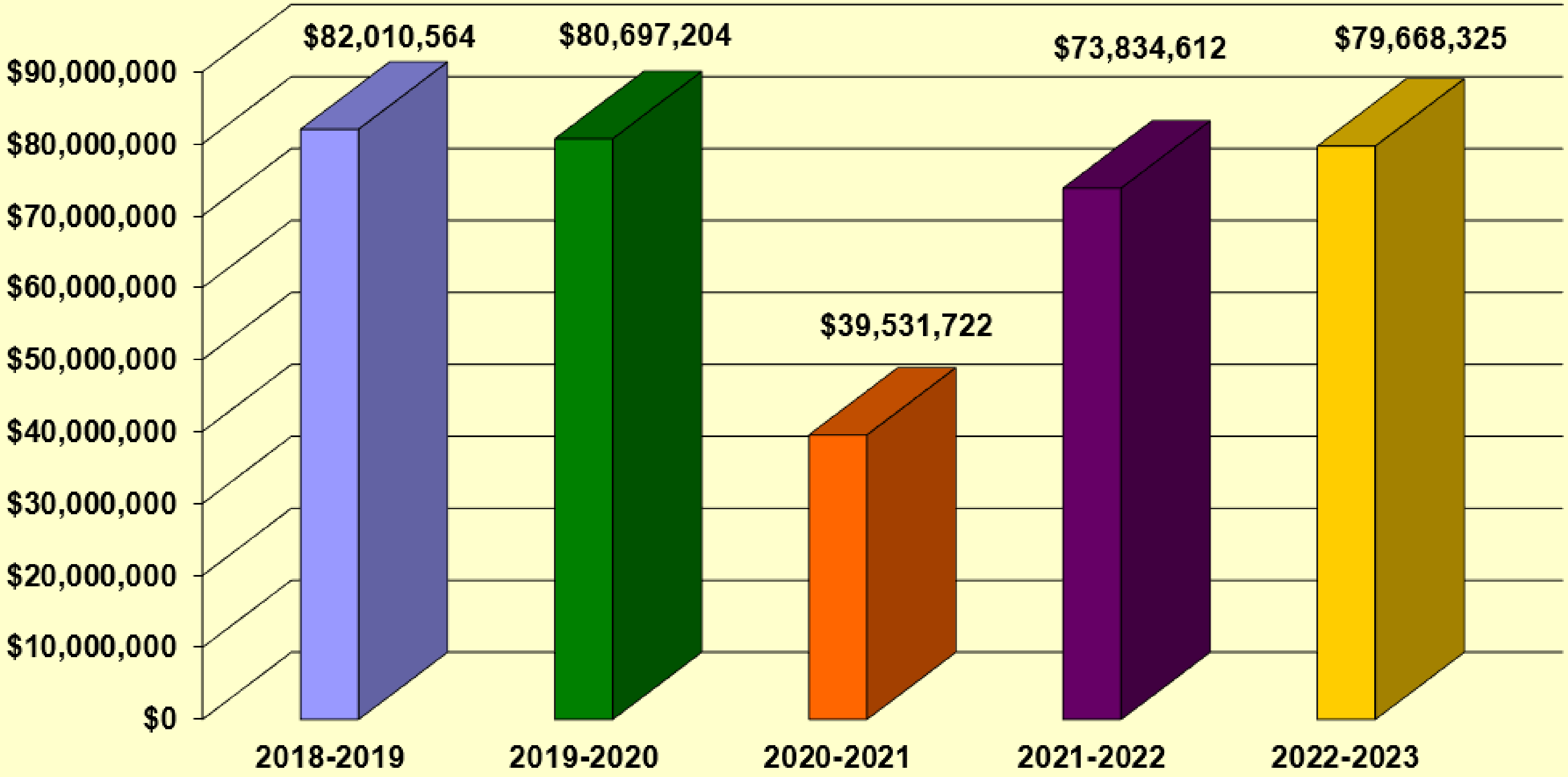
1. States the Board’s support for using the purchasing power of the University to enhance equal employment and business opportunities for minorities, women, and disabled persons.

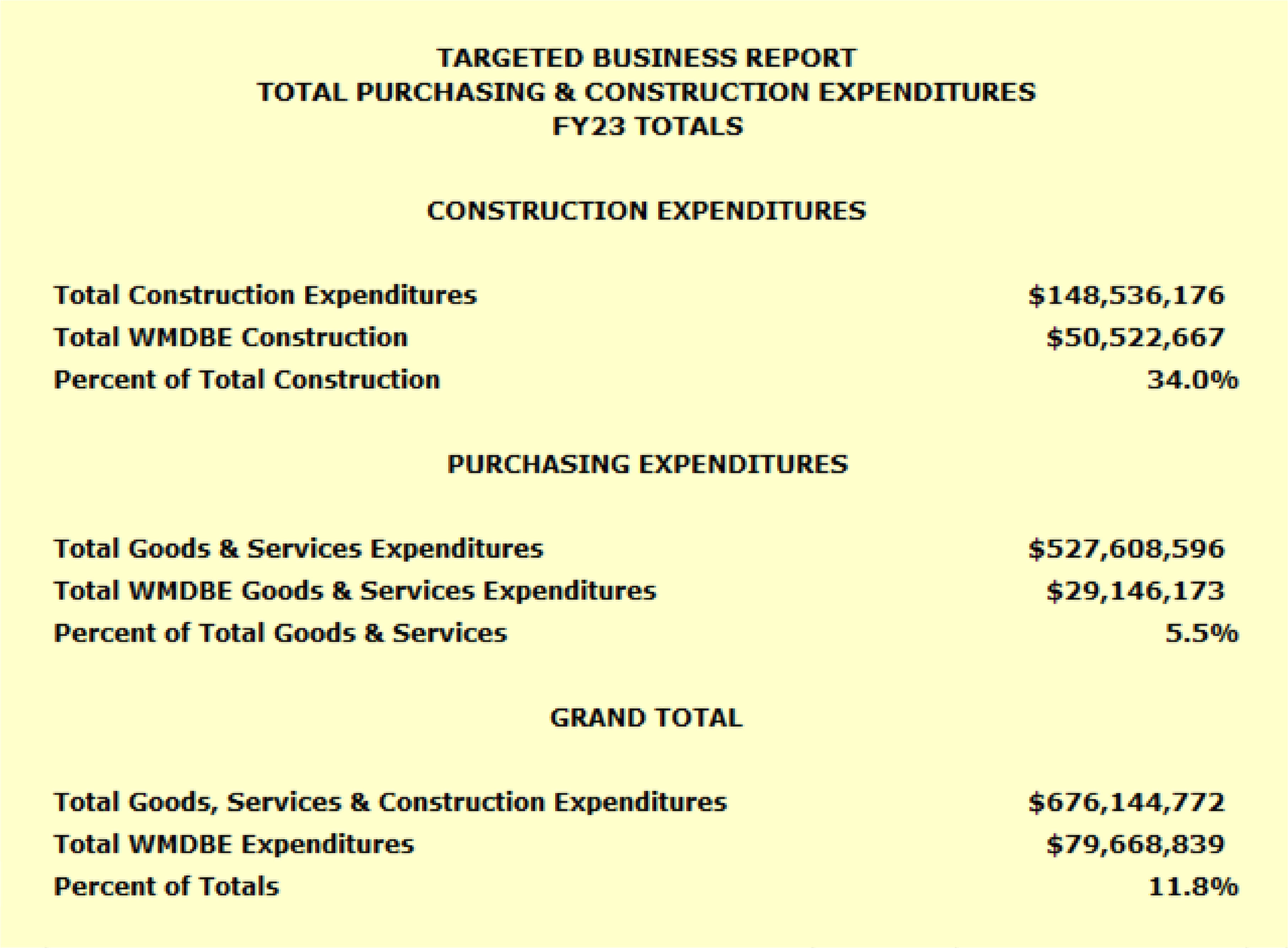
2. Provides bid points in construction contracts over $100K for: 1) being certified as a targeted business; 2) employing meaningful numbers of women, minorities, and persons with disabilities; or 3) entering into subcontracts or supplier agreements with targeted businesses.

3. Provides bid points in goods and services contracts at or over $50K for: 1) being certified as a targeted business; or 2) entering into subcontracts or supplier agreements with targeted businesses.

FY23 Targeted Business Program Results

TARGETED BUSINESS REPORT
EXPENDITURES WITH WOMEN, MINORITY AND DISABLED BUSINESS ENTERPRISES
FY19 - FY23 COMPARISONS





TARGETED BUSINESS REPORT
TOTAL PURCHASING & CONSTRUCTION EXPENDITURES
FY23 TOTALS

CONSTRUCTION EXPENDITURES

Total Construction Expenditures	$148,536,176
Total WMDBE Construction	$50,522,667
Percent of Total Construction	34.0%

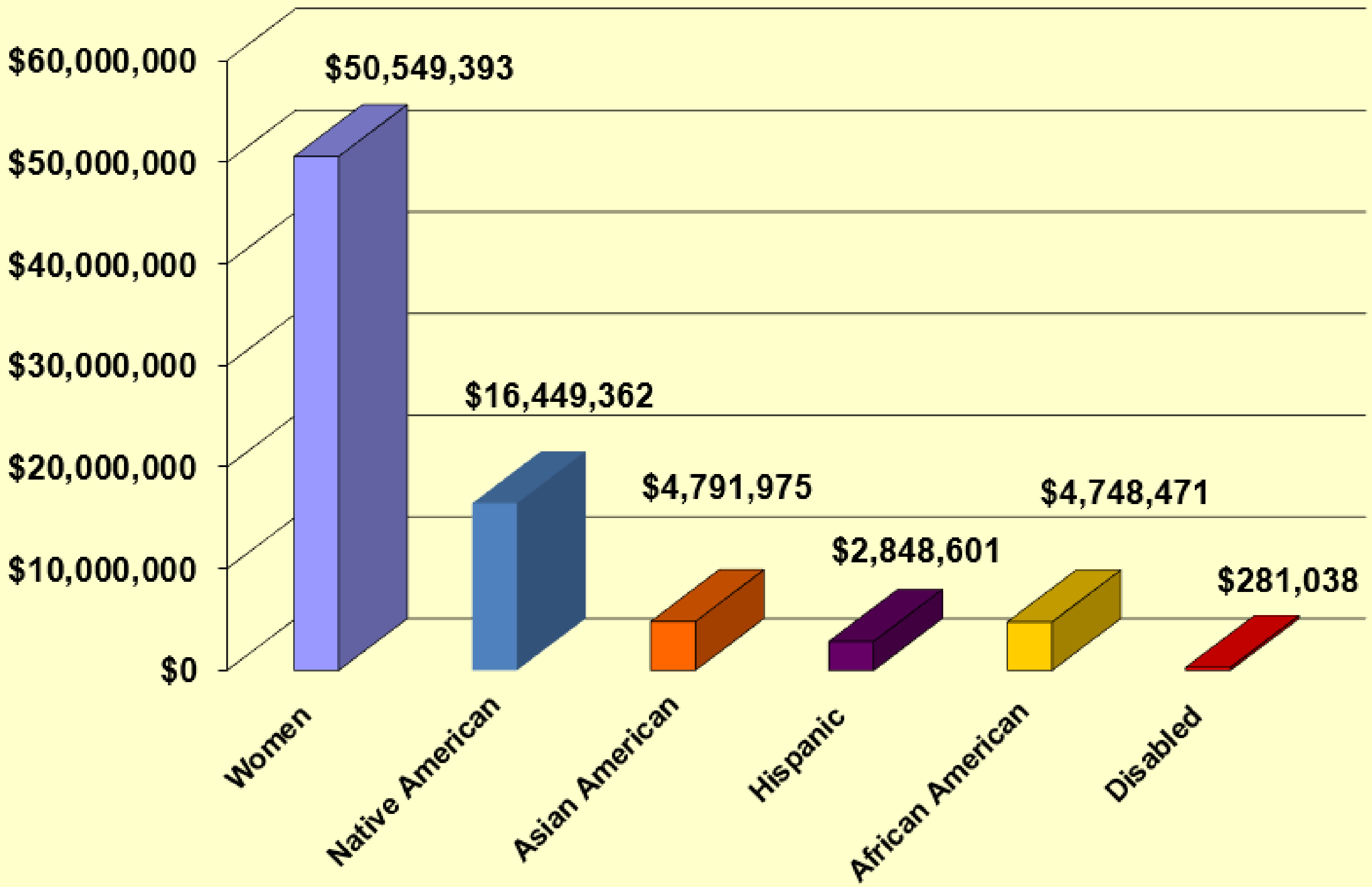
PURCHASING EXPENDITURES

Total Goods & Services Expenditures	$527,608,596
Total WMDBE Goods & Services Expenditures	$29,146,173
Percent of Total Goods & Services	5.5%

GRAND TOTAL

Total Goods, Services & Construction Expenditures	$676,144,772
Total WMDBE Expenditures	$79,668,839
Percent of Totals	11.8%

TARGETED BUSINESS REPORT
EXPENDITURES BY PROTECTED CLASS
FY23 TOTALS



TARGETED BUSINESS REPORT
EXPENDITURES BY PROTECTED CLASS
FY23 TOTALS

Classification	Goods & Services	Percent of Total WMDBE Expenditures	Construction	Percent of Total WMDBE Expenditures
Women	$17,994,236	22.59%	$32,555,157	40.86%
Native American	$1,415,314	1.78%	$15,034,048	18.87%
Asian	$3,899,283	4.89%	$892,692	1.12%
Hispanic	$1,400,943	1.76%	$1,447,658	1.82%
African American	$4,221,521	5.30%	$526,950	0.66%
Disabled	$214,876	0.27%	$66,162	0.08%
Total	**$29,146,173**	**36.58%**	**$50,522,667**	**63.42%**
Total WMDBE Expenditures	**$79,668,839**			

MPact 2025 Systemwide Strategic Plan
Doing Business with Minnesotans

MPact 2025 Strategic Plan: Commitment 4.3.3

> *Increase number of partnerships with underserved local communities each year*

- **5%** of all the University's spending in FY23 went to MN-based targeted businesses.
- In the last five years, the University has spent more than **$174 million** with MN-based targeted businesses.

$35.2m

spent with MN-based BIPOC, women, and disabled-owned businesses in FY23

294

MN-based BIPOC, women, and disabled-owned suppliers in FY23

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REGENTS OF THE UNIVERSITY OF MINNESOTA

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: Consent Report

☐ **Review** ☒ **Review + Action** ☐ **Action** ☐ **Discussion**

☐ *This is a report required by Board policy.*

PRESENTERS: Myron Frans, Senior Vice President

PURPOSE & KEY POINTS

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 CliftonLarsonAllen LLP for an estimated $2,700,000 to provide external audit and related services to the University for the Controller's Office for fiscal years 2024 through 2027, with options for three one-year contract extensions through fiscal year 2030 for an additional estimated $2,250,000. The total contract value, if all options are exercised, would be an estimated $4,950,000. This approval authorizes both the base term and the optional contract extensions. The cost of the contract is budgeted and funded out of the Controller's Office and other unit budgets. CliftonLarsonAllen LLP was selected as the result of a competitive Request for Proposal (RFP) conducted by Purchasing Services. Seven suppliers responded to the RFP and none were a targeted business. The approval of this contract is contingent upon approval by the Board of the recommendation of the Audit & Compliance Committee to engage CliftonLarsonAllen LLP as the University's external auditor.

- To Coca-Cola North America for an exclusive Beverage and Sponsorship Agreement valued at an estimated $55,000,000 for the period of July 1, 2024 through June 30, 2039 for the Contract Administration office in Auxiliary Services. The value of the contract is the estimated sales through retail, concessions, catering, vending, residential dining, and departmental purchases by the University and contract food service providers. Coca-Cola North America was selected as the result of a competitive Request for Proposal (RFP) conducted by Purchasing Services. Three suppliers responded to the RFP and none were a targeted business.

- To Egan Company, Nasseff Mechanical Contractors, Metropolitan Mechanical Contractors, Corval Constructors Inc., Olympia Tech Electric and Hunt Electric for an estimated $2,000,000 for contract mechanical and electrical maintenance support services and supplemental facilities management construction services as needed for Facilities Management (Twin Cities) for the period of January 1, 2024 through December 31, 2028. Contract mechanical and electrical maintenance support services and supplemental facilities management construction services are budgeted by a variety of organizations on the Twin Cities campus through their facilities budget. The chosen suppliers were selected as the result of a competitive Request for Proposal (RFP) conducted by Purchasing Services. Nine suppliers responded to the RFP and two were targeted businesses.

- To Elsevier for an estimated $7,850,600 for the renewal of the current subscriptions to online journal content for all campuses for University Libraries for the period of January 1, 2024 through December 31, 2026. The estimated cost of this 3-year contract for Elsevier online journals are included in the FY24, FY25, and FY26 budgets of the campus libraries. Elsevier was selected by University Libraries under the authority granted by the Board of Regents Policy: *Libraries and Archives* and the Administrative Policy: *Purchasing Goods and Services*.

- To FEI Company for an estimated $3,329,000 for an Arctis Plasma FIB-SEM (Focused Ion Beam Scanning Electron Microscope) Cryo-DualBeam System Instrument (the Arctis) for The Hormel Institute. This equipment will be purchased with a combination of funds provided from a sponsored project's budget, Research and Innovation Office capital equipment funds, and internal sales revenue earned by the Cryo Internal Sales Organization. See enclosed documentation for the basis of supplier selection.

- To PIER Group for an additional estimated $1,071,000 for expansion of a high-performance storage system for Minnesota Supercomputing Institute (MSI) for the Twin Cities campus. The new storage purchase is budgeted for the current fiscal year using MSI operating funds. See enclosed documentation for basis of supplier selection.

- To Springer Nature for an estimated $1,113,000 for a 1-year renewal for access to their online journals for all campuses for the period of January 1, 2024 through December 31, 2024. The estimated costs for this subscription to the Springer online journals are included in the respective campus FY24 budgets. Springer Nature was selected by University Libraries under the authority granted by the Board of Regents Policy: *Libraries and Archives* and the Administrative Policy: *Purchasing Goods and Services*.

- To TeamDynamix for an estimated $1,700,000 for an enterprise IT Service Management and IT Asset Management solution for all campuses for the Office of Information Technology (OIT) for the period from December 31, 2023 through November 29, 2029. This purchase is currently budgeted and will be funded utilizing OIT O&M funds. See enclosed documentation for basis of supplier selection.

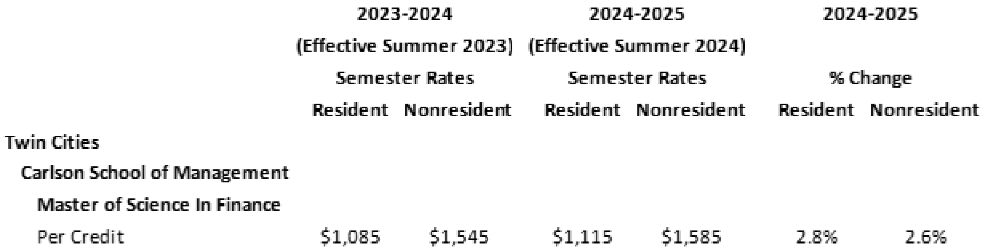
Amendments to Retirement Plans

The purpose of this item is to seek approval to amend three of the defined contribution retirement plans established and directly sponsored by the University: The Faculty Retirement Plan, the Optional Retirement Plan, and the 457 Deferred Compensation Plan. These amendments will adopt specific provisions of the Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act.

Additional information on the SECURE 2.0 Act provisions and the proposed amendments are included in the docket.

Off-Cycle Tuition Rate Changes

The purpose of this item is to seek approval of off-cycle tuition rate changes for the Master of Science in Finance (MSFIN) program for summer 2024, fall 2024, and spring 2025:



	2023-2024		2024-2025		2024-2025	
	(Effective Summer 2023)		(Effective Summer 2024)			
	Semester Rates		Semester Rates		% Change	
	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident
Twin Cities						
Carlson School of Management						
Master of Science In Finance						
Per Credit	$1,085	$1,545	$1,115	$1,585	2.8%	2.6%

To accommodate industry-driven schedules for working professionals, some specialized post-baccalaureate programs operate on an academic year of summer-fall-spring rather than the traditional fall-spring-summer. For communication and implementation purposes, final tuition rates for these programs must be set prior to the May-June presentation of rates in the operating budget for the next fiscal year.

The proposed increases for the Carlson School of Management programs result in rates that remain competitive with peer programs and reflect a strong demand for enrollment. The MSFIN is a one-year program so there is no impact on current students.

All other recommended tuition rates for the 2024-25 academic year will be included in the President’s Recommended FY 2025 Annual Operating Budget at the May 2024 meeting.

Real Estate Transactions

The purpose of this item is to review and act on the following purchase for the Twin Cities campus.

- Purchase of 156 acres in Mower County for FAARM

Schematic Designs

The purpose of this item is to review and act on the schematic designs for the following projects:.

- Main Production Kitchen Renovation, Residence Dining Center, Duluth campus
- Middlebrook Dining Renovation, Twin Cities campus
- Territorial Hall HVAC System Replacement, Twin Cities campus
- Veterinary Diagnostic Lab Replacement Tissue Digester, Twin Cities campus

Project overviews, which provide the basis for the request, project scope, cost estimate, funding, and schedule, are included in the docket. Site maps locating the projects on their respective campus are also included.

BACKGROUND INFORMATION

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

- Purchase of Goods and Services $1,000,000 and Over: *Reservation and Delegation of Authority*, Article I, Section VII, Subd. 6.
- Amendments to Retirement Plans: *Reservation and Delegation of Authority*, Article I, Section VII, Subd. 4.
- Off-Cycle Tuition Rate Changes: *Reservation and Delegation of Authority*, Article I, Section V, Subd. 3.
- Real Estate Transactions: *Reservation and Delegation of Authority*, Article I, Section VIII, Subd. 1.
- Schematic Designs: *Reservation and Delegation of Authority,* Article I, Section VIII, Subd. 9

RECOMMENDATIONS

The Interim President recommends approval of the Consent Report with the exception of items related to the Hormel Institute and Future of Advanced Agricultural Research in Minnesota (FAARM).

The Senior Vice President recommends approval of the items related to the Hormel Institute and Future of Advanced Agricultural Research in Minnesota (FAARM).

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

To CliftonLarsonAllen LLP for an estimated $2,700,000 to provide external audit and related services to the University for the Controller's Office for fiscal years 2024 through 2027, with options for three one-year contract extensions through fiscal year 2030 for an additional estimated $2,250,000. Total contract value, if all options are exercised, would be an estimated $4,950,000. This approval authorizes both the base term and the optional contract extensions.

> *The Regents of the University of Minnesota has oversight of the University's independent external audit firm, which is hired to conduct a variety of engagements, including audits and agreed-upon procedures for the University. The engagement contract with the current independent external audit firm, Deloitte & Touche LLP expires with the fiscal year 2023 engagements. The Board of Regents Audit & Compliance Committee was informed in December 2022 that the administration would be issuing a request for proposal (RFP) for external audit services. An evaluation team reviewed proposals from seven firms who responded to the University's RFP. CliftonLarsonAllen LLP was unanimously selected by the evaluation team. The contract that has been negotiated with CliftonLarsonAllen LLP includes terms and conditions favorable to the University. The initial contract is four fiscal years and includes three additional one-year options to continue with CliftonLarsonAllen LLP beyond the initial contract, which is customary and competitive. Fee increases will be limited to 3% annually for the duration of the contract, including the three one-year options to continue the contract. The cost of the contract is budgeted and funded out of the Controller's Office and other unit budgets.*
>
> *NOTE: The proposed engagement of CliftonLarsonAllen LLP is contingent upon approval by the Board of the recommendation of the Audit & Compliance Committee to engage CliftonLarsonAllen LLP as the University's external auditor.*

Submitted by: Mollie Viola, Controller
Controller's Office
Email: viola017@umn.edu

Approval for this item requested by:

Michael Volna
Associate Vice President & Assistant CFO
(Signature on file in Purchasing Services)

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

To Coca-Cola North America for an exclusive Beverage and Sponsorship Agreement valued at an estimated $55,000,000 for the period of July 1, 2024 through June 30, 2039 for the Contract Administration office in Auxiliary Services.

> *Food and Beverage Services have long been an integral part of campus life, and Contract Administration in Auxiliary Services has overseen beverage agreements for the University of Minnesota System. The current agreement with Coca-Cola North America will expire on June 30, 2024.*
>
> *The Exclusive Beverage and Sponsorship Agreement ("Agreement") covers beverage service systemwide and will be overseen by Contract Administration. A single enterprise agreement allows the University to maximize financial and programmatic benefits across the entire system, aligning contract revenue with strategic and operational goals. The estimated value of the Agreement to the University is $55,000,000 over the 15-year period. This revenue will be in the form of scholarships, sponsorship funds, athletics sponsorship funds, Office for Supplier Diversity funds, commissions, marketing and merchandising funds, recycling and sustainability funds, programming, and internships for students. The Agreement will enhance the overall campus experience for our students and the University community.*
>
> *A Request for Proposal (RFP) for an Exclusive Beverage and Sponsorship Agreement was issued on June 30, 2023 after extensive systemwide consultation. After careful evaluation of the RFP, it was decided that Coca-Cola North America offers the most comprehensive and financially beneficial proposal.*
>
> *The value of the contract is the estimated sales through retail, concessions, catering, vending, residential dining, and departmental purchases by the University and food service providers.*

Submitted by: Amy Keran
Director, Contract Administration
Auxiliary Services
Main: 612-624-0010

Approval for this item requested by:

Laurie McLaughlin
Interim Associate Vice President, Auxiliary Services
(Signature on file in Purchasing Services)

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

To Egan Company, Nasseff Mechanical Contractors, Metropolitan Mechanical Contractors, Corval Constructors Inc., Olympia Tech Electric and Hunt Electric for an estimated $2,000,000 for contract mechanical and electrical maintenance support services and supplemental facilities management construction services as needed for Facilities Management (Twin Cities) for the period of January 1, 2024 through December 31, 2028.

> *Maintenance and repair of mechanical and electrical systems and facilities management construction services is vital for providing safe, reliable, and efficient buildings for the University community, and to maximize the useful life span of said equipment.*
>
> *A Request for Proposal process was completed in October 2023 and six suppliers were selected who provided the best value (combination of price, work plan, and staffing).*
>
> *Contract mechanical and electrical maintenance support services and supplemental facilities management construction services are budgeted by a variety of organizations on the Twin Cities campus through their facilities budget.*
>
> *Nine vendors responded to the University's RFP and two were targeted businesses.*

Submitted by: Bill Paulus
Facilities Management Associate Vice President
Main: 612-626-1091

Approval for this item requested by:

Alice Roberts-Davis
Vice President, University Services
(Signature on file in Purchasing Services)

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

To Elsevier for an estimated $7,850,600 for the renewal of the current subscriptions to online journal content for all campuses for University Libraries for the period of January 1, 2024 through December 31, 2026.

> *University Libraries will renew their current subscriptions to online journals in science, technology, medicine, social sciences, and humanities on behalf of all the libraries of the University of Minnesota, and they will be accessible to all campuses. The University Libraries will pay approximately $7,580,600; Duluth, Morris, and Crookston Libraries will pay $225,000, $30,000, and $15,000, respectively, over the course of three years.*
>
> *This is a three-year license with Elsevier, with a 2% increase each year for renewed journal subscriptions. The total cost of the 3-year agreement will be $7,850,600.*
>
> *The estimated costs of this 3-year contract for Elsevier online journals are included in the FY24, FY25, and FY26 budgets of the campus libraries.*

Submitted by: Sunshine Carter
Director, Collection Strategy & eResource Management
University Libraries
Cell: 218-343-0064

Approval of this item is requested by:

Rachel Croson
Executive Vice President and Provost
(Signature on file in Purchasing Services)

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

To FEI Company for an estimated $3,329,000 for an Arctis Plasma FIB-SEM (Focused Ion Beam Scanning Electron Microscope) Cryo-DualBeam System Instrument (the Arctis) for The Hormel Institute.

> *This request is for a focused ion beam-scanning electron microscope (FIB-SEM) with integrated fluorescence microscopy capabilities, an instrument that is essential for preparing samples for cryo-electron tomography, which allows for 3D visualization of cellular assemblies directly at sub nanometer resolutions and is an integral part of the Minnesota BioImaging Center imaging capabilities at The Hormel Institute.*
>
> *Consistent with the goal of establishing the state of Minnesota as an international hub for health and biomedical research, placing this powerful, state-of-the-art imaging technology within the new Minnesota BioImaging Center at The Hormel Institute will support transformative cancer and biomedical research capabilities and services unavailable anywhere in Minnesota and most of our neighboring states in the Midwest.*
>
> *This equipment will be purchased with a combination of funds provided from a sponsored project's budget, OVPR capital equipment funds, and internal sales revenues earned by the Cryo Internal Sales Organization.*

Submitted by: Stephanie Blaser
The Hormel Institute
Main: 507-437-9602
Cell: 507-279-1891

Approval for this item requested by:

Shashank Priya
Vice President for Research
(Signature on file in Purchasing Services)

Rationale for Exception to Competitive Bidding

This purchase was not competitively bid due to the unique nature of the equipment requirements to process frozen hydrated samples into undamaged specimens thin enough for Cryo-Electron Tomography (ET). This equipment is an essential piece of technology to enable researchers to perform cryo-electron tomography studies, as well as integrating the research capabilities with the current Titan Krios G2 electron microscope. Currently, this technology is not available anywhere within Minnesota.

A 14% discount was negotiated off of the list price.

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 PIER Group for an additional estimated $1,071,000 for expansion of a high-performance storage system for Minnesota Supercomputing Institute (MSI) for the Twin Cities campus.

> *This purchase is part of MSI's planned expansion of a data storage system originally acquired in September 2022. It will increase the storage capacity from approximately 3.2 to 6.8 petabytes, matching the increase in demand for high-performance research data storage and prepare for data migrations from older storage systems as they reach end-of-life.*
>
> *This purchase of the additional storage capacity is leveraged from the aforementioned 2022 purchase and under the same terms and conditions.*
>
> *The new storage purchase is budgeted for the current fiscal year using MSI operating funds.*

Submitted by: Graham Allan
Minnesota Supercomputing Institute
Main: 612-625-6905
Cell: 651-964-8273

Approval for this item requested by:

Shashank Priya
Vice President for Research
(Signature on file in Purchasing Services)

Rationale for Exception to Competitive Bidding

This purchase was not competitively bid because MSI is leveraging the contract from the Request for Proposal conducted in 2022 to expand their data storage capabilities. Pricing, terms, and conditions for the additional storage that will be purchased are consistent with the pricing, terms and conditions originally negotiated in the 2022 contract.

