University of Minnesota

Consolidated Financial Statements for the Years Ended June 30, 2014 and 2013, Independent Auditors' Report, and Management's Discussion and Analysis

Financial Report

Deloitte & Touche LLP
Suite 2800
50 South Sixth Street
Minneapolis, MN 55402
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 29, 2014

Management's Discussion and Analysis
(Unaudited)

Introduction

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

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

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

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

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

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

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

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

Mission

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

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

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

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

Operations

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

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

Consolidated Financial Statements

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

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

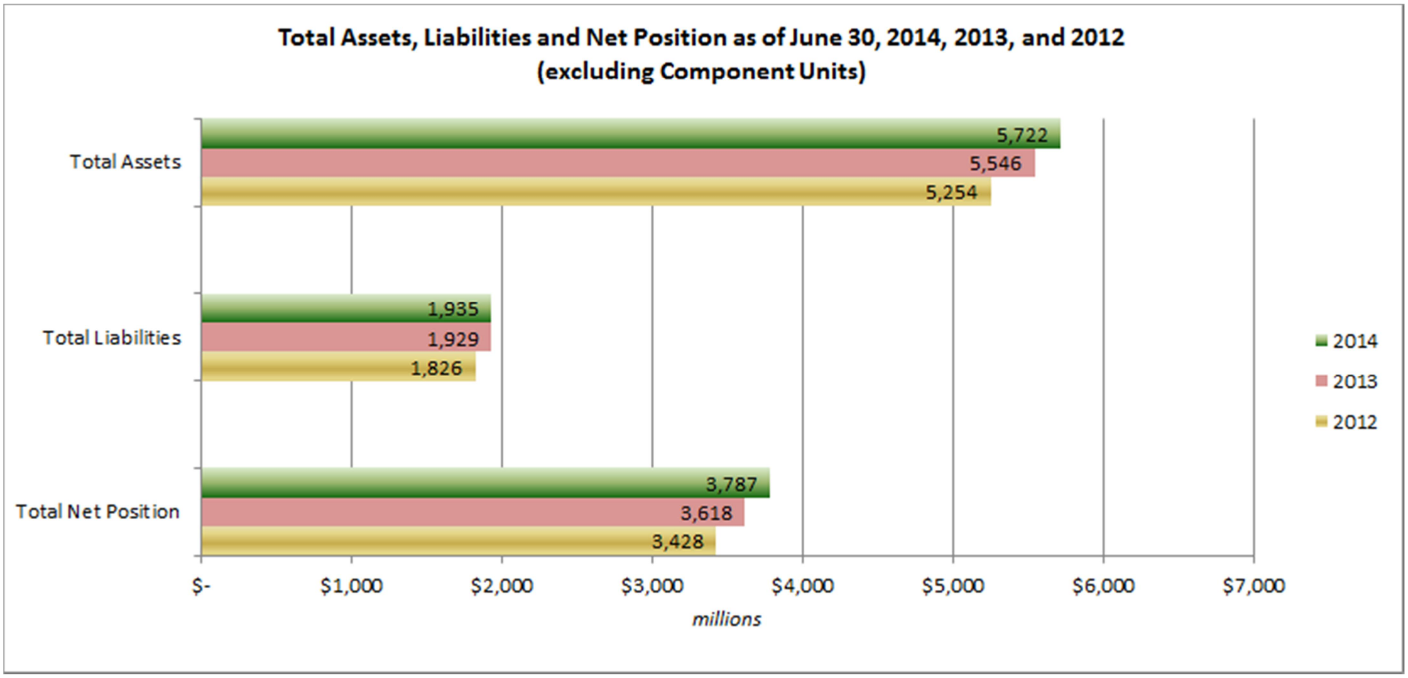
Previous GASB guidance allowed for bond issuance costs to be recorded as a prepaid expense on the balance sheet and amortized over the life of the bond. GASB 65 revised this guidance and requires bond issuance costs to be expensed during the year of the bond issuance. The implementation of GASB 65 resulted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

Financial Highlights

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

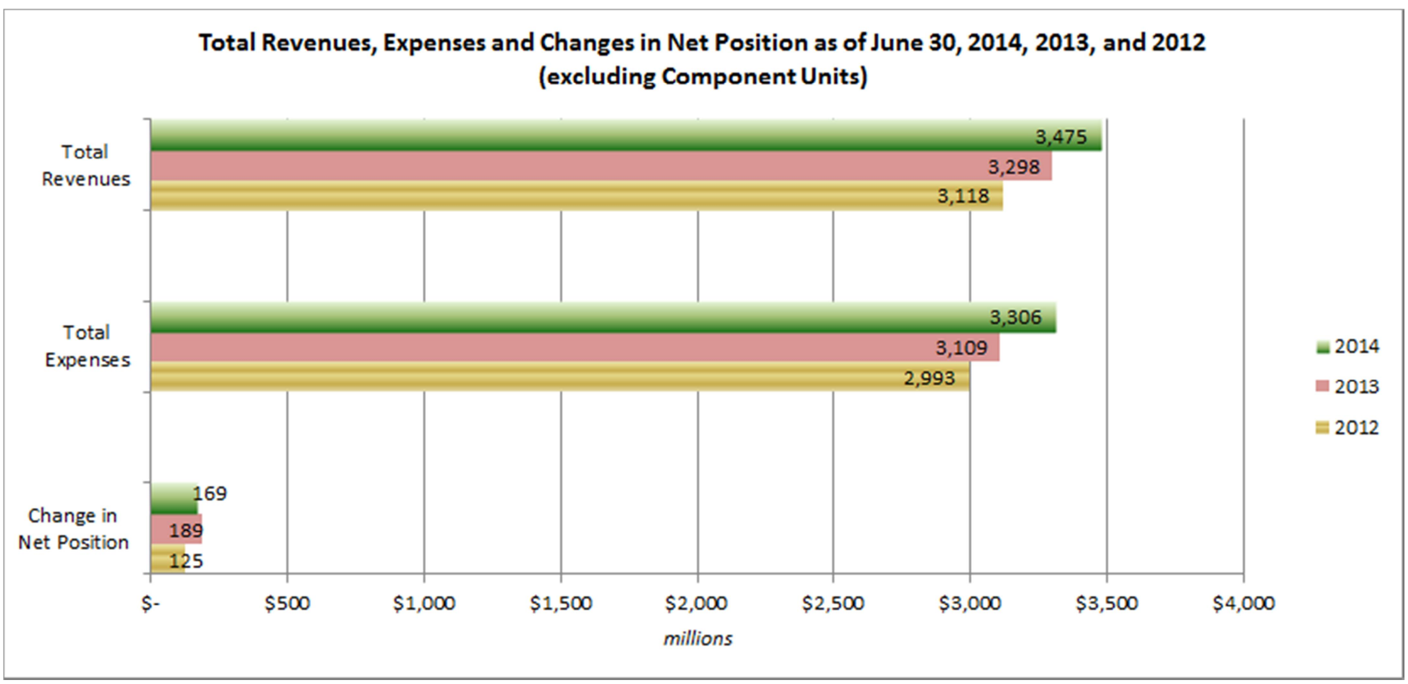
This page intentionally left blank

The following chart summarizes total assets, liabilities and net position for the periods ending June 30, 2014, 2013 and 2012, respectively:



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

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



The University experienced an increase in total revenue of $177.1 million or 5.4 percent with operating revenues contributing $13.0 million or 0.6 percent increase in operating revenues. Total expenses increased

$197.7 million or 6.4 percent primarily consisting of operating expenses. The University continues to focus on instruction, research and public service while continuing to emphasize controlling operating expenses.

Consolidated Statements of Net Position

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

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

Condensed Statements of Net Position
(in thousands)

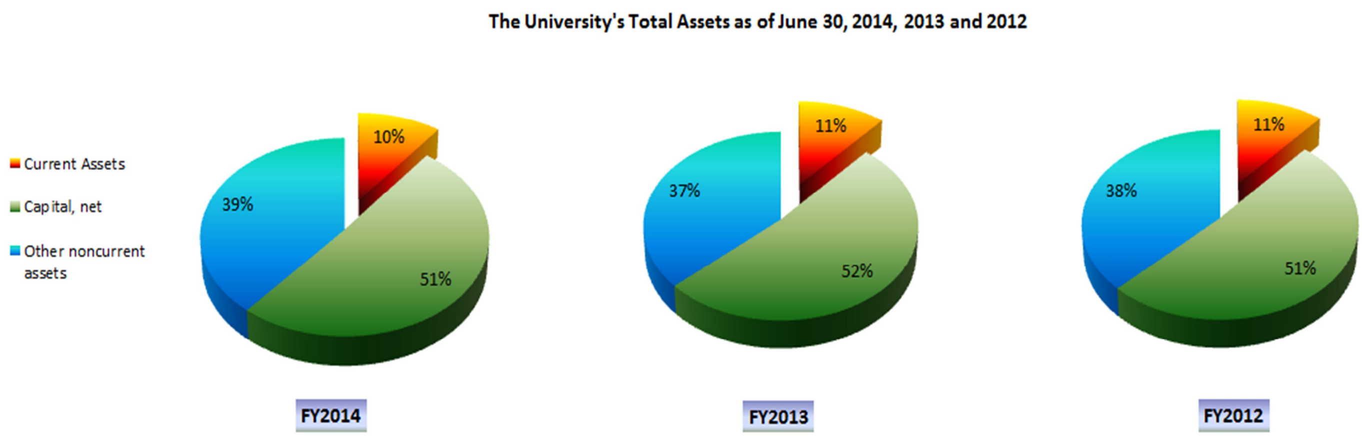
	2014	2013	2012
Assets			
Current assets	$ 589,977	$ 629,376	$ 585,161
Noncurrent assets, excluding capital assets	2,231,939	2,040,048	1,971,938
Capital assets, net	2,900,494	2,876,914	2,696,951
Total assets	5,722,410	5,546,338	5,254,050
Liabilities			
Current liabilities	444,319	443,100	432,135
Noncurrent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

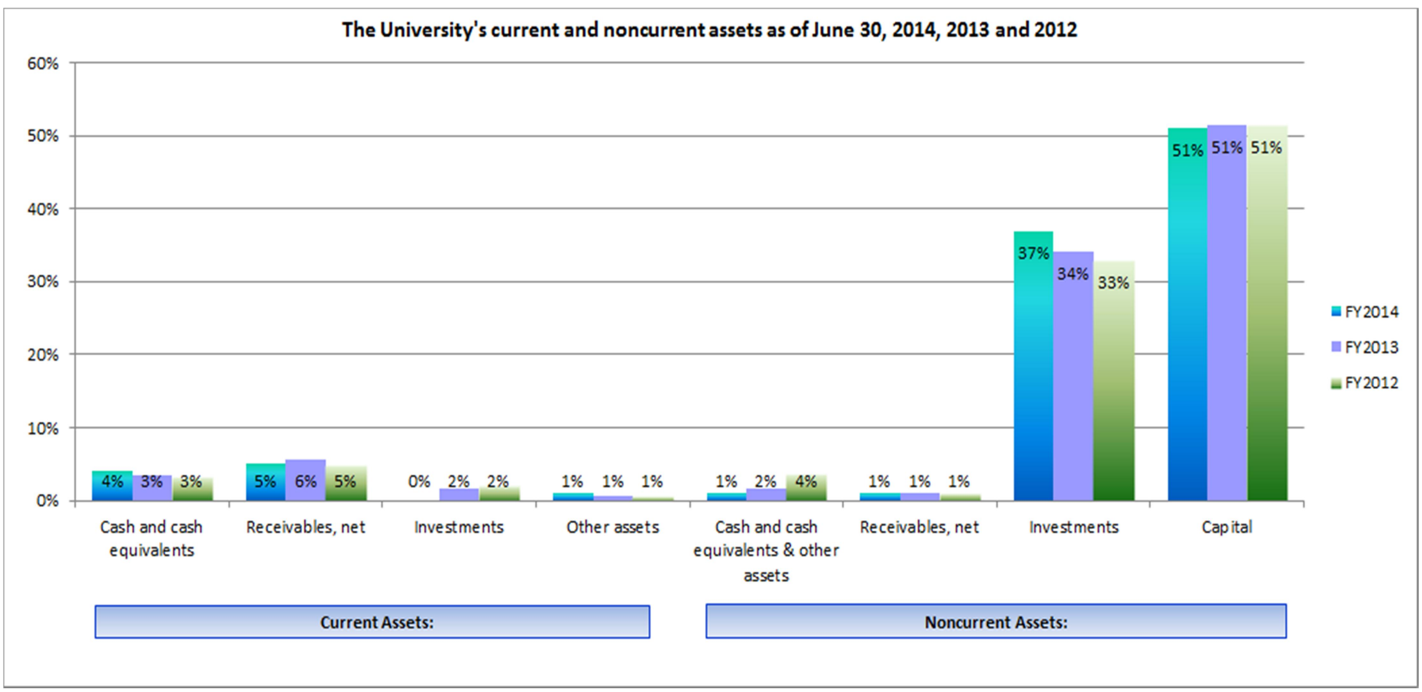
Assets

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

Noncurrent assets consist primarily of investments and capital assets net of accumulated depreciation. Noncurrent receivables consist mainly of student loan receivables scheduled for collection after the current report year.

