University of Minnesota

Consolidated Financial Statements for the Years Ended June 30, 2016 and 2015, Independent Auditors' Report, and Management's Discussion and Analysis

Financial Report

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INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the University of Minnesota (the "University") as of June 30, 2016 and 2015, 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, 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards.*

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2016 and 2015, 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, 2016 and 2015, 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 audits 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 November 28, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

November 28, 2016

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, 2016, 2015, and 2014. 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 University's enrollment for all five campuses is approximately 67,000 students, with the Twin Cities campus having the largest student enrollment of approximately 51,000 students. The University is among the top nine public research institutions nationally. The University is the state's major research institution with expenditures of approximately $692.7 million, $700.2 million, and $679.7 million in fiscal years 2016, 2015, and 2014, 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 and conducts research in the areas of health sciences and biotechnology.

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 67,000 students;
- graduates approximately 15,800 students, 40 percent with graduate or first professional degrees on the Twin Cities campus;
- provides over 300 student exchange programs, ranking third nationally with learning abroad programs;
- 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.

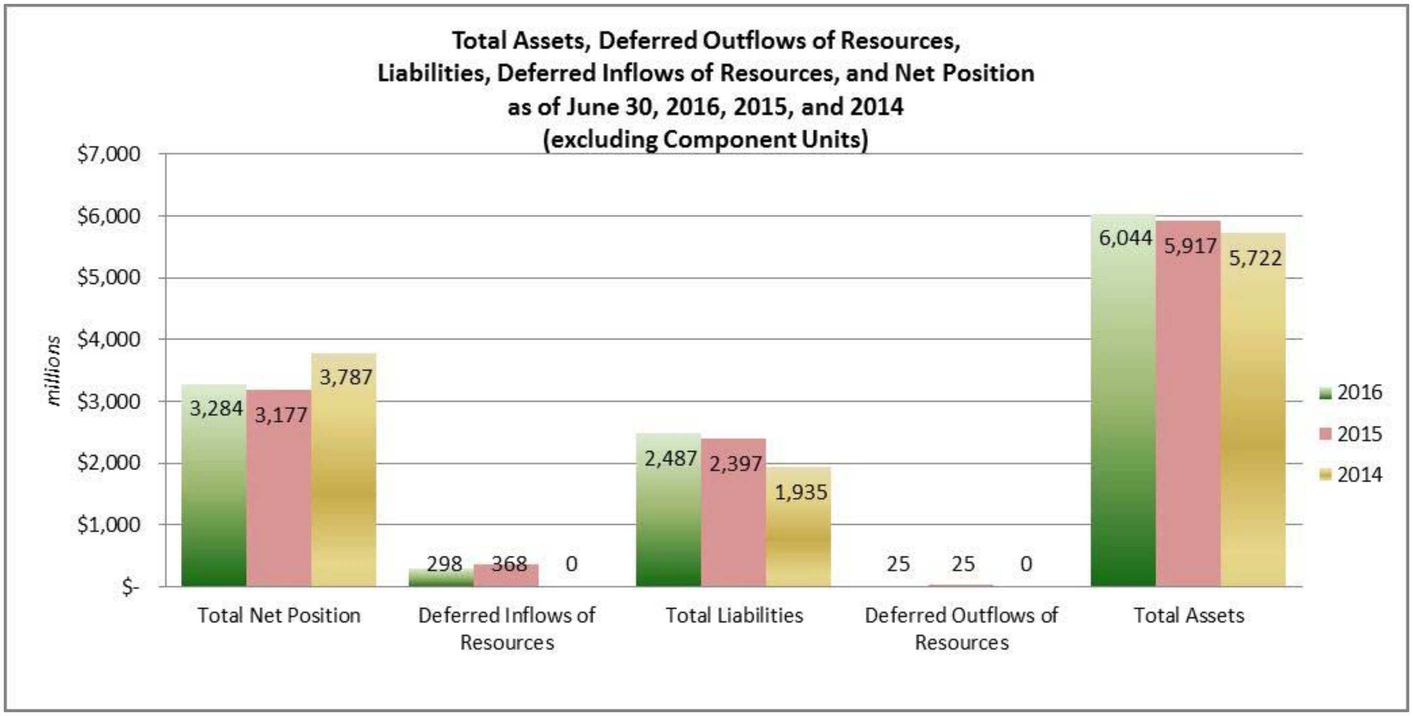
In fiscal year 2016, the University implemented GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application.* The investment definition defined in GASB 72 no longer considers the University's patents as investments. GASB 72 required the University to implement retrospectively. As a result, the University recorded $15.4 million as a reduction to investments and an increase in operating expenses and cumulative effect of change in accounting principle for fiscal year 2015. Refer to Footnote 2 for additional information.

In fiscal year 2015, the University implemented GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date–an amendment of GASB Statement No. 68.* GASB 68 and 71 require state and local government employers to recognize a net pension liability for defined benefit plans where the entity is a participant. The University pension plans impacted by GASB 68 and 71 are the State Employees' Retirement Fund (SERF and MSRS) and Public Employee Police and Fire Fund (PEPFF and PERA). The University recorded a deferred outflow of resources, a net pension liability and a deferred inflow of resources of $75.0 and $25.1 million, $244.4 and $266.5 million, and $348.6 million and $368.2 million, in fiscal years 2016 and 2015, respectively. Refer to Footnote 1 and Footnote 6 for additional information related to the implementation of GASB 68 and 71.

Financial Highlights

The University's financial position remains strong with assets of $6.0 billion, an increase of $0.1 billion from fiscal year 2015. Liabilities increased to $2.5 billion compared to $2.4 billion for fiscal year 2015. The University's net position, the difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources, increased year over year to $3.3 billion as of June 30, 2016 compared to $3.2 billion as of June 30, 2015.

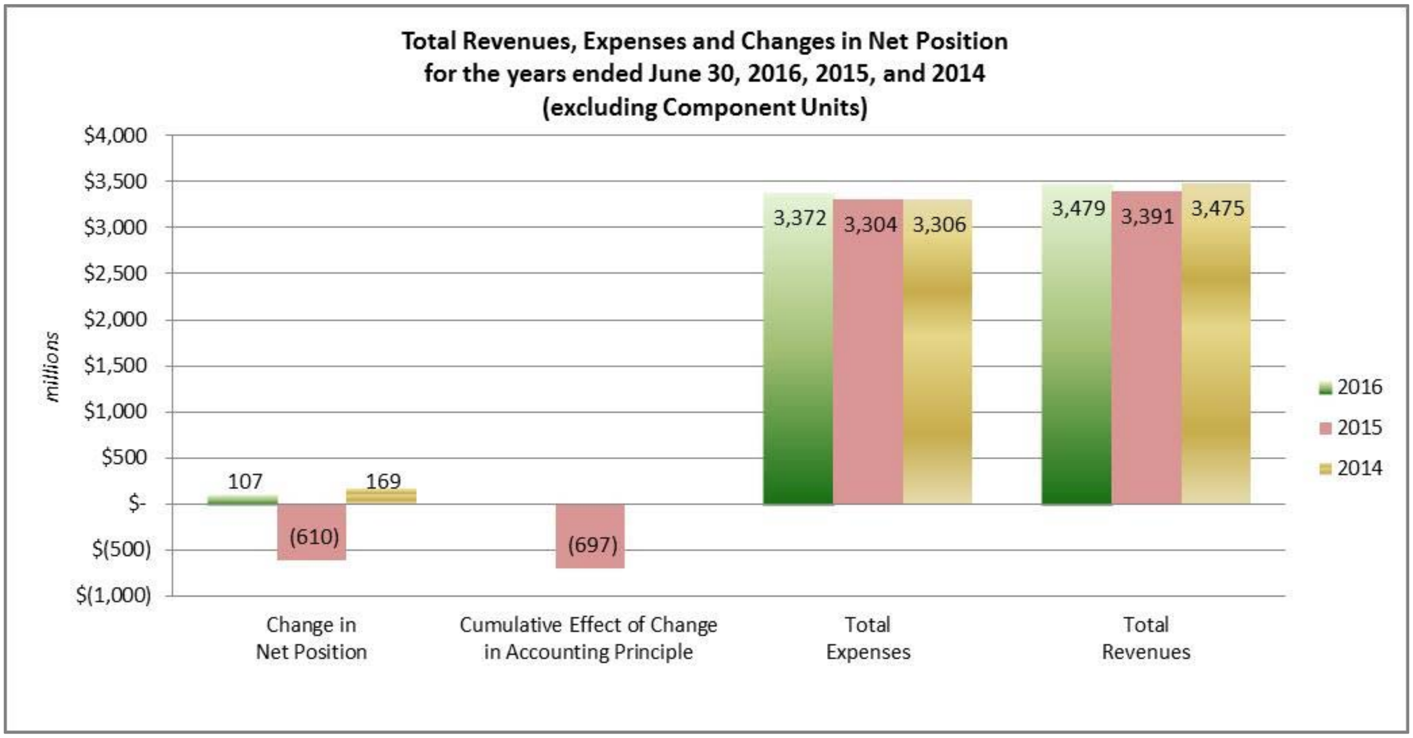
The following chart summarizes total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2016, 2015 and 2014, respectively:



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 $107.1 million in fiscal year 2016 compared to a decrease of $610.5 million in fiscal year 2015 due to the implementation of GASB 68.

With the implementation of GASB 68 and 71, the University recorded a cumulative effect of a change in accounting principle of $682.5 million in fiscal year 2015. GASB 72, implemented in fiscal year 2016, required the University to present the changes retrospectively. As a result, an additional $14.5 million was recorded as a cumulative effect of a change in accounting principle in fiscal year 2015 for a total of $697.0 million. A cumulative effect of a change in accounting principle is the cumulative impact to the consolidated financial statements related to prior fiscal years.

The following chart summarizes total revenues, expenses and the changes in net position for the years ended June 30, 2016, 2015 and 2014, respectively:



The University experienced an increase in total revenue of $88.1 million or 2.6 percent due to increases in all revenue categories partially offset by decreases in net investment income of $66.0 million. Operating revenues increased $68.7 million or 3.2 percent. Total expenses increased $67.5 million or 2.0 percent primarily due to increases in 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, deferred outflows of resources, current and noncurrent liabilities, deferred inflows of resources, and reports net position under four separate classifications.

A comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2016, 2015 and 2014 is summarized in the table below:

Condensed Statements of Net Position
(in thousands)

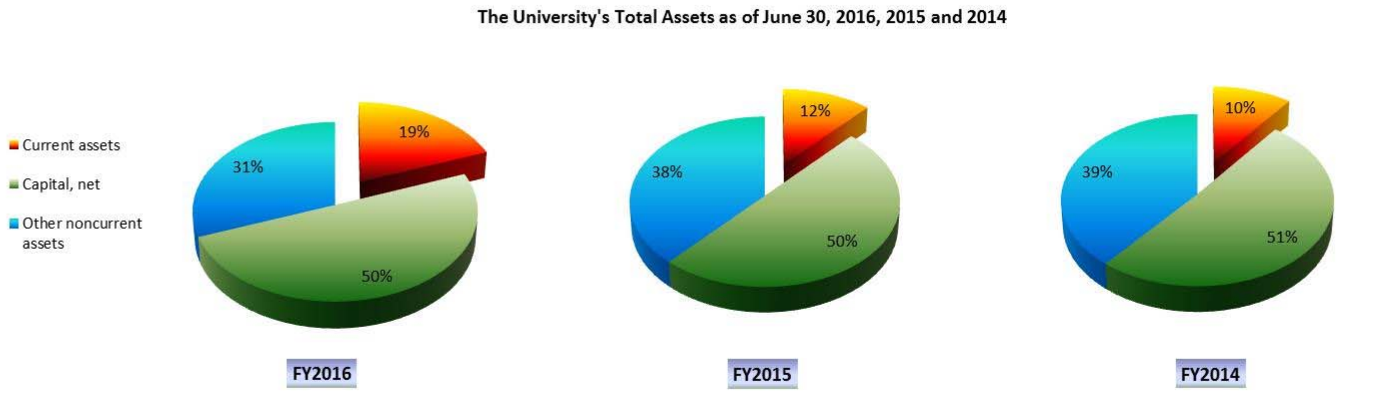
	2016	2015	2014
Assets			
Current assets	$ 1,160,883	$ 695,807	$ 589,977
Noncurrent assets, excluding capital assets	1,855,782	2,264,034	2,231,939
Capital assets, net	3,027,802	2,957,133	2,900,494
Total assets	6,044,467	5,916,974	5,722,410
Deferred outflows of resources	25,303	25,100	
Liabilities			
Current liabilities, excluding long-term debt	503,612	473,587	444,319
Noncurrent liabilities, excluding long-term debt	483,016	502,318	208,518
Long-term debt	1,500,632	1,421,428	1,282,507
Total liabilities	2,487,260	2,397,333	1,935,344
Deferred inflows of resources	298,892	368,220	
Net position			
Unrestricted	457,506	275,097	812,356
Restricted—expendable	889,332	927,436	1,004,191
Restricted—nonexpendable	304,669	297,469	289,366
Net investment in capital assets	1,632,111	1,676,519	1,681,153
Total net position	$ 3,283,618	$ 3,176,521	$ 3,787,066

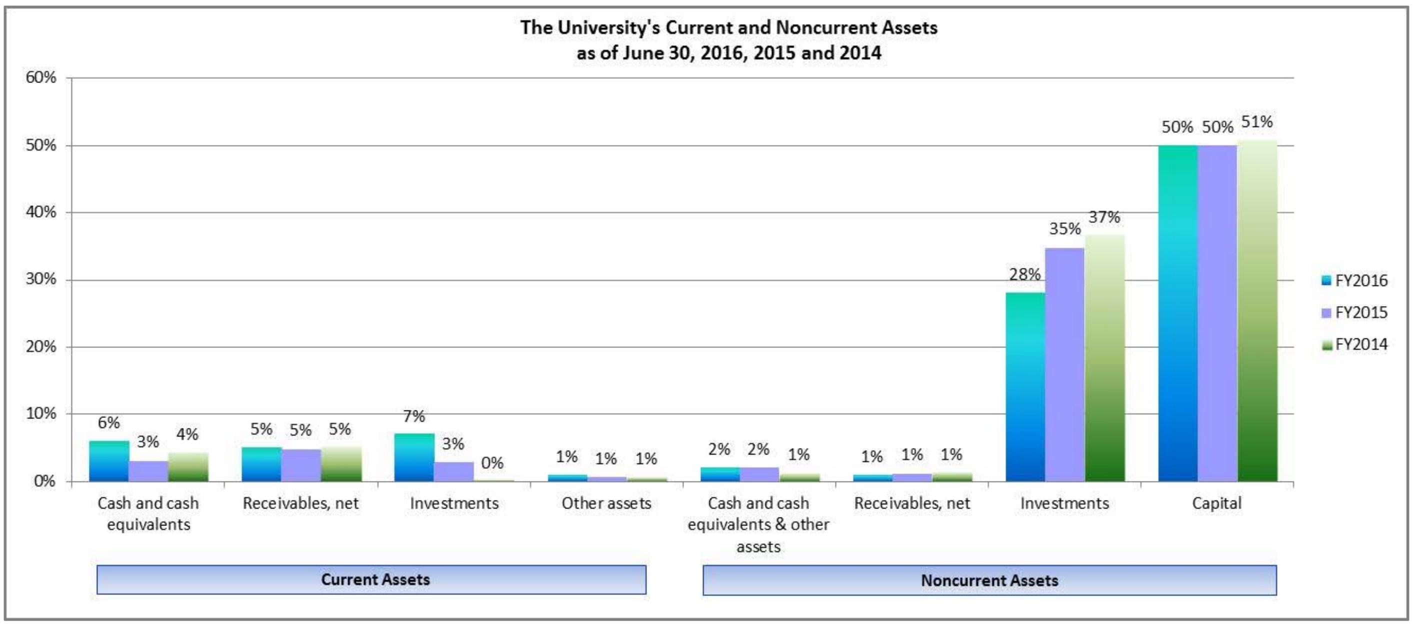
Assets

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, capital assets net of accumulated depreciation, and student loan receivables.