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 Springer Nature for an estimated $1,113,000 for a 1-year renewal of access to their online journals for all campuses, for the period of January 1, 2024 through December 31, 2024.

The University Libraries subscribes to 2,200 online Springer journals in the science, technology, engineering, and medicine fields. The University Libraries participates in license agreements negotiated by the Big Ten Academic Alliance's (BTAA) request for proposal process. The current agreement is up for renewal, and the BTAA has opted to do a 1-year renewal, so University Libraries is leveraging the BTAA contract renewal.

The 1-year renewal for Springer journals will cost $1,113,000, which is a 2.5% increase from the previous year. The University Twin Cities libraries will pay approximately $1,093,400. Crookston, Duluth, and Morris libraries will pay approximately $3,700, $12,200, and $3,700, respectively.

The estimated costs for this subscription to the Springer online journals are included in the respective campus FY24 budgets.

Submitted by: Sunshine Carter
Director, Collection Strategy & eResource Management
University Libraries
Cell: 218-343-0064

Approval of this item is requested by:

Rachel Croson
Executive Vice President and Provost
(Signature on file in Purchasing Services)

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

To TeamDynamix for an estimated $1,700,000 for an enterprise IT Service Management and IT Asset Management solution for all campuses for the Office of Information Technology (OIT), for the period from December 31, 2023 through November 29, 2029.

> *TeamDynamix provides an enterprise solution for IT Service Management (ITSM) and IT Asset Management (ITAM). TeamDynamix is the University's ticketing platform for service request facilitation, managing problem resolution, and access to self-help.*
>
> *Most recently, TeamDynamix has been identified as the front door platform for the Human Resources (HR) & Finance Operation Centers which are being implemented as part of the PEAK Initiative. More than one hundred new technicians are currently learning how to manage work in the tool in time for the opening of the HR & Finance Operation Centers scheduled for December 4, 2023. This marks a milestone for phase 1 of the PEAK Initiative for HR & Finance.*
>
> *This purchase is currently budgeted and will be funded utilizing OIT O&M funds.*

Submitted by: Michelle Rakos
Office of Information Technology
Cell: 763-443-5959

Approval for this item requested by:

Bernard S. Gulachek
Vice President and Chief Information Officer
(Signature on file in Purchasing Services)

Rational for Exception to Competitive Bidding

This purchase was not competitively bid because the continued use of TeamDynamix ensures continuity of operations as the different phases of PEAK are rolled out.

In 2018, the University conducted a Request for Proposal (RFP) process for an IT Service Management and Asset Management (ITSM/ITAM) tool. This included input sessions with key stakeholders across OIT, CSE, CLA, HST, Crookston, and Duluth, as well as market analysis, vendor demos, and usability evaluations of the finalists. TeamDynamix was the clear choice for a variety of reasons, including the ease of use of the tool itself, the low-code/no-code development environment, as well as cost.

Renewing our contract with TeamDynamix will ensure we have a stable platform through 2029 to support ITSM/ITAM, and the next three phases of the PEAK Initiative.

The renewal is priced according to the original 2018 contract between the University and TeamDynamix.

The Director of Purchasing and the University Controller concluded that the process used resulted in a fair and reasonable price to the University.

Finance & Operations Committee
Consent Report – Amendment to Retirement Plans
December 7, 2023

The University provides employees with primary retirement plans by employee group. The Faculty Retirement Plan (FRP) is available to faculty and staff in the Academic Professional and Administrative employee group. Two voluntary defined contribution plans are available to all employees: the Optional Retirement Plan and the 457 Deferred Compensation Plan.

Amendments Related to the Setting Every Community Up for the Retirement Enhancement (SECURE 2.0) Act 2.0

The Setting Every Community Up for Retirement Enhancement (SECURE 2.0) Act 2.0 was signed into law by President Biden on December 29, 2022, to build upon SECURE 1.0, which was signed the end of 2019. SECURE 2.0 seeks to expand retirement coverage and savings and includes both mandatory and optional changes with various effective dates for the provisions.

The House Committee on Ways and Means summarizes the sections for consideration as follows:

Section 107 (RMD), Increase in age for required beginning date for mandatory distributions. Under current law, participants are generally required to begin taking distributions from their retirement plans at age 72. The policy behind this rule is to ensure that individuals spend their retirement savings during their lifetime and not use their retirement plans for estate planning purposes to transfer wealth to beneficiaries. The SECURE Act of 2019 increased the required minimum distribution age to 72. Section 107 further increases the required minimum distribution age further to 73 starting on January 1, 2023 – and increases the age further to 75 starting on January 1, 2033.

Section 325 (RMD), Roth plan distribution rules. Under current law, required minimum distributions are not required to begin prior to the death of the owner of a Roth IRA. However, pre-death distributions are required in the case of the owner of a Roth designated account in an employer retirement plan (e.g., 401(k) plan). Section 325 eliminates the pre-death distribution requirement for Roth accounts in employer plans, effective for taxable years beginning after December 31, 2023. Section 325 does not apply to distributions which are required with respect to years beginning before January 1, 2024, but are permitted to be paid on or after such date.

Section 306 (Contribution timing), Eliminate the “first day of the month” requirement for governmental section 457(b) plans. Under current law, participants in a governmental 457(b) plan must request changes in their deferral rate prior to the beginning of the month in which the deferral will be made. This rule does not exist for other defined contribution plans. Section 306 allows such elections to be made at any time prior to the date that the compensation being deferred is available. Section 306 is effective for taxable years beginning after the date of enactment of this Act.

Section 603(Roth for 457 Plan to be ready at effective date), Elective deferrals generally limited to regular contribution limit. Under current law, catch-up contributions to a qualified retirement plan can be made on a pre-tax or Roth basis (if permitted by the plan sponsor). Section 603 provides all catch-up contributions to qualified retirement plans are subject to Roth tax treatment, effective for taxable years beginning after December 31, 2025 (delayed from taxable years beginning after December 31, 2023). An exception is provided for employees with compensation of $145,000 or less (indexed).

Additional Amendment for Consideration: Allow Roth and Roth in-plan conversions in the 457 Deferred Compensation Plan

To prepare for Section 603 described above, add Roth contributions and Roth in-plan conversions in the 457 Deferred Compensation Plan. This has already been approved for the Optional Retirement Plan. If we do not allow Roth contributions into the 457 Deferred Compensation Plan by January 1, 2026, we will not be able to offer Catch up Contributions for employees age 50 and over. To assist with programming, we would like to add this as soon as administratively possible. If a participant takes a qualified distribution from the Roth portion of the account, the contribution and any earnings are not taxable or subject to a penalty. This may provide tax advantages to some participants and allows greater flexibility for participants to plan their taxable income upon retirement.

Along with Roth contributions, the IRS allows retirement plans that have a Roth option within the plan to add a feature that allows participants to roll over pre-tax balances to an after-tax Roth balance within the plan. If a participant initiates a Roth in-plan conversion, the amount will be a taxable event to the participant the year the conversion occurs.

Summary of amendments by plan for recommended provisions

Faculty Retirement Plan

Provision	**Applicable to this plan?**	**Recommend Adoption**	**Rationale for Recommendation**	**Cost to University**
Increase in age for Required Minimum Distribution (RMD) following the schedule outlined in Section 107 described above.	Yes	Yes	Required	None

Optional Retirement Plan

Provision	**Applicable to this plan?**	**Recommend Adoption**	**Rationale for Recommendation**	**Cost to University**
Increase in age for Required Minimum Distribution (RMD) following the schedule outlined in Section 107 as described above.	Yes	Yes	Required	None
Modification to Required Minimum Distribution (RMD) to remove Roth as a required source.	Yes	Yes	Required	None

457 Deferred Compensation Plan

Provision	Applicable to this plan?	Recommend Adoption	Rationale for Recommendation	Cost to University
Allow employees to make Roth contributions into the plan	Yes	Yes	Will be required on January 1, 2026. This allows us time to ensure programming is correct and offers additional tax planning opportunities to our employees	None
Allow in-plan Roth conversions	Yes	Yes	Provides additional tax options to assist employees in planning decumulation strategies for their retirement	None
Increase in age for Required Minimum Distribution (RMD) following the schedule outlined in Section 107 as described above.	Yes	Yes	Required	None
Modification to Required Minimum Distribution (RMD) to remove Roth as a required source.	Yes	Yes	Required	None
Allow elections to be made at any time prior to the date that the compensation being deferred is available instead of waiting for the first of the month following the election.	Yes	Yes	Less confusing for the participant to understand the timing of their election as changes to elections can start earlier and align with the Optional Retirement Plan timing.	None

DRAFT LANGUAGE FOR THE PROPOSED AMENDMENTS

Draft Language - Section 107 (RMD) for Faculty Retirement Plan, Optional Retirement Plan and 457 Deferred Compensation Plan

For purposes of this Sec. (applicable to Plan), a "distribution required under Code section 401(a)(9)" means a distribution made in the calendar year in which a distribution is required to be made (a) because of the Participant's attainment of the "applicable age" as defined in Code section 401(a)(9)(C)(v), or (b) in the case of a distribution following the Participant's death to the Participant's surviving spouse, because such calendar year is the later of (i) the calendar year following the calendar year in which the Participant died or (ii) the calendar year in which the Participant would have attained the "applicable age" as defined in Code section 401(a)(9)(C)(v). Provided, however, solely for the purpose of the 2009 and 2020 Distribution Calendar Years, distributions were not considered to be a "distribution required under Code section 401(a)(9)" and were treated as eligible rollover distributions.

Draft Language - Section 325 (RMD) for Optional Retirement Plan and 457 Deferred Compensation Plan

Effective January 1, 2024, Sections (applicable to Plan) will not apply during the Participant's lifetime with respect to the Roth portions of the Participant's Account (however, the required distribution rules of Section 6.6.6 shall apply to the Roth portion of a Participant's Account with respect to distributions to a Beneficiary).

Draft Language - Section 306 (Contribution Timing) for the 457 Deferred Compensation Plan

Increase or Decrease. A Participant may amend the Retirement Savings Agreement to increase or decrease the amount or to change the type of the Deferral by giving notice of the change to the University or its designated agent in such form as the University may require. The change will be effective as soon as administratively feasible with respect to Compensation not yet made available to the Employee.

Draft Language – Section 603 (Roth for 457 Plan to prepare) for the 457 Deferred Compensation Plan
Deferral – shall mean the amount of the Participant's Compensation which the Participant and the University mutually agree shall be deferred in accordance with the provisions of the Plan and pursuant to a Retirement Savings Agreement on a pre-tax or Roth basis (as described in Code Section 402A).

Transfers into the Plan. The University may permit a class of Participants who participate in another eligible governmental plan under Code Section 457(b) to transfer assets, including Roth account assets, to the Plan as provided in this Section 3.6.

Roth Conversion. A Participant may make a conversion to after-tax Roth status of pre-tax Deferrals and earnings on such pre-tax Deferrals held in the Participant's Account. The conversion of such amounts to Roth status is by means of an in-Plan Roth conversion pursuant to Code Section 402A(c)(4). Roth conversions under this Section 6.13 shall remain in the Account as Roth conversion amounts.

The Board previously discussed retirement plan amendments at the following meetings:

- May 2020: *Amendments to the Faculty Retirement Plan*, Finance & Operations Committee
- October 2017: *Amendments to the Faculty Retirement Plan*, Finance & Operations
- June 9, 2022: *Amendments to the Faculty Retirement Plan, Optional Retirement Plan and 457 Deferred Compensation Plan*, Finance & Operations Committee

PURCHASE OF 156 ACRES – DORIS MOE LIVING TRUST
UDOLPHO TOWNSHIP, MOWER COUNTY, MN
(University's FAARM Program)

1. Recommended Action

The Senior Vice President for Finance and Operations recommends that the appropriate administrative officers receive authorization to purchase 156 acres of farmland in Udolpho Township, Mower County, Minnesota.

2. Location and Description of the Property

The subject property is located at the southeast corner of 320th Street and 540th Avenue. It consists of 156 acres of farmland with no on-site structures. The farmland has been tilled and rotated for corn and soybeans for many years. Drain tile has been installed.

The legal description of the property is as follows:

Tax parcel ID number: 18.014.0042, Udolpho Township, Mower County, Minnesota. The legal description will be finalized upon completion of an ALTA land title survey.

3. Basis for Request

The Future of Advanced Agricultural Research in Minnesota (FAARM) program is a key component of the MPact 2025 Systemwide Strategic Plan goal to develop and deploy new techniques and partnerships for smart farming and sustainable food supplies, as well as expanding, developing, and retaining agricultural and food system talent in rural communities and agribusinesses. FAARM centers around the development of an integrated and advanced agricultural research and education complex dedicated to improving the health of animals, humans, and the environment at local, regional, and global scales. The University, in collaboration with Riverland Community College of Minnesota State, will facilitate the development of a new digital, autonomous, and integrated advanced agricultural complex that studies the intersection of human, animal, plant and environmental health.

The FAARM feasibility study conducted by Flad Architects for the University identified the need to acquire approximately 1,600 acres of nearly contiguous land in Mower County to support the FAARM program. Pursuant to this feasibility study, the University identified several potential areas in Mower County that met our location criteria. The University has been working with landowners in the area on this complex land assembly process. This 156-acre parcel is central to the University's acquisition strategy.

4. Details of the Transaction

The sellers are Roger Syverud and Bettie Syverud, Janice L. Kohlrush and Michael Kohlrush, Barbra Scharber, and William Arthur Moe, as Trustees of the Doris A. Moe Revocable Living Trust and David Shaw, as Personal Representative of the Estate of Joanne Shaw. The total purchase price for this transaction is $1,950,000 or $12,500 per acre, which is consistent with the market appraisal range for the area.

Under this Purchase Option Agreement, within 3 days of the effective date (execution by both parties), the University will deposit a $5,000 option payment with the Title Company. The option period runs through April 30, 2024. The University may exercise its option at any time during the option period by providing notice to the seller and depositing $39,000 of earnest money.

Under this Purchase Option Agreement, closing would occur within 30 days of exercising the option (likely sometime in Spring 2024) and could accommodate a 1031 exchange transaction by the sellers. The option payment and earnest money deposit are applied to the purchase price at closing. If the University does not exercise its option, the $5,000 option payment is retained by the seller as compensation for restricting his ability to sell the property to another buyer during the option period.

There is an existing farm lease on the property. The University will have the option to continue this lease arrangement with the tenant, based upon the timing of closing and the plans for the property.

The University will use the option period to complete its due diligence and obtain Board of Regents approval.

5. Use of Property

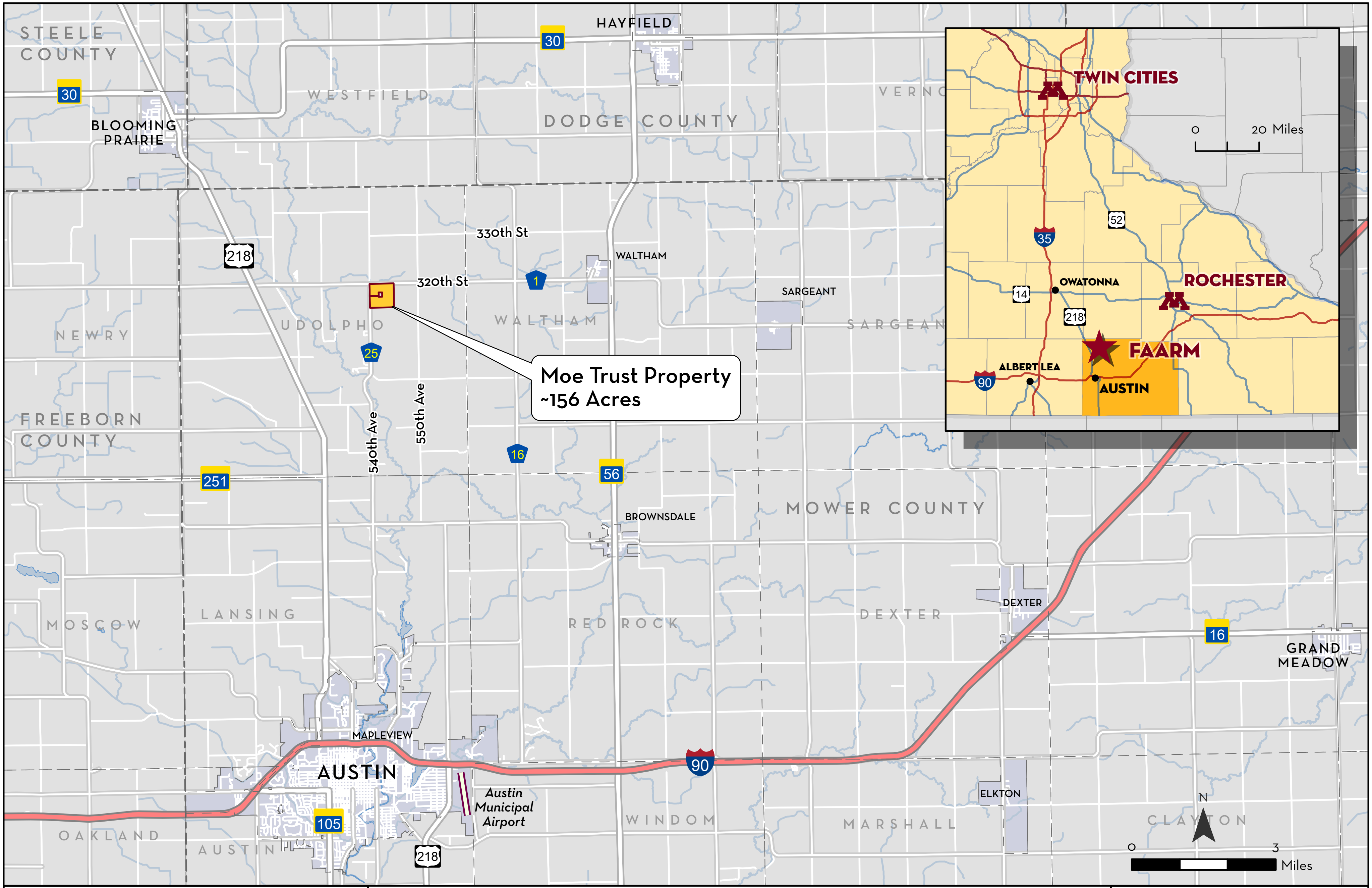
The University will use the property for the FAARM program. The specific use of the site will be determined during the design process.

6. Environmental

The University will complete the necessary environmental due diligence prior to exercising its option.

7. Source of Funding

The University will use a combination of debt and cash to fund the FAARM purchases.



Moe Trust Property
~156 Acres

PLANNING, SPACE,
AND REAL ESTATE

UNIVERSITY OF MINNESOTA
Driven to Discover®

FAARM Acquisition:
Doris A. Moe Revocable Living Trust
~156 Acres, Sec. 14, Udolpho Twp, Mower County

This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Base Data: Real Estate Office, University Services GIS, MnDOT, MnDNR, MnGeo

4/11/2023

Schematic Design: Main Production Kitchen Renovation, Residence Dining Center
Duluth Campus
Project No. 03-552-23-2339

1. **Basis for Project:**

   The Duluth campus Main Production Kitchen (MPK) was designed in 1971. The existing kitchen is more than fifty years old, and other than some equipment replacement and minor additions, the space is sized and orientated to support an operational model that no longer fits the culinary needs of the modern university student.

   The food court, Northern Shores, and retail kiosks rely almost exclusively on central production from the MPK, as well as for all their storage. This requires significant movement of products on carts to support these retail locations throughout the day so they can remain operational.

2. **Scope of Project:**

   The focus of this project is a complete overhaul of the MPK to meet safety requirements, increase capacity, and achieve operational efficiency. The renovation includes restroom accessibility upgrades, hazardous material abatement, replacement of aging infrastructure, and more efficient storage. A new mechanical penthouse will be constructed to house upgraded HVAC equipment, utilizing existing and new duct space.

   Project Area:

18,300 GSF	Program Area in RDC Basement
3,000 GSF	New or Renovated Mechanical Penthouse
21,300 GSF	Total Project Area

3. **Campus Plan:**

   This project aligns with the principles and goals of the UMD 2023 Campus Plan Update, as well as the future sustainability corridor being considered along Kirby Drive.

4. **Environmental Issues:**

   Known areas of hazardous material contamination include the crawl space and piping insulation; there will be additional asbestos testing of the soil to determine the scope of abatement that may be necessary. Anticipated abatement costs are included in the project budget.

5. **Cost Estimate:**

Construction	$19,025,000
Non-Construction	$5,975,000
Total	$25,000,000

6. **Capital Funding:**

UMD Dining	$7,500,000
University Debt	$17,500,000
Total Capital Funding	$25,000,000

7. **Capital Budget Approvals:**

This project was approved as a Capital Budget Amendment in September 2023.

8. **Annual Operating and Maintenance Cost:**

Facility operating cost is not expected to change significantly.

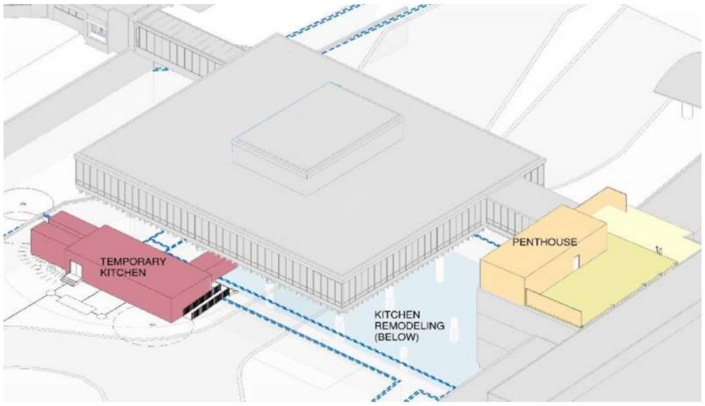
9. **Time Schedule:**

Proposed Design Completion:	April 2024
Proposed Substantial Completion:	November 2024

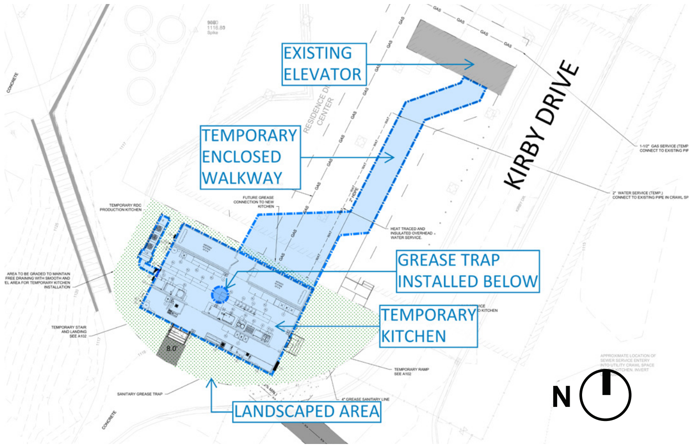
10. **Project Team:**

Architect:	TKDA
Construction Manager at Risk:	McGough

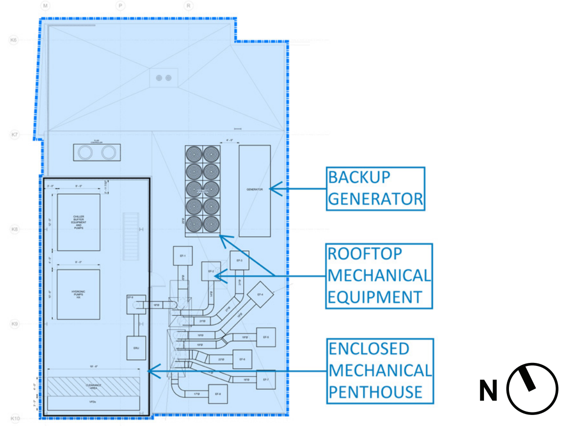
LOCATION MAP



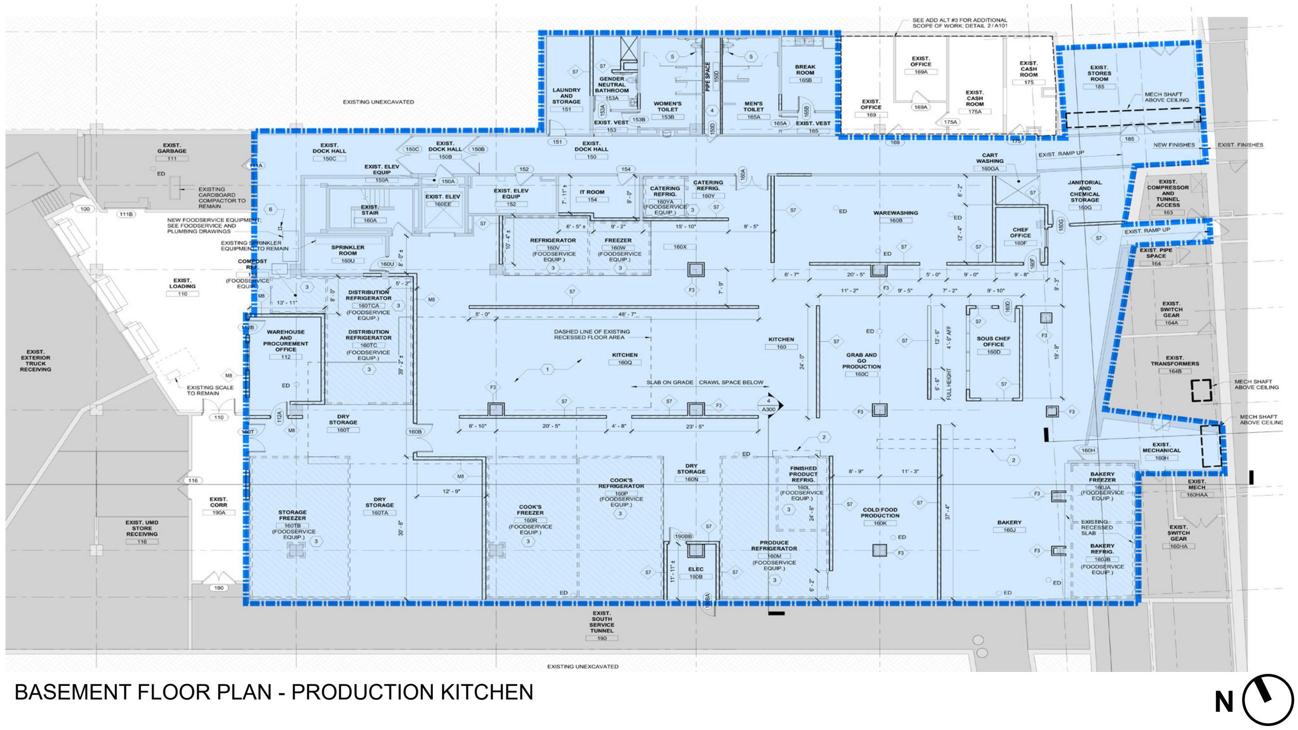
AXON VIEW



SITE PLAN - TEMP KITCHEN AT GROUND LEVEL



PENTHOUSE PLAN



BASEMENT FLOOR PLAN - PRODUCTION KITCHEN

PROPOSED DESIGN MODIFICATIONS

Schematic Design: Middlebrook Dining Renovation
Twin Cities Campus
Project No. 01-208-23-2360

1. **Basis for Project:**

   Housing and Residential Life proposes to renovate Middlebrook Dining Hall, currently serving 900 first-year residents on the west bank of the Twin Cities campus. The original Middlebrook Dining Hall was constructed in 1967, with small updates over the last two decades.

   The existing food service production and dining experiences do not meet the functional and programmatic goals of today's campus dining experiences; the current dining facility has space inefficiencies, outdated equipment, cluttered back of house organization, inefficiencies for both dining operations and student experience, and lacks an on-display kitchen concept.

   The proposed design solutions focus on the functional requirements of a more efficient service model and improved dining experience for users. The following priorities were established with key stakeholders to guide the project design solutions:
   - Improve the guests' dining experience through improved accessibility, circulation, furniture, fixtures, and finishes.
   - Replace the traditional cooking and serving line with a "cooking on display" concept, to better align with the expectations of today's students, and provide continuity with other newly renovated dining halls on campus.
   - Address outdated systems that support the kitchen and dining area.
   - Improve the food service team member's experience by focusing on efficiency and access to the back-of-house area.

2. **Scope of Project:**

   The Middlebrook Dining Renovation proposes to renovate the kitchen, serving area, and dining room, totaling approximately 16,000 square feet.

   The project scope includes demolition and renovation of the dining hall, kitchen, and servery located on the basement of Middlebrook Hall. The project includes select mechanical and electrical infrastructure upgrades that directly service the program areas, replacement of kitchen equipment, improved circulation and accessible access, new finishes, and furniture.

3. **Campus Plan:**

   The project complies with the Twin Cities Campus Plan Update, dated December 2021.

4. **Environmental Issues:**

   The FM Hazardous Material Program completed a hazardous materials survey of the building areas subject to renovation; the project will abate all hazardous materials including asbestos. The budget includes anticipated costs.

5. **Cost Estimate:**

Construction Cost	$11,118,000
Non-Construction Cost	$3,953,000
Total Project Cost	$15,071,000

6. **Capital Funding:**

Housing Administration – Housing and Residential Life Pool	$15,071,000
Total Capital Funding	$15,071,000

7. **Capital Budget Approvals:**

This project was approved as a Capital Budget Amendment in September 2023.

8. **Annual Operating and Maintenance Cost:**

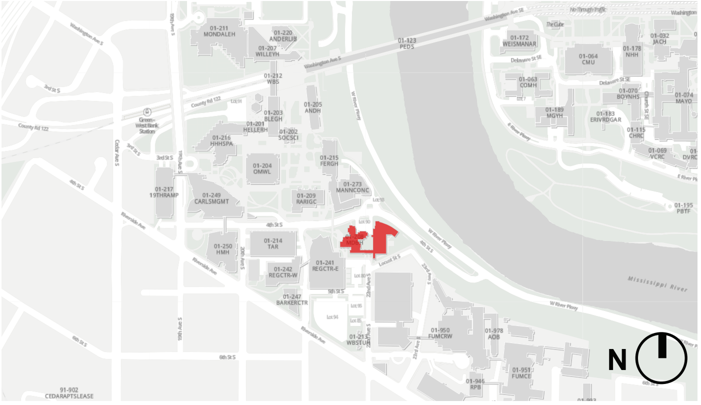
An increase in the operating and maintenance costs is not anticipated with the renovation of the Middlebrook Dining Hall.