The following charts illustrate the composition of total assets:





The University's current and noncurrent assets as of June 30, 2014, 2013 and 2012 *(in thousands)*				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	$ 243,049	$ 194,006	$ 167,751	$ 49,043	25.3%	$ 26,255	15.7%
Receivables, net	312,323	310,878	251,814	1,445	0.5%	59,064	23.5%
Investments	676	89,534	133,586	(88,858)	(99.2%)	(44,052)	(33.0%)
Other assets	33,929	34,958	32,010	(1,029)	(2.9%)	2,948	9.2%
Total current assets	589,977	629,376	585,161	(39,399)	(6.3%)	44,215	7.6%
Noncurrent assets							
Capital	2,900,494	2,876,914	2,696,951	23,580	0.8%	179,963	6.7%
Other noncurrent assets							
Cash and cash equivalents & other assets	68,522	92,656	192,781	(24,134)	(26.0%)	(100,125)	(51.9%)
Receivables, net	71,699	58,236	53,487	13,463	23.1%	4,749	8.9%
Investments	2,091,718	1,889,156	1,725,670	202,562	10.7%	163,486	9.5%
Total other noncurrent assets	2,231,939	2,040,048	1,971,938	191,891	9.4%	68,110	3.5%
Total assets	$5,722,410	$ 5,546,338	$ 5,254,050	$ 176,072	3.2%	$ 292,288	5.6%

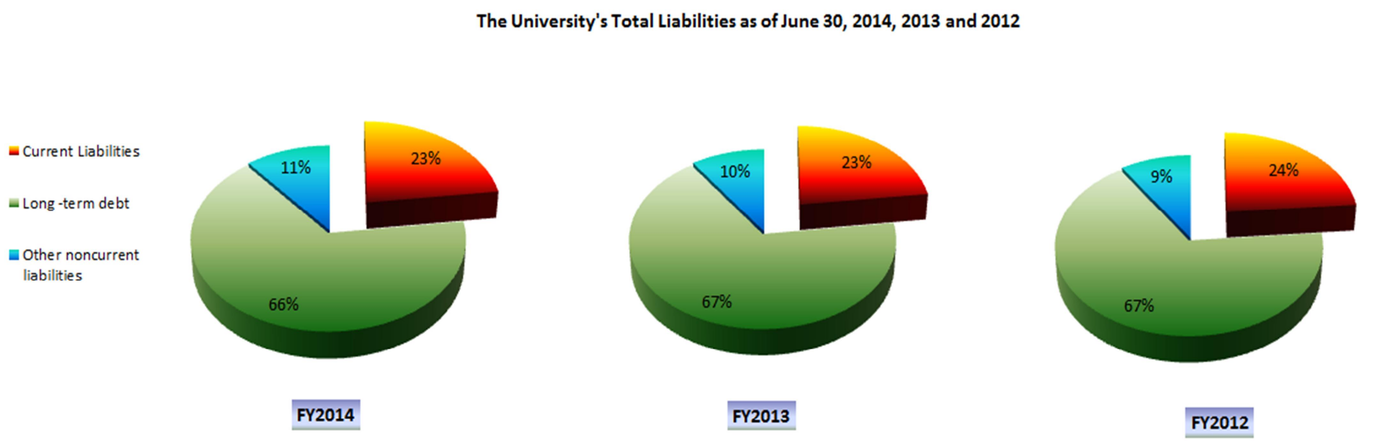
As of June 30, 2014, total assets increased $176.1 million primarily due to increases in cash and cash equivalents, investments and capital. Investments increased $113.7 million primarily due to increases in Consolidated Endowment Fund fair market value, partially offset by decreases in Temporary Investment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

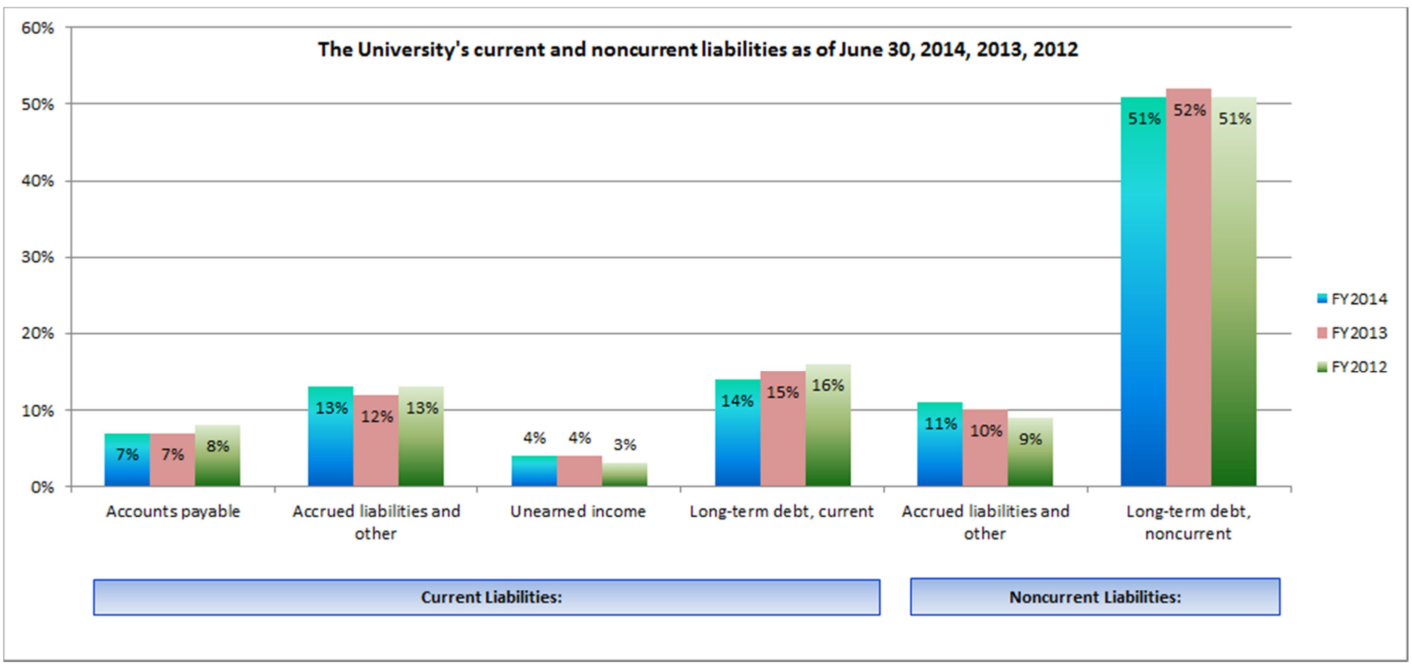
Liabilities

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

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

The following charts illustrate the composition of total liabilities:





The University's current and noncurrent liabilities as of June 30, 2014, 2013 and 2012 *(in thousands)*							
				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 131,403	$ 134,954	$ 144,073	$ (3,551)	(2.6%)	$ (9,119)	(6.3%)
Accrued liabilities and other	244,389	239,401	228,360	4,988	2.1%	11,041	4.8%
Unearned income	68,527	68,745	59,702	(218)	(0.3%)	9,043	15.1%
Long-term debt, current	272,026	285,416	293,941	(13,390)	(4.7%)	(8,525)	(2.9%)
Total current liabilities	716,345	728,516	726,076	(12,171)	(1.7%)	2,440	0.3%
Noncurrent liabilities							
Accrued liabilities and other	205,360	184,564	167,259	20,796	11.3%	17,305	10.3%
Unearned income *	3,158	162	324	2,996	1849.4%	(162)	(50.0%)
Long-term debt, noncurrent	1,010,481	1,015,314	932,448	(4,833)	(0.5%)	82,866	8.9%
Total noncurrent liabilities	1,218,999	1,200,040	1,100,031	18,959	1.6%	100,009	9.1%
Total Liabilities	$1,935,344	$ 1,928,556	$ 1,826,107	$ 6,788	0.4%	$ 102,449	5.6%

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

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

Net Position

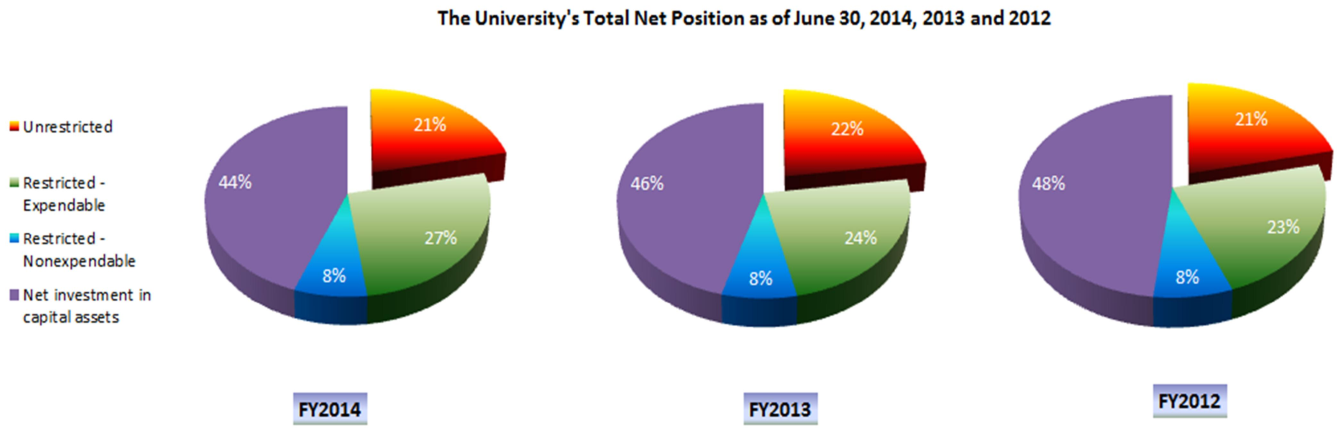
Net position represents the residual value of the University's assets after deducting liabilities and consists of the following three classifications:

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

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

- Net investment in capital assets—Includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.