The following charts illustrate the composition of total assets:





The University's current and noncurrent assets as of June 30, 2016, 2015 and 2014 *(in thousands)*							
				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	$ 350,385	$ 183,451	$ 243,049	$ 166,934	91.0%	$ (59,598)	(24.5%)
Receivables, net	305,573	285,336	312,323	20,237	7.1%	(26,987)	(8.6%)
Investments	459,515	185,724	676	273,791	147.4%	185,048	27374.0%
Other assets	45,410	41,296	33,929	4,114	10.0%	7,367	21.7%
Total current assets	1,160,883	695,807	589,977	465,076	66.8%	105,830	17.9%
Noncurrent assets							
Capital	3,027,802	2,957,133	2,900,494	70,669	2.4%	56,639	2.0%
Other noncurrent assets							
Cash and cash equivalents & other assets	111,665	150,656	68,522	(38,991)	(25.9%)	82,134	119.9%
Receivables, net	74,186	72,444	71,699	1,742	2.4%	745	1.0%
Investments	1,669,931	2,040,934	2,091,718	(371,003)	(18.2%)	(50,784)	(2.4%)
Total other noncurrent assets	1,855,782	2,264,034	2,231,939	(408,252)	(18.0%)	32,095	1.4%
Total assets	$ 6,044,467	$ 5,916,974	$ 5,722,410	$ 127,493	2.2%	$ 194,564	3.4%

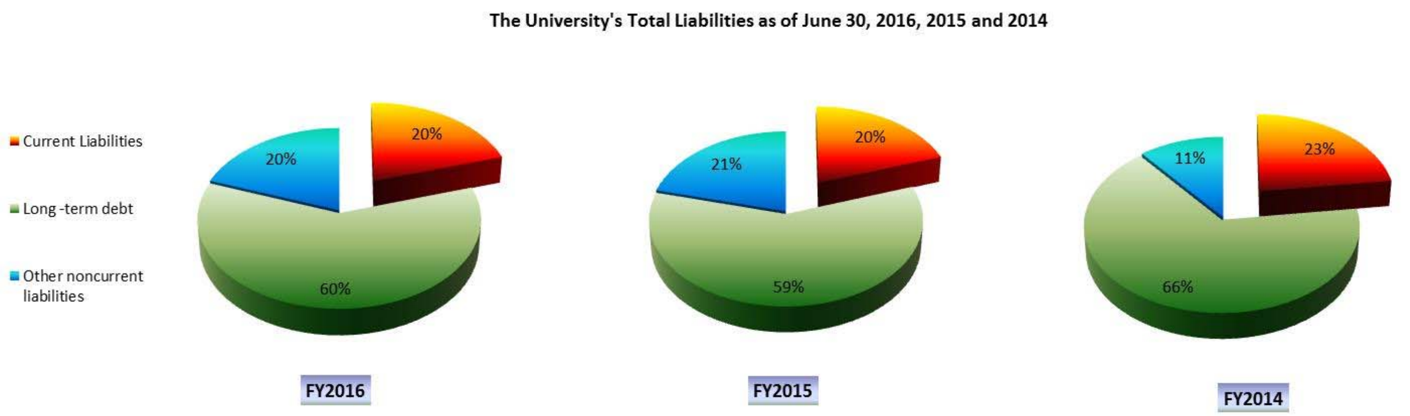
As of June 30, 2016, total assets increased $127.5 million primarily due to increases in cash and cash equivalents, and capital, partially offset by decreases in investments. Investments decreased $97.2 million primarily due to a decrease in Temporary Investment Pool investment activity. Cash and cash equivalents increased $126.1 million. Noncurrent cash and cash equivalents consist of unspent bond proceeds of $107.4 million and $148.3 million in fiscal year 2016 and 2015, respectively. Capital assets, net of accumulated depreciation, increased $70.7 million due to increased spending on construction projects, specifically the Combined Heat and Power Plant, the Tate Science and Teaching building renovation and the Intercollegiate Athletics Village. Refer to Footnote 4 for additional information related to capital assets.

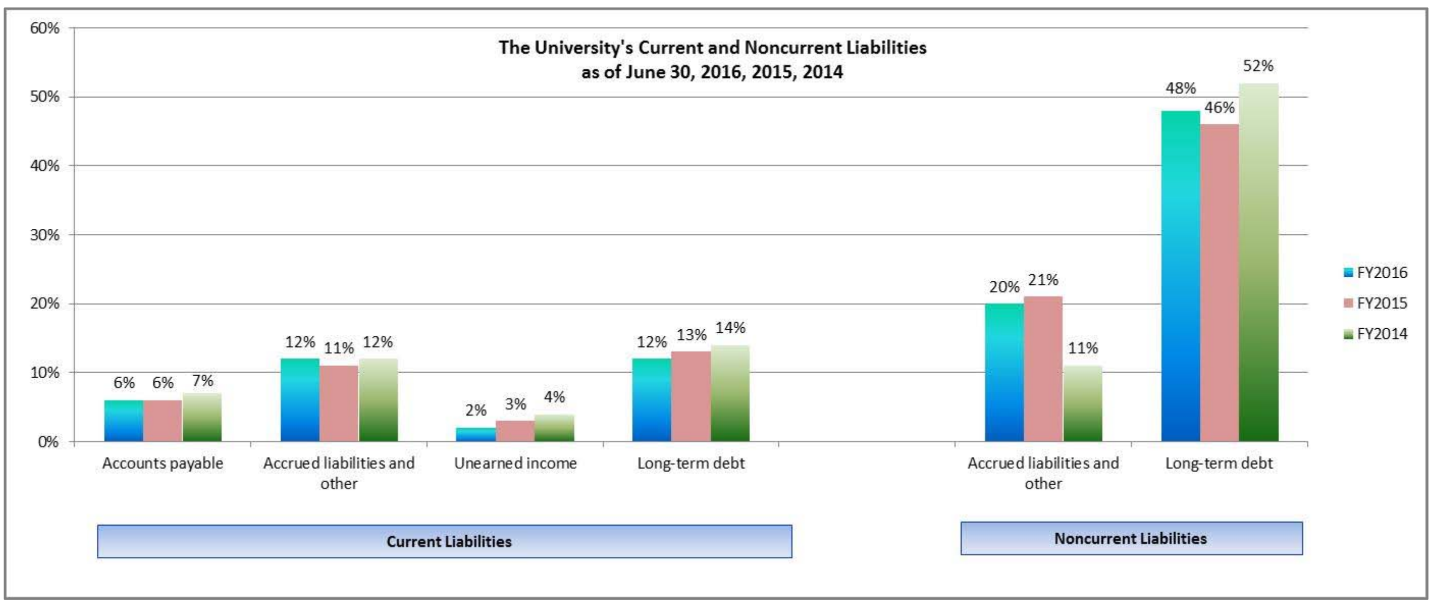
Liabilities

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 accrued liabilities, capital obligations, notes payable, leases and bonds payable (long-term debt). The University’s long-term debt represents 60 percent of total liabilities or $1,500.6 million as of June 30, 2016 compared to 59 percent or $1,421.4 million as of June 30, 2015.

The following charts illustrate the composition of total liabilities:





The University's current and noncurrent liabilities as of June 30, 2016, 2015 and 2014 *(in thousands)*							
				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 145,992	$ 140,114	$ 131,403	$ 5,878	4.2%	$ 8,711	6.6%
Accrued liabilities and other	294,940	259,912	244,389	35,028	13.5%	15,523	6.4%
Unearned income	62,680	73,561	68,527	(10,881)	(14.8%)	5,034	7.3%
Long-term debt	300,531	309,805	272,026	(9,274)	(3.0%)	37,779	13.9%
Total current liabilities	804,143	783,392	716,345	20,751	2.6%	67,047	9.4%
Noncurrent liabilities							
Accrued liabilities and other	482,955	502,264	205,360	(19,309)	(3.8%)	296,904	144.6%
Unearned income *	61	54	3,158	7	13.0%	(3,104)	(98.3%)
Long-term debt	1,200,101	1,111,623	1,010,481	88,478	8.0%	101,142	10.0%
Total noncurrent liabilities	1,683,117	1,613,941	1,218,999	69,176	4.3%	394,942	32.4%
Total Liabilities	$ 2,487,260	$ 2,397,333	$ 1,935,344	$ 89,927	3.8%	$ 461,989	23.9%

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

As of June 30, 2016, total liabilities increased $89.9 million primarily due to increases in long-term debt. Accrued liabilities increased $15.7 million primarily due to the gradual amortization of the University's full liability related to Other Post-Employment Benefits (OPEB). The University recorded an increase in the OPEB liability of $18.0 million and $18.9 million in fiscal years 2016 and 2015, respectively. As of June 30, 2016, the cumulative OPEB liability of $138.2 million was recorded as a current liability of $6.0 million and a noncurrent liability of $132.2 million.

Long-term debt increased $79.2 million or 5.6 percent. The University issued General Obligation Bonds Series 2015B and Series 2016A, with a par amount of $10.1 million and $122.5 million, respectively, and Special Purpose Revenue Bonds Series 2015A, with a par amount of $90.1 million in fiscal year 2016. 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.

Deferred Outflows and Inflows of Resources

In fiscal year 2014, the University implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities.* GASB 65 specifies certain items that were previously reported as assets and liabilities must be reclassified and reported as deferred outflows and inflows of resources. Deferred outflows of resources are items previously reported as assets that result in the outflow of net position in the current reporting period for activities applicable to a future reporting period. Likewise, deferred inflows of resources are items previously reported as liabilities that result in the inflow of net position in the current reporting period for activities applicable to a future reporting period. As of June 30, 2016, the deferred outflows of resources increased $0.2 million and deferred inflows of resources decreased $69.3 million.

Net Position

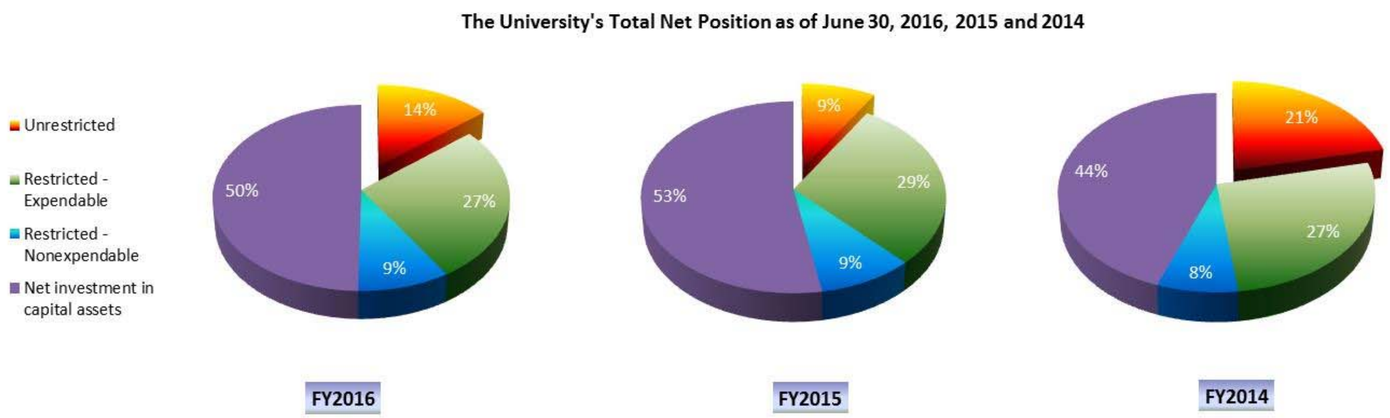
Net position represents the residual value of the University's assets and deferred outflows of resources, after deducting liabilities and deferred inflows of resources and consists of the following three classifications:

- Unrestricted net position—Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the 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:



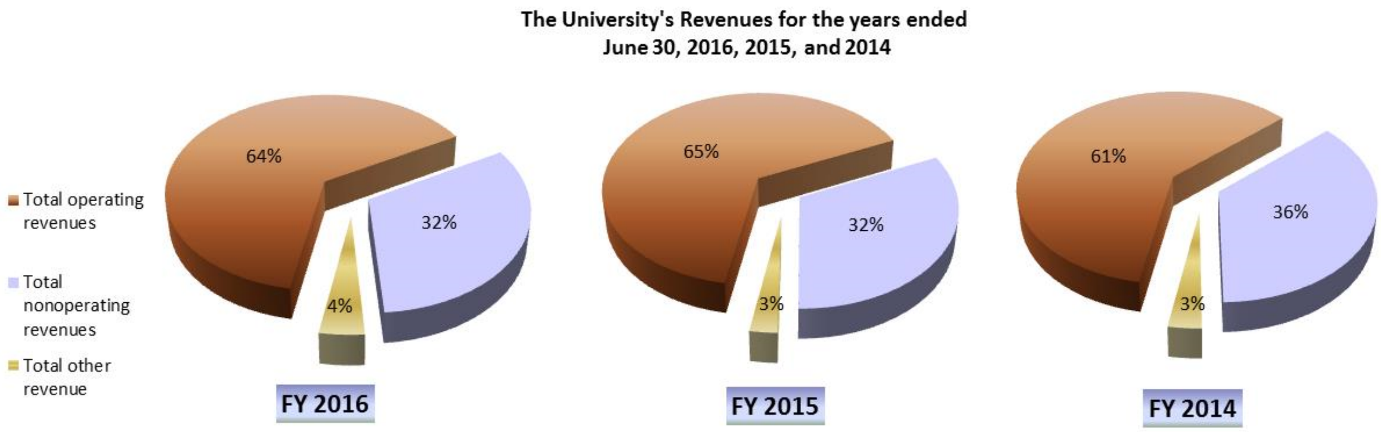
The University's total net position as of June 30, 2016, 2015 and 2014
(in thousands)

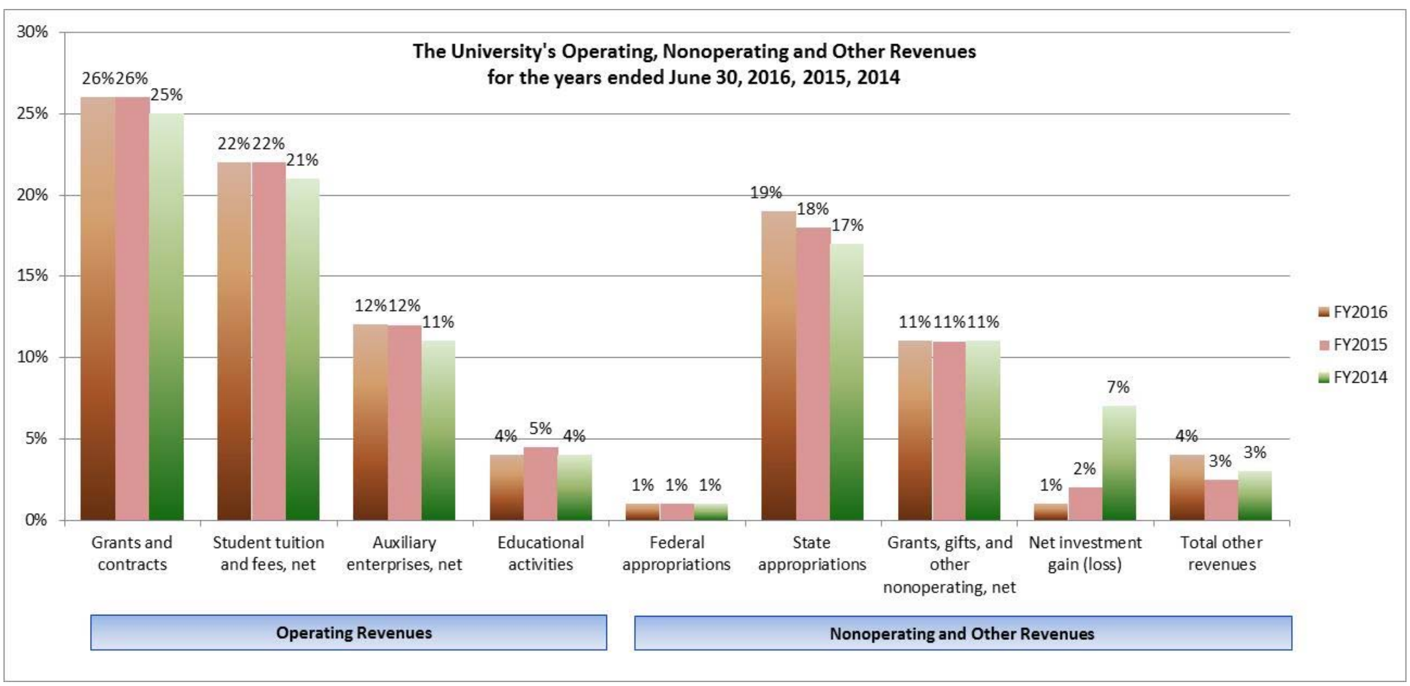
				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Unrestricted	$ 457,506	$ 275,097	$ 812,356	$ 182,409	66.3%	$ (537,259)	(66.1%)
Restricted:							
Expendable	889,332	927,436	1,004,191	(38,104)	(4.1%)	(76,755)	(7.6%)
Nonexpendable	304,669	297,469	289,366	7,200	2.4%	8,103	2.8%
Net investment in capital assets	1,632,111	1,676,519	1,681,153	(44,408)	(2.6%)	(4,634)	(0.3%)
Total net position	$ 3,283,618	$ 3,176,521	$ 3,787,066	$ 107,097	3.4%	$ (610,545)	(16.1%)

The University's unrestricted net position increased $182.4 million in fiscal year 2016 primarily due to an increase in Temporary Investment Pool (TIP) cash remaining in local banks compared to a decrease of $537.3 million in fiscal year 2015 due to the implementation of GASB 68 and 71, which was partially offset by fiscal year 2015 activity. The University's restricted expendable net position decreased $38.1 million and $76.8 million in fiscal years 2016 and 2015, respectively, due to changes in market values related to endowments and the recording of the University's net pension liability.