9. **Time Schedule:**

Proposed Design Completion:	January 2024
Proposed Substantial Completion: Phase One	August 2024
Proposed Substantial Completion: Phase Two	August 2025

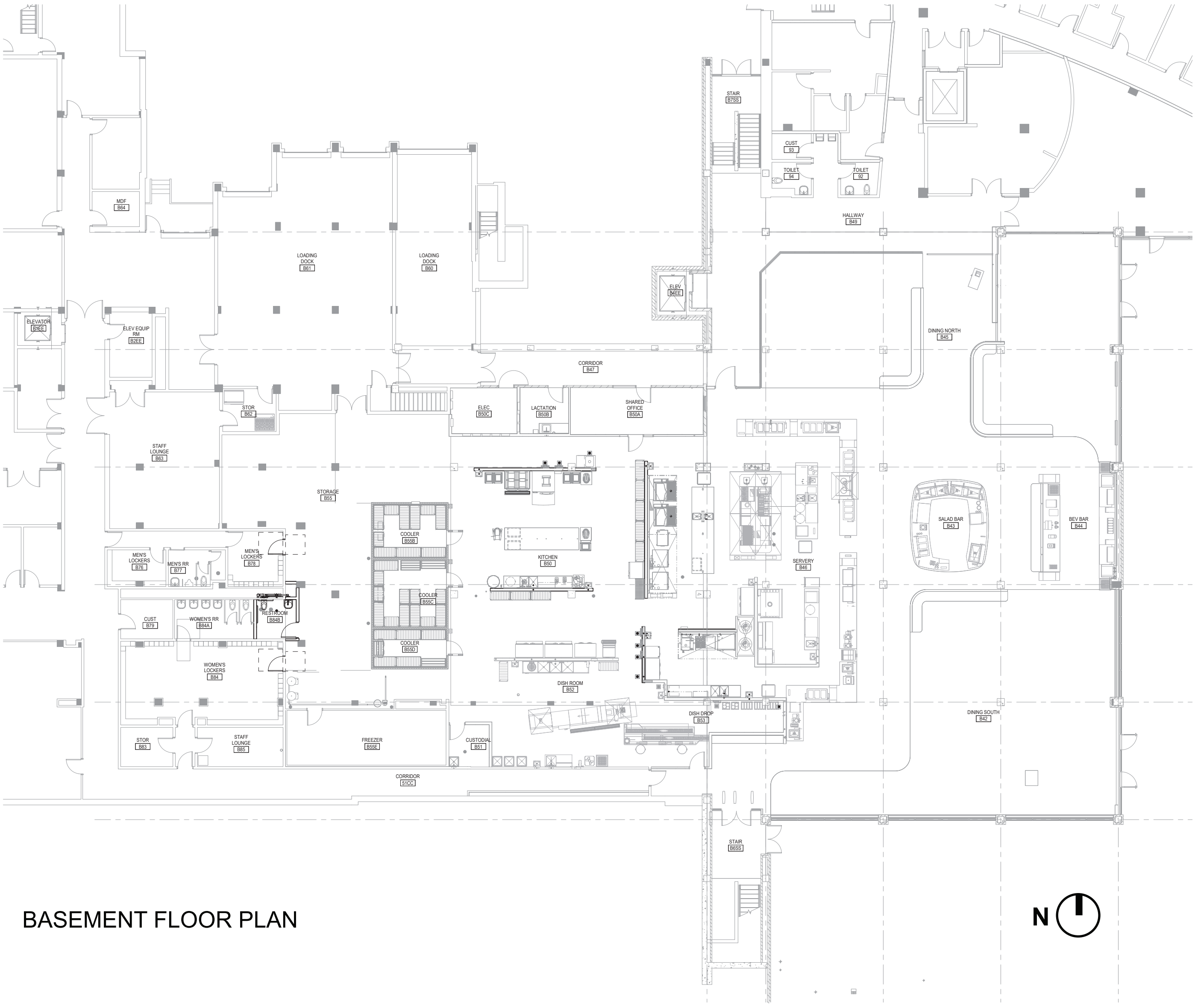
10. **Project Team:**

Architect:	DLR Group
Construction Manager at Risk:	LS Black



LOCATION MAP

INTERIOR RENDERING



BASEMENT FLOOR PLAN

PROPOSED DESIGN MODIFICATIONS

Middlebrook Dining Renovations
Project No. 01-208-23-2360

11.07.2023

Schematic Design: Territorial Hall HVAC Replacement
Twin Cities Campus
Project No. 01-105-23-2241

1. **Basis for Project:**

   The Territorial Hall HVAC replacement project renews heating and cooling systems for resident rooms and public spaces in the building to provide continuity of operations for this student housing building in the Superblock on the east bank. The project adds outdoor air to the HVAC system to improve humidity levels and indoor air quality in the building, consistent with recent residence hall HVAC projects on campus.

2. **Scope of Project:**

   The work includes new rooftop mechanical equipment and ductwork, duct shafts and casework modifications to resident rooms, updated building electrical service, and the replacement of existing roofing.

3. **Campus Plan:**

   The project complies with the Twin Cities Campus Plan, dated December 2021.

4. **Environmental Issues:**

   The project will address the potential for high humidity in the building and resultant environmental impacts. Floor tiles containing hazardous materials under existing carpeting are the only known hazardous material affecting the project; locations and removal will be coordinated with the FM Hazardous Materials Program as needed for construction.

5. **Cost Estimate:**

Construction Cost	$25,920,000
Non-Construction Cost	$6,080,000
Total Project Cost	$32,000,000

6. **Capital Funding:**

Housing and Residential Life Renewal and Renovation Funds	$32,000,000
Total Capital Funding	$32,000,000

   HRL Renewal and Renovation funds are funding the project over three fiscal years.

7. **Capital Budget Approvals:**

   This project was approved as a part of the FY 2024 Annual Capital Budget in June 2023.

8. **Annual Operating and Maintenance Cost:**

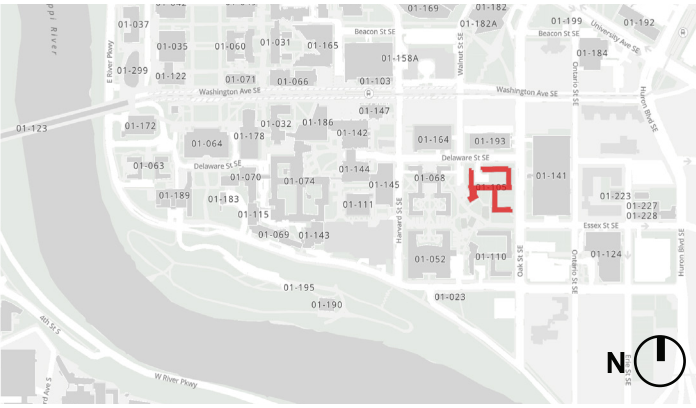
   The project is expected to provide no net change; savings from energy recovery are expected to offset additional costs for chilled water.

9. Time Schedule:

Proposed Design Completion:	February 2024
Proposed Substantial Completion:	September 2025

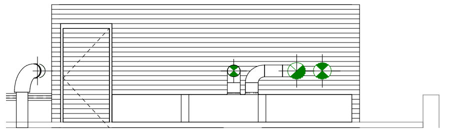
10. Project Team:

Engineer:	NV5
Construction Manager at Risk:	LS Black

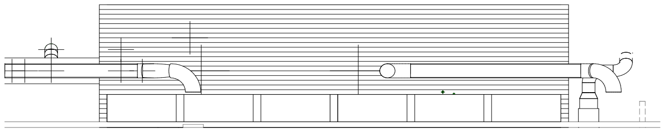


LOCATION MAP

PERSPECTIVE - LOOKING SOUTH ON OAK ST

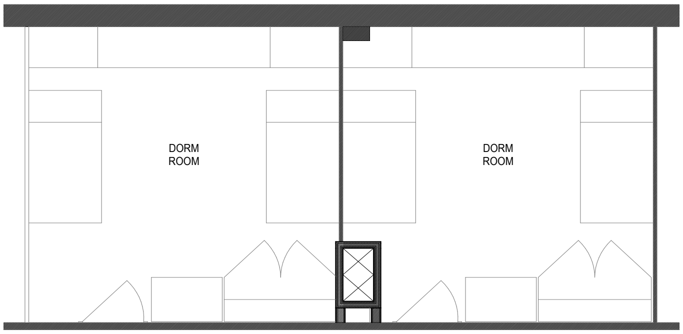


3
A013
EXTERIOR ELEVATION - SCREEN WALL 3
1/4" = 1'-0"

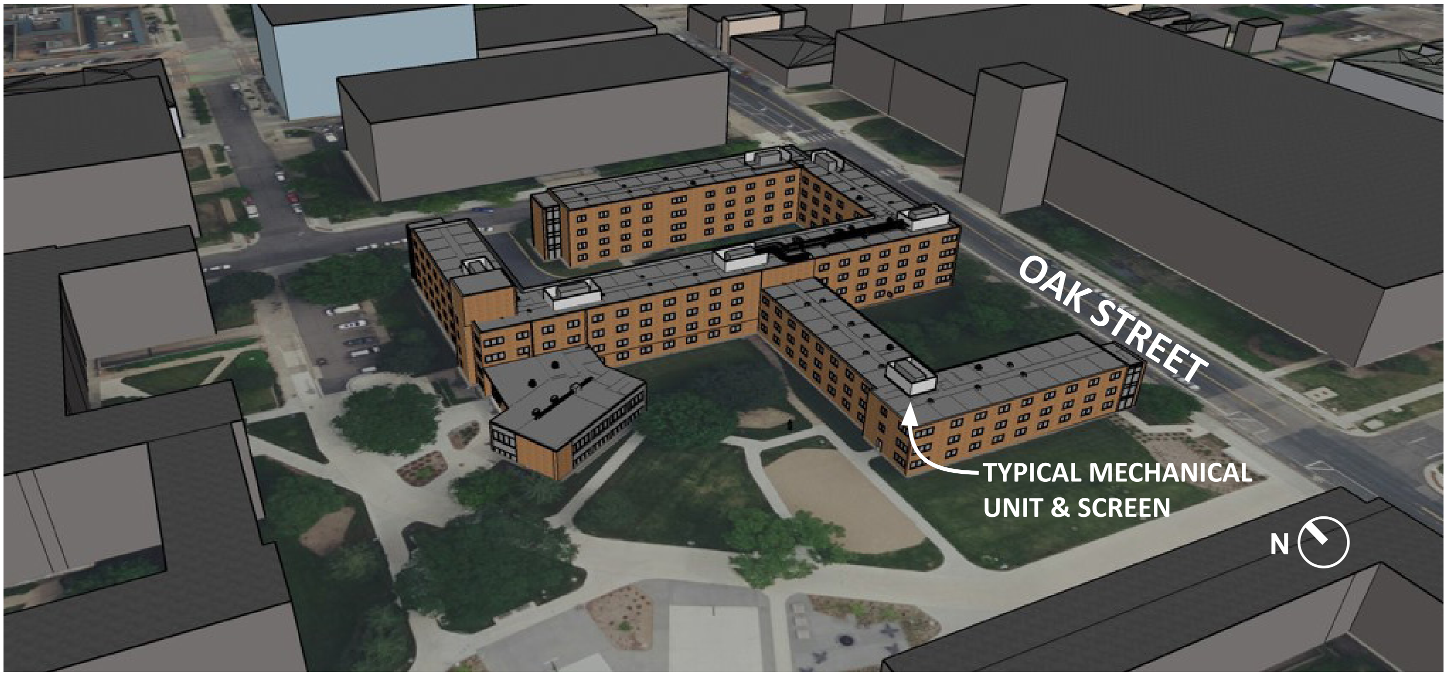


4
A013
EXTERIOR ELEVATION - SCREEN WALL 4
1/4" = 1'-0"

ELEVATIONS - MECHANICAL SCREENS



PLAN - TYPICAL DORM ROOM



PERSPECTIVE - BIRD'S EYE VIEW

PROPOSED DESIGN MODIFICATIONS

Schematic Design: Veterinary Diagnostic Lab Equipment Replacement
Twin Cities Campus
Project No. 02-385-23-2301

1. Basis for Project:

The project replaces equipment that supports scientific and agricultural research at the Twin Cities and the Veterinary Diagnostic Laboratory's role as a State Veterinary Laboratory. The equipment has reached the end of its useful life and replacement is necessary to continue reliable operation.

2. Scope of Project:

This project replaces equipment in the Veterinary Diagnostic Laboratory building (in Saint Paul) and updates utilities serving that equipment. It also includes improvements to ventilation, other infrastructure, and building finishes in the operations area; the improved space totals 2,100 square feet.

3. Campus Plan:

The project complies with the Twin Cities Campus Plan, dated December 2021.

4. Environmental Issues:

Although hazardous materials are not expected to be encountered for this project, the project carries a budget for testing of unforeseen materials and a contingency for removal.

5. Cost Estimate:

Construction Cost	$3,650,000
Non-Construction Cost	$3,911,200
Total Project Cost	$7,561,200

6. Capital Funding:

University Debt	$7,500,000
Facilities Management	$61,200
Total Capital Funding	$7,561,200

7. Capital Budget Approvals:

This project was approved in the FY 2024 Annual Capital Budget in June 2023.

8. Annual Operating and Maintenance Cost:

No changes to facility operation costs are expected.

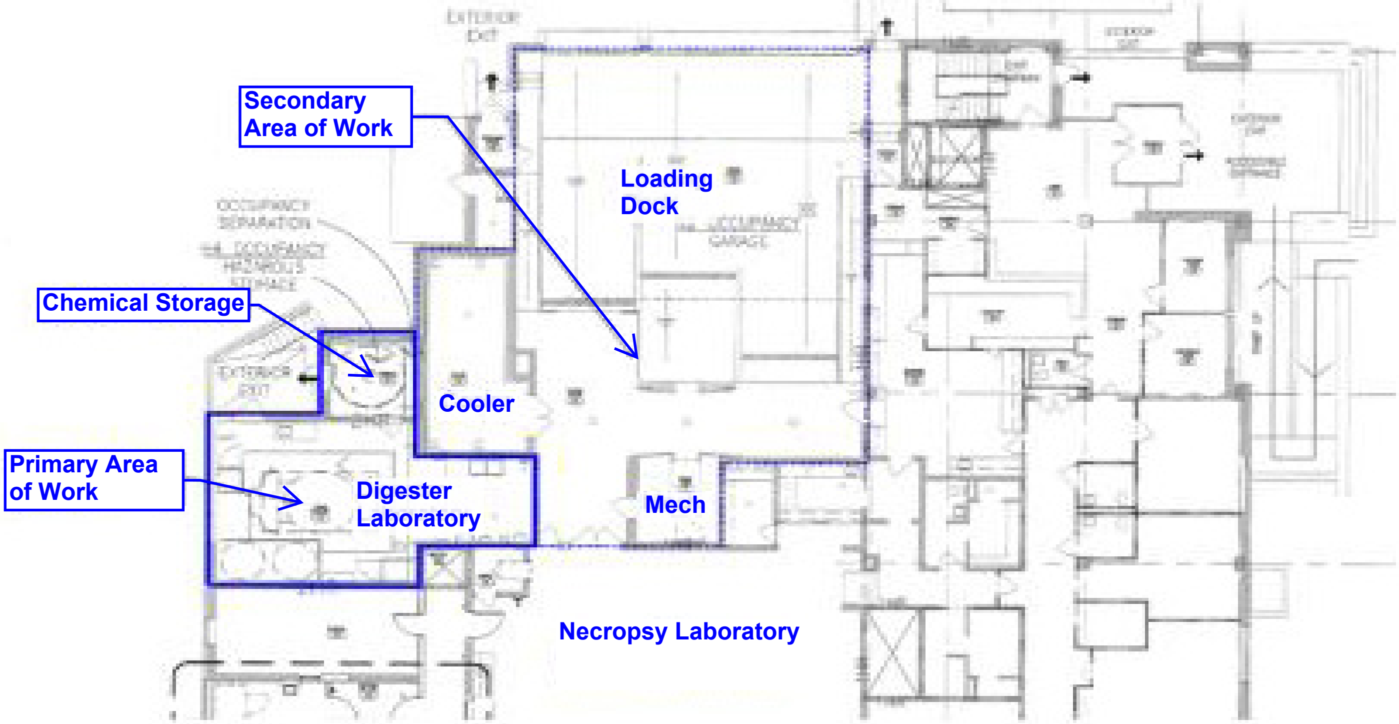
9. Time Schedule:

Proposed Design Completion:	January 2024
Proposed Substantial Completion:	January 2025

10. Project Team:

Engineer:	KFI
Design Build Contractor:	McGough Construction

LOCATION MAP



FIRST FLOOR PLAN

N

PROPOSED DESIGN MODIFICATIONS

BOARD OF REGENTS
DOCKET ITEM SUMMARY

Finance & Operations **December 7, 2023**

AGENDA ITEM: Information Items

☐ **Review** ☐ **Review + Action** ☐ **Action** ☒ **Discussion**

☒ *This is a report required by Board policy.*

PRESENTERS: Myron Frans, Senior Vice President

PURPOSE & KEY POINTS

A. Central Reserves General Contingency Allocations
B. FY 2023 Annual Finance Report
C. Annual Security and Fire Safety Reports
D. Debt Management Advisory Committee Update
E. Intent to Dispose of Property – 286 Acres at UMORE Park
F. Investment Advisory Council Update
G. MPact 2025 - Finance & Operations Implementation Updates

Central Reserves General Contingency Allocations

Allocations from the Central Reserves General Contingency greater than $250,000 require Board approval. There are no items requiring approval during this period. A current summary of General Contingency allocations for this fiscal year is included in the docket.

FY 2023 Annual Financial Report

The purpose of this item is to provide the annual financial report that presents the financial position and results of operations for the University of Minnesota for FY 2023, with comparative data for FY 2022. The June 30, 2023 report was issued on October 26 and received an unqualified (or "clean") opinion from Deloitte & Touche, the University's independent external auditors. The accompanying materials include:

- The Fiscal Year 2023 Annual Financial Report Summary provides management's summary highlights of the University's financial results related to assets, liabilities, net position, revenues, and expenses for FY 2023 with comparative results for FY 2022 and provides additional detailed information regarding significant fluctuations of activity comparing fiscal years 2023 and 2022.

- The Fiscal Year 2023 Annual Financial Report is the complete financial report for the University, including the Independent Auditors' Report, Management's Discussion and Analysis, Consolidated Financial Statements as of and for the Years Ending June 30, 2023, and 2022, Notes to the Consolidated Financial Statements, and other Required Supplementary Information.

Annual Security and Fire Safety Report

The purpose of this item is to provide the committee with the 2023 Annual Security and Fire Safety Reports for each campus.

The reports for each campus are available below:

- Crookston
- Duluth
- Morris
- Rochester
- Twin Cities

These reports are produced in compliance with the Clery Act and contain three years of crime statistics for crimes occurring on each of the University's campus, in campus residential buildings, public property immediately adjacent to campus, and for non-campus properties owned or controlled by the University and officially recognized student organizations.

In addition to crime statistics, the reports detail how to report crimes occurring on a University campus; how to report the occurrence of dating violence, domestic violence, sexual assault, and stalking; and what to expect when a report of these crimes is made to the University.

The reports also include information on the primary prevention and awareness programs available. These programs—which include information on safe and positive options for bystander intervention—are aimed at preventing crimes before they occur and at educating those in our community about the resources and support available if they witness or become the victim of a crime.

Debt Management Advisory Committee Update

The purpose of this item is to provide a summary of the Debt Management Advisory Committee (DMAC) meeting held on October 10, 2023. The summary of the meeting is included in the docket.

Intent to Dispose of Property – 286 Acres at UMore Park (Twin Cities campus)

The purpose of this item is to advise the Board of the intent to dispose of the following property:

- 286 Acres of vacant land at UMore Park

In alignment with the Board of Regents Policy: *Real Estate and Facilities,* the administration has determined that 286 acres of vacant land at UMore Park is no longer required to fulfill the University's mission and will begin the process of considering the potential sale of the property. A request for proposal will be issued with the goal of presenting a real estate transaction to the Board for review and action in 2024.

Investment Advisory Committee Update

The purpose of this item is to provide a report on the quarterly meeting of the Investment Advisory Committee held on November 8, 2023. The agenda for the meeting included:

- CEF Performance and Portfolio Overview
- Manager Pipeline Review
- Manager Recommendation: Khrom Investment Fund LP
- Manager Recommendation: Kedaara Fund IV LP
- Entrepreneur First Early Stage Fund I
- Portfolio Positioning Discussion

MPact 2025 Finance & Operations Implementation Updates

The purpose of this item is to provide updates on several plans required by the MPact 2025 Systemwide Strategic Plan (MPact 2025). The four plans listed below fall under Commitment 3: MNtersections or Commitment 5: Fiscal Stewardship.

Innovative Financing to support Strategic Objectives Plan - Action Item 5.3

The University has pursued several innovative approaches to financing long-term capital projects, which leverage the strength of the University's balance sheet and capitalize on existing financial tools currently in use at the University.

- Long-Term Capital Financing Program: Financed with $500 million in bond proceeds

  In February 2022, the Board approved a new strategy for financing capital projects, which included the creation of an internal loan program financed by the sale of $500 million of University of Minnesota general obligation bonds. The bonds were sold on April 11, 2022, as 30-year interest-only bonds at an interest rate of 4.048%. Information about the bond sale results was provided to the committee in May 2022. The proceeds are invested until needed to finance capital projects.

  At the December 2022 Finance & Operations Committee meeting, the Board received an update titled: *MPact 2025 Capital Financing Program and Strategic Property Update*. The update included background information about the Long-Term Capital Financing Program, updates on the status of bond proceeds, and capital projects planned to be financed with the bond proceeds.

  During FY2023 and FY2024, the Board approved the use of $328,132,000 of proceeds from the Long Capital Financing Program to fund previously approved capital projects and new projects included in the FY2024 annual capital budget.

- Resolution Related to Issuance and Sale of Debt

  In June 2023, the Board approved a resolution authorizing the issuance and sale of debt for the purpose of refunding existing outstanding debt. The resolution provides the Administration with authority for one year to refund eligible outstanding debt, should markets present an opportunity to realize savings to the University. To date, market conditions have not been favorable so the Administration has not pursued refunding any debt that is eligible to be refunded.

- Approval of Use of UMore Park Funds

  In September 2023, the Board approved the use of the UMore Legacy Fund (the Fund) as part of the financing for the Future of Advanced Agricultural Research in Minnesota

(FAARM) project. At the time, the Fund held approximately $13.2 million from commercial activities at UMore Park, generated primarily from mining lease royalty payments and the sale of 435 acres for residential development in 2021. The Board approved the recommendation to use money from the Fund to finance costs associated with the design and development of FAARM, including land acquisition, predesign, schematic designs, site preparation and infrastructure, construction, and acquisition of equipment. The approval also allows the Fund to pay debt service if debt is used to finance costs for FAARM.

The Board previously discussed this topic at the following meetings:

- September 2023: *Approval of Use of Umore Park Funds*, Finance & Operations Committee
- June 2023: *Allocation of Proceeds from the Long-Term Capital Financing Program*, Finance & Operations Committee
- June 2023: *Resolution Related to Refunding of General Obligation Debt*, Finance & Operations Committee
- December 2022: *MPact 2025 Capital Financing Program and Strategic Property Update*, Finance & Operations Committee
- May 2022: *Affirmation to Invest the General Obligation Taxable Bond Series 2022 Proceeds,* Finance & Operations Committee
- February 2022: *Resolution Related to Issuance of Century Bond*, Finance & Operations Committee

Enterprise Risk Management Plan - Action Item 5.4

The Enterprise Risk Management (ERM) Plan initiative was launched with the goal of enhancing enterprise risk management.

In late 2021, a task group was formed to assess the current risk management framework, benchmark against other higher education institutions and local companies with highly regarded ERM programs/processes, and recommend a comprehensive ERM program.

At the May 2022 Audit & Compliance Committee Meeting, the administration provided an update on progress, vendor scope of work, key areas of concern, and timing. They also sought feedback on a number of items.

An RFP was issued for a consultant and Baker Tilly was selected in the spring of 2023. The consultant was engaged for the project and completed the following items:

- Developed the organizational structure for ERM work within University Health, Safety, and Risk Management. Involved hiring, creating governance structures, and rebranding.
- Developed the updated risk profile with risk owners. The President's Cabinet will serve as this initiative's executive leadership and oversight team. Senior leaders will "own" specific risks.
- Developed risk mitigation strategies.
- Developed a "maintenance" structure ensuring the program is relevant and adds value.
- Planned for a full ERM update to the Audit & Compliance Committee in February 2023.

At the February 2023 Audit & Compliance Committee Meeting, the committee received an update on establishing the Enterprise Risk Management (ERM) Program. This included a presentation and discussion of:

- Oversight and governance of ERM at the University.

- Overview of the progress on the ERM plan.
- Preliminary environmental scan of top risks in higher education.
- ERM's organizational alignment and coordination with the PEAK Initiative.

In May 2023, Katharine Bonneson, Associate Vice President of Health, Safety, and Risk Management and Matt Reierson of Baker Tilly provided the Audit & Compliance Committee with updates and facilitated discussion on:

- Progress towards establishment of an ERM program including organizational home.
- Progress towards the development of a University risk profile.
- Draft review of University risk prioritization survey data.
- ERM program implementation next steps.

In June 2023, the Annual Report on Institutional Risk and Financial Reports were included in the Information Items of the Audit & Compliance Committee docket. This report combines two previous Board reports – the Annual Insurance and Risk Management report and the Controller's Semi-Annual report – plus a new Enterprise Risk Management section, consolidated into one report anchored within the Enterprise Risk Management (ERM) framework. This was the first time these reports have been combined and it is anticipated that this report will evolve in complexity and scope with the committee's feedback and maturation of the ERM program.

Katharine Bonneson, Associate Vice President of Health, Safety, and Risk Management and Matt Reierson of Baker Tilly returned to the Audit & Compliance Committee in September 2023 to present the Initial Risk Profile for the University based on the perceived risks identified by University senior leaders. They obtained Committee feedback on the risk profile and discussed elements of the profile, its application, and potential governance structures and sought feedback from the committee.

In fall 2023, the Initial Risk Profile was presented for consultation and feedback to the University Senate, the Senate Committee on Finance and Planning, and the President's Cabinet.

The initial ERM website was developed and is currently in a 'test' environment. The website will be available at: hsrm.umn.edu.

The Year #1 ERM plan was developed, outlining key deliverables to include the three risk analysis and mitigation activities, the establishment of work groups, and key communication milestones to senior leaders and the broader university.

The next official update to the Audit & Compliance Committee on ERM is scheduled for May 2024.

The Board previously discussed this topic at the following meetings:

- September 2023: *Updates to the Institutional Risk Profile,* Audit & Compliance Committee
- June 2023: *Annual Report on Institutional Risk and Financial Reports,* Audit & Compliance Committee
- May 2023: *Progress Report on the University's Institutional Risk Profile*, Audit & Compliance Committee
- February 2023: *Enterprise Risk Management (ERM) Program Update*, Audit & Compliance Committee

- December 2022: *MPact 2025 Finance & Operations Implementation Updates*, Finance & Operations Committee
- May 2022: *Enterprise Risk Management Update and Discussion*, Audit & Compliance Committee

Safety Plan - Action Item 5.4

The University of Minnesota Safety Plan development process began in 2021, with the detailed departmental safety plans for the Department of Public Safety and University Health Safety, and Risk Management, along with broader efforts like MSafe and the creation of the University Senate Safety Committee.

The Safety Plan was introduced in December 2021 as a roadmap for a more holistic approach moving forward. The plan is an overview of the programs, policies, protocols, and plans to assess and improve campus safety, in the broadest sense, over the next five years.

In 2022, we updated the plan to include actions and tactics developed by each campus that support the five safety goals.

The 2023 safety plan updates feature progress on our actions to support the five safety goals and key accomplishments by campus. Review and consultation of each campus' plan have occurred and metrics have been updated. The 2023 updates will be shared with the Board at a future meeting.

Ongoing safety efforts, including routine updates on our safety plans, have been discussed at the following meetings.

- September 2023: *Public Safety Update: 2023-24 Academic Overview*, Board of Regents
- July 2023: *Public Safety Planning for 2023-24 Academic Year*, Board of Regents
- June 2023: *UMTC Public Safety Update*, Board of Regents
- May 2023: *UMTC Public Safety Update*, Board of Regents
- February 2023: *UMTC Public Safety Update and Systemwide Campus Safety Plan*, Board of Regents
- December 2022: *UMTC Public Safety Update*, Board of Regents
- December 2022: *MPact 2025 Finance & Operations Implementation Updates*, Finance & Operations Committee
- September 2022: *UMTC Public Safety Update*, Board of Regents
- July 2022: *Public Safety Planning for 2022-23 Academic Year*, Board of Regents
- June 2022: *Twin Cities Campus Public Safety Update*, Finance & Operations Committee
- February 2022: *Update on Public Safety & M Safe Implementation*, Board of Regents
- September 2021: *Update on Public Safety – Twin Cities Campus*, Board of Regents
- February 2021: *Comprehensive Public Safety Review Findings and Recommendations*, Board of Regents

Land Retention, Acquisition, and Use Strategy Plan - Action Item 5.3 and Climate Action Plan – Action Item 3.2

The University's real estate strategy is grounded in supporting the University's mission in a manner that recognizes its long-term vision and fiscal responsibility to the people of the State of Minnesota. Acquisition and sale of property have a significant impact on the future of the

University and are important components of building comprehensive long-range capital facilities and land-holding strategies to drive strategic growth.

In September 2021, the Board began discussing principles to guide strategic property acquisitions and sales. A set of guiding principles were presented to the Board for feedback. This discussion was used to refine the drafted principles, which were then consulted with the University community. The feedback from the Board and the University community was used to propose amendments to the Board of Regents Policy: *Property and Facility Use.* The suggested edits were brought to the Board for review in February 2022. The focus of the proposed amendments included:

- Incorporating new strategic real estate principles to guide acquisition and disposition of real estate.
- Clarifying the priority for use of property and facilities.
- Retitling the policy to reflect the expanded focus, with real estate added to property and facility use.

In May 2022, the Board approved amendments to the Board of Regents Policy: *Property and Facility Use,* including retitling the policy to *Real Estate and Facilities*.

Following approval of the updated policy, each campus began to incorporate the guiding principles into developing its campus plans. The campus plans are being completed on a staggered schedule, along with a coordinated approach to completing three additional plans: Climate Action Plans, Facility and Utility Condition Assessments, and Utility/Energy Plans.

Following the *Real Estate and Facilities* policy update, in September 2022, the Board approved a resolution directing the President to establish a Strategic Property Planning Workgroup. The workgroup was formed and tasked with using the guiding principles to identify and prioritize the acquisition and disposition of properties for consideration by the Board. The Workgroup held its kick-off meeting that fall and continues to meet monthly.

In addition, the resolution created an Eastcliff Property Task Force. The task force was charged with considering the retention or disposition of Eastcliff in alignment with the guiding principles. Initial recommendations were presented in December 2022.

