UNIVERSITY OF MINNESOTA

2017 Annual Financial Report

UNIVERSITY OF MINNESOTA
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Consolidated Financial Statements
as of and for the Years Ended June 30, 2017 and 2016,
Independent Auditors' Report, and Management's Discussion and Analysis

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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, 2017 and 2016, 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2017 and 2016, 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, 2017 and 2016, 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 for other postemployment benefits, the schedule of employer's share of net pension liability, and the schedule of employer's contributions, 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 consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 October 27, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Deloitte & Touche LLP

October 27, 2017

Deloitte.

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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, 2017, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements, and have issued our report thereon dated October 27, 2017. 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 results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

October 27, 2017

Management's Discussion and Analysis
(Unaudited)

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, 2017, 2016, and 2015. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

Introduction

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

The University is among the top eight public research institutions nationally. The University is the state's major research institution with expenditures of approximately $767.7 million, $692.7 million, and $700.2 million in fiscal years 2017, 2016, and 2015, respectively, for research under various programs funded by governmental and private sources.

The University's enrollment for all five campuses is approximately 67,500 students, with the Twin Cities campus having the largest student enrollment of approximately 51,600 students.

The Duluth campus is a comprehensive, highly-ranked regional university that offers instruction through the doctoral degree and has a global reputation for research in natural and freshwater resources. The Duluth campus consistently ranks among the top Midwestern regional universities with student enrollment of approximately 11,000 students.

The Morris campus is ranked as one of the top public liberal arts colleges in the nation and is a leader in environmental sustainability and diversity. The Morris campus focuses on undergraduate programs with a student enrollment of approximately 1,800 students.

The Crookston campus is known for its focus on experiential learning and is one of the nation's pioneers in online and distance education with a student enrollment of approximately 2,700 students.

The Rochester campus is focused on meeting the educational needs of students in the southeastern Minnesota area at the upper division undergraduate and post-baccalaureate levels and conducts research in the areas of health sciences and biotechnology. The Rochester campus has a student enrollment of approximately 400 students.

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 67,500 students;

- graduates approximately 15,700 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 Note 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 pension plans impacted by GASB 68 and 71, which the University participates in, are the State Employees' Retirement Fund (SERF and MSRS) and Public Employee Police and Fire Fund (PEPFF and PERA).

In fiscal year 2017, MSRS and PERA actuaries changed several of the actuarial assumptions used to calculate the net pension liability of the retirement programs where the University is a participant. The most notable changes in assumptions included a reduction of the single discount rate from 7.90 percent to 4.17 percent for SERF and 7.90 percent to 5.60 percent for PEPFF, as well as an increase in the mortality age of the plan participants for SERF. As a result, the University's liability increased dramatically compared to prior fiscal years. The University reported $1,328.8, $25.3 and $25.1 million as deferred outflows of resources, $1,908.9, $244.4 and $266.5 million as a net pension liability, and $172.3, $297.0 and $368.2 million as deferred inflows of resources in fiscal years 2017, 2016 and 2015, respectively. Refer to Note 1 and Note 6 for additional information related to the implementation of GASB 68 and 71.

GASB includes a specific requirement for the discount rate that is used for the purpose of the measurement of the SERF's and PEPFF's total pension liability. This rate considers the ability of SERF and PEPFF to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. SERF's and PEPFF's Fiduciary Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in the future, the long-term expected rate of return is used as the discount rate. In years where assets are not projected to be sufficient to meet benefit payments, the use of a "risk-free" municipal bond rate is required.

Based on that assumption, each of the pension plan's fiduciary net position at June 30, 2016, was projected to be available to make all projected future benefit payments of current and active employees. The long-term expected rate of return on pension plan investments of 7.5 percent was applied to all periods of projected benefit payments through June 30, 2042 for SERF and June 30, 2056 for PEPFF to determine the total pension liability. After those dates in time, the "risk-free" municipal bond rate of 2.85 percent was used for remaining time periods arriving at a single discount rate of 4.17 percent for SERF and 5.6 percent for PEPFF.

GASB 68 and 71 represent accounting and reporting standards only. The State of Minnesota has no law that requires the University to assume the liability, as a participant of the pension plans, in the event the retirement plans were discontinued. The required recording of the deferred outflows of resources, deferred inflows of resources and net pension liability are recorded on the University's financial statements, but have no impact to the funding provisions, nature and amount of benefits, or actual cash flows of the University.

To illustrate the impact of GASB 68 and 71, the following chart summarizes the University's total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position with and without the impact of GASB 68 and 71. The following chart is for illustration purposes only.

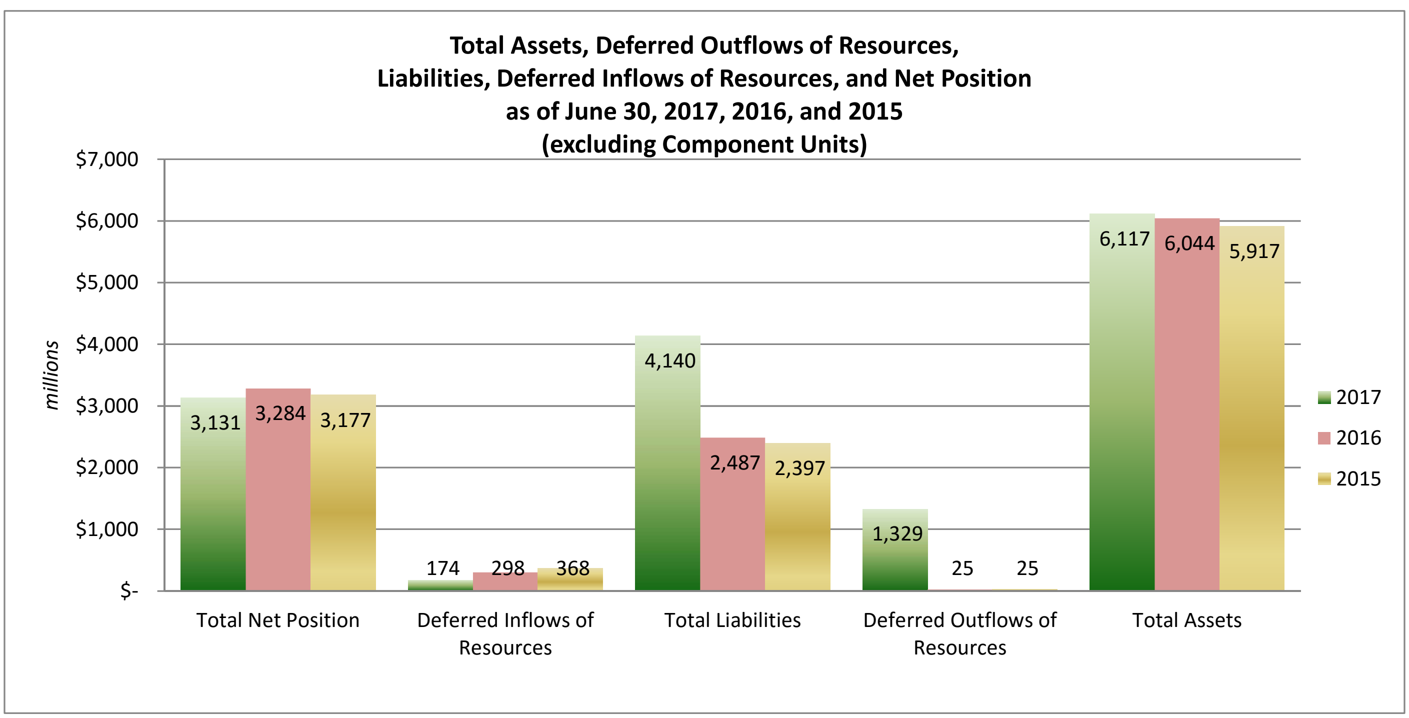
Condensed Statements of Net Position with GASB 68 and 71 (in thousands)			
	2017	2016	2015
Total assets	6,116,546	6,044,467	5,916,974
Deferred outflows of resources	1,328,796	25,303	25,100
Total liabilities	4,140,232	2,487,260	2,397,333
Deferred inflows of resources	174,042	298,892	368,220
Net position			
Unrestricted	271,496	457,506	275,097
Restricted—expendable	826,804	889,332	927,436
Restricted—nonexpendable	313,885	304,669	297,469
Net investment in capital assets	1,718,883	1,632,111	1,676,519
Total net position	$ 3,131,068	$ 3,283,618	$ 3,176,521

Condensed Statements of Net Position without GASB 68 and 71 (in thousands)			
	2017	2016	2015
Total assets	6,116,546	6,044,467	5,916,974
Deferred outflows of resources			
Total liabilities	2,231,362	2,242,859	2,130,812
Deferred inflows of resources	1,769	1,915	
Net position			
Unrestricted	854,041	857,673	747,978
Restricted—expendable	996,606	1,005,240	1,064,196
Restricted—nonexpendable	313,885	304,669	297,469
Net investment in capital assets	1,718,883	1,632,111	1,676,519
Total net position	$ 3,883,415	$ 3,799,693	$ 3,786,162

Financial Highlights

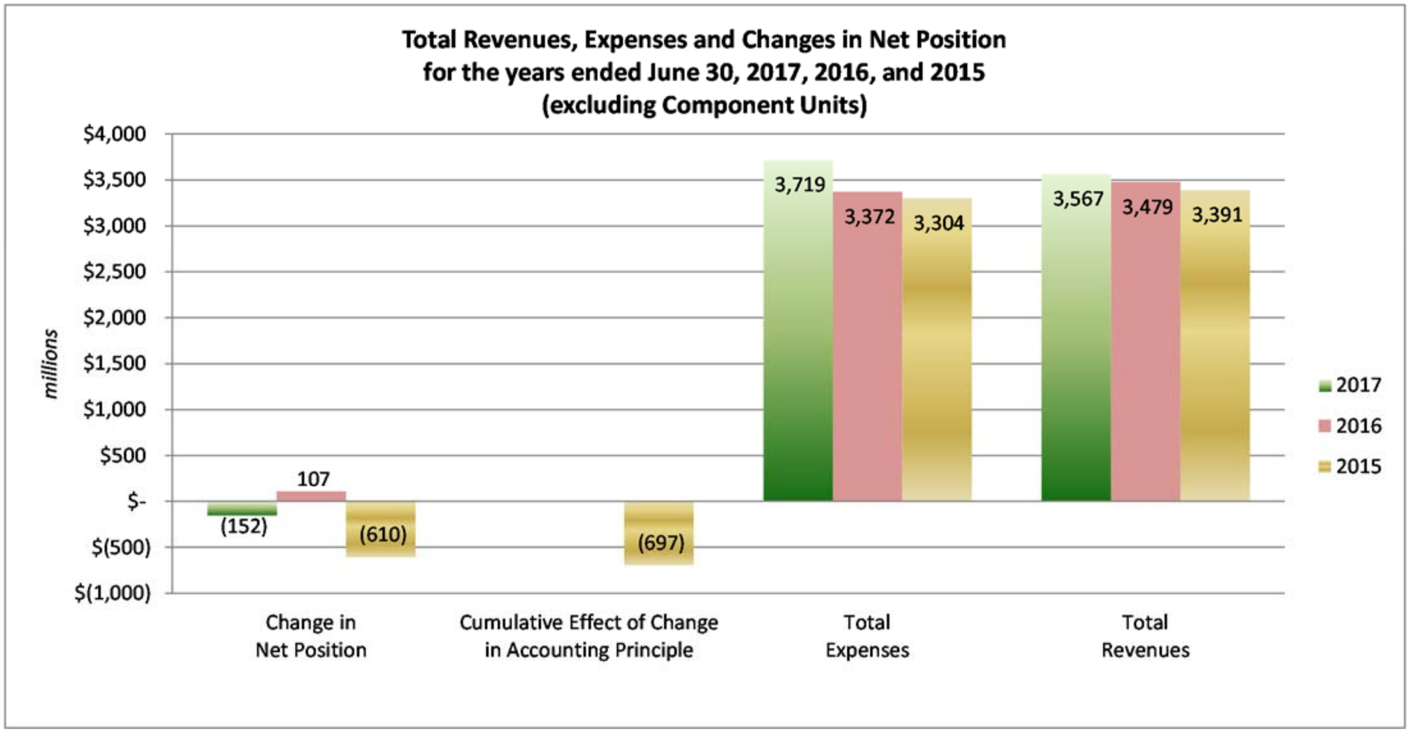
The University's financial position remains strong with assets of $6.1 billion, an increase of $0.1 billion from fiscal year 2016. Liabilities increased to $4.1 billion compared to $2.5 billion for fiscal year 2016. The University's net position, the difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources, decreased compared to fiscal year 2016 to $3.1 billion as of June 30, 2017 compared to $3.3 billion as of June 30, 2016.

The following chart summarizes total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2017, 2016 and 2015, 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 decreased $152.5 million in fiscal year 2017 compared to an increase of $107.1 million in fiscal year 2016.

The following chart summarizes total revenues, expenses and the changes in net position for the years ended June 30, 2017, 2016 and 2015, respectively:



The University experienced an increase in total revenue of $87.8 million or 2.5 percent due to increases in operating revenue categories and net investment income partially offset by decreases in both State and Federal appropriations. Total expenses increased $347.4 million or 10.3 percent primarily due to increases in operating expenses as a result of the increase in net pension expense related to a reduction in the discount rate used in determining the liability.

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 University continues to focus on instruction, research and public service while continuing to emphasize controlling operating expenses. The additional operating expense of $236.3 million recorded in fiscal year 2017 as a result of GASB 68 and 71, does not impact the overall operations of the University.