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, 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 64 percent and 65 percent of total revenues for fiscal year 2016 and 2015, respectively.





The University's Operating, Nonoperating and Other Revenue for the years ended June 30, 2016, 2015 and 2014 (in thousands)							
				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 897,685	$ 872,420	$ 836,819	$ 25,265	2.9%	$ 35,601	4.3%
Student tuition and fees, net	751,418	740,540	732,821	10,878	1.5%	7,719	1.1%
Auxiliary enterprises, net	414,217	399,256	376,449	14,961	3.7%	22,807	6.1%
Educational activities	160,984	143,339	147,134	17,645	12.3%	(3,795)	(2.6%)
Other operating revenue *	83	99	137	(16)	(16.2%)	(38)	(27.7%)
Total operating revenues	2,224,387	2,155,654	2,093,360	68,733	3.2%	62,294	3.0%
Nonoperating revenues							
Federal appropriations	20,367	18,192	19,072	2,175	12.0%	(880)	(4.6%)
State appropriations	663,705	642,069	614,791	21,636	3.4%	27,278	4.4%
Grants, gifts, and other nonoperating, net	423,563	395,357	396,147	28,206	7.1%	(790)	(0.2%)
Net investment gain	19,175	85,215	234,407	(66,040)	(77.5%)	(149,192)	(63.6%)
Total nonoperating revenues	1,126,810	1,140,833	1,264,417	(14,023)	(1.2%)	(123,584)	(9.8%)
Total other revenues	127,697	94,298	117,438	33,399	35.4%	(23,140)	(19.7%)
Total revenues (noncapital)	$ 3,478,894	$ 3,390,785	$ 3,475,215	$ 88,109	2.6%	$ (84,430)	(2.4%)

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

Total revenues increased in fiscal year 2016 by $88.1 million primarily due to increases across all revenue categories, partially offset by decreases in investment income. Operating revenues increased $68.7 million or 3.2 percent mainly due to increases in grants and contracts, and auxiliary enterprises. Revenues from sales and services of educational activities increased $17.6 million due to timing of normal business activity. In addition, the University received a payment in the amount of $3.0 million as a result of the Minnesota Department of Human Services granting the University's request for a change in the rate charged for medical and mental health visits.

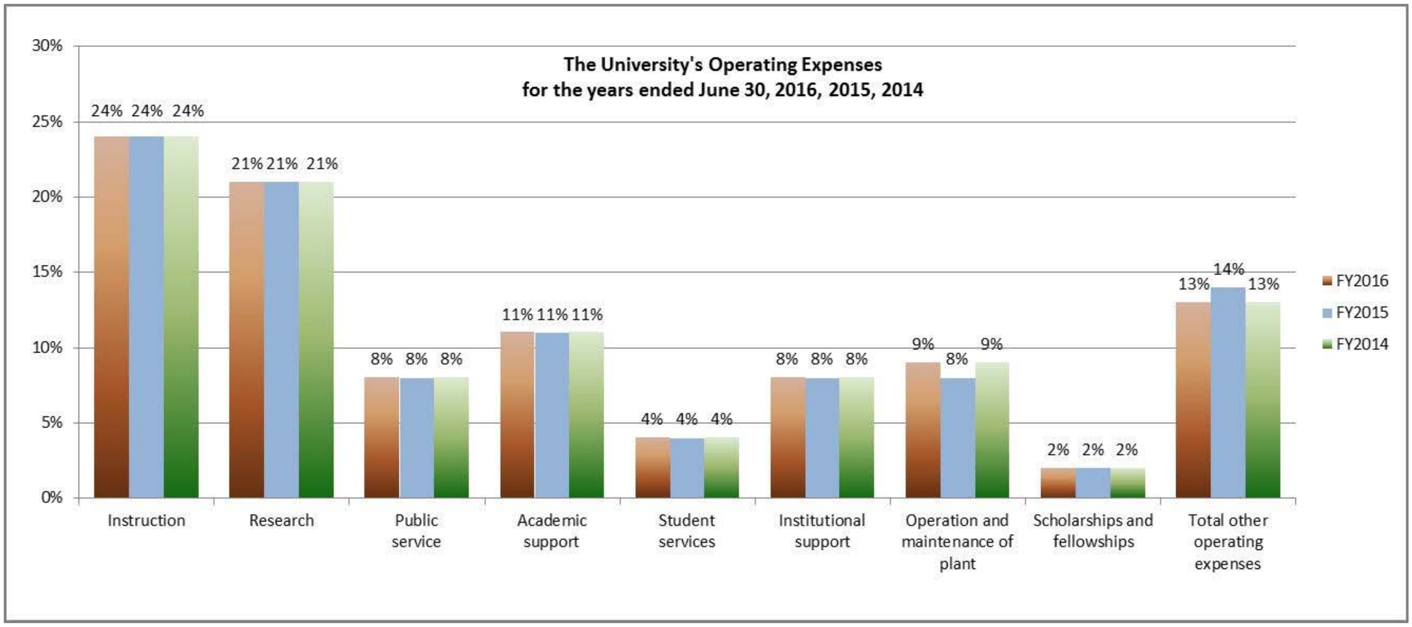
State appropriations increased $21.6 million compared to fiscal year 2015, increasing to $663.7 million from $642.1 million in fiscal year 2015. New state appropriations for fiscal year 2016 included appropriations for increasing the medical school's research capacity and tuition relief.

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 $200.1 million, $182.3 million, and $197.2 million, and grants and gifts for capital purposes of $46.1 million, $19.2 million, and $22.9 million in fiscal years 2016, 2015, and 2014, respectively.

For the year ended June 30, 2016, other revenues, which consist of capital appropriations, and capital endowments gifts and grants increased $33.4 million or 35.4 percent compared to a decrease of $23.1 million or 19.7 percent in fiscal years 2016 and 2015, respectively.

Total Operating Expenses



The University's Operating Expenses by Functional Category for the years ended June 30, 2016, 2015 and 2014
(in thousands)

				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Education and general							
Instruction	$789,297	$770,325	$769,479	$18,972	2.5%	$846	0.1%
Research	692,666	700,208	679,692	(7,542)	(1.1%)	20,516	3.0%
Public service	257,789	248,451	253,167	9,338	3.8%	(4,716)	(1.9%)
Academic support	387,044	366,992	394,927	20,052	5.5%	(27,935)	(7.1%)
Student services	117,453	116,016	116,575	1,437	1.2%	(559)	(0.5%)
Institutional support	260,801	247,393	256,641	13,408	5.4%	(9,248)	(3.6%)
Operation and maintenance of plant	291,562	276,783	285,938	14,779	5.3%	(9,155)	(3.2%)
Scholarships and fellowships	60,447	57,879	54,519	2,568	4.4%	3,360	6.2%
Depreciation	212,969	218,565	192,705	(5,596)	(2.6%)	25,860	13.4%
Total education and general	3,070,028	3,002,612	3,003,643	67,416	2.2%	(1,031)	(0.0%)
Other operating expenses							
Auxiliary enterprises	257,198	256,271	256,068	927	0.4%	203	0.1%
Other operating expenses, net	157	93	583	64	68.8%	(490)	(84.0%)
Total other operating expenses	257,355	256,364	256,651	991	0.4%	(287)	(0.1%)
Total operating expenses	$3,327,383	$3,258,976	$3,260,294	68,407	2.1%	(1,318)	(0.0%)

Total operating expenses increased $68.4 million or 2.1 percent in fiscal year 2016 compared to a decrease of $1.3 million in fiscal year 2015. 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 62.5 percent, $2.0 billion or 62.2 percent and $2.1 billion or 63.3 percent of operating expenses in fiscal years 2016, 2015 and 2014, respectively. Compensation related expenditures increased $54.1 million or 2.7 percent in fiscal year 2016 and decreased $40.4 million or 2.0 percent in fiscal year 2015. Increases in compensation related expenditures in fiscal year 2016 are primarily due to the implementation of GASB 68 in fiscal year 2015 which resulted in reductions in fringe related expenses being recorded in deferred inflows of resources.

The fiscal year 2016 increases are primarily due to the University's salary increase of 2.5 percent, in addition to increases in compensation related liabilities.

Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2016, 2015 and 2014 (in thousands)				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	$ (973,743)	$ (895,580)	$ (924,284)	$ (78,163)	(8.7%)	$ 28,704	3.1%
Noncapital financing activities	1,109,585	1,079,210	1,038,968	30,375	2.8%	40,242	3.9%
Capital and related financing activities	(149,195)	(93,844)	(204,533)	(55,351)	(59.0%)	110,689	54.1%
Investing activities	139,433	(67,996)	118,775	207,429	305.1%	(186,771)	(157.2%)
Net increase (decrease) in cash	126,080	21,790	28,926	104,290	478.6%	(7,136)	(24.7%)
Cash, beginning of year	331,727	309,937	281,011	21,790	7.0%	28,926	10.3%
Cash, end of year	$ 457,807	$ 331,727	$ 309,937	$ 126,080	38.0%	$ 21,790	7.0%

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 the above table, the University's cash and cash equivalents increased $126.1 million due to favorable cash flows from noncapital financing activities and investing activities, partially offset by capital and related financing activities. The cash used by capital and related financing activities increased $55.4 million primarily due to an increase in construction project costs due to the completion of larger projects such as the Microbiology Research Center. During fiscal year 2016, the University issued $262.1 million in new bond issuances compared to $211.2 million in fiscal year 2015. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling $662.1 million and $642.2 million, grants totaling $178.3 million and $189.1 million and gifts totaling $189.4 million and $187.3 million in 2016 and 2015, 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

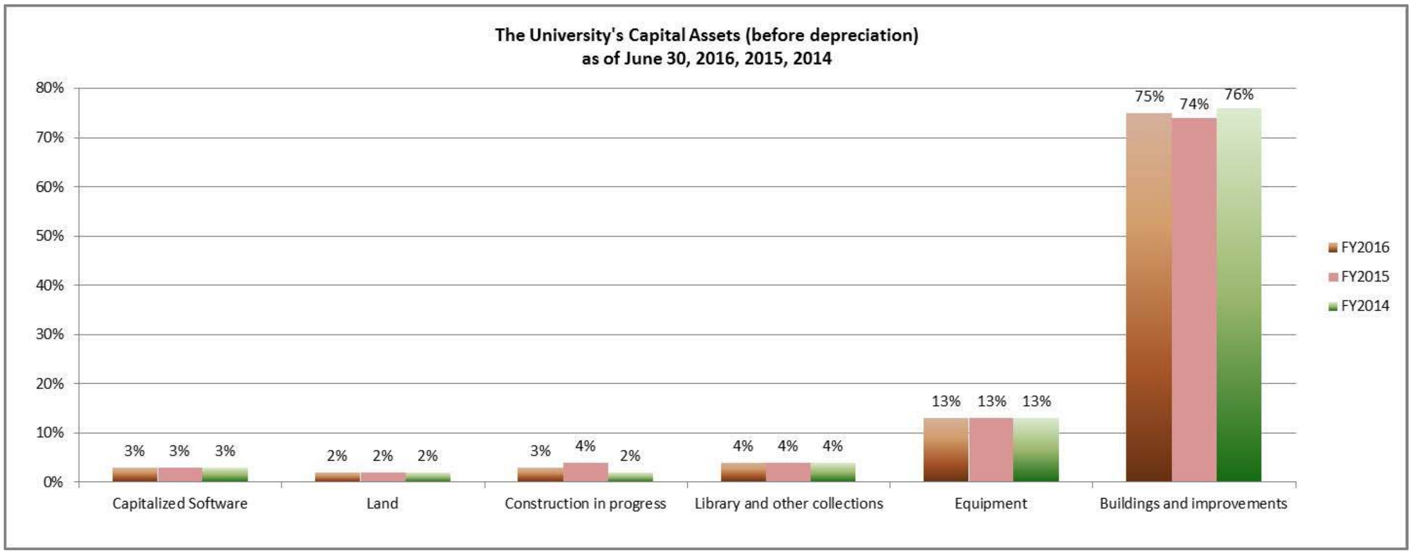
The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three-to five-year periods.

Long-term endowment and other investments included decreases from net unrealized gains on the endowment and other investments of $77.1 million compared to a decrease in fiscal year 2015 of $42.0 million and an increase of $120.6 million in fiscal year 2014. Annual distributions of the endowment to departments, partially offset by reinvested endowment earnings decreased investments by $53.5 million, $50.0 million and $46.7 million in fiscal years 2016, 2015 and 2014, respectively.

To provide a relatively stable level of support for endowed programs, a specified percentage rate based on a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.5 percent in fiscal years 2016, 2015 and 2014.

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, 2016, 2015 and 2014
(in thousands)

				Increase (Decrease)			
				From 2015 to 2016		From 2014 to 2015	
	2016	2015	2014	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$ 4,563,316	$ 4,315,157	$ 4,256,855	$ 248,159	5.8%	$ 58,302	1.4%
Equipment	766,380	783,921	742,667	(17,541)	(2.2%)	41,254	5.6%
Library and other collections	240,627	220,470	211,287	20,157	9.1%	9,183	4.3%
Construction in progress	165,099	224,866	120,380	(59,767)	(26.6%)	104,486	86.8%
Land	150,160	111,563	94,015	38,597	34.6%	17,548	18.7%
Software and other intangibles	170,357	168,440	140,259	1,917	1.1%	28,181	20.1%
Total capital assets (gross)	$ 6,055,939	$ 5,824,417	$ 5,565,463	$ 231,522	4.0%	$ 258,954	4.7%

Capital additions totaled $288.7 million, $277.9 million, and $225.8 million in fiscal year 2016, 2015 and 2014, respectively. Fiscal year 2016 spending included the completion of the Microbiology Research Facility and the Clinic and Surgery Center, in addition to spending on existing projects such as the Intercollegiate Athletics Village, the Tate Science and Teaching Renovation, and the Combined Heat and Power Plant. Project spending continuing in fiscal year 2017 is projected to be $154.7 million, $68.2 million, and $24.0 million for the Intercollegiate Athletics Village, the Tate Science and Teaching Renovation, and the Combined Heat and Power Plant, respectively. See Footnote 4 of the consolidated financial statements for more detailed information about capital assets.

Fiscal year 2016 debt activity included the issuance of General Obligation Taxable Bonds, Series 2015B, General Obligation Bonds, Series 2016A and Special Purpose Revenue Refunding Bonds, Series 2015A to fund the costs of various capital projects including the Tate Science and Teaching Building, a new James Ford

Bell Museum and Planetarium and the design of improved health education and clinical research facilities to meet the needs of the Medical School and the Academic Health Center on the Twin Cities campus.

Capital leases of $2.3 million, $2.7 million and $1.9 million were issued in fiscal year 2016, 2015 and 2014, respectively. Refer to Footnote 5 for additional information.

Factors Affecting Future Economic Conditions

The University relies on a diverse set of revenue streams to finance its teaching, research, and outreach mission. Maintaining and increasing those revenues, while managing costs, is more important than ever to the overall results of operations. The following provides some insights into the University's efforts to maintain revenues and hold down operating costs.

State support for operations and maintenance – The University receives strong financial support from the State of Minnesota. Two-year (biennial) base funding for the University totaled $1,252.6 million on June 30, 2016. For the FY 18-19 biennium, the University will be requesting a total increase of $147.2 million, or 11.8 percent. If the University receives the entire amount requested, the funds will be used to finance a number of new programs as well as provide core support for the University's ongoing programs. If the Legislature fails to fund a significant portion of the University's request, the University may need to reduce the scope and size of planned new academic programming, and may need to increase tuition beyond 2016-17 rates to help finance increases in the cost of existing programming.