With the news that Eastcliff would be vacant, the University and the State began conversations to determine the viability of leasing to the State for use by Governor Walz and his family during the construction period of the Governor's Residence. During an April 2023 special meeting of the Board, the University was presented with a proposal to lease Eastcliff to the State of Minnesota as a temporary Governor's Residence. The transaction was approved by the Board and allowed for continued use of a public asset for a public purpose during the University's presidential transition period.

In May 2023, the Finance & Operations Committee agenda included an MPact 2025 Sustainability Update, presented by Chief Sustainability Officer Shane Stennes and Heidi Roop, Assistant Professor of Climate Science and Director of the Climate Adaptation Partnership. This presentation provided an in-depth look at the impacts of climate change and considerations as each campus develops its individual plans. The Twin Cities Plan was also included for discussion.

In June 2023, the Board discussed the University's ongoing strategic property work and the campus and climate action planning efforts. A presentation to the Board included an update on the Strategic Property Planning Workgroup's efforts, summarized related transactions, and previewed anticipated real estate activity resulting from the workgroup's charge. In addition, the update included a discussion of the Duluth Campus Planning, which outlined recommendations for the future of the campus and its coordinated climate action plan.

The Board was presented with the draft of the Duluth Campus Plan for review in September 2023, which was later approved in October 2023.

The work on these initiatives continues. Updates on climate action plans and other sustainability initiatives will be presented to the Board in February 2024. A Strategic Property Update is scheduled for the May 2024 meeting, and a draft of the Rochester Campus Plan will be brought to the Board for review in June 2024.

The Board previously discussed these initiatives at the following meetings:

- October 2023: *Duluth Campus Plan,* Finance & Operations Committee
- September 2023: *Duluth Campus Plan,* Finance & Operations Committee
- June 2023: *Strategic Property and Campus Planning Update*, Finance & Operations Committee
- May 2023: *MPact 2025 Sustainability Update,* Finance & Operations Committee
- April 2023: *Real Estate Transaction*, Board of Regents
- December 2022: *Recommendation of the Eastcliff Property Task Force*, Board of Regents
- December 2022: *MPact 2025 Capital Financing Program and Strategic Property Update*, Finance & Operations Committee
- December 2022: *MPact 2025 Finance & Operations Implementation Updates*, Finance & Operations Committee
- December 2022: *UMTC Climate Action Planning Update*, Finance & Operations Committee
- September 2022: *Resolution Related to Strategic Property Planning* - Review/Action - Finance & Operations Committee
- May 2022: *Board of Regents Policy: Property and Facility Use,* Finance & Operations Committee
- February 2022: *Board of Regents Policy: Property and Facility Use - Review*, Finance & Operations Committee
- September 2021: *Principles to Guide Strategic Property Acquisitions and Sales*, Finance & Operations Committee

Central Reserves General Contingency Allocations
Finance & Operations Committee
December 2023

	Recipient	Amount	Running Balance	Purpose
1	**Fiscal Year 2024** (7/1/2023-6/30/2024)			
2	**Carryforward from FY23 to FY24**		**$1,687,854**	
3	FY24 General Contingency Allocation	$1,000,000	$2,687,854	
4	**New FY24 items this reporting period:**			
5	n/a		$2,687,854	
6	**Current Balance**		**$2,687,854**	

* Items $250,000 or more subject to Board approval.

University of Minnesota Board of Regents Meeting
December 7, 2023

Fiscal Year 2023 Annual Financial Report Summary and Analysis

Financial Highlights

- Total assets decreased year-over-year $11.6M from $8,666.1B to $8,654.5B as of June 30, 2023, primarily due to decreases in cash and cash equivalents, receivables, net, and capital assets, net, offset by an increase in investments.
- Total liabilities increased year-over-year $224.2M from $2,925.8B to $3,150.0B as of June 30, 2023, primarily due to an increase in accrued liabilities as a result of pension actuarial assumption changes.
- The University experienced an increase in net position of $146.4M from $5,118.9B to $5,265.4B. The increase was driven primarily by the impact of recording adjustments to the University's net pension liability.
- The University implemented GASB Statement No. 94 (GASB 94), *Public-Private Partnerships (PPP) and Availability Payment Arrangements (APA)*, and GASB Statement No. 96 (GASB 96), *Subscription-Based IT Arrangements (SBITA).* This required a retrospective application and fiscal year 2022 activity was restated for comparative reporting.

Consolidated Statements of Net Position

	2023	2022 (Restated)
Assets		
Current Assets	$ 1,391,402	$ 1,551,769
Noncurrent assets, excluding capital assets	3,947,860	3,766,406
Capital assets, net	3,315,278	3,347,929
Total assets	8,654,540	8,666,104
Deferred outflows of resources	224,875	252,530
Liabilities		
Current Liabilities	924,140	837,624
Noncurrent liabilities, excluding long-term debt	581,236	376,832
Long-term debt	1,644,649	1,711,370
Total liabilities	3,150,025	2,925,826
Deferred inflows of resources	464,030	873,891
Net Position		
Unrestricted	1,579,690	1,426,431
Restricted - Expendable	1,787,246	1,745,875
Restricted - Nonexpendable	325,535	319,387
Net investment in capital assets	1,572,889	1,627,224
Total net position	5,265,360	5,118,917

- Total current assets decreased $160.4M or 10.3 % as of June 30, 2023 due to decreases in cash and cash equivalents and other assets.
- Capital assets, net decreased $32.7M or 1.0% as the depreciation of capital assets exceeded the addition of new capital assets.
- Long-term investments increased $139.3M, primarily due to the investment income, net of unrealized gains of $109.8M during fiscal year 2023.
- Deferred outflows of resources decreased $27.7M compared to June 30, 2022, primarily due to activity related to the University's net pension liability for State retirement plans.
- Current liabilities increased $86.5M or 10.3%. This is primarily driven by increases in accounts payable and long-term debt in the form of issuance of $91.5M of commercial paper notes.
- Noncurrent liabilities increased $137.7M or 6.6%, primarily driven by an increase in accrued liabilities for the actuarially calculated pension liability partially offset by decreases in long-term debt represented by debt payments and no new debt issuances.
- Deferred inflows of resources decreased $409.9M compared to June 30, 2022, due to activity related to the actuarial driven net pension liability for the State retirement plans.
- Unrestricted net position increased $153.3M or 10.7%, restricted-expendable increased $41.4M or 2.4%, restricted-nonexpendable increased $6M or 1.9%, and net investment in capital assets decreased $54.3M or 3.3%. Total net position increased $146.4M to $5,265B.

Consolidated Statement of Revenues, Expenses, and Changes in Net Position

Revenues

			Increase (Decrease)	
			From 2022 (Restated) to 2023	
	2023	2022 (Restated)	Amount	Percent
Operating revenues				
Grants and contracts	$ 1,256,184	$ 1,160,631	$ 95,553	8.2%
Student tuition and fees, net	794,652	764,030	30,622	4.0%
Auxiliary enterprises, net	494,290	474,665	19,625	4.1%
Educational activities	168,134	165,287	2,847	1.7%
Other operating revenue	177	105	72	68.6%
Total operating revenues	2,713,437	2,564,718	148,719	5.8%
Nonoperating revenues				
Federal appropriations	18,541	16,318	2,223	13.6%
State appropriations	716,341	727,857	(11,516)	(1.6%)
Grants, gifts, and other nonoperating, net	533,565	629,297	(95,732)	(15.2%)
Net investment gain	109,829	656	109,173	16642.2%
Total nonoperating revenues	1,378,276	1,374,128	4,148	0.3%
Total other revenues	60,614	122,661	(62,047)	(50.6%)
Total revenues (noncapital)	$ 4,152,327	$ 4,061,507	$ 90,820	2.2%

- Operating revenues include grants and contracts, student tuition and fees, auxiliary enterprises, educational activities, and other operating revenues. Operating revenues increased $148.7M or 5.8% year-over-year. This was primarily driven by:
  - An increase of $95.6M or 8.2% grants and contracts revenue, which includes activity for new federal, state, and non-governmental awards.
  - An increase in net student tuition and fees of $30.6M due to tuition rate increases.
- Nonoperating revenues include federal and state appropriations, grants, gifts, and other nonoperating revenue, and net investment gains. Nonoperating revenues were flat with a slight increase of $4.1M or 0.3%. This is primarily driven by increases in net investment gains of $109.2M offset by a decrease in grants, gifts, and other nonoperating revenue of $95.7M.

Operating Expenses

			Increase (Decrease)	
			From 2022 (Restated) to 2023	
	2023	2022 (Restated)	Amount	Percent
Education and general				
Instruction	$831,791	$783,386	$ 48,405	6.2%
Research	953,072	849,632	103,440	12.2%
Public service	299,880	255,884	43,996	17.2%
Academic support	493,082	400,483	92,599	23.1%
Student services	143,828	117,508	26,320	22.4%
Institutional support	305,875	256,692	49,183	19.2%
Operation and maintenance of plant	280,675	224,701	55,974	24.9%
Scholarships and fellowships	64,370	82,042	(17,672)	(21.5%)
Depreciation	245,832	247,070	(1,238)	(0.5%)
Total education and general	3,618,405	3,217,398	401,007	12.5%
Other operating expenses				
Auxiliary enterprises	318,143	284,376	33,767	11.9%
Other operating expenses, net	21	0	21	100.0%
Total other operating expenses	318,164	284,376	33,788	11.9%
Total operating expenses	$3,936,569	$3,501,774	$ 434,795	12.4%

- Operating expenses increased $434.8M or 12.4% in fiscal year 2023. This increase was driven by the actuarial calculation for pension expense increase of $186.5M in addition to increases in compensation and the elimination of furlough and pay reduction programs and other cost savings efforts in response to the COVID-19 pandemic.

Consolidated Statements of Cash Flows

			Increase (Decrease) From 2022 (Restated) to 2023	
	2023	2022 (Restated)	Amount	Percent
Cash (used) provided by				
Operating activities	$ (1,127,945)	$ (1,078,285)	$ (49,660)	(4.6%)
Noncapital financing activities	1,283,255	1,322,147	(38,892)	(2.9%)
Capital and related financing activities	(217,628)	363,228	(580,856)	(159.9%)
Investing activities	(72,249)	(475,970)	403,721	84.8%
Net increase (decrease) in cash	(134,567)	131,120	(265,687)	(202.6%)
Cash, beginning of year	819,047	687,927	131,120	19.1%
Cash, end of year	$ 684,480	$ 819,047	$ (134,567)	(16.4%)

- Cash used by operating activities was $1,127.9M, an increase of $49.7M compared to the prior year. This was primarily due to payments to employees for services and fringe benefits of $155.1M offset by increased cash inflows from grants and contracts revenue of $78.3M and net student tuition and fees revenue of $23.6M.
- Cash provided by noncapital financing activities was $1,283.3M, which is a decrease of $38.9M compared to the prior year. The change resulted from a decrease in state appropriations funding of $12.3M, a decrease in grants of $51.4M, and a decrease in other nonoperating revenues, net of $22.9M, offset by an increase in gifts of $52.8M.
- Cash used by capital and related financing activities was $217.6M for fiscal year 2023 compared to cash provided by capital and related financing activities was $363.2M for fiscal year 2022. This is primarily driven by a decrease in bond proceeds received for newly issued debt in fiscal year 2023.
- Cash used by investing activities was $72.3M, a decrease of $403.7M compared to the prior year. This is driven by an excess of the proceeds from the sale of investments over the purchases of investments.

Additional Comments

- The Fiscal Year 2023 Annual Financial Report was issued on October 26, 2023, with an unqualified opinion.
- As a result of the implementation of GASB 94 and GASB 97, the University restated certain balances for fiscal year 2022.
  - The impact of the restatement to assets resulted in an increase in capital assets of $29.6M and an increase in receivables of $3.5M, offset by a decrease in prepaid expenses of $1.8M.
  - The impact of the restatement of liabilities resulted in adding a new category of liabilities. Subscription liabilities of $26.4M were newly added to total liabilities.
  - Deferred inflows of resources increased $3.5M.
  - Unrestricted net position decreased $1.7M, restricted-expendable net position decreased $0.065M, and net investment in capital assets increased $3.2M.

- On the consolidated statements of net position, total operating revenues decreased $0.017M, total operating expenses decreased $1.7M, and net nonoperating revenues decreased $0.3M.

University of Minnesota

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2023 Annual Financial Report

Consolidated Financial Statements

as of and for the Years Ended June 30, 2023 and 2022,
Independent Auditor's Reports, and Management's Discussion and Analysis

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INDEPENDENT AUDITOR'S REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying consolidated statements of net position and the statements of fiduciary net position of the University of Minnesota (the "University"), the related consolidated statements of revenues, expenses, and changes in net position, the statements of changes in fiduciary net position and the consolidated statements of cash flows as of and for the years ended June 30, 2023 and June 30, 2022 and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements as listed in the table of contents.

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position and the respective changes in net position and cash flows of the University as of and for the years ended June 30, 2023 and June 30, 2022, and the financial statements of the discretely presented component units as of and for the years ended June 30, 2023 and June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component units are based solely on the report of the other auditors.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Basic Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Basic Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the basic consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the basic consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits of the Basic Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the basic consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of employer's contributions for other postemployment benefits, the schedule of changes in total other postemployment benefits liability, the schedules of the employer's share of net pension liability, and the schedules of employer's contributions for pensions, as listed in the table of contents be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic 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 26, 2023 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 26, 2023

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INDEPENDENT AUDITOR'S 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 (*Government Auditing Standards*), the consolidated statement of net position and the statement of fiduciary net position, the consolidated statement of revenues, expenses, and changes in net position, the statement of changes in fiduciary net position, and the consolidated statement of cash flows of the University of Minnesota (the “University”) as of and for the year ended June 30, 2023, 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 26, 2023. Our report, which 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the discretely presented component units.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Report on 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 consolidated financial statements. 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 results of that testing, and not to provide an opinion on the effectiveness of the University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 26, 2023

About the University of Minnesota

(Unaudited)

The University of Minnesota (University) was founded in 1851 and has five campuses, as well as research and outreach centers, and extension service offices throughout the State of Minnesota (State).

The University 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.

The University is one of only five universities in the nation with an engineering school, a medical school, a law school, a veterinary medicine school and an agricultural school all on one campus.

The University is among the top ten public research institutions nationally. The University is the State's major research institution with research expenditures of approximately $953.1 million, $849.6 million, and $780.1 million in fiscal years 2023, 2022, and 2021, respectively, for research under various programs funded by governmental and private sources. Governmental and private sources also funded research activities with expenditures included in both Instruction and Public Service.

Twin Cities Campus

The Twin Cities campus is the flagship for the University system, with enrollment of approximately 55,000 students. The Twin Cities campus is among the nation's top public research universities, with award-winning faculty, state-of-the-art facilities, and world-class academics.

Duluth Campus

The Duluth campus is a comprehensive, highly ranked regional research and liberal arts university that offers instruction through the doctoral degree and has a global reputation for research in natural and freshwater resources. The Duluth campus consistently ranks among the top Midwestern regional universities with student enrollment of approximately 9,700 students.

Crookston Campus

The Crookston campus is known for its focus on experiential learning and is one of the nation's pioneers in online and distance education with a student enrollment of approximately 2,300 students.

Morris Campus

The Morris campus is ranked as one of the top public liberal arts colleges in the nation and is a leader in environmental sustainability and diversity. The Morris campus focuses on undergraduate programs with a student enrollment of approximately 1,100 students.

Rochester Campus

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 and conducts research in the areas of health sciences and biotechnology. The Rochester campus has a student enrollment of approximately 600 students.

Mission

The University's mission is carried out on multiple campuses and throughout the State and consists of the following:

- 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.

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

- provides instruction for approximately 68,600 students;

- graduates approximately 16,000 students, 31 percent with graduate or first professional degrees on the Twin Cities campus;

- commits to the success of 13,400 Minnesota resident undergraduate students through the U Promise Scholarship;

- 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.

Board of Regents of the University of Minnesota

The Board of Regents (the Board) articulates a vision for the University and works to ensure the University fulfills its mission of education, research, and outreach. The 12 members of the Board each serve for a six-year term. Every two years, one-third of the Board seats are up for election. A joint convention of the State legislature elects one Regent from each of the State's eight congressional districts and four from the State at large. One of the four at-large Regents must be a University student at the time of election.

Management's Discussion and Analysis
(Unaudited)

This discussion and analysis of the University's consolidated financial statements provides an overview of the consolidated financial position and activities of the University as of and for the years ended June 30, 2023, 2022, and 2021. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying Notes.

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; Statements of Fiduciary Net Position; Statements of Changes in Fiduciary 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.

The University records a net pension liability in accordance with GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which represents accounting and reporting standards only. The State has not enacted any law that requires the University to assume the liability, as a participant of the pension plans, in the event the State were unable to continue paying benefits from the retirement plans. The required recording of the deferred outflows of resources, deferred inflows of resources, net pension liability, and related expenses are recorded on the University's consolidated financial statements, but have no impact to the funding provisions, nature and amount of benefits, or actual cash flows of the University. For additional information refer to the respective sections below, as well as Note 8 and GASB 68 and GASB 71.

The University adopted GASB Statement No. 94 (GASB 94), *Public-Private Partnerships (PPP) and Availability Payment Arrangements (APA)*, and GASB Statement No. 96 (GASB 96), *Subscription-Based IT Arrangements (SBITA)* during fiscal year 2023. As a result, fiscal year 2022 Consolidated Statements of Net Position, Consolidated Statements of Revenues, Expenses and Changes in Net Position, Consolidated Statements of Cash Flows line items, as well as related Note disclosures, have been restated to reflect the reporting requirements for comparative purposes. The Consolidated Statements of Net Position include subscription liabilities for lessee arrangements. See Note 6 for additional information.

Financial Highlights

While the University continued to play a key role in partnering with the State in responding to and suppressing the spread of COVID-19 during fiscal year 2022, the University experienced a shift to pre-pandemic operations. The University continued to see increases in revenues related to grants from federal and state sources, as well as nongovernmental sources. Auxiliary enterprises revenues have increased year-over-year as University performances, museums, retail spaces, and athletic events have reopened operations and returned to in-person events.

The University's financial position remains strong with assets of $8.7 billion, a decrease of $11.6 million from fiscal year 2022. Liabilities increased $224.2 million from fiscal year 2022 to $3.2 billion. The University's net position, the difference between total assets, deferred outflows of resources (items previously reported as assets), total liabilities, and deferred inflows of resources (items previously reported as liabilities), increased to $5.3 billion as of June 30, 2023, compared to $5.1 billion as of June 30, 2022. The University's net position increased $146.4 million in fiscal year 2023 compared to an increase of $509.0 million in fiscal year 2022, reflecting continued solid financial results.

The University experienced an increase in total operating revenue for fiscal year 2023 of $148.7 million or 5.8 percent due to increases in grants and contracts, as well as auxiliary enterprises and student tuition and fees. Total expenses increased for fiscal year 2023 by $434.8 million or 12.4 percent due primarily to $380.7 million in additional compensation expense as a result of a return to pre-pandemic levels including increases in headcount, salary, merit increases and a $186.5 million increase in expenses due to the impact of the actuarial calculations for pension expenses as required by GASB 68 and GASB 71.

Dollar amounts in the following discussion are presented in thousands, unless otherwise noted.

Consolidated Statements of Net Position

A comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2023, 2022, and 2021 is summarized in the table below:

	2023	2022 (Restated)	2021
Assets			
Current assets	$ 1,391,402	$ 1,551,769	$ 1,375,216
Noncurrent assets, excluding capital assets	3,947,860	3,766,406	3,271,267
Capital assets, net	3,315,278	3,347,929	3,396,708
Total assets	8,654,540	8,666,104	8,043,191
Deferred outflows of resources	224,875	252,530	62,864
Liabilities			
Current liabilities, excluding long-term debt	577,054	563,791	619,730
Noncurrent liabilities, excluding long-term debt	581,236	376,832	564,300
Long-term debt	1,991,735	1,985,203	1,498,551
Total liabilities	3,150,025	2,925,826	2,682,581
Deferred inflows of resources	464,030	873,891	813,540
Net position			
Unrestricted	1,579,690	1,426,431	1,012,960
Restricted—expendable	1,787,246	1,745,875	1,597,786
Restricted—nonexpendable	325,535	319,387	319,257
Net investment in capital assets	1,572,889	1,627,224	1,679,931
Total net position	$ 5,265,360	$ 5,118,917	$ 4,609,934

Assets

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

Noncurrent assets consist primarily of investments, capital assets net of accumulated depreciation, and student loan receivables, net.

The following schedule summarizes the University's current and noncurrent assets as of June 30, 2023, 2022, and 2021:

				Increase (Decrease)			
				From 2022 (Restated) to 2023		From 2021 to 2022 (Restated)	
	2023	2022 (Restated)	2021	Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	$ 544,510	$ 742,260	$ 663,912	$ (197,750)	(26.6%)	$ 78,348	11.8%
Receivables, net	490,183	483,941	428,368	6,242	1.3%	55,573	13.0%
Investments	313,477	280,334	240,923	33,143	11.8%	39,411	16.4%
Other assets	43,232	45,234	42,013	(2,002)	(4.4%)	3,221	7.7%
Total current assets	1,391,402	1,551,769	1,375,216	(160,367)	(10.3%)	176,553	12.8%
Noncurrent assets							
Capital assets, net	3,315,278	3,347,929	3,396,708	(32,651)	(1.0%)	(48,779)	(1.4%)
Other noncurrent assets							
Cash and cash equivalents & other assets	149,580	88,553	29,279	61,027	68.9%	59,274	202.4%
Receivables, net	380,428	399,294	400,914	(18,866)	(4.7%)	(1,620)	(0.4%)
Investments	3,417,852	3,278,559	2,841,074	139,293	4.2%	437,485	15.4%
Total other noncurrent assets	3,947,860	3,766,406	3,271,267	181,454	4.8%	495,139	15.1%
Total assets	$ 8,654,540	$ 8,666,104	$ 8,043,191	$ (11,564)	(0.1%)	$ 622,913	7.7%

As of June 30, 2023, total assets decreased $11.6 million primarily due to decreases in cash and cash equivalents, receivables, net, and capital assets, net, offset by an increase in investments. As of June 30, 2022, total assets increased $622.9 million due to increases in cash and cash equivalents, investments and receivables, net, offset by a reduction in capital assets, net. Noncurrent cash and cash equivalents consist of unspent bond proceeds of $140.0 million and $76.8 million as of June 30, 2023 and 2022, respectively. Invested unspent bond proceeds of $353.7 million are included in noncurrent investments. Capital assets (net of accumulated depreciation) decreased $32.7 million primarily due to continued depreciation of buildings in service and disposals of equipment assets, partially offset by increased building acquisitions and renovations. Refer to Note 4 for additional information related to capital assets.

Capital Assets and Related Debt Activities

Capital additions totaled $215.9 million, $174.8 million, and $197.9 million in fiscal years 2023, 2022, and 2021, respectively. Fiscal year 2023 spending included real property purchases totaled $16.5 million, capital equipment purchases totaled $55.0 million, and various on-going construction projects totaled $112.8 million. Project spending continuing in fiscal year 2024 is projected to be $137.3 million and $62.1 million for the construction of the Fraser Hall Chemistry Undergraduate Teaching Facility and Collections Facility, respectively. See Note 4 for more detailed information about capital assets.

Capital spending is mainly financed by a combination of state capital appropriations, University-issued debt, revenues generated by University departments, and donor gifts, depending on the specific capital project.

The University structures long-term debt so that principal is paid annually, which frees up capacity to issue new debt. The University also utilizes a commercial paper program with authority to issue up to $400 million. The rating agencies factor in the maximum authorization when determining ratings, even when the outstanding commercial paper is less than the maximum authorized amount.

Fiscal year 2023 debt activity included the issuance of the Commercial Paper Notes Series H and Commercial Paper Taxable Notes Series I. Refer to Note 7 for additional information.

The University's long-term debt is rated Aa1 by Moody's Investors Service (Moody's) and AA by S&P Global Ratings (S&P) – ratings which indicate high quality debt and results in strong demand and competitive pricing in the marketplace for University bonds.

Deferred Outflows of Resources

Deferred outflows of resources are items previously reported as assets that result in the outflow of net position in the current reporting period for activities applicable to a future reporting period. As of June 30, 2023, the deferred outflows of resources decreased $27.7 million compared to June 30, 2022, primarily due to the balances and related activity of the University's net pension liability related to the State retirement plans. Refer to Note 8 for additional information related to State retirement pension plans.

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.

Noncurrent liabilities consist primarily of accrued liabilities (including the net pension liability), notes payable, lease liabilities and bonds payable (long-term debt).

The following schedule summarizes the University's current and noncurrent liabilities as of June 30, 2023, 2022, and 2021:

				Increase (Decrease)			
				From 2022 (Restated) to 2023		From 2021 to 2022 (Restated)	
	2023	2022 (Restated)	2021	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 136,597	$ 123,017	$ 156,688	$ 13,580	11.0%	$ (33,671)	(21.5%)
Accrued liabilities and other	373,534	380,389	376,611	(6,855)	(1.8%)	3,778	1.0%
Unearned income	66,923	60,385	86,431	6,538	10.8%	(26,046)	(30.1%)
Long-term debt	347,086	273,833	249,098	73,253	26.8%	24,735	9.9%
Total current liabilities	924,140	837,624	868,828	86,516	10.3%	(31,204)	(3.6%)
Noncurrent liabilities							
Accrued liabilities and other	574,815	369,298	556,954	205,517	55.7%	(187,656)	(33.7%)
Unearned income	6,421	7,534	7,346	(1,113)	(14.8%)	188	2.6%
Long-term debt	1,644,649	1,711,370	1,249,453	(66,721)	(3.9%)	461,917	37.0%
Total noncurrent liabilities	2,225,885	2,088,202	1,813,753	137,683	6.6%	274,449	15.1%
Total Liabilities	$ 3,150,025	$ 2,925,826	$ 2,682,581	$ 224,199	7.7%	$ 243,245	9.1%

As of June 30, 2023, total liabilities increased $224.2 million primarily due to an increase in accrued liabilities of $198.7 million, as a result of pension actuarial assumption changes of the single discount rate increase of

0.25 percent. The University's long-term debt represents 63.2 percent of total liabilities or $2.0 billion as of June 30, 2023 compared to 67.9 percent or $2.0 billion as of June 30, 2022.

Long-term debt increased $6.5 million or 0.3 percent. The University issued Commercial Paper Notes in the amount of $91.5 million in fiscal year 2023. Additions from the current year issuances were offset by normal amortization of the bonds, premiums, and discounts, as well as payments of outstanding debt. Refer to Note 7 for additional information related to long-term debt.

Deferred Inflows of Resources

Deferred inflows of resources are items previously reported as liabilities that result in the inflow of net position in the current reporting period for activities applicable to a future reporting period. As of June 30, 2023, the deferred inflows of resources decreased $409.9 million compared to June 30, 2022, primarily due to the balances and related activity of the University's net pension liability related to the State retirement plans. Refer to Note 8 for additional information related to State retirement pension plans.

Net Position

Net position represents the residual value of the University's assets and deferred outflows of resources, after deducting liabilities and deferred inflows of resources 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 University and include resources that may be designated for specific purposes as determined by management or the Board.

- Restricted net position, which is divided into two categories—

    - Expendable assets are available for expenditure by the University, 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 schedule summarizes the University's net position as of June 30, 2023, 2022, and 2021:

				Increase (Decrease)			
				From 2022 (Restated) to 2023		From 2021 to 2022 (Restated)	
	2023	2022 (Restated)	2021	Amount	Percent	Amount	Percent
Unrestricted	$ 1,579,690	$ 1,426,431	$ 1,012,960	$ 153,259	10.7%	$ 413,471	40.8%
Restricted:							
Expendable	1,787,246	1,745,875	1,597,786	41,371	2.4%	148,089	9.3%
Nonexpendable	325,535	319,387	319,257	6,148	1.9%	130	0.0%
Net investment in capital assets	1,572,889	1,627,224	1,679,931	(54,335)	(3.3%)	(52,707)	(3.1%)
Total net position	$ 5,265,360	$ 5,118,917	$ 4,609,934	$ 146,443	2.9%	$ 508,983	11.0%

The University's unrestricted net position increased $153.3 million in fiscal year 2023, driven by the current results of operations of which $100.3 million in fiscal year 2023 is due primarily to the impact of recording adjustments to the University's net pension liability. The University's restricted expendable net position increased $41.4 million in fiscal year 2023 due primarily to changes in the University's net pension liability. The University's net investment in capital assets decreased $54.3 million primarily due to a decrease in net capital assets as a result of depreciation out pacing new capital assets in recent years in response to the pandemic, as well as an increase in long-term debt which reduces the net investment in capital assets. The decrease is partially offset by an increase in unspent bond proceeds.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position present the University's operating, nonoperating, 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.

Total Operating Revenues

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 increased 5.8 percent in fiscal year 2023 and accounted for 65.3 percent, 63.1 percent, and 52.0 percent of total revenues for fiscal years 2023, 2022, and 2021, respectively.

The following schedule summarizes the University’s Operating, Nonoperating, and Other revenue for the years ended June 30, 2023, 2022, and 2021:

				Increase (Decrease)			
				From 2022 (Restated) to		From 2021 to 2022	
	2023	2022 (Restated)	2021	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 1,256,184	$ 1,160,631	$ 1,025,298	$ 95,553	8.2%	$ 135,333	13.2%
Student tuition and fees, net	794,652	764,030	772,781	30,622	4.0%	(8,751)	(1.1%)
Auxiliary enterprises, net	494,290	474,665	377,171	19,625	4.1%	97,494	25.8%
Educational activities	168,134	165,287	150,887	2,847	1.7%	14,400	9.5%
Other operating revenue	177	105	158	72	68.6%	(53)	(33.5%)
Total operating revenues	2,713,437	2,564,718	2,326,295	148,719	5.8%	238,423	10.2%
Nonoperating revenues							
Federal appropriations	18,541	16,318	18,572	2,223	13.6%	(2,254)	(12.1%)
State appropriations	716,341	727,857	696,935	(11,516)	(1.6%)	30,922	4.4%
Grants, gifts, and other nonoperating, net	533,565	629,297	589,236	(95,732)	(15.2%)	40,061	6.8%
Net investment gain	109,829	656	762,946	109,173	16642.2%	(762,290)	(99.9%)
Total nonoperating revenues	1,378,276	1,374,128	2,067,689	4,148	0.3%	(693,561)	(33.5%)
Total other revenues	60,614	122,661	80,695	(62,047)	(50.6%)	41,966	52.0%
Total revenues (noncapital)	$ 4,152,327	$ 4,061,507	$ 4,474,679	$ 90,820	2.2%	$ (413,172)	(9.2%)

Total revenues increased in fiscal year 2023 by $90.8 million primarily due to an increase in net investment gain in nonoperating revenues and increases in student tuition and fees, net and auxiliary enterprises, net, partially offset by a decrease in state and capital appropriations revenue. Operating revenues increased $148.7 million or 5.8 percent mainly due to increases in grants and contracts, student tuition and fees, net, and auxiliary enterprises, net. Revenues from grants and contracts increased $95.6 million due to new and existing federal, state, and non-governmental awards. Revenues from student tuition and fees, net increased $30.6 million due to tuition increases. Revenues from auxiliary enterprises, net increased $19.6 million due to the incremental return to pre-pandemic operations.