The following charts illustrate the composition of the University's total net position:



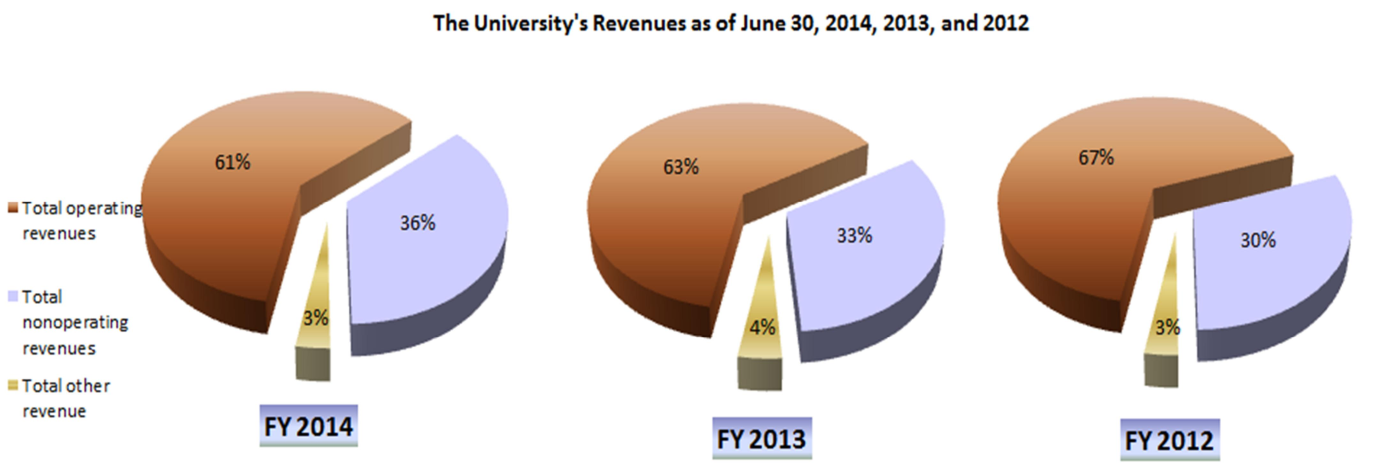
The University's total net position as of June 30, 2014, 2013 and 2012
(in thousands)

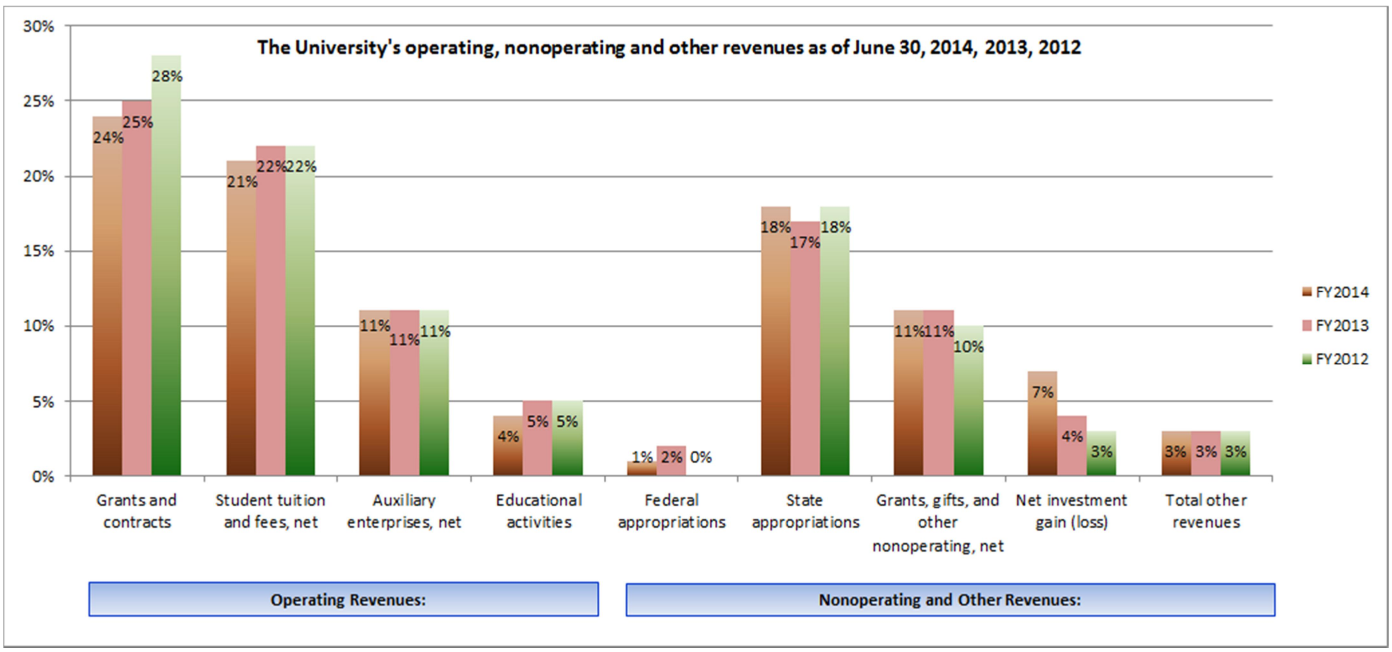
				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Unrestricted	$ 812,356	$ 820,146	$ 727,348	$ (7,790)	(0.9%)	$ 92,798	12.8%
Restricted:							
Expendable	1,004,191	865,819	784,443	138,372	16.0%	81,376	10.4%
Nonexpendable	289,366	277,601	265,156	11,765	4.2%	12,445	4.7%
Net investment in capital assets	1,681,153	1,654,216	1,650,996	26,937	1.6%	3,220	0.2%
Total net position	$ 3,787,066	$ 3,617,782	$ 3,427,943	$ 169,284	4.7%	$ 189,839	5.5%

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

Consolidated Statements of Revenues, Expenses and Changes in Net Position

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


The University's Revenues as of June 30, 2014, 2013, and 2012
Total operating revenues
Total nonoperating revenues
Total other revenue
61%
36%
3%
FY 2014
63%
33%
4%
FY 2013
67%
30%
3%
FY 2012


The University's operating, nonoperating and other revenues as of June 30, 2014, 2013, 2012
30%
25%
20%
15%
10%
5%
0%
24% 25% 28%
21% 22% 22%
11% 11% 11%
4% 5% 5%
1% 2% 0%
18% 17% 18%
11% 11% 10%
7% 4% 3%
3% 3% 3%
Grants and contracts
Student tuition and fees, net
Auxiliary enterprises, net
Educational activities
Federal appropriations
State appropriations
Grants, gifts, and other nonoperating, net
Net investment gain (loss)
Total other revenues
Operating Revenues:
Nonoperating and Other Revenues:
FY2014
FY2013
FY2012

The University's operating, nonoperating and other revenue for the years ended June 30, 2014, 2013 and 2012 *(in thousands)*							
				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 836,819	$ 836,423	$ 858,810	$ 396	0.0%	$ (22,387)	(2.6%)
Student tuition and fees, net	732,821	720,510	696,278	12,311	1.7%	24,232	3.5%
Auxiliary enterprises, net	376,449	365,459	351,571	10,990	3.0%	13,888	4.0%
Educational activities	147,134	157,840	162,096	(10,706)	(6.8%)	(4,256)	(2.6%)
Other operating revenue *	137	135	162	2	1.5%	(27)	(16.7%)
Total operating revenues	2,093,360	2,080,367	2,068,917	12,993	0.6%	11,450	0.6%
Nonoperating revenues							
Federal appropriations	19,072	22,039	15,145	(2,967)	(13.5%)	6,894	45.5%
State appropriations	614,791	575,491	572,075	39,300	6.8%	3,416	0.6%
Grants, gifts, and other nonoperating, net	396,147	357,741	322,010	38,406	10.7%	35,731	11.1%
Net investment gain	234,407	122,797	36,895	111,610	90.9%	85,902	232.8%
Total nonoperating revenues	1,264,417	1,078,068	946,125	186,349	17.3%	131,943	13.9%
Total other revenues	117,438	139,655	103,353	(22,217)	(15.9%)	36,302	35.1%
Total revenues (noncapital)	$ 3,475,215	$ 3,298,090	$3,118,395	$ 177,125	5.4%	$ 179,695	5.8%

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

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

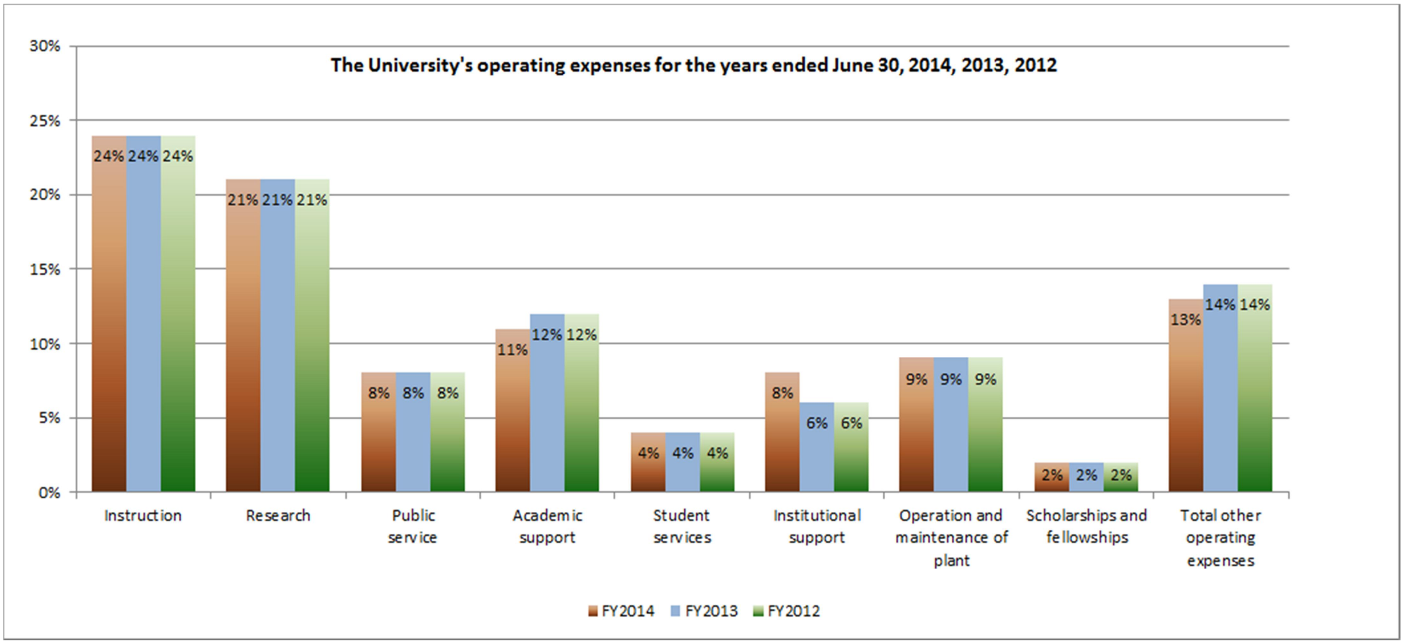
State appropriations increased $39.3 million compared to fiscal year 2013 increasing to $614.8 million in fiscal year 2014 from $575.5 million in fiscal year 2013. New State appropriations for fiscal year 2014 included appropriations for the MnDRIVE project and Tuition Relief program. MnDRIVE (Minnesota's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

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

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $197.2 million, $159.2 million, and $143.0 million, and grants and gifts for capital purposes of $22.9 million, $28.8 million, and $31.3 million in fiscal years 2014, 2013, and 2012, respectively.

For the year ended June 30, 2014, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased $22.2 million or 15.9 percent in fiscal year 2014 compared to an increase of $36.3 million or 35.1 percent in fiscal year 2013.

Total Operating Expenses



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

				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Education and general							
Instruction	$769,479	$737,596	$696,217	$31,883	4.3%	$41,379	5.9%
Research	679,718	656,551	633,176	23,167	3.5%	23,375	3.7%
Public service	253,141	249,257	245,511	3,884	1.6%	3,746	1.5%
Academic support	394,927	367,265	360,626	27,662	7.5%	6,639	1.8%
Student services	116,575	110,230	106,152	6,345	5.8%	4,078	3.8%
Institutional support	256,641	197,319	189,040	59,322	30.1%	8,279	4.4%
Operation and maintenance of plant	285,938	266,994	254,553	18,944	7.1%	12,441	4.9%
Scholarships and fellowships	54,519	50,435	52,014	4,084	8.1%	(1,579)	(3.0%)
Total education and general	2,810,938	2,635,647	2,537,289	175,291	6.7%	98,358	3.9%
Other operating expenses							
Depreciation	192,705	193,139	183,875	(434)	(0.2%)	9,264	5.0%
Auxiliary enterprises	256,068	235,411	227,397	20,657	8.8%	8,014	3.5%
Other operating expenses, net	583	19	(195)	564	2968.4%	214	(109.7%)
Total other operating expenses	449,356	428,569	411,077	20,787	4.9%	17,492	4.3%
Total operating expenses	$3,260,294	$3,064,216	$2,948,366	196,078	6.4%	115,850	3.9%

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

Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2014, 2013 and 2012
(in thousands)

				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	$ (924,284)	$ (781,600)	$ (659,788)	$ (142,684)	(18.3%)	$ (121,812)	(18.5%)
Noncapital financing activities	1,038,968	925,488	913,558	113,480	12.3%	11,930	1.3%
Capital and related financing activities	(204,533)	(223,374)	(140,030)	18,841	8.4%	(83,344)	(59.5%)
Investing activities	118,775	4,977	(177,252)	113,798	2286.5%	182,229	102.8%
Net increase (decrease) in cash	28,926	(74,509)	(63,512)	103,435	138.8%	(10,997)	(17.3%)
Cash, beginning of year	281,011	355,520	419,032	(74,509)	(21.0%)	(63,512)	(15.2%)
Cash, end of year	$ 309,937	$ 281,011	$ 355,520	$ 28,926	10.3%	$ (74,509)	(21.0%)