State support for facilities and capital projects – The University's strategic emphasis in planning for capital projects is focused on 5 key areas:

- Renovating or removing buildings that are considered to be "critical" as deemed by the Facilities Condition Assessment criteria
- Advancing the Health Sciences
- Modernizing St. Paul campus research laboratories
- Expanding facilities capacity in science, technology, engineering, and math programs
- Repositioning the University's libraries for the 21st Century

During the 2016 Legislative session the University had requested state support for six important capital priorities. None of those were funded because the Minnesota Legislature failed to agree on and pass a capital bonding bill. Consequently, the University will be re-submitting those same projects plus one additional new project to the state for consideration during the 2017 Legislative session. The 2017 project priorities being requested are:

- System wide asset preservation and renewal projects totaling $100.0 million
- University of Minnesota Duluth campus new chemistry and advanced materials facility totaling $42.4 million
- University of Minnesota Twin Cities campus new Health Education facility totaling $104.0 million
- University of Minnesota Twin Cities campus new plan growth facility totaling $6.9 million
- System wide academic and student experience projects totaling $24.0 million
- University of Minnesota Twin Cities campus renovation of Pillsbury Hall totaling $34.3 million
- University of Minnesota Twin Cities Libraries Collections and Contemporary Learning remodel project totaling $6.0 million (funding for design work)

If the State of Minnesota again fails to fund some or all of these projects, the University will be required to scale back or delay capital investments in these facilities' priorities, which may impact the ability to advance the related academic programming.

Federal funding – The University consistently ranks in the top 20 of universities receiving federal funding for research and development, thanks to the productivity and ingenuity of its faculty. The tightening of the federal budget, and the failure of the United States Congress to adopt annual budgets which provide stability and predictability, has resulted in flat to reduced federal agency budgets and reductions to federal funding for many universities. Federal funding for the University of Minnesota has been under pressure, like at most major research universities. A significant decrease in federal funding would have negative consequences to the University's research enterprise. To mitigate against this, the University has been in the forefront of commercializing its intellectual discoveries. The University has also developed programs such as MNDrive, a state-funded program which focuses dedicated state funds on the University's research strengths.

Expenses and cost containment – The University's primary operating costs are the salaries and benefits paid to employ and support a highly trained, world-class academic workforce. The University has been benchmarking the costs of delivering its core mission, and is in the fourth year of a six year cost-containment program designed to reduce costs in activities not directly related to its core mission activities, and reallocate the resources to direct mission activities. Cost containment is critical to making sure a University of Minnesota education is affordable. Upon the completion of the six-year program the University will need to continue its cost-containment efforts, and find new ways to reduce operating costs without impacting teaching, research, and outreach mission.

The University's partnership with Fairview Health Services – The University has a long-term academic affiliation agreement with Fairview Health Services; the health care organization that purchased the University's on-campus hospital in 1996. During fiscal year 2016, the University began negotiations with Fairview to create a new organization consisting of Fairview, the University, and University of Minnesota Physicians (the University Medical School's faculty practice plan). The new organization would better integrate the teaching, clinical practice, and patient care strengths of each organization, and ideally provide additional funding to the Medical School. The negotiations were put on hold at the end of fiscal year 2016. The pause has no effect on the existing agreements between the University and Fairview. However, the goals set out for the new organization remain important to strengthening research, medical education, and the long-term financial health of the Medical School.

University of Minnesota
Consolidated Statements of Net Position (Excluding Component Units)
June 30, 2016 and 2015 (in thousands)

			2016	2015
Assets				
Current assets				
	Cash and cash equivalents		$ 350,385	$ 183,451
	Short-term investments		459,515	185,724
	Receivables, net		295,109	274,713
	Inventories		22,097	22,895
	Student loans receivable, net		10,464	10,623
	Prepaid expenses		23,108	16,504
	Other assets		205	1,897
		Total current assets	1,160,883	695,807
Noncurrent assets				
	Restricted cash and cash equivalents		107,422	148,276
	Investments		1,669,931	2,040,934
	Receivables, net		12,397	13,584
	Student loan receivables, net		61,789	58,860
	Prepaid expenses		2,830	2,380
	Other assets		1,413	
	Capital assets, net		3,027,802	2,957,133
		Total noncurrent assets	4,883,584	5,221,167
Total assets			6,044,467	5,916,974
Deferred Outflows of Resources			25,303	25,100
Liabilities				
Current liabilities				
	Accounts payable		145,992	140,114
	Accrued liabilities and other		294,940	259,912
	Unearned income		62,680	73,561
	Long-term debt		300,531	309,805
		Total current liabilities	804,143	783,392
Noncurrent liabilities				
	Accrued liabilities and other		482,955	502,264
	Unearned income		61	54
	Long-term debt		1,200,101	1,111,623
		Total noncurrent liabilities	1,683,117	1,613,941
Total liabilities			2,487,260	2,397,333
Deferred Inflows of Resources			298,892	368,220
Net Position				
	Unrestricted		457,506	275,097
	Restricted	Expendable	889,332	927,436
		Nonexpendable	304,669	297,469
	Net investment in capital assets		1,632,111	1,676,519
Total net position			$ 3,283,618	$ 3,176,521

The accompanying notes to the consolidated financial statements are an integral part of these statements

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2016 and 2015 (in thousands)

	University of Minnesota Foundation		University of Minnesota Physicians	
	2016	2015	2016	2015
Assets				
Cash and cash equivalents	$ 44,556	$ 35,649	$ 63,579	$ 79,558
Investments, substantially at fair market value	2,330,568	2,330,756	18,110	27,388
Pledges receivable, net	183,825	174,328		
Accounts and other receivables	60,414	80,652	107,455	72,201
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	90,198	97,891		
Gift annuities	34,347	35,972		
Property and equipment, net	60,071	63,604	4,999	5,904
Prepaids and other assets	807	855	19,641	1,765
Total assets	2,804,786	2,819,707	213,784	186,816
Liabilities				
Accounts payable and accrued liabilities	33,845	32,005	89,732	69,660
Gift annuities payable	18,681	19,156		
Unitrusts, pooled income, and annuity trusts payable	10,491	11,688		
Investments held for custody of others	242,986	252,901		
Securities purchased but not settled		11,863		
Bonds and capital lease payable	50,287	51,297		580
Total liabilities	356,290	378,910	89,732	70,240
Net Assets				
Unrestricted	99,001	101,924	124,052	116,576
Temporarily restricted	1,277,784	1,330,078		
Permanently restricted	1,071,711	1,008,795		
Total net assets	2,448,496	2,440,797	124,052	116,576
Total liabilities and net assets	$ 2,804,786	$ 2,819,707	$ 213,784	$ 186,816

The accompanying notes to the consolidated financial statements are an integral part of these statements

University of Minnesota
Consolidated Statements of Revenues, Expenses and Changes in Net Position
(Excluding Component Units)
Years ended June 30, 2016 and 2015 (in thousands)

			2016	2015
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $264,981 in 2016; $253,892 in 2015		$ 751,418	$ 740,540
	Federal grants and contracts		441,941	464,751
	State and other government grants		73,301	59,566
	Nongovernmental grants and contracts		382,443	348,103
	Student loan interest income		1,783	1,838
	Sales and services of educational activities, net of scholarship allowances of $47 in 2016; $27 in 2015		159,201	141,501
	Auxiliary enterprises, net of scholarship allowances of $10,084 in 2016; $9,787 in 2015		414,217	399,256
	Other operating revenues		83	99
Total operating revenues			2,224,387	2,155,654
Expenses				
Operating expenses	Education and general	Instruction	789,297	770,325
		Research	692,666	700,208
		Public service	257,789	248,451
		Academic support	387,044	366,992
		Student services	117,453	116,016
		Institutional support	260,801	247,393
		Operation & maintenance of plant	291,562	276,783
		Scholarships & fellowships	60,447	57,879
		Depreciation	212,969	218,565
	Auxiliary enterprises		257,198	256,271
	Other operating expenses, net		157	93
Total operating expenses			3,327,383	3,258,976
Operating Loss			(1,102,996)	(1,103,322)
Nonoperating Revenues (Expenses)				
Federal appropriations			20,367	18,192
State appropriations			663,705	642,069
Grants			180,351	187,749
Gifts			200,148	182,348
Investment income, net			19,175	85,215
Interest on capital-asset related debt			(44,414)	(45,310)
Other nonoperating revenues (expenses), net			43,064	25,260
Net nonoperating revenues			1,082,396	1,095,523
Loss Before Other Revenues			(20,600)	(7,799)
Capital appropriations			75,412	59,714
Capital grants & gifts			46,095	19,246
Additions to permanent endowments			6,190	15,338
Total other revenues			127,697	94,298
Increase In Net Position			107,097	86,499
Cumulative effect of change in accounting principle				(697,044)
Net position at beginning of year			3,176,521	3,787,066
Net position at end of year			$ 3,283,618	$ 3,176,521

The accompanying notes to the consolidated financial statements are an integral part of these statements

University of Minnesota
Component Units - Statement of Activities
Years ended June 30, 2016 and 2015 (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2016	Total 2015
Revenues					
Contributions	$ 515	$ 160,775	$ 62,289	$ 223,579	$271,306
Investment income, net	932	4,337	95	5,364	8,617
Net realized and unrealized gains (losses) on investments	1,672	28,655	2,021	32,348	91,169
Change in value of trusts	33	(772)	(1,489)	(2,228)	(1,061)
Support services revenue	7,212			7,212	7,356
UMF - Real Estate Advisors rental revenue	5,896			5,896	6,001
University Gateway Corporation revenue	4,519			4,519	4,415
Other revenue	2,015			2,015	798
Net assets released from restriction	245,289	(245,289)			
Total revenues	268,083	(52,294)	62,916	278,705	388,601
Expenses					
Program services					
Distributions for educational purposes	212,036			212,036	195,469
Support services					
Management and general	9,458			9,458	8,877
Fund-raising	32,119			32,119	29,513
UMF - Real Estate Advisors	6,153			6,153	6,105
University Gateway Corporation	11,240			11,240	6,330
Total expenses	271,006			271,006	246,294
Increase (decrease) in net assets	(2,923)	(52,294)	62,916	7,699	142,307
Net assets at beginning of year	101,924	1,330,078	1,008,795	2,440,797	2,298,490
Net assets at end of year	$ 99,001	$ 1,277,784	$ 1,071,711	$ 2,448,496	$ 2,440,797

The accompanying notes to the consolidated financial statements are an integral part of these statements

University of Minnesota
Component Units - Statements of Activities
Years ended June 30, 2016 and 2015 (in thousands)

	University of Minnesota Physicians	
	Total (unrestricted)	
	2016	2015
Revenues		
Net patient service revenue	$ 198,022	$ 201,469
Investment income, net	750	1,163
Net realized and unrealized gains (losses) on investments	(64)	(268)
Equity in income of equity method investees	(6,105)	
Donation	10,000	
Other revenue	319,294	277,264
Total revenues	521,897	479,628
Expenses		
Program services		
Health care services	461,409	423,268
Support services		
Management and general	53,012	46,036
Total expenses	514,421	469,304
Increase in net assets	7,476	10,324
Net assets at beginning of year	116,576	106,252
Net assets at end of year	$ 124,052	$ 116,576

The accompanying notes to the consolidated financial statements are an integral part of these statements

University of Minnesota

Consolidated Statements of Cash Flows (Excluding Component Units)

Years ended June 30, 2016 and 2015 (in thousands)

	2016	2015
Cash Flows From Operating Activities		
Grants and contracts (federal, state, nongovernmental, other)	$ 893,459	$ 883,886
Student tuition and fees	758,137	747,845
Auxiliary enterprises	402,814	401,750
Sales and services of educational activities	156,471	141,702
Collection of loans to students	12,032	12,154
Other operating revenues	47	99
Payments to employees for services	(1,619,099)	(1,565,614)
Payments to suppliers for goods and services	(995,844)	(958,567)
Payments for fringe benefits	(520,500)	(500,111)
Payments for scholarships and fellowships	(47,522)	(44,809)
Loans issued to students	(13,738)	(13,915)
Net cash used by operating activities	(973,743)	(895,580)
Cash Flows From Noncapital Financing Activities		
State appropriations	662,116	642,189
Gifts for other than capital purposes	189,431	187,278
Grants for other than capital purposes	178,268	189,083
Other nonoperating revenues, net	41,592	26,498
Federal appropriations	19,048	25,678
Private gifts for endowment purposes	13,822	7,669
Direct lending receipts	382,179	310,197
Direct lending disbursements	(382,086)	(310,445)
Agency transactions	5,215	1,063
Net cash provided by noncapital financing activities	1,109,585	1,079,210
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	262,116	211,158
Capital appropriations	72,426	60,871
Capital grants and gifts	20,446	6,766
Proceeds from sale of capital assets	2,082	1,089
Principal received on notes receivable	1,533	992
Interest received on notes receivable	520	567
Purchases of capital assets	(277,063)	(251,309)
Principal paid on capital debt	(178,099)	(70,400)
Interest paid on capital debt	(53,156)	(53,528)
Issuance of notes receivable		(50)
Net cash used by capital and related financing activities	(149,195)	(93,844)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	1,606,935	870,959
Investment income, net	107,215	128,160
Purchase of investments	(1,574,717)	(1,067,115)
Net cash provided (used) by investing activities	139,433	(67,996)
Net Increase in Cash and Cash Equivalents	126,080	21,790
Cash and Cash Equivalents at Beginning of Year	331,727	309,937
Cash and Cash Equivalents at End of Year	$ 457,807	$ 331,727

The accompanying notes to the consolidated financial statements are an integral part of these statements

University of Minnesota

Consolidated Statements of Cash Flows (Excluding Component Units)

Years ended June 30, 2016 and 2015 (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities		2016		2015
Operating loss	$	(1,102,996)	$	(1,103,322)
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation expense		212,969		218,565
Changes in assets and liabilities				
Receivables, net		(3,716)		17,944
Inventories		(25)		(136)
Prepaid and other items		(6,245)		(5,092)
Deferred outflows of resources		(23,916)		(23,450)
Accounts payable		(13,564)		13,460
Accrued liabilities		(25,510)		(15,037)
Unearned income		(10,740)		1,488
Net cash used by operating activities	$	(973,743)	$	(895,580)
Noncash Investing, Capital, and Financing Activities				
Unrealized losses on investments	$	(81,400)	$	(40,730)
Net unsettled investment trades		24,977		
Capital assets on account		26,488		39,203
Contribution of capital assets		17,563		12,480
Amortization of bond discount/premium		5,044		4,494
Capital assets acquired with capital lease		2,281		2,656
Gain on retirement of debt		2,050		
Cash and Cash Equivalents at End of Year				
Cash and cash equivalents	$	350,385	$	183,451
Restricted cash and cash equivalents		107,422		148,276
Total cash and cash equivalents at end of year	$	457,807	$	331,727

The accompanying notes to the consolidated financial statements are an integral part of these statements

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

Organization

The University 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 Unit—The University has one component unit that provides services entirely for the University's own benefit. As a result, GASB 61 requires blended presentation—combining the component unit 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.

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 years 2016 and 2015, the UMF distributed $244,321 and $218,061, 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 2016 and 2015, UMP distributed $92,125 and $85,588, 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 a 49 percent membership with an equity interest of $1,414 and $1,692 as of June 30, 2016 and 2015, respectively. 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. During fiscal years 2016 and 2015, the University received $381 and $416, respectively, in interest income. As of June 30, 2016 and 2015, $8,750 in 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 fair value as determined by the major securities markets. Land and other real estate investments held in endowment are reported at fair 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. Purchases and sales of investments are recorded on a trade date basis. Investment income is reported on the accrual basis and includes: interest income; realized and unrealized gains and losses; endowment income (interest earned on endowments but allocated to other funds), and investment related expenses.

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 Footnote 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 $4,499 and $6,097 for fiscal years 2016 and 2015, respectively.

The University entered into a direct financing lease related to the Clinic and Surgery Center with Fairview Health and University of Minnesota Physicians (UMP). The term of the lease is 30 years. The University has elected to report this under capital assets, as the University retained title to the building. The current portion of the lease is recorded as a current receivable. See Footnote 3 and Footnote 4 for additional information.

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
Direct financing lease - building	Indefinite	
Land	Indefinite	
Museums and collections	Indefinite	
Library and reference books	10	
Permanent right-of-way easements (intangible asset)	Indefinite	

Deferred Outflows of Resources—Deferred Outflows of Resources represent current fiscal year contributions made to the University's participation in certain State of Minnesota cost-sharing, multiple employer defined benefit plans, as well as changes in actuarial assumptions and methods related to the measurement of the respective plan's net pension liability (NPL) and changes in the University's proportionate share in the NPL. Additional information regarding pensions is discussed in Footnote 6.

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.