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, 2017, 2016 and 2015 is summarized in the table below:

Condensed Statements of Net Position
(in thousands)

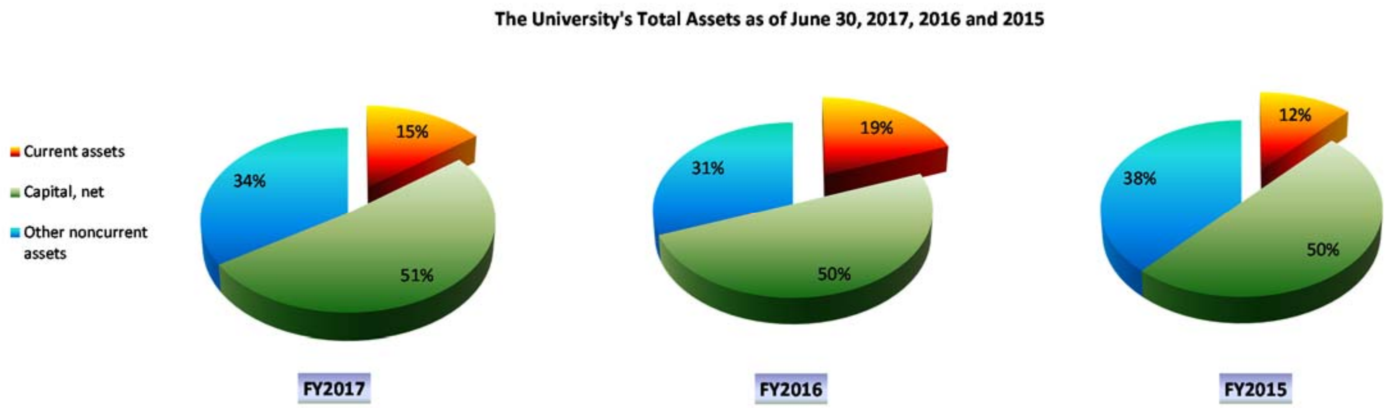
	2017	2016	2015
Assets			
Current assets	$ 890,241	$ 1,160,883	$ 695,807
Noncurrent assets, excluding capital assets	2,085,246	1,855,782	2,264,034
Capital assets, net	3,141,059	3,027,802	2,957,133
Total assets	6,116,546	6,044,467	5,916,974
Deferred outflows of resources	1,328,796	25,303	25,100
Liabilities			
Current liabilities, excluding long-term debt	509,815	503,612	473,587
Noncurrent liabilities, excluding long-term debt	2,165,441	483,016	502,318
Long-term debt	1,464,976	1,500,632	1,421,428
Total liabilities	4,140,232	2,487,260	2,397,333
Deferred inflows of resources	174,042	298,892	368,220
Net position			
Unrestricted	271,496	457,506	275,097
Restricted—expendable	826,804	889,332	927,436
Restricted—nonexpendable	313,885	304,669	297,469
Net investment in capital assets	1,718,883	1,632,111	1,676,519
Total net position	$ 3,131,068	$ 3,283,618	$ 3,176,521

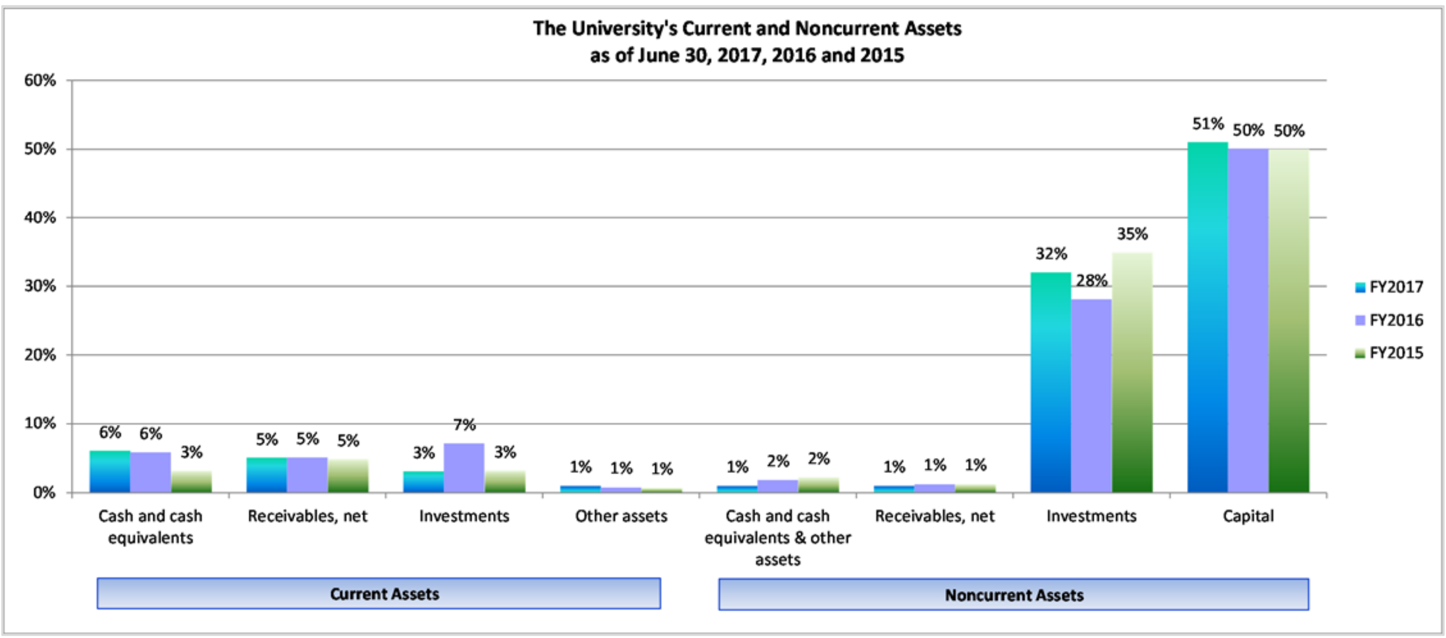
Assets

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, 2017, 2016 and 2015 *(in thousands)*							
				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	$ 387,772	$ 350,385	$ 183,451	$ 37,387	10.7%	$ 166,934	91.0%
Receivables, net	283,110	305,573	285,336	(22,463)	(7.4%)	20,237	7.1%
Investments	163,201	459,515	185,724	(296,314)	(64.5%)	273,791	147.4%
Other assets	56,158	45,410	41,296	10,748	23.7%	4,114	10.0%
Total current assets	890,241	1,160,883	695,807	(270,642)	(23.3%)	465,076	66.8%
Noncurrent assets							
Capital	3,141,059	3,027,802	2,957,133	113,257	3.7%	70,669	2.4%
Other noncurrent assets							
Cash and cash equivalents & other assets	82,135	111,665	150,656	(29,530)	(26.4%)	(38,991)	(25.9%)
Receivables, net	74,522	74,186	72,444	336	0.5%	1,742	2.4%
Investments	1,928,589	1,669,931	2,040,934	258,658	15.5%	(371,003)	(18.2%)
Total other noncurrent assets	2,085,246	1,855,782	2,264,034	229,464	12.4%	(408,252)	(18.0%)
Total assets	$ 6,116,546	$ 6,044,467	$ 5,916,974	$ 72,079	1.2%	$ 127,493	2.2%

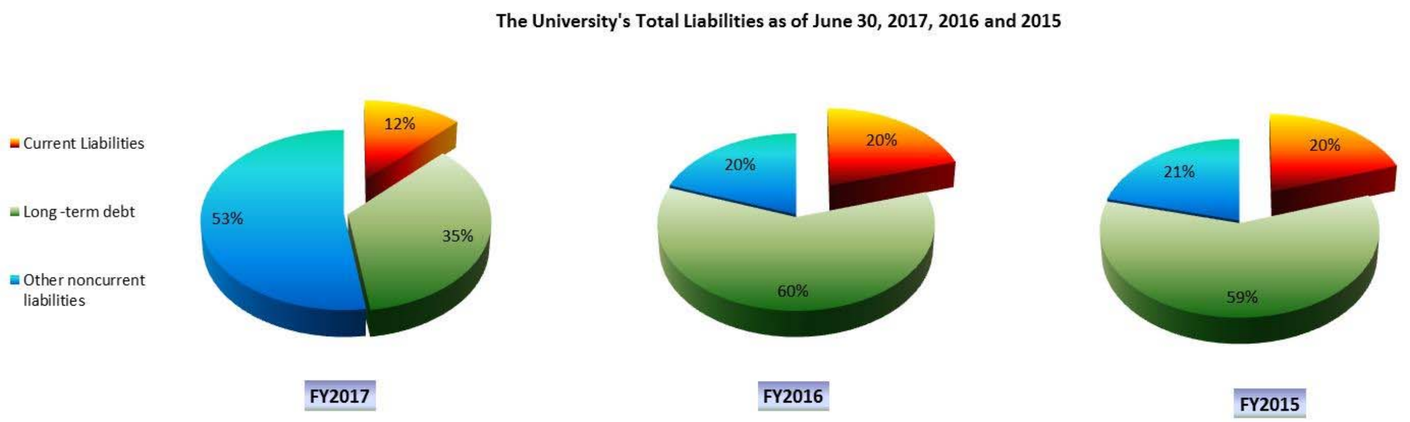
As of June 30, 2017, total assets increased $72.1 million primarily due to increases in cash and cash equivalents, and capital, partially offset by decreases in investments and receivables. Investments decreased $37.7 million primarily due to a decrease in Temporary Investment Pool (TIP) investment activity partially offset by increases due to favorable market conditions. TIP is readily accessible cash and cash equivalents and investments that can be liquidated for cash needs of the University. Cash and cash equivalents and other assets increased $7.9 million due to normal University operations. Noncurrent cash and cash equivalents consist of unspent bond proceeds of $48.9 million and $107.4 million in fiscal year 2017 and 2016, respectively. Capital assets, net of accumulated depreciation, increased $113.3 million due to increased spending on construction projects, specifically the Intercollegiate Athletics Village, the Tate Science and Teaching building renovation and the Bell Museum Planetarium. Refer to Note 4 for additional information related to capital assets.

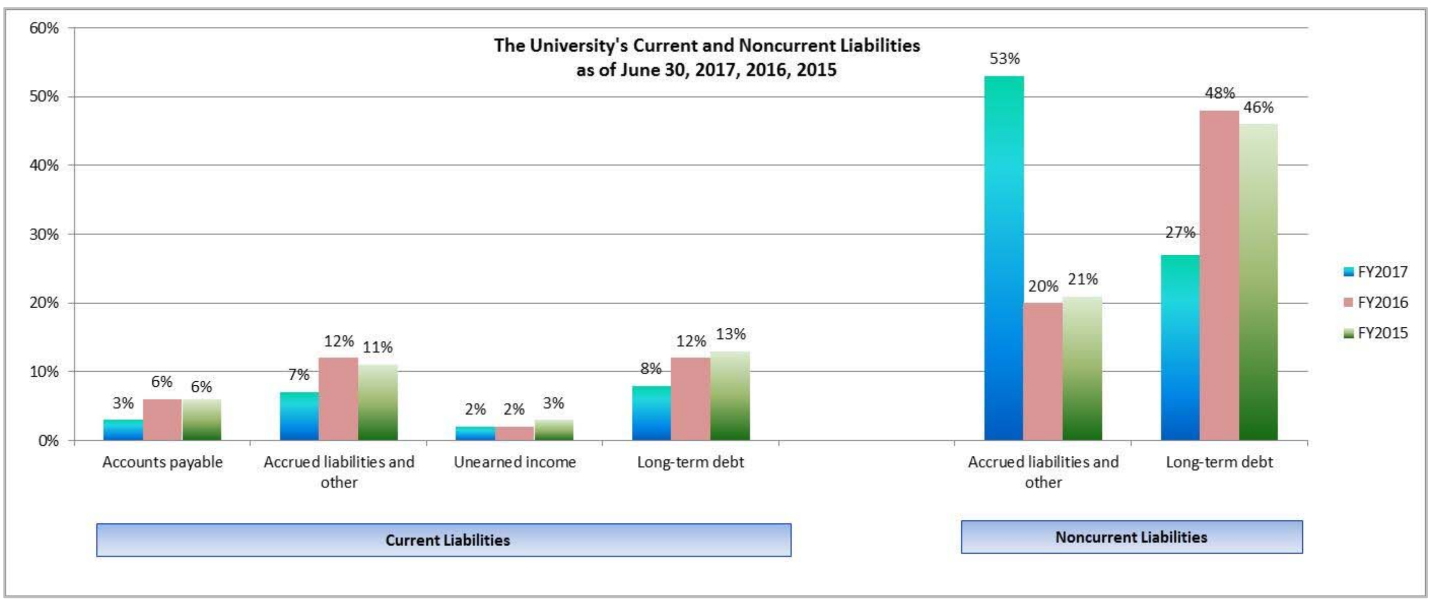
Liabilities

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.

Noncurrent liabilities consist primarily of accrued liabilities, capital obligations, notes payable, leases and bonds payable (long-term debt).