Nonoperating revenues increased $4.1 million or 0.3 percent due to increases in net investment gain, offset by decreases in grants, gifts and other nonoperating revenues and state appropriations. Net investment gain increased $109.2 million in 2023, relative to the significant decreases in the valuation of investments in fiscal year 2022.

For the year ended June 30, 2023, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased $62.0 million or 50.6 percent. Capital appropriation revenue is received as project expenses are incurred. The University experienced a slow-down in capital projects during fiscal year 2023 resulting in a decrease of capital appropriation revenue.

Total Operating Expenses

The following schedule summarizes the University's operating expenses by functional category for the years ended June 30, 2023, 2022, and 2021:

				Increase (Decrease)			
				From 2022 (Restated) to 2023		From 2021 to 2022 (Restated)	
	2023	2022 (Restated)	2021	Amount	Percent	Amount	Percent
Education and general							
Instruction	$831,791	$783,386	$799,352	$ 48,405	6.2%	($15,966)	(2.0%)
Research	953,072	849,632	780,587	103,440	12.2%	69,045	8.8%
Public service	299,880	255,884	315,145	43,996	17.2%	(59,261)	(18.8%)
Academic support	493,082	400,483	408,166	92,599	23.1%	(7,683)	(1.9%)
Student services	143,828	117,508	126,114	26,320	22.4%	(8,606)	(6.8%)
Institutional support	305,875	256,692	257,104	49,183	19.2%	(412)	(0.2%)
Operation and maintenance of plant	280,675	224,701	236,706	55,974	24.9%	(12,005)	(5.1%)
Scholarships and fellowships	64,370	82,042	71,212	(17,672)	(21.5%)	10,830	15.2%
Depreciation	245,832	247,070	236,456	(1,238)	(0.5%)	10,614	4.5%
Total education and general	3,618,405	3,217,398	3,230,842	401,007	12.5%	(13,444)	(0.4%)
Other operating expenses							
Auxiliary enterprises	318,143	284,376	272,172	33,767	11.9%	12,204	4.5%
Other operating expenses, net	21	0	1,477	21	100.0%	(1,477)	(100.0%)
Total other operating expenses	318,164	284,376	273,649	33,788	11.9%	10,727	3.9%
Total operating expenses	$3,936,569	$3,501,774	$3,504,491	$ 434,795	12.4%	$ (2,717)	(0.1%)

Total operating expenses increased $434.8 million or 12.4 percent in fiscal year 2023 compared to a decrease of $2.7 million or 0.1 percent in fiscal year 2022. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at $2.5 billion or 64.4 percent, $2.2 billion or 61.8 percent, and $2.3 billion or 66.8 percent of operating expenses in fiscal years 2023, 2022, and 2021, respectively. See Note 13 for additional information. Compensation related expenditures increased $380.7 million or 17.6 percent in 2023, and decreased $181.8 million or 7.8 percent, and $109.9 million or 4.5 percent in fiscal years 2022, and 2021, respectively. The fiscal year 2023 increase is due to the actuarial driven calculation for pension expense of $186.5 million and increases in salary. Most functional categories experienced increases primarily as the result of increases in compensation and the elimination of furlough and pay reduction programs and other cost savings efforts in response to the COVID-19 pandemic. Supplies and services related expenditures increased $88.9 million or 8.8 percent across most functional categories due to the incremental shift to pre-pandemic operations offset by a reduction in Scholarships and Fellowships expenditures of $16.7 million driven primarily by the end or Higher Education Emergency Relief Fund (HEERF) funding.

Consolidated Statements of Cash Flows

The following schedule summarizes the University's cash flows for the years ended June 30, 2023, 2022, and 2021 (Restated):

				Increase (Decrease)			
				From 2022 (Restated) to 2023		From 2021 to 2022 (Restated)	
	2023	2022 (Restated)	2021	Amount	Percent	Amount	Percent
Cash (used) provided by							
Operating activities	$ (1,127,945)	$ (1,078,285)	$ (937,841)	$ (49,660)	(4.6%)	$ (140,444)	(15.0%)
Noncapital financing activities	1,283,255	1,322,147	1,312,922	(38,892)	(2.9%)	9,225	0.7%
Capital and related financing activities	(217,628)	363,228	(193,317)	(580,856)	(159.9%)	556,545	287.9%
Investing activities	(72,249)	(475,970)	(168,609)	403,721	84.8%	(307,361)	(182.3%)
Net increase (decrease) in cash	(134,567)	131,120	13,155	(265,687)	(202.6%)	117,965	896.7%
Cash, beginning of year	819,047	687,927	674,772	131,120	19.1%	13,155	1.9%
Cash, end of year	$ 684,480	$ 819,047	$ 687,927	$ (134,567)	(16.4%)	$ 131,120	19.1%

The University's cash and cash equivalents decreased $134.6 million compared to fiscal year 2022 due to cash used by operating activities, noncapital financing activities, and capital related financing activities, partially offset by cash provided by investing activities.

Cash used by operating activities increased by $49.6 million compared to fiscal year 2022. There was an increase in cash outflows for payments to employees for services and fringe benefits of $155.1 million primarily driven by a continued return to pre-pandemic conditions. Cash inflows from grants and contracts revenue increased $78.3 million due to continued focus on this activity. Cash flows increased by $23.6 million in student tuition and fees revenue due to an increase of tuition rates.

Cash provided by noncapital financing activities decreased $38.9 million compared to an increase of $9.2 million of cash provided in fiscal year 2022. The most significant sources of cash provided included State appropriations totaling $715.6 million and $727.9 million, grants totaling $300.3 million and $351.7 million, and gifts totaling $252.4 million and $199.6 million in 2023 and 2022, respectively.

Cash used by capital and related financing activities increased $580.9 million primarily due to a decrease in cash flows related to a decrease of proceeds from capital debt of $664.6 million, partially offset by an increase of $172.4 million in principal payments on debt. During fiscal year 2023, the University issued $0 million and $91.5 million in new bond issuances and commercial paper, respectively, compared to $688.1 million and $68.0 million in new bond issuances and commercial paper, respectively, in fiscal year 2022. Cash inflows for capital acquisitions from capital appropriations, capital grants and gifts 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 assessed over a full market cycle, usually five to ten years, and monitored over shorter-term time periods by comparing the risk and return posture of the endowment to a globally diversified mix of representative private and public equity and fixed income proxies.

Investments supporting long-term endowments, as well as other investment pools had investment income, net of unrealized gains of $109.8 million, $0.7 million, and $762.9 million, in fiscal years 2023, 2022, and 2021 respectively. The Consolidated Endowment Fund (CEF) and Group Income Pool (GIP) supported annual income distributions to departments in the amount of $82.5 million, $74.5 million, and $66.7 million in fiscal years 2023, 2022, and 2021 respectively. The income distribution amounts are primarily from the CEF pool, in the amounts of $80.6 million, $72.5 million, and $64.9 million in fiscal years 2023, 2022, and 2021, respectively.

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 CEF distribution rate was 4.5% percent in fiscal years 2023, 2022, and 2021.

Factors Affecting Future Financial Position and/or Results of Operations

The University is Minnesota's flagship research institution and has received historically strong support from the State. Its academic quality attracts record numbers of applications, a diversified mix of revenue streams augment tuition and State support, and the University continues to enjoy a strong credit rating, which enables a low cost of borrowing. Maintaining these competitive advantages is more important than ever to the overall results of operations. In addition, current levels of support may be at risk if unfavorable changes occur in State and federal policy, a downturn in U.S. and world economic conditions or other factors occur that might negatively impact the University's revenues and expenses.

Strong state support – Continued strong State support is an important component of future fiscal health for the University. The State's financial situation improved dramatically throughout fiscal year 2023. During the 2023 legislative session, the Governor and Legislature (all controlled by Democrats) considered uses for a projected $17.5 billion state budget surplus. As a result, legislation was enacted that increased the University's fiscal year 2024-2025 biennium base funding to $1.345 billion, an 8.3 percent increase from the previous biennial base appropriation. The State also provided $136.0 million in capital funding to the University for a new chemistry teaching facility ($92.6 million) and Higher Education Asset Preservation and Replacement funds ($43.4 million).

Recognizing the value of the strong ties between the University and the State, the University hired Melisa Lopez Franzen, a retired state senator, as the University's Executive Director for Government and Community Relations. Ms. Franzen will focus on maintaining and strengthening relations between the University and the State.

Enrollment and tuition – Tuition revenue represents the single largest source of recurring revenue to the University, largely because the University has built a national reputation for high quality undergraduate, graduate, and professional education. The University's ability to consistently attract students who seek a world-class, affordable education will be important in the near term to maintain the tuition revenue stream. The Board approved tuition increases for fiscal year 2023 of 3.5% for the Twin Cities campus, and 1.75% for the Crookston, Duluth, Morris, and Rochester campuses. Future tuition and fee revenue will be impacted by many factors, including the Board's decisions on tuition rates, resident and non-resident enrollments, room and board rates, and course fees, as well as other factors such as demographics, federal policies on immigration, and competition from other higher educational institutions for students.

Research Enterprise – The University consistently ranks among the top ten public research universities in the United States in federal funding for research and development, thanks to the productivity and ingenuity of its faculty. For fiscal year 2023 the University received $1.125 billion in sponsored project awards, a 7.1 percent increase from fiscal year 2022.

Growth in technology commercialization is a University priority, and an integral part of the MPact 2025 Strategic Plan. For fiscal year 2023, the University reported 360 invention disclosures, 234 patents were issued to the University and its faculty, 231 new commercialization licenses were entered into, and 23 new startup companies were created based on University intellectual property. These statistics demonstrate the vitality and economic potential of the University's research enterprise.

The University's partnership with Fairview Health Services – The University has an academic affiliation agreement (the "1997 Academic Affiliation Agreement") with Fairview Health Services (Fairview), the health care organization that acquired the University's on-campus hospital effective January 1, 1997. The initial term of the 1997 Academic Affiliation Agreement is January 1, 1997 through December 31, 2026. If a party does not intend to renew the 1997 Academic Affiliation Agreement after 2026, it must give notice to the other party of that intent by December 31, 2023.

In 2018, the University and Fairview entered into additional agreements that built on the 1997 Academic Affiliation Agreement, creating a joint clinical enterprise operated under the brand M Health Fairview and providing increased academic support to the University from Fairview (the "2018 M Health Fairview Agreements"). The 2018 M Health Fairview Agreements are coterminous with the 1997 Academic Affiliation Agreement.

A strong partnership with Fairview is vital to supporting research, outreach, and medical education missions of the University of Minnesota Medical School. For the University's fiscal year ended June 30, 2023, all scheduled payments to the University under the 2018 M Health Fairview Agreements have been made by Fairview.

For 2022, Fairview reported an operating loss of $315.4 million. The University and Fairview are engaged in regular meetings around a post-2026 affiliation, with a focus on the public and nonprofit missions of the organizations and the assets used in delivery of academic medicine in Minnesota. The financial performance of Fairview is part of those discussions.

In August 2023 Minnesota Governor Tim Walz announced the creation of the Governor's Task Force on Academic Health at the University of Minnesota. The Task Force will meet throughout the fall of 2023 and provide a report to the Governor by January 15, 2024. The Task Force's report may inform state lawmakers and policymakers as they consider alternatives for state support of academic medicine at the University.

University of Minnesota
Consolidated Statements of Net Position (Excluding Component Units)
As of June 30, 2023 and 2022 (in thousands)

		2023	2022 (Restated)
Assets			
Current assets			
Cash and cash equivalents		$ 544,510	$ 742,260
Short-term investments		313,477	280,334
Receivables, net		472,861	466,229
Lease receivables		10,266	10,235
Inventories		22,818	22,080
Student loans receivable, net		7,056	7,477
Prepaid expenses		20,383	23,124
Other assets		31	30
Total current assets		1,391,402	1,551,769
Noncurrent assets			
Restricted cash and cash equivalents		139,970	76,787
Restricted investments		353,686	440,872
Investments		3,064,166	2,837,687
Receivables, net		1,738	10,119
Lease receivables		337,311	344,977
Student loan receivables, net		41,379	44,198
Prepaid expenses		7,474	8,833
Other assets		2,136	2,933
Capital assets, net		3,315,278	3,347,929
Total noncurrent assets		7,263,138	7,114,335
Total assets		8,654,540	8,666,104
Deferred Outflows of Resources		224,875	252,530
Liabilities			
Current liabilities			
Accounts payable		136,597	123,017
Accrued liabilities and other		346,334	353,687
Unearned income		66,923	60,385
Long-term debt		347,086	273,833
Lease liabilities		18,301	17,608
Subscription liabilities		8,899	9,094
Total current liabilities		924,140	837,624
Noncurrent liabilities			
Accrued liabilities and other		370,987	152,234
Unearned income		6,421	7,534
Long-term debt		1,644,649	1,711,370
Lease liabilities		185,627	199,768
Subscription liabilities		18,201	17,296
Total noncurrent liabilities		2,225,885	2,088,202
Total liabilities		3,150,025	2,925,826
Deferred Inflows of Resources		464,030	873,891
Net Position			
Unrestricted		1,579,690	1,426,431
Restricted	Expendable	1,787,246	1,745,875
	Nonexpendable	325,535	319,387
Net investment in capital assets		1,572,889	1,627,224
Total net position		$ 5,265,360	$ 5,118,917

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Statements of Fiduciary Net Position (Excluding Component Units)
As of June 30, 2023 and 2022 (in thousands)

	2023		2022	
Assets	**Restricted for pension (and other employee benefit) Trust Funds**	**Custodial Funds**	**Restricted for pension (and other employee benefit) Trust Funds**	**Custodial Funds**
Short-term investments	$ 468		$ 286	
Trade receivables		$ 620		$ 2,381
Student receivables		852		954
Prepaid expenses				134
Total assets	468	1,472	286	3,469
Liabilities				
Accounts payable		1,734		4,407
Accrued liabilities		205		283
Total liabilities		1,939		4,690
Net Position (Deficit)				
Unrestricted	468	(467)	286	(1,221)
Total net position (deficit)	$ 468	$ (467)	$ 286	$ (1,221)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Component Units – Statements of Financial Position

As of June 30, 2023 and 2022 (in thousands)

	University of Minnesota Foundation		University of Minnesota Physicians	
	2023	2022	2023	2022 (Restated)
Assets				
Cash and cash equivalents	$ 35,163	$ 33,644	$ 119,659	$ 126,947
Investments, substantially at fair market value	3,962,461	3,817,528	44,377	36,412
Other investments	6			
Pledges receivable, net	200,826	224,690		
Investments loans receivable	68,425			
Accounts and other receivables	37,931	14,542	147,526	115,261
Interest in charitable lead trusts, unitrusts, pooled income, and trus	91,054	88,566		
Gift annuities	48,888	48,312		
Property and equipment, net	74,870	76,125	11,078	11,364
Prepaids and other assets	3,326	2,537	11,446	2,596
Total assets	4,522,950	4,305,944	334,086	292,580
Liabilities				
Accounts payable and accrued liabilities	34,439	34,219	214,989	193,483
Gift annuities payable	20,555	20,366		
Unitrusts, pooled income, and annuity trusts payable	12,300	12,640		
Investments held for custody of others	403,965	355,435		
Long-term debt	43,189	44,152		
Lease liabilities	3,583	2,721	10,315	
Total liabilities	518,031	469,533	225,304	193,483
Net Assets				
Without donor restrictions	226,403	226,339	108,782	99,097
With donor restrictions	3,778,516	3,610,072		
Total net assets	4,004,919	3,836,411	108,782	99,097
Total liabilities and net assets	$ 4,522,950	$ 4,305,944	$ 334,086	$ 292,580

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Consolidated Statements of Revenues, Expenses and Changes in Net Position (Excluding Component Units)

Years ended June 30, 2023 and 2022 (in thousands)

			2023	2022 (Restated)
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $346,151 in 2023; $352,188 in 2022		$ 794,652	$ 764,030
	Federal grants and contracts		611,552	548,336
	State and other government grants		117,494	106,756
	Nongovernmental grants and contracts		527,138	505,539
	Student loan interest income		177	244
	Sales and services of educational activities, net of scholarship allowances of $82 in 2023; $101 in 2022		167,957	165,043
	Auxiliary enterprises, net of scholarship allowances of $16,377 in 2023; $19,832 in 2022		494,290	474,665
	Other operating revenues		177	105
Total operating revenues			2,713,437	2,564,718
Expenses				
Operating expenses	Education and general	Instruction	831,791	783,386
		Research	953,072	849,632
		Public service	299,880	255,884
		Academic support	493,082	400,483
		Student services	143,828	117,508
		Institutional support	305,875	256,692
		Operation & maintenance of plant	280,675	224,701
		Scholarships & fellowships	64,370	82,042
		Depreciation	245,832	247,070
	Auxiliary enterprises		318,143	284,376
	Other operating expenses, net		21	
Total operating expenses			3,936,569	3,501,774
Operating Loss			(1,223,132)	(937,056)
Nonoperating Revenues (Expenses)				
Federal appropriations			18,541	16,318
State appropriations			716,341	727,857
Grants, including HEERF Act Funding of $0 in 2023; $105,120 in 2022			260,405	393,282
Gifts			263,705	214,878
Investment income, net			109,829	656
Interest on capital-asset related debt			(69,315)	(50,750)
Other nonoperating revenues, net			9,455	21,137
Net nonoperating revenues			1,308,961	1,323,378
Income Before Other Revenues			85,829	386,322
Capital appropriations			46,330	80,259
Capital grants and gifts			13,038	36,092
Additions to permanent endowments			1,246	6,310
Total other revenues			60,614	122,661
Increase In Net Position			146,443	508,983
Net position at beginning of year			5,118,917	4,609,934
Net position at end of year			$ 5,265,360	$ 5,118,917

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Statements of Changes in Fiduciary Net Position (Excluding Component Units)
Years ended June 30, 2023 and 2022 (in thousands)

		2023		2022	
Additions		**Pension (and other employee benefit) Trust Funds**	**Custodial Funds**	**Pension (and other employee benefit) Trust Funds**	**Custodial Funds**
Contributions	Student financial aid and loans		$ 390,167		$ 379,700
	External financial aid awards		20,122		19,353
	Services provided		3,132		1,894
	Memberships collected		1,257		831
	Student fees		1,172		1,177
	Supplemental Benefit Plan Contributions	$ 190			
	Investment (loss)	(8)		$ (11)	
Total contributions		182	415,850	(11)	402,955
Deductions					
	Student aid and awards		410,124		399,117
	Other deductions to vendors		4,972		3,713
	Benefits to participants and beneficiaries			81	
Total deductions			415,096	81	402,830
Net Change in Fiduciary Net Position (Deficit)		182	754	(92)	125
Net position (deficit) at beginning of year		286	(1,221)	378	(1,346)
Net position (deficit) at end of year		$ 468	$ (467)	$ 286	$ (1,221)

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Component Units – Statements of Activities

Years ended June 30, 2023 and 2022 (in thousands)

	University of Minnesota Foundation			
	Without donor restrictions	With donor restrictions	Total 2023	Total 2022
Revenues				
Contributions	$ 1,107	$ 254,758	$ 255,865	$ 322,723
Investment income, net	5,155	36,395	41,550	13,962
Net realized and unrealized gains (losses) on investments	3,341	174,274	177,615	(193,243)
Change in value of trusts	(286)	4,031	3,745	(23,938)
Support services revenue	8,356		8,356	8,358
UMF - Real Estate Advisors rental revenue	6,347		6,347	6,659
University Gateway Corporation revenue	4,765		4,765	4,533
Other revenue	2,391		2,391	2,550
Net assets released from restriction	301,014	(301,014)		
Total revenues	332,190	168,444	500,634	141,604
Expenses				
Program services				
Distributions for University purposes	262,653		262,653	201,667
Support services				
Management and general	13,556		13,556	11,926
Promotion and development	41,726		41,726	36,168
UMF - Real Estate Advisors	7,160		7,160	7,671
University Gateway Corporation	7,030		7,030	6,166
Total expenses	332,125		332,125	263,598
Increase (decrease) in net assets	65	168,444	168,509	(121,994)
Net assets at beginning of year	226,338	3,610,072	3,836,410	3,958,405
Net assets at end of year	$ 226,403	$ 3,778,516	$ 4,004,919	$ 3,836,411

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Component Units – Statements of Activities

Years ended June 30, 2023 and 2022 (in thousands)

	University of Minnesota Physicians	
	Total (unrestricted)	
	2023	2022 (Restated)
Revenues		
Contract revenue	$ 850,195	$ 758,920
Patient service revenue	32,375	29,646
Investment income, net	1,243	319
Net realized and unrealized gains (losses) on investments	1,088	(3,049)
Loss on equity method investments	(21,204)	(23,927)
Other revenue	15,556	15,377
Other nonoperating revenues, net	3,675	
Total revenues	882,928	777,286
Expenses		
Program services		
Health care services	804,410	735,959
Support services		
Management and general	68,833	65,302
Total expenses	873,243	801,261
Increase (decrease) in net assets	9,685	(23,975)
Net assets at beginning of year	99,097	123,072
Net assets at end of year	$ 108,782	$ 99,097

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years ended June 30, 2023 and 2022 (in thousands)

	2023	2022 (Restated)
Cash Flows From Operating Activities		
Student tuition and fees	$ 790,456	$ 765,922
Grants and contracts (federal, state, nongovernmental, other)	1,242,007	1,163,693
Auxiliary enterprises	497,676	486,440
Sales and services of educational activities	172,483	171,674
Collection of loans to students	7,930	9,303
Other operating revenues	1,404	2,451
Payments to employees for services	(1,973,238)	(1,852,274)
Payments for fringe benefits	(718,324)	(684,142)
Payments to suppliers for goods and services	(1,074,941)	(1,057,099)
Payments for scholarships and fellowships	(67,278)	(80,181)
Loans issued to students	(6,120)	(4,072)
Net cash used by operating activities	(1,127,945)	(1,078,285)
Cash Flows From Noncapital Financing Activities		
State appropriations	715,642	727,875
Grants for other than capital purposes	300,278	351,734
Gifts for other than capital purposes	252,435	199,551
Federal appropriations	16,216	15,154
Other nonoperating revenues, net	(1,339)	21,531
Private gifts for endowment purposes	23	6,302
Direct lending receipts	315,872	312,531
Direct lending disbursements	(315,626)	(312,553)
Agency transactions	(246)	22
Net cash provided by noncapital financing activities	1,283,255	1,322,147
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	91,500	756,103
Capital appropriations	49,003	82,736
Capital grants and gifts	14,274	2,820
Proceeds from sale of capital assets	2,041	13,867
Principal received on notes receivable	276	788
Interest received on notes receivable	411	379
Purchases of capital assets	(182,827)	(152,962)
Principal paid on capital debt	(75,029)	(247,459)
Interest paid on capital debt	(73,748)	(66,963)
Principal paid on lease and subscription liabilities	(38,088)	(20,572)
Interest paid on lease and subscription liabilities	(5,441)	(5,509)
Net cash (used) provided by capital and related financing activities	(217,628)	363,228
Cash Flows From Investing Activities		
Investment income, net	150,113	110,525
Proceeds from sales and maturities of investments	26,007,625	8,344,278
Purchase of investments	(26,229,987)	(8,930,773)
Net cash used by investing activities	(72,249)	(475,970)
Net (Decrease) Increase in Cash and Cash Equivalents	(134,567)	131,120
Cash and Cash Equivalents at Beginning of Year	819,047	687,927
Cash and Cash Equivalents at End of Year	$ 684,480	$ 819,047

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years ended June 30, 2023 and 2022 (in thousands)

	2023	2022 (Restated)
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities		
Operating loss	$ (1,223,132)	$ (937,056)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	245,832	247,070
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Receivables, net	11,314	13,736
Lease receivables	-	(2,114)
Inventories	(699)	(2,508)
Prepaid and other items	4,119	(7,192)
Other assets	(230)	19
Deferred outflows of resources	92,119	12,035
Accounts payable	7,601	(15,910)
Accrued liabilities	(23,221)	(28,207)
Unearned income	752	4,124
Deferred inflows of resources	(242,400)	(362,282)
Net cash used by operating activities	$ (1,127,945)	$ (1,078,285)
Noncash Investing, Capital, and Financing Activities		
Net unrealized losses on investments	$ (76,383)	$ (154,840)
Realized gains on investments for stock distributions	18,388	44,234
Net unsettled investment trades	4,599	1,143
Capital assets on account	22,440	15,868
Amortization of bond discount/premium	9,939	21,992
Contribution of capital assets	1,099	18,855
Cash and cash equivalents	$ 544,510	$ 742,260
Restricted cash and cash equivalents	139,970	76,787
Total cash and cash equivalents at end of year	$ 684,480	$ 819,047

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

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

Organization

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 (State). The University has five campuses: Crookston, Duluth, Morris, Rochester, and Twin Cities.

The University is considered a constitutional corporation and, for purposes of Governmental Accounting Standards Board (GASB) reporting, an agency of the State. As a result of this unique status, authority to govern the University is reserved to the Board 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.

Tax Status—The Internal Revenue Service (IRS) has ruled that the University is an integral part of the State. 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 includes the financial results of the five campuses and, as required under 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 their exclusion would cause the University's financial statements to be misleading to the University's level of financial accountability and significance of their operational relationships with the University or its other component units.

Blended Component Units—The University has component units that provide services entirely for the University's own benefit. GASB 61 requires blended presentation—combining the component units and University financial information together, displayed as one entity. The University has six blended component units. Except as noted below, the component units are immaterial to the financial statements.

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 administer medical malpractice, general liability, directors' and officers' liability, and automobile liability on behalf of the University. Coverage includes: commercial general and professional liability, non-profit organization liability, business auto liability, excess automobile liability, and property liability. RUMINCO insurance agreements limit the exposure to loss on a per-occurrence and annual aggregate basis.

2407 University Investment, LLC

On October 20, 2022, the University purchased United Properties Investment, LLC's 51 percent ownership of 2407 University Investment, LLC. As of that date, the joint venture of 2407 University Investment, LLC became a wholly owned company of the University and the results are presented on a blended basis in the financial statements. The company owns and operates a hotel and acts as a lessor of a restaurant on property adjacent to the Twin Cities campus. This blended component unit's results are immaterial to the financial statements.

Discretely Presented Component Units—The University's consolidated 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.

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, and do not meet the criteria of a blended component unit. The component units' financial data has been aggregated into like categories for presentation purposes.

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. The board of trustees of the UMF consists of between 30 and 45 members and includes the President of the University. 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, are restricted by donors to the activities of the University. The factor that contributes to the UMF being classified as a discretely presented component unit relates to the significant resources the UMF holds on behalf of the University. The University has access to these resources.

During fiscal years 2023 and 2022, the UMF distributed $295,732 and $240,786, respectively, to the University. Complete financial statements for the UMF 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 Medical School. 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 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 2023 and 2022, UMP distributed $107,369 and $109,543, respectively, to the University. Complete financial statements for UMP can be obtained from the Chief Financial Officer, 720 Washington Ave S.E., Suite 200, Minneapolis, MN 55414.

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 are reported at fair value, which represents the price that would be received to sell the investment in an orderly transaction between market participants. The University's investments are valued using a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace in accordance with GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect the University's own assumptions about how market participants would value the investment based on the best information available. The University uses various industry standard valuation techniques that are appropriate under the circumstances and for which sufficient information is available to determine fair value—maximizing the use of observable inputs, while minimizing the use of unobservable inputs. Purchases and sales of investments are recorded on a trade date basis. Investment income includes: interest income; realized and unrealized gains and losses; and investment related expenses.

The University may use 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 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 noncurrent assets, as these funds are required to be used for long-term capital projects.

Restricted Investments—Restricted investments also 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 investments, they are recorded as noncurrent assets, as these funds are required to be used for long-term capital projects and are not available for current operations.

Capital Assets, Net—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. Leased assets are recorded at net present value of the lease payments and are amortized over the shorter of life of the lease or asset. Subscription assets are recorded at net present value of the subscription payments and are amortized over the subscription term.

The following schedule summarizes the useful lives and capitalization thresholds:

Asset category	Useful life (in years)	Capitalization threshold
Capitalized software (intangible asset)	Shorter of legal life or 5 years	$500,000
Perpetual licenses (intangible asset)	License term	500,000
Non income-producing intellectual property (intangible asset)	Legal life	500,000
All other intangible assets	5	500,000
Subscription assets	Subscription term	500,000
Buildings and improvements	10-40	50,000
Infrastructure	10-40	50,000
Equipment	3-20	5,000
Leased assets	Lease term	
Land	Indefinite	
Museums and collections	Indefinite	
Library and reference books	10	
Permanent right-of-way easements (intangible asset)	Indefinite	

Deferred Outflows of Resources— Deferred outflows of resources represent the use of net position in the current period that are applicable to a future reporting period. This includes current fiscal year contributions made to the University's participation in certain State cost-sharing, multiple employer defined benefit plans, as well as changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the respective plan's net pension liability (NPL) and changes in the University's proportionate share in the NPL. Additional information regarding pensions is discussed in Note 8. In addition, a portion of the balance is attributed to the University's other postemployment benefits (OPEB) offered through the UPlan for changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the OPEB liability. Additional information regarding other postemployment benefits is discussed in Note 12. A portion of the balance represents a loss related to the defeasance of long-term debt. Additional information regarding long-term debt is discussed in Note 7. The last portion is attributable to the purchase of the remaining 51 percent of the 2407 University Investment, LLC and represents consideration that exceeded the net position of 2407 University Investment, LLC.

Noncurrent Liabilities—Noncurrent liabilities represent the principal portion of bonds, notes, and 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.

Deferred Inflows of Resources— Deferred inflows of resources represent the inflow of net position in the current period that is applicable to a future reporting period. This includes the changes in the actuarial assumptions and methods used to calculate the NPL related to the University's participation in the State's cost-sharing, multiple employer defined benefit plans, as well as changes in the University's proportionate share in the NPL. Additional information regarding pensions is discussed in Note 8. In addition, a portion of the balance is attributed to the University's other postemployment benefits (OPEB) offered through the UPlan for changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the OPEB liability. Additional information regarding other postemployment benefits is discussed in Note 12. A portion of the balance represents a gain related to the defeasance of long-term debt. Additional information regarding long-term debt is discussed in Note 7. The last portion of the balance represents consideration to be received as part of a public-private partnership (PPP).