Deferred Inflows of Resources— Deferred Inflows of Resources represent the changes in the actuarial assumptions and methods used to calculate the net pension liability (NPL) related to the University's participation in the State of Minnesota's cost-sharing, multiple employer defined benefit plans, as well as changes in the University's proportionate share in the NPL. Additional information regarding pensions is discussed in Footnote 6. Also, a portion of the balance represents a gain related to the defeasance of long-term debt. Additional information regarding long-term debt is discussed in Footnote 5.

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

- **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 generally classified as nonoperating revenues as part of other nonoperating revenues, net, which total $1,927 and $2,803 for fiscal years 2016 and 2015, respectively, as well as legal settlements.

- **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 Footnote 12.

  During fiscal years 2016 and 2015, departmental research in nonsponsored accounts of $210,686 and $203,257, 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.

Cumulative Effect of Change in Accounting Principle—Due to the implementation of GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, and* GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, the University recorded a cumulative effect of change in accounting principle of $682,545 related to GASB 68 and 71, and an additional $14,499 related to investments for GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application,* in which both are reflected in fiscal year 2015. A cumulative effect of a change in accounting principle is the cumulative impact to the consolidated financial statements related to prior fiscal years. Additional information regarding pensions is discussed in Footnote 6, and investments in Footnote 2.

Use of Estimates—To prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management's estimates relate to investment valuations, accounts payable, 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. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67* (GASB 67) *and 68* (GASB 68), establishes requirements for defined benefit pensions that were not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pensions plans and pensions that are within their respective scopes. The provisions of GASB 73 are effective for fiscal year 2016, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68, which are effective for fiscal year 2017.

GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 75 establishes new accounting and financial reporting requirements where University employees are provided with OPEB. The provisions in GASB 75 are effective for fiscal year 2018.

GASB Statement No. 78 (GASB 78), *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, amends the scope and applicability of Statement 68 to exclude pensions provided to employees through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. The provisions in GASB 78 are effective for fiscal year 2017.

GASB Statement No. 80 (GASB 80), *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14,* amends the blending requirements for the financial statement presentation of component units when a component unit is incorporated as a not-for-profit corporation and where the University would be the sole corporate member. The provisions of GASB 80 are effective for fiscal year 2017.

GASB Statement No. 81 (GASB 81) *Irrevocable Split-Interest Agreements,* require that if the University receives resources pursuant to an irrevocable split-interest agreement, that it recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Also, it requires that the University recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the University controls the present service capacity of the beneficial interests. This Statement requires that the University recognize revenue when the resources become applicable to the reporting period. The provisions of GASB 81 are effective for fiscal year 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses certain issues raised with respect to existing pension standards. It addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of GASB 82 are effective for fiscal year 2017, except for those provisions that relate to the selection of assumptions in a circumstance where an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end.

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, 2016 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, 2016:

	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	$ 290,835	$ 45,418	$ 5,230	$ 8,626		$ 276	$ 350,385
Short-term investments	419,094	38,557	1,864				459,515
Total current assets	709,929	83,975	7,094	8,626		276	809,900
Restricted cash and cash equivalents					$ 107,422		107,422
Long-term investments							
Fixed income	342,484	245,817	58,084			15,488	661,873
Public equity		370,356				24,833	395,189
Private capital		352,740		3,704			356,444
Inflation hedges		126,903					126,903
Other		128,519		1,003			129,522
Total noncurrent investments	342,484	1,224,335	58,084	4,707		40,321	1,669,931
Total cash and investments	$ 1,052,413	$ 1,308,310	$ 65,178	$ 13,333	$ 107,422	$ 40,597	$ 2,587,253

The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2015:

	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	$ 163,724	$ 18,255	$ 853			$ 619	$ 183,451
Short-term investments	185,724						185,724
Total current assets	349,448	18,255	853			619	369,175
Restricted cash and cash equivalents					$ 148,276		148,276
Long-term investments							
Fixed income	675,209	223,162	51,237			15,133	964,741
Public equity		421,541				24,278	445,819
Private capital		355,345		$ 60			355,405
Inflation hedges		150,458					150,458
Other		124,471		40			124,511
Total noncurrent investments	675,209	1,274,977	51,237	100		39,411	2,040,934
Total cash and investments	$ 1,024,657	$ 1,293,232	$ 52,090	$ 100	$ 148,276	$ 40,030	$ 2,558,385

Fair Value Measurements

GASB Statement No. 72 (GASB 72), *Fair Value and Measurement and Application*, establishes the framework for measuring investments at fair value and associated hierarchy that categorizes the valuation inputs. In accordance with GASB 72, the University has categorized its investments based on the priority of the inputs into a three-level fair value hierarchy.
Fair Value Hierarchy—The three levels of the fair value hierarchy are described below:

- **Level 1:** Inputs for quoted prices (unadjusted) for identical investments in active markets that the University can access at June 30.

- **Level 2:** Inputs—other than quoted prices included within Level 1—that are observable for an investment.

- **Level 3:** Inputs that are unobservable for an investment.

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

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

The following table summarizes investments according to the fair value hierarchy and NAV, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2016:

	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income				
US agency		$ 585,297		$ 585,297
Mortgage-backed securities		103,372		103,372
Risk mitigating fixed income	$ 102,110			102,110
US Treasury		70,740		70,740
Return generated fixed income	43,338	21,774		65,112
Listed Equity				
Global developed equity	124,842			124,842
Diversifiers	45,510	38,599		84,109
Private Capital			$ 3,704	3,704
Other	2,189	2,169		4,358
Total	317,989	821,951	3,704	1,143,644
Investments Measured at Net Asset Value (NAV)				985,802
Total Investments				$ 2,129,446

The following table summarizes investments according to the fair value hierarchy and NAV, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2015:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Fixed Income				
US agency		$ 719,127		$ 719,127
Risk mitigating fixed income	$ 120,957			120,957
Mortgage-backed securities		97,487		97,487
Return generated fixed income	39,659	22,046		61,705
US Treasury		42,218		42,218
Listed Equity				
Global developed equity	135,678			135,678
Diversifiers	28,416	29,585		58,001
Private Capital			$ 60	60
Other	8,094	2,381		10,475
Total	332,804	912,844	60	1,245,708
Investments Measured at Net Asset Value (NAV)				980,950
Total Investments				$ 2,226,658

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

The following table summarizes NAV investments as of June 30, 2016:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private capital	$ 351,553	$ 180,474	None	None
Fixed income	154,031	39,546	None or Monthly	None or 30 Days
Global equity	184,955		None or Monthly to Quarterly	None or 30 Days
Hedge fund	128,267		None or Monthly, Quarterly, or Annually	None or 30-180 Days
Real estate	82,923	43,003	None or Quarterly	None or 30 Days
Natural resources	43,617	33,120	None	None
Other	40,456	9,221	None or Monthly	None or 30 Days
Total	$ 985,802	$ 305,364		

The following table summarizes NAV investments as of June 30, 2015:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private capital	$ 355,345	$ 158,739	None	None
Fixed income	106,871	27,346	None or Monthly	None or 30 Days
Global equity	220,631		None or Monthly to Quarterly	None or 30 Days
Hedge fund	116,052		None or Monthly, Quarterly, or Annually	None or 30-180 Days
Real estate	95,017	17,702	None or Quarterly	None or 30 Days
Natural resources	55,441	38,816	None	None
Other	31,593		None or Monthly	None or 30 Days
Total	$ 980,950	$ 242,603		

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

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

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

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

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

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

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

Authorizations

The Board 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, 2016 and 2015, the market value of the TIP assets invested in the CEF was $126,742 and $138,562, 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, 2016 and 2015, 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, 2016 and 2015, \$52,083 and \$48,654, respectively, was made available for departmental spending.

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

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

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund structures has different risk and return characteristics. 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.

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, 2016 and 2015, the fair value of the GIP assets invested in the CEF was \$14,157 and \$14,397, respectively. These assets are reported in the total cash and investments of the CEF.

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

Invested Assets Related to Indebtedness—Invested Assets Related to Indebtedness are 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 (Footnote 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.

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, 2016:

Fixed income securities		Value	Maturity	AA or Better	BBB to A	BB or Lower	Not Rated
Cash & equivalents	$	343,637		100			
Mortgage-backed securities		103,372	18.9	100			
US agency		585,297	1.0	100			
US Treasury		70,740	1.7	100			
Mutual funds		279,420	5.4	38	62		
Total marketable fixed income securities		1,382,466	3.0				
Private fixed income securities		31,843					
Total fixed income securities	$	1,414,309					

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2015:

Fixed income securities		Market value	Weighted average maturity (years)	AA or better	BBB to A	BB or lower	Not rated
Cash & equivalents	$	188,329		100			
Mortgage-backed securities		97,487	19.4	100			
US agency		719,127	1.9	100			
US Treasury		42,218	2.7	100			
Mutual funds		267,531	5.5	49	51		
Total marketable fixed income securities		1,314,692	3.7				
Private fixed income securities		12,170					
Total fixed income securities	$	1,326,862					

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, 2016, and 2015, 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, 2016 and 2015:

Investment type	Foreign currency	Market value 2016	Market value 2015
Equity/Debt/RE	Euro	$ 73,976	$ 65,341
Equity	Japanese Yen	39,564	35,870
Equity	British Pound Sterling	28,037	37,232
Equity	Mexican Peso	10,074	2,219
Equity	Brazilian Real	9,840	3,966
Equity	Canadian Dollar	8,128	8,865
Equity	Australian Dollar	7,854	6,850
Equity	Other Currency	6,721	1,805
Equity/Debt	Indonesian Rupiah	6,543	1,179
Equity/Debt	Swiss Franc	6,423	8,572
Equity/Debt	Hong Kong Dollar	5,275	12,100
Equity	Malaysian Ringgit	5,274	686
Equity	South Korean Won	5,140	3,877
Equity	South African Rand	4,862	2,591
Equity	New Taiwan Dollar	4,598	3,109
Equity/Debt	Swedish Krona	4,590	3,813
Equity	Chinese Renminbi	3,269	867
Equity	Indian Rupee	2,413	3,410
Equity	Singapore Dollar	1,607	1,729
Equity	Thailand Baht	1,277	1,833
Equity	Danish Krone	1,256	1,868
Equity	Norwegian Krone	1,161	842
Equity/Debt	Argentine Peso	898	249
Equity	New Zealand Dollar	822	301
Equity/Debt	Israeli Shekel	798	571
Equity/Debt	Turkish Lira	618	2,917
Equity	Polish Zloty	471	767
Equity/Debt	Philippine Peso	408	968
Equity/Debt	Russian Ruble	71	438
Equity	Chile Peso	68	404
Total		$ 242,036	$ 215,239

Securities Lending—The University does not participate in a direct 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. 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 is $250 thousand. As of June 30, 2016 the University's bank balances of $342,898 were uninsured and uncollateralized and as of June 30, 2015 the University's bank balances of $185,507 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. As of June 30, 2016 and 2015, the market value of investments held in the custodial accounts was $759,409 and $858,832 in TIP; and $164,178 and $152,950 in CEF; and $21,774 and $22,195 in GIP, respectively.

3. Other Asset and Liability Information

Receivables, net, and student loans receivable, net, as of June 30, 2016, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 1,444		$ 1,444
Sponsored grants and contracts	93,406		93,406
Notes receivable	478	$ 12,388	12,866
Student receivables	22,949		22,949
Trade receivables	155,864		155,864
Accrued interest	1,915		1,915
Other	31,443	9	31,452
Allowance for uncollectible accounts	(12,390)		(12,390)
Total receivables, net	$ 295,109	$ 12,397	$ 307,506
Student loans receivable	13,217	62,413	75,630
Allowance for uncollectible accounts	(2,753)	(624)	(3,377)
Student loans receivable, net	$ 10,464	$ 61,789	$ 72,253

Accrued liabilities as of June 30, 2016, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 21,310	$ 161	$ 21,471
Compensation and benefits	190,072	401,488	591,560
Self-insurance reserves	35,310	11,860	47,170
Accrued interest	15,593		15,593
Refundable advances		53,903	53,903
Other	32,655	15,543	48,198
Total accrued liabilities	$ 294,940	$ 482,955	$ 777,895

Activity for certain liabilities consisted of the following for the year ended June 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances	$ 581,484	$ 178,982	$ (168,906)	$ 591,560	$ 168,442
Self-insurance reserves (see Note 9)	40,907	262,851	(256,588)	47,170	35,310
Refundable advances	53,680	223		53,903	
Other	55,295	48,198	(55,295)	48,198	32,655

Receivables, net, and student loans receivable,net, as of June 30, 2015, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 125		$ 125
Sponsored grants and contracts	95,405		95,405
Notes receivable	886	$ 13,564	14,450
Student receivables	33,252		33,252
Trade receivables	125,487		125,487
Accrued interest	2,390		2,390
Other	28,853	20	28,873
Allowance for uncollectible accounts	(11,685)		(11,685)
Total receivables, net	$ 274,713	$ 13,584	$ 288,297
Student loans receivable	13,294	59,455	72,749
Allowance for uncollectible accounts	(2,671)	(595)	(3,266)
Student loans receivable, net	$ 10,623	$ 58,860	$ 69,483

Accrued liabilities as of June 30, 2015, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 15,748	$ 404	$ 16,152
Compensation and benefits	152,339	429,145	581,484
Self-insurance reserves	28,387	12,520	40,907
Accrued interest	14,658		14,658
Refundable advances		53,680	53,680
Other	48,780	6,515	55,295
Total accrued liabilities	$ 259,912	$ 502,264	$ 762,176

Activity for certain liabilities consisted of the following for the year ended June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances	$ 278,267	$ 441,891	$ (138,674)	$ 581,484	$ 152,339
Self-insurance reserves (see Note 9)	42,633	255,774	(257,500)	40,907	28,387
Refundable advances	53,870		(190)	53,680	
Other	50,152	55,295	(50,152)	55,295	48,780

4. Capital Assets

Capital assets, net as of June 30, 2016, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements & Reductions	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 3,830,580	$ 2,362	$ 98,750	$ (989)	$ 3,930,703
Leasehold improvements	10,532	1,846	1,213		13,591
Equipment	783,921	35,478		(53,019)	766,380
Infrastructure	474,045	439	(19,155)		455,329
Library and reference books	153,201	4,259			157,460
Capitalized software (intangible asset)	161,533	1,656			163,189
All other intangible assets	6,904	261			7,165
Total depreciable / amortizable capital assets	5,420,716	46,301	80,808	(54,008)	5,493,817
Non-depreciable / amortizable capital assets					
Land	111,563	39,209		(612)	150,160
Direct financing lease - building			166,217	(2,524)	163,693
Museums and collections	67,269	15,871	27		83,167
Construction in progress	224,866	187,285	(247,052)		165,099
Permanent right-of-way easements (intangible asset)	3				3
Total non-depreciable / amortizable capital assets	403,701	242,365	(80,808)	(3,136)	562,122
Accumulated depreciation / amortization					
Buildings and improvements	(1,777,902)	(137,743)	(23)	989	(1,914,679)
Leasehold improvements	(6,671)	(1,111)			(7,782)
Equipment	(588,163)	(38,549)		51,126	(575,586)
Infrastructure	(265,373)	(13,011)	23		(278,361)
Library and reference books	(111,052)	(9,183)			(120,235)
Capitalized software (intangible asset)	(113,309)	(12,638)			(125,947)
All other intangible assets	(4,814)	(733)			(5,547)
Total accumulated depreciation / amortization	(2,867,284)	(212,968)		52,115	(3,028,137)
Capital assets, net	$ 2,957,133	$ 75,698		$ (5,029)	$ 3,027,802
Summary					
Depreciable / amortizable capital assets	$ 5,420,716	$ 46,301	$ 80,808	$ (54,008)	$ 5,493,817
Non-depreciable / amortizable capital assets	403,701	242,365	(80,808)	(3,136)	562,122
Total capital assets	5,824,417	288,666		(57,144)	6,055,939
Less accumulated depreciation / amortization	(2,867,284)	(212,968)		52,115	(3,028,137)
Capital assets, net	$ 2,957,133	$ 75,698		$ (5,029)	$ 3,027,802