The following charts illustrate the composition of total liabilities:





The University's current and noncurrent liabilities as of June 30, 2017, 2016 and 2015 *(in thousands)*							
				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 139,589	$ 145,992	$ 140,114	$ (6,403)	(4.4%)	$ 5,878	4.2%
Accrued liabilities and other	307,674	294,940	259,912	12,734	4.3%	35,028	13.5%
Unearned income	62,552	62,680	73,561	(128)	(0.2%)	(10,881)	(14.8%)
Long-term debt	333,509	300,531	309,805	32,978	11.0%	(9,274)	(3.0%)
Total current liabilities	843,324	804,143	783,392	39,181	4.9%	20,751	2.6%
Noncurrent liabilities							
Accrued liabilities and other	2,165,355	482,955	502,264	1,682,400	348.4%	(19,309)	(3.8%)
Unearned income *	86	61	54	25	41.0%	7	13.0%
Long-term debt	1,131,467	1,200,101	1,111,623	(68,634)	(5.7%)	88,478	8.0%
Total noncurrent liabilities	3,296,908	1,683,117	1,613,941	1,613,791	95.9%	69,176	4.3%
Total Liabilities	$ 4,140,232	$ 2,487,260	$ 2,397,333	$ 1,652,972	66.5%	$ 89,927	3.8%

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

As of June 30, 2017, total liabilities increased $1,653.0 million primarily due to increases in accrued liabilities as a result of recording the net pension liability related to GASB 68 and 71 partially offset by decreases in long-term debt. The University's long-term debt represents 35 percent of total liabilities or $1,465.0 million as of June 30, 2017 compared to 60 percent or $1,500.6 million as of June 30, 2016. Accrued liabilities increased $1,695.1 million with $1,664.5 million related to the recording of the net pension liability. The University records an annual amount for 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 $18.5 million and $18.0 million in fiscal years 2017 and 2016, respectively. As of June 30, 2017, the cumulative OPEB liability of $156.7 million was recorded as a current liability of $4.7 million and a noncurrent liability of $152.0 million.

Long-term debt decreased $35.7 million or 2.4 percent. The University issued Commercial Paper Notes Series F, in the amount of $50.1 million in fiscal year 2017. Additions from the issuance were offset by normal amortization of the bonds, premiums and discounts. Refer to Note 5 for additional information related to long-term debt

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, 2017, the deferred outflows of resources increased $1,303.5 million and deferred inflows of resources decreased $124.7 million primarily due to the changes in actuarial assumptions related to the State retirement plans.

Net Position

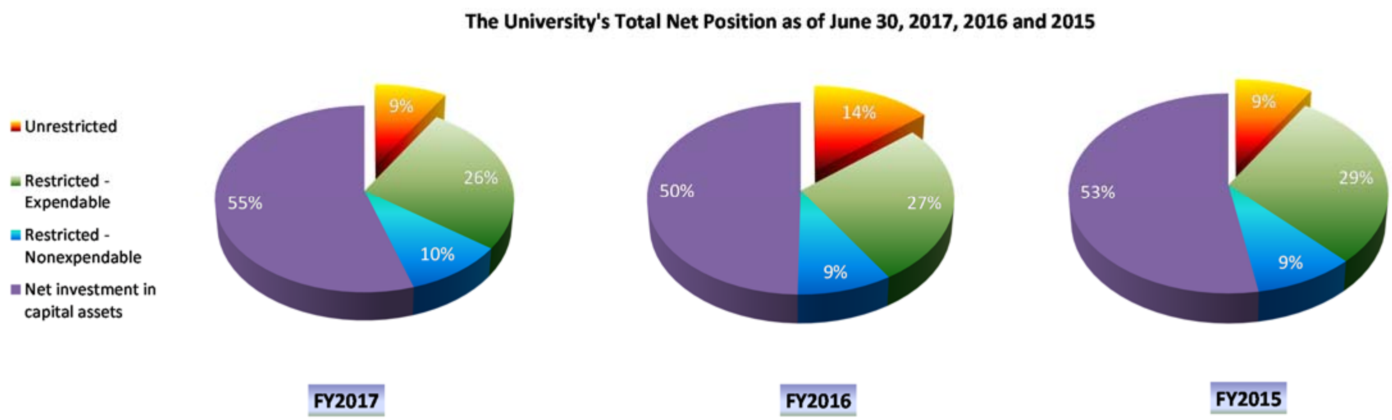
Net position represents the residual value of the University's assets and deferred outflows of resources, after deducting liabilities and deferred inflows of resources and consists of the following three classifications:

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



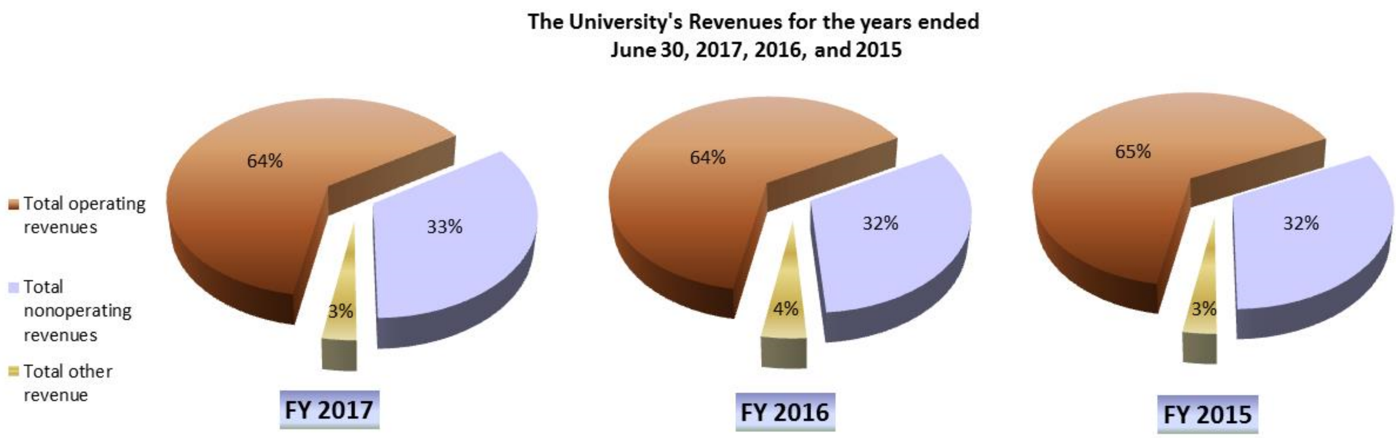
The University's total net position as of June 30, 2017, 2016 and 2015
(in thousands)

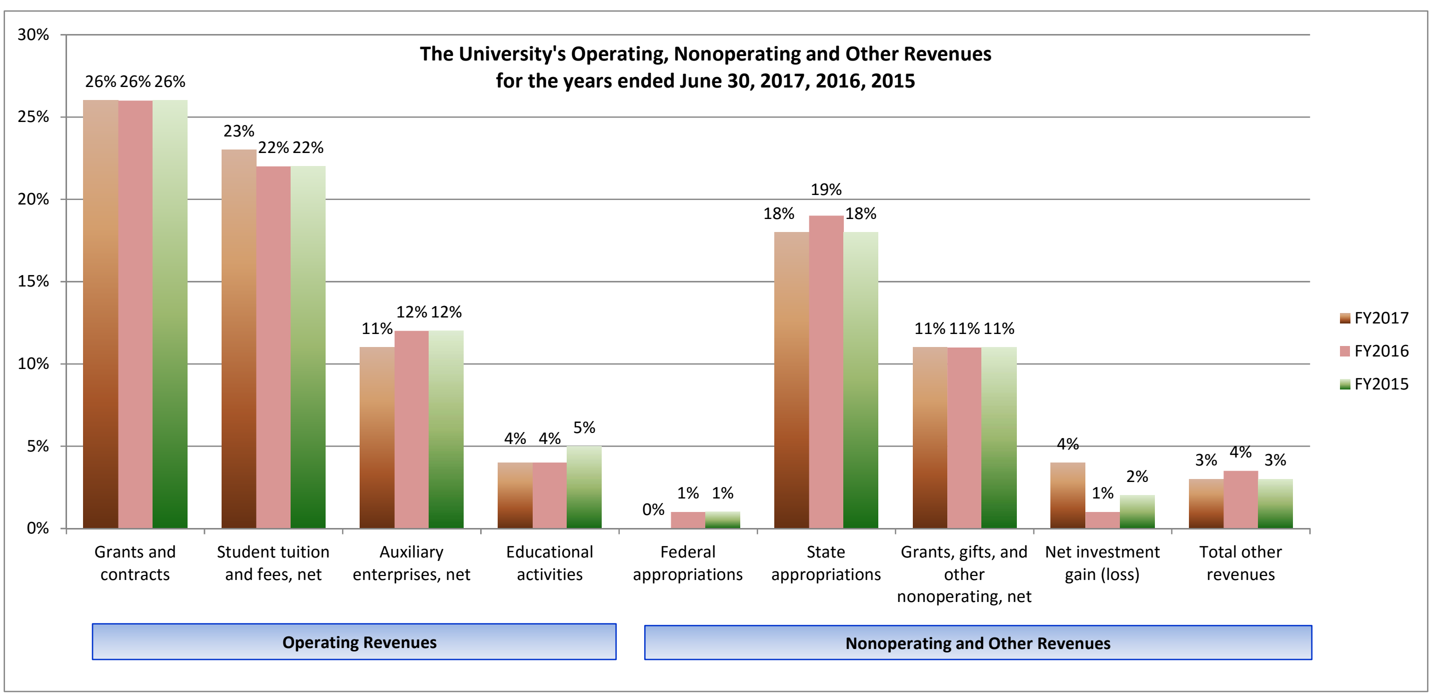
				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Unrestricted	$ 271,496	$ 457,506	$ 275,097	$ (186,010)	(40.7%)	$ 182,409	66.3%
Restricted:							
Expendable	826,804	889,332	927,436	(62,528)	(7.0%)	(38,104)	(4.1%)
Nonexpendable	313,885	304,669	297,469	9,216	3.0%	7,200	2.4%
Net investment in capital assets	1,718,883	1,632,111	1,676,519	86,772	5.3%	(44,408)	(2.6%)
Total net position	$ 3,131,068	$ 3,283,618	$ 3,176,521	$ (152,550)	(4.6%)	$ 107,097	3.4%

The University's unrestricted net position decreased $186.0 million in fiscal year 2017 primarily due to a decrease in the Temporary Investment Pool (TIP) cash remaining in local banks and an increase in accrued liabilities, specifically net pension liability of $1,664.5 million, which was partially offset by fiscal year 2017 activity. The University's restricted expendable net position decreased $62.5 million and $38.1 million in fiscal years 2017 and 2016, 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 of total revenues for fiscal years 2017 and 2016, respectively.





The University's Operating, Nonoperating and Other Revenue for the years ended June 30, 2017, 2016 and 2015 *(in thousands)*							
				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 901,319	$ 897,685	$ 872,420	$ 3,634	0.4%	$ 25,265	2.9%
Student tuition and fees, net	774,827	751,418	740,540	23,409	3.1%	10,878	1.5%
Auxiliary enterprises, net	403,088	414,217	399,256	(11,129)	(2.7%)	14,961	3.7%
Educational activities	148,981	160,984	143,339	(12,003)	(7.5%)	17,645	12.3%
Other operating revenue *	114	83	99	31	37.3%	(16)	(16.2%)
Total operating revenues	2,228,329	2,224,387	2,155,654	3,942	0.2%	68,733	3.2%
Nonoperating revenues							
Federal appropriations	17,481	20,367	18,192	(2,886)	(14.2%)	2,175	12.0%
State appropriations	650,749	663,705	642,069	(12,956)	(2.0%)	21,636	3.4%
Grants, gifts, and other nonoperating, net	401,424	423,563	395,357	(22,139)	(5.2%)	28,206	7.1%
Net investment gain	147,380	19,175	85,215	128,205	668.6%	(66,040)	(77.5%)
Total nonoperating revenues	1,217,034	1,126,810	1,140,833	90,224	8.0%	(14,023)	(1.2%)
Total other revenues	121,284	127,697	94,298	(6,413)	(5.0%)	33,399	35.4%
Total revenues (noncapital)	$ 3,566,647	$ 3,478,894	$ 3,390,785	$ 87,753	2.5%	$ 88,109	2.6%

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

Total revenues increased in fiscal year 2017 by $87.8 million primarily due to increases in investment income, partially offset by decreases in both State and Federal appropriations. Operating revenues increased $3.9 million or 0.2 percent mainly due to increases in grants and contracts which supports the University's mission related to Research and Discovery. Student tuition and fees increased as a result of the fiscal year 2017 President's initiatives related to tuition increases. Increases were partially offset by the President's initiatives which includes shielding half of the undergraduate students, approximately 20,000, from any increase in tuition, holding flat the resident undergraduate tuition rates on the Crookston, Duluth, Morris and Rochester campuses, and increasing the resident undergraduate tuition rate for the Twin Cities campus by 2.5 percent, and completely offsetting that increase for students with the greatest financial need (those eligible for the Promise Program) with new spending to increase award aid levels.

Revenue increases were partially offset by decreases in both auxiliary and educational activities. Revenues from sales and services of educational activities decreased $12.0 million due to timing of normal business activity.