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

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

Investing Activities

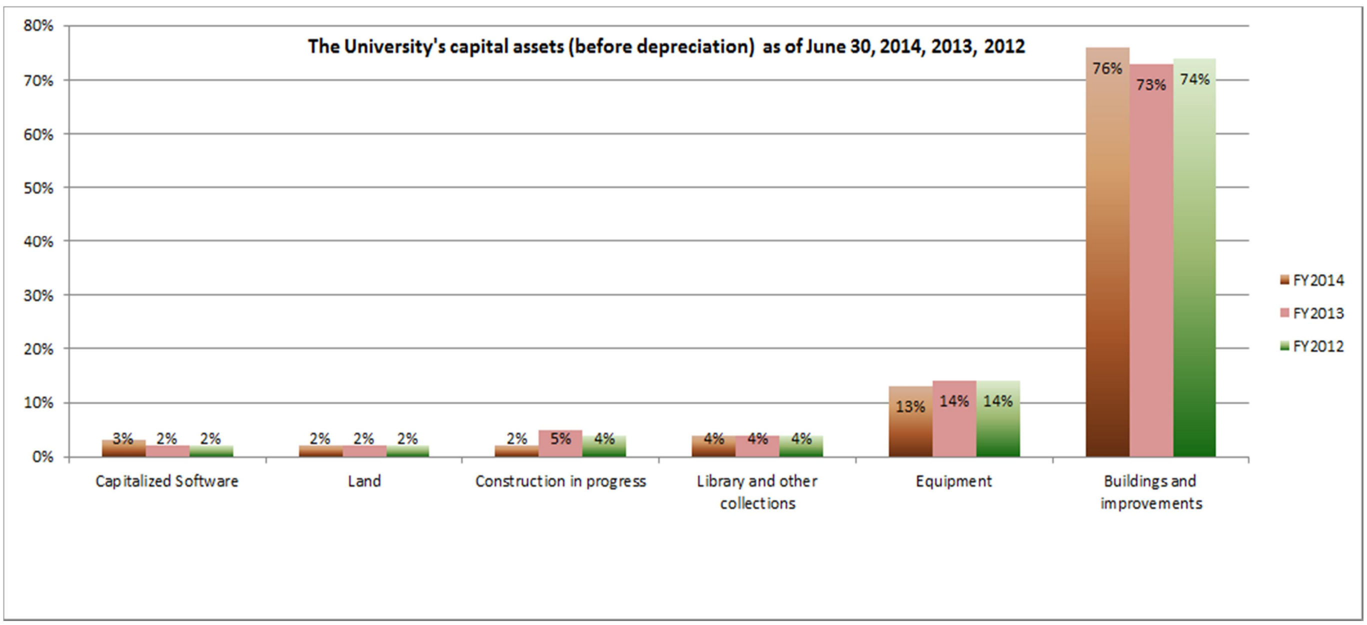
The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three-to five-year periods.

Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of $120.6 million and $13.5 million in fiscal year 2014 and 2013, respectively. In addition, decreases of $46.7 million and $45.2 million in 2014 and 2013, respectively related to annual distributions of the endowment to departments, partially offset by reinvested endowment earnings.

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

Capital and Debt Activities

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



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

				Increase (Decrease)			
				From 2013 to 2014		From 2012 to 2013	
	2014	2013	2012	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$4,256,855	$ 3,966,992	$ 3,760,552	$ 289,863	7.3%	$ 206,440	5.5%
Equipment	742,667	741,166	721,675	1,501	0.2%	19,491	2.7%
Library and other collections	211,287	199,366	191,117	11,921	6.0%	8,249	4.3%
Construction in progress	120,380	278,103	186,973	(157,723)	(56.7%)	91,130	48.7%
Land	94,015	91,089	90,189	2,926	3.2%	900	1.0%
Software and other intangibles	140,259	122,991	116,422	17,268	14.0%	6,569	5.6%
Total capital assets (gross)	$5,565,463	$ 5,399,707	$ 5,066,928	$ 165,756	3.1%	$ 332,779	6.6%

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

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

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

Factors Affecting Future Economic Conditions

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

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

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

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

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

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

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

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

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

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

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

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

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

The plan calls on the University to:

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

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

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

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

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

1. Ensuring sustainable, healthy, secure food;

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

3. Building vibrant communities that enhance human potential and collective well-being in a diverse and changing society.

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

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

University of Minnesota
Consolidated Statements of Net Position (Excluding Component Units)
June 30, 2014 and 2013 (in thousands)

			2014	2013
Assets				
Current assets				
	Cash and cash equivalents		$ 243,049	$ 194,006
	Short-term investments		676	89,534
	Receivables, net		302,424	297,021
	Inventories		22,519	22,554
	Student loans receivable, net		9,899	13,857
	Prepaid expenses		11,034	12,028
	Other assets		376	376
	Total current assets		589,977	629,376
Noncurrent assets				
	Restricted cash and cash equivalents		66,888	87,005
	Investments		2,091,718	1,889,156
	Receivables, net		14,554	4,148
	Student loan receivables, net		57,145	54,088
	Prepaid expenses		1,634	5,636
	Other assets			15
	Capital assets, net		2,900,494	2,876,914
	Total noncurrent assets		5,132,433	4,916,962
Total assets			5,722,410	5,546,338
Deferred Outflows of Resources				
	Total deferred outflows of resources		-	-
Total assets and deferred outflows of resources			5,722,410	5,546,338
Liabilities				
Current liabilities				
	Accounts payable		131,403	134,954
	Accrued liabilities and other		244,389	239,401
	Unearned income		68,527	68,745
	Long-term debt-current portion		272,026	285,416
	Total current liabilities		716,345	728,516
Noncurrent liabilities				
	Accrued liabilities and other		205,360	184,564
	Unearned income		3,158	162
	Long-term debt		1,010,481	1,015,314
	Total noncurrent liabilities		1,218,999	1,200,040
Total liabilities			1,935,344	1,928,556
Deferred Inflows of Resources				
	Total deferred inflows of resources		-	-
Total liabilities and deferred inflows of resources			1,935,344	1,928,556
Net Position				
	Unrestricted		812,356	820,146
	Restricted	Expendable	1,004,191	865,819
		Nonexpendable	289,366	277,601
	Net investment in capital assets		1,681,153	1,654,216
Total net position			$ 3,787,066	$ 3,617,782

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2014 and 2013 (in thousands)

	University of Minnesota Foundation	University of Minnesota Physicians	
	2014	2014	2013
Assets			
Cash and cash equivalents	$ 21,910	$ 73,179	$ 47,539
Investments, substantially at fair market value	2,267,360	28,561	17,626
Pledges receivable, net	142,775		
Accounts and other receivables	20,202	80,432	82,336
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	97,416		
Gift annuities	40,256		
Property and equipment, net	64,637	8,012	13,825
Prepaids and other assets	830	1,849	4,202
Total assets	2,655,386	192,033	165,528
Liabilities			
Accounts payable and accrued liabilities	23,507	84,929	68,887
Deferred revenue and gains			13,556
Gift annuities payable	20,344		
Unitrusts, pooled income, and annuity trusts payable	11,633		
Investments held for custody of others	250,176		
Bonds and capital lease payable	51,236	852	
Total liabilities	356,896	85,781	82,443
Net Assets			
Unrestricted	80,800	106,252	83,085
Temporarily restricted	1,266,264		
Permanently restricted	951,426		
Total net assets	2,298,490	106,252	83,085
Total liabilities and net assets	$ 2,655,386	$ 192,033	$ 165,528

See notes to consolidated financial statements.

University of Minnesota
Consolidated Statements of Revenues, Expenses and Changes in Net Position
(Excluding Component Units)
Years ended June 30, 2014 and 2013 (in thousands)

			2014	2013
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $248,030 in 2014; $239,066 in 2013		$ 732,821	$ 720,510
	Federal grants and contracts		480,177	497,444
	State and other government grants		63,848	60,775
	Nongovernmental grants and contracts		292,794	278,204
	Student loan interest income		1,831	1,867
	Sales and services of educational activities, net of scholarship allowances of $28 in 2014; $36 in 2013		145,303	155,973
	Auxiliary enterprises, net of scholarship allowances of $9,423 in 2014; $7,792 in 2013		376,449	365,459
	Other operating revenues		137	135
Total operating revenues			2,093,360	2,080,367
Expenses				
Operating expenses	Education and general			
		Instruction	769,479	737,596
		Research	679,718	656,551
		Public service	253,141	249,257
		Academic support	394,927	367,265
		Student services	116,575	110,230
		Institutional support	256,641	197,319
		Operation & maintenance of plant	285,938	266,994
		Scholarships & fellowships	54,519	50,435
		Depreciation	192,705	193,139
	Auxiliary enterprises		256,068	235,411
	Other operating expenses, net		583	19
Total operating expenses			3,260,294	3,064,216
Operating Loss			(1,166,934)	(983,849)
Nonoperating Revenues (Expenses)				
Federal appropriations			19,072	22,039
State appropriations			614,791	575,491
Grants			200,895	195,141
Gifts			197,172	159,167
Investment income, net			234,407	122,797
Interest on capital-asset related debt			(45,637)	(44,035)
Other nonoperating revenues (expenses), net			(1,920)	3,433
Net nonoperating revenues			1,218,780	1,034,033
Income Before Other Revenues			51,846	50,184
Capital appropriations			83,081	98,396
Capital grants & gifts			22,929	28,801
Additions to permanent endowments			11,428	12,458
Total other revenues			117,438	139,655
Increase In Net Position			169,284	189,839
Net position at beginning of year			3,617,782	3,427,943
Net position at end of year			$ 3,787,066	$ 3,617,782

See notes to consolidated financial statements.

University of Minnesota

Component Units - Statement of Activities

Year ended June 30, 2014 (in thousands)

	University of Minnesota Foundation			
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2014
Revenues				
Contributions	$ 278	$ 139,856	$ 49,462	$ 189,596
Investment income, net	2,536	11,045	154	13,735
Net realized and unrealized gains (losses) on investments	16,819	203,735		220,554
Change in value of trusts	5	6,683	102	6,790
Support services revenue	7,091			7,091
UMF - Real Estate Advisors rental revenue	5,986			5,986
University Gateway Corporation revenue	4,376			4,376
Other revenue	2,488			2,488
Net assets released from restriction	217,619	(217,619)		
Total revenues	257,198	143,700	49,718	450,616
Expenses				
Program services				
Distributions for educational purposes	183,951			183,951
Support services				
Management and general	8,742			8,742
Fund-raising	27,153			27,153
UMF - Real Estate Advisors	5,921			5,921
University Gateway Corporation	5,663			5,663
Total expenses	231,430	-	-	231,430
Increase in net assets	25,768	143,700	49,718	219,186
Net assets at beginning of year	55,032	1,122,564	901,708	2,079,304
Net assets at end of year	$ 80,800	$ 1,266,264	$ 951,426	$ 2,298,490

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Activities
Years ended June 30, 2014 and 2013 (in thousands)

	University of Minnesota Physicians	
	Total (unrestricted)	
	2014	2013
Revenues		
Net patient service revenue	$ 198,100	$ 187,242
Investment income, net	1,263	1,188
Net realized and unrealized gains (losses) on investments	143	(120)
Other revenue	270,151	261,909
Gain on sale of oncology clinic	13,556	
Total revenues	483,213	450,219
Expenses		
Program services		
Health care services	415,121	397,378
Support services		
Management and general	44,925	40,576
Total expenses	460,046	437,954
Increase in net assets	23,167	12,265
Net assets at beginning of year	83,085	70,820
Net assets at end of year	$ 106,252	$ 83,085

See notes to consolidated financial statements.