Net Position—Net position is reported in the following three components:

- **Unrestricted**: Net position that has no external restriction imposed is classified as unrestricted. Unrestricted net position may be designated for specific purposes by the Board 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 is classified as restricted - expendable. 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 is classified as restricted - nonexpendable. 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 when the University receives something and gives something with essentially equal value and recognizes nonexchange revenue when the University receives something of value without directly giving something of equal value in exchange. Revenue is recognized in accordance with GASB Statement No. 34 (GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*.

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

- **Operating revenues**: Operating revenues 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**: Nonoperating revenues 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 and legal settlements are classified as nonoperating revenues as part of other nonoperating revenues, net. Insurance recovery revenue recorded was $4,001 and $1,440 for fiscal years 2023 and 2022, respectively.

- **Operating expenses**: Operating expenses 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 13.

  During fiscal years 2023 and 2022, nonsponsored departmental research of $289,604 and $254,235 respectively, were recorded in both research expense and depreciation expense.

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

Fiduciary Financial Statements—Fiduciary activity is presented separately from the University's consolidated financial statements and is presented in financial statements for fiduciary activity. Fiduciary activity includes custodial funds and pension and (other employee benefit) trust funds.

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 consolidated 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, receivables, allowances for uncollectible accounts, self-insurance reserves, scholarship discounts and allowances, arbitrage rebates, and vacation pay and pension accruals.

New Accounting Pronouncements

Adoption of New Accounting Pronouncements

GASB Statement No. 94 (GASB 94), *Public-Private Partnerships (PPP) and Availability Payment Arrangements (APA)*, improves financial reporting by addressing issues related to PPPs and also provides guidance for accounting and financial reporting for APAs. GASB 94 refers to a PPP as an arrangement in which the University (the transferor) contracts with an operator to provide public services by conveying control of the right to operate and use a nonfinancial asset, such as infrastructure or other capital assets, for a period of time in an exchange transaction. An APA is an arrangement in which the University would compensate an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange transaction. This pronouncement was adopted in fiscal year 2023, with retrospective application to the fiscal year ended June 30, 2022. The effect of the adoption is immaterial to the financial statements.

GASB Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements (SBITA)*, this pronouncement was adopted in fiscal year 2023, with retrospective application to the fiscal year ended June 30, 2022. The cumulative effect of the adoption is reflected in the University records as subscription liability and an underlying right-to-use subscription asset for SBITA contracts. Over the course of the SBITA contract amortization of the subscription asset will be recognized in the Statements of Revenues, Expenses, and Changes in Net Position. See Note 6, Subscription-Based Technology Arrangements, for more information.

New Accounting Pronouncements Not Yet Adopted

GASB Statement No. 99 (GASB 99), *Omnibus 2022*, enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASBs. Different provisions of GASB 99 will be effective for fiscal years 2022, 2023, and 2024.

GASB Statement No. 100 (GASB 100), *Accounting Changes and Error Corrections*, an amendment of GASB Statement No. 62; defines accounting changes; prescribes accounting and financial reporting for accounting changes and error corrections; and required note disclosures. The provisions of GASB 100 are effective for fiscal year 2025.

GASB Statement No. 101 (GASB 101), *Compensated Absences*, defines when liabilities are required to be established for certain types of absences; establishes guidance for reporting and measuring a liability for leave that has not been used; and required note disclosures. The provisions of GASB 101 are effective for fiscal year 2025.

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, 2023, could affect the market values reported in the consolidated financial statements.

The following table summarizes cash and investments, including State Small Business Credit Initiative (SSBCI) first funded in the year ended June 30, 2023, and RUMINCO, Ltd., a wholly-owned captive insurance company as of June 30, 2023:

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds and Other	Invested Assets Related to Indebtedness	SSBCI	RUMINCO, Ltd. Insurance Subsidiary	Total
Cash and cash equivalents	$ 524,371	$ 18,417	$ 512	$ 923			$ 287	$ 544,510
Short-term investments	271,294		417		$ 41,766			313,477
Total current assets	795,665	18,417	929	923	41,766		287	857,987
Restricted cash and cash equivalents					139,970			139,970
Restricted investments					353,686			353,686
Total restricted assets					493,656			493,656
Long-term investments								
Fixed Income	763,593	359,567	60,470					1,183,630
Public Equity		340,427						340,427
Private Capital		1,147,808		12,277		$ 1,433		1,161,518
Inflation Hedges		178,359						178,359
Other	20,402	107,017		1,880			70,933	200,232
Total noncurrent investments	783,995	2,133,178	60,470	14,157		1,433	70,933	3,064,166
Total cash and investments	$ 1,579,660	$ 2,151,595	$ 61,399	$ 15,080	$ 535,422	$ 1,433	$ 71,220	$ 4,415,809

The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company as of June 30, 2022:

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds and Other	Invested Assets Related to Indebtedness	RUMINCO, Ltd. Insurance Subsidiary	Total
Cash and cash equivalents	$ 674,071	$ 56,847	$ 11,277			$ 65	$ 742,260
Short-term investments	217,859		420			62,055	280,334
Total current assets	891,930	56,847	11,697			62,120	1,022,594
Restricted cash and cash equivalents					$ 76,787		76,787
Restricted investments					440,872		440,872
Total restricted assets					517,659		517,659
Long-term investments							
Fixed Income	657,027	338,369	60,095				1,055,491
Public Equity		259,178					259,178
Private Capital		1,140,798		$ 6,257			1,147,055
Inflation Hedges		183,270					183,270
Other	20,609	168,239		3,845			192,693
Total noncurrent investments	677,636	2,089,854	60,095	10,102			2,837,687
Total cash and investments	$ 1,569,566	$ 2,146,701	$ 71,792	$ 10,102	$ 517,659	$ 62,120	$ 4,377,940

Fair Value Measurements

GASB 72 establishes the framework for measuring investments at fair value and associated hierarchy that categorizes the valuation inputs. In accordance with GASB 72, the University has categorized its investments based on the priority of the inputs into a three-level fair value hierarchy.

Fair Value Hierarchy—The three levels of the fair value hierarchy are described below:

- **Level 1**: Inputs for quoted prices (unadjusted) for identical investments in active markets that the University can access at June 30.
- **Level 2**: Inputs, other than quoted prices included within Level 1, that are observable for an investment.
- **Level 3**: Inputs that are unobservable for an investment.

The hierarchy gives the highest priority to Level 1 inputs and lowest priority to Level 3 inputs. If a price for an identical investment is not observable, the University measures fair value using a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

Per GASB 72, in instances where the University does not have a readily determinable fair value, the University is permitted to establish fair value by using the net asset value (NAV) per share (or its equivalent) if it is calculated in a manner that is consistent with FASB measurement principles for investment companies.

The following table summarizes investments according to the fair value hierarchy and NAV as of June 30, 2023:

	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income				
US Agency		$ 533,743		$ 533,743
Return generated fixed income	$ 4,612	352,838		357,450
US Treasury		338,239		338,239
Risk mitigating fixed income	48,375			48,375
Mortgage-backed securities		27,892		27,892
Listed equity				
Global developed equity	154,306			154,306
Diversifiers		20,167		20,167
Private capital	12,170		$ 12,277	24,447
Other	15,706	3,382		19,088
Total	235,169	1,276,261	12,277	1,523,707
Investments measured at net asset value (NAV)				2,207,622
Total investments				$ 3,731,329

The following table summarizes investments according to the fair value hierarchy and NAV as of June 30, 2022:

	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income				
Risk mitigating fixed income	$ 52,101	$ 420,872		$ 472,973
US Agency		336,981		336,981
US Treasury		267,310		267,310
Commercial papers		79,765		79,765
Return generated fixed income	4,370	20,278		24,648
Mortgage-backed securities		36,475		36,475
Corporate bonds		19,928		19,928
Listed equity				
Global developed equity	135,238			135,238
Private capital	24,814		$ 6,257	31,071
Other	20,639	3,144		23,783
Total	237,162	1,184,753	6,257	1,428,172
Investments measured at net asset value (NAV)				2,130,721
Total investments				$ 3,558,893

GASB 72 also requires additional disclosure information related to investments valued using NAV.

The following table summarizes NAV investments as of June 30, 2023:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Capital	$ 1,137,071	$ 343,776	None, monthly, or annually	None; 1 or 90 days
Fixed Income	565,894	121,847	None, daily, or annually	None; 2 or 60 days
Global Equity	189,866		None, daily, monthly, or quarterly	None, 2, 30, 45, or 90 days
Hedge Fund	124,972		None, monthly, quarterly, semi annually, or annually	None; 20, 30, 45, 60, 65, 75, or 90 days
Real Estate	37,615	10,213	None	None
Natural Resources	91,019	11,380	None, quarterly	None; 90 days
Other	61,185	5,919	None	None
Total	$ 2,207,622	$ 493,135		

The following table summarizes NAV investments as of June 30, 2022:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Capital	$ 1,131,231	$ 276,225	None, monthly, or annually	None; 1 or 90 days
Fixed Income	496,625	119,977	None, daily, or annually	None; 2 or 60 days
Global Equity	165,934	1,740	None, daily, monthly, or quarterly	None, 2, 30, 45, or 90 days
Hedge Fund	171,189		None, monthly, quarterly, semi annually, or annually	None; 20, 30, 45, 60, 65, 75, or 90 days
Real Estate	46,888	17,494	None	None
Natural Resources	83,852	15,958	None, quarterly	None; 90 days
Other	35,002	9,921	None	None
Total	$ 2,130,721	$ 441,315		

Private Capital—This category includes investments in private capital funds, generally through limited partnerships that invest in private companies and venture capital. These investments cannot be redeemed at the University’s discretion. It is estimated that the underlying assets of the fund would be liquidated over time.

Fixed Income—This category includes investments in private funds that invest in debt securities. Distributions from each fund are received when the underlying investments in the funds generate distributable cash flows or when the underlying investments are liquidated.

Global Equity—This category includes investments in funds that invest in listed equity securities of companies. Distributions from each fund are received when the underlying investments in the funds generate distributable cash flows or when the underlying investments are sold. The managers of the funds have the flexibility to change their exposure based on their view of particular securities, and the overall market.

Hedge Funds—This category includes investments in hedge funds that invest in equity and debt. Debt securities include corporate debt, mortgage debt, and derivative securities. The managers of the funds have the flexibility to change their exposure based on their view of particular securities, and the overall market. Some of these investments have lock-up and / or gate provisions that restrict the University’s ability to redeem these investments.

Real Estate—This category includes investments in real asset funds that invest in real estate.

Natural Resources—This category includes investments in funds that invest in energy firms and forestry product firms. Distributions from each fund are received when the underlying investments in the funds generate distributable cash flows or when the underlying investments are liquidated. It is estimated that the underlying assets of the fund would be liquidated over time.

Other Investments—This category includes investments in other pooled fund interests.

Authorizations

The Board establishes the investment policies and objectives for all University funds. RUMINCO, Ltd., a wholly-owned captive insurance company, has a separate 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) or other illiquid fixed income securities. As of June 30, 2023, and 2022, the market value of the TIP assets invested in the CEF was $230,789 and $200,832, 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.

As of June 30, 2023 and 2022, the Standard & Poor's credit rating for instruments held in TIP 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, 2023 and 2022, $80,595 and $72,503, respectively, was made available for departmental spending.

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 and different liquidity characteristics. LP investments are privately negotiated transactions with very restricted liquidity. LPs are required to conduct an external audit annually in accordance with the FASB or the International Accounting Standards Board.

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, 2023 and 2022, the fair value of the GIP assets invested in the CEF was $26,861 and $28,246, respectively. These assets are reported in the total cash and investments of the CEF.

Separately Invested Funds (SIF) and Other—The SIF primarily represents investments in private equity companies that were acquired through University-developed technology, as well as investments in start-up companies through the University's Discovery Capital Investment Program.

Invested Assets Related to Indebtedness—Invested Assets Related to Indebtedness are held in custodial accounts, which are managed both internally by the University's Office of Investment and Banking and externally by investment managers. These assets are invested in high quality, short-term and long-term fixed income investments until needed for capital projects for which the debt was issued.

State Small Business Credit Initiative (SSBCI)—The University entered into a contract with the State and performs professional services to the state-sponsored multi-fund venture capital program and direct investment venture capital program under the State Small Business Credit Initiative (SSBCI). These assets are invested in venture capital. SSBCI assets are held in custodial accounts, which are managed internally by the University's Office of Investment and Banking. The University will receive compensation for the performance of the professional services. Realized investment returns will be distributed to the State until the program funds principal is repaid, after which time, realized investment returns will be shared and distributed equally between the State and the University.

Regents of the University of Minnesota Insurance Company, Ltd. (RUMINCO)—RUMINCO is a wholly-owned captive insurance company (see Notes 1 and 11) whose principal activities are the insurance of certain risks to the University. 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—Components of the net investment income, net 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 increases or decreases in fair market values of investments from prior years.

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, 2023:

Fixed-income securities:	**Value**	**Maturity (years)**	**AA or Better**	**BBB to A**	**BB or Lower**	**Not Rated**
Cash & equivalents	$ 452,828		100 %			
Mortgage-backed securities	27,892	13.1	100			
US Agency	533,698	1.7	100			
US Treasury	338,239	2.0	100			
Mutual Funds	151,967	4.3	77	21 %	2 %	
Total marketable fixed-income securities	1,504,624	1.7				
Private fixed-income securities	423,425					
Total fixed-income securities	$ 1,928,049					

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2022:

Fixed income securities	**Value**	**Maturity (years)**	**AA or better**	**BBB to A**	**BB or lower**	**Not rated**
Cash & equivalents	$ 521,277		100 %			
Commercial paper	79,765	0.3	100			
Mortgage-backed securities	36,475	13.9	100			
US Agency	336,981	2.3	100			
US Treasury	267,310	2.0	100			
Corporate Bonds	19,928	0.9	100			
Mutual Funds	154,427	4.6	77	20 %	3 %	
Total marketable fixed-income securities	1,416,163	1.8				
Private fixed-income securities	768,069					
Total fixed-income securities	$ 2,184,232					

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, 2023 and 2022, 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 when expressed in US dollar equivalents.

The following table summarizes the University's exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2023 and 2022:

Investment Type	**Foreign Currency**	**Market Value 2023**	**Market Value 2022**
Equity/Debt/Real Estate	Euro	$ 59,031	$ 52,911
Equity	British Pound Sterling	37,495	24,832
Total		$ 96,526	$ 77,743

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. 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 Federal Deposit Insurance Corporation (FDIC) insured amount is $250 for bank balances held in the United States and Bermuda Deposit Insurance Corporation (BDIC) insured amount of $25 for bank balances held in Bermuda that relate to RUMICO. As of June 30, 2023, the University's bank balances subject to depository credit risk of $38,238 were uninsured and uncollateralized.

Investment Securities—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 is not exposed to custodial credit risk as of June 30, 2023 because the investment securities are held by the University and not by a counterparty.

3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2023, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 4,140		$ 4,140
Sponsored grants and contracts	131,313		131,313
Notes receivable	114	$ 139	253
Student receivables	31,067		31,067
Trade receivables	270,355		270,355
Accrued interest	3,845		3,845
Other	39,176	1,599	40,775
Allowance for uncollectible accounts	(7,149)		(7,149)
Total receivables, net	$ 472,861	$ 1,738	$ 474,599
Student loans receivable	10,435	41,379	51,814
Allowance for uncollectible accounts	(3,379)		(3,379)
Student loans receivable, net	$ 7,056	$ 41,379	$ 48,435

Receivables, net, and student loans receivable as of June 30, 2022, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 1,657		$ 1,657
Sponsored grants and contracts	122,238		122,238
Notes receivable	768	$ 7,561	8,329
Student receivables	28,908		28,908
Trade receivables	275,520		275,520
Accrued interest	1,101		1,101
Other	42,891	2,558	45,449
Allowance for uncollectible accounts	(6,854)		(6,854)
Total receivables, net	$ 466,229	$ 10,119	$ 476,348
Student loans receivable	11,109	44,198	55,307
Allowance for uncollectible accounts	(3,632)		(3,632)
Student loans receivable, net	$ 7,477	$ 44,198	$ 51,675

As a result of implementing GASB 94, receivables was restated with a increase of $3,521.

Accrued liabilities as of June 30, 2023, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 5,284	$ 11,331	$ 16,615
Compensation and benefits	259,567	312,314	571,881
Self-insurance reserves	47,659	12,043	59,702
Accrued interest	20,002		20,002
Refundable advances	3,113	33,273	36,386
Other	10,709	2,026	12,735
Total accrued liabilities	$ 346,334	$ 370,987	$ 717,321

Accrued liabilities as of June 30, 2022, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 4,317	$ 11,009	$ 15,326
Compensation and benefits	241,350	87,310	328,660
Self-insurance reserves	45,089	13,164	58,253
Accrued interest	18,905		18,905
Refundable advances	4,212	36,699	40,911
Other	39,814	4,052	43,866
Total accrued liabilities	$ 353,687	$ 152,234	$ 505,921

Activity for certain liabilities consisted of the following as of June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances	$ 328,660	$ 479,477	$ (236,256)	$ 571,881	$ 259,567
Self-insurance reserves (see Note 10)	58,253	391,818	(390,370)	59,702	47,659
Refundable advances	40,911		(4,525)	36,386	3,113
Other	43,866	12,735	(43,866)	12,735	10,709

Activity for certain liabilities consisted of the following as of June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances	$ 517,977	$ 250,863	$ (440,180)	$ 328,660	$ 241,350
Self-insurance reserves (see Note 10)	53,237	357,682	(352,666)	58,253	45,089
Refundable advances	46,522		(5,611)	40,911	4,212
Other	51,678	43,866	(51,678)	43,866	39,814

4. Capital Assets

Capital assets, net as of June 30, 2023, consisted of the following:

	Beginning Balance	Additions	Transfers	Retirements & Reductions	Ending Balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 4,954,779	$ 2,018	$ 75,902		$ 5,032,699
Equipment	849,475	54,971		$ (48,392)	856,054
Infrastructure	458,345		425		458,770
Leased assets	261,438	5,063		(4,266)	262,235
Library and reference books	181,406	3,894			185,300
Capitalized software (intangible asset)	201,004	1,115			202,119
Subscription assets	37,090	20,288			57,378
All other intangible assets	6,903				6,903
Total depreciable / amortizable capital assets	6,950,440	87,349	76,327	(52,658)	7,061,458
Non-depreciable / amortizable capital assets					
Land	240,028	14,461			254,489
Museums and collections	119,975	1,229			121,204
Construction in progress	84,851	112,811	(76,327)		121,335
Permanent right-of-way easements (intangible asset)	5				5
Total non-depreciable / amortizable capital assets	444,859	128,501	(76,327)		497,033
Accumulated depreciation / amortization					
Buildings and improvements	(2,629,059)	(141,036)			(2,770,095)
Equipment	(670,745)	(51,283)		46,120	(675,908)
Infrastructure	(360,318)	(13,092)			(373,410)
Leased assets	(42,833)	(21,624)		3,870	(60,587)
Library and reference books	(145,819)	(1,856)			(147,675)
Capitalized software (intangible asset)	(184,159)	(5,898)			(190,057)
Subscription assets	(7,534)	(11,044)			(18,578)
All other intangible assets	(6,903)				(6,903)
Total accumulated depreciation / amortization	(4,047,370)	(245,833)		49,990	(4,243,213)
Capital assets, net	$ 3,347,929	$ (29,983)		$ (2,668)	$ 3,315,278
Summary					
Depreciable / amortizable capital assets	$ 6,950,440	$ 87,349	$ 76,327	$ (52,658)	$ 7,061,458
Non-depreciable / amortizable capital assets	444,859	128,501	(76,327)		497,033
Total capital assets	7,395,299	215,850		(52,658)	7,558,491
Less accumulated depreciation / amortization	(4,047,370)	(245,833)		49,990	(4,243,213)
Capital assets, net	$ 3,347,929	$ (29,983)		$ (2,668)	$ 3,315,278

Capital assets, net as of June 30, 2022, consisted of the following:

	Beginning Balance	Additions	Transfers	Retirements & Reductions	Ending Balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 4,879,554		$ 75,252	$ (27)	$ 4,954,779
Equipment	843,188	$ 48,929		(42,642)	849,475
Infrastructure	470,407		(12,062)		458,345
Leased assets	258,012	4,213		(787)	261,438
Library and reference books	178,394	3,012			181,406
Capitalized software (intangible asset)	201,004				201,004
Subscription assets *	24,876	12,214			37,090
All other intangible assets	6,903				6,903
Total depreciable / amortizable capital assets	6,862,338	68,368	63,190	(43,456)	6,950,440
Non-depreciable / amortizable capital assets					
Land	237,543	2,509		(24)	240,028
Museums and collections	100,721	19,254			119,975
Construction in progress	63,357	84,684	(63,190)		84,851
Permanent right-of-way easements (intangible asset)	5				5
Total non-depreciable / amortizable capital assets	401,626	106,447	(63,190)	(24)	444,859
Accumulated depreciation / amortization					
Buildings and improvements	(2,489,173)	(140,830)	(6)	950	(2,629,059)
Equipment	(657,087)	(54,055)		40,397	(670,745)
Infrastructure	(346,533)	(13,791)	6		(360,318)
Leased assets	(21,621)	(21,944)		732	(42,833)
Library and reference books	(144,127)	(1,692)			(145,819)
Capitalized software (intangible asset)	(176,936)	(7,223)			(184,159)
Subscription assets *		(7,534)			(7,534)
All other intangible assets	(6,903)				(6,903)
Total accumulated depreciation / amortization	(3,842,380)	(247,069)		42,079	(4,047,370)
Capital assets, net	$ 3,421,584	$ (72,254)		$ (1,401)	$ 3,347,929
Summary					
Depreciable / amortizable capital assets	$ 6,862,338	$ 68,368	$ 63,190	$ (43,456)	$ 6,950,440
Non-depreciable / amortizable capital assets	401,626	106,447	(63,190)		444,859
Total capital assets	7,263,964	174,815		(43,456)	7,395,299
Less accumulated depreciation / amortization	(3,842,380)	(247,069)		42,079	(4,047,370)
Capital assets, net	$ 3,421,584	$ (72,254)		$ (1,377)	$ 3,347,929

**Due to the GASB 96 implementation, Subscription assets are described in Note 6.*

5. Leases

The University has entered into various leasing arrangement types where the University is either the lessee or the lessor. Under GASB 87, *Leases*, the University classifies leases that are 12 months or greater in length at the commencement of the lease term, including the evaluation of options to extend the lease in the Consolidated Statements of Net Position. The University records a lease receivable and deferred inflow of resources for lessor arrangements. The University records a lease liability and an underlying right of use lease asset for lessee arrangements. The University has applied a threshold based on the minimum net present value (NPV) of receipts for lessor arrangements and payments for lessee arrangements. The NPV calculation is determined by the total receipts or payments over the noncancelable lease term and an interest rate that is stated within the lease contract or, when an interest rate is not stated, the University's incremental borrowing rate as determined by an independent third party. The incremental borrowing rate is applied based on the noncancelable lease term at the commencement of the lease term.

Lessor Arrangements

The University has various lessor arrangements for buildings spanning the University system, including for the University of Minnesota Health Clinics and Surgery Center (Clinics and Surgery Center) and building space on the University's Twin Cities/Minneapolis-East Bank Campus.

During fiscal year 2023, the University entered into two new arrangements and had additions to four ongoing arrangements in the amount of $546. The University had early terminations on five ongoing arrangements in the amount of $3,054 which primarily resulted from reduced space requirements on the University's Twin Cities East Bank with Fairview Health Services.

The Clinics and Surgery Center leasing arrangement is with the University of Minnesota Physicians and Fairview Health Services in support of the M Health Fairview collaboration with the University. This leasing arrangement has options to extend through December 31, 2061. Semi-annual installments of base rent payable by the tenant are calculated based on interest and principal payments that the University must pay on the long-term debt issued to build the Clinics and Surgery Center. There are certain termination clauses in the event of default or bankruptcy; however, that does not absolve the tenant of its liabilities and obligations under the leasing arrangement.

Various building space on the University's Twin Cities East Bank is between the University and Fairview Health Services. This leasing arrangement has options to extend through December 31, 2086.

The University has a lease with the Gateway Corporation for land that is associated with a corresponding lessee arrangement for the McNamara Building on the Twin Cities campus. This leasing arrangement has options to extend through September 30, 2098.

The University has other various leases for building space spanning the University system. The University also has a sale-leaseback lease arrangement where the University purchased the property and is subsequently leasing the property back to the original owner.

The following table reflects the total amount of inflows of resources reflected in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position by revenue line:

	2023	2022
Sales and services of educational activities, net of scholarship allowances	$ 866	$ 826
Auxiliary enterprises, net of scholarship allowances	11,061	11,067
Other nonoperating revenues, net	12,373	12,525
Total	$ 24,300	$ 24,418

Lessee Arrangements

The University has various lessee arrangements, including the McNamara Building on the Twin Cities campus, housing leases on the Twin Cities and Rochester campuses, and other Rochester use leases.

During fiscal year 2023, the University entered into five new arrangements and had additions to twelve ongoing arrangements in the amount of $5,063 including the annual extension of the Hormel Foundation lease, new space within the Westgate Business Center, and new extensions of the University's Crookston student laptop program. The University had early terminations on four ongoing arrangements in the amount of $396.

The McNamara Building lease is with the Gateway Corporation for space in the McNamara Building on the Twin Cities campus with options to extend through September 30, 2098.

The University has student housing leases located both on the Twin Cities and Rochester campuses. The Twin Cities housing lease has options to extend through July 31, 2028. Two Rochester housing leases have options to extend through July 31, 2032.

The University's Rochester campus has classroom and retail leased space with options to extend through August 31, 2032, and June 30, 2049, respectively.

In fiscal year 2023, the University began making improvements to the new Student Life Center in Rochester. This lease does not begin until fiscal year 2024.

The University has a sale-leaseback lease agreement between the University and the Hormel Foundation for the Hormel Institute. Based on the contract, either party can terminate the lease at any time with 24 months notice.

In addition to these lease arrangements, the University has other leases for various building space and equipment.

The following table reflects a further disaggregation of the University's underlying right-to-use lease assets where the University is the lessee, as summarized in Note 4.

Leased assets, net as of June 30, 2023, consisted of the following:

	Beginning Balance	Additions	Retirements & Reductions	Ending Balance
Depreciable / amortizable capital assets				
Buildings and improvements	$ 257,320	$ 3,531	$ (3,335)	$ 257,516
Equipment	3,605	1,316	(925)	3,996
Land	513	216	(6)	723
Total depreciable / amortizable capital assets	261,438	5,063	(4,266)	262,235
Accumulated depreciation / amortization				
Buildings and improvements	(41,707)	(20,519)	2,973	(59,253)
Equipment	(942)	(1,012)	895	(1,059)
Land	(184)	(93)	2	(275)
Total accumulated depreciation / amortization	(42,833)	(21,624)	3,870	(60,587)
Leased assets, net	$ 218,605	$ (16,561)	$ (396)	$ 201,648

Leased assets, net as of June 30, 2022, consisted of the following:

	Beginning Balance	Additions	Retirements & Reductions	Ending Balance
Depreciable / amortizable capital assets				
Buildings and improvements	$ 256,085	$ 1,543	$ (308)	$ 257,320
Equipment	1,414	2,670	(479)	3,605
Land	513			513
Total depreciable / amortizable capital assets	258,012	4,213	(787)	261,438
Accumulated depreciation / amortization				
Buildings and improvements	(20,897)	(21,118)	308	(41,707)
Equipment	(632)	(734)	424	(942)
Land	(92)	(92)		(184)
Total accumulated depreciation / amortization	(21,621)	(21,944)	732	(42,833)
Leased assets, net	$ 236,391	$ (17,731)	$ (55)	$ 218,605

The following table reflects the total principal and interest payments where the University is the lessee:

	Principal	Interest	Total obligations
Fiscal year ending June 30			
2024	$ 17,827	$ 4,879	$ 22,706
2025	17,958	4,644	22,602
2026	17,030	4,408	21,438
2027	17,330	4,173	21,503
2028	17,224	3,937	21,161
2029-2033	34,610	17,355	51,965
2034-2038	4,798	15,703	20,501
2039-2043	3,932	15,041	18,973
2044-2048	3,337	14,396	17,733
2049-2053	3,365	13,699	17,064
2054-2058	2,904	13,015	15,919
2059-2063	2,199	12,569	14,768
2064-2068	3,179	12,027	15,206
2069-2073	4,393	11,263	15,656
2074-2078	5,895	10,224	16,119
2079-2083	7,683	8,854	16,537
2084-2088	9,953	7,073	17,026
2089-2093	12,747	4,781	17,528
2094-2098	16,185	1,859	18,044
2099-2103	905	3	908
Total	$ 203,454	$ 179,903	$ 383,357

Variable Receipts and Payments

Variable receipts for lessor arrangements and payments for lessee arrangements based on future performance of the leasing party or usage of the underlying asset are not factored into the lease receivable or liability. These types of receipts or payments are most common in building leases where it requires tenants to share in the costs of taxes, insurance, utilities, and other common area maintenance costs or includes parking usage where the occupancy is determined based on a specific event in the future. Amounts recognized as variable receipts in the form of inflows not included in the measurement of the lease receivable are $780 and $1,276 for fiscal years ended June 30, 2023 and 2022, respectively. Whereas amounts recognized as variable payments in the form of outflows not included in the measurement of the lease liability are $6,189 and $5,963 for fiscal years ended June 30, 2023 and 2022, respectively.

6. Subscription-Based Information Technology Arrangements

The University adopted GASB Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements (SBITA)*, effective for the fiscal year ended June 30, 2023, with retrospective application to the fiscal year ended June 30, 2022. GASB 96 establishes a single model for SBITA accounting based on the foundational principle that SBITA contracts are financings of the right to use an information technology (IT) software subscription asset. As a result, it requires the University to classify SBITA contracts that are 12 months or greater in length at the commencement of the SBITA term, including the evaluation of options to extend the SBITA contract, to the Statements of Net Position. The University records a subscription liability and an underlying right-to-use subscription asset for SBITA contracts. Over the course of the SBITA contract amortization of the subscription asset will be recognized in the Statements of Revenues, Expenses, and Changes in Net Position.

The University has entered into various SBITA contracts with external vendors to use the vendor's IT software as specified in the contracts. These contracts range from two to eight point five years of service. The nature of the subscription contracts includes firewall services, customer relationship manager solutions, and online solutions for creating, fulfilling, and viewing course reading lists. The University does not consider content-subscription agreements that allow authorized University users only access to search, browse, view, download, print, and store the subscribed products which include books, databases, and conference proceedings from a number of publishers to be software subscriptions. Non-software subscription contracts are excluded from being reported as subscription assets. The University has applied a threshold based on the minimum net present value (NPV) of payments for the SBITA contracts. The NPV calculation is determined by the total payments over the noncancelable SBITA term and an interest rate that is stated within the SBITA contract or, when an interest rate is not stated, the University's incremental borrowing rate as determined by an independent third party. The incremental borrowing rate is applied based on the noncancelable SBITA term at the commencement of the SBITA term.