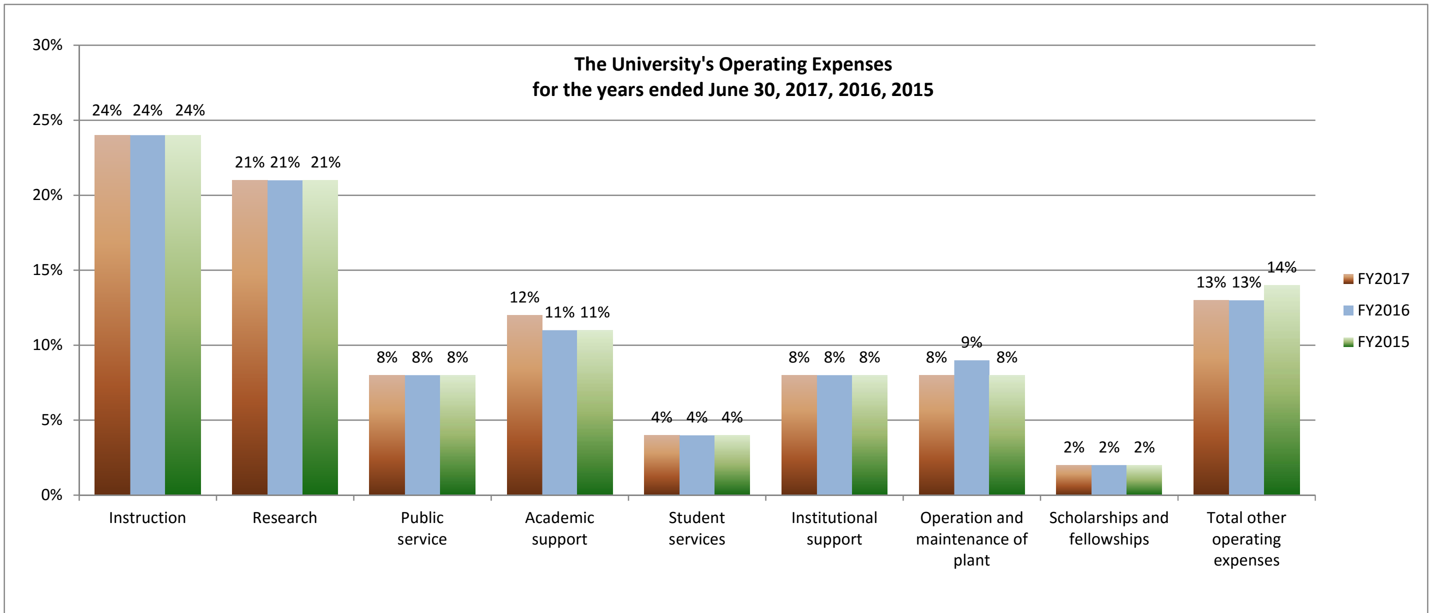
State appropriations decreased $13.0 million compared to fiscal year 2016, decreasing to $650.7 million from $663.7 million in fiscal year 2016. Effective fiscal year 2017, the State revised the process for the University to receive the appropriation from Minnesota environment and natural resources trust fund. The new process remits revenue to the University after expenses have been incurred and invoiced. New State appropriations for fiscal year 2017 included appropriations for the Rochester Collegiate Recovery program and Health Training restoration.

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 such as MNDrive; enhancement of services to students including technology improvements; upgrades to the financial aid process and freshman seminars; and increases in facilities costs. MNDrive, Minnesota's Discovery, Research, and InnoVation Economy is a landmark partnership between the University and the State of Minnesota that aligns areas of University research strength with the State's key and emerging industries to address grand challenges. In 2013, the Minnesota Legislature authorized an $18 million recurring annual investment in four research areas identified by University faculty, deans and corporate partners.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $191.0 million, $200.1 million, and $182.3 million, and grants and gifts for capital purposes of $42.2 million, $46.1 million, and $19.2 million in fiscal years 2017, 2016, and 2015, respectively.

For the year ended June 30, 2017, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased $6.4 million or 5.0 percent compared to an increase of $33.4 million or 35.4 percent in fiscal years 2017 and 2016, respectively. Capital appropriation revenue is received as project expenses are incurred. As projects near completion, the revenue received decreases. During fiscal year 2017, several projects such as the Combined Heat & Power Plant and the UMC Wellness Recreation Building were nearing completion.

Total Operating Expenses



The University's Operating Expenses by Functional Category for the years ended June 30, 2017, 2016 and 2015
(in thousands)

				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Education and general							
Instruction	$831,881	$789,297	$770,325	$42,584	5.4%	$18,972	2.5%
Research	767,741	692,666	700,208	75,075	10.8%	(7,542)	(1.1%)
Public service	305,650	257,789	248,451	47,861	18.6%	9,338	3.8%
Academic support	464,044	387,044	366,992	77,000	19.9%	20,052	5.5%
Student services	145,591	117,453	116,016	28,138	24.0%	1,437	1.2%
Institutional support	299,044	260,801	247,393	38,243	14.7%	13,408	5.4%
Operation and maintenance of plant	289,468	291,562	276,783	(2,094)	(0.7%)	14,779	5.3%
Scholarships and fellowships	62,088	60,447	57,879	1,641	2.7%	2,568	4.4%
Depreciation	208,645	212,969	218,565	(4,324)	(2.0%)	(5,596)	(2.6%)
Total education and general	3,374,152	3,070,028	3,002,612	304,124	9.9%	67,416	2.2%
Other operating expenses							
Auxiliary enterprises	293,644	257,198	256,271	36,446	14.2%	927	0.4%
Other operating expenses, net	294	157	93	137	87.3%	64	68.8%
Total other operating expenses	293,938	257,355	256,364	36,583	14.2%	991	0.4%
Total operating expenses	$3,668,090	$3,327,383	$3,258,976	340,707	10.2%	68,407	2.1%

Total operating expenses increased $340.7 million or 10.2 percent in fiscal year 2017 compared to an increase of $68.4 million in fiscal year 2016. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at $2.5 billion or 67.7 percent, $2.1 billion or 62.5 percent and $2.0 billion or 62.2 percent of operating expenses in fiscal years 2017, 2016 and 2015, respectively. Compensation related expenditures increased $403.9 million or 19.4 percent and $54.1 million or 2.7 percent in fiscal years 2017 and 2016, respectively. Increases in compensation related expenditures in fiscal year 2017 are primarily due to the University's recording of GASB 68 and 71 pension expenses which resulted in increases in fringe related expenses of $236.3 million associated with the increase in net pension liability. Removing the impact of GASB 68 and 71, compensation related expenses increased $74.0 million or 3.4 percent in fiscal year 2017. The fiscal year

2017 increases are primarily due to the University's salary increase of 2.5 percent, in addition to increases in compensation related liabilities, such as OPEB.

Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2017, 2016 and 2015
(in thousands)

				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	$ (989,460)	$ (973,743)	$ (895,580)	$ (15,717)	(1.6%)	$ (78,163)	(8.7%)
Noncapital financing activities	1,085,284	1,109,585	1,079,210	(24,301)	(2.2%)	30,375	2.8%
Capital and related financing activities	(264,733)	(149,195)	(93,844)	(115,538)	(77.4%)	(55,351)	(59.0%)
Investing activities	147,807	139,433	(67,996)	8,374	(6.0%)	207,429	305.1%
Net increase (decrease) in cash	(21,102)	126,080	21,790	(147,182)	(116.7%)	104,290	478.6%
Cash, beginning of year	457,807	331,727	309,937	126,080	38.0%	21,790	7.0%
Cash, end of year	$ 436,705	$ 457,807	$ 331,727	$ (21,102)	(4.6%)	$ 126,080	38.0%

The Consolidated Statements of Cash Flows presents 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 decreased $21.1 million due to capital and related financing activities, partially offset by favorable cash flows from investing activities.

Operating Activities

The cash used by operating activities decreased $15.7 million primarily due to the timing of normal business activities.

Capital and Related Financing Activities

The cash used by capital and related financing activities increased $115.5 million primarily due to an increase in construction project costs due to the completion of larger projects such as the Combined Heat and Power Plant. During fiscal year 2017, the University issued $50.1 million in new commercial paper compared to $262.1 million in bond issuances in fiscal year 2016. The most significant sources of cash provided by noncapital financing activities included State appropriations totaling $652.2 million and $662.1 million, grants totaling $201.1 million and $178.3 million and gifts totaling $204.9 million and $189.4 million in 2017 and 2016, respectively. Cash inflows for capital acquisitions from State appropriations, gifts and grants, and bonds issued during the year funded a portion of the University's equipment needs and ongoing renovation and construction initiatives.

Investing Activities

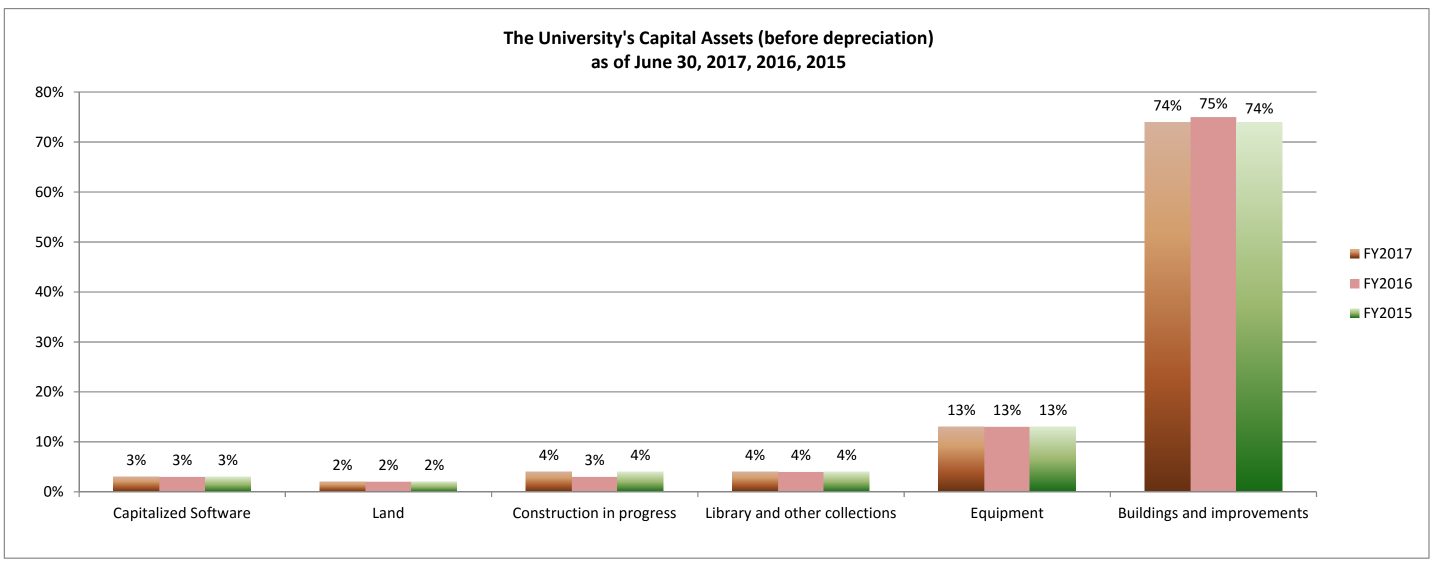
The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three-to five-year periods.

Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of $81.8 million compared to a decrease in fiscal years 2016 and 2015 of $77.1 million and $42.0 million, respectively. Annual distributions of the endowment to departments, partially offset by reinvested endowment earnings decreased investments by $56.4 million, $53.5 million and $50.0 million in fiscal years 2017, 2016 and 2015, 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 2017, 2016 and 2015.

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, 2017, 2016 and 2015
(in thousands)

				Increase (Decrease)			
				From 2016 to 2017		From 2015 to 2016	
	2017	2016	2015	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$ 4,693,313	$ 4,563,316	$ 4,315,157	$ 129,997	2.8%	$ 248,159	5.8%
Equipment	794,146	766,380	783,921	27,766	3.6%	(17,541)	(2.2%)
Library and other collections	248,229	240,627	220,470	7,602	3.2%	20,157	9.1%
Construction in progress	258,089	165,099	224,866	92,990	56.3%	(59,767)	(26.6%)
Land	154,416	150,160	111,563	4,256	2.8%	38,597	34.6%
Software and other intangibles	178,910	170,357	168,440	8,553	5.0%	1,917	1.1%
Total capital assets (gross)	$ 6,327,103	$ 6,055,939	$ 5,824,417	$ 271,164	4.5%	$ 231,522	4.0%

Capital additions totaled $331.1 million, $288.7 million, and $277.9 million in fiscal year 2017, 2016 and 2015, respectively. Fiscal year 2017 spending included the completion of the Combined Heat and Power Plant and the Bee Lab in addition to spending on existing projects such as the Intercollegiate Athletics Village, the Tate Science and Teaching Renovation, the Bell Museum Planetarium and the Vet Isolation Facility. Project spending continuing in fiscal year 2018 is projected to be $78.7 million, $31.4 million, and $15.4 million for the Intercollegiate Athletics Village, the Bell Museum and Planetarium and the Vet Isolation Facility, respectively. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Fiscal year 2017 debt activity included the issuance of tax exempt Commercial Paper Notes Series F. The proceeds will be used for renovation of the Old Main Heating Plant located on the Twin Cities campus. Capital leases of $3.1 million, $2.3 million and $2.7 million were issued in fiscal year 2017, 2016 and 2015, respectively. Refer to Note 5 for additional information.

Factors Affecting Future Financial Condition

The University is the flagship research institution in the state of Minnesota. It has received historically strong support from the state, its academic quality attracts record numbers of applications, it has a diversified mix of revenue streams which augment tuition and state support, and it enjoys a strong credit rating which enables low cost of borrowing. Maintaining these competitive advantages, and managing operating costs, is more important than ever to the overall results of operations. The following provides some insights into the factors which could impact the University.

State support for operations and maintenance – For the FY 18-19 biennium, base funding for the University has been set in law at $1,307.3 million, a $54.6 million (4.4 percent) increase over the prior biennial base. The Legislature funded key portions of the University's request, including funding for the University's MnDRIVE and Natural Resources Research Institute. Unfortunately, the state failed to fully fund the University's request for core mission support, providing only $8.975 million in new money for inflationary cost pressures. The University will need to cover operating cost increases through other revenue increases (primarily tuition increases) and through operating cost containment.