University of Minnesota

Consolidated Statements of Cash Flows (Excluding Component Units)

Years ended June 30, 2014 and 2013 (in thousands)

	2014	2013
Cash Flows From Operating Activities		
Grants and contracts (federal, state, nongovernmental, other)	$ 842,339	$ 828,937
Student tuition and fees	731,580	719,758
Auxiliary enterprises	381,991	362,450
Sales and services of educational activities	152,455	151,848
Collection of loans to students	15,798	6,828
Other operating revenues	137	141
Payments to employees for services	(1,540,179)	(1,464,867)
Payments to suppliers for goods and services	(958,378)	(862,842)
Payments for fringe benefits	(494,881)	(468,608)
Payments for scholarships and fellowships	(41,713)	(43,069)
Loans issued to students	(13,433)	(12,176)
Net cash used by operating activities	(924,284)	(781,600)
Cash Flows From Noncapital Financing Activities		
State appropriations	616,446	575,044
Grants for other than capital purposes	197,328	181,695
Gifts for other than capital purposes	190,094	150,787
Other nonoperating revenues, net	10,616	6,022
Federal appropriations	19,329	14,963
Private gifts for endowment purposes	11,428	12,458
Direct lending receipts	315,294	322,178
Direct lending disbursements	(314,944)	(321,565)
Agency transactions	(6,623)	(16,094)
Net cash provided by noncapital financing activities	1,038,968	925,488
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	81,521	99,989
Proceeds from capital debt	50,986	96,483
Capital grants and gifts	10,579	18,347
Proceeds from sale of capital assets	863	1,149
Principal received on notes receivable	844	
Interest received on notes receivable	321	
Purchases of capital assets	(223,333)	(324,447)
Principal paid on capital debt	(67,121)	(63,723)
Interest paid on capital debt	(50,438)	(51,172)
Issuance of notes receivable	(8,755)	
Net cash used by capital and related financing activities	(204,533)	(223,374)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	930,671	1,059,348
Investment income, net	96,702	124,239
Purchase of investments	(908,598)	(1,178,610)
Net cash provided by investing activities	118,775	4,977
Net Increase (Decrease) in Cash and Cash Equivalents	28,926	(74,509)
Cash and Cash Equivalents at Beginning of Year	281,011	355,520
Cash and Cash Equivalents at End of Year	$ 309,937	$ 281,011

See notes to consolidated financial statements.

University of Minnesota

Consolidated Statements of Cash Flows (Excluding Component Units)

Years ended June 30, 2014 and 2013 (in thousands)

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

Noncash Investing, Capital, and Financing Actvities		
Unrealized gains on investments	$ 140,458	$ 1,507
Capital assets on account	33,540	42,345
Contribution of capital assets	7,639	3,747
Amortization of bond discount/premium	4,031	3,725
Capital assets acquired with capital lease	1,944	45,306

Cash and Cash Equivalents at End of Year		
Cash and cash equivalents	$ 243,049	$ 194,006
Restricted cash and cash equivalents	66,888	87,005
Total cash and cash equivalents at end of year	$ 309,937	$ 281,011

See notes to consolidated financial statements.

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

Organization

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

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

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

Reporting Entity

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

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

RUMINCO, Ltd.

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

UMore Development Limited Liability Company (LLC)

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

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

University of Minnesota Foundation

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

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

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

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

University of Minnesota Physicians

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

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

Component Units

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

Joint Ventures

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

2407 University Investment, LLC

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

Financial Statement Presentation

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

Basis of Accounting

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

Significant Accounting Policies

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

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

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

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

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

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

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

The following schedule summarizes the useful lives and capitalization thresholds:

Asset category	Useful life (in years)	Capitalization threshold
Capitalized software (intangible asset)	Shorter of legal life or 5 years	$500,000
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
Buildings and improvements	10-40	50,000
Infrastructure	10-40	50,000
Leasehold improvements	Lease term	50,000
Equipment	3-20	5,000
Land	Indefinite	
Museums and collections	Indefinite	
Library and reference books	10	
Permanent right-of-way easements (intangible asset)	Indefinite	

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

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

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

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

- **Restricted**:

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

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

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

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

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

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

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

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

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

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

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

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

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

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued new accounting standards that may be applicable to the University effective in future fiscal years.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* improves the accounting and financial reporting for pensions, along with improving information regarding financial support for pensions provided by other entities. The provisions of this Statement are effective for fiscal year 2015.

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

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

2. Cash and Investments

Summary

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

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

	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	$ 150,717	$ 90,007	$ 1,882			$ 443	$ 243,049
Short-term investments	676						676
Total current assets	151,393	90,007	1,882			443	243,725
Restricted cash and cash equivalents					$ 66,888		66,888
Long-term investments							
Fixed Income	805,992	211,651	43,485			13,478	1,074,606
Public Equity		390,831				25,337	416,168
Private Capital		365,253					365,253
Inflation Hedges		198,132					198,132
Other		21,014		$ 16,545			37,559
Total noncurrent investments	805,992	1,186,881	43,485	16,545		38,815	2,091,718
Total cash and investments	$ 957,385	$ 1,276,888	$ 45,367	$ 16,545	$ 66,888	$ 39,258	$ 2,402,331

The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2013:

	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	$ 166,847	$ 24,496	$ 713		$ 1,756	$ 194	$ 194,006
Short-term investments	89,534						89,534
Total current assets	256,381	24,496	713		1,756	194	283,540
Restricted cash and cash equivalents					87,005		87,005
Long-term investments							
Fixed Income	731,220	193,329	45,304			21,032	990,885
Public Equity		287,051				14,601	301,652
Private Capital		343,386					343,386
Inflation Hedges		216,647					216,647
Other		10,557		$ 26,029			36,586
Total noncurrent investments	731,220	1,050,970	45,304	26,029		35,633	1,889,156
Total cash and investments	$ 987,601	$ 1,075,466	$ 46,017	$ 26,029	$ 88,761	$ 35,827	$ 2,259,701

Authorizations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Investment income (net)	Net increase (decrease) in the fair market value of investments	Net investment income (loss)
Temporary Investment Pool	$ 12,266	$ 3,842	$ 16,108
Consolidated Endowment Fund	97,572	127,386	224,958
Group Investment Pool	(478)	1,313	835
Separately Invested Funds and Other	253	(14,343)	(14,090)
Invested Assets Related to Indebtedness	7	2,401	2,408
RUMINCO, Ltd. Insurance Subsidiary	510	3,678	4,188
Total 2014	$ 110,130	$ 124,277	$ 234,407
Total 2013	$ 108,715	$ 14,082	$ 122,797

Investment Risks

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

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of the University's fixed income investments. The Board's Investment of Reserves policy affecting assets in the TIP limits investment duration as a means of managing its exposure to market value losses arising from increasing interest rates.

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2014:

Fixed-income securities:	Market value	Weighted average maturity (years)	AA or better	BBB to A	BB or lower	Not rated
Cash & equivalents	$ 246,211		100			
Mortgage-backed securities	97,179	19.8	100			
US Agency	461,975	3.2	100			
US Treasury	245,492	2.9	100			
Mutual Funds	250,384	4.3	49	51		
Total marketable fixed-income securities	1,301,241	4.0				
Private fixed-income securities	19,260					
Total fixed-income securities	$ 1,320,501					

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

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

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

Foreign Currency Risk—The University invests in foreign currency denominated assets. Fluctuations in exchange rates may adversely affect the fair market value of such investments.

The following table summarizes the University's exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2014 and 2013:

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

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

Financial Institution Credit Risk

Deposits—Depository credit risk is the risk that in the event of a bank failure, the University's deposits may not be recovered. Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts were fully insured, regardless of balance, at qualified FDIC-insured institutions. This change was due to the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage for such non-interest-bearing accounts. As scheduled, the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits that are held in the same ownership category, and the FDIC insured amount reverted back to $250 thousand. As of June 30, 2014 the University's bank balances of $244,132 were uninsured and uncollateralized and as of June 30, 2013 the University's bank balances of $203,130 were uninsured and uncollateralized.

Investments—Custodial credit risk is the risk that, in the event of failure of the counterparty, the University may not be able to recover the value of its investments held in custodial accounts. The University currently has custodial accounts at State Street Bank & Trust Company and JPMorgan Chase. As of June 30, 2014 and 2013, the market value of investments held in the custodial accounts was $804,646 and $818,936 in TIP; and $101,002 and $69,574 in CEF; and $21,757 and $0 in GIP, respectively.

3. Other Asset and Liability Information

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

	Current	Noncurrent	Total
State and federal appropriations	$ 7,612		$ 7,612
Sponsored grants and contracts	102,080		102,080
Notes receivable	904	$ 14,537	15,441
Student receivables	41,613		41,613
Trade receivables	131,044		131,044
Accrued interest	1,887		1,887
Other	29,987	17	30,004
Allowance for uncollectible accounts	(12,703)		(12,703)
Total receivables, net	$ 302,424	$ 14,554	$ 316,978
Student loans receivable	12,401	57,722	70,123
Allowance for uncollectible accounts	(2,502)	(577)	(3,079)
Student loans receivable, net	$ 9,899	$ 57,145	$ 67,044

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

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

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, OPEB, termination benefits, see Notes 6, 10, 11)	$ 245,195	$ 154,851	$ (121,779)	$ 278,267	$ 142,273
Self-insurance reserves (see Note 9)	42,980	264,681	(265,028)	42,633	31,062
Refundable advances	53,330	540		53,870	
Other	50,969	50,152	(50,969)	50,152	48,651

Receivables, net, and student loans receivable,net, as of June 30, 2013, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 9,498		$ 9,498
Sponsored grants and contracts	108,265		108,265
Notes receivable	1,300	$ 4,136	5,436
Student receivables	40,737		40,737
Trade receivables	122,893		122,893
Accrued interest	2,283		2,283
Other	24,010	12	24,022
Allowance for uncollectible accounts	(11,965)		(11,965)
Total receivables, net	$ 297,021	$ 4,148	$ 301,169
Student loans receivable	16,926	54,634	71,560
Allowance for uncollectible accounts	(3,069)	(546)	(3,615)
Student loans receivable, net	$ 13,857	$ 54,088	$ 67,945

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

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

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

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

4. Capital Assets

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

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 3,495,733	$ 545	$ 299,013	$ (17,094)	$ 3,778,197
Leasehold improvements	9,734	645			10,379
Equipment	741,165	53,158		(51,656)	742,667
Infrastructure	461,525	3,096	3,657		468,278
Library and reference books	144,672	5,683			150,355
Capitalized software (intangible asset)	117,935	16,597			134,532
All other intangible assets	5,052	672			5,724
Total depreciable / amortizable capital assets	4,975,816	80,396	302,670	(68,750)	5,290,132
Non-depreciable / amortizable capital assets					
Land	91,090	2,925			94,015
Museums and collections	54,695	6,285	(48)		60,932
Construction in progress	278,103	136,233	(290,564)	(3,392)	120,380
Permanent right-of-way easements (intangible asset)	2	1			3
Total non-depreciable / amortizable capital assets	423,890	145,444	(290,612)	(3,392)	275,330
Accumulated depreciation / amortization					
Buildings and improvements	(1,581,243)	(95,623)	(12,058)	12,252	(1,676,672)
Leasehold improvements	(5,123)	(782)			(5,905)
Equipment	(517,497)	(59,688)		50,335	(526,850)
Infrastructure	(232,422)	(16,458)			(248,880)
Library and reference books	(84,783)	(12,184)			(96,967)
Capitalized software (intangible asset)	(98,140)	(7,412)			(105,552)
All other intangible assets	(3,584)	(558)			(4,142)
Total accumulated depreciation / amortization	(2,522,792)	(192,705)	(12,058)	62,587	(2,664,968)
Capital assets, net	$ 2,876,914	$ 33,135	$ -	$ (9,555)	$ 2,900,494

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Summary					
Depreciable / amortizable capital assets	$ 4,975,816	$ 80,396	$ 302,670	$ (68,750)	$ 5,290,132
Non-depreciable / amortizable capital assets	423,890	145,444	(290,612)	(3,392)	275,330
Total capital assets	5,399,706	225,840	12,058	(72,142)	5,565,462
Less accumulated depreciation / amortization	(2,522,792)	(192,705)	(12,058)	62,587	(2,664,968)
Capital assets, net	$ 2,876,914	$ 33,135	$ -	$ (9,555)	$ 2,900,494