See Note 4 for a summary of the University's right-to-use subscription assets.

The following table reflects the total principal and interest payments for the subscription liability:

	Principal	Interest	Total obligations
Fiscal year ending June 30			
2024	$ 8,664	$ 410	$ 9,074
2025	6,835	287	7,122
2026	4,792	181	4,973
2027	3,766	91	3,857
2028	1,684	24	1,708
2029-2033	1,124	1	1,125
Total	$ 26,865	$ 994	$ 27,859

Variable Payments

There are no amounts recognized as variable payments in the form of outflows not included in the measurement of the subscription liability for fiscal years ended June 30, 2023 and 2022, respectively.

7. Long-Term Debt

Long-term debt as of June 30, 2023, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY2023 beginning balance	Additions	Reductions	FY2023 ending balance	Current portion
General obligation bonds									
Series 2022 (taxable)	$ 500,000	2022	4.048%	2052	$ 500,000			$ 500,000	
Series 2021C (taxable)	36,875	2022	0.130%-2.590%	2038	35,185		$ 2,240	32,945	$ 2,245
Series 2020A (tax-exempt)	31,310	2021	5.000%	2046	30,660		690	29,970	725
Series 2020B (taxable)	84,690	2021	0.400%-2.875%	2046	81,830		2,875	78,955	2,890
Series 2019A (tax-exempt)	104,215	2019	5.000%	2044	96,690		2,510	94,180	2,635
Series 2019B (tax exempt)	51,240	2019	5.000%	2030	46,720		5,465	41,255	5,735
Series 2019C (taxable)	20,000	2019	2.466%-3.974%	2044	18,405		580	17,825	600
Series 2017A (tax-exempt)	117,095	2018	2.000%-5.000%	2043	106,100		2,970	103,130	3,075
Series 2017B (tax-exempt)	292,955	2018	2.000%-5.000%	2037	154,730		10,130	144,600	10,540
Series 2017C (taxable)	13,240	2018	1.375%-2.915%	2029	8,000		1,060	6,940	1,085
Series 2016A (tax-exempt)	122,475	2016	3.000%-5.000%	2041	104,540		3,530	101,010	3,710
Series 2015B (taxable)	10,110	2016	0.799%-4.039%	2032	6,845		585	6,260	605
Series 2014B (tax-exempt)	145,760	2015	2.000%-5.000%	2044	127,580		3,485	124,095	3,660
Series 2013D (taxable)	12,760	2014	0.600%-4.848%	2039	9,955		405	9,550	420
Series 2013B (taxable)	13,780	2013	2.600%-3.750%	2038	10,050		490	9,560	510
Series 2013A (tax-exempt)	73,570	2013	2.000%-5.000%	2038	54,930		2,495	52,435	2,620
Series 2011C (taxable)	19,335	2012	0.900%-4.560%	2037	13,850		670	13,180	695
Series 2010B (taxable)	41,720	2011	0.740%-5.020%	2036	26,945		1,560	25,385	1,610
Commercial paper notes									
Series B (tax-exempt)	61,000	2007	3.600% - 4.150%	2024	15,500		3,100	12,400	12,400
Series C (tax-exempt)	70,000	2008	3.600% - 4.150%	2024	19,000		3,500	15,500	15,500
Series D (tax-exempt)	25,000	2010	3.100%	2024	11,977			11,977	11,977
Series E (taxable)	51,620	2015	5.170%-5.190%	2024	38,420		2,200	36,220	36,220
Series F (tax-exempt)	50,100	2017	3.170%	2024	40,100		2,000	38,100	38,100
Series G (tax-exempt)	33,372	2018	3.220%	2024	16,124		3,956	12,168	12,168
Series H (tax-exempt)	34,000	2022	3.100%-3.150%	2024	34,000	$ 25,900		59,900	59,900
Series I (taxable)	34,000	2022	5.100%-5.350%	2024	34,000	65,600	5,500	94,100	94,100
Infrastructure development bonds	109,234	1995-2006	3.550%-5.290%	2025	1,220		653	567	532
Note Payable	4,500	2020	1.900%	2025	4,500			4,500	
Special purpose revenue bonds									
Series 2021A (tax exempt)	92,385	2022	4.000%-5.000%	2036	92,385		4,635	87,750	4,825
Series 2021B (taxable)	31,100	2022	0.210%-2.630%	2038	31,100		1,650	29,450	1,655
Series 2015A (tax-exempt)	90,075	2016	2.000%-5.000%	2032	59,190		6,095	53,095	6,410
Unamortized premiums and discounts	218,054	2009-2023		2046	154,672		9,939	144,733	9,939
Total	$ 2,595,570				$ 1,985,203	$ 91,500	$ 84,968	$ 1,991,735	$ 347,086

Long-term debt as of June 30, 2022, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY2022 beginning balance	Additions	Reductions	FY2022 ending balance	Current portion
General obligation bonds									
Series 2022 (taxable)	$ 500,000	2022	4.048%	2052		$ 500,000		$ 500,000	
Series 2021C (taxable)	36,875	2022	0.130%-2.590%	2038		36,875	$ 1,690	35,185	$ 2,240
Series 2020A (tax-exempt)	31,310	2021	5.000%	2046	$ 31,310		650	30,660	690
Series 2020B (taxable)	84,690	2021	0.400%-2.875%	2046	84,690		2,860	81,830	2,875
Series 2019A (tax-exempt)	104,215	2019	5.000%	2044	99,085		2,395	96,690	2,510
Series 2019B (tax exempt)	51,240	2019	5.000%	2030	48,255		1,535	46,720	5,465
Series 2019C (taxable)	20,000	2019	2.466%-3.974%	2044	18,975		570	18,405	580
Series 2017A (tax-exempt)	117,095	2018	2.000%-5.000%	2043	109,010		2,910	106,100	2,970
Series 2017B (tax-exempt)	292,955	2018	2.000%-5.000%	2037	178,635		23,905	154,730	10,130
Series 2017C (taxable)	13,240	2018	1.375%-2.915%	2029	9,040		1,040	8,000	1,060
Series 2016A (tax-exempt)	122,475	2016	3.000%-5.000%	2041	107,900		3,360	104,540	3,530
Series 2015B (taxable)	10,110	2016	0.799%-4.039%	2032	7,415		570	6,845	585
Series 2014B (tax-exempt)	145,760	2015	2.000%-5.000%	2044	130,900		3,320	127,580	3,485
Series 2013D (taxable)	12,760	2014	0.600%-4.848%	2039	10,350		395	9,955	405
Series 2013B (taxable)	13,780	2013	2.600%-3.750%	2038	10,525		475	10,050	490
Series 2013A (tax-exempt)	73,570	2013	2.000%-5.000%	2038	57,305		2,375	54,930	2,495
Series 2011C (taxable)	19,335	2012	0.900%-4.560%	2037	14,495		645	13,850	670
Series 2010B (taxable)	41,720	2011	0.740%-5.020%	2036	28,465		1,520	26,945	1,560
Commercial paper notes									
Series A (tax-exempt)	159,100	2006	0.120%	2023	20,000		20,000		
Series B (tax-exempt)	61,000	2007	0.900%-1.080%	2023	18,600		3,100	15,500	15,500
Series C (tax-exempt)	70,000	2008	0.900%-1.080%	2023	22,500		3,500	19,000	19,000
Series D (tax-exempt)	25,000	2010	1.080%	2023	11,977			11,977	11,977
Series E (taxable)	51,620	2015	1.510%-1.600%	2023	40,620		2,200	38,420	38,420
Series F (tax-exempt)	50,100	2017	1.150%-1.200%	2023	42,100		2,000	40,100	40,100
Series G (tax-exempt)	33,372	2018	0.950%-1.120%	2023	22,273		6,149	16,124	16,124
Series H (tax-exempt)	34,000	2022	1.090%-1.100%	2023		34,000		34,000	34,000
Series I (taxable)	34,000	2022	0.870%	2023		34,000		34,000	34,000
Infrastructure development bonds	109,234	1995-2006	3.550%-5.290%	2025	2,325		1,105	1,220	653
Note Payable	4,500	2020	1.900%	2025	4,500			4,500	
Special purpose revenue bonds									
Series 2021A (tax exempt)	92,385	2022	4.000%-5.000%	2036		92,385		92,385	4,635
Series 2021B (taxable)	31,100	2022	0.210%-2.630%	2038		31,100		31,100	1,650
Series 2015A (tax-exempt)	90,075	2016	2.000%-5.000%	2032	64,990		5,800	59,190	6,095
Series 2013C (tax-exempt)	35,395	2014	2.000%-5.000%	2039	29,510		29,510		
Series 2011B (tax-exempt)	52,485	2012	3.000%-5.000%	2037	40,965		40,965		
Series 2010A (tax-exempt)	111,400	2011	3.000%-5.000%	2036	82,915		82,915		
Unamortized premiums and discounts	218,054	2009-2022		2046	148,921	27,743	21,992	154,672	9,939
Total	$ 2,953,950				$ 1,498,551	$ 756,103	$ 269,451	$ 1,985,203	$ 273,833

General Obligation Bonds

The University did not issue any new General Obligation (GO) Bonds during the fiscal year 2023.

On April 19, 2022, the University issued GO Taxable Bonds, Series 2022 in the par amount of $500,000 at a coupon rate of 4.048 percent. The bonds were issued as interest-only bonds, with principal due in 30 years at maturity. Proceeds are currently being invested and will 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, to pay certain costs of issuance, and to refinance existing debt outstanding.

On September 30, 2021, the University issued GO Taxable Bonds, Series 2021C (Sustainability Bonds) in the par amount of $36,875 at coupon rates of 0.130 – 2.590 percent. Proceeds are being used to finance the costs of design, land acquisition, site preparation, and preconstruction services for a clinical research facility on the Twin Cities campus, and certain costs of issuance. This issuance was a result of the savings realized through the refinancing of the Special Purpose Revenue (SPR) Bonds (State Supported Biomedical Science Research Facilities Funding Program) which was allowed through an amendment of Minnesota Statutes 137.61 through 137.65.

The University has one remaining series of Build America Bonds (BABs) – Direct Payment to Issuer outstanding, Series 2010B, whereby the University 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 effective with the subsidy payment received beginning June 1, 2013, the subsidies received have been reduced by 5.7 percent in the federal fiscal years ending September 30, 2023 and 2022. Interest payments for the Series 2010B are due August 1 and February 1.

All GO bonds are secured by the full faith and credit of the University and subject to mandatory sinking fund requirements set forth in the official statements.

Special Purpose Revenue Bonds

On September 30, 2021, the University issued Special Purpose Revenue (SPR) Refunding Bonds, Series 2021A, and SPR Refunding Taxable Bonds, Series 2021B. State legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds and on the GO Taxable Bonds Series 2021C.

The Series 2021A was issued in the par amount of $92,385 at coupon rates of 4.000 – 5.000 percent with a premium of $27,743. Proceeds were used to refund, on a current basis, the outstanding maturities of the Series 2010A and Series 2011B SPR Bonds, and to pay certain costs of issuance. A gain of $9,331 was recognized on the transaction. The Series 2010A and 2011B were originally issued to finance a portion of the costs of constructing certain biomedical research facilities on the Twin Cities campus. The bonds were redeemed on October 30, 2021.

The Series 2021B was issued in the par amount of $31,100 at coupon rates of 0.210 – 2.630 percent to defease and advance refund the Series 2013C Bonds, and to pay certain costs of issuance. A gain of $73 was recognized on the transaction. The proceeds were deposited in an escrow account to pay the principal and interest due on the refunded bonds and to pay the redemption price on its redemption date. The Series 2013C was originally issued to finance a portion of the costs of constructing certain biomedical research facilities on the Twin Cities campus.

Commercial Paper Notes

The University issues tax-exempt and taxable CP Notes through a revolving CP facility for short or long-term financing of capital projects, including the purchase of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as for certain operating purposes. The aggregate principal amount outstanding under the facility shall not exceed $400,000, including any previously issued Notes still outstanding and additional CP Notes to be issued.

During fiscal year 2023, the University issued a combined total of $91,500 in CP Notes Series H and CP Taxable Notes Series I for purposes of funding new capital projects in fiscal year 2023, ongoing capital projects from fiscal year 2022, and operating purposes.

The initial issuance on November 17, 2021 of Series H was in the amount of $18,000. Additional Series H Notes totaling $16,000 were issued during fiscal year 2022 and $25,900 in fiscal year 2023. The entire outstanding principal balance of $59,900 of the Series H at the end of the fiscal year 2023 was fully paid off in July 2023.

The initial issuance on November 17, 2021 of Series I was in the amount of $34,000. Of this total, $20,800 was issued for the Athletics COVID-19 operating loan. Additional Series I Notes totaling $65,600 were issued during fiscal year 2023.

All the University's outstanding CP is secured by the full faith and credit of the University and backed by the University's self-liquidity. Commercial paper is short-term in nature and classified as current liabilities in the consolidated financial statements.

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 $1,702 and $3,660 as of June 30, 2023 and 2022, respectively, of which the University owes $567 and $1,220, respectively.

Note Payable

On December 20, 2019, the University executed a long-term promissory note payable to Otto Bremer Trust in the amount of $4,500. The proceeds were used to fund a portion of the property acquisition at 2025 East River Parkway, Minneapolis, the future home of the Masonic Institute for the Developing Brain. Interest only is due at the rate of 1.900 percent annually for four years with the final interest payment and principal due in January 2025.

Future Debt Service Requirements

Interest payments on CP will vary depending on current market conditions from week to week. Using rates as of June 30, 2023, debt service requirements of the University's outstanding long-term debt obligations for the next five years and in subsequent five-year periods are as follows:

	Bonds and obligations	Commercial paper notes	Total principal	Interest	Total obligations
Fiscal year ending June 30					
2024	$ 66,721	$ 280,365	$ 347,086	$ 76,959	$ 424,045
2025	73,155		73,155	63,130	136,285
2026	71,059		71,059	60,494	131,553
2027	73,869		73,869	57,773	131,642
2028	76,635		76,635	54,895	131,530
2029-2033	350,874		350,874	232,196	583,070
2034-2038	283,687		283,687	172,740	456,427
2039-2043	176,943		176,943	127,602	304,545
2044-2048	38,427		38,427	102,967	141,394
2049-2053	500,000		500,000	80,960	580,960
	$ 1,711,370	$ 280,365	$ 1,991,735	$ 1,029,716	$ 3,021,451

Defeased Bonds

The University has defeased 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 or to immediately pay off existing debt. Neither the outstanding indebtedness nor the related trust account assets for the defeased bonds are included in the University's consolidated financial statements. The defeased bonds as of June 30, 2023 are as follows:

Associated bond issue	Refunding date	Amount defeased	Refunded amount	Amount outstanding on June 30, 2023	Bond call date
General obligation bonds					
Series 2011D	9/28/2017	$ 47,400	$ 47,400	$ 37,750	12/1/2021
Special purpose revenue bonds					
Series 2013C	9/30/2021	28,430	28,430	27,295	8/1/2023

The Series 2011D was issued in December 2011 to finance various capital projects. It was defeased on September 28, 2017, along with the Series 2011A, with a net recognized gain of $3,794. The Series 2011A was redeemed on December 1, 2020 and is no longer outstanding.

The Series 2013C SPR bonds were issued in November 2013 to finance biomedical research facilities. It was defeased on September 30, 2021 with a recognized gain of $73.

Arbitrage

University GO debt and SPRB issuances 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 as of June 30, 2023 or 2022.

8. Pension and Other Employee Benefit Plans

The University and its employees contribute to pension and benefit 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, multiple-employer plans

State of Minnesota Retirement Plans

Basis of Accounting and Valuation of Investments

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and the Public Employee Police and Fire Fund (PEPFF) and additions to/deductions from MSRS' and PEPFF's fiduciary net position have been determined on the same basis as they are reported by MSRS and PEPFF, respectively. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Public Employee Police and Fire Fund (PEPFF)

The PEPFF is administered by the Public Employees Retirement Association (PERA). PEPFF, in total, provides coverage to approximately 430 local governmental subdivisions within the State. The University's participation in PEPFF covers 69 active law enforcement staff. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by the State legislature. 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. Benefits for members first hired after June 30, 2010, but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after 10 years of credited service. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years up to 100 percent after 20 years of credited service. For members hired prior to July 1, 1989, a full annuity is available when the member's age plus years of service equal at least 90. Annual benefits increase by 1.0 percent each year to annuitants who have been receiving a benefit for at least 12 months (pro rata increase for annuitants receiving benefits for at least one month but less than 12 months). Increases for retirements after May 31, 2014 will be delayed two years. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service. Prior to 1981, these employees were not covered by a local relief association. 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 at https://mnpera.org or by writing the Public Employees Retirement Association (PERA), 60 Empire Drive, Suite 200, St. Paul, MN 55103.

State Employees Retirement Fund (SERF)

The SERF is administered by the Minnesota State Retirement System (MSRS). SERF, in total, provides coverage to 26 employers within the State. The University's participation in SERF covers approximately 8,300 active Civil Service and non-faculty bargaining unit employees. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by the State legislature. Benefits are based on a member's age, years of allowable service, and the highest average salary for any 60 successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January and are related to the funded ratio of the plan. Annuitants receive benefit increases of 1.0 percent each year for five years beginning January 1, 2019, and 1.5 percent each year beginning January 1, 2024 and after.

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. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent for the first 10 years of allowable service and 1.7 percent for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of average salary for each year of allowable service. Average salary is defined as the highest salary paid in a 60 successive month period. A publicly available financial report, which includes financial statements, required supplementary information, and detailed information about the plan's fiduciary net position, can be obtained at https://www.msrs.state.mn.us or by writing to the MSRS, 60 Empire Drive, Suite 300, St. Paul, MN 55103.

Information pertaining to both PEPPF and SERF in accordance with GASB 68 and GASB 71 follows.

Funding Policy and Contribution Rates

	PEPFF	SERF
Statutory authority		
Minnesota chapter	353	352
Required contribution rates		
Active plan members	11.80%	6.00%
University	17.70%	6.25%
Required contributions		
University		
2023	$ 1,652	$ 30,321
2022	$ 1,455	$ 27,915
Non-employer contributing entity		
2023	$ 61	
2022	$ 56	

Net pension liability amounts recorded in accordance with GASB 68 and GASB 71 within the University's financial statements are reflective of the respective plan's published financial statements and actuarial valuations as of June 30, 2022. The University's proportion of the respective plans' net pension liability was based on the University's contributions to the respective plans during the measurement period July 1, 2021 through June 30, 2022, relative to the total contributions from all participating employers, as well as on-behalf State contributions paid directly to PEPFF. As a result, contributions made to the respective plans during fiscal year 2023, are recorded as deferred outflows of resources per GASB 68 and GASB 71. The State has not enacted any law that requires the University to assume the liability, as a participant of the pension plans, in the event the State were unable to continue paying benefits from the retirement plans.

Summary of Pension Amounts

	PEPFF	SERF	Total
Proportionate share of the net pension liability ($)	$ 29,443	$ 215,664	$ 245,107
Proportionate share of the net pension liability (%)	0.677%	13.124%	
Deferred outflows of resources	22,124	189,942	212,066
Deferred inflows of resources	448	108,689	109,137
Net pension expense			
2023	2,400	(107,629)	(105,229)
2022	(289)	(294,070)	(294,359)
Non-operating grant revenue			
2023	61		61
2022	56		56

Deferred Outflows of Resources

	PEPFF	SERF	Total
Differences between expected and actual experience	$ 1,798	$ 1,682	$ 3,480
Changes in actuarial assumptions	17,332	147,659	164,991
Differences between projected and actual investment	395	10,276	10,671
Changes in proportion and contributions allocated	947	4	951
Contributions paid to plan subsequent to measurement date	1,652	30,321	31,973
Total	$ 22,124	$ 189,942	$ 212,066

Deferred Inflows of Resources

	PEPFF	SERF	Total
Differences between expected and actual experience		$ 1,384	$ 1,384
Changes in actuarial assumptions	$ 177	78,415	78,592
Changes in proportion and contributions allocated	271	28,890	29,161
Total	$ 448	$ 108,689	$ 109,137

Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense or a Reduction in Net Pension Liability

	Fiscal year	PEPFF	SERF	Total
	2024	$ 3,959	$ 123	$ 4,082
	2025	3,934	2,307	6,241
	2026	3,399	5,094	8,493
	2027	6,160	43,408	49,568
	2028	2,572		2,572
Net pension expense		$ 20,024	$ 50,932	$ 70,956
Contributions paid to plan subsequent to measurement date		1,652	30,321	31,973
Net deferred outflows		$ 21,676	$ 81,253	$ 102,929

The University's net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the respective plans. The total pension liability was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial Methods and Assumptions

	PEPFF*		SERF**	
Valuation date	6/30/2022		6/30/2022	
Actuarial cost method	Entry age normal		Entry age normal	
Asset valuation method	5-year smoothed fair market value		Fair value	
Long-term expected rate of return	6.50%		6.75%	
20-year municipal bond rate	3.69%	***	3.69%	***
Inflation	2.25%		2.25%	
Salary increases	Service related rates		Service related rates	
Payroll growth	3.00%		3.00%	
Experience study dates	2015 - 2019	****	2014 - 2018	****

* *Mortality rates were based on Pub-2010 Mortality Tables using projection scale MP-2021.*

***Mortality rates were based on Pub-2010 Mortality Tables using projection scale MP-2018.*

*** *Based on the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022.*

**** *Updated for economic assumptions in 2022.*

As noted in the actuarial methods and assumptions, the long-term expected rate of return (discount rate) was used to measure the total pension liability as of June 30, 2022 of the respective plans. The actual selection of the rate was determined by looking at the asset class target allocations and long-term rate of return expectations from the State Board of Investments (SBI), along with other information, such as the Social Security Trustees Report, the U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

The SBI, which manages the investments of the respective plans, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best estimates of expected future real rates of return are developed for each major asset class.

These asset class estimates, and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

SBI Asset Class

Asset class	Target allocation	Long-term expected real rate of return (geometric mean)
Domestic equity	33.5%	5.10%
International equity	16.5%	5.30%
Private markets	25.0%	5.90%
Fixed income	25.0%	0.75%

GASB includes a specific requirement for the discount rate that is used for the purpose of the measurement of the SERF's and PEPFF's total pension liability. This rate considers the ability of SERF and PEPFF to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. SERF's and PEPFF's Fiduciary Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in the future, the long-term expected rate of return is used as the discount rate. In years where assets are not projected to be sufficient to meet benefit payments, the use of a "risk-free" municipal bond rate is required. The single discount rate is equivalent to applying these two rates (long-term expected rate of return and "risk-free" municipal bond rate) to the benefits that are projected to be paid during the different time periods.

The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in the statute. Based on that assumption, each of the pension plan's fiduciary net position as of June 30, 2022, was projected to be available to make all projected future benefit payments of current and active employees. The long-term expected rate of return on pension plan investments of 6.75 percent was applied to all periods of projected benefit payments through June 30, 2122 for SERF and the long-term expected rate of return on pension plan investments of 6.50 percent was applied to all periods of projected benefit payments through June 30, 2060 for PEPFF to determine the total pension liability.

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 6.75 percent for SERF and 5.40 percent for PEPFF, as well as what the impact would be if the net pension liability were calculated using a discount rate that was 1.0 percentage point lower or 1.0 percentage point higher than these percentages:

Discount Rate Sensitivity

Pension plan	1.0% Decrease in discount rate	Current discount rate	1.0% Increase in discount rate
PEPFF			
Discount rate	4.40%	5.40%	6.40%
Net pension liability	$ 44,558	$ 29,443	$ 17,223
SERF			
Discount rate	5.75%	6.75%	7.75%
Net pension liability (benefit)	$ 506,119	$ 215,664	$ (24,605)

Additional information related to the respective plans is presented in Required Supplementary Information (RSI) following the Notes to the Consolidated Financial Statements.

Single-employer plan

Supplemental Benefits Plan (SBP)

The SBP is a closed plan sponsored by the University pursuant to the Board's 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 26 eligible participants. SBP is funded in an amount equal to or greater than the amount required under Minnesota Statute Chapter 356. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Finances related to this plan are immaterial to the overall University's financial statements. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

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.

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. A description of the plans and contribution information follows.

Faculty Retirement Plan (FRP)

The FRP is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the Board's 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 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 on or after January 2, 2012 contribute 5.5 percent of covered salary and the University contributes 10.0 percent. The FRP covers approximately 9,800 active faculty and professional and administrative (P&A) staff. This amount includes approximately 6,600 with hire dates on or after January 2, 2012.

FRP Contributions Made

	2023	2022
Employee	$ 46,330	$ 42,006
University	124,007	116,786

Due to plan at June 30*

	2023	2022
Employee	$ 1,876	$ 1,502
University	4,945	4,120

**Due to plan represents a liability the University has incurred for the employer and employee portion of contributions as of fiscal year end.*

Other Employee Benefit Plans

University of Minnesota Optional Retirement Plan (ORP)

The 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, participants may elect to make after-tax Roth contributions into the plan and the University may make discretionary contributions for select staff based on employment contracts. Approximately 5,700 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 2,600 full- and part-time employees contribute to this plan.

9. 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.

On August 31, 2023, the University entered into a settlement and release agreement (the agreement) with UCare Minnesota which allows UCare to change its bylaws eliminating the University's ability to serve on the UCare board of directors. See Note 14, Subsequent Events, for additional information.

10. Commitments and Contingencies

Construction projects in progress, principally buildings, approximated $121,335 as of June 30, 2023. The estimated cost to complete these facilities is $323,140, which is to be funded from plant fund assets and $96,096 in appropriations available from the State as of June 30, 2023.

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, 2019, with a contract end date of May 2024. 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 future minimum payment for steam plant operations as of June 30, 2023, for the next year is $304.

The University receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs 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 material disallowed claims at this time.

The University is a defendant in cases involving claims of medical malpractice, personal injuries, breach of contract, and other civil matters.

The University is currently a defendant in nine lawsuits relating to a data security incident identified in July 2023 related to unauthorized access to a University database in 2021. This incident has not affected University operations. An adverse outcome in these lawsuits, including a judgment or settlement, may cause a material adverse effect on the overall financial position of the University.

The University is a defendant in other claims. 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 other cases, individually and combined, will not have a material adverse effect on the overall financial position of the University.

11. Self-Insurance Programs

The University is insured for professional, general, non-profit organization, and automobile liability and indemnified for property insurance deductible expenditures 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 based on a rate of return of 4.76 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 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 University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $1,000 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 one independent administrator, Delta Dental. An annual actuarial estimate of the University's liability for dental claims, including IBNR, is recorded within the consolidated statements of net position.

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 Blue Cross and Blue Shield of Minnesota. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $400 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 within the consolidated statements of net position. The Graduate Assistant Plan also offers self-insured Dental Plan benefits at Boynton Health Service without a third-party administrator.

The University's medical coverage for eligible students and their dependents is a self-insured program (Student Health Benefit Plan). Under the Student Health Benefit Plan (SHBP), 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 $400 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 within the consolidated statements of net position. The SHBP also offers self-insured Dental Plan benefits at Boynton Health Service without a third-party administrator.

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

Reported liabilities as of June 30, 2023, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 9,890	$ 5,265	$ (3,437)	$ 118	$ 11,836
Workers' compensation	9,542	2,754	(2,754)	(255)	9,287
UPlan medical	25,050	329,309	(331,603)	3,200	25,956
UPlan dental	1,051	20,666	(20,868)	(12)	837
Graduate assistant health plan	5,287	30,328	(30,328)	(73)	5,214
Student health plan	6,580			(1,041)	5,539
Medical residents & fellows	853			179	1,032

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

Reported liabilities as of June 30, 2022, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 8,052	$ 4,415	$ (2,895)	$ 318	$ 9,890
Workers' compensation	11,662	3,245	(3,245)	(2,120)	9,542
UPlan medical	21,546	297,767	(296,193)	1,930	25,050
UPlan dental	970	19,600	(19,497)	(22)	1,051
Graduate assistant health plan	4,732	28,694	(28,694)	555	5,287
Student health plan	5,584			996	6,580
Medical residents & fellows	691			162	853

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

12. 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 Board's governing authority, non-Medicare retirees and former employees can purchase medical and dental insurance coverage. 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 Total Compensation, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Contributions and Benefits Provided

The UPlan is currently financed on a pay-as-you-go basis. No assets are accumulated in a trust that meets the criteria prescribed in GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* 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 and eligible participants under the Academic Disability Plan (ADP) can purchase medical and dental insurance coverage at the full premium rate. These rates are based on a blended active and pre-Medicare retiree rate. With the University being self-insured, the University becomes liable for the actual cost of retiree and disability related healthcare costs in excess of premiums collected. As a result, an implicit subsidy is created, which is reflected in the OPEB liability that is recorded.

UPlan Membership Covered by Benefit Terms

UPlan membership	June 30, 2023	June 30, 2022
Active plan members	19,755	19,493
Inactive plan members or beneficiaries currently receiving benefits	484	465
Total	20,239	19,958

OPEB Liability

The University's OPEB liability was measured and determined as of June 30, 2023 and 2022, respectively, in accordance with GASB 75.