State support for facilities and capital projects – The University's strategic plans for capital projects are focused on five 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 2017 regular Legislative session the state provided an additional non-recurring appropriation of $10.0 million for FY 18, which the University will use on one-time facilities projects to address critical repair and renovation needs across all campuses. Upon conclusion of the 2017 regular legislative session, the Legislature was called into a special session by the governor to pass a bonding bill, since no bonding bill was passed during the 2016 or 2017 regular sessions. The Legislature authorized $119.9 million in bonding for four key University priorities: $20.6 million for Higher Education Asset Preservation and Renewal (HEAPR) projects across all campuses; $28.3 million for a Duluth Chemistry and Advanced Materials Science building; $69.3 million for a Health Sciences Education Center on the Twin Cities East Bank campus; and $4.6 million for a Plant Growth Research facility.

Going forward there will be a growing need for funding that maintains and renews existing University facilities, to avoid a worsening backlog of unfunded maintenance. The University will increasingly focus its state capital requests on HEAPR as a source of funding to maintain and renew existing facilities.

Federal funding – The University ranks # 8 in federal funding for research and development thanks to the productivity and ingenuity of its faculty. The tightening of the federal budget, the failure of the United States Congress to adopt annual budgets which provide stability and predictability, and the policy directions of the Trump Administration have created a high level of uncertainty about federal funding for many 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 successful in pursuing funding from other sources, including the state of Minnesota (MNDrive), and business and industry. Additionally, the University has been in the forefront in commercializing University inventions. Continued success in winning non-federal research funding, and commercializing technology developed at the University, will be important to maintaining the University's research enterprise.

Undergraduate applications and enrollment – The University has built a national reputation and a pipeline of non-resident / non-reciprocity undergraduate students. Beginning in 2017, the University has embarked on a plan to ramp up the tuition for non-resident / non-reciprocity undergraduates. Tuition for these students was increased by 12 percent for FY2017-18. The University was able to maintain high levels of applications, enrollment, and academic quality for the incoming class through aggressive work by its admissions staff. The University's ability to consistently find the point of equilibrium between price and demand will be important to maintain the tuition revenue stream.

Expenses and cost containment – The University's primary operating costs are the salaries and benefits paid to a highly trained, world-class academic workforce. The University has been benchmarking the costs of delivering its core mission, and is in the fifth year of a six year cost-containment program designed to reduce $90 million in costs not directly related to its core mission. The savings are being reallocated to higher-priority direct mission activities. Cost containment is critical to making sure a University of Minnesota education is affordable. Upon the completion of the 6-year cost reallocation program the University will need to continue its cost-containment efforts while finding new ways to reduce operating costs without impacting the 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 2017, the University began negotiations with Fairview to create a new agreement that would provide better support to the University's academic medicine enterprise. Strengthening the relationship between the University and Fairview is vital to supporting and strengthening research, outreach, and the medical education mission of the University of Minnesota Medical School.

University of Minnesota
Consolidated Statements of Net Position (Excluding Component Units)

June 30, 2017 and 2016 (in thousands)

			2017	2016
Assets				
Current assets				
	Cash and cash equivalents		$ 387,772	$ 350,385
	Short-term investments		163,201	459,515
	Receivables, net		272,921	295,109
	Inventories		20,075	22,097
	Student loans receivable, net		10,189	10,464
	Prepaid expenses		35,878	23,108
	Other assets		205	205
	Total current assets		890,241	1,160,883
Noncurrent assets				
	Restricted cash and cash equivalents		48,933	107,422
	Investments		1,928,589	1,669,931
	Receivables, net		11,869	12,397
	Student loan receivables, net		62,653	61,789
	Prepaid expenses		31,922	2,830
	Other assets		1,280	1,413
	Capital assets, net		3,141,059	3,027,802
	Total noncurrent assets		5,226,305	4,883,584
Total assets			6,116,546	6,044,467
Deferred Outflows of Resources			1,328,796	25,303
Liabilities				
Current liabilities				
	Accounts payable		139,589	145,992
	Accrued liabilities and other		307,674	294,940
	Unearned income		62,552	62,680
	Long-term debt		333,509	300,531
	Total current liabilities		843,324	804,143
Noncurrent liabilities				
	Accrued liabilities and other		2,165,355	482,955
	Unearned income		86	61
	Long-term debt		1,131,467	1,200,101
	Total noncurrent liabilities		3,296,908	1,683,117
Total liabilities			4,140,232	2,487,260
Deferred Inflows of Resources			174,042	298,892
Net Position				
	Unrestricted		271,496	457,506
	Restricted	Expendable	826,804	889,332
		Nonexpendable	313,885	304,669
	Net investment in capital assets		1,718,883	1,632,111
Total net position			$ 3,131,068	$ 3,283,618

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, 2017 and 2016 (in thousands)

	University of Minnesota Foundation		University of Minnesota Physicians	
	2017	2016	2017	2016
Assets				
Cash and cash equivalents	$ 23,037	$ 44,556	$ 70,095	$ 63,579
Investments, substantially at fair market value	2,483,444	2,330,568	16,335	18,110
Pledges receivable, net	199,838	183,825		
Accounts and other receivables	40,870	60,414	103,466	107,455
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	87,844	90,198		
Gift annuities	32,163	34,347		
Property and equipment, net	62,185	60,071	3,834	4,999
Prepaids and other assets			15,517	19,641
Total assets	2,929,381	2,803,979	209,247	213,784
Liabilities				
Accounts payable and accrued liabilities	25,773	33,845	94,405	89,732
Gift annuities payable	17,419	18,681		
Unitrusts, pooled income, and annuity trusts payable	11,173	10,491		
Investments held for custody of others	256,809	242,986		
Bonds and capital lease payable	48,662	49,480		
Total liabilities	359,836	355,483	94,405	89,732
Net Assets				
Unrestricted	115,784	99,001	114,842	124,052
Temporarily restricted	1,281,096	1,277,784		
Permanently restricted	1,172,665	1,071,711		
Total net assets	2,569,545	2,448,496	114,842	124,052
Total liabilities and net assets	$ 2,929,381	$ 2,803,979	$ 209,247	$ 213,784

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, 2017 and 2016 (in thousands)

			2017	2016
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $280,203 in 2017; $264,981 in 2016		$ 774,827	$ 751,418
	Federal grants and contracts		439,410	441,941
	State and other government grants		73,720	73,301
	Nongovernmental grants and contracts		388,189	382,443
	Student loan interest income		1,828	1,783
	Sales and services of educational activities, net of scholarship allowances of $47 in 2017; $47 in 2016		147,153	159,201
	Auxiliary enterprises, net of scholarship allowances of $10,475 in 2017; $10,084 in 2016		403,088	414,217
	Other operating revenues		114	83
Total operating revenues			2,228,329	2,224,387
Expenses				
Operating expenses	Education and general	Instruction	831,881	789,297
		Research	767,741	692,666
		Public service	305,650	257,789
		Academic support	464,044	387,044
		Student services	145,591	117,453
		Institutional support	299,044	260,801
		Operation & maintenance of plant	289,468	291,562
		Scholarships & fellowships	62,088	60,447
		Depreciation	208,645	212,969
	Auxiliary enterprises		293,644	257,198
	Other operating expenses, net		294	157
Total operating expenses			3,668,090	3,327,383
Operating Loss			(1,439,761)	(1,102,996)
Nonoperating Revenues (Expenses)				
Federal appropriations			17,481	20,367
State appropriations			650,749	663,705
Grants			203,044	180,351
Gifts			191,042	200,148
Investment income, net			147,380	19,175
Interest on capital-asset related debt			(51,107)	(44,414)
Other nonoperating revenues (expenses), net			7,338	43,064
Net nonoperating revenues			1,165,927	1,082,396
Loss Before Other Revenues			(273,834)	(20,600)
Capital appropriations			78,130	75,412
Capital grants & gifts			42,178	46,095
Additions to permanent endowments			976	6,190
Total other revenues			121,284	127,697
Increase / (Decrease) In Net Position			(152,550)	107,097
Net position at beginning of year			3,283,618	3,176,521
Net position at end of year			$ 3,131,068	$ 3,283,618

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, 2017 and 2016 (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2017	Total 2016
Revenues					
Contributions	$ 1,598	$ 121,467	$ 100,954	$ 224,019	$ 223,579
Investment income, net	3,215	6,807	90	10,112	5,364
Net realized and unrealized gains on investments	6,142	153,685		159,827	32,348
Change in value of trusts	(30)	923	(90)	803	(2,228)
Support services revenue	7,243			7,243	7,212
UMF - Real Estate Advisors rental revenue	5,983			5,983	5,896
University Gateway Corporation revenue	4,463			4,463	4,519
Other revenue	2,325			2,325	2,015
Net assets released from restriction	279,570	(279,570)			
Total revenues	310,509	3,312	100,954	414,775	278,705
Expenses					
Program services					
Distributions for educational purposes	235,964			235,964	212,036
Support services					
Management and general	10,305			10,305	9,458
Fund-raising	35,775			35,775	32,119
UMF - Real Estate Advisors	6,712			6,712	6,153
University Gateway Corporation	4,970			4,970	11,240
Total expenses	293,726			293,726	271,006
Increase in net assets	16,783	3,312	100,954	121,049	7,699
Net assets at beginning of year	99,001	1,277,784	1,071,711	2,448,496	2,440,797
Net assets at end of year	$ 115,784	$ 1,281,096	$ 1,172,665	$ 2,569,545	$ 2,448,496

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, 2017 and 2016 (in thousands)

	University of Minnesota Physicians Total (unrestricted) 2017	University of Minnesota Physicians Total (unrestricted) 2016
Revenues		
Net patient service revenue	$ 178,875	$ 198,022
Investment income, net	860	750
Net realized and unrealized gains (losses) on investments	(32)	(64)
Equity in income of equity method investees	(13,975)	(6,105)
Donation		10,000
Other revenue	371,636	319,294
Total revenues	537,364	521,897
Expenses		
Program services		
Health care services	497,400	461,409
Support services		
Management and general	49,174	53,012
Total expenses	546,574	514,421
Increase (decrease) in net assets	(9,210)	7,476
Net assets at beginning of year	124,052	116,576
Net assets at end of year	$ 114,842	$ 124,052

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, 2017 and 2016 (in thousands)

	2017	2016
Cash Flows From Operating Activities		
Grants and contracts (federal, state, nongovernmental, other)	$ 909,351	$ 893,459
Student tuition and fees	774,812	758,137
Auxiliary enterprises	404,552	402,814
Sales and services of educational activities	152,356	156,471
Collection of loans to students	11,754	12,032
Other operating revenues	185	47
Payments to employees for services	(1,680,170)	(1,619,099)
Payments to suppliers for goods and services	(968,090)	(995,844)
Payments for fringe benefits	(532,821)	(520,500)
Payments for scholarships and fellowships	(49,723)	(47,522)
Loans issued to students	(11,666)	(13,738)
Net cash used by operating activities	(989,460)	(973,743)
Cash Flows From Noncapital Financing Activities		
State appropriations	652,209	662,116
Gifts for other than capital purposes	204,877	189,431
Grants for other than capital purposes	201,120	178,268
Other nonoperating revenues, net	15,689	41,592
Federal appropriations	12,273	19,048
Private gifts for endowment purposes	976	13,822
Direct lending receipts	376,633	382,179
Direct lending disbursements	(378,951)	(382,086)
Agency transactions	458	5,215
Net cash provided by noncapital financing activities	1,085,284	1,109,585
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	50,100	262,116
Capital appropriations	80,750	72,426
Capital grants and gifts	47,465	20,446
Proceeds from sale of capital assets	1,538	2,082
Principal received on notes receivable	731	1,533
Interest received on notes receivable	503	520
Purchases of capital assets	(304,544)	(277,063)
Principal paid on capital debt	(82,936)	(178,099)
Interest paid on capital debt	(58,340)	(53,156)
Net cash used by capital and related financing activities	(264,733)	(149,195)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	7,575,389	1,606,935
Investment income, net	68,536	107,215
Purchase of investments	(7,496,118)	(1,574,717)
Net cash provided by investing activities	147,807	139,433
Net Increase (Decrease) in Cash and Cash Equivalents	(21,102)	126,080
Cash and Cash Equivalents at Beginning of Year	457,807	331,727
Cash and Cash Equivalents at End of Year	$ 436,705	$ 457,807

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, 2017 and 2016 (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities		2017		2016
Operating loss	$	(1,439,761)	$	(1,102,996)
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation expense		208,645		212,969
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources				
Receivables, net		12,141		(3,716)
Inventories		1,926		(25)
Prepaid and other items		(41,643)		(6,245)
Deferred outflows of resources		308,854		(23,916)
Accounts payable		1,746		(13,564)
Accrued liabilities		57,516		(25,510)
Unearned income		(133)		(10,740)
Deferred inflows of resources		(98,751)		
Net cash used by operating activities	$	(989,460)	$	(973,743)
Noncash Investing, Capital, and Financing Activities				
Unrealized gains (losses) on investments	$	82,982	$	(81,400)
Capital assets on account		46,666		26,488
Amortization of bond discount/premium		5,877		5,044
Capital assets acquired with capital lease		3,057		2,281
Contribution of capital assets		2,009		17,563
Net unsettled investment trades		(32,958)		24,977
Gain on retirement of debt				2,050
Cash and Cash Equivalents at End of Year				
Cash and cash equivalents	$	387,772	$	350,385
Restricted cash and cash equivalents		48,933		107,422
Total cash and cash equivalents at end of year	$	436,705	$	457,807

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

Notes to Consolidated Financial Statements
Years ended June 30, 2017 and 2016 (in thousands)

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

Organization

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

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

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

Reporting Entity

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

Blended Component 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, are 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 2017 and 2016, the UMF distributed $267,482 and $244,321, 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 2017 and 2016, UMP distributed $96,953 and $92,125, 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 $1,280 and $1,414 as of June 30, 2017 and 2016, 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 2017 and 2016, the University received $416 and $381, respectively, in interest income. As of June 30, 2017 and 2016, $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 are reported at fair value, which represents the price that would be received to sell the investment in an orderly transaction between market participants. The University's investments are valued using a hierarchy of valuation inputs based on the extent which the inputs are observable in the marketplace in accordance with GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect the University's own assumptions about how market participants would value the investment based on the best information available. The University uses various industry standard valuation techniques that are appropriate under the circumstances and for which sufficient information is available to determine fair value—maximizing the use of observable inputs, while minimizing the use of unobservable inputs. Purchases and sales of investments are recorded on a trade date basis. Investment income includes: interest income; realized and unrealized gains and losses; and investment related expenses.