Capital assets, net as of June 30, 2015, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 3,778,197	$ 51,242	$ 1,141		$ 3,830,580
Leasehold improvements	10,379	125	28		10,532
Equipment	742,667	60,449	(60)	$ (19,135)	783,921
Infrastructure	468,278	2,165	3,602		474,045
Library and reference books	150,355	2,846			153,201
Capitalized software (intangible asset)	134,532	27,001			161,533
All other intangible assets	5,724	1,180			6,904
Total depreciable / amortizable capital assets	5,290,132	145,008	4,711	(19,135)	5,420,716
Non-depreciable / amortizable capital assets					
Land	94,015	17,548			111,563
Museums and collections	60,932	6,288	49		67,269
Construction in progress	120,380	109,073	(4,760)	173	224,866
Permanent right-of-way easements (intangible asset)	3				3
Total non-depreciable / amortizable capital assets	275,330	132,909	(4,711)	173	403,701
Accumulated depreciation / amortization					
Buildings and improvements	(1,676,672)	(101,230)			(1,777,902)
Leasehold improvements	(5,905)	(766)			(6,671)
Equipment	(526,850)	(77,598)	36	16,249	(588,163)
Infrastructure	(248,880)	(16,457)	(36)		(265,373)
Library and reference books	(96,967)	(14,085)			(111,052)
Capitalized software (intangible asset)	(105,552)	(7,757)			(113,309)
All other intangible assets	(4,142)	(672)			(4,814)
Total accumulated depreciation / amortization	(2,664,968)	(218,565)		16,249	(2,867,284)
Capital assets, net	$ 2,900,494	$ 59,352		$ (2,713)	$ 2,957,133
Summary					
Depreciable / amortizable capital assets	$ 5,290,132	$ 145,008	$ 4,711	$ (19,135)	$ 5,420,716
Non-depreciable / amortizable capital assets	275,330	132,909	(4,711)	173	403,701
Total capital assets	5,565,462	277,917		(18,962)	5,824,417
Less accumulated depreciation / amortization	(2,664,968)	(218,565)		16,249	(2,867,284)
Capital assets, net	$ 2,900,494	$ 59,352		$ (2,713)	$ 2,957,133

5. Long-Term Debt

Long-term debt as of June 30, 2016, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2016 beginning balance	Additions	Reductions	FY 2016 ending balance	Current portion
General obligation bonds									
Series 2016A (tax-exempt)	$ 122,475	2016	3.00%-5.00%	2041		$ 122,475		$ 122,475	$ 2,625
Series 2015B (taxable)	10,110	2016	.799%-4.039%	2032		10,110		10,110	525
Series 2014B (tax-exempt)	145,760	2015	2.00%-5.00%	2044	$ 145,760			145,760	2,785
Series 2013D (taxable)	12,760	2014	0.60%-4.848%	2039	12,530		$ 350	12,180	355
Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038	13,060		385	12,675	400
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038	69,945		1,950	67,995	2,010
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	50,025		1,280	48,745	1,345
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	17,970		545	17,425	550
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	252,975		23,985	228,990	24,970
Series 2010B (taxable)	41,720	2011	0.74%-5.02%	2036	36,880		1,335	35,545	1,360
Series 2010D (taxable)	27,200	2010	3.86%-5.77%	2030	27,200			27,200	1,590
Series 2010C (tax-exempt)	8,480	2010	2.00%-4.00%	2016	1,530		1,530		
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	27,300		3,405	23,895	3,515
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	13,485		685	12,800	715
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	34,920		1,190	33,730	1,225
Commercial paper notes, Series A (tax-exempt)	159,100	2006	0.41%–0.45%	2017	101,100		10,100	91,000	91,000
Commercial paper notes, Series B (tax-exempt)	61,000	2007	0.41%-.44%	2017	37,000		3,000	34,000	34,000
Commercial paper notes, Series C (tax-exempt)	70,000	2008	0.42%–0.44%	2017	43,500		3,500	40,000	40,000
Commercial paper notes, Series D (tax-exempt)	25,000	2010	0.41%–0.45%	2017	16,400		1,100	15,300	15,300
Commercial paper notes, Series E (taxable)	51,620	2015	0.42%-0.45%	2017	51,620			51,620	51,620
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1991-2006	3.55%–5.29%	2026	17,844		3,453	14,391	3,067
Special purpose revenue bonds, Series 2015A (tax-exempt)	90,075	2016	2.00%–5.00%	2032		90,075		90,075	4,585
Special purpose revenue bonds, Series 2013C (tax-exempt)	35,395	2014	2.00%–5.00%	2039	34,985		815	34,170	845
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%–5.00%	2037	49,705		1,280	48,425	1,350
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%–5.00%	2036	102,730		2,905	99,825	3,055
Special purpose revenue bonds, Series 2006 (tax-exempt)	137,250	2007	4.00%–5.00%	2030	104,385		104,385		
Unamortized premiums and discounts	141,034	2007-2016		2044	81,810	39,456	11,677	109,589	5,877
Capital leases and other		1999-2016	1.99%–4.21%	2025	39,439	2,281	6,338	35,382	5,862
Total	$ 2,047,653				$ 1,421,428	$ 264,397	$ 185,193	$ 1,500,632	$ 300,531

Long-term debt as of June 30, 2015, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2015 beginning balance	Additions	Reductions	FY 2015 ending balance	Current portion
General obligation bonds									
Series 2014B (tax-exempt)	$ 145,760	2015	2.00%-5.00%	2044		$ 145,760		$ 145,760	
Series 2013D (taxable)	12,760	2014	0.60%-4.848%	2039	$ 12,760		$ 230	12,530	$ 350
Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038	13,435		375	13,060	385
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038	71,820		1,875	69,945	1,950
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	51,255		1,230	50,025	1,280
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	18,505		535	17,970	545
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	275,590		22,615	252,975	23,985
Series 2010B (taxable)	41,720	2011	0.74%-5.02%	2036	38,200		1,320	36,880	1,335
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	3,015		1,485	1,530	1,530
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	30,580		3,280	27,300	3,405
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	14,145		660	13,485	685
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	36,060		1,140	34,920	1,190
Commercial paper notes, Series A (tax-exempt)	159,100	2006	0.06%–0.09%	2016	110,100		9,000	101,100	101,100
Commercial paper notes, Series B (tax-exempt)	61,000	2007	0.08%-.10%	2016	40,000		3,000	37,000	37,000
Commercial paper notes, Series C (tax-exempt)	70,000	2008	0.07%–0.08%	2016	47,000		3,500	43,500	43,500
Commercial paper notes, Series D (tax-exempt)	25,000	2010	0.08%–0.09%	2016	17,700		1,300	16,400	16,400
Commercial paper notes, Series E (taxable)	51,620	2015	0.10%-0.12%	2016		51,620		51,620	51,620
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1991-2006	3.55%–5.39%	2026	21,511		3,667	17,844	3,110
Special purpose revenue bonds, Series 2013C (tax-exempt)	35,395	2014	2.00%–5.00%	2039	35,395		410	34,985	815
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%–5.00%	2037	50,930		1,225	49,705	1,280
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%–5.00%	2036	105,510		2,780	102,730	2,905
Special purpose revenue bonds, Series 2006	137,250	2007	4.00%–5.00%	2030	109,300		4,915	104,385	5,165
Unamortized premiums and discounts	101,578	2007-2015		2016-2044	72,525	13,778	4,493	81,810	4,504
Capital leases and other		1999-2015	1.81%–4.21%	2025	42,641	2,656	5,858	39,439	5,766
Total	$ 1,785,537				$ 1,282,507	$ 213,814	$ 74,893	$ 1,421,428	$ 309,805

General Obligation Bonds

On April 13, 2016, the University issued General Obligation Bonds, Series 2016A in the par amount of $122,475. The proceeds will be used to finance various capital projects including improvements to the Combined Heat and Power Plant, renovation of the Tate Science and Teaching Building, research laboratory improvements, and construction of a new James Ford Bell Museum and Planetarium, all at the Twin Cities campus and construction of a new Wellness Center at the Crookston campus. The Series 2016A bonds were issued at coupon rates of 3.0 – 5.0 percent with a premium of $25,286.

On August 26, 2015, the University issued General Obligation Taxable Bonds, Series 2015B in the par amount of $10,110 at coupon rates of 0.799 – 4.039 percent. Proceeds will be used to finance the predesign and design of improved health education and clinical research facilities to meet the needs of the Medical School and the Academic Health Center on the Twin Cities campus. Savings realized through the refunding of the Special Purpose Revenue Bonds Series 2006 allowed the University to issue the Series 2015B bonds. The State of Minnesota provides reimbursement for the annual debt service on these bonds.

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 new University of Minnesota

Health Clinics and Surgery Center and to pay capitalized interest during the construction period. The Series 2014B bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $13,778.

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 expects to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Interest payments are due August 1 and February 1 on the Series 2010D and Series 2010B, and June 1 and December 1 on the Series 2009D. Due to the implementation of federal sequestration effective with the subsidy payment received beginning June 1, 2013, the subsidy payments received have been reduced by 6.8 percent, 7.3 percent, 7.2 percent and 8.7 percent in each of the federal fiscal years ending September 30, 2016, 2015, 2014, and 2013, respectively.

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

On August 26, 2015, the University issued Special Purpose Revenue Refunding Bonds, Series 2015A in the par amount of $90,075 at coupon rates of 2.0 – 5.0 percent with a premium of $14,170 to defease and refund the Special Purpose Revenue Bonds Series 2006. A gain of $2,050 was recognized on the transaction. Net proceeds were deposited in an escrow account to pay the principal and interest due on the Series 2006 bonds to and including August 1, 2016 and to pay the redemption price of the Series 2006 bonds maturing on or after August 1, 2016. The amended 2015 Minnesota Session Laws authorized the refunding of the Series 2006 bonds and also provided that upon refunding, annual payments from the State of Minnesota will be the maximum annual $10,250 appropriation to reimburse the University for the annual debt service on these bonds and the Series 2015B General Obligation Taxable Bonds, and for other University purposes.

The University issued three series of 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.

Commercial Paper Notes

On December 17, 2014, the University issued Taxable Commercial Paper Notes Series E in the amount of $51,620 at initial rates of 0.10 – 0.12 percent. The proceeds, originally intended to finance a portion of a new James Ford Bell Museum and Planetarium on the St. Paul Campus, were used instead to finance various property purchases near the Minneapolis campus.

In addition, the University has outstanding tax-exempt Commercial Paper Notes, Series A, B, C, and D, which were issued 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.

Commercial paper is short-term in nature and classified as current liabilities in the financial statements.

Auxiliary Bonds

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. Revenues were pledged until November 1, 2013, at which time the final debt obligation matured.

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 $43,173 as of June 30, 2016 and $53,532 as of June 30, 2015 of which the University owes $14,391 and $17,844, respectively.

Capital Leases and Other Debt

The University has six distinct capital leases. Two of the six agreements are financed through third-party financing for purchase of fleet vehicles. The remaining four capital leases have payments being paid directly to the lessor and represent leases for buildings. As of June 30, 2016, associated capital assets acquired through capital leases are $55,799 and $12,334 with related accumulated depreciation of $26,259 and $6,492 for buildings and vehicles, respectively. The capital leases bear interest rates between 1.99 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 LIBOR Index is an average yield of interbank offered rates for one-year US dollar denominated deposits in the London Market. The 3.0 percent floor for the note payable was maintained during the fiscal year ended June 30, 2016 and does not extend beyond fiscal year 2017. A second third-party financing agreement has interest rates tied to commercial paper, which ranged from 1.99 – 2.49 percent during fiscal year ended June 30, 2016.

Interest Rate Swaps

As of June 30, 2016, the University has one freestanding pay-fixed and receive-variable interest rate swap that is considered an ineffective hedge, where the change in fair value from June 30, 2015 to June 30, 2016 of $3,161 is included in investment income, net and reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

The terms, fair values, and credit rating of the outstanding swap as of June 30, 2016, 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	$ (3,677)	8/27/2017
		$ 70,000					$ (3,677)	

* *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).*

Credit Risk—The swap that exists at the end of fiscal year 2016 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, 2016, 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.

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.

Commercial paper interest payments and net swap payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2016, 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							
2017	$ 62,749	$ 231,920	$ 5,862	$ 300,531	$ 54,823	$ 3,444	$ 358,798
2018	65,007		5,840	70,847	51,349	547	122,743
2019	66,920		5,680	72,600	48,385		120,985
2020	55,857		5,220	61,077	45,628		106,705
2021	57,455		5,082	62,537	43,059		105,596
2022-2026	274,811		7,698	282,509	176,677		459,186
2027-2031	294,113			294,113	111,220		405,333
2032-2036	221,399			221,399	54,246		275,645
2037-2041	108,621			108,621	16,585		125,206
2042-2045	26,398			26,398	2,044		28,442
	$ 1,233,330	$ 231,920	$ 35,382	$ 1,500,632	$ 604,016	$ 3,991	$ 2,108,639

Defeased Bonds

The University has defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt service payments on the old bonds. The defeased bonds are as follows:

Associated bond issue	Refunding date	Amount defeased	Refunded amount	Amount outstanding on June 30, 2016	Bond call date
Special purpose revenue bonds Series 2006	8/26/2015	$ 99,220	$ 99,220	$ 99,220	8/1/2016
General obligation bonds Series 1996A	10/2/2005	159,000	159,000	91,000	7/1/2021
General obligation bonds Series 1982A	4/23/1985	112,635	112,635	15,275	12/1/2016

The Series 2006 Special Purpose Revenue Bonds were issued December 14, 2006 to finance a portion of the cost of the TCF Bank Stadium on the Twin Cities campus. They were defeased on August 26, 2015 with a recognized gain of $2,050.

The Series 1982A bonds were issued in December, 1982 to finance the construction of and equipment acquisition 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 in January 1997 to provide funds for capital projects and to refund the General Obligation Variable Rate Demand Bonds Series 1985F, 1985G, 1985H, and 1985I and the Commercial Paper Series 1991A and Series 1991B. 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 consolidated 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, 2016 or June 30, 2015.

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, multiple-employer plans

Effective fiscal year ended June 30, 2015, GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No.* 68, was required to be implemented for the University. In accordance with the standard, the University's cost-sharing, multiple employer plans fall within the scope of its requirements.

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 16 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 four 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 77 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.

Funding Policy and Contribution Rates

	CSRS	CSRS Offset	FERS
Statutory authority			
United States code	Title 5, Chapter 83	Title 5, Chapter 83	Title 5, Chapter 84
Required contribution rates (%)			
Active plan members	7.00%	0.80%	0.80%
University	7.00%	7.00%	13.70%
Required contributions ($)			
Employee			
2016	$ 109	$ 5	$ 54
2015	139	6	59
2014	152	6	60
University			
2016	$ 109	$ 30	$ 1,232
2015	139	35	938
2014	152	35	894

State of Minnesota Retirement Plans

Basis of Accounting and Valuation of Investments

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

Public Employee Police and Fire Fund (PEPFF)

The Public Employee Police and Fire Fund (PEPFF) is administered by the Public Employees Retirement Association (PERA). PEPFF, in total, provides coverage to approximately 500 local governmental subdivisions within the state of Minnesota. The University's participation in PEPFF covers approximately 64 active law enforcement staff. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by state legislature. Each participant earns service credit for each month retirement deductions are withheld from the employee's salary. Retirement benefits are based on years and months of service. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Benefits for members first hired after June 30, 2010, but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after 10 years of credited service. Benefits for members first hired after June 30, 2014, vest on a pro-rated basis from 50 percent after 10 years up to 100 percent after 20 years of credited service. For members hired prior to July 1, 1989, a full annuity is available when the member's age plus years of service equal at least 90. Annual benefits increase by 1.0 percent each year to annuitants who have been receiving a benefit for at least 12 months (36 months for annuitants whose benefits were effective after June 1, 2014, and 2.5 percent if the plan is funded at least 90 percent for two consecutive years). Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained at http://www.mnpera.org/ or by writing the Public Employees Retirement Association (PERA), 60 Empire Drive, Suite 200, St. Paul, MN 55103.

State Employees' Retirement Fund (SERF)

The State Employees' Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS). SERF, in total, provides coverage to approximately 16 employers within the State of Minnesota. The University's participation in SERF covers approximately 8,800 active Civil Service and non-faculty bargaining unit employees. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by state legislature. Benefits are based on a member's age, years of allowable service, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent for the first 10 years of allowable service and 1.7 percent for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of average salary for each year of allowable service. Average salary is defined as the highest salary paid in sixty successive month period. A publicly available financial report, which includes financial statements, required supplementary information, and detailed information about the plan's fiduciary net position, can be obtained at www.msrs.state.mn.us/financial-information or by writing to the Minnesota State Retirement System (MSRS), 60 Empire Drive, Suite 300, St. Paul, MN 55103.