The components that contributed to the change in the University's OPEB liability are as follows:

	June 30, 2023	June 30, 2022
OPEB liability—Beginning of year	$ 51,399	$ 54,111
Changes in net OPEB liability:		
Service cost	4,054	4,700
Interest	1,888	1,227
Differences between expected and actual experience	(69)	297
Changes of actuarial assumptions or other inputs	(5,368)	(5,183)
Benefit payments	(4,300)	(3,753)
(Decrease) in OPEB liability	(3,795)	(2,712)
OPEB liability—End of year	$ 47,604	$ 51,399

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 applied to the measurement of the OPEB liability are as follows:

Actuarial Methods and Assumptions

Valuation date	6/30/2023	6/30/2022
Actuarial cost method	Entry age normal, level percent of pay	Entry age normal, level percent of pay
Asset valuation method	N/A	N/A
Discount rate	3.65% *	3.54% *
Inflation	2.75%	2.75%
Salary increases	4.00%	4.00%
Mortality	PubT-2010.H for Faculty and PubG-2010.H for all others	PubT-2010.H for Faculty and PubG-2010.H for all others
Experience applied	2015-2017	2015-2017

** Based on a AA/Aa or higher rated 20-year tax exempt muncipal bond rate.*

The University's OPEB liability is sensitive to changes in the discount rate and healthcare cost trend rates. The following presents the OPEB liability of the University, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower and or 1.0 percentage point higher than the current discount rate:

Discount Rate Sensitivity

	1.0% Decrease (2.65%)	Discount rate (3.65%)	1.0% Increase (4.65%)
OPEB liability	$ 50,974	$ 47,604	$ 44,417

The following presents the OPEB liability of the University, as well as what the University's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0 percentage point lower (5.00 percent decreasing to 3.50 percent) or 1.0 percentage point higher (7.00 percent decreasing to 5.50 percent) than the current healthcare cost trend rates:

Healthcare Cost Trend Rate Sensitivity

	1% Decrease (5.00% decreasing to 3.5%)	Healthcare cost trend rates (6.00% decreasing to 4.50%)	1% Increase (7.00% decreasing to 5.50%)
OPEB liability	$ 42,028	$ 47,604	$ 54,233

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

In accordance with GASB 75, the University recorded $6,132 and $7,136 in OPEB expense for the fiscal years ended June 30, 2023 and 2022, respectively. In addition, the University reported the following deferred outflows of resources and deferred inflows of resources from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources

June 30, 2023	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,986	$ 228
Changes in assumptions	4,884	8,898
Total	$ 7,870	$ 9,126

June 30, 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,451	$ 202
Changes in assumptions	5,765	4,642
Total	$ 9,216	$ 4,844

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB as expense as follows:

Net Deferred Outflows (Inflows) of Resources Recognized as Pension Expense or a Reduction in OPEB Liability

	Fiscal year	Total
	2024	$ 190
	2025	190
	2026	190
	2027	190
	2028	105
	After 2028	(2,121)
Net deferred inflows		$ (1,256)

Additional information related to OPEB is presented in Required Supplementary Information (RSI) following the Notes to the Consolidated Financial Statements.

13. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2023, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 763,560	$ 68,231			$ 831,791
Research	600,133	352,939			953,072
Public service	184,965	114,915			299,880
Academic support	400,152	92,930			493,082
Student services	113,004	30,824			143,828
Institutional support	234,071	71,804			305,875
Operation and maintenance of plant	117,939	162,736			280,675
Scholarships and fellowships			$ 64,370		64,370
Depreciation				$ 245,832	245,832
Auxiliary enterprises	126,366	191,777			318,143
Other operating expense		21			21
	$ 2,540,190	$ 1,086,177	$ 64,370	$ 245,832	$ 3,936,569

Operating expenses by natural classification for the year ended June 30, 2022, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 699,991	$ 83,395			$ 783,386
Research	523,046	326,586			849,632
Public service	151,126	104,758			255,884
Academic support	319,826	80,657			400,483
Student services	92,234	25,274			117,508
Institutional support	182,076	74,616			256,692
Operation and maintenance of plant	86,606	138,095			224,701
Scholarships and fellowships	32	907	$ 81,103		82,042
Depreciation				$ 247,070	247,070
Auxiliary enterprises	104,594	179,782			284,376
	$ 2,159,531	$ 1,014,070	$ 81,103	$ 247,070	$ 3,501,774

14. Subsequent Events

On August 31, 2023, the University entered into the agreement with UCare Minnesota. Under the terms of the agreement, the University relinquishes all rights to ownership, control, or influence in UCare. UCare agreed to payments of $100,000 to the University, $96,000 of which will be to fund University of Minnesota Medical School projects that assist traditionally underserved populations for health care services. A payment of $25,000 was received on September 1, 2023. Three additional payments of $25,000 will be received on December 31, 2023, 2024, and 2025.

15. 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 and net assets with donor restrictions, 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, hedge funds, natural resources, and Treasury inflation protected securities with readily determinable fair values are reported at fair value as set forth in Note 3 of the UMF's annual report (traditional structures). Investments held in alternative structures, except those reported as Level 3 in Note 3 of the UMF's annual report or are investments held at cost, investments held at the equity method or are consolidated, 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.

The UMF invests in LLCs and LLPs in which the UMF has a majority interest and control. As a result, these investments are consolidated within the financial statements and are identified as Consolidated investments in Note 3 of the UMF's annual report.

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 net assets with and without restrictions are pooled, except for certain net assets that the board of trustees or 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 UMF investments as of June 30 are summarized as follows:

	2023		
	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 917,670		$ 917,670
Fixed income	740,242	$ 1,439,507	2,179,749
Global equity	1,052	17,052	18,104
Hedge funds	23,693	205,774	229,467
Natural resources	1,936	60,155	62,091
Real estate		26,696	26,696
Private equity		572,492	572,492
Other investments		3,998	3,998
Subtotal	1,684,593	2,325,674	4,010,267
Less charitable gift annuities reported separately			(47,808)
Total			$ 3,962,459

	2022		
	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 637,042		$ 637,042
Fixed income	825,906	$ 1,276,757	2,102,663
Global equity	1,151	16,657	17,808
Hedge funds	20,952	202,868	223,820
Natural resources	13,119	74,207	87,326
Real estate		28,912	28,912
Private equity		762,435	762,435
Other investments		4,703	4,703
Subtotal	1,498,170	2,366,539	3,864,709
Less charitable gift annuities reported separately			(47,181)
Total			$ 3,817,528

Fixed income investments include high yield bonds, factored receivables, line of credit, bank loans, mortgage, and related securitizations.

Investments held in traditional structures represent those held directly by the 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 the UMF's interests in the funds. As of June 30, 2023 and 2022, the UMF has $2,325,674 and $2,366,539 respectively, of investments in alternative structures which are reported at net asset value as a practical expedient, except those reported as Level 3, investments held at cost, investments held at the equity method and consolidated investments in Note 3 of the UMF's annual report. 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 the 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

The 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, the 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, including bankruptcy claims and auction rate securities, 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 tables summarize the UMF’s financial assets and other liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	2023			
	Fair value measurements using			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Fixed income				
Asset backed securities		$ 8,335		$ 8,335
Mortgages	$ 1,537	16,443		17,980
Corporate bonds		7,472		7,472
Government		694,451		694,451
Large Cap	9,005			9,005
Other		3,000		3,000
Global equity				
Small cap	1,052			1,052
Hedge funds				
Long/short non-equity	23,693		$ 1,353	25,046
Natural resources	1,936			1,936
Total investments	$ 37,223	$ 729,701	$ 1,353	$ 768,277
Cash and cash equivalents				917,670
Investments measured at net asset value or its equivalent				1,211,713
Investments held at cost				48,819
Investments at equity method				161,920
Consolidated investments				901,870
Total investments and cash				$ 4,010,269
Gift annuities not categorized above	$ 728	$ 306		$ 1,034
Beneficial interest in perpetual trusts	9,520	7,850	$ 51,242	68,612
Assets held in charitable trusts	21,738			21,738
Beneficial interest in trusts			704	704
UGC derivative financial instrument		6		6

	2022			
	Fair value measurements using			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
Fixed income				
Asset-backed securities		$ 5,342		$ 5,342
Mortgages	$ 2,936	13,800		16,736
Corporate bonds		9,264		9,264
Government		728,749		728,749
Preferred stock	60,882			60,882
Other		4,933		4,933
Global equity				
Small cap	1,151			1,151
Hedge funds				
Long/short non-equity	20,952		$ 1,373	22,325
Natural resources	13,119			13,119
Total investments	$ 99,040	$ 762,088	$ 1,373	$ 862,501
Cash and cash equivalents				637,042
Investments measured at net asset value or its equivalent				1,374,867
Investments held at cost				55,017
Investments at equity method				176,747
Consolidated investments				758,535
Total investments and cash				$ 3,864,709
Gift annuities not categorized above	$ 787	$ 344		$ 1,131
Beneficial interest in perpetual trusts	8,633	3,071	$ 54,267	65,971
Assets held in charitable trusts	21,893			21,893
Beneficial interest in trusts			702	702
UGC derivative financial instrument		(483)		(483)

Assets held in charitable trusts consist of equities, bonds, and cash.

	Fair value		Principal valuation	Unobservable
Instrument	**2023**	**2022**	**technique**	**inputs**
Auction rate securities	$ 1,353	$ 1,373	Price based	Weighted average transaction price
Beneficial interest in perpetual trusts	51,242	54,267	FMV of trust investments	Amount and timing of future
Beneficial interest in trusts	704	702	Discounted cash flows	Distributions discount rates duration

The changes in investments measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows for the years ended June 30:

	Beginning balance at July 1, 2022	Investment income	Net realized and unrealized gain (loss)	Purchases	Sales	Ending balance at June 30, 2023
Hedge funds						
Long/short non-equity	$ 1,373	$ 95	$ (20)	$ (95)		$ 1,353
	$ 1,373	$ 95	$ (20)	$ (95)		$ 1,353

	Beginning balance at July 1, 2021	Investment income	Net realized and unrealized gain (loss)	Purchases	Sales	Ending balance at June 30, 2022
Hedge funds						
Long/short non-equity	$ 1,373	$ 9	$ (9)			$ 1,373
	$ 1,373	$ 9	$ (9)			$ 1,373

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:

	Beginning balance at July 1, 2022	Change in carrying value of trusts	Ending balance at June 30, 2023
Beneficial interest in trusts	$ 702	$ 2	$ 704
Beneficial interest in perpetual trusts	$ 54,267	$ (3,025)	$ 51,242

	Beginning balance at July 1, 2021	Change in carrying value of trusts	Ending balance at June 30, 2022
Beneficial interest in trusts	$ 2,060	$ (1,358)	$ 702
Beneficial interest in perpetual trusts	$ 71,268	$ (17,001)	$ 54,267

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category as of June 30:

	2023			
	Net asset value	**Unfunded commitments**	**Redemption frequency**	**Redemption notice period**
Alternative investments				
Fixed income	$ 340,870	$ 299,641	None or quarterly	None or 60 days
Global equity	3,252		None or daily to quarterly	None or 0-60 days
Hedge funds	204,422		None or monthly to quarterly	None or 0-90 days
Natural resources	60,155	4,186	None	None
Real estate	26,696	9,360	None	None
Private equity	572,321	135,856	None	None
Other investments	3,997		None	None
Total	$ 1,211,713	$ 449,043		

	2022			
	Net asset value	**Unfunded commitments**	**Redemption frequency**	**Redemption notice period**
Alternative investments				
Fixed income	$ 304,176	$ 267,970	None or quarterly	None or 60 days
Global equity	2,857		None or daily to quarterly	None or 0-60 days
Hedge funds	201,494		None or monthly to quarterly	None or 0-90 days
Natural resources	74,208	4,729	None	None
Real estate	28,912	11,291	None	None
Private equity	758,517	139,202	None	None
Other investments	4,703		None	None
Total	$ 1,374,867	$ 423,192		

The UMF’s alternative investments which are redeemable at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the UMF’s interest in the funds.

Investment Commitments

As of June 30, 2023, the UMF also had unfunded commitments for investments held at cost of $2,500, unfunded commitments for investments at equity method of $163,804, and unfunded commitments for consolidated investments of $657,078.

The UMF had unfunded commitment for investments held as of June 30, 2023, which are allowed to be cancelled by the UMF. This was approximately $1,000,000 and is included in the commitment disclosure above.

In addition to the unfunded commitments noted above, the UMF has entered into investment commitments of $103,400 since June 30, 2023, which are expected to be paid within one year.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the UMF and changes therein are classified into the following two categories:

- **Net Assets without Donor Restrictions:** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

- **Net Assets with Donor Restrictions:** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30 are restricted for the following purposes:

Gifts and other unexpended revenues and gains available for:

	2023	2022
Capital improvement/facilities	$ 139,438	$ 144,670
Faculty and staff support	26,023	24,176
Scholarships and fellowships	171,661	165,990
Lectureships, professorships, and chairs	51,991	51,625
Program support	739,826	588,963
Research and outreach/community engagement	193,201	197,143
Trusts	6,417	6,422
Other	5,661	3,775
Subtotal	$ 1,334,218	$ 1,182,764
Endowments:		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity:		
Restricted by donors for:		
Capital improvement/facilities	$ 8,831	$ 8,703
Faculty and staff support	44,362	40,538
Scholarships and fellowships	762,214	723,266
Lectureships, professorships, and chairs	502,134	483,742
Program support	120,738	118,138
Research and outreach/community engagement	88,665	86,939
Trusts	17,371	16,600
Other	4,811	2,044
Subtotal	$ 1,549,126	$ 1,479,970
Subject to foundation endowment spending policy and appropriation:		
Capital improvement/facilities	$ 13,283	$ 13,615
Faculty and staff support	23,208	24,171
Scholarships and fellowships	307,714	321,245
Lectureships, professorships, and chairs	347,755	361,786
Program support	82,370	91,394
Research and outreach/community engagement	43,679	45,528
Other	4,072	4,038
Subtotal	822,081	861,777
Total endowments	$ 2,371,207	$ 2,341,747
Not subject to spending policy or appropriation:		
Capital improvement/facilities	$ 99	$ 14
Faculty and staff support	1,965	2,509
Scholarships and fellowships	306	10,070
Lectureships, professorships, and chairs	847	3,146
Program support	13,194	12,107
Research and outreach	736	1,170
Trusts	55,997	53,965
Other	(53)	2,580
Subtotal	73,091	85,561
Total net assets with donor restrictions	$ 3,778,516	$ 3,610,072

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

Net assets released for purpose:

	2023	2022
Capital improvement/facilities	$ 22,321	$ 17,634
Faculty and staff support	4,617	5,089
Scholarships and fellowships	68,970	59,654
Lectureships, professorships, and chairs	39,285	37,070
Program support	101,939	82,042
Research and outreach/community engagement	52,003	42,944
Other	11,877	6,984
Total net assets released from donor restrictions	$ 301,012	$ 251,417

Blended Component Unit

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, 2023 and 2022 for the University's significant blended component unit, RUMINCO, Ltd, are as follows:

Condensed statements of net position	**2023**	**2022**
Current assets	$ 540	$ 88
Noncurrent assets	70,933	62,055
Total assets	71,473	62,143
Deferred outflows of resources		
Total assets & deferred outflows of resources	71,473	62,143
Current liabilities	5,057	3,118
Noncurrent liabilities	2,385	2,385
Total liabilities	7,442	5,503
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	7,442	5,503
Unrestricted net position	$ 64,031	$ 56,640

Condensed statements of revenues, expenses, and changes in net position	**2023**	**2022**
Operating revenues:		
Net underwriting income	$ 1,891	$ 1,661
Operating expenses	1,859	1,635
Operating income, net	32	26
Nonoperating revenues:		
Investment income (loss), net	7,359	(7,974)
Other revenues:		
Capital contributions		2,000
Increase (decrease) in net position	7,391	(5,948)
Net position at beginning of year	56,640	62,588
Net position at end of year	$ 64,031	$ 56,640

Condensed statements of cash flows	**2023**	**2022**
Net cash provided (used) by:		
Operating activities	$ 2,564	$ 372
Noncapital financing activities		1,750
Investing activities	(2,501)	(2,224)
Net increase (decrease) in cash	63	(102)
Cash at beginning of year	26	128
Cash at end of year	$ 89	$ 26

Required Supplementary Information (Unaudited)

Required Supplementary Information (RSI) (Unaudited)

Years ended June 30, 2023 and 2022 (in thousands)

Other Postemployment Benefits (OPEB)

Schedule of Employer’s Contributions

Year Ended June 30	OPEB Liability (a)	University's Covered-Employee Payroll (b)	Contributions as a Percentage of Covered-Employee Payroll (c) = a / b
2023	$ 47,604	$ 1,654,230	2.88%
2022	51,399	1,520,185	3.38%
2021	54,111	1,461,717	3.70%
2020	46,686	1,485,066	3.14%
2019	40,283	1,427,948	2.82%
2018	34,936	1,439,621	2.43%
2017	32,461	1,384,251	2.35%
2016	32,447	1,350,645	2.40%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Changes in Total OPEB Liability

Total OPEB Liability at June 30	2023	2022	2021	2020	2019	2018	2017	2016
Service cost	$ 4,054	$ 4,700	$ 4,571	$ 3,682	$ 3,870	$ 3,763	$ 3,446	$ 2,961
Interest	1,888	1,227	1,098	1,496	1,361	1,202	973	1,150
Differences between expected and actual experience	(69)	297	3,024	1,148	(344)	2,596	(281)	3,374
Changes of actuarial assumptions or other inputs	(5,368)	(5,183)	1,940	3,683	2,879	(120)	1,023	1,674
Benefit payments	(4,300)	(3,753)	(3,208)	(3,606)	(2,419)	(4,966)	(5,147)	(5,794)
(Decrease) increase in OPEB liability	(3,795)	(2,712)	7,425	6,403	5,347	2,475	14	3,365
Total OPEB liability—beginning	51,399	54,111	46,686	40,283	34,936	32,461	32,447	29,082
Total OPEB liability—ending	$ 47,604	$ 51,399	$ 54,111	$ 46,686	$ 40,283	$ 34,936	$ 32,461	$ 32,447

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information

No assets are accumulated in a trust that meets the criteria prescribed in GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Schedules of the Employer’s Share of Net Pension Liability

Public Employee Police and Fire Fund (PEPFF)*

Actuarial valuation date	University's Proportion of the Net Pension Liability (a)	University's Proportionate Share of the Net Pension Liability (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
6/30/2022	0.677%	$ 29,443	$ 8,219	358.231%	70.53%
6/30/2021	0.624%	4,814	7,370	65.319%	93.66%
6/30/2020	0.635%	8,371	7,015	119.330%	87.19%
6/30/2019	0.652%	6,939	6,723	103.213%	89.26%
6/30/2018	0.597%	6,367	6,295	101.144%	88.84%
6/30/2017	0.589%	7,952	6,046	131.525%	85.43%
6/30/2016	0.604%	24,240	5,818	416.638%	63.88%
6/30/2015	0.613%	6,965	5,781	120.481%	86.61%
6/30/2014	0.608%	6,567	5,255	124.967%	87.07%

**This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

State Employees Retirement Fund (SERF)*

Actuarial valuation date	University's Proportion of the Net Pension Liability (a)	University's Proportionate Share of the Net Pension Liability (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
6/30/2022	13.124%	$ 215,664	$ 446,644	48.285%	90.60%
6/30/2021	13.136%	10,709	433,670	2.469%	99.53%
6/30/2020	13.970%	185,543	455,886	40.699%	91.25%
6/30/2019	14.200%	199,773	442,079	45.189%	90.73%
6/30/2018	14.648%	203,027	437,428	46.414%	90.56%
6/30/2017	14.906%	1,105,713	428,771	257.880%	62.73%
6/30/2016	15.200%	1,884,630	417,703	451.189%	47.51%
6/30/2015	15.424%	237,436	451,306	52.611%	88.32%
6/30/2014	16.031%	259,954	410,364	63.347%	87.64%

**This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Notes to Required Supplementary Information

There were changes in actuarial assumptions for both PEPFF and SERF that affected the measurement of the total pension liability since the prior actuarial valuation. Part of the assumption changes included changes to the single discount rates. For PEPFF, the single discount rate changed from 6.5 percent to 5.4 percent for the actuarial valuation date of June 30, 2022. For SERF, the single discount rate changed from 6.50 percent to 6.75 percent for the actuarial valuation date of June 30, 2022. For both PEPFF and SERF, the discount rate changed from 7.5 percent to 6.5 percent for the actuarial valuation date of June 30, 2021, and remained unchanged at 7.5 percent for the actuarial valuation dates of June 30, 2020 and 2019. For PEPFF, the single discount rate remained unchanged at 7.5 percent for the actuarial valuation date of June 30, 2018, and changed from 5.6 percent to 7.5 percent for the actuarial valuation date of June 30, 2017. For SERF, the single discount rate changed from 5.42 percent to 7.50 percent for the actuarial valuation date of June 30, 2018, and from 4.17 percent to 5.42 percent for the actuarial valuation date of June 30, 2017. Refer to Note 8 for additional information related to PEPFF and SERF.

Pensions

Schedules of Employer’s Contributions – Last 10 Years

Public Employee Police and Fire Fund (PEPFF)*

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2022	$ 1,455	$ 1,455		$ 8,219	17.70%
2021	1,305	1,305		7,370	17.70%
2020	1,242	1,242		7,015	17.70%
2019	1,140	1,140		6,723	16.95%
2018	1,020	1,020		6,295	16.20%
2017	979	979		6,046	16.20%
2016	943	943		5,818	16.20%
2015	885	885		5,781	15.30%
2014	804	804		5,255	15.30%

**This schedule is intended to show information for 10 years. Additional years will be displayed as they become available*

State Employees Retirement Fund (SERF)*

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2022	$ 27,915	$ 27,915		$446,644	6.25%
2021	27,104	27,104		433,670	6.25%
2020	28,493	28,493		455,886	6.25%
2019	25,972	25,972		442,079	5.88%
2018	24,059	24,059		437,428	5.50%
2017	23,582	23,582		428,771	5.50%
2016	22,974	22,974		417,703	5.50%
2015	22,565	22,565		451,306	5.00%
2014	20,518	20,518		410,364	5.00%

**This schedule is intended to show information for 10 years. Additional years will be displayed as they become available*

University of Minnesota
Debt Management Advisory Committee Meeting

October 10, 2023, 9:00 – 10:30 am

Members in attendance: Regent Penny Wheeler (Chair); Mike Blair, CFO, CentraCare (by video conference); Jennifer Carlson, Finance Director, City of Duluth; Todd Hurley, President and CEO, St. Paul Port Authority; Kathy Kardell, Debt Director, Hennepin County; Pervis Shroff, Professor, Carlson School of Management

Staff in Attendance: Michael Volna, Associate VP, Finance; Arcelia Detert, Director of Debt Management; Jason Langworthy, Associate Board Secretary, Office of the Board of Regents

The October Debt Management Advisory Committee meeting convened at 9 am in Morrill Hall. The agenda for the meeting included:

- A review of the FY 2024 annual capital budget, which was approved by the Board at the October Board meeting.
- A review of the University's proposed 2024 State Capital request.
- Upcoming capital priorities and capital funding plans.
- An update on the Long-Term Capital Financing Program and the status of the proceeds received from the 2022 $500 million bond issuance.
- A discussion of future debt offerings, including refunding and refinancing opportunities.
- A brief update on the MPact Innovative Health Care strategy, including legislative developments.

The Committee discussions were engaging and enlightening. The meeting adjourned at 10:30 am.

Future meetings are tentatively planned for March, June, September, and December 2024.

Intent to Dispose of University Property
Approximately 286 Acres of Vacant Land (UMORE Park)

Policy Overview

According to the Board of Regents Policy: *Real Estate and Facilities*, acquisition and disposition of property has a significant impact on the future of the University, and as a result, the University must be circumspect in its decision-making and in alignment with the Regents Policy guiding principles. Administrative Policy *Acquiring and Disposing of University Real Estate*, which implements Board policy, states that dispositions may occur when it is determined the real estate is no longer required to fulfill the University's mission *or* the disposition of the real estate better meets the University's needs or better supports the University's mission.

The University administration has deemed that the 286 Acres of land in UMORE Park (see attached map) is no longer required to fulfill the University's mission, in order to begin the process of considering the potential sale of the property.

In February 2015, the Board of Regents approved a resolution related to the reorganization of UMORE Park development process that included the following:

(a) Market-based development of UMORE Park led by business, commercial, and residential real estate developers to produce the highest potential financial return to the University over time, incorporating opportunities of the original Concept Master Plan vision when there is private market demand for such elements and such concepts serve to protect or enhance the development value of the remaining site;

(b) Maximizing financial return to the University by selling land through public processes, at competitive prices, benchmarked to market rates;

(c) Active University engagement with local jurisdictions and private parties to ensure development projects at UMORE Park protect and enhance the value of subsequent development stages;

(d) All land sale proposals to be approved by the Board of Regents; sale and development proposals that are economically sound, compatible with the vision for UMORE Park becoming a vibrant, market-driven community for residents and business, reflective of private sector demand, and in alignment with adjacent community needs, desires, and standards to be advanced by the University; and

(e) Net proceeds derived from land sale transactions to be deposited into the Legacy Endowment as directed by the Board of Regents in 2009.

Rationale

In December of 2021, the University completed its first major disposition of land within UMORE Park since the 2015 resolution and sold 435 acres for a mixed-use residential development known as Amber Fields. The University has also executed a Purchase Option Agreement for approximately 160 acres and a Purchase and Sale Agreement for 280 acres.

The 286 acres are part of the University's Mining Lease with Dakota Aggregates and consist of a 131-acre Mining Buffer along the south side of County Road 42 with the balance of the property consisting of the North Dry Mining Phase. The Mining Buffer and North Dry Mining Phase will be available for development in 2027 when Dakota Aggregates is required to complete their mining operations in the North Dry Mining Phase and scheduled to move mining operations further south and reconstruct a berm along the southern boundary of the 286 acres.

Due to unsolicited interest in acquiring developable land, current market conditions, and interest from Independent School District 196, which has inquired about acquiring an 80-acre site for a future middle school, the Administration believes it is prudent to pursue disposition at this time rather than waiting for 2027 to begin the process. Any potential disposition would be subject to the current terms and conditions of the Mining Lease in place with Dakota Aggregates that would allow them to complete their mining operations in the North Dry Mining Phase by 2027.

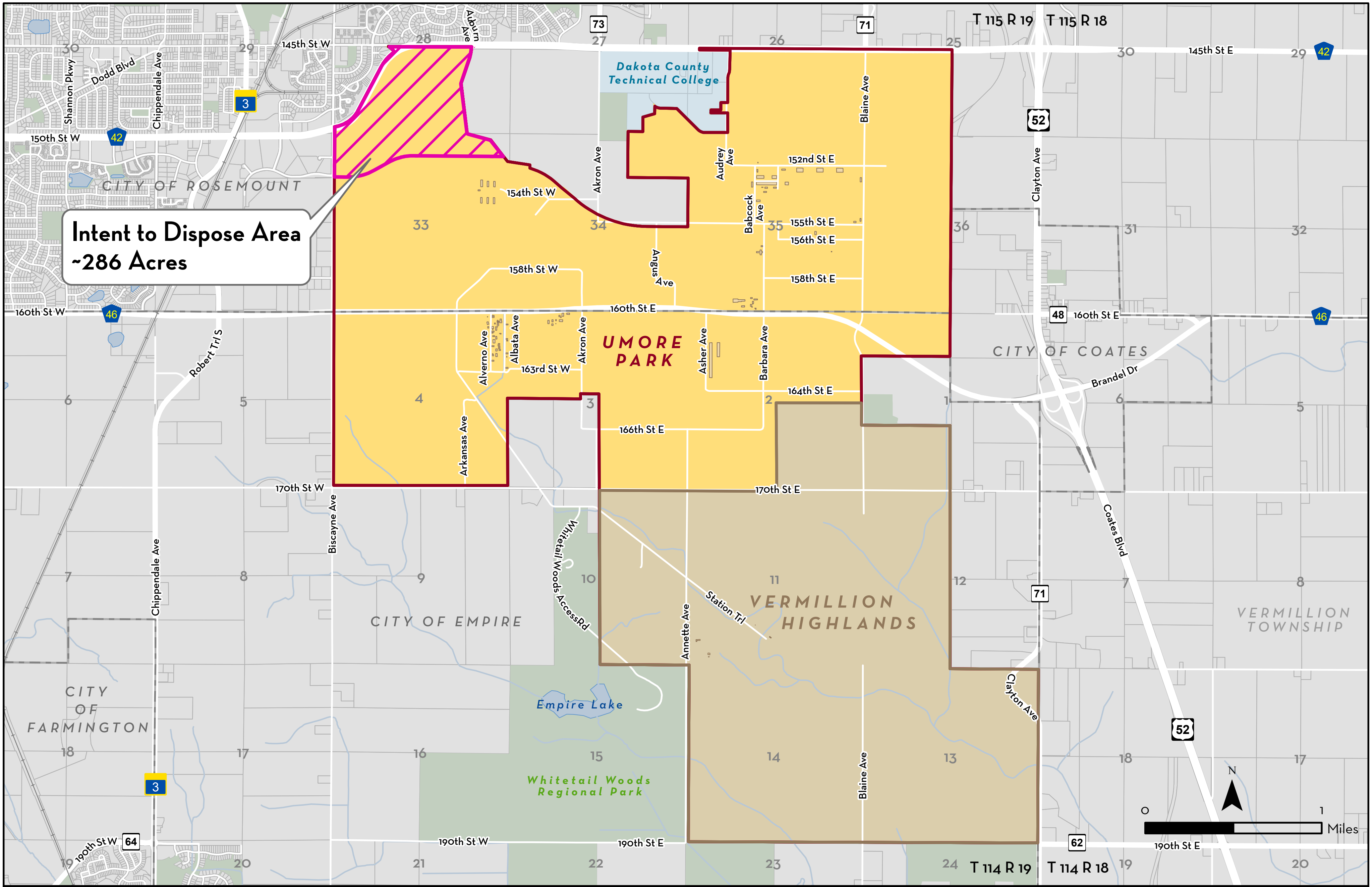
Alignment with Regents Policy Guiding Principles

The potential disposition is aligned with the guiding principles in the Board of Regents Policy: *Real Estate and Facilities* and the 2015 Board of Regents UMORE Park development process resolution.

Given that the 2015 Board of Regents UMORE Park development process resolution included a market-based development approach, disposal of this land would maximize the financial return to the University by selling the 286 acres of vacant land through the public process at a market value, the Administration is comfortable making the determination that the property is no longer required to fulfill the University's mission, and the disposition is in alignment with Board of Regents Policy: *Real Estate and Facilities*.

Specifically, the disposition of this property supports the following guiding principles in Regents Policy: Principle A: The University has not determined a mission-related purpose for this property and the proceeds of the sale are directed to the UMORE Park Legacy Fund to support mission-related purposes; Principle B: Disposition of the Property is in alignment with the Regents 2015 Resolution regarding development of UMORE Park; Principle C: Sale of the property provides strategic value when balance against scarce resources; and Principle D: the development of the property in alignment with City of Rosemount land use plans will benefit the Rosemount community.

The Administration will continue to keep the Board apprised as it engages in the disposition process, with the goal of presenting the real estate transaction to the Board for review and action in 2024 if the responses to the RFP reflect an advantageous position for the University to sell the property in 2024 rather than wait until 2027.



Intent to Dispose of University Property: Approx. 286 Acres of Vacant Land UMore Park, Rosemount, Dakota County

PLANNING, SPACE, AND REAL ESTATE

UNIVERSITY OF MINNESOTA

Driven to Discover®

▨ Intent to Dispose Area

🟨 UMore Park

🟫 Vermillion Highlands

As of August 15, 2023

This map is intended to be used for planning purposes only and should not be relied upon where a survey is required.

Base Data: Real Estate Office University Services GIS, MetroGIS, MnDNR, MnGeo, Dakota County