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

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

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

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

Capital Assets—Land, buildings, and other property are recorded at cost, if purchased or constructed or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization is $1,165 and $4,499 for fiscal years 2017 and 2016, 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 Note 3 and Note 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 Note 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 Note 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 Note 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 \$2,809 and \$1,927 for fiscal years 2017 and 2016, 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 Note 12.

  During fiscal years 2017 and 2016, departmental research in nonsponsored accounts of \$225,561 and \$210,686, respectively, was recorded as research and depreciation 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.

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. 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 of GASB 75 are effective for fiscal year 2018.

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 (GASB 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, which is effective for fiscal year 2018.

GASB Statement No. 83 (GASB 83), *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. It establishes the criteria for recognition of a liability and corresponding deferred outflow or resources, as well as requiring disclosure of information related to AROs. The provisions of GASB 83 are effective for fiscal year 2019.

GASB Statement No. 84 (GASB 84), *Fiduciary Activities*, establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) when the University is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria apply to identify fiduciary component units and postemployment benefit arrangements. An activity meeting the criteria will require the University to present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 also provides guidance on recognition of a liability to the beneficiaries in a fiduciary fund when the University is obligated to disburse fiduciary resources. The provisions of GASB 84 are effective for fiscal year 2020.

GASB Statement No. 85 (GASB 85), *Omnibus 2017*, addresses practice issues identified during the implementation and application of certain GASB Statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions of GASB 85 are effective for fiscal year 2018.

GASB Statement No. 86 (GASB 86), *Certain Debt Extinguishment Issues*, addresses accounting and financial reporting for in-substance defeasance of debt when cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. For the purposes of calculating the gain or loss on the defeasance (difference between the reacquisition price and net carrying amount of the debt), it requires any remaining prepaid insurance related to the extinguished debt to be included in the net carrying amount of that debt. The provisions of GASB 86 are effective for fiscal year 2018.

GASB Statement No. 87 (GASB 87), *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract.. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of GASB 87 are effective for fiscal year 2021.

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, 2017 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, 2017:

	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	$ 367,910	$ 19,131	$ 671			$ 60	$ 387,772
Short-term investments	132,828	30,230	143				163,201
Total current assets	500,738	49,361	814			60	550,973
Restricted cash and cash equivalents					$ 48,933		48,933
Long-term investments							
Fixed income	509,246	264,399	70,265			15,753	859,663
Public equity		440,310				29,501	469,811
Private capital		313,939		$ 4,854			318,793
Inflation hedges		141,945					141,945
Other		138,281		20		76	138,377
Total noncurrent investments	509,246	1,298,874	70,265	4,874		45,330	1,928,589
Total cash and investments	$ 1,009,984	$ 1,348,235	$ 71,079	$ 4,874	$ 48,933	$ 45,390	$ 2,528,495

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

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, 2017:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Fixed Income				
US Agency		$ 376,975		$ 376,975
US Treasury		120,260		120,260
Mortgage-backed securities		104,023		104,023
Return generated fixed income	$ 51,100	22,447		73,547
Risk mitigating fixed income	104,499			104,499
Listed Equity				
Global developed equity	159,811			159,811
Diversifiers	43,574	30,230		73,804
Private Capital			$ 4,854	4,854
Other	1,226	2,336		3,562
Total	360,210	656,271	4,854	1,021,335
Investments Measured at Net Asset Value (NAV)				1,070,455
Total Investments				$ 2,091,790

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
US Treasury		70,740		70,740
Mortgage-backed securities		103,372		103,372
Return generated fixed income	$ 43,338	21,774		65,112
Risk mitigating fixed income	102,110			102,110
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

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

The following table summarizes NAV investments as of June 30, 2017:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private capital	$ 312,713	$ 178,818	None	None
Fixed income	211,014	76,086	None or Daily, Monthly, or Annually	None, or 2, 15, or 60 Days
Global equity	216,332		None or Monthly	None or 30 Days
Hedge fund	138,245	35,741	None or Bi-Monthly or Semi-Annually	None or 75 Days
Real estate	80,540	42,429	None	None
Natural resources	57,335	39,502	None	None
Other	54,276	24,508	None or Weekly or Quarterly	None or 5 or 45 Days
Total	$ 1,070,455	$ 397,084		

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		

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, 2017 and 2016, the market value of the TIP assets invested in the CEF was $132,664 and $126,742, 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, 2017 and 2016, 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, 2017 and 2016, $54,705 and $52,083, 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, 2017 and 2016, the fair value of the GIP assets invested in the CEF was $14,668 and $14,157, 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 (Note 9) whose principal activities are the insurance of certain risks to the University. Coverage includes: commercial general and professional liability, non-profit organization liability, business auto liability and excess automobile liability. RUMINCO insurance agreements limit the exposure to loss on a per-occurrence and annual aggregate basis.

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

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

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, 2017:

Fixed Income Securities		Value	Maturity	AA or Better	BBB to A	BB or Lower	Not Rated
Cash & equivalents	$	298,846		100			
Mortgage-backed securities		104,023	18.3	100			
US Agency		376,975	1.4	100			
US Treasury		120,260	3.3	100			
Mutual Funds		298,013	5.3	39	61		
Total marketable fixed income securities		1,198,117	3.7				
Private fixed income securities		51,727					
Total fixed income securities	$	1,249,844					

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					

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, 2017, and 2016, 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, 2017 and 2016:

Investment Type	Foreign Currency	Market Value 2017	Market Value 2016
Equity/Debt/RE	Euro	$ 67,786	$ 73,976
Equity	British Pound Sterling	32,702	28,037
Equity	Japanese Yen	31,613	39,564
Equity	South Korean Won	14,092	5,140
Equity	Brazilian Real	12,288	9,840
Equity	Mexican Peso	11,575	10,074
Equity	Other Currency	11,017	6,721
Equity	Canadian Dollar	8,504	8,128
Equity/Debt	New Taiwan Dollar	8,116	4,598
Equity/Debt	Hong Kong Dollar	7,426	5,275
Equity	Swiss Franc	6,943	6,423
Equity	Australian Dollar	6,548	7,854
Equity	South African Rand	6,135	4,862
Equity/Debt	Swedish Krona	4,900	4,590
Equity	Argentine Peso	3,894	898
Equity	Indonesian Rupiah	3,741	6,543
Equity	Chinese Renminbi	3,024	3,269
Equity	Singapore Dollar	2,241	1,607
Equity	Norwegian Krone	1,770	1,161
Equity	Indian Rupee	1,541	2,413
Equity	Thailand Baht	1,482	1,277
Equity	Israeli Shekel	1,388	798
Equity/Debt	Danish Krone	1,263	1,256
Equity	New Zealand Dollar	1,060	822
Equity/Debt	Malaysian Ringgit	801	5,274
Equity/Debt	Philippine Peso	663	408
Equity/Debt	Russian Ruble	400	71
Equity/Debt	Turkish Lira	393	618
Equity	Polish Zloty	202	471
Equity	Uruguay Peso	109	
Equity	Chile Peso	92	68
Total		$ 253,709	$ 242,036

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, 2017 the University's bank balances of $298,257 were uninsured and uncollateralized and as of June 30, 2016 the University's bank balances of $342,898 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, 2017 and

2016, the market value of investments held in the custodial accounts was $642,074 and $759,409 in TIP; $180,687 and $164,178 in CEF; and $22,447 and $21,774 in GIP, respectively.

3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2017, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 6,652		$ 6,652
Sponsored grants and contracts	83,337		83,337
Notes receivable	750	$ 11,867	12,617
Student receivables	22,797		22,797
Trade receivables	140,401		140,401
Accrued interest	2,114		2,114
Other	29,342	2	29,344
Allowance for uncollectible accounts	(12,472)		(12,472)
Total receivables, net	$ 272,921	$ 11,869	$ 284,790
Student loans receivable	13,193	63,286	76,479
Allowance for uncollectible accounts	(3,004)	(633)	(3,637)
Student loans receivable, net	$ 10,189	$ 62,653	$ 72,842

Accrued liabilities as of June 30, 2017, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 21,463	$ 1,678	$ 23,141
Compensation and benefits	202,515	2,083,308	2,285,823
Self-insurance reserves	38,766	13,235	52,001
Accrued interest	15,549		15,549
Refundable advances		54,262	54,262
Other	29,381	12,872	42,253
Total accrued liabilities	$ 307,674	$ 2,165,355	$ 2,473,029

Activity for certain liabilities consisted of the following for the year ended June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances	$ 591,560	$ 1,892,740	$ (198,477)	$ 2,285,823	$ 202,515
Self-insurance reserves (see Note 9)	47,170	273,488	(268,657)	52,001	38,766
Refundable advances	53,903	359		54,262	
Other	48,198	42,253	(48,198)	42,253	29,381

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

4. Capital Assets

Capital assets, net as of June 30, 2017, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements & Reductions	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 3,930,703		$ 125,855		$ 4,056,558
Leasehold improvements	13,591	$ 1,916	288		15,795
Equipment	766,380	75,466	9,448	$ (57,148)	794,146
Infrastructure	455,329		4,641		459,970
Library and reference books	157,460	5,706			163,166
Capitalized software (intangible asset)	163,189	8,815			172,004
All other intangible assets	7,165	(262)			6,903
Total depreciable / amortizable capital assets	5,493,817	91,641	140,232	(57,148)	5,668,542
Non-depreciable / amortizable capital assets					
Land	150,160	4,334		(78)	154,416
Direct financing lease - building	163,693			(2,703)	160,990
Museums and collections	83,167	1,731	165		85,063
Construction in progress	165,099	233,388	(140,397)		258,090
Permanent right-of-way easements (intangible asset)	3				3
Total non-depreciable / amortizable capital assets	562,122	239,453	(140,232)	(2,781)	658,562
Accumulated depreciation / amortization					
Buildings and improvements	(1,914,679)	(112,803)	4	1	(2,027,477)
Leasehold improvements	(7,782)	(2,070)			(9,852)
Equipment	(575,586)	(59,272)		50,737	(584,121)
Infrastructure	(278,361)	(15,313)	(4)		(293,678)
Library and reference books	(120,235)	(6,723)			(126,958)
Capitalized software (intangible asset)	(125,947)	(11,940)			(137,887)
All other intangible assets	(5,547)	(525)			(6,072)
Total accumulated depreciation / amortization	(3,028,137)	(208,646)		50,738	(3,186,045)
Capital assets, net	$ 3,027,802	$ 122,448		$ (9,191)	$ 3,141,059

	Beginning balance	Additions	Transfers	Retirements & Reductions	Ending balance
Summary					
Depreciable / amortizable capital assets	$ 5,493,817	$ 91,641	$ 140,232	$ (57,148)	$ 5,668,542
Non-depreciable / amortizable capital assets	562,122	239,453	(140,232)	(2,781)	658,562
Total capital assets	6,055,939	331,094		(59,929)	6,327,104
Less accumulated depreciation / amortization	(3,028,137)	(208,646)		50,738	(3,186,045)
Capital assets, net	$ 3,027,802	$ 122,448		$ (9,191)	$ 3,141,059

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

	Beginning balance	Additions	Transfers	Retirements	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