Capital assets, net as of June 30, 2013, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 3,313,255	$ 41,854	$ 140,625		$ 3,495,733
Leasehold improvements	9,242	409	124	$ (41)	9,734
Equipment	721,675	61,663		(42,173)	741,165
Infrastructure	438,055	(83)	23,553		461,525
Library and reference books	139,389	5,283			144,672
Capitalized software (intangible asset)	111,949	5,986			117,935
All other intangible assets	4,473	579			5,052
Total depreciable / amortizable capital assets	4,738,038	115,691	164,302	(42,214)	4,975,816
Non-depreciable / amortizable capital assets					
Land	90,189	901			91,090
Museums and collections	51,728	2,246	721		54,695
Construction in progress	186,973	256,499	(165,023)	(346)	278,103
Permanent right-of-way easements (intangible asset)	2				2
Total non-depreciable / amortizable capital assets	328,892	259,646	(164,302)	(346)	423,890
Accumulated depreciation / amortization					
Buildings and improvements	(1,489,974)	(91,269)			(1,581,243)
Leasehold improvements	(4,327)	(796)			(5,123)
Equipment	(496,331)	(61,492)		40,326	(517,497)
Infrastructure	(217,352)	(15,070)			(232,422)
Library and reference books	(72,275)	(12,508)			(84,783)
Capitalized software (intangible asset)	(86,762)	(11,378)			(98,140)
All other intangible assets	(2,958)	(626)			(3,584)
Total accumulated depreciation / amortization	(2,369,979)	(193,139)		40,326	(2,522,792)
Capital assets, net	$ 2,696,951	$ 182,198	$ -	$ (2,234)	$ 2,876,914

Summary					
Depreciable / amortizable capital assets	$ 4,738,038	$ 115,691	$ 164,302	$ (42,214)	$ 4,975,816
Non-depreciable / amortizable capital assets	328,892	259,646	(164,302)	(346)	423,890
Total capital assets	5,066,930	375,337		(42,560)	5,399,706
Less accumulated depreciation / amortization	(2,369,979)	(193,139)		40,326	(2,522,792)
Capital assets, net	$ 2,696,951	$ 182,198	$ -	$ (2,234)	$ 2,876,914

5. Long-Term Debt

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

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2014 beginning balance	Additions	Reductions	FY 2014 ending balance	Current portion
General obligation bonds									
Series 2013D (taxable)	$ 12,760	2014	0.60%-4.848%	2039		$ 12,760		$ 12,760	$ 230
Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038	$ 13,780		$ 345	13,435	375
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038	73,570		1,750	71,820	1,875
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	52,450		1,195	51,255	1,230
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	19,035		530	18,505	535
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	297,005		21,415	275,590	22,615
Series 2010B (taxable)	41,720	2011	0.74%-5.02%	2036	39,505		1,305	38,200	1,320
Series 2010D (taxable)	27,200	2010	3.86%-5.77%	2030	27,200			27,200	
Series 2010C (tax-exempt)	8,480	2010	2.00%-4.00%	2016	4,440		1,425	3,015	1,485
Series 2009D (taxable)	37,330	2009	6.30%	2029	37,330			37,330	
Series 2009C (tax-exempt)	44,625	2009	1.50%-5.00%	2022	33,700		3,120	30,580	3,280
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	14,785		640	14,145	660
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	37,170		1,110	36,060	1,140
Commercial paper notes, Series A	159,100	2006	0.06%–0.08%	2015	117,100		7,000	110,100	110,100
Commercial paper notes, Series B	61,000	2007	0.08%	2015	43,000		3,000	40,000	40,000
Commercial paper notes, Series C	70,000	2008	0.06%–0.08%	2015	50,500		3,500	47,000	47,000
Commercial paper notes, Series D	25,000	2010	0.07%–0.10%	2015	19,450		1,750	17,700	17,700
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1991-2006	3.55%–5.70%	2026	25,817		4,306	21,511	3,667
Auxiliary revenue bonds	10,080	1971-1977	3.00%	2014	620		620		
Special purpose revenue bonds, Series 2013C (tax-exempt)	35,395	2014	2.00%–5.00%	2039		35,395		35,395	410
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%–5.00%	2037	52,110		1,180	50,930	1,225
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%–5.00%	2036	108,165		2,655	105,510	2,780
Special purpose revenue bonds, Series 2006 (tax-exempt)	137,250	2007	4.00%–5.00%	2030	113,995		4,695	109,300	4,915
Unamortized premiums and discounts	87,800	2007-2014		2016-2039	73,725	2,831	4,031	72,525	4,070
Capital leases and other		1999-2014	1.94%–4.21%	2025	46,278	1,944	5,581	42,641	5,414
Total	$ 1,584,459				$ 1,300,730	$ 52,930	$ 71,153	$ 1,282,507	$ 272,026

Long-term debt as of June 30, 2013, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2013 beginning balance	Additions	Reductions	FY 2013 ending balance	Current portion
General obligation bonds									
Series 2013B (taxable)	$ 13,780	2013	2.60%-3.75%	2038		$ 13,780		$ 13,780	$ 345
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038		73,570		73,570	1,750
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	$ 53,610		$ 1,160	52,450	1,195
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	19,335		300	19,035	530
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	317,580		20,575	297,005	21,415
Series 2010B (taxable)	41,720	2011	.74%-5.02%	2036	40,800		1,295	39,505	1,305
Series 2010D (taxable)	27,200	2010	3.86%-5.77%	2030	27,200			27,200	
Series 2010C (tax-exempt)	8,480	2010	2.00%-4.00%	2016	5,825		1,385	4,440	1,425
Series 2009D (taxable)	37,330	2009	6.30%	2029	37,330			37,330	
Series 2009C (tax-exempt)	44,625	2009	1.50%-5.00%	2022	36,665		2,965	33,700	3,120
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	15,405		620	14,785	640
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	38,245		1,075	37,170	1,110
Commercial paper notes, Series A	159,100	2006	.10%–.16%	2014	124,100		7,000	117,100	117,100
Commercial paper notes, Series B	61,000	2007	.11%–.15%	2014	46,000		3,000	43,000	43,000
Commercial paper notes, Series C	70,000	2008	.11%–.16%	2014	54,000		3,500	50,500	50,500
Commercial paper notes, Series D	25,000	2010	.12%–.15%	2014	22,250		2,800	19,450	19,450
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1991-2006	3.55%–5.70%	2026	30,639		4,822	25,817	4,306
Auxiliary revenue bonds	12,555	1971-1977	3.00%	2014	1,420		800	620	620
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%–5.00%	2037	52,485		375	52,110	1,180
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%–5.00%	2036	110,705		2,540	108,165	2,655
Special purpose revenue bonds, Series 2006 (tax-exempt)	137,250	2007	4.00%–5.00%	2030	118,490		4,495	113,995	4,695
Unamortized premiums and discounts	84,969	2007-2013		2016-2038	68,316	9,133	3,724	73,725	3,956
Capital leases and other		1999-2013	1.98%–10.00%	2024	5,988	45,306	5,016	46,278	5,119
Total	$ 1,535,948				$ 1,226,388	$ 141,789	$ 67,447	$ 1,300,730	$ 285,416

General Obligation Bonds

The University issued General Obligation Taxable Bonds for the University Supported Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The Series 2013D bonds were issued on November 6, 2013 in the par amount of $12,760 at coupon rates of 0.600 – 4.848 percent. The Series 2011C bonds were issued on October 13, 2011 in the par amount of $19,335 at coupon rates of 0.9 – 4.56 percent with a discount of $13. The Series 2010B bonds were issued on September 30, 2010 in the par amount of $41,720 at coupon rates of 0.74 – 5.02 percent.

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

On December 21, 2011, the University issued General Obligation Bonds, Series 2011D in the par amount of $53,610. The proceeds will be used to fund various capital projects including portions of the renovation of Northrop Memorial Auditorium, the renovation of the Recreation Center, and construction of the student residence hall and dining facility, all on the Twin Cities campus, and the acquisition and installation of equipment related to these projects. The 2011D bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $7,354.

The University has outstanding General Obligation Taxable Bonds, Series 2010D, Series 2010B and Series 2009D. These Series are Build America Bonds – Direct Payment to Issuer, whereby the University is expected to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Due to the implementation of federal sequestration during FY13, the subsidy payments received to offset the June 1, 2014, February 1, 2014 and December 1, 2013 interest payments were reduced by 7.2 percent, and the August 1, 2013 and June 1, 2013 interest payments were reduced by 8.7 percent.

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

Special Purpose Revenue Bonds

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

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

Commercial Paper Notes

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

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

Auxiliary Revenue Bonds

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

Infrastructure Development Bond Obligations

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

Capital Leases and Other Debt

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

Interest Rate Swaps

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

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

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

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

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

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

Credit Risk—The swap that exists at the end of fiscal year 2014 is with a counterparty that is rated Aa3 by Moody's Investors Service. The University faces maximum possible losses equivalent to the amount of the derivative's fair value should the counterparty not perform under the terms of the swap agreements. Due to the fair value of the swap being negative as of June 30, 2014, the University was not exposed to credit risk.

It is the University's practice to net payments to/from a counterparty required under the derivatives instrument as allowed under the terms of the Master Agreements.

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

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

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

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

	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Net interest rate swaps	Total obligations
Fiscal year ending June 30							
2015	$ 51,812	$ 214,800	$ 5,414	$ 272,026	$ 47,535	$ 3,444	$ 323,005
2016	53,951		5,447	59,398	44,486	3,444	107,328
2017	55,805		5,172	60,977	41,936	3,444	106,357
2018	57,889		5,073	62,962	39,340	547	102,849
2019	59,656		5,007	64,663	36,551		101,214
2020-2024	236,774		15,949	252,723	146,657		399,380
2025-2029	249,532		579	250,111	90,466		340,577
2030-2034	173,941			173,941	38,503		212,444
2035-2039	85,706			85,706	7,022		92,728
	$ 1,025,066	$ 214,800	$ 42,641	$ 1,282,507	$ 492,496	$ 10,879	$ 1,785,882

Defeased Bonds

In previous years, the University 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. The defeased bonds are as follows:

Associated bond issue	Refunding date	Amount defeased	Refunded amount	Amount outstanding on June 30, 2014	Bond call date
General obligation bonds 1982 Series A	4/23/1985	$ 112,635	$ 112,635	$ 29,600	12/1/2016
General obligation bonds 1996 Series A	10/2/2005	159,000	159,000	110,000	7/1/2021

The Series 1982A bonds were issued December 1, 1982, to finance the construction and equipment for the University Hospital and Clinics. They were defeased in fiscal year 1985, resulting in a recognized loss of $13,945.

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

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

Arbitrage

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

6. Pension Plans

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

Defined Benefit Plans

Cost-sharing plans, multiple-employer plans

United States Government (Federal) Retirement Plans

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

Civil Service Retirement System (CSRS)

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

Civil Service Retirement System Offset Retirement (CSRS Offset)

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

Federal Employees Retirement System (FERS)

The Federal Employees Retirement System (FERS) is a federal program that provides retirement benefits for approximately 91 employees who work for the University. In general, all civilian service employees newly hired on or after January 1, 1984, are mandatorily covered by FERS. In addition, employees rehired after January 1, 1984, who had less than five years of prior civilian service as of December 31, 1986, are mandatorily covered by FERS. Using Social Security as a base, FERS provides an additional defined benefit and a voluntary thrift savings plan. An employee who receives a new appointment can often elect FERS coverage voluntarily during the first six months of the appointment. FERS provides full retirement benefits at the "Minimum Retirement Age" (MRA) with 30 years of service, at age 60 with 20 years of service, or at age 62 with 5 years of service. The MRA is 55 for those born before 1948, and incrementally increases to 57 for those born in or after 1970. Deferred retirement benefits are available at or after the MRA with 10 years of service at reduced benefit levels. The annuity formula generally provides 1.0 percent of the employee's average salary (based on the highest three consecutive years of salary) multiplied by the number of years of creditable service. If retirement is at age 62 or later with at least 20 years of service, a factor of 1.1 percent is used rather than 1.0 percent.

State of Minnesota Retirement Plans

Public Employee Police and Fire Fund (PEPFF)

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

State Employees' Retirement Fund (SERF)

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

Funding Policy

	CSRS	CSRS Offset	FERS	PEPFF	SERF
Statutory authority					
Minnesota chapter	N/A	N/A	N/A	353	352
United States code	Title 5, Chapter 83	Title 5, Chapter 83	Title 5, Chapter 84	N/A	N/A
Required contribution rates (%)					
Active plan members	7.00%	1.20%	0.80%	10.20%	5.00%
University	7.00%	8.51%	11.90%	15.30%	5.00%
Required contributions ($)					
Employee					
2014	$ 152	$ 6	$ 60	$ 513	$ 20,411
2013	172	6	59	511	20,800
2012	226	5	61	462	20,244
University					
2014	$ 152	$ 35	$ 894	$ 770	$ 20,411
2013	172	34	878	766	20,800
2012	226	33	900	693	20,249

Single-employer plan

Supplemental Benefits Plan (SBP)

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

Funding Policy

Statutory authority	
Minnesota chapter	356
Required contribution rates (%)	
Active plan members	N/A
University	N/A

Due to the plan being closed, required contribution rates do not apply. Contribution amounts are determined by funding status and actuarial value in compliance with state statutes. The University makes all contributions to the SBP using a variable rate.