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

Funding Policy and Contribution Rates

	PEPFF	SERF
Statutory authority		
Minnesota chapter	353	352
Required contribution rates (%)		
Active plan members	10.80% *	5.50% **
University	16.20% *	5.50% **
Required contribution rates ($)		
University	$ 943	$ 22,974
Non-Employer Contributing Entity	55	

** Required contribution rates increased to 10.80% (active plan members) and 16.20% (University) on January 1, 2015. Members and the University were required to contribute 10.20% and 15.30%, respectively, of their annual covered salary in fiscal year-ended June 30, 2015.*

*** Required contribution rates increased to 5.50% on July 1, 2014. Members and the University were required to contribute 5.0% of their annual covered salary in fiscal year-ended June 30, 2015.*

Net pension liability amounts recorded with the implementation of GASB 68 within the University's financial statements are reflective of the respective plan's published financial statements and actuarial valuations as of June 30, 2015. The University's proportion of the respective plans' net pension liability was based on the University's contributions to the respective plans during the measurement period July 1, 2014, through June 30, 2015, relative to the total contributions from all participating employers, as well as on-behalf state contributions paid directly to PEPFF. As a result, contributions made to the respective plans in fiscal year-ended June 30, 2016, are recorded as deferred outflows of resources per GASB 71.

Summary of Pension Amounts

	PEPFF	SERF	Total
Proportionate Share of the Net Pension Liability ($)	$ 6,965	$ 237,436	$ 244,401
Proportionate Share of the Net Pension Liability (%)			
2016	0.613%	15.424%	
2015	0.613%	15.465%	
Deferred Outflows of Resources	$ 2,329	$ 22,974	$ 25,303
Deferred Inflows of Resources	$ 2,366	$ 294,611	$ 296,977
Net Pension Expense	$ 727	$ (70,322)	$ (69,595)
Non-Operating Grant Revenue	$ 55		$ 55

Deferred Outflows of Resources

	PEPFF	SERF	Total
Difference between expected and actual experience	$ 7		$ 7
Changes in assumptions	1,313		1,313
Changes in proportion and differences between actual contributions and proportionate share of contributions	66		66
Contributions paid to plan subsequent to measurement date	943	$ 22,974	23,917
Total	$ 2,329	$ 22,974	$ 25,303

Deferred Inflows of Resources

	PEPFF	SERF	Total
Difference between expected and actual experience	$ 1,130	$ 65,091	$ 66,221
Changes in assumptions		142,096	142,096
Net difference between projected and actual earnings on investments	1,217	52,644	53,861
Changes in proportion and differences between actual contributions and proportionate share of contributions	19	34,780	34,799
Total	$ 2,366	$ 294,611	$ 296,977

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

	Fiscal Year	PEPFF	SERF	Total
	2017	$ (395)	$ (95,683)	$ (96,078)
	2018	(395)	(95,683)	(96,078)
	2019	(395)	(95,683)	(96,078)
	2020	420	(7,562)	(7,142)
	2021	(215)		(215)
Net pension expense		$ (980)	$ (294,611)	$ (295,591)
Contributions paid to plan subsequent to measurement date		943	22,974	23,917
Net deferred inflows		$ (37)	$ (271,637)	$ (271,674)

The University's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the respective plans. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Methods and Assumptions

	PEPFF*		SERF*	
Valuation date	7/1/2015		6/30/2015	
Actuarial cost method	Entry age normal		Entry age normal	
Asset valuation method	5-year smoothed market		Fair value	
Long-term expected rate of return	7.90%		7.90%	
20-year municipal bond rate	3.80%	**	3.80%	**
Inflation	2.75%		2.75%	
Salary increases	Service related rates		Service related rates	
Payroll growth	3.50%		3.50%	
Experience study dates	2010	***	2008 - 2014	***

** Mortality rates were based on RP-2000 Generational Mortality Tables, and adjusted as appropriate to match experience.*
*** Based on the Bond Buyer 20-Bond Index of general obligation municipal bonds as of June 25, 2015.*
**** Update of economic assumptions in 2016.*

As noted in the actuarial methods and assumptions, the long-term expected rate of return (discount rate) was used to measure the total pension liability as of June 30, 2015 of the respective plans. The actual selection of the rate was determined by looking at the asset class target allocations and long-term rate of return expectations from the State Board of Investments (SBI), along with other information, such as the Social Security Trustees Report, the U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

The SBI, which manages the investments of the respective plans, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best estimates of expected future real rates of return are developed for each major asset class.

These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

SBI Asset Class

Asset Class	Target Allocation	SBI's Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan’s fiduciary net position at June 30, 2015, was projected to be available to make all projected future benefit payments of current and active employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments (June 30, 2016 through June 30, 2115) to determine the total pension liability.

Notable changes affecting the measurement of MSRS' total pension liability since the prior measurement date included:

- Post-retirement benefit increase from 2.0 percent per year through 2015 and 2.5 percent thereafter, to 2.0 percent through 2015, and 2.5 percent thereafter, to 2.0 percent per year through 2043 and 2.5 percent thereafter;

- Beginning July 1, 2015, a provision was added so that if the 2.5 percent post-retirement benefit increase is triggered and the funding ratio (determined on a market value of assets basis) subsequently drops below 80 percent or less for the most recent valuation year or 85 percent or less for two consecutive years, the post-retirement benefit increase will change to 2.0 percent until the plan again reaches a 90 percent funding ratio for two consecutive years.

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.9 percent, as well as what the impact would be if the net pension liability were calculated using a discount rate that was 1.0 percentage point lower or 1.0 percentage point higher than 7.9 percent.

Discount Rate Sensitivity

Pension Plan	1.0% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1.0% Increase in Discount Rate (8.9%)
PEPFF	$ 13,575	$ 6,965	$ 1,504
SERF	486,030	237,436	30,560

Additional information related to the respective plans is presented in Required Supplementary Information (RSI) following the notes to the consolidated financial statements.

Single-employer plan

Supplemental Benefits Plan (SBP)

The 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 119 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)	$	16
Interest on net pension obligation (NPO)		93
Adjustment to ARC		(369)
Annual pension cost (expense)	$	(260)
Less contributions made – fiscal year ended June 30, 2016		(16)
Decrease in NPO	$	(276)
NPO—June 30, 2015		1,871
NPO—June 30, 2016	$	1,595

Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2016	$ (260)	$ 16	N/A	$ 1,595
6/30/2015	(259)	26	N/A	1,871
6/30/2014	127	393	309.45%	2,156

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)
7/1/2015	$ 1,425	$ 1,505	$ 80	94.68%	$ 517	15.47%
7/1/2014	1,721	1,754	33	98.12%	512	6.45%
7/1/2013	1,761	4,219	2,458	41.74%	558	440.50%

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the consolidated 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	7/1/2015
Actuarial cost method	Entry age
Amortization method	Level of dollar by 6/30/2021, closed
Remaining amortization period	6 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. A description of the plans and contribution information follows.

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 who 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 9,400 active faculty and professional and administrative (P&A) staff. This amount includes approximately 3,700 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 1,000 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. Eleven University employees are part of this plan.

Contributions Made for Fiscal Year 2016

	FRP	ORP	457	415(m)
Employee	$ 29,536	$ 41,447	$ 14,398	N/A
University	106,269	449	N/A	$ 693

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 $165,099 on June 30, 2016. The estimated cost to complete these facilities is $381,645, which is to be funded from plant fund assets and $78,404 in appropriations available from the State of Minnesota as of June 30, 2016.

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, 2016 and 2015, were $18,587 and $18,200, respectively, of which $14,447 and $13,782 were for real property and $4,140 and $4,418 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2016, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2017	$ 246	$ 8,184	$ 8,430
2018	246	4,901	5,147
2019	246	4,101	4,347
2020		3,214	3,214
2021		2,974	2,974
2022-2026		8,576	8,576
2027-2031		7,924	7,924
2032-2036		5,324	5,324
2037-2041			
Total commitments	$ 738	$ 45,198	$ 45,936

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 material disallowed claims at this time.

The University is a defendant in cases involving claims of medical malpractice, personal injuries, breach of contract, and other civil matters. 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 Footnote 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 0.75 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 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 $325,000 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, 2016, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 6,706	$ 2,297	$ (1,164)	$ 339	$ 8,178
Workers' compensation	13,974	3,640	(3,640)	(1,209)	12,765
UPlan medical	13,578	218,735	(218,965)	5,268	18,616
UPlan dental	830	17,950	(17,592)	(353)	835
Graduate assistant health plan	1,263	19,272	(19,272)	15	1,278
Student health plan	3,988			831	4,819
Medical Residents & Fellows	568			111	679

Reported liabilities as of June 30, 2015, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 7,542	$ 1,522	$ (1,952)	$ (406)	$ 6,706
Workers' compensation	13,046	3,329	(3,329)	928	13,974
UPlan medical	15,308	213,785	(213,580)	(1,935)	13,578
UPlan dental	821	17,214	(16,856)	(349)	830
Graduate assistant health plan	960	19,461	(19,461)	303	1,263
Student health plan	4,549			(561)	3,988
Medical Residents & Fellows	407			161	568

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 Footnote 6 and Footnote 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, 2016 and 2015 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 (RIOs).

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
2016	60	$ 423
2015	129	1,031

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
2016	81	$ 538
2015	160	1,009

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
2016	103	$ 3,070
2015	113	3,409

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
2016	10	$ 17
2015	32	42

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
2016	59	$ 438
2015	152	829

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 2016:

Beneficiary type	Beneficiary annual rate (Actual amounts, not rounded to thousands)
Non-Medicare retiree	$ 6,237
COBRA	6,362
Disabled Participants	6,237

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2016, the University paid $4,424 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)	$	26,457
Interest on net OPEB obligation		3,998
Adjustment to annual required contribution		(8,058)
Annual OPEB cost (expense)		22,397
Less contributions made – fiscal year ended June 30, 2016		(4,424)
Increase in net OPEB obligation		17,973
Net OPEB obligation—June 30, 2015		120,227
Net OPEB obligation—June 30, 2016	$	138,200

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
6/30/2016	$ 22,397	$ 4,424	19.8%	$ 138,200
6/30/2015	25,566	6,627	25.9%	120,227
6/30/2014	24,266	5,411	22.3%	101,288

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2016, is as follows:

Actuarial accrued liability (AAL)	$	111,519
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$	111,519
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Increase in net OPEB obligation	$	17,973
Covered payroll (active plan members)	$	1,350,645
UAAL as a percentage of covered payroll		8.26%

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 consolidated financial statements, presents the results of the University's OPEB valuation as of June 30, 2016.

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	7/1/2016
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	3.325%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	7.50%
2nd year rate	7.30%
Ultimate rate	5.00%
Year ultimate rate reached	2050

12. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2016, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 686,668	$ 102,629			$ 789,297
Research	440,020	252,646			692,666
Public service	160,318	97,471			257,789
Academic support	291,937	95,107			387,044
Student services	89,979	27,474			117,453
Institutional support	193,195	67,606			260,801
Operation and maintenance of plant	103,471	188,091			291,562
Scholarships and fellowships	11,046	2,915	$ 46,486		60,447
Depreciation				$ 212,969	212,969
Auxiliary enterprises	101,829	155,369			257,198
Other operating expense			157		157
	$ 2,078,463	$ 989,308	$ 46,643	$ 212,969	$ 3,327,383

Operating expenses by natural classification for the year ended June 30, 2015, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 670,731	$ 99,594			$ 770,325
Research	437,155	263,053			700,208
Public service	157,255	91,196			248,451
Academic support	282,555	84,437			366,992
Student services	89,077	26,939			116,016
Institutional support	171,500	75,893			247,393
Operation and maintenance of plant	104,725	172,058			276,783
Scholarships and fellowships	10,392	3,470	$ 44,017		57,879
Depreciation				$ 218,565	218,565
Auxiliary enterprises	100,965	155,306			256,271
Other operating expense		93			93
	$ 2,024,355	$ 972,039	$ 44,017	$ 218,565	$ 3,258,976

13. 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, except those reported as Level 3 in Note 3 of UMF's annual report, 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 are summarized (in thousands) as follows:

	2016		
	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 229,398		$ 229,398
Fixed income	705,223	$ 246,425	951,648
Global equity	49,801	45,393	95,194
Hedge funds		124,179	124,179
Natural resources	25,764	108,564	134,328
Treasury inflation protected securities (TIPS)	198,008		198,008
Real estate		58,322	58,322
Private equity		567,165	567,165
Other investments		4,787	4,787
Subtotal	1,208,194	1,154,835	2,363,029
Less charitable gift annuities reported separately			(32,461)
Total			$ 2,330,568

	2015		
	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 273,252		$ 273,252
Fixed income	320,676	$ 219,281	539,957
Global equity	54,615	212,541	267,156
Hedge funds	22,602	328,073	350,675
Natural resources	28,623	107,029	135,652
Treasury inflation protected securities (TIPS)	130,013		130,013
Real estate		68,226	68,226
Private equity		595,482	595,482
Other investments		4,461	4,461
Subtotal	829,781	1,535,093	2,364,874
Less charitable gift annuities reported separately			(34,118)
Total			$ 2,330,756

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. At June 30, 2016 and 2015, UMF has $1,154,835 and $1,535,093 respectively, 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 allows 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 tables summarize UMF's financial assets and other liabilities measured at fair value on a recurring basis at June 30, 2016 and 2015:

	2016			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed income				
Asset backed securities		$ 14,034		$ 14,034
Mortgages		8,097		8,097
Corporate bonds		58,395		58,395
Government		620,604		620,604
Other	$ 1,173	2,920	$ 14,518	18,611
Global equity				
Small cap	1,539			1,539
Large cap	356			356
Closed end/exchange traded funds	9,194			9,194
Other	38,711		4,279	42,990
Natural resources	25,764			25,764
Treasury inflation protected securities (TIPS)		198,008		198,008
Total investments	$ 76,737	$ 902,058	$ 18,797	997,592
Cash and cash equivalents				229,398
Investments measured at net asset value or its equivalent				1,136,039
Total Investments and Cash				$ 2,363,029
Gift annuities not categorized above	$ 1,886			$ 1,886
Beneficial interest in perpetual trusts			$ 65,259	65,259
Assets held in charitable trusts	21,613			21,613
Beneficial interest in trusts			3,326	3,326
UGC derivative financial instrument		$ (2,713)		(2,713)

	2015			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed income				
Asset backed securities		$ 46,355		$ 46,355
Mortgages		24,004		24,004
Corporate bonds	$ 55	31,967		32,022
Government		197,972		197,972
Other	16,215	4,108	$ 27,758	48,081
Global equity				
Small cap	10,588			10,588
Large cap	44,013			44,013
Other		14		14
Hedge funds				
Fixed income arbitrage	22,602			22,602
Natural resources	28,623			28,623
Treasury inflation protected securities (TIPS)		130,013		130,013
Total investments	$ 122,096	$ 434,433	$ 27,758	584,287
Cash and cash equivalents				273,252
Investments measured at net asset value or its equivalent				1,507,335
Total Investments and Cash				$ 2,364,874
Gift annuities not categorized above	$ 1,854			$ 1,854
Beneficial interest in perpetual trusts			$ 66,897	66,897
Assets held in charitable trusts	23,384	$ 3,744		27,128
Beneficial interest in trusts			3,865	3,865
UGC derivative financial instrument		(2,021)		(2,021)

The changes in investments measured at fair value on a recurring basis included as Level 3 measurements are summarized as follows at June 30:

	Beginning balance at July 1, 2015	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2016
Fixed income						
Other	$ 27,758		$ (9,218)	$ 18,591	$ (22,613)	$ 14,518
Global equity						
Other			(87)	4,366		4,279
	$ 27,758		$ (9,305)	$ 22,957	$ (22,613)	$ 18,797

	Beginning balance at July 1, 2014	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2015
Fixed income						
Other		$ (4)	$ (5)	$ 38,767	$ (11,000)	$ 27,758
		$ (4)	$ (5)	$ 38,767	$ (11,000)	$ 27,758

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, 2015	Change in carrying value of trusts	Ending balance at June 30, 2016
Beneficial interest in trusts	$ 3,865	$ (539)	$ 3,326
Beneficial interest in perpetual trusts	66,897	(1,638)	65,259

	Beginning balance at July 1, 2014	Change in carrying value of trusts	Ending balance at June 30, 2015
Beneficial interest in trusts	$ 4,341	$ (476)	$ 3,865
Beneficial interest in perpetual trusts	67,575	(678)	66,897

The following is a summary of the investments whose net asset value approximates fair value and the related unfunded commitments and redemption restrictions associated with each major category at June 30:

	2016			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative Investments				
Fixed income	$ 231,907	$ 240,172	None	None
Global equity	41,114		None or Monthly to Quarterly	None or 0-30 Days
Hedge funds	124,180		None or Monthly to Annually	None or 30-180 Days
Natural resources	108,564	43,882	None	None
Real estate	58,322	43,941	None	None
Private equity	567,165	202,136	None	None
Other investments	4,787		None	None
Total	$ 1,136,039	$ 530,131		