5. Long-Term Debt

Long-term debt as of June 30, 2017, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2017 beginning balance	Additions	Reductions	FY 2017 ending balance	Current portion
General obligation bonds									
Series 2016A (tax-exempt)	$ 122,475	2016	3.00%-5.00%	2041	$ 122,475		$ 2,625	$ 119,850	$ 2,800
Series 2015B (taxable)	10,110	2016	0.799%-4.039%	2032	10,110		525	9,585	530
Series 2014B (tax-exempt)	145,760	2015	2.00%-5.00%	2044	145,760		2,785	142,975	2,895
Series 2013D (taxable)	12,760	2014	0.60%-4.848%	2039	12,180		355	11,825	360
Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038	12,675		400	12,275	415
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038	67,995		2,010	65,985	2,070
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	48,745		1,345	47,400	1,415
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	17,425		550	16,875	565
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	228,990		24,970	204,020	26,320
Series 2010B (taxable)	41,720	2011	0.74%-5.02%	2036	35,545		1,360	34,185	1,385
Series 2010D (taxable)	27,200	2010	3.86%-5.768%	2030	27,200		1,590	25,610	1,630
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	23,895		3,515	20,380	3,680
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	12,800		715	12,085	745
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	33,730		1,225	32,505	1,270
Commercial paper notes, Series A (tax-exempt)	159,100	2006	0.85%-0.96%	2018	91,000		11,000	80,000	80,000
Commercial paper notes, Series B (tax-exempt)	61,000	2007	0.85%-0.88%	2018	34,000		3,000	31,000	31,000
Commercial paper notes, Series C (tax-exempt)	70,000	2008	0.93%-0.96%	2018	40,000		3,500	36,500	36,500
Commercial paper notes, Series D (tax-exempt)	25,000	2010	0.95%	2018	15,300			15,300	15,300
Commercial paper notes, Series E (taxable)	51,620	2015	0.97%-1.05%	2018	51,620		2,200	49,420	49,420
Commercial paper notes, Series F (tax-exempt)	50,100	2017	0.78%-0.913%	2018		$ 50,100		50,100	50,100
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1995-2006	3.55%-5.29%	2026	14,391		3,067	11,324	2,790
Special purpose revenue bonds, Series 2015A (tax-exempt)	90,075	2016	2.00%-5.00%	2032	90,075		4,585	85,490	4,745
Special purpose revenue bonds, Series 2013C (tax-exempt)	35,395	2014	2.00%-5.00%	2039	34,170		845	33,325	885
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%-5.00%	2037	48,425		1,350	47,075	1,415
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%-5.00%	2036	99,825		3,055	96,770	3,215
Unamortized premiums and discounts	141,034	2009-2016		2044	109,589		5,877	103,712	5,877
Capital leases and other		1999-2016	2.15%-4.21%	2025	35,382	3,057	6,364	32,075	6,182
Total	$ 1,952,023				$1,500,632	$ 53,157	$ 88,813	$1,464,976	$333,509

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	0.799%-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%-0.44%	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

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 were 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 6.9 percent and 6.8 percent in the federal fiscal years ending September 30, 2017 and 2016, 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 to defease and refund the Special Purpose Revenue Bonds Series 2006. 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 Series 2015A bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $14,170, and a gain of $2,050 was recognized on the transaction. 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 in fiscal years 2011, 2012 and 2014. The proceeds were used to fund a portion of the costs of construction of one or more biomedical science research facilities. 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 February 15, 2017, the University issued tax exempt Commercial Paper Notes Series F in the amount of $50,100 at initial rates of 0.65 – 0.78 percent. The proceeds will be used for renovation of the Old Main Heating Plant located on the Twin Cities campus.

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.

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

Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt service of infrastructure development bonds issued by the state for University capital projects. Debt was issued for this purpose between July 1990 and October 2005. The total amount of outstanding debt issued by the state on behalf of the University was $33,973 as of June 30, 2017 and $43,173 as of June 30, 2016 of which the University owes $11,324 and $14,391, 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, 2017, associated capital assets acquired through capital leases are $55,799 for buildings and $13,516 for vehicles with related accumulated depreciation of $30,471 and $6,770, respectively. The capital leases bear interest rates between 2.15 percent and 4.21 percent, with none extending beyond fiscal year 2025. Both of the third-party financing agreements bear interest which is tied to the 30 Day LIBOR Index, which ranged from 2.15 - 2.78 percent during the fiscal year ended June 30, 2017. The LIBOR Index is an average yield of interbank offered rates for one-year US dollar denominated deposits in the London Market. A covenant in one of the agreements sets an interest rate floor of 3.0 percent which was maintained during the fiscal year ended June 30, 2017 and does not extend beyond the current fiscal year.

Interest Rate Swaps

As of June 30, 2017, 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, 2016 to June 30, 2017 of $3,241 is included in investment income, net and reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

The terms and fair values of the outstanding swap as of June 30, 2017, 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	$ (436)	8/27/2017
		$ 70,000					$ (436)	

* *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 2017 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, 2017, 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.

Future Debt Service Requirements

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, 2017, 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							
2018	$ 65,007	$ 262,320	$ 6,182	$ 333,509	$ 53,710	$ 546	$ 387,765
2019	66,920		6,099	73,019	48,430		121,449
2020	55,857		5,697	61,554	45,661		107,215
2021	57,455		5,574	63,029	43,081		106,110
2022	59,441		3,024	62,465	40,364		102,829
2023-2027	274,814		5,499	280,313	164,090		444,403
2028-2032	289,216			289,216	98,136		387,352
2033-2037	200,287			200,287	44,999		245,286
2038-2042	83,734			83,734	12,150		95,884
2043-2045	17,850			17,850	1,035		18,885
	$ 1,170,581	$ 262,320	$ 32,075	$ 1,464,976	$ 551,656	$ 546	$ 2,017,178

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, 2017	Bond call date
Special purpose revenue bonds Series 2006	8/26/2015	$ 99,220	$ 99,220		8/1/2016
General obligation bonds Series 1996A	10/2/2005	159,000	159,000	$ 80,000	7/1/2021
General obligation bonds Series 1982A	4/23/1985	112,635	112,635		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 bonds were redeemed on August 1, 2016 and are no longer outstanding.

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 bonds were redeemed on August 1, 2016 and are no longer outstanding.

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, 2017 or June 30, 2016.

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.

Cost-sharing, multiple-employer plans

Defined Benefit Plans

United States Government (Federal) Retirement Plans

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

Civil Service Retirement System (CSRS)

The Civil Service Retirement System (CSRS) is a federal program that provides retirement benefits for approximately 14 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 three 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 72 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			
2017	$ 97	$ 3	$ 52
2016	109	5	54
2015	139	6	59
University			
2017	$ 97	$ 22	$ 892
2016	109	30	1,232
2015	139	35	938
Due to plan at June 30*			
2017	$ 11	$ 1	$ 56
2016	11	2	53
2015	11	2	46

**Due to plan represents a liability the University has incurred for the employer and employee portion of contributions as of fiscal year end.*

Additional information related to the respective plans is presented in Required Supplementary Information (RSI) following the Notes to the Consolidated Financial Statements.

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 63 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 8,900 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 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*, 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	$ 979	$ 23,582
Non-Employer Contributing Entity	54	

Net pension liability amounts recorded in accordance with 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, 2016. 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, 2015, through June 30, 2016, relative to the total contributions from all participating employers, as well as on-behalf state contributions paid directly to PEPFF. As a result, contributions made to the respective plans during fiscal year 2017, are recorded as deferred outflows of resources per GASB 71.

Summary of Pension Amounts

	PEPFF	SERF	Total
Proportionate Share of the Net Pension Liability ($)	$ 24,240	$ 1,884,630	$ 1,908,870
Proportionate Share of the Net Pension Liability (%)			
2017	0.604%	15.200%	
2016	0.613%	15.424%	
Deferred Outflows of Resources	$ 17,449	$ 1,311,348	$ 1,328,797
Deferred Inflows of Resources	$ 2,890	$ 169,383	$ 172,273
Net Pension Expense	$ 3,712	$ 257,176	$ 260,888
Non-Operating Grant Revenue	$ 54		$ 54

Deferred Outflows of Resources

	PEPFF	SERF	Total
Differences between expected and actual experience	$ 6	$ 2,579	$ 2,585
Changes in assumptions	14,325	1,205,217	1,219,542
Differences between projected and actual investment earnings	2,092	79,970	82,062
Changes in proportion and differences between actual contributions and proportionate share of contributions	47		47
Contributions paid to plan subsequent to measurement date	979	23,582	24,561
Total	$ 17,449	$ 1,311,348	$ 1,328,797

Deferred Inflows of Resources

	PEPFF	SERF	Total
Differences between expected and actual experience	$ 2,794	$ 48,465	$ 51,259
Changes in assumptions		94,731	94,731
Changes in proportion and differences between actual contributions and proportionate share of contributions	96	26,187	26,283
Total	$ 2,890	$ 169,383	$ 172,273

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

	Fiscal Year	PEPFF	SERF	Total
	2018	$ 2,580	$ 232,707	$ 235,287
	2019	2,580	232,707	235,287
	2020	3,390	323,953	327,343
	2021	2,757	329,016	331,773
	2022	2,273		2,273
Net pension expense		$ 13,580	$ 1,118,383	$ 1,131,963
Contributions paid to plan subsequent to measurement date		979	23,582	24,561
Net deferred outflows		$ 14,559	$ 1,141,965	$ 1,156,524

The University's net pension liability was measured as of June 30, 2016, 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	6/30/2016		6/30/2016	
Actuarial cost method	Entry age normal		Entry age normal	
Asset valuation method	5-year smoothed fair market value		Fair value	
Long-term expected rate of return	7.50%		7.50%	
20-year municipal bond rate	2.85%	***	2.85%	***
Inflation	2.50%		2.50%	
Salary increases	Service related rates		Service related rates	
Payroll growth	3.25%		3.25%	
Experience study dates	2010	****	2008 - 2014	

** Mortality rates were based on RP-2000 Mortality Tables.*

***Mortality rates were based on RP-2014 Mortality Tables projected with mortality improvement scale MP-2015 from a base year of 2014.*

**** Based on the Bond Buyer 20-Bond Index of general obligation municipal bonds as of June 30, 2016.*

***** Updated for economic assumptions in 2014.*

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, 2016 of the respective plans. The actual selection of the rate was determined by looking at the asset class target allocations and long-term rate of return expectations from the State Board of Investments (SBI), along with other information, such as the Social Security Trustees Report, the U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

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

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

SBI Asset Class

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

GASB includes a specific requirement for the discount rate that is used for the purpose of the measurement of the SERF's and PEPFF's total pension liability. This rate considers the ability of SERF and PEPFF to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. SERF's and PEPFF's Fiduciary Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in the future, the long-term expected rate of return is used as the discount rate. In years where assets are not projected to be sufficient to meet benefit payments, the use of a "risk-free" municipal bond rate is required. The single discount rate is equivalent to applying these two rates (long-term expected rate of return and "risk-free" municipal bond rate) to the benefits that are projected to be paid during the different time periods.

The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position at June 30, 2016, was projected to be available to make all projected future benefit payments of current and active employees. The long-term expected rate of return on pension plan investments of 7.5 percent was applied to all periods of projected benefit payments through June 30, 2042 for SERF and June 30, 2056 for PEPFF to determine the total pension liability. After those dates in time, the "risk-free" municipal bond rate of 2.85 percent was used for remaining time periods arriving at a single discount rate of 4.17 percent for SERF and 5.6 percent for PEPFF.

Notable impacts affecting the University's total net pension liability reported for fiscal year ended June 30, 2017 compared to fiscal year ended June 30, 2016, involve changes to SERF's and PEPFF's actuarial valuation assumptions. Part of the assumption changes included changes to the single discount rates. For PEPFF, the single discount rate changed from 7.9 percent to 5.6 percent, and for SERF, the single discount rate changed from 7.9 percent to 4.17 percent.

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 4.17 percent for SERF and 5.6 percent for PEPFF, as well as what the impact would be if the net pension liability were calculated using a discount rate that was 1.0 percentage point lower or 1.0 percentage point higher than these percentages.

Discount Rate Sensitivity

Pension Plan	1.0% Decrease in Discount Rate	Current Discount Rate	1.0% Increase in Discount Rate
PEPFF			
Discount Rate (%)	4.60%	5.60%	6.60%
Net Pension Liability ($)	$ 33,932	$ 24,240	$ 16,320
SERF			
Discount Rate (%)	3.17%	4.17%	5.17%
Net Pension Liability ($)	$ 2,484,884	$ 1,884,630	$ 1,402,115

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 closed 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 101 eligible participants. SBP is funded in an amount equal to or greater than the amount required under Minnesota Statute Chapter 356. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Finances related to this plan are immaterial to the overall University's financial statements. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

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

Defined Contribution Plans

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

Faculty Retirement Plan (FRP)

The 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 9,500 active faculty and professional and administrative (P&A) staff. This amount includes approximately 4,300 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 3,900 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 that is administered by the University of Minnesota. 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 100 percent vested and non-forfeitable at all times. There are no assets accumulated in a trust or trust-like arrangement for this plan. Nine University employees are part of this plan.

Contributions Made for Fiscal Year 2017

	FRP	ORP	457	415(m)
Employee	$ 32,434	$ 41,325	$ 14,242	N/A
University	108,807	292	N/A	$ 634

Due to plan at June 30*

	FRP	ORP	457	415(m)
Employee	$ 1,912	$ 2,272	$ 781	N/A
University	6,330		N/A	

**Due to plan represents a liability the University has incurred for the employer and employee portion of contributions as of fiscal year end.*

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 $258,090 on June 30, 2017. The estimated cost to complete these facilities is $327,861, which is to be funded from plant fund assets and $24,449 in appropriations available from the State of Minnesota as of June 30, 2017.