Annual Pension Cost and Net Pension Obligation

Annual required contribution (ARC)	$	380
Interest on net pension obligation (NPO)		121
Adjustment to ARC		(374)
Annual pension cost (expense)	$	127
Less contributions made – fiscal year ended June 30, 2014		(393)
Decrease in NPO	$	(266)
NPO—June 30, 2013		2,422
NPO—June 30, 2014	$	2,156

Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2014	$ 127	$ 393	309.45%	$ 2,156
6/30/2013	149	409	274.50%	2,422
6/30/2012	177	409	231.07%	2,682

Schedule of Funding Progess

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

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

Actuarial Methods and Assumptions

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

Defined Contribution Plans

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

Description of Plans and Contribution Information

Faculty Retirement Plan (FRP)

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

University of Minnesota Optional Retirement Plan (ORP)

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

University of Minnesota Section 457 Deferred Compensation Plan

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

University of Minnesota 415(m) Retirement Plan

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

Contributions Made for Fiscal Year 2014

	FRP	ORP	457	415(m)
Employee	$ 23,179	$ 39,842	$ 12,962	N/A
University	98,809	312	N/A	448

7. Related Organization

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

8. Commitments and Contingencies

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

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

The University is obligated under various operating leases for the use of real property and equipment. Total operating lease expenditures for the years ended June 30, 2014 and 2013, were $18,638 and $18,264, respectively, of which $14,512 and $14,640 were for real property and $4,126 and $3,624 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2014, for the next five years and in subsequent five-year periods are as follows:

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

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

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

9. Self-Insurance Programs

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

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

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

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

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

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

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

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

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 7,181	$ 2,395	$ (2,709)	$ 675	$ 7,542
Workers' compensation	11,760	3,578	(3,578)	1,286	13,046
UPlan medical	16,365	222,766	(221,835)	(1,988)	15,308
UPlan dental	1,286	17,078	(16,724)	(819)	821
Graduate assistant health plan	1,446	19,239	(19,239)	(486)	960
Student health plan	4,436			113	4,549
Medical Residents & Fellows	504			(97)	407

Reported liabilities as of June 30, 2013, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 8,142	$ 801	$ (1,639)	$ (123)	$ 7,181
Workers' compensation	11,574	2,999	(2,999)	186	11,760
UPlan medical	21,139	216,606	(215,935)	(5,445)	16,365
UPlan dental	996	16,934	(16,131)	(513)	1,286
Graduate assistant health plan	1,198	18,942	(18,942)	248	1,446
Student health plan	4,561			(125)	4,436
Medical Residents & Fellows	499			5	504

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

10. Termination Benefits

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

Contract Buyouts

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

Retirement Incentives

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

Severance Lump-Sum Payouts and Continuing Healthcare Subsidies

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

Vacation

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

Academic Professional and Administrative (P&A) Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2014	88	$ 768
2013	73	632

Civil Service Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2014	73	$ 639
2013	83	988

Faculty Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2014	109	$ 1,208
2013	82	1,017

Graduate Assistant Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2014	15	$ 26
2013	12	21

Represented Bargaining Unit Staff Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2014	193	$ 2,600
2013	136	1,316

11. Other Postemployment Benefits

Description of Plan

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

Funding Policy

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

Beneficiary type	Beneficiary annual rate (Actual amounts, not rounded to thousands)
Non-Medicare retiree	$ 6,279
COBRA	6,405
Disabled Participants	6,279

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution (ARC)	$	27,048
Interest on net OPEB obligation		2,746
Adjustment to annual required contribution		(5,528)
Annual OPEB cost (expense)		24,266
Less contributions made – fiscal year ended June 30, 2014		(5,411)
Increase in net OPEB obligation		18,855
Net OPEB obligation—June 30, 2013		82,433
Net OPEB obligation—June 30, 2014	$	101,288

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

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

Funded Status and Funding Progress

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

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

The actuarial accrued liability (AAL) is the present value of projected future benefits earned by employees to date. Whereas, the unfunded actuarial accrued liability (UAAL) is the AAL less any cash, investments, and other resources the University is holding to specifically fund the AAL.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Some of the specific assumptions that were taken into consideration when calculating the actuarial valuations were participant age, years of service, salary increases, benefit election patterns, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information following the notes to the financial statements, presents the results of the University's OPEB valuation as of June 30, 2014.

Actuarial Methods and Assumptions

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

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

Valuation date	7/1/2014
Actuarial cost method	Entry age
Amortization method	Level Dollar, Open Group
Remaining amortization period	20 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	3.33%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	6.50%
2nd year rate	6.40%
Ultimate rate	5.00%
Year ultimate rate reached	2060

12. Operating Expenses by Natural Classification

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

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 663,245	$ 106,234			$ 769,479
Research	426,256	253,462			679,718
Public service	158,203	94,938			253,141
Academic support	300,725	94,202			394,927
Student services	91,033	25,542			116,575
Institutional support	193,901	62,740			256,641
Operation and maintenance of plant	116,123	169,815			285,938
Scholarships and fellowships	9,449	2,684	$ 42,386		54,519
Depreciation				$ 192,705	192,705
Auxiliary enterprises	105,836	150,232			256,068
Other operating expense		583			583
	$ 2,064,771	$ 960,432	$ 42,386	$ 192,705	$ 3,260,294

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

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 637,233	$ 100,363			$ 737,596
Research	423,002	233,549			656,551
Public service	158,293	90,964			249,257
Academic support	284,620	82,645			367,265
Student services	86,978	23,252			110,230
Institutional support	151,181	46,138			197,319
Operation and maintenance of plant	110,147	156,847			266,994
Scholarships and fellowships	8,427	2,689	$ 39,319		50,435
Depreciation				$ 193,139	193,139
Auxiliary enterprises	96,224	139,187			235,411
Other operating expense		19			19
	$ 1,956,105	$ 875,653	$ 39,319	$ 193,139	$ 3,064,216

13. Subsequent Events

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

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

14. Component Units

Discretely Presented Component Units

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

Investments

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

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

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

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

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

	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 406,328		$ 406,328
Fixed income	254,161	$ 78,417	332,578
Global equity	80,985	293,909	374,894
Hedge funds	22,909	378,697	401,606
Natural resources		128,701	128,701
Treasury inflation protected securities (TIPS)	74,983		74,983
Real estate		111,639	111,639
Private equity		471,463	471,463
Other investments		3,433	3,433
Subtotal	839,366	1,466,259	2,305,625
Less charitable gift annuities reported separately			(38,265)
Total			$ 2,267,360

Fixed income investments include high yield bonds, bank loans, mortgage, and related securitizations.

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

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

Fair Value Measurements

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

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

> Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.
>
> Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fixed income securities are generally traded in the over-the-counter market and are valued at a price that reflects fair value as quoted by dealers in these securities or by an independent pricing service. These prices are based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, such as benchmark yields, expected prepayment speeds and volumes, and issuer ratings.
>
> Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table summarizes UMF's financial assets and other liabilities measured at fair value on a recurring basis as of June 30, 2014:

	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Investments:				
Fixed income:				
Asset backed securities		$ 59,901		$ 59,901
Mortgages		26,947		26,947
Alternative structures			$ 78,417	78,417
Corporate bonds	$ 50	9,369		9,419
Government	556	147,702		148,258
Other	6,266	3,370		9,636
Global equity:				
Small cap	37,959			37,959
Large cap	43,011			43,011
Alternative structures			293,909	293,909
Other		15		15
Hedge funds:				
Directional long biased equity			137,345	137,345
Fixed income arbitrage	22,910		81,620	104,530
Long/short nonequity			79,400	79,400
Market neutral equity			22,047	22,047
Structured credit			58,284	58,284
Natural resources			128,701	128,701
Real estate			111,639	111,639
Treasury inflation protected securities (TIPS)		74,983		74,983
Private equity:				
Buyout			141,979	141,979
Distressed			64,043	64,043
Special situations			45,419	45,419
Venture capital			220,022	220,022
Other investments			3,433	3,433
Total investments	$ 110,752	$ 322,287	$ 1,466,258	$ 1,899,297
Cash and cash equivalents				406,328
Total investments and cash				$ 2,305,625
Gift annuities not categorized above	$ 1,990			$ 1,990
Beneficial interest in perpetual trusts			$ 67,573	67,573
Assets held in charitable trusts	21,758	$ 3,744		25,502
Beneficial interest in trusts			4,341	4,341
UGC derivative financial instrument		(1,911)		(1,911)

There were no transfers between Level 1, Level 2, or Level 3 during the year ended June 30, 2014.

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

	Beginning balance at July 1, 2013	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2014
Fixed income:						
Alternative structures	$ 22,465		$ 1,670	$ 67,284	$ (13,002)	$ 78,417
Global equity:						
Alternative structures	223,555	$ 1,396	42,390	27,024	(456)	293,909
Hedge funds:						
Directional long-biased equity	139,344		12,984	10,000	(24,983)	137,345
Fixed income arbitrage	91,788		(3,589)	11,000	(17,579)	81,620
Long/short nonequity	49,188		5,560	25,000	(348)	79,400
Market neutral equity	24,279		2,475	5,000	(9,707)	22,047
Structured credit	43,776		12,508	2,000		58,284
Natural resources	110,296		8,044	17,698	(7,337)	128,701
Real estate	90,857		18,095	40,814	(38,127)	111,639
Private equity:						
Buyout	143,709		14,372	7,247	(23,349)	141,979
Distressed	69,367		11,894	4,531	(21,749)	64,043
Special situations	39,521		406	12,691	(7,199)	45,419
Venture capital	148,320		79,013	20,186	(27,497)	220,022
Other investments	3,378		(1)	145	(89)	3,433
Total	$ 1,199,843	$ 1,396	$ 205,821	$ 250,620	$ (191,422)	$ 1,466,258

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

	Beginning balance at July 1, 2013	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases/ Sales	Ending balance at June 30, 2014
Beneficial interest in trusts	$ 5,630	$ (1,289)			$ 4,341
Beneficial interest in perpetual trusts	67,619	(44)			67,575

Net Assets

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

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

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

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

Temporarily Restricted Net Assets

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

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

Capital improvement/facilities	$ 8,479
Faculty support	9,652
Scholarships and fellowships	133,737
Lectureships, professorships, and chairs	191,232
College program support	62,928
Research	13,469
Other	2,184
Subtotal	$ 421,681

Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	$ 118,783
Faculty support	15,142
Scholarships and fellowships	145,544
Lectureships, professorships, and chairs	40,742
College program support	370,911
Research	132,441
Trusts	12,878
Other	8,142
Subtotal	844,583
Total temporarily restricted net assets	$ 1,266,264

Permanently Restricted Net Assets

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

Capital improvement/facilities	$ 7,744
Faculty support	21,612
Scholarships and fellowships	387,190
Lectureships, professorships, and chairs	339,752
College program support	80,276
Research	37,916
Trusts	74,337
Other	2,599
Total permanently restricted net assets	$ 951,426

Blended Component Units

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

Condensed statements of net position:	2014	2013
Current assets	$ 648	$ 398
Noncurrent assets	38,816	35,633
Total assets	39,464	36,031
Deferred outflows of resources		
Total assets & deferred outflows of resources	39,464	36,031
Current liabilities	1,615	2,103
Noncurrent liabilities	1,817	1,644
Total liabilities	3,432	3,747
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	3,432	3,747
Unrestricted net position	$ 36,032	$ 32,284

Condensed statements of revenues, expenses, and changes in net position:	2014	2013
Operating revenues:		
Net underwriting income	$ 589	$ 2,030
Operating expenses	1,029	1,036
Operating income (loss)	(440)	994
Nonoperating revenues:		
Investment income, net	4,188	2,969
Increase in net position	3,748	3,963
Net position at beginning of year	32,284	28,321
Net position at end of year	$ 36,032	$ 32,284

Condensed statements of cash flows:	2014	2013
Net cash provided (used) by:		
Operating activities	$ (360)	$ 1,134
Investing activities	403	(1,162)
Net increase (decrease) in cash	43	(28)
Cash at beginning of year	67	95
Cash at end of year	$ 110	$ 67

Required Supplementary Information

Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2014 and 2013 (in thousands)

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

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

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

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2014		$ 113,145	$ 113,145	0.00%	$ 1,252,154	9.04%
7/1/2013		94,555	94,555	0.00%	1,203,994	7.85%
7/1/2012		116,182	116,182	0.00%	1,222,548	9.50%

Additional information related to OPEB is provided in Note 11.