	2015			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative Investments				
Fixed income	$ 191,523	$ 54,140	None	None
Global equity	212,541		None or Monthly to Quarterly	None or 0-30 Days
Hedge funds	328,073		None or Monthly to Annually	None or 30-180 Days
Natural resources	107,029	36,050	None	None
Real estate	68,226	35,718	None	None
Private equity	595,482	150,489	None	None
Other investments	4,461		None	None
Total	$ 1,507,335	$ 276,397		

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of 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 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:

	2016	2015
Capital improvement/facilities	$ 8,081	$ 8,351
Faculty support	9,012	9,189
Scholarships and fellowships	119,792	129,475
Lectureships, professorships, and chairs	180,924	191,104
College program support	58,428	59,172
Research	11,716	12,255
Other	2,230	2,109
Subtotal	$ 390,183	$ 411,655

Gifts and other unexpended revenues and gains available for:

	2016	2015
Capital improvement/facilities	$ 160,455	$ 152,359
Faculty support	18,396	16,423
Scholarships and fellowships	151,451	148,429
Lectureships, professorships, and chairs	44,196	40,111
College program support	348,272	400,400
Research	143,781	140,370
Trusts	10,570	11,351
Other	10,480	8,980
Subtotal	887,601	918,423
Total temporarily restricted net assets	$ 1,277,784	$1,330,078

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 are as follows:

	2016	2015
Capital improvement/facilities	$ 8,185	$ 7,844
Faculty support	20,909	18,841
Scholarships and fellowships	460,847	416,216
Lectureships, professorships, and chairs	376,823	362,462
College program support	94,799	87,865
Research	36,056	35,740
Trusts	70,448	76,192
Other	3,644	3,635
Total permanently restricted net assets	$ 1,071,711	$ 1,008,795

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, 2016 and 2015 for RUMINCO, Ltd, a blended component unit of the University, are as follows:

Condensed statements of net position	2016	2015
Current assets	$ 470	$ 653
Noncurrent assets	40,320	39,410
Total assets	40,790	40,063
Deferred outflows of resources		
Total assets & deferred outflows of resources	40,790	40,063
Current liabilities	2,017	1,145
Noncurrent liabilities	2,016	1,821
Total liabilities	4,033	2,966
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	4,033	2,966
Unrestricted net position	$ 36,757	$ 37,097

Condensed statements of revenues, expenses, and changes in net position	2016	2015
Operating revenues:		
Net underwriting income	$ 979	$ 1,635
Operating expenses	1,116	1,075
Operating income (loss)	(137)	560
Nonoperating revenues:		
Investment income, net	(203)	505
Increase (decrease) in net position	(340)	1,065
Net position at beginning of year	37,097	36,032
Net position at end of year	$ 36,757	$ 37,097

Condensed statements of cash flows	2016	2015
Net cash provided (used) by:		
Operating activities	$ 1,115	$ 541
Investing activities	(1,465)	(270)
Net increase (decrease) in cash	(350)	271
Cash at beginning of year	381	110
Cash at end of year	$ 31	$ 381

Required Supplementary Information

Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2016 and 2015 (in thousands)

Schedules of Funding Progress

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)
7/1/2015	$ 1,425	$ 1,505	$ 80	94.68%	$ 517	15.47%
7/1/2014	1,721	1,754	33	98.12%	512	6.45%
7/1/2013	1,761	4,219	2,458	41.74%	558	440.50%

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

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)
7/1/2016		$ 111,519	$ 111,519	0.00%	$ 1,350,645	8.26%
7/1/2015		91,276	91,276	0.00%	1,298,697	7.03%
7/1/2014		113,145	113,145	0.00%	1,252,154	9.04%

Additional information related to OPEB is provided in Footnote 11.

Schedule of the Employer's Share of Net Pension Liability – Last 10 Years*

Public Employee Police and Fire Fund (PEPFF)

Year Ended June 30	University's Proportion of the Net Pension Liability (%) (a)	University's Proportionate Share of the Net Pension Liability ($) (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
2015	0.613%	$ 6,965	$ 5,781	120.481%	86.61%
2014	0.608%	6,567	5,255	124.967%	87.07%

State Employees Retirement Fund (SERF)

Year Ended June 30	University's Proportion of the Net Pension Liability (%) (a)	University's Proportionate Share of the Net Pension Liability ($) (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
2015	15.424%	$ 237,436	$ 451,306	52.611%	88.32%
2014	16.031%	259,954	410,364	63.347%	87.64%

**This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Schedule of the Employer's Contributions – Last 10 Years*

Public Employee Police and Fire Fund (PEPFF)

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2015	$ 885	$ 885		$ 5,781	15.30%
2014	804	804		5,255	15.30%

State Employees Retirement Fund (SERF)

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2015	$ 22,565	$ 22,565		$ 451,306	5.00%
2014	20,518	20,518		410,364	5.00%

**This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

Additional information related to PEPFF and SERF is provided in Note 6.

Supplemental Schedules

for the Years Ended June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015 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

November 28, 2016

Statements of Net Position by Campus

June 30, 2016 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$ 2,623	$ 35,061	$ 2,375	$ 2,180	$ 308,146	$ 350,385
Short-term investments					459,515	459,515
Receivables, net	495	5,546	909	732	287,427	295,109
Inventories	196	2,332	117		19,452	22,097
Student loans receivable, net	99	1,828	207		8,330	10,464
Prepaid expenses	8	786	46		22,268	23,108
Other assets					205	205
Total current assets	3,421	45,553	3,654	2,912	1,105,343	1,160,883
Noncurrent assets						
Restricted cash and cash equivalents					107,422	107,422
Investments	3,524	105,216	3,790		1,557,401	1,669,931
Receivables, net			35	1,969	10,393	12,397
Student loan receivables, net	479	9,309	1,036		50,965	61,789
Prepaid expenses		14	1		2,815	2,830
Other assets					1,413	1,413
Capital assets, net	49,495	202,794	60,920	30,148	2,684,445	3,027,802
Total noncurrent assets	53,498	317,333	65,782	32,117	4,414,854	4,883,584
Total assets	56,919	362,886	69,436	35,029	5,520,197	6,044,467
Deferred Outflows of Resources	271	2,301	460	71	22,200	25,303
Liabilities						
Current liabilities						
Accounts payable	749	5,505	1,121	282	138,335	145,992
Accrued liabilities and other	1,633	19,841	2,648	534	270,284	294,940
Unearned income	880	3,170	182	57	58,391	62,680
Long-term debt					300,531	300,531
Total current liabilities	3,262	28,516	3,951	873	767,541	804,143
Noncurrent liabilities						
Accrued liabilities and other	4,756	40,403	7,235	1,410	429,151	482,955
Unearned income					61	61
Long-term debt					1,200,101	1,200,101
Total noncurrent liabilities	4,756	40,403	7,235	1,410	1,629,313	1,683,117
Total liabilities	8,018	68,919	11,186	2,283	2,396,854	2,487,260
Deferred Inflows of Resources	3,448	25,063	4,950	906	264,525	298,892
Net Position						
Unrestricted	(9,062)	(47,832)	(16,120)	(1,362)	531,882	457,506
Restricted						
Expendable	4,275	49,709	7,878	3,125	824,345	889,332
Nonexpendable	1,016	66,534	1,082		236,037	304,669
Net investment in capital assets	49,495	202,794	60,920	30,148	1,288,754	1,632,111
Total net position	$ 45,724	$ 271,205	$ 53,760	$ 31,911	$ 2,881,018	$ 3,283,618

Statements of Net Position by Campus

June 30, 2015 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$ 6,289	$ 41,307	$ 6,052	$ 1,995	$ 127,808	$ 183,451
Short-term investments					185,724	185,724
Receivables, net	439	8,993	943	628	263,710	274,713
Inventories	221	2,266	103		20,305	22,895
Student loans receivable, net	108	1,862	220		8,433	10,623
Prepaid expenses	30	665	52		15,757	16,504
Other assets					1,897	1,897
Total current assets	7,087	55,093	7,370	2,623	623,634	695,807
Noncurrent assets						
Restricted cash and cash equivalents					148,276	148,276
Investments	3,345	96,242	3,611		1,937,736	2,040,934
Receivables, net		2	40	2,808	10,734	13,584
Student loan receivables, net	507	9,038	1,048		48,267	58,860
Prepaid expenses		11	1		2,368	2,380
Other assets						
Capital assets, net	40,857	206,159	63,803	34,270	2,612,044	2,957,133
Total noncurrent assets	44,709	311,452	68,503	37,078	4,759,425	5,221,167
Total assets	51,796	366,545	75,873	39,701	5,383,059	5,916,974
Deferred Outflows of Resources	266	2,297	462	70	22,005	25,100
Liabilities						
Current liabilities						
Accounts payable	940	7,140	1,391	333	130,310	140,114
Accrued liabilities and other	1,496	17,841	2,485	423	237,667	259,912
Unearned income	985	4,347	140	52	68,037	73,561
Long-term debt					309,805	309,805
Total current liabilities	3,421	29,328	4,016	808	745,819	783,392
Noncurrent liabilities						
Accrued liabilities and other	5,208	42,541	7,901	1,513	445,101	502,264
Unearned income					54	54
Long-term debt					1,111,623	1,111,623
Total noncurrent liabilities	5,208	42,541	7,901	1,513	1,556,778	1,613,941
Total liabilities	8,629	71,869	11,917	2,321	2,302,597	2,397,333
Deferred Inflows of Resources	4,307	30,869	6,136	1,131	325,777	368,220
Net Position						
Unrestricted	(6,942)	(52,036)	(14,427)	(881)	349,383	275,097
Restricted						
Expendable	4,196	50,118	7,838	2,930	862,354	927,436
Nonexpendable	1,015	61,863	1,068		233,523	297,469
Net investment in capital assets	40,857	206,159	63,803	34,270	1,331,430	1,676,519
Total net position	$ 39,126	$ 266,104	$ 58,282	$ 36,319	$ 2,776,690	$ 3,176,521

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

Year ended June 30, 2016 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 11,850	$ 89,771	$ 8,921	$ 6,094	$ 634,782	$ 751,418
Federal grants and contracts	160	6,483	658		434,640	441,941
State and other government grants	30	3,851	16		69,404	73,301
Nongovernmental grants and contracts	380	2,869	651	53	378,490	382,443
Student loan interest income	23	262	41		1,457	1,783
Sales and services of educational activities, net	402	4,963	144	34	153,658	159,201
Auxiliary enterprises, net	4,651	39,589	7,574	1,609	360,794	414,217
Other operating revenues					83	83
Total operating revenues	17,496	147,788	18,005	7,790	2,033,308	2,224,387
Expenses						
Operating expenses						
Educational and general						
Instruction	10,906	66,131	13,632	2,503	696,125	789,297
Research	113	19,996	728	705	671,124	692,666
Public service	307	6,297	957	(16)	250,244	257,789
Academic support	2,820	20,413	4,068	1,292	358,451	387,044
Student services	2,632	13,350	4,775	1,791	94,905	117,453
Institutional support	2,085	12,721	2,890	3,741	239,364	260,801
Operation and maintenance of plant	5,102	30,137	6,521		249,802	291,562
Scholarships and fellowships	290	2,361	1,323	2,038	54,435	60,447
Depreciation	2,384	11,552	3,084	3,148	192,801	212,969
Auxiliary enterprises	6,139	29,327	8,125	321	213,286	257,198
Other operating expenses, net	(7)	(22)	(54)		240	157
Total operating expenses	32,771	212,263	46,049	15,523	3,020,777	3,327,383
Operating Loss	(15,275)	(64,475)	(28,044)	(7,733)	(987,469)	(1,102,996)
Nonoperating Revenues (Expenses)						
Federal appropriations					20,367	20,367
State appropriations	10,152	41,837	20,039	7,914	583,763	663,705
Grants	4,120	21,399	5,938		148,894	180,351
Gifts	716	5,538	977	78	192,839	200,148
Investment income, net	264	5,062	289		13,560	19,175
Interest on capital asset-related debt					(44,414)	(44,414)
Other nonoperating revenues (expenses), net	(121)	8	297	(37)	42,917	43,064
Net nonoperating revenues	15,131	73,844	27,540	7,955	957,926	1,082,396
Income (Loss) Before Other Revenues	(144)	9,369	(504)	222	(29,543)	(20,600)
Capital appropriations					75,412	75,412
Capital grants and gifts		3,184		482	42,429	46,095
Additions to permanent endowments		1,435	31		4,724	6,190
Transfers	9,792	9,652	158	(1,052)	(18,550)	
Other internal charges	(3,050)	(18,539)	(4,207)	(4,060)	29,856	
Total other revenues (expenses)	6,742	(4,268)	(4,018)	(4,630)	133,871	127,697
Increase (Decrease) in Net Position	6,598	5,101	(4,522)	(4,408)	104,328	107,097
Cumulative effect of change in accounting principle						
Net position at beginning of year	39,126	266,104	58,282	36,319	2,776,690	3,176,521
Net position at end of year	$ 45,724	$ 271,205	$ 53,760	$ 31,911	$ 2,881,018	$ 3,283,618

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

Year ended June 30, 2015 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 11,841	$ 89,461	$ 9,694	$ 7,036	$ 622,508	$ 740,540
Federal grants and contracts	209	6,227	366		457,949	464,751
State and other government grants	47	3,281	24		56,214	59,566
Nongovernmental grants and contracts	487	2,795	549	44	344,228	348,103
Student loan interest income	20	312	31		1,475	1,838
Sales and services of educational activities, net	483	4,758	354	45	135,861	141,501
Auxiliary enterprises, net	4,553	39,765	7,501	1,694	345,743	399,256
Other operating revenues					99	99
Total operating revenues	17,640	146,599	18,519	8,819	1,964,077	2,155,654
Expenses						
Operating expenses						
Educational and general						
Instruction	10,339	66,740	13,159	2,715	677,372	770,325
Research	133	18,761	1,010	679	679,625	700,208
Public service	282	7,310	1,088	8	239,763	248,451
Academic support	3,096	21,082	4,137	1,162	337,515	366,992
Student services	2,640	13,195	4,764	1,775	93,642	116,016
Institutional support	2,089	11,648	2,793	4,135	226,728	247,393
Operation and maintenance of plant	4,091	21,341	4,592	45	246,714	276,783
Scholarships and fellowships	297	2,288	1,432	95	53,767	57,879
Depreciation	2,780	13,638	4,877	3,307	193,963	218,565
Auxiliary enterprises	6,031	30,423	8,364	283	211,170	256,271
Other operating expenses, net	(8)	(26)	(35)		162	93
Total operating expenses	31,770	206,400	46,181	14,204	2,960,421	3,258,976
Operating Loss	(14,130)	(59,801)	(27,662)	(5,385)	(996,344)	(1,103,322)
Nonoperating Revenues (Expenses)						
Federal appropriations					18,192	18,192
State appropriations	9,607	39,318	19,503	7,834	565,807	642,069
Grants	4,297	22,280	5,658		155,514	187,749
Gifts	556	5,320	957	76	175,439	182,348
Investment income, net	239	5,132	269		79,575	85,215
Interest on capital asset-related debt					(45,310)	(45,310)
Other nonoperating revenues (expenses), net	(124)	(277)	1,733	(479)	24,407	25,260
Net nonoperating revenues	14,575	71,773	28,120	7,431	973,624	1,095,523
Income (Loss) Before Other Revenues	445	11,972	458	2,046	(22,720)	(7,799)
Capital appropriations					59,714	59,714
Capital grants and gifts		4,840		868	13,538	19,246
Additions to permanent endowments		3,816			11,522	15,338
Transfers	2,483	890	1,029	(2,219)	(2,183)	
Other internal charges	(3,033)	(18,878)	(4,160)	(3,926)	29,997	
Total other revenues (expenses)	(550)	(9,332)	(3,131)	(5,277)	112,588	94,298
Increase (Decrease) in Net Position	(105)	2,640	(2,673)	(3,231)	89,868	86,499
Cumulative effect of change in accounting principle	(7,965)	(57,344)	(11,402)	(2,093)	(618,240)	(697,044)
Net position at beginning of year	47,196	320,808	72,357	41,643	3,305,062	3,787,066
Net position at end of year	$ 39,126	$ 266,104	$ 58,282	$ 36,319	$ 2,776,690	$ 3,176,521

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INDEPENDENT AUDITORS' 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, 2016, 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 November 28, 2016. 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. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

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

November 28, 2016