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, 2017 and 2016, were $17,864 and $18,587, respectively, of which $14,235 and $14,447 were for real property and $3,629 and $4,140 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2017, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2018	$ 246	8,025	$ 8,271
2019	246	7,625	7,871
2020		4,662	4,662
2021		4,007	4,007
2022		2,931	2,931
2023-2027		8,375	8,375
2028-2032		7,993	7,993
2033-2037		3,677	3,677
Total commitments	$ 492	$ 47,295	$ 47,787

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 Note 1). Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims using a discount rate of 0.75 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. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $400,000 in a single year. 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, 2017, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 8,178	$ 3,145	$ (2,325)	$ 257	$ 9,255
Workers' compensation	12,765	3,357	(3,357)	953	13,718
UPlan medical	18,616	226,062	(227,150)	1,384	18,912
UPlan dental	835	17,512	(17,017)	(316)	1,014
Graduate assistant health plan	1,278	20,863	(20,863)	2,486	3,764
Student health plan	4,819			63	4,882
Medical Residents & Fellows	679			(223)	456

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

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 Note 6 and Note 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, 2017 and 2016 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
2017	57	$ 674
2016	60	423

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
2017	54	$ 554
2016	81	538

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
2017	93	$ 870
2016	103	3,070

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
2017	31	$ 32
2016	10	17

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
2017	37	$ 416
2016	59	438

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 Total Compensation, 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 2017:

Beneficiary type	Beneficiary annual rate (Actual amounts, not rounded to thousands)
Non-Medicare retiree	$ 6,190
COBRA	6,314
Disabled Participants	6,190

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2017, the University paid $6,001 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)	$	29,191
Interest on net OPEB obligation		4,595
Adjustment to annual required contribution		(9,263)
Annual OPEB cost (expense)		24,523
Less contributions made – fiscal year ended June 30, 2017		(6,001)
Increase in net OPEB obligation		18,522
Net OPEB obligation—June 30, 2016		138,200
Net OPEB obligation—June 30, 2017	$	156,722

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
6/30/2017	$	24,523	$	6,001	24.5%	$	156,722
6/30/2016		22,397		4,424	19.8%		138,200
6/30/2015		25,566		6,627	25.9%		120,227

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, is as follows:

Actuarial accrued liability (AAL)	$	105,952
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$	105,952
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Increase in net OPEB obligation	$	18,522
Covered payroll (active plan members)	$	1,384,251
UAAL as a percentage of covered payroll		7.65%

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, 2017.

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	7/1/2017
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	3.228%
Projected payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate:	
Initial rate	7.00%
2nd year rate	6.80%
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, 2017, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 733,749	$ 98,132			$ 831,881
Research	510,800	256,941			767,741
Public service	204,258	101,392			305,650
Academic support	377,911	86,133			464,044
Student services	117,356	28,235			145,591
Institutional support	242,530	56,514			299,044
Operation and maintenance of plant	145,704	143,764			289,468
Scholarships and fellowships	10,651	2,890	$ 48,547		62,088
Depreciation				$ 208,645	208,645
Auxiliary enterprises	139,378	154,266			293,644
Other operating expense			294		294
	$ 2,482,337	$ 928,267	$ 48,841	$ 208,645	$ 3,668,090

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

13. Subsequent Events

On September 28, 2017, the University issued General Obligation Bonds, Series 2017A, General Obligation Refunding Bonds, Series 2017B, and General Obligation Taxable Refunding Bonds, Series 2017C. The Series 2017A was issued in the par amount of $117,095 at coupon rates of 2.0 – 5.0 percent with a premium of $23,068. Proceeds will be used to finance various capital projects including a portion of the Athletes Village Project, construction of a new Track and Field Facility, construction of a new veterinary bio-containment facility, various renovations of existing space, and property acquisition and demolition activities.

The Series 2017B was issued in the par amount of $292,955 at coupon rates of 2.0 – 5.0 percent with a premium of $44,233 to advance refund and defease the University's General Obligation Bonds Series 2009A, Series 2009C, Series 2011A, and Series 2011D. A gain of $4,548 was recognized on the transaction. Debt service savings will be realized over the life of the bonds.

The Series 2017C was issued in the par amount of $13,240 at coupon rates of 1.375 – 2.915 percent to advance refund and defease the University's General Obligation Taxable Bonds Series 2009B. A loss of $749 was recognized on the transaction. Debt service savings will be realized over the life of the bonds.

Net proceeds of the Series 2017B and 2017C were deposited in escrow accounts to pay the principal and interest due on each of the five series of refunded bonds to and including their respective redemption dates, and to pay the redemption prices of the refunded bonds on their redemption dates.

14. Component Units

Discretely Presented Component Units

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

Investments

Investments in cash equivalents, corporate bonds, other fixed income securities, equity securities, hedge funds, natural resources, and Treasury inflation protected securities with readily determinable fair values are reported at fair value as set forth in Note 3 of 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:

	2017		
	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 552,244		$ 552,244
Fixed income	579,107	$ 427,627	1,006,734
Global equity	1,738	49,977	51,715
Hedge funds	31,167	57,766	88,933
Natural resources	25,675	115,376	141,051
Treasury inflation protected securities (TIPS)	148,396		148,396
Real estate		55,239	55,239
Private equity		464,108	464,108
Other investments		5,428	5,428
Subtotal	1,338,327	1,175,521	2,513,848
Less charitable gift annuities reported separately			(30,404)
Total			$ 2,483,444

	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

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, 2017 and 2016, UMF has $1,175,521 and $1,154,835 respectively, of investments in alternative structures which are reported at net asset value as a practical expedient, except those reported as Level 3 in Note 3 of UMF's annual report. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if 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, including bankruptcy claims and auction rate securities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

The following tables summarize UMF's financial assets and other liabilities measured at fair value on a recurring basis at June 30, 2017 and 2016:

	2017			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed income				
Asset backed securities		$ 8,399		$ 8,399
Mortgages		3,748		3,748
Corporate bonds		39,512		39,512
Government		516,701		516,701
Small Cap	$ 21			21
Other	4,551	6,175	$ 2,767	13,493
Global equity				
Small cap	1,738			1,738
Large cap				
Closed end/exchange traded funds				
Hedge funds				
Long/short non-equity	31,167		3,379	34,546
Natural resources	25,675			25,675
Treasury inflation protected securities (TIPS)		148,396		148,396
Total investments	$ 63,152	$ 722,931	$ 6,146	792,229
Cash and cash equivalents				552,244
Investments measured at net asset value or its equivalent				1,121,297
Private partnerships invested in nonmarketable receivables and loans measured at cost				48,078
Total investments and cash				$ 2,513,848
Gift annuities not categorized above	$ 1,759			$ 1,759
Beneficial interest in perpetual trusts			$ 63,287	63,287
Assets held in charitable trusts	21,244			21,244
Beneficial interest in trusts			3,313	3,313
UGC derivative financial instrument		$ (1,774)		(1,774)

	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
Hedge funds				
Long/short non-equity	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)

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, 2016	Investment income	Net realized and unrealized gain (loss)	Purchases	Sales	Ending balance at June 30, 2017
Fixed income						
Other	$ 14,518		$ (2,078)	$ 28,151	$ (37,824)	$ 2,767
Global equity						
Alternative structures						
Hedge funds						
Long/short non-equity	4,279	$ 59	142	204	(1,305)	3,379
	$ 18,797	$ 59	$ (1,936)	$ 28,355	$ (39,129)	$ 6,146

	Beginning balance at July 1, 2015	Investment income	Net realized and unrealized gain (loss)	Purchases	Sales	Ending balance at June 30, 2016
Fixed income						
Other	$ 27,758		$ (9,218)	$ 18,591	$ (22,613)	$ 14,518
Hedge funds						
Long/short non-equity			(87)	4,366		4,279
	$ 27,758		$ (9,305)	$ 22,957	$ (22,613)	$ 18,797

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, 2016	Change in carrying value of trusts	Ending balance at June 30, 2017
Beneficial interest in trusts	$ 3,326	$ (13)	$ 3,313
Beneficial interest in perpetual trusts	65,259	(1,972)	63,287

	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

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:

	2017			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative Investments				
Fixed income	$ 376,782	$ 356,358	None	None
Global equity	49,977		None or Annually	None or 0-30 Days
Hedge funds	54,387		None or Monthly to Annually	None or 30-180 Days
Natural resources	115,376	29,988	None	None
Real estate	55,239	36,240	None	None
Private equity	464,108	151,612	None	None
Other investments	5,428		None	None
Total	$ 1,121,297	$ 574,198		

	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		

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:

	2017	2016
Capital improvement/facilities	$ 8,874	$ 8,081
Faculty and support	11,920	9,012
Scholarships and fellowships	137,650	119,792
Lectureships, professorships, and chairs	195,904	180,924
Program support	57,636	58,428
Research and outreach/community engagement	15,082	11,716
Other	2,668	2,230
Subtotal	$ 429,734	$ 390,183

Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	$ 130,757	$ 160,455
Faculty and support	21,856	18,396
Scholarships and fellowships	135,504	151,451
Lectureships, professorships, and chairs	45,685	44,196
Program support	348,853	348,272
Research and outreach/community engagement	152,865	143,781
Trusts	9,013	10,570
Other	6,829	10,480
Subtotal	851,362	887,601
Total temporarily restricted net assets	$ 1,281,096	$1,277,784

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:

	2017	2016
Capital improvement/facilities	$ 9,945	$ 8,185
Faculty and support	28,184	20,909
Scholarships and fellowships	512,368	460,847
Lectureships, professorships, and chairs	388,372	376,823
Program support	96,712	94,799
Research and outreach/community engagement	64,768	36,056
Trusts	68,941	70,448
Other	3,375	3,644
Total permanently restricted net assets	$ 1,172,665	$ 1,071,711

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, 2017 and 2016 for RUMINCO, Ltd, a blended component unit of the University, are as follows:

Condensed statements of net position	2017	2016
Current assets	$ 93	$ 470
Noncurrent assets	45,330	40,320
Total assets	45,423	40,790
Deferred outflows of resources		
Total assets & deferred outflows of resources	45,423	40,790
Current liabilities	2,580	2,017
Noncurrent liabilities	2,341	2,016
Total liabilities	4,921	4,033
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	4,921	4,033
Unrestricted net position	$ 40,502	$ 36,757

Condensed statements of revenues, expenses, and changes in net position	2017	2016
Operating revenues:		
Net underwriting income	$ 304	$ 979
Operating expenses	1,180	1,116
Operating loss	(876)	(137)
Nonoperating revenues:		
Investment income, net	4,621	(203)
Increase (decrease) in net position	3,745	(340)
Net position at beginning of year	36,757	37,097
Net position at end of year	$ 40,502	$ 36,757

Condensed statements of cash flows	2017	2016
Net cash provided (used) by:		
Operating activities	$ 631	$ 1,115
Investing activities	(602)	(1,465)
Net increase (decrease) in cash	29	(350)
Cash at beginning of year	31	381
Cash at end of year	$ 60	$ 31

Required Supplementary Information (Unaudited)

Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2017 and 2016 (in thousands)

Schedule of Funding Progress

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)
7/1/2017		$ 105,952	$ 105,952	0.00%	$ 1,384,251	7.65%
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%

Additional information related to OPEB is provided in Note 11.

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

Public Employee Police and Fire Fund (PEPFF)

Actuarial valuation date	University's Proportion of the Net Pension Liability (%) (a)	University's Proportionate Share of the Net Pension Liability ($) (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
6/30/2016	0.604%	$ 24,240	$ 5,818	416.638%	63.88%
6/30/2015	0.613%	6,965	5,781	120.481%	86.61%
6/30/2014	0.608%	6,567	5,255	124.967%	87.07%

State Employees Retirement Fund (SERF)

Actuarial valuation date	University's Proportion of the Net Pension Liability (%) (a)	University's Proportionate Share of the Net Pension Liability ($) (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
6/30/2016	15.200%	$ 1,884,630	$ 417,703	451.189%	47.51%
6/30/2015	15.424%	237,436	451,306	52.611%	88.32%
6/30/2014	16.031%	259,954	410,364	63.347%	87.64%

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

There were changes in actuarial assumptions for both PEPFF and SERF that affected the measurement of the total pension liability since the prior actuarial valuation. Part of the assumption changes included changes to the single discount rates. For PEPFF, the single discount rate changed from 7.9 percent to 5.6 percent, and for SERF the single discount rate changed from 7.9 percent to 4.17 percent. Refer to Note 6 for additional information related to PEPFF and SERF.

Schedule of Employer's Contributions – Last 10 Years

Public Employee Police and Fire Fund (PEPFF)*

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2016	$ 943	$ 943		$ 5,818	16.20%
2015	885	885		5,781	15.30%
2014	804	804		5,255	15.30%

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

State Employees Retirement Fund (SERF)*

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2016	$ 22,974	$ 22,974		$ 417,703	5.50%
2015	22,565	22,565		451,306	5.00%
2014	20,518	20,518		410,364	5.00%

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

Civil Service Retirement System (CSRS)

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
2017	$ 97	$ 97		$ 1,386	7.00%
2016	109	109		1,557	7.00%
2015	139	139		1,986	7.00%
2014	152	152		2,171	7.00%
2013	172	172		2,457	7.00%
2012	226	226		3,229	7.00%
2011	271	271		3,871	7.00%
2010	281	281		4,014	7.00%
2009	296	296		4,229	7.00%
2008	315	315		4,500	7.00%

Additional information is provided in Note 6.

Civil Service Retirement System Offset Retirement (CSRS Offset)

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
2017	$ 22	$ 22		$ 314	7.00%
2016	30	30		429	7.00%
2015	35	35		500	7.00%
2014	35	35		411	8.51%
2013	34	34		400	8.51%
2012	33	33		388	8.51%
2011	32	32		376	8.51%
2010	34	34		400	8.51%
2009	37	37		435	8.51%
2008	52	52		611	8.51%

Federal Employees Retirement System (FERS)

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
2017	$ 892	$ 892		$ 6,511	13.70%
2016	1,232	1,232		8,993	13.70%
2015	938	938		7,106	13.20%
2014	894	894		7,513	11.90%
2013	878	878		7,378	11.90%
2012	900	900		7,563	11.90%
2011	957	957		8,545	11.20%
2010	974	974		8,696	11.20%
2009	1,031	1,031		9,205	11.20%
2008	1,078	1,078		9,625	11.20%

Additional information is provided in Note 6.