Supplemental Schedules

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

Deloitte & Touche LLP
Suite 2800
50 South Sixth Street
Minneapolis, MN 55402
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

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

Deloitte & Touche LLP

October 29, 2014

Statements of Net Position by Campus

June 30, 2014 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$ 6,128	$ 39,996	$ 5,470	$ 2,347	$ 189,108	$ 243,049
Short-term investments					676	676
Receivables, net	194	7,448	1,147	587	293,048	302,424
Inventories	174	2,331	101		19,913	22,519
Student loans receivable, net	111	1,657	228		7,903	9,899
Prepaid expenses		438			10,596	11,034
Other assets					376	376
Total current assets	6,607	51,870	6,946	2,934	521,620	589,977
Noncurrent assets						
Restricted cash and cash equivalents					66,888	66,888
Investments	3,207	97,237	3,491		1,987,783	2,091,718
Receivables, net			45	3,505	11,004	14,554
Student loan receivables, net	530	8,412	1,131		47,072	57,145
Prepaid expenses		15	3		1,616	1,634
Other assets						
Capital assets, net	41,401	209,717	66,765	36,760	2,545,851	2,900,494
Total noncurrent assets	45,138	315,381	71,435	40,265	4,660,214	5,132,433
Total assets	51,745	367,251	78,381	43,199	5,181,834	5,722,410
Deferred Outflows of Resources						
Total deferred outflows of resources						
Total assets and deferred outflows of resources	51,745	367,251	78,381	43,199	5,181,834	5,722,410
Liabilities						
Current liabilities						
Accounts payable	647	5,641	857	544	123,714	131,403
Accrued liabilities and other	1,227	18,151	2,236	657	222,118	244,389
Unearned income	971	4,183		46	63,327	68,527
Long-term debt-current portion					272,026	272,026
Total current liabilities	2,845	27,975	3,093	1,247	681,185	716,345
Noncurrent liabilities						
Accrued liabilities and other	1,704	18,468	2,931	309	181,948	205,360
Unearned income					3,158	3,158
Long-term debt					1,010,481	1,010,481
Total noncurrent liabilities	1,704	18,468	2,931	309	1,195,587	1,218,999
Total liabilities	4,549	46,443	6,024	1,556	1,876,772	1,935,344
Deferred Inflows of Resources						
Total deferred inflows of resources						
Total liabilities and deferred inflows of resources	4,549	46,443	6,024	1,556	1,876,772	1,935,344
Net Position						
Unrestricted	661	1,835	(3,961)	2,014	811,807	812,356
Restricted						
Expendable	4,117	44,738	8,480	2,869	943,987	1,004,191
Nonexpendable	1,017	64,711	1,074		222,564	289,366
Net investment in capital assets	41,401	209,524	66,764	36,760	1,326,704	1,681,153
Total net position	$ 47,196	$ 320,808	$ 72,357	$ 41,643	$ 3,305,062	$ 3,787,066

Statements of Net Position by Campus

June 30, 2013 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$ 5,815	$ 38,472	$ 6,917	$ (1,790)	$ 144,592	$ 194,006
Short-term investments					89,534	89,534
Receivables, net	94	7,573	676	1,264	287,414	297,021
Inventories	152	2,218	121		20,063	22,554
Student loans receivable, net	104	1,391	226		12,136	13,857
Prepaid expenses	31	412	41		11,544	12,028
Other assets					376	376
Total current assets	6,196	50,066	7,981	(526)	565,659	629,376
Noncurrent assets						
Restricted cash and cash equivalents					87,005	87,005
Investments	2,881	86,492	3,133		1,796,650	1,889,156
Receivables, net			50	3,643	455	4,148
Student loan receivables, net	511	8,320	1,150		44,107	54,088
Prepaid expenses					5,636	5,636
Other assets					15	15
Capital assets, net	42,442	214,118	68,610	39,769	2,511,975	2,876,914
Total noncurrent assets	45,834	308,930	72,943	43,412	4,445,843	4,916,962
Total assets	52,030	358,996	80,924	42,886	5,011,502	5,546,338
Deferred Outflows of Resources						
Total deferred outflows of resources						
Total assets and deferred outflows of resources	52,030	358,996	80,924	42,886	5,011,502	5,546,338
Liabilities						
Current liabilities						
Accounts payable	578	4,241	768	379	128,988	134,954
Accrued liabilities and other	1,691	16,892	2,315	657	217,846	239,401
Unearned income	1,018	4,166	142	51	63,368	68,745
Long-term debt-current portion					285,416	285,416
Total current liabilities	3,287	25,299	3,225	1,087	695,618	728,516
Noncurrent liabilities						
Accrued liabilities and other	1,804	17,398	2,700	275	162,387	184,564
Unearned income					162	162
Long-term debt					1,015,314	1,015,314
Total noncurrent liabilities	1,804	17,398	2,700	275	1,177,863	1,200,040
Total liabilities	5,091	42,697	5,925	1,362	1,873,481	1,928,556
Deferred Inflows of Resources						
Total deferred inflows of resources						
Total liabilities and deferred inflows of resources	5,091	42,697	5,925	1,362	1,873,481	1,928,556
Net Position						
Unrestricted	1,398	7,909	1,627	(522)	809,734	820,146
Restricted						
Expendable	2,427	35,187	3,946	2,277	821,982	865,819
Nonexpendable	1,018	59,085	1,052		216,446	277,601
Net investment in capital assets	42,096	214,118	68,374	39,769	1,289,859	1,654,216
Total net position	$ 46,939	$ 316,299	$ 74,999	$ 41,524	$ 3,138,021	$ 3,617,782

Statements of Revenues, Expenses, and Changes in Net Position by Campus

Year ended June 30, 2014 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 11,345	$ 90,151	$ 10,037	$ 7,182	$ 614,106	$ 732,821
Federal grants and contracts	226	8,292	294		471,365	480,177
State and other government grants	68	4,312	51		59,417	63,848
Nongovernmental grants and contracts	306	2,412	1,496	21	288,559	292,794
Student loan interest income	16	280	30		1,505	1,831
Sales and services of educational activities, net	422	4,843	205	37	139,796	145,303
Auxiliary enterprises, net	3,935	37,130	7,438	1,738	326,208	376,449
Other operating revenues					137	137
Total operating revenues	16,318	147,420	19,551	8,978	1,901,093	2,093,360
Expenses						
Operating expenses						
Educational and general						
Instruction	9,872	68,042	12,423	2,499	676,643	769,479
Research	113	18,327	1,098	619	659,561	679,718
Public service	317	8,238	746	19	243,821	253,141
Academic support	3,077	24,191	4,571	1,386	361,702	394,927
Student services	2,521	14,623	4,512	1,636	93,283	116,575
Institutional support	2,434	12,690	2,901	5,119	233,497	256,641
Operation and maintenance of plant	4,207	26,346	6,561	143	248,681	285,938
Scholarships and fellowships	424	1,931	1,245	89	50,830	54,519
Depreciation	2,249	12,611	4,239	3,140	170,466	192,705
Auxiliary enterprises	5,770	30,672	8,949	160	210,517	256,068
Other operating expenses, net	(6)	59	(42)		572	583
Total operating expenses	30,978	217,730	47,203	14,810	2,949,573	3,260,294
Operating Loss	(14,660)	(70,310)	(27,652)	(5,832)	(1,048,480)	(1,166,934)
Nonoperating Revenues (Expenses)						
Federal appropriations					19,072	19,072
State appropriations	8,926	35,592	19,158	7,597	543,518	614,791
Grants	4,328	23,171	5,848		167,548	200,895
Gifts	778	5,283	1,153	71	189,887	197,172
Investment income, net	228	4,342	259		229,578	234,407
Interest on capital asset-related debt					(45,637)	(45,637)
Other nonoperating revenues (expenses), net	7	(1,841)	333	(219)	(200)	(1,920)
Net nonoperating revenues	14,267	66,547	26,751	7,449	1,103,766	1,218,780
Income (Loss) Before Other Revenues	(393)	(3,763)	(901)	1,617	55,286	51,846
Capital appropriations					83,081	83,081
Capital grants and gifts		1,055	(39)		21,913	22,929
Additions to permanent endowments		2,833	28		8,567	11,428
Transfers	3,737	24,143	2,568	1,912	(32,360)	
Other internal charges	(3,087)	(19,759)	(4,298)	(3,410)	30,554	
Total other revenues (expenses)	650	8,272	(1,741)	(1,498)	111,755	117,438
Increase (Decrease) in Net Position	257	4,509	(2,642)	119	167,041	169,284
Net position at beginning of year	46,939	316,299	74,999	41,524	3,138,021	3,617,782
Net position at end of year	$ 47,196	$ 320,808	$ 72,357	$ 41,643	$ 3,305,062	$ 3,787,066

Statements of Revenues, Expenses, and Changes in Net Position by Campus

Year ended June 30, 2013 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 10,906	$ 91,844	$ 10,440	$ 5,962	$ 601,358	$ 720,510
Federal grants and contracts	462	7,961	421	50	488,550	497,444
State and other government grants	39	2,480	31	2	58,223	60,775
Nongovernmental grants and contracts	404	2,985	685	166	273,964	278,204
Student loan interest income	19	304	46		1,498	1,867
Sales and services of educational activities, net	393	4,717	190	12	150,661	155,973
Auxiliary enterprises, net	3,875	37,235	5,950	1,392	317,007	365,459
Other operating revenues					135	135
Total operating revenues	16,098	147,526	17,763	7,584	1,891,396	2,080,367
Expenses						
Operating expenses						
Educational and general						
Instruction	9,545	61,806	12,134	2,030	652,081	737,596
Research	139	17,265	919	516	637,712	656,551
Public service	565	7,827	521	117	240,227	249,257
Academic support	3,106	23,758	4,795	1,523	334,083	367,265
Student services	2,526	13,553	4,553	1,718	87,880	110,230
Institutional support	2,728	13,045	3,097	4,394	174,055	197,319
Operation and maintenance of plant	4,471	24,640	6,261		231,622	266,994
Scholarships and fellowships	433	1,985	1,209	116	46,692	50,435
Depreciation	1,747	12,472	3,881	3,072	171,967	193,139
Auxiliary enterprises	5,128	31,047	6,946	137	192,153	235,411
Other operating expenses, net	(8)	5	(53)		75	19
Total operating expenses	30,380	207,403	44,263	13,623	2,768,547	3,064,216
Operating Loss	(14,282)	(59,877)	(26,500)	(6,039)	(877,151)	(983,849)
Nonoperating Revenues (Expenses)						
Federal appropriations					22,039	22,039
State appropriations	8,541	30,816	18,756	7,428	509,950	575,491
Grants	4,595	22,677	5,508		162,361	195,141
Gifts	623	4,955	664	80	152,845	159,167
Investment income, net	204	4,156	256		118,181	122,797
Interest on capital asset-related debt					(44,035)	(44,035)
Other nonoperating revenues (expenses), net	15	(97)	283	(5)	3,237	3,433
Net nonoperating revenues	13,978	62,507	25,467	7,503	924,578	1,034,033
Income (Loss) Before Other Revenues	(304)	2,630	(1,033)	1,464	47,427	50,184
Capital appropriations					98,396	98,396
Capital grants and gifts		555	31	5,800	22,415	28,801
Additions to permanent endowments		6,153	6		6,299	12,458
Transfers	5,673	(13,236)	4,067	14,801	(11,305)	
Other internal charges	(3,122)	(19,662)	(4,209)	(3,005)	29,998	
Total other revenues (expenses)	2,551	(26,190)	(105)	17,596	145,803	139,655
Increase (Decrease) in Net Position	2,247	(23,560)	(1,138)	19,060	193,230	189,839
Net position at beginning of year	44,692	339,859	76,137	22,464	2,944,791	3,427,943
Net position at end of year	$ 46,939	$ 316,299	$ 74,999	$ 41,524	$ 3,138,021	$ 3,617,782

Deloitte & Touche LLP
Suite 2800
50 South Sixth Street
Minneapolis, MN 55402
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

October 29, 2014